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To: Members of the Executive Board
From: The Secretary
Subject: Ghana - Policy Framework Paper, 1989-92

Attached for consideration by the Executive Directors is the policy framework paper under the enhanced structural adjustment facility for Ghana, which will be brought to the agenda for discussion on a date to be announced.

Mr. Calamitsis (ext. 6966) or Mr. Hadjimichael (ext. 8583) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

GHANA

Enhanced Structural Adjustment Facility

Economic and Financial Policy Framework,
July 1989-June 1992 ^{1/}

Prepared by the Ghanaian authorities in collaboration
with the staffs of the Fund and the World Bank

September 20, 1989

I. Introduction

1. Since the adoption of the Economic Recovery Program in April 1983, the Government of Ghana has implemented a number of far-reaching structural and financial reforms designed to achieve a satisfactory and sustainable rate of economic growth consonant with external payments viability over the medium term. These reforms have involved a progressive liberalization of the exchange and trade system, including the introduction of a weekly auction for foreign exchange in September 1986, substantial increases in real producer prices for cocoa and other cash crops, and the elimination of most price and distribution controls in the economy. In addition, a reform of the civil service and the state enterprise sector has been initiated, while steps have been taken to rehabilitate the country's economic and social infrastructure within the framework of a rationalized public investment program. At the same time, appropriate fiscal and monetary policies have been pursued with a view to reducing the existing domestic and external imbalances. This program has been supported by considerable Fund and World Bank resources, under successive arrangements and credits, as well as by increasing financial assistance from other multilateral and bilateral creditors and donors. As a result, after a long period of steady deterioration, Ghana's economic and financial performance improved markedly during the four-year period 1983-87: real gross domestic product (GDP) grew on average by nearly 6 percent per annum, allowing for an annual increase in real per capita income of about 3 percent; the rate of inflation (as measured by the national consumer price index) decelerated on an end-of-period basis from 142 percent in 1983 to 34 percent in 1987; and the balance of payments position improved appreciably, switching from an overall deficit of US\$243 million in 1983 to an overall surplus of US\$139 million in 1987 (Table 1).

^{1/} This paper updates and extends Ghana's policy framework paper for July 1988-June 1991, which was transmitted to the Fund and the World Bank on September 15, 1988.

2. Despite this improvement in overall economic performance, however, Ghana continued to face major structural and financial problems. Therefore, the Government decided to pursue its reform efforts in the context of a rolling medium-term program aimed at establishing a firm foundation for a buoyant and increasingly integrated economy, while seeking to attain a sustainable balance of payments position. The basic macroeconomic objectives of the program for the period July 1988-June 1991, ^{1/} in support of which the Fund approved a three-year arrangement under the enhanced structural adjustment facility (ESAF) and the World Bank approved a second structural adjustment credit, were the following: (a) to achieve an average annual rate of growth of real GDP of at least 5 percent; (b) to reduce the rate of inflation, on an end-of-period basis, from 34 percent in 1987 to 5 percent in 1991; and (c) to generate substantial overall balance of payments surpluses, averaging US\$117.5 million per annum, consistent with a reduction in the foreign liabilities of the Bank of Ghana, the elimination of the remaining external payments arrears, and a significant increase in gross official reserves. In addition, an important dimension of the program, stemming from the experience in previous years, was to address in a systematic manner the needs of the poorest and most vulnerable groups in Ghana, particularly small farmers, the urban unemployed and underemployed, and the retrenched public sector employees. To attain these objectives, the program involved not only a reinforcement of the macroeconomic policies pursued since 1983 but also an enhancement of structural reforms, a strengthening of the institutional framework, and the implementation of a broadly based economic development strategy.

II. Economic Performance in 1988

3. Consistent with the medium-term framework of the program, in 1988 the Government continued to implement a broad range of measures geared toward strengthening the incentive framework, sustaining the growth of the economy, and consolidating the external position. In particular, the exchange and trade system was further liberalized by moving all remaining merchandise imports under the Special Import License scheme onto the "A" list of goods eligible for foreign exchange from the auction market, except the five items on the negative list of imports ^{2/} and those imports that are prohibited for nontrade reasons; all bona fide requests for foreign exchange required for business travel (up to a maximum of US\$3,000 per trip) also became eligible for funding through the auction; and commercial banks and other authorized dealers were allowed to establish foreign exchange bureaus to buy and sell foreign exchange at freely determined prices. Moreover, producer prices

^{1/} As the fiscal year coincides with the calendar year, the program was formulated on a calendar-year basis, effectively covering the period 1988-91.

