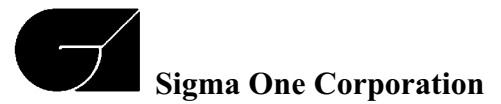


**Brainstorming Session on the Economy
Aksomobo February 6-8, 2001**

March 7, 2001



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by:

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For

Sigma One Corporation

In fulfillment of the following milestones:

6.3 (Year 3) One Seminar held in Ghana per year

March 7, 2001

Sigma One Corporation

REPORT ON BRAINSTORMING SESSION ON THE ECONOMY
VOLTA HOTEL - AKOSOMBO
6 - 8 FEBRUARY 2001
Dr. Fritz Gockel

Introduction

A Brainstorming Session on the Ghanaian economy was held at the Volta Hotel, Akosombo beginning on 6th February and ending on 8th February. The Brainstorming Session had been organized by the Minister of Finance to review the present economic situation in Ghana and explore policy options to address the present difficulties. The Minister invited a team of public and private sector Ghanaian leaders, as well as Ghanaian economists employed at the World Bank and the Economic Commission for Africa.

The brainstorming session on 6th February was held between 8.45 pm and 11.45 pm. In the opening remarks, the Finance Minister intimated that the main objective of the workshop was to develop an understanding of Ghana's economic problems and to come out with probable policies that would help arrest these within NNP's Economic Policy Framework as enshrined in the Party's Manifesto. The Minister emphasized the fact that from its antecedent, NPP's emphasis is on the private sector as the growth point in the economy. This was to be borne in mind throughout the entire workshop.

The Minister further indicated that although the local Ghanaians are up to the task, he nevertheless found it very welcoming that Ghanaians working with the Bretton Woods Institutions and the ECA would bring their experiences to bear on the discussions. In particular, these Ghanaian Expatriates would expose Government to the workings of the IMF and the World Bank so that defensible policies could be put together to the satisfaction of the donor community.

The Finance Minister indicated that he expected that at the end of the workshop, the skeletal framework for Ghana's 2001 Budget and medium term economic policy would have been formulated.

After the Minister's opening remarks on his expectations from the workshop, researchers from CEPA presented a background paper with an assessment of the economy. This presentation set the tone for the discussions that followed. The thrust of the CEPA report was a critical review of the performance of the macro economy in 2000 and the issues for 2001 and beyond. The most interesting aspects of the report were the issues for 2001 and beyond. In this section of the report, pertinent budgetary issues for the 2001 Budget are raised [see pages 16 -26 of the attached copy of the CEPA report]. The general consensus of the participants during the discussions was the urgent need for restoration of macroeconomic stability, namely reduction in inflation and interest rates and stability in the exchange rate.

The next session was held on 7th February between 8.30 am and 10.30 am. This was another Plenary Session where Ghanaians from the World Bank presented their views on the economy (Attached is the working document that was presented by the visiting Ghanaians from the World

Bank and the ECA: Brainstorming on Ghana's Economy). The issues raised were essentially those discussed at meeting the previous evening. For ease of reference, these issues can be summarized as follows:

- desperate fiscal position as indicated by domestic debt burden
- tight external payments position indicated by build up of arrears and inadequate reserve cover for imports
- high inflation, high interest rates and depreciating exchange rate.

Whilst the immediate cause of these problems could be attributed to the terms of trade shock, it was agreed that the previous Government did not react positively to contain the terms of trade shock. Policy responses to the shock were ad hoc and ineffective, apparently due to a (wrong) diagnosis of the term of trade shock as being transitory, and not of a long-term nature. Thus, the preferred policy choice of Government was controls and depletion of foreign exchange reserves. In particular, domestic prices of petroleum products as well as electricity and water rates were not revised to reflect the increased cost. As a result of these inappropriate policies, VRA, TOR, ECG etc all accumulated huge stocks of debt that threatens the banking system..

