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LOAN COMMITTEE - GHANA - INDUSTRIAL SECTOR ADJUSTMENT CREDIT

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FOR EXECUTIVE DIRECTORS' MEETING



For consideration on March 27, 1986

IDA/R86-28

FROM: Vice President and Secretary

March 10, 1986

# GHANA: Industrial Sector Adjustment Credit

1. Attached is the President's Report and Recommendation (P-4217-GH) on a proposed credit and a proposed African Facility credit to the Republic of Ghana for an Industrial Sector Adjustment Credit.

2. A report entitled "Ghana: Towards Structural Adjustment" (5854-GH) was distributed on October 21, 1985 (SecM85-1145).

3. A draft Development Credit Agreement between the Republic of Ghana and the Association, a draft African Facility Credit Agreement between the Republic of Ghana and the Association as Administrator of the Special Facility for Sub-Saharan Africa and a draft Project Agreement between the Association and the Association as Administrator of the Special Facility for Sub-Saharan African and Bank of Ghana are available on request from the Secretary's Department Document's Office (X76237).

4. Questions on these documents should be referred to Ms. Uelmen (X78167).

Distribution:

Executive Directors and Alternates
President
Senior Vice Presidents
Senior Management Council
Vice Presidents, IFC
Directors and Department Heads, Bank and IFC

Document of
# The World Bank

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Report No. P-4217-GH

REPORT AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL DEVELOPMENT ASSOCIATION

TO THE

EXECUTIVE DIRECTORS

ON A PROPOSED IDA CREDIT

OF SDR 25.7 MILLION

AND A PROPOSED AFRICAN FACILITY

CREDIT OF SDR 22.5 MILLION

TO

THE REPUBLIC OF GHANA

FOR AN

INDUSTRIAL SECTOR ADJUSTMENT CREDIT

March 5, 1986

## CURRENCY EQUIVALENTS

| Currency Unit | Calendar 1984 | December 1985 | January 1986 |
|---|---|---|---|
| US $ 1 | ¢ 35.9 | ¢ 60 | ¢ 90 |
| Cedi (¢) 1 | US $ 0.028 | US $ 0.017 | US $ 0.011 |

## FISCAL YEAR

January 1 - December 31

## ABBREVIATIONS AND ACRONYMS

BOG - Bank of Ghana
CBS - Central Bureau of Statistics
DFD - Development Finance Department, Bank of Ghana
ERP - Economic Recovery Program
FRI - Food Research Institute
GDP - Gross Domestic Product
GSB - Ghana Standards Board
ISAC - Industrial Sector Adjustment Credit
MFEP - Ministry of Finance and Economic Planning
MIST - Ministry of Industries, Science, and Technology
PB - Participating Bank
PIB - Prices and Incomes Board
RIC - Reconstruction Import Credit
RP - Rehabilitation Investment Project
SIP - Government Statement of Industrial Policy
SUL - Special Unnumbered Import Licenses
UNDP - United Nations Development Program

GHANA

INDUSTRIAL SECTOR ADJUSTMENT CREDIT

## CREDIT SUMMARY

**Borrower:** Government of Ghana

**Executing Agencies:** Bank of Ghana (BOG) and Ministry of Industries, Science and Technology (MIST)

**Credit Amount:**

| | |
|---|---|
| IDA: | SDR 25.7 m (US$28.5 m equivalent) |
| African Facility: | SDR 22.5 m (US$25.0 m equivalent) |
| Total: | SDR 48.2 m (US$53.5 m equivalent) |

**Terms:** Standard IDA and African Facility terms

**Description and Allocation of Credit:** The proposed Credit would support the first phase (1986-88) of the Government's medium-term adjustment program which includes important policy reforms designed to streamline Ghana's industrial capacity. It would provide (i) US$40 million equivalent to finance imports of industrial inputs and spare parts to increase production of locally manufactured goods, (ii) US$10 million equivalent to finance equipment for the rehabilitation of economically viable industrial enterprises, and (iii) US$3.5 million equivalent to finance technical assistance, training, and studies.

**Benefits and Risks:** The main benefits of the proposed Credit are: (i) improved supply position of the economy through increased production of locally manufactured goods; (ii) increased efficiency in the industrial sector as a result of policy changes which the Credit supports; (iii) strengthening of key institutions which serve the industrial sector; and (iv) a rapid increase in industrial capacity utilization and production which would add momentum and credibility to the Government's policy reforms and facilitate further reforms. The main risks associated with the Credit are possible internal resistance to the timely implementation of critical policy reforms and potential difficulties for importers in arranging the necessary local financing to pay for the imports. These risks are limited by the Government's determination to go ahead with the policy reforms and establishment of a scheme to provide short-term funds to producers.

| | | | | | |
|---|---|---|---|---|---|
| **Estimated Disbursements:** | IDA Fiscal | 87 | 88 | 89 | 90 |
| | | | (US $ million) | | |
| | Annual | 10 | 16 | 16 | 11.5 |
| | Cumulative | 10 | 26 | 42 | 53.5 |

The industrial import component would be disbursed in two tranches (of US$25 million and US$15 million). The second tranche would be released following satisfactory implementation of the 1986 program of policy actions.

Economic Rate of Return: Not applicable

Appraisal Report: None

INTERNATIONAL DEVELOPMENT ASSOCIATION

# REPORT AND RECOMMENDATION OF THE PRESIDENT OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION TO THE EXECUTIVE DIRECTORS ON PROPOSED CREDITS TO THE REPUBLIC OF GHANA FOR AN INDUSTRIAL SECTOR ADJUSTMENT CREDIT

1. I submit the following report and recommendation on a proposed development credit for the equivalent of SDR 25.7 million (US$28.5 million equivalent) and an African Facility Credit for the equivalent of SDR 22.5 million (US$ 25.0 million equivalent) to the Republic of Ghana on standard IDA and African Facility terms to help finance an Industrial Sector Adjustment Credit.

## PART I - THE ECONOMY 1/

2. An economic report entitled "Ghana: Towards Structural Adjustment" was distributed to the Executive Directors in October 1985. A summary of the economic situation is presented in this section. Basic economic data and selected social indicators are summarized in Annex I.

3. Ghana once enjoyed a fairly high standard of living compared with most other West African nations. However, a declining gross national income has combined with high population growth (estimated at about 3 percent a year) to cause a substantial erosion in real per capita income. The average per capita income in 1984 is estimated at US$350, which represents a substantial decline over what it was a decade ago. The rate of unemployment is quite high and underemployment is widespread. Almost half the population of about 12 million is now estimated to live in absolute poverty. The country's basic needs indicators, once the best in Africa, are now no better than those of other Sub-Sahara African countries with comparable per capita incomes. Modern health services are available to only about a third of the people, and only 47 percent have access to safe water. Although the education system is well established and primary schooling has been free since 1962, 50 percent of adult men and 70 percent of adult women have had no formal education.

### Basic Structural Characteristics

4. Ghana is comparatively well endowed with natural and human resources. The country has valuable mineral deposits, particularly gold, but also diamonds, bauxite, manganese, and offshore oil. There is further potential for hydro power generation. Ghana has a relatively good supply

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1/ This Part is the same as Part I of the President's Report for the Health and Education Rehabilitation Project which was approved by the Executive Directors on January 23, 1986.

of land suitable for growing tree crops, most importantly cocoa, but also oil palm, rubber, and coconut; cereals and starchy staples; and possesses considerable fishing and forestry resources.

5. Agriculture is the largest sector of the economy, accounting for about half of GDP. Approximately 11 percent of the land area is cultivated. Previously, cocoa had covered about half of the cultivated land, but acreage has declined greatly in recent years. Nearly 70 percent of the population derive an income from agriculture or related activities. The staple foods are maize, rice, millet, yam, cassava, and plantain but, except for cassava, yields have stagnated in recent years. Per capita food production in 1983 was only 61 percent of that in 1975. Prolonged droughts in 1975-77 and 1982-83, inadequate support services, poor transport facilities, and lack of fertilizers and other inputs contributed to the decline. In recent years, Ghana has had to import 10 to 15 percent of its cereal consumption (mainly rice and maize).

6. Ghana's economy is highly dependent on primary products for exports. Cocoa (of which Ghana is the world's third largest producer) contributes about two-thirds of total export earnings, although production has been declining. Mining, primarily gold, is Ghana's second largest foreign exchange earner, contributing 20 percent of the total, although production has fallen over the past two decades. Timber is also an important export. Efforts to diversify the export base have not made much headway.

7. Industrial production and services currently account for 9 percent and 40 percent of GDP, respectively. Manufacturing--including textiles, steel, tires, oil refining and simple consumer goods--contributed 5 percent of GDP in 1984 down from 11 percent in 1970 and provided full- or part-time employment to just over one-tenth of the labor force. Manufacturing in Ghana remains heavily dependent on imported inputs.

8. Ghana used to import all of its petroleum, mostly in the form of crude oil, which is refined domestically and used chiefly as fuel for transport. Recently some oil deposits have been discovered and commercial exploitation has commenced. Production of crude was about 600 barrels per day in 1984, satisfying only a minor share of the country's requirements, but declined to negligible levels in 1985. Hydropower generates most of Ghana's electricity, some of which is exported to neighboring countries. It was drastically affected by the drought during 1983-84, but production is now returning to more normal levels.

## Past Economic Developments - The Inheritance

9. Throughout the 1970s, Ghana's economy was poorly managed. Large budget deficits, necessitated partly to support a sprawling, inefficient public sector, led to a marked acceleration in domestic inflation. Given the reluctance to move the exchange rate, the fixed nominal rate became grossly overvalued, shifting relative incentives away from exports into import trade, and more specifically from cocoa, Ghana's main export, into

subsistence food production. The resulting deterioration in export performance, combined with a growing disenchantment on the part of aid donors with Ghana's performance, caused a perpetual foreign exchange crisis that pushed successive Governments into increasingly restrictive import regimes. What was once an economy with ample imports became one starved of the main fuel for its growth. The erosion of the tax base due to declining exports and imports, and the related drop in economic activity forced severe cutbacks in Government operations and maintenance and capital expenditures. There was a marked deterioration in what was once fairly well developed economic and social infrastructure. This, in turn, further reduced the country's productive capacity.

10. A tendency to respond to shortages with controls and rationing worsened the problem by eroding the incentives to produce and save, diminishing the capacity of public sector entities to maintain the level and quality of services, and creating a vast parallel black market with its related corruption, smuggling and tax evasion. Declining real wages, political instability and reduced economic opportunities led talented and skilled Ghanaians to leave the country, depriving it of scarce managerial, administrative and technical resources.

11. To add to all its difficulties, Ghana was subjected in the early 1980s to three other problems. First, a prolonged and severe drought created the worst food shortages since Independence. Second, the external terms of trade sharply deteriorated following the increase in petroleum prices, and a softening in prices of Ghana's major exports (cocoa and gold). Third, the sudden return of over one million Ghanaians from Nigeria severely strained the food and employment situation. The cumulative effect of the downward economic spiral and these most recent "shocks" to the system can be seen in the trends in key economic indicators between 1970 and 1982: per capital real income declined by 30 percent; import volumes fell by a third; real export earnings fell 52 percent; domestic savings and investment declined from 12 and 14 percent of GDP, respectively, in 1970 to almost insignificant levels; inflation ran at 44 percent per annum over the period.

## A Program of Reforms

12. The Provisional National Defense Council (PNDC) came to power under the leadership of Flight Lieutenant Rawlings on December 31, 1981. An Economic Recovery Program was developed by the Government in close coordination with the IMF and the World Bank. The program has been supported by two IMF Standby Arrangements, totaling SDR 419 million, the latter extending through December 1985; SDR 179 million in purchases from the Compensatory Financing Facility (CFF) on account of both a shortfall in merchandise exports and an excess in the cost of cereal imports; and two IDA Export Rehabilitation and two Import Reconstruction Credits, in all totaling some SDR 187 million. Policy measures were aimed at a realignment of relative prices in favor of production (particularly cocoa, timber, and minerals), an improvement in the Government's financial position, and the encouragement of private investment. The most important measure taken was

the movement towards a more realistic exchange rate. The cedi depreciated from ₵2.75 = US$1.00 in April 1983 to ₵60 = US$1.00 by October 1985. In January, 1986 the Government made significant progress towards reaching an equilibrium exchange rate by moving to ₵90 = US$1.00. Administered prices have been adjusted to reduce the distortions arising from the overvalued exchange rate, the most critical being a near doubling of the cocoa producer price announced in May 1985. Petroleum prices have been raised steadily in line with changes in the exchange rate. In addition, price controls are being dismantled. Only 8 items are now subject to controls administered by the Prices and Incomes Board compared to 23 in April 1983. In addition the prices of beer and cigarettes are determined in conjunction with the Government budget because of revenue implications. Interest rates have been adjusted in stages to the point that they are now positive in real terms. The rate on 12-month time deposits has doubled since October 1983 to the present level of 18 percent. The maximum lending rate is now 23 percent, up nine percentage points since October 1983. In the area of fiscal policy, the Government's efforts have concentrated on eliminating subsidies; resource mobilization through improved tax collection and selective increases in consumption taxes and charges; and more adequate provision for maintenance and capital expenditures. In addition public sector salaries and wages, and statutory minimum wages have been raised to offset partially the drastic erosion in real income. Even after the adjustments, real wages in the public sector are less than half their 1978 level.

13. Following the announcement of this program, the Bank, in consultation with the Government, decided to reactivate the Ghana Consultative Group which had lain dormant for 13 years. There has been a good response to this initiative. The Group met in Paris, first in November 1983, and then again in December 1984 and November 1985, and has broadly supported the Government's program. Given the new aid commitments of about US$478 million that materialized following the 1984 meeting and the existing pipeline, disbursements during 1985 are estimated to be about US$300 million, helping to finance the increase in imports, thereby stimulating domestic production and exports.

Response of the Economy

14. The initial response of the economy to the policy reforms was temporarily crippled by the severe drought in 1983 and a lag in aid inflows. Nevertheless, the Government continued and even broadened the reform program. After a real decline in output in 1983, economic performance sharply improved on several counts in 1984, benefitting to a large degree from the return to normal rainfall, but also from better policies. The economy grew by nearly 8 percent. Agriculture led growth because of a sharp expansion in food crops (output more than doubled for several crops), while cocoa production rose by only 8 percent from the historical low of the previous crop year. Wholesale and retail trade, and manufacturing output increased in line with overall growth, reflecting higher import levels and the restoration of power supplies. Preliminary estimates for 1985 indicate a growth in GDP of about 5 percent, spurred primarily by

higher output in forestry, mining, and manufacturing. Given the higher base, growth in agriculture is expected to be less, but cocoa output is likely to rise to 200,000 tons in the 1985/86 season, an increase of 16 percent over 1984/85.

The Budget

15. The Government's fiscal position improved markedly in 1984. Revenues as a share of GDP rose from 5 percent in 1983 to 8 percent in 1984. The gain primarily reflected the impact of the depreciation of the exchange rate on the tax base and on the profits of export sectors. Although a lower than expected level of imports caused a shortfall in revenue in several categories, this was more than made up by higher bank profits (reflecting the deregulation of interest rates), major gains in income tax collection, and a sharp increase in non-tax revenue. Recurrent expenditures rose modestly from 7 percent of GDP in 1983 to 8 percent in 1984. Development expenditures and net lending increased to 1.7% of GDP, somewhat less than planned. As a result of these trends the overall budget deficit narrowed to 1.7 percent of GDP and reliance on bank financing was halved to only 0.6 percent of GDP. Although the overall budget deficit is expected to increase to 2.3 percent of GDP in 1985, primarily because of a much needed expansion in development expenditures, it is expected that nearly two-thirds of it will be covered by foreign financing, enabling domestic bank financing to be contained below the 1984 level.

Money and Credit

16. The massive exchange rate depreciation since April 1983, together with the credit ceilings which are part of the Government's program under the IMF Standby Arrangement, resulted in a severe liquidity squeeze in the banking system during 1984. While the demand for cedi credit to finance imports expanded sharply, broad money (M2) grew at about the same rate in 1984 as in 1983 (slightly under 40 percent). Domestic credit rose by 32 percent in 1984, compared to 41 percent in 1983. The slowdown primarily reflected lower growth in net credit to the Government. Although private sector credit more than doubled (from a very low base) in 1984, the increase was inadequate relative to the needs.

Prices

17. Higher food supplies and the resulting sharp drop in prices was a major reason for the deceleration in inflation in 1984, from an annual average increase of 123 percent in 1983 to 40 percent in 1984. This trend continued during the first half of 1985. The June 1985 point to point rate was only 7 percent, despite an exchange rate depreciation of about 50 percent in this period. This confirms that prices already were reflecting scarcity values and the tightness of current fiscal and monetary policies.

Balance of Payments

18. The current amount of the balance of payments showed a deficit of 2.7 percent of GDP in 1984, close to the 1983 level. This outcome was considerably lower than had been expected, almost entirely due to a large import shortfall because of the continued tight foreign exchange situation during the first half of the year. Export earnings rose by about 30 percent, reflecting higher world prices for cocoa and an increase in electricity sales. On the capital account, in spite of some initial delays, aid disbursements rose sharply; net aid increased from 0.9 percent of GDP in 1983 to 3.4 percent in 1984. Allowing for other official and private capital movements, the overall deficit in 1984 amounted to US$121 million. This was financed by net IMF purchases of US$214 million. The balance of Fund resources was used to reduce arrears and to build up foreign exchange reserves. In 1985 both exports and imports are expected to recover further and the current account deficit is projected to widen to 5.5 percent of GDP. Higher capital inflows are forecast, enabling the overall deficit to decline from the 1984 level. Expected IMF repurchases would be sufficient to cover the deficit and to clear more payment arrears.

Development Program

19. In addition to achieving an appropriate incentive framework, public expenditure policy is an equally important component of the Government's development strategy. The neglected state of Ghana's economic and social infrastructure has become a critical bottleneck to the reform program's efforts to generate a strong supply response. Recognizing this weakness, the Government's Economic Recovery Program for 1984-86 initiated rehabilitation programs in key sectors--cocoa, timber, gold mining, and transport infrastructure. At the same time, the Government has begun to prepare a three-year rolling development program, beginning in 1986, based on a review of public expenditures conducted jointly with the Bank in the spring of 1985. The highest priorities in the area of recurrent expenditures are to restore the viability and efficiency of public administration and to expand significantly support to health and education. In addition, adequate allocations need to be provided for operations and maintenance. To meet these needs, the annual average recurrent expenditures during 1986-88 would have to be about 20 percent higher in real terms than the levels budgeted in 1985. The initial work on the capital side indicates the substantial rehabilitation needs of the strategic economic sectors--agriculture, mining, and economic infrastructure. Consequently, there is a large number of projects with high returns on incremental investments. The only significant area where new investments have been identified is oil exploration, which would be financed primarily by foreign investors.

External Debt and Creditworthiness

20. Ghana's medium- and long-term external public debt outstanding and disbursed at end-1984 amounted to US$1.1 billion, about 20 percent of GDP. Bilateral creditors account for slightly less than half of the total, multilateral sources for about 40 percent (Bank loans and IDA credits

comprise 28 percent of total debt), and suppliers credits for only 10 percent. Despite the predominance of soft loans, Ghana's debt service burden in the coming years is likely to be very heavy, for several reasons: first, amortization of previously rescheduled debt began in 1983; second, there is a relatively large amount of short-term debt, including US$230 million of payment arrears at end-1984 which are to be cleared by 1988; and third, the reported debt excludes the use of Fund credit under the recent Standby Arrangements. The debt service ratio doubled from 14 percent in 1982 to 29 percent in 1984. Including IMF charges and arrears payments, the share was 44 percent. In 1985-86 the debt service ratio is expected to be about 44 percent, 60 percent including IMF charges and arrears payments.

21. In spite of the considerable gains which have been made, Ghana's economic situation remains difficult. That consideration plus the country's dependence on, and hence vulnerability to fluctuations in, cocoa earnings, make it desirable that future debt service obligations be kept as low as possible. In addition, Ghana's per capita income is relatively low (US$350). Consequently, Ghana will have to depend on IDA resources for Bank Group borrowing over the next few years. In order to help ensure an adequate flow of foreign exchange into Ghana and to supplement the country's resource mobilization efforts, it also would be appropriate for donors to finance a significant portion of local project costs.

## PART II - BANK GROUP OPERATIONS IN GHANA 2/

### Lending Strategy

22. The principal objectives which now guide the formulation of the Bank's assistance program to Ghana are: (a) to support the adoption of policies designed to adjust the structure and improve the efficiency of the economy and return it to a path of growth; (b) to help rehabilitate and improve capacity utilization of the country's existing productive assets; (c) to stimulate agricultural and industrial production, particularly for export promotion and efficient import substitution; and (d) to improve the country's essential infrastructure (transport, water, petroleum, power) and relieve major bottlenecks to increased production. The Bank group is undertaking a substantial program of economic and sector work to broaden and deepen understanding of the constraints which are likely to impede the recovery process and to provide direction to future lending and the design of project components. An economic memorandum (Report No. 5854-GH dated October 7, 1985) has been prepared and, in preparation for the Second Reconstruction Imports Credit, the Government budget and import program for

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2/ This part is substantially the same as Part II of the President's Report for the Health and Education Rehabilitation Project which was approved by the Executive Directors on January 23, 1986.

1985 were reviewed in detail. An industrial sector study, a public expenditure review and an agricultural sector review have been completed. An energy assessment is currently being carried out. In both lending and economic sector work, attention will be given to ways of strengthening the institutions responsible for economic management and development spending. The Bank's dialogue has been most effective, and the Government continues to be both receptive and responsive to the Bank's advice.

23. In response to the Government's announcement of a major economic reform program in April 1983, the Bank Group reopened its lending to Ghana which had been put in abeyance for nearly two years due to economic uncertainties and lack of proper economic policies. The Executive Directors approved a US$40 million Reconstruction Import Credit (RIC) which aims to meet emergency import requirements for the agricultural and transport sectors and is now approaching successful completion. A second RIC for US$60 million covering the agriculture, transport, mining and manufacturing sectors was approved in March 1985. Two credits were also made for export rehabilitation and related technical assistance. To date, despite some expected initial problems, the performance on projects approved after April 1983 has been satisfactory.

24. In FY86, the Power System Rehabilitation Project with an IDA Credit of US$28.0 million and the Health and Education Rehabilitation Project with an IDA Credit of $15.0 million have already been approved. In the near future, IDA expects to support a port rehabilitation project and an agricultural rehabilitation project emphasizing cash crops. In brief, projects with major rehabilitation components are likely to absorb the bulk of IDA resources for the next few years as these are likely to show the highest benefits and quickest returns. IDA is also maintaining a dialogue with the Government for a possible structural adjustment credit in the near future. The extent to which the Bank Group can provide financial and technical assistance to support such a broad-based program will be conditioned upon the performance of the Government in carrying through its economic recovery program.

Past Operations

25. Since 1962, when the Bank Group financed its first operation in Ghana, the Bank has made 10 loans totalling US$189.7 million and 32 credits totalling US$595.2 million (including two African Facility Credits for US$37 million). In addition, Ghana is a beneficiary of a Bank-financed regional clinker project covering three countries (Togo, Ivory Coast and Ghana). An IFC investment of US$55 million in Ashanti Goldfields Corporation in Ghana was approved in June 1984. Annex II contains a summary statement of Bank loans and IDA credits as of December 31, 1985.

26. Energy has been a major focus of Bank Group lending to Ghana (23.5 percent of commitments). Projects financed in this sector include three hydro power generation projects and three power distribution projects. A project aimed at strengthening Ghana's technical capacity to accelerate petroleum exploration was approved in May 1983. A second

project in the sector, approved in March 1984, provides technical assistance and financing of immediate requirements for rehabilitation of Ghana's sole refinery. The second most important sector in the Bank Group's program in Ghana is transportation (18.2 percent of commitments) with four road projects and a a railway rehabilitation project. The two Reconstruction Import Credits and the Export Rehabilitation Project are also providing partial emergency assistance to the road transport and port subsectors. The Accra District Rehabilitation Project supports the transport subsector in the Accra area as well as the strengthening of the administrative and financial basis of the Accra City Council and the improvement of a poorer section of the city. In agriculture (17.4 percent of commitments), the main thrust of the Bank Group's operations has been to assist the country in achieving greater self-sufficiency in agricultural production, particularly food and raw materials for agro-industries, and rehabilitating the cocoa subsector. In the field of water supply, three projects (in 1969, 1974 and 1983) have helped increase and improve water supply in the Accra/-Tema metropolitan area and adjacent rural areas, with the most recent one helping to carry out emergency repairs and maintenance on main water pipelines. In the manufacturing sector, two credit projects (in 1975 and 1979) have financed investments in manufacturing and agro-industry undertaken by small and medium enterprises.

## Project Implementation Experience

27. The country's economic difficulties in recent years have adversely affected a number of Bank Group-financed projects. Dwindling Government revenues have denied projects needed local financing, and the lack of foreign exchange has resulted in a severe shortage of imported materials and spare parts required for completed projects. The mass exodus of qualified Ghanaians to neighboring countries, and demoralization, absenteeism and low productivity among the remaining work force have also adversely affected project performance. The unusually adverse conditions surrounding Bank Group-financed projects and their generally poor performance have been described in greater detail in the Project Performance Audit Reports. Overall, the main conclusion of the reports was that macroeconomic and sectoral policy constraints were the major factors responsible for poor performance of the audited projects. Because of delays experienced in the implementation of a number of Bank Group-financed projects in Ghana, disbursement performance is behind appraisal estimates. Annual gross disbursements over the four-year period FY81-84 have averaged about 20 percent of outstanding loan/credit commitments and as of September 30, 1985, US$365.6 million remained undisbursed. The Bank Group has held periodic implementation reviews with the Government to identify steps which could be taken by borrowers and the Bank Group to accelerate disbursement on ongoing loans and credits.

## IFC Operations

28. IFC approved an investment of US$55 million in the mining sector (Ashanti Goldfields Corporations Ltd. (AGC)) in June 1984. This is IFC's

first operation in Ghana. The loan will help finance a US$158 million rehabilitation project designed to increase gold output from about 255,000 oz. in 1984 to 400,000 oz. in 1989-90, a level of production AGC last achieved in the early 1970s before the deterioration in Ghana's foreign exchange situation began to affect production at the mine.

## PART III - THE GOVERNMENT ADJUSTMENT PROGRAM IN INDUSTRY

### Introduction

29. In the context of its overall Economic Recovery Program (para 12) the Government requested the Bank's assistance to analyze the problems afflicting the industrial sector and develop a program for industrial adjustment. The adjustment program described in this section evolved from the Bank's sector work and dialogue with the Government. (A Sector Report entitled "Ghana - Industrial Policy, Performance and Recovery" was distributed to the Executive Directors on October 30, 1985.) It is a multi-year program, with emphasis in initial years on increasing industrial production through increased utilization of existing capacity, while putting in place an appropriate policy framework depending on the efficient use of resources rather than excessive protection; and on strengthening the institutional framework to design and implement policies and programs for industrial growth. In this section a brief review of the industrial sector including its performance, weaknesses and potential is presented first and then the Government adjustment program in industry is described. Key statistics related to the industrial sector are presented in Annex V.

### The Industrial Sector: Performance and Potential

30. In the decade following independence (1957), manufacturing output grew by 13 percent per annum in real terms and its share in GDP rose from around 10 percent in 1960 to a peak of about 14 percent in the mid 1970s. Manufacturing output remained stagnant between 1970 and 1977 and then declined sharply between 1977 and 1983, foreign exchange availability for industrial inputs worsened during the 1970s, import costs rose and export earnings declined. Consequently the share of manufacturing in GDP declined from a peak of 14 percent in the mid 1970s to 5 percent currently. From having been a leading sector generating growth elsewhere in the economy, manufacturing became a lagging sector with increasingly underutilized capacity.

31. Although Ghana's industrial capacity is relatively large, diverse and long-established compared to most other African countries, it is largely underutilized for lack of sufficient domestic and imported raw materials. The average capacity utilization was in the range of 43-52 percent during the period 1970-77 but fell to 21 percent by 1982. A reversal of the decline occurred in 1984-85 as power supply was restored and increased amounts of import licenses were issued. The large underutilized capacity offers the opportunity for significant increases in

manufacturing output in a short period, if the required raw materials, largely imported, are made available. In addition many industrial plants need replacement and modernization to improve productivity and meet market demand.

32. Ghana's deteriorating industrial performance in the last decade is attributable to three main weaknesses of past industrial policies, namely: (a) emphasis on import substitution through high levels of effective protection; (b) reliance on administrative controls rather than market mechanisms to determine incentives and resource allocations; and (c) reliance on unmanageably large public sector investments as the leading edge of industrial development. All three policies are being reexamined by the Government in light of past experience and current realities.

33. An assessment of the overall efficiency of Ghana's industrial structure and its consistency with Ghana's comparative advantage was carried out as part of the Bank's recent industrial sector work (para 29). The analysis revealed five major structural weaknesses in the sector: (a) the imported input requirements of full capacity production greatly exceed the amount of foreign exchange that is likely to be available for this purpose in the foreseeable future; (b) full capacity production exceeds the domestic market in some subsectors; (c) processing capacity often exceeds the availability of local raw materials; (d) direct public sector holdings exceed what the Government can manage effectively and profitably; and (e) a substantial share of capacity is unlikely to be able to produce competitively with imported goods.

34. The analysis also revealed that there was a wide divergence between actual and potential efficiency. Thus, although two-thirds of firms surveyed were operating inefficiently in 1983, most would be potentially efficient if they could operate close to full capacity. Some 40 percent of the potential full capacity production is in industries that are estimated to be consistent with Ghana's comparative advantage but for another 50 percent the comparative advantage is marginal, depending upon cost structure and productivity levels at the firm level. It was also found that wide variations in efficiency exist between industries and firm within a subsector suggesting that overall efficiency of the sector can be significantly improved under an appropriate incentives policy framework that encourages efficient production rather than a subsector or firm level restructuring approach. These results indicate that, while a restructuring of the industrial sector is needed, a substantial portion of Ghana's industries is, or can become, viable and sustainable in a competitive environment. An analysis of the performance and potential of manufactured goods exports from Ghana indicates that in a reformed policy environment exports can recover to the levels achieved in mid 1970s when the exports accounted for about three percent of the manufacturing sector's output and may even show more substantial growth as the additional investment and structural changes expected as a result of the Economic Recovery Program have their impact.

Objectives and Strategy for Industrial Adjustment

35. There is a widespread recognition among policymakers in Ghana of both the weaknesses and the potential of the industrial sector. It is recognized that the primary objective, in the short run, for government policy should no longer be to create new capacity but to reduce and rationalize existing capacity so that resources are concentrated in the most productive industries in which Ghana has a comparative advantage. It is agreed that the structural problems and deficiencies of the industrial sector have their roots in over two decades of inappropriate policies and that significant reforms would be needed to achieve restructuring objectives. It is also agreed that restructuring should primarily be achieved through reform of incentive policies rather than administrative solutions.

36. The Government has publicly issued a comprehensive Statement of Industrial Policy (Attachment to Annex VI) outlining its industrial development objectives and the broad strategy for achieving them. The basic objective for the future is to streamline Ghana's industrial capacity to concentrate on those activities that are the most viable and sustainable over time. The short-run objective is to promote rapid industrial recovery through greater use of existing capacity. The medium-term objective is to break production bottlenecks in the most efficient industries and achieve significant cost reductions in others that are potentially viable, through selective and gradual rehabilitation. In the long term, the objective is to achieve an industrial structure that is more closely linked to domestic resources and is internationally competitive.

37. The adjustment strategy implied by these objectives would have the following main elements: (a) reform of exchange rate and trade policies to eliminate excessive protection and to encourage efficient producers and exports of manufactured goods; (b) rationalization of industrial public enterprises; and (c) provision of additional resources to raise capacity utilization and to rehabilitate industries that are most likely to be sustainable in the long run.

Policy Framework for Industrial Adjustment

38. As part of its Economic Recovery Program, launched in 1983, the Government has undertaken substantial policy reforms. The emphasis to date has been on exchange rate adjustment, monetary and fiscal responsibility, pricing policy reforms, and interest rate policies (para 12). Taken as a whole these measures have considerably improved the policy environment for industrial recovery.

39. Since 1983, the Government has taken steps to improve the business environment that was at best ambivalent to private enterprise. The Government has inducted private sector representatives into policymaking bodies such as the National Economic Commission and the tripartite committee (which deals with pricing, wage and other issues involving Government, management and labor). In recently revising and reissuing the Investment Code, the Government has demonstrated its commitment to maintaining a

stable, open economy and to encouraging increased participation by both domestic and foreign private investors in Ghana's economic recovery. The promulgation of the revised Investment Code should have a positive impact on the confidence of new investors. The Statement of Industrial Policy, recently issued by the Government, spells out the industrial development strategy and goals of the Government and the respective roles the public and the private sectors are expected to play in the sector. The initial response of the private sector to both the Investment Code and the Statement of Industrial Policy has been encouraging. However, substantial further policy reforms would be essential to translate this good will and to achieve the industrial adjustment objectives discussed above. The policy reform program being supported through this proposed credit is discussed below.

40. (a) Protection Regime. Protection to domestic industry in the past, frequently at excessive levels, has been provided through low prices for imported inputs and high tariffs and quantitative restrictions on competing imports. The Government has taken policy actions which have reduced the protection accorded to local manufactures. The exchange rate has been depreciated by over 80 percent in real terms during the 1983-85 period. The tariff structure has been simplified and the applicable tariff rates for industrial inputs and outputs are 25-30 percent. Given the tight balance of payments position (para 18), quantitative restrictions still apply through an import licensing system which rations the foreign exchange provided by the Government. However, recognizing the constraints on its ability to supply sufficient foreign exchange to meet demand, the Government permits a special unnumbered import license (SUL) system to cover imports when the importer arranges his own foreign exchange. The SUL imports are a major market force (amounting to US$73 million during 1984 compared to non-oil imports of US$120 million financed by the Government) and in some instances compete against local manufactures, thereby limiting the effective protection.

41. While the above policy changes have reduced the protection accorded to local manufacturers, it is still high (mainly through the quantitative restrictions) and further reforms are needed to bring down protection to reasonable levels and expose inefficient production. Continued progress towards a realistic exchange rate and phasing out of quantitative restrictions are keys to this task. The Government is committed to achieving a realistic exchange rate. In January 1986 the Government further adjusted the exchange rate from 60 cedis to 90 cedis to the US$. This would effectively raise the nominal price of imported industrial inputs by 50 percent, encourage greater utilization of domestic inputs, help curb the excessive demand for imports thereby facilitating import liberalization, and improve the international competitiveness of the industrial sector. The Government has agreed to keep the exchange rate under review and make further adjustments (in consultation with the International Monetary Fund) as necessary to achieve policy goals.

42. Phasing out quantitative restrictions for industrial inputs and outputs (inherent in the import licensing system) would go a long way in

helping accomplish the industrial adjustment objectives. The Government is committed to a gradual liberalization of imports and it has already taken several significant steps. It has liberalized imports under SULs by shifting from a positive to a small negative list, thus permitting unrestricted import of consumer and producer goods, many of which compete with domestically manufactured goods. It has also agreed to make taxes and special charges on SUL imports of industrial inputs eligible for waivers and credits on the same basis as for ordinary imports of inputs. This would encourage efficient industrial producers to utilize the SUL system for import of raw materials and thus minimize the distortionary effects of the import licensing system. The Government has established a Working Group that is charged with the task of developing detailed alternative proposals for import liberalization. A preliminary study on import liberalization options has already been carried out and will be useful to the Working Group which has been asked to submit its report by end June 1986. The Government has agreed to exchange views with the Association on the Group's report and has agreed to approve a phased program of import liberalization, satisfactory to the Association, prior to the release of the second tranche (para 73). The Government intends to begin implementation of the phased program of import liberalization at the beginning of 1987.

43. (b) Export Promotion. Substantial exchange rate adjustments and automatic retention of a portion of export earnings constitute the main elements of the export incentive package currently in place. The recent devaluation has further improved the profitability of exports and the Government is committed to an exchange rate policy designed to ensure high and stable profitability of the export sector. The Government has agreed to consider an increase in the percentage of earnings to be retained by exporters of non-traditional products from 20 percent to 25 percent and to increase flexibility in use of retentions for a wider variety of imports. It has also agreed to eliminate procedural impediments to exports. A number of other export promotion measures identified as part of sector work are under active consideration by the Government. The Government intends to decide on export promotion measures in April 1986 and implement them by the end of 1986 as a condition of the second tranche release (para 73).

44. The Government has agreed to strengthen the Ghana Export Promotion Council and give it the responsibility for monitoring the improvements in policy and administrative framework for exports and to formulate further export incentive measures. It has also initiated a review of tax and price incentives and a study of additional export promotion measures. These reviews would provide the basis for further export promotion measures which the Government intends to implement during the 1986-88 period.

45. (c) Price and Distribution Controls. The Government has taken significant steps to reduce the coverage of price controls. Previously comprehensive price controls under the Prices and Incomes Board are now limited to eight "essential commodities", of which six are manufactured locally (textiles, soaps and detergents, matches, matchets/cutlasses, drugs and cement). In addition, the prices of beer and cigarettes are determined

in conjunction with the Government budget because of their revenue implications. The price controls are now administered more flexibly with a greater element of automaticity in passing on cost increases and speedier approval of requests to raise prices. The Government has also removed distribution controls on the items lifted from price controls and generally leaves buyers and suppliers free to negotiate even for items nominally under price controls. These measures, together with the increased availability of resources to those industries still under control have reduced the disincentives to producers. Under the RIC II (Credit 1573-GH), the Government is obligated to reexamine the rationale for the remaining price controls with a view to phasing them out completely as supply conditions improve.

46. (d) State-owned Industrial Enterprises. At the Government's request a major study of the state-owned enterprise sector in Ghana was undertaken and completed in September 1985. The study was funded by UNDP with the Bank as the executing agency. Its findings and recommendations have been discussed with the Government. An action program for the rationalization (including privatization/divestiture) of state enterprises is being drawn up by a Task Force of the Government and two sub-committees of the cabinet are to pay particular attention to the issues of labor redeployment and layoffs. The action program would be ready by mid-1986, and is expected to deal with overall issues such as policy, criteria for divestiture/retention of public enterprises, institutional restructuring for monitoring of public enterprises, selective rehabilitation, and reducing the role of the state in selected state enterprises through encouraging joint ventures and divestiture. The action program would also establish priorities in the overall rationalization program and is proposed to be supported by a structural adjustment credit (para 54).

47. Rationalization of state-owned industrial enterprises would be a part of the overall action program. The Statement of Industrial Policy and the Letter of Industrial Goals and Policies (Annex VI) set out the Government's policy for state-owned industrial enterprises (SOIEs) which calls for: (a) operation of SOIEs on a commercial basis without recourse to Government financing, (b) no barriers to the entry of private firms in areas of operations of SOIEs, (c) direct state participation on an exceptional basis only, (d) turning several SOIEs into joint ventures, (e) rationalization of present SOIEs' structure to improve efficiency and reduce the size of the present SOIE subsector, (f) applying the Government's overall criteria (being developed as part of overall SOE reform program) for retention, joint ventures, divestiture, etc., to all SOIEs and taking appropriate actions, and (g) a ban on the creation of new SOIEs in the 1986-88 period. The Government has agreed to carry out the rationalization of SOIEs within 1986 in consultation with the Association. Funds would be provided under the proposed Credit to assist the Government in carrying out rationalization of selected SOIEs (para 64).

48. (e) Public Investment Program in Industry. Pending rationalization of industrial public enterprises the Government has agreed that during the 1986-88 period public investment in such enterprises should be limited

to most urgent rehabilitation which is evaluated to be financially and economically viable and for which the necessary foreign exchange working capital to make full use of rehabilitated capacity is likely to be available within the constraints of the annual import program for industry. A review of the public investment program for the period 1986-88 was jointly conducted by the Government and the Bank, and an overall program was developed. As part of this overall program a "core" public investment program for industry--not exceeding US$43 million (constant 1985 prices) during the 1986-88 period has been developed. The Government has agreed that this level will not be exceeded and that the rehabilitation projects proposed will be subjected to economic and financial evaluation. The Government has also agreed to exchange views with the Association on the specific industrial projects included in the public investment program during the 1986-88 period.

49. (f) Industrial Finance. A key constraint to industrial supply responsiveness is the ability of enterprises to raise sufficient working capital to provide the cedi cover which is required before the commercial banks establish letters of credit in respect of the import licenses. This is in part due to the creditworthiness problems facing many enterprises given the run-down condition of their equipment, and to the cumulative impact of the more than 3,000 percent devaluation of the cedi since 1983 on the debt/equity structure and liquidity position of many firms. These have resulted in a major imbalance in their financial structures and impaired their creditworthiness in the eyes of a conservative banking community. The Government is aware of the problem and has agreed to implement a deferred debit scheme for import financing (para 17, Annex VI) which would considerably ease the liquidity position of importing enterprises. The Government has also agreed to review the situation of import financing during 1986 and take additional measures if necessary. With a view to encouraging firms to revalue their assets, thereby improving their creditworthiness, the Government has agreed to exempt them from payment of stamp or other taxes on revaluations.

50. The Government is committed to a policy of maintaining real positive interest rates on deposits and loans. The current interest rates of 18 percent on one-year time deposits and 23 percent on most loans are positive in real terms given the estimated inflation rate of 12 percent during 1985. Over the medium term, the availability of term loans will play an increasingly important role in the industrial adjustment and the overall economic recovery programs. The Government has therefore agreed to provide training and technical assistance to commercial banks to strengthen their capacity for term lending and establish an apex-lending arrangement under this Credit (para 68).

## Institutional Strengthening

51. A strengthening of the following institutions in the specified priority areas would be necessary to successfully implement the industrial adjustment strategy: (a) Ministry of Industries, Science and Technology--policy formulation, review and monitoring of public expenditures, compi-

lation and dissemination of industrial sector information, monitoring of sector performance and problems, import programming coordination and formulation/implementation of rationalization program for industrial public enterprises; (b) the Bank of Ghana and local banks--implementation capacity in the the Bank of Ghana for apex-lending arrangements, training of local banks staff in project appraisal and supervision techniques with a view to encourage medium-term lending by the banks, and training of banks and enterprises staff in financial restructuring techniques; (c) Central Bureau of Statistics--to conduct an industrial census, clear the backlog of industrial and foreign trade statistics and thereafter produce it in a timely manner; (d) Ministry of Finance and Economic Planning--formulation, implementation, and monitoring of tariff, trade, and related policies; (e) Export Promotion Agencies--such as Export Promotion Council, Ministry of Trade and the Bank of Ghana to identify export opportunities, assist exporters, formulate and implement export promotion measures; and (f) Technical Support Institutions--such as Ghana Standards Board and Food Research Institute which provide quality control and product testing services to manufacturers.

52. Technical assistance projects to assist some of the institutions listed above are in place, funded from bilateral and multilateral sources. However, these projects do not necessarily cover all the areas of institutional strengthening listed above. Under the proposed Credit technical assistance would be provided to fill the gaps as needed. The Government itself is giving a high priority to carrying out a substantial upgrading of managerial and administrative capability. Several committees of the Government are currently considering reforms to improve public sector management capabilities.