^{2/} Beer and stout, cigarettes, cement pipes, roofing sheets, and asbestos and fibers.

for cocoa and other cash crops were raised significantly; further steps were taken to improve the efficiency and the financial position of the Cocoa Board; all controls on the sectoral distribution of bank credit were abolished, apart from a minimum requirement for agriculture; the minimum savings deposit rate, the only remaining control on interest rates, was lifted; and a number of institutional reforms were effected. Complementary budgetary and credit policies were also pursued.

4. With the effective implementation of these policies, the program was kept broadly on track, and the basic macroeconomic objectives for 1988 were largely realized. According to the latest available data, real GDP grew by 6.2 percent in 1988, exceeding the target of 5.5 percent and the rate of 4.8 percent recorded in 1987. Agricultural production recovered, helped by a return to normal weather conditions, better price incentives, and improved input support, while output in the industrial and services sectors continued to grow rapidly. Progress was also made in lowering the rate of inflation, on an end-of-period basis, from 34 percent in 1987 to 27 percent in 1988; however, this fell short of the target of 20 percent, largely on account of increases in food prices that were significantly higher than had been foreseen. Furthermore, the external payments position continued to improve. Despite a larger-than-anticipated decline in world cocoa prices, export performance was better than had been projected, as a result of a higher volume of cocoa exports coupled with steady growth in timber and nontraditional exports. Imports rose broadly as programmed. The increase in the trade deficit was appreciably smaller than had been expected, as was the current account deficit. Thus, despite lower-than-projected inflows of medium-term capital, the balance of payments registered an overall surplus of US\$125 million, as targeted. This facilitated a further reduction in external payments arrears to US\$65 million at end-1988, and allowed an increase in gross official reserves to US\$201 million, equivalent to more than two months of imports.

5. The foreign exchange bureaus, which began operations in April 1988, effectively replaced the parallel market for foreign exchange. The spread between the foreign exchange bureau buying rate and the auction rate (expressed as a percentage of the auction rate) narrowed initially from some 30 percent in April to 15 percent in August 1988, before widening again to 35 percent around the end of the year. The widening of the differential between the two rates reflected in part the virtual cessation of cross-border cocoa sales by Ghanaian farmers and traders, owing to financial difficulties in neighboring markets; this reduced the supply of foreign exchange to the bureaus, while increasing the demand.

6. As envisaged in the program, in 1988 the Government pursued a growth-oriented fiscal strategy, with the budget serving as a major instrument for mobilizing resources in support of productive investments and other high-priority outlays. Both revenue and expenditure exceeded their programmed levels, but the budgetary surplus, excluding capital

outlays financed through external project aid, was equivalent to 0.4 percent of GDP, as foreseen in the program; including such outlays, the overall fiscal deficit amounted to 2.6 percent of GDP. The available concessional foreign financing and borrowing from the domestic nonbank sector enabled the Government to reduce its indebtedness to the domestic banking system by C 11.2 billion (1.1 percent of GDP), almost twice the programmed amount of C 6.0 billion.

7. Monetary policy was also implemented in accordance with the program, although the targeted share of the Bank of Ghana in total domestic bank financing of the Cocoa Board was slightly exceeded. In 1988 net domestic assets of the banking system increased relative to the broad money stock at the beginning of the period by 8.5 percent, compared with a target of 10.3 percent, reflecting the larger-than-programmed net repayments of government debt; credit to the rest of the economy was virtually on target. However, the growth of broad money, at 43.0 percent, was substantially higher than the projected rate of 27.4 percent, owing to an unanticipated improvement in the net foreign assets position of the commercial banks. In view of this situation, and the need to maintain an appropriately tight credit policy, the commercial banks continued to hold sizable excess reserves. As these reserves were not remunerated at market-related rates, the commercial banks took advantage of the lifting of interest rate controls to reduce savings and time deposit rates. Despite the easing of inflation, therefore, these rates remained significantly negative in real terms.

