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LOAN COMMITTEE - GHANA - EXPORT REHABILITATION

International Development Association

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FOR EXECUTIVE DIRECTORS' MEETING

For consideration on January 3, 1984

IDA/R83-132

FROM: The Deputy Secretary

December 13, 1983

GHANA: Export Rehabilitation Project

1. Attached is the President's Report and Recommendation (P-3695-GH) on a proposed credit to the Republic of Ghana for an Export Rehabilitation Project.

2. A report entitled "Ghana: Policies and Program for Adjustment" (4702-GH) was distributed on October 12, 1983.

3. A draft Development Credit Agreement, a draft Special Fund Credit Agreement, a draft Project Agreement and the Statutory Committee Recommendation are being distributed as report IDA/R83-132-L.

4. Questions on these documents should be referred to Mr. Ijichi (X78109).

Distribution:

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Vice Presidents, IFC
Directors and Department Heads, Bank and IFC

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The World Bank

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Report No. P-3695-GH

REPORT AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL DEVELOPMENT ASSOCIATION

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED CREDIT OF SDR 71.8 MILLION

TO THE

REPUBLIC OF GHANA

FOR AN

EXPORT REHABILITATION PROJECT

December 12, 1983

CURRENCY EQUIVALENTS

Currency Unit	=	Cedis
US$1	=	30 Cedis 1/
1 Cedi	=	US$0.03 1/
US$1	=	SDR 0.944037

FISCAL YEAR

Government of Ghana: January 1 - December 31
(effective January 1, 1983)

ABBREVIATIONS AND ACRONYMS

AGC	-	Ashanti Goldfields Corporation
CSD	-	Cocoa Services Division
ERP	-	Export Rehabilitation Project
FPIB	-	Forest Products Inspection Bureau
GCMB	-	Ghana Cocoa Marketing Board
GDP	-	Gross Domestic Product
GPA	-	Ghana Port Authority
GTMB	-	Ghana Timber Marketing Board
MLNR	-	Ministry of Lands and Natural Resources
NIB	-	National Investment Bank
PNDC	-	Provisional National Defence Council
SGMC	-	State Gold Mining Corporation
SSVD	-	Swollen Shoot Virus Disease
TEDB	-	Timber Export Development Board

1/ Effective October 10, 1983.

GHANA

EXPORT REHABILITATION PROJECT

CREDIT AND PROJECT SUMMARY

Borrower: Republic of Ghana

Amount: SDR 71.8 million (US$76 million equivalent), of which SDR 35.9 million (US$38.0 million equivalent) will be an allocation from the IDA Special Fund.

Terms: Standard

Project Description: The project aims at arresting and reversing the declining export production and foreign exchange earnings by rehabilitating the traditional export industries (cocoa, timber and gold mining) through provision of spare parts, equipment and materials and thus generating needed supply response to the policy adjustment measures announced in the Government's economic recovery program; and removing the immediate bottleneck to evacuation of export commodities by improving the port facilities. The project would assist the Government in sustaining its economic recovery program, and also in implementing policy and institutional changes aimed at resuscitating the export sector. The major benefits of the project would be Ghana's improved foreign exchange earning capacity with net incremental foreign exchange earnings from the project amounting to about US$42 million per annum. The risks associated with the project are that the macroeconomic and export sector policy and institutional reforms are not fully implemented due to political difficulties and generally weak institutional capability of the public sector. The Government is strongly committed to the recovery program and associated policy measures and has already taken a number of actions to improve the export sector policy framework. To minimize the institutional risks, a substantial amount of technical assistance would be provided in parallel with the project.

Executing Agencies: Ghana Cocoa Marketing Board (GCMB), State Gold Mining Corporation (SGMC), National Investment Bank (NIB), Ghana Port Authority (GPA).

Relending Arrangement: US$52.3 million equivalent of the proposed Credit for the cocoa, gold mining and port components would be onlent by the Borrower to GCMB, SGMC and GPA at an interest rate of 11.6 percent with a repayment period of

15 years after 5 years of grace. US$23.7 million equivalent would be made available to the National Investment Bank for purchases of foreign exchange by state-owned and private companies on terms and conditions acceptable to the Association to carry out the timber component of the project.

Two Year Requirements and Financing Plan:

	(US$ Million)			
	Two-year Requirements	IDA	IDA Special Fund	Government and Cofinanciers
Cocoa	130.0	12.0	11.9	106.1
Gold Mining	80.0	9.2	14.4	56.4
Timber	60.0	14.4	9.3	36.3
Ports	15.0	2.4	2.4	10.2
TOTAL	285.0	38.0	38.0	209.0

Estimated Period of Disbursement: January 1984 to June 1986. The IDA and IDA Special Fund Credits would be disbursed in two tranches. US$38 million would be available for disbursement after Credit effectiveness. The remaining US$38 million would be disbursed after a review of progress in December 1984.

Rate of Return: Approximately 20 percent.

Appraisal Report: None

Map: IBRD 3112R

INTERNATIONAL DEVELOPMENT ASSOCIATION

REPORT AND RECOMMENDATION OF THE PRESIDENT OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION TO THE EXECUTIVE DIRECTORS ON A PROPOSED EXPORT REHABILITATION PROJECT TO THE REPUBLIC OF GHANA

1. I submit the following report and recommendation on a proposed Credit to the Republic of Ghana of the equivalent of SDR 71.8 million (US$76 million equivalent) on standard IDA terms to help finance an Export Rehabilitation Project. Of the total Credit amount, SDR 35.9 million (US$38.0 million equivalent) would be financed from IDA and SDR 35.9 million (US$38.0 million equivalent) from the IDA Special Fund.

PART I - THE ECONOMY 1/

2. An economic report entitled "Ghana: Policies and Program for Adjustment" was distributed to the Executive Directors in October 1983 (4702-GH). Part I of this Report contains the principal findings of the report. Basic economic data and selected social indicators are summarized in Annex I.

3. The Ghanaian citizens once enjoyed a fairly high standard of living compared with citizens of most other West African nations. However, a declining gross national income has combined with high population growth (estimated at 3 percent a year) to cause a substantial erosion in real per capita income. At least 18 percent of the labor force is estimated to be unemployed, underemployment is widespread, and almost half the population of 12 million is now estimated to live in absolute poverty. The country's basic-needs indicators now appear to be on a par with those of other Sub-Sahara African countries with comparable per capita incomes. Thus, despite the growth in health facilities, modern health services are available to only about a third of the people and fewer in rural areas; only 35 percent have access to safe water. Although the education system is well established and elementary education has been free since 1962, 50 percent of adult men and 70 percent of adult women have had no formal education.

4. On December 31, 1981, Flight Lt. Rawlings replaced the Government headed by President Limann. After a difficult first year in office during which the new Government, Provisional National Defence Council (PNDC), essentially pursued a holding strategy, recent policy measures announced by the Government show a firm resolve to come to grips with the country's economic problems.

1/ This Part is the same as Part I of the President's Report for the Export Rehabilitation Technical Assistance Project which is being submitted to the Executive Directors for their consideration simultaneously with this proposed project.

Basic Structural Characteristics

5. Ghana is endowed with considerable natural and human resources. The country has valuable mineral deposits, particularly gold, but also diamond, bauxite and manganese. The large hydropower potential has only been partly tapped to generate electric power for the country as well as for export to neighboring countries. Recently some oil deposits have been discovered and off-shore oil exploitation is under way. Ghana has sufficient arable land to grow various kinds of food cereals and starchy staples and possesses considerable fishing resources. The country is also rich in forest resources.

6. Agriculture is the largest sector of the economy, accounting for about 51 percent of GDP, although only about 11 percent of the land area is cultivated, divided equally between cocoa and food crops. Nearly 70 percent of the population derive an income from agriculture or related activities. The basic staple foods are maize, rice, millet, yam, cassava, and plantain but, except for cassava, yields of these crops have stagnated. Food production in 1980 was only 88 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 the last five years, Ghana has had to import 10 to 15 percent of its cereal consumption (mainly rice and maize). Most foodstuffs other than cereals and starchy staples are either unavailable or can be purchased only on the black market.

7. Ghana is typical of a developing country that depends on primary products for exports. Cocoa (of which Ghana is the world's third largest producer) contributes about 60 percent of total export earnings; production has been declining, however, and world cocoa prices are depressed. Timber is also an important export. Although production has been declining for the past two decades, mining is still Ghana's second largest foreign exchange earner, contributing 10 to 15 percent of the total. Diversification of the export base, although emphasized by every Government over the past 25 years, has not made much headway.

8. Industrial production and services account for 17.5 and 32 percent of GDP, respectively. Manufacturing--including textiles, steel, tires, oil refining and simple consumer goods--contributed 9 percent of GDP in 1980 (down from 14 percent in 1971) and provided full- or part-time employment to about 12 percent of the labor force. Manufacturing in Ghana remains heavily dependent on imported inputs, however. As a result, the goal of import substitution through industrialization has met with little success and imposed a serious burden on the economy.

9. Ghana used to import all of its petroleum, mostly in the form of crude oil, which is refined domestically and used chiefly as a source of fuel for the transport sector. Recently, some oil deposits have been discovered and commercial exploitation has commenced. Production of crude is now about 1,200 barrels per day, equivalent to 7 percent of Ghana's requirements. Hydroelectric power meets most of Ghana's non-transport commercial energy needs.

Recent Economic Developments

10. Despite relatively abundant natural resources and human capital, Ghana's economy has been ailing for many years. Prominent among the symptoms are: declining per capita income, persistent high inflation, a greatly overvalued exchange rate, widespread smuggling and other illegal economic activities, large public-sector deficits, a difficult balance of payments situation, low productivity, low domestic saving and declining investment, deteriorating infrastructure, severe under-utilization of productive capacity, high unemployment, a brain drain of skilled professionals, skewed income distribution, and much-weakened institutions. Real GDP has declined every year since 1975, except for 1978, and real per capita income has fallen by 25 percent since 1975. Per capita income in current prices was estimated at $350 in 1982. Per capita food availability is 30 percent lower than in 1975. The reasons for these difficulties are manifold. Political instability and persistent mismanagement of the economy by successive Governments, an over-extended parastatal sector, sharp increases in oil prices, adverse terms of trade for Ghana's major exports, and declining export production are among the most important factors.

11. Inflation has been rampant since the mid-1970s. The consumer price index increased by an average of 80 percent a year after 1975, and reached the triple digit level (116 percent) in 1981, despite extensive Government use of price controls. Large public deficits, excess liquidity, and shortages of goods all contributed to the rise in prices. Fixed wage earners and cocoa farmers have suffered the most, while traders, import licensees, speculators, and farmers with marketable crops have been the main beneficiaries.

12. Budget deficits grew, as the Government proved unable to sustain a program of stabilization begun in 1978, when Government expenditures were cut by about one-third in real terms and the deficit was reduced to 5 percent of GDP (compared with 12 percent in 1977). An increase in the minimum wage in November 1980 and a serious shortfall in revenues--due to a dramatic fall in cocoa duties to 5 percent of total revenues (from 47 percent in 1978/79) and to a narrowing of the Government tax base--widened the deficit to ₵4.7 billion, or 10 percent of GDP, in 1980/81. 1/ In 1981/82, the deficit amounted to about ₵5 billion--i.e., 50 percent of estimated expenditures for the year and equivalent to the entire revenue collection.

13. Balance of payments difficulties persist. Capital inflows have virtually dried up, due to political uncertainties. Commercial lending was not feasible due to lack of creditworthiness and accumulation of large arrears, while official aid was reduced in response to lack of action on macroeconomic policy. Without capital inflows, imports and service payments were perforce held to the level of export earnings, which were also declining in quantity and value. Export earnings in 1981 were estimated to be 33 percent lower than in 1980 ($766 million v. $1.1 billion). The overvalued exchange rate acted as a strong disincentive to production for export, since the cost of production far exceeded the price received at the official exchange rate. Overvaluation,

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1/ Through 1982, the fiscal year was July-June.

along with shortages of consumer goods in rural areas, also resulted in a wide variety of illegal and unproductive economic activities. Domestically produced and imported goods were smuggled to the Ivory Coast and Togo for sale against the hard CFA, with tremendous losses (unofficially estimated at over $100 million a year) to the country's external account. International recession also contributed to the poor export performance. Because of weak demand, world prices of cocoa plummeted and prices of other primary exports were equally unfavorable. The international oil crisis compounded Ghana's problems. Imports of crude oil and petroleum products preempted almost half the country's export earnings.

14. Ghana has held its current account deficit low (it actually showed a small surplus in 1979), but at the cost of severely restricting imports. The import-GDP ratio, which stood at 20 percent in 1974, declined to only 3.6 percent by 1981 at the official exchange rate. This has created chronic and extremely acute shortages of raw materials, spare parts, and investment and consumer goods, resulting in stagnation in production and consumption and sharp deterioration in the physical infrastructure. Production in the manufacturing sector is only one-fourth of installed capacity. An estimated 70 percent of road vehicles are presently out of service, while more than a third of railway locomotives are awaiting spare parts for major repairs or overhaul. The entire road network is deteriorating rapidly and is already unusable in many places. All this has badly affected the export mining and forestry industries as well as the efficiency of the ports.

15. Capital formation was quite rapid in the 1950s, but became increasingly negative thereafter. By the 1970s, gross investment averaged only 8.9 percent of GDP, suggesting that net investment may have been negative. Gross investment is currently estimated at an extraordinarily low 2 percent of GDP, compared to 21 percent for Sub-Sahara Africa as a whole. In an inflationary environment, with very little scope for productive investment and negative real interest rates for savers, domestic savings are also low--about 3 percent of GDP compared to 23 percent for the rest of Sub-Sahara Africa. The binding constraint, however, is lack of foreign exchange rather than domestic resources for investment.

16. State enterprises have been assigned a large role in production and distribution of goods and services ever since Independence. However, their performance has been distressing both in terms of output and profitability. They have generated serious pressures on fiscal and monetary policies. The main problems are inefficient and frequently changing management, Government control over prices, lack of required inputs, machinery and spare parts, heavy overhead expenses on redundant labor, and lack of strict accountability.

17. Ghana originally had a large reservoir of trained manpower, but in recent years there has been a tremendous exodus of professional workers to countries where salaries and living conditions are better. It is reported that one-third of all secondary-school teachers have migrated to Nigeria, Liberia, Sierra Leone and elsewhere. The outflow of managerial and professional personnel has further thinned the administrative talents at senior levels of the civil service, which has been demoralized by relatively low salaries, an economic system that penalizes them severely compared with other

segments in the society, and uncertain and adverse working conditions. On the other hand, unskilled manpower is in oversupply, and redundancy and overstaffing are special problems at lower levels of Government administration.

Economic Developments in 1982/83

18. Soon after it came to power, the Rawlings Government took some extraordinary measures to arrest the slide in the economy. These included demonetization to siphon off excess liquidity, and severe restraint on Government expenditure and monetary growth. It was rewarded with some moderation in inflation; the consumer price index rose only 30 percent in 1982, compared to 116 percent the previous year. The budgetary deficit during the last six months of 1982 was contained at ₵2.5 billion--at least no worse than in the preceding 12 months and lower in real terms and as a ratio of current GDP. But this improvement was achieved at a substantial cost: the wage/non-wage ratio of recurrent expenditures became more skewed and development expenditures as a proportion of total Government spending declined significantly. Furthermore, export earnings continued to slide (to $627 million in 1982) and external capital flows, both official and private, slowed to a trickle. New loans and grants from all bilateral and multilateral sources amounted to only $45 million in 1982. Net transfers from all external sources were still lower--$38 million, or enough to finance only 6 percent of the country's already depressed imports. Consequently, imports had to be held to $694 million, down by 35 percent over 1980. This is less than $60 per capita, or about half the corresponding level for Senegal and one-fourth that for Ivory Coast. In nominal value, non-oil imports were lower in 1982 than in 1974.

19. The foreign exchange shortage, combined with the border closing, dried up remaining supplies of raw materials and spare parts and reduced production levels throughout the economy still further. Inadequate rainfall exacerbated Ghana's economic problems. Cereal production registered a shortfall of 332,000 tons. The Volta Lake Reservoir fell to an historic low, resulting in the shutdown of all five potlines of VALCO Aluminum Smelter and further reducing foreign exchange earnings. Furthermore, a steep fall in world cocoa prices meant that the unit export value of cocoa in 1982 was only $1,594/ton, 37 percent lower than in 1981. To make matters worse, some one million Ghanaian citizens -- about 10 percent of the population -- were expelled from Nigeria in early 1983 as a result of Nigeria's own economic difficulties. Their requirements added severe pressure on the economy. Food shortages became acute and market prices shot up. Absenteeism on farms, mines and offices became more pronounced with adverse effects on productivity that was low to begin with.

Economic Recovery and Short-Run Outlook

20. On April 21, 1983, the Government announced the 1983 budget, a short-term stabilization program, and a series of economic reforms, including a long overdue reform in the exchange rate. A new system of export bonuses and import surcharges resulted in *de facto* devaluation of 809 percent; subsequently, a unification of the exchange rate at cedis 30 per US dollar became effective on October 10, representing a 990 percent devaluation since April 1983; and at the same time, the interest rates were adjusted upwards by 35 to 40 percent.

21. The new economic recovery program is designed to begin the process of correcting structural imbalances and rehabilitating the economy. If implemented successfully, the program will realign relative prices in favor of production and export sectors, reduce budget deficits and thereby the underlying inflationary pressures, and facilitate the flow of imports needed to permit the growth of export production. Thus, among other important measures announced in April were an increase in cocoa producer prices to provide incentives to farmers, a doubling of gasoline producer prices as a step towards more realistic pricing of petroleum products, greater balance in Government budget and emphasis on productive sectors in the allocation of foreign and domestic resources. Water, power, railway and telecommunication tariffs were raised substantially. A price and incomes policy was instituted whereby the minimum wage was doubled and civil service salaries were raised by an average of 60 percent.

22. The 1983 budget reflects the impact of adjustments in the exchange rate and attempts to restore tax bases. Government revenues are expected to rise from ₵4.6 billion in 1982 to ₵14.6 billion in 1983, an increase of 217 percent. The Government is also committed to eliminating subsidies to public sector enterprises and keeping a tight rein on other expenditures. Despite the increases in wages and salaries, therefore, the deficit is expected to fall from ₵4 billion in 1982 to ₵3.4 billion in 1983 -- i.e., from 50 percent of the ₵9.2 billion spent in 1982 to 24 percent of a projected expenditure of ₵18.1 billion.

23. In the export sector, the changes in exchange rates and price incentives will have a favorable impact, but it is unlikely that export earnings will increase much in the immediate future. Cocoa exports, in particular, are unlikely to respond quickly, since infrastructure constraints, inelastic world demand, and agronomic problems related to past neglect will continue to operate in the short run, and production and exports are likely to increase by only 5 to 10 percent a year for the next few years. A more vigorous recovery is projected for mining and timber, permitting total exports to rise from about $582 million in 1983 to an expected $960 million in 1985, with continuing recovery thereafter.

24. While the stabilization program will, with adequate external assistance, provide some relief from the present economic crisis, it has also been conceived as a first step in a longer-term process of returning the economy to a more satisfactory growth path. Thus, a critical next step will be preparation of a comprehensive economic rehabilitation program to be initiated during the stabilization period and continued for three to four years thereafter. A program to rehabilitate the roads, ports, railway and transport infrastructure will also be needed. Other necessary tasks include improvement of parastatal operations, a review of the role of the private and public sectors, and strengthening Government capacity for planning and economic management.

25. Ghana's growth prospects beyond the stabilization and rehabilitation phases will depend to a considerable extent on (a) the determination of the Government to sustain the kind of economic policies it has now begun even though some features may not be universally popular, and (b) an investment plan that fulfills the key requirements of the economy. So far, the Govern-

ment has resisted all pressures to rescind or modify its economic recovery program despite serious economic and political difficulties. But an immediate inflow of food, fuel and other imports is essential, since shortages in these areas could set back the Government's efforts to arrest inflationary tendencies and thus erode the success of devaluation. A minimum import program of about $1 billion f.o.b. is needed to begin the reconstruction program with sufficient momentum, and this will require a substantial infusion of foreign exchange, especially in view of the need to build up reserves and reduce arrears. Also, allocation of these imports will have to be improved in order to appreciably augment the supply of basic consumer goods, raw materials and spare parts that are prerequisite to increasing export production.

26. Beyond the short term, if the Government is able to maintain a more realistic structure of prices and costs and a viable exchange rate, restrain growth in public consumption, improve public revenue performance, reduce the inflationary tendencies associated with large public-sector deficits, and make a concerted drive to expand production and exports, particularly of cocoa and minerals, through more appropriate price incentives, support services, and more assured supplies of necessary inputs, it should be feasible to achieve rates of real growth in excess of 4 percent a year (or one percent per capita) after 1985/86. The attainment of even such a modest rate of growth after two or three years would be a major turnaround. Of course, this presupposes a more stable political environment than exists at present. It also presupposes that Ghana's own efforts will be supported by an augmented flow of external assistance. Ghana's needs for external capital over the next few years are substantial and will call for a major effort on the part of the donor community. Unless concessional assistance is forthcoming, the possibility of successful stabilization and economic rehabilitation will be seriously diminished and could adversely affect the country's stability.

Relations with IMF

27. At the request of the Government, an IMF mission visited Ghana from May 1 - May 25, 1983 to negotiate ad referendum, a stabilization program which forms the basis for a one-year standby agreement. The elements of the stabilization program have been discussed in paras. 20-26 above. The Executive Directors of the IMF discussed the program on August 3, 1983 and approved a standby agreement amounting to SDR 238.5 million and also approved a drawing from the compensatory financing facility in the amount of SDR 120.5 million.

External Debt and Creditworthiness

28. An agreement on a long-term rescheduling of Ghana's medium-term external debt was concluded in March 1974. Under this agreement, all payments due after February 1, 1972, in respect of pre-1966 debt obligations, are to be paid over a period of 28 years beginning 1982, after a grace period of 10 years, at 2-1/2 percent per annum. Ghana's medium and long-term external public debt outstanding and disbursed at end-1982 is estimated at US$1,192 million representing about 3 percent of GDP. The debt service ratio of public and publicly guaranteed medium and long-term debt is about 9 percent of exports of goods and non-factor services and is expected to rise modestly after the grace period on the rescheduled debt expires. Arrears on Ghana's

short-term debt increased from US$245 million in 1977 to US$489 million by end-1978. By December 1980 these arrears had declined to US$332 million. However, 1981 saw a relapse with arrears increasing by $142 million. By the end of 1982, the short term arrears had accumulated to $580 million. The economic recovery program aims to reduce these arrears in a phased manner.

29. Ghana is relying on official sources for most of the external capital required to support its development program, and relatively little of its medium- and long-term borrowing is on commercial terms. Consequently, Bank Loans and IDA Credits disbursed together represented about 22 percent of the country's estimated public external debt at end-1982. Net transfers over the last decade averaged $25 to $30 million per annum but were $7 million in 1982. Bank Group commitments on a per capita basis amounted to $1.76 during 1977-82 and lending dropped to less than a project a year during this period. Service payments on Bank Loans and IDA Credits in 1982 accounted for 25 percent of the country's external debt service, but they are projected to decline to 17 percent of external debt service by 1987 as other sources of lending revive.

30. Ghana's extremely difficult economic conditions and its vulnerability to fluctuations in cocoa export earnings make it desirable that future debt service obligations be kept as low as possible. Consequently, Ghana will have to depend on IDA resources for Bank Group borrowing over the next few years. This is also consistent with Ghana's relatively low per capita income. At the same time, to help ensure a more adequate flow of foreign exchange into the country, it would be appropriate to finance some local costs of projects.

PART II - BANK GROUP OPERATIONS IN GHANA 1/

31. Since 1962, when the Bank Group financed its first operation in Ghana, the Bank has made 10 Loans totalling US$190.5 million and 21 Credits totalling US$279.3 million. Included in the 21 Credits is one whereby Ghana is a beneficiary of a Bank-financed regional clinker project covering three countries (Togo, Ivory Coast and Ghana). There are no IFC investments. Annex II contains a summary statement of Bank Loans and IDA Credits as of September 30, 1983.

32. Power generation and distribution represents the largest share of past commitments (27 percent) and the sector has been assisted by three power generation projects and three power distribution projects. Bank Group involvement in the sector started in 1962 with the Volta River project which included the construction of the Akosombo dam, the country's first hydro power plant (912 MW) and the transmission grid. The project also helped to create the Volta River Authority (VRA), the power generating company. Subsequent

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1/ This Part is the same as Part II of the President's Report for the Export Rehabilitation Technical Assistance Project which is being submitted to the Executive Directors for their consideration simultaneously with this proposed project.

Bank involvement in power generation included the Volta River expansion project in 1968 and Kpong Hydroelectric project in 1977. In power distribution, three Bank Group operations (in 1968, 1971 and 1977) helped to establish and expand a low voltage distribution network and create the Electricity Corporation of Ghana (ECG), the power distribution company. Cofinancing was a major operation in our lending to the power sector and involved a number of donor agencies including Arab Funds, European Investment Bank, European Development Fund, Canadian International Development Agency (CIDA), Development Loan Fund (USA), US Exim Bank, and Export Credits Guarantee Department (U.K.). Alongside power generation and distribution, agriculture has been a major focus of Bank Group lending, receiving 22.5 percent of the Bank Group's lending to Ghana. The lending program in agriculture has covered fisheries (1969), Eastern Region cocoa (1970), sugar rehabilitation (1973), livestock development (1974), Ashanti Region cocoa (1975), oil palm (1975), Upper Region agricultural development (1976) and Volta Region agricultural development (1980). The main thrust of the Bank Group's lending operations in agriculture 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. Earlier Bank Group projects in the sector were directed towards development of specific subsectors with emphasis on smallholder development, while starting in late 1970's, more emphasis has been given to a broad-based integrated agricultural development. Two such projects are currently under implementation, one in the Upper Region and the other in the Volta Region, which aim to increase farm incomes and the standard of living of a large number of smallholders by introducing improved farming technology, providing farm support services and developing rural infrastructure. Major donor agencies which provided cofinancing in our agriculture sector operations were Overseas Development Administration (U.K.), International Fund for Agricultural Development, and Arab Bank for Economic Development in Africa. The Bank Group is also executing a UNDP-financed technical assistance project designed to strengthen the management and operation of the Ghana Cocoa Marketing Board.

33. Transportation is the third most important sector in the Bank Group's program in Ghana (20.5 percent of commitments). Projects financed in the sector include three road projects (in 1973, 1975 and 1980) and a railway rehabilitation project approved in 1981. The road projects focussed initially on rehabilitation and reconstruction of part of the country's main trunk road system but, in light of rapid deterioration in the entire road sector principally due to acute shortages of imported inputs, later emphasis was placed on emergency maintenance to keep roads open for agricultural and export traffic. An ongoing railway project which is cofinanced with African Development Bank (ADB) seeks to remove the present transport bottleneck to Ghana's traditional exports (cocoa, timber and minerals), for the movement of which railways have a comparative advantage. A telecommunications project currently under implementation aims at improving and expanding domestic telephone services in Accra and major urban centers. In the field of water supply two projects (in 1969 and 1974) have helped increase and improve the water supply in the Accra/Tema metropolitan area and adjacent rural areas. The first project helped expand the water supply distribution network and sewerage system in the Accra/Tema area and the second project which was cofinanced with ADB and CIDA included construction of a reservoir at Weija, a treatment plant

and a transmission pipeline. A third water supply project was approved by the Executive Directors in March 1983 to help carry out emergency repairs and maintenance on the pipeline from Kpong which presently provides two thirds of the Accra water supply. The project also includes substantial technical assistance to strengthen the management and operations of the Ghana Water and Sewerage Corporation and to increase its capacity for improving water supply, especially in the rural areas. In the manufacturing sector, two DFC operations (in 1975 and 1979) have financed investment projects in manufacturing and agro-industry undertaken by small and medium enterprises. The main emphasis of Bank Group lending in this sector has been to encourage enterprises using raw materials and which are capable of contributing to foreign exchange earnings and savings. A related objective for the DFC projects was to strengthen the institutional capacity of the National Investment Bank (NIB), Ghana's main development finance institution. The second DFC project which includes cofinancing under an EEC Special Action Credit is providing foreign exchange working capital to help increase capacity utilization of priority enterprises, in addition to long-term capital investment. An energy project aimed at strengthening Ghana's technical capacity to accelerate petroleum exploration was approved by the Executive Directors in May 1983.

34. The serious economic difficulties which the country has experienced in recent years have adversely affected implementation of a number of Bank Group financed projects. The dwindling revenue base of the Government has constrained its ability to finance the local costs of projects, and the lack of foreign exchange has resulted in a severe shortage of imported materials and spare parts required for the operation and maintenance of 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 projects in Ghana, the disbursement performance is falling behind appraisal estimates. Annual gross disbursements have averaged about 25 percent of outstanding Loan/Credit commitments and as of September 30, 1983 US$162.6 million remain 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.

35. The principal objectives which will guide the formulation of our assistance program to 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 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, power) so as to relieve major bottlenecks to increased production. We also plan a substantial increase in our economic and sector work to broaden and deepen our understanding of the constraints which are likely to impede the

recovery process, to provide direction to our future lending program and the design of project components. In both our lending and economic and sector work, attention will be given to ways of strengthening the institutions responsible for economic management and development spending. The proposed Export Rehabilitation Technical Assistance Project is designed to support the Government's program to strengthen the institutions responsible for Ghana's major export industries.

36. In addition to the proposed Credit and the Reconstruction Import Credit recently approved by the Executive Directors, a more broadly based program of rehabilitation of the country's economic assets will be required. In the near term IDA would support a program to rebuild the network of trunk roads including major bridge reconstruction and ports rehabilitation components, and provide assistance to rehabilitate the power distribution system and the oil refinery. In agriculture, further assistance to the development of oil palm production is envisaged as well as for cocoa given the overwhelming importance of this crop, at least in the short term, for foreign exchange earnings. In brief, projects with major rehabilitation components are likely to absorb the bulk of Bank Group resources for the next few years as these are likely to show the highest benefits and quickest returns. For the outer years, the Bank will begin to examine prospects for new productive investments including support for education, health and other important activities in the social sectors. The extent to which the Bank Group can provide financial and technical assistance to support such a broad-based program will be conditioned by the performance of the Government in carrying through its economic recovery program.

37. The Government of Ghana has requested the Bank to act as a catalyst to help muster external assistance through cofinancing and more generally in the context of strengthened aid coordination. At the request of the Government, the Bank Group reconvened a meeting of the Ghana Consultative Group on November 23 and 24, 1983. The participants of the meeting have endorsed the Government's economic recovery program, and it is expected that the foreign exchange requirement for 1984 under the program will be substantially met by the donors' contributions.

PART III - THE EXPORT SECTORS 1/
COCOA, TIMBER AND MINING

38. If Ghana's current economic recovery program is to succeed and the Government is to be able to sustain policy reform measures recently introduced, it will be essential to generate positive supply response from the export sector to restore the country's foreign exchange earning capacity. Sustained economic recovery would require that the present severe shortage of

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1/ This Part is similar to Part III of the President's Report for the Export Rehabilitation Technical Assistance Project which is being submitted to the Executive Directors for their consideration simultaneously with this proposed project.

imported inputs be alleviated to rehabilitate the existing productive assets and improve utilization of the existing capacity. Since the export sector remains the principal determinant of Ghana's import capacity, the Government's economic recovery program assigns the highest priority to increasing export earnings by arresting and reversing declining production in key export industries.

39. The Government of Ghana has introduced, for the first time, an integrated foreign exchange budget that is announced at the same time as the fiscal budget. IDA reviewed and was satisfied with the foreign exchange budget for 1983. The foreign exchange budget presents the estimates of expected inflows of foreign exchange based on export projections, aid disbursements and other receipts. The outflows are projected by taking into account the import program, debt servicing and other payments. The set of priorities reflected in the sectoral allocation of foreign exchange were (a) export oriented sectors; (b) oil and petroleum products; (c) food; (d) Government revenue generating activities; (e) other production sectors; and (f) infrastructure. Of course, the foreign exchange needs of the economy are so enormous that it was not possible to accommodate the full demands of even these six areas. But the prioritization scheme underlying the foreign exchange budget at least ensured that the most pressing needs were financed adequately. The actual outcome of the budget will, however, depend on how far the amount and the sources of financing assumed in the budget are realized. The budgeting exercise is expected to provide some semblance of order in the management of scarce foreign exchange. IDA has also reviewed the foreign exchange budgets for 1984 and has been satisfied that adequate allocations of foreign exchange are made to meet the priority needs of export-oriented sectors, including their infrastructure requirements. IDA will review the foreign exchange budgets for 1985 and 1986.

40. IDA has also reviewed with the Government the size and composition of the 1983 development budget. The criteria governing the development budget were (a) completion of ongoing projects with special emphasis on infrastructure requirements of export-oriented and production sectors, and (b) adequate counterpart financing of foreign aided projects. Although the amount earmarked for development projects is totally out of line with the identified needs of the economy, the overall budgetary deficit ceilings had to be observed while formulating the development budget. IDA has carried out a similar review of the 1984 development budget with the Government and has been satisfied with the budget. The main consideration in making this review has been whether the export-oriented sectors are being provided adequate local counterpart funds for carrying out their directly productive activities and also for complementary investments in the supporting infrastructure. The set of priorities in the sectoral allocation of foreign exchange as described in the preceeding paragraph has also been a governing factor in this review exercise; in particular, the complementarity of export oriented sectors and Government revenue generating activities and infrastructure has been focussed. A similar budget review will be carried out for 1985 and 1986. A successful review of the foreign exchange and development budgets will be a condition for release of the second tranche under the proposed Export Rehabilitation Project (ERP) (Schedule 1, para. 3 of both the draft Development Credit Agreement and the draft Special Fund Credit Agreement).

41. Traditionally Ghana's export sector has played a significant role in the country's economy, accounting for about a fifth of GDP and one third of Government revenues and employing about 35 percent of the labor force. In 1980 total export earnings amounted to US$1.1 billion. Major exports are cocoa, timber and minerals (gold, diamonds, manganese and bauxite) which together constitute over 90 percent of total export earnings. As the table below shows, there has been a substantial decline in the volume of exports under these sectors during the last decade. Cocoa and gold exports in mid 1982 have been reduced to about 40 percent of the level attained in 1972 while timber exports have declined to 10 percent. The following paragraphs discuss the factors contributing to their decline and the Government's strategy for overcoming both physical and policy constraints and reviving the production and exports of these sectors. Table 1 (page 14-18) sets out in summary the export sector policy and institutional reforms that the Government proposes to implement in conjunction with the proposed project and the proposed Export Rehabilitation Technical Assistance Project. These reforms are discussed in detail in the following paragraphs.

EXPORT TRENDS OF SECTORS UNDER THE ERP

	1972	1975	1980	1982	Export Index in 1982 (1972 =100)
Cocoa (000 tons)	406	341	234	178 1/	43.8
Gold (000 ounces)	737	513	337	302	40.9
Timber (000 cu.meters)	1,006	605	185	111	10.9

1/ 1982/83 season

Table 1

(Cocoa Sector)

Sector Issues	Proposed Changes	Justification/Benefits	Timetable for Action
Producer Price	Cocoa producer price to be reviewed annually in consultation with IDA; a new price to be announced before March 31 each year.	Financial incentives to cocoa farmers and increased production. Returns from cocoa production become more competitive with those from maize.	Price increase proposal to IDA by January 31, 1984 and agreement with IDA by February 28, 1984. Government implementation of the agreed price by March 31, 1984 is a disbursement condition for the cocoa sector Credit allocation. Similar consultations and agreement with IDA for subsequent years.
	An independent Cocoa Producer Price Review Committee to be established, with farmer and GCMB representatives, to review and determine producer prices.		Committee to be established by January 31, 1984.
Foreign Exchange	GCMB continues to be allowed to retain 10% of export proceeds for importation of recurrent inputs and essential spare parts.	Increased production through timely availability of imported inputs (e.g. insecticides) and improved efficiency in haulage.	Streamlined procedures to utilize the retention funds recently introduced by the Government will be monitored by IDA.
Production Strategy	A long-term strategy and Swollen Shoot Virus Disease (SSVD) control program to be established, concentrating rehabilitation in areas not yet infected; a compensation system introduced to encourage replanting.	Long-run economic viability of the cocoa sector, with the aim of consolidating cocoa acreage by half and more than doubling present average yields.	Production strategy, SSVD control program and compensation plan to be prepared by June 30, 1984 and then to be carried out according to a timetable satisfactory to IDA.
Sector Organization	GCMB and extension services of CSD to be restructured as a commercial entity. Outstanding GCMB debt to be switched to Government long-term loans with a grace period to enable GCMB to finance development expenditures.	Improved operating efficiency of GCMB; greater financial discipline; accountability of management and performance monitoring. After initial period, Gov't revenue to increase through corporate taxes and GCMB dividends.	Restructuring has been initiated; completion of GCMB reorganization is a disbursement condition for the cocoa sector Credit allocation.

Table 1

(Continued Cocoa Sector)

Sector Issues	Proposed Changes	Justification/Benefits	Timetable for Action
Staffing	A five-year retrenchment program to be implemented, aiming at a substantial net reduction of employees per annum; adjustment assistance for displaced workers.	Reduced operating costs of GCMB; increased share of cocoa revenues for farmers.	Staff retrenchment starting in 1984 in a manner and according to timetable satisfactory to IDA. Adjustment assistance program to be submitted to IDA by March 31, 1984.
Privatization	GCMB's cocoa plantations to be privatized by parcelling out among present workers and/or selling to private investors.	Reduced operating costs and improved efficiency by GCMB; long-term rationalization of sector organization.	Study of potential and procedures to be completed by June 30, 1984 and action taken by December 31, 1984.
	GCMB to divest its three cocoa products factories and insecticides plant.	ditto	Study of divestment procedures to be completed and action taken by above dates.
	GCMB to prepare a program to increase haulage of cocoa by private truckers, especially from depots to ports.	ditto	Program to be reviewed with IDA by June 30, 1984, and implemented in a manner and according to timetable satisfactory to IDA.
	GCMB to prepare a study examining alternative cocoa marketing arrangements, such as privatization or multiple buying.	ditto	Study to be reviewed with IDA by June 30, 1985, and action taken by December 31, 1985.

Table 1

(Timber Sector)

Sector Issues	Proposed Changes	Justification/Benefits	Timetable for Action
Sector Organization	GTMB abolished and to be replaced by an independent Timber Export Development Board (TEDB) established strictly as an export promotion body with representation of producing mills as well as Gov't.	Greater freedom and initiatives for millers and exporters to export; reduction in Government control and intervention in export procedures; improved market intelligence and promotion.	TEDB to be established by April 30, 1984.
Control on Industry	Minimum export price regulation abolished.	Increased timber exports and simplification of export procedures; improved market confidence in Ghana products.	Action completed. Effective implementation of simplified procedures to be monitored by IDA.
	Prior Government approval of export contracts discontinued.	ditto	ditto
Grading and Inspection	Forest Products Inspection Bureau (FPIB) to be established as a self-regulating professional body to strengthen grading and inspection of export parcels.	Greater market acceptability of Ghana products; higher foreign exchange earnings through avoidance of under-invoicing; simplification of export procedures.	To be established by April 30, 1984.
	Uniform timber grading rules to be adopted	ditto	To be adopted by March 31, 1985.
Foreign Exchange	Existing procedures for retention of 20% of export proceeds streamlined.	Increased production and operating efficiency of mills through timely availability of recurrent imported inputs.	Procedures have recently been streamlined considerably. Further simplification to be studied by March 31, 1984 and implemented by June 30, 1984.
State-owned companies	Alternative strategies for ownership and management of state-owned companies to be studied and adopted, including the possibility of privatization and management contracts.	Long-run rationalization of sector organization and increased viability of the state-owned sub-sector.	Study to be completed by September 30, 1984; alternative strategies to be adopted by December 31, 1984.

Table 1

(Continued Timber Sector)

Sector Issues	Proposed Changes	Justification/Benefits	Timetable for Action
Concession Policy	A general reveiw of forest concession allocations to be carried out and follow-up action to reallocate uneconomic concessions, with priority to export producers.	Optimal utilization of forest resources and increased export production.	Review to be carried out by June 30, 1985 and action taken by December 31, 1985.

Table 1

(Mining Sector)

Sector Issues	Proposed Changes	Justification/Benefits	Timetable for Action
Sector Organization	SGMC to enter into a management contract with an international mining company to manage SGMC mines as a commercial entity	Increased managerial and technical capability of SGMC through large-scale injection of expatriate managers necessary to implement the rehabilitation program.	Signing of management contract prior to disbursement of the mining component of proposed Credit except for $5 million worth of urgently required import items; preliminary work has already begun.
Foreign Exchange	Foreign exchange retention by SGMC increased from 20% to 35% (about $10 million/year at present production levels), with SGMC allowed direct access to retained funds.	Increased production and operating efficiency through availability of necessary imported inputs on a timely basis.	Streamlined procedures recently introduced by the Government to utilize the retention funds will be monitored by IDA.
Plan of Action	SGMC to carry out plan of action to improve productivity including the introduction of work incentive schemes, including food and productivity bonuses.	Enhanced worker morale and productivity.	Action to be taken before December 31, 1984.
SGMC's Finances	Government to convert SGMC's debts to long-term loan with appropriate grace periods.	Improved finances of SGMC.	Action to be taken by June 30, 1984.
Monitoring	SGMC performance to be monitored and reviewed annually by Government, SGMC and IDA. Cost of production of SGMC mines to be reviewed annually and required financial measures taken by Government to maintain viability.	Ensuring accountability of management and adequacy of policy measures affecting SGMC.	Annual; first review with IDA in December 1984.

A - The Cocoa Sector

Recent Trends

42. Cocoa is the predominant sector in Ghana's economy. It generates 60 percent of export earnings, and 10 percent of GDP. It employs 24 percent of the working labor force and takes up more than half of the country's total land under cultivation. Also up until 1981, the cocoa sector provided about one-third of Government revenues. In the mid 1960's, Ghana was the leading producer of cocoa in the world, producing some 566,000 tons (1964/65), about one-third of total world supply.

43. The next ten years saw a steady decline with 1974/75 production dropping to some 400,000 tons. Subsequently output has declined even more rapidly, with 1982/83 production of only 180,000 tons. Correspondingly, Ghana is now the third largest cocoa producer in the world, accounting for about 12 percent of output. The immediate objective of the proposed project would, therefore, be to arrest this declining production. The impact of this declining production on Ghana's economy was made even more acute by a falling off of international cocoa prices between 1977 ($3,790 per ton) and 1981 ($1,800 per ton).

Sector Constraints and Issues

44. Government policies in the past have been largely responsible for poor production performance of cocoa in the past decade. The main factors responsible for the decline of cocoa output were inadequate producer prices, high marketing costs and institutional weaknesses of the Ghana Cocoa Marketing Board (GCMB), the lack of imported inputs and deteriorating transport infrastructure as discussed below.

45. Price Policy. The cocoa producer price is determined by the Government and the adjustments allowed in the past have been far short of general price increases, making cocoa farming increasingly unprofitable both absolutely and relative to other crops. If the Government had followed a more realistic price policy and let the producer price increase at the same rate as the export price from mid 1960s onwards, the rate of decline in the real incomes of cocoa producers could have been arrested. Instead the instrument of price policy was used to exact more taxes from the industry which increased from an average of 18 percent of cocoa export proceeds in the early 1960s to more than 50 percent by the late 1970s. A growing divergence between the official producer price and prices prevailing in the neighboring Ivory Coast and Togo provided increasing incentive to smuggle cocoa out of the country. Furthermore, the erosion of real income from cocoa has led to a shift of family labor to food farming and has contributed to labor shortages, as farmers are unable to hire casual labor during peak demand periods.