It was generally agreed that the problems were well known. What was needed was credible policies that would arrest the problems. It was decided that two syndicate groups be formed to examine the issues at length and come out with possible solution. These groups were referred to as the Balance of Payments Group and the Budget Group. These groups met between 11 am and 1.30 pm. The groups reconvened after Lunch at 2.30 pm and worked until 5 pm. Next, a Plenary Session was held from 5.30 pm to 8 pm. The Plenary Session was continued on Thursday at 8 am for consensus building on major issues. The session came to a close at 11.30 am. Below is the report of the two groups on the major issues agreed upon. It must be emphasized at this point that the two reports as presented here have been discussed at a plenary session and whatever is reported here reflects the collective wisdom of all participants. Furthermore, although both reports have considerable areas of overlapping, it was decided that these should be maintained for emphasis. It was decided that the Minister of Finance's team would later harmonize the skeletal framework into one consistent document.

REPORT OF THE BALANCE OF PAYMENTS GROUP

Membership Of The Group

Name	Organization
Dr. Kwabena Duffour	Bank of Ghana
Dr. Kofi Wampah	Bank of Ghana
Dr. K. Y. Amoako	ECA
Dr. Charles Jebuni	CEPA
Dr. A. Akoto Osei	CEPA
Mr. Kwame Pianim	New World Investments Ltd
Mr Jesse Clottey	Private Enterprise Foundation
Dr. Kwame Baah-Dwomoh	World Bank
Dr. Ernest Ako-Adjei	World Bank
Dr. Fritz A. Gockel	Economics Dept - Legon
Mr. J. H. Mensah	Office of Parliament
Ms. A. Sena Gabianu	Retired Int. Civil Servant
Mr . Michael Ayesu	Ministry of Finance

Discussion Framework

The discussion framework for the Balance of Payment (BOP) Group focused on two areas:

- Review and Determination of Appropriate Estimates for the 2001 Balance of Payments Numbers
- Policy and Implementation Issues

1 Determination of numbers

Initial projection estimates was made for the various elements in the 2001 BOP by a team consisting of economists from CEPA, the Ministry of Finance (MOF) and the Bank of Ghana (BOG) and presented as Tables one and two (attached). The numbers were derived based on the general premise that Ghana faces balance of payments problems and that available reserves, at present, are just about adequate for only a month's import. The review of the numbers in the Table lead to suggested changes in a number of areas. The changes are discussed in detail below. One of the conclusions from the discussions were, that if overall targets in the budget are too be achieved, including a 5% GDP growth rate, then additional foreign assistance is required beyond historical levels. A second conclusion was that, the policy measures that could lead to restoration of macroeconomic stability would likely impose hardships on Ghanaians at a time when they have rather very high hopes for a brighter future. The third conclusion/recommendation was that in order to start re-building reserves towards a medium target of 3 months import cover a BOP surplus of between \$50 million and \$100 million would be required in 2001.

With regards the various items in the balance of payments, having taken into account the prevailing world market prices for Ghana's major exports and imports, and having realized that previous budget estimates tended to overestimate revenues, the present estimates were based on very conservative assumption. The details are as follows.

2 Cocoa Exports For 2001

It was estimated that 345,000 tonnes of cocoa beans and 65,000 tonnes of cocoa products would be exported in 2001. Using conservative pricing scenarios, it was estimated that cocoa beans would fetch \$950 per tonne and cocoa products would be sold at \$1300 per tonne. Consequently, total cocoa earnings would amount to \$412.3 million.

3 Gold

Two scenarios were discussed on the gold sector. One was that, total volume of gold would remain at the 2000 year level whilst the other projected a decline from 2.50 million oz in 2000 to 2.34 in 2001. The projected price of gold was put at \$275 an oz so that the two scenarios yield total earnings of \$687.5 and \$643.5 respectively.

4 Timber/Timber Products and Other Exports.

Earnings from timber/timber products and Other Exports were estimated at \$182.5 million and \$600.4 million respectively.

From the above estimates of Ghana's exports, the total value of the Merchandise Exports [f.o.b] was accordingly estimated at \$1838.7 in the case of the first scenario, and \$1882.7 million in the case of the case of the second scenario [refer to the attached table for the line items respectively].