8. While implementing appropriate macroeconomic policies, in 1988 the Government continued to effect important structural and institutional reforms, and toward the end of the year launched a special program of actions to mitigate the social costs of adjustment (PAMSCAD). Several significant tax changes were introduced, including a reduction in tariff rates and a realignment of trade and consumption taxes. The rehabilitation of economic infrastructure continued, especially in the area of transportation. The restructuring of the education system also proceeded, and cost recovery measures were enhanced. However, progress in certain other areas was slower than expected. In particular, state enterprise reform, which had encountered considerable start-up problems in 1987, continued to face substantial difficulties. Although 10 of the 32 state enterprises selected for divestiture were effectively liquidated by end-1988, ^{1/} the program of divestment of the remaining enterprises was constrained by delays in the preparation of updated and audited accounts, shortages of skilled personnel in the State Enterprises Commission (SEC), problems faced by investors in mobilizing financial resources, and legal complications in the transfer of ownership. For these reasons, the programmed sale of the Government's interest in six joint ventures by end-December 1988 was delayed. The settlement of

^{1/} Gava Farms; GEA and Associates; GEA Packaging; Ghamot Enterprises; Ghamot Motors Engineering; Ghamot Textiles; Kwahu Dairy Farms; NIC Metal Fabrication; NIC Soaps and Detergents; and Victory Industries.

cross-debts and arrears among the Government and three major state enterprises was also postponed, as the relevant accounts had to be updated. Moreover, the implementation of some key aspects of the financial reform program lagged behind schedule, owing mainly to initial difficulties in recruiting a suitable team of consultants.

9. Overall, the gains achieved in 1988 were encouraging, especially as adjustment proceeded in an environment of strong economic growth and rising real per capita income. Even so, the experience in 1988 demonstrated that Ghana still faces a number of structural, institutional, and financial problems that will need to be addressed in the period ahead. First, the growth of output continues to be constrained by inadequate domestic savings and investment. Although government savings and investment have grown appreciably in recent years, the private sector response to the improved economic policy environment has not been as vigorous as was originally foreseen. Thus, stepped-up efforts will need to be made to strengthen the mobilization of domestic savings, notably through the restoration of positive real interest rates, to improve financial intermediation, and to promote private investment. Second, while the rate of inflation has been reduced significantly, it is still high, and hence more determined efforts will be required to lower inflationary pressures and expectations. Third, equally determined efforts will be needed to accelerate the implementation of the state enterprise and financial sector reforms, as well as the special program of actions to mitigate the social costs of adjustment. Fourth, the further sharp weakening of cocoa prices in world markets has highlighted the vulnerability of Ghana's external payments position to adverse developments in the international environment. This situation underscores the need to foster the diversification of the export base, inter alia through a more flexible exchange rate policy. It also calls for an adaptation of the program and its financing to the altered circumstances, including keeping its implementation under closer review.

III. The Objectives and Strategies for 1989-92

10. Against this background, the updated medium-term program, covering the period 1989-92, has been designed to consolidate the gains achieved in recent years within a policy framework responsive to the continuing deterioration of the terms of trade. At the same time, in view of the magnitude of the external shock and its consequences, the program will seek to smooth the adjustment path by rephrasing the desired reduction in the rate of inflation and forgoing some of the buildup of gross official reserves that had been originally targeted. Accordingly, the basic macroeconomic objectives of the program for 1989-92 are the following: (a) to achieve an average annual rate of growth of real GDP of at least 5 percent; (b) to reduce the rate of inflation, on an end-of-period basis, from 27 percent in 1988 to 5 percent in 1992; and (c) to generate overall balance of payments surpluses averaging about US\$85 million per annum, which, though lower than foreseen earlier,

would be consistent with the scheduled reduction in the foreign liabilities of the Bank of Ghana, the elimination of the remaining external payments arrears, and some increase in gross official reserves, while ensuring an adequate level of imports. In addition, the program will aim at accelerating the implementation of PAMSCAD, in order to help address the needs of the poorest and most vulnerable groups throughout the country.

11. To attain these basic objectives, the program includes: (a) continued improvements in incentives for efficient production, export, and import substitution through a flexible exchange rate policy in the context of a unified exchange market, further exchange and trade liberalization, and appropriate agricultural producer prices; (b) increased investment for the rehabilitation and restructuring of productive capacity, infrastructure, and social services; (c) measures to strengthen the efficiency and equity of the tax system and to improve the structure of government expenditure, as well as budgetary procedures; (d) an acceleration of state enterprise reform; (e) an enhancement of the effectiveness of liquidity management through market-based instruments of monetary control; (f) an acceleration of financial sector reform, including a rehabilitation of the financially troubled commercial and development banks; and (g) improvements in public sector management. To underpin these policies, appropriate sectoral strategies will continue to be implemented, notably in agriculture, industry, health, and education.