46. Input Supply Policy. The availability of insecticides and spraying machines has been erratic and in 1979-81 the absolute amount available declined sharply. Repair facilities and spare parts for spraying machines have also been almost non-existent. Surveys in 1974 and 1978 revealed that

47 percent of the farms infected with capsids were not sprayed at all, 36 percent once, 13 percent twice, only 4 percent thrice and none 4 times (which is the recommended frequency). The output response has, therefore, been disappointing.

47. Deteriorating Transportation System. Lack of adequate vehicles and spare parts and deteriorating roads and bridges increased difficulties in evacuating cocoa to the ports. The weakness of the transportation system led to deterioration in the quality of cocoa beans purchased (storage facilities being deficient), difficulty in moving merchandise and farm inputs to cocoa growing areas and depressed morale among cocoa farmers.

48. Marketing and Extension Costs. The basic institutional setup for marketing, input supply and extension lacks efficiency and effectiveness. Staff of GCMB and Cocoa Services Division (CSD) which provides extension services has increased enormously over the years. The work force of CSD has grown from about 4,000 in mid-1960s to about 44,000 at present though cocoa production is now only 32 percent of the level in mid-1960s. A recent study estimated that of the total of over 100,000 staff of GCMB (all divisions and subsidiaries) and CSD, an estimated 46,000 were surplus costing ₵377 million annually. While there is surplus field and administrative staff, there is an acute shortage of qualified accounting and workshop staff.

Government Strategy and Short-term Rehabilitation Program

49. Given the importance of cocoa in the national economy, the Government considers rehabilitation of the cocoa industry as a priority and an essential element of Ghana's economic recovery program. Although the long-term projection indicates that the real world price of cocoa is likely to fall, to which the Government is beginning to respond with an export diversification strategy, in the short to medium term the cocoa sector offers substantial potential for recovery of exports, given the country's overwhelming reliance on cocoa for export earnings. Ghana has a comparative advantage in the production of cocoa and Ghana's cocoa has traditionally enjoyed quality premium in the international market. With proper policy framework, especially adequate producer price and input supply policies, and removal of evacuation bottlenecks, Ghana can, as a short-term objective, arrest and reverse the decline in cocoa output and, as a medium term objective, restore production to the level achieved during the mid 1970's (i.e., 400,000 tons) through rehabilitation of existing farms and improved capsid control and husbandry practices.

50. In recognition of the importance of the cocoa sector, the Government has prepared with the assistance of IDA a comprehensive study for the rehabilitation of the cocoa sector. 1/ The study examined all major aspects of the Ghanaian cocoa industry and proposed policy and institutional measures to improve producer incentives, marketing efficiency and extension effectiveness including restructuring of GCMB. The study also identified required inputs, equipment, and materials for rehabilitation of the cocoa sector, which the

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1/ Cocoa III Prefeasibility studies (in 12 volumes) carried out in 1982 by Peat, Marwick and Mitchell (U.K.).

Bank Group originally intended to help finance under a third cocoa project. However, in view of the urgent need to initiate early measures, the Government has prepared on the basis of the study a short term rehabilitation program which aims at implementing essential policy changes and providing required inputs to cocoa farmers and GCMB for a period of two years (1984-1985). The program would be supported by this proposed project and the proposed Export Rehabilitation Technical Assistance Project. In contrast to the earlier two cocoa projects financed by the Bank Group which were confined to specific geographical areas, the modified strategy under the proposed project would be to deal with the major issues in the cocoa sector on a broad-based sectoral level and attempt to implement a comprehensive reform package as discussed in detail in the following paragraphs.

Cocoa Sector Reform Measures

51. Producer Price Adjustment. Past studies on the cocoa sector have shown that Ghanaian cocoa production is influenced mainly by real producer prices. In recent years, substantial increases in nominal producer prices for cocoa have taken place. In 1981, the producer price was raised from ¢4,000 per ton to ¢12,000 per ton. However, high domestic inflation rates largely eroded the impact of this three-fold increase and in 1982 the cocoa producer price was still only one-third of that in 1963 in real terms. In May 1983 the cocoa producer price was again raised from ¢12,000 to ¢20,000 per ton. Assuming realistic exchange rates in the future, improvements in real cocoa producer prices are possible with the recent increase in world cocoa prices,1/ possible reduction in marketing costs and gradual decrease of Government reliance on cocoa for revenues.

52. The spurt in food prices over the last few years, particularly of maize, has improved relative financial returns from food farming and therefore its attractiveness, as compared to cocoa, though returns to the economy from cocoa are much higher than those from foodcrops. The market price of maize increased from ¢66 per ton in 1963 to ¢20,000 in 1982 while the producer price of cocoa increased from ¢220 per ton to ¢12,000. With the drought in 1982 and bush fires in early 1983 and acute foreign exchange shortage, prices of maize now range from ¢40,000 to ¢60,000 per ton. It is reasonable to expect that after the harvest this year and improved availability of imported foodstuff as a result of external support, the present high prices of foodstuff will come down. Assuming the maize price settles at ¢20,000 per ton, the return per manday from maize (traditional cultivation) will be ¢145 compared to ¢118 from rehabilitated cocoa at the present producer price of ¢20,000 per ton. With a 25 percent increase in cocoa producer prices from the present level, the return per manday from rehabilitated cocoa would equal that from maize.

53. A regular review and adjustment of producer prices is essential to maintain farmers' incentives for cocoa production. In view of the uncertain-

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1/ Recently world cocoa prices have risen to $2,500 per ton. Assuming the f.o.b. Accra prices ranging from $2,100 to $2,400 and an exchange rate of ¢ 30 to US$1, cocoa producer prices are 28 to 32 percent of f.o.b. prices.

ties of the international cocoa market and of the domestic inflation rate, particularly the prices of competing foodstuffs, it is not considered desirable to provide for an automatic adjustment of cocoa producer price based on a predetermined formula. Instead, an annual review and adjustment would be undertaken. Given the importance of cocoa to the economy and possible conflict between the commercial objectives of a restructured GCMB (paras. 54-56) on the one hand and producer incentives and price stabilization on the other, a Cocoa Producer Price Review Committee, independent of GCMB, would be established by January 31, 1984 to review and determine new producer prices (Schedule 5, para. B 1 (b) of both the draft Development Credit Agreement and the draft Special Fund Credit Agreement). The Committee would be chaired by the PNDC Secretary for Finance and Economic Planning with membership of the Chief Executive of GCMB and at least one representative of cocoa farmers. Beginning in 1984, and each year thereafter, the Government would submit its proposed prices by January 31 to IDA for review, would agree on the prices by February 28, and would announce them by March 31 (Schedule 5, para. B 1 (b), of both the draft Development Credit Agreement and the draft Special Fund Credit Agreement). The announcement of the 1984 cocoa prices would be a condition of disbursement of the cocoa component of the Credit (Schedule 1, para. 2 (d) and para. 2 (c), respectively, of the draft Development Credit Agreement and the draft Special Fund Credit Agreement). On the basis of the current estimates of domestic inflation in 1983 and the necessity to provide enough incentives to farmers, a cocoa producer price increase of at least 50 percent seems warranted for 1984. In reviewing proposed prices, special attention would be paid to maintaining adequate incentives for cocoa producers.

54. Reorganization of GCMB. The restructuring and reorganization of GCMB is crucial to cocoa sector rehabilitation. It is proposed to integrate CSD, which is responsible for providing extension services to cocoa farmers, with GCMB. This is needed in the interests of integrated sector planning and operation, tighter control over CSD activities, economy in the use of central support services leading to a reduction in operating costs and easier availability of resources for CSD.

55. The GCMB, which has previously operated virtually as a Government department, would be reorganized as a commercial body running on a profit-making basis. This is considered essential if the efficiency of GCMB is to be improved, performance criteria worked out and accountability of senior management ensured. The basic principle is to give GCMB control over its resources (with effective monitoring by the Government through its representation on the Board of Directors) so that it can institute proper planning and financial management and be judged as to its performance at the end of the financial year. The Government will continue to have its revenues from cocoa through corporate taxes and dividends paid by GCMB. However, GCMB should build up its equity so as to be able to finance its development expenditures. Until GCMB's revenues start to improve, its outstanding debt would be converted to Government's long-term loans with an appropriate grace period.

56. The proposal for the restructuring of GCMB was conveyed to IDA by the Government at negotiations. Subsequently a cabinet directive has authorized GCMB to proceed with the restructuring. The restructuring proposals are the work of a Steering Committee chaired by the PNDC Coordinating Secretary with membership of PNDC Secretary for Finance and Economic Planning and Chief Executive of GCMB. The Steering Committee will also oversee the implementation of the restructuring of GCMB, which will have to be legally accomplished prior to disbursement under the cocoa component of the Credit (Schedule 1, para. 2 (d) and para. 2 (c), respectively, of the draft Development Credit Agreement and the draft Special Fund Credit Agreement).

57. Although cocoa is the most important foreign exchange earner, the failure by the Government in the past to provide sufficient foreign exchange to import essential recurrent needs (particularly insecticides) has been one of the major reasons for declining cocoa output. Given the importance of assuring timely inputs to cocoa farmers and essential spare parts for the cocoa evacuation vehicles, the Government has already authorized GCMB to have access to at least 10 percent of its foreign exchange earnings through a foreign exchange retention scheme, and has agreed to maintain this scheme (Schedule 5, para. B 1 (g) of both the draft Development Credit Agreement and the draft Special Fund Credit Agreement). Guidelines for the proper use by GCMB of retained foreign exchange would be evolved by the Government.

58. <u>Reduction in GCMB Operating Costs</u>. In order to allow cocoa farmers to have a progressively greater share of f.o.b. value and to ensure that GCMB remains commercially viable, serious efforts would be made to reduce GCMB operating costs. Several steps would be taken in this regard during the project period:

(i) Plantations run by both GCMB and CSD are a heavy burden at present accounting for over 20 percent of the operating costs of GCMB, CSD, Produce Buying Division (PBD) and Produce Inspection Division (PID) combined and employing about 18,000 staff. The Government has taken initital steps to parcel out the plantations among the workers presently employed there (who would no longer be GCMB employees) and/or sell these plantations to private investors or retain only a minority share. In order to assess the potential of these plantations and criteria and procedures for eventual divestment, a study would be completed by June 1984 and, based on the results of the study, action by the Steering Committee completed by December 1984 (Schedule 5, para. B 1 (d) of both the draft Development Credit Agreement and the draft Special Fund Credit Agreement).

(ii) There is a need to assess fully the financial viability of the three cocoa products factories and the insecticide formulation plant presently operated as subsidiaries of GCMB and to examine how these subsidiaries should be set up as separate companies with private investment. Although the Government has taken initial steps for divestment, an in-depth study of these subsidiaries and procedures for their eventual divestment would be completed by June 1984 and action by the Steering Committee on the recommendations of the study completed by December 1984 (Schedule 5, para. B 1 (d) of both the draft Development Credit Agreement and the draft Special Fund Credit Agreement).

(iii) Serious overstaffing exists in almost all the Divisions of GCMB and CSD, which has been one of the important factors contributing to high operating costs. Under the project, a five-year program for staff reduction would be undertaken. The annual target for net reduction (net of essential new recruitment) of the current staff on the payroll of GCMB and CSD has been initially agreed to be 5,500 for 1984 (this excludes employees of plantations, cocoa products factories, PBD district organization and formulation plant for which action will be taken after studies are completed (see (i) and (ii) above). As an important element of the economic recovery program, the Government is strongly committed to reducing overstaffing in the public sector and has established a Mobilization Committee to retrain redundant workers for redeployment to productive sectors especially in food farming. An adjustment assistance program for displaced workers of GCMB is under preparation by the Government and this program would be submitted to the Association for its review and comments by March 31, 1984 (Schedule 5, para. B 1 (c) of both the draft Development Credit Agreement and the draft Special Fund Credit Agreement). Progress in implementing the staff reduction program would be one of the performance criteria for release of the second tranche of the Credit (Schedule 4, para. (iii) of both the draft Development Credit Agreement and the draft Special Fund Credit Agreement).

(iv) Significant possibility of reduction in operating costs exists through greater reliance on private haulers, particularly from depots to port. At present about 30 percent of long distance haulage is by private haulers. Although the Government has taken steps for further increase of private haulage, GCMB would prepare a program to increase further private sector haulage of cocoa by June 30, 1984 for review with IDA (Schedule 5, para. B 1 (d), of both the draft Development Credit Agreement and the draft Special Fund Credit Agreement).

(v) GCMB should be able to reduce costs by improving its storage of cocoa and cocoa products before export. Assurances were given that GCMB would prepare a study on the procedures for receiving at ports, storing and shipping of cocoa and cocoa products by June 30, 1984 and implement the results by December 30, 1984 (Schedule 5, B 1 (d) of both the draft Development Credit Agreement and the draft Special Fund Credit Agreement).

(vi) To operate efficiently as a private institution, GCMB would undertake a study to develop a corporate planning and management information system. Assurances were given that this study would be completed by August 31, 1984 and the results implemented by February 28, 1985 (Schedule 5, para. B. 1 (d) of both the draft Development Credit Agreement and the draft Special Fund Credit Agreement).

(vii) A long run possibility of reducing marketing costs through privatization of cocoa marketing and introduction of multiple buying system exists. However, the full implications of privatization and introducing the multiple buying system need to be carefully studied. A study of alternative systems for marketing would be completed by June 1985 for review with IDA and the results carried out by December 31, 1985 (Schedule 5, para. B 1 (d) of both the draft Development Credit Agreement and the draft Special Fund Credit Agreement).

59. Production Strategy. Implementation of the production support components of the proposed project would be within the framework of a long-term strategy for cocoa rehabilitation and replanting. This strategy involves consolidation of cocoa acreage to about half of the present acreage which are not infected with Swollen Shoot Virus Disease (SSVD) with efforts to obtain more than twice the present average yields. The rehabilitation under the proposed project would concentrate on the selected areas with about two-thirds of the resources going to these areas and the remaining one-third to other areas (even this one-third would be carefully allocated to areas which are not infected with SSVD and have some potential). Additionally, a two-year interim strategy for SSVD control would be mounted, emphasizing control of isolated outbreaks in priority areas for rehabilitation and forming a buffer zone between the Eastern and Central Regions on the one hand and the priority areas on the other. After this operation is completed, the strategy would be to move into Eastern and Central Regions gradually for SSVD control, consistent with availability of resources. For successful implementation of the interim and longer-term strategy for SSVD control, the Government would formulate a policy of compensation payments to cocoa farmers for replanting the trees cut down. Agreement has been reached at negotiations regarding strategy discussed above and assurances have been given that the Government would prepare such a strategy and a plan of compensation payments for review with IDA by June 30, 1984 (Schedule 5, para. B 1 (f) of both the draft Development Credit Agreement and the draft Special Fund Credit Agreement).

B - The Timber Sector

General

60. Forests represent a very significant national resource in Ghana. Covering about 8.2 million ha., some 34 percent of total land area, they contain valuable redwoods and other species, highly prized in European and other markets for veneer, plywood and lumber. In addition, Ghana's rural population (about 7.2 million people or 68 percent of the population) depend on the forests for fuelwood, building poles, and timber for housing. Fuelwood consumption is estimated at 10 million m^3 annually, or six times industrial log consumption. The forests also play a crucial role in protecting water catchment areas and preventing soil erosion, sedimentation of reservoirs and downstream flooding effects.

61. Historically, the sector has generated about 5 percent of total GDP and 8 percent of foreign exchange earnings, ranking third (behind cocoa and minerals) in exported commodities. However, in recent years production and earnings from the sector have been declining. In 1965 log production was 1.5 million m^3; by 1972 this had decreased to 1 million m^3. However, during the past decade production has further fallen off and now stands well below the 1972 level e.g., 0.1 million m^3 in 1982. Exports of wood and wood products were valued at US$20 million in 1965 and had increased to US$90 million by 1976 but had fallen to less than US$20 million by 1982.

62. A number of constraints have adversely affected the ability of the forestry sector to make its full potential contribution to Ghana's economic development, the most serious of which have been the grossly overvalued cedi, government controls and regulations on the timber industry, weak supporting institutions and infrastructure, lack of managerial and professional manpower, and the shortage of spare parts and imported inputs. Although currently the world timber trade is depressed, there is a large and increasing demand for tropical hardwood products, a significant proportion of which is expected to come from Africa. The high proportion of Ghana's timber products which were exported in the 1960's and 1970's confirms that Ghana's products were well received. The dramatic decrease in export sales during the last few years has not been due to a decline in export demand so much as to a combination of steadily reducing log production and mill outputs due to factors discussed above. Appropriate government policy, and technical and financial assistance are now required to reverse this trend and restore the sector to its former productivity and profitability.

Structure of the Timber Sector

63. The sector comprises a private subsector, with some 150 logging firms and more than 80 mills, which have traditionally supplied more than 60 percent of Ghana's total timber exports, and a state-owned subsector consisting of four major companies, representing the balance of exports. Altogether the sector employs about 70,000 people, or about 15 percent of the employed labor force.

64. The private subsector is engaged in all aspects of production, from logs through lumber, plywood, veneer, and remanufactured items. While, in general, the private sector exhibits better management, sounder financial practices and overall better physical facilities than the state-owned companies, these firms continue to suffer from lack of spare parts, materials and other imported inputs. As a result capacity utilization averages less than 50 percent; vehicle and equipment maintenance is impossible in the absence of spare parts; and thus, production and exports have declined in recent years.

65. Of the four state-owned companies, two (African Timber and Plywood Company and Gliksten West Africa Company) are operating under poor management and with extremely outdated equipment, often inappropriate for the given line of production. The rehabilitation of these two firms will require considerable long-term capital investment. The other two firms (Mim Timber Company and Takoradi Veneer and Lumber Company) are better managed and on sounder

financial footing and assistance of a shorter term nature could likely restore much of their profitability. However, a thorough study of the viability and alternative strategies for the state-owned companies is warranted.

Government Strategy

66. Government policy for the forestry sector is to increase productivity to the maximum extent, consistent with environmental protection, including safeguarding cover on water sheds, maintaining animal life and the welfare of the population, and the long-term preservation of the forests, including reforestation as necessary. Government strategy for the private subsector is to facilitate rehabilitation of selected mills to generate foreign exchange quickly, and for the state-owned mills to rehabilitate them seeking minority participation from the private sector, both domestic and foreign, including the possibility of entering into management agreements with large international companies.

67. Several studies have been carried out by the Government as a basis for rehabilitating the timber industry. These include a FAO study on the forestry sector which identified a project to help rehabilitate the state owned companies, to establish pulpwood plantations and to strengthen the forestry sector institutions; an EEC study on Ghanaian timber marketing organization and procedures undertaken by P-E International Operations (U.K.) which recommended specific policy and institutional changes required to promote Ghanaian timber exports; and a timber industry rehabilitation study carried out by a consortium of three international banks to assess rehabilitation requirements with emphasis on the private sector timber companies. On the basis of the above studies and with assistance of the Bank Group, the Government has prepared a short-term timber sector rehabiliation program which aims at increasing the utilization of the existing production capacity especially among the private companies through provision of spare parts, equipment and materials. The program would be supported by the proposed Credit.

Timber Sector Policy and Institutional Reforms

68. Many of the policies and institutions dealing with the sector have been counter-productive to the objective of increasing timber production and exports. Indeed, the principal factors contributing to the sector's marked decline during the past decade stem from excessive and/or inappropriate government controls. Until recently, the Ghana Timber Marketing Board (GTMB) exercised complete control over timber export production and prices. GTMB's principal functions were: (a) to control and supervise production of wood products whether for export or domestic sales; (b) to determine which species must be turned into finished or semi-finished products prior to export; (c) to set prices; (d) to approve and allocate import and export licenses, including contract approval; and (e) to inspect export parcels to ensure correspondence with approved export contracts. In addition, GTMB had responsibility for export promotion and research and statistics. In effect, these assistance functions suffered from GTMB's overwhelming preoccupation with its control functions.

69. In order to alleviate immediate physical constraints, the proposed project would provide spare parts, materials and equipment to enable selected timber companies to increase production and exports. However, there would be critical bottlenecks to increasing timber exports unless timber marketing organizations and procedures were restructured so as to enable timber companies to export with a minimum amount of Government control and regulation. Specific changes in the timber sector to be implemented in conjunction with the proposed Technical Assistance Project are as follows.

70. Restructuring of Marketing Organizations and Procedures. GTMB has been abolished, and an independent Timber Export Development Board (TEDB) whose membership would include both concerned Government Ministries and representatives of mills producing for export, would be established by April 30, 1984. In the interim period, the Ministry of Forestry would carry out essential functions for timber production and exports (Schedule 5, para. B 2 (a) of both the draft Development Credit Agreement and the draft Special Fund Credit Agreement). The primary function of TEDB would be to obtain, collate and disseminate to the industry, information concerning Ghana species, export markets and current prices, export opportunities and prospects. The TEDB would operate solely as a market promotion and market intelligence advisory body to serve the industry and would not be responsible for controls on the industry. Various negative controls on timber exports hitherto exercised by the Government have been abolished. These consisted mainly of the practice of requiring Government's examination of draft timber export contracts and the minimum export price regulations. In order to assist the Government in setting up TEDB, the proposed Technical Assistance (TA) project would provide consultant studies to assess the initial requirements of TEDB as well as an internationally recruited expert to help establish TEDB and train staff (Sections 3.02 and 3.03 (a), the draft Development Credit Agreement for TA Project).

71. Inspection and grading of timber products would be strengthened by the establishment of a Forests Products Inspection Bureau (FPIB) as a self-regulating professional body overseeing all functions of grading and grading regulation. The FPIB would establish standard grading rules to facilitate grading and inspection, improve claim handling and minimize fraudulent practices. The FPIB would be established by April 30, 1984 (Schedule 5, para. B 2 (b) of both the draft Development Credit Agreement and the draft Special Fund Credit Agreement). Necessary consultant services for the proper establishment of FPIB and technical assistance to help manage this new institution and train staff are included in the proposed TA Project (Section 3.02, the draft Development Credit Agreement for TA Project).

72. Foreign Exchange Availability. The present Government policy allows timber exporters to retain 20 percent of export proceeds to be used for importation of spare parts and materials, which has helped to obviate the need to apply for normal import licenses to procure recurrent imports. In practice, however, there were considerable procedural delays due to the requirement to obtain specific approval from the Ministries of Trade and Finance and the Bank of Ghana before the exporter could utilize the funds. The Government has recently streamlined the procedures and now allows all items judged to be necessary for the exporters' work to be included in the automatic import

license acquisition. This is an improvement over the previous system under which the utilization of the funds was limited to the import of urgently needed spare parts and consumables. A proposal on further streamlining procedures would be reviewed by IDA by March 31, 1984 and the recommendations of such review would be carried out by June 30, 1984 (Schedule 5, para. B 2 (e) of both the draft Development Credit Agreement and the draft Special Fund Credit Agreement).

73. State-owned Companies. With one or two exceptions, the large state-owned timber companies suffer from management weaknesses and under-capitalization and their rehabilitation would require restructuring in the ownership and management of the companies. Given the potential of the state-owned companies in Ghana's timber exports, a study would be carried out to examine the viability and alternative strategies for the future of the state-owned companies including the possibility of privatization and management contracts. The study which would be financed under the proposed TA Project would be completed by September 30, 1984. Government would review the results of the study with IDA and adopt alternative strategies for these companies before December 31, 1984 (Schedule 5, para. B 2 (c) of both the draft Development Credit Agreement and the draft Special Fund Credit Agreement). In order to optimize the utilization of forest resources there is a need to rationalize the allocation of concessions. Government would, with technical assistance provided under the proposed TA Project, review with IDA concession allocations by June 30, 1985 with a view to cancelling those concessions which are uneconomic and reallocating them to other producers, with priority given to export producers. The Government action on the reallocation of the concessions would be completed by December 31, 1985 (Schedule 5, para. B 2 (d) of both the draft Development Credit Agreement and the draft Special Fund Credit Agreement).

C - The Mining Sector

General

74. Ghana's mineral industry is the second most important foreign exchange earner after cocoa, with mineral exports accounting for about 15 percent of the country's foreign exchange earnings. The sector has a significant impact on communication, power and transportation demands, and provides education and social services throughout the country. Although a complete assessment of Ghana's mineral wealth is impossible because of the low level of exploration carried out so far, the country is well endowed with mineral resources. In addition to gold which is by far the most important mineral providing nearly 90 percent of total mineral exports and employing over 16,000 people, diamonds, manganese and bauxite are the major minerals produced for exports. Diamonds of industrial quality have been extracted from alluvials in the Akwatia area in the Eastern province since the 1920's. However, production has been declining due to the depletion of existing reserves and the existing low price of industrial diamonds. Manganese ore reserves have been estimated at 20 million tons in the Nsuta mine in the Western region, where an oxidization plant is being constructed to process about 400,000 tons of

carbon-based ores annually. Bauxite has been mined since 1943 in Awaso in the Western region, and reserves are estimated at 16 million tons. Increased production of bauxite has been constrained by the inadequate rail capacity on which shipment of bauxite has to depend.

Structure of Gold Mining

75. The country's known deposits of gold, with proven reserves of about 5 million oz, are in the Ashanti Region (at Obuasi and Dunkwa) and in the Western Region (Tarkwa and Prestea). Gold is produced by two companies: Ashanti Goldfields Corporation (AGC), a joint venture between Government and Lonrho (U.K.) which operates an underground mine at Obuasi, and the State Gold Mining Corporation (SGMC), a wholly Government-owned company, which operates two underground mines (at Tarkwa and Prestea) and an alluvial dredging mine (at Dunkwa). The SGMC was created in 1961 to take over the ownership of several gold mines which were about to be closed down by their private owners who were operating at a loss due to low gold prices. The SGMC decided to continue operation of the mines and maintained the existing workforce of about 8,600 workers despite loss of productivity and overall efficiency. At present about 65 percent of Ghana's gold production comes from AGC while the SGMC is producing the balance.

Sector Issues and Constraints

76. Ghana's gold production has steadily declined for a number of years and the decline was most marked during the last decade when total gold output decreased from 740,000 oz in 1970 to less than 360,000 oz in 1980. Major factors contributing to the decline were: (a) erosion in the finances of the mining companies resulting from the grossly distorted exchange rate regime in the past and the spiralling inflation which have critically affected the financial viability of the companies; (b) lack of management autonomy which has not permitted operating the individual mines of SGMC as commercial entities, resulting in lack of definition of responsibilities and performance targets and inadequate mine planning and financial control; (c) shortages of foreign exchange which have not permitted to meet recurrent imported inputs such as maintenance, spares, replacement equipment and necessary rehabilitation of existing mines and plant facilities; (d) progressive departure of most foreign management and technical personnel resulting in poor management and low productivity and high absenteeism of mine workers due to generally severe economic conditions; (e) the use of over-aged production equipment in operation with low productivity, health and safety standards; and (f) lack of financing necessary to explore promising deposits and to develop new mines. Generally, the erosion caused by overvalued exchange rates and inadequate retention of foreign exchange from exports have led to rapid decapitalization.

Government Strategy and Rehabilitation Program

77. Ghana's gold subsector has the potential to significantly increase its role as a major foreign exchange earner for the country owing to the relatively high grade of its known deposits, and vast gold mineralization including relatively shallow alluvial type deposits. Also, gold mining can achieve high profitability due to present gold prices, the recent devaluation

of cedi, and the structure of mineralization quite favorable for mining. Although gold mining in Ghana has been on the decline for about two decades, it can be resuscitated to its potential if satisfactory management autonomy and necessary financial and technical assistance are provided. The Government has recognized the serious economic implications of the decline of gold production in Ghana and, as an important element of its economic recovery program, has prepared a short-term program for rehabilitation of the SGMC and AGC mines. The program for SGMC aims at restoring SGMC's gold production to the level achieved in 1979 by increasing output from the present 72,000 oz to 165,000 oz per annum over a three-year period through rehabilitation of underground facilities, mining equipment, dredges, processing mills and provision of spares and consumables. Specific production targets for each of the SGMC mines and rehabilitation input requirements are shown in Annex IV of this President's Report. The mining component of this proposed project would provide foreign exchange to support the SGMC rehabilitation program. A program for increased gold production from the AGC mine has also been prepared which envisages increasing output from 250,000 oz annually at present to about 350,000 oz over a period of four years. It is expected that this investment program would be implemented with commercial sources of financing and IFC's participation is currently under active consideration. The future of the mining industry in Ghana will depend to a considerable extent on the investment of new capital. In order to promote foreign investment and ensure that investment conditions in the country as a whole and in the mining industry in particular are comparable or better than in other countries, an investment code was promulgated in 1981.

Sectoral Policy and Institutional Reforms

78. In order to address major sectoral issues which have constrained efficient operation of the SGMC, the Government has in principle agreed to implement the following policy reforms in conjunction with ERP and the proposed TA Project.

79. Foreign Exchange Retention. In order to ensure that SGMC does not have to rely on normal Government foreign exchange allocation to meet its recurrent imported inputs and to enable SGMC to meet part of the financial requirement for its rehabilitation out of its own resources, the foreign exchange retention by the SGMC has been increased from the previous 20 percent to 35 percent of its export sales. At the current level of production this will allow SGMC to retain about $10 million per annum, which will enable the SGMC to meet its recurrent import needs from its own resources. The Government and the SGMC would maintain the policies and procedures for the rentention funds satisfactory to IDA (Schedule 5. para. B3 (c) of both the draft Development Credit Agreement and the draft Special Fund Credit Agreement).

80. Management Autonomy. The SGMC would be given full management autonomy and its mines would be allowed to run as a commercial entity under a management contract. Given the presently weak institutional capability of the SGMC, the Government has agreed to engage an internationally experienced mining management company to run the SGMC and train the local counterpart staff. It is envisaged that a total of about 60 man-years of such managerial and technical personnel would be financed under the proposed TA project. The

progress under the management contract would be monitored periodically by the Government and IDA. The necessary planning and preparation work required before the Government would be in a position to invite management contract proposals from international mining companies has already started with funds provided under a Project Preparation Facility advance. The appointment of an international mining management company and signing of a management contract satisfactory to IDA would be a condition of disbursement of the Credit for the mining component with an exception of $5 million which would be needed initially to meet urgent import requirements (Schedule 1, para. 2 (f) and para. 2 (d), respectively of the draft Development Credit Agreement and the draft Special Fund Credit Agreement).

81. Work Incentive Scheme. There is an urgent need to improve the living condition of the mine workers as the scarcity of food has caused serious absenteeism and low productivity among mine workers and it is evident that the rehabilitation of the mines would be impossible without improvements in the food supply situation. The SGMC would introduce a plan of action to improve productivity in its mines specifying, inter alia, a work incentive scheme including direct provision of food and special bonuses to reward higher productivity. Such a scheme would be carried out before December 31, 1984 (Schedule 5, para. B 3 (a), of both the draft Development Credit Agreement and the draft Special Fund Credit Agreement).

82. SGMC's Finances. The Government recognizes that the poor financial performance of the SGMC has been partially due to the grossly distorted exchange rate regime in the past. While the recent devaluation has significantly corrected the distortion and the new exchange rate should initially be sufficient to restore the viability of the company, its effects will have to be carefully assessed once the cost-price relationships in the economy following the measure have settled down. In order to enable the restructured SGMC to start with an improved financial position, the Government has agreed to convert SGMC's outstanding debts into a long-term loan with terms and conditions satisfactory to IDA by June 30, 1984. In addition, the cost of production of SGMC mines and the profitability of the company would be reviewed not later than December 31, 1984 and thereafter annually (Schedule 5, para. B3 (b) of both the draft Development Credit Agreement and the draft Special Fund Credit Agreement).

PART IV - THE PROJECT

Background

83. The proposed Export Rehabilitation Project (ERP) was identified early in 1981 jointly by the Government and the Bank. It had been designed as the Bank's primary response to an economic recovery program then under preparation which the Government would implement with the support of an IMF standby arrangement. Originally the ERP was appraised by a Bank mission in August 1981. Further processing of the project had, however, been held in abeyance due to the delay by the Government to act on the economic recovery program and the change of Government in December 1981. Early in 1983 a delegation of the

new Government led by the Secretary of Finance reached an understanding with the IMF on major elements of an economic recovery program to be supported under a Fund standby arrangement and approached the Bank with a request to reactivate the ERP. Given Ghana's urgent need for quick-disbursing assistance, the Bank agreed to a two-stage approach under which the Bank would first respond to the recovery program with a Reconstruction Import Credit (RIC) and then follow up with the ERP. While the RIC aims at helping the authorities to cope with immediate problems of introducing macroeconomic reform measures with quick-disbursing support to the agriculture and transport sectors, the ERP would have the objective of sustaining the momentum by facilitating the supply response from the export sector and thus setting in motion the recovery process. A $40 million Credit for the RIC was approved by the Executive Directors on June 28, 1983 and is making satisfactory progress. The RIC is expected to be fully disbursed by end-June 1984.

84. Following the Government's announcement of the economic recovery program late April 1983, the ERP was reappraised by a Bank mission which visited Ghana between May 16 and June 6. The negotiations of the ERP took place in Washington between November 7 and November 14, 1983 with a Government delegation led by Mr. J. G. Renner, Secretary for Lands and Natural Resources, and included representatives from the Ministry of Lands and Natural Resources, SGMC and GCMB. There is no separate staff appraisal report for the proposed Credit. A Credit and Project Summary is presented at the front of this report and supplementary data and information are contained in Annexes III, IV, V and VI.

Project Objectives

85. The primary objective of the proposed project is to support and sustain the Government's economic recovery program by strengthening the country's foreign exchange earning capacity through the rehabilitation of the export sector. The Government's recovery program assigns the highest priority to reversing declining production in the export industries, in particular, cocoa, gold, and timber exports, which together account for almost 90 percent of the country's foreign exchange earnings. In order for these export industries to be able to respond effectively to the recently announced macroeconomic policy measures (paras. 20 to 23 above), the present severe shortage of imported inputs should be eased through quick-disbursing foreign exchange to the sector, coupled with improved performance and retention. Specifically, the proposed project seeks to increase export production of cocoa, gold mining and timber industries by carrying out most urgent short-term rehabilitation needs and improving utilization of the existing capacity through provision of spare parts, materials and equipment. The project also seeks to address a number of policy and institutional issues which have adversely affected output of the export sector and to strengthen the institutional capability of various export sector organizations. In parallel with the proposed Credit, approximately 120 man-years of technical assistance would be provided to strengthen the institutional capability of the cocoa, gold mining and timber sectors under the proposed Export Rehabilitation Technical Assistance Project as described in the accompanying President's Report.

Project Description

86. The proposed project would include: (a) providing foreign exchange for importation of material inputs (spare parts, materials, and equipment) required for the rehabilitation of the cocoa, gold mining, and timber industries as well as the cargo handling facilities at the ports of Takoradi and Tema; and (b) carrying out reforms in the policy and institutional framework of the export sector to address the present policy constraints and shortcomings as discussed in Part III of this report.

87. Specifically, the proposed project would finance the two-year (1984 and 1985) import requirements for the following rehabilitation activities. Detailed requirements of imported inputs are set out in Annex IV.

(i) Cocoa Sector - The rehabilitation program would include improving GCMB's storage facilities, workshops and transport capacity and expanding capsid control and input distribution activities, concentrating on areas not infected with SSVD. To support this program, the Credit would provide essential inputs (insecticides and sprayers) for cocoa farmers, and vehicles, workshop equipment and building materials for GCMB;

(ii) Timber Sector - Logging and mechanical wood-processing facilities of about 24 privately-owned timber companies and two state-owned companies (Mim and TVLC) would be rehabilitated and their timber transport capacity improved with provision of spare parts, materials and balancing equipment;

(iii) Gold Mining - The program would include rehabilitation and maintenance of three state-owned gold mines (Prestea, Tarkwa and Dunkwa) of SGMC with emphasis on repair and overhaul of underground ore extraction and haulage facilities and equipment, rehabilitation and modifications to increase the capacity of the processing mills and repair of the dredges through provision of spare parts, equipment and consumables; and

(iv) Ports - Improvement works at the ports of Takoradi and Tema would include rehabilitation of the cargo handling equipment, provision of floating craft and improvements of the existing port superstructure to enable the ports to handle cocoa and timber traffic more efficiently. Due to lack of maintenance and the nonavailability of spare parts in recent years, the present loading rates for exports in the Ghana ports is very low, resulting in high shipping costs which inhibit exports. While the proposed ERP financing (US$4.8 million) would arrest further deterioration and make some improvement, an additional amount of about US$10.0 million would be urgently needed during 1984 and 1985 to make a more significant impact on port efficiency. The IDA has identified these additional needs which cover tugs, barges, cargo-handling equipment like tractors, trailers and forklift trucks, dredging and some civil engineering works (Annex IV, Page 7). Government is making efforts to secure cofinancing for these items. To the extent these efforts fail, the IDA would consider financing some of these items under a transport rehabilitation project covering both ports and highways, presently under preparation.

Estimated Cost and Financing

88. The total foreign exchange requirement for the two-year rehabilitation program as described in para. 87 above is estimated at approximately \$285 million in mid-1983 prices, consisting of \$130 million for cocoa, \$80 million for gold, \$60 million for timber and \$15 million for ports. These estimates include both capital costs of rehabilitation and improvement and the recurrent requirements of imported inputs. The proposed Credit would provide \$76 million, of which US\$38 million equivalent would be from the Special Fund, representing about 27 percent of total foreign exchange requirement. Ghana is expected to finance about half (\$143 million) of the total financing requirement from foreign exchange generated from the respective export industries. The balance of about \$66 million would need to be provided through other external financing, both official and private sources. The Government has embarked on a major effort to secure additional financing from other donors to support this project, and a number of donors have shown considerable interest in cofinancing this project during the Consultative Group meeting held in Paris in November, 1983. In anticipation of such cofinancing, a standard cross default clause has been included in the draft Credit Agreements (Section 4.01(f) of both the draft Development Credit Agreement and the draft Special Fund Credit Agreement). Even in the unlikely case of cofinancing not materializing, financing from the IDA and the Government alone would make the project viable but the scope of the program to be financed under the project would be reduced proportionately. However, because of the importance of technical assistance especially in view of training and institutional building aspects of such assistance, the Export Rehabilitation Technical Assistance Project would be fully implemented even if the scope of the program under this proposed project is reduced.

Credit Allocation

89. The sectoral foreign exchange requirements for short-term rehabilitation, proposed allocations under the proposed Credit, the agencies responsible for implementation and the beneficiaries are summarized in Table 2 below.

TABLE 2: SECTORAL ALLOCATION OF ERP
(US\$ millions)

	Two-Year Requirements	Allocation under the ERP	Agency Responsible for Implementation	Beneficiaries
Cocoa	130.0	23.9	GCMB	Cocoa farmers
Gold Mining 1/	80.0	23.6	SGMC	SGMC
Timber	60.0	23.7	NIB	Timber companies
Ports	15.0	4.8	GPA	Cocoa farmers, timber companies and other exporters and importers.
TOTAL	285.0	76.0		

1/ State Gold Mining Corporation (SGMC) only.

Project Implementation

90. The project would be implemented by the respective sector agencies: the Ghana Cocoa Marketing Board (GCMB) with respect to the cocoa component; the National Investment Bank (NIB) in collaboration with the Ministry of Lands and Natural Resources for the timber component; the State Gold Mining Corporation (SGMC) for the gold mining component; and the Ghana Port Authority (GPA) with respect to the port component. A substantial (about 120 man-years) amount of technical assistance would be provided under the proposed Technical Assistance Project to ensure adequate management capability. US$52.3 million equivalent of the proposed Credit for the cocoa, gold mining and port components would be onlent to GCMB, SGMC and GPA at an interest rate of 11.6 percent per annum with a repayment period of 15 years after 5 years of grace. US$23.7 million equivalent would be made available to NIB for purchase of foreign exchange by timber companies on terms and conditions satisfactory to IDA to carry out the timber component of the project. Execution of subsidiary agreements between the Borrower and the respective implementing agencies satisfactory to the IDA would be a condition of effectiveness of the proposed Credit (Section 5.01(b) and (c) of the draft Development Credit Agreement and Section 5.01(b) and (d) of the draft Special Fund Credit Agreement). Proceeds of the Credit for the Technical Assistance project would be made available to the respective implementing agencies as loans with a repayment period of 15 years after 5 years of grace. Such loans would be made on an interest free basis until such time as the respective implementing agencies become financially capable of paying appropriate interest on the loans (Section 3.01(c), (d) and (e) of the draft Development Credit Agreement for the TA project). The financial situation of the agencies would be reviewed annually by the Government and IDA. In order to enable the restructured GCMB and SGMC to start with an improved financial position, the Government has agreed to convert the outstanding debts of these agencies into long-term loans with terms and conditions satisfactory to IDA (Schedule 5, paras. B 1(a) and B 3(a) of both the draft Development Credit Agreement and the draft Special Fund Credit Agreement).

91. In order to provide interministerial coordination and policy guidance on all matters related to the project, and to monitor its progress, an Interministerial Export Rehabilitation Committee has been established, headed by the PNDC Coordinating Secretary and consisting further of the Secretaries for Finance and Economic Planning, Lands and Natural Resources, Transport and Communication, Governor of the Bank of Ghana, Chief Executive of the GCMB and the Chairman of the National Policy Implementation and Monitoring Committee. A project coordinating unit has been established in the Office of the PNDC Coordinating Secretary to ensure an early start-up of the project activities and to coordinate with the project implementing agencies. In order to ensure an early start-up of the project, the Ministry of Trade has issued 50 percent of the import licenses required for imports under the cocoa and timber sectors of the project. Upon completion by the consultants of the detailed procurement lists for the gold mining and ports sectors, the Ministry of Trade would issue necessary import licenses for these sectors promptly. The remaining import licenses necessary for the project implementation would be issued in a timely manner (Section 3.07 of both the draft Development Credit Agreement and the Special Fund Credit Agreement).

92. To be eligible for assistance under the timber component of the project, an application must: (a) be in respect of an ongoing viable enterprise; (b) relate exclusively to the short-term rehabilitation of firms; and (c) be capable of generating foreign exchange earnings within six months after delivery of equipment and thereafter be capable of generating foreign exchange earnings of at least 30 percent of the credit allocation per annum. In addition, for the state-owned timber companies (i.e., Mim and TVLC) to participate in the project, they would have to continue to employ technical assistance for the duration of the project and five man-years of such technical assistance would be financed under the proposed Technical Assistance project. The applicant firms would need to obtain a commercial bank guarantee that counterpart cedi funds would be available to finance imported items as well as to cover required working capital. A Technical Evaluation Committee would be established in the NIB to review applications and ensure that the abovementioned criteria are applied. NIB would also be responsible for monitoring progress of the timber component of the project. NIB would be paid a nominal administration fee (the Schedule, para. 9, the draft Project Agreement). In order to facilitate disbursements under this credit component, a special account would be established by NIB with a commercial bank on terms and conditions satisfactory to the Association (Section 2.07, the draft Project Agreement). An amount of US$3 million would be withdrawn by the Government and deposited into the special account upon effectiveness of the Credit. On receipt of satisfactory evidence that expenditures financed out of the special account were eligible for financing, the special account would be replenished by IDA through further disbursements. The establishment of the special account would be a condition of Credit effectiveness (Section 5.01 (d) and (e) respectively of the draft Development Credit Agreement and the draft Special Fund Credit Agreement). The detailed implementation mechanism for the timber component is shown in Annex V of this report.