Relationship of the Industrial Adjustment Program to the Economic Recovery Program (1986-88)

53. The industrial adjustment program discussed above is an integral part of the Government's Economic Recovery Program (ERP) for the 1986-88 period which was presented by the Government to the November 1985 meeting of the Ghana Consultative Group (para 13). The ERP, 1986-88, would address the following main issues: (a) macroeconomic policies and management to improve the structure of incentives; (b) increased emphasis on sectoral reforms to shift the leading edge of policy reform from macroeconomic to sectoral concerns in the key sectors of agriculture, energy, industry, education and health; (c) rehabilitation of human capital by stepping up expenditures for local training, health and education; (d) restructuring of the roles of the public and private sectors through reform of wages and employment policies, rationalization of the state enterprise sector, and encouragements to private sector; (e) financial and banking sector reforms to facilitate mobilization of additional resources and allocating them to the most critical and efficient uses; (f) shifting of external assistance and debt away from stabilization oriented external financing towards longer-term supply oriented program and project financing; and (g) increased focus in overall policies on measures to alleviate rural poverty and encourage rural development.

54. IDA and IMF Support for ERP, 1986-88 is expected to be substantial. This proposed Industrial Sector Adjustment Credit (ISAC) as well as other planned sectoral lending operations in agriculture (FY87), health and education (FY86), energy (FY86 and FY87) would support sectoral reforms under the ERP. A structural adjustment credit (FY87) is planned to support the reforms of macroeconomic policies, public sector management, financial/banking policies. Rationalization of state-owned enterprises would be supported by the proposed structural adjustment credit (FY87) as well as a public enterprises project (FY88). The Government is discussing an Extended Fund Facility (EFF) with the IMF which would follow an eighteen-month standby program which came to an end in December 1985. The policy reform program to be supported by IDA and the IMF is being developed in close collaboration among the staff of the two institutions to ensure consistency of recommendations.

### Previous Bank Group Support for Industry

55. Previous Bank Group assistance to the industrial sector has been through two lines of credit to the National Investment Bank (NIB). The first line was an IBRD loan of US$10 million (Loan 1180-GH) approved in December 1975 and closed June 1984. The second line was an IDA Credit of US$19 million (Credit 901-GH), approved in May 1979 and closed in December 1985. Both lines of credit were committed and disbursed more slowly than expected due to the severely depressed state of the economy. The economic deterioration of the last 10 years led to financial difficulties for all businesses, including NIB's clients, which in turn has resulted in large loan portfolio arrears for NIB. The Association has assisted NIB in assessing the quality of its loan portfolio and formulating a financial restructuring program. The Government has allocated the resources required for financial restructuring, which is accompanied by actions agreed with the Association to remedy management weaknesses, in particular in the loan recovery area.

## PART IV - THE PROPOSED CREDIT

### Background and Rationale for IDA Involvement

56. In 1984, the Government opened discussions with the Association on an adjustment program for the industrial sector. The main elements of the adjustment program, summarized in Part III, were developed as part of extensive sector work during 1984 and early 1985 (para 29). The proposed Credit was preappraised in June 1985 and appraised in August 1985. A post-appraisal mission visited Ghana during December 1985. Negotiations were held in Washington in February 1986; the Ghanaian delegation was headed by Dr. Kwesi Botchwey, PNDC Secretary (Minister) for the Ministry of Finance and Economic Planning, and included representatives from the Ministry of Industries, Science and Technology, the Bank of Ghana, and the Ministry of Trade. Supplementary data on the Credit are presented in Annex III.

57. With the Bank Group and IMF support (para 23) Ghana has embarked on an Economic Recovery Program which has stabilized the economy and set the stage for resumption of growth. Ongoing policy reforms and rehabilitation programs will need time before substantial gains result. In the interim Ghana must depend on larger net external inflows of resources to increase the supply of goods on the market to contain the inflationary pressures and sustain an economic environment conducive to policy reforms. At the same time Ghana needs to rebuild its institutions to support steady economic growth. The proposed Credit would provide quick disbursing assistance to raise production of manufactured goods while facilitating a medium-term restructuring of the industrial sector through incentive policy reforms and strengthening of key institutions.

Credit Objectives

58. The proposed Credit's major objective would be to help the Government carry out the first phase (1986-88) of its medium-term industrial adjustment program, which aims at: (a) increasing production of locally manufactured goods through greater use of existing capacity; (b) streamlining Ghana's industrial capacity, through (i) appropriate incentive policies and (ii) proceeding cautiously with rehabilitation of economically viable industries; and (c) strengthening key institutions in the industrial sector to undertake policy analysis, credit delivery and investment analysis.

59. The specific actions supported by the proposed Credit are set out in the Government's Letter of Industrial Goals and Policies (Annex VI). The main features of these reforms are discussed in Part III above. The timing of implementation and a brief description of proposed reforms in each of the main policy areas addressed by the industrial adjustment program are presented below.

## TIMING OF ACTIONS IN THE MAIN INDUSTRIAL ADJUSTMENT POLICY AREAS

| Actions Previously Taken | Actions Taken Between Preappraisal and Board Presentation of ISAC | Actions to be Taken: First Year Program 1986 | Actions to be Taken: Second Year Program 1987 | Actions to be Taken: Medium-Term |
|---|---|---|---|---|
| | | **I. BUSINESS CLIMATE** | | |
| Inclusion of business representatives on National Economic Commission and Tripartite Commission; reduction of arbitrary decisions. | * A public Statement of Industrial Policy issued. * New Investment Code issued. | * Issue guidelines for approval under the Investment Code. Simplify and reduce direct and indirect taxes. Launch an information campaign on above incentive policy reforms by the Government. | | |
| | | **II. PROTECTION REGIME** | | |
| Depreciation of real exchange rate by over 80% during 1983-85 period. Harmonization of customs tariffs at 25-30% for most products. Eased regulations and procedures for imports under SULs. | * Exchange Rate adjusted in January 1986 raising the price of industrial input imports by 50%. * Regulation of SULs shifted from a positive list to a negative list. * Double taxation on SUL imports of inputs by industrial producers eliminated. | * Approval on a phased program of import liberalization including temporary financial charges if necessary to permit import liberalization. | * Begin implementation of the agreed phased program for import liberalization. * Evaluate experience with measures introduced in previous years and make adjustments. Review exchange rate and make further adjustments. | Achieve and maintain realistic real exchange rate; complete implementation of phased import liberalization program. |

Note: Actions marked with * are proposed policy actions under the ISAC. Other actions listed are expected to take place as part of the Government's on-going Economic Recovery Program for which the Government is seeking IDA and IMF support (para 54).

| Actions Previously Taken | Actions Taken Between Preappraisal and Board Presentation of ISAC | Actions to be Taken: First Year Program 1986 | Actions to be Taken: Second Year Program 1987 | Medium-Term |
|---|---|---|---|---|
| | | III. EXPORT PROMOTION | | |
| Successive exchange rate adjustments. Export earnings retention scheme. Special import allocations for first time exporters. Provision of credits to exporters. | * Currency devalued 50 percent in Jan. 1986. | * Simplify exporting procedures. * Increase the flexibility in use of the export retention. * Institute a reserve list of exports instead of export permit requirements. * Increase amount of permitted retention. * Strengthen Ghana Export Promotion Council. * Establish post-shipment export credit scheme. | * Evaluate experience with already implemented export promotion measures and make adjustments. * Implement further export promotion measures on the basis of studies done in 1986. | Study the need to continue retention account/bonus scheme in light of exchange rate adjustments and responsiveness of exports. |
| | | IV. PRICE AND DISTRIBUTION CONTROLS | | |
| Previously comprehensive price controls now reduced to eight essential commodities under PIB. Permission to raise prices to reflect cost increases now freely given. Distribution controls lifted on the items not subject to price control. | | Review working of remaining price and distribution controls with a view to remove them. Study ways to maintain regular supply and distribution of essential commodities important in controlling inflation (condition under RIC II). | | |

| Actions Previously Taken | Actions Taken Between Preappraisal and Board Presentation of ISAC | Actions to be Taken: First Year Program 1986 | Actions to be Taken: Second Year Program 1987 | Medium-Term |
|---|---|---|---|---|
| **V. STATE-OWNED INDUSTRIAL ENTERPRISES (SOIEs)** | | | | |
| A study of state-owned enterprises completed and under review. High level committee established to prepare action plan for restructuring state enterprise sector. | Task Force to develop criteria for retention and divestiture of state-owned enterprises established. * Policy guidelines for rationalization of SOIEs agreed. * SOIEs for seeking joint ventures selected. | * Carry out rationalization of main SOIEs. * Begin divestiture of selected industrial public enterprises. | * Continue implementation of action program for rationalizing SOIEs. | Complete the rationalization of SOIE enterprise sector. |
| **VI. PUBLIC EXPENDITURE PROGRAM IN INDUSTRY** | | | | |
| A core public investment program for the period 1986-88 has been developed. | * Upper limit of the public investment expenditures for industry agreed. | * Implement the public investment program (PIP) in industry for 1986. | * Review the PIP for industry to confirm relevance. | |
| **VII. INDUSTRIAL FINANCE** | | | | |
| Interest rates on deposits and most loans close to real positive levels. The Government's claims on banks' credit reduced to free up more resources for private sector. | | * Establish a deferred debit scheme for financing of imports by producers. * Establish an apex-lending facility for financing industrial rehabilitation projects. *Provide training and technical assistance to local banks. * Maintain real positive interest rates. * Permit revaluation of assets without payment of stamp duty for a limited period. | * Review experience with the deferred debit scheme and make changes if necessary. * Maintain real positive interest rates. | |

Description of the Credit

60. The proposed IDA Credit of US$28.5 million and African Facility Credit of US$25.0 million would finance four components as listed below. Joint IDA/African Facility financing would be used for the industrial imports component while the IDA Credit would finance the remaining three components.

Components of the IDA/African Facility Credit

| | | Expenditures to be Financed: Amount US$ million | Expenditures to be Financed: % |
|---|---|---|---|
| (a) | Industrial Imports. Importation of industrial raw materials, spare parts, and other inputs; | 40.00 | 100% of foreign expenditures |
| (b) | Rehabilitation. Equipment and services for rehabilitation/restructuring of selected enterprises; | 10.00 | 100% of foreign expenditures |
| (c) | Institutional Strengthening. | | |
| | (i) Advisory and consultancy services | 1.80 | 100% |
| | (ii) Equipment and vehicles | 0.92 | 100% of foreign expenditures |
| (d) | Studies | 0.50 | 100% |
| (e) | Refinancing of PPF Advance | 0.28 | Amount Due |
| | | 53.50 | |

61. (a) Industrial Imports Component. There is a significant amount of underutilized industrial capacity in Ghana and in the short run the main constraint to increased capacity utilization is the availability of foreign exchange to import the necessary raw materials and spare parts (para 31). Direct import requirements of potentially efficient industries, for full capacity production, are estimated to exceed US$250 million per year. However, during the last few years, only about 25 to 40 percent of the requirements could be provided. Due to the tight balance of payments position the Government allocates foreign exchange through an annual import program under which enterprise level allocations are made by the concerned Ministry. The funds provided under the proposed Credit for import of industrial inputs would finance a part of the Government's annual import program for industry which covers inputs and capital goods only; consumer

goods are included in the Ministry of Trade's import program. Analyses of production activities of industrial firms indicate that a majority of firms can make efficient use of imported inputs when capital costs are taken as sunk. Instead of proposing any administrative measures to identify efficient and inefficient firms and allocating funds only to efficient firms it is proposed to achieve both the short- and the long-run efficiency goals by adjusting the price of imported industrial inputs to an appropriate level and reforming the protection regime to eliminate excessive protection (paras 40-42). To ensure that the annual import program for industry will support the industrial production goals in the short run and be consistent with the broad objectives of the industrial adjustment program, the Government has agreed on principles to be applied in determining the size and composition of the annual import program for industry (1986-88) (Annex VII). Submission of a 1986 import program for industry, consistent with the agreed principles, is a condition of effectiveness of the proposed Credit. Submission of a satisfactory 1987 import program for industry is a condition for the release of the second tranche of ISAC.

62. (b) Industrial Rehabilitation Component. As noted earlier (para 31), many enterprises require rehabilitation to improve productivity. A survey by the Ministry of Industries, Science and Technology of rehabilitation requirements (1986-88) estimated the priority needs to exceed US$100 million. However, the Government agrees that rehabilitating industrial enterprises must proceed slowly since (i) indiscriminate rehabilitation could worsen the structural weaknesses in the industrial sector; (ii) industrial production in most industries can be significantly increased without major investments and (iii) the foreign exchange constraint will continue in the near future making it difficult to make available necessary foreign exchange to fully utilize the rehabilitated capacity. Therefore, under the proposed Credit, only a limited amount of funds would be made available to finance rehabilitation proposals from existing enterprises which are assessed to be economically viable over the long run. The eligibility criteria and the financial/economic evaluation criteria to be applied in approving the rehabilitation proposals under the proposed ISAC have been agreed (Annex VIII). Priority would be given to rehabilitate those industries which use domestic resources, produce basic consumer or exportable goods, and can make full use of rehabilitated capacity. This selective approach to rehabilitation will be reviewed periodically and relaxed as the reformed incentives framework takes hold.

63. (c) Institutional Strengthening Component. This component will finance technical assistance to the following institutions to support their organizational improvements and staff strengthening activities (para 51): (i) the Bank of Ghana (BOG), to train local bank, BOG, and other concerned Government staff in the areas of economic/financial analysis and restructuring. This training would go beyond the immediate needs of this Credit and would be designed to build project evaluation capability in local banks and ministries to improve the quality of investment analysis; (ii) the Ministry of Finance and Economic Planning (MFEP) to build staff capability in analyzing incentive policy issues, formulating appropriate policy

measures, and monitoring the impact of policy measures; (iii) the Ministry of Industries, Science and Technology (MIST), to strengthen capability for formulating and implementing industrial policy and industrial restructuring programs; (iv) the Central Bureau of Statistics (CBS), to carry out an industrial census (last done in 1962), timely compilation of industrial statistics, and updating and adoption of monthly processing of foreign trade statistics; and (v) the Ghana Standards Board (GSB) and the Food Research Institute (FRI) for the purchase of laboratory and office equipment to provide quality control, product testing and other services to manufacturers. The total cost (including contingencies) of these technical assistance and training activities is estimated to be about US$4.8 million of which the proposed Credit would finance US$3.0 million (63 percent), while the Government would provide US$0.4 million (8 percent), and UNDP would provide US$1.4 million (29 percent) (Annex IX).

64. (d) Studies Component. Studies to generate policy options, enterprise and subsector level restructuring programs and other measures for achieving the Government's medium-term industrial adjustment objectives will be undertaken as needed. The total budget for the studies program is estimated at US$1.0 million of which the proposed Credit would finance US$0.5 million. The balance would be financed by UNDP (US$0.05 million) and an already approved grant (US$0.45 million) from the Government of the United Kingdom (Annex X).

## Implementation Arrangements

65. The Government of Ghana will be the Borrower. The Government would retain those portions of the Credit which are earmarked for the MIST (US$0.30 million), MFEP (US$0.56 million), CBS (US$0.39 million), GSB (US$0.27 million) and FRI (US$0.43 million). The balance of the Credit amounting to US$51.55 million would be made available to the Bank of Ghana. The signing of an Administrative Agreement between the Government and the Bank of Ghana satisfactory to the Association is a condition of effectiveness. The Bank of Ghana would be the main implementing agency for the proposed Credit as set forth in the Project Agreement. Specific implementation arrangements under each component are discussed below.

66. The industrial imports component will be implemented by the MIST and the Bank of Ghana. The MIST would prepare the annual import program. The Bank of Ghana would sell the necessary foreign exchange to importers to facilitate imports under this component. Organizational arrangements required for implementing this component (which represents 75 percent of the proposed credit) are already in place. MIST has been making the annual import program for several years and its staff and procedures are considered adequate. The Bank of Ghana has a system for releasing foreign exchange to local banks to finance imports under the Government's annual import program. This system operates satisfactorily and will be used for the disbursement of the proposed Credit's proceeds.

67. The industrial rehabilitation component will be implemented by the Development Finance Department (DFD) of the Bank of Ghana under an apex-lending arrangement involving seven commercial and development banks in Ghana who have expressed an interest in participating in the Credit. Appraisal of loan requests will be the responsibility of the concerned participating bank which would make the final decision on whether to approve a rehabilitation investment proposal. The Bank of Ghana has agreed to apply the eligibility and appraisal criteria and terms and conditions described in Annex VIII in approving sub-loans under this component.

68. The institutional strengthening component involves a number of Government agencies (BOG, MIST, MFEP, and CBS), each of which will be responsible for implementation of its own strengthening program (para 63). The proposed organizational improvements, incremental staffing requirements, technical assistance requirements, and terms of reference for consultants have been agreed. All experts and consultants to be employed under this component of the Credit would be selected in accordance with the Bank guidelines. The Government has agreed to (a) exchange views with the Bank on its reorganization plans for the departments/units receiving technical assistance under the proposed Credit, and (b) cause the Central Bureau of Statistics to carry out the industrial census by December 31, 1987.

69. The studies component involves three implementing agencies--MIST, MFEP, and the Bank of Ghana. The MIST will be responsible for subsector studies, the MFEP would be responsible for policy analysis studies, and BOG would be responsible for studies to design export incentives and to prepare enterprise (mainly public) restructuring plans. It has been agreed that (a) before beginning a study, the concerned agency will furnish to the Association for its review and comment the terms of reference, timetable, and a budget for each study; and (b) a copy of each completed study will be furnished to the Association as soon as available and that the Government will consult with the Association on the findings and recommendations of each study financed by the proposed ISAC.

70. Posting of additional staff in the Bank of Ghana and training of local banks staff in project appraisal techniques are critical to timely implementation of the rehabilitation component of the ISAC. The Bank of Ghana has agreed that (a) prior to commencement of disbursements under the rehabilitation component, the Bank of Ghana will assign six professional staff to the Development Finance Department and employ a firm of consultants to assist the BOG in carrying out the training program for staff of DFD and local banks; and (b) during 1986, it will assign adequate additional staff to its Development Finance and Foreign Exchange Operations Departments to strengthen their implementation capacities consistent with the increase in work load.

Status of Preparation

71. The organization and procedures to implement the industrial imports component (which represents 75 percent of the proposed Credit) are well established (para 66). MIST has prepared a draft 1986 annual import program for industry which conforms to the agreed principles. The final import program is expected to be approved by the Government soon. As regards the industrial rehabilitation component, several rehabilitation investment projects have been identified and loan requests are being prepared with the help of consultants. Request for proposals from suitable consultants to organize training of local bank staff have been issued and selection is expected in April 1986. Terms of reference for all technical assistance services for the year 1986 have been agreed.

Procurement, Disbursement and Audit

72. Procurement of goods and services to be financed using the proceeds of the proposed Credit would be as follows: (a) all contracts valued over US$500,000 million would be subject to ICB and less than US$500,000 million through normal commercial practices through quotations from at least three suppliers; (b) goods under contracts estimated to cost less than US$100,000 may be purchased directly from suppliers; (c) procurement on behalf of the Government agencies and parastatals will be through procurement agency acceptable to the Association; and (d) consulting services would be procured according to IDA guidelines. Procurement for the African Facility Credit would follow the standard procedures.

73. The US$40 million allocated for industrial imports component is to be made available in two tranches and is expected to be fully disbursed over a three-year period, i.e. by June 30, 1990. The first tranche of US$25 million would be available upon effectiveness. The second tranche of US$15 million would be available about 12 months later (about April/May 1987). Disbursement of the second tranche would be conditional on: (a) agreement on the size and composition of the 1987 annual import program for industry; (b) the Government approving a phased program of import liberalization satisfactory to the Association (para 42); and (c) satisfactory implementation of agreed export promotion measures during 1986 (para 43).

74. Disbursements would be on the basis of 100 percent of expenditures for: (a) foreign exchange costs of imported raw materials and spare parts under the industrial imports component (US$40.0 million); (b) foreign exchange costs of imported goods or services for eligible subloans under the rehabilitation component (US$10.0 million); (c) expert advisory services, short-term consultancy services, and technical equipment and vehicles under the institutional strengthening component (US$2.72 million); (d) short-term consultancy services for studies (US$0.5 million) and (e) refinancing of the PPF advance (US$0.28 million). Excluded categories involve goods financed from other sources, consumer goods, goods intended for military or para military use, alcohol, tobacco, nuclear reactors and uranium and crude oil. An estimated schedule for disbursements is

presented at Annex XI. All disbursements would be fully documented with the exception of reimbursement applications related to contracts of less than US$200,000 equivalent under the industrial imports component and to contracts of less than US$50,000 equivalent for other components of the proposed credit which would be disbursed on the basis of statements of expenditure. Separate Special Accounts for the African Facility and the IDA Credits would be established by the Bank of Ghana in a commercial bank authorized to deal in foreign exchange transactions, in order to ensure speedy disbursements under the Credit. An initial deposit of US$5.0 million would be paid into each Special Account upon effectiveness of the Credit at the request of the Borrower. Retroactive financing of up to the equivalent of SDR 5 million (SDR 2.5 million each from African Facility and IDA Credit) would be provided to cover eligible expenditures made prior to the signing of the Credit but after October 1, 1985.

75. The Bank of Ghana, the main implementing agency, will maintain records and accounts in respect of all disbursements under the Credit, including the Special Accounts and separate accounts for amounts disbursed on the basis of the statement of expenditures. It would arrange an audit of these accounts each fiscal year by independent auditors acceptable to the Association. As regards the expenditures incurred under the institutional strengthening and studies component, by agencies other than the Bank of Ghana, the concerned agency would prepare and furnish the Association an annual Statement of Receipts and Expenditure which would be audited each year by independent auditors acceptable to the Association.

## Monitoring and Reporting

76. The Bank of Ghana, as the main implementing agency, will be responsible for monitoring the implementation of the Credit and would furnish quarterly progress reports to the Association. The MIST will submit to the Association an annual report (first such report to be submitted in June 1987) on the industrial sector's performance in terms of certain key performance indicators such as output and employment expansion, capacity utilization rates, and local value added. In addition it will submit a report at half-yearly intervals on the progress of (a) the annual import program for industry and (b) the assistance provided to Ghana Standards Board and the Food Research Institute. The Central Bureau of Statistics will submit a report at quarterly intervals on progress in implementation of its work program covering industrial census, industrial statistics, and foreign trade statistics. The consultants funded under the proposed Credit to assist the Ministry of Finance and Economic Planning will submit through MFEP to the Association a biannual report on progress of work done.

## Impact and Risks

77. The first and the foremost impact of the proposed Credit would be to raise production of locally manufactured goods in Ghana. This would be achieved through the transfer of resources to help finance the annual import program for industry thus helping to alleviate the main short-term

constraint to increasing industrial production. The annual import program should help the industrial sector achieve an annual growth rate of 8 percent over 1985-88, as opposed to the steady decline since 1977 (which reduced real output by nearly half). In the absence of the proposed Credit it is unlikely that an increase in funding for imported industrial inputs would be available.

78. Although the proposed Credit does not directly benefit the poor, it supports the Government's Economic Recovery Program (para 53) which has a high degree of complementarity with the objective of poverty alleviation. The proposed Credit would influence the product mix available on the domestic market in favor of mass-consumption items (rather than imported luxury goods) by allocating foreign exchange to their producers. It would also help increase capacity utilization in these industries from the present 20-30 percent to a target of 40-50 percent, thereby reducing unit costs reinforcing downward price pressures and benefitting employment. A recently completed study on price effects of exchange rate adjustments in Ghana shows that for a significant number of locally manufactured goods the price rises are dampened because scarcity rents rather than the prices absorb much of the cost increases due to the devaluation. In some cases the increased availability of locally produced goods should exert a downward pressure on prices, many of which at present include scarcity premia.

79. The policy reforms to be supported by the Credit would help achieve, over a medium term, restructuring of the industrial capacity in Ghana to increase its efficiency. The structure of industrial production would shift gradually as the protection regime is reformed through exchange rate adjustment, liberal import of competing goods under SULs, and phasing out of quantitative restrictions implicit in the import licensing system, yielding a more uniform pattern of effective protection as the present tariff structure takes hold (30 percent on most items). After the adjustment period, the activities that thrive are expected to be those with relatively high value added at world prices, greater use of domestic materials, and the best prospects for increasing export revenues.

80. The proposed institutional strengthening under the Credit would facilitate the adjustment process and would help rebuild institutional capacities which have deteriorated significantly in the last few years. The staff training would enable the concerned institutions to improve the quality of work and services performed and thereby contribute more effectively to economic growth.

81. The risk of the adjustment program relates to the uncertainty of assessing the length and the difficulty of the adjustment process and to the related possible internal pressures to slow down the pace of reform or even reverse it. Of particular concern would be the exchange rate and import protection policies. The risk is limited by the Government's declared commitment to pursue an exchange rate policy aimed at ensuring the relative profitability of export activities in comparison with other domestic activities and its willingness to take substantive actions in the

last two years and most recently in January 1986 to move the exchange rate in this direction. The proposed liberalization of SUL imports would provide an interim approximation to a liberal trade policy and limit the extent of effective protection to locally manufactured goods. Implementation delays represent the other main risk. A continuation of past problems in obtaining import financing could seriously delay the disbursements. The Government's decision to establish a deferred debit scheme to provide import financing should minimize this risk (para 49). A close watch during the implementation of the proposed Credit would be kept on the situation regarding import financing. The Government's limited administrative capacity may also result in implementation delays, particularly of institutional strengthening activities. The design of the ISAC takes this into account by proposing that most of these activities would be implemented by expanding existing UNDP projects under cost-sharing arrangements. Once the proposed technical assistance is in place it would assist the Government staff in implementation activities.

## PART V - RECOMMENDATION

82. I am satisfied that the proposed IDA Credit would comply with the Articles of Agreement of the Association and the proposed Africa Facility Credit would comply with the provisions of the African Facility Resolution and recommend that the Executive Directors approve the proposed Credits.

Attachments
Washington D.C.
March 5, 1986

A.W. Clausen
President

TABLE 3A

GHANA - SOCIAL INDICATORS DATA SHEET

| | GHANA 1960/b | GHANA 1970/b | GHANA MOST RECENT ESTIMATE/b | REFERENCE GROUPS (WEIGHTED AVERAGES) /a (MOST RECENT ESTIMATE) /b LOW INCOME AFRICA SOUTH OF SAHARA | REFERENCE GROUPS (WEIGHTED AVERAGES) /a (MOST RECENT ESTIMATE) /b MIDDLE INCOME AFRICA S. OF SAHARA |
|---|---|---|---|---|---|
| **AREA (THOUSAND SQ. KM)** | | | | | |
| TOTAL | 238.5 | 238.5 | 238.5 | . | . |
| AGRICULTURAL | 62.3 | 61.4 | 62.2 | . | . |
| **GNP PER CAPITA (US$)** | .. | .. | 310.0 | 238.8 | 1063.8 |
| **ENERGY CONSUMPTION PER CAPITA** | | | | | |
| (KILOGRAMS OF OIL EQUIVALENT) | 71.0 | 180.0 | 160.0 | 62.3 | 581.5 |
| **POPULATION AND VITAL STATISTICS** | | | | | |
| POPULATION, MID-YEAR (THOUSANDS) | 6832.0 | 8620.0 | 12818.0 | . | . |
| URBAN POPULATION (% OF TOTAL) | 23.3 | 29.1 | 38.1 | 20.1 | 32.0 |
| POPULATION PROJECTIONS | | | | | |
| POPULATION IN YEAR 2000 (MILL) | | | 23.1 | . | . |
| STATIONARY POPULATION (MILL) | | | 64.0 | . | . |
| POPULATION MOMENTUM | | | 2.0 | . | . |
| POPULATION DENSITY | | | | | |
| PER SQ. KM. | 28.6 | 36.1 | 53.7 | 33.2 | 65.1 |
| PER SQ. KM. AGRI. LAND | 109.7 | 140.3 | 197.5 | 112.8 | 124.8 |
| POPULATION AGE STRUCTURE (%) | | | | | |
| 0-14 YRS | 44.5 | 45.7 | 47.9 | 46.0 | 45.6 |
| 15-64 YRS | 52.8 | 51.5 | 48.6 | 50.8 | 51.5 |
| 65 AND ABOVE | 2.5 | 2.6 | 2.4 | 2.9 | 2.7 |
| POPULATION GROWTH RATE (%) | | | | | |
| TOTAL | 4.4 | 2.3 | 3.1 | 2.8 | 2.9 |
| URBAN | 9.2 | 4.6 | 5.0 | 6.4 | 5.1 |
| CRUDE BIRTH RATE (PER THOUS) | 50.2 | 50.2 | 49.3 | 47.2 | 47.0 |
| CRUDE DEATH RATE (PER THOUS) | 17.3 | 14.3 | 10.0 | 17.8 | 15.0 |
| GROSS REPRODUCTION RATE | 3.5 | 3.4 | 3.4 | 3.3 | 3.2 |
| FAMILY PLANNING | | | | | |
| ACCEPTORS, ANNUAL (THOUS) | .. | 8.3 | 33.5 /c | . | . |
| USERS (% OF MARRIED WOMEN) | .. | 1.5 | 10.0 /d | 3.3 | 6.4 |
| **FOOD AND NUTRITION** | | | | | |
| INDEX OF FOOD PROD. PER CAPITA (1969-71=100) | 93.0 | 101.0 | 63.0 | 83.3 | 82.9 |
| PER CAPITA SUPPLY OF | | | | | |
| CALORIES (% OF REQUIREMENTS) | 97.0 | 97.0 | 69.0 | 87.7 | 98.5 |
| PROTEINS (GRAMS PER DAY) | 46.0 | 50.0 | 40.0 | 51.9 | 55.4 |
| OF WHICH ANIMAL AND PULSE | 13.0 | 17.0 | 15.0 /c | 18.7 | 16.5 |
| CHILD (AGES 1-4) DEATH RATE | 28.6 | 21.4 | 12.0 | 23.1 | 16.6 |
| **HEALTH** | | | | | |
| LIFE EXPECT. AT BIRTH (YEARS) | 48.5 | 53.2 | 58.9 | 47.8 | 52.0 |
| INFANT MORT. RATE (PER THOUS) | 143.0 | 122.0 | 97.0 | 119.5 | 108.8 |
| ACCESS TO SAFE WATER (%POP) | | | | | |
| TOTAL | .. | 35.0 | 47.0 /e | 27.1 | 42.4 |
| URBAN | .. | 86.0 | 72.0 /e | 63.5 | 67.5 |
| RURAL | .. | 14.0 | 33.0 /e | 19.3 | 35.8 |
| ACCESS TO EXCRETA DISPOSAL (% OF POPULATION) | | | | | |
| TOTAL | .. | 55.0 | 27.0 /e | 26.5 | 28.9 |
| URBAN | .. | 92.0 | 47.0 /e | 65.4 | 57.7 |
| RURAL | .. | 40.0 | 17.0 /e | 20.8 | 20.7 |
| POPULATION PER PHYSICIAN | 21690.0 | 12920.0 | 7160.0 | 27901.7 | 11791.7 |
| POP. PER NURSING PERSON | 5410.0 /f | 1070.0 | 770.0 /d | 3308.4 | 2459.8 |
| POP. PER HOSPITAL BED | | | | | |
| TOTAL | 1290.0 | 760.0 | 580.0 | 1273.6 | 981.1 |
| URBAN | 290.0 /f | 770.0 | 830.0 /c | 428.2 | 368.8 |
| RURAL | 47390.0 /f | 890.0 | 730.0 /c | 3292.5 | 4371.9 |
| ADMISSIONS PER HOSPITAL BED | .. | .. | .. | .. | 27.2 |
| **HOUSING** | | | | | |
| AVERAGE SIZE OF HOUSEHOLD | | | | | |
| TOTAL | .. | 4.7 | .. | .. | .. |
| URBAN | .. | .. | .. | .. | .. |
| RURAL | .. | .. | .. | .. | .. |
| AVERAGE NO. OF PERSONS/ROOM | | | | | |
| TOTAL | .. | .. | .. | .. | .. |
| URBAN | .. | .. | .. | .. | .. |
| RURAL | .. | .. | .. | .. | .. |
| PERCENTAGE OF DWELLINGS WITH ELECT. | | | | | |
| TOTAL | .. | .. | .. | .. | .. |
| URBAN | .. | .. | .. | .. | .. |
| RURAL | .. | .. | .. | .. | .. |

TABLE 3A

GHANA - SOCIAL INDICATORS DATA SHEET

| | GHANA 1960 /b | GHANA 1970 /b | GHANA MOST RECENT ESTIMATE /b | REFERENCE GROUPS (WEIGHTED AVERAGES) /a (MOST RECENT ESTIMATE) /b LOW INCOME AFRICA SOUTH OF SAHARA | MIDDLE INCOME AFRICA S. OF SAHARA |
|---|---|---|---|---|---|
| **EDUCATION** | | | | | |
| ADJUSTED ENROLLMENT RATIOS | | | | | |
| PRIMARY: TOTAL | 38.0 | 64.0 | 76.0 | 67.8 | 95.7 |
| MALE | 52.0 | 73.0 | 85.0 | 77.6 | 100.0 |
| FEMALE | 25.0 | 54.0 | 66.0 | 54.9 | 83.2 |
| SECONDARY: TOTAL | 5.0 | 14.0 | 34.0 | 13.5 | 17.3 |
| MALE | 9.0 | 21.0 | 42.0 | 17.9 | 25.0 |
| FEMALE | 3.0 | 8.0 | 26.0 | 9.1 | 14.8 |
| VOCATIONAL (% OF SECONDARY) | 3.3 | 23.3 | 1.9 | 13.2 | 5.9 |
| PUPIL-TEACHER RATIO | | | | | |
| PRIMARY | 31.0 | 30.0 | 31.0 | 44.9 | 41.1 |
| SECONDARY | 16.0 /g | 17.0 | 22.0 | 27.4 | 25.5 |
| **CONSUMPTION** | | | | | |
| PASSENGER CARS/THOUSAND POP | 3.0 | 4.6 | 6.8 /c | 3.8 | 20.8 |
| RADIO RECEIVERS/THOUSAND POP | 42.8 | 81.6 | 170.9 | 55.8 | 107.8 |
| TV RECEIVERS/THOUSAND POP | 0.1 /h | 1.9 | 5.9 | 2.6 | 20.8 |
| NEWSPAPER ("DAILY GENERAL INTEREST") CIRCULATION PER THOUSAND POPULATION | 29.9 | 58.0 | 30.9 /d | 5.0 | 18.4 |
| CINEMA ANNUAL ATTENDANCE/CAPITA | 1.6 | 2.2 | 0.4 /d | 0.5 | 0.4 |
| **LABOR FORCE** | | | | | |
| TOTAL LABOR FORCE (THOUS) | 2931.0 | 3424.0 | 4522.0 | . | . |
| FEMALE (PERCENT) | 42.6 | 42.1 | 41.3 | 34.2 | 36.2 |
| AGRICULTURE (PERCENT) | 64.0 | 58.0 | 53.0 /e | 77.5 | 54.5 |
| INDUSTRY (PERCENT) | 14.0 | 17.0 | 20.0 /e | 9.7 | 18.3 |
| PARTICIPATION RATE (PERCENT) | | | | | |
| TOTAL | 42.9 | 39.7 | 35.6 | 39.3 | 36.8 |
| MALE | 50.0 | 46.6 | 42.1 | 50.9 | 47.1 |
| FEMALE | 36.0 | 33.0 | 29.4 | 28.1 | 27.2 |
| ECONOMIC DEPENDENCY RATIO | 1.1 | 1.2 | 1.4 | 1.3 | 1.3 |
| **INCOME DISTRIBUTION** | | | | | |
| PERCENT OF PRIVATE INCOME RECEIVED BY | | | | | |
| HIGHEST 5% OF HOUSEHOLDS | .. | .. | .. | .. | .. |
| HIGHEST 20% OF HOUSEHOLDS | .. | .. | .. | .. | .. |
| LOWEST 20% OF HOUSEHOLDS | .. | .. | .. | .. | .. |
| LOWEST 40% OF HOUSEHOLDS | .. | .. | .. | .. | .. |
| **POVERTY TARGET GROUPS** | | | | | |
| ESTIMATED ABSOLUTE POVERTY INCOME LEVEL (US$ PER CAPITA) | | | | | |
| URBAN | .. | .. | 307.0 /i | 165.5 | 590.7 |
| RURAL | .. | .. | 150.0 /i | 95.0 | 275.3 |
| ESTIMATED RELATIVE POVERTY INCOME LEVEL (US$ PER CAPITA) | | | | | |
| URBAN | .. | .. | 156.0 /i | 113.1 | 545.6 |
| RURAL | .. | .. | 130.0 /i | 67.6 | 201.1 |
| ESTIMATED POP. BELOW ABSOLUTE POVERTY INCOME LEVEL (%) | | | | | |
| URBAN | .. | .. | .. | 36.6 | .. |
| RURAL | .. | .. | .. | 61.8 | .. |

.. NOT AVAILABLE
. NOT APPLICABLE

NOTES

/a The group averages for each indicator are population-weighted arithmetic means. Coverage of countries among the indicators depends on availability of data and is not uniform.

/b Unless otherwise noted, "Data for 1960" refer to any year between 1959 and 1961; "Data for 1970" between 1969 and 1971; and data for "Most Recent Estimate" between 1981 and 1983.

/c 1977; /d 1979; /e 1980; /f 1962; /g Public education only; /h 1964; /i 1978.

JUNE, 1985

**DEFINITIONS OF SOCIAL INDICATORS**

Notes: Although the data are drawn from sources generally judged the most authoritative and reliable, it should also be noted that they may not be internationally comparable because of the lack of standardized definitions and concepts used by different countries in collecting the data. The data are, nonetheless, useful to describe orders of magnitude, indicate trends, and characterize certain major differences between countries.

The reference groups are (1) the same country group of the subject country and (2) a country group with somewhat higher average income than the country group of the subject country (except for "High Income Oil Exporters" group where "Middle Income North Africa and Middle East" is chosen because of stronger socio-cultural affinities). In the reference group data the averages are population weighted arithmetic means for each indicator and shown only when majority of the countries in a group has data for that indicator. Since the coverage of countries among the indicators depends on the availability of data and is not uniform, caution must be exercised in relating averages of one indicator to another. These averages are only useful in comparing the value of one indicator at a time among the country and reference groups.

**AREA** (thousand sq.km.)

***Total***—Total surface area comprising land area and inland waters; 1960, 1970 and 1983 data.

***Agricultural***—Estimate of agricultural area used temporarily or permanently for crops, pastures, market and kitchen gardens or to lie fallow, 1960, 1970 and 1982 data.

**GNP PER CAPITA (US$)**—GNP per capita estimates at current market prices, calculated by same conversion method as *World Bank Atlas* (1981-83 basis); 1983 data.

**ENERGY CONSUMPTION PER CAPITA**—Annual apparent consumption of commercial primary energy (coal and lignite, petroleum, natural gas and hydro-, nuclear and geothermal electricity) in kilograms of oil equivalent per capita; 1960, 1970, and 1982 data.

**POPULATION AND VITAL STATISTICS**

***Total Population, Mid-Year (thousands)***—As of July 1; 1960, 1970, and 1983 data.

***Urban Population (percent of total)***—Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries; 1960, 1970, and 1983 data.

***Population Projections***

*Population in year 2000*—The projection of population for 2000, made for each economy separately. Starting with information on total population by age and sex, fertility rates, mortality rates, and international migration in the base year 1980, these parameters were projected at five-year intervals on the basis of generalized assumptions until the population became stationary.

*Stationary population*—Is one in which age- and sex-specific mortality rates have not changed over a long period, while age-specific fertility rates have simultaneously remained at replacement level (net reproduction rate = 1). In such a population, the birth rate is constant and equal to the death rate, the age structure is also constant, and the growth rate is zero. The stationary population size was estimated on the basis of the projected characteristics of the population in the year 2000, and the rate of decline of fertility rate to replacement level.

*Population Momentum*—Is the tendency for population growth to continue beyond the time that replacement-level fertility has been achieved; that is, even after the net reproduction rate has reached unity. The momentum of a population in the year *t* is measured as a ratio of the ultimate stationary population to the population in the year *t*, given the assumption that fertility remains at replacement level from year *t* onward, 1985 data.

***Population Density***

*Per sq.km.*—Mid-year population per square kilometer (100 hectares) of total area; 1960, 1970, and 1983 data.

*Per sq.km. agricultural land*—Computed as above for agricultural land only, 1960, 1970, and 1982 data.

***Population Age Structure (percent)***—Children (0-14 years), working age (15-64 years), and retired (65 years and over) as percentage of mid-year population; 1960, 1970, and 1983 data.

***Population Growth Rate (percent)—total***—Annual growth rates of total mid-year population for 1950-60, 1960-70, and 1970-83.

***Population Growth Rate (percent)—urban***—Annual growth rates of urban population for 1950-60, 1960-70, and 1970-83 data.

***Crude Birth Rate (per thousand)***—Number of live births in the year per thousand of mid-year population; 1960, 1970, and 1983 data.

***Crude Death Rate (per thousand)***—Number of deaths in the year per thousand of mid-year population; 1960, 1970, and 1983 data.

***Gross Reproduction Rate***—Average number of daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970, and 1983.

***Family Planning—Acceptors, Annual (thousands)***—Annual number of acceptors of birth-control devices under auspices of national family planning program.

***Family Planning—Users (percent of married women)***—The percentage of married women of child-bearing age who are practicing or whose husbands are practicing any form of contraception. Women of child-bearing age are generally women aged 15-49, although for some countries contraceptive usage is measured for other age groups.

**FOOD AND NUTRITION**

***Index of Food Production Per Capita (1969-71 = 100)***—Index of per capita annual production of all food commodities. Production excludes animal feed and seed for agriculture. Food commodities include primary commodities (e.g. sugarcane instead of sugar) which are edible and contain nutrients (e.g. coffee and tea are excluded); they comprise cereals, root crops, pulses, oil seeds, vegetables, fruits, nuts, sugarcane and sugar beets, livestock, and livestock products. Aggregate production of each country is based on national average producer price weights; 1961-65, 1970, and 1982 data.

***Per Capita Supply of Calories (percent of requirements)***—Computed from calorie equivalent of net food supplies available in country per capita per day. Available supplies comprise domestic production, imports less exports, and changes in stock. Net supplies exclude animal feed, seeds for use in agriculture, quantities used in food processing, and losses in distribution. Requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distribution of population, and allowing 10 percent for waste at household level; 1961, 1970 and 1982 data.

***Per Capita Supply of Protein (grams per day)***—Protein content of per capita net supply of food per day. Net supply of food is defined as above. Requirements for all countries established by USDA provide for minimum allowances of 60 grams of total protein per day and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Supply; 1961, 1970 and 1982 data.

***Per Capita Protein Supply From Animal and Pulse***—Protein supply of food derived from animals and pulses in grams per day; 1961-65, 1970 and 1977 data.

***Child (ages 1-4) Death Rate (per thousand)***—Number of deaths of children aged 1-4 years per thousand children in the same age group in a given year. For most developing countries data derived from life tables; 1960, 1970 and 1983 data.

**HEALTH**

***Life Expectancy at Birth (years)***—Number of years a newborn infant would live if prevailing patterns of mortality for all people at the time of of its birth were to stay the same throughout its life; 1960, 1970 and 1983 data.

***Infant Mortality Rate (per thousand)***—Number of infants who die before reaching one year of age per thousand live births in a given year; 1960, 1970 and 1983 data.

***Access to Safe Water (percent of population)—total, urban, and rural***—Number of people (total, urban, and rural) with reasonable access to safe water supply (includes treated surface waters or untreated but uncontaminated water such as that from protected boreholes, springs and sanitary wells) as percentages of their respective populations. In an urban area a public fountain or standpost located not more than 200 meters from a house may be considered as being within reasonable access of that house. In rural areas reasonable access would imply that the housewife or members of the houselhold do not have to spend a disproportionate part of the day in fetching the family's water needs.