12. The program envisages an increase in gross investment in relation to GDP from an estimated 12.3 percent in 1988 to 19.0 percent in 1992, involving an expansion in both public and private sector investment. In the context of the public investment program (PIP), such investment is projected to rise from 8.0 percent of GDP in 1988 to 11.0 percent in 1992. A major emphasis of the program will be on increasing the efficiency of capital outlays and the related operating and maintenance expenditure, with a view to ensuring higher rates of return and containing the increase in external indebtedness. Private investment, which is projected to grow from the equivalent of 4.3 percent of GDP in 1988 to 7.9 percent in 1992, is critical to the success of the program. Therefore, private initiatives will be encouraged by a reinforcement of macroeconomic policies, the strengthening of economic incentives, and sound sectoral policies, as well as by the envisaged increased mobilization and improved intermediation of financial resources.

13. The financing of the projected investments and the achievement of the external objectives of the program will require an increase in gross national savings in relation to GDP from an estimated 10.6 percent in 1988 to 14.8 percent in 1992. To this end, fiscal policy will continue to aim at generating surpluses (excluding capital expenditure financed through external project aid), making it possible for the Government to make additional net debt repayments to the domestic bank

and nonbank sectors. The improvement in the Government's net position vis-à-vis the domestic banking system, which is programmed to average C 15.4 billion a year during 1989-92, would facilitate an adequate growth of bank credit to the private sector, while limiting overall monetary expansion to a level consistent with the macroeconomic objectives of the program. The mobilization of domestic financial savings will be encouraged through the restoration and maintenance of positive real interest rates and the restructuring of the financially troubled commercial and development banks.

14. The achievement of the targeted rate of economic growth will require a strong performance from agriculture and industry. ^{1/} In the agricultural sector, cocoa output should benefit from better producer prices and cultivation practices. Furthermore, given its resource base, Ghana has demonstrated a potential to meet domestic food requirements and to export surpluses. However, the country is far from realizing this potential fully because the productivity of small holders, which account for the bulk of output, is very low. This is largely attributable to the limited use of improved technology, poor delivery of inputs (particularly fertilizer), weak agricultural services, limited access to credit, and inadequate infrastructure. The Government is thus designing measures to further promote agricultural growth, as good performance in this sector would enhance the prospects for overall economic expansion, with a corresponding impact on living standards, particularly for the poor. In the industrial sector, manufacturing is expected to continue to register strong growth. The industrial strategy centers on the promotion of efficient import substitution and nontraditional exports. The best prospects appear to lie with domestic resource-based activities, replacing other activities that are no longer profitable under a liberalized exchange and trade system. The rehabilitation and modernization of Ghana's gold mines, together with new ventures by private investors, led to a rise of value added in the mining sector by over one third in 1988; output is expected to continue to expand, allowing the country to regain previous production levels. Finally, the services sectors are projected to grow in line with the rest of the economy. Transportation and communications are benefiting from the rehabilitation of infrastructure. The financial sector will also grow as reforms to improve the efficiency of banks are implemented. Clearly, the realization of the growth potential in the various sectors of the economy will depend upon the sustained implementation of appropriate macroeconomic policies and sectoral strategies, supported by adequate and timely external assistance.

^{1/} The specific sectoral measures to be implemented under the program are described in Section V.

IV. Macroeconomic Adjustment Policies

15. Within the broad framework described above, the Government will implement a coherent set of policies designed to address the structural, institutional, and financial problems still facing Ghana. As indicated below, additional actions have been taken since early 1989 in the areas of the exchange and trade system, producer prices, the government budget, and liquidity management. The main thrust of the program for the period immediately ahead will be on a further liberalization of the exchange and trade system, notably the establishment of a unified exchange market, a reinforcement of economic incentives, a strengthening of government finances, an enhancement of the effectiveness of liquidity management, and an acceleration of state enterprise and financial sector reforms. A summary and the time frame of the Government's policies for the entire program period is provided in Table 2.