5 Merchandise Imports [f.o.b]

Two scenarios were estimated for merchandise imports. The first was based on the assumption that oil imports would increase by 5% on the 2000 level and that oil price would average \$30 per barrel. This gives an import bill of approximately \$575 million. The second scenario assumes that oil price would be \$28 per barrel. This works out to give an import bill of \$535.6 million.

With regards the Non-Oil Imports, projections were made based on the assumption that the original 2001 estimate of \$1998.0 million was too low to support a five percent growth rate as the necessary inputs could not be imported to support production efforts. As a result, it was projected that 2001 Non-Oil Imports would need to rise by at least 5% over the 2000 level, as a means of realizing the projected 5% GDP growth. This works out to give an estimate of \$2428 million for the Non-Oil Import bill for 2001.

The total Merchandise Import [f.o.b] was thus estimated at \$3003 million for the scenario with

higher oil import price, and \$2963.6 for the second scenario of oil at \$28 per barrel.. The Trade Balance engendered by the Merchandise Exports and Merchandise Imports is \$1164.3 million or \$1080.9 million.

On the Invisible Trade, changes were made in the Freight and Insurance items. For the credit side, this was estimated at \$49.4 million or \$50.6 million. For the debit transactions the estimates were \$246.9 million and 243.6 million, depending on the scenario. As indicated in the table, all other transaction values in the Invisible Trade are estimated using very conservative estimates. The values are as in the tables. The total net Invisible balance for 2001 is thus projected as between \$604.7 million and 606.8 million. Netted against the Trade Balance, the 2001 Current Account Balance was projected as between \$559.6 million and \$474.1 million.

Other significant changes discussed were Gross Inflows under Long Term Loans in the Government Capital Accounts. Gross Inflows were projected to be \$580 million whilst net long term loans were put at \$355.9 million. With the other transaction values under Government Capital account, net inflows amount to \$309.9

With regards Private Capital transactions, it was estimated that divestiture proceeds would bring in \$50 million whilst net direct investment will generate \$62 million. Total Private Capital would accordingly net in some \$112 million. Non-monetary short term capital inflows are estimated at \$30 million.

The overall BOP deficit generated by the various transactions is either \$107.7 million for the first scenario or \$22.2 million for the second scenario. Under these two scenarios, in order to achieve an overall BOP surplus of between \$50 million and \$100 million, additional foreign assistance of between \$72.2 million and \$207.7 million would be required depending on the scenario adopted.

POLICY AND IMPLEMENTATION ISSUES

In terms of policy and implementation issues, they were as follows:

1 Export Promotion Policies

These policy issues were divided into short-term and medium to long-term measures. In the short term measures are to be taken to improve the following:

Immigration Procedures to facilitate tourism
Port Facilities and clearing procedures

Immigration procedures at the ports are to be streamlined so as to make them less cumbersome. Visa facilities should be provided at points of entry for a fee to visitors from EU and the Americas as obtains in Uganda.

The provision of cooling or refrigeration facilities at the ports must be expanded. Other firms are

to be licensed to introduce competitive practices that would promote exports, especially of perishables like flowers and fruits.

Customs duties are to be widely publicized so that exporters know in advance what duties are required of them. This would enhance revenue collection in addition to a reduction of discretionary actions by customs officials to extort monies from exporters.

The ECA offer to provide technical assistance for customs administration to facilitate clearing procedures

Indications are that tariff exemptions are largely abused. Dutiable items are not declared, especially by mining companies and NGOs. The exemptions should therefore be reviewed to eliminate abuses and increase revenue. Further studies should be undertaken to implement the recent IMF report and guidelines on exemptions.

It was also emphasized that Ghana could step up the production of SALT for exports. This could be done immediately after the necessary assistance and incentive package is provided to firms in the industry. The Group recommended that the Bank of Ghana and the Private Enterprise Foundation liaise and put the necessary packages and incentive structure in place.

2 Cocoa

Restoration of mass spraying of cocoa farms was recommended. Under this recommendation, farmers would be encouraged to spray their farms through facilities provided to the Ghana Cocoa-Coffee and Sheanut Farmers Association. Expectedly, this would improve output performance as crop disease and pests are controlled. **Government has also re-affirmed the movement towards 70% fob price to the farmer by 2004.**

3 Medium Term Loans

It was recommended that Government review the existing credit schemes to making them more efficient. For example, the Export Development Investment Fund should be made operational and implemented to facilitate access to funds by exporters.