***Access to Excreta Disposal (percent of population)—total, urban, and rural***—Number of people (total, urban, and rural) served by excreta disposal as percentages of their respective populations. Excreta disposal may include the collection and disposal, with or without treatment, of human excreta and waste-water by water-borne systems or the use of pit privies and similar installations.

***Population per Physician***—Population divided by number of practising physicians qualified from a medical school at university level.

***Population per Nursing Person***—Population divided by number of practicing male and female graduate nurses, assistant nurses, practical nurses and nursing auxiliaries.

***Population per Hospital Bed—total, urban, and rural***—Population (total, urban, and rural) divided by their respective number of hospital beds available in public and private, general and specialized hospitals and rehabilitation centers. Hospitals are establishments permanently staffed by at least one physician. Establishments providing principally custodial care are not included. Rural hospitals, however, include health and medical centers not permanently staffed by a physician (but by a medical assistant, nurse, midwife, etc.) which offer in-patient accommodation and provide a limited range of medical facilities.

***Admissions per Hospital Bed***—Total number of admissions to or discharges from hospitals divided by the number of beds.

## HOUSING

***Average Size of Household (persons per household)—total, urban, and rural***—A household consists of a group of individuals who share living quarters and their main meals. A boarder or lodger may or may not be included in the household for statistical purposes.

***Average Number of Persons per Room—total, urban, and rural***—Average number of persons per room in all urban, and rural occupied conventional dwellings, respectively. Dwellings exclude non-permanent structures and unoccupied parts.

***Percentage of Dwellings with Electricity—total, urban, and rural***—Conventional dwellings with electricity in living quarters as percentage of total, urban, and rural dwellings respectively.

## EDUCATION

***Adjusted Enrollment Ratios***

*Primary school - total, male and female*—Gross total, male and female enrollment of all ages at the primary level as percentages of respective primary school-age populations. While many countries consider primary school age to be 6-11 years, others do not. The differences in country practices in the ages and duration of school are reflected in the ratios given. For some countries with universal education, gross enrollment may exceed 100 percent since some pupils are below or above the country's standard primary-school age.

*Secondary school - total, male and female*—Computed as above; secondary education requires at least four years of approved primary instruction; provides general, vocational, or teacher training instructions for pupils usually of 12 to 17 years of age; correspondence courses are generally excluded.

*Vocational Enrollment (percent of secondary)*—Vocational institutions include technical, industrial, or other programs which operate independently or as departments of secondary institutions.

*Pupil-teacher Ratio - primary, and secondary*—Total students enrolled in primary and secondary levels divided by numbers of teachers in the corresponding levels.

## CONSUMPTION

***Passenger Cars (per thousand population)***—Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearses and military vehicles.

***Radio Receivers (per thousand population)***—All types of receivers for radio broadcasts to general public per thousand of population; excludes un-licensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abolished licensing.

***TV Receivers (per thousand population)***—TV receivers for broadcast to general public per thousand population; excludes unlicensed TV receivers in countries and in years when registration of TV sets was in effect.

***Newspaper Circulation (per thousand population)***—Shows the average circulation of "daily general interest newspaper," defined as a periodical publication devoted primarily to recording general news. It is considered to be "daily" if it appears at least four times a week.

***Cinema Annual Attendance per Capita per Year***—Based on the number of tickets sold during the year, including admissions to drive-in cinemas and mobile units.

## LABOR FORCE

***Total Labor Force (thousands)***—Economically active persons, including armed forces and unemployed but excluding housewives, students, etc., covering population of all ages. Definitions in various countries are not comparable; 1960, 1970 and 1983 data.

***Female (percent)***—Female labor force as percentage of total labor force.

***Agriculture (percent)***—Labor force in farming, forestry, hunting and fishing as percentage of total labor force; 1960, 1970 and 1980 data.

***Industry (percent)***—Labor force in mining, construction, manufacturing and electricity, water and gas as percentage of total labor force; 1960, 1970 and 1980 data.

***Participation Rate (percent)—total, male, and female***—Participation or activity rates are computed as total, male, and female labor force as percentages of total, male and female population of all ages respectively; 1960, 1970, and 1983 data. These are based on ILO's participation rates reflecting age-sex structure of the population, and long time trend. A few estimates are from national sources.

***Economic Dependency Ratio***—Ratio of population under 15, and 65 and over, to the working age population (those aged 15-64).

## INCOME DISTRIBUTION

***Percentage of Total Disposable Income (both in cash and kind)***—Accruing to percentile groups of households ranked by total household income.

## POVERTY TARGET GROUPS

The following estimates are very approximate measures of poverty levels, and should be interpreted with considerable caution.

***Estimated Absolute Poverty Income Level (US$ per capita)—urban and rural***—Absolute poverty income level is that income level below which a minimal nutritionally adequate diet plus essential non-food requirements is not affordable.

***Estimated Relative Poverty Income Level (US$ per capita)—urban and rural***—Rural relative poverty income level is one-third of average per capita personal income of the country. Urban level is derived from the rural level with adjustment for higher cost of living in urban areas.

***Estimated Population Below Absolute Poverty Income Level (percent)—urban and rural***— Percent of population (urban and rural who are "absolute poor."

Comparative Analysis and Data Division
Economic Analysis and Projections Department
June 1985

GHANA

## ECONOMIC INDICATORS

## GNP PER CAPITA IN 1984: US$350 1/

### GROSS NATIONAL PRODUCT IN 1984 1/

| | Cedis Mil. | % | ANNUAL RATE OF GROWTH (% Constant Prices) 1979-84 |
|---|---|---|---|
| GDP at Market Prices | 287,507 | 100.0 | -2.0 |
| Gross Domestic Investment | 21,068 | 7.3 | -5.9 |
| Gross National Saving | 13,267 | 4.6 | -14.7 |
| Current Account Balance | 7,801 | 2.7 | — |
| Export of Goods, NFS | 21,356 | 7.4 | -10.4 |
| Import of Goods, NFS | 28,911 | 10.1 | -8.7 |

### OUTPUT AND LABOR FORCE

| | Output in 1984 Cedis Mil. | % | Labor Force, 1983 Mil. | % |
|---|---|---|---|---|
| Agriculture | 141,904 | 51.3 | 2.584 | 57.2 |
| Industry | 23,434 | 8.5 | 0.691 | 15.3 |
| Services | 111,150 | 40.2 | 1.242 | 27.5 |
| GDP at Factor Cost | 276,488 | 100.0 | 4.517 | 100.0 |

### GOVERNMENT FINANCE

| | 1983 | | 1984 | |
|---|---|---|---|---|
| | Cedis Mil. | % of GDP 2/ | Cedis Mil | % of GDP 2/ |
| Total Revenue and Grants | 10,241 | 5.3 | 22,641 | 7.9 |
| Total Expenditure and Net Lending | 15,178 | 7.9 | 27,485 | 9.6 |
| Overall Deficit (-) | -4,937 | -2.6 | -4,844 | -1.7 |

### MONEY, CREDIT AND PRICES 3/

| | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|---|
| Money and Quasi-money | 3,044 | 5,131 | 5,942 | 7,949 | 12,029 | 14,837 | 20,803 | 31,962 |
| Bank Credit to Public Sector | 3,203 | 5,636 | 6,537 | 8,480 | 14,043 | 17,140 | 29,392 | 41,747 |
| Bank Credit to Private Sector | 560 | 739 | 796 | 940 | 1,342 | 1,558 | 2,838 | 5,978 |
| | (Percentages or Index Numbers) | | | | | | | |
| Money and Quasi-money as % of GDP | 27.3 | 24.4 | 21.1 | 19.4 | 15.7 | 16.7 | 9.8 | 11.1 |
| General Price Index (1977=100) | 100.0 | 173.1 | 267.3 | 401.2 | 868.6 | 1062.4 | 2367.4 | 3,307.3 |

1/ Staff Estimates.
2/ Ratios are calculated on a recently revised GDP series.
3/ From IFS

## GHANA

### BALANCE OF PAYMENTS

| | 1983 | 1984 1/ |
|---|---|---|
| | (US$ Million) | |
| Trade Balance | -100 | -102 |
| Exports f.o.b. | 439 | 566 |
| Imports c.i.f. | 539 | 668 |
| Invisibles (Net) | -130 | -113 |
| Services | -147 | -186 |
| Transfers | 17 | 73 |
| Current Balance | -230 | -215 |
| Capital Accounts | | |
| Grants | 72 | 141 |
| Official Capital (Net) | 28 | 88 |
| Private Capital (Net) | 14 | -12 |
| Capital n.e.s. 2/ | -127 | -123 |
| Overall Balance 2/ | -243 | -121 |
| Arrears Payments | -34 | -61 |
| Gross International Reserves (End of Period) 3/ | 217 | 393 |

February 1973 - June 18, 1978
US$1 = ₵1.15

| | | |
|---|---|---|
| Since Aug. 26, 1978, | US$1 | = ₵ 2.75 |
| Since April 21, 1983, | US$1 | = ₵24.69 |
| Since Oct. 10, 1983, | US$1 | = ₵30.00 |
| Since March 25, 1984, | US$1 | = ₵35.00 |
| Since August 25, 1984, | US$1 | = ₵38.50 |
| Since December 3, 1984, | US$1 | = ₵50.00 |
| Since April 19, 1985, | US$1 | = ₵53.00 |
| Since August 12, 1985, | US$1 | = ₵57.00 |
| Since Oct. 7, 1985, | US$1 | = ₵60.00 |
| Since Jan. 11, 1986 | US$1 | = ₵90.00 |

### MERCHANDISE EXPORTS (AVERAGE 1980-84)

| | US$ Million | % |
|---|---|---|
| Cocoa Beans & Products | 458.2 | 66.9 |
| Gold | 134.0 | 19.6 |
| Residual Oil | 32.9 | 4.8 |
| Timber | 24.3 | 3.5 |
| Electricity | 13.0 | 1.9 |
| Manganese | 7.2 | 1.0 |
| Diamond | 5.6 | 0.8 |
| All Other Goods | 10.1 | 1.5 |
| Total | 685.3 | 100.0 |

### EXTERNAL DEBT, DECEMBER 1984

| | US$ Mil. |
|---|---|
| Total Outstanding and Disbursed M&LT | 1,122.4 |

### DEBT SERVICE RATIO FOR 1984 4/

| | % |
|---|---|
| Total Outstanding and Disbursed M&LT | 29.3 |
| Total Outstanding and Disbursed inc. payment arrears | 39.3 |

### IBRD/IDA LENDING (June 30, 1985)

| | IBRD | IDA |
|---|---|---|
| Outstanding & Disbursed | 122.31 | 206.56 |
| Undisbursed | 5.80 | 178.86 |
| Outstanding, incl. Undisbursed | 128.11 | 385.42 |

1/ Provisional estimates subject to change.
2/ Includes errors and omissions.
3/ Including gold at national valuation.
4/ As % of exports of goods and non-factor services (excludes short-term debt).

February 1986

ANNEX II

## THE STATUS OF BANK GROUP OPERATIONS IN GHANA 1/

### STATEMENT OF BANK LOANS AND IDA CREDITS (As of December 31, 1985)

| Loan or Credit Number | Fiscal Year | Borrower | Purpose | Amount (US$Million) 2/ Less Cancellation Bank | IDA | Undisbursed 3/ |
|---|---|---|---|---|---|---|
| Ten loans and thirteen credits fully disbursed | | | | 189.7 | 107.4 | |
| 901-GH | 1979 | Republic of Ghana | Second NIB | | 19.0 | 2.0 |
| 1009-GH | 1980 | Republic of Ghana | Volta Region Ag.Dev. | | 29.5 | 21.6 |
| 1029-GH | 1980 | Republic of Ghana | Third Highway | | 25.0 | 1.6 |
| 1170-GH | 1981 | Republic of Ghana | Railway | | 29.0 | 12.2 |
| 1327-GH | 1983 | Republic of Ghana | Reconstruction CIMAO | | 9.3 | 9.5 |
| 1342-GH | 1983 | Republic of Ghana | Water Supply | | 13.0 | 5.8 |
| 1373-GH | 1983 | Republic of Ghana | Energy Project | | 11.0 | 8.1 |
| 1393-GH | 1983 | Republic of Ghana | Reconstruction Import Cr. | | 40.0 | 6.9 |
| 1435-GH | 1984 | Republic of Ghana | Export Rehabilitation | | 40.1 | 33.9 |
| F009-GH | 1984 | Republic of Ghana | Export Rehabilitation | | 35.9 | 32.0 |
| 1436-GH | 1984 | Republic of Ghana | Export Rehabilitation Technical Assistance | | 17.1 | 11.6 |
| 1446-GH | 1984 | Republic of Ghana | Petroleum Refinery Rehab. and Technical Assistance | | 6.9 | 5.6 |
| 1498-GH | 1984 | Republic of Ghana | Second Oil Palm | | 25.0 | 23.2 |
| 1564-GH | 1985 | Republic of Ghana | Accra District Rehab. | | 22.0 | 22.9 |
| 1573-GH | 1985 | Republic of Ghana | Second Reconstruction Imports Credit | | 60.0 | 45.5 |
| A003-GH | 1985 | Republic of Ghana | Second Reconstruction Imports Credit | | 27.0 | 27.0 |
| 1601-GH | 1985 | Republic of Ghana | Road Rehabilitation and Maintenance | | 40.0 | 41.4 |
| A001-GH | 1985 | Republic of Ghana | Road Rehabilitation and Maintenance 4/ | | 10.0 | 10.0 |
| 1628-GH | 1986 | Republic of Ghana | Power System Rehabilitation 4/ | | 28.0 | 28.0 |
| | | Total | | 189.7 | 595.2 | 348.8 |
| | | of which has been paid | | 66.8 | 4.7 | |
| | | Total now outstanding | | 122.9 | 590.5 | |
| | | Amount sold | 0.4 | | | |
| | | of which has been repaid | 0.4 | 0.0 | 0.0 | |
| | | Total now held by Bank & IDA | | 122.9 | 590.5 | |
| | | Total undisbursed | | 0 | 348.8 | 348.8 |

1/ The status of the project listed in this part is described in a separate report on all Bank/ IDA-financed projects in execution, which is updated twice yearly and circulated to the Executive Directors on April 30 and October 31.

2/ Prior to exchange adjustments.

3/ Calculated at the exchange rate applicable on December 31, 1985.

4/ Not yet effective as at December 31, 1985.

# GHANA

## INDUSTRIAL SECTOR ADJUSTMENT CREDIT

## SUPPLEMENTARY CREDIT DATA SHEET

### Section I: Timetable of Key Events

| | | | |
|---|---|---|---|
| (a) | Time taken to prepare the project | : | Three months |
| (b) | Project prepared by | : | Ministry of Industries, Science and Technology and the Bank of Ghana |
| (c) | First presentation to the Bank | : | March 1985 |
| (d) | Departure of appraisal mission | : | August 1985 |
| (e) | Date of completion of negotiations | : | February 21, 1986 |
| (f) | Planned date of effectiveness | : | July 1986 |

### Section II: Special Bank Implementation Action

None

### Section III: Special Conditions

(a) Conditions of Effectiveness

- signing of a satisfactory Administration Agreement between the Government and the Bank of Ghana (para 65);

(b) Conditions of Release of Second Tranche (para 73)

(i) submission of a satisfactory 1987 annual import program for industry;

(ii) approval of a phased program of import liberalization acceptable to IDA; and

(iii) satisfactory implementation, during 1986, of agreed export promotion measures.

(c) Other Conditions

(i) Ministry of Industry to follow agreed principles while making its annual import program (para 61);

(ii) Bank of Ghana to follow agreed eligibility and evaluation criteria for sub-loans under the industrial rehabilitation component (para 62).

ANNEX IV

## GHANA

## INDUSTRIAL SECTOR ADJUSTMENT CREDIT

## DOCUMENTS IN THE PROJECT FILE

| Ref. No. | Document Title |
|---|---|
| 1. | Ghana: Industrial Policy, Performance and Recovery<br>Report No. 5716-GH, September 30, 1985. Document No. GH-Industry Sector-BR<br>Volume I : Main Report<br>Volume II: Appendices |
| 2. | Ghana: Priorities for Public Expenditures (1986-88)<br>Report No. 5824-GH, August 13, 1985. Document No. GH-LEAP-BR |
| 3. | Republic of Ghana: Progress of the Economic Recovery Programme 1984-86 and Policy Framework, 1986-88. October 1985. (Report distributed by the Government to the Third Meeting of the Consultative Group for Ghana in November 1985.) Document No. 227.661 |

Working Papers (WP)

4. WP No. 1: Proposals for Strengthening of Ministry of Industries, Science and Technology. Document No. 228.402

5. WP No. 2: Proposals for strengthening of Policy Planning Capabilities in Ministry of Finance and Economic Planning. Document No. 228.403

6. WP No. 3: Role and Institutional Strengthening of the Bank of Ghana. Document No. 228.404

7. WP No. 4: Support to Central Bureau of Statistics. Document No. 228.405

8. WP No. 5: Support to Ghana Standards Board and Food Research Institute. Document No. 228.406

GHANA

## INDUSTRIAL SECTOR ADJUSTMENT CREDIT

## INDUSTRIAL SECTOR BASIC DATA SHEET

| | In 1975 Prices | | Growth Rate | |
|---|---|---|---|---|
| | 1970 | 1984 a/ | 1970-80 | 1980-84 |
| GDP, Total (¢ million) | 5,349 | 5,205 | 0.2 | -1.3 |
| Agriculture | 2,712 | 2,897 | 0.9 | -0.5 |
| Services | 1,466 | 1,906 | 1.4 | 1.9 |
| Industry | 1,033 | 586 | -1.4 | -10.0 |
| Manufacturing | 679 | 385 | -1.6 | -9.5 |
| Mining & Quarrying | 130 | 56 | -5.9 | -5.8 |
| Electricity & Water | 16 | 25 | 10.5 | -12.7 |
| Construction | 208 | 120 | -0.1 | -12.6 |

| | 1977 | | 1982 | |
|---|---|---|---|---|
| Value Added in Manufacturing | ¢m | % | ¢m | % |
| TOTAL | 1,329 | 100 | 3,178 | 100 |
| Food, Beverages & Tobacco | 455 | 34 | 1,433 | 45 |
| Textiles & Apparel | 156 | 12 | 244 | 8 |
| Wood & Products | 98 | 7 | 261 | 8 |
| Paper & Products, Printing & Publishing | 26 | 2 | 85 | 3 |
| Chemicals, Petroleum, Plastic & Rubber Products | 300 | 23 | 667 | 21 |
| Non-Metal Mineral Products | 25 | 2 | 105 | 3 |
| Basic Metal | 190 | 14 | 212 | 7 |
| Metal Products & Machinery | 78 | 6 | 165 | 5 |
| Other | 2 | 0 | 5 | 0 |

| | Gross Output | | | Employment | |
|---|---|---|---|---|---|
| Industrial Structure (%) | 1962 | 1978 | 1982 | 1962 | 1982 |
| Wholly State | 11.8 | 33.1 | 33.4 | 24.3 | 28.1 |
| Joint State-Foreign | 7.1 | 20.4 | 15.9 | 2.9 | 23.6 |
| Private Ghanaian-Foreign | 4.8 | 26.1 | 25.5 | 3.9 | 22.4 |
| Private Ghanaian | 13.0 | 12.0 | 16.7 | 12.3 | 20.3 |
| Foreign Private | 63.2 | 8.4 | 8.6 | 56.5 | 5.6 |

| Mineral Output | Production | | Value ($ mil.) | |
|---|---|---|---|---|
| | 1981 | 1983 | 1981 | 1983 |
| Gold (kg) | 10,595 | 8,601 | 370 | N/A |
| Diamonds (000, carats) | 836 | 339 | 15 | N/A |
| Bauxite (000, tons) | 181 | 70 | 9 | N/A |
| Manganese (000, tons) | 223 | 173 | 22 | N/A |

| Price Indices (1977=100) | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|
| Consumer (National) | 401 | 869 | 1,062 | 2,367 | 3,305 |
| Wholesale | 350 | 524 | 712 | 1,630 | 2,959 |
| Agriculture | 355 | 474 | 773 | 1,759 | 2,676 |
| Mining & Quarrying | 450 | 754 | 897 | 1,196 | 2,078 |
| Manufactures | 347 | 546 | 633 | 1,539 | 3,372 |
| Utilities | 174 | 427 | 519 | 591 | 3,160 |
| Exports | 376 | 439 | 798 | 1,144 | 2,734 |

| Lending Interest Rate (%) | 1981 | 1982 | 1983 | 1984 | 1985 b/ |
|---|---|---|---|---|---|
| Nominal | 25.5 | 14 | 19 | 19 | 22.5 |
| Real | -91 | -8 | -104 | -21 | N/A |

| Domestic Credit (¢ mil.) | 1977 | 1982 | 1983 | 1984 |
|---|---|---|---|---|
| TOTAL | 4,145 | 16,008 | 22,608 | 29,845 |
| Claims on Government | 2,780 | 11,064 | 21,059 | 22,818 |
| Claims on Private Sector | 560 | 1,558 | 2,838 | 6,231 |

| | | | Growth Rate | |
|---|---|---|---|---|
| Merchandise Exports | 1979 | 1983 | 1970-75 | 1975-83 |
| TOTAL ($ million) | 1,064 | 440 | 12.1 | -7.2 |
| Cocoa products (%) | 72 | 62 | 11.5 | -8.6 |
| Logs & Timber (%) | 4 | 3 | 15.2 | -17.9 |
| Bauxite (%) | 0 | 1 | 31.9 | -3.5 |
| Manganese (%) | 1 | 1 | 16.5 | -12.8 |
| Diamonds (%) | 1 | 1 | -4.7 | -15.0 |
| Gold (%) | 7 | 23 | 24.9 | 3.9 |
| Manufactures, Others (%) | 14 | 9 | 7.5 | -6.1 |

| Merchandise Imports | 1979 | 1984 | 1970-75 | 1975-84 |
|---|---|---|---|---|
| TOTAL ($ million) | 853 | 674 | 14.0 | N/A |
| | | | | 1975-79 |
| Non-Durable Consumers' Goods (%) | 11 | N/A | 2.0 | -5.3 |
| Durable Consumers' Goods (%) | 7 | N/A | 19.6 | 8.1 |
| Fuel & Lubricants (%) | 21 | N/A | 40.4 | 7.7 |
| Non-Durable Producers' Materials (%) | 23 | N/A | 11.6 | -2.3 |
| Durable Producers' Materials (%) | 10 | N/A | 22.6 | -6.4 |
| Producers' Equipment | 28 | N/A | 11.8 | 8.7 |

| | In 1975 Prices | | GFCF as % Of GDP | |
|---|---|---|---|---|
| Gross Fixed Capital Formation | 1975 | 1982 | 1970 | 1982 |
| TOTAL (¢ million) | 614 | 205 | 12 | 4 |
| Building (%) | 48 | 54 | | |
| Land Improvement | 1 | 1 | | |
| Transport Equipment | 15 | 8 | | |
| Machinery & Equipment | 20 | 23 | | |
| Other | 15 | 14 | | |

| Employment (000) c/ | 1980 | 1981 | 1982 |
|---|---|---|---|
| TOTAL Industry | 121 | 118 | 107 |
| Mining & Quarrying | 25 | 24 | 24 |
| Manufacturing | 80 | 78 | 68 |
| Electricity, Gas & Water | 16 | 16 | 16 |

| Monthly Earnings Per Employee (¢) | 1982 |
|---|---|
| Agriculture, Forestry & Fishing | 559 |
| Mining & Quarrying | 870 |
| Manufacturing | 787 |
| Utilities | 744 |
| Construction | 521 |
| Other | 891 |

| | Volume (million tons) | Value (¢ mil.) |
|---|---|---|
| Net Petroleum Imports, 1983 | 0.5 | 744 |

| Domestic Energy Prices | 1981 | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|
| Petrol, Super (¢ per gallon) | 12 | 13 | 26 | 55 | 105 |

| Electricity Generation (mill. Kwh) | 1983 | 1984 |
|---|---|---|
| TOTAL | 2,578 | 1,830 |
| Akosombo Hydro-electric | 2,548 | 1,469 |
| Mining & Related Activities | 4 | N/A |
| Electricity Corporation | 26 | N/A |

| Exchange Rate (¢/$) | 1973-77 | 1978-82 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|
| End December | 1.15 | 2.75 | 30 | 50 | 60 |

Note: Growth rates are annual percentage compound growth between end points.

a/ Preliminary estimates.
b/ Mid-Year.
c/ Covers only establishments with more than 30 employees.

Source: Government of Ghana, Central Bureau of Statistics, Industrial Statistics (various years) and (Quarterly Digest of Statistics (various issues); World Bank, Ghana: Managing the Transition (Report No. 5289-GH, 1984), Vol. II: Statistical Appendix; and Ghana: Towards Structural Adjustment (Report No. 5854 - GH, 1985), Vol. II: Statistical Appendix.

REPUBLIC OF GHANA

MINISTRY OF FINANCE AND
ECONOMIC PLANNING
P.O. BOX M.40
ACCRA

February 21, 1986

Dear Mr. Clausen:

Subject: Industrial Goals and Policies

1. I am writing in connection with the proposed Industrial Sector Adjustment Credit to inform the International Development Association about the industrial development goals being pursued and the policy reform actions which the Government has already taken or proposes to take to reform Ghana's industrial sector. The ultimate goal is to restructure the industrial sector so as to concentrate on those activities that are the most viable and sustainable over time, that are well integrated with the domestic economy, and that can produce goods at competitive prices for both Ghanaian consumers and export markets. The Government's specific industrial development objectives and the broad strategy for achieving them are described in detail in a Statement of Industrial Policy which has been publicly issued; the Statement is attached to this letter for your information.

2. As you know this government launched an Economic Recovery Programme (ERP) in 1983 to revive a deteriorating economy. The first phase of the ERP is now coming to a close and as a result of it the economy, and living standards of people, have begun to show improvements. In order to strengthen and build further upon the successes of the first phase (1983-85) of ERP the Government has formulated a second phase covering a three-year (1986-88) period. The issues to be dealt with under the second phase of ERP are similar to those addressed under the first phase, but the emphasis will be to shift the leading edge of policy reform from macroeconomic to sectoral concerns to lay the basis for renewed, vigorous and efficient growth in the key sectors of agriculture, energy, industry, education and health. Against this background, the Government is asking the International Development Association to grant a credit to support the recovery and the development of an efficient industrial sector.

3. The report presented by the Government to the Consultative Group, in November 1985, describes the main features of the second phase of the ERP covering the period 1986-88. In this letter, I will describe in more detail the Government's objectives and actions taken or planned in five major areas of policy reforms, critical to the restructuring of the industrial sector: promotion of non-traditional exports, the import regime, industrial public enterprises, public investment in the industrial sector, and industrial finance.

## Export Promotion

4. One of the fundamental objectives of the ERP is to increase exports from all sectors at an average rate of about 12% per annum in

current dollars. The industrial sector will be expected to reorient itself toward foreign markets so as to ensure its sustained growth, contribute to increased exports and thus earn a larger share of its import requirements. Exchange rate adjustments and automatic retention of a portion of export earnings constitute the main elements of the export incentive package currently in place. The Government, on January 11, 1986, devalued from ₵ 60 = $1 to ₵ 90 = $1. This has improved the profitability of exports both in absolute terms and relative to domestic sales. The flexible exchange rate policy already in effect will continue with a view to ensuring the high and stable profitability of the export sector.

5. In order to overcome procedural impediments to exports, the Government is actively considering measures (as set out in the attached Statement of Industrial Policy) in close consultation with the Association. These include a system whereby exporters will no longer need to be inscribed on a list of registered exporters before beginning to export; and the scrapping of the current requirement of export permits for all exports, except for those few items temporarily placed on an export reserve list in light of a set of criteria. The documents required by Government for most exports (for customs clearance, foreign exchange administration and statistical purposes) will be simplified.

6. To provide further incentives to exporters of non-traditional products, the Government is also considering two ways of improving the foreign exchange retention scheme: first, by increasing the percentage of earnings to be retained by exporters of non-traditional products from 20% to 25%; and secondly, by increasing the flexibility of utilization of retentions. Efforts will continue to administer the scheme efficiently and flexibly. The customs duty drawback scheme for imports for exporters will be reinstated on an automatic basis. A temporary duty-free admission of imports under tolling arrangements and other steps to promote tolling are under consideration. To assist exporters with credit needs between the time of shipment of goods and receipt of the foreign exchange proceeds, the Bank of Ghana is considering the introduction of a rediscounting facility.

7. Finally, the Ghana Export Promotion Council will be given appropriate autonomy, standing, composition, staff, and budget. It would be responsible for monitoring the improvement of the policy and administrative framework for exports, bringing together the Government and exporters, carrying out needed studies of export potential and problems, and export promotion activities in Ghana and abroad. Decisions on measures listed in paras 5 to 7 are expected to be taken by some time in April 1986, and the Government intends to have them in place by the end of 1986.

Import Regime

8. The Government's medium term objective is to provide adequate but not excessive protection to the domestic industry. This objective would be pursued through a combination of appropriate exchange rate, tariff, and trade policies. The tariff structure was simplified in 1983 so that most industry-related goods are subject to a 30% tariff and a few 25%. This

tariff structure provides a relatively uniform pattern of protection. However, the protection afforded by import quotas and the strict allocation of foreign exchange in many cases exceeds that of the tariff structure. The Government has taken substantial steps to adjust the exchange rate and as a result the real effective exchange rate has depreciated by over 80% during the 1983-85 period. In January 1986 the Government further adjusted the exchange rate from ₵ 60 = US$1.00 to ₵ 90 = US$1.00. This would effectively raise the nominal price of imported industrial inputs by 70 percent, encourage greater utilization of domestic inputs, help curb the excessive demand for imports thereby facilitating import liberalization, and improve the international competitiveness of the industrial sector. The Government intends to keep the exchange rate under review and make further adjustments as necessary to achieve policy goals. The Government is currently consulting with the International Monetary Fund on the pace and manner of further exchange rate adjustments.

9. The Government is aware of the limitations of the present system of import licensing which determines administratively the uses of foreign exchange and creates opportunities for rent-seeking activities. While a number of efforts have been made to streamline import licensing procedures and further measures are contemplated in this area, the Government has already taken two significant steps in the area of import liberalization. First, under the Special Unnumbered Licenses (SUL) system, which was reactivated under the recovery program, it is possible to import a wide range of goods when the importer arranges his own foreign exchange (from remittances and other sources). The SUL system is useful in three respects: (a) it eases the overall supply situation by making available a wide range of consumer goods for which, under a tight foreign exchange situation, it would not be possible to allocate foreign exchange from official sources; (b) it places a ceiling on the level of effective protection afforded by quantitative restrictions to local producers by making available competing imports at the parallel market exchange rate plus SUL duties; (c) it provides an alternative means for efficient producers to procure additional inputs or spares beyond the amounts available through the import licensing regime. Full realization of these benefits was somewhat hampered by the requirement that only goods appearing on a list specified by the Ministry of Trade could be imported under SULs, and by the fact that special taxes on SULs made no distinction between imports of inputs and spares for domestic manufacture and imports of consumer goods. The Government has, therefore, recently further liberalized imports under SULs by shifting from a positive to a small negative list. Further, in order to encourage the use of SULs for imports of industrial raw materials and spares, the Government has agreed to make taxes and special charges on SUL imports of these inputs by registered industrial enterprises eligible for waivers and credits on the same basis as for ordinary imports of inputs. Second, it has introduced export retention scheme to enable exporters to meet their foreign exchange needs. Urgent consideration is now being given to increasing the percentage of earnings retained and further liberalization of the use of these retention accounts (see para. 6 above).

10. While these measures have already introduced a significant degree of import liberalization, the substantial progress already made towards a realistic exchange rate and the further progress planned will enable over time a gradual integration of these various foreign exchange markets. In the short term, however, it becomes important to further liberalize imports for the productive sectors of the economy. With this in view a Working Group has been established that is charged with the task of developing detailed alternative proposals for easing restrictions on inputs for industry and other key sectors in a phased manner, taking into account the progress already made in this direction and the continuing severe foreign exchange constraints facing the country. The Group has been asked to submit its report by end June 1986. If the Group is to meet this deadline it may be necessary to ask the Association to provide some technical assistance to the work of the Group. The Working Group's report will be discussed with the Association, and subject to agreement with the Association, it is Government's intention to launch the first phase of an import liberalization program at the beginning of 1987.

Industrial Public Enterprises

11. The Government is currently reviewing a report (prepared with UNDP and World Bank support) on reform and restructuring of state-owned enterprises (SOE). During the 1986-88 period the Government intends to restructure the SOE sector, through institutional restructuring, management reform, selective rehabilitation, and reducing the role of the state in selected SOEs through encouraging joint ventures and divestiture. An action plan is being drawn up by a Task Force of the Government and two sub-committees have been established to pay particular attention to the issues of labor deployment and redundancy and to the planning or the selected divestiture of state shareholdings. Given the large number of SOEs in the industrial sector, their restructuring would be a major component of the action plan.

12. The Statement of Industrial Policy sets out clearly the Government's objectives. In industry the overall strategy aims at limiting the direct participation of the state to critical areas in which there is a gap in the availability of private investment or some other exceptional justification for direct public intervention. Industrial SOEs will be expected to operate on a commercial basis and not depend on Government financing.

13. The SOE task force has recommended far-reaching changes to Government which are in process of consideration and decision. The proposals include the division of SOEs into three groups: for retention, joint ventures and full divestiture or liquidation. The Government has already decided that a number of SOEs are candidates for turning into joint ventures, such as Bonsa Tire, Tema Food Complex, State Construction Company and Ghana Sugar Estates among others. Since divestiture requires appropriate machinery and will take time even if successful, these arrangements are being set in motion, while transitional measures (including any necessary recapitalization) for joint venture candidates are

also being pursued. The Government has further requested in-depth studies of a number of industrial SOEs.

14. The Ministry of Industries, Science and Technology will as an input into the overall reform rationalize selected industrial SOEs by grouping all those in a single sector into one strengthened enterprise. There is and will be no barrier to the entry of private firms into these sectors. The rationalization will completely transform the present structure of industrial SOE groupings (GIHOC, NIC, GEA and Ghamot) and result in an industrial SOE subsector significantly smaller than its present size. The Government will exchange views with the Association regarding rationalization programs and actions for these and other remaining SOEs. The rationalization will be completed within 1986. To carry out some of the subsector (and enterprise) studies needed to prepare the rationalization, we plan to use funds provided under the ISAC.

15. The sector enterprises will themselves be treated like all other SOEs in line with the Government's criteria, for retention, joint ventures, liquidation, etc. The industrial SOEs will be placed on one of the three lists referred to above. Apart from the regrouping mentioned above, the Government does not intend to create new industrial SOEs in the 1986-88 period.

Public Investment Program in Industry

16. Pending a restructuring of the industrial public enterprises the Government has decided that during the 1986-88 period the public investment in such enterprises should be limited to the most urgent rehabilitation component which is financially and economically justified and for which the necessary foreign exchange to make the full use of rehabilitated capacity is likely to be available within the constraints of the annual import program for industry. The Government has recently completed a review of large new and on-going projects and formulated a core program of capital expenditures for priority consideration in the period 1986-88. It has been decided that the share of industrial public enterprises in this program would not exceed 2.57 billion cedis (in constant 1985 prices) during the period 1986-88. The Government will consult with the Association on the specific industrial projects included in the public investment program during the 1986-88 period. Furthermore, these projects will be expected to show a satisfactory economic as well as financial rate of return as a criterion for proceeding with rehabilitation.

Industrial Finance

17. The Government is fully aware that liquidity and creditworthiness constraints have hampered production responses in the industrial as well as some other productive sectors of the economy. Therefore, the Government has decided to introduce a deferred debit scheme for import financing. Under this scheme the Bank of Ghana will, upon the request of a bank at the time of opening a letter of credit for import, defer the debit to the requesting bank's account as follows: 60 percent of the cedi equivalent of

c.i.f. value of imports would be debited six months after release of documents and the balance 40 percent would be debited three months later (i.e. nine months after release of documents). The banks will in turn extend short-term loans to concerned importing enterprises. It is expected that this scheme will considerably ease the liquidity position of enterprises who at present are expected to pay 100 percent of the cedi equivalent before obtaining release of documents. The Government will continue to keep a close watch on the import financing situation and will take measures as needed to adjust this scheme and/or take additional measures. With a view to encouraging firms to revalue their assets, thereby improving their creditworthiness, the Government has decided to exempt them from payment of stamp or other taxes on revaluations. The exemptions would be allowed until the end of 1987. The Government intends to continue its policy of maintaining real positive interest rates on deposits and loans and to attempt to ensure an adequate flow of credit to the private sector.

Yours faithfully,

PNDC SECRETARY FOR FINANCE AND
ECONOMIC PLANNING
(DR. KWESI BOTHCHWEY)

# REPUBLIC OF GHANA

## GOVERNMENT STATEMENT OF INDUSTRIAL POLICY

### INTRODUCTION

1. Ghana's potential for industrial development is clear; she has a rich mineral, forest and agricultural endowment; her manpower is comparatively well trained; wages are low; and she has a long commercial and entrepreneurial tradition. The industrialization drive of the 1960s built up Ghana's industrial capacity to one of the largest in sub-Saharan Africa. After the mid-70s, however, industrial production was severely affected by the general economic decline resulting in foreign exchange shortage and import starvation. Revitalization of the industrial sector can now play an important role in the continuing progress of the Economic Recovery Programme (ERP) and in returning the economy to a path of dynamic growth and diversification. Expansion of industrial production will provide a logical complement to the ERP's emphasis to date on improving the incentives to agricultural producers, who are expected to provide an increasing share both of inputs to industry and of demand for its output.

2. The principal objective for the future is to streamline Ghana's industrial capacity to concentrate on those activities that are the most viable and sustainable over time, that are well integrated with the domestic economy, and that can produce goods at competitive prices for both Ghanaian consumers and export markets. This objective will be pursued through policies which provide adequate incentives for efficient use of resources in processing, export and real competitive import-substitution industries and which enable the most productive firms to compete successfully for scarce but increasing amounts of financial and foreign exchange resources. Manufacturing industries will be given adequate protection and investment incentives to promote their competitiveness and efficiency. A mixed economy approach will continue to be used, in which the State provides necessary infrastructural services and favorable business climate and invests or participates in certain strategic industries, while looking to the private sector to play an increasingly dynamic role in expanding industrial output and utilizing Ghana's resource base. Foreign investors will have an important role to play in providing capital, managerial and technical know-how in partnership with Ghanaians.

### BACKGROUND

3. Industry has gone through two phases of growth and then decline. At independence, industrial production was relatively small and consisted mainly of extraction and processing for export plus a few consumer goods, and it was dominated by foreign ownership. A strategy of vigorous industrial promotion and public sector investment was successful in its objectives of rapidly increasing the capacity to produce at home what was previously imported and in diversifying the economy. In the 1960s, manufacturing output tripled to reach 13% of GDP, the sector's employment doubled, and production became increasingly diversified into intermediate

and capital goods. By the late 1970s, however, it became apparent that the phase of easy import-substitution and growth had ended and that the costs of domestic industrial production were high. Capacity utilization and production fell as foreign exchange for inputs became increasingly scarce under general economic decline. Exports and agricultural production neglected under past policies could no longer provide the resources needed to sustain industrial growth. High protection had led to excessive expansion of industrial capacity in activities that were highly dependent on imported inputs and that did not use scarce resources efficiently or generate additional export earnings. Not only did most state-owned enterprises fail to generate profits for new investment, or even for working capital needs; many represented a drain on the Government budget or on those enterprises that were profitable.

4. The disappointing performance of industry has been due partly to the inconsistencies between objectives and the policy framework and partly to the lack of an integrated approach to link industrial development with the country's resources and broad consumption needs. The emphasis of the Economic Recovery Programme to date has been, and will continue to be, to correct the fundamental economic distortions and imbalances so that the incentives that guide industrial producers will be consistent with these objectives. In addition, sector-specific measures will be used to assist industries in adjusting to the changing environment, including credit and financial assistance schemes, services through technical and management support institutions, export promotion and special attention to small-scale industries.

5. Although industrial production today is relatively low, the situation is quite different from that at independence. Substantial capacity exists, some of it potentially efficient, but some of it unable to produce competitively or even to save foreign exchange. Foreign firms no longer dominate the sector, and there is a much greater number of capable and innovative Ghanaian industrialists with the ability to respond to favorable opportunities. This means that the primary objective for Government policy today is no longer capacity creation but restructuring and rationalizing existing capacity so that resources are concentrated in the most productive industries in which Ghana has a comparative advantage. This requires, on the one hand, re-examination of public industrial holdings and, on the other, establishment of incentives that favor relative expansion of the most efficient producer (whether public or private), especially in small-scale activities that process local raw materials and provide goods in rural areas. Another difference is that industry's full-capacity imported input requirements would absorb more foreign exchange than is likely to be available in the foreseeable future, while it contributes little by way of exports or additional value added to the nation's exportable raw materials. This means that industry must be re-oriented to seek more local input supplies and foreign markets.

RECENT POLICY MEASURES

6. Major steps toward policy reform were taken initially in the context of the ERP, adopted in 1983. The emphasis to date has been on exchange rate adjustment, monetary and fiscal responsibility, and pricing policy reforms in order to bring the balance of payments, budget deficit and inflation under control and to improve incentives for producers, especially in agriculture. Although long overdue, many of these adjustments meant initial economic hardships and were difficult to take. The initial response of the economy was slow, but the Government persisted with its comprehensive program and with measures to improve the economy's supply responsiveness and to translate subsequent increases into higher incomes for workers and farmers. Special attention has been paid to transport in order to facilitate the supply response, which was particularly encouraging in 1984. Wage adjustments and agricultural price increases have provided a more adequate floor for the lowest-paid workers and helped to restore incentives for more productive work. Financial policy reforms have focussed on moving toward positive real interest rates through a combination of gradually rising nominal rates and falling inflation (from 123% in 1983 to 40% in 1984 and 12% in 1985). The Government has also taken a number of steps to enhance its ability to manage and develop the overall policy reform process. The National Economic Commission brings together a range of view points to advise on overall policy direction and change, while the Tripartite Committee brings together labor, employers and the Government where wage and price issues are concerned. Foreign exchange budgeting and licensing are coordinated through a central committee, the Import Programming and Monitoring Committee. Reviews have been initiated of the entire public investment program, as a basis for the design of reform measures. Taken as a whole, these reform measures have gone a long way toward establishing a sound policy environment for industrial recovery and for integrating industrial strategy with the overall process of economic reform and recovery.

OBJECTIVES AND STRATEGY

7. The main objectives of industrial policy during the second phase of the ERP are to:

(a) increase industrial output through greater use of existing installed capacity;

(b) improve supplies of essential goods (e.g. food, textiles, matches, cutlasses, etc.) to meet the integration demands of economic activities in the priority sectors of the economy;

(c) remove production bottlenecks in the most efficient industries and achieve significant cost reductions in others that are potentially viable through selective rehabilitation;

(d) develop economically viable linkages among local industries and between key economic sectors (e.g. agriculture, construction, transport, health, education);

(e) raise export earnings of non-traditional manufactured goods.

8. The Government's strategy is motivated by consideration of both efficiency and equity. The need to boost economic recovery by reviving industrial production and growth in the face of severe resource constraints demands that resources be used in the most efficient way possible to meet the needs of the Ghanaian public at competitive prices and to generate additional foreign exchange. Equity requires that this task be approached in a way that gives producers an opportunity to adapt from the past - highly protective policy environment - to a regime where success depends on being efficient and productive. These considerations can best be accommodated through an approach that provides appropriate incentives and opportunities on a consistent basis across all industries.