Exchange and trade liberalization

16. The Government will take steps to achieve a fully realistic exchange rate, based on a unified exchange market, at the latest by the end of June 1990. Since the introduction of foreign exchange bureaus in April 1988, their total number has grown rapidly. Thus, by the end of June 1989 more than 140 bureaus were in operation, with their recorded transactions amounting to some US\$7 million a month, equivalent to about one third of those effected through the auction. Despite the improvements made in the operation of the exchange system, however, a sizable spread still exists between the foreign exchange bureau and auction rates, largely because of the partial segmentation of the two markets.

17. The Government intends to bring about the necessary unification in a phased manner, while seeking to support the process through a strengthening of liquidity management and interest rate policy. In a transitional phase, beginning in early October 1989, the Bank of Ghana will aim at narrowing the spread between the two rates by supplying an increasing proportion of foreign exchange to the bureaus relative to the auction. The channeling of resources to the bureaus will be accomplished by the establishment of a wholesale market for foreign exchange in the form of special auctions, to be held at regular intervals. At the end of the transitional phase, the exchange markets will be unified. The role of the Bank of Ghana in the exchange rate determination process will be modified, as the regular auction will be discontinued. The present dual exchange rate arrangement will be replaced by an extended interbank system supported by a weekly wholesale auction conducted by the Bank of Ghana. Under this unified system, the exchange rate of the cedi will be determined freely by the supply and demand for foreign exchange among banks (including the Bank of Ghana) and other authorized dealers and their customers.

18. The liberalization of the exchange and trade system will also continue to be a part of the reform effort in order to strengthen production incentives and improve the allocation of resources. To this end, a number of actions have already been taken this year. Effective January 14, 1989, the import licensing system was abolished; importers are now only required to submit an import declaration form, which is readily available and not subject to approval. Furthermore, as of February 1, 1989, all bona fide requests for transfers of profits and dividends became eligible for funding through the foreign exchange auction. With these actions, there remain only a few controls on current account transactions, which relate mostly to invisibles. Under the program, all the remaining restrictions on payments and transfers for current international transactions will be eliminated at the latest by the end of June 1990. This would imply that all such payments and transfers will be eligible for funding through the unified exchange market.

19. The Bank of Ghana has progressively reduced its external payments arrears, which exceeded US\$600 million at end-April 1983, to US\$40.6 million at end-June 1989. The objective is to reduce these arrears even further to US\$20 million by end-December 1989 and to eliminate all the remaining arrears by end-June 1990, with a view to achieving full normalization of relations with foreign creditors.

20. Ghana has bilateral payments agreements with ten countries, three of which are Fund and World Bank members. The Government entered into such arrangements mainly with a view to diversifying Ghana's export and import markets. However, with the liberalization of the exchange and trade system, these agreements are being reviewed, and where practicable will be terminated as soon as possible. In the meantime, the volume of cocoa to be exported annually in the context of bilateral payments agreements will not exceed the 1988 level of 10,000 tons. Arrangements are being worked out to ensure that Ghana does not hold large credit balances in the bilateral accounts. The current credit balances will be utilized in supporting selected projects in the public investment program, as well as in the private sector.

21. Ghana's tariff structure provides for a relatively uniform and moderate level of protection, with duty rates ranging from zero to 25 percent. Special import taxes raise nominal protection to 25-60 percent for some products. The Government intends to further restructure import duties in stages to create a lower and more uniform pattern of protection, and thereby to encourage the development of nontraditional exports and efficient import-substitution industries. This process will involve lower standard rates, and the transfer of the role of luxury taxation to excises and the sales tax. It will also include: phasing out special import taxes; further reducing the scope of duty exemptions and concessions; and streamlining the duty drawback system. Related to this program, a study of the effects of trade liberalization on the

manufacturing sector will be conducted by the end of 1989. The Government will establish procedures for reviewing rates of duty on particular products and responding to requests for changes in protection.

22. To promote the diversification of foreign exchange earnings, the Export Promotion Council has been advising enterprises on sales opportunities and assisting them in quality control of nontraditional exports. The introduction of a unified exchange market, coupled with a lower and more uniform pattern of protection, will also help promote such exports in areas where Ghana has a comparative advantage. As the unified exchange market becomes firmly established and confidence grows, the Government will review the need for the continued maintenance of foreign exchange retention privileges. Meanwhile, no new privileges will be granted, except as provided under existing law.