4 Petroleum

The petroleum sector should be de-controlled and government moved out of petroleum pricing. Governments role should be regulatory to prevent unnecessary price hikes and to ensure the acquisition of strategic reserves that could last for at least six months.

5 Long Term Measures

In the longer term, the Government should formulate a strategy to for firms to diversify into manufacturing, especially of textiles, wood products and food processing. The ECA indicated that it would provide technical assistance to co-ordinate the activities of Ministry of Finance and Ministry of Trade and Industry so as to be able to take advantage of Full Market Access in the EU and the United States.

The Group also recommended that joint private and foreign ventures be promoted. Steps should be taken to transform, promote and strengthen Ghana's foreign representation to undertake export promotion.

6 Transfers

The Government should develop the institutional capacity to co-ordinate donor activities so that projects and programmes are well-fitted into national priorities. This particular recommendation also featured prominently at the Plenary Sessions.

7 Information Technology

The BOP group also recommended that Information Technology be promoted to bring Ghana into the global system. In this scheme, The ECA was suggested as an entity is to provide the technical and other assistance to promote information technology, its regulatory framework, human resource base, e-Commerce etc.

8 Divestiture

The Group recommended that Government should review the divestiture programme so that a more encompassing approach could be adopted. It was noted that Government has shares in several commercial ventures that are better left to private sector initiative. Apparently, the *indigenization* decree of the early 1970s led Government to acquire shares in many of the multinational companies.

It was recommended that Government should review these companies for possible divestment of such shares.

REPORT OF THE BUDGET SUB GROUP

Composition of the Group

Name	Organization
Mr Yaw Osafu-Maafu	Ministry of Finance
Dr. S. N. Ashong	CEPA
Dr. Emmanuel Ablo	World Bank
Dr. Ernest Ako-Adjei	World Bank
Dr. Yaw Ansu	World Bank
Dr. Ohene Owusu Nyanin	World Bank
Mr. Kwadwo Baah-Wiredu	Ministry of Local Govt
Dr. Patrick Asea	ECA/ESPD
Mr. Kwasi Abeasi	Private Enterprise Foundation
Mr. Quist Therson	Ministry of Finance
Mr. Robert K. Poku Kyei	Ministry of Finance
Mr Osa Ahinakwah	Ministry of Finance

Main Issues and Recommendations

1. Budget Preparation, Execution and Monitoring

The Budget Group made the following recommendations to improve budget preparation, execution and Monitoring:

- The budget should be driven by, and indeed reflect the policies of Government,
- Existing financial regulations should be operationalized and enforced. The operational manuals should be simplified and used as training materials in a workshop/seminar for officers.
- Additional training programmes should be organized for all accountants and spending officers in the MDAs. This will help capacity building in the MDAs.
- Project monitoring and implementation programme should be improved. The existing unit for this operation in charge in Ministry of Finance should be adequately resourced and their reports should be taken seriously. Appropriate sanctions should be imposed on any officer found to act inappropriately to cause wasteful expenditures. There is the need to devise a system for monitoring and prosecution and create an enforcement agency behind the monitoring unit.
- A budget implementation meeting should be set up to regularly examine policies

and programmes in the budget. Representatives of the Ministry of Finance, Bank of Ghana, Accountant General's Dept and the revenue generating institutions should be on this committee. They should meet once a month at least.

2. Education Trust Fund

- An account should be opened for this fund. All monies should be paid into this account. The secretariat should also be resourced to oversee the funds.

3. Subvention

- The list of subvented organizations should be made available for review and pruning, if necessary. All allocations made to those that generate revenue from the Consolidated Fund should be net of what is generated.

4. Common Fund

- For the year 2000, the Common Fund was two and a half quarters in arrears. This should be added to its allocation for 2001 and payment spread over the year.