9. In the short term the strategy is to make available additional resources to the more efficient priority industries which can make immediate supply response. The medium-term strategy would be to rehabilitate the potentially viable and efficient industries and to develop the local raw material base for industries, taking account of the country's comparative advantage, in order to reduce their dependence on foreign inputs.

10. In the long term, the objective is to achieve an industrial structure that is more closely linked to domestic inputs and needs, that can provide a higher share of its own foreign exchange requirements, and that can sustain a rate of growth of output and employment above the economy-wide average but in balance with the rate of growth of resources and demand generated by agricultural development. This means phasing out unviable excess capacity that constitutes a drain on resources and cannot supply the Ghanaian market competitively, continuing the process of rehabilitation in the most viable existing plants, and investing in new industries that can realize Ghana's comparative advantage and export potential. These objectives will be supported by establishing a policy environment in which success depends on efficient use of scarce resources and in which incentives are balanced between sectors and between growth and employment objectives.

## ACTION PROGRAM

11. The industrial objectives and strategy described above will be pursued through the following major policy measures (discussed below):

- phased reform of production incentives to promote more efficient, competitive, resource-based, labor-intensive and export-oriented industrial production, while giving firms an opportunity to adjust;

- greater access by efficient producers to imported industrial inputs and spare parts while progressively reducing administrative decisions and allocations;

- export incentive and promotion efforts to provide a return to exports that is equivalent to that on domestic sales and to compensate for disadvantages and costs that would reduce export competitiveness;

- a positive climate for industrial operation and investment, including reasonable protection and investment incentives that are relatively uniformly and automatically available across broad classes of priority activities and that provide adequately for small-scale and employment-oriented activities;

- more limited direct public sector participation aimed at making the most effective use of scarce public, financial and managerial resources;

- financial reforms to increase the ability of the financial sector to make credit available for industrial adjustment and rehabilitation, and to provide incentives for more labor-intensive techniques.

## POLICY FRAMEWORK

### REVIEW OF TRADE AND EXCHANGE RATE POLICY

12. To enable the most productive, highest-priority industries to expand rapidly in response to improved incentives, the Government intends to give them greater access to imported inputs, not only materials but also spare parts, to repair broken-down equipment. The Government has already facilitated the ability of exporters to meet their individual import needs through foreign exchange retention, and will take further steps as necessary to ensure that export production is not impeded by lack of access to foreign exchange. It is investigating ways of giving other efficient producers greater access to foreign exchange without going through the licensing system and it is seeking additional external funding to support the process of easing quantitative restrictions. During the transitional period, such measures will be linked to the imposition of temporary financial charges to keep demand for additional industrial imports within manageable bounds. In order to give firms greater flexibility in breaking production bottlenecks by repairing and maintaining equipment, they will be permitted to use a larger portion of their import license allocations for spare parts and minor replacement equipment.

13. The Government is considering the need for introducing special measures during the transition period of exchange rate adjustment to maintain reasonable protection of local industries and to ensure efficient industrial operation. In order to simplify the importation of industrial

inputs and phasing out quantitative trade restriction, the Government has commissioned a study to examine the scope for the use of fiscal and other measures to eliminate the excess increase of imports that would otherwise result from pent-up demand and to provide more adequate incentives for non-traditional export industries.

14. A major plank of trade policy will be exchange rate policy itself with the overall objectives of ensuring:

(a) increase in efficient production;

(b) tapping economic rents;

(c) directing remittances through official channels.

Of particular concern is the need to ensure the high and stable profitability of export sector activity as well as evolving a gradual reduction in the dependence on quantitative restrictions over 1986-88.

EXPORT PROMOTION

15. Exchange rate adjustments over the last three years have dramatically improved prospects for exporters, and this process will be continued. Retention of a portion of export earnings will be maintained as long as needed to facilitate exporters' ability to meet their import requirements and respond to improved incentives. In order to accelerate the expansion of export earnings, which are critical to relieve constraints on the rest of the economy, additional measures are being taken, or considered, to ensure that exporters do not pay taxes on inputs into export production, to compensate for the extra costs of developing export markets, and to make export production more attractive relative to sales on the domestic market. Efforts are also being made to strengthen the activities of the Export Promotion Council and to increase the availability of financing for exporters through the Bank of Ghana.

16. The policy framework for promoting exports will combine needed institutional reforms as well as adequate price incentives. The institutional reforms include:

(a) ensuring that the credit requirements of the export sector are adequately met;

(b) building a marketing infrastructure for non-traditional exports;

(c) simplifying procedures related to exports, and instituting a negative list of exports (such as logs for local processing, endangered species, etc.) in place of the current requirement of export permits for all potential exports;

(d) streamlining and, as necessary, increasing the flexibility of use of the export retention scheme.

INDIRECT TAX SYSTEM

17. The Government is also examining the indirect tax system as a basis for any necessary reforms to make it more consistent with the system of protection for local industries and with other transitional measures as well as with the objectives of simplicity and improved revenue collection.

PRICING POLICY

18. The ability of firms to cover changing costs of production and to compete freely on the market has already been facilitated by permitting producers of most products to set their prices subject to monitoring, rather than advance review and approval, by the Prices and Incomes Board. Currently, administered prices exist for only eleven (11) manufactured and imported products.

INVESTMENT CLIMATE

19. In recently revising and re-issuing the Investment Code, the Government has demonstrated its commitment to maintaining a stable, open economy and to encouraging increased participation by both domestic and foreign private investors in Ghana's economic recovery. The Code has specified a wide range of activities in agriculture, industry, tourism and real estate development as priority areas. Guarantees are provided against expropriation and for repatriation of foreign capital and dividends. Provision is also made for arbitration in case of investment disputes. Fiscal incentives for priority industries (i.e. those that export, use local materials, or produce agricultural inputs) include exemption from payment of duties on imported essential plant, equipment and accessories; attractive investment and depreciation allowances; rebates on income tax and on Social Security Contributions on Ghanaian employees over the first one hundred; permission to maintain external accounts in which 25% of foreign exchange earnings may be retained for import of equipment and inputs and for payment of dividends and remittances abroad.

20. The Ghana Investments Centre is being strengthened to implement this process, and it will issue guidelines designed to facilitate application for benefits and to ensure that they are applied to investments that offer a high rate of return to the economy. In addition to the general policy reforms of the ERP, the Government will continue to take steps to enhance the business climate through consultation, improved worker-management relations, and encouragement of positive worker attitudes toward increasing productivity.

PUBLIC SECTOR ROLE

21. The Government is currently undertaking a thorough review of both the state enterprises system and its investment program based on a recent World Bank financed study and other reports in order to carry out an appropriate reform, a phased rehabilitation of selected state enterprises, and institutional restructuring of the public sector including the possible

phasing out of non-viable enterprises, and improving the monitoring and evaluation mechanism. The overall strategy would aim at limiting the direct participation of the State in industry to critical areas in which there is a gap in the availability of private investment or some other exceptional justification for direct public intervention. Publicly-owned firms will be expected financially to stand on their own feet and operate as commercial entities and to contribute positively to public savings.

MANPOWER DEVELOPMENT

22. In order to enhance their efficiency and competitiveness, industries will be encouraged to strengthen and improve their technical and management capabilities by intensifying their training programs for employees at all levels and where necessary seeking technical assistance and collaborative arrangements with appropriate foreign organizations.

23. The training institutions, especially the Management Development and Productivity Institute and the Ghana Institute of Management and Public Administration, and local consulting institutions will be strengthened and assisted to cope with the increased demand for their services.

## FINANCIAL SYSTEM

LEVEL AND STRUCTURE OF INTEREST RATES

24. Interest rates have been steadily increased and by September 1985 the 12-month deposit rate was raised to 18% while the maximum lending rate rose to 23%. With inflation rate expected to be below 25% for 1985, the goal of achieving positive real interest rates on deposits have been achieved ahead of the target date.

25. However, in addition to maintaining positive real interest rates on savings deposits, a major reform of the financial system is planned, which, depending on the findings and recommendations of a joint Government of Ghana/World Bank/IMF review of the financial system, will seek to ensure that the critical national objective of generating productive activity is attained. In particular, the joint review will focus on a broad range of issues including:

(a) the provision of adequate levels of credit for the productive sector;

(b) creditworthiness;

(c) credit allocation;

(d) the development of a capital market; and

(e) institutional reforms.

CONCLUSION

26. The Government's objectives for industrialization remain to make the most effective use of our resources for economic growth, to build up our body of knowledge, techniques and skills, to make us more self-sufficient, and to push toward our economic independence. Achievement of these goals requires a partnership between the public and private sectors, domestic and foreign investors, workers and entrepreneurs, in which each party contributes in the way it can be most productive. The Government will take action where private activity cannot meet the objectives, but will also withdraw from direct intervention where it is not needed or is inefficient. Incentives are available to foreign as well as domestic investors, with the expectation that they will work with Ghanaians to transfer the benefits of their technology, know-how and experience. Increased production is being encouraged through incentives that enable entrepreneurs to gain profits and workers to earn higher wages as their productivity increases. The strategy for industrial recovery outlined in this is designed to result in an industrial structure that uses its capacity more fully, eliminates unviable excess capacity, makes greater use of local raw materials, earns a larger share of its foreign exchange requirements, stimulates the rest of the economy through relatively rapid output growth, supplies Ghanaian consumers' needs at competitive prices, and offers growing income and employment opportunities in villages as well as in the urban centers.

ANNEX VII

GHANA

INDUSTRIAL SECTOR ADJUSTMENT CREDIT

INDUSTRIAL IMPORTS COMPONENT

## A. Objectives of Import Program

1. The main objectives of the annual import program for industry would be to (a) ensure that industrial activities most central to the Economic Recovery Program receive a minimum level of foreign exchange resources quickly and with certainty; (b) gradually increase the size of the program to provide industrial inputs to raise utilization of existing efficient industrial production capacity; and (c) make available the foreign exchange needed for the most critical rehabilitation.

## B. Governing Principles for Size and Composition of Annual Program for Industry

2. Normally, the absolute size of the annual import program (industry) would allow for an increase, in real terms, over and above the funds provided for the preceding year's approved annual program for the industry. Further the funds provided under ISAC would be incremental to the funds normally provided to industry by the Government. To this end, the provision of funds from the Government's own resources would be at least equal to either the proportion or the average amount allocated in the preceding year's annual import program for industry.

3. Import allocations shall be made so as to enable the private sector to play an increasingly dynamic role in industrial recovery.

4. The annual import program for industry would continue to show overall sources of finance, it would distinguish between materials/spare parts and capital goods. Special provisions would continue to be made to accommodate the input requirements of non-traditional exporters.

5. Those enterprises which receive rehabilitation loans under the proposed ISAC or from other sources would be allocated foreign exchange, on a priority basis, for import of raw materials needed to use rehabilitated capacity.

6. Enterprises would be allowed to use a reasonable amount of annual import allocations for import of spare parts and minor replacement equipment.

# GHANA

## INDUSTRIAL SECTOR ADJUSTMENT CREDIT

## INDUSTRIAL REHABILITATION COMPONENT

### A. Objectives of Rehabilitation/Restructuring

1. The term Rehabilitation Investment Proposal (RP) refers to an investment which proposes rehabilitation and/or restructuring of an enterprise with one or more of the following objectives:

(a) remove bottlenecks that prevent the enterprise from increasing its production to make greater use of its installed capacity;

(b) replace equipment which is on the verge of breakdown and if not replaced, would lead to decline in existing production levels;

(c) increase productivity and alter the structure of costs to make the enterprise competitive at border prices;

(d) change the product mix to meet export demand or specific domestic market needs;

(e) make greater use of available domestic materials to replace imported inputs;

(f) enable existing enterprises to adapt to changing incentives policy framework through (a) to (e) above; and

(g) assist in financial, organizational and/or managerial restructuring, if necessary to achieve (a) to (f) above.

### B. Eligibility Criteria

2. The purpose of a RP should be one or more of the items listed in para. 1 above.

3. In determining eligibility for granting a sub-loan under this component the participating banks would give priority to the RPs that satisfy the following criteria:

(a) the RP should remove a bottleneck that is constraining the enterprise's ability to increase production or otherwise reduce unit production costs at current levels of raw material availability;

(b) the enterprise should have been in production for at least the preceding two years;

(c) the enterprise should be in a position to obtain adequate raw material inputs if its capacity is rehabilitated;

(d) the enterprise should demonstrate that at least half of its inputs are based on domestic raw materials or that the rehabilitation project would enable this to be achieved or that it is a highly labor-intensive operation;

(e) the product whose output will increase as a result of the RP should be one or more of the following: (i) a basic consumer good, especially one consumed in rural areas; (ii) an intermediate good used in the production or packaging process of other industries; (iii) a revenue earner subject to special excise or other taxes; or (iv) a product that the firm has exported within the past three years or that it could export as a result of the rehabilitation; and

(f) only those RPs which are included in the approved public investment program, 1986-88, of the Government would be eligible.

## C. Financial Evaluation Criteria

4. All RP requests that meet one or more of the objectives and satisfy the preliminary eligibility criteria shall be evaluated in terms of their ability to generate sufficient cash flow to meet loan repayment and other debt obligations. For major requests of more than US$100,000, this shall be taken to require calculation of the financial rate of return which must exceed the cost of borrowing.

## D. Economic Evaluation Criteria

5. All RP requests of more than US$100,000 would be subject to a detailed economic evaluation. This evaluation should cover the economic life of the rehabilitation investment and should include the cost of additional replacement expenditures that may be required during this period. Long-run economic viability will be evaluated by the economic rate of return to the rehabilitated operation using border and shadow prices to measure benefits and costs. RPs will be approved only if they can demonstrate that the economic rate of return exceeds 15 percent.

6. Smaller RP requests (below US$100,000) should be evaluated by the measures described in the preceding paragraph if possible, but may satisfy the criteria in para 5 through alternative measures if data are insufficient to calculate rates of return. Economic viability may be shown by demonstrating that the unit cost of production with rehabilitation is below the c.i.f. price plus applicable import duties for the equivalent product.

## E. Onlending Terms and Conditions

7. The interest rate on loans by PBs to beneficiary enterprises will be the rate normally applicable (currently 20-23 percent) on such loans. These rates would be changed in case overall rates are changed. The Government has a policy of maintaining positive real interest rates. Given the inflation rate of about 12 percent in 1985 the current lending interest rates of 20-23 percent are positive in real terms.

8. The Bank of Ghana (BOG) would be allowed an administration fee equivalent to 2 percent of loan amount outstanding and the participating Bank (PB) would be allowed 5 percent interest spread to cover their administrative costs and financial risk. After allowing for the above spreads the Bank of Ghana would pay to the Government the remaining spread on IDA funds used under the rehabilitation component.

9. A commitment fee of one percent per annum on the undisbursed balance of each loan (accruing 30 days from date of BOG's commitment), would be charged by BOG to the PBs, who in turn will pass this cost on to the beneficiary enterprises. Each commitment fee shall be shared on the following basis: 25 percent to the PB, 25 percent to the BOG, and 50 percent to the Government.

10. The beneficiary enterprises would assume the foreign exchange risk. In the alternative they may insure themselves against the risk by paying a one-time fee to the BOG. The amount of the fee would be established by the Bank of Ghana taking into account the extent of cedi overvaluation and likely exchange rate movements.

11. Loans to enterprises would be based upon projected cash flows and debt servicing capacity of the beneficiary enterprises, with maturities not exceeding 12 years (inclusive of grace periods of up to 5 years).

12. Repayment schedules from PBs to BOG would be on composite amortization schedule basis reflecting the aggregate repayment schedule of the loans to enterprises. Reschedulings would be allowed only with the prior approval of BOG.

13. Maximum loan size using ISAC proceeds would be US$1.0 million. Larger projects would be expected to attract/solicit cofinancing on an individual project basis.

14. The first five RP proposals would be submitted to the Association for review prior to approval by Bank of Ghana and PB. Following review of the first five RP appraisal reports the Association will establish suitable free limits. In respect of free limit sub-loans the Bank of Ghana would decide whether the proposal should be refinanced using ISAC proceeds.

GHANA

INDUSTRIAL SECTOR ADJUSTMENT CREDIT

SUMMARY DESCRIPTION OF THE
INSTITUTIONAL STRENGTHENING COMPONENT

## A. Introduction

1. The following institutions would participate and receive funds under the proposed institutional strengthening component: the Bank of Ghana, the Ministry of Finance and Economic Planning, the Ministry of Industries, Science and Technology, the Central Bureau of Statistics, the Ghana Standards Board, and the Food Research Institute. A brief description of the respective role of these institutions and the activities to be undertaken to strengthen them, under the proposed ISAC, is given in this Annex together with the summary cost estimates and proposed financing plan.

## B. The Bank of Ghana (BOG)

2. BOG would be responsible for implementing the following tasks under the ISAC: (a) administration, including disbursements of ISAC funds for financing import of industrial inputs; (b) administration, including approval and disbursement of sub-loans for rehabilitation of industrial enterprises; (c) organization of training programs for staff of local institutions in project analysis and financial restructuring techniques; and (d) formulation of policy proposals covering export incentives and simplification of export procedures/regulations for the Government's consideration.

3. The above responsibilities would be carried out by the existing Development Finance Department (DFD) and Foreign Operations Department (FOD) in the Bank of Ghana. It has been agreed with the management of Bank of Ghana that the existing staff of these departments would be augmented, as needed, to handle the increased workload. It has also been agreed that at least six staff would be assigned before disbursements of ISAC funds allocated to the rehabilitation component begin.

4. The technical assistance and training activities to be financed under the Credit would include: (a) about 56 man-months of advisory/consulting services to (i) organize and conduct four basic and four refresher training courses in project analysis, and two training courses in financial restructuring techniques; and (ii) assist local banks and Bank of Ghana staff to carry out economic, financial and technical appraisal of rehabilitation investment projects submitted for financing under the industrial rehabilitation component; and (b) about 12 man-months of short-term consultancy services to help formulate and implement appropriate export-promotion measures. All training would be conducted in Ghana during the 1986-88 period and participants would be drawn from local banks,

government ministries, local institutes, and businesses. Recruitment of consultants to conduct the training is underway and signing of contract is expected by end March 1986.

C. Ministry of Finance and Economic Planning (MFEP)

5. MFEP is the main existing organ in the Government for formulation of economic policies. Within the Ministry's organizational structure the Planning and Research Division (PRD) has the responsibility for policy analysis and monitoring. However, PRD is poorly staffed and lacks necessary skills to carry out its expected role. Under the proposed ISAC technical assistance would be provided to PRD to strengthen it.

6. It is proposed that the PRD would be strengthened to carry out the following activities: (a) the regular monitoring of price and income impacts of exchange rate adjustments; (b) formulation, implementation, monitoring and adjustment of a phased program of import liberalization; (c) monitoring and adjustment of export promotion policy reforms; (d) adjustment and implementation of the Investment Code; (e) formulation and implementation of reform of direct and indirect taxes; and (f) collaboration with other ministries on policy matters.

7. The technical assistance and training activities propose to be financed under the proposed Credit to help accomplish the above work program would include: (a) one senior expatriate adviser on trade and industry planning and policies for 24 months; (b) financial provision for external courses or in-service postings to train MFEP staff in industrial incentives analysis and policies other policies affecting industrial development; (c) about 10 man-months of expatriate and 30 man-months of local short-term consultancy services to assist the conduct of special studies on policy issues affecting industry.

D. Ministry of Industries, Science and Technology (MIST)

8. MIST has the responsibility for formulating and implementing the industrial adjustment program being supported by the proposed Credit. For this purpose it would liaise with the MFEP on trade and exchange rate policy matters, with the Bank of Ghana on industrial financing matters, with the proposed State Enterprises Commission on rationalization of industrial public enterprises, and other ministries, as needed, on matters affecting industrial development e.g. with the Ministry of Agriculture on production programs for the industrial crops. In the medium-term, MIST's focus of activities would shift from import licensing (which at present is one of its principal activities) to indicative planning and monitoring activities. Specifically, MIST's capabilities in the following areas would need to be strengthened: policy analysis, monitoring and evaluation, indicative planning, formulation of subsector development strategies, and dissemination of information.

9. As part of the overall efforts of the Government of Ghana to restructure the public administration system, the MIST intends to carry out

a reorganization of its structure and staff. A reorganization plan for the Ministry has been formulated by the MIST. The technical assistance requirements to support the reorganization plan have been identified. A reorganization of MIST would precede the start of technical assistance activities. MIST is currently benefitting from an UNDP project (UNIDO as the executing agency) for industrial planning. The existing UNDP project would be completely revised to incorporate the agreed technical assistance activities for the 1986-88 period. The revised UNDP project would be funded mainly by UNDP. About US$300,000 from the proposed ISAC would be used to supplement the UNDP funds under a cost sharing arrangement.

10. The technical assistance and training activities to be financed with the UNDP and ISAC funds include: (a) senior advisor on industrial policy analysis and programming for 24 months to provide assistance in conducting trade and industry policy studies, policy formulation, monitoring policy impact, and providing training to MIST staff in the above areas; (b) a project appraisal and restructuring advisor for 18 months to assist the MIST in the formulation, implementation, and monitoring of restructuring plans for industrial public enterprises and selected subsectors; (c) an industrial statistics advisor for 18 months to assist MIST in establishing appropriate systems for compiling industrial statistics and producing periodic monitoring reports; (d) a small scale industries advisor for 12 months to assist the National Board for Small Scale Industries in formulating and implementing a suitable action plan and program of work; (e) about 18 man-months of expatriate and about 66 man-months of local short-term consultancy services to MIST to assist in carrying out the Ministry's work program; (f) about 40 man-months of fellowships to MIST staff for training in policy analysis and impact monitoring techniques; and (g) vehicles and equipment for MIST.

E. Central Bureau of Statistics (CBS)

11. The proposed ISAC would include funding for CBS to help carry out the following aspects of its work program for the period 1986-88; (a) improve the publication of external trade data by (i) processing the 1983, 1984 in 1986 and 1985 data by June 30, 1987, (ii) establishing a monthly (rather than annual) processing cycle for data during 1986, and (iii) instituting additional formats to respond to the identification of specific output requirements of policy analysis agencies; (b) conduct a full census of industrial production during 1986-87; (c) improve the timeliness of quarterly and annual sample survey for industry and presentation of production indices derived from them; and (d) strengthen the staff technical capability of the Bureau through training, contract appointments, etc. To carry out the above work program funds would be provided under the ISAC for the following: (a) an advisor on industrial census for 12 months; (b) short-term expatriate consultants to assist in trade and industry statistics updating; and (c) vehicles and computing equipment. In addition about 38 man-months of local staff time would be provided to enable completion of the above tasks.

## F. Ghana Standards Board (GSB)

12. Ghana Standards Board is the main governmental body with responsibility for standardization, quality control, certification and metrology. The industrial sector relies heavily on the effectiveness of the Board to monitor and advise on the quality of manufactured products in order to improve production techniques and increase consumer acceptance of products. This role is especially important if export markets are to be developed. Most of the equipment needed for analytical work at the Board has broken down, some of it beyond repair. To be able to do any meaningful diagnosis, basic service equipment is needed. Spare parts are needed to rehabilitate the broken-down equipment. There is also an urgent need for chemicals of various types to enable staff to undertake analytical work. About US$276,000 would be made available to GSB out of the proposed ISAC to purchase necessary laboratory and transport equipment, spare parts, and essential chemicals.

## G. Food Research Institute (FRI)

13. Food Research Institute's major objective is to assist food industries to improve on and diversify their operations. It plays an important role in assisting domestic suppliers of food crops and industrial raw materials for processing. Work at the institute has been paralyzed by the lack of funds for research, supply of raw materials, spares and replacement equipment -- most of the equipment, apparatus, chemicals, etc. are broken down or depleted. About US$430,000 would be provided from the proposed ISAC to enable the FRI to purchase the urgently needed equipment and spare parts to enable it to carry out its functions during the 1986-88 period.

GHANA

INDUSTRIAL SECTOR ADJUSTMENT CREDIT

COST ESTIMATES AND FINANCING PLAN FOR INSTITUTIONAL STRENGTHENING COMPONENT

## A. SUMMARY COST ESTIMATES FOR INSTITUTIONAL STRENGTHENING

| Institution | Foreign | Local | Total |
|---|---|---|---|
| | | US$ '000 | |
| 1. Bank of Ghana | 816 | | 816 |
| 2. Ministry of Finance and Economic Planning | 468 | 348 | 816 |
| 3. Ministry of Industries, Science and Technology | 1,231 | 132 | 1,363 |
| 4. Central Bureau of Statistics | 347 | 77 | 424 |
| 5. Ghana Standards Board | 230 | - | 230 |
| 6. Food Research Institute | 359 | - | 359 |
| | 3,451 | 557 | 4,008 |
| Price Contingencies (20%) a/ | 690 | 111 | 801 |
| | 4,141 | 668 | 4,809 |

## B. FINANCING PLAN FOR INSTITUTIONAL STRENGTHENING

Source of Financing ($'000) b/

| Institution | ISAC Consultants | Equip. | ISAC PPF | UNDP | Govt. | Total | % Distribution |
|---|---|---|---|---|---|---|---|
| 1. Bank of Ghana | 923.2 | | 56 | - | - | 979.2 | 20.4 |
| 2. Ministry of Finance and Economic Planning | 445.6 | 36.0 | 80 | - | 417.6 | 979.2 | 20.4 |
| 3. Ministry of Industries, Science and Technology | 110.0 | 90.0 | 100 | 1,335.6 c/ | - | 1,635.6 | 34.0 |
| 4. Central Bureau of Statistics | 328.2 | 111.0 | 48 | 21.6 c/ | | 508.8 | 10.5 |
| 5. Ghana Standards Board | - | 276.0 | - | - | - | 276.0 | 5.7 |
| 6. Food Research Institute | - | 430.8 | - | - | - | 430.8 | 9.0 |
| Total | 1,807.0 | 943.8 | 284 | 1,357.2 | 417.6 | 4,809.6 | 100.0 |
| % Distribution | 37.6 | 19.6 | 6.0 | 28.0 | 8.8 | 100.0 | |

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a/ Based on annual international inflation of 7% per annum during the period 1986-89.
b/ Includes price contingencies.
c/ It is proposed that the existing UNDP projects to these institutions be expanded/revised to include the activities proposed under the ISAC. A cost-sharing arrangement with the UNDP project is envisaged.

# GHANA

## INDUSTRIAL SECTOR ADJUSTMENT CREDIT

## STUDIES COMPONENT

### A. Introduction

1. This component would include studies in the following areas: (a) policy analysis studies relating to export incentives and procedures, restructuring of import protection regime, indirect taxes, impact of adjustment policies on prices and income, and implementation guidelines for investment code; (b) enterprise level rehabilitation/restructuring plans; and (c) subsector level economic and marketing information to guide the rehabilitation restructuring program.

### B. Outline Terms of Reference

2. Study of Export Incentives and Procedures. The proposed study is expected to provide the basis for the formulation of proposals for reforming policies and procedures affecting exports. The study will address five factors that have a bearing on export performance: (a) exporters' access to imported inputs, as well as duty drawback arrangements; (b) compensation for the overvaluation of the exchange rate and for the higher protection afforded to import substitution activities; (c) aspects of export finance, credit guarantee and export insurance; (d) export controls and procedures; and (e) Government support in identifying export opportunities.

3. Study to Develop a Phased Program for Import Liberalization. The study will involve (a) a review of the present import licensing and foreign exchange allocation procedures; (b) the measurement of scarcity premia; (c) an examination of options to raise the cost of imports; (d) comparative evaluation of import liberalization options; (e) formulation of recommendations for import liberalization.

4. Study of Price and Income Effects of Exchange Adjustments. The study on price and income effects of recent and potential adjustments in the cedi value of imports and exports has the primary purpose of providing the Government with an analysis of likely effects of exchange rate adjustments or other measures to raise the price of industrial imports, on price of locally manufactured goods and their implications for incomes.

5. Study of Indirect Taxes. The purpose of this study is to provide the Government with the analytical basis for simplification and rationalization of the indirect tax system.

6. Subsector Studies to (a) provide baseline subsector level data to be updated annually; (b) establish the overall policy framework for restructuring the major subsectors; and (c) generate subsector level economic,

technical, and marketing information to guide the rehabilitation/restructuring process. The role of small-scale enterprises in the restructuring process would be a particular focus of the studies. The MIST would make available relevant information from the studies to enterprises planning rehabilitation/ restructuring, to be used in feasibility studies. The information would also be made available to the participating banks to help them in appraising loan requests. The reports would be published and provided periodically to interested parties.

7. Enterprise Studies. Funds would be provided under the ISAC to carry out studies to prepare restructuring proposals for selected public industrial enterprises. Two main types of studies are envisaged. The first type pertains to those enterprises for which a determination has been made that it is unviable in its present form and should be divested. For this type of study the consultants would prepare a divestiture plan containing a specific action program for winding up the operation, liquidating the assets and settling the liabilities. The second type of studies would be for those industrial public enterprises whose viability is clear or uncertain. In the case of the former a rehabilitation plan, if necessary, may be drawn up focussing on corporate strategy, organization and management, physical rehabilitation needs, and financial restructuring needs. For the latter a diagnostic study would be done first to assess the viability (technical, economic, and financial) of the enterprise. If the enterprise is deemed unviable a divestiture plan would be prepared. If it is deemed viable a rehabilitation plan would be prepared.

## C. Cost Estimates and Financing Plan

8. A total budget of US$1 million has been estimated for the studies program. It would be financed from three sources: US$0.5 million from the ISAC proceeds; US$0.45 million grant from the Government of United Kingdom and US$0.05 million from UNDP. For each study financed out of ISAC proceeds the Government would submit for IDA approval terms of reference, timetable and budget for each study.

## D. Implementation Schedule

9. Studies listed in paras 2 to 5 have been completed with the assistance of a grant from the Government of United Kingdom. Any follow-up work required in these areas would be financed using ISAC proceeds. A few enterprise studies commenced in January 1986 and would take about 3-4 months to complete. The schedule for subsector studies would be established in mid 1986.

## GHANA

## INDUSTRIAL SECTOR ADJUSTMENT CREDIT

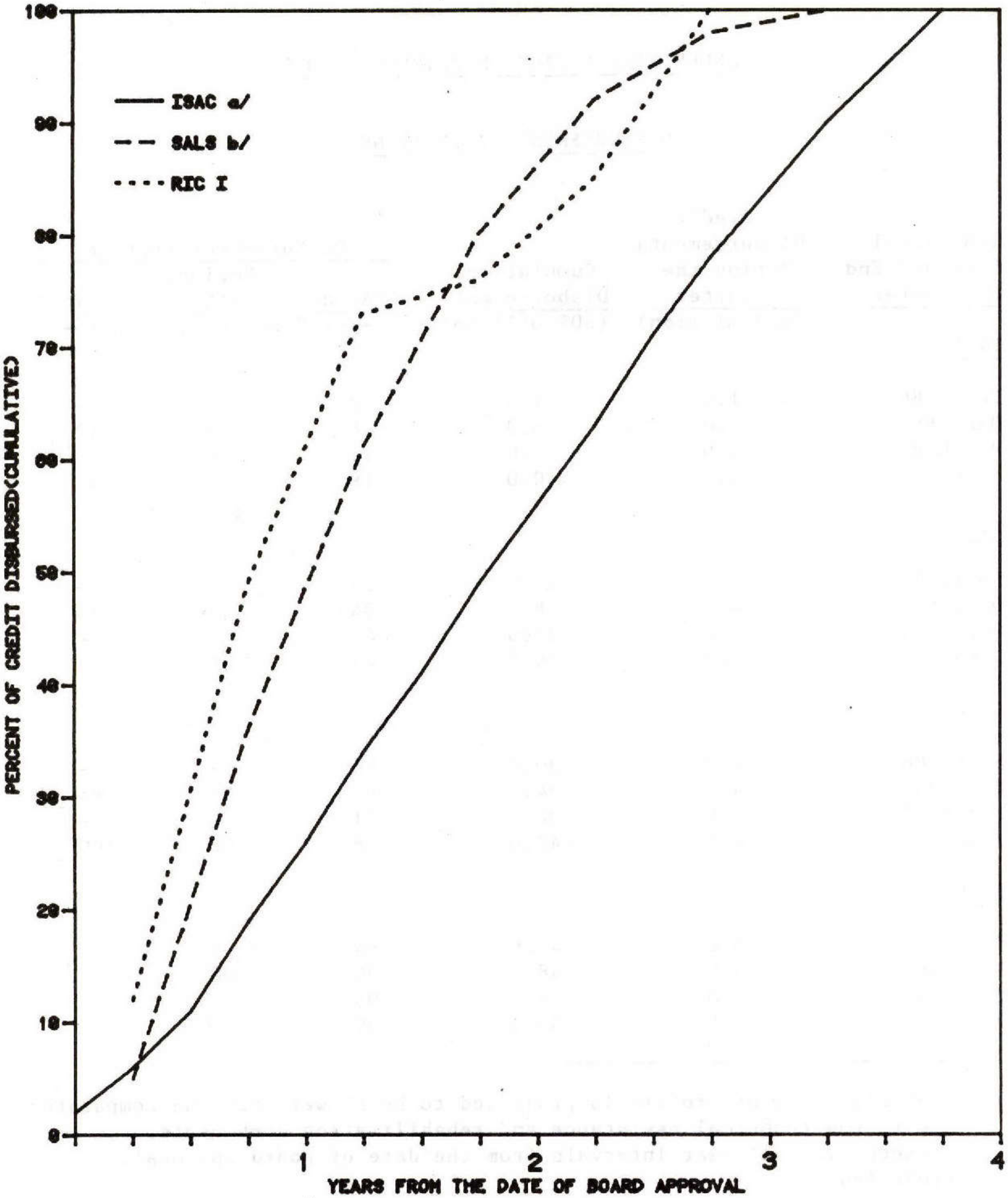
## DISBURSEMENT PROJECTIONS

| IDA Fiscal Year and End of Quarter | Credit Disbursements During the Quarter (SDR million) | Cumulative Disbursement (SDR million) | Disbursement Profile: ISAC a/ | Disbursement Profile: Regional SALs b/ | Disbursement Profile: RIC I |
|---|---|---|---|---|---|
| | | | <----- % of total loan | | ----> |
| FY 87 | | | | | |
| Sept. 86 | 1.0 | 1.0 | 2 | - | - |
| Dec. 86 | 2.0 | 3.0 | 6 | 5 | 12 |
| March 87 | 3.0 | 6.0 | 11 | - | - |
| June 87 | 4.0 | 10.0 | 19 | 36 | 49 |
| FY 88 | | | | | |
| Sept. 87 | 4.0 | 14.0 | 26 | - | - |
| Dec. 87 | 4.0 | 18.0 | 34 | 61 | 73 |
| March 88 | 4.0 | 22.0 | 41 | - | - |
| June 88 | 4.0 | 26.0 | 49 | 80 | 76 |
| FY 89 | | | | | |
| Sept. 88 | 4.0 | 30.0 | 56 | - | - |
| Dec. 88 | 4.0 | 34.0 | 63 | 92 | 85 c/ |
| March 89 | 4.0 | 38.0 | 71 | - | - |
| June 89 | 4.0 | 42.0 | 78 | 98 | 100 c/ |
| FY 90 | | | | | |
| Sept. 89 | 3.0 | 45.0 | 84 | - | |
| Dec. 89 | 3.0 | 48.0 | 90 | 100 | |
| March 90 | 3.0 | 51.0 | 95 | | |
| June 90 | 2.5 | 53.5 | 100 | | |

a/ ISAC disbursement profile is projected to be slower than the comparators due to the technical assistance and rehabilitation components.
b/ Consecutive half-year intervals from the date of Board approval.
c/ Projected.

Assumed Date of Credit Effectiveness: July 1986

## GHANA
## INDUSTRIAL SECTOR ADJUSTMENT CREDIT
### DISBURSEMENT PROJECTION




a/ ISAC disbursement profile is projected to be slower than the comparators due to the technical assistance and rehabilitation components.
b/ Regional SALs disbursement profile.

ES

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

Received: 1/22/86

Comments by c.o.b.: 1/29/86

DATE: January 22, 1986

TO: The Loan Committee

FROM: Wilfried P. Thalwitz, RVP, WAN

EXT.: 72063

SUBJECT: GHANA: Proposed IDA Credit of US$28.5 Million and African Facility Credit of US$25.0 Million Equivalent for an Industrial Sector Adjustment Credit

1. The Committee is requested to consider the attached draft President's Report and draft Development Credit, African Facility Credit, and Project Agreements for the above lending operation, which were submitted under cover of a memorandum from Mr. Alisbah, also attached. Questions should be addressed to Mr. Ijichi, extension 78107.

2. In the absence of objections by the close of business on January 29, 1986, I plan to inform the Executive Directors of the Association's intention to invite negotiations for the proposed Credits on the terms and conditions set out in the attached documents.

Attachments

Distribution

Messrs. Stern (SVPOP) (3)
Qureshi (SVPFI) (2)
Husain (OPSVP) (4)
Shihata (LEGVP) (2)
Dherse (EISVP) (1)
Ms. Krueger (VPERS) (1)

VBhargava:tm

GHA014/LC

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THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

DATE: January 17, 1986

TO: Mr. Wilfried P. Thalwitz, RVP, WAN

FROM: Bilsel Alisbah, Director, WA1

EXT.: 78051

SUBJECT: GHANA: Proposed IDA Credit of US$28.5 Million and African Facility Credit of US$25.0 Million Equivalent for an Industrial Sector Adjustment Credit (ISAC)

1. I attach for your approval and subsequent distribution to the Loan Committee drafts of the President's Report (PR), Development Credit, African Facility Credit and Project Agreements, and Notice of Intention to Negotiate for the above lending operation, for which an IDA Credit of US$28.5 million and an African Facility Credit of US$25.0 million are recommended. The documents have been cleared by the Departments concerned. Also attached is the latest lending program for Ghana. The following issues deserve special attention.

Recent Actions on Proposed Policy Reforms

2. The proposed Credit would support a comprehensive package of policy reforms needed for a restructuring of the industrial sector; these reforms are an integral part of the Government's Economic Recovery Program which is being supported by a number of parallel IDA operations and by IMF facilities. A critical element in this package is the effective price of foreign exchange. The Government is discussing with the IMF (in the context of a proposed Extended Fund Facility) the nature and pace of adjustments in the exchange rate with a view to bringing it close to an equilibrium rate. However, given the importance of an appropriate price of foreign exchange to the industrial adjustment program and because we did not want to hold the processing of this proposed Credit hostage to the timing of an IMF agreement, we had recommended at appraisal that the Government take appropriate action, prior to presentation of ISAC to the Board, to raise the price of industrial input imports by 30% above the exchange rate prevailing at the end of 1985, which was expected to be around 70 cedis to the US$ i.e. to about 90 cedis to the US$ (paras 6 and 13 of the DM). Since the exchange rate at end December 1985 was only 60 cedis/US$ (due to lower than initially anticipated domestic inflation), we had reformulated our condition to state that prior to Board presentation the Government would take appropriate action to raise the price of imported industrial inputs by about 50 percent above the current exchange rate (para 41 of the PR).

3. We are in close touch with Fund staff on these issues and the ISAC post-appraisal mission coincided with a Fund mission (for technical discussions for an EFF which is proposed to be negotiated in the next few months) to ensure that the Government does not receive conflicting signals from the two institutions. During the post-appraisal of the Credit (December 1985) the Government had indicated to us as well as to

P-1867

the IMF that it intends to make substantial further adjustment of the exchange rate in Jan./Feb. 1986 which would meet the above conditions. As you know the Government has responded to this dialogue by adjusting the exchange rate to 90 cedis/US$ effective January 11, 1986, thus meeting our condition for Board presentation. We believe that this exchange rate adjustment represents an adequate movement towards a more realistic pricing of industrial inputs, while not overly exacerbating a tight liquidity position (see para 6 below). Moreover, under the proposed EFF, the Fund will be pressing for a periodic review during 1986 of the adequacy of this new exchange rate. Beyond 1986, it plans to press for an adjustment of the real exchange rate in order to achieve a realistic exchange rate during 1987-1988. As the country moves towards such a rate it should be possible to introduce a measure of import liberalization. Anticipating this, a study has been initiated on the nature, pace and mechanics of import liberalization, with particular reference to the industrial sector. The results of this study will be discussed with government during 1986 with a view to agreeing on a phased liberalization of industrial imports (para 42 of the PR) whose implementation would begin with the 1987 budget (a condition for release of the second tranche). A more comprehensive approach to import liberalization is also being developed under the proposed SAC which will reinforce ISAC conditionality and extend it to other sectors.

4. The Government has also demonstrated its commitment to various other policy reforms proposed by us for the industrial sector by implementing several of the recommended measures since June 1985. In July 1985 a revised Investment Code discussed during the industrial sector review was published and special taxes on SUL imports were reduced from 50% to 30%. Following recommendations made by the Bank during appraisal, regulation of SUL imports was shifted from a positive to a negative list (comprising only five items) in October 1985. A core capital expenditure program has been developed using agreed financial and economic criteria. The number of commodities subject to price controls was reduced and the remaining price controls are being flexibly applied so as to avoid disincentives to producers (para 45 of the PR). Allocation of foreign exchange for industrial imports was increased. These measures are important first steps in the industrial adjustment program described in the PR and are consistent with our approach on policy conditionality (para 13 of the DM) for the proposed ISAC which calls for maximum possible up-front action by the Government and keeping future policy actions to a minimum. In this vein we will continue to press for further actions prior to Board presentation as discussed below.

Conditions for Negotiation and Board Presentation

5. Approval and publication of a Statement of Industrial Policy (SIP) (Attachment to the Annex VI of the PR) is a condition of invitation for negotiations. The draft SIP is satisfactory to us. It has been reviewed by the cabinet and is expected to be resubmitted (after incorporating minor presentational changes) to the cabinet in January 1986 for approval. In case unanticipated procedural problems delay the approval of SIP by the Government we intend to make its approval a

condition of Board presentation rather than delay the negotiations. Suitable actions to increase the price of imported industrial inputs (as discussed in para 2 above), to modify the SUL system by changing to a negative list of permitted imports and by waiving special taxes on industrial inputs imported under SULs (para 42 of the PR) were proposed as conditions of Board presentation of the ISAC (para 13 of the DM). As noted above, the Government has already taken action to adjust the exchange rate and adopt a negative list of SUL imports thus satisfying two of the three proposed conditions of Board presentation. The Government has expressed some concerns about the proposal to waive special taxes. We expect, during negotiations, to resolve this issue.

Liquidity Constraint

6. An important constraint to industrial development is the so-called liquidity problem (para 49 of the PR). This is in part due to the creditworthiness problems facing many enterprises given the run-down condition of their equipment, and to the cumulative impact of the more than 3000 percent devaluation of the cedi since 1983 on the debt/equity structure and liquidity position of many firms which has resulted in a major imbalance in their financial structures and impaired their creditworthiness in the eyes of a conservative banking community. The proposed Credit addresses these problems inter alia through administrative measures designed to encourage financial restructuring, training of bankers in project evaluation, and through the establishment of a revolving fund at the National Investment Bank to finance working capital. The Bank's review of the financial sector is also pointing to a need for measures to increase both the supply of credit to the productive sectors, particularly the private sector, and to stimulate the effective demand for credit which was hampered last year by high interest and stringent demand management policies. The supply of credit may need to be increased through appropriate monetary policies. The demand for credit may need to be stimulated through a review of the appropriateness of the present high positive real interest rates and ? through a more relaxed approach to the size of the government's budgetary deficit in 1986, consistent with the need to contain inflation, and prevent a crowding out of the private sector. We are discussing these issues with the Fund in the context of the common macro-economic policy framework currently being developed under the proposed SAC and EFF.