Financial sector reform

23. A well-functioning financial sector, with an effective banking system at its core, is needed to support the structural adjustment process. To this end, the Government is implementing a comprehensive program of institutional and policy reforms, with a view to strengthening the country's financial institutions and enhancing their efficiency. Following the completion of diagnostic studies for the three development banks and six of the eight commercial banks, a framework has been developed that specifies the modalities for restructuring the distressed banks. This includes appropriate provisions for substandard loans and recapitalization; measures to deal with the banks' portfolios of nonperforming loans, notably those to state enterprises; and the rescheduling or conversion of loans extended to banks by the Government, the Bank of Ghana, and external lenders. Guided by this framework, the authorities are working out the details for the restructuring of three banks which account for a substantial share of the assets of all commercial and development banks. The plans for these banks, which would, inter alia, reduce by at least 50 percent the banking system's nonperforming loan portfolio, will be ready for implementation no later than the end of September 1989. The Government intends to extend some of the reforms envisaged for these banks to the rest of the banking system. In any event, comprehensive plans for the remaining commercial and development banks facing difficulties will be undertaken no later than the end of September 1990.

24. The total cost of the financial sector reform program is estimated at US\$280 million over the next three years. The World Bank is expected to provide US\$102 million from the Financial Sector Adjustment Credit; cofinancing of about US\$100 million has been secured from Japan and US\$9 million from Switzerland; and the Government is to contribute the equivalent of US\$60 million, principally through the conversion of loans to banks into equity and the repayment of government-guaranteed bank loans to state enterprises. Private capital will also be mobilized for the recapitalization needs of selected banks, as well as for meeting the new capital adequacy ratios.

25. The recently adopted Revised Banking Act has tightened risk exposure limits, established higher minimum capital adequacy ratios, strengthened accounting standards, broadened the scope of audits, and imposed more stringent reporting requirements for banks. On-site and off-site supervision of banks has been substantially improved. Already, three full examinations have been completed by the Bank of Ghana under its new procedures, and all banks have been audited according to the more stringent reporting requirements. With a view to further developing the financial system, a study is in progress to examine the potential for development of the capital market in Ghana. Steps are also being taken, with assistance from the World Bank and other donors, to restructure rural banks.

Monetary policy

26. Monetary policy will be geared toward meeting the liquidity requirements of the economy, consistent with the growth, inflation, and balance of payments objectives of the program. At the same time, the management of liquidity expansion, supported by financial market reforms and measures to unify the exchange markets, will be focused on restoring positive real interest rates on deposits, thereby promoting financial savings. The authorities intend to take steps to improve the financial position of the Bank of Ghana to ensure that the effectiveness of monetary policy is not impeded by considerations regarding the Bank's own profitability. In addition, the authorities intend to encourage the development of nonbank financial institutions and to reinvigorate rural banks, in a manner consistent with the reform described below.

27. A major objective will be to put in place a new system of monetary control whereby overall liquidity is managed primarily through control of the net domestic assets of the Bank of Ghana by open-market type operations and other market-based instruments, rather than through credit ceilings on individual banks. This system, which has been developed with Fund technical assistance, will be phased in during the year ending June 1990. In an initial phase, to be completed by the end of 1989, any existing excess reserves of banks will be absorbed by the Bank of Ghana through open-market operations at competitive interest rates. Concurrently, the Bank of Ghana will set up an appropriate liquidity management and monitoring system, while refining its reserve requirements and refinancing facilities. Furthermore, by the end of 1989, the Government will recapitalize the Bank of Ghana by absorbing the Bank's large accumulated revaluation losses, replacing them with special government securities offering a yield sufficient to allow the Bank to operate monetary policy uninhibited by considerations regarding its own profitability. In an intermediate phase, beginning in early 1990, the Bank of Ghana, while maintaining credit ceilings on individual banks, as well as appropriate reserve requirements, will undertake to absorb any newly generated excess reserves of banks. This would encourage commercial banks to mobilize more savings and time deposits, and thereby to restore and maintain positive real interest rates; given the programmed improvement in the Government's position vis-à-vis the banking system,

the resulting increase in financial savings would support the objective of providing adequate credit for the productive needs of the private sector. In the final phase, the system of setting credit ceilings will be abolished, as the Bank of Ghana will have developed the capability of attaining the objectives of the program through control of its net domestic assets.

Incomes policy

28. In recent years real incomes have been increasing, albeit slowly and from very depressed levels, especially in the civil service. An important element of the program will be the implementation of a balanced incomes policy, based on three key principles: the productivity gains in individual sectors; the targeted rate of inflation; and the employers' ability to pay (i.e., the affordability criterion).