93. Items for the cocoa sector under the project (Annex IV, Page 3) are based on the Cocoa III Prefeasibility Study and the UNDP Technical Assistance Project for GCMB for which the Bank Group is the executing agency. In the mining sector the SGMC has engaged the services of Rio Tinto Zinc Consultants (RTZ) with financing provided under a Project Preparation Facility advance to help SGMC in finalizing a detailed list of items to be procured under the proposed project as well as specifications, procurement schedule and implementation plan. Similarly in the ports sector, even though the list of items to be procured has been agreed between the Government and the IDA, the list needs to be further refined and the specifications and installation schedules provided with the help of port consultants to be engaged by GPA. Some of the equipment and spare parts in the ports sector (approximate cost US$1.8 million) to be financed by the Credit are intended for use by the Ghana Cargo Handling Company (GCHC) which is a public sector company providing complementary port services. Details of these components will be finalised when the procurement lists and schedules, as noted above, are agreed with IDA. GPA, as executing agency for the ports sector, will procure these items and pass them to GCHC. The value of these items will be treated as Government's equity contribution to GCHC, with necessary adjustments being made in GPA's accounts. Under the relevant subsidiary agreement, Government will ensure that GCHC will use the equipment and materials provided efficiently to improve port operations in cooperation with GHA.

Procurement and Disbursement

94. For the cocoa sector component of the project, contracts for goods costing $100,000 equivalent or more would be procured through ICB according to the Bank Guidelines. Goods costing less than $100,000 equivalent but in the aggregate not to exceed $2 million equivalent, may be procured through negotiated purchases after obtaining at least three quotations from established and reliable suppliers. For the timber component, equipment and vehicles costing $500,000 equivalent and more, and spare parts costing $250,000 equivalent and more, would be procured through ICB according to the Bank Guidelines. Equipment and vehicles and spare parts costing less than the above amounts, respectively, may be procured through negotiated purchases after obtaining at least three quotations from established and reliable suppliers. For the gold mining component, goods costing $300,000 equivalent or more would be procured through ICB according to the Bank Guidelines. Contracts for goods costing less than $300,000 equivalent but up to the aggregate amount of $3 million or contracts for goods which can be supplied only by a limited number of suppliers, may be financed through direct invitation to bid issued to such suppliers; the aggregate amount of these two types of contracts shall not exceed $10 million. For the ports sector, contracts for goods costing $100,000 equivalent or more should be procured through ICB according to the Bank Guidelines. Contracts costing less than $100,000 equivalent, but not exceeding $500,000 equivalent in aggregate, may be purchased through negotiated purchases after obtaining at least three quotations from established and reliable suppliers. Proprietary items under the project (including proprietary items for the gold mining sector up to the aggregate amount of $10 million equivalent) may be procured on a negotiated basis on terms and conditions satisfactory to IDA. Contracts of less than $10,000 equivalent would not be eligible for financing under the Credit. The Credit would be disbursed against 100 percent of foreign expenditures against full documentation. The Credit is expected to be fully disbursed by June 30, 1986.

95. Proceeds provided under the IDA Special Fund Credit for the project may be used to finance expenditures for goods produced in, or services supplied from, any of the following countries: a) any Part II member of the Association and b) those countries who at the time of signing the Credit Agreement had notified or advised the Administrator in writing that they intended to make a Special Fund Contribution in a minimum amount conforming with paragraph 4 of the IDA Special Fund Resolution, or c) which had notified or advised the Association in writing that they intended to make a Special Fund Contribution in such minimum amount to the FY84 Account and had advised the Association in writing that such Special Contribution was to be treated in the same manner as a Special Fund Contribution for purposes of any future adjustment of the voting rights of the members of the Association.

Mid-term Review

96. The proposed Credit including US$38.0 million equivalent from the Special Fund would be disbursed in two tranches: US$38 million of the proposed Credit would be available for disbursement after the Credit is declared effective; the remaining US$38 million would be available for disbursement after review of performance in carrying out specific undertakings under the project (as set out in Schedule 4 of both the draft Development Credit Agreement and

the draft Special Fund Credit Agreement). The review would take place end-December 1984 (Section 3.04 of both the draft Development Credit Agreement and the draft Special Fund Credit Agreement). The release of the second tranche would be subject to satisfactory review by IDA. The review would, in particular, examine the following performance criteria: (a) size and composition of the FY85 Development Budget and the Foreign Exchange Budget and their consistency with the medium-term investment program; (b) maintenance of an adequate level of cocoa producer prices; (c) reduction in staffing of the GCMB; (d) formulation of alternative strategies for the state-owned timber companies; (e) achievement of managerial and financial targets set for the SGMC under the management contract; and (f) progress in appointment of technical assistance personnel under the proposed Technical Assistance Project (Schedule 4 of both the draft Development Credit Agreement and the draft Special Fund Credit Agreement).

Accounts, Audit and Evaluation

97. The project implementing agencies (i.e., GCMB, NIB, SGMC and GPA) would maintain records and separate accounts in respect of the respective sector components and have the accounts and financial statements audited each fiscal year by independent auditors acceptable to the Association. The audited accounts and the audit reports would be furnished to the Associaton not later than four months after the end of the fiscal year. The project implementing agencies would also maintain records adequate to record and monitor the progress of the respective sector components and prepare and furnish quarterly progress reports to the Association. There would be a quarterly review of progress of the project by the Interministerial Export Rehabilitation Committee, which would also prepare and submit to the Association within six months of project completion, a completion report on the costs and benefits resulting from the project.

Counterpart Funds

98. Local currency funds generated by the sale of foreign exchange provided by the proposed Credit would be deposited into a special counterpart funds account to be established in the Bank of Ghana. An assurance has been obtained at negotiations that such counterpart funds would be utilized to finance part of the recurrent or capital cost of priority projects included in the Government's Development Budget (Section 3.03 of both the draft Development Credit Agreement and the draft Special Fund Credit Agreement).

Benefits

99. Two sets of benefits are expected to flow from this proposed project: (i) net incremental foreign exchange earnings of about US$42 million per annum from the cocoa, gold mining, and timber subsectors, and (ii) strengthening of domestic institutions to sustain the export expansion effort in the post-project period; the concurrent Technical Assistance Project has been designed to ensure that all relevant institutions in the four subsectors are sufficiently strengthened that a reversal in the export expansion would be unlikely.

100. The estimated incremental foreign exchange earnings represent conservative estimates. In the cocoa subsector the projet would finance the rehabilitation and inputs requirements of about 300,000 acres, and an incremental annual production of about 12,000 tons has been estimated; this would result in net foreign exchange earnings of about US$12 million per annum. This is a conservative estimate since it does not take account of the improvements in the quality of the cocoa from the better evacuation and storage facilities financed by the project. In the timber subsector, total export production is estimated to increase from 110,000 m3 to about 450,000 m^3 per annum, resulting in net foreign exchange earnings of about US$10 million per annum. In the gold mining sector, the SGMC mines are expected to increase their annual gold output from about 72,000 oz to about 165,000 oz over a three-year period as a result of mine rehabilitation under the project. Net incremental foreign exchange earnings from the gold mining component would amount to about US$20 million per annum. The investment for improving the capacities of the ports of Takoradi and Tema are complementary for facilitating the export expansion effort, particularly in cocoa and timber sectors, and would result in savings in operating costs of exporters and demurrage charges as well as speeding up delivery of Ghanaian exports in the foreign markets. It is not possible to accurately calculate the rates of return for each component of the project. However, on the basis of foreign exchange costs and benefits, and assuming that the total local cost of the project would be about 20 percent of the total foreign exchange cost, the economic rate of return for the entire project is estimated to be approximately 20 percent, and even with extreme assumptions should not be less than 15 percent. Although these are crude estimates, these calculations are useful in defining the downside risks, and the substantial human resource input through the Technical Assistance Project has been designed to minimize these risks in the immediate future while creating the required capacity in the relevant domestic institutions to sustain the export promotion drive over time.

Risks

101. In spite of the above, the project is not free of risks. This residual risk is to be expected considering the gargantuan nature of the tasks: (i) to reverse the rapidly declining production through asset rehabilitation, new management structures, adequate producer and staff incentives, and new investments; (ii) to convert this additional production into foreign exchange through improved domestic logistics and world market penetration; (iii) to create new and streamlined institutions; (iv) to develop credibility in the stability of the policies underlying the Economic Recovery Program; and (v) to carry out all these activities in a coordinated fashion. The other residual risk would be that the Government may be unable to implement the economic recovery program or that it may modify and alter it in midstream or take other policy actions that may counteract the attainment of its main objectives. So far the Government has demonstrated its commitment to the recovery program by fully implementing a number of drastic policy reform measures in spite of severe economic and political difficulties. A mid-term review would take place in December 1984 to ascertain continued progress under the ERP and the release of the second tranche of the proposed Credit would be contingent on satisfactory progress.

102. There would also be a number of project-specific risks. The potential risks of the cocoa component mainly center around the political and practical problems of large-scale staff reduction. The Government is strongly committed to reducing operating costs of GCMB and is expected to design acceptable adjustment assistance programs for displaced workers. The reduction program would be phased over five years to ease the transition. The principal risk of the timber component would be that commercial banks may not be willing to increase lending to timber companies because many of them had to operate on substantial overdrafts in the past. With the recent adjustment in the exchange rate and the institutional reforms proposed under the project, the finances of export timber companies are expected to improve. The Bank of Ghana has indicated that sufficient cedi funds would be available for the purchase of inputs and if necessary it would introduce a "pool" system to ensure a timely supply of cedis.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

103. The draft Development Credit Agreement between the Republic of Ghana and the Association, the draft Special Fund Credit Agreement between the Republic of Ghana and the Association acting as the Administrator for the Special Fund, and the draft Project Agreement between the Association and the Administrator on one hand, and GCMB, NIB, SGMC and GPA on the other hand and the Recommendation of the Committee provided for in Article V, Section 1 (d) of the Articles of Agreement of the Association are being distributed to the Executive Directors separately.

104. In addition to the special features of the Development Credit Agreement, the Special Fund Credit Agreement and Project Agreement which are referred to in the text and summarized in Section III of Annex III of this Report, the conditions of the effectiveness of the Development Credit Agreement and the Special Fund Credit Agreement are: (a) execution of the Development Credit Agreement for the Export Rehabilitation Technical Assistance Project; (b) execution of the Project Agreement between the Association and the Administrator and the project implementing agencies; (c) execution of subsidiary agreements between the Republic of Ghana and the project implementing agencies; and (d) the establishment of the special account mentioned in para. 92 above. Conditions of disbursement would be: (a) SGMC to enter into a management contract with an international mining company to manage SGMC mines except for expenditures not exceeding $5 million; (b) a successful review by IDA of performance in carrying out specific undertakings under the project at the end of December 1984 for disbursement of the second tranche of the Credit; and (c) completion of restructuring of GCMB and putting into effect a revised cocoa producer price.

105. I am satisfied that the proposed Credit would comply with the Articles of Agreement of the Association.

PART VI - RECOMMENDATION

106. I recommend that the Executive Directors approve the proposed development credit.

A.W. Clausen
President
by Moeen A. Qureshi

Attachments

Washington, D.C.
December 12, 1983

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 S. OF SAHARA	MIDDLE INCOME AFRICA S. OF SAHARA
AREA (THOUSAND SQ. KM)					
TOTAL	238.5	238.5	238.5	.	.
AGRICULTURAL	65.4	61.4	62.3	.	.
GNP PER CAPITA (US$)	190.0	260.0	400.0	254.6	1147.9
ENERGY CONSUMPTION PER CAPITA					
(KILOGRAMS OF COAL EQUIVALENT)	104.0	266.0	268.0	79.8	724.2
POPULATION AND VITAL STATISTICS					
POPULATION, MID-YEAR (THOUSANDS)	6804.0	8614.0	11830.0	.	.
URBAN POPULATION (% OF TOTAL)	23.3	29.1	36.6	19.5	28.5
POPULATION PROJECTIONS					
POPULATION IN YEAR 2000 (MILL)			24.2	.	.
STATIONARY POPULATION (MILL)			85.4	.	.
YEAR STATIONARY POP. REACHED			2135	.	.
POPULATION DENSITY					
PER SQ. KM.	28.5	36.1	48.2	29.5	56.5
PER SQ. KM. AGRI. LAND	104.0	140.2	184.6	94.1	131.8
POPULATION AGE STRUCTURE (%)					
0-14 YRS	44.5	45.8	46.8	45.0	45.9
15-64 YRS	52.9	51.6	50.5	52.1	51.2
65 AND ABOVE	2.6	2.7	2.7	2.9	2.8
POPULATION GROWTH RATE (%)					
TOTAL	4.4	2.4	2.9	2.8	2.8
URBAN	9.2	4.6	5.0	6.2	5.3
CRUDE BIRTH RATE (PER THOUS)	50.2	50.2	49.3	47.9	47.6
CRUDE DEATH RATE (PER THOUS)	20.3	16.9	13.4	19.2	15.2
GROSS REPRODUCTION RATE	3.4	3.4	3.4	3.2	3.2
FAMILY PLANNING					
ACCEPTORS, ANNUAL (THOUS)	..	8.3	33.5/c	.	.
USERS (% OF MARRIED WOMEN)	..	1.5	4.0/d	..	..
FOOD AND NUTRITION					
INDEX OF FOOD PROD. PER CAPITA (1969-71=100)	93.0	101.0	72.0	87.8	95.7
PER CAPITA SUPPLY OF					
CALORIES (% OF REQUIREMENTS)	92.0	98.0	88.0	88.0	97.1
PROTEINS (GRAMS PER DAY)	43.0	51.0	44.0	51.2	56.0
OF WHICH ANIMAL AND PULSE	13.0	17.0	15.0/c	18.1	17.2
CHILD (AGES 1-4) DEATH RATE	30.6	24.6	18.9	25.7	23.6
HEALTH					
LIFE EXPECT. AT BIRTH (YEARS)	44.8	49.9	54.5	47.4	51.9
INFANT MORT. RATE (PER THOUS)	142.9	121.6	101.0	126.5	117.6
ACCESS TO SAFE WATER (%POP)					
TOTAL	..	35.0	35.0/e	24.7	25.4
URBAN	..	86.0	86.0/e	56.8	70.5
RURAL	..	14.0	14.0/e	18.3	12.3
ACCESS TO EXCRETA DISPOSAL (% OF POPULATION)					
TOTAL	..	55.0	56.0/e	28.1	..
URBAN	..	92.0	95.0/e	65.7	..
RURAL	..	40.0	40.0/e	21.9	..
POPULATION PER PHYSICIAN	21600.0	12910.0/g	7630.0	27420.6	12181.6
POP. PER NURSING PERSON	5430.0/f	1070.0/g	780.0	3456.2	2292.0
POP. PER HOSPITAL BED					
TOTAL	1290.0	760.0	660.0/c	1183.2	1075.4
URBAN	300.0/f	770.0	830.0/c	380.6	402.3
RURAL	47590.0/f	890.0	730.0/c	3177.5	3926.7
ADMISSIONS PER HOSPITAL BED	..	..	..	..	..
HOUSING					
AVERAGE SIZE OF HOUSEHOLD					
TOTAL	..	4.7	..	..	..
URBAN	..	..	..	..	..
RURAL	..	..	..	..	..
AVERAGE NO. OF PERSONS/ROOM					
TOTAL	..	..	..	..	..
URBAN	..	..	..	..	..
RURAL	..	..	..	..	..
ACCESS TO ELECT. (% OF DWELLINGS)					
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 S. OF SAHARA	MIDDLE INCOME AFRICA S. OF SAHARA
EDUCATION					
ADJUSTED ENROLLMENT RATIOS					
PRIMARY: TOTAL	38.0	64.0	69.0	63.9	97.2
MALE	52.0	73.0	77.0	73.6	103.1
FEMALE	25.0	54.0	60.0	51.6	88.5
SECONDARY: TOTAL	5.0	14.0	36.0	12.5	17.2
MALE	9.0	21.0	44.0	16.7	23.5
FEMALE	3.0	8.0	27.0	8.1	14.2
VOCATIONAL (% OF SECONDARY)	12.6	23.3	3.5/d	7.3	5.2
PUPIL-TEACHER RATIO					
PRIMARY	31.0	30.0	27.0/d	46.4	42.9
SECONDARY	16.0/j	17.0	19.0/d	25.1	23.7
ADULT LITERACY RATE (%)	27.0/h	30.2	..	36.5	37.1
CONSUMPTION					
PASSENGER CARS/THOUSAND POP	3.0	4.6	6.8/c	3.3	18.8
RADIO RECEIVERS/THOUSAND POP	42.7	81.6	162.6	45.3	97.8
TV RECEIVERS/THOUSAND POP	0.1/i	1.9	5.0	2.2	18.6
NEWSPAPER ("DAILY GENERAL INTEREST") CIRCULATION PER THOUSAND POPULATION	30.0	48.2	30.5	4.7	18.2
CINEMA ANNUAL ATTENDANCE/CAPITA	1.6	2.2	0.4	1.0	0.6
LABOR FORCE					
TOTAL LABOR FORCE (THOUS)	2919.0	3421.0	4396.0	.	.
FEMALE (PERCENT)	42.6	42.1	41.1	34.5	36.1
AGRICULTURE (PERCENT)	64.0	58.0	53.0	76.9	56.8
INDUSTRY (PERCENT)	14.0	17.0	20.0	9.8	17.5
PARTICIPATION RATE (PERCENT)					
TOTAL	42.9	39.7	37.2	40.9	37.0
MALE	50.0	46.6	44.0	53.0	47.1
FEMALE	36.0	33.0	30.4	28.9	27.0
ECONOMIC DEPENDENCY RATIO	1.1	1.2	1.3	1.2	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/d	165.9	534.2
RURAL	..	..	150.0/d	87.4	255.9
ESTIMATED RELATIVE POVERTY INCOME LEVEL (US$ PER CAPITA)					
URBAN	..	..	156.0/d	100.8	491.5
RURAL	..	..	130.0/d	64.6	188.1
ESTIMATED POP. BELOW ABSOLUTE POVERTY INCOME LEVEL (%)					
URBAN	..	..	..	39.5	..
RURAL	..	..	..	69.0	..

.. 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 1979 and 1981.

/c 1977; /d 1978; /e 1975; /f 1962; /g Registered, not all practicing in the country; /h Age 6 and over; /i 1964; /j Public Schools only.

May 1983

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 1980 data.

Agricultural - Estimate of agricultural area used temporarily or permanently for crops, pastures, market and kitchen gardens or to lie fallow; 1960, 1970 and 1980 data.

GNP PER CAPITA (US$) - GNP per capita estimates at current market prices, calculated by same conversion method as World Bank Atlas (1979-81 basis); 1960, 1970, and 1981 data.

ENERGY CONSUMPTION PER CAPITA - Annual apparent consumption of commerical primary energy (coal and lignite, petroleum, natural gas and hydro-, nuclear and geothermal electricity) in kilograms of coal equivalent per capita; 1960, 1970, and 1980 data.

POPULATION AND VITAL STATISTICS

Total Population, Mid-Year (thousands) - As of July 1; 1960, 1970, and 1981 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 1981 data.

Population Projections

Population in year 2000 - Current population projections are based on 1980 total population by age and sex and their mortality and fertility rates. Projection parameters for mortality rates comprise of three levels assuming life expectancy at birth increasing with country's per capita income level, and female life expectancy stabilizing at 77.5 years. The parameters for fertility rate also have three levels assuming decline in fertility according to income level and past family planning performance. Each country is then assigned one of these nine combinations of mortality and fertility trends for projection purposes.

Stationary population - In a stationary population there is no growth since the birth rate is equal to the death rate, and also the age structure remains constant. This is achieved only after fertility rates decline to the replacement level of unit net reproduction rate, when each generation of women replaces itself exactly. 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.

Year stationary population is reached - The year when stationary population size will be reached.

Population Density

Per sq. km. - Mid-year population per square kilometer (100 hectares) of total area; 1960, 1970, and 1980 data.

Per sq. km. agricultural land - Computed as above for agricultural land only; 1960, 1970 and 1980 data.

Population Age Structure (percent) - Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentages of mid-year population; 1960, 1970, and 1981 data.

Population Growth Rate (percent) - total - Annual growth rates of total mid-year population for 1950-60, 1960-70, and 1970-81.

Population Growth Rate (percent) - urban - Annual growth rates of urban populations for 1950-60, 1960-70, and 1970-81.

Crude Birth Rate (per thousand) - Annual live births per thousand of mid-year population; 1960, 1970, and 1981 data.

Crude Death Rate (per thousand) - Annual deaths per thousand of mid-year population; 1960, 1970, and 1981 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 1981.

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) - Percentage of married women of child-bearing age (15-44 years) who use birth-control devices to all married women in same age group.

FOOD AND NUTRITION

Index of Food Production per Capita (1969-71=100) - Index of per capita annual production of all food commodities. Production excludes seed and feed and is on calendar year basis. Commodities cover primary goods (e.g. sugarcane instead of sugar) which are edible and contain nutrients (e.g. coffee and tea are excluded). Aggregate production of each country is based on national average producer price weights; 1961-65, 1970, and 1981 data.

Per capita supply of calories (percent of requirements) - Computed from energy 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, 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; 1961-65, 1970 and 1980 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 Survey; 1961-65, 1970 and 1980 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) - Annual deaths per thousand in age group 1-4 years, to children in this age group; for most developing countries data derived from life tables; 1960, 1970 and 1981 data.

HEALTH

Life Expectancy at Birth (years) - Average number of years of life remaining at birth; 1960, 1970 and 1981 data.

Infant Mortality Rate (per thousand) - Annual deaths of infants under one year of age per thousand live births; 1960, 1970 and 1981 data.

Access of 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 household 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 practicing 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 hospital 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. For statistical purposes urban hospitals include WHOs principal/general hospitals, and rural hospitals, local or rural hospitals and medical and maternity centers. Specialized hospitals are included only under total.

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.

Access to Electricity (percent of dwellings) - 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; normally includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education enrollment may exceed 100 percent since some pupils are below or above the official 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.

Adult literacy rate (percent) - Literate adults (able to read and write) as a percentage of total adult population aged 15 years and over.

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 unlicensed 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 1981 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 1981 data.

Industry (percent) - Labor force in mining, construction, manufacturing and electricity, water and gas as percentage of total labor force; 1960, 1970 and 1981 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 1981 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 total labor force.

INCOME DISTRIBUTION

Percentage of Private Income (both in cash and kind) - Received by richest 5 percent, richest 20 percent, poorest 20 percent, and poorest 40 percent of households.

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".

Economic and Social Data Division
Economic Analysis and Projections Department
May 1983

GHANA ECONOMIC DATA

GNP PER CAPITA IN 1982: US$360 1/

GROSS NATIONAL PRODUCT IN 1982

	Cedis Mln.	%	ANNUAL RATE OF GROWTH (%, Constant Prices) 1977-82
GNP at Market Prices	113,240	100.00	-0.86
Gross Domestic Investment	1,472	1.3	-16.40
Gross National Saving	1,585	1.4	-16.45
Current Account Balance	-16.6	-0.09	—
Export of Goods, NFS	2009.0	1.77	-9.44
Import of Goods, NFS	1959.0	1.73	-20.22

OUTPUT AND LABOR FORCE

	Output in 1982 Cedis Mln.	%	Labor Force, 1982 Mln.	%
Agriculture	44,031	51.28	2.509	57.2
Industry	6,440	7.50	0.671	15.3
Services	35,395	41.22	1.206	27.5
Total	85,866	100.0	4.386	100.0

GOVERNMENT FINANCE

	Central Government			
	Cedis Mln.	% of GDP in 1981	Cedis Mln.	% of GDP in 1982
Total Revenue and Grants	4,855.3	6.33	5253.2	6.12
Total Expenditure and Net Lending	9,702.9	12.66	9220.1	10.74
Overall Deficit (-)	-4,847.6	-6.32	-3966.9	-4.62

MONEY, CREDIT AND PRICES

	1976	1977	1978	1979	1980	1981	1982
Money and Quasi-money	1,903	3,044	5,131	5,942	7,949	12,029	15,072
Bank Credit to Public Sector	1,966	3,203	5,636	6,537	8,481	14,043	1,714
Bank Credit to Private Sector	385	560	739	796	940	1,342	1,558
	(Percentages or Index Numbers)						
Money and Quasi-money as & of GDP	29.2	27.3	24.4	21.1	19.4	15.7	17.6
General Price Index (1977=100)	46.2	100.0	173.1	267.3	401.2	868.6	1062.4

1/ Staff estimate

September 1983

BALANCE OF PAYMENTS

	1980	1981 (US$ million)	1982 1/
Trade Balance	184.3	22.3	98.2
Exports	1208.9	766.3	627.2
Imports	-1024.6	-788.7	-529.0
Invisibles (Net)	-168.0	-140.4	-114.8
Services	-247.7	-223.3	-197.2
Transfers	79.7	82.9	82.4
Current Balance	16.3	-162.7	-16.6
Capital Accounts			
Official Capital (Net)	187.9	57.3	149.7
Private Capital (Net)	19.8	26.3	31.7
Arrears Payments	78.9	141.4	35.2
Overall Balance	81.5	-262.5	56.4
Gross International Reserves (End of Period)	197.6	189.8	223.9

February 1973 - June 18, 1978
US$ = ¢1.15

Since August 26, 1978
US$ = ¢2.75

MERCHANDISE EXPORTS (AVERAGE 1978-82)

	US$ Mln.	%
Cocoa Beans & Products	654.5	72.9
Timber Logs & Products	38.2	4.3
Gold	135.1	15.0
Diamonds	10.3	1.1
Manganese	9.6	1.1
All Other Goods	50.1	5.6
Total	897.8	100.0

EXTERNAL DEBT, DECEMBER 1982 3/

	US$ Mln.
Total Outstanding and Disbursed M&LT	1648.6
Total Outstanding and Disbursed incl. Short-term	1163.6

DEBT SERVICE RATIO FOR 1981

	%
Total Outstanding and and Disbursed M&LT	10.7
Total Outstanding and Disbursed incl. payment arrears	17.9

IBRD/IDA LENDING (March 31, 1983)

	IBRD	IDA
Outstanding and Disbursed	130.2	122.1
Undisbursed	18.9	94.2
Outstanding, incl. Undisbursed	149.1	216.3

1/ Provisional estimates subject to change.
2/ Includes errors and omissions.
3/ Actual data not available. Estimates only.

September 1983

THE STATUS OF BANK GROUP OPERATIONS IN GHANA

STATEMENT OF BANK LOANS AND IDA CREDITS (As of September 30, 1983)*

Loan or Credit Number	Fiscal Year	Borrower	Purpose	Amount (US$) Less Cancellation 1/ Bank	IDA	Undisbursed
Six loans and twelve credits fully disbursed				118.5	89.9	
531-GH	1975	Republic of Ghana	Oil Palm		13.6	0.6
1122-GH	1975	Post & Telecommunications	Telecommunications	23.0		9.2
1180-GH	1975	Republic of Ghana	Nat'l Investment Bank	10.0		0.4
1182-GH	1975	Republic of Ghana	Second Highway	18.0		0.1
1291T-GH2/	1976	Republic of Ghana	Agricultural Dev.	21.0		5.8
901-GH	1979	Republic of Ghana	Second NIB		19.0	12.6
1009-GH	1980	Republic of Ghana	Agricultural Dev.		29.5	25.9
1029-GH	1980	Republic of Ghana	Third Highway		25.0	7.1
1170-GH	1981	Republic of Ghana	Railway		29.0	28.2
1327-GH 3/	1983	Republic of Ghana	Reconstruction CIMAO		9.3	9.1
1342-GH 3/	1983	Republic of Ghana	Water Supply		13.0	13.0
1373-GH	1983	Republic of Ghana	Energy Project		11.0	10.6
1393-GH	1983	Republic of Ghana	Reconstruction Import		40.0	40.0
		Total		190.5	279.3	
		of which has been paid		46.0	2.9	
		Total now outstanding		144.5	276.4	
		Amount sold	0.4			
		of which has been repaid	0.4	0.0	0.0	
		Total now held by Bank and IDA		144.5	276.4	
		Total undisbursed		15.5	147.1	162.6

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

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* There has been no IFC operation in Ghana.
1/ Prior to exchange adjustments.
2/ Interest subsidy fund (Third Window).
3/ Not yet effective.

GHANA

EXPORT REHABILITATION PROJECT
SUPPLEMENTARY PROJECT DATA SHEET

Section I: Timetable of Key Events

(a)	Date of first presentation to the Bank	April 1981
(b)	Date of departure of appraisal mission	August 1981 (original) May 1983 (reappraisal)
(c)	Date of completion of Negotiations	November 14,1983
(d)	Planned date of effectiveness	January 1984

Section II: Special IDA Implementation Actions

None

Section III: Special Conditions

(a) Execution of the Development Credit Agreement for Export Rehabilitation Technical Assistance Project as a condition of effectiveness (para. 104);

(b) Execution of the Project Agreement as a condition of effectiveness (para. 104);

(c) Execution of subsidiary agreements between the Borrower and implementing agencies as a condition of effectiveness (para. 90);

(d) Establishment of special account as a condition of effectiveness (para. 92);

(e) The State Gold Mining Corporation (SGMC) to enter into a management contract with an international mining consortium to manage SGMC mines as a condition of disbursement of the mining component (para. 80);

(f) SGMC and GPA to finalize procurement lists and schedules satisfactory to IDA (para. 93);

(g) The Borrower to review with IDA FY85 Development and Foreign Exchange Budgets and other performance criteria prior to release of the second tranche of the Credit (para. 96);

(h) Establishment of the Counterpart Funds Account (para. 98);

(i) Maintenance of the Interministerial Export Rehabilitation Committee (para. 91);

(j) SGMC to carry out a plan of action to improve its gold mines (para. 81);

(k) The Borrower to restructure the Ghana Cocoa Marketing Board (GCMB) (paras. 54-56);

(l) The Borrower to propose, agree with IDA and implement a cocoa producer price for 1984 as a disbursement condition for the cocoa sector allocation of the Credit and carry out an annual cocoa producer price adjustment in a manner satisfactory to IDA (para. 53);

(m) The Borrower to carry out a five year GCMB staff retrenchment program and an adjustment assistance program for the displaced GCMB staff (para. 58);

(n) GCMB to carry out studies and recommendations of the studies on the financial viability and divestiture procedures of GCMB's cocoa plantations, cocoa products factories and insecticides formulation plants (para. 58);

(o) GCMB to carry out studies and recommendations of the studies on its corporate planning and management system, alternative cocoa marketing arrangements, and the procedures for receiving at ports, storing and shipping of cocoa and cocoa products (para. 58);

(p) GCMB to prepare and carry out a program to increase haulage of cocoa through private trucking (para. 58);

(q) The Borrower to establish an independent Timber Export Development Board (TEDB) (para. 70); and

(r) The Borrower to establish a Forest Production Inspection Bureau (para. 71).

GHANA

EXPORT REHABILITATION PROJECT

COCOA SECTOR

Short-Term Rehabilitation Activities To be Supported Under ERP

(i) Shed Building and Rehabilitation

1. Due to the lack of funding in recent years, there are a large number of locations where new sheds need to be built or existing sheds rehabilitated. As a result of the poor quality of storage facilities for cocoa, considerable quantities of cocoa are at risk of deterioration if not evacuated before the rainy season. It has been estimated that up to 10,000 tons of sub-standard cocoa could be avoided each year if good storage facilities were provided at all buying centers. Assuming the loss in value of sub-standard cocoa to be 50 percent of the selling price, this represents a potential increase in export earnings of $10 million a year. It is important, therefore, that provision be made for the supply of at least roofing sheets for shed building so that the most urgent repairs and rebuilding can be undertaken during the ERP program.

2. The schedule of shed building and rehabilitation assumes that 90 new sheds will be built and 140 sheds rehabilitated each year. The existing development department of GCMB would not be capable of undertaking such an ambitious program. The anticipated technical assistance program includes an expert in this field and until he has been able to implement the necessary operating and control procedures and assist in the training and/or recruitment of the necessary staff, it is unlikely that more than 20 new sheds would be built and 50 sheds rehabilitated in each of the first two years. An allocation of $0.5 million each year for the purchase of roofing sheets would ensure that this program could be completed, subject to assurances from Government for the allocation of locally produced cement and reinforcing rods. Priority should be given to the provision of sheds and rehabilitation in the area designated by CSD for special attention.

(ii) Vehicle Workshops

3. The provision of adequate vehicle workshop facilities would result in an annual saving of $2.8 million in replacement vehicle costs. It is essential, therefore that the workshop building program is undertaken. Under the ERP program it is suggested that regional workshops be built at Koforidu and Agona Swedru. The mobile workshops and lubrication units should also be provided. In addition, the spare parts for all workshop vehicles should be provided for the two year period of ERP. The reduction of the building program to this level would reduce costs to $2,350,000.

(iii) Capsid Control

4. For the introduction of an effective capsid control program, an effective distribution system has to be established for the sale of insecticides, mistblowers and fuel oil mixture. Also, effective mistblower repair facilities have to be established. Hence, the expenditure of $1.9 million has to be included under ERP.

5. Failure to include these items will have a twofold effect. Firstly, if no distribution and repair and maintenance facilities are established, the utilization of $8 million for insecticides and mistblowers, under RIC, is likely to be ineffective. Secondly, if the insecticide is misapplied the incremental increase in cocoa crop will not be achieved. This would result in a loss of revenue of:

1984/85	-	$36 million
1985/86	-	$80 million

At the higher level forecast the losses would be even greater.

6. It is estimated that insecticides already imported in 1983 (including those financed under the Reconstruction Import Credit) would be sufficient to meet the demand until the end of 1984. However, for 1985, assuming that about one million acres would be a realistic target for spraying and half of this acreage will be sprayed with Unden (four sprays a year totalling 1.7 liter/acre) and half with Gammalin (four sprays totalling 2.27 liter/acre), the total requirement would be 850,000 liters of Unden and 1,135,000 liters of Gammalin. The proposed credit would finance about 30 percent of this requirement (250,000 liters of Unden and 340,000 liters of Gammalin). The total requirement for spraying machines is estimated at 90,000; there are about 40,000 serviceable sprayers in the system and an additional 25,000 would be imported in 1983 (including 20,000 financed under the Reconstruction Import Credit). The shortfall is, therefore, about 25,000. The proposed Credit would finance about 15,000 sprayers (60 percent of the gap) split equally over 1984 and 1985.

GHANA

EXPORT REHABILITATION PROJECT

Cocoa Sector

Short-term Rehabilitation Requirements

	Two-Year (1984-85) Requirements	ERP Funding	Deficit
Storage			
Roofing sheets	29.6	1.5	28.1
Workshops			
Base Workshops	2.0	-	2.0
Regional Workshops	2.1	2.1	-
Volta Workshop	0.3	-	0.3
Workshop Equipment	1.5	1.5	-
Workshop Vehicles	1.3	1.3	-
Spare Parts	0.6	0.6	-
Capsid Control			
Insecticides	21.1	5.1	16.0
Sprayers	13.1	4.8	8.3
Spares	3.4	3.0	0.4
Workshops	1.9	1.9	-
Input Distribution			
Warehouse and Equipment	2.4	1.5	0.9
Distribution Vehicles	4.8	0.6	4.2
Spares and Tyres	1.8	-	1.8
Non-Haulage Vehicles			
New Vehicles	11.7	-	11.7
Spares and Tyres	5.4	-	5.4
Crop Related Costs			
Bags	4.4	-	4.4
Haulage	4.2	-	4.2
Miscellaneous Recurrent Costs	20.0	-	20.0
	131.6	23.9	107.7
Other Sources of Financing			
Foreign Exchange Retention			55.1
Stabex			10.0
Insecticides in Stock			10.5
Sprayers in Stock			4.5
			80.1
Additional Funding Required			27.6

EXPORT REHABILITATION PROJECT - FORESTRY COMPONENT

SHORT TERM CAPITAL REQUIREMENT ESTIMATE ($000's)

Company	Capital Equipment					Rehabilitation				Preventative Spares					Support Services		
	Forest Equipment	Haulage Vehicles	Mill	General Transport	Sub-Total	Forest Equipment	Haulage Vehicles	Mill	Sub-Total	Forest Equipment	Haulage Vehicles	Mill	General Transport	Sub-Total	Material	Work Shop	Company Total
Privately-owned Companies																	
A E Saoud Ltd.	512.0	560.0	0.	0.	1,072.0	0.	0.	150.0	150.0	80.0	85.0	350.0	10.0	525.0	0.	30.0	1,777.0
A.G. Timbers Ltd.	2,922.0	1,120.0	844.5	667.5	5,554.0	0.	0.	0.	0.	292.0	112.5	217.5	0.	622.0	0.	112.5	6,288.5
Asakyiri Timber Ltd.	225.0	76.0	0.	0.	301.0	0.	0.	0.	0.	34.0	10.0	20.0	0.	64.0	0.	0.	365.0
Ashanti Timbers Co.	0.	200.0	0.	32.0	232.0	0.	0.	0.	0.	0.	80.0	100.0	5.0	185.0	0.	50.0	467.0
Atwima Timbers	955.0	726.6	0.	26.0	1,707.6	98.0	60.0	0.	158.0	191.0	145.3	90.0	5.2	431.5	0.	30.0	2,327.1
Dupaul Wood Treatment Ltd.	320.0	190.0	0.	0.	510.0	0.	0.	0.	0.	48.0	30.0	150.0	0.	228.0	0.	0.	738.0
Eastern Hardwoods Ltd.	220.0	380.0	0.	0.	600.0	0.	60.0	0.	60.0	100.0	60.0	75.0	0.	235.0	0.	0.	895.0
Ejisu Forest Products Ltd.	0.	0.	0.	0.	0.	0.	0.	0.	0.	100.0	100.0	230.0	0.	430.0	0.	50.0	480.0
F.N. Oppong Sawmills Ltd.	250.0	262.5	0.	0.	512.5	0.	0.	75.0	75.0	37.5	100.0	80.0	0.	217.5	0.	0.	805.0
Gabco Timbers Ltd.	248.0	304.0	70.0	0.	622.0	0.	20.0	0.	20.0	37.2	45.6	90.5	0.	173.3	0.	0.	815.3
Ghana Primewood Products Ltd.	1,176.0	690.0	603.0	26.0	2,495.0	50.0	0.	285.0	335.0	376.4	153.5	455.0	4.0	988.9	0.	140.0	3,958.9
John Bitar Co.	328.0	448.0	300.0	60.0	1,136.0	73.0	40.0	0.	113.0	49.2	67.2	165.0	10.0	291.4	0.	30.0	1,570.4
Logs and Lumber Ltd.	3,883.3	0.	812.4	0.	4,695.7	240.0	0.	123.6	363.6	431.4	0.	90.3	0.	521.7	436.4	0.	6,017.4
Lumber Processing Ltd.	585.0	560.0	0.	0.	1,145.0	0.	0.	500.0	500.0	85.0	0.	300.0	90.0	475.0	0.	30.0	2,150.0
Naja David Veneer & Plywood Ltd.	1,491.0	893.0	800.0	62.0	3,246.0	0.	0.	0.	0.	223.6	134.0	120.0	9.0	486.6	620.0	0.	4,352.6
Novotex Ltd.	0.	200.0	0.	0.	200.0	0.	0.	0.	0.	0.	30.0	150.0	0.	180.0	275.0	0.	655.0
ODA Wood Complex	2,270.0	1,500.0	89.2	200.0	4,059.2	595.5	0.	200.0	795.5	100.0	0.	0.	13.4	113.4	200.0	0.	5,168.1
Poku Transport Veneer & Plywood Ltd.	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.	169.0	96.0	0.	265.0	192.0	0.	457.0
Prima Woods Supply Ltd.	0.	530.4	215.7	0.	746.1	0.	0.	0.	0.	0.	80.0	135.0	0.	215.0	72.0	30.0	1,063.1
Saoud Bros. & Sons Ltd.	0.	270.0	0.	0.	270.0	0.	0.	0.	0.	0.	40.5	50.0	0.	90.5	0.	50.0	410.5
S.E. Amankwah Timber Ltd.	12.0	340.0	0.	0.	352.0	100.0	50.0	100.0	250.0	50.0	60.0	0.	100.0	210.0	0.	30.0	842.0
Star Sawmill Prod. Ltd.	0.	340.0	250.0	0.	590.0	0.	0.	0.	0.	0.	51.0	137.5	0.	188.5	0.	60.0	838.5
Std. Wood Processing	0.	76.0	100.0	0.	176.0	0.	0.	0.	0.	0.	10.0	65.0	0.	75.0	0.	0.	251.0
Tema Sawmills Ltd.	0.	190.0	50.0	0.	240.0	0.	0.	0.	0.	0.	30.0	80.0	0.	110.0	0.	0.	350.0
Timbers & Transport K.K.	36.0	645.0	60.0	26.0	767.0	100.0	0.	0.	100.0	105.4	146.8	150.0	3.9	406.1	0.	50.0	1,323.1
Wood Industries Ltd.	50.0	200.0	0.	0.	250.0	50.0	0.	0.	50.0	37.5	105.0	75.0	0.	217.5	0.	0.	517.5
Wood Complex Kaasi Ltd.	0.	200.0	100.0	0.	300.0	0.	0.	0.	0.	0.	30.0	80.0	0.	110.0	0.	0.	410.0
Sub-Total Privately-owned Companies																	45,293.0

Included in the Ministry of Lands and Natural Resources listing, but with no capital requirements given, was Anthony Timber Co.

Company	Forest Equipment	Haulage Vehicles	Mill	General Transport	Sub-Total	Forest Equipment	Haulage Vehicles	Mill	Sub-Total	Forest Equipment	Haulage Vehicles	Mill	General Transport	Sub-Total	Material	Work Shop	Company Total
State-owned Companies																	
MIM Timber Co. Ltd. *1	2,400.0	2,800.0	350.0	100.0	5,650.0	600.0	900.0	100.0	1,600.0	100.0	100.0	100.0	400.0	700.0	250.0	100.0	8,300.0
Takoradi Veneer & Lumber Co. Ltd. *2	1,515.5	0.	2,309.5	212.0	4,037.0	500.0	200.0	600.0	1,300.0	277.6	0.	261.9	13.0	552.5	300.0	270.8	6,460.3
Sub-Total State-owned Companies																	14,760.3
TOTAL REQUESTED SHORT-TERM CAPITAL REQUIREMENT ($000's) Privately and Publicly owned Companies																	60,053.3

*1 First priority for assistance in rehabilitation
*2 Second priority for assistance in rehabilitation
*3 Not recommended for rehabilitation

GHANA

EXPORT REHABILITATION PROJECT

SGMC Short-Term Rehabilitation Program
Production Targets

	Year 0	Year 1	Year 2
Prestea			
Tonnage	180,000	240,000	360,000
Recovery Grade	4.5	4.5	4.5
Fine Ounces	36,000	48,000	72,000
Footage Developed	9,600	18,000	18,000
Tarkwa			
Tonnage	180,000	240,000	360,000
Recovery Grade	3.5	3.5	3.5
Fine Ounces	31,500	42,000	63,000
Footage Developed	10,800	18,000	24,000
Dunkwa			
Yardage Dredged	3,456,000	4,608,000	5,760,000
Recovery Grade	1.5	1.5	1.5
Ounces Recovered	10,800	14,400	18,000

GHANA

EXPORT REHABILITATION PROJECT

SGMC Short-Term Rehabilitation Program
Funding Requirements
(US$000's)

	Prestea		Tarkwa	
	Program Requirements	ERP Funding	Program Requirements	ERP Funding
Underground Plant and Machinery	2,835	1,600	4,311	3,000
Treatment Plant and Machinery	1,327	900	2,553	2,000
Surface Plant and Machinery	1,052	800	654	600
Vehicles and Trucks	2,319	1,400	1,636	1,000
Housing and Amenities	1,673	400	1,702	400
Spare Parts and Consumables	8,821	3,000	8,635	3,500
	18,027	8,100	19,491	10,500

	Dunkwa	
	Program Requirements	ERP Funding
General Capital Expenditures	3,130	1,000
Replacement Parts		
Spare Parts and Consumables	4,258	3,400
General Dredge Rehabilitation	2,000	--
Housing and Amenities	600	600
	9,988	5,000

GHANA

Export Rehabilitation Project

Port Sector: Short Term Rehabilitation Requirements and ERP Details

TOTAL FUNDS BY AGENCY	Immediate Requirement During 1984/85 US$(000) Foreign	ERP FUNDING Foreign
A. Ghana Ports Authority (GPA)		
Cargo equipment and spare parts	1,055	1,055
Marine equipment and spare parts	4,370	270
Civil works	1,000	800
Dredging (contract dredging & spare parts)	2,100	200
Takoradi dry dock and slipway - repair	1,000	300
Subtotal	9,525	2,625
Contingencies	1,195	275
Total	10,720	2,900
B. Ghana Cargo Handling Company (GCHC)		
Cargo handling equipment and spare parts	2,805	1,730
Contingencies	365	170
Total	3,170	1,900
C. Takoradi Lighterage Company (TLC) 1/		
Floating craft and spare parts	830	
Equipment and spare parts	155	
Subtotal	985	
Contingencies	125	
Total	1,110	
TOTAL FUNDS	13,315	4,355
CONTINGENCIES	1,685	445
GRAND TOTAL	15,000	4,800
	******	*****

1/ These TLC needs are additional to the suppliers' credit of ₵2,000,000 already arranged by TLC.