5. Personnel Emoluments

- The MTEF format, used in the budget should be broken down into civil service and subvention respectively.
- The present payroll should be improved to eliminate any "ghosts". The payroll component in the MTEF programme should be examined carefully and made effective.

6. Domestic Interest and Debt

- Interest payments on public debt should be separated from publicly guaranteed debt.
- Seek to restructure the term structure of the present domestic debt into long term since they are always rolled over. By this interest payments will be reduced considerably and hence the recurrent budget. A paper on the modalities of reducing domestic debt should be prepared and submitted to the Minister.

7. Domestic Capital Expenditure

- This item should be dis-aggregated and attached to the budget. It should also be critically examined to find out how much savings could be achieved from better management of capital expenditure.. The item "other capital expenditure" should be broken down on the basis of Accountant General's new Chart of Accounts.

8. Policy on Cars

- Look into the option of using a leasing company to purchase cars for Members of Parliaments and medics, or a car pool could be organised for them.

9. Other

- Ghana needs to resist the efforts of donors who push their programmes. The Government should have its own credible programmes and present them to donors for funding using personnel from existing institutions. This will help build capacity and result in development programmes that would not be donor driven.
- Ghana needs to develop a cocktail of options for donor funding.

10. Value Added Tax

- The threshold for the VAT should be examined again to ascertain if more revenue could be realized by a lower threshold (e.g. ₵120 million). This could also widen the tax net. However, an eye should be kept on the administrative costs of such an action.
- A refund account should be budgeted for and set up with about 15% of VAT receipts to pay for refunds.

11. Other Non-tax Revenue

- Further work should be done on this item. Institutions that generate revenue should be made to account for their receipts. All such revenue should be lodged into the Consolidated Fund.

12. Net Lending

- Institutions and individuals owing government should be made to pay. The 2001 budget should target a positive net lending to help reduce the recurrent budget.

13. Value Books

- The management of value (or receipt) is an area that needs to be looked into as a possible problem area for fraud, waste and abuse.

14. Committed Funds

- There are too many of earmarked funds and the list is still growing. This concept needs to be reviewed. There are Road Fund, Education Fund, Common Fund etc. Administrators of these funds should be made to account for all such funds allocated to them. Projects and institutions benefitting from the account should be clearly identified.

15. Tendering and Procurement Procedure Review

- Existing procedure should be examined to make them more transparent. Any deviant should be sanctioned.

16. CEPS Reforms

- Review rates and simplify procedures of clearing goods at the ports. The private sector should produce a recommendations paper on the simplification of Customs procedures.
- There should also be a possible lowering of the tax rates to reduce the rate of evasion and increase revenue.
- A periodic task force made up of well-trained national service personnel or an elite group should be constituted to check malfeasance and sleaze among CEPS officers.
- Seized vehicles should not be auctioned below assessed duty amounts.
- Review the law on penalty for over-aged cars and consult Attorney General's Department to see the possibility of granting an amnesty so to allow those caught in the web to clear their vehicles at a concessional amount, say €5 million. This will ease congestion at the ports and other areas. But it could also create a further congestion on the roads.

17. Eliminating Waste

- i. Examine tendering and procurement procedures
- ii. Examine contracts e.g. Road Constructions etc.
- iii. Payroll management system to be put in place to ensure elimination of ghost names.
- iv. Common Fund administration should be tightened and project implementation here reviewed to ensure value for money and reduce waste.
- v. The rush to spend unused budgetary allocation towards the end of the year should cease.
- vi. Payment of utilities bills from Government budget should be re-examined. Limits should be set for Government officials beyond which the individual would be made to pay.
- vii. Modalities for the purchase, use and disposal of Government vehicles should be clearly spelt out to avoid any ambiguities and hence malfeasance in this practice.
- viii. Need to define the category of government officials who qualify to use mobile phones on government budget

18. Day-to-Day Monitoring of Expenditure

- Weekly meetings among Ministry of Finance, Bank of Ghana and Controller and Accountant General Department should be instituted.

19. Revenue generation

- An oversight body should be formed to oversee the activities of the revenue generating institutions

20. The Ministry of Finance

- The recent report on the restructuring of this important Ministry should be examined and the recommendations implemented.