Public Enterprises

7. The Government is actively preparing a policy statement and an action plan for rationalization of the state-owned enterprise sector (para 46 of the PR). The broader issues concerning the public enterprise reforms are to be addressed through a structural adjustment credit (SAC) proposed for Board approval in FY87, for which an Initiating Memorandum will be submitted to the Loan Committee shortly. As agreed earlier (para 15 b. of the DM) the proposed ISAC would assist the overall public enterprise reform process by helping the rationalization

of a few state-owned industrial enterprises (para 47 of the PR). In addition, the public enterprise reform process is being furthered through complementary actions in public expenditures policy. We have recently carried out a Public Expenditures Review and made detailed recommendations to the Government on the size and contents of possible current and capital expenditure programs for the 1986-88 period. As part of this Review all major proposed capital expenditures for the economic sectors including industry were evaluated. On the basis of this review a ceiling on public investment program for industry during the 1986-88 period would be agreed as part of this Credit (para 48 of the PR). It would also be agreed with the Government that all investment proposals by industrial public enterprises would be subjected to full financial and economic evaluation by the local banks according to the criteria agreed under the ISAC (Annex VIII of the PR). Public expenditure policy issues of a macro nature and for other sectors are to be addressed through the proposed SAC. why? total

Cofinancing

8. During the recent Consultative Group meeting on Ghana the proposed ISAC was presented by us and the Government as a priority candidate for donor support. Several donors expressed interest in cofinancing the ISAC. Given this interest and the fact that several donors are already actively financing industrial sector activities in Ghana, we are planning to organize a meeting to coordinate aid efforts by the various donors including IDA for the industrial sector. This would take place soon after the Board approval of this proposed Credit.

9. I recommend that the Government of Ghana be invited to negotiate on the basis of the above and the recommendations set forth in the attached documents.

Attachments

Cleared with and cc:
Messrs. Fuchs (WAPDR), Aiyer (WAPID), Awunyo (LEG), Helne (LOAAF)

cc: Messrs., Mmes
Rotberg (TREVP), Hittmair (CTRVP), Dubey (CPD) (2), Golan, Kohli (IND) (2), Krueger (ERS), de la Renaudière (SOA), Obidegwu (EPD), Baneth (EPD) (2), Jansen (PBD), Isenman (WA1DR), O'Brien, Knotter, Beguery (WANVP), Eccles, Husain (WAPDR), Hovaguimian (IFC, Africa), Biraken (CA1D1), Berk, Lateef, Ijichi (WA1DB), Hindle (WAPAB), Chaparro (WAPPS), Steel (INDSP), Choi (Res. Rep.), Dinh, Ateng, Easterly, Saleeby (WAPID), Kratz (IMF)

VBhargava/SLateef/Jijichi:tm

GHANA

FY86-89 LENDING PROGRAM

| | | IDA (US$ million) |
|---|---|---|
| FY86 | Power Rehabilitation | 28.0 |
| | Health and Education | 15.0 |
| | Ports | 24.5 |
| | Industrial Sector Adjustment | 28.5 |
| | | 96.0 |
| FY87 | SAC | 30.0 |
| | Agriculture | 17.0 |
| | | 47.0 |
| FY88 | Public Enterprise | 20.0 |
| | Cocoa III | 15.0 |
| | Transport | 20.0 |
| | Education II | 13.0 |
| | Petroleum Distribution | 10.0 |
| | Industrial Sector Adjustment II | 25.0 |
| | | 103.0 |
| FY89 | Forestry | 10.0 |
| | Tree Crops | 10.0 |
| | SAC II | 50.0 |
| | Non-Gold Mining | 8.0 |
| | | 78.0 |
| | TOTAL FY86-89 | 324.0 |

WA1DB
January 10, 1986

FROM: Vice President and Secretary

NOTICE OF INTENTION TO NEGOTIATE

REPUBLIC OF GHANA

INDUSTRIAL SECTOR ADJUSTMENT CREDIT

The Association is planning to invite the Government of Ghana to send representatives to Washington to negotiate the proposed Credits equivalent to US$28.5 million from IDA and US$25.0 million from the African Facility for an Industrial Sector Adjustment Credit.

The credit would support the first phase (1986-88) of the Government's medium-term adjustment program for the industrial sector which includes policy reforms designed to streamline Ghana's industrial capacity. The credit would finance imports of industrial inputs, rehabilitation of industrial enterprises and strengthening of key institutions through provision of training and technical assistance.

Distribution

Executive Directors and Alternates
President
Senior Vice President
Senior Management Council
Vice Presidents, IFC
Directors and Department Heads, Bank and IFC

ISSUES ON THE GHANA ISAC (CPD's queries)

1. Import Liberalization

How much liberalization are we actually going to see under this loan? The actions in the matrix (para. 42 and p. 21) are vague. Will the reforms apply to all sectors, or just to industrial intermediate inputs? What about consumer goods liberalization?

2. Export Promotion

What are the current restrictions on the use of the retention accounts? What kind of flexibility is proposed for these accounts as part of the export promotion effort? Aren't the most important constraints to exporting the administrative ones such as the permit requirements?

3. Industrial Finance

These measures need to be discussed further in the report. Questions can be raised about the following components:

a.) the proposed Guarantee Scheme -- why is it needed? Do we really want to encourage this kind of intervention?

b.) the ERP bonds -- is the interest rate to be variable or fixed? Who would supervise the lending activities of the financial institutions who lend the proceeds? For whom are these loans intended, the industrial sector, the whole private sector, the parastatal sector, local governments, or all of the above? Para. 50 is not very specific here.

4.) Industrial Restructuring

How much restructuring is expected as a result of the strategy proposed in this loan? The proposed import program listed in Annex VII (p.57) does not show much change in the structure of imports by sector over the program period.

ghana/1/27/86/1f

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

DATE: March 3, 1987

TO: Mr. E. Stern, Chairman, Loan Committee

FROM: Bilsel Alisbah, Acting Vice-President, WANVP

SUBJECT: GHANA - Industrial Sector Adjustment Credit (1672 GH and A-13 GH) -- Second Tranche Release

1. The first tranche of SDR22.5 million comprising the entire amount of the African Facility Credit is fully disbursed. We have carried out a review to assess progress by the Government of Ghana in implementing agreed policy actions and institutional reforms assisted by the Industrial Sector Adjustment Credit (ISAC) which were outlined in its Statement of Industrial Policy.

2. Details of current status of compliance with policy and other agreed actions are given in the attached draft announcement to the Executive Directors informing them of the decision to release the second tranche. In our judgement, good progress has been made and the conditions of second tranche release have been satisfactorily fulfilled. We therefore recommend release of the second tranche. May we have your approval please.

4. Questions on this document may be addressed to Mr. V. Bhargava, WAPID (Ext. 74802).

Attachment

cc: Messrs. Qureshi (SVPFI), Shihata (LEGVP), Husain (OPSVP), King (VPERS), Lee (LOADR), Dubey (CPDDR)

BAteng/VBhargava:dl/tm

GHA015/sec2

International Development Association

FOR OFFICIAL USE ONLY



IDA/SecM87-67

March 5, 1987

FROM: Senior Vice President, Operations

GHANA - Progress of the Industrial Sector Adjustment Credit*

1. As provided in Section 3.01 of the Development Credit Agreement and of the African Facility Credit Agreement for the Industrial Sector Adjustment Credit to Ghana (Credits No. 1672 GH and A-13 GH), discussions were held in Accra during recent weeks on the progress achieved in carrying out the Industrial Sector Adjustment Program assisted by the credit. This memorandum summarizes the progress achieved under the sector program through 1986 and in the fulfillment of the criteria agreed during the negotiations of the credit for the release of the credit's second tranche.

## I. POLICY DEVELOPMENTS 1986

2. The Sector Adjustment Program supports the first phase (1986-88) of the Government's medium-term adjustment program which includes important policy reforms designed to streamline Ghana's industrial capacity. The Government's economic recovery program was initiated in 1983. The Industrial Sector Adjustment Credit (ISAC), which became effective in June 1986, concentrated in three main areas: reform of incentive policies, provision of finance for industrial inputs and rehabilitation, and strengthening of policy planning and project implementation capabilities in the Ministries of Industries, Science and Technology (MIST), Finance and Economic Planning (MFEP), Bank of Ghana, and selected support institutions. Other elements of the medium-term adjustment program are to be supported by a proposed SAL which has just been negotiated. The following paragraphs describe the action program in different policy areas to date.

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Distribution:

Executive Directors and Alternates
President
Senior Vice Presidents
Senior Management Council
Vice Presidents, IFC
Directors and Department Heads,
Bank and IFC

*Questions on this document may be referred to Mr. V. Bhargava (Ext. 74802)

Reform of Incentive Policies

(i) Exchange rate policy

3. A major plank of trade policy has been a flexible exchange rate with the overall objectives of ensuring: (a) increase in efficient production; (b) tapping economic rents; and (c) directing remittances through official channels. Frequent exchange rate adjustments since 1983 have dramatically improved prospects for exporters. A dual exchange rate system with a second window for foreign exchange was introduced on September 19, 1986. The second window consists of a weekly auction in which the exchange rate has stabilized between ₵145 and 154 per US$ over the past four months. This made production for export (except cocoa and residual oil) much more attractive than previously when the rate was ₵90 per US$. The official and auction markets were unified on February 20, 1987 and all exports now receive the auction rate.

(ii) Import liberalization policy

4. During the second half of 1986, the Government launched the first phase of an import liberalization program. The foreign exchange auctions cover, in the first phase, virtually all production goods (inputs, spare parts and capital goods). Specific import licensing, involving firm-level allocation by sector ministries, was replaced in October 1986 by the Ministry of Trade's automatic issue of "A-licenses" which cover industrial, agricultural and other productive inputs. In addition, special import licenses (SIL) continue to be issued for all but a small negative list of items to importers who do not require official foreign exchange; thus almost all consumer goods can also be imported. The Government also announced in October the waiver of special taxes on SIL when used for industrial raw materials and spare parts, and abolished this tax altogether in its 1987 Budget. Market forces have replaced administrative discretion to ration foreign exchange for imports, thus making the annual import allocation program redundant. Phase two of the import liberalization program, to expand the foreign exchange auction market to include consumer goods, is being discussed with the IMF and in the context of a proposed SAL to Ghana.

5. The replacement of administrative discretion in the allocation of foreign exchange by the auction system has freed staff of MIST who spent a disproportionately high share of their time processing applications for foreign exchange allocation. They can now spend more time in analyzing sectoral policy issues. While it is still too early to judge the impact of trade liberalization on industry, it is expected that inefficient producers who survived for many years on artificially cheap foreign exchange will eventually go out of production unless they improve their efficiency.

(iii) Export promotion measures

6. The Government has taken several policy measures to promote exports, including non-traditional exports. In addition to the reform of

the foreign exchange regime, the Government has simplified export procedures by abolishing the Ministry of Trade's export license requirement and designating the new exchange control form A2, to be issued by the Bank of Ghana and authorized commercial banks, as the sole document for the purpose of export of non-traditional items. Flexibility in the use of export retention funds by exporters has been increased. Such funds can now be used to meet business promotion, training and related expenses. In the 1987 Budget announced on February 20, 1987, the foreign exchange retention for non-traditional exports was increased from 20% to 35%. Furthermore, the Ministry of Trade, in conjunction with the National Revenue Secretariat, is reviewing existing duty/tax suspension/tax rebate procedures with the aim of streamlining them and expediting implementation. In the meantime, the Government has made an allocation for the Customs Service in its 1987 budget for prompt payment of rebates to exporters, thus avoiding delay once the eligibility criteria are established. The Government also appointed a consultant to assist the Bank of Ghana in preparing a suitable refinancing facility for enhanced credit for non-traditional exporters. Implementation is expected by April. In addition, the Government has begun strengthening the Ghana Export Promotion Council--the Chief Executive has been appointed, nominations for board members have been made, and a budget and work program are currently being drawn up.

7. These measures have created a more favorable environment for existing and new exports and more efficient import substitution. Even though it is still too early to judge the impact, discussions with potential exporters suggest that a positive response to the exchange rate and other export promotion measures is likely.

Finance for Industrial Inputs and Rehabilitation

8. Imports of inputs for industry have been increased through various foreign, loans including the ISAC. An important supporting measure introduced prior to the foreign exchange auction was liberalizing the issuance of special import licenses when no official transfers of foreign exchange were required. Increased supplies of milk, bread, soap, beer and other local products brought market prices down, sometimes below the earlier controlled prices, while increased imports eliminated scarcity rents for other goods (e.g., tires, vegetable oil). Producers benefited initially from greater access to scarcity rents, but their margins tended to be squeezed by increased supplies and competition, higher cost of foreign exchange, and weak consumer demand. Annual indices of manufacturing production (1977=100) which had fallen to 35.4 in 1983 improved to 39.3 in 1984 and then to 49.3 in 1985. Given the larger flow of resources to industry, it is estimated that production continued to rise in 1986.

9. An apex lending facility for financing rehabilitation projects has been established at the Bank of Ghana and arrangements to use rehabilitation funds are in place. Commitment of funds under this component is expected to begin shortly as loan applications are being

received. Given the incentive policy reform in place and the market determined price of foreign exchange, it is expected that only efficient and competitive enterprises will apply for the rehabilitation funds.

Institutional Strengthening

10. The training program for staff in the Bank of Ghana, commercial and development banks, MIST and MFEP is off to a very good start with the first 4 batches of 25 Ghanaians each completing 5 weeks of training in project analysis. The list of participants in the next 4 courses has already been made. The local Management Development and Productivity Institute is closely collaborating with the firm offering the training so that in the future such foreign consultants will not be needed.

11. Reorganization of MIST is underway. The Chief Technical Advisor is now being appointed and is expected to take up his assignment shortly. Recruitment of other consultants is underway. However, the restructuring proposal and staffing of MIST is not yet approved. The Ghana Statistical Service has initiated action to carry out an industrial census, achieve timely compilation of industrial statistics, and update and adopt monthly processing of foreign trade statistics. The Working Committee for the National Industrial Census has been set up, questionnaires and an instruction manual for enumerators has been drafted. An industrial census advisor is expected to commence work shortly.

12. The MFEP has been slow in using allotted funds for building the Ministry's capability to analyze incentive policy issues, formulate appropriate policy measures, and monitor the impact of these measures. The Ministry is expected to use some of the funds to finance technical work in the Government's forthcoming trade taxation and tariff review, including streamlining the duty drawback scheme for export. The slow start is attributed to reorganization of MFEP currently under consideration.

13. The Ghana Standards Board and Food Research Institute are making preparations for utilizing the money allocated to them for updating laboratory and office equipment to provide quality control, product testing, and other services to manufacturers.

## II. PROGRESS AGAINST TRANCHE RELEASE CRITERIA

14. The following specific criteria for second tranche release are listed in Schedule 4 to the Development Credit Agreement and in Schedule 3 of the African Facility Credit Agreement:

(a) approval of an industrial import program acceptable to IDA for 1987;

(b) approval of a phased program of import liberalization acceptable to IDA; and

(c) satisfactory implementation, during 1986, of export promotion measures acceptable to IDA.

The Government's actions described earlier meet the criteria (b) and (c) outlined above; the annual import program has become redundant (para 4). In addition, the Government has:

(a) agreed on its public investment program for 1986-88 with IDA under the proposed SAL; public industrial investment is to be limited to the most urgent rehabilitation which is economically and financially justified;

(b) permitted on a case by case basis industrial enterprises to revalue their assets without paying a stamp duty;

(c) followed a policy of reaching and attempting to maintain positive real interest rates (being monitored as part of IMF program); and

(d) appointed an inter-governmental agency implementation team to carry out rationalization of selected state-owned industrial enterprises (in coordination with the overall state-owned Enterprise Reform Program which forms part of the proposed SAL program).

## III. CONCLUSION

15. Progress in the overall program of sector adjustment has been satisfactory. The adjustment process remains on track and the medium-term outlook appears to favor growth and more productive employment, provided the Government continues to maintain the incentives needed for growth. Funds from the African Facility Credit are fully disbursed. The criteria for the disbursement of ISAC's second tranche have been satisfactorily met. The Government of Ghana, therefore, has been advised of the availability of the second tranche of SDR 13.5 million from the IDA credit.

Ernest Stern

International Development Association

IDA/SecM86-80

FROM: Vice President and Secretary

March 7, 1986

STATUS OF NEGOTIATIONS

REPUBLIC OF GHANA

INDUSTRIAL SECTOR ADJUSTMENT CREDIT

Negotiations have been completed and credit documents will be submitted to the Executive Directors for consideration on a date to be determined.

The following is a description of the proposed project:

Borrower: Republic of Ghana

Amount: SDR 25.7 million (US$28.5 million equivalent) IDA Credit
SDR 22.5 million (US$25.0 million equivalent) African Facility Credit

Terms: Standard

Purpose: The credit would support the first phase (1986-88) of the Government's medium-term adjustment program for the industrial sector which includes policy reforms designed to streamline Ghana's industrial capacity. The credit would finance imports of industrial inputs, rehabilitation of industrial enterprises and strengthening of key institutions through provision of training and technical assistance.

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THE WORLD BANK/INTERNATIONA NANCE CORPORATION

# OFFICE MEMORANDUM

DATE: March 3, 1986

DATE RECEIVED: 3/3/86

TO: Mr. Ernest Stern, SVPOP

OK
ED
3/3/86

THROUGH: Mr. Wilfried P. Thalwitz, RVP, WAN

FROM: Bilsel Alisbah, Director, WA1

EXTENSION: 78051

Region informed 3/4

SUBJECT: GHANA: Proposed IDA Credit of SDR 25.7 Million and African Facility Credit of SDR 22.5 Million for an Industrial Sector Adjustment Credit (ISAC)

1. I attached for your approval the draft President's Report for the Industrial Sector Adjustment Credit. The documents related to this project are scheduled to be distributed to the Executive Directors on March 6, 1986 for consideration at the Board meeting on March 27, 1986.

2. Also attached for your reference is a copy of Mr. Thalwitz's memo of February 28, 1986 noting changes of substance made during negotiations.

3. The Government's final agreement to the negotiated legal documents is expected to be received shortly.

4. This memorandum and the related documents have been cleared by all departments concerned.

5. Mr. John S. Ijichi, Sr. Loan Officer in this Department, will present the proposed project to the Executive Directors. The theme of his presentation will be conveyed to you separately.

6. Comments and suggestions on the attached documents should be directed to Mr. John S. Ijichi (extension 78107).

Cleared with and cc: Messrs. Fuchs, Aiyer, Awunyo, Mr. Helne

cc: Messrs/Mmes. Eccles, Choi, Reese, Berk, Lateef, Jones, Upadhyay, Aggarwal, Bhargava, W. Steel Isenman

THE WORLD BANK INTERNATION FINANCE CORPORATION

# OFFICE MEMORANDUM

DATE: February 28, 1986

TO: Mr. Ernest Stern, SVPOP

FROM: Wilfried P. Thalwitz, RVP, WAN

EXT.: 72063

SUBJECT: GHANA - Industrial Sector Adjustment Credit -- Changes Made During Negotiations

1. Negotiations on the above project were held between February 14 and 21, 1986. The Ghanaian delegation accepted almost all the conditions attached to this Credit, including specific timetables for both import liberalization and simplification of export procedures, which the Loan Committee had suggested. We also got farther than we had expected on import liberalization. The Government has agreed to implement the first phase of a program of import liberalization to be agreed with the Bank in 1987 not only for industry but other productive sectors, and has also agreed on steps leading to this implementation. On export promotion we agreed on a number of specific measures to remove procedural impediments and give incentives to exporters. The Government is to decide on these in April 1986 and implement them during 1986.

2. The following changes in substance in the conditions specified in the Loan Committee package were made during the negotiations:

(a) Retroactive Financing and First Tranche Increase. The Government delegation made a plea for retroactive financing and requested an increase in the amount of the first tranche to \$30 million and a reduction of the second tranche to \$10 million to enable a quick injection of raw materials for industry so as to minimize the inflationary impact of recent devaluation and add credibility to the Government's policy reform process. In view of the up front policy actions taken by the Government we agreed (i) for Retroactive Financing up to the equivalent of SDR 5 million (SDR 2.5 m. each from IDA and AF), for expenditures made after October 1, 1985, and (ii) to increase the size of the first tranche from \$20 million to \$25 million.

(b) Procurement. In line with the limits established under the Reconstruction Import Credit II (1573-GH) the LC package had proposed that contracts valued more than \$300,000 (for the public sector) and \$1 million (for the private sector) would be subject to ICB. During negotiations the Government requested that the limit should be \$1 million for both sectors. We compromised on a \$500,000 limit for both sectors. This will not unduly constrain private sector procurement and provide adequate control over public sector procurement.

GHA014/changes

(c) Conditions of Effectiveness. During negotiations administrative arrangements for handling the Credit were considerably simplified and the RIP Committee (proposed as a condition of effectiveness in the LC package) became no longer necessary to screen individual allocations. Accordingly, this proposed condition of effectiveness was dropped. Instead existing procedures and organizational units of Bank of Ghana would carry out functions proposed for the RIP Committee. It was also agreed that two other conditions of effectiveness (deployment of additional staff in Bank of Ghana and employment of consultants to conduct training in project analysis) would be changed to conditions of disbursement for industrial rehabilitation component since they are critical only to this component.

3. Board Presentation conditions which remained unfulfilled at the time of submission of LC package were (a) approval and publication of a Statement of Industrial Policy (SIP) and (b) agreement to waive special taxes on industrial inputs imported under SULs. The SIP was approved by the Government on February 6, 1986 and presented by the PNDC Secretary for Industries at a meeting of the Association of Ghana Industries, which comprises mainly private sector business. It also received media coverage. During negotiations the Government agreed to make taxes and special charges on SUL imports of industrial raw materials and spares eligible for waivers and credits on the same basis as for ordinary imports of inputs. Thus, all conditions for Board Presentation have been met. We were also able to get Dr. Botchwey, PNDC Secretary (Minister) for Finance and Economic Planning, to sign the Letter of Industrial Goals and Policies before he left for Ghana. We are now trying to advance the Board presentation to March 27 from the current schedule of April 15, subject to the timely receipt of the final agreement from the Government.

Cleared w/ and cc: Mr. Mpoy-Kamulayi (LEGWA), Ms. Reinke (LOAAF)

Distribution:

Messrs., Mmes
Qureshi (SVPFI) (2), Husain (OPSVP) (4), Shihata (LEGVP) (2), Dherse (EISVP), Krueger (VPERS), Fuchs, Eccles (WAPDR), O'Brien, Knotter (WANVP), de la Renaudière (SOA), Aiyer (WAPID), Isenman (WA1DR), Reese, Berk, Lateef, Ijichi, Jones, Uelmen (WA1DB), Choi (Res. Rep.)

VBhargava/JIjichi:tm

GHA014/changes

International Development Association

IDA/SecM86-26

FROM: Vice President and Secretary

January 29, 1986

NOTICE OF INTENTION TO NEGOTIATE

REPUBLIC OF GHANA

INDUSTRIAL SECTOR ADJUSTMENT CREDIT

The Association is planning to invite the Government of Ghana to send representatives to Washington to negotiate the proposed Credits equivalent to US$28.5 million from IDA and US$25.0 million from the African Facility for an Industrial Sector Adjustment Credit.

The credit would support the first phase (1986-88) of the Government's medium-term adjustment program for the industrial sector which includes policy reforms designed to streamline Ghana's industrial capacity. The credit would finance imports of industrial inputs, rehabilitation of industrial enterprises and strengthening of key institutions through provision of training and technical assistance.

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THE WORLD BANK/INTERNATIONAL ANCE CORPORATION

# OFFICE MEMORANDUM

DATE January 28, 1986

TO Ms. Louise Fox, CPD

FROM Kye-Woo Lee, Projects Policy Adviser, PPDPR

EXTENSION 75343

SUBJECT GHANA: Industrial Sector Adjustment Credit
Loan Committee Documents - Comments

I have recognized that the Loan Committee documents have been thoroughly prepared during the relatively short period of time. A few queries, which have also been discussed with Mr. V. Rajagopalan, are as follows:

1. PR 19. (Priorities for the Industrial Sector Adjustment Program). The three year rolling development program (1986-88), being prepared based on a public expenditure review, indicates the substantial rehabilitation needs of the strategic economic sectors -- agriculture, mining, and economic infrastructure, but mentions nothing about the ISAP. What is the relative priorities accorded to the ISAP in the three year Development Program? Are these two programs compatible?

2. PR 61. (Financing Plan). Annex VII (the attached Table) shows an indicative industrial import program rising from US$125 M in 1985 to US$189 M in 1987. The proposed ISAC for industrial imports (US$40 M) would finance a part of the program. Is there any indicative financing plan for the industrial import program? In 1984 and 1985, the government provided 15% or about US$38 M only. How would the remaining financing gap be filled?

3. PR 79. (Restructuring of the Industrial Capacity). The policy reforms to be supported by the ISAC aim at restructuring of the industrial capacity. After the adjustment period, the activities that thrive are expected to be those with relatively high value added at world prices, greater use of domestic materials, and the best prospects for increasing export revenues. Shouldn't the proceeds of the proposed ISAC, especially those allocated to industrial imports, also be used to reinforce the policy reforms, so that the desired industrial structure can emerge toward the end of the adjustment period? It is not easy to discern any guideline or direction on the future structure of industry from the indicative industrial import program, 1986-88 (Annex VII and the attached table).

4. PR 81. (Risks). One of the risks mentioned in the report is that government's limited administrative capacity may result

in implementation delays, particularly with respect to "studies". Consultants have been already working on policy analysis studies. But wouldn't it be feasible for IDA to agree with the government on the terms of reference, timetable, and budgets for the remaining two studies during negotiations or before the Credit presentation to the Board? It will certainly reduce the alleged risk.

5. PR 41. (A Realistic Exchange Rate). The Region believes that the exchange rate adjustment made on January 11, 1986 represents an adequate movement at this moment. Moreover, the adequacy of the new exchange rate would be monitored by the Fund under the proposed EFF during 1986. But what mechanisms are envisaged for periodic review of the needs for further adjustments in the exchange rate beyond 1986? Shouldn't there be any special covenant for this?

6. PR 61. (Industrial Census). Shouldn't the phase I and phase II of the Census need to be clearly defined as these are critical steps in dated covenants?

7. PR 43, 59, 60, 63. As a result of the recent adjustment in the exchange rate, these paragraphs need to be adjusted in their content.

8. Project Agreement schedule - Part B. 3. Shouldn't there be a ceiling on the aggregate amount of contracts to be entered through this method of procurement?

cc: Messrs. Clements, Köpp (SVPOP), V. Dubey (o/r), Choksi (CPDDR), Stichenwirth (PPDPR)

KWLee:gms

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

DATE: September 30, 1985

TO: Distribution

FROM: Vinay Bhargava, Senior Operations Officer, WAPID

EXT.: 74802

SUBJECT: GHANA - Industrial Sector Adjustment Credit (FY86)
Mr. Stern's Comments on Decision Memo (DM)

Mr. Clements called to convey the following comments from Mr. Stern on the Decision Memorandum for the ISAC which will be taken into account in the preparation of the yellow cover SAR/PR:

(a) Relationship with IMF (para 14 of DM). Mr. Stern stated that it is very important to ensure that the IMF is in full agreement with the policy proposals being made under the ISAC. I explained that we have obtained IMF staff views at all critical processing points up to now; no objections have been raised so far. Before presenting its recommendations to the government, the appraisal mission had discussed the policy proposals with the IMF resident representative as well as an IMF mission which was in the field to study some aspects of Ghana's exchange and trade system. At headquarters IMF staff were consulted prior to finalization of the decision memo and their clearance particularly for para 14 in the DM was obtained. IMF staff support the policy goals and principles being pursued under the ISAC;

(b) Credit Amount (para 16 of the DM). Mr. Stern indicated that it would not be possible to increase the amount of AF funds (beyond $25 m. proposed) out of the FY86 AF allocations. However, he would have no objections if the Region wishes to increase the loan amount for ISAC by bringing forward some AF funds out of the FY87 allocations;

(c) Public Enterprise Reform (para 15.b. of the DM). Mr. Stern felt that the progress being made on the overall public enterprise reform process is slow and he would like the Region to accelerate it;

(d) Eligibility/Evaluation Criteria (Annexes 3-4 to the Project Brief). Mr. Stern wondered about the link between the import program proposed under ISAC and the general access to imports and wanted some clarifications regarding the eligibility/evaluation criteria and the categorization proposed in paras 10 and 11 of Annex 4. I explained that the industry import program will be part of government's overall annual import program. I also explained that the criteria stated in Annex 4 have been modified in light of the discussions during the

P-1867

appraisal and the revised criteria will be presented in the SAR; the proposed classification of investments has also been streamlined; and

(e) Implementation Capacity. Mr. Stern felt that the design of the lending operation appeared to be administratively complex and wondered about its consistency with the government's implementation capacity. He referred to the fiscal measures outlined in paragraph 7 of the Appraisal Mission's Aide Memoire as an example in this context. While agreeing the design is complex, I noted that the dominant portion (over 80%) of the ISAC, i.e. import financing, will rely upon existing institutional arrangements and practices established under RIC I and II. Moreover, a head-start on implementation of institutional strengthening activities would be made through work to be done during the next 4-6 months - financed by an already approved PPF and a grant from ODA/U.K. The institutional strengthening proposed under ISAC would also help establish institutional framework for subsequent ISACs which will increasingly focus on investment financing.

Cleared with and cc: Mr. Clements (SVPOP)

Distribution:

Messrs. Rajagopalan (PPD), de Azcarate (CPD), Swahn (EDT), Agarwala, Birnbaum (SOA), I. Husain (PHN), Dherse (EISVP), Golan, Kohli, Steel, Leechor, Rowat, Sandig (IND), Dervis (INDSP), Dubey (CPD), Ms. Krueger (ERS), Qureshi (SVPFI), S. Husain (OPSVP), Shihata (LEGVP), Baneth (EPD), Van Puymbroeck (LEG), Hittmair (CTRVP), Ms. Reinke (LOA), Jansen (PBD), O'Brien, Beguery, Knotter, Noman (WANVP), Alisbah, Isenman, Allen (WA1DR), Reese, Lateef, Ijichi, Berk, Sharma, Ms. Jones (WA1DB), Fuchs, Eccles, Husain, Guetta, Mrs. Hu (WAPDR), Hindle (WAPAB), Chaparro (WAPPE), Dinh, Moritz, Saleeby, Easterly, Ateng, Draper (WAPID), Huh, Lorie (IMF), Choi (WAFGA)
WAIC

VBhargava:tm

GHA006/Mr. Stern's comments

File ✓ ES

## COUNTRY OPERATIONAL DATA

COUNTRY: GHANA GNP PER CAPITA: 350 TERMS: 5/20

LAST CPP: ~~02~~ 03/13/81 LOCAL COSTS FINANCING: YES

¢10

COST SHARING BANK: 70 % EXTERNAL: 80 %

¢14

| | FY86 | | FY87 | | FY88 | | FY89 | | FY90 | | TOTAL | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | BANK | IDA | BANK | IDA | BANK | IDA | BANK | IDA | BANK | IDA | BANK | IDA |
| $MILLIONS | | 105 | | 78 | | 90 | | 95 | | | | 368 |
| NUMBER | | 4 | | 2 | | 4 | | 4 | | | | 14 |

EIG-AF allocation pp 42-43
What is link between credit and access to forex?

| APPROVED THRU 01/31 BY LOAN COMMITTEE | IBRD | IDA | 2 YEAR PROGRAM (REVIEW GROUP) | IBRD | IDA |
|---|---|---|---|---|---|
| -$MILLIONS | | 122.0 | | | 162.0 |
| -NUMBER | | 3 | | | |



## FY86-87 COUNTRY LENDING PROGRAM

| FISCAL YEAR PROJECT | NAME | DEC. MEMO SUBMITTED | APPRVD BY LC | BOARD APPROVAL | IBRD | IDA |
|---|---|---|---|---|---|---|
| FY86 | | | | | | |
| 3GHAPD04 | POWER | YES | YES | 9/19/85A | | 28.0 |
| 3GHANN02 | POPULATION AND HEALTH | YES | NO | 11/26/85 | | 12.6 |
| 3GHADD04 | IND. SECTOR ADJ CREDIT | NO | NO | 1/30/86 | | 40.0 |
| 3GHATP02 | PORTS | YES | NO | 3/30/86 | | 24.5 |
| SUBTOTAL | | | | | | 105.1 |
| FY87 | | | | | | |
| 3GHAIY02 | OIL REFINERY | NO | NO | 7/30/86 | | 30.0 |
| 3GHAMY01 | SAC | NO | NO | 7/30/86 | | 90.0 |
| 3GHAAD07 | AG.REHAB. | NO | NO | 1/30/87 | | 8.0 |
| SUBTOTAL | | | | | | 128.0 |
| TOTAL | | | | | | 233.1 |

ES

Received: 9/27/85

Comments by c.o.b.: 10/8/85

FORM NO. 1527
(9-84)

THE WORLD BANK

# COMBINED ISSUES PAPER/DECISION MEMORANDUM TRANSMITTAL SHEET

TO: Distribution

DATE: September 26, 1985

FROM: Sri-ram Aiyer, Chief, WAPID

Chairperson, Decision Meeting

COUNTRY/PROJECT: GHANA - Industrial Sector Adjustment Credit (ISAC)

| Issues Paper Date: | Decision Meeting Date: | Loan Committee Date: | Scheduled Board Presentation Date: | Yellow Cover Review: |
|---|---|---|---|---|
| - | Sept. 17, 1985 | December, 1985 | February, 1985 | Waived ☐ Not Waived ☒ |

| Estimated Costs: | Proposed Loan/Credit Amount: 1/ | Amount in Approved Lending Program: | Amount and Source of Co-Financing: |
|---|---|---|---|
| Total: US$365.0 m<br>Foreign: US$270.0 m | US$ 17.5 million | US$17.5 million | African Facility: $25.0 m (planned)<br>Other cofinancing being sought |

## 1. DECISIONS SOUGHT

Approval of Proposed ISAC conditionality.

## 2. SPECIAL FEATURES

-

## 3. SECTOR POLICY ISSUES

(a) List major covenants not in compliance in sector: None

(b) List major policy issues covered by proposed project. Use simple descriptions, e.g. prices, staffing, maintenance, etc.:

price of industrial inputs, export incentives, institutional strengthening for policy and project analysis, apex lending arrangements, enterprise rehabilitation strategy.

(c) List problem projects in sector *(name and Loan/Credit number)*: 2/

Second National Investment Bank (Credit 901-GH).

(d)

| | In Sector | In Country |
|---|---|---|
| No. of Problem Projects: 2/ | 1 | 2 |
| Total No. of projects under supervision: 2/ | 1 | 14 |

1/ Estimated requirements for rehabilitation and imports for the sector for the 1986-87 period.

**DISTRIBUTION**

1. Mr. Stern, SVPOP, through RVP *(initial)* (3 copies with Issues Paper and Project Brief)
2. Standard Distribution:

2/ based on Spring 1985 PIR. Credit 901-GH has been removed from problem-project status following agreement on a financial restructuring package for NIB; the changed rating will be reflected in the Fall '85 PIR.

THE WORLD BANK / INTERNATIONAL F NCE CORPORATION

# OFFICE MEMORANDUM

DATE: September 24, 1985

TO: Distribution

FROM: Sri-ram Aiyer, Division Chief, WAPID

SUBJECT: GHANA - Industrial Sector Adjustment Credit (ISAC) (FY86) Combined Issues Paper/Decision Memorandum

1. The decision meeting on the above lending operation, held on September 17, 1985, was attended by the following persons: Messrs./Mesdames Dubey, Pinto, Brathwaite (CPD); Isenman (WA1DR); Dervis, Steel (INDSP); Reese, Berk, Lateef, Ijichi, Sharma (WA1DB); Noman (WANVP); van Puymbroeck (LEGWA); Taylor (WAPPS); Bhargava, Ateng, Easterly, Saleeby, Draper (WAPID); and Aiyer (chairperson). The objectives for the ISAC, the current status of dialogue and preparation, the proposed policy reforms, and the issues discussed/ decisions reached are discussed below.

2. The ISAC Objective is to help the government to promote economic growth through increased production of locally produced manufactured goods and to support the first phase (1986-88) of the medium-term industrial adjustment program. This is to be achieved by (a) financing an expanded industrial input program to raise capacity utilization in industries that can produce competitively; (b) strengthening the institutional capabilities for policy analysis, investment analysis, credit delivery, and technical services related to the industrial sector through technical assistance to be financed under the ISAC; (c) formulating and implementing incentives policy reforms (paras 5-9) designed to streamline Ghana's industrial capacity to concentrate on those activities which are viable and sustainable over time without excessive protection; and (d) pursuing a strategy of proceeding cautiously with rehabilitation of industries until excess capacity is rationalized (through policy changes) and financing rehabilitation of only those industries which satisfy rigorous evaluation criteria acceptable to the Bank.

3. Summary Description. The proposed three-year Credit would include the following four components to accomplish the above objectives: (a) the importation of industrial raw materials, spare parts, and other inputs to increase the utilization of existing capacity; (b) equipment and services for rehabilitation/restructuring of selected enterprises; (c) training, technical equipment, advisory services and consultancy services, all for strengthening of selected institutions; and (d) studies for rehabilitation/restructuring of enterprises, formulation of policy reform measures, and preparation of subsector restructuring strategies and plans. The Bank of Ghana would be the implementing agency for the industrial imports and rehabilitation components of the ISAC. The Ministry of Industry, Science, and Technology would be the implementing agency for the studies component and the industrial restructuring program. The Ministry of Finance and Economic Planning would have the lead responsibility for designing and implementing the incentives policy reforms. As a departure from the

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previous DFC projects in Ghana which were all channelled through a single institution (National Investment Bank), the line of credit for rehabilitation investments under the ISAC would be made available under an apex arrangement, through Bank of Ghana. This would help strengthen the capacity for development lending in a larger number of financing institutions (including the commercial banks) and complement the on-going institutional strengthening efforts for the National Investment Bank and the Bank for Housing and Construction.

4. Current Status. The mission reported that working level agreements were reached with the government and Bank of Ghana staff on (a) criteria governing the composition of the annual industrial import program; *that's easy* (b) eligibility and evaluation criteria for rehabilitation loans; *which are?* (c) apex-lending arrangements, on-lending terms and conditions, and training/technical assistance for the rehabilitation component; (d) identification of current obstacles to, and a work program to formulate specific proposals for increasing exports; and (e) a draft Statement of Industrial Policy and terms of reference/implementation schedule for policy analysis studies. To enable a quick start of the proposed ISAC, further preparatory activities are planned during the next four months and consultants for the main activities have been selected to start work in Ghana in early October 1985. The mission presented a policy reform package (Attachment I) to the government and sought reactions. The PNDC Secretary for Finance, Dr. Botchwey, had to travel to Washington on an emergency basis for discussions with the IMF and was not in a position to react. The preliminary reactions of the PNDC Deputy Secretary for Finance, the PNDC Secretaries for Industry and for Trade, and the Governor of the Bank of Ghana, to the proposed policy reforms, were on the whole positive. The mission reported that, while there is general agreement on the objectives and nature of the policy proposals, the government needs more time to discuss the proposals internally and to examine their consistency with IMF discussions. The policy reform package to be supported by the ISAC is being proposed in the context of a macro-economic package being negotiated by the IMF (see para 14) and takes that as given. However, sectoral considerations call for additional policy measures, as discussed below. It is, however, noted that, besides the policy reform objectives, the ISAC has significant institutional strengthening, industrial restructuring and growth enhancement goals. Since the main issues remaining unresolved are in the policy area, the rest of this memo concentrates on policy conditionality aspects. Other aspects of the ISAC are described in detail in the Project Brief dated July 30, 1985 and remain substantially unchanged, after appraisal.

## Proposed Policy Reform Package

5. The basic objective of policy reforms would be to shift from incentive policies that allow inefficient firms to survive through over-protection and access to low-cost imports, to policies that establish costs and prices which stimulate efficient resource use and foster competition. Four specific objectives form the basis of the proposed policy reform package.

6. First, the cost of industrial inputs (including tariffs and any surcharge that may be introduced) obtained at the official exchange rate by industrialists should be moved closer to the equilibrium exchange rate through transitional measures. An increase on the order of 30% above the expected year-end official exchange rate (para 14) plus current customs duties of 25-30% on industrial inputs is being sought so as to raise the effective exchange rate for industrial inputs to about midway between the official and parallel market rates. This level has been selected on the assumption that the ratio of the two rates will be on the order of 1:2 by the time the credit is effective. The rationale of this proposal is to (i) give appropriate price signals to producers, (ii) absorb scarcity rents, (iii) discourage import-intensive production, (iv) encourage switching to locally produced inputs, and (v) to curtail excess demand for industrial inputs so as to permit initiating the process of import liberalization. Two approaches (alone or in combination) are proposed by us to meet this objective, on the premise that the anticipated exchange rate adjustment before negotiations (para 14) will not achieve an equilibrium rate and a topping-up will be necessary: (i) a temporary increase in taxes on imports financed through official allocations (across-the-board and/or selectively on industrial inputs); and (ii) a dual exchange rate system that puts industrial inputs on a second window or auction basis.

7. Second, access to imported industrial inputs outside the official allocation system should be facilitated (at an appropriate cost) and steps taken towards liberalizing importation both of inputs and of final goods that compete against locally produced goods. The rationale is to increase supplies on the local market, drive down scarcity prices, and increase the flexibility of manufacturers in responding to the changing market conditions. To accomplish this objective it is proposed to make two modifications to the Special Import Licenses (SIL) system: [a/] (i) waive or draw back special taxes (currently 30%) on inputs imported under SILs, thus giving an incentive to efficient producers to expand in competition with SIL consumer goods imported under SILs without having to pass through the official allocation system; and (ii) shift the regulation of SILs from a positive to a negative list which would enable unrestricted import of both inputs and final goods competing against locally produced goods (para 6, Attachment I). In this context, (i) during the years 1983-84 the SIL imports averaged $75 million a year compared with average non-oil imports of $115 million per year financed by the government, and thus are a major market force; and (ii) the SIL system, particularly with

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a/ SILs refer to those imports for which an import license is required and is freely given but the importer arranges the required foreign exchange privately i.e., SIL imports do not require foreign exchange from the government. Private foreign exchange transfers are the main source of financing SIL imports; such foreign exchange is sold at a parallel market rate which is significantly higher than the official exchange rate.

modifications proposed above, provides an interim approximation to a liberal trade policy until such time as the official and unofficial markets are integrated. Also imports under SIL can limit the extent of effective protection to locally manufactured goods provided by the import licensing system and help drive out inefficient producers. Another proposal (para 8, Attachment I) to support movement toward unrestricted importation of industrial inputs (and, eventually, competing products) is to select a number of items that can be placed on Open General License (OGL) depending on the availability of sufficient foreign exchange resources and the extent to which a surge in demand for them can be dampened through the pricing mechanism. The proposed ISAC would seek a commitment to devise and implement such a program taking into account the need to coordinate among the agricultural, industrial and transport sectors to achieve a balanced and phased approach to liberalization, and in tandem with efforts to integrate SIL and official markets into one system. The latter is important because putting imports on OGL without bringing private (unofficial) foreign exchange transfers now financing SILs under official channels would simply result in transferring SIL imports to OGLs and thereby worsen the present supply and demand imbalance in the official foreign exchange market.