GHANA

EXPORT REHABILITATION PROJECT

Proposed Implementation Mechanism for the Forestry Component

1. Although overall responsibility for implementation and administration of the proposed Credit would rest with the Ministry of Lands and Natural Resources (MLNR), the National Investment Bank (NIB) would be responsible for the administration of the input supply sub-component.

2. NIB would establish a Technical Evaluation Committee (TEC) which would include the Chief Economist, MLNR, and a Forestry Adviser to be financed under the project. A Loan Review Panel consisting of the Principal Secretary, MLNR, and the Managing Director, NIB, would also be established and the Forestry Adviser would act as secretary.

3. The procurement process would start when MLNR invite executives of the forest products exporters to a presentation advising them of the project criteria and loan procedures. At the same time, NIB would invite representatives of the commercial banks to a meeting for a briefing on procedures.

4. Applications must fulfil the following criteria to be eligible for financing under the project:

(a) the application must be in respect of an ongoing viable enterprise;

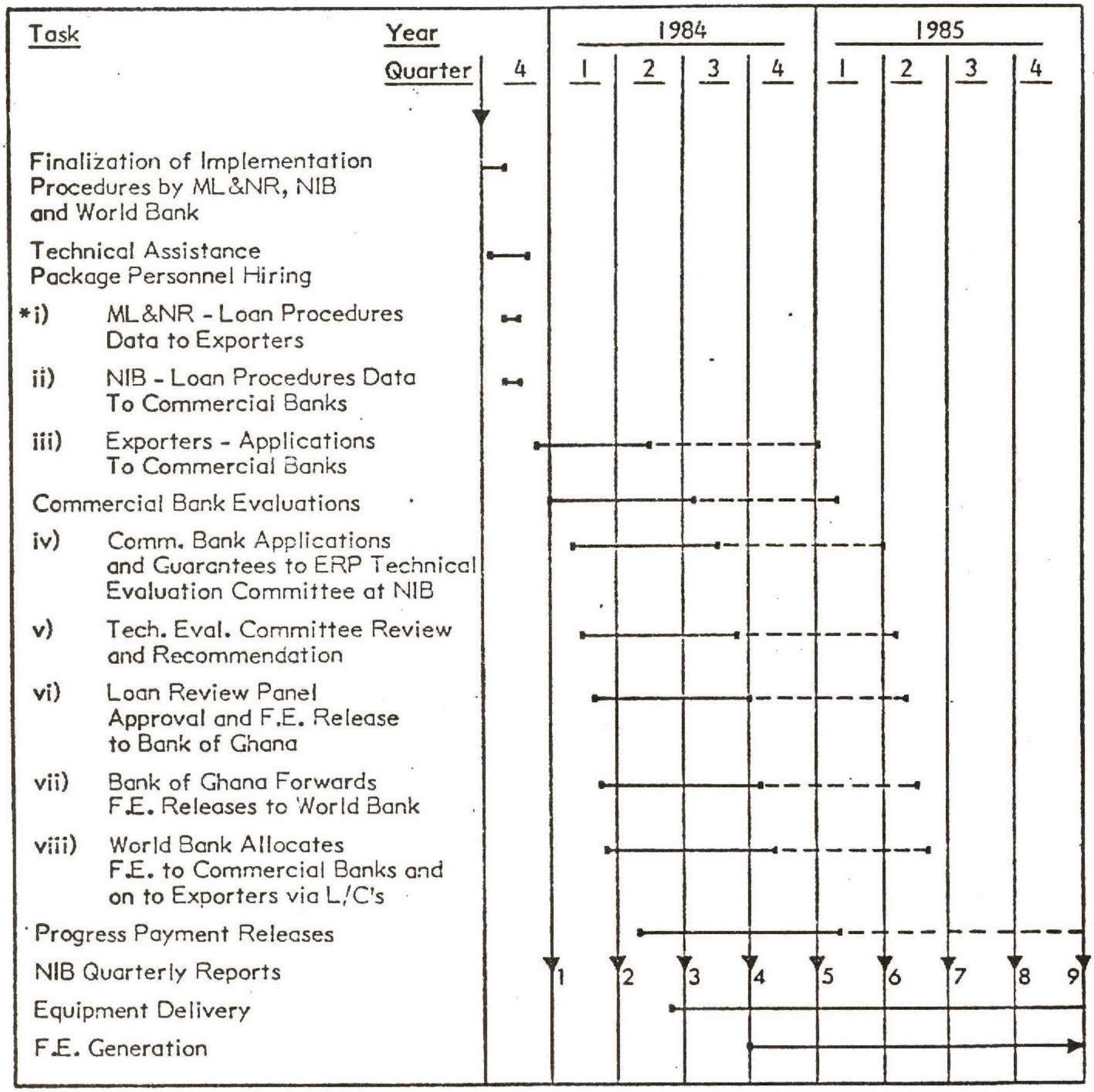
(b) the investment must relate exclusively to short-term rehabilitation of the borrowing company through funding mobile equipment, with spares, vehicles spares, and occasional key machine replacements; and

(c) the investment must be capable of generating foreign exchange earnings within six months after delivery of equipment, and, thereafter, the investment must be capable of generating foreign exchange earnings of not less than 30 percent per annum of the total amount of the loan.

5. Forest products exporters would submit their applications for loans for the purchase of approved inputs to their commercial banks who would appraise financial and technical aspects, using technical consultants as necessary. Applications recommended by the commercial banks would then be forwarded by the commercial banks to NIB for sanction under the project; at the same time, the commercial banks would guarantee the availability of working capital and undertake to pay NIB in cedis on presentation of import documents. The NIB Technical Evaluation Committee would, within seven days, evaluate the applications for compliance with project eligibility criteria and attach its recommendations for consideration by the Loan Review Panel. The Loan Review Panel would, within seven days, approve or reject the applica-

tions, and forward approved applications to the Bank of Ghana, at the same time notifying NIB and the commercial banks of its decision. On receipt of advice from the Bank of Ghana of the value of foreign exchange funds the commercial banks, in conjunction with their client exporters, would proceed to open letters of credit as necessary. The suppliers would be informed in the usual way and arrange supply according to the contract and present shipping documents through their bankers. Disbursements would be made against c.i.f. costs of eligible imports, subject to documentary evidence that expenditures had been incurred on or after signing of the Credit. To facilitate disbursements a special account would be opened by NIB with a foreign correspondent bank satisfactory to the Association. Establishment of this account would be a condition of effectiveness. Cedi payments would be made upon receipt of goods into a counterpart funds account to be established by NIB for the Ministry of Finance. The Ministry of Finance would use these funds for priority development projects included in the economic recovery program. All local charges, like duties, transport and handling fees would be financed by the importer directly.

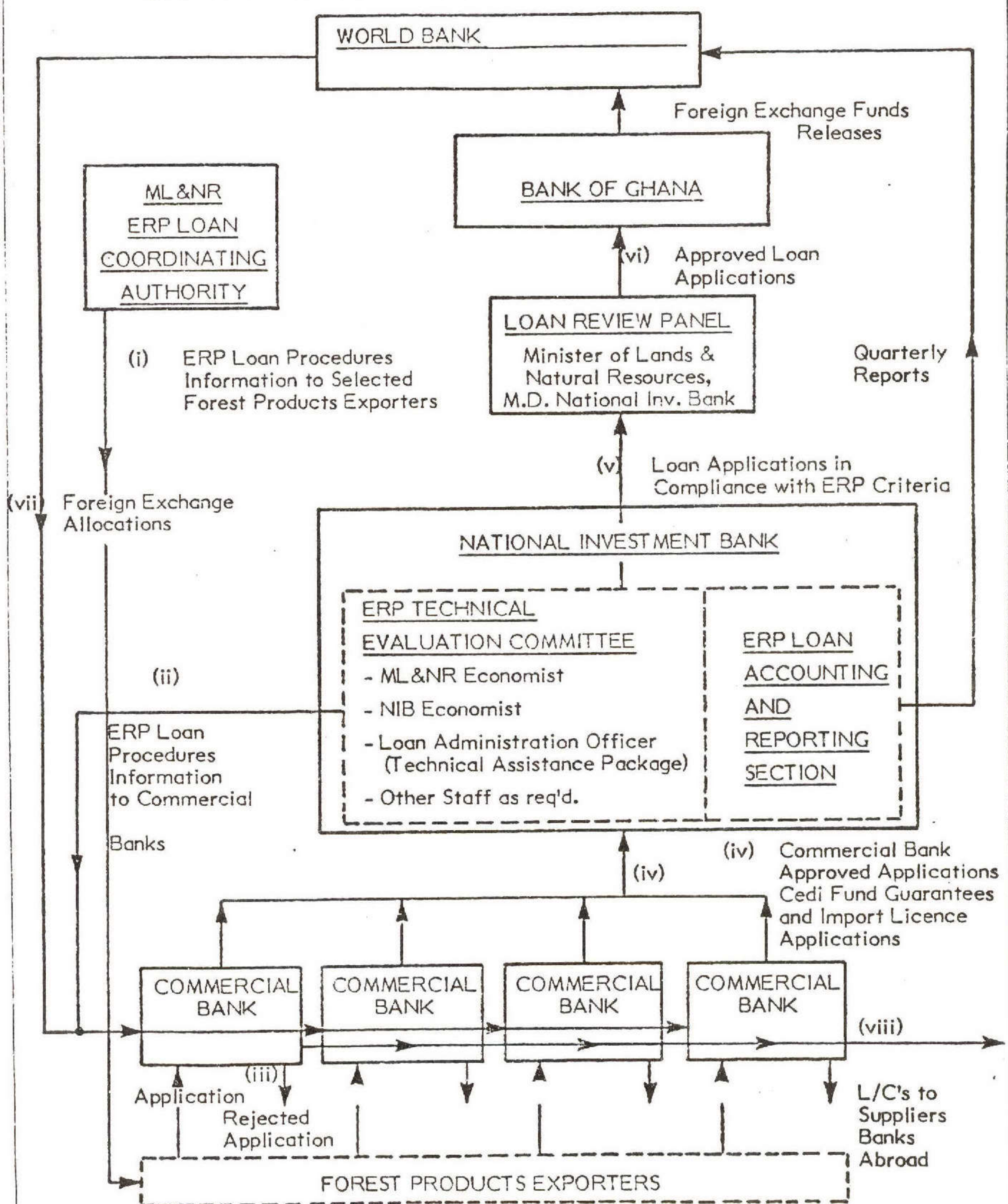
IMPLEMENTATION SCHEDULE



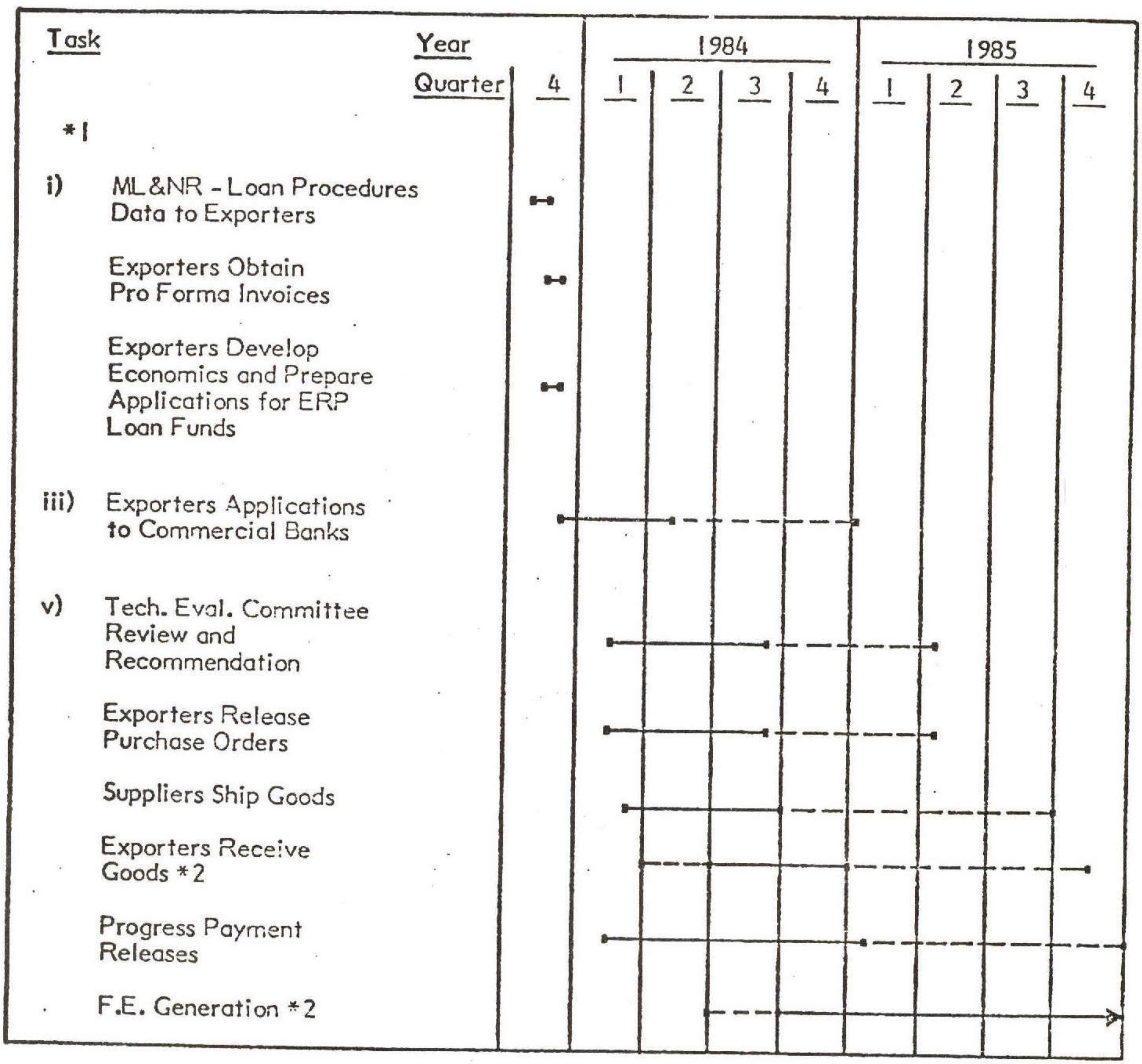
*For numbered items refer to Diagram 12-1 Flow Chart.

CARROLL-HATCH (INTERNATIONAL) LTD

DIAGRAM 12-1 ERP LOAN ADMINISTRATION AND FLOW CHART



EXPORTERS' PROCUREMENT SCHEDULE



*1 For numbered items refer to Diagram 12-1 Flow Chart.

*2 Dotted line on left indicates optimistic position.

GHANA: EXPORTS OF PRINCIPAL COMMODITIES

Product	Units (thousands)	1975	1979	1980	1981	1982	1983	1984	1985
		Actual				Estimated	Projected		
(Volume)									
Cocoa	Tons	341	229	234	204	255	190	225	240
Gold	Ounces	513	368	337	335	302	340	342	412
Diamonds	Carats	2372	1007	897	944	650	785	850	950
Manganese	Tons	373	N.A.	N.A.	143	97	272	363	363
Logs and Timber	Cu. Meters	605	285	185	219	111	242	454	489
Prices $ (US$ Per Unit)									
Cocoa		1648	3222	3385	2179	1594	1750	1850	1700
Gold		181	206	564	472	385	400	446	497
Diamonds		4.6	10.8	11.1	8.7	7.2	6.8	7.0	7.0
Manganese		39.9	N.A.	N.A.	55.9	32.0	55.0	55.0	55.0
Logs and Timber		111.1	148.8	181.6	164.4	144.1	150.0	175.0	180.0
Value (Millions of US$)									
Cocoa		562.0	738.0	792.7	434.8	406.5	332.5	416.3	408.0
Gold		72.9	75.8	190.1	158.3	116.4	144.0	153.0	205.0
Diamonds		11.0	10.9	10.0	8.2	4.7	5.3	6.0	6.7
Manganese		14.9	10.6	9.6	8.0	3.1	15.0	20.0	20.0
Logs and Timber		67.2	42.4	33.6	36.0	16.0	36.3	79.6	88.0
	TOTAL	731.7	1041.0	1159.6	766.0	872.7	533.1	674.9	728.7

IBRD 3112R
MARCH 1974
UPPER VOLTA
TO OUAGADOUGOU
TO SENSE
IVORY COAST
TOGO
Main roads
Railways
Ferry
Boundaries
International
Regional
NSAWAM
TEMA
ACCRA
AFRICA
GHANA
UPPER REGION
NORTHERN REGION
BRONG AHAFO REGION
ASHANTI
EASTERN REGION
VOLTA REGION
WESTERN REGION
CENTRAL REGION
Bawku
Tumu
Navrongo
BOLGATANGA
Zuarungu
Lawra
Pwalagu
Gambaga
Walewale
Yawgu
Nasia
Wa
Daboya
TAMALE
Yendi
Sawla
Sabari
Busunu
Yapei
Damongo
Bole
Bimbila
Salaga
Bui
Bamboi
Sorenuasi
Yeji
Kintampo
Prang
Jema
Wenchi
Kete Krachi
Atebubu
Techiman
Dodiaponse
Berekum
SUNYANI
Ejura
Jasikan
Dormaa-Ahenkro
Abofour
Mampon Asante
Kpandu
Golokuati
Goaso
KUMASI
HO
Nyinahin
Juaso
Mpraeso
Bibiani
Bekwai
Fraskumo
Jabeso
Awaso
Obuasi
Bunso
Tafo
Akosombo (Volta Dam)
Wiawso
Kibi
KOFORIDUA
Kpong
Akuse
Kade
Akropong
Dunkwa
Oda
Shai Hills
Sogakofe
Denu
LOME
Keta
Abur
Nsawam
Ada
Enchi
Akroso
Legon
Samreboi
Bawdia
Achimota
Tema
ACCRA
Prestea
Winneba
Tarkwa
Beposo
CAPE COAST
Half Assini
SEKONDI
TAKORADI
Axim
GULF OF GUINEA
VOLTA
BLACK VOLTA
WHITE VOLTA
ANKOBRA
PRA
TANO
GHANA
MILES
KILOMETERS
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Record Removal Notice

File Title	Barcode No.
Ghana - Export Rehabilitation Project - Export Rehabilitation Technical Assistance Project - Loan Committee Project File	1058627

Document Date	Document Type
June 6-12, 1986	Memoranda

Correspondents / Participants
To: Files
From: Dietrich von Busse, LOAAF
To: Wilfried Thalwitz, WANVP
From: Ernest STern, SVPOP

Subject / Title

Export Rehabilitation Project - Mistblower Procurement

Exception(s)
Information Provided by Member Countries or Third Parties in Confidence
Deliberative Information

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Kim Brenner-Delp	May 25, 2023

IDA/R86-8

FROM: The President

January 28, 1986

GHANA: Export Rehabilitation Project (Cr. 1435-GH/SF9-GH)
Administration of the Canadian Government Contribution*

Introduction

1. I submit the following report and recommendation for a proposed arrangement under which IDA will administer the Canadian Government contribution of up to Cdn$4,950,000 for use in conjunction with IDA Credit 1435-GH and SF9-GH for the Export Rehabilitation Project (ERP). The amount is intended to cover the cost of imports by Ghanaian importers of graders, skidders, tractor trucks, spares, and other timber industry related items procured from Canadian suppliers. An "umbrella" Agreement dated April 22, 1977 between the Government of Canada and IDA, as amended by an Agreement dated March 8, 1978, provides for administration by IDA of funds to be made available by the Government of Canada for specific development projects. The Executive Directors approved on August 29, 1984 and March 13, 1985, respectively, two arrangements in accordance with this Agreement under which IDA administered contributions of Cdn$5 million and Cdn$8 million to the First Reconstruction Import Credit (Cr. 1393-GH). The Canadian contribution of Cdn$4.95 million to ERP would be administered similarly in accordance with the Agreement.

Background

2. Since the introduction of an economic recovery program involving far-reaching reforms aimed at stabilizing the economy and paving the way for recovery, the Government of Ghana has focussed on establishing a more realistic exchange rate, establishing realistic prices and incomes,

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

*Questions on this document may be referred to Mr. John S. Ijichi (extension 78107) increasing domestic resource mobilization, and developing programs for rehabilitating key sectors. The Government's determination and effort are largely responsible for the successful implementation of the recovery program, which brought about 7.6 percent and 5.4 percent GDP growth in 1984 and 1985, respectively, after more than 15 years of economic decline. Inflation subsided from 123 percent in 1983 to an estimated 15 percent in 1985, making interest rates positive in real terms. In carrying out the program, the Government looked to international institutions and donor governments for support to ensure its success, and requested the Bank Group to help mobilize external assistance through cofinancing and strengthened aid coordination.

3. As the Bank Group's immediate response to the economic recovery program, the Executive Directors approved an SDR 37 million Reconstruction Import Credit in June 1983 to provide assistance for urgent transport and agricultural needs. This credit, which has been fully committed, was followed in March 1985 by a Second Reconstruction Imports Credit of SDR 61.6 million. The credit is almost equally allocated among agriculture, transport, mining, and manufacturing industries, which are the most important sectors in the economic recovery program, and for IDA's assistance strategy supporting it. An SDR 26.1 million credit from the African Facility for the Second Reconstruction Imports Project also was approved on September 13, 1985. The Second Reconstruction Imports Credit became effective on August 2, 1985 and, so far, approximately US$22 million has been disbursed. Progress under this project is satisfactory.

4. In order to further support the Government's economic reforms, the Executive Directors approved credits of SDR 71.8 million and SDR 16.2 million for the Export Rehabilitation and Technical Assistance Projects on January 3, 1984. The projects aim to rehabilitate the cocoa, timber, gold mining and ports sectors and strengthen institutions in these sectors. The IDA credits became effective on June 3, 1985, and are progressing satisfactorily. A detailed description of the project and the terms and conditions of the IDA credits are contained in Report Nos. P-3695-GH and P-3696-GH both dated December 12, 1983.

5. For the purpose of administration of the Canadian contribution, the Association, acting as Administrator on behalf of the Government of Canada, would enter into a Development Grant Agreement with the Republic of Ghana substantially on the terms and conditions set forth in this memorandum.

Recommendation

6. I recommend that the Executive Directors approve the proposed arrangement by which IDA will administer funds of the Government of Canada of up to Cdn$4,950,000 for imports under the Export Rehabilitation Project.

7. In the absence of objections (to be communicated to the Vice President and Secretary or the Deputy Secretary by close of business February 7, 1986) the above recommendation will be deemed to have been approved and will be so recorded in the minutes of a subsequent meeting of the Executive Directors.

A.W. Clausen
President

Record Removal Notice

File Title	Barcode No.
Ghana - Export Rehabilitation Project - Export Rehabilitation Technical Assistance Project - Loan Committee Project File	1058627

Document Date	Document Type
April 29-June 3 1985	Memoranda, telex

Correspondents / Participants

Ernest Stern, SVPOP and Bilsel Alisbah, Director, WA1

Subject / Title

Export Rehabilitation Technical Assistance Project - State Gold Mining Corporation (SGMC) management contract

Exception(s)

Information Provided by Member Countries or Third Parties in Confidence

Deliberative Information

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Kim Brenner-Delp	May 25, 2023

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Received 12/8/83

Comments by c.o.b. 12/13/83

DATE: December 7, 1983

TO: Mr. Warren C. Baum, Acting Senior Vice President, Operations
(through Mr. Hans Fuchs, Acting Vice President, WAN)

FROM: Bilsel Alisbah, Director, WA1

EXTENSION: 78051

SUBJECT: GHANA: Proposed IDA Credit of $38.0 Million Equivalent and Special Fund Credit of $38.0 Million Equivalent for the Export Rehabilitation Project and Proposed IDA Credit of $17.1 Million Equivalent for the Export Rehabilitation Technical Assistance Project

Mr. Fuchs informed RC 12/12/83

1. I attach for your approval the draft gray cover President's Reports pertaining to the above projects. The documents related to this project, other than the supplementary letters, and the agreed minutes of negotiations, are scheduled to be distributed to the Executive Directors on December 13, 1983 for their consideration at the Board Meeting on January 3, 1984.

2. Also attached for your reference is a copy of my memorandum of November 16, 1983 to Mr. Stern reporting the outcome of negotiations.

3. At the Loan Committee stage we had indicated that we would attempt to calculate economic rates of return for different components of the project. We did make very rough estimates and arrived at a rate of return for the entire project of approximately 20 percent and would not expect the ERR to fall below 15 percent even under severe assumptions. This calculation, however, has proven problematic for a number of reasons. Firstly, an important objective of the project is to arrest and reverse the very dramatic and real declines in production which have occurred in the last two decades, including the last few years. However, any assumptions about the rate of decline in production, in the absence of the project cum policy package, are going to be quite arbitrary. Equally arbitrary are any assumptions about how production in the three major sectors will respond over the next twenty years if the institution building entailed in the project takes hold and the Government sustains the policy framework. If historical production levels can be recaptured, particularly in cocoa, the rates of return would be dramatic. This, however, is probably unrealistic but even recapturing half the ground which has been lost would yield satisfactory results, given reasonable assumptions as to what would happen in the absence of the project. Secondly, even though the local costs associated with project components are going to be relatively small (we have roughly estimated these to be maximum of 20 percent of the total foreign exchange cost), this is an area which was not examined in any detail during appraisal. Hence once again any assumptions we make are going to appear too arbitrary. Thirdly, for the gold mining component definition of detailed import requirements and of production targets is the task of the international mining management company to be appointed under the project.

4. In brief, therefore, the economic rate of return calculation presented in the President's Report should be interpreted with the above caveats in mind. We have, however, strengthened the benefits section of the Report and given more of a qualitative feel for the rate of return.

5. This memorandum and the accompanying reports, as well as the related documents, have been cleared by the departments concerned.

6. Mr. John S. Ijichi, Senior Loan Officer in West Africa Region, will present the proposed projects to the Board. The subject of his presentation will be advised to you separately.

7. Comments and suggestions on the attached documents should be referred to Mr. John S. Ijichi (Extension 7-8109).

Attachments

Cleared with & cc: Messrs. Velic, Dewey, T. Husain, Ms. Reinke

cc: Messrs. Walton, Headworth, Sullivan, Hvidberg-Hansen, Lietard,
Boehm, Maraboli, Johansen, Pankaj, I. Husain, Isenman,
Mmes. Haug, Uelmen

JIjichi:pt

December 7, 1983

Mr. Baum
(through: Mr. Hans Fuchs)

The rate of return calculations on this project are far from terribly scientific. As you can see, we make this pretty clear in the documents. Nevertheless, after listening to Tuesday's Board discussion on the Kenya project, I could not help wondering whether we should avoid using figures in the documents and be prepared to talk about our rough calculations during Board presentation. Mr. Stern, with whom I had discussed the rate of return issue verbally quite some time ago, was pretty relaxed about it.

What is your advi~~s~~ce, please?

Keep the analyses, with minor editing as noted. WCB 12/10

Bilsel Alisbah

BAlisbah:pt

IDA/R84-3

FROM: The President

January 17, 1984

GHANA: Export Rehabilitation Project (IDA/R83-132)*

Proposed Increase in IDA Credit and Proposed Reduction in IDA Special Fund

This credit of SDR 71.8 million was approved by the Executive Directors on January 3, 1984, on the basis that SDR 35.9 million would be financed from IDA and the remaining SDR 35.9 million from the IDA Special Fund. Because of the shortage of IDA Special Fund at this time and considering the urgent nature of the project, it is recommended that IDA financing be increased to SDR 37.9 million with corresponding decrease in IDA Special Fund financing to SDR 33.9 million.

In absence of objection (to be communicated to Vice President and Secretary or Deputy Secretary by close of business on January 23, 1984), the above recommendations will be deemed to have been approved and will be so recorded in the minutes of subsequent meeting.

A. W. Clausen
President

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 paper should be addressed to Mr. Upadhay (X78103)

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE 11 January 1984

TO Mr. Ernest Stern, SVPOP

THRU: Mr. A. David Knox, RVP, WAN

FROM Bilsel Alisbah, Director, WA1

EXTENSION 78051

SUBJECT GHANA - Export Rehabilitation Project

OK to issue ES 1/13/84

This credit of SDR 71.8 million was approved by the Board on January 3, 1984, on the basis that SDR 35.9 million would be financed from IDA and the balance from the IDA Special Fund. Because of the present shortage of IDA Special Fund commitment authority, we are proposing to increase IDA share by SDR 2 million and reduce the IDA Special Fund by an equal amount.

Attached please find, for your approval, a recommendation from the President to the Board on this subject. We will circulate this recommendation to the Board as soon as we receive the Government's approval, which we expect very soon.

Cleared with & cc: Mr. Velic (LEG)

JUpadhay:fas

January , 1984

FROM: The President

GHANA: Export Rehabilitation Project

This credit of SDR 71.8 million was approved by the Executive Directors on January 3, 1984, on the basis that SDR 35.9 million would be financed from IDA and the remaining SDR 35.9 million from the IDA Special Fund. Because of the shortage of IDA Special Fund at this time and considering the urgent nature of the project, it is recommended that IDA financing be increased to SDR 37.9 million with corresponding decrease in IDA Special Fund financing to SDR 33.9 million.

In absence of objection (to be communicated to Vice President and Secretary or Deputy Secretary by close of business on January , 1984), the above recommendations will be deemed to have been approved and will be so recorded in the minutes of subsequent meeting.

A. W. Clausen
President

DISTRIBUTION

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

IDA/SecM83-330

FROM: Vice President and Secretary

November 28, 1983

STATUS OF NEGOTIATIONS

REPUBLIC OF GHANA

EXPORT REHABILITATION AND EXPORT REHABILITATION TECHNICAL ASSISTANCE PROJECTS

Negotiations have been substantially 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 credits:

Borrower:	Republic of Ghana
Beneficiaries:	Ghana Cocoa Marketing Board, State Gold Mining Corporation, National Investment Bank, Ghana Port Authority.
Amount:	For the export rehabilitation project, SDR 35.9 million (US$38.0 million equivalent) and a Special Fund credit of SDR 35.9 million (US$38.0 million equivalent).
	For the export rehabilitation technical assistance project, SDR 16.1 million (US$17.1 million equivalent).
Terms:	Standard

Distribution:

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

Relending Terms: US$52.3 million equivalent of the export rehabilitation credits would be relent to the Ghana Cocoa Marketing Board, the State Gold Mining Corporation and the Ghana Port Authority for 15 years, including 5 years grace, with interest at 11.6 percent per annum; US$23.7 million equivalent would be made available to the National Investment Bank for purchases of foreign exchange by State-owned and private timber companies on terms and conditions acceptable to the Association. The technical assistance credit of US$17.1 million equivalent would be made available to the Ghana Cocoa Marketing Board, the State Gold Mining Corporation, the National Investment Bank and the Ghana Port Authority for managerial, financial and engineering technical assistance and training of local staff.

Purpose: The export rehabilitation project seeks to arrest and reverse Ghana's declining export production and foreign exchange earnings by rehabilitating the traditional export industries (cocoa, timber and gold mining) through provision of spare parts, equipment and materials, and by facilitating the evacuation of export commodities through improvement of port facilities. The technical assistance project aims at strengthening the institutional capability of the key organizations in the export sector so that they can play effective roles in the rehabilitation of the sector industries and ensure the successful execution of the export rehabilitation project.

THE WORLD BANK/INTERNATIONAL FIN. E CORPORATION

OFFICE MEMORANDUM

EK
RC 11/5
File

DATE November 18, 1983

TO Mr. Hans-Eberhard Köpp, SVPOP

FROM Nicholas A. Gibbs, Division Chief, WA1DB

EXTENSION 7-8109

SUBJECT GHANA - Export Rehabilitation Project and Export Rehabilitation Technical Assistance Project. Mr. Stern's Comments on the Changes made During Negotiations.

With regard to Mr. Stern's comments on the above subject you conveyed to me today, the following are submitted for clarification:

(a) Reallocation of $5 million from the Gold Mining Sector to the Cocoa Sector.

We proposed this shift, and the Ghanaian delegation agreed, because in our judgement the gold mining sector would have a much better chance than the cocoa sector to attract cofinancing either through the Consultative Group or other bilateral and multilateral sources.

(b) Import Licenses for Retention Funds Use

We will press the Government further to streamline the import procedures under the retention funds to the point that the whole process should take not more than 10 days from the time of application to the acquisition of licenses. Currently the whole process takes 3 to 4 weeks. However, we believe that there will be a large number of import applications during the initial 4-6 months of the project implementation, which will make it difficult for the agency concerned to process them without 10 days.

cc: Messrs. Walton, Headworth, Sullivan, Hansen, Ms. Haug, Lietard, Boehm, Maraboli, Ms. Johansen, Pankaj, Velic, Ms. Reinke.

JSIjichi:msw

WORLD BANK / INTERNATIONAL FIN/ E CORPORATION

file

EK

response ES 11/21

Mr. Stern

Ghana: ~~Import Licenses~~ Export Rehabilitation Project

The arrangements for the above project have been substantially tightened up by the Region and are generally very responsive to the L.C. comments.

There are conditions of disbursement for both cocoa (para 2 of Mr. Atsbaha's memo) and gold mining (para 11) which it would have been preferable to avoid, and the cocoa action could in fact have been made a condition of effectiveness. Some other actions might also perhaps have been brought forward further.

However, provided the various agreed actions and dates can be made to stick, this operation now looks in considerably better shape.

RC

11/17/83

1) Told Mr. Gibbs that ES agrees but expects procedures for issuing licences to be streamlined, too.
2.) RC ~~JP~~
3) File

EK 11/18

[N.B. I presume the date in para 3(ii) of the agreed minutes should be "December 1983", not "1984", but am checking with the Region. RC]

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

November 16, 1983

TO: Mr. Stern, SVPOP

THRU: Mr. A. David Knox, WANVP

Re: Ghana - Export Rehab Project

We are still hoping to get this project to the Board on December 20. We also plan to tell the Ghana Consultative Group (November 23-24) that we have completed negotiations and urge them to join us in co-financing.

If you have any violent reactions to anything, please let me know as soon as possible so that we can discuss it with the Government Delegation prior to the CG. I hope you won't have any violent reactions. I think it is now a very solid package, as we got pretty much everything that we wanted during negotiations.

Bilsel Alisbah

Attachment

THE WORLD BANK/INTERNATIONAL F[illegible]CE CORPORATION

OFFICE MEMORANDUM

DATE November 16, 1983

TO Mr. Ernest Stern
(Through Mr. A. David Knox)

FROM Bilsel Alisbah, Director, WA1

EXTENSION 7-8051

SUBJECT GHANA: Export Rehabilitation Project (ERP) and Export Rehabilitation Technical Assistance Project - Changes made during Negotiations

Negotiations on the above projects were held between November 7 and 14, 1983 on the basis of the draft legal documents cleared by the Loan Committee. During negotiations, the following changes in substance have been made:

1. Credit Amounts

The Loan Committee package was cleared on the basis of a combined IDA and Special Fund Credit amount of $77 million equivalent for ERP and a $14.1 million IDA Credit for the Technical Assistance Project, or $91.1 million equivalent in total. This total has now been raised to $93.1 million of which $76 million has been allocated for ERP and $17.1 million for the Technical Assistance Project. The increase of $2 million in the total Credit amount reflects the recent increase in the FY84 IDA/Special Fund allocation for Ghana. The increase in the IDA Credit amount for the Technical Assistance Project was necessary because the Ghanaian delegation and ourselves agreed to let an internationally experienced mining management company manage the State Gold Mining Corporation instead of, as designed at the Loan Committee stage, engaging a firm which would assist local management but would not take the direct management responsibility. This new direct management route would take 12 months longer to implement and cost $3 million more, but would be a much more effective way of improving SGMC's management and at the same time introduce a private sector element in this state-owned mining company.

2. Cocoa Producer Price for 1984

This subject was extensively discussed during negotiations, and because of the substantial impact of cocoa producer price adjustments on the Ghanaian economy as a whole, close contact was maintained with the IMF. Although the delegation informally admitted that a 40 to 50 percent cocoa producer price increase seemed justifiable at the current inflation rate and world cocoa market prices, the Ghanaian delegation was instructed by the Government not to agree to a specific rate of 1984 cocoa price increase because the Government judged that such an increase should be determined in the context of overall economic adjustment measures for 1984 including wage, price and interest rate increases to be decided in December 1983. In the end, the date for submitting a cocoa price proposal for our agreement was advanced from March 31 to January 31, 1984 with agreement to be reached by February 28, 1984. A disbursement condition was placed for the cocoa sector allocation under ERP subject to the implementation of the agreed price before March 31, 1984, one month ahead of the timing proposed at the Loan Committee stage. If further advancement of the price increase is judged to be beneficial to the economy, we will press the Government to do so. The timing of cocoa price adjustments for subsequent years was also advanced to March 31 from May 1 proposed at the Loan Committee stage.

3. Allocations for the Cocoa and Gold Mining Sectors

ERP Credit allocation to the cocoa sector was increased by $5 million with the reduction by the same amount for the gold mining sector, in response to a Loan Committee request. Assistance under the ERP to the gold mining sector is limited to the mines controlled by the State Gold Mining Corporation since IFC has confirmed that its investment proposal for the private gold mining sector is scheduled to be presented to the Board during the first half of 1984.

4. Government's Investment Program and Foreign Exchange Budget for 1984

The content of the draft Government investment and foreign exchange budgets for 1984 was reviewed and found satisfactory by a recent Bank mission. The agreed budget outlines were distributed along with the invitations to the Consultative Group meeting to be held in Paris on November 23 and 24, 1983.

5. Government Letter of Intent

A Letter of Intent outlining actions to be taken under the proposed projects has been obtained (copy attached).

6. Issuance of Import Licenses

As a Board presentation condition, the Ghanaian delegation has agreed to issue 50 percent of import licenses necessary for the cocoa and timber sectors under ERP. However, since detailed procurement lists for the mining and port sectors are to be completed by consultants, the Government will issue import licenses for these sectors as soon as practicable after the completion of such lists.

7. Foreign Exchange Retention Funds

The Ghanaian delegation has stated that the Government intends to abolish the foreign exchange retention funds and absorb them in the overall foreign exchange budget system as soon as practicable. However, it is a fact that at the present time the current system is the quickest way to access foreign exchange and provides the most attractive incentives for exporters. The Government has taken steps to simplify the procedures to utilize the funds, and the procedures were outlined in the Agreed Minutes (copy attached).

8. Acceleration of Various Proposed Actions

Timing of the various proposed actions under the projects has been substantially advanced, especially concerning the reorganization of the Ghana Cocoa Marketing Board (GCMB), privatization of GCMB's cocoa plantations, trucking and divestment from cocoa products factories, the abolishment of the Timber Marketing Board, the establishment of the Forestry Products Inspection Bureau, and a plan for compensations for cocoa farmers. The changes have been reflected in the draft legal documents and the Government's Letter of Intent, and explained in the Agreed Minutes. Restructuring of GCMB satisfactory to IDA has been made a condition of disbursements for the cocoa sector allocation.

9. Technical Assistance Project

The Ghanaian delegation has confirmed that the Government will finance some of the local cost for the project, notably housing, facilities, and local support staff.

10. Procurement Arrangements

The procurement arrangements for the ERP have been tightened considerably from the threshold of one million dollars for ICB, proposed at the Loan Committee stage, for the four sectors; for the cocoa and port sectors, the ICB threshold has been lowered to $100,000; for the gold mining sector, to $300,000; and for the timber sector, to $500,000. These thresholds have been agreed after detailed discussions on the possible items of procurement under each sector and possible packaging of the items in order to obtain the most efficient and lowest prices. Other restrictions, which were not formerly proposed, including local competitive bidding acceptable to the Association have also been reflected in the draft legal documents in order to bring the total procurement arrangements more strictly in line with normal Bank procurement guidelines.

11. Disbursemnt Condition

Following the Loan Committee's request to accelerate the disbursement under the gold mining component, it was agreed to make US$5 million equivalent available for the most urgently needed items under the ERP. The remainder of the credit would, however, be disbursed only after the management contract (see under para. 1.) has been put in place.

12. Switching the Outstanding Debt to Long-Term Loans

The outstanding Government guaranteed debt to GCMB and SGMC will not be switched to the Government equity contribution as stated at the Loan Committee stage, but will be switched to Government long-term loans with an appropriate grace period.

Attachments

cleared with & cc: Messrs. Velic, Boehm, Sullivan, Hansen, Ms. Johansen

cc: Messrs. Qureshi (2), Husain (4), Shihata (2), Hittmair,

cc: Messrs. Fuchs, Eccles, Dewey, Walton, T. Husain, Lietard, Ms. Reinke, Faiz, Headworth, Soto, Knotter, Isenman, I. Husain, Maraboli, Ms. Haug, Schelzig

JIjichi/hmk

REPUBLIC OF GHANA

Mr. A. David Knox, Vice President
West Africa Region
International Bank for Reconstruction
and Development
1818 H St., N.W.
Washington, D.C. 20433
U.S.A.

November 14, 1983

Dear Mr. Knox:

On April 21, 1983, in the context of the 1983 Budget Statement, the Government of the Republic of Ghana announced a comprehensive and far-reaching economic adjustment program. It is the Government's firm intention to carry out the various reform measures contained in the program with the cooperation from the World Bank, the International Monetary Fund and other aid donors. The Government has recently taken a major step towards the full implementation of the adjustment program when, on October 10, 1983, it unified the exchange rate at 30 cedis per U.S. dollar with concurrent introduction of upward adjustments in interest rates and prices for essential items including petroleum products.

It is in the context of the overall adjustment program that the Government would like to express its intention to implement various measures and actions under the proposed Export Rehabilitation Project and related Technical Assistance Project, which would have far-reaching macro-economic implications within the Ghanaian economy. The Government intends to take necessary measures in a timely manner to improve efficiency and productivity of both private and public sector institutions. With regard to public sector institutions, the Government intends to reduce and streamline procedures for Government control, provide more autonomy and introduce privatization whenever necessary for these purposes. If there are institutions for which the state-ownership is judged to be essential, efficiency improvements will be achieved through appropriate measures including contracts with internationally recruited management consultants to manage such institutions.

Specifically in the context of the proposed projects, the Government will take the following actions before the Board presentation of the proposed IDA and Special Fund Credits for the Export Rehabilitation and Technical Assistance projects.