29. Effective January 1, 1989, this policy has served as the basis for the new salary structure in the civil service, which has also involved a substantial widening of differentials between the highest- and the lowest-paid employees, in order to boost morale as well as attract and retain skilled personnel. For the rest of the public sector, the Government will seek to implement the above-mentioned principles through its role as an employer or a provider of financial assistance. Pay increases equal to the general increase in civil service salaries may be granted to public entities that do not have collective bargaining agreements and are dependent on government budgetary support. However, for public entities that have collective bargaining agreements and are dependent on budgetary support, pay increases would be granted only to the extent that they are consistent with the approved level of government subventions. For state enterprises that are self-financing and for the private sector, increases in remuneration are determined primarily through collective bargaining agreements with trade unions. To help influence the outcome of collective bargaining, the Government will embody the principles of its incomes policy in the guidelines on the collective bargaining process. The Government will also seek to discourage the indexing in collective bargaining agreements of changes in salary supplements and allowances to changes in basic pay.

Fiscal policy

30. The Government will continue to implement a growth-oriented fiscal policy, with the budget aimed at generating increasing surpluses (excluding capital outlays financed through external project aid), strengthening economic incentives, and contributing to the rehabilitation and expansion of the productive capacity of the economy. In this context, tax reform and rationalization of the structure of government spending will be pursued.

31. Tax reform will continue to be aimed at promoting efficiency and equity, while improvements in tax administration and the broadening and expansion of the tax bases will ensure the needed increase in revenue

relative to GDP. During the last three years, progress has been made in extending the personal income tax to include more of the self-employed income earners. At the same time, the income tax burden has been reduced for the lower-paid workers through substantial increases in personal allowances, and the level at which the top marginal tax rate takes effect has been raised by a widening of the tax brackets. Excess taxation of dividends relative to other forms of income was also reduced by the conversion of the withholding tax of 30 percent into a final tax. Further progress in promoting equity will be achieved by the reduction of disparities in the taxation of earnings from different types of financial assets, while the base of the personal income tax will be progressively expanded to include cash and in-kind benefits. In the area of company taxes, progress has been made in reducing the corporate tax rate; in the 1988 budget the tax rate was lowered from 55 percent to 45 percent for the manufacturing, farming, and export sectors, and in the 1989 budget it was reduced to 50 percent for all other corporate bodies, except those in banking, insurance, commerce, and printing. The Government intends to take measures to make company tax rates more even across industries. The Government will also redesign, with Fund technical assistance, the structure of taxes on capital and savings with a view to stimulating private sector activity, while minimizing the adverse impact on tax receipts. In the area of taxes on goods and services, the reform of the sales tax will be pursued by broadening the base and rationalizing its structure in order to enhance revenue collection. To encourage compliance, the Government is considering, on the basis of a recent study, the feasibility of replacing the current "ring" system (which exempts the sales tax on purchases by registered firms) by a "credit" system. Excise and other duties on alcoholic beverages, cigarettes, motor vehicles, and petroleum products will be increased, and continue to be an important source of revenue in future years. The above measures would thus facilitate a gradual reduction in the reliance on import and export taxes, including taxes on cocoa.

32. To further improve tax administration, the Government intends to computerize the management information systems. An important first step will be to introduce a system of unique taxpayer identification numbers. Procedures to facilitate the filing of returns and payment of arrears will also be developed, with a particular focus on the self-employed. Finally, assessment, collection, and auditing procedures will be further revised to encourage greater voluntary compliance. To increase confidence in the fairness of the system, a Special Tax Tribunal for prosecuting tax offenders and hearing appeals has been established.

33. Government expenditure will be geared toward meeting the requirements of structural adjustment, consistent with the availability of domestic and foreign resources, as well as with the need to reduce inflation. The objectives of government expenditure policy will be the following: (a) to continue to raise salaries in the civil service, especially for highly skilled employees, consistent with the incomes policy and the fiscal targets of the program; (b) to make appropriate allocations for operating and maintenance outlays, particularly in the

priority areas of agriculture, health, and education; and (c) to provide for the capital expenditure envisaged in the public investment program and the reform of the banking system.