8. Third, export incentives should be improved so as to compensate non-traditional exporters for the current bias of the exchange rate and protection policies toward import substitution. At the same time the administrative procedures for exports should be reduced and simplified and special support measures relating to export credit, finance, and promotion, should be enacted. Compensation would be achieved by one or a combination of (i) financial incentives (drawback, bonus, credit); (ii) a more flexible use of retention rights and an increase in retention from 20 to 25% of gross earnings; and (iii) use of a second window for exporters (with an exchange rate at least 30% above the first window rate) (paras 5 and 7, Attachment I). ?o

9. Fourth, improvement in the business environment, particularly with respect to the private sector. The government has recently approved (consistent with our recommendation in the context of sector work) an Investment Code which affirms its commitment to a mixed economy and private investment, provides legal protection against expropriation and provides benefits and incentives to investors. We propose under the ISAC to assist the government in formulating the procedures for implementing the Code. The government has also agreed to issue, prior to the next Consultative Group, a Statement of Industrial Policy (SIP) describing the government's industrial development objectives, strategy and policy framework. A draft of the SIP was discussed and agreed with Mrs. Owusu, PNDC Deputy Secretary for Finance, and Dr. Acquah, PNDC Secretary for Industries (Attachment II). Ghana is one of the countries included in the proposed Study of Private Sector Development in sub-Saharan Africa that is being undertaken jointly by the Special Office for African Affairs and Industry Department (with assistance from WAPID), and a mission is planned for November 1985. We propose to use the findings of this study as a basis of further dialogue with the government in this important area.

10. Impact of the ISAC. It is anticipated that the proposed ISAC would produce a downward pressure on prices inasmuch as it would lead to increased availability of locally produced goods whose production is constrained by the limited availability of foreign exchange. Increased capacity utilization would also reduce underemployment in factories although this may be offset by labor redundancies resulting from closure or exit of inefficient public and private enterprises. The ISAC would also influence the product mix available on the domestic market in favor of mass-consumption items by allocating foreign exchange to them; many such items are not attractive for imports under SILs due to low profitability, high cost, and limited paying capacity.

Issues Discussed and Decisions Reached

11. The meeting considered the following five issues: (a) endorsement of ISAC objectives (para 2) and the policy reform package; (b) the proposed policy conditionality for the ISAC; (c) relationship with the IMF program; (d) relationship with other Bank operations; and (e) credit amount.

12. Policy Objectives and Proposals. It was decided that the four specific objectives underlying the policy reform package (paras 6-9 above) put forth by the mission be accepted as the basis for reaching agreement with the government. Flexibility should be retained in the choice of instruments, (proposed in Attachment I), as long as they would accomplish the objectives. The government would be advised accordingly.

13. Policy Conditionality. The proposed schedule for policy actions (Attachment III) was accepted with the modification that the export promotion measures listed in para 15, Attachment III, are too broad and the mission should identify the specific measures (in the Yellow cover SAR) which should be implemented before release of the second tranche. It was also decided that emphasis should be on maximum possible up-front action by the government and the future actions (letter of policy) should be kept to a minimum. Accordingly it was agreed that the government should be informed that (a) approval and publication of the Statement of Industrial Policy (Attachment II) would be a condition of invitation for negotiations; (b) by negotiations agreement on specific measures to raise the price of imported industrial inputs by 30% (para 6), and on modifications to the SIL system (para 7) would be expected; and (c) the measures agreed under (b) would need to be implemented prior to presentation of the ISAC to the Board. Other policy measures comprising export promotion measures (para 8) and a phased program for liberalization of imports would be part of the first year program and satisfactory progress on them would be a condition of release of the second tranche. The letter to the government would be sent next week and reactions should be sought during the annual meeting.

14. Relationship with IMF Program. Under the 1985 IMF Standby program the government is committed to make quarterly exchange rate adjustments so as to achieve a 20% real depreciation of the cedi by the end of 1985. The next adjustment is due in October. The government is considering its options, including a dual exchange rate system, in consultation with IMF staff. This issue is expected to be further

discussed at the annual meeting. An announcement on exchange rate adjustment is expected by end October 1985. The premise is that this adjustment would not achieve an equilibrium exchange rate and considerable further adjustment in 1986 and beyond would be necessary before the rate approaches the appropriate level. Meanwhile we propose under ISAC to move quickly, for reasons discussed in para 6, through transitional measures to make industrial users of imported inputs pay at an effective exchange rate (including tariffs and special surcharges) closer to the "equilibrium" rate of exchange. IMF staff indicated that in Ghana's circumstances, they would consider a dual exchange as a second best alternative. As regards the proposal for a 30% special tax on industrial inputs they expressed concern about possible distortionary effects on inter-sectoral resource allocations, through leakages of multiple use inputs. This is a valid concern. However, in our view, on balance, the overall efficiency gains as a result of the approach proposed by us would outweigh the inefficiencies likely from leakages across sectors. We will continue to keep the IMF informed of progress on the policy discussions under the ISAC.

15. Relationship with other Bank Operations. The government has stressed the need to coordinate policy actions under the ISAC with the ongoing IMF discussions, possible SAC, ongoing work on public enterprises and the proposed agricultural sector credit. The concern is to avoid inconsistent sets of recommendations and duplication of conditionality. We share this concern and it was decided to proceed as follows as regards Bank-financed operations (in the areas of overlap):

(a) trade policy issues relating to the industrial sector and non-traditional exports would be addressed primarily through ISAC but may need to be reinforced through complementary measures under the SAC and/or an agricultural loan;

(b) rationalization of public enterprises and public expenditure would be addressed primarily through the proposed SAC and public enterprise project. Agreement on the overall policy framework on public enterprises and on issues such as compensation to previous owners, labor redundancy, divestiture, etc., is necessary before comprehensive actions specific to the public enterprises in the industrial sector can be implemented. Nevertheless, limited efforts would be made under ISAC by (i) reaching agreement with the government on the overall size and composition of the public expenditure program for the industrial sector during the 1986-88 period in line with the cautious strategy on rehabilitation (para 2), (ii) urging the government to proceed with liquidation/ rationalization of GEA and/or NIC group of industrial companies (which are virtually non-operative) recommended by the recent consultants report on public enterprises and our own sector work, without waiting for placement of an overall program of public enterprise reforms, and (iii) offering to assist under the ISAC with the rationalization/disbanding process. In addition, the policy changes and rigorous evaluation criteria proposed under ISAC would apply to public enterprises also and would (i) make inefficient firms clearly unprofitable and (ii) screen out unviable rehabilitation proposals.

16. Credit Amount. It was noted that to offset any inflationary impact of the proposed increase in the cost of industrial inputs, a significant increase in the supply of goods on the market would be necessary which in turn would require increased amounts of foreign exchange. Also the government's resolve and ability to implement further policy measures would depend on the assured availability of foreign exchange to tide over the transition period. In light of these considerations the hitherto proposed credit amount of $42.5 million, of which $30 million would be allocated to the import of raw materials over a two-year period, is insufficient. The mission strongly recommended that the proposed loan amount from IDA/AF sources should be increased to at least $60 million and an equal amount be sought through cofinancing, as requested by the PNDC Coordinating Secretary, Mr. P.V. Obeng. The Programs division felt that an increase was desirable but current constraints on IDA/AF funds did not permit any increase in the Credit amount. It was decided that (a) vigorous efforts should be made to seek cofinancing from donor/commercial sources for ISAC; (b) the ISAC should be presented at the forthcoming CG meeting to seek donor support; and (c) the possibility of increasing the present 25 million AF allocation for ISAC should be explored at the next quarterly consultation with contributors (December 1985).

Processing Schedule

17. The following schedule for the processing of ISAC was agreed:

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| White cover SAR | October 30, 1985 |
| Yellow cover SAR/PR | November 15, 1985 |
| Post-Appraisal Mission | November 20-30, 1985 |
| Loan Committee Package | December 12, 1985 |
| Negotiations | January 1986 |

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GHA007/draft issues

Revised September 2, 1985

STRICTLY CONFIDENTIAL

MEMORANDUM ON

POLICY PROPOSALS RELATING TO INDUSTRIAL SECTOR

1. Following a meeting on August 22, 1985, between representatives of the Ministry of Finance and Economic Planning (MFEP) and the World Bank Industrial Sector Adjustment Credit (ISAC) Appraisal Mission, this memo gives details of the key policy recommendations being proposed in connection with the ISAC.

2. The main objectives for Ghana's strategy of industrial recovery and adjustment are to increase capacity utilization in such a way as to:

(a) shift the structure of Ghana's industrial production to concentrate on those activities that are most viable and sustainable over time;

(b) increase the share of domestically-produced relative to imported inputs as a share of the value of industrial output;

(c) increase the share of industrial import requirements that are financed through industrial exports; and

(d) reduce excessively high levels of effective protection due to quantitative restrictions.

3. The policy proposals described in this memo are aimed at stimulating industrial producers to adjust as quickly as possible toward the above objectives. Supported by the proposed ISAC and subsequent IDA lending operations, the package of policies presented below would lead to output expansion and greater capacity utilization by the most efficient producers, enabling them to supply the market at lower cost than consumers are currently paying for equivalent items imported under Special Unnumbered Licenses (SULs). They are intended to shift industrial cost structures rapidly to their longer-run sustainable levels by decreasing the scarcity rents available to import-using producers who obtain foreign exchange at the official exchange rate and by increasing the returns to exporters. At the same time the costs to industries willing to expand production by utilizing SULs to import inputs would be reduced in order to make them more competitive, so that expanded domestic supplies would drive down prices and scarcity rents.

4. The first proposal is aimed at increasing the cost of imported industrial inputs obtained through official channels in order to: (i) encourage greater utilization of domestic inputs; (ii) absorb scarcity rents available to producers who obtain foreign exchange at the official

rate; (iii) minimize demand pressure for inputs that might be placed on Open General License (see para. 8 below); and (iv) generate receipts that could be used to encourage non-traditional exports. This would involve an increase in the cost of industrial imported inputs on the order of 30% above the official exchange rate (given the anticipated path of exchange rate adjustment), in addition to the current customs duties of 25% or 30% on most goods. This could be achieved either through modifications in the exchange rate regime, or through special taxes, or both; and the measures could be across-the-board or aimed specifically at the industrial sector. A second window for foreign exchange transactions for the industrial sector (and other sectors) would address the above objectives directly by charging import-using industries a higher price for their inputs, and increasing returns to industrial exporters by the same proportion. An across-the-board increase in the average tariff level (or an equivalent surcharge) is an alternative measure to achieve this objective, which would provide a more adequate level of protection at the overvalued exchange rate while maintaining the present relatively uniform structure of protection afforded by the present tariff system and maximizing the revenue impact. To the extent that across-the-board measures fail to reach the 30% objective, the difference could be achieved through a special levy on industrial inputs. This extra tax would be justified by the increase in resources being made available to industry through the loan and by including industrial inputs in a phased program of moving to OGLs. The proposed measures would be temporary during the transition period, and would be phased out over time as the official exchange rate is moved to a level that can be sustained without quantitative restrictions. (If a special levy is adopted, its rate could be higher or lower, depending on action taken regarding tariffs, surcharges and the exchange rate regime.)

5. The second proposal is to increase the level and flexibility of retained earnings for non-traditional exporters. This is intended to improve export incentives by compensating exporters for the relatively low return (compared to production for the domestic market) offered by the present exchange rate. It is proposed to broaden the applicability of section 14 of the Investment Code, 1985, which permits a net foreign exchange earning enterprise to operate "an external account in which may be retained at least 25 percent of the foreign exchange earnings for acquiring machinery and equipment, spare parts and raw materials, as well as for debt service, profit and dividend payments and remittances in respect of quota for expatriate personnel", and also for other approved export promotion expenditures (travel, exhibitions, freight on samples, etc).

6. The third proposal is that special taxes relating to goods imported under SULs be subject to the same waiver drawback procedures as for sales taxes. Also, it is proposed that use of SULs should be further liberalised by shifting the form of regulation of SULs to a negative list of prohibited SUL imports (we understand that this proposal is already under consideration by the government). The intention is to encourage a shift in the use of SULs from consumer goods to inputs for local manufacture of those goods, where this can be done competitively. The waiver is necessary to avoid double taxation when the manufacturer pays

sales tax on the value of output (including the cost of taxes paid on inputs).

7. The fourth proposal is to introduce fiscal measures designed to overcome the disincentives to exporters due to the level of the exchange rate and to the protection accorded to sales or the domestic market, as well as for the generally high costs of operating in Ghana. The first objective of these measures should be to rebate all indirect taxes paid by the exporter on inputs, and also to compensate for the extra cost of purchasing inputs locally (rather than importing them) as a result of duties and taxes incurred and any exceptional costs borne by the input supplier. The second objective is to enable the exporter to earn a return in cedis that is at least half-way between the official and the parallel market rates of exchange. The third objective is to achieve neutral incentives between producing for domestic sales and for export by awarding exports an additional bonus equivalent to the average rate of effective protection for import substitutes. It is proposed that (in addition to raising and liberalizing export retention, as in para. 4), first, an effective administrative system for drawbacks on indirect taxes be assured, and, second, either a second window for industrial exporters be opened at an exchange rate at least 30% above the first window rate, or non-traditional exporters be awarded a bonus in local currency equal to 30% of their net unretained foreign exchange earnings (i.e., their own value added and the cost of local material purchases, minus retained foreign exchange earnings). This proposal would only partially compensate for the current undervaluation of returns to exporters due to the overvalued exchange rate and for the protection to domestic sales afforded by quantitative restrictions, but this shortfall would be reduced as further real exchange rate adjustment is achieved. In the meantime, the Government would also introduce complementary measures to facilitate non-traditional exports, through credit guarantee/insurance schemes, eased export licensing regulations, provision for tolling arrangements, effective bonding facilities, etc..

8. The fifth proposal is to initiate a phased program of removing certain industrial (and perhaps agricultural and transport) inputs from quantitative restrictions. The objective is to enable producers of key commodities to respond quickly and competitively to changing market conditions without having to go through the lengthy process of the annual allocation system. It is proposed that, as resources permit and the supply and demand situation for certain commodities reaches an initial equilibrium, selected industrial (and other) inputs be placed on Open General License (OGL). It would be desirable for this process to commence in 1986 with respect to those inputs for which surges in demand could be restrained by the fiscal measures in the first proposal. To further deter excessive demand for inputs in anticipation of future high protection, the Special Tax on Goods Imported under SULs would be extended to include OGLs and it should also be announced that OGLs would be extended to outputs over the next few years.

9. The sixth proposal is to simplify the indirect tax system and make it consistent with revenue collection and protection objectives. It is proposed that, following the results of the proposed IMF review of the fiscal system (including indirect taxes), it be revised to provide greater uniformity where special revenue-raising and luxury-taxation considerations do not apply, and to apply it uniformly to domestic production and imports so that it does not distort the pattern of protection.

9/10/85
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Draft Confidential

# GHANA

## Working Draft of a Statement of Industrial Policy

Note: The purpose of the attached Statement of Industrial Policy is to: (a) provide a public document describing the Government's industrial development objectives, strategy and policy directions; (b) clarify the roles envisaged for public, domestic private and foreign sectors so as to complement the recently issued Investment Code by providing direction, guidance and confidence to existing and potential industrialists; (c) provide policy guidelines for civil servants involved in implementing industrial strategy; and (d) strengthen the confidence of external donors and of businesses at home and abroad in the Government's commitment to and programme for increasing efficiency and productivity in Ghana's industrial sector. It is suggested that this statement could have maximum impact if approved and issued as soon as possible after promulgation of the revised Investment Code, and most importantly in advance of the next Consultative Group meeting scheduled for November 19-20, 1985.

Revised
September 2, 1985

# GHANA

## STATEMENT OF INDUSTRIAL POLICY

### Introduction

1. Ghana's potential for industrial development is clear: it has a rich mineral, forest and agricultural endowment; its manpower is comparatively well trained; wages are low; and it has a long commercial and entrepreneurial tradition. The industrialisation drive of the 1960s built up Ghana's industrial capacity to one of the largest in Sub-Saharan Africa. After the mid-70s, however, industrial production was severely affected by economic decline. Revitalisation of the industrial sector can now play an important role in the continuing progress of the Economic Recovery Programme and in returning the economy to a path of dynamic growth and diversification. Expansion of industrial production will provide a logical complement to the ERP's emphasis to date on improving the incentives to agricultural producers, who are expected to provide an increasing share both of inputs to industry and of demand for its output.

2. The principal objective for the future is to streamline Ghana's industrial capacity to concentrate on those activities that are the most viable and sustainable over time, that are well integrated with the domestic economy, and that can produce goods at competitive prices for both Ghanaian consumers and export markets. This objective will be pursued through policies that provide adequate incentives for efficient use of resources in processing, export and import-substitution industries and that enable the most productive firms to compete successfully for scarce but increasing amounts of financial and foreign exchange resources. Manufacturing industries will be given adequate but not excessive protection and investment incentives. A mixed economy approach will be used, in which the state provides necessary infrastructural services and a favorable business climate and invests or participates in certain large-scale investments in strategic industries, while looking to the private sector to play an increasingly dynamic role in expanding industrial output and utilizing Ghana's resource base. Foreign investors will have an important role to play in providing capital and managerial and technical know-how in partnership with Ghanaians.

### Background

3. Industry has gone through two phases of growth and then decline. At independence, industrial production was relatively small and consisted mainly of extraction and processing for export plus a few consumer goods, and it was dominated by foreign ownership. A strategy of vigourous industrial promotion and public sector investment was successful in its objectives of rapidly increasing the capacity to produce at home what was previously imported and in diversifying the economy. In the 1960s, manufacturing output tripled to reach 13% of GDP, employment doubled, and production became increasingly diversified into intermediate and capital

goods as well as a broader range of consumer goods. By the late 1970s, however, it became apparent that the phase of easy import-subsititution and growth had ended and that the costs of domestic industrial production were high. Capacity utilisation and production fell as foreign exchange for inputs became increasingly scarce under general economic decline. Exports and agricultural production, neglected under past policies, could no longer provide the resources needed to sustain industrial growth. High protection had led to excessive expansion of industrial capacity in activities that were highly dependent on imported inputs and that did not use scarce resources efficiently or generate additional export earnings. Not only did most state-owned enterprises fail to generate profits for new investment or even for working capital needs, many represented a drain on the government budget or on those that were profitable.

4. The disappointing performance of industry has been due partly to the inconsistencies between objectives and the policy framework and to the lack of an integrated approach to link industrial development with the country's resources and broad consumption needs. Future industrial policies must avoid over-protection of import-substitution industries aimed at urban consumers and instead promote the objectives of: production of essential consumer goods at competitive prices; greater utilisation of domestic resources, to reduce dependence on imported inputs; and an industrial sector that is well integrated with the domestic economy by producing inputs both for itself and for other sectors, such as agriculture, construction, and transport. The emphasis of the Economic Recovery Programme to date has been, and will continue to be, to correct the fundamental economic distortions and imbalances so that the incentives that guide industrial producers will be consistent with these objectives. In addition, sector-specific measures will be used to assist industries in adjusting to the changing environment, including credit and financial assistance schemes, services through technical and management support institutions, export promotion, and special attention to small-scale industries.

5. Although industrial production today is relatively low, the situation is quite different from that at independence. Substantial capacity exists -- some of it potentially efficient, but some of it unable to produce competitively or even to save foreign exchange. Foreign firms no longer dominate the sector, and there is a much greater number of capable and innovative Ghanaian industrialists with the ability to respond to favourable opportunities. This means that the primary objective for Government policy today is no longer capacity creation but reducing and rationalizing existing capacity so that resources are concentrated in the most productive industries in which Ghana has a comparative advantage. This requires, on the one hand, re-examination of public industrial holdings and, on the other, establishment of incentives that favour relative expansion of the most efficient producers (whether public or private), especially in small-scale activities that process local raw materials and provide goods in rural areas. Another difference is that industry's full-capacity imported input requirements would absorb more foreign exchange than is likely to be available in the foreseeable future,

while it contributes little by way of exports or additional value added to the nation's exportable raw materials. This means that industry must be re-oriented to seek both more local input supplies and foreign markets.

Strategy and Objectives

6. The government's strategy is motivated by considerations of both efficiency and equity. The need to boost economic recovery by reviving industrial production and growth in the face of severe resource constraints demands that resources be used in the most efficient way possible to meet the needs of the Ghanaian public at competitive prices and to generate additional foreign exchange. Equity requires that this task be approached in a way that gives producers an opportunity to adapt from the past, highly protective policy environment to a regime where success depends on being highly efficient and productive. These considerations can best be accommodated through an approach that provides appropriate incentives and opportunities on a consistent basis across all industries.

7. The principal short-run objective is to increase industrial production rapidly through greater use of existing capacity. The strategy is to make additional resources available to industries that can increase domestic supplies of the most essential commodities or raise export earnings and that are most likely to be sustainable in the long run.

8. The medium-term objective is to to break production bottlenecks in the most efficient industries and achieve significant cost reductions in others that are potentially viable, through selective rehabilitation. This will be pursued by giving producers increasing opportunities to compete for the necessary resources, while ensuring that the prices of additional resources (particularly foreign exchange and capital) reflect their true cost to the economy.

9. In the long term, the objective is to achieve an industrial structure that is more closely linked to domestic inputs and needs, that can provide a higher share of its own foreign exchange requirements, and that can sustain a rate of growth of output and employment above the economy-wide average but in balance with the rate of growth of resources and demand generated by agricultural development. This means phasing out unviable excess capacity that constitutes a drain on resources and cannot supply the Ghanaian market competitively, continuing the process of rehabilitation in the most viable existing plants, and investing in new industries that can realize Ghana's comparative advantage and export potential. These objectives will be supported by establishing a policy environment in which success depends on efficient use of scarce resources and in which incentives are balanced between sectors and between growth and employment objectives.

Policy Framework

10. Recent Policy Measures: Major steps toward policy reform were taken initially in the context of the ERP, adopted in 1983. The emphasis to date has been on exchange rate adjustment, monetary and fiscal responsibility, and pricing policy reforms in order to bring the balance of payments, budget deficit and inflation under control and to improve incentives for producers, especially in agriculture. Although long overdue, many of these adjustments meant initial economic hardships and were difficult to take. The initial response of the economy was disappointing, but the Government persisted with its comprehensive program and with measures to improve the economy's supply responsiveness and to translate subsequent increases into higher incomes for workers and farmers. Special attention has been paid to transport in order to facilitate the supply response, which was particularly encouraging in 1984. Wage adjustments and agricultural price increases have provided a more adequate floor for the lowest-paid workers and helped to restore incentives for more productive work. Financial policy reforms have focused on moving toward positive real interest rates through a combination of gradually rising nominal rates and falling inflation (from 123% in 1983 to 40% in 1984). The Government has also taken a number of steps to enhance its ability to manage and develop the overall policy reform process. The National Economic Commission brings together a range of viewpoints to advise on overall policy direction and change, while the Tripartite Commission brings together labour, employers and the Government where wage and price issues are concerned. Foreign exchange budgeting and licensing are coordinated through a central committee. Reviews have been initiated of the entire public enterprise system and of the public investment programme, as a basis for the design of reform measures. Taken as a whole, these reform measures have gone a long way toward establishing a sound policy environment for industrial recovery and for integrating industrial strategy with the overall process of economic reform and recovery.

11. Action Programme: The industrial strategy and objectives described in paras. 7-9 will be pursued through the following major policy measures (discussed below):

- phased reform of production incentives to promote more efficient, competitive, resource-based, labor-intensive and export-oriented industrial production, while giving firms an opportunity to adjust;

- greater access by efficient producers to imported industrial inputs and spare parts while progressively reducing administrative decisions and allocations;

- a positive climate for industrial operation and investment, including reasonable protection and investment incentives that are relatively uniformly and automatically available across broad classes of priority activities and that provide adequately for small-scale and employment-oriented activities;

- export incentive and promotion efforts to provide a return to exports that is equivalent to that on domestic sales and to compensate for disadvantages and costs that would reduce export competitiveness;

- more limited direct public sector participation aimed at making the most effective use of scarce public, financial and managerial resources;

- financial reforms to increase the ability of the financial sector to make credit available for industrial adjustment and rehabilitation, and to provide incentives for more labour-intensive techniques.

12. Production incentives: Incentives to produce industrial goods in Ghana are determined by a combination of the exchange rate, customs duties, quantitative restrictions on imports, sales and excise taxes, and market prices. Special measures are needed during the transition period of exchange rate adjustment to maintain reasonable protection and to ensure that industrial success depends on efficient operation rather than on "rents" from access to foreign exchange at a favorable rate or from unduly high protection. In order to begin liberalizing the importation of industrial inputs and phasing out quantitative restrictions, the Government intends to use fiscal and other measures to eliminate the excess increase of imports that would otherwise result from pent-up demand and to provide more adequate incentives for non-traditional export industries. These temporary measures would be phased out over time as the exchange rate reaches a realistically sustainable level. The Government also is examining the indirect tax system as a basis for any necessary reforms to make it consistent with the system of protection and with transitional requirements, as well as with the objectives of simplicity and improved revenue collection. The ability of firms to cover changing costs of production and compete freely on the market has already been facilitated by permitting producers of most products to set their prices subject to monitoring, rather than advance review, by the Prices and Incomes Board, and this process is being extended to the few goods that remain under direct controls as the availability of supplies permits.

13. Imported inputs and spares: To enable the most productive, highest-priority industries to expand rapidly in response to improved incentives, the Government intends to give them greater access to imported inputs, not only materials but also spare parts to repair broken-down equipment. The Government has already facilitated the ability of exporters to meet their individual import needs through foreign exchange retention, and will take further steps as necessary to ensure that export production is not impeded by lack of access to foreign exchange. It is investigating ways of giving other efficient producers greater access to foreign exchange without going through the licensing system by easing taxes on Special Licenses for industrial inputs, and it is seeking additional external funding to support the process of easing quantitative restrictions. During the transitional period, such measures will be linked to the imposition of

temporary financial charges to keep demand for additional industrial imports within manageable bounds. In order to give firms greater flexibility in breaking production bottlenecks by repairing and maintaining equipment, they will be permitted to use a larger portion of their import license allocations for spare parts and minor replacement equipment.

14. Investment climate: In recently revising and re-issuing the Investment Code, the Government has demonstrated its commitment to maintaining a stable, open economy and to encouraging increased participation by both domestic and foreign private investors in Ghana's economic recovery. Guarantees are provided against expropriation and for repatriation of foreign capital and dividends. Fiscal incentives for priority industries (those that export, use local materials, or produce agricultural inputs) include exemption from duties on capital equipment, investment and depreciation allowances, and a rebate of Social Security contributions on Ghanaian employees over the first one hundred. Exporters can retain 25% of foreign exchange earnings, and interest-bearing foreign exchange accounts can be held in Ghana. The Ghana Investments Centre will be strengthened to implement this process, and it will issue guidelines designed to facilitate application for benefits and to ensure that they are applied to investments that offer a high rate of return to the economy. An adequate level of protection will be provided to manufacturing generally through relatively uniform customs duties on virtually all imported goods. In addition to the general policy reforms of the ERP, the Government will continue to take steps to enhance the business climate through consultation, improved worker-management relations, and encouragement of positive worker attitudes toward increasing productivity.

15. Export promotion: Exchange rate adjustments over the last two years have dramatically improved prospects for exporters, and this process will be continued. Retention of a portion of export earnings will be maintained as long as needed to facilitate exporters' ability to meet their import requirements and respond to improved incentives. In order to accelerate the expansion of export earnings, which are critical to relieve constraints on the rest of the economy, additional measures are being taken or considered to ensure that exporters do not pay taxes on inputs into export production, to compensate for the extra costs of developing export markets, and to make export production more attractive relative to sales on the domestic market. Efforts are also being made to strengthen the activities of the Export Promotion Council and to increase the availability of financing for exporters through the Bank of Ghana.

16. Public sector role: The Government is committed to phasing out non-viable industries in the public sector as well as reviving the viable ones, and it is undertaking a thorough review of both the state enterprise system and its investment programme. This will form the basis for a strategy of limiting its direct participation in industry to critical areas in which there is a gap in the availability of private investment or some other exceptional justification for direct public intervention.
Publicly-owned firms will be expected to meet their own financial needs and contribute positively to public savings. By concentrating its financial

and managerial participation in areas in which it can complement productive operations, the Government will be able to focus more on playing a supporting role through policy formulation, technical services, and infrastructural development.

17. Financial system: The Government has taken measures to improve the functioning of the financial system in order to meet the credit requirements of the ERP and of increased industrial production and rehabilitation. Interest rates have been raised and the rate of inflation reduced in an effort to achieve positive real interest rates; this will improve domestic resource mobilisation by the banking system and provide incentives for the most productive use of capital. The Government has encouraged increased use of banks by the public by introducing the akuafo cheque system for cocoa farmers and by restating its commitment to the confidentiality of bank accounts. It is reviewing the possible need for revising the conditions on access to credit and the interest rate structure, so as to facilitate the process of more fully utilizing and rehabilitating existing capacity.

Conclusion

18. The Government's objectives for industrialisation remain to make the most effective use of our resources for economic growth, to build up our body of knowledge, techniques and skills, to make us more self-sufficient, and to push toward our economic independence. Achievement of these goals requires a partnership between the public and private sectors, domestic and foreign investors, workers and entrepreneurs, in which each party contributes in the way it can be most productive. The Government will take action where private activity cannot meet the objectives, but it will also withdraw from direct intervention where it is not needed or is inefficient. Incentives are available to foreign as well as domestic investors, with the expectation that they will work with Ghanaians to transfer the benefits of their technology, know-how and experiences. Increased production is being encouraged through incentives that enable entrepreneurs to gain profits and workers to earn higher wages as their productivity increase. The strategy for industrial recovery outlined in this statement is designed to result in an industrial structure that uses its capacity more fully, eliminates unviable excess capacity, makes greater use of local raw materials, earns a larger share of its foreign exchange requirements, stimulates the rest of the economy through relatively rapid output growth, supplies Ghanaian consumers' needs at competitive prices, and offers growing income and employment opportunities in villages as well as in the urban centres.

9-6-85
attachmentII/missi2/kim

# GHANA

## INDUSTRIAL SECTOR ADJUSTMENT CREDIT (ISAC)

## Implementation Schedule for Policy Actions

Note:

- The Government's commitment to these actions will be contained in a suitable Letter of Industrial Policies, which will be agreed during post-appraisal mission/negotiations.
- Paragraph numbers in parenthesis correspond to relevant paras in the Attachment I.

A. Actions to be taken before Negotiations

1. Approval and Publication of the Investment Code. (Approved on 7/13/85).

2. Approval and Publication of the Statement of Industrial Policy.

3. Initiate studies on (a) export promotion measures, (b) restructuring of the import protection regime, and (c) indirect tax system with a view to complete them within 4 months of start.

4. Government/IDA agreement on 1986-88 Development Expenditure Program (DEP) for industry (through a public expenditure review mission scheduled to visit Ghana in September, 1985 to assist the Government in finalizing the DEP for 1986-88 which will be presented to the Consultative Group in November 1985.

B. Agreements to be reached by or during Negotiations

5. Agreement on principles to be used in determining the size and composition of the annual import program and making enterprise level foreign exchange allocations for 1986 and 1987 annual import programs for the industrial sector.

6. Agreement on the size and composition of the import program for the industrial sector for 1986, including an increase from 10% to 25% for the amount of import allocations allowed to be used for spare parts and replacement equipment.

7. Agreement to waive or permit drawback of surcharge on industrial inputs imported under the special unnumbered

licenses (SULs) and to shift the form of regulation of SULs to a negative list of prohibited SUL imports (para 6).

8. Agreement (a) to introduce measure to raise the price of industrial input imports from official foreign exchange allocations (para 4) and (b) to remove quantitative restrictions on industrial (and agricultural and transport) inputs in a balanced and phased (agreed with the Bank) manner (para 8).

9. Agreement on measures to allow exporters ready access to imports at world prices (such measures could include inter-alia allow use of a part of retained foreign exchanges earning for marketing and travel costs) and simplify administrative procedures involved in import and export transactions involving exporters (para 5).

10. Agreement in principle to introduce measures designed to compensate exporters for costs imposed on them due to exchange rate distortion or due to the protection accorded to import-competing production (para 7).

C. Actions to be taken before Board Presentation

11. Permit waiver/drawback of surcharges on inputs imported under SULs, and introduce a negative list of SUL imports as agreed under (7).

12. Introduction of temporary measure(s) (acceptable to the Bank) to raise the cost of industrial imports at the official exchange rate, as agreed under (8).

13. Introduction of selected export promotion measures as outlined in items (9) and (10) above.

D. Actions to be taken prior to Effectiveness

14. None proposed at this time. If the Government takes all the actions as proposed in A,B, and C above, it earns the right for quick disbursement. However, in case it takes most of the actions but needs more time to act on 1 or2 remaining items than consideration should be given to making those items conditions of effectiveness, and approving the loan.

E. First Year Program (March 1986 - February 1987)

15. Implement export promotion measures to encourage non-traditional exports. These could include: bonded warehousing scheme, tolling charter, licensed export factories with special customs clearance arrangements, export

processing zones, export credit guarantee and/or insurance scheme. In addition, implement reform measures designed to simplify export documentation procedures and overcome other impediments to exports. Specific package of measures will be formulated on basis of studies in export promotion measures initiated under item 3.

16. Develop a phased program for liberalization of quantitative restrictions on imports, on basis of study under item 3. Phasing to take into account (a) transitory measures (such as provision for a tax and/or tariff surcharge or other means of raising import and/or market prices) to prevent excessive expansion following stern non-price rationing, and (b) evidence that the higher price of imports would absorb and thus transfer scarcity premia rather than result in excessive consumer price increases which would worsen real income distribution.

17. Evaluate the experience with the actions taken under items 6 and 12 through 14 and make any required adjustments, all with a view to improve export performance and supply response from the private sector.

18. Formulate 1987 import program for the industrial sector.

19. Launch an information campaign aimed at informing the business community about Government initiatives in export promotion, investment code, and the Government's medium-term objectives in tariff and non-tariff protection.

F. Conditions of Release of Second Tranche (Bank Review Mission in Dec. 1986).

20. Satisfactory progress on actions envisaged under the first year's program.

21. Agreement on 1987 import program for the industrial sector.

G. Second Year Program

22. Begin implementation of the phased program for import liberalization (item 16). Transfer a group of industrial inputs on OGL.

23. Evaluate experience with export promotion measures introduced in 1985/86 and make adjustments.

24. Review and revise (downwards or hopefully eliminating it) the temporary fiscal measures (item 9) in the light of exchange rate adjustment.

25. Prepare the policy action program for years 1988-90 to be supported by ISAC II.

Sept. 10, 1985
VBhargava:fl/wmw/tm

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

# OFFICE MEMORANDUM

DATE: July 30, 1985

TO: Distribution

FROM: Vinay Bhargava, Senior Operations Officer, WAPID

EXTENSION: 74802

SUBJECT: Ghana - Industrial Sector Adjustment Credit (FY86)
Project Brief-Cum-Preappraisal Mission Report

1. Please find attached the Project Brief-Cum-Preappraisal Mission Report for the proposed Industrial Sector Adjustment Credit (ISAC). This report may be read in conjunction with the pre-appraisal mission's back-to-office report issued June 28, 1985. The appraisal mission is planned from August 12-30, 1985. The Government has confirmed that the mission timing is convenient to them. Please direct any comments/suggestions you may have on the matters discussed in the report and this memo, to me (ext. 7-4802, A-712) by c.o.b. Thursday, August 8, 1985.

2. A meeting was held on July 25, 1985 to discuss a draft of the attached report and provide guidance to the appraisal mission. The issues discussed and conclusions reached in the meeting are recorded below. (The paragraph/annex numbers in the parenthesis refer to the attached report). The meeting was attended by Messrs. Aiyer (WAPID, Chairman), Husain (WAPDR), Isenman, Chaudhry (WA1DR), Berk, Ms. Jones (WA1DB), Steel, Leechor (INDSP), Saleeby, Ballard, and Bhargava (WAPID). A separate meeting was held today with the IMF staff to coordinate the program of policy analysis studies as well as the policy reforms proposed under the Credit.

3. At the outset, the meeting took note of the following actions taken by the Government on matters raised by the preappraisal mission: (a) the Investment Code was approved on July 13, 1985 and has been published (para. 25); (b) the surcharge on imports under the Special Unnumbered Licenses has been reduced from 50% to 30% (para. 29); and (c) the Government has decided (with IMF's concurrence) that the tariff structure will be raised by 10%, across the board (para. 33). In nominal terms the present tariff rates, on all but a few items, of 25-30% would be increased to 35-40%. This increase in tariffs will be temporary and mainly for revenue mobilization purposes.

4. Proposed Conditionality. The proposed policy action program (paras. 24 to 32) and the proposed implementation schedule for policy actions (Annex 1) were endorsed, subject to the following modifications.

(a) the appraisal mission should try and identify a group of industrial inputs suitable to be put on Open General License (OGL) in the first phase of import liberalization. The mission should try to have this transfer take place in 1986 rather than in 1987, as proposed (para. 31). The objective should be to get the government to take import liberalization actions as early as possible;

(b) the appraisal mission should propose measures to raise the effective price of foreign exchange made available to industrial producers at the official exchange rate (para. 33), taking into account the recent increase in tariff rates, and the likely impact of an increase in price of imports on supply response;

(c) an agreement on second year's program of policy actions should be added to the proposed conditions of release of second tranche (Annex 1); and

(d) agreement on the principles governing the import program for industry, annual import programs, transfer of limited number of industrial inputs to OGLs, introduction of fiscal measures to raise the price of industrial input imports, and introduction of export incentives to encourage non-traditional exports should be treated as "core" conditionality for the proposed ISAC.

5. Extent of Conditionality. The meeting took note of the Government's expressed concern (see Back-to-Office Report of June 28, 1985) about danger of over-loading the proposed ISAC with many macro economic policy issues, especially in the light of substantial policy reforms already taken by the Government during the last 18 months and the anticipated IMF/EFF program and the proposed Structural Adjustment Credit (both to be in place in CY1986), both of which would also focus on macro-economic policy issues. The meeting concluded that the policy actions proposed under this credit are all in the area of incentive policy reforms and are central to the industrial adjustment program. Therefore, the policy conditionality proposed (Annex 1) is appropriate and necessary. The meeting recognized that the uncertainties surrounding the Government's reaction to proposed policy conditionality makes this lending operation a somewhat higher risk operation. Mission pointed out that the Government's reaction would be influenced, among other things, by the amount of funds which may be available from IDA/cofinanciers. It was agreed that the appraisal mission should fully discuss with the Government the proposed conditionality, and assess the prospects of agreement in a timely manner.

6. Industrial Import Component. It was agreed that the appraisal mission should give special attention to devising suitable monitoring system to ensure that the proceeds of the proposed ISAC would be additional to the level of funds that would otherwise have been allocated to the industrial sector from the Government's resources. It was also agreed that the proposed increase (from 10% to 25%) in import allocations that can be used for spare parts, is necessary to ensure that the business can import the spare parts

required to utilize raw material import allocation. The appraisal mission should therefore seek the government's agreement for the proposed increase in the 20-25% range, which is considered adequate from a technical point of view.

7. Institutional Strengthening Component. The meeting considered whether the proposed institutional strengthening activities (paras. 58-59) should be included under the ISAC or should be packaged and processed as a separate but parallel Technical Assistance project. It was noted that the intended commitment period for the proposed ISAC is two years with disbursements extending over 3 years and a 3-year period is long enough to implement the proposed TA activities. It was also noted that the technical assistance activities are closely linked to the industrial adjustment program and keeping the TA component as part of ISAC would ensure better coordination. In view of the above, it was decided to keep TA component as part of ISAC. The appraisal mission was aksed to pay special attention to internalization of policy analysis and other capabilities in the ministries, so that institution-building impact is permanent.

8. Financing Plan (paras. 60-62). The meeting took note of the large financing gap and the need for cofinancing. It was agreed that Programs Division would take the lead for organizing cofinancing and intensive efforts would begin immediately after the return of the appraisal mission. It was noted that the planned $40 million of Bank Group's share of financing (proposed to come from Africa Facility) is a relatively small amount considering the needs of the sector (para. 60) and possibility of increasing the proposed amount of Bank financing should be explored. It is very important to keep in mind that unless a significant amount of external funding can be mobilized, the Government's resolve and ability to implement the proposed policy changes and industrial restructuring as well as the supply response from the industrial sector, particularly private, would be considerably weakened.

Distribution:

Messrs. Rajagopalan (5) (PPD), Dubey (CPDDR), Dherse (EIS), Agarwala, Birnbaum (SOA), Swahn (EDTPRT), Golan, Kohli, Dervis, Rowat, Sandig, Sood, Steel, Leechor (IND), van Puymbroeck (LEG), Hittmair (CTRVP), Beguery, Knotter (WANVP), Alisbah, Isenman, Chaudhry, (WA1DR), Fuchs, Guetta, Eccles, Reese, Lateef, Ijichi, Sharma (WA1DB), Choi (WAFGA), Dinh, Ateng, Ballard, Moritz, Saleeby (WAPID), Hindle (WAPAB), Noman (WANVP),

Ms. Jones (WA1DB)

Cleared with and cc: Messrs. Berk (WA1DB), Husain (WAPDR)

VBhargava:wmw

GHANA

INDUSTRIAL SECTOR ADJUSTMENT CREDIT

PROJECT BRIEF-CUM-PREAPPRAISAL MISSION REPORT

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This report was prepared on the basis of a preappraisal mission in June 1985 by Messrs. Vinay Bhargava (Mission Leader, Senior Operations Officer), E. Saleeby (Operations Officer), Gordon Billington (Consultant), Mohammed Cassam (Consultant), and Charles Draper (Consultant). Secretarial work was done by Ms. Williametta Woods and Ms. Josiane Luchman.

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ANNEXES



## ABBREVIATIONS AND ACRONYMS

| | | |
|---|---|---|
| BOG | - | Bank of Ghana |
| CBS | - | Central Bureau of Statistics |
| CSIR | - | Council of Scientific and Industrial Research |
| DFD | - | Development Finance Department of Bank of Ghana |
| EPC | - | Export Promotion Council |
| ERP | - | Economic Recovery Program |
| GSB | - | Ghana Standards Board |
| IAP | - | Industrial Adjustment Program |
| ISAC | - | Industrial Sector Adjustment Credit |
| MFEP | - | Ministry of Finance and Economic Planning |
| MIST | - | Ministry of Industry, Science, and Technology |

# GHANA

## INDUSTRIAL SECTOR ADJUSTMENT CREDIT (ISAC)

## PROJECT BRIEF-CUM-PREAPPRAISAL REPORT

| | | | |
|---|---|---|---|
| Sector : | Industry - IDF | Program Officer : | John Ijichi |
| Project Code : | 3GHADD04 | Project Officer : | Vinay Bhargava |
| Appraisal Date: | August 12-31, 1985 | Industry Adviser : | William Steel |
| Date of IPB : | May 14, 1985 | Date of this Brief: | July 23, 1985 |

## I. PROPOSED CREDIT IN THE CONTEXT OF GHANA'S ADJUSTMENT EFFORT, AND BANK'S LENDING STRATEGY

1. When the Government of Ghana launched its Economic Recovery Program (ERP) in April 1983, the adjustment effort was seen as consisting of three overlapping but quite distinct phases: stabilization, rehabilitation and liberalization/growth. Barring another major crop failure, the stabilization phase is now approaching an end. The supply situation has improved considerably, resulting in a marked deceleration in inflation and a reduction in pressures on the balance of payments. As the government's preoccupation with crisis management has diminished, it has begun to focus on the rehabilitation phase of the Recovery Program. Rehabilitation programs have been launched in key sectors, which are being supported under a number of ongoing and prospective IDA operations. The proposed ISAC would support a rehabilitation/restructuring program for the industrial sector.