(a) At least 50 percent of the necessary import licenses for the cocoa and timber sectors will be issued;

(b) A resolution on the restructuring of the Ghana Cocoa Marketing Board (GCMB) into a commercial entity in a manner satisfactory to IDA be passed by the Cabinet;

(c) GCMB will be allowed to have access to at least 10 percent of its foreign exchange earnings through streamlined procedures as agreed during negotiations;

(d) Initial steps will be taken for privatization of GCMB's cocoa plantations and cocoa trucking, and divestment from cocoa products factories;

(e) The Ghana Timber Marketing Board will be abolished;

(f) The minimum timber export price regulations will be abolished. Export procedures will be expedited and the time required for an export permit reduced to the barest minimum;

(g) Timber exporters will be allowed to have access to 20 percent of their foreign exchange earnings through the streamlined procedures agreed during negotiations; and

(h) Foreign exchange retention by the State Gold Mining Company will be increased from 20 percent to 35 percent and have access to this retention through the streamlined procedures agreed during negotiations.

Furthermore, the Government intends to take export sector policy and institutional reforms as specified in Schedule 5 of the draft Development Credit Agreement and the draft Special Fund Credit Agreement for the Export Rehabilitation Project, a copy of which is attached.

Yours sincerely,

J.G. Renner
PNDC Secretary for Lands and
Natural Resources
Republic of Ghana

Attachment

SCHEDULE 5

Export Sector Policy and Institutional Reforms

A. General

Export Sector Policy and Institutional Reforms shall address policy and institutional issues which are adversely affecting export production and foreign exchange earnings in cocoa, timber and gold mining sectors.

B. Action to be taken

1. Cocoa Sector

(a) The Borrower shall take all necessary measures to restructure GCMB in a manner satisfactory to the Association;

(b) The Borrower shall: (i) not later than January 31, 1984, establish a Cocoa Producer Price Review Committee whose composition and terms of reference shall be satisfactory to the Association to review and determine annual cocoa producer price; (ii) not later than January 31, 1984 and not later than January 31 of each year thereafter furnish to the Association for its review and comments the price referred in subparagraph (i) above; (iii) not later than February 28, 1984 and not later than February 28 of each year thereafter agree with the Association or such price; and (iv) not later than March 31, 1984 and not later than March 31 of each year thereafter, put into effect such agreed price;

(c) The Borrower shall: (i) carry out five-year GCMB staff retrenchment program in a manner and according to a timetable satisfactory to the Association; (ii) prepare and furnish to the Association for its review and comments, not later than March 31, 1984, an adjustment assistance program for the displaced GCMB staff; and (iii) carry out such program, taking into account the Association's comments thereon and according to a timetable satisfactory to the Association.

(d) The Borrower shall:

(i) not later than June 30, 1984, cause GCMB to prepare and furnish to the Association for its review and comments: (A) a study on financial viability of its cocoa plantations and procedures for divestiture of such plantations; and (B) a study on financial viability of its cocoa products factories and insecticides formulation plants and procedures for divestiture of such factories;

(ii) not later than June 30, 1984, cause GCMB to prepare and furnish to the Association for its review and comments a program to increase haulage of cocoa by private truck owners, and carry out such program in a manner and according to a timetable satisfactory to the Association.

(iii) not later than August 31, 1984, cause GCMB to prepare and furnish to the Association for its review and comments a study on its corporate planning and management information system and not later than February 28, 1985 carry out the recommendations of such study taking into account the Association's comments thereon;

(iv) not later than December 31, 1984 carry out the divestitures referred to in subparagraph (i) (A) and (B) above satisfactory to the Association; and

(v) not later than June 30, 1985, cause GCMB to furnish to the Association for its review and comments a study on alternative cocoa marketing arrangements, and not later than December 31, 1985, carry out the recommendations of such study taking into account comment of the Association thereon; and

(vi) not later than June 30, 1984, cause GCMB to prepare and furnish to the Association for its review and comments a study on the procedures for receiving at ports, storing and shipping of cocoa and cocoa products, and not later than December 31, 1984, carry out the recommendations of such study taking into account comments of the Association thereon.

(e) To coordinate and oversee the actions referred to in paragraph (d) above, the Borrower shall maintain a Steering Committee established by ______________________________*, dated ____________________* whose composition, functions and responsibilities shall be satisfactory to the Association.

(e) The Borrower shall: (i) not later than June 30, 1984, prepare, under terms of reference satisfactory to the Association, and furnish to the Association for its review and comments (A) a long-term cocoa production strategy and (B) swollen shoot virus disease control program for cocoa rehabilitation and replanting, including a policy of compensation to cocoa farmers for replanting of cocoa trees cut out under such program satisfactory to the Association; and (ii) carry out such strategy and program in a manner and according to a timetable satisfactory to the Association.

(f) The Borrower shall cause GCMB to retain 10 per cent of its export proceeds in foreign currency for the purpose of importation of recurrent inputs or such other percentage as shall be agreed upon between the Borrower and the Association, and maintain policies and procedures for such retention satisfactory to the Association.

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* To be provided.

2. Timber Sector

(a) The Borrower shall: (i) not later than April 30, 1984, establish a Timber Export Development Board (the TEDB) composed of representatives of concerned government ministries and representatives of timber mills, such Board to have functions and responsibilities satisfactory to the Association; (ii) until the TEDB shall have been established carry out timber export development functions satisfactory to the Association.

(b) The Borrower shall: (i) not later than April 30, 1984, establish a Forest Products Inspection Bureau (the FPIB), such Bureau to have functions and responsibilities satisfactory to the Association; (ii) not later than March 31, 1985 adopt uniform timber grading rules satisfactory to the Association; and (iii) until the FPIB shall have been established and such uniform timber grading rules adopted, carry out inspection of timber export facilities and grading of timber satisfactory to the Association.

(c) The Borrower shall: (i) not later than September 30, 1984, prepare and furnish to the Association for its review and comments a study on the alternative strategies for the ownership and management of the following state-owned timber companies: Gliksten West Africa Company, African Timber and Plywood Company, Mim Timber Company and Takoradi Veneer and Lumber Company; (ii) not later than December 31, 1984 carry out the recommendations of such study taking into accounts comments of the Association thereon.

(d) The Borrower shall: (i) not later than June 30, 1985, review with the Association forest concession allocations for the purposes of improved utilization of its forest resources and increased export production; and (ii) not later than December 31, 1985, carry out the recommendations of such review taking into account the Association's comments thereon.

(e) The Borrower shall: (i) maintain procedures for retention of foreign exchange by timber companies for the purpose of increased production and operating efficiency of such companies; (ii) not later than March 31, 1984 review with the Association such procedures; and (iii) not later than June 30, 1984, carry out the recommendations of such review taking into account the Association's comments thereon.

(f) The Borrower shall: (i) not later than October 31, 1984, prepare and furnish to the Association for its review and comments, a study on the organizational, managerial and staffing requirements of the FPIB and the TEDB; and (ii) not later than December 31, 1984 carry out recommendations of such study taking into account comments of the Association thereon.

(g) The Borrower shall, not later than March 31, 1984, employ a timber sector consultant for NIB whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association.

(h) The Borrower shall, not later than June 30 and not later than December 31, 1984, and not later than June 30 and not later than December 31 of each year, thereafter, review, together with the Association, progress made under Export Policy and Institutional Reforms in the timber sector.

3. Gold Mining Sector

(a) The Borrower shall: (i) not later than December 31, 1984, cause SGMC to carry out a plan of action for the purpose of improving productivity in its gold mines satisfactory to the Association; and (ii) not later than June 30, 1984, take all measures necessary to reschedule SGMC long-term outstanding satisfactory to the Association.

(b) The Borrower shall, not later than December 31, 1984, and not later than December 31 of each year thereafter, review with the Association the performance of SGMC and, in particular, the cost of production of SGMC mines and measures taken to maintain the viability of such mines.

(c) The Borrower shall: (i) cause SGMC to retain 35 per cent of its export proceeds in foreign currency for the purposes of importation of recurrent imputs or such other percentage as shall be agreed upon between the Borrower and the Association; and (ii) maintain policies and procedures for such retention satisfactory to the Association.

(d) The Borrower shall cause SGMC to: (i) not later than December 31, 1984, prepare and furnish to the Association for its review and comments a feasibility study on shaft sinking and tailings in mines at Prestea and Tarkwa and alluvial deposits in Dunkwa area; and (ii) carry out recommendations of such study in a manner and according to a timetable satisfactory to the Association.

(e) The Borrower shall, not later than December 31, 1984, and not later than December 31 of each year thereafter, review, together with the Association, progress made under Export Sector Policy and Institutional Reforms in the mining sector.

(f) The Borrower shall cause SGMC to enter, under terms of reference satisfactory to the Association, into a management contract with management consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association.

4. Ports

The Borrower shall cause GPA to: (a) not later than September 30, 1984, prepare and furnish to the Association for its review and comments a study on port management at the ports of Takoradi and Tema; and (b) carry out recommendations of such study in a manner and according to a timetable satisfactory to the Association.

GHANA

EXPORT REHABILITATION AND TECHNICAL ASSISTANCE PROJECT

Agreed Minutes of Negotiations

Negotiations for the above project took place between November 7 and November 14, 1983 in Washington, D.C. The Ghanaian delegation and the IDA team discussed and agreed on the draft legal documents, and agreed to record the following points for clarification:

Fees for External Consultants

1. The Ghanaian delegation clarified that fees and associated expenses for foreign consultants are free of local taxes.

Request for a Procurement Expert Mission

2. The Ghanaian delegation requested that a Bank expert on procurement visit Ghana to brief each of the project implementation agencies on all aspects of the Bank's procurement guidelines and procedures. The IDA team agreed to give this request favorable consideration.

Cocoa Producer Prices for 1984

3. Concerning the cocoa producer price increase for 1984 to be agreed and implemented before March 31, 1984, the IDA team stated that (i) on the basis of the current estimates of domestic inflation in 1983, a cocoa producer price increase of at least 50 percent is warranted; (ii) the Government should make every effort to implement the price increase as soon as possible after it has reached agreement on such a price increase with the IMF during its consultation with the IMF in December 1984, or (iii) the Government should implement the new price substantially in advance of March 31, 1984. The Ghanaian delegation while agreeing that an increase in the cocoa price is necessary to maintain real value of such price to farmers, said that the level of such an increase should relate to factors such as the variation of market price of cocoa, internal inflation, etc. It stressed that such an increase cannot be announced during the buying season but should be announced as early in the year as possible so that farmers may be encouraged to produce more cocoa for export.

Access to the Foreign Exchange Retention Funds

4. The Ghanaian delegation clarified the simplified procedures for access to the retention funds. Access was formerly limited to the import of urgently needed spare parts and consumables, but under the simplified procedures all items judged to be necessary for the agencies' work will get automatic

permission to import its requirements. Although import licenses are still required in order to check that non-project related expenses to be incurred are not approved, the procedures for obtaining such licenses are being handled on a one time approval basis by the Ministry of Trade.

Abolition of Government Controls on Timber Exports

5. The Ghanaian delegation explained that the minimum export price system has been abolished and that the streamlined procedures will reduce the time required for issuance of an export license from the present period of four weeks to less than ten days, and that further reduction in such time will be attempted.

Restructuring of GCMB

6. The Ghanaian delegation confirmed that the restructuring of GCMB has begun. All organizations dealing with cocoa (the Cocoa Services Division, Produce Buying Division, Cocoa Research Institute) have been brought under GCMB's authority. The Attorney General's Department and GCMB's Solicitor's Secretary are working together to effect the legal restructuring which should be complete by March 31, 1984. The IDA team agreed that for purposes of Board Presentation, a Cabinet Decision should be issued authorizing the incorporation of GCMB along the lines discussed with the Association. The formal implementation of the agreed GCMB restructuring (i.e., completion of all legal arrangements) would be a condition of disbursement for the cocoa component of the ERP Credit.

Reduction of Staff at GCMB

7. The Ghanaian delegation noted that the new management of GCMB, which assumed office on October 17, 1983, had already begun a detailed inventory of all employees along with an assessment of appropriate staffing levels. GCMB expected to have preliminary proposals for staff reduction for the GCMB Steering Committee's review by December 31, 1983. These would be referred to the Association for comment by March 31, 1984 and the first year plan carried out by September 30, 1984, which is the end of GCMB's fiscal year. GCMB's target for staff reduction in its FY84 is 5,500 employees.

GCMB's Plans for Divesting its Cocoa Plantations, Cocoa Trucking Operations and Cocoa Products Factories.

8. GCMB has taken steps to set up its plantations as a limited liability company with GCMB as the principal shareholder. Once the study on the financial future of the plantations is completed (June 30, 1984), GCMB will take appropriate action which will most likely involve spinning off the limited liability company or breaking it up and selling off individual plantations to the private sector or to GCMB's employees. For now, the GCMB will provide the necessary financial support to the plantation operations (Cocoa and Coffee Plantations Ltd.), and the plantations will be run along commercial lines. GCMB is following the same procedures for divesting itself of its cocoa hauling operations and cocoa products factories.

For the Ghana Delegation

J.G. Renner
PNDC Secretary for Lands and
Natural Resources
Republic of Ghana

For the IDA Team

John S. Ijichi
Senior Loan Officer
Western Africa Programs 1B

November 14, 1983

International Development Association

IDA/SecM83-311

FROM: Vice President and Secretary

November 8, 1983

NOTICE OF INTENTION TO NEGOTIATE

REPUBLIC OF GHANA

EXPORT REHABILITATION AND EXPORT REHABILITATION TECHNICAL ASSISTANCE PROJECTS

The Association is planning to invite the Government of Ghana to send representatives to Washington to negotiate a proposed credit equivalent to US$38.5 million and a proposed Special Fund credit equivalent to US$38.5 million for an export rehabilitation project and a proposed credit equivalent to US$12.7 million for an export rehabilitation technical assistance project.

The export rehabilitation project seeks to arrest and reverse Ghana's declining export production and foreign exchange earnings by rehabilitating the traditional export industries (cocoa, timber and gold mining) through provision of spare parts, equipment and materials, and by facilitating the evacuation of export commodities through improvement of port facilities. The technical assistance project aims at strengthening the institutional capability of the key organizations in the export sector so that they can play effective roles in the rehabilitation of the sector industries and ensure the successful execution of the export rehabilitation project.

Distribution:

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

RE/EC

f6

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE November 7, 1983

TO Files

FROM S. Ijichi, Sr. Loan Officer, WA1DB

EXTENSION 78109

SUBJECT GHANA - Export Rehabilitation Project and Export Rehabilitation Technical Assistance Project Comments from the Loan Committee

1. Mr. Clements called me to convey Mr. Stern's comments as follows:

(a) A draft Letter of Intent from the Government should be submitted to Mr. Stern for his review at the latest before the completion of negotiations.

(b) Before the Board presentation, the Region should review and agree to the Government's Investment Program and Foreign Exchange Budget for FY84.

(c) Proportion of the proposed ERP Credits for cocoa should be increased, with a corresponding reduction for the mining component, since cocoa is the main component of the project and the gold mining component should be able to get co-financing more easily.

(d) To ensure prompt utilization of the Credits, at least 50 percent of the necessary import licenses should be issued before Board presentation.

(e) Mr. Stern still has reservations on the proposed foreign exchange retention funds. He believes that, as a minimum, procedures for automatic use of these funds for specified eligible expenditures along the lines of an export development fund should be agreed during negotiations.

(f) Proceeds of the proposed ERP Credits should be onlent at a rate to be determined according to OMS 3.81 (the Bank lending rate plus a premium). The Region's proposal for a grace period and capitalization of interest during the grace period has been accepted.

(g) Terms of reference and arrangement of staff support for the Cocoa Price Committee should be agreed during negotiations.

(h) The Region should reach an understanding on cocoa price increases in FY84 during negotiations; an increase of at least 25 percent would appear to be indicated.

(i) The counterpart fund should be with the Bank of Ghana, not with the National Investment Bank as currently proposed.

(j) The proposed 100 percent financing of the Technical Assistance should be reviewed. Facilities such as office accommodation and local support staff should be provided by the Government.

(k) Mr. Stern inquired about the status of possible IFC involvement in the Ashanti Gold mine. If this is unlikely to materialize for sometime, some assistance to the private sector should be included in the project.

(l) Timing of the various proposed actions should be tightened. Specifically, he believed that: (i) the reorganization of the GCMB should be completed earlier than the proposed date of December 31, 1984 and the initial major steps should be taken before Board Presentation; (ii) privatization of GCMB's cocoa plantations and cocoa trucking, and divestment from cocoa products factories, could be initiated immediately; (iii) GTMB could be abolished immediately and the establishment of TEDB should be accelerated; (iv) the establishment of FPIB should also be accelerated, so that an interim timber grading section would not be necessary; (v) the plan for ex-gratia payment to cocoa farmers should also be advanced.

(m) Mr. Stern regards the cocoa production strategy to be of critical importance for the sector and considered that the preparation of the strategy paper should be substantially accelerated.

(n) Mr. Stern wondered why, in the mining sector, the management contract and a work incentive scheme should take so much time to put in place. In addition, the proposed supervision of the management contract appeared to be excessive.

(o) The impact of the cocoa production increase in Ghana on the world cocoa market should be carefullly studied and explained in the grey cover PR.

(p) Procurement arrangements should be thoroughly reviewed by OPS.

2. Mr. Stern also had a number of comments and queries on the text of the President's Report. These will be taken into account in the grey cover documents.

cc: Mr. Stern (3); Mr. Qureshi/Mr. Hattori; Mr. Shihata (2); Mr. Husain (4)

cl w and cc: Mr. Clements

cc: Messrs. Knox, Alisbah, Eccles, Faiz, Walton, Headworth, S. Husain, Billington, Soges, Pankaj, Knotter, Bourgin, Isenman, Gibbs, I. Husain, Lietard, Boehm, Maraboli, Abbott, Schelzig, Ms. Haug, Ms. Johansen, Ms. Uelmen.

SIjichi:jsc

file

See EK X 1. What share of total SF will we have in non-proj

2. Summary - Proc.

3. p. 2, 3; 4, 6, 7

4. p. 10 - debt

5. Forex budget - p. 11

6. Regular budget. p 11/12 when? What is budget year.

7. letter of intent - see in advance?

8. Cocoa action - p. 14, p. 17, 18, 19, 20, 21, 22.

~~Mining - p. 16~~

9. Timber program - p. 25, 26

10. Mining - p. 27, 28

11. p. 31, 33, 34, 36, 38.

COUNTRY OPERATIONAL DATA

COUNTRY: GHANA GNP PER CAPITA: 400 TERMS: 5/20

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

11/01

COST SHARING BANK: 70 % EXTERNAL: 80 %

	FY84		FY85		FY86		FY87		FY88		TOTAL	
	BANK	IDA	BANK	IDA	BANK	IDA	BANK	IDA	BANK	IDA	BANK	IDA
$MILLIONS		80		55		72						207
NUMBER		2		2		3						7

	APPROVED THRU 09/30 BY LOAN COMMITTEE		2 YEAR PROGRAM (REVIEW GROUP)	
	IBRD	IDA	IBRD	IDA
-$MILLIONS				56.0
-NUMBER				

PAGE 1

FY84-85 COUNTRY LENDING PROGRAM

FISCAL YEAR PROJECT	NAME		DEC. MEMO SUBMITTED	APPRVD BY LC	BOARD APPROVAL	IBRD	IDA
FY84							
3GHAMY01	EXPORT REHAB		YES	NO	12/13/83		74.5
3GHAIY01	OIL REFINERY REHAB. & T.A		YES	NO	12/27/83		5.3
SUBTOTAL							79.8
FY85							
3GHAAP13	OIL PALM II	S	YES	NO	4/17/84		20.0
3GHAIY02	OIL REFINERY		NO	NO	4/23/85		35.0
SUBTOTAL							55.0
TOTAL							134.8

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Mr. Stern

Received: 10/26/83

Comments by c.o.b.: 11/01

DATE October 25, 1983

TO The Loan Committee

FROM Hans Fuchs, Acting Regional Vice President, WAN

EXTENSION 7-8109

SUBJECT GHANA - Proposed US$77 Million equivalent IDA Credit for an Export Rehabilitation Project and Proposed US$14.1 Million Equivalent IDA Credit for Export Rehabilitation Technical Assistance Project

1. The Committee is requested to consider the attached drafts President's Reports and draft Legal Documents for the above-mentioned projects, which were submitted to me under cover of a memorandum from Mr. Gibbs, also attached. Questions should be addressed to Mr. Ijichi (Extension 7-8109).

2. In the absence of objections by the close of business on November 1, 1983, I plan to inform the Executive Directors of the Association's intention to invite the Government representatives to negotiations for the proposed Credits on the terms and conditions set out in the attached documents.

Attachments

Distribution:

Messrs.	Stern	(3) (through Ms. Pratt)
	Qureshi	(1)/Hattori (1)
	Shihata	(2)
	S. Husain	(4)

JSIjichi:msw

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE October 25, 1983

TO Mr. Hans Fuchs, Acting Regional Vice President, WAN

FROM Nicholas A. Gibbs, Acting Director, WAI

EXTENSION 7-8109

SUBJECT GHANA: Proposed US$77 Million Equivalent IDA Credit for an Export Rehabilitation Project and Proposed US$14.1 Million Equivalent IDA Credit for an Export Rehabilitation Technical Assistance Project.

1. I attach for your approval and subsequent distribution to the Loan Committee drafts of the President's Reports and the legal documents for the above projects. These documents have been cleared by the departments concerned. The latest lending program for Ghana is attached.

Economic Recovery Program

2. The Ghanaian authorities have so far steadfastly adhered to the economic recovery program announced in April 1983 despite severe political pressures and transitory economic dislocations. A recent IMF mission that visited Ghana to review initial progress under the stabilization program expects that Ghana will be able to meet all the performance criteria agreed for end-October 1983. On October 10, 1983, the Government announced that the exchange rate was unified at Cedis 30 per US dollar which represents a 990 percent devaluation since April 1983, and that the bonus and surcharge system in existence since April 1983 has been abolished. Prices for oil products and some other consumer items have also been substantially increased. These measures, taken in advance of the dates agreed with the Fund, indicate the willingness and determination of the authorities to pursue the program.

3. With the beginning of the food crop harvest, food shortages have been somewhat alleviated and food prices have come down substantially. The size of the harvest is, however, much smaller than in 1981 due to erratic and inadequate rains, and large food aid will be required to moderate the price levels and overcome the off-season shortages. Transportation continues to be a major bottleneck due to severe shortages of petroleum, tires and batteries. The situation should improve with the arrival of the first crude oil shipment from Libya and the import of tires, spares and batteries under the IDA assisted Reconstruction Import Credit (Cr. 1393-GH of July 1983) procurement of which started slowly but has recently been accelerated considerably as a result of the Government's recent decision to streamline the import procedures reflecting the impact of our discussions with the Government delegation during the Annual Meetings.

Credit Amounts

4. During our review meetings and subsequent discussions among the Departments concerned, it was agreed that the original target dates for studies and deployment of consultants were too optimistic under the present circumstances in Ghana and that these target dates should be adjusted to reflect more realistic assumptions. Consequently, the scheduled start-up of studies and deployment of consultants have been delayed on average by about six months and the study and consultancy periods have been extended on average by about one year. Also at our meetings it was recognized that the success of the Export Rehabilitation Project was heavily dependent on the vigorous implementation of the complementary Technical Assistance Project, in particular the sectoral rehabilitation and institutional improvement components. Accordingly, we are recommending that the Association finance the total costs of the Technical Assistance Project. This will enable us to maintain a much stronger involvement in the various aspects of the technical assistance needs of the Export Rehabilitation Project and avoid possible risks of start-up delays which might otherwise be caused by the lack of local cost funding. It would have an added merit of a wider range of interest among international consultants and consulting firms as a result of the secured financing of this important component. As a consequence of these adjustments the amount of the proposed Credit for the Technical Assistance Project has been increased from the original proposal of $9.5 million to $14.1 million equivalent.

5. With regard to the Export Rehabilitation Project we are proposing an increase of the credit amount from $65 million to $77 million equivalent (of which $38.5 million equivalent will be a Special Fund allocation). As a consequence IDA would finance 28 percent of the proposed export rehabilitation program. The proposed increases in the two credit amounts would be accommodated within the Region's FY84 IDA allocations. As you know at present, after allowing for these increases, as a Region we are overprogrammed by about $38 million equivalent which Mr. Knox felt was acceptable when we met about ten days ago.

Cofinancing Possibilities

6. The total foreign exchange requirement for the proposed export rehabilitation program, excluding the cost of the technical assistance project, is estimated at $280 million. The proposed Credit would provide $77 million equivalent, representing 28 percent of the total foreign exchange requirement. Ghana is expected to finance about half ($140 million) of the total financing requirement from foreign exchange generated mainly from the export industries to be rehabilitated under the program. The Government assigns the highest priority to this project and an amount of $70 million representing the estimated Government contribution for 1984 has been included in the foreign exchange budget for 1984. The balance of about $63 million would need to be provided through other external financing, from both official and private sources. The Government and the Association have embarked on a

major effort to secure additional financing from other donors to support this project, particularly in the context of the Ghana Consultative Group which is scheduled to meet in Paris on November 23 and 24, 1983. We plan to distribute a modified version of the President's Reports to the participants of the Paris meeting as soon as the Loan Committee has cleared the proposed package. To the extent that donor response proves more positive than anticipated, the Government's contribution would be reduced, thereby freeing foreign exchange for other high priority uses. A more timid donor response would result in slower implementation of the program and slower realization of the benefits.

Foreign Exchange Retention Accounts

7. While reviewing the Decision Memorandum dated August 1, 1983 on this project, Mr. Stern expressed his concern about the use of separate foreign exchange retention accounts and felt that these arrangements should not be pursued. Mr. Stern suggested that it would be better to consolidate these accounts into one fund and establish criteria for the use of the fund's resources by those entities which had contributed to it.

8. This issue was discussed with the Ghanaian authorities during the Annual Meetings. They expressed the view that these accounts were essential at this time to invoke the desired supply response from the export sectors. The Ghanaian authorities and the appraisal mission were advised by exporters that in view of unhappy experience with the cumbersome foreign exchange and import allocation procedures in Ghana, it would be difficult to accept the risks of investment unless there were some assurances of a flow of foreign exchange for import needs. The exporters felt that aside from the defacto devaluation, the facility to retain a limited proportion (20 to 35 percent) of their foreign exchange earning in over-seas accounts was one of the most powerful incentives provided by the Government to the export sector.

9. On balance we believe that given the weak management capacity of the Ministry of Trade and the Bank of Ghana, the foreign exchange retention accounts specifically for the cocoa, timber and mining sectors are important for building confidence among the private and public entities in the export sector. We therefore, recommend that these accounts be allowed to continue for at least another year. The Ghanaian authorities have, however, agreed to review the operation of these accounts in early 1985; and, if the newly instituted foreign exchange budget and import allocation system is found to be working satisfactorily, such accounts would be consolidated and /or eliminated.

Arrangements for Passing on Credit Proceeds to Implementation Agencies

10. (a) Under the proposed ERP package, the Draft Development Credit Agreement provides that the credit proceeds be passed on by the Borrower as equity contributions to the implementing agencies as follows:

	US$ Million Equivalent
GCMB (Cocoa Sector)	18.9
SGMC (Gold Mining)	29.6
GPA (Ports)	4.8
TOTAL	53.3
	******

However, since all credit proceeds flow into export-related activities and the agencies should be held to follow appropriate financial discipline we do not, on further reflection, consider equity funding appropriate, at least not for the entire amount. Instead we propose to have the credit proceeds passed on to the agencies in the form of long term loans for 14 years, including four years of grace, at an interest rate of 11 percent and, if they so wish, allow them to capitalize the interest during the grace period; the agencies would also carry the foreign exchange risk. Furthermore, during project implementation studies on the financial structure of the three agencies will be carried out with a view to setting up accounts and financial management systems. Based on the results of these studies we would subsequently agree with the Government whether a certain portion of the proceeds (up to a maximum of 40%) could be converted into equity.

(b) For the timber sector, $23.7 million equivalent will be made available to the National Investment Bank for private and State timber companies to purchase foreign exchange necessary to import items for rehabilitation purposes. Those who do not possess enough cedis to purchase necessary foreign exchange would have to borrow cedis from commercial banks on commercial terms.

(c) Between now and Board presentation we intent to work out in greater detail specific implementation arrangements, TORs for the services to be performed and appropriate monitoring mechanisms.

Rates of Return

11. For the gray cover version of the President's Report for ERP, we will attempt, to the extent possible, to calculate rates of return for the project, and the project components.

Length of the President Reports

12. We will try to shorten the President Reports without affecting their material content at the gray cover stage.

Recommendation

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

Attachments

Cleared with and cc: Messrs. Velic (LEG), Fuchs, T. Husain, Dewey.
Ms. Reinke (LOA)

cc: Mr. Knox (o/r) and Mr. Alisbah (o/r)

cc: Messrs. Faiz, Eccles, Walton, Headworth, S. Husain, Billington, Soges, Pankaj, Knotter, Bourgin, Isenman, Gibbs, I. Husain, Lietard, Boehm, Maraboli, Abbott, Schelzig, Ms. Uelmen, Ms. Haug, Ms. Johansen

JSIjichi/NAGibbs:msw

GHANA

Lending Program, FY84-87

			IDA (US$ million)
FY84		Oil Refinery Rehabilitation and Technical Assistance	7.3
		Export Rehabilitation	91.1
FY85	(S)	Oil Palm II	20.0
		Oil Refinery	35.0
FY86	(S)	Urban Development	12.0
	(S)	Highways IV	40.0
	(S)	ECG Power IV	20.0
FY87		Agricultural Credit	14.0
		Oil Palm III	20.0
		Cocoa III	20.0
		Public Enterprise Rehabilitation	25.0
		TOTAL FY 84-87	304.4

WAIDB
October 1983

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

EH

DATE August 15, 1983

TO Files

FROM N. A. Gibbs, Div. Chief, WA1DB

EXTENSION

SUBJECT GHANA - Export Rehabilitation Project and Power VII Rehabilitation; SVPOP's Comments on Decision Memoranda

1. Mr. Hans-Eberhard Köpp called on August 15 to give Mr. Stern's comments on the Decision Memorandum on the Export Rehabilitation Project submitted to the SVPOP under cover of Mr. Knox's memorandum of August 5 and the Decision Memorandum on the Power VII Rehabilitation Project submitted to the SVPOP under cover of Mr. Knox's memorandum of August 9, 1983.

2. Mr. Köpp said Mr. Stern had only one comment applied to both projects, namely, the use of foreign exchange retention accounts. Mr. Köpp said that while the Region had expressed its concern with the proliferation of these accounts, Mr. Stern felt strongly that these arrangements should not be pursued. If special arrangements were needed, then it would be better to consolidate these accounts into one fund and establish criteria for the use of the fund's resources by those entities which had contributed to it.

3. I told Mr. Köpp that we would take this matter up with the delegation to the Annual Meetings. Mr. Köpp said that if the arrangements as proposed by Mr. Stern could not be agreed with the Government, the matter should be referred to Mr. Stern again.

4. With regard to the amount of the proposed credit for the Export Rehabilitation Project, Mr. Köpp said that Mr. Stern had recently approved an additional IDA allocation for the West Africa Region which, if added to the Ghana program, could help reach the amount of $74.5 proposed for this project.

Within Region

cc: Messrs. Knox, Alisbah (o/r), Fuchs, Hinkle, Kpognon, O'Brien, Meerman
Knotter, Isenman (o/r), Bourgin, Eccles, Bouhaouala, Aiyer, Walton,
Soges, Thiam, Choi (o/r), I. Husain (o/r), Faiz, Sneddon, Schelzig,
T. Husain, Hansen, Headworth, Ms. Vitagliano

Outside Region

cc: Messrs. Stern, Ohuchi (with decision memos) VPCOF, Köpp (SVPOP),
Rajagopalan (PAS), Waide (CPD), Baneth (EPD), Hattori (CTRVP),
Rovani (EGY), Yudelman (AGR), Ms. Santos (LEG), Abbott (LEG),
Guillou (LOA), Dewey (IND), Ms. Haug (IND), Page (IND),
Ms. Hadjitarkhani (IND), Jordan (CA1), Burki (IRD)

NAG:jsc

MR. STERN

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Received: 8.5 pm

Comments by c.o.b.: 8.17.83

DATE August 5, 1983

TO Mr. Ernest Stern, SVPOPS

FROM A. David Knox, RVPWA AMK

EXTENSION 72063

SUBJECT GHANA - Export Rehabilitation Project

1. Attached is a copy of a Supplementary Issues Paper and Decision Memorandum on the above project. This Supplementary Issues Paper has been prepared as the project was reappraised. We wish to obtain early management reactions to two major issues: (a) the amount of the IDA credit, and (b) macroeconomic and export sector conditionalities to be attached to the credit.

2. The proposed credit amount of \$74.5 million is fully justified both in terms of Ghana's needs and the importance of this particular operation. This amount is proposed to be financed from IDA (\$49.5 million) and IDA Special Fund (\$25.0 million). However, the inclusion of this amount of \$74.5 million in the regional lending program implies that the Region as a whole would be short by about \$42.5 million in IDA allocation in FY 84. (The original allocation for this project was only \$32 million.) Over the next few months, we will examine this issue to see how much of the shortfall can be absorbed by the Region and how much would need to be provided from outside the Region. In the meantime, we are proceeding under the assumption that the amount proposed in the Decision Memorandum will be made available for this operation. ok

3. It is proposed as one of the conditions of this project that foreign exchange retention by the State Gold Mining Corporation (SGMC) out of its own export earnings would be increased from 20 to 35 percent. ? Similar retention funds are proposed to be established for timber and cocoa sector institutions. The same arrangements are also being proposed for the Ghana Power Project (the Decision Memorandum is being transmitted to you). Although it is necessary at this stage to adopt these safeguards to assure adequate foreign exchange for these sectors, we recognize that the proliferation of this practice (i.e. earmarking and retention of foreign exchange earnings into specified accounts outside the control of the Central Bank) may put serious strain on the capacity of the Ghanaian authorities to manage their foreign exchange budget. We propose to re-examine the proposed retention arrangement in the light of the operation of the annual foreign exchange budget exercise initiated by the Government recently. We would like to make necessary provisions in the credit agreement to phase out these separate retention funds in due course if the programming, allocation, and release of foreign exchange under the new budgeting exercise are found satisfactory.

Attachment

cc: Messrs. Alisbah (o/r), Fuchs

SHChoi/IHusain:pt

FORM NO. 1527
(4-81)

THE WORLD BANK

DECISION MEMORANDUM TRANSMITTAL SHEET

TO: Mr. A. David Knox

DATE: August 1, 1983

FROM: Tariq Husain Tariq Husain

Chairperson, Decision Meeting

COUNTRY/PROJECT: GHANA - Export Rehabilitation Project

Issues Paper Date:	Decision Meeting Date:	Loan Committee Date:	Scheduled Board Presentation Date:	Yellow Cover Review:
July 19, 1983	July 25, 1983	September 30, 1983	December 13, 1983	Waived ☐ Not Waived ☒
Estimated Costs: Total: n/a Foreign:	Proposed Loan/Credit Amount: $65m for ERP $9.5 m for ERPTA	Amount in Approved Lending Program: $72 m	Amount and Source of Co-Financing: About $70 m. of co-financing to be explored with various donors	

1. DECISIONS SOUGHT

1. Amount of proposed IDA credits
2. Macroeconomic and export sector conditionalities to be attached to the credits.

2. SPECIAL FEATURES

There will be a mid-term review in December 1984 and the release of the second tranche ($32 million) will be subject to satisfactory performance.

3. SECTOR POLICY ISSUES

(a) List Problem Projects in sector:

n/a

(b) List major covenants not in compliance:

n/a

(c) List major sector policy issues covered. Use simple descriptions, e.g., prices, staffing, maintenance, etc.

Macroeconomic - medium-term investment program, development budgets, foreign exchange allocations;
Export Sector - organization, staffing, management, prices, marketing and foreign exchange allocation

DISTRIBUTION

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

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: August 1, 1983

TO: See Distribution Below

FROM: Ishrat Husain, Acting Division Chief, WA1B

EXTENSION: 7-8074

SUBJECT: GHANA - Proposed Export Rehabilitation Project Decision Memorandum

1. A Decision Meeting was held on July 25, 1983 to discuss the Supplementary Issues Paper on the above project dated July 19, 1983. The meeting was chaired by Mr. Tariq Husain and attended by: Messrs. H. Hansen, Headworth, Syed Husain, Choi, I. Husain, (West Africa Region), de Hadjitarkhani (Industrial Projects), J. Page (INDSP), Ms. Santos (Legal), and Mr. Jordan (IFC).

2. The Supplementary Issues Paper had identified two major issues: whether (i) the amount of the IDA credit to be made available to the Export Rehabilitation (ERP) and Technical Assistance Projects could be increased to $74.5 million (Paras. 2 to 6 of the Issues Paper); and (ii) the macroeconomic and other conditions being proposed for the ERP were appropriate (Paras. 7 to 10 of Issues Paper).

Proposed Credit Amount

3. The ERP is the second element of a phased response by the Bank to the Ghanaian request to assist in its economic recovery program which is being supported by the Fund's Standby facility; the first element was the Reconstruction Import Credit (RIC) approved by the Board on June 28, 1983. The RIC is intended to help the Government of Ghana to cope with the immediate problems of introducing macroeconomic reform measures with quick disbursing support to the agricultural and transport sectors; the ERP would improve the supply response of the traditional export sub-sectors - cocoa, timber, and gold - by financing their material inputs, and transportation and institutional needs. The meeting reviewed the recent substantive reform measures adopted by the Government and its willingness to carry out additional reforms. The meeting noted that the proposed IDA amounts represented about 15 percent of the country's minimum additional external financing requirements, and that the Government was counting on the ERP as a major element of its economic recovery program. The meeting further noted that the proposed IDA amount was of the appropriate level in relation to the substantial policy and institutional reforms to be undertaken in conjunction with the Project. Finally, the meeting considered the fact that during 1978-82 the average per capita per annum commitment for Ghana had only been $1.70, or about one fourth of the other African countries with similar income levels. At the same time, aid flows from other donors have dwindled and remain at an extremely low level. If the Government is to stay on course and adhere to the recovery program, it was evident that a substantial increase in capital flows would be needed in the short run.

4. The meeting recommended that for the above reasons the proposed credit amounts of \$65 million for the ERP and of \$9.5 million for the supportive Technical Assistance Project appeared to be fully justified both in terms of Ghana's needs and the importance of the ERP.

Macroeconomic and other Conditionalities

5. The Issues Paper proposed that prior to Board presentation the Bank review the Government's medium term investment program and the proposed foreign exchange budget for FY84; and that the second tranche of the ERP be released only when the Government had satisfied the six "conditions" listed in Para. 10 of the Issues Paper.

6. The meeting reviewed these two sets of "conditions" and noted that while these were sufficiently comprehensive the Issues Paper was not explicit about the "criteria" that will be used to evaluate whether or not the level and composition of the investment program, and the foreign exchange budget, and the levels of producer incentives were satisfactory. Consequently, the meeting recommended that, where possible, explicit criteria should be developed, discussed with the Government, and included in the appropriate legal documents. Further, the Government should be requested to prepare a Policy Statement indicating its objectives and intents with regard to the principal conditionalities in the Issues Paper.

7. Subject to the above constraints the meeting endorsed the macroeconomic and other conditionalities listed in the Issues Paper.

Other Recommendations

8. In addition, the meeting recommended that the following sub-issues should be comprehensively analyzed:

- Considering the recent behavior of food prices, will there be an adequate response from the cocoa sector during the immediate future; the incentive setting process should, therefore, be carefully specified with the appropriate frequency of monitoring of the response of the cocoa sub-sector.

- The rate of reduction of public sector employment (5500 per annum) appeared to be drastic even though the Government seemed to have agreed to this rate of attrition. The practical and political feasibility of this proposal should be re-examined and discussed with the Government. Also, adjustment assistance programs should be designed to facilitate the efficient transition of the displaced workers.

9. The meeting also agreed that the mid-term review should be held in December 1984 and a satisfactory completion of the review would trigger the release of the second tranche (i.e. \$32 million).

10. The Issues Paper had proposed that the Ghana Cocoa Marketing Board (GCMB) which is currently operating as Government department should be restructured as a commercial entity running on a profit-making basis. Some participants were concerned that there may be a conflict between this proposal

and the price stabilization function the GCMB was supposed to play. The meeting felt, however, that the price stabilization objective was a long-term goal but in the short run there was an overriding need to inject financial discipline in the operation of GCMB in order to reduce its operating costs. The meeting, therefore, endorsed the recommendations in the Issues Paper.

T.H.
Cleared with and cc: Mr. T. Husain

Distribution

	Within Region		Outside Region
Messrs.	Knox	Messrs.	Stern (3)
	Alisbah (o/r)		Rajagopalan (3)
	Fuchs		Waide
	O'Brien		Hughes
	Kpognon	Ms.	Santos
	Knotter		Abbott
	Meerman		Collell
	Isenman (o/r)		Hattori
	Gibbs (o/r)		Guillou
	Bourgin		Burki
	Eccles		Yudelman (5)
	Bouhaouala		Dewey
	Faiz	Ms.	Haug
	Walton		Hadjitarkhani
	Soges		Aiyer
	Schelzig		J. Page
	Choi		Jordan (IFC)
	I. Husain		
Ms.	Vitagliano		
	Hansen		
	Headworth		
	S. Husain		
	WAIC		

SChoi/THusain/IHusain:pt

GHANA EXPORT REHABILITATION PROJECT

Supplementary Issues Paper

Background

1. The Ghana Export Rehabilitation Project (ERP) was originally appraised in August 1981 and the Issues Paper/Decision Memorandum were reviewed by the Loan Committee in November 1981 (the minutes of the Loan Committee meeting are attached). Further processing of the ERP had been held in abeyance because of the change of Government in December 1981 and the uncertain prospect for economic reforms during 1982. Early in 1983 the Government reached an understanding with the IMF on major elements of an economic recovery program to be supported by the Fund's standby facility and approached the Bank with a request to reactivate the ERP. Given the Government's urgent need for quick-disbursing assistance, the Bank agreed to a two-staged approach under which the Bank would first respond to the economic recovery program with a Reconstruction Import Credit (RIC) and then follow up with the ERP. The RIC was approved by the Board on June 28, 1983. While the RIC aims at helping the authorities to cope with immediate problems of introducing macroeconomic reform measures with quick-disbursing support to the agricultural and transport sectors, the ERP would have the objective of sustaining the momentum by facilitating the supply response from the export sector and thus setting in motion the recovery process. Following the Government's announcement of the economic recovery program late April, the ERP was reappraised by Bank missions which visited Ghana between May 16 and June 6, 1983. This supplementary Issues Paper has been prepared to obtain early reactions from the management to two major issues: (a) the amount of the IDA credit to be made available to support the project; and (b) macroeconomic and export sector conditionalities to be attached to the credit, as follows:

Project Scope and Financing

2. As originally appraised the scope of the ERP included traditional exports (cocoa, timber and gold), non-traditional exports, road transport industry, ports and technical assistance. The project was to be supported by an IDA credit of $100 million. Subsequently, however, the Bank approved a $40 million credit for the RIC, two-thirds of which are earmarked for the immediate improvement in the road transport industry ($19 million) and urgent inputs for the cocoa sector ($8 million). There is a strong pressure from the Government that the original allocation of $100 million be made available for the ERP and, from the standpoint of Ghana's needs, a strong case could be made that the ERP should be supported by the original $100 million. However, we recognize the current limitation on IDA resources and pointed out to the Government that the IDA allocation for the ERP would be less than what was contemplated in 1981. We propose that IDA provide $65 million for the ERP. In addition, a $9.5 million credit would be provided to finance necessary technical assistance to the export sector associated with this operation.

