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EBS/84/172
Supplement 1

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August 24, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Ghana - Staff Report for the 1984 Article IV Consultation and Request for Stand-By Arrangement - World Bank Activities in Support of Ghana's Economic Recovery Program

The attached supplement to the staff report for the 1984 Article IV consultation with Ghana and its request for a stand-by arrangement describes the World Bank's activities in support of Ghana's economic recovery program.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion on Monday, August 27, 1984, they should contact Mr. Ballali (ext. (5)8386).

Att: (1)

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INTERNATIONAL MONETARY FUND

GHANA

Staff Report for the 1984 Article IV Consultation and Request for Stand-By Arrangement: World Bank Activities in Support of Ghana's Economic Recovery Program

Prepared by the African Department
(in consultation with the Exchange and Trade Relations
Department, and the Fiscal Affairs Department)

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August 24, 1984

I. Introduction

The Bank and Fund staffs have cooperated closely in the preparation and in monitoring the implementation of Ghana's economic and financial programs. Extensive collaboration was maintained through frequent exchange of views, especially prior to departure of missions, exchange of information and data after missions, and through deliberately overlapping missions in the field. This cooperation has resulted in dovetailing policy recommendations and in designing programs which are mutually supportive.

Following the announcement in April 1983 of the main measures of the 1983/84 program and an agreement between the Ghanaian authorities and the Fund staff on the draft letter of intent in May 1983, the World Bank Executive Board approved a Reconstruction Import Credit in June 1983. During the stay of a Fund mission in August 1983, a World Bank staff mission was also in Accra, assisting the authorities to prepare for the Consultative Group meeting. The World Bank sponsored and chaired the Consultative Group on Ghana which reconvened in November 1983 in Paris, after an interval of 13 years. The Fund staff which assisted in the preparation of the meeting's documents, also presented a statement on the authorities' economic recovery program. To further support the authorities' program, the Bank's Executive Board approved two credits for an Export Rehabilitation Project amounting to US$93.1 million in January 1984.

Extensive collaboration between the two staffs took place also during preparation of the proposed 1984-85 program. The last few days of a Fund mission that discussed the program in Accra in June 1984 overlapped with a Bank economic mission which was assisting the authorities prepare for the next Consultative Group meeting scheduled to be held in Paris in December 1984. To support the authorities' new program, the Bank is now considering a new Reconstruction Import Credit and a Road Rehabilitation Project to be disbursed during 1985-87.

II. Recent Activities of the Bank Group in Support of the Government's Recovery Program

1. Reconstruction Import Credit

In June 1983, the Bank's Executive Board approved a Reconstruction Import Credit (RIC) for Ghana in the amount of US$40 million on standard IDA terms (Report No. P-3554-GH) in support of the authorities' economic recovery program announced in April 1983. The credit was intended to be a quick-disbursing source of funds to finance necessary imports to rehabilitate the equipment in the transport sector and to provide key inputs in the agricultural sector. The credit was divided almost equally among the two sectors. With regard to transportation, the World Bank staff had estimated that in early 1983 over 70 percent of the nation's truck and bus fleet was idle. The Bank staff also estimated that more than 40 percent of the vehicle fleet was off the road simply for a lack of tires, and a large part of the remainder merely lacked batteries. The RIC therefore aimed at providing US$20.8 million to the transport sector to finance the import of tires, batteries and spare parts, as well as retreading materials and supporting services.

The agricultural component (US$19.2 million) of the RIC was allocated to imports of agricultural tools and equipment, spare parts, fertilizers, weedicides and pesticides, as well as insecticides and sprayers for the cocoa industry. The insecticides (including insecticides purchased under STABEX) have enabled the Ghana Cocoa Marketing Board to support a spraying program for an additional one million acres of cocoa farms. The fertilizers, weedicides and pesticides, and tools and equipment are being distributed mainly in the maize and rice growing areas.

At the time of approval, it was estimated by the Bank staff that most of the RIC would be disbursed before the end of 1983. As it turned out, only about US$5 million was disbursed in 1983. By June 1984 about $20 million had been disbursed and the remaining amount is expected to be disbursed by the end of November 1984.

2. Export Rehabilitation Project

In January 1984 the World Bank's Executive Board approved a credit of US$76.0 million on standard IDA terms for an Export Rehabilitation Project (ERP), (Report No. P-3695-GH); an additional credit of US$17.1 million was approved on the same date to finance technical assistance in support of the ERP (Report No. P-3696-GH). The ERP will finance the purchase of inputs, spare parts and equipment, as well as the repair and overhaul of existing equipment in the cocoa, gold, and timber sectors. About 94 percent of the credit is divided equally among these three sectors. The remaining amount will be used to rehabilitate the ports of Takoradi and Tema.

Disbursement of the ERP is expected to take place during 1984-86. The credit is to be released in two tranches, and US$38 million was made available for disbursement upon Board approval. The remaining US$38 million would be available after a review to ensure satisfactory implementation of specified sectoral policy actions and institutional changes. In addition, the review would also examine the size and composition of the 1985 development budget and foreign exchange budget for consistency with the overall investment program.