2. The principal elements of the Bank's lending strategy for Ghana are: (a) to support the adoption of policies designed to reverse the downward trend in the economy and return it to a path of growth; (b) to help rehabilitate and improve capacity utilization of the country's existing priority assets; (c) to stimulate agricultural and industrial production, particularly for export promotion and efficient import substitution; and (d) to improve the country's essential infrastructure (transport, water, petroleum, power) and relieve major bottlenecks to increased production. The proposed ISAC will play an important role in achieving these objectives as they relate to the industrial sector by helping increase industrial production and supporting policy reforms.

## II. THE INDUSTRIAL SECTOR

### A. Performance, Structure, and Characteristics

3. In the early years following independence, the industrial sector 1/ was one of the most dynamic elements in the economic growth of Ghana. Between 1960 and 1970 industrial output grew by 13% per annum in real terms and its share in GDP rose from around 10% in 1960 to a peak of about 14% in the mid 1970s. Foreign exchange availability for industrial inputs worsened during the 1970s as import costs rose and export earnings declined. Real manufacturing value added fell at almost 13% per annum over 1977-82 and capacity utilization declined from over 50% in the early 1970s to below 25% in the 1980s. As a result, the contribution of manufacturing to GDP stopped increasing during the period 1970-77 and continuously declined since then to a low of 8% (in 1975 prices) in 1983. From having been a leading sector generating growth elsewhere in the economy, manufacturing became a lagging sector with increasingly underutilized capacity.

4. Output in the modern manufacturing sector is dominated by food processing, wood products, textiles, beverages, cigarettes and garments - which account for about 65% of total output and 74% of total employment in manufacturing (excluding petroleum refinery) . The remainder consists mainly of building materials, household chemicals, paper, plastic and petroleum products.

5. Exports of manufactures comprise aluminum, wood and cocoa products and some occasional exports of cigarettes, cotton fabrics, garments, vegetable oils and refined petroleum products. A much wider range of products are, however, exported through illegal channels. There is good potential for exports but as long as the needs of the domestic market remain substantially under-satisfied and scarcity rents prevail while the overvalued exchange rate yields little return to exports, there is little incentive for manufacturing to increase efficiency and seek to develop the more risky and more difficult markets abroad.

6. Inputs: The usage of domestic raw materials varies significantly by subsectors as well as specific activities within the subsectors. In general sawmilling, furniture, food processing, tobacco products, animal feeds, wood processing, rubber products, use and/or could use significant

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1/ For a detailed analysis of industrial sector, its issues, and strategy for industrial restructuring, please see the recent industrial sector memorandum titled "Ghana: Industrial Policy, Performance, and Recovery", Report No. 5716-GH dated July 22, 1985 (Green Cover).

amounts of domestic raw materials. Heavy industries such as steel, chemicals, vehicle assembly and containers depend on imported inputs. Virtually all industries depend on imported equipment, spares and some intermediate goods for successful operation.

7. Equipment and Spares. Most plants are in urgent need of replacement and modernization which have not been possible because of the shortage of foreign exchange. In some cases, whole production lines have ceased to work. The equipment (including transport) that is still operational has been maintained by improvised spare parts and by cannibalization. This has led in many instances to unsafe practices, poor material control and the acceptance by technicians of poor quality products. Thus operating efficiencies are low, with the equipment of some enterprises beyond rehabilitation. For many other firms the machinery is on verge of breakdown and the danger is growing that they may not be able to use their raw materials allocation for lack of working machinery. Rehabilitation, thus, is urgently required.

8. Ownership Structure. Most of the manufacturing enterprises were in the private sector at the time of independence, many largely under foreign ownership. Since then, public sector involvement in industry has expanded rapidly, as a result of interventions by successive governments in three principal ways. First, they attempted to accelerate the pace of industrialization through direct investment. Second, they extended public control of productive resources in industry by taking over private investment, mainly where there was evidence of malpractices, and through joint ventures. Third, they established a sometimes uncertain climate for private investment both through investment policies and incentives and through official attitudes towards private business. Thus, the share of public enterprises in value added increased from about 17 percent in 1967 to 27 percent in 1979, while that of jointly-owned enterprises increased from about 15 percent to 26 percent.

## B. Past Policies and Weaknesses of Current Industrial Structure

9. Ghana's industrial experience in the last decade (para 3) is largely attributable to the limitations of three major themes of past industrial strategy, namely: (i) emphasis on import substitution through high levels of effective protection; (ii) reliance on administrative controls rather than market mechanisms to determine incentives and resource allocations; and (iii) reliance on large scale, public sector investment as the leading edge of industrial development.

10. The import-substitution industrialization strategy discouraged the growth of both exports and agriculture, so that foreign exchange earnings did not keep pace with rising import demand and exportable raw materials did not grow with the capacity of processing industries. At the same time the trade policies over-protected industries that were both inefficient users of domestic resources and highly dependent of imports. Due to the latter feature of past policies inefficient firms have been able to survive, while due to the former other firms have not been able to get

enough inputs to realize their potential efficiency at full-capacity production.

11. The administrative controls evolved from the belief that results of market-determined prices and resource allocations would not satisfy the objectives set for national development. As distortions arose from initial interventions further interventions were put in place to offset or moderate them. The outcome was a plethora of controls e.g. price and distribution controls, import licensing system, labor regulations, etc. The direct controls were not successful in achieving their objectives. On the contrary they had a crippling effect on the economy, which led the Government to recently dismantle some of these controls (para 17).

12. The extension of government control over a large number of industrial firms (para 8) has led to a fairly large public industrial sector, with several different but parallel holding companies overseeing the government's interest. The combined requirements of these companies, managerial and financial, far exceed the public sector's ability to provide them. For this reason, as well as for the reason that public resources engaged in unprofitable operations in industries with competing private firms might well be more productive if reallocated to infrastructural development, policy management, and basic public services, the Government should seriously consider reducing the size of the public sector in industrial production activities.

13. The past policies contributed to four major structural weaknesses in the industrial sector, as follows. First, the imported input requirements of full capacity production greatly exceed the amount of foreign exchange that is likely to be available for this purpose in the foreseeable future. Second, full capacity production exceeds the domestic market in some subsectors. Third processing capacity often exceeds the availability of local raw materials. Fourth, direct public sector holdings exceed what it can manage effectively and profitably. The Government is beginning to recognize that a restructuring of industrial sector is needed to overcome these structural weaknesses.

14. An assessment of overall efficiency of Ghana's industrial structure and its consistency with Ghana's comparative advantage was carried out as part of the recent industrial sector work. Principal conclusions were: (a) there was a wide divergence between actual and potential efficiency. Thus, although two-thirds of firms surveyed were operating inefficiently in 1983, yet most would be potentially efficient if they could operate at full capacity; and, (b) some 40 percent of potential full capacity production is in industries that are estimated to be consistent with Ghana's comparative advantage but for another 50 percent the comparative advantage is marginal or depends heavily on cost structure at the firm's level. These results indicate that a substantial portion of Ghana's industries is, or can become, viable and sustainable, with some restructuring, in a competitive environment.

## III. THE INDUSTRIAL ADJUSTMENT PROGRAM

### A. Introduction

15. The preceding analysis makes clear the need to restructure Ghana's industrial sector to improve its efficiency and sustainability. The Government, in 1984, requested Bank assistance in developing a recovery program for the industrial sector. The industrial adjustment program (IAP) discussed in this chapter has been developed on the basis of extensive industrial sector work carried out by the Bank staff during the last 18 months (Ghana: Industrial Policy, Performance and Recovery, Report No. 5716-GH of July 1985). The IAP has three main elements: incentives policy reform (Section D); an industrial restructuring program (Section E); and an institutional strengthening program (Section F). The Government is in general agreement with the main elements of the IAP; agreement on timing of various proposed actions would be sought during the appraisal and negotiation of the proposed ISAC.

16. The structural problems and deficiencies of the industrial sector have their roots in over two decades of inappropriate policies and programs and the restructuring process will necessarily be slow and difficult. The incentive policy reforms will need to be accompanied by institutional changes as well as technical assistance in the area of restructuring. There is need, therefore, for gradualism and for consciously designed time-phasing of incentives reform complemented by a program for restructuring and institutional strengthening. The IAP discussed below has been designed keeping the above considerations in view. It is a multi-year program, with emphasis in initial years on most critical actions to increase production while putting in place an incentive framework which gives appropriate signals to producers. The IAP would need close and sustained support from the World Bank as well as various other donor countries through the Consultative Group on Ghana. The proposed ISAC would support the 1986-87 period of the Government's medium-term Industrial Adjustment Program, and is the first of a possible series of Industrial Sector Adjustment Credits.

### B. Government's Recent Policy Responses

17. As part of its Economic Recovery Program (ERP), launched in 1983, the Government has taken several policy reforms. The emphasis to date has been on exchange rate adjustment, monetary and fiscal responsibility, and pricing policy reforms, in order to bring the balance of payments, budget deficit, and inflation under control and to improve incentives for producers, especially in agriculture. Special attention has been paid to transport in order to facilitate the supply response, which was particularly encouraging in 1984. The wages have been adjusted to improve incentives for more production work, while financial policy reforms have focussed on achieving positive real interest rates in 1986.

18. In industrial sector priority was accorded to reversing the declining industrial production. Immediate attention was concentrated on

increased utilization of existing capacity. A selected group of industries is being given priority with respect to foreign exchange allocation. The injection of foreign exchange into industrial enterprises is still small, barely checking a seven-year process of decline in output. The capacity utilization still remains below 25% and industries contribution to GDP only 8%.

### C. Objectives and Strategy for Industrial Adjustment

19. The principal objective for the future should be to streamline Ghana's industrial capacity to concentrate on those activities that are the most viable and sustainable over time, that are well integrated with the domestic economy and that can produce goods at competitive prices for both Ghanaian consumers and report markets. Industry should also be oriented towards providing a greater share of its own foreign exchange requirements through exports and be more efficient in its use of imported inputs.

20. The short-run objective should be to increase utilization of existing capacity that can make a quick contribution to industrial recovery both by increasing supplies on the market so as to reduce scarcity pressure on prices, and by raising export earnings. The annual import program for industry should be designed to ensure a minimum level of operation in industries. Concurrently, priority should be given to putting in place a set of policy reforms aimed at shifting production toward efficient activities and removing disincentives to producers, particularly exporters. This initial set of policy measures should include: a temporary increase in financial charges on import of inputs to absorb rents and reduce excess demand for imports, export promotion measures, and simplification of indirect taxes.

21. The medium-term objective should be to rehabilitate/restructure industrial capacity with a view to shift it towards the most viable and efficient industries and away from those that cannot supply the Ghanaian market competitively. The strategy should be to give producers increasing opportunities to compete for both consumers and resources by ensuring that (a) prices of resources (particularly foreign exchange and capital) reflect their true cost to the economy and (b) phasing out quantitative restrictions for industrial inputs and outputs. At the firm level (for major existing public sector industrial plants) technoeconomic viability assessments should be carried out to determine whether (a) they can become internationally competitive under realistic assumptions about measures to cut costs and improve financial and management performance; or (b) they should be mothballed, or (c) they should be closed down. On the basis of such studies, programs to rehabilitate or to terminate should be designed.

22. The long-term objective should be to complete the restructuring process through investment or expansion in industries that are consistent with Ghana's long-run comparative advantage. Analysis of comparative advantage and efficiency indicates that industries based on domestic resources are prime (though not sole or absolute) candidates. Their success, however, depends on expanding the marketed supply of

domestically-produced raw materials, which in turn depends on increased and liberalized prices to create the necessary production incentives.

23. The establishment of appropriate incentive policy framework would be a necessary but not a sufficient condition for accomplishing the above objectives. Sustained financial support for annual import requirements as well as rehabilitation efforts are also essential. The firm level reviews suggested in para 21 will be required to ensure that micro level decision making is consistent with macro level objectives. Institutional strengthening will be required to design, monitor, and manage the industrial adjustment program. The nature, broad direction and the basic framework for the immediate as well as future policy reforms have been identified through the recent sector work and are discussed in Section D. Program for micro level industrial restructuring is discussed in Section E and institutional strengthening requirements are discussed in Section F of this Chapter.

## D. Incentives Policy Reforms

24. The objective of policy reform is to move away from the complex system of scarcity rents and controls to one that provides adequate incentives and resources to producers so that they will not only increase supplies but use their resources efficiently. Consumers will benefit in the end as the production of goods increases--especially those based on domestic inputs--and prices become "controlled" by the competitiveness of producers and the greater abundance of goods on the market. The policy reforms would be phased to allow for a transition period, necessary to minimize the disruption and extra temporary cost to consumers, who are already bearing the cost of the failure of past policies. The main areas of policy reforms are discussed in paras 25-36 below. The specific policy actions recommended for implementation during the period covered by the proposed ISAC are also discussed below. The suggested implementation schedule of policy actions is presented in Annex 1. The status of dialogue with the Government on policy reforms as well as other aspects of the proposed ISAC is discussed in para 71.

25. Business and Regulatory Climate. An important objective of the Industrial Recovery Program in terms of increasing the responsiveness of the industrial sector is to reduce uncertainty about the possibility of arbitrary actions, which have adversely affected the business climate in the past. The government has recently approved (7/13/85) a revised Investment Code. The revised "Investment Code" was extensively discussed between the Government and the Bank Group. During the identification and preappraisal of the ISAC, we had indicated that approval and publication of the Code would be a condition of negotiations for the proposed ISAC. The approved Code affirms the Government's commitment to a mixed economy and private investment and provides legal protection against expropriation and guarantees the repatriation of profits, capital and approved fees (for foreign investors). It also provides for adequate benefits and incentives to investors, including exemption from customs duties on equipment (but not inputs) and income taxes, for a limited time period. These incentives are

designed to avoid any bias against small, labor intensive or resource based investments.

26. While the promulgation of revised Investment Code would considerably enhance the confidence of new investors, the Government recognizes the need for and has agreed to prepare and issue, a more comprehensive Statement of Industrial Policy (SIP) spelling out the Government's industrial development objectives, strategy and policy framework. The proposed SIP should be designed to strengthen the confidence of external donors and the business world at home and abroad. A draft of the proposed SIP is attached in Annex 2. The Government's agreement would be sought to issue the SIP before the Consultative Group meeting scheduled November 19-20 for negotiations.

27. Exchange rate regime. Massive exchange rate adjustments over the last two years have gone a long way toward restoring the competitiveness of the existing industrial capacity, given that its physical assets represent largely sunk costs. Continued progress toward real exchange rate depreciation is essential to signal what types of investments will be profitable in the long run and to protect domestic agricultural as well as industrial producers. The Government is pursuing a process of orderly adjustment of the exchange rate over time, in consultation with the International Monetary Fund. The Government has (under RIC II) also agreed to review alternative mechanisms for allocating foreign exchange with a view to introducing a degree of liberalization and attracting new resources of external finance such as worker's remittances. A joint IMF-World Bank mission is planned for September 1985 to assist the Government in this review.

28. Industrial import program. Until the exchange rate moves towards an equilibrium rate, the need for quantitative controls will remain necessary although a more liberal import regime may be put in place. At present the government prepares an annual import program to balance issue of import licenses to projected foreign exchange availability. Under this program each sector gets a fixed amount of foreign exchange which is then allocated by line ministries to specific users. Within this framework, an annual import program for industry is drawn up and used as a tool for ensuring that the activities most central to the Economic Recovery Program receive a minimum annual level of foreign exchange resources quickly and with certainty. The objectives for successive phases of the import program for industrial recovery should be to provide (i) inputs to bring capacity utilization up to around 40-50 percent in existing industries (except those that are net foreign exchange losers or clearly unviable); (ii) spare parts and replacement equipment needed to break bottlenecks within firms and lower production costs; and (iii) capital equipment for rehabilitation and restructuring of industries that will form the nucleus of a viable and sustainable industrial structure in the long run. The Government's agreement would be sought on the principles to be applied in determining the size and composition of the annual import program and enterprise level allocations (Annex 3).

29. Successful restriction of import licenses to the amount of funds actually available and to high-priority activities means that some potentially viable firms may be left out altogether. Such firms need a safety valve that allows them some access to imported inputs if they can utilize them profitably. One type of safety valve that already exists is Special Unnumbered Licenses (SULs), which have been issued in some cases for industrial inputs and spare parts paid for directly by the importers in foreign exchange from their own sources. This measure could be regularized to provide industrial producers with the nearest equivalent to a foreign exchange shop. To minimize abuse of this approach, it could be limited to registered industrial firms and a negative list of excluded industries or inputs (especially those produced domestically) could be used. The Government has recently introduced a 50% surcharge on imports under the SULs. Since the foreign exchange for these imports is presumably purchased at the parallel market rate, which is above the equilibrium rate, this poses an excessive barrier to producers wishing to use the safety value of SULs to obtain needed inputs. To eliminate this barrier, the Government's agreement would be sought during appraisal/negotiations, that the imports of industrial inputs under SULs should be exempted from 50% import surcharge and they should attract the same duties and taxes as applicable to imports under the 'official' industry import licenses.

30. Quantitative restrictions have long been used in Ghana as an instrument to allocate foreign exchange. Although necessary to balance high demand for foreign exchange at the official exchange rate with the limited supplies, this system has the general disadvantages of high costs of administration, delays and irregularity in the supply of inputs, and difficulty in choosing among applicants on the basis of economic criteria. A particular disadvantage from the standpoint of industrial incentives is that prices of manufactured goods on the domestic market are determined not by tariff policies but by the scarcity of goods under quantitative restrictions (QRs). This creates strong incentives for entrepreneurs to seek scarcity rents through smuggling rather than to engage in productive investment, and within manufacturing to produce those goods that are the most restricted rather than those that are the most essential. It also makes large scarcity rents available to domestic producers, which creates strong public pressures on the Government to control prices. Quantitative restrictions for industrial inputs should be phased out during the medium-term transitional period so that above mentioned inefficiencies can be overcome and producers can respond quickly to scarcity and so that investment and production are guided by the incentives being put in place through policy reforms.

31. The import liberalization process would need to be gradual to prevent excessive import expansion following years of stern quantitative restrictions. The pace of import liberalization would also have to take into account the pace of improvement in export earnings as well as the balance-of-payments situation. In the medium-term, as export rehabilitation efforts begin to pay dividends, and the exchange rate moves towards an equilibrium rate, it is recommended that a more liberal import regime be put in place. The main instrument for import liberalization

should be an Open General Licensing (OGL) system. As the production expands in domestic industries producing important inputs and consumer goods, OGLs should be considered for certain industrial inputs. In time the objective should be to extend OGLs to other industrial inputs and to products for which the local producer is a monopoly. The Government's agreement would be sought, that it would, during 1986, develop a phased program for liberalization of quantitative restrictions and begin its implementation through the 1987 budget by transferring a group of industrial inputs on OGLs.

32. Tariff and tax system. The present tariff system is difficult to evaluate because of a complex array of differential excise and sales tax and exemptions from duties and taxes. This haphazard system, which has grown up over the years, must be simplified before the true level and variations of protection can be understood. A review of the indirect tax system is needed to propose a revised system that is simpler, that does not provide differential protection beyond what is contained in the tariff system, and that provides an adequate level of revenues without an excessive incentive to evade taxes. The Government's agreement would be sought, that it would carryout a study of indirect taxes and would implement simplification measures during 1986/87. It is proposed that the appraisal mission will include a fiscal economist who will review the current level and incidence of indirect taxes. The IMF is planning a fiscal mission to visit Ghana in late September/early October 1985 and have requested Bank staff participation. The fiscal economist on appraisal mission will also participate in the IMF mission, thus ensuring coordination on the simplification measures to be agreed with the Government.

33. In nominal terms the present tariff structure where tariffs on all but a few items range from 25-30% appears reasonable and acceptable. However, given the fact that official exchange rate is lower than the equilibrium rate, the producers are not receiving the right price signals for efficient resource allocation and scarcity rents accrue to some domestic producers. In the interim, while the exchange rate adjustment process (para 26) is completed, to provide the right signals to industry as to what types of investments will be profitable in the long-run, it is recommended that the Government adopt temporary measures (e.g., an import tax, higher average tariffs, foreign exchange auction system) to effectively raise the price of imports to producers. The Government's agreement would be sought, that it would as part of the 1986 budget, introduce temporary fiscal measures designed to raise the price of foreign exchange made available to industrial producers at the official exchange rate. The exact level and nature of such measures would be agreed taking into consideration the need to avoid excessive taxation of imported goods since it may encourage smuggling and to avoid having temporary measure lead to permanent and excessive protection.

34. Export incentives. Development of manufactured exports is essential for the development of Ghana's industrial sector, given that it will continue to depend on imports for some time and that prospects are

weak for a significant expansion in net receipts available from commodity exports. The most immediate steps in this direction are to (a) compensate exporters for the gap between the official and "market" rate for foreign exchange, which otherwise acts as an implicit tax on official exports, and (b) allow exporters easy access to imports at world prices. Firms wishing to enter into export contracts for the first time should be accommodated by a special allocation reserved for exporters in the Annual Import Program. The Government's agreement would be sought, that it would take immediate measures to improve the access of exporters to foreign exchange required for imports of materials used in export products and to compensate exporters for the implicit tax on exports till the exchange rate reflects the market price.

35. The medium-term objectives of export promotion measures should be, first, to enable exporters to operate as much as possible in a free trade environment, and, second, to compensate for protection to import substitutes and for special costs of export development. This requires a smoothly-functioning system of drawbacks or tax credits for customs duties and indirect taxes paid on both imported and domestic inputs that are utilized for exported products. This system should be clarified and streamlined immediately. Continued operation of the retention scheme is also essential; it can be streamlined by using OGLs to facilitate imports under it. Existing industrial capacity could be used more fully without cost to the country by producing under contract for foreign companies that supply the raw materials. The Government could promote such arrangements by promulgating a "tolling charter" that guarantees non-interference, customs duty exemptions or drawbacks, and eligibility of tolling fees for the Export Earnings Retention Scheme. A tripartite committee drawn from the Ministries of Finance and of Industry, the Ghana Investments Centre, and the Ghana Manufacturers Association could proceed immediately (with external assistance if needed) to draft such a charter or amend the Investment Code benefits for exporters. An essential export incentive that should be studied for introduction in the medium-term is a credit on net foreign exchange earnings, approximately equivalent to the average rate of effective protection provided through the tariff system (such an export bonus is proposed for approved export industries under the new Investment Code, but should be made available to all exporters). Other export development measures such as a full-scale Export Credit Insurance Scheme, and special provisions (e.g., under the Import-Export Scheme) for indirect exporters (such as tourism and suppliers to export industries) should also be studied. The Government's agreement would be sought, that it would immediately begin to study possible export promotion measures and will begin to implement them during 1986.

36. Price and Distribution Policies. The Government has already made start to eliminate price and distribution controls. The number of items under control has been reduced first to 23 and then to 17 and agreement has been reached under RIC II to reduce the items to 8. It has also been agreed under RIC II that the Government would review during the first half of 1986 need for remaining controls with a view to developing a time bound program for phasing these out as the supply position improves. These

arrangements are considered sufficient for the time being and no additional conditionality is proposed under the ISAC.

### E. Industrial Restructuring Program

37. The basic objectives for industrial restructuring are to improve productivity generally and to shift production toward the efficient activities (para 19). The reform of incentive policies, as outlined above, would help create the necessary incentives framework to achieve the restructuring objectives. The structure of industrial production would shift dramatically if the exchange rate were fully adjusted to balance supply and demand of foreign exchange, the quantitative restrictions on industrial inputs and outputs were substantially eliminated, and, the level of import protection of approximately 30% afforded by the present tariff structure remained unchanged. Inefficient firms would quickly find it impossible to remain in business, as they would be unable to compete with more efficient producers (at home or abroad) for high cost foreign exchange. After the initial adjustment period, the activities that thrive would most likely be those with relatively high value added at world prices, greater use of domestic materials, and the best prospects for increasing export revenues.

38. The adjustment process, at the micro-economic level, implicit in the scenario described above (and triggered by the macroeconomic reforms), is complicated and needs to be carefully managed to minimize the costs of adjustment. The micro-level issues such as organization, management, technology, and labor need to be addressed to strengthen the supply response. When the incentives begin to change, the need for physical, financial, and the organizational restructuring at the enterprise level will become acute and widespread. For these reasons, it is recommended that the changes in the incentives policies under the IRP should be accompanied and supported by an industrial restructuring program.

39. The major elements of this restructuring program would be as follows: (a) financial and technical support to existing enterprises for rehabilitation to avoid production bottlenecks, restore maximum capacity and productivity in the most viable industries, and to achieve more efficient cost structures in some strategic industries; (b) an agreement with the Government on the size and level of public investment in the state-owned industrial enterprises during the period 1986-88; (c) review of technoeconomic viability of a few major existing industrial plants (particularly, the state-owned and joint-ventures with state partnership) to determine whether they can be operated economically, and on a sustainable basis; (d) subsector reviews to formulate action programs for eliminating subsector specific bottlenecks and to draw up raw material --processing capacity-- market demand balances; and (e) a feasibility study to assess the need and possible modalities for setting up an Enterprise Reconstruction Fund to finance rehabilitation restructuring program. These are discussed in paras 40-44 below.

40. Selective Rehabilitation/Restructuring of Enterprises. The proposed ISAC would provide finance to those industries which can demonstrate that their proposed rehabilitation/restructuring satisfies agreed eligibility and economic evaluation criteria. The broad considerations to be applied in determining eligibility, and in economic evaluation, of rehabilitation proposals under the proposed ISAC are presented in Annex 4. The Government's agreement would be sought to adopt these considerations in on-lending IDA funds for rehabilitation. Under the institutional strengthening component of the proposed ISAC it is envisaged (para. 58) that staff of the Bank of Ghana, MIST, MFEP, and participating banks will be trained in economic analysis by an a Project Appraisal Advisor attached to the Development Finance Department (DFD) of the Bank of Ghana. Strengthening of DFD staff in financial and technical areas is also envisaged so that overall quality of evaluation of rehabilitation proposal can be significantly upgraded.

41. Public Sector Investment. The level and composition of public investment in the state-owned public enterprises in the industrial sector for the period 1986-88 would be agreed prior to or during negotiations and the Government's agreement would be sought that the agreed level would not be exceeded unless otherwise agreed by the Bank. The development expenditures proposed by the state-owned industrial enterprises for the period 1986-88 were reviewed as part of the recent Public Expenditure Review mission (see the BTO Report to Mr. D. G. Reese). The total indicated investment was about \$58.5 million for the period 1986-88. The possible "core" investment program suggested by the mission was about \$33.4 million. The Government is in the process of finalizing its Development Expenditure Program (DEP) for 1986-88, taking into account the PER mission's recommendations, and intends to present it at the time of the Consultative Group meeting in November 1985. A Bank mission is planned in September 1985 to assist the Government in finalizing the DEP. It is expected that at that time the level and composition of public investment in industrial sector during 1986-88 period would be agreed. The appraisal mission would also discuss the matter with a view to reaching agreement. About 50% of the funds required for the recommended "core" DEP for the industrial enterprises are already committed or under negotiation from external sources. Funding for the balance would be required from domestic and foreign resources. To fill a part of this gap it is proposed that a part of the funds allocated under the proposed ISAC could be provided to State-owned industrial enterprises provided they satisfy the criteria described in Annex 4.

43. Subsector Reviews. To address the imbalances and the restructuring issues at the sub-sectoral level (para. 13) it is proposed to strengthen the MIST, to carry out, in the first instance, subsector reviews in important areas, and thereafter monitor subsector issues and developments on a regular basis. To ensure that the information collected is made available to industrial enterprises planning rehabilitation/restructuring the bank participating in lending ISAC proceeds would advise the enterprises to contact MIST. In addition, MIST would receive from bank of Ghana a list of enterprises included in the

pipeline and will take initiative to contact them. The proposed subsector reviews would yield overall parameters for evaluating the rehabilitation/restructuring efforts of enterprises and will be helpful to banks in their appraisal of loan requests. Preliminary analysis of subsector issues has been done under the recent sector work (para. 15). A detailed subsector review of Textile and Garment Industries (TGI) is included in WAPID's sector work program for FY86 and is planned for Fall 1985. 2/ TGI is the largest and most important subsector and the proposed review is expected to be useful in two ways. First, it would establish the overall framework for restructuring of TGI subsector. Agreement would be sought with the Government on a restructuring program for TGI subsector and only those rehabilitation/restructuring proposals from TGI which are consistent with the program would be eligible for financing under the ISAC (Annex 4, para. 7). Second, it would be illustrative for MIST staff for organizing other subsector reviews.

44. Enterprises Reconstruction Fund. In view of the substantial financial and technical assistance needs of enterprises arising from the recent exchange rate adjustments, financial, technical and managerial erosion in last few years, and the fundamental changes in incentives policies expected in the next few years, a recent financial sector review by the Bank (white cover report dated June 19, 1985 available from WAPID) has suggested establishing an Enterprises Reconstruction Fund (ERF). The purpose of the fund would be to provide, the institutional capacity to effectively pool and coordinate the financial and technical assistance made available by the Government, the financial institutions and foreign donors in support of rehabilitation programs. The fund could be attached to the Development Finance Department of the Bank of Ghana. It is proposed that a feasibility study for such a fund should be carried out under the proposed ISAC. The financial resources for such a fund could come from the government, local banks, counterpart funds generated through the sale of foreign exchange under the proposed ISAC, and bilateral aid sources.

45. The success in industrial restructuring objective discussed in paras. 19 and 37 would depend on several years of sustained policy, financial and technical activities. The measures proposed under the ISAC would (a) provide financial and technical assistance to carry out the most urgent rehabilitation/restructuring and (b) lead to a more substantial restructuring program which could be supported through a second ISAC.

## F. Institutional Strengthening

46. Institutional strengthening of certain parts of the Ministry of Industry, Science and Technology (MIST), Ministry of Finance and Economic

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2/ The field work is planned from August 26 - September 12 and draft report to be ready by end October, 1985. The draft Terms of Reference for the review are available, on request, from WAPID, 7-4802.

Planning (MFEP), Bank of Ghana (BOG), and selected industrial sector support institutions would be necessary to enhance their analytical and implementation capabilities so that they can design and implement the proposed incentives policy reforms and the industrial restructuring program discussed above. The technical assistance requirements for institutional strengthening were identified during the preappraisal of the project. These can be distinguished in two inter-related phases (a) immediate requirements during the period preceding approval of the proposed ISAC; and (b) technical assistance requirements to directly support few activities (policy and restructuring) under the proposed ISAC but also designed to support a wider process of economic reforms. These are discussed below.

47. The immediate requirements for technical assistance comprise: (a) selected policy analysis studies to formulate specific policy measures which for implementation over the next 12 - 15 months, in the areas of liberalization of import protection regime, export promotion, and simplification of indirect tax system; (b) preparation of guidelines for implementing the Investment Code; (c) preparation of procedures for appraisal, particularly economic evaluation, of rehabilitation proposals using the Guidelines for calculating financial and Economic Rates of Return for DFC Projects. World Bank Technical Paper Number 33; (d) training of staff, particularly at BOG, participating banks, and MFEP, in appraisal, particularly economic evaluation, of rehabilitation proposals; and (e) provision of funds and expert advice to enterprises for preparing rehabilitation proposals, particularly financial and managerial restructuring aspects. The hosts for this proposed technical assistance would be the Working Groups established by the Government (para. 71). The preliminary cost estimates for above activities is about $450,000. It is proposed to fund it from two sources - a grant of about $280,000 from ODA, U.K. which would cover bulk of expatriate input and the balance through a PPF advance which would finance the remainder of expatriate input and local consultancy services. ODA, U.K. have agreed, in principle, to finance British consultants to be recruited from a U.K. firm of consultants to assist in (a) and (b) above. The consultants would work under IDA supervision. Detailed Terms of Reference for the work to be done by the consultants have been prepared and sent to ODA and the Government (copy of TORs available upon request from WAPID, 7-4802). ODA expects to issue invitations for submitting proposals, by the end of July 1985 and the consultants could be in Accra in late September/early October 1985. The details of work to be supported by the PPF would be finalized during the appraisal and target date for start of work would be early October 1985.

48. A strengthening of following areas and institutions is envisaged under the proposed ISAC, to implement and support the industrial adjustment program: (a) policy formulation and monitoring capability in MFEP and MIST; (b) sub-sectoral level research and monitoring and industrial information and statistics capabilities in MIST; (c) investment analysis and supervision capability in BOG and MFEP (since it has a central role in decision-making on public sector investments); (d) technical capability in support institutions e.g. industrial statistics unit in Central Bureau of Statistics (CBS), Ghana Standards Board (GSB), and selected institutes of

Council of Scientific and Industrial Research (CSIR); and (e) export promotion and marketing assistance particularly for non-traditional exports through BOG, Ministry of Trade, and Export Promotion Council (EPC). Brief particulars of the proposed institutional arrangements, the proposed functions, and the tentative requirements of technical assistance inputs have been developed (available upon request from WAPID, 7-4802); details would be developed during appraisal.

## IV. THE PROPOSED CREDIT

### A. Credit History and Rationale for Bank Involvement

49. In 1984, the Government opened discussions with the Bank on a adjustment program for the industrial sector. The main elements of the adjustment program, summarized in Section III, were developed as a result of a Trade and Industry Sector Mission which visited Ghana in July 1984 and an Industry Subsector Mission (November 1984). The sector work showed that the situation of industry had deteriorated seriously, extensive policy reforms are required for recover, and substantial financing is required to increase industrial production. The need for a lending operation was identified during the discussion of the sector reports and the Government made a request for a loan in March 1985.

50. With the Bank and IMF support Ghana has embarked on an Economic Recovery Program which has stabilized the economy and set the stage for resumption of growth (para. 1). In the short run the foreign exchange requirements of the economy cannot be met from improvements in exports. Ongoing policy reforms and rehabilitation programs will need time before substantial gains result. In the interim Ghana must depend on larger net external inflows to finance its import needs required to increase capacity utilization in productive sectors (particularly in industry) and to meet rehabilitation requirements. The Bank group has sought to provide quick disbursing assistance through ERP, RIC I, RIC II and ERTAP credits and through mobilizing cofinancing and donor support. This ISAC will continue this support. In addition it would finance urgent rehabilitation needs of the industrial sector.

51. To date the foreign exchange assistance made available to the industrial sector has been meager compared to the needs and has been barely sufficient to arrest further decline in output. It is estimated that if additional foreign exchange is made available to industry the capacity utilization rates can be increased to 45-50% by 1987. However, increased availability of foreign exchange needs to be combined with policy reforms aimed at restructuring Ghana's industrial sector into a more open and efficient one that can generate a larger share of the foreign exchange required for its needs. The proposed ISAC would support the initial phase (1986-88) of the industrial adjustment program (described in Section III), is consistent with Bank's lending strategy for Ghana, and is expected to attract cofinancing.

## B. Previous Bank Group Support for Industry

52. Previous Bank Group assistance to the industrial sector has been through two DFC lines of credit to National Investment Bank. The first line was an IBRD loan of $10 million (Loan 1180-GH) approved in December 1975 and closed June 1984. The second line was an IDA credit of $19 million (Credit 901-GH) approved in may 1979 and due to be closed December 1985. The credit is fully committed and 80% disbursed. Both the lines of credit were committed and disbursed more slowly than expected due to severely depressed state of the economy. The National Investment bank is experiencing serious financial difficulties arising from portfolio arrears and exposure to foreign exchange risks. Recent supervision mission have focussed on detailed portfolio review to assess its quality and measures for the financial restructuring and recapitalization of the institution. The Government has already allocated financial resources for restructuring and recapitalization although additional resources would be required. A project completion report for the first line of credit is being prepared.

## C. Credit Objectives

53. The basic objective of the proposed credit would be to support the first phase (1986-88) of the Government's medium-term industrial adjustment program. Agreement would be sought with the Government on a Letter of Industrial Policies which would contain (a) the main elements of the industrial adjustment program as outlined in the Section III of this Brief, and (b) suitable undertakings to implement specific policy actions according to the schedule outlined in Annex 1. In addition agreement would be sought on a Statement of Industrial Policy which could be publicly issued to set out the Government's industrial development objectives, roles it expects the private/public/foreign sectors to play, and the direction of its incentive policies (para. 26). A draft of the proposed statement has been prepared (Annex 2). The proposed letter would be drafted to include the industrial adjustment program discussed in Chapter III. The draft letter and the statement would be discussed with the Government during the appraisal.

54. The more specific objectives of the proposed ISAC would be to:

(a) increase production of manufactured goods through greater use of existing capacity;

(b) break production bottlenecks in efficient industries through selective rehabilitation;

(c) support the formulation and implementation of a program of policy changes and restructuring efforts designed to streamline Ghana's industrial capacity to concentrate on those activities which are viable and sustainable over time without excessive protection; and

(d) strengthen the institutional capabilities of selected agencies of the Government and other sector support institutions responsible for policy formulation and impact monitoring, investment analysis, and provision of technical services to industry.

D. Description of Credit Components

55. The proposed three year credit would include the following four components to accomplish the above objectives:

(a) the importation of industrial raw materials, spare parts, and other inputs to increase the utilization of existing capacity;

(b) equipment and services for rehabilitation/restructuring of selected enterprises;

(c) training, technical equipment, advisory services and consultancy services, all for strengthening of selected institutions; and

(d) studies for rehabilitation/restructuring of enterprises, formulation of policy reform measures, and preparation of subsector restructuring strategy and plans.

These components are briefly described below.

56. Industrial Import Component. The industrial production in Ghana has dramatically declined in recent years as the foreign exchange availability for imports of raw materials and spare parts progressively worsened (para. 3). There is a significant amount of underutilized existing capacity which can be used more fully to increase the supply of goods on the market and alleviate the shortage of consumer goods as well as the scarcity pressure on prices. Funds would be provided under this component for import of raw materials and spare parts to raise the capacity utilization of existing industrial enterprises. Foreign exchange allocated from the proceeds of the proposed ISAC would be additional to the level of funds that would otherwise have been allocated to the industrial sector without the credit. To ensure this, as well as to ensure that the import of raw materials are spread widely across private and public enterprises, agreement would be sought with the Government on principles to be applied in determining the size and composition of the annual import program and the enterprise level allocations for the industrial sector; the suggested principles are presented in Annex 3. Agreement would also be sought, prior to Board presentation, on the size and composition of an annual import program for the industrial sector for 1986. The import program for 1987 would be agreed before the ISAC proceeds could be utilized for such imports (proposed to be a condition of tranche release). The annual programs would be consistent with the agreed principles. The enterprise level import allocation criteria would be flexible and primary means for rationing foreign exchange would be an effective rise in the price of foreign exchange (para. 33).

57. Industrial Rehabilitation/Restructuring Component. Due to the extreme foreign exchange shortages of recent years, which prevented a timely maintenance and replacement of equipment, the equipment in many enterprises has broken down or has deteriorated to an extent that replacement has become a necessity (para. 18). A preliminary assessment of rehabilitation needs (1986-88) prepared by MIST staff (generally confirmed by the Bank mission during the subsector work), indicated that the immediate rehabilitation needs exceed $200 million. However, a highly selective approach to rehabilitating industrial enterprises is necessary since (a) indiscriminate rehabilitation would worsen the structural weaknesses in the industrial sector (para. 13) and (b) industrial production in most industries can be increased with virtually no additional fixed capital or labor resources and the available foreign exchange is not sufficient to meet all the imported input requirements of potentially efficient industries. Therefore, under the proposed ISAC, a limited amount of funds would be made available to finance those rehabilitation proposal which are assessed to have a high economic return to the cost of rehabilitation and/or are for activities likely to be viable and self-sustaining in a competitive environment. The main considerations to be applied in determining eligibility, and in economic evaluation, of rehabilitation proposals under the proposed ISAC are presented in Annex 4. Agreement would be sought from the Government and Bank of Ghana that these considerations would be followed in on-lending IDA funds under this component.

58. Institutional Strengthening Component. Under this component of the proposed ISAC funds would be provided for: (i) advisory services to Bank of Ghana in the areas of economic analysis, financial restructuring and administration of export incentives (about 40 m-m). About 50% of the time of the advisors is expected to be spent on training of staff of banks, government and other concerned agencies; (ii) advisory services to MFEP to assist Ghanaian staff in analyzing incentive policy issues, formulate appropriate policy measures, and monitor impact of policy measures (about 24 m-m); (iii) advisory services to MIST to establish analytical capability for industrial policy and industrial restructuring issues, assist in carry out the analysis required to formulate and implement policy/restructuring, measures during 1986-87 period, and to help create permanent policy analysis and industrial promotion capabilities (about 40 m-m); (iv) advisory services to export promotion council in the area of export market/product identification and development (about 15 m-m); (v) advisory assistance to help establish a comprehensive industrial statistic system (about 20 m-m) to be split between Central bureau of Statistics (about 15 m-m) and MIST (5 m-m); and (vi) purchase of laboratory and office equipment by Ghana Standards Board, Central Bureau of Statistics, MIST, and selected research institutes (CSIR). Preliminary cost of such equipment is estimated to be about $400,000. Brief terms of reference for above technical assistance have been developed and are available on request. Detailed terms of reference would be developed and agreed with the Government during appraisal/negotiations.

Studies Component. Under this component of the proposed ISAC a number of studies would be undertaken to (a) generate enterprise level rehabilitation/restructuring plans (para. 42; about 60-80 m-m); (b) generate subsector level economic and marketing information to guide the restructuring program (para. 43; about 20 m-m); and (c) policy analysis studies to generate policy options and measures for medium-term policy reforms/program as discussed in paras. 30-36 (about 60 m-m). These studies would be carried out through short-term consultancy arrangements involving local and foreign consultants. The detailed terms of reference and implementation schedule would be developed and agreed during appraisal/negotiations.

## E. Cost Estimates and Financing

The cost of the industrial import and the rehabilitation components is somewhat open-ended since the indicated needs are far in excess of any realistically available funding. Moreover, it is very likely that a significant part of the indicated needs lacks financial and/or economic justification. For purposes of resource mobilization, and keeping in view (i) the objective to increase average capacity utilization in the industrial sector to 40-50% level; (ii) the limited credit delivery capacity (of the banks)/credit absorptive capacity of the enterprises; and (iii) the need for selectivity in rehabilitation, the following target costs (1986-87 period) and sources of financing are suggested:

| | Target Cost ($ Million) | Sources of Financing ($ million) | | | |
|---|---|---|---|---|---|
| | | Govt. | Sub-Borrowers | IDA | Fin. Gap |
| (a) Industrial Imports | 300.0 | 120.0 | - | 30.0 | 145.0 |
| (b) Rehabilitation | 60.0 | - | 12.0 | 10.0 | 43.0 |
| (c) Institutional Strengthening | 3.0 | 0.5 | - | 0.5 | 2.0 |
| (d) Studies | 2.0 | 0.5 | - | 1.5 | - |
| | 365.0 | 121.0 | 12.0 | 42.0 | 190.0 |

58. Cofinancing (Annex 5). The Government has asked IDA to mobilize cofinancing from bilateral and multilateral sources. The following agencies and institutions are assisting or have expressed an interest in assisting the industrial sector in Ghana:

| | Already Committed Funds | Potentially Available Amount |
|---|---|---|
| U.K. - Special Africa Facility | 7.0 | 7.0 |
| Swiss Govt. - Balance of Payment Assistance | 5.0 | 5.0 - 7.0 |
| European Investment Bank | - | 10 - 15 |
| USAID | 2,000 tons | Not Yet Known |
| | of cotton | Not Yet Known |
| SIFIDA | - | Not Yet Known |
| ADB | 6.0 | Not yet Known |
| KFW | DM 33 m | Not Yet Known |
| OPEC Fund | 6.0 | Not Yet Known |
| UNDP | 1.0 | Not Yet Known |
| Commonwealth Development Corporation | - | Not Yet Known |

59. Consultative Group/ Aid-Coordination. The above list of potential cofinanciers is indicative of the potential for mobilizing significant amount of funds. It also is indicative of the need for aid coordination. It is therefore recommended that (i) concerted efforts should be immediately initiated by WAIDB (leader)/WAPID to contact the above potential cofinanciers as well as other possible sources, (through the cofinancing coordinator's office) to apprise them of the objectives and scope of the proposed ISAC and to find out their interest in cofinancing/aid coordination; (ii) at the 1985 Consultative Group meeting the Government should present its statement of Industrial Policy (para. 26) and seek donor assistance for this hitherto neglected sector; (iii) its discussions with UNDP, EEC (Lome III) country programming missions, and the bilateral donor sources (USAID/Swiss/U.K.) etc. the Government should suggest specific amounts it would like to go to the industrial sector; and (iv) the Bank (WAPID) should take the lead in aid-coordination.