3. The proposed credit would be allocated as follows:

	Original Allocation		Proposed Allocation	
	Material Inputs	Technical Assistance	Material Inputs	Technical Assistance
	(US$ Millions)			
Cocoa	15.0	-	16.0	2.5
Gold Mining	15.0	5.0	25.0	5.0
Timber	26.0	1.5	20.0	1.5
Trucking Industry	30.0	0.5	-	-
Ports	4.0	-	4.0	0.5
Non-Traditional Exports	3.0	-	-	-
Subtotal	93.0	7.0	65.0	9.5
TOTAL	100.0		74.5	
*****	***		***	

4. As a result of the reduction in the credit amount for the ERP, no allocations have been made under the ERP for the trucking industry and non-traditional exports. The needs of the trucking industry for tyres, spare parts, lubricants, etc., are still massive even after provision of some $19 million for such items under the RIC and the main problem will be Ghana's ability to finance such recurrent imports by supplementing its own foreign exchange with other external financing including suppliers' credit. Also possible policy improvements which could result from Bank's further intervention in this sector are of relatively minor importance since the major issue (i.e., adequacy of road transport tariffs) is being addressed separately under the RIC. Insofar as the export sectors are concerned, the most urgent transport requirements of the cocoa and timber sectors would partly be addressed through the respective sector package under the ERP. With respect to non-traditional exports, their response to policy changes are bound to be slower than traditional exports and in any event export feasibility should be studied before Bank intervention. Funds are available under ongoing NIB project (Credit 901-GH) to carry out such studies.

5. The total foreign exchange requirement for the two-year export rehabilitation program is estimated at $280 million, consisting of $130 million for cocoa, $80 million for gold (State Gold Mining Corporation), $60 million for timber and $10 million for ports. The proposed ERP credit represents on average about 26 percent of the total foreign exchange requirements and the proposed ERP allocations to the cocoa, gold mining and timber sectors would cover 14 percent, 38 percent and 36 percent of the foreign exchange requirements of the respective industries. Ghana is expected to finance about half ($140 million) of the total financing requirement from foreign exchange generated from the respective export industries. The balance of about $65 million would be met through augmented inflow of external financing, both official and private sources, particularly in the case of gold mining and timber sectors. A Ghana Consultative Group (CG) scheduled for late this year would focus on mobilizing external support for the export rehabilitation program and specific financing proposals to meet the gap would be presented for consideration by the CG.

6. With the proposed level of Bank support to the ERP, the overall level of Bank Group lending to Ghana would average to $5.90 pcpa in the FY83/84 period or $5.80 pcpa in the FY83/87 period (the five-year lending program is attached). We believe that this is a minimum level of support required if the Bank is to continue to have substantial influence and leverage in the direction of Ghana's economic policies and to be able to effectively mobilize aid from other donors in support of the recovery program.

Macroeconomic Context and Conditionalities

7. The IMF Board is expected to consider a Standby and a CFF proposal early August. The Fund Standby program will address immediate improvement in major areas of macroeconomic management including monetary and fiscal policies, government finance, exchange rate, and price and incomes policies. An important area which will be left out in the Fund's stabilizaion program will be the Government's medium-term public investment policies and programs. With the assistance of the Bank, the Government has started preparing a medium-term (three-year) investment program. We propose that, prior to negotiations of the ERP, the Bank have an opportunity to review the investment program to ensure that it is consistent with the economic recovery strategy and the macroeconomic objectives (contribution to foreign exchange earnings/savings, public revenues and output growth) and is based on realistic assessment of resource constraint and absorptive capacity. It is further proposed that continuous monitoring of the implementation of the investment program through the annual budget cycle and formulation of a satisfactory development budget for FY85 be made conditions of the ERP credit.

8. Another area of economic management which requires continuous improvement is the foreign exchange allocation and import licensing. While for the first time in Ghana's recent history the Government has introduced a foreign exchange budget system, the execution of the budget would require close monitoring and further improvements should be made in import programming and licensing procedures. It is proposed that, prior to Board Presentation of the ERP credit, the Bank review with Government the proposed foreign exchange budget for 1984 and that as a condition of the ERP credit, the foreign exchange budget for 1985 would be reviewed by the Bank. ? 6

Export Sector Issues and Conditionalities

9. Major policy and institutional issues specific to the export sector to be addressed under the ERP, the proposed changes to resolve the present constraints and shortcomings and the timetables for required actions are set out in Table 1. The reappraisal mission discussed these issues with the Government and there was an agreement in principle to implement the proposed reforms in conjunction with the ERP. A number of these conditions would have to be fulfilled prior to Board Presentation of the ERP as indicated in the Table. Detailed features and justifications for these reforms are set out in Annex I.

Ghana Export Rehabilitation Project

Export Sector Policy/Institutional Reforms

Sector Issues	Proposed Changes	Timetable for Action
I. Cocoa Sector		
Sector Organization	. GCMB to be restructured as a commercial entity.	Final restructuring proposal to be discussed at negotiations implementation of proposal prior to Board presentation
	. A Steering Committee to be established to oversee sector re-organization.	
Staffing	. A 5-year staff retrenchment program to be implemented aiming at net reduction of 5,500 employees per annum.	Implementation to be reviewed with IDA annually
Availability of Foreign Exchange	. GCMB to retain 10% of export proceeds for importation of recurrent imports.	Proposal to be implemented from January 1, 1984.
Privatization	. GCMB's plantations to be privatized.	A study to be completed by June 30, 1984 and implementation completed by December 31, 1985.
	. GCMB to divest from cocoa products factories and insecticide formulation plant.	A study to be completed by June 30, 1984 and implementation completed by December 31, 1984.
	. GCMB to prepare a program to increase haulage of cocoa by private truckers.	Program to be reviewed with IDA by June 30, 1984.
	. GCMB to prepare a study examining alternative cocoa marketing arrangements.	Study to be reviewed with IDA by June 30, 1985.
Producer Price	. Cocoa producer price to be reviewed annually in consultation with IDA and a new price to be announced by May 1 each year.	
	. Cocoa producer price review committee to be established with farmer representatives to review and determine producer prices.	Committee to be established by January 31, 1984.
Production Strategy	. A long-term production strategy and SSVD control program to be established concentrating rehabilitation/replanting efforts in areas not infected with SSVD and ex-gratia payment system introduced.	Production strategy to be reviewed by June 30, 1984.
II. Timber Sector		
Marketing organization	. GTMB to be abolished and replaced by an export promotion board (TEDB).	to be completed prior to June 30, 1984.
	. A marketing cooperative to be formed to assist small-scale mills to export.	
Grading and Inspection	. Forest Products Inspection Bureau (FPIB) to be established to strengthen grading and inspection. . Uniform grading rules to be adopted.	FPIB to be established by June 30, 1985. An interim timber grading section to be established prior to Board presentation.
Control on Industry	. Minimum export price regulation to be abolished.	action to be completed prior to Board presentation.
	. Prior government approval of export contracts to be discontinued.	- do -
State-owned companies	. Companies owned by GTMB to be privatized.	to be completed by December 31, 1984.
	. Alternative strategies for AT & P and GWA companies to be studied.	Alternative strategy to be adopted by December 31, 1984.
Foreign Exchange	. Procedures for utilization of foreign exchange retention to be streamlined.	action to be completed prior to Board presentation.
	. Foreign exchange retention funds to be allowed for financing expatriate management and technical personnel.	- do -
Log Transport	. Log transport regulation to be rationalized.	action to be completed by June 30, 1984.
III. Gold Mining		
Sector Organization	. Government to enter into a management contract with an international mining consortium to manage SGMC mines.	to be completed prior to credit effectiveness.
Foreign Exchange	. Foreign exchange retention by SGMC to be increased from 20 to 35 percent and SGMC allowed to utilize the funds without prior government approval.	to be completed prior to Board presentation.
Work Incentive	. SGMC to introduce work incentive scheme to improve productivity.	to be introduced prior to Board presentation.
SGMC's Finance	. Cost of production of SGMC mines to be reviewed annually.	
	. Government to convert SGMC's debts into equity.	action to be taken by June 30, 1984.
Monitoring	. Performance of SGMC to be monitored by Government, SGMC and IDA annually.	

Credit Tranching

10. As proposed in the original Issues Paper, the credit for material inputs (i.e., $65 million) would be released in two tranches. There would be a mid-term review of progress made by Ghana in carrying out specific undertakings under the project (i.e., macroeconomic conditions set out in para. 8 and 9 above and sectoral conditions in Table I). The review would take place end-December 1984 or when the cumulative disbursement and commitment under the ERP have reached $33 million, whichever occurs first. The release of the second tranche would be subject to satisfactory review by the Bank with particular emphasis on the following performance criteria:

(a) size and composition of the FY85 Development Budget and its consistency with the medium-term investment program;

(b) size and composition of the FY85 Foreign Exchange Budget and its consistency with the medium-term investment program;

(c) maintenance of an adequate level of export bonus and producer price to ensure financial viability of the export sector;

(d) reduction in staffing of Ghana Cocoa Marketing Board (GCMB);

(e) action on alternative strategies for the state-owned timber companies; and

(f) management and financial targets set for the State Gold Mining Corporation (SGMC) under the management contract.

Processing of Technical Assistance Package

11. The technical assistance requirement of the ERP is estimated to cost about $9.5 million in total and would include: (a) about 45 man-years of managerial and technical support to the SGMC to be employed from a selected international mining consortium under a management contract; (b) about 10 man-years of technical assistance for the timber sector; and (c) about 30 man-years of technical assistance to GCMB. In addition, various sector and pre-investment studies would be included. The deployment of the technical assistance personnel would be for a duration of three years, although some personnel would be employed only for a period of two years. Since the disbursement period of the ERP credit is expected to be two years, the technical assistance package would be processed as a separate credit, with a three year disbursement period. In order to expedite processing and since the technical assistance package relates only to the specific export sector to be supported under the ERP, it is proposed that only one President's Report be prepared which would cover two credits, i.e., a $65.0 million credit for the ERP itself and a $9.5 million credit for the associated technical assistance. There would, of course, be two credit agreements.

why?

Export Sector Policy and Institutional Changes

Cocoa Sector

1. In the short to medium term the cocoa sector rehabilitation strategy should focus on restoring the financial viability of cocoa farming through greater attention to and more frequent adjustment of producer prices and improving the operating efficiency of the sector institutions through the restructuring and reorganization of the Ghana Cocoa Marketing Board (GCMB). Specifically the following reforms would be undertaken:

(i) The GCMB which is currently operating essentially as a Government Department would be restructured as a commercial body running on a profit-making basis. This is considered essential if the efficiency of GCMB is to be improved, performance criteria worked out and accountability of its management ensured. The basic idea is to give GCMB effective control over its resources so that it can institute proper planning and financial management. The Government would continue to have its revenues from cocoa through corporate taxes and dividends paid by GCMB. The proposed restructuring would also enable GCMB to build up its equity so as to be able to finance its development expenditures. A Steering Committee chaired by the PNDC Coordinating Secretary would be appointed to finalize the proposal and to oversee the subsequent reorganization process. The final restructuring proposal would be dicussed between Government and IDA prior to ERP negotiations and the implementation of the proposal would be required prior to Board presentation.

(ii) Serious overstaffing exists in almost all the Divisions of GCMB, which has been one of the most important factors contributing to high marketing cost. Based on the estimates in Cocoa III Prefeasibility Study, a five-year program for staff reduction would be undertaken. The annual target for net reduction (net of essential new recruitment) should be 5,500. The proposed staff reduction would be in addition to abolition of positions to be made possible as a result of GCMB's proposed divestment of plantations and various subsidiary companies (see para. (iii) below). GCMB should send to IDA a detailed table showing present staffing in all Divisions by categories before negotiations and progress in implementing the reduction program would be monitored and reviewed with IDA each year.

(iii) Plantations run by GCMB are a heavy burden at present accounting for over 20 percent of the operating costs of GCMB and employing about 18,000 staff. The Government should consider selling these plantations to private investors or parcelling them out among the workers presently employed there (who should then no longer be GCMB employees). There is also a need to assess the financial viability of the three cocoa factories and an insecticide formulation plant presently operated as a subsidiary of GCMB and to examine whether these subsidiaries should be set up as a separate company with private investment. In order to determine the viability of these plantations and subsidiary companies and finalize procedures for possible divestment, a study would be completed by June 1984 and, based on the recommendations of the study, action by the Steering Committee would be completed by December 1984 for the cocoa factories and formulation plant and by December 1985 for the plantations.

(iv) A long run possibility of reducing marketing costs through introduction of multiple buying system was considered by the reappraisal mission. However, the full implications of introducing this system need to be carefully studied. A study of alternative marketing arrangements would be completed by June 1985 for review with IDA. Also significant possibility of reduction in operating costs of GCMB exists through greater reliance on private hauliers, particularly from depots to ports. At present about 30 percent of long distance cocoa haulage is by private truckers. GCMB would prepare a program to increase private sector haulage of cocoa by June 30, 1984 for review with IDA.

(v) Although cocoa is the most important foreign exchange earner in Ghana, the failure by the Government to provide sufficient foreign exchange to import recurrent inputs (e.g. insecticides) on a timely manner has been one of the major reasons for declining output. Given the importance of assuring timely inputs to cocoa farms, the Government would be asked to introduce a foreign exchange retention scheme with respect to the cocoa sector whereby GCMB would retain 10 percent of export proceeds in foreign exchange to facilitate such importations. The system would be introduced with effect from January 1, 1984.

(vi) Given the present high prices of foodstuffs, the new cocoa producer price of ₵600 per headload which became effective from May 1983 is insufficient to provide returns comparable to those from competing foodcrops. An annual review and adjustment of cocoa producer prices and input prices is essential to maintain farmer incentives. To this end, a Cocoa Producer Price Review Committee would be established chaired by the Secretary of Finance with membership including at least one representative of cocoa farmers to review and determine adjustment required in producer prices on an annual basis. New prices would be announced before May 1 each year and at least one month before announcement of new prices, IDA would be given the opportunity to comment on proposed prices.

(vii) There is a need for Government to adopt a long-term production strategy under which future rehabilitation would concentrate on areas which have not been infected with swollen shoot virus disease (SSVD) and forming a buffer zone in the Eastern and Central Regions to protect the priority areas from outbreak of SSVD. The strategy would imply consolidating cocoa acreage to about one half of the present acreage with effort to obtain double the present acreage yields. The rehabilitation under ERP would concentrate on these selected areas. For successful implementation of the SSVD control strategy, the Government should formulate a policy of ex-gratia payments to cocoa farmers in the affected areas and the Government's plan would be reviewed by the Bank by June 30, 1984.

Timber Sector

2. With provision of spare parts, materials and equipment under the ERP, the timber sector is capable of responding quickly to the recently announced macroeconomic measures. However, there will be critical bottlenecks to increasing timber exports unless timber marketing organizations are restructured so as to enable timber companies to export with a minimum amount of Government control and regulation. Thus much of the policy improvements sought in the timber sector under the ERP has to do with abolishing negative government controls and hindrances hitherto exercised by the Ghana Timber Marketing Board (GTMB), thereby enabling the sector, particularly the private timber companies, to respond quickly to the policy measures. Specific changes in the timber sector to be pursued under the ERP are as follows:

(i) The GTMB would be abolished. There would be established an independent Timber Export Development Board (TEDB) whose membership would include not only Government officials but also representative from mills producing for export. The primary function of TEDB would be to obtain, collate and disseminate to the industry, information concerning Ghana species, export markets and current prices, export opportunities and prospects. The TEDB would operate strictly as a market promotion and market intelligence advisory body to serve the industry and would not be responsible for controls on the industry. Technical assistance would be provided under the ERP to strengthen the TEDB and train staff. The abolition of GTMB and establishment of TEDB would be completed prior to June 30, 1984.

(ii) Various negative controls on timber exports hitherto exercised by the Government would be abolished. This would include the current practice of requiring Government's prior approval of timber export contracts and the minimum export price regulations. These regulations and controls would be abolished prior to Board presentation of the ERP. The Government's primary interest is to ensure that foreign exchange earnings from timber exports are properly remitted to the authorities in Ghana. This objective could be better achieved through ex-post audit of export contracts combined with improved system of grading inspection and current price information--see para. (iii) below.

(iii) Inspection of grading of timber products would be strengthened by the establishment of a Forest Products Inspection Bureau (FPIB) as a self-regulating professional body overseeing all functions of grading and grading regulation. The FPIB would establish standard grading rules to facilitiate grading inspection, improve claim handling and minimize fraudulent practices. Technical assistance would be provided under the ERP to help establish the FPIB and train staff. The FPIB would be established by June 30, 1985. In the meantime and while preparatory work is being undertaken to establish the FPIB, an interim timber grading section would be set up under the Forestry

Department to perform this function with provision of technical assistance under the ERP.

(iv) In order to assist small-scale producers to export timber products, a marketing cooperative society would be formed, of which they should be encouraged, but not compelled, to become members. Documentation, technical assistance and procuring spares would be a few of the many areas in which the cooperative could help. The TEDB would provide initial technical help in setting up such a cooperative.

(v) The present Government policy allows timber exporters to retain 20 percent of export proceeds to be used for importation of spare parts and materials, which help to obviate the need to apply for normal import licenses to procure recurrent imports. In practice, however, there has been considerable procedural delay due to the requirement to obtain specific approval from the Ministries of Trade and Finance and the Bank of Ghana before the exporter can utilize the funds. The Government would be asked to streamline the procedures to avoid delays and review new procedures with IDA prior to Board presentation. In addition, the Government would be asked to allow use of the retention funds for purposes of financing foreign management and technical personnel to be employed by the timber companies.

(vi) The present Government regulation limiting a maximum of three logs per lorry often leads to uneconomic use of already strained trucking capacity and also undermines the effort to exploit less known species to maximum advantage. The regulation has not helped in avoiding road damage because of high single-axle loadings and the inability to enforce axle loads in the absence of weigh-bridges. The Government would be asked to withdraw the regulation except in the case of the single-axle vehicles until the axle load enforcement system is introduced.

(vii) Two of the large state-owned timber companies (AT & P and GWA) suffer from serious management weaknesses and their rehabilitation would require basic restructuring in the ownership and management of the companies. Given the good potential of these two companies in Ghana's timber exports, a study would be carried out under the ERP to examine their viability and alternative strategies for the future of the companies including privatization and management contract. The Government would review the results of the study with IDA and adopt alternative strategies for these companies before December 31, 1984.

Gold Mining Sector

3. The basic change sought under the ERP with respect to the gold mining sector is to arrest and reverse the declining output of the State Gold Mining Corporation (SGMC) by introducing autonomy in its management and finance with a substantial infusion of foreign technical assistance personnel under a management contract. Major policy and institutional changes to be implemented in conjunction with the ERP are as follows:

(i) In order to ensure that SGMC does not have to rely on normal Government foreign exchange allocation to meets its recurrent imported inputs and to enable the Corporation to meet part of the financial requirement for its rehabilitation out of its own resources, the foreign exchange retention by the SGMC would be increased from the present 20 percent to 35 percent of its export sales. Also given the special nature of mining operations wich require uninterrupted supply of spare parts and consumables, the SGMC would be given direct access to the retained foreign exchange without the need to seek prior Government approval for their use. At the current level of production the SGMC would be allowed to retain about $10 million per annum, which would enable the SGMC to meet its recurrent import needs from its own resources. An arrangement to effect this proposal is being worked out by the SGMC. The Government and the SGMC would be asked to put in place such an arrangement prior to Board presdentation of the ERP.

(ii) The SGMC would be given a full management autonomy and its mine would be allowed to run as a commercial entity under a management contract. Given the presently weak institutional capability of the SGMC, the Government has agreed to a large-scale injection of expatriate management and technical personnel to be provided from an international mining consortium. The progress under the management contract would be monitored periodically by the Government, IDA and the SGMC with the assistance of an independent international management consultant. The necessary planning and preparation work required before the Government would be in a position to invite management contract proposals from international mining companies has already started with funds provided under the PPF. The appointment of an international mining consortium and signing of a management contract satisfactory to IDA would be a condition of effectiveness of the ERP credit.

(iii) There is an urgent need to improve the living condition of the mine workers as the scarcity of food has caused serious absenteeism and low productivity among mine workers and it is evident that the rehabilitation of the mines would be impossible without improvements in food supply situation. The SGMC would introduce a work incentive scheme including direct provision of food and special bonuses to reward higher productivity prior to Board presentation. Given country-wide shortages of food, some of SGMC's food requirements would have to be met through imports to which the SGMC would allocate part of its retained foreign exchange earnings.

(iv) The Government recognizes that the poor financial performance of the SGMC has been due to the grossly distorted exchange rate regime in the past. While the recent de facto devaluation has significantly rectified the problem and the new exchange rate should initially be sufficient to restore the viability of the company, its effects will have to be carefully assessed once the cost-price relationships in the economy following the budget measures have settled down. In order to enable the restructured SGMC to start with a clean slate, the Government would be asked to covert SGMC's outstanding debts into equity. In addition, the cost of production of SGMC mines as well as the required level of export bonus to maintain the profitability of the company would be reviewed annually.

CONFIDENTIAL

LOAN COMMITTEE

LC/M/81-17

December 2, 1981

Minutes of Loan Committee Meeting to consider GHANA - Export Rehabilitation Project, held on November 19, 1981 in Conference Room E-1208

A. Present

Committee:

Messrs. E. Stern (SVPOP), Chairman
W.C. Baum (CPSVP)
H. Golsong (VPG)
A.D. Knox (WANVP)
M. Hattori (for SVPFI)
M. ul Haq (for VPD)

Others:

Messrs. Alisbah, Asser, van Gigch, Isenman, Please, Horsley, Chaffey, Dubey, Husain, Knight, Delaume, Jones, Choi

B. Issues

1. The meeting was called to consider a proposed Export Rehabilitation Project in Ghana, submitted under cover of Mr. Alisbah's Decision Memorandum Transmittal Sheet of November 2, 1981. The principal issues focussed on were:

(a) The concept and design of the project and particularly its relationship to agreements reached with the IMF on the exchange rate and the producer price for cocoa.

(b) Public enterprise sector.

(c) Tranching arrangements and use of IDA resources.

(d) Actions by other donors.

DISTRIBUTION

COMMITTEE
Senior Vice President, Operations (Chairman)
Senior Vice President, Finance
Vice President and General Counsel
Vice President, Projects Staff
Regional Vice Presidents

OTHERS
President
Vice President, Development Policy
Vice President and Controller
Senior Operations Adviser
Others in attendance

(e) Lending Program for Ghana.

(f) Technical assistance.

C. Decisions

2. The following were the principal decisions reached at the meeting on the above issues:

(a) Concept and design. The Region reviewed the present status of the negotiations between the Government and the IMF. It seemed likely that a decision already made to triple the producer price for cocoa would be followed by a major (possibly 450 percent) devaluation. These steps were recognized to be only the first that will be required. It was agreed that they represented a sufficient basis for the Bank proceeding with the further preparation of the project providing there was agreement that the cocoa price would be reviewed annually on the basis of an agreed procedure to be determined and that complementary actions on exchange rate policy and tax policy would also be taken. The Chairman emphasized that adoption of a system by which these critical policy issues would be regularly reviewed was so important that it was worth trading off a lesser change in the exchange rate and producer prices now against agreement on a system of regular review. It was further agreed that negotiation of the project should not be held until Ghana reaches agreement with the IMF.

(b) Public enterprise sector. The Region outlined the Government's policy that it should be concerned primarily in policymaking and not in the management of enterprises over a broad front. It was agreed that the Region should examine whether agreement can be reached under this project to spell out in an aide-memoire or otherwise what the Government's specific objectives are in this regard.

(c) Tranching and use of IDA Resources. The Region stated, and it was agreed, that the project will be tranched and that some of the dates for action would be advanced as triggers for tranche release. The precise conditions would be determined in the light of the IMF agreement; the tranching procedures should be carefully designed to avoid complications in disbursement which could arise in the event decision is made to stop the second tranche. It was also agreed that the arrangements for utilization of the credit will be carefully examined to ensure that it can be drawn down quickly and utilized for the productive purposes identified in the Issues Paper.

(d) Action by Other Donors. The Region recognized that priority should be given to preparing other donors to respond quickly to the reforms but that, quite understandably, given Ghana's past record, there was a pervasive "wait and see attitude". It was agreed that continuing efforts should be made by the Region. However, in addition, it was emphasized that success in mobilizing adequate and sustained external support for Ghana, if it were to adopt a major reform program, would have wider implications in the context of the follow-up to the Sub-Saharan Africa Study. For this reason, it was agreed that at an appropriate time a special effort by the Bank might be required to mobilize bilateral donor support.

(e) Lending Program for Ghana. It was agreed that given the historic under-funding of the Ghana program, there was a strong case for full "additionality" of the proposed credit and that it would be important to earmark IDA funds for this project so that it can be signed without delay. However, given the serious difficulties of IDA, some other adjustments in the Ghana program were likely to be necessary.

(f) Technical Assistance. To remove doubts about the availability of financing for the second tranche of the technical assistance contracts, it was agreed that the Region should consider processing the technical assistance component as a separate project.

Cleared with: Messrs. Stern
Baum
Golsong
Knox
Hattori
Haq

SHChoi/JPratt:ml

G H A N A

Lending Program

(FY83-87)

		IDA US$ million
FY83		
	Reconstruction Import Credit	40.0
	Water Supply Rehabilitation and Technical Assistance	13.0
	Petroleum	11.0
FY84		
	Export Rehabilitation	65.0
	Export Rehabilitation and Technical Assistance	9.5
	Oil Refinery Rehabilitation and Technical Assistance	3.5
FY85		
	Oil Palm II	20.0
	Oil Refinery	35.0
FY86		
	ECG Power IV	20.0
	Highway IV	40.0
	Urban Development	12.0
FY87		
	Public Enterprise	25.0
	Oil Palm III	20.0
	Cocoa III	20.0
	Agricultural Credit	14.0

WA1DB
July 19, 1983

CONFIDENTIAL

LOAN COMMITTEE

LC/M/81-17

December 2, 1981

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Cleared with: Messrs. Stern
Baum
Golsong
Knox
Hattori
Haq

SHChoi/JPratt:ml

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

file

TO: Mr. Ernest Stern

DATE: November 19, 1981

FROM: Mahbub ul Haq, Director, PPR

SUBJECT: GHANA: Export Rehabilitation Project

1. The proposed $100 million IDA credit for an Export Rehabilitation Project (ERP) would support the first stage of a badly needed economic reform process in Ghana and is intended to lead to a full-scale SAL if successfully executed. The project is based on a solid foundation of economic work completed over the past year. Each successive stage of the project would be appropriately conditioned on significant policy reforms and the meeting of appropriate performance criteria.

2. We feel that three issues warrant special attention:

(a) the additionality of the ERP to the allocation of $71 million in IDA funds approved in the September 1981 review for FY82 and FY83;

(b) the need to develop mechanisms to ensure that exchange rates and cocoa prices are adjusted frequently to ensure appropriate incentives to exports; and

(c) tranching.

Additionality of the ERP

3. The likely shortfall in IDA funds to levels below those envisioned during the September Bank-wide allocations exercise has to put into question whether it will be feasible to proceed with all the other projects now in the lending program for FY82 and FY83. We urge that the public administration project be retained even if most of the others have to go, given that this project is highly complementary to the proposed ERP.

Exchange Rates and Cocoa Prices

4. It is abundantly clear that a major devaluation and a sharp increase in the cocoa price to the farmer are a sine qua non for beginning the process of restoring economic growth and development in Ghana. Government action along these lines within the framework of an IMF standby arrangement cum CFF operation should have occurred before the Bank moves forward with the proposed ERP. There are a number of encouraging signs: last week the Government tripled the cocoa price; and an increase in the average exchange rate by 445 percent to C15 per US$ is expected shortly since the cocoa price cannot be financed without a devaluation. But given the rate of inflation over the past year since negotiations began with the IMF, further price increases will be required to provide adequate incentive to cocoa producers and further devaluation is likely to be necessary to overcome the current strong incentives to smuggling and the need for extensive import controls (the black market exchange rate is currently above C35 for US$).

The Loan Committee may wish to obtain assurances that, in the process of appraisal and negotiation, mechanisms will be established to ensure that the producer price for cocoa and exchange rates are maintained at levels sufficient to provide an appropriate incentive structure for exports and to deter unnecessary imports without extensive direct controls.

5. There are conflicts between the objectives of increasing rapidly government revenues, ensuring an incentive price to cocoa producers and reducing the Government's dependence on cocoa as a source of revenue. In the short run, the percentage of the border price that will be received by the farmer will in fact be reduced since cocoa prices have been tripled and the proposed devaluation would increase the border price of cocoa by a factor of 5.45. Clearly there is scope to more than triple the producer price of cocoa, but this would be at the expense of government revenues via the Cocoa Marketing Board. The Region should be asked to estimate the magnitude of revenue loss which would result from an increase in cocoa prices to an appropriate level and to relate this to the cedi counterpart likely to be generated by the ERP. As part of the broader reform package, measures should be introduced to raise revenues from other sources while reducing the tax bite on cocoa.

Tranching

6. In recent years, all attempts at economic reform have run aground on the rocks of political opposition and governments have fallen on the devaluation issue. Press reports this week indicate that three political parties have urged the Government to resist pressures from the IMF to devalue. While we see no alternative to taking action on the exchange rate, and while the Government may be perfectly sincere in its commitments, the opposition could succeed in undermining the reforms after the credit is approved. The risks appear greater than, for example, in the case of Senegal. We should be clear that the proposed tranching depends on the implementation of specific measures and would involve close coordination with the IMF; and we should be prepared for the possibility that there may well be breaches in conditionality that could result in suspending disbursements.

cc: Messrs. Qureshi, Baum, Golsong, Chenery, Knox
Ardito-Barletta, Chaufournier, Hopper, Husain, Wapenhans, Hattori
Alisbah, El Darwish, de Azcarate, Kpognon, Isenman, Clift, Husain
Please, Waide, Chernick (o/r), Landell-Mills (o/r)
Horsley
Ms. Pratt

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Ernest Stern

DATE: November 10, 1981

FROM: A. David Knox ADK

SUBJECT: GHANA - Export Rehabilitation Project

I attach the Decision Memorandum and Issues Paper on the Ghana Export Rehabilitation Project. I have three comments on these papers.

1) There are some recommendations in the Issues Paper, for example in paras. 10(a) and 10(b), on studies to be carried out to improve marketing and other mechanisms. I was afraid on reading these that they might indicate that some key mechanisms necessary for quick rehabilitation of export industries were not yet in place. I am told, however, that on most of these substantial progress has already been made and that in the President's Report we will be able to specify earlier dates for the conclusion of these studies.

2) Paragraph 7 of the Decision Memorandum stresses the importance of addressing long term sectoral issues and strategies. I agree that the President's Report should state our strategy for dealing with these problems but I think that we should be careful not to include too many conditions relating to longer term structural issues in the proposed credit lest by doing so we endanger its prime objective, which is speedy restoration of productive capacity in some key export industries.

3) I strongly agree that the proposed cocoa price change and devaluation are only first steps. It is therefore essential that the Government understand this and I believe that the mission has already taken important steps to try to ensure that this is so.

Attachment

cc: Mr. Alisbah

COUNTRY OPERATIONAL DATA

COUNTRY: GHANA GNP PER CAPITA: 400 TERMS: 5/20
LAST CPP: 02/13/81 LOCAL COSTS FINANCING: YES
COST SHARING BANK: 70 % EXTERNAL: 80 %

	FY80		FY81		FY82		FY83		FY84		TOTAL	
	BANK	IDA	BANK	IDA	BANK	IDA	BANK	IDA	BANK	IDA	BANK	IDA
$MILLIONS		55		29		44		25		60		213
NUMBER		2		1		3		2		2		10
PER CAPITA		5		3		4		2		5		19
COFINANCING		13		13								26
DISBURSEMENTS		32		28								60
DSBMENTS/COMMIT.		.58		.98								.28

APPROVED THRU 09/30 BY LOAN COMMITTEE	IBRD	IDA	2 YEAR PROGRAM (REVIEW GROUP) IBRD	IDA
-$MILLIONS		10.0		71.0
-NUMBER		1		

FY82-83 COUNTRY LENDING PROGRAM

FY PROJECT	NAME	BOARD APPROVAL	STATUS	APPRVD AT LOAN COMM	IBRD	IDA
FY82						
3GHAWW04	W/S ENG. & REHAB.	11/24/81		YES		10.0
3GHAZZ01	PUBLIC ADMIN.T.A.	3/82		NO		7.0
3GHAPD04	ECG POWER IV	3/82		NO		20.0
3GHAGI01	PETROLEUM	4/82	M	NO		7.0
FY83						
3GHAAP13	OIL PALM II	3/82	S	NO		15.0
3GHATH06	HIGHWAYS IV	2/83		NO		10.0

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Mr. Horsley

File

TO: Messrs. Baum, Chenery, Golsong, Knox, Qureshi

DATE: November 18, 1981

FROM: Ernest Stern, SVP, Operations ES

SUBJECT: Ghana - Export Rehabilitation Project (ERP)

A meeting of the Loan Committee will be held on Thursday, November 19, 1981, at 4:00 p.m., Room E1208, to consider a proposed Export Rehabilatation Project to Ghana, submitted under cover of Mr. Alisbah's Decision Memorandum Transmittal Sheet of November 2, 1981. Below are some of the issues on which I would like to focus:

(1) General Strategy and Timing - Is the approach set out in para. 15 of the Issues Paper acceptable -- i.e., firstly, preconditions for negotiation ("understandings" with the IMF); secondly, preconditions for Board presentation (implementation of Fund package plus agreement with Bank on sectoral allocation of foreign exchange and on public investment program); and, thirdly, conditions to be implemented during project disbursement (listed in para. 23 of the Issues Paper)?

(2) IMF Discussions and Program - What is the present status of the discussions between the IMF and the Government and the probable policy conditions for the use of Fund resources. Has the Bank formulated minimum conditions for proceeding with the ERP relating to the exchange rate and the cocoa producer price? Have these minimum conditions been made known to the Government and to the IMF? Is there agreement between the Bank and the Fund that further action on the exchange rate and on cocoa prices is likely to be required?

(3) Cocoa Producer Price - Has the report which will propose a formula for determining the cocoa producer price (Issues Paper para. 6) yet been completed? Has the report been seen and commented upon by the IMF? Should agreement on a schedule for the phased implementation of the formula by the Government be a condition of the ERP in addition to the immediate increase in the cocoa price?

(4) Relieving the Administrative and Managerial Overcommitment of the Public Sector - Should the ERP go further than proposed in supporting greater private sector involvement in such sectors as cocoa marketing, trucking and forestry? Are we satisfied that ERP funds will not be employed simply to provide finance to inefficient public sector organizations?

(5) Project Conditions and Tranching - All the programs (listed in para. 23) are to be prepared and reviewed by September, 1982. Should some of these have earlier dates -- e.g., domestic resource mobilization (a Bank Report has already been prepared on this subject), rationalization of present loan on log exports? Should the implementation of some of these conditions be made conditions for tranching the $100 million IDA credit?

(6) Complementarity of ERP and other Bank Operations - Is the Bank's program of project and sector operations being modified to support the expected reform program generally and the ERP specifically -- e.g., Bank transport projects, the development of non-traditional exports?

cc: Messrs. Chaufournier, Ardito-Barletta, Hopper, Husain, Wapenhans, Hattori
Haq, Landell-Mills, Alisbah, Gibbs/Choi, Isenman, Ramachandran,
Please, Horsley, Ms. Pratt

OFFICE MEMORANDUM

JC
For Ghana - LC mtg

TO: Mr. Ernest Stern

DATE: November 19, 1981

FROM: Mahbub ul Haq, Director, PPR

SUBJECT: GHANA: Export Rehabilitation Project

1. The proposed $100 million IDA credit for an Export Rehabilitation Project (ERP) would support the first stage of a badly needed economic reform process in Ghana and is intended to lead to a full-scale SAL if successfully executed. The project is based on a solid foundation of economic work completed over the past year. Each successive stage of the project would be appropriately conditioned on significant policy reforms and the meeting of appropriate performance criteria.

2. We feel that three issues warrant special attention:

(a) the additionality of the ERP to the allocation of $71 million in IDA funds approved in the September 1981 review for FY82 and FY83;

(b) the need to develop mechanisms to ensure that exchange rates and cocoa prices are adjusted frequently to ensure appropriate incentives to exports; and

(c) tranching.

Additionality of the ERP

3. The likely shortfall in IDA funds to levels below those envisioned during the September Bank-wide allocations exercise has to put into question whether it will be feasible to proceed with all the other projects now in the lending program for FY82 and FY83. We urge that the public administration project be retained even if most of the others have to go, given that this project is highly complementary to the proposed ERP.

Exchange Rates and Cocoa Prices

4. It is abundantly clear that a major devaluation and a sharp increase in the cocoa price to the farmer are a sine qua non for beginning the process of restoring economic growth and development in Ghana. Government action along these lines within the framework of an IMF standby arrangement cum CFF operation should have occurred before the Bank moves forward with the proposed ERP. There are a number of encouraging signs: last week the Government tripled the cocoa price; and an increase in the average exchange rate by 445 percent to C15 per US$ is expected shortly since the cocoa price cannot be financed without a devaluation. But given the rate of inflation over the past year since negotiations began with the IMF, further price increases will be required to provide adequate incentive to cocoa producers and further devaluation is likely to be necessary to overcome the current strong incentives to smuggling and the need for extensive import controls (the black market exchange rate is currently above C35 for US$).

The Loan Committee may wish to obtain assurances that, in the process of appraisal and negotiation, mechanisms will be established to ensure that the producer price for cocoa and exchange rates are maintained at levels sufficient to provide an appropriate incentive structure for exports and to deter unnecessary imports without extensive direct controls.

5. There are conflicts between the objectives of increasing rapidly government revenues, ensuring an incentive price to cocoa producers and reducing the Government's dependence on cocoa as a source of revenue. In the short run, the percentage of the border price that will be received by the farmer will in fact be reduced since cocoa prices have been tripled and the proposed devaluation would increase the border price of cocoa by a factor of 5.45. Clearly there is scope to more than triple the producer price of cocoa, but this would be at the expense of government revenues via the Cocoa Marketing Board. The Region should be asked to estimate the magnitude of revenue loss which would result from an increase in cocoa prices to an appropriate level and to relate this to the cedi counterpart likely to be generated by the ERP. As part of the broader reform package, measures should be introduced to raise revenues from other sources while reducing the tax bite on cocoa.

Tranching

6. In recent years, all attempts at economic reform have run aground on the rocks of political opposition and governments have fallen on the devaluation issue. Press reports this week indicate that three political parties have urged the Government to resist pressures from the IMF to devalue. While we see no alternative to taking action on the exchange rate, and while the Government may be perfectly sincere in its commitments, the opposition could succeed in undermining the reforms after the credit is approved. The risks appear greater than, for example, in the case of Senegal. We should be clear that the proposed tranching depends on the implementation of specific measures and would involve close coordination with the IMF; and we should be prepared for the possibility that there may well be breaches in conditionality that could result in suspending disbursements.

cc: Messrs. Qureshi, Baum, Golsong, Chenery, Knox
Ardito-Barletta, Chaufournier, Hopper, Husain, Wapenhans, Hattori
Alisbah, El Darwish, de Azcarate, Kpognon, Isenman, Clift, Husain
Please, Waide, Chernick (o/r), Landell-Mills (o/r)
Horsley
Ms. Pratt

FORM NO. 1527
(4-81)

Received: 11/10/81

Comments by c.o.b.: 11/19/81

THE WORLD BANK

DECISION MEMORANDUM TRANSMITTAL SHEET

TO: See Distribution Below

DATE: November 2, 1981

FROM: Bilsel Alisbah, Director WAI

Chairperson, Decision Meeting

COUNTRY/PROJECT: GHANA - Export Rehabilitation Project

Issues Paper Date:	Decision Meeting Date:	Loan Committee Date:	Scheduled Board Presentation Date:	Yellow Cover Review:
September 30, 1981	October 9, 1981	Tentatively end December 1981	Tentatively February 1982	Waived [X] Not Waived [x]
Estimated Costs: Total: n/a Foreign:	Proposed Loan/Credit Amount: $100 million IDA	Amount in Approved Lending Program: See Section 1 below	Amount and Source of Co-Financing: Co-financing possibility being explored.	

1. DECISIONS SOUGHT

The project is currently classified as FY82 Reserve but was appraised so that the Bank could respond quickly to Government's economic reform program. Once the Government has announced the reform program, the Region will review the Ghana Lending Program and submit a revised Lending Program which would include the proposed project in the FY82 regular program. In the meantime Regional Staff will continue processing this project to the stage of draft green cover document.

2. SPECIAL FEATURES

- This is an SAL-type operation based on Government's macro-economic policy reform measures including exchange rate adjustment and substantial increase in cocoa producer prices as well as Government addressing a number of key sectoral issues. Mid-term review and credit tranching will be considered.
- In order to be quick-disbursing, the credit would be administered by the Bank of Ghana which would be properly strengthened with outside technical assistance.
- Loan Committee presentation would be contingent on Government announcing the economic reform measures and agreement with IMF on the Standby Arrangement.

3. SECTOR POLICY ISSUES

(a) List Problem Projects in sector:

n/a

(b) List major covenants not in compliance:

n.a.

(c) List major sector policy issues covered. Use simple descriptions, e.g., prices, staffing, maintenance, etc.

General - exchange rate, pricing policy, foreign exchange allocation, public investment program.

Export Sector - management and institutional arrangements, staffing, marketing policy, foreign exchange retention, promotion of private investment and non-traditional exports.

DISTRIBUTION

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

WC J BANK / INTERNATIONAL FINANCE CORPORA'

OFFICE MEMORANDUM

TO: See Distribution Below

DATE: November 2, 1981

FROM: Nicholas Gibbs, Division Chief, WAIB

SUBJECT: GHANA - Proposed Export Rehabilitation Project
Decision Memorandum

1. A Decision Meeting was held on October 9, 1981 to discuss the Issues Paper dated September 20, 1981. The meeting was chaired by Mr. Alisbah and was attended by persons listed below. Major issues discussed and main points arising from the meeting are as follows:

Context of the Project

2. It was noted that the basic thrust of the project was to support a program of economic reform measures to be undertaken by the Government with the assistance of the IMF (see para. 2 of Issues Paper). A critical aspect of that program was to halt and reverse declining export production and foreign exchange earnings. The Government was presently faced with difficult policy choices in facilitating export and general economic recovery since the kinds of reform measures required would have to be drastic, and could have far-reaching political consequences. However, once Government has come forward with an acceptable reform program, it was important that the Bank be ready to support the Government's efforts with quick-disbursing assistance to underpin the program and to get the export sector moving again. Without this type of external support, the policy reforms would have less chance of success and it would be difficult for Government to sustain the program. The proposed project would focus on those sectors with the greatest needs and where a quick response to the infusion of external support was expected. While the proposed project would also seek to address some key sectoral issues, it was important to realize that the primary purpose of the project was to encourage Government to adopt difficult macro-economic reform measures and help sustain the policy initiatives.

Coordination with IMF

3. The Issues Paper (para. 16) stated that IMF was contemplating proceeding in two stages: a CFF following a tripling of cocoa producer prices coupled with action on the exchange rate, to be followed later by a one-year Standby Arrangement on the basis of a stabilization program including petroleum price pass-through. Subsequently, however, and as a result of the delay by Government in taking actions required precedent to a CFF, the Fund has now decided to combine a CFF and a Standby into a single operation. In light of the importance of putting in place a stabilization program, the meeting agreed that, before the Bank moves forward with the proposed project, Government would need to reach agreement with the Fund on the Standby Arrangement.