The cocoa tranche (US$23.9 million) of the credit would support the building and rehabilitation of storage sheds and vehicle workshop facilities, and the introduction of an effective program to control capsid diseases. ERP funding would cover only about 18 percent of the total financing requirement for rehabilitation of the cocoa sector estimated at US$131.6 million. The remaining amount will be sought from other bilateral and multilateral sources, with some amounts internally generated. The project aims at raising total cocoa production from about 158,000 tons in 1983/84 to 300,000 tons by 1988. To ensure the attainment of this objective, the ERP specifies conditions designed to improve incentives and efficiency in the sector. These include an annual cocoa price adjustment and a phased reduction of the Cocoa Marketing Board staff.

In the gold sector the ERP would provide US$23.6 million in support of a US$80 million rehabilitation program of the State Gold Mining Company (SGMC), which in recent years has accounted for 15-20 percent of Ghana's total gold production. The funds would be used to finance imports of spare parts and the overhaul and repair of mining equipment and treatment facilities. The project aims at raising SGMC's production from around 40,000 ounces in 1984 to 100,000-165,000 ounces by 1988. To ensure the attainment of this objective, the management of SGMC would be strengthened by entering into a management contract with an international mining consortium. The selection of the management team has to be finalised by November 1984.

The timber component (US$23.7 million) of the ERP will provide for rehabilitation of logging equipment and wood-processing facilities at about 24 privately-owned companies and two state-owned companies. The total requirement for the timber sector's rehabilitation program during 1984-86 is estimated at US$60.0. The project aims at a fourfold increase in the volume of timber exports by 1988. The Ghanaian authorities have undertaken to remove procedures and regulations which have acted as disincentives to timber production and exports, including the setting of minimum export prices and the examination of export contracts. Accordingly, the Ghana Timber Marketing Board, which formerly exercised these controls has been abolished. It is being replaced by a Timber Export Development Board, which will operate solely as a marketing promotion and intelligence advisory agency. Timber exports will be exclusively undertaken by the private sector.

The remaining US$4.8 million of the ERP will finance the needed repairs at Ghana's two main ports at Tema and Takoradi. Much of the cargo handling equipment is in disrepair, which has resulted in long delays and high shipping costs. While these repairs should provide for a certain degree of improvement, the World Bank staff estimates that an additional US$10 million would be needed during 1984-86 to enable the ports to utilize most of their designed capacity.

Two other IDA credits to be disbursed during 1984-87 are under consideration. They will be appraised by the Bank staff soon after Executive Board approval of the proposed stand-by arrangement with the Fund and in time for the Consultative Group meeting in December 1984. They consist of a second Reconstruction Import Credit (RIC II) for an amount of about US$60 million and Road Rehabilitation Project amounting to about US$40 million.

3. Co-financing arrangements

The reconstruction import and rehabilitation credits from the World Bank are being viewed by other donors as suitable vehicles for providing quick-disbursing resources to Ghana. Thus, the RIC I has attracted cofinancing from Canada of about Can$5 million and from the Netherlands of 10 million guilders. The African Development Bank is providing US$30.5 million in support of the RIC I. It is expected that multilateral and bilateral development agencies as well as private sources will cofinance the ERP. The proposed RIC II and the Road Rehabilitation Project are also expected to attract substantial amounts of cofinancing. It is expected that at the Consultative Group meeting, the World Bank will invite cofinancing in the range of US$40-60 million for the proposed RIC II and US$50-60 million for the Road Rehabilitation Project.

4. IFC investment in Ashanti Goldfields

The IFC is a leader of a loan syndicate which will lend a total of US$70.6 million to help finance a rehabilitation and expansion program for the Ashanti Goldfields Corporation (AGC) involving a total investment of US$157.7 million. The program aims at raising ACG's gold production from 255,000 ounces in 1984 to 375,000 ounces in 1988 and 400,000 ounces in 1990. Through the sinking of 3 new shafts, the expansion program will allow the exploitation of further potentially richer ore bodies and thus prolong the life of AGC's current reserves beyond the year 2000.

IFC's investment will be US$50 million, of which US$25 million would be for IFC's own account and US$25 million will be contributed by participants. The remaining US$20.6 million will be from private sources with the guarantee of the British Export Credit Guarantee Department (ECGD). This package was approved by IFC's Board of Directors in June 1984, and represents IFC's first investment in Ghana. All amounts will be lent and no equity participation is involved. The AGC is a private company incorporated in Ghana, 55 percent owned by the Government and 45 percent owned by Lonrho Plc. These loans will be disbursed over a period of 5-1/2 years; repayment for the IFC's portion of the loan will begin in 1990 and extend over 11 years. The remaining US$87 million will be generated internally by AGC. In addition, there are arrangements for a stand-by financing of US$10 million from the shareholders and US$10 million shared equally by the IFC and its participants.