## F. Implementation Arrangements

60. The Government of Ghana would be the Borrower. The Government would retain those portions of the credit which are earmarked for the government ministries and agencies. The funds intended for financing import and rehabilitation needs, and the funds under the institutional strengthening and studies components relating to Bank of Ghana would be made available to the Bank of Ghana (under an Administrative Agreement satisfactory to the bank). The Bank of Ghana would be the implementing agency for the industrial imports and rehabilitation components of the proposed ISAC. A Project Agreement between the Bank of Ghana and IDA is proposed to set-out the arrangement and terms and conditions for implementing these components. MIST would be the implementing agency for the studies component and the industrial restructuring program (paras. 58-59). The MFEP would have the lead responsibility for designing and implementing the incentives policy reforms. Specific implementation arrangements under each component are discussed below.

61. Industrial Imports Component. It is proposed, in principle, to follow the arrangements agreed for RIC II industrial import component. These arrangements will be reviewed during appraisal and, if necessary modifications will be proposed to improve efficiency. Under the present arrangements a Project Unit in Bank of Ghana handles the administrative work relating to RIC I and RIC II. A Technical Committee (including representative of MIST) coordinates, monitors and supervises implementation of the RICs. The Technical Committee and the Project Unit will continue their respective implementation functions under the proposed ISAC for the imports component. The MIST will have the responsibility for drawing up the annual import program and making the enterprise level allocations according to the Principles agreed with IDA (para. 28). The Technical Committee would review all import applications to be financed through the proceeds of the proposed ISAC to ensure that they are eligible for financing under the Credit.

62. Industrial Rehabilitation Component would be implemented by the Development Finance Department (DFD) of the Bank of Ghana. This Department

would be strengthened through the addition of local staff and advisors (funded under the ISAC) in the areas of economic analysis, financial restructuring, and technical evaluation. The proposed functions and responsibilities of DFD are described in Annex 6 (available upon request from WAPID, 7-4802). It is proposed that Bank of Ghana would enter into an apex-lending arrangement with commercial/development banks operating in Ghana. Such arrangements could be codified in a Subsidiary Loan Agreement (SLA) between the Bank of Ghana and the participating banks. Conclusions of a SLA satisfactory to the Bank, would be a condition of disbursement under this component (para 66). The flow of loan applications and processing would be broadly as follows. It is proposed that any enterprise seeking financial assistance for rehabilitation/restructuring would approach a participating bank (PB) of its choice. The concerned PB would make a preliminary determination, whether the rehabilitation proposed meets the agreed general eligibility criteria (Annex 4). If the proposal is determined to be eligible the enterprise in question would be advised to prepare a rehabilitation plan. In case the enterprise needs financial assistance to prepare its detailed rehabilitation plan (feasibility study) an 'engineering' loan could be provided. The PB would advise the enterprise and MIST of positive determination of eligibility so that relevant subsector information (para. 43) is readily available to the enterprise (or its consultants) and is integrated in the feasibility study. On receipt of the loan application accompanied by feasibility study the PB would carry out an appraisal to decide whether to grant the loan request. The PBs would, either simultaneous to its appraisal, or shortly thereafter, obtain DFD/BOG confirmation that the rehabilitation proposal meets the economic evaluation criteria specified under the proposed ISAC (Annex 4) and would be eligible for financing.

63. At all stages of the processing of loan application DFD/BOG would provide back-stopping assistance to PBs, through DFD staff and advisors. MIST role in the process would be essentially advisory. It is proposed that final decision on whether the rehabilitation proposal is in line with the restructuring objective (para. 37) and meets the requirements stipulated under the proposed ISAC, should be made by a Committee comprising Bank of Ghana, MIST, Ghana Investment Center, and MFEP. Simplified loan processing and approval procedures for loan requests of less than $100,000 each would be developed and agreed. It is proposed that between now and negotiations the Bank of Ghana would develop (i) draft of SLA; (ii) procedures applicable to the apex lending facility; (iii) guidelines for preparation of feasibility studies and (iv) guidelines for appraisal, particularly economic evaluation of rehabilitation proposals. Technical assistance for preparing the guidelines and for training the staff in PBs, BOG and other interested agencies in investment analysis would be provided under the proposed PPF.

64. The main on-lending terms and conditions under the proposed apex-lending arrangement are suggested to be as follows (these have not yet been discussed with the Government): (a) the interest spread allowed to BOG and PB would be at least 2% and 5% respectively to cover their administrative and other costs; (b) the interest rate on loans by PBs to

enterprises will be the rate normally applicable on such loans as of the date of formal commitment by the BOG (currently prevailing rates are 20-22%); (c) a commitment fee of 0.75% p.a. on the undisbursed balance would be charged by BOG to the participating banks, who would in turn pass this cost on to the enterprises; and (d) the enterprises may assume the foreign exchange risk or under current practice pay a premium of 10% per annum on the outstanding balance. In the latter case the Government would receive this premium and would bear the foreign exchange risk. In either case the BOG and PBs would not bear the foreign exchange risk; (e) loans to enterprises would be based upon projected cash flow, with expected maturities of 5-12 years (maximum), inclusive of grace periods from 2-5 years ; (f) repayment schedules from PBs to BOG would be on composite amortization schedule basis reflecting aggregate of repayment scheduled of the loans to enterprise; (g) repayment schedule from BOG to the Government could be either composite of PB repayment scheduled or a fixed repayment schedule to allow a rollover of funds (possibly through the enterprise reconstruction fund, para. 44); (h) repayment obligations of PBs and BOG would be specified in local currency based upon the exchange rate prevailing at the commitment of funds; (i) maximum sub-loan size would be ($1 million). Larger projects would be expected to attract/solicit cofinancing on an individual project basis; and (j) funds could be used for fixed assets subject to a maximum of 100% of foreign exchange costs or 80% of total costs whichever is higher.

68. Institutional Strengthening Component involves a number of Government agencies (BOG, MIST, MFEP, EPC, CBS, GSB, CSIR, para. 58) each of which would be responsible for implementation of its own strengthening program. The terms of reference for all advisory assistance would be developed and agreed prior to or during negotiations. Agreement would be sought that all experts and consultants to be employed under this component of the Credit, should be required to have experience, qualifications and, terms of reference satisfactory to the Bank and the Government, would be selected in accordance with the bank guidelines. Ghanaian nationals having the requisite experience and qualifications to provide expert advisory assistance would be given preference. The Government is developing terms and conditions to govern such employment on contract basis, to be able to attract qualified nationals who have left the country in recent years for lack of suitable employment opportunities.

69. During the appraisal, it is expected that an understanding would be reached, with MIST, MFEP and BOG that they will establish, mainly through reorganization of existing staff, the following units/divisions to create the necessary institutional capabilities for designing and implementing the industrial adjustment program, supported by the proposed ISACs: (a) an Industry Policy Unit in the Office of the Chief Director, Industry, MIST; (b) Statistics and Research Divisions in MIST; (c) a Monitoring and Evaluation Division in MIST; (d) a Policy Analysis Division in MFEP; and (e) an Export Promotion Unit in bank of Ghana. It is anticipated that these proposed organizational changes would be part of, and consistent with, any restructuring of ministries which may result from the work being done by the Public Administration Restructuring and

Decentralization Implementation Committee (PARDIC) of the Government. It is proposed to include suitable dated covenants in the Development Credit Agreement with the Government, to ensure that the units/divisions proposed in (a) through (e) above would be established with staffing structure and work programs satisfactory to the Bank, would be assigned adequate suitably qualified Ghanaian professional staff, and would be provided sufficient funds and facilities to carry out their work programs.

70. Studies Components would involve three implementing agencies - MIST, MFEP, and Bank of Ghana. The MIST would be directly responsible for subsector studies (para. 59), the MFEP would be directly responsible for policy analysis studies, and BOG would be responsible for provision and administration of funds for enterprise level studies. The selection of firms for enterprise level studies would be made by a committee consisting of MIST (chairperson) and MFEP and BOG representatives. It is also proposed that funds for enterprise level studies should be treated as non-interest bearing project preparation advances and only a one time administration fee (1-2% of the advance) should be charged. This concessionary financing is proposed to encourage firms to undertake serious restructuring consistent with broader economic benefits to the country. Agreement would be sought that (a) MIST and MFEP would by an agreed date submit detailed 2 year program for studies; (b) all studies (including enterprise level ones) would be undertaken according to arrangements agreed with the Bank, including, inter-alia, terms of reference, timetable, and a budget for each study; (c) a copy of each completed study would be furnished to the bank and the Government would consult with the Bank on the findings and recommendations of each study financed by the proposed ISAC; (d) the Government would exchange views with the Bank on implementation proposals for policy changes and action programs emanating from the studies; (e) all consultants hired for carrying out studies would employed according to Bank Guidelines; and (f) where local consulting firms are capable of providing the services required, joint venture between foreign and loan consulting firms and/or subcontracts by foreign firms to a local firm would be sought, so as to contribute to the development of local consulting capabilities.

## V. Status of Preparation and Dialogue with the Government

71. The proposed ISAC is based upon extensive sector work carried out during the last 18 months and identification/preparation mission early this year. During all this period regular dialogue with the Government has taken place. The Government has expressed its strong commitment to the objective of the industrial adjustment program discussed in Chapter III of this Project Brief and to the proposed ISAC and has requested prompt assistance from the Bank. During the preappraisal of the proposed ISAC, substantive agreement was reached with the Government on the project design (see BTO Report dated June 28, 1985 from Vinay Bhargava to S. A. Aiyer). The Government has established four working groups to move quickly on preparatory work required for speedy processing of the Credit. The preappraisal mission discussed the work program for each group. In response to the Government's request for assisting the Groups in their

work, Annexes 2-5 attached to this Project Brief as well as the draft terms of reference for the proposed textile subsector review (para. 43) and policy analysis studies (para. 47) have been sent to the Government. These would be discussed during the appraisal mission.

72. The dominant portion (over 80%) of the proposed ISAC would finance import of inputs and will be quick disbursing, since it relies upon existing institutional arrangements and practices (para. 64). The other components of the proposed ISAC would be relatively slower disbursing. They, however, represent a critically important part of the industrial adjustment program and are essential to (i) initiate the medium-term process of industrial restructuring, and (ii) provide the micro-level assistance to strengthen the supply response. In terms of status of preparation the industrial imports component can be considered ready for appraisal while for other components some filling in of details (such as detailed TORs, on-lending procedures) is required. This is proposed to be done during the appraisal mission.

73. The most critical part (which would ultimately determine the timing of negotiations/approval of the proposed ISAC) is the policy conditionality package. The proposed policy package has been outlined in Chapter III, Section D and Annex 4. The Government was informed during the preappraisal about the policy areas in which reform measures will be expected as part of the proposed ISAC. The policy actions needed have been identified through the sector work. It is now a matter of persuading the Government on the timing and extent of policy reform measures. This is primarily proposed to be done through discussions and technical assistance (para. 47) over the next 3 -4 months, beginning with the appraisal mission and later through a post-appraisal mission.

74. Project Processing Schedule

| | |
|---|---|
| Appraisal Mission | August 12 / 31, 1985 |
| Issues/Decision Process | September 9 - 13, 1985 |
| White Cover SAR | October 15, 1985 |
| Yellow Cover SAR | October 25, 1985 |
| Green Cover SAR | October 31, 1985 |
| Post Appraisal Mission | November 6 - 14, 1985 |
| Negotiations | December 1985 |
| Board Presentation | February/March 1986 |

GHANA

INDUSTRIAL SECTOR ADJUSTMENT CREDIT (ISAC)

Implementation Schedule for Policy Actions

Note:
- The Government's commitment to these actions will be contained in a suitable Letter of Industrial Policies, which will be agreed during appraisal/negotiations.
- Paragraph numbers in parenthesis correspond to relevant para. in the Project Brief wherever the Issues are discussed.

A. Actions to be taken before Negotiations

Note:
- Draft of these documents/programs have been prepared and are under Government consideration. These will be agreed during appraisal and implemented before negotiations. Items 1, 2, and 4 should be published before the Consultative Group (11/19-20).

1. Approval and Publication of the Investment Code. (Approved on 7/13/85; to be published. para. 25)

2. Approval and Publication of the Statement of Industrial Policy. (para. 26)

3. Initiate studies on (a) indirect tax system, (b) export promotion measures, and (c) restructuring of the import protection regime, with a view to complete them within 4 months of start. (para. 47).

4. Government/IDA agreement on 1986-88 Development Expenditure Program (DEP) for industry (through a public expenditure review mission scheduled to visit Ghana in September in 1985 to assist the Government in finalizing the DEP for 1986-88 which will be presented to the Consultative Group in November 1985. para. 41).

B. Agreements to be reached during Negotiations

Note:
- The following policy changes/actions having been studied by the Government before negotiations, will be pre-negotiated by a post-appraisal mission and finally agreed during the negotiations.

5. Agreement on principles to be used in determining the size and composition of the annual import program and making enterprise level foreign exchange allocations for 1986 and 1987 annual import programs for the industrial sector (para. 29).

6. Agreement on the size and composition of the import program for the industrial sector for 1986, including an increase from 10% to 25% for the amount of import allocations allowed to be used for spare parts and replacement equipment (para. 56).

7. Agreement to remove the 50% surcharge on special unnumbered licenses (SULs) for industrial and agricultural inputs and to apply the general level of tariffs and taxes to SUL's also. (para 29).

8. Formulate and implement simplification of indirect taxes, on basis of study done under (3). (para. 32).

9. Agreement in principle (a) to introduce temporary fiscal measure (e.g. an import tax or higher average tariff) to transfer scarcity premia, derivable from official foreign exchange allocations, from the industrial importers to the Government. (para. 33) and (b) to removal of quantitative restrictions on industrial inputs in a phased (agreed with the Bank) manner. (para. 31).

10. Agreement on measures to allow exporters ready access to imports at world prices, (such measures could include inter-alia allow use of a part of retained foreign exchanges earning for marketing and travel costs, and simplify administrative procedures involved in import and export transactions involving exporters. (para. 34)

11. Agreement in principle to introduce fiscal measures designed to compensate exporters for costs imposed on them due to or due to exchange rate distortion. the protection accorded to import-competing production (para. 34).

C. Actions to be taken before Board Presentation

Note: - The following actions, agreed during negotiations, will be implemented largely through inclusion in the 1986 budget.

12. Reduction or removal of import surcharge on SULs as agreed under (7).

13. Introduction of temporary fiscal measure(s) (acceptable to the Bank) to tax industrial imports as agreed under (9).

14. Introduction of export promotion measures as outlined in items (10) and (11) above.

D. Actions to be taken prior to Effectiveness

15. None proposed at this time. If the Government takes all the actions as proposed in A,B, and C above, it earns the right for quick disbursement. However, in case it takes most of the actions but needs more time to act on 1 or2 remaining items than consideration should be given to making those items conditions of effectiveness, and approving the loan.

E. First Year Program (March 1986 - February 1987)

Note: - Consists of those actions which require longer period of study and deliberation and therefore are infeasible for inclusion in 1986 budget. Some of these can be announced during the course of the year without waiting for the budget while others to be introduced in the 1987 budget.

16. Implement further export promotion measures to encourage non-traditional exports. These could include: bonded warehousing scheme, tolling charter, licensed export factories with special customs clearance arrangements, export processing zones, export credit guarantee and/or insurance scheme. In addition, implement reform measures designed to simplify export documentation procedures and overcome other impediments to exports. Specific package of measures will be formulated on basis of studies in export promotion measures initiated under item 3. (para. 35).

17. Develop a phased program for liberalization of quantitative restrictions on imports, on basis of study under 3). Phasing to take into account (a) transitory measures (such as provision for a tax and/or tariff surcharge or other means of raising import and/or market prices) to prevent excessive expansion following stern non-price rationing, and (b) evidence that the higher price of imports would absorb and thus transfer scarcity premia rather than result in excessive consumer price increases which would worsen real income distribution. (para. 31).

18. Evaluate the experience with the actions taken under items 6 and 12 through 14 and make any required adjustments, all with a view to improve export performance and supply response from the private sector.

19. Formulate 1987 import program for the industrial sector. (para. 56).

20. Launch an information campaign aimed at informing the business community about Government initiatives in export promotion, investment code, and the Government's medium-term objectives in tariff and non-tariff protection.

F. Conditions of Release of Second Tranche (Bank Review Mission in Dec. 1986).

21. Satisfactory progress on actions envisaged under the first years program.

22. Agreement on 1987 import program for the industrial sector.

G. Second Year Program

Note: - These actions will be based on monitoring of impact of actions taken during 1986, as well as ongoing studies/analysis by Policy Analysis Department in MFEP.

23. Begin implementation of the phased program for import liberalization (item 17). Transfer a group of industrial inputs on OGL. (para. 31).

24. Evaluate experience with export promotion measures introduced in 1985/86 and make adjustments.

25. Review and revise (downwards or hopefully eliminating it) the temporary fiscal measures (item 9) in the light of exchange rate adjustment.

26. Implement further simplification of indirect taxes. (para. 32).

27. Prepare the policy action program for years 1988-90 to be supported by ISAC II.

July 10, 1985
VBhargava:fl/wmw

GHANA

Working Draft of a Statement of Industrial Policy

Note: The purpose of the attached Statement of Industrial Policy is to: (a) provide a public document describing the Government's industrial development objectives, strategy and policy directions; (b) clarify the roles envisaged for public, domestic private and foreign sectors so as to complement the recently issued Investment Code by providing direction, guidance and confidence to existing and potential industrialists; (c) provide policy guidelines for civil servants involved in implementing industrial strategy; and (d) strengthen the confidence of external donors and of businesses at home and abroad in the Government's commitment to and programme for increasing efficiency and productivity in Ghana's industrial sector. It is suggested that this statement could have maximum impact if approved and issued as soon as possible after promulgation of the revised Investment Code, and most importantly in advance of the next Consultative Group meeting scheduled for November 19-20, 1985.

# GHANA

## STATEMENT OF INDUSTRIAL POLICY

### Introduction

1. Ghana's potential for industrial development is clear: it has a rich mineral, forest and agricultural endowment; its manpower is comparatively well trained; wages are low; and it has a long commercial and entrepreneurial tradition. The industrialization drive of the 1960s built up Ghana's industrial capacity to one of the largest in Sub-Saharan Africa. After the mid-70s, however,industrial production was severely affected by economic declined. Revitalization of the industrial sector can now play an important role in the continuing progress of the Economic Recovery Programme and in returning the economy to a path of dynamic growth and diversification. Expansion of industrial production will provide a logical complement to the ERP's emphasis to date on improving the incentives to agricultural producers, who are expected to provide an increasing share both of inputs to industry and of demand for its output.

2. The principal objective for the future is to streamline Ghana's industrial capacity to concentrate on those activities that are the most viable and sustainable over time, that are well integrated with the domestic economy, and that can produce goods at competitive prices for both Ghanaian consumers and export markets. This objective will be pursued through policies that provide adequate incentives for efficient use of resources in processing, export and import-substitution industries and that enable the most productive firms to compete successfully for scarce but increasing amounts of financial and foreign exchange resources. Manufacturing industries will be given adequate but not excessive protection and investment incentives. A mixed economy approach will be used, in which the state provides necessary infrastructural services and a favorable business climate and invests or participates in certain large-scale investments in strategic industries, while looking to the private sector to play an increasingly dynamic role in expanding industrial output and utilizing Ghana's resource base. Foreign investors will have an important role to play in providing capital and managerial and technical know-how in partnership with Ghanaians.

### Background

3. Industry has gone through two phases of growth and then decline. At independence, industrial production was relatively small and consisted mainly of extraction and processing for export plus a few consumer goods, and it was dominated by foreign ownership. A strategy of vigourous industrial promotion and public sector investment was successful in its objectives of rapidly increasing the capacity to produce at home what was previously imported and in diversifying the

economy. In the 1960s, manufacturing output tripled to reach 13% of GDP, employment doubled, and production became increasingly diversified into intermediate and capital goods as well as a broader range of consumer goods. By the late 1970s, however, it became apparent that the phase of easy import-subsititution and growth had ended and that the costs of domestic industrial production were high. Capacity utilization and production fell as foreign exchange for inputs became increasingly scarce under general economic decline. Exports and agricultural production, neglected under past policies, could no longer provide the resources needed to sustain industrial growth. High protection had led to excessive expansion of industrial capacity in activities that were highly dependent on imported inputs and that did not use scarce resources efficiently or generate additional export earnings. Not only did most state-owned enterprises fail to generate profits for new investment or even for working capital needs, many represented a drain on the government budget or on those that were profitable.

4. The disappointing performance of industry has been due partly to the inconsistencies between objectives and the policy framework and to the lack of an integrated approach to link industrial development with the country's resources and broad consumption needs. Past emphasis on import-substitution industries was conditioned to urban demand, neglecting the needs and potential processing of produce of people in the rural areas. New policy guidelines are needed to correct the resulting defects, including: lack of an integrated approach to promoting industry and monitoring its economic impact; low capacity utilization; over-dependence on foreign exchange; low utilization of local raw materials; and weak link between research and technical institutions and the technological adaptations needed by industry use local materials, meet domestic product needs, and achieve quality standards for export.

5. Although industrial production today is relatively low, the situation is quite different from that at independence. Substantial capacity exists -- some of its potentially efficient, but some of it unable to produce at competitive prices or even to save foreign exchange. Foreign firms no longer dominate the sector, and there is a much greater number of capable and innovative Ghanaian industrialists with the ability to respond to favorable opportunities. This means that the appropriate leadership role for the state is no longer in capacity creation but in reducing and rationalizing existing capacity and influencing the creation of new capacity in the private sector so that resources are concentrated in the most productive uses. This requires both re-examination of public industrial holdings and creation of incentives that favor relative expansion of the most efficient producers, especially in small-scale activities that process local raw materials and provide goods in rural areas. Another difference is that industry's full-capacity imported input requirements represent a large share of the foreign exchange available, while it contributes little by way of exports or additional value added to the nation's exportable raw

materials. This means that industry must be re-oriented to seek both more local input supplies and foreign markets.

Strategy and Objectives

6. The government's strategy is motivated by considerations of both efficiency and equity. The need to boost economic recovery by reviving industrial production and growth in the face of severe resource constraints demands that resources be used in the most efficient way possible to meet the needs of the Ghanaian public at competitive prices and to generate additional foreign exchange. Equity requires that this task be approached in a way that gives producers an opportunity to adapt from the past, highly protective policy environment to a regime where success depends on being highly efficient and productive. These considerations can best be accommodated through an approach that provides appropriate incentives and opportunities on a consistent basis across all industries, and reduces reliance on selective and arbitrary decisions.

7. The principal short-run objective is to increase industrial production rapidly through greater use of existing capacity. The strategy is to make additional resources available to industries that can increase domestic supplies of the most essential commodities or raise export earnings and that are most likely to be sustainable in the long run.

8. The medium-term objective is to to break production bottlenecks in the most efficient industries and achieve significant cost reductions in others that are potentially viable, through selective rehabilitation. This will be pursued by giving producers increasing opportunities to compete for the necessary resources, while ensuring that the prices of additional resources (particularly foreign exchange and capital) reflect their true cost to the economy.

9. In the long term, the objective is to achieve an industrial structure that is more closely linked to domestic inputs and needs, that can provide a higher share of its own foreign exchange requirements, and that can sustain a rate of growth on the order of 6-8% per annum in output and half that in employment, depending on the availability of resources and demand. This means phasing out unviable excess capacity that constitutes a drain on resources and cannot supply the Ghanaian market competitively, continuing the process of rehabilitating the most viable existing plants, and investing in new industries that can realize Ghana's comparative advantage and export potential. This objectives will be supported by establishing a policy environment in which success depends on efficient use of scarce resources and in which incentives are balanced between sectors and between growth and employment objectives.

Policy Framework

10. A comprehensive framework for policy reform was provided initially through the ERP, adopted in 1983. The emphasis to date has been on exchange rate adjustment, monetary and fiscal responsibility, and pricing policy reforms in order to bring the balance of payments, budget deficit and inflation under control and to improve incentives for producers, especially in agriculture. Although long overdue, many of these adjustments meant initial economic hardships and were difficult to take. The initial response of the economy was disappointing, but the Government persisted with its comprehensive program and with measures to improve the economy's supply responsiveness and to translate subsequent increases into higher incomes for workers and farmers. Special attention has been paid to transport in order to facilitate the supply response, which was particularly encouraging in 1984. Wage adjustments and agricultural price increases have provided a more adequate floor for the lowest-paid workers and helped to restore incentives for more productive work. Financial policy reforms have focused on moving toward positive real interest rates through a combination of gradually rising nominal rates and falling inflation (from 123% in 1983 to 40% in 1984). The Government has also taken a number of steps to enhance its ability to manage and develop the overall policy reform process. The National Economic Commission brings together a range of viewpoints to advise on overall policy direction and change, while the Tripartite Commission brings together labour, employers and the Government where wage and price issues are concerned. A Policy Unit is being established in the Ministry of Finance and Economic Planning, and Planning Units in the sector ministries. Foreign exchange budgeting and licensing are coordinated through a central committee. Reviews have been initiated of the entire public enterprise system and of the public investment programme, as a basis for the design of reform measures. Taken as a whole, these reform measures have gone a long way toward establishing a sound policy environment for industrial recovery and for integrating industrial strategy with the overall process of economic reform and recovery.

11. The industrial strategy and objectives described in paras. 6-8 will be pursued through the following major policy measures (discussed below):

- phased reform of production incentives to promote more efficient, competitive, resource-based, labor-intensive and export-oriented industrial production, while giving firms an opportunity to adjust;

- greater access by efficient producers to imported industrial inputs and spare parts while progressively phasing out case-by-case decisions and allocations;

- a positive climate for industrial operation and investment, including reasonable protection and investment incentives that are relatively uniformly and automatically available across broad classes of priority activities and that provide adequately for small-scale and employment-oriented activities;

- export incentive and promotion efforts to maintain a realistic exchange rate and provide a free trade environment for exporters, compensate for costs of developing export markets, and make exports as attractive as import substitution;

- more limited direct public sector participation aimed at complementarity rather than competition with the private sector and at making the most effective use of scarce public, financial and managerial resources;

- financial reforms to increase the ability of the financial sector to make credit available for industrial adjustment and rehabilitation, and to discourage excessive capital intensity.

12. Production incentives: Incentives to produce industrial goods in Ghana are determined by a combination of the exchange rate, customs duties, quantitative restrictions on imports, sales and excise taxes, and market prices. The more expensive are imported goods, the greater the incentive to produce them locally. Steady adjustment to a more realistic and sustainable exchange rate will give efficient producers a clearer and more consistent advantage vis-a-vis imports than the present situation, in which protection depends heavily on quantitative restrictions on imports and changing availability of goods on the market. Although the Government has reformed customs duties to provide what it considers to be adequate and relatively uniform protection in the long run, these duties do not in practice determine domestic market prices under current scarcity conditions. Special measures are needed during the transition period to maintain reasonable protection and to ensure that industrial success depends on efficient operation rather than on "rents" from access to foreign exchange at a favorable rate or from unduly high protection. In order to begin liberalizing the importation of industrial inputs and phasing out quantitative restrictions, the Government intends to >impose temporary surcharges< >temporarily increase the level of tariffs< >to make additional foreign exchange available for selected uses through a special auction mechanism< so as to eliminate the excess increase of imports that would otherwise result from pent-up demand and to generate revenues needed for export promotion. These temporary measures would be phased out over a two-to-three-year period as the exchange rate reaches a realistically sustainable level. The Government also intends to examine the indirect tax system as a basis for any necessary reforms to make it consistent with the intended system of protection and with transitional requirements, as well as with the objectives of simplicity and improved revenue collection. The ability of firms to cover changing costs of production and compete freely on the market has already been facilitated by permitting producers of most products to set their prices subject to monitoring, rather than advance review, by the Prices and Incomes Board,

and this process is being extended to the few goods that remain under direct controls as the availability of supplies permits.

13. Imported inputs and spares: For the most productive, highest-priority industries to expand rapidly in response to improved incentives, they must have greater access to imported inputs, not only materials but also spare parts to repair broken-down equipment. Although the import licensing system is necessary now and for some time to come to implement equity and priority considerations in the allocation of scarce foreign exchange, it is not well adapted to responding quickly to new and changing requirements and special requests. The latter objective can be achieved through greater use of price and market mechanisms to allocate additional resources, where equity considerations are not paramount. The Government has already facilitated the ability of exporters to meet their individual import needs through foreign exchange retention, and will take further steps as necessary to ensure that export production is not impeded by lack of access to foreign exchange. It is investigating ways of giving other efficient producers greater access to foreign exchange without going through the licensing system by easing quantitative restrictions and lowering taxes on Special Unnumbered Licenses for industrial inputs, and it is seeking additional external funding to support this process. During the transitional period, such measures will be linked to the imposition of temporary financial charges, as described in the preceding paragraph, to keep demand for additional industrial imports within manageable bounds. In order to give firms greater flexibility in breaking production bottlenecks by repairing and maintaining equipment, they will be permitted to use a larger portion of their import license allocations for spare parts and minor replacement equipment.

14. Investment climate: In recently revising and re-issuing the Investment Code, the Government has demonstrated its commitment to maintaining a stable, open economy and to encouraging increased participation by both domestic and foreign private investors in Ghana's economic recovery. Guarantees are provided against expropriation and for repatriation of foreign capital and dividends. Special fiscal and other benefits are available to new investments and expansions in priority activities, with additional incentives for exporters. The Ghana Investments Centre has been established to implement this process, and it will issue guidelines designed to facilitate application for benefits and to ensure that they are applied to investments that offer a high rate of return to the economy. An adequate and uniform long-term level of protection is already provided to almost all domestic production through customs duties of 25 or 30% on virtually all imported commodities. In addition to the general policy reforms of the ERP, the Government has taken steps to enhance the business climate through consultation, improved worker-management relations, and encouragement of positive worker attitudes toward increasing productivity.

15. Export promotion: Exchange rate adjustments over the last two years have dramatically improved prospects for exporters, and this

process will be continued. Retention of a portion of export earnings has greatly facilitated exporters' ability to meet their import requirements in order to respond to these improved incentives. In order to accelerate the expansion of export earnings, which are critical to relieve constraints on the rest of the economy, additional measures are being taken or considered to streamline the system of drawback of duties and taxes on inputs into export production, to compensate for the extra costs of developing export markets, and to make export production as attractive as import-substitution industries producing for the domestic market under tariff protection. Such measures include standardising the duty drawbacks based on average import content by product and providing a credit of __% of >gross export earnings< >retained export earnings that are converted into local currency<. >Or: allowing exporters to sell the unused portion of retained earnings through a foreign exchange auction.< Efforts are also being made to strengthen the activities of the Export Promotion Council and to increase the availability of financing for exporters through the Bank of Ghana.

16. Public sector role: The Government is committed to phasing out non-viable industries in the public sector as well as reviving the viable ones, and it is undertaking a thorough review of both the state enterprise system and its investment programme. This will form the basis for a strategy of limiting its direct participation in industry to critical areas in which there is a gap in the availability of private investment or some other exceptional justification for direct public intervention. Publicly-owned firms will be expected to meet their own financial needs and contribute positively to public savings. By concentrating its financial and managerial participation in areas in which it can complement rather than supplant private operations, the Government will be able to focus more on playing a supporting role through policy formulation, technical services, and infrastructural development.

17. Financial system: The Government has taken measures to improve the functioning of the financial system in order to meet the credit requirements of the ERP and of increased industrial production and rehabilitation. Interest rates have been raised and the rate of inflation reduced in an effort to achieve positive real interest rates; this will improve domestic resource mobilization by the banking system and provide incentives for the most productive use of capital. The Government has encouraged increased use of banks by the public by introducing the Akuafo cheque system for cocoa farmers and by restating its commitment to the confidentiality of bank accounts. It is reviewing the possible need for revising the conditions on access to credit and the interest rate structure, so as to facilitate the process of more fully utilizing and rehabilitating existing capacity.

## Conclusion

18. The Government's objectives for industrialization remain those envisioned by President Nkrumah: to make the most effective use of our

resources for economic growth and "to build up our body of knowledge, techniques and skills, to make us more self-confident and self-sufficient, to push toward our economic independence." Achievement of these goals requires a partnership between the public and private sectors, domestic and foreign investors, workers and entrepreneurs, in which each party contributes in the way it can be most productive. The Government will take action where private activity cannot meet the objectives, but it will also withdraw from direct intervention where it is not needed or is inefficient. Incentives are available to foreign as well as domestic investors, with the expectation that they will work with Ghanaians to transfer the benefits of their technology, know-how and experiences. Increased production is being encouraged through incentives that enable entrepreneurs to gain profits and workers to earn higher wages as their productivity increase. The strategy for industrial recovery outlined in this statement is designed to result in an industrial structure that uses its capacity more fully, eliminates unviable excess capacity, makes greater use of local raw materials, earns a larger share of its foreign exchange requirements, stimulates the rest of the economy through relatively rapid output growth, supplies Ghanaian consumers' needs at competitive prices, and offers growing income and employment opportunities in villages as well as in the urban centres.

GHANA

## A Note on Principles to Be Applied in Determining Size and Composition of Annual Import Program, and Enterprise Level Allocation

### A. Objectives of Import Program

1. Until such time as the need to ration foreign exchange through an import licensing system disappears, the present practice of issuing import licenses within the framework of an annual import program will be continued. The main objectives of the annual import program for industry would be to (a) ensure that industrial activities most central to the Economic Recovery Program receive a minimum level of foreign exchange resources quickly and with certainty; (b) gradually increase the size of the program to provide industrial inputs to raise utilization of existing industrial production capacity to an average of about 40-50 percent by end 1987; and (c) make available the foreign exchange needed for the most critical rehabilitation and restructuring needs of existing industries that are viable in the long-run but whose ability to expand production or lower costs depends on additional investment.

### B. Governing Principles for Size and Composition of Annual Program

2. The absolute size of the annual import program (industry) would allow for an increase, in real terms, over and above the 1985 budgeted levels of $125 million, with the objective of progressively increasing the average level of capacity utilization from the present 20-25% to 40-50% by the end of 1987, at least in the most viable subsectors.

3. The annual import program for industry would be financed from the Government's own resources, trade pacts, project specific official development assistance, private suppliers' credit, and multilateral assistance. To ensure that the funds provided under the proposed ISAC are incremental to the level of funds provided in the past, the Government during the period covered by the ISAC, would for the industrial sector, provide from its own resources (a) at least 15% of the portion of annual import program that is to be financed from the government's own resources; or (b) at least an aggregate of $55 million per year. These limits are based on levels provided in the last 2-3 years.

4. To ensure that all segments of the industrial sector have access to scarce foreign exchange resources, the following rules would apply.

(i) the share of private sector in annual import program for industry would not be less than 50% (this share roughly corresponds to their share in total manufacturing value added and the proportion budgeted for private sector under 1984 and 1985 annual import programs);

(ii) the shares of wholly state-owned enterprises in annual import program would not exceed 25%;

(iii) the share of any given industrial subsector in industry would not exceed 20% of annual industry import program; and

(iv) in case the annual import allocation for industry is released in installments, the allocation under each installment would be spread across several subsectors to support the most critical activities in each subsector.

5. Import licenses to those enterprises which have been approved for project specific foreign exchange resources would be granted automatically.

6. The annual import program would distinguish between materials/spare parts and capital goods and show financing sources separately for each.

C. Governing Principles for Enterprise Level Allocations Under Annual Import Program

7. Priority would be given to firms (i) producing either export or essential goods or intermediate goods for these two categories, and (ii) being able to use foreign exchange efficiently. To determine the latter part a selection test should be conducted for all applications requesting import licenses in excess of US$250,000 (a review of 1984-85 allocations suggest that the number of requests above this limit were about _____). The selection test would be: the enterprise should have a positive value added to the value of their inputs, both calculated at border prices, i.e. there should be a clear cut net savings/earning of foreign exchange, taking into account all foreign exchange costs of production.

8. Those enterprises which receive rehabilitation loans under the proposed ISAC or from other sources would be allocated foreign exchange, on a priority basis, for import of raw materials needed to use rehabilitated capacity, provided they meet the selection test.

9. Enterprises will be allowed to use up to 25% of the amount of import allocations for import of spare parts and replacement equipment. Requests for foreign exchange allocations in excess of 25% for spare parts/minor replacement or for import of spare parts/minor replacement would also be considered as a part of the rehabilitation program.

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GHA011/Ghana - Annual Import

GHANA

Broad Considerations To Be Applied In Determining Eligibility, And In Economic Evaluation, of Rehabilitation Proposals Under the Proposed Industrial Sector Adjustment Credit

## A. Objectives of Rehabilitation/Restructuring

1. The objectives of rehabilitation and/or restructuring of enterprises would be to :

(a) break bottlenecks that prevent the enterprise from increasing its production to make greater use of its installed capacity;

(b) replace equipment which is on the verge of breakdown and if not replaced, would lead to decline in existing production levels;

(c) increase productivity and alter the structure of costs to make the enterprise competitive at border prices;

(d) change the product mix to meet export demand or specific domestic market needs;

(e) make greater use of available domestic materials to replace imported inputs; and enable existing enterprises to adapt to changing incentives policy frame work through the above (a to e) and/or through financial, organizational and managerial restructuring.

## B. Considerations for Determining Eligibility

2. The purpose of rehabilitation/restructuring loan request should be one or more of the items listed in para. 1 above.

3. The enterprise should be able to demonstrate, for purposes of a preliminary determination, that its current level of production is, or soon will be, constrained without the proposed rehabilitation/restructuring, and that it would:

(a) be able to expand production in a short period (say 6 -12 months);

(b) be able to obtain necessary domestic raw materials; and subject to licensing, imported inputs;

(c) not require protection in excess of 30% against imports to be financially viable; and

(d) be willing to undertake appropriate financial and organizational restructuring.

4. Enterprises that have received foreign exchange allocations for the import of inputs in the last 2-3 years and/or are eligible to obtain foreign exchange in future would be given priority.

5. To avoid the limited funds for rehabilitation being used by a few enterprises, there would be a limit of (US$2.0) million per enterprise.

6. Public Sector Enterprises (wholly state-owned). Only those investments which are included in the approved Development Expenditure Program, 1986-88, of the Government would be eligible. These investments would have to satisfy the other eligibility and evaluation criteria as well.

7. Textile and Garment Industries. Only those rehabilitation/restructuring proposals which are consistent with the subsector restructuring plan (to be agreed between the World Bank and the Government) would be eligible. They would have to satisfy all other eligibility and evaluation criteria as well.

8. Unless otherwise agreed between the World Bank and the Government, the rehabilitation/restructuring proposals in the following subsector would not be eligible for financing under the proposed ISAC: saw milling, tobacco product, breweries, cocoa processing, foundries, and vehicle assembly plants. These subsectors are excluded because alternate sources of finance are available to them and/or indepth reviews are needed to establish economic viability and/or subsectoral restructuring frameworks.

C. Consideration for Economic Evaluation

9. All major rehabilitation/restructuring requests of more than US$100,000 would be subject to a detailed economic evaluation 1/, in addition to technical and financial appraisal.

10. The economic evaluation should aim at determining the economic returns to the proposed rehabilitation/restructuring investment itself and at evaluating the viability of the rehabilitated enterprise over the

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1/ Detailed guidelines for economic analysis of rehabilitation/restructuring requests would be developed under the proposed ISAC. In addition, it is envisaged that the staff of bank of Ghana, MIST, MFEP, and participating banks will be trained in economic analysis by an Economic Advisor attached to bank of Ghana, under the project.

long-run. On the basis of such analysis the proposed activity/investment may be classified into one of the following four categories:

(A) Activities that are competitive internationally, as demonstrated by low short-run and long-run domestic resource costs and/or an economic rate of return to rehabilitation of not less than 15%;

(B) Activities with low short-run domestic resource costs, treating past investment as sunk cost, but with long-run unit costs that could be substantially reduced to competitive levels by rehabilitation/restructuring efforts.

(C) Activities with low short-run domestic resource costs when existing assets are considered as sunk costs, but with high longer-term costs that can not be brought down to competitive levels and the rehabilitation itself has an economic rate of return below 15%

(D) Activities that currently show negative value-added at world prices or for which the ERR of the rehabilitation is below 15%;

11. Once the above determination of category has been made the following decision rules would apply:

Category A. request can be approved provided other appraisal criteria met give highest priority to such proposal within available resources;

Category B. restructuring/rehabilitation request can be approved provided other appraisal criteria met, with special attention to the ability to utilize rehabilitated capacity fully. Proposal in this category receive lower priority than those in Category A.

Category C. Deny rehabilitation/restructuring request, without prejudice to their continued access to the inputs (foreign exchange, working capital, etc.) needed for their immediate operation. Why?

Category D. Deny the request. Activities with negative value-added at border prices are uneconomic and the country would be better off by closing them. Other activities in this category that are currently viable but have low ERR to rehabilitation may be work operating in the short-run. ?

12. The basic decision criteria for deciding economic acceptability of a restructuring/rehabilitation proposal should be: whether rehabilitation/restructuring existing capacity leads to lower operating costs and/or increased productivity such that the savings generated or incremental economic revenues constitute a high return to the cost of restructuring.

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## DATA SHEET

1. COUNTRY: Ghana

2. PROJECT: Industrial Sector Adjustment Credit

3. IMPLEMENTING AGENCY: Bank of Ghana

4. PROJECT OBJECTIVE/DESCRIPTION:
Import of industrial raw materials.
Rehabilitation and modernization of key subsectors, probably in first phase foods processing, beverages, tobacco, rubber products, wood processing and textiles, possibly plus minor requirements for basic iron and steel and aluminum products subsectors

5. COMPONENTS AND ITEMS TO BE PROCURED INTERNATIONALLY:
Equipment: Industrial raw materials
Technical Assistance

6. ESTIMATED PROJECT COST IN US$m:

| | |
|---|---|
| Local Cost | 70 |
| Foreign Exchange Cost | 295 |
| Total Project Cost | 365 |

7. INDICATIVE FINANCING PLAN IN US$m:

| | | |
|---|---|---|
| IBRD | | |
| IDA | 40 | |
| Requested Co-financing | 190 | |
| Official Sources | | Incl. 12 UK Co-financing |
| Export Credit | | w/Special Facility |
| Private Banks | | |
| Local/Borrower's Contribution | 135 | |
| Total Financing Plan | 365 | |

8. STATUS OF PROJECT PROCESSING:
Industrial sector work has identified high-priority subsectors in light of comparative advantage and their needs. Appraisal set for August 1985.

9. SCHEDULED BOARD APPROVAL DATE: March 1986

10. CONTACT PERSON (TELEPHONE NO.): V. Bhargava (477-4802)

11. DATE: July 23, 1985

12. COFINANCING INDICATIONS:

| Sources | | Status |
|---|---|---|
| 1. UK ($12m) | C/D | A. (Agreed in principle) |
| 2. EIB ($10-15m) | C/D | B. (Confirmed) |
| 3. USAID | E | C. (Interested) |
| 4. Swiss Government | E | D. (Approached) |
| | | E. (To be approached) |