Participants:

Region:	Messrs. Alisbah (Chairman), Isenman, Clift, Gibbs, Choi, Ramachandran, Alibaruho, Ms. Vitagliano, Ali, Husain, Moritz, Ms. Johansen.
CPS:	Messrs. Abbai, Donovan, Green, Hopcraft, Carmichael
IPD:	Mr. Barrientos
PPR:	Messrs. Landell-Mills, Knight
EPD:	Mr. Akiyama
IMF:	Mr. Ballali (Observer)

Adequacy of Proposed Economic Reform Measures

4. One of the issues discussed at the meeting was whether the program of economic reform measures to be undertaken by Government was adequate. In particular doubts were raised on whether the tripling of the cocoa producer price was attractive enough to induce farmers to rehabilitate their cocoa farms and to reduce smuggling. It was noted that the tripling of the producer price would be equivalent to about 30 percent real increase over the price paid in 1979 whereas the Cocoa Sector Report (December 19, 1980) recommended an increase by 50 percent in real terms over the 1979 level to put the producer price at an incentive level. While agreeing to the pricing objective recommended by the Cocoa Sector Report, the Appraisal Mission noted that the tripling of the producer price, which is part of the IMF package being negotiated with the Government, should be considered as a first step toward achieving more realistic prices and not as an once-and-for-all solution. After the initial increase, which itself would be quite drastic, Government would need to make regular adjustment in the producer prices so as to keep them at an incentive level, taking account of trends in world market prices; an arrangement for regular reassessment and readjustment according to an agreed procedure, would be worked out before negotiations. While farmers' share of the cocoa export earnings should further be improved, it was important at least in the short-run to take into account the effects of the producer price upon Government revenues since the real improvement in the position of cocoa farmers cannot be achieved in the absence of overall financial stabilization and reduced domestic inflation. In the long run, however, the Government should reduce its dependence upon cocoa as a source of revenue. In this connection there is a need to implement revenue measures such as those recommended by the Domestic Resource Mobilization Study. There is also a need for agricultural and export diversification. The question of the cocoa producer price is also linked to the exchange rate issue and here again there would be a need to make continuing improvements after the initial adjustment. The meeting therefore agreed that once the proposed program has been put in place, its adequacy would have to be assessed in the course of a mid-term review. It was further agreed that the cocoa producer price issue should be specifically addressed in the President's Report.

Mid-Term Review of Government Performance

5. It was noted that, once the initial reform measures have been introduced, it would be important for Government to sustain the momentum and carry through the program. Of particular importance would be need to continue to assess the impact of the exchange rate adjustment on the financial performance of export industries and to ensure that price incentive were maintained. Also the specific sectoral policy and institutional reform measures on which Government assurances would be obtained at negotiations would need to be carried out fully in accordance with an agreed timetable. However, given the fragile economic and political situation which is likely to continue for some time, there was some uncertainty whether the program could be fully carried through and the policy initiatives in the new direction sustained. The meeting therefore felt that there would be a need to have a mid-term review of Government performance under the program and it was suggested that tranching the proposed credit be considered. A few important performance yardsticks could be selected and the release of the second tranche

could be made contingent upon satisfactory performance. The Appraisal Mission would formulate details of specific tranching mechanism and procedures.

Mobilization of External Resources

6. In order to help sustain Ghana's economic reform initiatives, the meeting considered it important for major external donors to make a concerted effort to increase the flow of concessional, and preferably quick-disbursing, resources in support of Government's economic recovery program. The Government had recently expressed an interest in reconvening a Consultative Group and had requested the Bank to take the initiative. The meeting felt that cofinancing of the proposed project either on a joint or parallel basis might be an appropriate first step in this direction and suggested that the Region pursue this possibility further.

Long-Term Sectoral Issues and Strategies

7. There was a general concesus that Ghana's economic recovery was likely to be a gradual process and the proposed operation should be seen as a first step of a phased program towards the goal of continued policy and institutional improvements. While the focus of the proposed project should be placed on most important and immediate issues which could realistically be tackled in the context of this type of short-term operation, the meeting felt that it was important to show how this project could be used to influence longer-term programs and strategies in each of the sectors covered. It was agreed that these linkages should be clarified in the President's Report, which should also give fuller treatment of longer-term structural issues in the respective sectors and the Bank's current and proposed programs to deal with them.

Privatization of the Public Sector

8. In view of the management and operating inefficiencies besetting several Government-owned institutions in the export sector, a question was raised as to whether the proposed project should not be used as a vehicle to get Government to introduce institutional reforms in favor of greater privatization of the sector. The Appraisal Mission noted that Government was already moving in this direction and, in the case of forestry and gold mining areas, has adopted the policy of encouraging private participation in the management and ownership of the state-owned companies. This policy is strongly supported by the Bank. In the case of cocoa, privatization of the marketing functions does not appear to be a realistic alternative to GCMB at least in the short run. Large-scale technical assistance is currently being provided to GCMB under the UNDP project of which the Bank is the Executing Agency to help improve its operating performance, especially in improving cocoa evacuation and input delivery. In the long run the cocoa sector in Ghana could become more efficient if both input supply and marketing were handled primarily by the private sector. These issues are being studied in the course of the prefeasibility studies for Cocoa III Project and would be further examined in the course of preparation and appraisal of the project. With respect to the gold mining sector, the proposed project would provide substantial amount of management and technical assistance to strengthen those state-owned companies which fail to attract private participation.

Whether such assistance should be provided to state-owned timber companies would be further examined by the Appraisal Mission. Some participants felt that, with the possible exception of one state company (MIM), the state of the public forestry sector is so poor that, if it is to be resucitated at all, it should be done in the context of the proposed forestry project (presently on FY84 reserve), which, amongst other things, would include an effort to get significant private participation. The State Transport Corporation (STC) would receive technical assistance under the proposed project to improve its capacity to effectively utilize the spare parts provided under the project. The Appraisal Mission further noted that attempts would be made to initiate the process of restructuring the parastatal sector and to rationalize Government policies towards parastatal enterprises as a component of the proposed Public Administration project which is expected to move forward within the next few months.

9. Insofar as the allocation of the proposed credit is concerned, the meeting indicated that emphasis should be placed on the private sector since private industries were expected to respond more rapidly than the public sector to policy changes and would be able to utilize fresh foreign exchange resources more expeditiously. The meeting agreed that the credit allocation between the private and public sector should be carefully reassessed with a view to achieving an optimal balance. In the case of the cocoa sector, although the question of increased utilization of the private trucking industry in the haulage of cocoa could be examined further (see para. 16 below), the Region's agricultural staff agreed that this cannot replace GCMB's own transport capacity, which needs to be improved under the proposed project. It was also suggested that the financial requirements for rehabilitation of ports should be reassessed and should be related only to improvements required for efficient handling of cocoa and timber exports.

Public Investment Program

10. The meeting asked for clarification of the nature of the proposed Bank review and agreement on the public investment program (para. 7 of the Issues Paper). The Appraisal Mission explained that the intention was to agree with Government on the size of the investment program and the sectoral priorities with a view to ensuring that the program is consistent with its medium-term economic reform program and provide appropriate emphasis on the export sector. While the Bank would not undertake a detailed review of individual projects, the program would be monitored through an annual review of the investment budget.

Domestic Resource Mobilization

11. The Issues Paper (para. 8) proposed that Government be asked to formulate and review with the Bank a program for improving domestic resource mobilization to achieve a tax ratio of at least 12 percent of GDP by 1984/85. A suggestion was made that the issue should more appropriately be raised with Government by IMF since fiscal issues were of more direct concern to the Fund. However, if the Region considered that this was an important issue

to the Bank, it could be included in the program provided that it was done in full consultation with the IMF. Also it was pointed out that a straight tax ratio may not be an appropriate yardstick and other measurable criteria should be considered to monitor domestic resource performance.

Technical Assistance

12. The meeting noted that given the general institutional weaknesses in Ghana sufficient technical assistance should be provided under the proposed project to ensure adequate project implementation capacity at the sectoral level. It was also important to ensure that necessary preparatory work (e.g., drafting terms of reference) was carried out as soon as possible with the help of Bank staff, if needed, in order not to delay the mobilization of technical assistance personnel. As regards the procedures for processing the technical assistance component, it was agreed that this component was an integral part of the project and should be processed as one operation (rather than as a separate technical assistance project). While the required management contracts would cover a period of three years, only the first 18 months would be financed under the proposed credit; the Bank should consider financing the second 18 months of the contracts either under a Second Export Rehabilitation project or under the proposed follow-up projects in the respective sectors if they come on stream when the proposed credit will be closed. UNDP might also be interested in financing the remaining 18 months of the consultants contracts.

Timetable for Project Conditions

13. The meeting noted that the deadlines of a number of project conditions listed in para. 23 of the Issues Paper were too extended and suggested that the timetable of agreed actions be advanced where feasible (e.g., lifting the ban on log exports). This should be considered further by the Appraisal Mission in the course of preparing the project documentation.

World Cocoa Prices

14. In view of the arguments advanced in para. 17 of the Issues Paper, there was a general agreement that, in spite of the depressed long-term world market prospect of cocoa, a strong case could be made for supporting rehabilitation of cocoa in Ghana. An increase in the producer prices which would result in increased production would be called for irrespective of external assistance to the cocoa sector. The improvements in the transport and storage facilities to be provided under the proposed project would not only make GCMB operations more efficient but also significantly reduce the proportion of low quality cocoa and thus increase foreign exchange earnings. While recognizing the merit of assistance to Ghana's cocoa sector, the EPD representative noted that the Bank's policy paper on cocoa projects was due shortly and the Ghana's case would be reexamined in light of new Bank policies. In the meantime it was suggested that the Appraisal Mission attempt to quantify incremental cocoa production which is expected to result from the proposed project.

Operating Expenses of GCMB

15. The operating expenses of Cocoa Marketing Board (GCMB) which account for up to a quarter of present cedi values of cocoa exports have been a matter of increasing concern. GCMB staffing problems are being studied under the UNDP Technical Assistance project referred to in para. 8 above. A major factor contributing to the problem has been the lack of consistent manpower and staffing policies and staff redundancy at the lower echelons. The meeting agreed that as a condition of the proposed credit GCMB be asked to formulate and implement manpower development and staffing policies within an agreed timeframe with a view to reducing its operating expenses.

Regulation of Freight Tariffs

16. Although the basic problem of the road transport sector is the overall shortage of transport capacity, the Government regulation of freight tariffs has worsened the situation and has resulted in the unwillingness of private sector trucking operators to provide transport services to the public sector. The meeting felt that this issue needed to be examined and the possibility of decontrolling or rationalizing freight tariffs considered.

Coordination with the Ongoing Road Maintenance Project

17. The Third Highway (Emergency Road Maintenance) project was providing equipment and spare parts needed to reactivate the road maintenance program. It would be important to ensure that roads frequently used for evacuation of export commodities are properly maintained so that the increased trucking capacity to be provided under the proposed project can be effectively utilized. The meeting agreed that a specific undertaking should be obtained from Government that the ongoing road maintenance program would give priority to selected roads to be identified for the purpose. ?
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Small-Scale Non-Traditional Exports

18. The Government requested that a small amount of the proposed credit be earmarked to support a scheme to be administrered directly by the Bank of Ghana whereby foreign exchange would be provided to small-scale producers of non-traditional exports who have export contracts with foreign buyers. The Appraisal Mission recommended that US$3 million of the proposed credit be allocated for the purpose (para. 22 of the Issues Paper). Some participants questioned the justification of this component since they felt that the existing line of credit to the National Investment Bank (Second NIB Project) could serve the same purpose and this may duplicate the institutions involved in financing export industries. In reply the Appraisal Mission explained that the NIB is a development bank making loans for sub-projects, whereas what was intended under the proposed project was to make available foreign exchange to small-scale export producers to supplement Government's normal foreign exchange allocation to such enterprises. Thus the two schemes would not necessarily

conflict with each other. The Bank of Ghana has been involved in financing non-traditional export industries and is familiar with their problems. Thus channeling foreign exchange through the Bank of Ghana could show some quick results and demonstrate what can be achieved in the small-scale non-traditional export sector under improved policy conditions.

Speed of Disbursement

19. The point was raised whether it was realistic to consider a disbursement period of 18 months, given the history of slow disbursement under several of Bank projects in Ghana. It was noted that a special mechanism would be introduced under this project to facilitate disbursement which would be administered by the Bank of Ghana. The matter was however one of concern and needed to be closely watched during project implementation. Without prejudice to the need to ensure fast disbursement, the meeting agreed that the manner in which the Bank of Ghana would administer the credit proceeds could be tightened up and appropriate monitoring mechanism should be considered to minimize the risk of a misuse of funds and to permit prompt remedial actions.

Impact of the Project

20. The meeting considered it important that the President's Report analyze the likely impact of the proposed project on each of the sectors covered and clearly spell out the risks involved.

Cleared with and cc: Messrs. Peberdy, Moritz, Ali, Husain, Abbai, Isenman, Ms. Johansen, Mr. Knight.

Distribution:

Messrs. Knox, Alisbah, El Darwish, de Azcarate, Bouhaouala, van Gigch, Pouliquen, Kpognon, Pennisi, Isenman, Faiz, Brown, Ms. Haug, Soges, Parker, Ramachandran, Ms. Vitagliano, Barrientos, Maraboli, Hardy, Conrad, Rajagopalan (3), Yudelman (5), Fuchs (5), Willoughby (5), Chenery, Hughes, Grilli, Landell-Mills, Knight, Chernick, Abbott (2), Guillou, Ms. Vogel, Donovan, Green, Hopcraft, Carmichael. /18

Messrs. Stern (3), Please.

SHCHOI:msw

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. A. J. Clift, Division Chief, WA1B

DATE: September 30, 1981

FROM: S. H. Choi, Sr. Loan Officer, WA1B

SUBJECT: GHANA: Proposed Export Rehabilitation Project - Issues Paper

Attached is an Issues Paper of the proposed Export Rehabilitation Project in Ghana. The project was appraised by a Bank mission which visited Ghana in the period July 15 to August 10. The mission consisted of Messrs. Choi (mission leader), Alibaruho, Jasperson, Parker, Zarifian (consultant), Husain, Moritz, Conrad and Rithaler (consultant). Mrs. Vitagliano participated in part of the mission's discussions. Following the mission's return, the initial Project Brief has been revised, a copy of which is also attached. A Decision Meeting will be held in Room E-317, Thursday, October 8, at 11:00 a.m.

Attachments

cc: Messrs. Knox, Alisbah, El Darwish, de Azcarate, Bouhaouala, van Gigch, Pouliquen, Kpognon, Pennisi, Isenman, Faiz, Peberdy, J. Brown, Ms. Haug, Soges, Apitz, Ms. Johansen, Ali, Syed Husain, Parker, Jasperson, Ramachandran, Alibaruho, Ms. Vitagliano, Barrientos, Moritz, Hardy, Conrad, Rajagopalan (8), Yudelman (5), Spears, Fuchs (5), Willoughby (5), Barker, Chenery, Hughes, Grilli, Chernick, Abbott, Guillou

Messrs. Chenery, Please, Landell-Mills

Mr. Jordan (IFC)

Mr. Carstens (IMF)

Mr. Gibbs

23 copies

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GHANA

APPRAISAL OF THE EXPORT REHABILITATION PROJECT

ISSUES PAPER

Summary of Proposed Credit

Borrower:	Republic of Ghana
Amount:	US$100 million
Terms:	Standard IDA Terms
Purpose:	To halt and reverse the declining export production and foreign exchange earnings by rehabilitating the traditional export industries (cocoa, timber and gold mining) through provision of spares, balancing equipment and materials; to remove the immediate bottleneck to evacuation of export commodities and agricultural produce by reactivating the immobilized commercial trucking fleet and repairing the port facilities; and to support and sustain Government's economic recovery program, in particular policy and institutional changes aimed at resuscitating the export sector.
Executing Agency:	Bank of Ghana
Estimated Period of Disbursement:	March 1982 to September 1983
Procurement Arrangement:	The private sector procurement would be through normal commercial channels. In the public sector, contracts in excess of US$2 million would be procured by the Ghana Supply Commission under the Bank Group's international tendering procedures as modified for SAL operations; contracts between US$200,000 and US$2,000,000 would be procured by the beneficiaries on the basis of quotations from at least three suppliers; contracts below US$200,000 would be through direct purchase.

I. BACKGROUND

1. In recent years, a principal Bank Group objective in Ghana has been to encourage the authorities to adopt policy reform measures to arrest and reverse the continuing decline in economic output. Major policy areas requiring remedial

action have been the grossly overvalued cedi, highly inflationary budget deficits and deteriorating export performance. As reflected in last Ghana CPP, our strategy has been that, in the event Government moves forward with an acceptable economic reform program, the Bank Group should respond with a quick-disbursing rehabilitation credit to finance the foreign exchange costs of a year or so import requirements of spare parts, balancing equipment and raw materials in selected sectors, with particular emphasis on exports (e.g. cocoa, timber, mining) as well as transportation. The components of the proposed Export Rehabilitation Project and elements of the supporting policy program were prepared on the basis of the analysis carried out by the Bank staff in the context of various economic and sector work including the Country Economic Memorandum, Cocoa Sector Study and Study on Domestic Resource Mobilization as well as identification work done in preparation of possible Bank projects in the forestry and gold mining sectors. The proposed project was appraised by a Bank mission which visited Ghana in July/August 1981. Recent developments in the economy, major policy issues affecting the export sector and the details of the proposed project are set out in the attached Project Brief which has been revised following the return of the appraisal mission.

2. After intermittent negotiations between the IMF and Government during the first six months of 1981, there were discussions in Washington between the Fund and the Minister of Finance and Economic Planning at end-July. At that time, a two-staged approach was envisaged under which Ghana would first draw under the Compensatory Financing Facility and then enter into a Standby Arrangement. The Minister of Finance indicated that the program under discussion with the IMF for one-year Standby Arrangement would be acceptable, apart from the question of the pass-through of higher prices of petroleum to the consumers. The major elements of this program included: a substantial increase in the cocoa producer price; the introduction of a multiple exchange rate; price decontrol at the ex-factory level for all commodities except for 15 wage goods (which would continue to be imported at the present official exchange rate), a ceiling on the FY81-82 budget deficit, and a phased reduction of part of external payments arrears. In advance of, and in addition to the Standby facility, the IMF would make available SDR79.5 million under the CFF as soon as the Government tripled the cocoa producer price and implemented the exchange rate adjustment. While not explicitly linking the proposed Export Rehabilitation Project to the agreement between the IMF and Government, the appraisal mission noted to the authorities that the kind of policy reform measures currently under discussion with IMF are critically important to rehabilitation of exports and the processing of the proposed project would be contingent on Government action on them.

3. As a basis for a Bank response to Government's economic reform initiatives, the appraisal mission in discussions with Government has formulated a short-term Export Rehabilitation Program, the main outline of which is presented below. The appraisal mission recommends that this Program be supported by the proposed Export Rehabilitation Credit.

II. THE EXPORT REHABILITATION PROGRAM

4. The decline in the volume of exports, and in particular the continuing decline in cocoa export volume is the major contributing factor to Ghana's present economic ills. Steps should be taken immediately to address the problems which have inhibited export production. Without a recovery in export earnings, the Ghanaian balance of payments position will deteriorate further leading to lower real levels of imports and resulting lower levels of production. The following paragraphs describe a short-term policy program for rehabilitation of the export sector which would be supported by the proposed credit. The basic concept underlying the program is that Ghana can arrest declining export performance and reverse the trend, if (a) export producers were allowed realistic cedi values for their production, which requires action on the exchange rate and substantial increase in the cocoa producer price; (b) present import constraint on export production were alleviated through priority allocation of foreign exchange to the export sector; (c) the existing export sector institutions were strengthened and made more efficient and some of the export sector policies were rationalized to be more supportive of export activities; and (d) most immediate infrastructural constraints upon export production--road transport and port facilities--were alleviated. There are ancillary elements of the program (e.g., domestic resource mobilization measures, public investment program and promotion of non-traditional exports) which are needed to promote a coordinated and coherent medium-term rehabilitation strategy and to initiate structural changes in the export sector so that the process of economic recovery can be sustained.

A. Action on the Exchange Rate

5. The foreign exchange earnings of most exporters converted into cedis at the official rate of exchange of ₵2.75 = US$1 have been insufficient to cover local production costs and the entire export industry has become clearly unviable at this rate of exchange. This is a key factor in the decline of export production, the pervasive smuggling of export commodities out of the country and the declining official purchases of cocoa by the Cocoa Marketing Board. As a first step towards restoring the viability of the export sector, Government would adopt an exchange rate of ₵15 = US$1; however, given the present parallel market rate is probably around ₵35 = US$1, it seems likely that further exchange rate adjustment would be necessary to achieve a viable rate. We should need to be satisfied that the question of moving to a long-term viable rate is being adequately addressed by the IMF in its program with Government.

B. Increase in Cocoa Producer Prices

6. An inadequate producer price for cocoa has been identified as the principal factor responsible for decline in Ghana's cocoa production from over 500,000 tons in the mid-1960's to less than 300,000 tons in 1980. Although cocoa producer prices have been raised five-fold since 1976, high domestic inflation has seriously eroded the value of producer prices and the real producer price is now only about a quarter of that in early sixties. As an initial measure to set the producer price at an incentive level, the Government would triple the current producer price (₵120 per headload). After this initial step,

the Government would need to make regular adjustment of cocoa producer prices so as to keep them at an incentive level in accordance with an agreed formula. The principles for such a formula, which would include, inter alia, domestic price level, world market/export prices, prices of alternative crops in cocoa producing areas, profitability of inter-cropping in cocoa areas, taxes and subsidies, would be available on completion end October of pre-feasibility studies for a possible Cocoa III project.

C. Public Investment Program

7. Following the completion of the draft Five-Year Development Plan, (1981/82 to 1985/86), Government has been working on the details of a medium-term public investment program. Government would agree with the Bank on the size of this program as well as on a list of priority development projects to be implemented over the next three (1982-84) years.

D. Domestic Resource Mobilization

8. Inflation in Ghana has largely been due to the increase in the money supply resulting from Central Bank financing of growing budget deficits. The deficits have resulted largely from a poor tax effort due to a shrinking tax base and tax evasion. Exchange rate adjustment supplemented by price decontrols would help restore the tax base. Government would formulate and review with the Bank by September 30, 1982 a program for improving domestic resource mobilization to achieve a tax ratio of at least 12 percent of GDP by 1984/85.

E. Priority Allocation of Imports to the Export Sector

9. One of the principal factors underlying the decline in the export production has been the shortage of imported inputs. While the Government guidelines for the issuance of import licenses recognizes the priority of the export sector, the actual foreign exchange made available to the sector has been only a fraction (10-30 percent) of the basic import requirements of export producers and processing facilities. Under the program, the Government would at least double the present foreign exchange allocation to the export sector. To this end, Government introduced in the FY81/82 budget a foreign exchange retention scheme whereby export producers will be allowed to retain 20 percent of their export proceeds in foreign bank account to procure essential recurrent imports of equipment, spare parts and raw materials. The scheme, if coupled with a realistic exchange rate, is expected to provide a powerful incentive to export. In the case of gold mining, however, even the 20 percent of export proceeds would be insufficient and the Government would be asked to permit gold companies to retain additional foreign exchange to fully cover monthly requirements for operations and rehabilitation expenses. Although the new foreign exchange retention scheme is expected to enable export producers to meet a significant part of their recurrent import requirements, the export sector would have to continue to rely on the Government's normal import license and foreign exchange allocation mechanism for new investment as well as for the balance of their recurrent import needs. In addition, continued improvement should be made in the Government's foreign exchange allocation system to increase the availability

of imported inputs to other sectors, in particular, transportation, which provide essential support services to export production. In order to ensure that Government's foreign exchange allocation priorities are consistent with the objectives of the proposed project, the Government would agree with the Bank on the sectoral allocations of foreign exchange to be incorporated in its 1982 Import Budget.

F. Strengthening Export Sector Institutions

10. Government organizations and parastatal bodies have played a predominant role in the production and marketing of traditional export commodities. To resuscitate the sector, improvements are required in the management and operating efficiency of these institutions.

(a) In the cocoa sector, the Cocoa Marketing Board (GCMB) has been reorganized to streamline the produce buying and marketing operations and to give more attention to extension services and input delivery to farmers. To help improve the operational efficiency of the reorganized GCMB, a UNDP-financed technical assistance project, for which the Bank is the Executing Agency started last June. In view of the importance of removing the present logistic bottlenecks, GCMB would prepare a detailed plan of action to improve cocoa evacuation, storage and input distribution for review with the Bank by September 30, 1982. Also, the present input subsidies to cocoa farmers which have led to uneconomic use and widespread diversions would be eliminated completely at the same time as the producer price is increased.

(b) In the forestry sector, a Forestry Commission has been established recently to improve management of forest resources. However, Ghana's timber marketing organization and strategy needs change given the largely negative and restrictive functions exercised by the Ghana Timber Marketing Board (GTMB), e.g., setting of minimum export prices, control over export contracts, which have seriously jeopardized the marketing efforts of timber exporters. On the basis of a comprehensive timber marketing study completed recently with the assistance of EEC, Government would formulate new timber marketing policies and export procedures by September 30, 1982, including rationalization of negative controls so far exercised by GTMB. The present ban on exports of certain species of logs has resulted in the loss of foreign exchange and is questionable at a time when Ghana is critically short of foreign exchange. Until sawmilling and other processing facilities have been rehabilitated, there is a need to permit temporarily exports of a fixed volume of species which are surplus to the domestic processing capacity. The Government would also review this issue in connection with formulating new timber marketing policies. At the production level, a major institutional constraint has been poor management and operating inefficiency of three of the four state-owned forestry companies engaged in large-scale logging and wood processing activities. The Government recognizes the need to take corrective measures and, as a short to medium-term solution, intends to enter into management contracts with experienced foreign firms. This would be directly supported by the proposed project.

(c) In the mining sector, a major institutional constraint to initiating short-term rehabilitation of gold mining is the management and operating inefficiency and staffing weaknesses of the State Gold Mining Corporation (SGMC), a wholly Government-owned corporation operating three existing gold mines. Under the Program, the Government intends to engage experienced foreign firms to manage the mines, which will be supported directly by the proposed project.

G. Promotion of Non-Traditional Exports

11. Given the depressed long-term world market prospect of cocoa which presently plays a predominant role in Ghanaian exports, it is important for Ghana to initiate the strategy for export diversification through promotion of non-traditional exports. With improved incentive measures and proper policy and institutional support, Ghana is capable of substantially expanding non-traditional exports, especially to other West African and European countries given the preferential arrangements accorded under the ECOWAS and Lome Conventions. In addition to rectifying the present distortions in the exchange rate and improving the availability of imported inputs, the Government needs to establish a comprehensive operating program including policies, institutions and procedures to promote and facilitate the development of non-traditional exports. As a first step, the Government intends to carry out a study with the assistance of consultants which would focus on rationalizing the existing export incentive system (e.g., export bonus payments, rebates of import duties and corporate taxes), examining the feasibility of introducing new incentive measures (e.g., export guarantee and credit financing schemes), and strengthening the export promotion institutions and simplying export procedures. The Government would review with the Bank by September 30, 1982 its program for promotion of non-traditional export including related policy and institutional changes envisaged.

H. Relieving Transport Bottleneck

12. The evacuation of cocoa, timber, bauxite and manganese as well as foodstuffs has been severely constrained by poor and inadequate transport. The Government recognizes that relieving the present transport bottleneck would be an essential pre-requisite to resuscitating the export sector and sustaining economic recovery. In the road haulage sector, the continuing scarcity of foreign exchange and the lack of foreign credit have constrained Government from making any notable progress in improving the transport capacity and almost 35 percent of the country's trucking fleet remain deadlined for lack of spare parts, tyres and batteries. The road transportation component of the proposed project would focus on addressing the need of commercial trucking operators in the private sector. Also, the project would provide spares and equipment needed to carry out urgent improvements in the cocoa and timber loading facilities at the Takoradi and Tema ports, which have been identified as a main constraint on increasing exports.

I. Investment Promotion

13. The Government has recently revamped its investment code to recognize greater roles the private entrepreneurs can play in the economic development and to promote foreign investment in the exploitation of the country's natural resources. This is a significant step in the right direction, and, with gradual improvement in the macro-economic situation, is expected to encourage fresh domestic and foreign investment in gold mining, timber and other export industries.

III. GOVERNMENT RESPONSE

14. The mission discussed the main elements of the aforementioned policy program with high-level Government officials including the Vice President, Minister of Finance and Economic Planning and the Governor of the Central Bank. The authorities indicated to the mission that Government agreed in principle on the major elements of the policy program, but emphasized that the crucial question which remained unsettled was the level of required adjustment in the exchange rate. The mission, however, was not in a position to discuss this issue (and also the related question of specific level of cocoa producer price) in light of ongoing negotiations between IMF and Government. The mission noted that agreement with IMF on these issues would be important and would be supported by the Bank. There were also certain areas where pending further analysis the mission was not in a position to make specific policy recommendations while in the field. These relate to timber marketing policies (para. 10(b) above) and additional foreign exchange retention by gold mining companies (para. 9 above).

IV. MAJOR ISSUES

Timing of Government Actions

15. Before Board Presentation it would be necessary for Government to take actions, satisfactory to the Bank, with respect to the following:

(a) exchange rate adjustment (para. 5);

(b) increase in the cocoa producer price (para. 6);

(c) a review and agreement with the Bank on the sectoral allocation of foreign exchange to be incorporated in the Government's 1982 import budget (para. 9); and

(d) a review with the Bank of the public investment program (para. 7).

The mission recommends that, once there is a firm understanding on the exchange rate adjustment and the increase in the cocoa producer price, the Bank invite negotiations, although Board Presentation will be contingent on Government taking action on them. We would also ask Government to bring to negotiations proposed foreign exchange allocations for 1982 and the public investment program so that review and agreement thereon can take place during negotiations. Other major actions on which specific understandings would be reached during negotiations are listed in para. 23 below.

Coordination with IMF

16. As stated in para. 2 above, IMF is considering a two-stage approach. The Fund is expected to move forward with CFF assistance of SDR79.5 million once Ghana has announced a tripling of cocoa producer prices and has implemented the exchange rate changes. The one-year Standby Arrangement (SDR238.5 million)

would follow only if agreement can be reached on all other elements of the stabilization program including petroleum price pass through. Unless a full program is implemented including a satisfactory arrangement for passing through petroleum price increases, the effects of the increased producer price and the exchange rate action could quickly be eroded as a result of rising imbalance in public finance and resurgence of the parallel exchange rate. The mission therefore recommends that prior to Board Presentation of the proposed credit the Bank should review progress made in concluding the Standby program with the Fund.

World Cocoa Prices

17. The world cocoa prices have been falling since 1978 and there was a particular steep fall in 1980 and 1981 when prices (ICCO daily price, average, New York, and London) fell to $2,600 per ton in 1980 and further to $1,800 by mid-1981 compared to $3,790 in 1977 in current terms. However, as a result of the world cocoa agreement that came into force in August 1981, there was a recovery in world prices and the price forecast for 1981/82 is now $2,400 per ton against less than $2,000 previously forecast. However, it is not certain whether this higher price will be sustained. The long-term projection is that the real price in 1990 are likely to be substantially lower than the 1980 price. The cocoa world market outlook and its implications for Bank lending policy are presently under discussion. A Bank policy paper on investment in cocoa is due within the next few months. An EPD's memorandum dated July 20, 1981 stated that although EPD would suggest sharp limits on lending for cocoa, exceptions would be made for countries significantly dependent on cocoa and with a comparative advantage in its production. Ghana is in fact the archetype of the countries which should continue to receive support for cocoa:

(a) Unlike other major cocoa producers, Ghana's short-term economic recovery is significantly dependent on increase in cocoa exports, given the country's overwhelming reliance on cocoa for export earnings, Government revenues and employment. Thus, while diversification is being pursued by the Government and encouraged by the Bank, it would have its impact only in the long run. Meanwhile, cocoa offers substantial potential for recovery of exports.

(b) Ghana has a comparative advantage in the production of cocoa relative to other domestic crop. The net returns per hectare to the economy from cocoa are estimated to be several times those from maize and rice. Thus, from the point of view of efficiency of domestic resource allocation, cocoa occupies a preeminent position in Ghana.

(c) Ghana's present share in world cocoa exports is only about 19 percent and Ghana can still increase its share of the market while increasing total cocoa export revenues.

Foreign Private Investment in Gold Mining

18. Recently, Government has started exploring the possibility of forming joint ventures with international companies for the rehabilitation and development of some of the gold mines operated by the State Gold Mining (SGMC).

However, given the generally uncertain economic prospect and poor investment climate, the effort so far has not been fruitful and it is unlikely that foreign private investment in these mines will materialize until after the conditions have improved substantially. However, some preliminary discussions are under way with a few potential investors on their possible participation in Tarkwa and Prestea mine although there have been no formal proposals and the extent of the investors' interest and possible Government reaction remain uncertain. In principle, it would be desirable for Government to pursue joint venture arrangements since the long-term development of the sector would require a large amount of foreign capital as well as technical and marketing know-how. However, before the Bank could commit assistance to SGMC under the proposed project which implies management contracts for a period of at least three years, the mission recommends that Government be asked to clarify its position, and have an understanding with the Bank, on the future of SGMC mines and establish firm medium-term policies.

State-owned Timber Companies

19. Ghana's timber industry consists of four large wholly state-owned companies 1/ and the private sector comprising 17 wood-processing firms and about 200 small-scale logging operators. The private sector firms together account for 60 percent of exports of timber products. Compared with the state-owned companies, the private sector firms are generally well managed and their manufacturing facilities are in better mechanical conditions, although they are constrained by shortage of spare parts and materials. The private sector is thus in the better position to increase exports under the short-term rehabilitation program, if they are allowed a realistic cedi price for their exports and an increased access to foreign exchange to meet their import requirements. The forestry component of the proposed project would give primary focus on the rehabilitation of the private sector companies and on relieving present foreign exchange constraint on improving their capacity utilization. On the other hand, the state-owned companies with the exception of one company (MIM Timbers), suffer from serious managerial and financial weaknesses and would not be able to respond quickly to improved policy measures unless steps are taken to improve their managerial capability, operating efficiency and the financial structure. While Government has begun negotiations with international timber comapnies for joint venture rehabilitation of TVLC and Gliksten, no private participation is foreseen in the case of AT&P and MIM.

20. Given the limited prospects for immediate recovery in the state-owned companies, a question arises as to whether assistance should be extended to them under the proposed Export Rehabilitation project. To the extent that these companies presently account for about 40 percent of timber exports, and without external assistance they are expected to continue to deteriorate rapidly, we believe that short-term assistance under the proposed project would be justified in the case of AT&P and MIM. We recommend, however, that, insofar as AT&P is concerned, the proposed project should focus on improving management and operating efficiency by providing substantial amount of outside management and technical assistance in the form of management contract with an experienced international timber company acceptable to the Bank. Some spare parts and balancing equipment would also be provided to help new management to initiate urgent repair and rehabilitation of existing plants. To help improve their financial viability, we would require that Government reschedule debts owed by these companies and

1/ African Timber and Plywood (AT&P), Gliksten (West Africa) Ltd., MIM Timbers, Takoradi, Veneer and Lumber Co. (TVLC).

formulate in consultation with the Bank specific financial and operating performance targets to be achieved during the rehabilitation period. The Government recognizes that to ensure long-term viability of these companies, it would be necessary to seek private participation in the ownership and management. We agree with this strategy and would require Government to formulate by September 30, 1982 a specific plan to implement this strategy in consultation with the Bank. The plan would provide the basis for formulating the concept and the approach of possible further Bank assistance under the proposed Forestry Project.

State Transport Corporation (STC)

21. STC is fraught with the problems besetting public corporations including low salaries, excessive employees, poor management, and ill-advised Government directives. STC presently transports about 60 percent of the petroleum products and 6 percent of the dry cargo in Ghana, in spite of the fact that only about 40 percent of its fleet is operational. Although there is a risk that STC would not use the spare parts provided under the project as efficiently as the private sector, it is recommended that they be included because of the volume and types of goods they transport; Government has specifically requested assistance for STC. STC would be provided with technical assistance to assure they use the parts efficiently. The ongoing Railway Project includes studies of the trucking industry and public transport corporation, which will help define a longer-term strategy for increasing STC's efficiency.

Small-scale Non-traditional Exports

22. While short-term rehabilitation efforts should focus on traditional exports, there is a good prospect that, with proper incentives and support measures, Ghana can substantially expand non-traditional exports especially those based on local raw materials. As stated in para. 11 above, Government intends to carry out a comprehensive study with a view to formulating a medium-term program. In the meantime, Government has requested the mission to consider allocating a small amount of the proposed credit to support a pilot scheme designed to assist primarily small-scale producers of non-traditional exports. The scheme which would be administered directly by Bank of Ghana would provide foreign exchange working capital to small-scale firms which have export contracts with foreign buyers. While a line of credit was already extended to the National Investment Bank under the Second NIB Project (Cr. 901-GH) to support foreign exchange financing requirements of manufacturing industries, NIB lacks experience and expertise in export projects and its involvement has been largely confined to import substitution projects. On the other hand the Bank of Ghana has the necessary staff capability and experience in dealing with non-traditional exports and has expressed a keen interest. The Bank of Ghana has already built up a pipeline of projects, which, however, cannot move forward because of the shortage of foreign exchange. Although the details of this scheme are yet to be discussed with Government, the mission feels that the scheme would be worthy of Bank Group support and recommends that about $3 million of the proposed credit be earmarked to support this scheme.

Project Conditions

23. Besides certain major policy changes on which actions would be required prior to Board Presentation, specific understandings would be reached during negotiations on the following:

(a) Preparation and review with the Bank by September 30, 1982 of a program to improve domestic resource mobilization (para. 8);

(b) Preparation and review with the Bank by September 30, 1982 Government strategy and plan of action to promote non-traditional exports and to rationalize the export incentive system (para. 11);

(c) Formulation by September 30, 1982 of new timber marketing policies and export procedures including rationalization of the present ban on exports of certain species of logs (para. 10);

(d) Financial restructuring of the state-owned forestry companies including rescheduling of debts (para.20);

(e) Formulation and review with the Bank by September 30, 1982 of a plan to promote private investment in the state-owned forestry companies (para. 20);

(f) Establishment of firm medium-term Government policies towards SGMC mines (para.18);

(g) Retention of additional foreign exchange by gold mining companies to meet operating and rehabilitation imports (para. 10);

(h) Preparation of a detailed plan of action to improve cocoa evacuation and storage and input distribution by September 30, 1982 (para. 10);

(i) Elimination of input subsidies to cocoa farmers (para. 10); and

(j) Agreement on a formula for regular adjustment of cocoa producer prices (para. 6).

V. CONCLUSION

24. Ghana's export sector is capable of playing an important leading role in the country's economic recovery. With the needed changes in the policy framework supported by increased flow of quick-disbursing external assistance, Ghana can arrest and reverse the declining trend of exports within a relatively short period of time. However, to sustain the recovery, the momentum created by the initial reform measures should be maintained and reinforced by continuous policy improvements in the same direction. The Bank's medium-term lending strategy will emphasize the importance of sustaining policy improvements as

well as continuous rehabilitation of the export sector. Large-scale projects are under preparation in cocoa, forestry and gold mining. To remove the infrastructural constraints, rehabilitation projects in highways, water supply and power distribution are being prepared. Also, given the critical role of the public sector in sustaining economic recovery, the Bank is considering a Public Administration Project designed to improve the management of the civil service and the parastatals.

GHANA
EXPORT REHABILITATION PROJECT
PROJECT BRIEF

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I. ECONOMIC CONTEXT

1. During the last decade the country's economic performance has been characterized by a high rate of inflation, widening budget deficits and a persistent foreign exchange shortages. This deterioration took place notwithstanding a relatively good natural resource endowment and a significant improvement in the country's terms of trade and has to be ascribed essentially to poor economic management. There was a growing imbalance in public finances due to rapid growth of budget current expenditures and slow growth in budget revenues. With low level of external capital inflows, the growing overall deficit was financed through an excessive reliance on inflationary borrowing, mainly from the Central Bank. With no significant increase in production in the economy, the rate of inflation accelerated and the cedi came to be increasingly over-valued. In the five-year period 1975-79 per capita income declined at least by 15 percent.

2. The most significant factor underlying Ghana's poor economic performance has been the continuing decline in the volume of exports (see Table below) which depend almost entirely on a few traditional export commodities--cocoa, timber, manganese, gold and diamonds, which together constitute 94 percent of exports. In addition to contributing about 80 percent of the country's export earnings, cocoa has provided around one half of government revenues and employs more than 20 percent of the labor force. Cocoa exports have declined substantially in recent years due principally to low producer

Production of Major Exports
(Thousand)

	1976	1977	1978	1979	1980	Percentage Change 1976-80
Cocoa (tonnes)	401	329	271	265	296	-26.2
Gold (grams)	16,485	14,905	12,504	11,093	10,978	-33.4
Manganese (tonnes)	312	291	381	254	250	-19.9
Diamond (carats)	2,276	1,947	1,419	1,225	1,149	-49.5
Bauxite (tonnes)	267	277	325	235	180	-33.4
Timber (m3)	2,177	2,079	1,820	1,205	1,270	-41.7

prices (a high over-valued currency has constrained the authorities from establishing realistic producer prices), inadequate rehabilitation efforts, shortages of labor, imported inputs and transport equipment and widespread smuggling. Production of most minerals is declining, becuase of lack of investment in ore development, poor transport facilities, run-down equipment, and the discouraging effects of an over-valued currency. Similarly timber exports have been severely constrained by an over-valued currency and shortage of spare parts and equipment.

The Balance of Payments

3. The external sector in Ghana is significant and exports, representing about 20 percent of GDP, is the principal determinant of import capacity. With the declining performance of exports, a tight rein has been held on the balance of payments since the mid-1970's. As Annex 1 show, imports were only permitted to grow more slowly than the increase in export earnings resulting in small current account deficits, less than 0.5 percent of GDP. In fact, in 1979, while the economy declined by a large 8.4 percent the current account and overall balance of payments position improved substantially. This has been mainly due to import restrictions and reflects the country's inability, through foreign borrowings, to increase import capacity in excess of its export earnings. The country has also behaved cautiously with respect to short-term suppliers' credits and has pursued a policy of reducing accumulated arrears, reducing short-term import capacity. Import volumes in 1980 are indeed less than what they were in 1970. Oil imports, on the other hand, have been maintained undiminished at around one million tonnes and the oil import bill has represented more than one-third of total import program. For most sectors, import allocations are now only a small proportion of their estimated foreign exchange needs. The preliminary forecast of balance of payments position for 1981 based on no policy change shows that the Ghana's import capacity is likely to continue to deteriorate: Export earnings are likely to be less than 80 percent of their level in 1980, forcing a cutback in import below the 1980 levels. While this may have a positive impact on the current account balance, it will further starve the economy of spare parts and imported inputs for production. Without policy change the capital account is likely to deteriorate mainly due to decreased inflow of official long-term capital. With the expected deterioration in Ghana's terms of trade stemming from depressed world market prospect of cocoa, the present vicious circle of declining export performance, dwindling import capacity and stagnant production is likely to get even tighter.

Past Attempt at Recovery

4. In June 1978 the authorities took significant reform measures in an attempt to stabilize the rapidly deteriorating situation and to redirect the economy to the recovery path. These measures included a 58 percent devaluation of the cedi, a drastic cut in the budget deficit, a doubling of the producer price for cocoa, additional measures to increase tax revenues and a tight ceiling on credit expansion. These measures constituted a bold

attack on Ghana's long-standing economic problems and the package represented an impressive first step in the right direction. Measured by the rate of inflation in 1979 and the budget outturn for 1978/79, the program was remarkably on target. Recurrent expenditure was ¢2,967 million, almost just as the program envisaged; capital expenditures were ¢795 million, ¢105 million less than was planned. The growth in money supply in 1979 was only 15.5 percent compared with the program target of 25 percent and 68.4 percent the year before. Inflation abated to 54 percent in 1979 compared to the program target of 50 percent and the inflation rate of 73 percent in 1978. Cocoa production did not increase substantially partly because the producer price increase was announced late in the crop season and partly due to the lags and difficulties involved in getting all the inputs in place to affect production. The flow of external resources in support of the program was, however, very limited and slow and the only major assistance Ghana received was the IMF Standby facility of SDR53 million 1/ and a Trust Fund loan of SDR25 million, which were not approved until January 1979.

5. The program, however, proved to be short-lived and was not followed through in subsequent years. Because of poor revenue performance, the budget deficits have progressively widened and inflation has once again accelerated to over 100 percent during the first five months of 1981. The exchange rate has become increasingly over-valued and the parallel rate is now ¢35 per US dollar, twelve times the official rate of ¢2.75 per dollar. This distortion has had a strangling effect on exports, encouraged widespread smuggling and brought about significant losses to the official reserves. With the reluctance of the authorities to embark on major policy changes and the unfavorable external environment, the economy in many respects have deteriorated to crisis proportions and the problems are now most evident in the export sector and in the Government's budget. Cocoa duties which yielded ¢1,220 million in 1978/79 declined to ¢200 million in 1980/81 so that the share of cocoa duties in total revenue collapsed from 47 percent in 1978/79 to only 6 percent in 1980/81. Some action on the exchange rate is inevitable if the budget deficit is to be kept within manageable proportion and if some of the export lines are not to completely dry up.

Issues in a Program of Economic Recovery

6. In order to arrest the rapidly deteriorating economic situation and to resume growth, Ghana needs to introduce and sustain an economic reform program. The main elements of such a program should cover largely the same ground as under the 1978 stabilization program. First, action on the exchange rate is essential to restore the financial viability of the export sector, to reduce smuggling of outputs and leakage of inputs, to direct resources

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1/ Becuase of the military coup in May/June 1979 the mid-term review was not completed and Ghana became ineligible to draw the second tranche of this Standby.

from trading activities to the productive sectors, and to rationalize and strengthen the tax base of the economy; second, given the continuing critical importance of the cocoa sector to the national economy, producer prices for cocoa should be increased substantially and maintained at an incentive level; third, financial stabilization and domestic resource mobilization measures should be introduced to contain budget deficits, to improve revenue performance and to curb money supply and inflation; fourth, foreign exchange availability to export producers should be improved to relieve the present import constraint on production; and finally, the institutional, managerial and logistic bottlenecks should be removed.

II. THE EXPORT SECTOR

A. Cocoa Sector

Past Trend and Present Constraints

7. Output and export of cocoa have declined steadily since mid-1960's. Following a peak level of 566,000 tons in 1965/66 production dropped to an all time low of 249,000 tons in 1978/79. The position of Ghana in the world market has, as a result, dropped from first to third--after the Ivory Coast and Brazil in the past two years. Although production recovered somehow in 1979/80 (296,000 tons), this partial recovery is expected to be only temporary, in view of the many serious constraints which are presently affecting the sector. The most important constraint is the falling real value of the prices paid to producers as the result of increasing domestic inflation. Although the fixed prices paid to farmers have been raised five-fold since 1976, the real value of the producer price in 1980 was 6 percent lower than in 1976 and only one-half of the 1963 level. Other problems affecting the industry are: shortage of labor, acute shortage of essential agricultural inputs (implements and insecticides), deterioration of the roads and shortage of transport and spare parts which are hindering the timely evacuation of cocoa, and institutional problems.

8. The latest decline in Ghana's production of cocoa coincided with a sharp increase in total world cocoa output and the falling of world prices. The latter have been declining constantly since 1978 and are expected to further decline in the next years. In this context, the Ghana Cocoa Marketing Board's forecasted production figure for 1981 of 260,000 tons appears very worrisome as it will cause a further sharp decline in export earnings. Up to 1979/80 cocoa export duties were a major source of Government revenues (33 percent in 1979/80). As the result, however, of the decline of both production and world prices as well as the problem of evacuation, the share of cocoa duties in total revenues is expected to drop to 6.0 percent in 1981. Rehabilitation of the cocoa sector is an obvious priority in any plan for Ghana's economic recovery.

Government Strategy and Programs

9. A number of decisions are under consideration by the Government in an attempt to improve the performance of the sector as soon as possible. Of highest priority is a policy proposal to increase the producer prices and find ways and means to meet the required financing. Government's plans also include reorganisation and improvement of the institutional aspects of the cocoa sector. Following an investigation into the activities of the Ghana Cocoa Marketing Board (GCMB), most of its senior management was suspended in late 1979 and a permanent Cocoa Council (GCC) was established in August 1981. A team of expatriate consultants is currently in Ghana to implement the recommendations of a study which the Government undertook in 1980 with the assistance of consultants with regard to all aspect of internal and external marketing of cocoa, including organisational aspects of cocoa purchase, transport, accounting, staff training and reorientation. The team is being financed under the UNDP technical assistance project with the Bank acting as executing agency. With regard to production, work has also begun recently on a series of feasibility studies to identify various elements for sectoral rehabilitation program with detailed recommendations for the needed input supplies and distribution, transport, farmer and staff training. The result of these studies (conducted by Ghanaian and expatriate consultants, financed under the Bank loan for the Ashanti Cocoa Project) would provide the basis for large-scale assistance from external sources. The Bank has been working very closely with, and assisting the Government in defining a strategy for the rehabilitation of the cocoa industry.

Cocoa Sector Issues

(a) Cocoa Producer Prices: Inadequate producer prices have been identified as the principal factor responsible for decline in Ghana's cocoa production. The Cocoa Sector Report (World Bank, December 1980) recommended increase in cocoa producer price by 50 percent over the 1979 level (₵4,000 per ton) and maintenance in real terms thereafter.

(b) Priority Allocation of Imports to the Cocoa Sector: The allocations of foreign exchange to the cocoa sector in recent years have fallen short of sector requirements (47.9 percent and 31.2 percent in 1980 and 1981 respectively). Steps should be taken immediately to ensure that the cocoa sector receives its essential import requirements. This would include: farm tools (cutlasses, pruners, falling axes), insecticides, spraying machines and fuel mix to operate them.

(c) Labor: The availability of labor is a serious constraint to cocoa production and farm maintenance. Farm level studies carried out under the Ashanti project indicate 41 percent of the cocoa farmers being in the range of 45-65 years old and about one-third over 65 years old. As a measure to ease up the labor shortage GCMB maintains a labor pool of about 46,000 to be provided to farmers at subsidized rates. The labor issue needs to be carefully addressed.

(d) Institutional Efficiency: The inefficiency and high costs of the GCMB is a major drain on the sector. The problem is being addressed through a UNDP-financed technical assistance project to be implemented over a two-year period. The improvement in the efficiency of GCMB's operations would need to be carefully assessed.

(e) World Cocoa Prices: World cocoa prices have been falling constantly since 1978 and there was a particular steep fall in 1980 and 1981 when prices fell to $2,600 per ton in 1980 and further to $1,800 per ton by mid-1981 compared to $3,790 in 1977 in current terms. According to latest EPD projections prices are projected to further decline in the coming years. The EPD projections are based on the assumption that Ghana's cocoa production would remain constant at about 270,000 tons. Thus, any significant increase in Ghana's cocoa production would further worsen the world cocoa market. The cocoa world market outlook is presently being discussed in the Bank and a policy paper on investment in cocoa is due within the next few months. At this stage justification for continued investment in the cocoa industry in Ghana would hinge on the following considerations: (i) Ghana's short- to medium-term economic recovery is significant dependent on increase in cocoa production; (ii) Ghana has a comparative advantage in the production of cocoa relative to other domestic crops; (iii) given Ghana's present small share in world cocoa production (16 percent) and in world cocoa exports (19 percent) an incremental production of 25,000 tons annually (as projected under the proposed Cocoa III project) would still increase Ghana's total export revenue; (iv) the cost of incremental cocoa production in Ghana is low because substantial production increase would occur through low cost rehabilitation through spraying of large areas presently infected with capsids.

B. Forestry Sector

Trend and Present Constraints

10. Forests in Ghana cover about 34 percent of the total area of the country and forest products constitute about 5.5 percent of GDP. Exports of forest products are third only to cocoa and minerals in foreign exchange earnings. The forests and forest products industries employ about 13 percent of the total labor force. The forests contain high quality redwood species much in demand for veneer, plywood and lumber. In 1965, log production was 1.5 million m3, reaching 2.2 million m3 in 1973. Since then it has declined substantially below the 1965 level. The value of wood exports increased from US$20 million in 1965 to US$130 million in 1973. This dropped to US$90 million in 1976 and further to US$51 million in 1979. Also, its share of total export earnings dropped from 10 in 1976 to 6 percent in 1979. Apart from the shortfall in production, smuggling of timber into the neighboring countries due to the overvaluation of the cedi has contributed significantly to this decline. Run-down conditions of the facilities at Takoradi port, irregular calls of ships and transportation bottlenecks, particularly in respect of the railways, have further added to the problems of timber exports. Traditionally, timber products

were moved to Takoradi port entirely by rail. In recent years, due to the severe decline in the performance of railways, about 60 percent of timber/lumber and 20 percent of log movement has been diverted to road transportation.

11. At the production level, there are four processing units in the public sector and 17 companies in the private sector. There are also a number of small loggers in the industry, estimated at about 300. Output of the forestry sector is presently constrained by: (i) an acute lack of spare parts and replacement components vital for the maintenance and rehabilitation of pre-dominantly old and much used plants and machineries; (ii) lack of experienced senior staff in the management, financial control and senior technical cadres (at least as far as the Government companies are concerned); (iii) the high rate of domestic inflation and the overvalued cedi with their adverse effect on profitability; (iv) the serious deterioration in public road as well as in rail and port transportation infrastructure. As the result of the above constraints the four state-owned enterprises are currently producing at about 25 percent of their capacity. Capacity utilization is somehow higher in the private sector (an average 40-50 percent) but is also rapidly deteriorating.

Government Plans and Policies

12. Government is presently considering a number of actions in an attempt to improve the performance of the forestry sector. External assistance is currently being negotiated to be used partly for imports of essential inputs for the sector. In July 1980, the export earnings retention scheme in effect for enterprises in the mining sector was also extended to the forestry sector. Exporters were then allowed to retain 2.5 percent of their export earnings in external accounts for importation of approved inputs, and spare parts. Government is also trying to restore the traditional contribution of the railway in transporting logs and wood products for export with the financial assistance of the World Bank Group (a US$29 million credit for the Railway Rehabilitation Project has been approved by the Board in June). In an effort to force expansion of wood processing capability so that more products with a higher value added become available for export, Government imposed a ban on export of fourteen species of timber in log form. However, most of the wood processing companies are currently unable to meet the challenge posed by the log ban, given the obsolete nature of most of their equipment (including logging and haulage equipment) and the need to replace or repair it. The Ghana Timber Association has been pressing Governmen to phase out the ban over a period of time which would enable the industry to re-equip its plants.

Forestry Sector Issues

(a) Government Fiscal Policy: The high rate of internal inflation combined with the over-valued exchange rate are tremendous disincentives to exports, while there is every incentive to smuggle out timber and wood products.

(b) Allocation of Foreign Exchange: Adequate foreign exchange should be made available to meet the import requirements of the forestry sector on a continuing basis. To this effect it would be desirable that companies be allowed to set aside a fixed portion, possibly 25 percent, of their export earnings to be used to finance the import of essential inputs.

(c) Improvement in the Efficiency of the Parastatals: Inefficiency of four state-owned processing factories has been a major drain on the sector. A number of steps would have to be taken to improve the effectiveness of these companies. The issue has been analyzed indepth in the Forestry Project Preparation Report published by FAO/CP in August 1980. Also the effectiveness of the Ghana Timber Marketing Board (GTMB) would need to be improved. GTMB is currently engaged in a wide range of activities including procurement of equipment and spare parts and allocation of import licenses.

C. Mining Sector

Past Trend and Constraints

13. Ghana's mineral industry is producing essentially for export. Mining is the second largest foreign exchange earner after cocoa contributing about 10-15 percent of Ghana's export earnings. In 1978 mineral exports totalled US$125 million. While gold, diamonds, manganese and bauxite are the major minerals mined, gold is by far the most important accounting for about 65 percent of the total mineral export earnigns. Over the last decade the output of all major minerals has declined steadily. The decline has been especially sharp in gold production which has fallen from 693,000 fine ounces in 1970 to 387,000 fine ounces in 1979. Major factors contributing to the decline have been: (a) the shortage of foreign exchange for maintenance and rehabilitation of existing mines; (b) lack of investment of new capital necessary to explore deposits and to develop mines; (c) depletion of mining skills and poor mangement; (d) deterioration of infrastructure, in particular shortage of rail haulage capacity for manganese and bauxite; and (e) erosion in the finances of the mining companies resulting from greatly overvalued currency and spiralling inflation.

14. The mining industry is capable of substantially increased production through the rehabilitation of existing mines and the development of new ore bodies. With the improvement of rail capacity assisted by the Railway Rehabilitation Project, the bauxite production is expected to increase from 284,000 tons in 1979 to 450,000 tons by 1985. Similarly, increased rail capacity and completion of the carbonate ore processing plant will enable the national manganese corporation to increase its output from less than 300,000 tons at present to over 450,000 tons by 1983, thus approximating the actual output level achieved in early 1970's. In gold mining, however, a coordinated program of rehabilitation and ore development would be needed if the declining output trend is to be reversed. If no rehabilitation effort is made, the mines operated by the wholly government-owned State Gold Mining

Corporation (SGMC) are likely to undergo rapid decline since its current production level cannot be sustained due to deteriorating plant and equipment as well as diminishing ore reserves.

Government Policies and Programs

15. The Government has recognize the serious economic implications of the decline in the gold sector and appointed a committee to investigate the problems and to recommend the institutional and policy changes required. Following the report of the committee, an inter-ministerial Gold Promotion Council chaired by the Vice President was established in February 1981 to devise a strategy to achieve a 20-year built-up target and an executive Gold Action Committee was appointed to implement the plan. In the short run (i.e., next two years), the Government's objective is to initiate a "rescue" operation for the SGMC mines and to build up the right environment to get the medium- and long-term plans operative. The "rescue" plan for assisting the SGMC mines includes mine shaft repairs, immediate purchase of critical mine and mill spares and equipment, embarking on a crash program for recruitment of expert staff and rehabilitation of infrastructure. The cost of implementing the short-term improvements is estimated at US$45 million and the most urgent and essential items would be included in the proposed Export Rehabilitation Project.

16. The medium- and long-term plans envisage quite an impressive expansion of the industry up to a production rate of 2.8 million ounces of gold per annum, which is seven times the current output. To implement such ambitious plans, the Government recognizes the importance of attracting foreign investments and management. The Government has recently revamped its investment code to provide better incentives and to prescribe on such matters as taxation, exchange control and immigration. The Bank has identified a project designed to assist in rehabilitation of SGMC mines over the medium-term through emphasis on ore development, improved efficiency of mine operation and management.

Sector Issues

17. The key issues facing the mining sector are largely of policy nature as follows:

(a) Economic Environment and Financial Viability of the Mineral Industry: Inspite of its favorable geological endowment, Ghana would have difficulty in attracting foreign investment and embarking on sustained development of the mining sector in the absence of improvement in macro-economic performance. Of particular importance is the exchange rate policy since the greatly overvalued currency is severely eroding the finances of the mineral industry and encourages smuggling.

(b) Import License and Foreign Exchange Allocation: Although mining is a major source of foreign exchange earnings, in the past only a small fraction of the sector's import needs has been covered through the foreign exchange allocation. There is a need to assure timely provision of sufficient foreign exchange to import spares, equipment and supplies. In 1979 the Government allowed operating mines to retain 2.5 percent of their export sales in foreign exchange to facilitate imports of maintenance inputs. This is a step in the right direction but clearly is not adequate.

(c) Management Efficiency: The institutional capacity of Government and parastatals has weakned considerably and in the case of wholly government-owned mines, ineffective and inefficient SGMC management has been one of the key constraints upon increased production. Since mining requires a highly skilled team of management at all levels and given the Government's weakness in this area, there is no alternative but to rely on foreign technical assistance in the short-run.

D. Road Transport Sector

Current Problems and Constraints

18. While the shortage of foreign exchange has adversely affected the operations of all sectors, its impact has been especially severe on the transport sector which depends on a continuous supply of imported spare parts and supplies to maintain its existing facilities and to keep its vehicles and equipment operating. In recent years the transport system has deteriorated sharply and it has come to constitute a most serious obstacle to the timely flow of goods. Road transportation is the most important mode of transport in Ghana accounting for about 70 percent of the goods and passenger services and is therefore the critical mode in the country's internal transport services. The substantial portion of this service is provided by private operators with two governmental agencies: the State Transport Corporation (inter-city buses and trucking) and the Omnibus Services Authority (urban buses) supplmenting the private operators. The road transport sector has been severely constrained by the inability to obtain spare parts for vehicles. It is estimated that more than 40 percent of the road vehicle fleet is presently out of services, due to the unavailability of tires and spare parts. This has resulted in capacity shortages especially in the north and other rural areas. Agricultural production is affected directly by difficulties in the supply of inputs, in the extension services and supervision of projects as well as in crop evacuation. Also the supply of petrol to the interior has been interrupted by the capacity shortage of oil tankers.

Government Policies and Programs

19. Government policy correctly emphasizes maintenance of and rehabilitation of existing facilities. In the road transport sector, the main emphasis is placed on the rehabilitation of a large number of immobilized vehicles both in the public and private sector through a crash problem of importing spare parts, especially fast moving spares, e.g., tires, batteries, shock absorbers. At the same time the Government intends to improve public transportation facilities especially buses, and restrict the importation of cars which contribute to urban congestion. The Government's program to improve public sector road transport for FY82 and FY83 envisages rehabilitation of 420 existing buses and acquisition of 480 new buses and 130 new trucks both for dry and wet cargo haulage. Also the Government is considering a proposal to standardize vehicle imports to facilitate repair service and to achieve greater economic efficiency in the spare parts imports.

20. The Government's effort to improve road transport capacity continues to be severely constrained by the shortage of foreign exchange. In 1979 only about ₵55 million of import license was made available for import of vehicles and spare parts, representing only about 9 percent of total import licenses applied for by various motor trading companies. In 1980 only about ₵22 million was granted representing less than 3 percent of total import license applications. A rough estimate by the Ministry of Transport indicates that spare parts required to rehabilitate some 103,000 roadworthy vehicles both in the public and private sectors would amount to about US$175 million, of which about half would be for rehabilitation of trucks and tankers. The ongoing Third Highway Project includes a special import facility of US$3 million to finance spare parts for small trucking operators.

Sector Issues

21. The country's macro-economic problems, especially the distorted exchange rate, have also contributed to the decline of the road transport capacity by leakage of spare parts, and sometimes trucking capacity, to the neighboring countries. Major issues speficic to the sector are as follows:

(a) Foreign Exchange Allocation: A Key issue in this sector is essentially financial, i.e., availability of foreign exchange to import spare parts. Given the continuing pressure on the foreign exchange situation, the problem is not likely to be eased up and Ghana should seek concessionary external assistance to complement its own foreign exchange allocation. At the same time the foreign exchange allocation system needs to be improved to provide greater emphasis on importation of spare parts.

(b) Inefficiency of Parastatals: The inefficiency in management and operations of the state-owned transport corporations (STC and OSA) acts as major constraint to improving public sector transportation. Technical assistance is being provided under the Railway Rehabilitation Project to begin to deal with the problems.

(c) Tariffs and Taxation: The Government regulation of freight tariffs has resulted in the unwillingness of private sector operators to provide transport services to the public sector, which explains part of the problems the Cocoa Marketing Board has faced in utilizing private truckers in cocoa evacuation. A similar problem has arisen with respect to haulage of petrol. Also the import duty and the automobile taxation system should be rationalized to tax more heavily on import and use of private cars, especially luxury cars and to encourage importation of spare parts for repair of commercial vehicles.

III. THE EXPORT REHABILITATION PROGRAM

22. The decline in the volume of exports, and in particular the continuing decline in cocoa export volume is the major contributing factor to Ghana's present balance of payments problems. Steps should be taken immediately to address the problems which have inhibited export production. Without a recovery in export earnings, the Ghanaian balance of payments position will deteriorate further leading to lower real levels of imports and resulting lower levels of production, including export production. The following paragraphs describe a short-term program for rehabilitation of the export sector which would be supported by the proposed credit. The basic concept underlying the program is that Ghana can arrest declining export performance and quickly reverse the trend, if (a) export producers were allowed realistic cedi values for their production, which requires action on the exchange rate and increase in the cocoa producer price; (b) sufficient foreign exchange were allocated to export producers to meet their import requirements; (c) the existing export sector institutions were strengthened and made more efficient and some of the sector policies were rationalized to be more supportive of export activities; and (d) most immediate infrastructural constraints upon export production--road transport and port facilities--were alleviated. There are ancillary elements of the program (e.g., domestic resource mobilization measures, public investment program and promotion of non-traditional export) which are needed to stabilize the environment, to widen and deepen the structure of the export sector, to strengthen linkages between export industries and other sectors of the economy, and to pave the way to sustained economic recovery.

A. Action on the Exchange Rate

23. The foreign exchange earnings of most exporters converted into cedis at the official rate of exchange of ₵2.75 = US$1 have been insufficient to cover local production costs and the entire export industry has become clearly unviable at this rate of exchange. An exchange rate of at least ₵15 = US$1 would be a first necessary step to restore the viability of the major lines of export. Also, an agreement would be reached to review the appropriateness of this rate in the course of the program period.

B. Increase in Cocoa Producer Prices

24. Inadequate producer prices for cocoa have been identified as the principal factor responsible for decline in Ghana's cocoa production. To set the producer price at an incentive level and to reduce smuggling, a tripling of the current producer price (¢120 per headload) would be required as a minimum. While a tripling of the producer price would be a pre-condition to the proposed project, during negotiations for this project the Government would be asked to agree to a formula for regular adjustment of cocoa producer prices so as to keep them at an incentive level. The principles for such a formula, which would include, inter alia, domestic price level, world market/export prices, prices of alternative crops in cocoa producing areas, profitability of inter-cropping in cocoa areas, taxes and subsidies, would be available on completion end October of pre-feasibility studies for a possible Cocoa III project.

C. Public Investment Program

25. Following the completion of the draft Five-Year Development Plan, (1981/82 to 1985/86), Government has been working on the details of a medium-term public investment program. Before Board Presentation of the proposed credit, the Bank would agree with Government on the size of this investment program as well as on a list of priority development projects to be implemented over the next three years, to ensure consistency with the objectives of the proposed credit.

D. Domestic Resource Mobilization

26. Inflation in Ghana has largely been due to the increase in the money supply resulting from Central Bank financing of growing budget deficits. The deficits have resulted largely from a poor tax effort due to a shrinking tax base and tax evasion. Government would be requested to formulate and review with the Bank by September 30, 1982 a program to achieve a tax ratio of at least 12 percent of GDP by end FY84-85.

E. Priority Allocation of Imports to the Export Sector

27. One of the principal factors underlying the decline in the export production has been the shortage of imported inputs, reflecting insufficient allocation of foreign exchange to the export sector. In the 1981/82 budget, Government has taken a significant step by increasing retention of export proceeds by export producers from 2.5 percent to 20 percent. The newly introduced scheme represents almost doubling the level of import allocation to the foreign exchange earning sector. The scheme, if coupled with a realistic exchange rate, is expected to provide a powerful incentive to export by substantially increasing the availability of imported inputs to export industries. In the case of gold mining, however, even the 20 percent of export proceeds would be insufficient and the Government would be asked to permit gold companies to retain additional foreign exchange to fully cover monthly requirements for operations and rehabilitation expenses. Although the new foreign exchange retention scheme is expected to enable export producers to meet a significant part of their recurrent

import requirements, the export sector would have to continue to rely on the Government's normal import license and foreign exchange allocation mechanism for the bulk of financing required for new investment as well as for the balance of their recurrent import needs. In addition, continued improvement should be made in the Government's foreign exchange allocation system to increase the availability of imported inputs to other sectors, in particular, transportation, which provide essential support services to export production. In order to ensure that Government's foreign exchange allocation priorities are consistent with the objectives of the proposed project, Government would be requested to agree with the Bank on the sectoral allocations of foreign exchange to be incorporated in its 1982 Import Budget.

F. Strengthening Export Sector Institutions

28. Government organizations and parastatal bodies have played a predominant role in the production and marketing of traditional export commodities. To resucitate the sector improvements are required in the management and operating efficiency of these institutions:

(a) In the cocoa sector, the Cocoa Marketing Board (GCMB) has been reorganized to steamline the produce buying and marketing operations and to give more attention to extension services and input delivery to farmers. In view of the importance of removing the present logistic bottlenecks, GCMB would be asked to prepare a detailed plan of action to improve cocoa evacuation, storage and input distribution for review with the Bank by September 30, 1982. It would further be agreed that the present input subsidies to cocoa farmers which have led to uneconomic use and widespread diversions would be eliminated completely with the increase in the producer price.

(b) In the forestry sector, a Forestry Commission has been established recently as the Government's main agency responsible for management of forest resources, formulation of government forestry policies and promotion of the forestry industries. However, Ghana's timber marketing organization and strategy needs change given the largely negative and restrictive functions exercised by the Ghana Timber Marketing Board (GTMB), e.g., setting of minimum export prices, control over export contracts, which have seriously jeopardized the marketing efforts of timber exporters. A comprehensive timber marketing study has recently been completed by the Government with the assistance of the consultants financed by EEC and on the basis of the recommendations of this study Government is currently considering a proposal to reorganize GTMB and transfer market promotion responsibility to the Forestry Commission, while discontinuing or rationalizing negative controls so far exercised by GTMB. The Government would be asked to act on the proposal and formulate new timber marketing policies and export procedures by September 30, 1982. The present ban on exports of certain species of logs has resulted in the loss of foreign exchange and is questionable at a time when Ghana is critically short of foreign exchange. Until sawmilling and other processing facilities have been rehabilitated, there is a need to permit temporarily exports of a fixed volume of species which are surplus to the domestic processing capacity. The Government would be asked to review this issue in connection with formulating new timber marketing policies. At the production level, a major institutional constraint has been poor management and operating inefficiency of three of the four state-owned forestry companies engaged in large-scale logging and wood processing activities. Government intends to enter into management contracts with experienced foreign firms to operate these three mills.

(c) In the mining sector, a major institutional constraint to initiating short-term rehabilitation of gold mining is the management and operating inefficiency and staffing weaknesses of the State Gold Mining Corporation (SGMC), a wholly Government-owned corporation operating three gold mines. Government intends to enter into management contracts with experienced foreign firms to manage these mines.

G. Promotion of Non-Traditional Exports

29. Given the depressed long-term world market prospect of cocoa which presently plays a predominant role in Ghanaian exports, it is important for Ghana to initiate the strategy for export diversification through promotion of non-traditional exports. With improved incentive measures and proper policy and institutional support, Ghana is capable of substantially expanding non-traditional exports, especially to other West African and European countries given the preferential arrangements accorded under the ECOWAS and Lome Conventions. In addition to rectifying the present distortions in the exchange rate and improving the availability of imported inputs, the Government needs to establish a comprehensive operating program including policies, institutions and procedures to promote and facilitate the development of non-traditional export. As a first step, the Government intends to carry out a study with the assistance of consultants which would focus on rationalizing the existing export incentive system (e.g., export bonus payments, rebates of import duties and corporate taxes), examining the feasibility of introducing new incentives measures (e.g., export guarantee and credit financing schemes), and strengthening the export promotion institutions and simplifying export procedures. The Government would be asked to review with the Bank by September 30, 1982 its program for promotion of non-traditional export including related policy and institutional changes envisaged.

H. Relieving Transport Bottleneck

30. Given the massive need in the road transport sector there does not appear to be much alternative in the short-run but to rely heavily on external assistance and supplier's credit to improve the availability of transport equipment and spare parts. The road transportation component of the proposed project would focus on addressing the need of commercial trucking operators in the private sector. Also, the project would provide spares and equipment needed to carry out urgent improvement in the cocoa and timber loading facilities at the Takoradi and Tema ports, which have been identified as a main constraint on increasing exports.

IV. THE PROJECT

Project Objectives

31. The primary objectives of the proposed project would be: (a) to halt and reverse the declining export production and foreign exchange earnings by rehabilitating the traditional export industries (cocoa, timber and gold mining) through provision of urgently required spares, balancing equipment, raw materials and other imported inputs; (b) to remove the immediate constraint to evacuation of export commodities and agricultural produce by improving the capacity of the country's commercial trucking fleet and by rehabilitating storage and port facilities; and (c) to support and sustain Government's economic stabilization and recovery program, in particular policy and institutional changes aimed at resuscitating the export sector.

Project Description

32. The credit would finance import requirements of the key export industries and the transport sector which are needed for the rehabilitation and improved utilization of the existing investment as follows: 1/

	Amount (US$millions)
(a) Cocoa Materials for construction/rehabilitation of storage sheds, trucks, truck spares and tires, workshop equipment and tarpaulins	15.0
(b) Gold Mining Spares, materials and equipment for rehabilitation of the SGMC mines including $5.0 million to support management contracts	20.0

1/ Foreign exchange financing requirements for short-term rehabilitation of these sectors are indicated in Annex 2.

(c) Timber

Spares, materials and balacing equipment for:	
(i) Private timber companies	20.0
(ii) State-owned timber companies including $1.5 million to support management contract	7.5

(d) Transportation

(i) Trucks, truck spares and tires for the private trucking industry	25.0
(ii) Truck spares, tires and workshop equipment for the State Transport Corporation	5.0
(iii) Spares and equipment for rehabilitation of cocoa and timber loading facilities at Tema and Takoradi Port	4.0

(e) Non-traditional Exports

Spare parts, equipment and materials to support small-scale non-traditional export firms	3.0

(f) Technical Assistance

Technical assistance to STC and to Bank of Ghana for project implementation	0.5

Credit Administration

33. The Bank of Ghana (BOG) would have the overall responsibility for administering the credit. A special unit consisting of at least four full-time professional staff and headed by the Deputy Governor would be established within Bank of Ghana to review import plan applications from the project beneficiaries and make recommendations to the Governor who would approve import plans. The unit would monitor overall progress of the project. An internationally recruited expert would be provided under the project to strengthen the unit. To ensure fast disbursement, no separate import license would be required to process imports under the credit. The Government would instruct all its concerned agencies and departments including Customs that import plans duly approved by the Bank of Ghana should be given the same effect as Import License. Once import plans have been approved by Bank of Ghana, opening of letters of credit and the maintenance of accounts would be handled by the applicant's commercial banks. In reviewing private sector import plans, Bank of Ghana would apply the following guidelines:

Road Transport

(a) Eligible applicants would be established motor trading companies. No one motor trading company would be allocated more than 20 percent of the total credit earmarked for the private sector transport.

(b) Financing of new trucks would be limited to the aggregate limit of 30 percent of the total credit earmarked for the private sector transport.

(c) In selecting motor trading companies, wide geographic distribution of sales outlet and service facilities would be taken into account.

Timber

(a) Eligible applicants would be established logging, saw-milling or other wood processing companies. No one timber company would be allocated more than 10 percent of the total credit earmarked for the private sector timber companies.

(b) Each import plan submitted by applicant companies should satisfactorily demonstrate that the provision of requested spares and balancing equipment would result in increased production within 12 months of import plan approval. Imports would not be approved for capacity expansion or replacement of major plant or equipment.

Procurement and Disbursement

34. All private sector procurement would be through normal commercial channels. Public sector procurement exceeding US$2 million would be carried out by the Ghana Supply Commission (GSC) in accordance with the Bank Group's international tendering procedures as modified for SAL operations. Public sector contracts between US$200,000 and US$2 million would be on the basis of quotations from at least three established and reliable suppliers. Contracts not exceeding US$200,000 and contracts for proprietary spares would be procured directly from the established and reliable supplier. The Government's procurement procedures require that all imports be subject to compulsory quality and quantity inspection and price comparison by the General Superintendence Company of Switzerland before shipment is made. This procedure would apply to goods to be financed under the proposed project.

35. The credit would be disbursed on the basis of the withdrawal applications submitted by the Bank of Ghana. The credit would cover 100 percent of the cif cost of eligible imports and 100 percent of foreign expenditures incurred for technical assistance and would be disbursed against full documentation either on the basis of actual payment by the Bank of Ghana or directly to the foreign suppliers. Eligible invoices would have a minimum value of US$10,000. The disbursement period would be 18 months.

Counterpart Fund

36. The Government would establish an account with Bank of Ghana to which cedis generated from sales of credit proceeds would be deposited. The amount so deposited would be used by Government solely to finance expenditures in respect of Priority Development Projects included in the

Government's Investment Budget. The list of Priority Development Projects would be agreed upon at negotiations and included in the Credit Agreement.

Technical Assistance

37. The technical assistance component of the project would include: (a) management contracts for Tarkwa and Prestea gold mines; (b) management contract for AT&P; (c) 24 man-months of technical assistance to the State Transport Corporation (STC) to assist in the implementation of the STC component of the project; and (d) 18 man-months of technical assistance to the Bank of Ghana for project administration. The management contracts for the gold mines and the timber company would be signed for an initial period of three years, of which the first 18 months would be financed under the proposed credit. The conclusion of management contracts satisfactory to the Bank would be a condition precedent to disbursement of credit with respect to the companies concerned. The technical assistance to STC would consist of one equipment management adviser who would assist in planning and organizing vehicle rehabilitation and maintenance operations and procurement and one central workshop engineer who would supervise execution of the vehicle rehabilitation program. The appointment of the equipment management adviser would be a condition precedent to disbursement of credit with respect to STC.

Status of Dialogue with Government

39. Since the civilian Government took office in 1979, there has been a continuing economic dialogue with Government in which the Bank emphasized the need for Ghana to formulate and carry through a fundamental economic reform program. In the dialogue, the Government stressed on the importance of quick-disbursing balance-of-payments assistance to ease the domestic supply situation and to soften the impact of economic reform measures. The possibility of the proposed export rehabilitation credit was discussed by the last two Programs missions and the Government indicated that such an operation would be in line with Government's own priority and an appropriate response to the needs of the country. The Government is clearly aware that the processing of the proposed credit is contingent on Government's action on the economic reform program and this was stressed by the appraisal mission.

Status of Dialogue with IMF and Other Aid Donors

40. A close dialogue has been maintained with IMF. The elements of the stabilization program negotiated with Government in May 1981 as a basis for a Standby Arrangement are generally consistent with the Bank's own view of the required economic reform program. Insofar as the possible participation of other bilateral and multilateral donors in the proposed operation is concerned, the Bank has so far had a very limited and informal contact. This possibility should be more actively explored.

Intra-Bank Coordination

41. The Programs would have the overall responsibility for coordinating project preparation, appraisal and implementation on the basis of the inputs from the concerned Projects staff. A close Programs/Projects cooperation is essential since the proposed operation will have to deal with institutional and policy issues of the affected sectors which will have important bearings on the preparation of future projects in the respective sectors. There is also a need to ensure consistency and complementarity between this project and the subsequent sector-specific projects.

Table 1: GHANA'S BALANCE OF PAYMENTS
(US$ Million)

	1974	1975	1976	1977	1978	1979	1980 (Prelim. Est.)	1981 (Fore-cast)
	----------Actual----------							
1. Current Balance	-171.4	-1.8	-74.1	-42.3	-116.4	124.7	-93.5	9.8
A. Trade Balance	-29.1	150.4	88.8	130.4	54.4	262.9	84.3	130.3
Exports	679.0	800.9	779.0	970.0	894.6	1066.0	1159.5	914.2
Imports	-708.1	-650.5	-690.2	-839.6	-840.1	-803.1	-1075.2	-1075.2
B. Invisibles (net)	-142.3	-152.2	-162.9	-172.7	-170.9	-138.2	-177.7	-120.5
Services	-166.5	-196.7	-189.6	-192.2	-240.4	-211.1	-246.8	-191.5
Transfers	24.2	44.5	26.7	19.5	69.5	72.9	69.1	71.0
2. Capital Accounts	6.2	126.0	-44.7	46.1	114.6	103.5	105.7	48.0
Official, Long-Term	3.7	23.6	7.6	48.5	107.3	136.8	86.0	44.5
Private, Long-Term	4.6	68.8	9.9	22.0	7.3	-7.0	9.6	1.0
Private, Short-Term	29.9	-3.8	49.5	-24.4	..	-26.3	10.3	2.2
3. Errors and Omissions	-27.8	37.4	-111.7	3.2	-114.5	-99.9	-6.2	-
4. Overall Balance	-165.2	124.2	-118.8	3.8	-112.4	146.7	12.2	57.8
5. Net International Reserves	-154.3	79.4	-82.2	14.7	-62.3	-42.1	71.7	52.0
IMF Position (net)	5.7	-59.6	-	-	-1.7	29.0	-30.7	-26.7
Holdings of SDR's	-0.1	-1.7	-0.4	5.0	-0.1	-5.6	28.8	23.2
Foreign Exchange Position (net)	-159.8	140.7	-81.7	9.7	-60.5	-65.5	84.4	55.4
Central Bank	(-164.3)	(140.4)	(-82.0)	(11.8)	(-57.3)	(-65.0)	-	-
Government	(4.4)	(0.3)	(0.3)	(2.1)	(-3.2)	(-0.5)	-	-
Other Claims	-	-	-	-	-	-	-10.9	-
6. Payments Arrears	-8.8	32.4	-24.9	-13.2	167.5	-90.4	-77.7	-102.9
Pre-1972 Arrears	(17.6)	(6.0)	(14.4)	(2.0)	(-9.2)	(-19.0)	-	-
Others	(-26.4)	(26.4)	(-39.3)	(-15.2)	(176.7)	(-71.4)	-	-
7. Bilateral Balances	-2.2	12.0	-11.7	2.4	7.2	-14.2	-6.4	-7.0

Source: Bank of Ghana; for 1981, modified BOC forecast.

FINANCING REQUIREMENTS FOR REHABILITATION

A. Cocoa Sector

The basic investment requirements for short-term rehabilitation of the cocoa sector have been reviewed under the Cocoa Sector Report (No. 3168-GH) and the consultant study carried out by Peat, Markwick, Mitchell and Company. Major requirements are: insecticides, sprayers, tools, storage sheds, and transportation. Total foreign exchange requirements for the above in 1982 are estimated at about $40 million, of which insecticides and sprayers totalling $25 million would be covered under the German private bank credit program and the Government's own resources, while the remaining $15 million for transportation and storage under the proposed credit. Major breakdowns of items to be financed under the proposed credit are as follows:

		US$ Million
(i)	75 trucks, 25 truck tractors and 60 trailers including 20 percent spares	9.0
(ii)	Spare parts for existing vehicles, tyres and batteries	2.0
(iii)	Shop equipment and tools	0.2
(iv)	1,000 tarpaulins	0.8
(v)	Construction of 100 new and rehabilitation of 200 existing cocoa sheds	3.0
	TOTAL	15.0

B. Forestry Sector

(i) The rehabilitation requirements in the private sector have been surveyed by GTMB assisted by an outside consultant. Total financing requirements for 17 major private sector companies are estimated at about $50 million. This amount, however, includes some capital investments which would take 3 to 4 years to complete. The mission's estimate is that the private sector firms could easily absorb $15-$20 million in spare parts, balancing equipment and materials within 12 to 18 months. The proposed credit would provide $20 million for the private sector forestry companies.

(ii) With respect to the state-owned timber companies, the rehabilitation requirements have been studied by FAO/CP in its Forestry Project Preparation Report (No. 44/80 GHA.8) and subsequently also by a consortium of private banks led by Lazard Brothers.

Based on the above, the mission's estimate is that over a 12 to 18 months' period, the foreign exchange financing requirement for rehabilitation would be as follows:

	US$ Million
AT&P	4.6
MIM	1.7
Glikst en	2.7
TVLC	3.6
TOTAL.....	12.6

The proposed credit would provide $6 million for rehabilitation of AT&P and MIM. Government intends to pursue rehabilitation of Gliksten and TVLC through joint ventures with international timber companies.

C. Gold Mining Sector

The short-term requirements for rehabilitation of SGMC mines have been studied by the Government's Gold Action Committee, by SGMC and by a Bank Project Identification Mission. Based on the above, the mission's estimate is that over a 18-24 months' period the rehabilitation of Prestea and Tarkwa mines would require about $40 million in foreign exchange as follows:

	US$ Million
Equipment and spare parts	22.0
Management contracts	7.5
Franti sub-vertical shaft	7.5
Pepe surface production	2.5
TOTAL..........	39.5

The proposed credit would finance about $15 million of urgently required equipment and spare parts and about $5 million of the management contracts. The balance of the foreign exchange requirement would be financed by Government/SGMC.

D. Road Transport Sector

There is a massive need for spare parts, tyres and batteries to rehabilitate a large number of vehicle fleet in the country. A rough estimate by the Ministry of Transport indicates that spare parts required to rehabilitate some 103,000 roadworthy vehicles both in the public and private sector would amount to about $175 million, of which about half would be for trucks and tankers. In addition, the country's trucking fleet includes some 4,000 vehicles which are beyond economic repairs. To replace all of these unserviceable units would cost another $253 million. Spread over four years, the rehabilitation cost of the trucking fleet would be in the order of about $100 million. In 1981 import licenses applied for by trading companies for vehicles and spare parts totalled approximately $420 million, of which only about $16 million (4 percent) were actually granted. The proposed project would provide $30 million ($25 million to the private sector and $5 million to State Transport Corporation) to supplement Government's allocation in 1982. However, this would cover only a small part of the sector's rehabilitation requirement and there is a need for additional foreign financing.

E. Port Facilities

The rehabilitation requirements of the timber loading facilities at Takoradi Port have been assessed by FAO/CP (Report No. 44/80 GHA.8). The report has estimated that the cost of rehabilitating the port facilities to restore the handling capacity achieved in the early 1970's (i.e., 700,000 tons of logs and 166,000 tons of timber products) would be approximately $8.0 million. The proposed project would provide $4.0 million to cover most urgent improvements at Takoradi Port already identified by FAO/CP and items needed to improve cocoa loading operations at Tema Port as follows:

	Amount Allocated US$ Millions	Major Items
Ghana Port Authority (GPA)	1.5	Repair of slipway, mooring buoys, spare parts for cranes and tugboats, truck mounted crane, fork lift trucks, etc.
Ghana Cargo Handling Company (GCHC)	0.5	Fork lift trucks, hand trucks, platform dolly, stevedoring gear, etc.
Takoradi Lighterage Company	2.0	New lighters and repair of existing lighters, new tub-boats.
	4.0	

Summary of Foreign Exchange Requirement for Rehabilitation

	US$ Millions		
	Short-Term Requirement	Financing Under Proposed Credit	Medium-Term Requirement
Cocoa	40	15	120
Forestry	35	27.5	110
Gold Mining	40 1/	20	165
Road Transport 2/	110	30	430
Ports 3/	6	4	10

1/ For Tarkwa and Prestea mines only 18-24 months period.
2/ Trucking sector only.
3/ Improvements in superstructure and loading/unloading facilities only.