34. Fiscal performance has improved significantly, and steps are being taken to make the government budget an even more effective policy and management tool. To improve allocations for operating and maintenance outlays, the Budget Task Force has published guidelines to apply appropriate norms; these norms will be refined to assist in the preparation of the 1990 budget. In addition, the budget process will be reinforced in several ways. First, the Government is taking steps to increase control over spending commitments in health and education, and plans to introduce a full commitments-based monitoring system by the end of 1989. Second, increased efforts are being made to improve expenditure monitoring. Third, the policy on subventions is being reviewed, and measures will be taken to eliminate funding of potentially self-supporting entities, while providing adequate resources to others, such as research institutes, that depend entirely on the budget. Fourth, the budget documents will be published on a more timely basis, and will comprise both recurrent and development expenditures, including all externally assisted projects.

Public investment program

35. The public investment program (PIP) for 1989-91 maintains the emphasis on rehabilitating the country's economic and social infrastructure, thereby providing the needed support to the private sector. Of the total planned public investment of C 510.5 billion (in constant 1989 prices), including state enterprises, 65 percent is allocated for the development of economic infrastructure. The most important projects in this area include the rehabilitation of highways, railways, and ports; upgrading of telecommunication services; rehabilitation and expansion of the hydroelectric power grid, as well as the water supply system; and improvements in petroleum refinery and distribution facilities. The share of the directly productive sectors is 25 percent, devoted mostly to strengthening agricultural extension services and to rehabilitating the cocoa and mining sectors. In these sectors, it is expected that private investment will play a leading role. The remaining 10 percent is allocated to the continued rehabilitation of the social sectors, particularly for improved and expanded health and education services, and the implementation of selected projects designed to alleviate poverty. On the basis of current projections, public investment is expected to grow from the equivalent of 8.0 percent of GDP in 1988 to 10.8 percent in 1991.

36. To bolster investment planning, the capability of sector ministries and other implementing agencies will be upgraded to enable them to better formulate and prepare projects. A Project Selection Committee has been set up to ensure that investments meet established criteria, the blend of projects reflects sector strategies, and there is complementarity between projects in different sectors. The PIP for

1990-92 will be prepared in line with the macroeconomic objectives of the program, and will be ready for implementation no later than the end of March 1990.

State enterprise reform

37. The objectives of state enterprise reform are the following: (a) to improve efficiency and profitability; (b) to reduce the financial burden on the government budget; (c) to increase managerial autonomy and accountability; and (d) to mobilize additional financial and entrepreneurial resources. The reform effort has thus focused on improving state enterprise management and streamlining the sector through divestiture and restructuring. The modes of divestiture include a range of options--outright sale, public or employee share issues, leasing, management contracts, and liquidation. To support this process, the State Enterprises Commission (SEC) and the Divestiture Implementation Committee have recently been strengthened significantly, mainly through the recruitment of appropriate staff.

38. As regards divestiture, progress has been slower than expected in respect of the originally selected enterprises, partly because of delays in the preparation of audited accounts and the valuation of assets of enterprises. Of the 32 state enterprises selected for divestiture, 10 were effectively liquidated by end-1988, as indicated earlier. However, the sale of the Government's interest in six joint ventures could not be completed as planned by end-1988. Since early 1989 negotiations have been accelerated, and agreements were reached by end-June for the sale of the Government's interest in five of these enterprises; 1/ a similar agreement was concluded by end-August for the sixth enterprise. 2/ Moreover, the Government intends to divest itself of an additional four enterprises by the end of 1989. 3/ The remaining 12 of the 32 selected enterprises will be divested by the end of 1990. Outside the list of 32, the Government has effectively liquidated 4 state enterprises, 4/ and intends to divest itself of 7 others by the end of 1989; 5/ it will also examine the possibility of further divestitures in 1990.

39. Apart from the 32 originally selected enterprises, the Government has undertaken several initiatives in the context of sectoral reforms, and has begun to achieve its objective of using divestiture as a means of mobilizing domestic and external financial resources and

1/ D.L. Steel; Famekwa Trading Company; Metalico; Overseas Knitwear; and Two Worlds Manufacturing.

2/ Neoplan.

3/ Possibly Continental Hotel; NIC Farms; State Fishing Corporation; and Willowbrook.

4/ GEA Chemical; NIC Knitting Factory; NIC Textiles; and NIC Weaving.

5/ Possibly Broadway Enterprise; GIHOC Farms; GIHOC Ice Cold; GOLCHA Films; Nkwakubew Farms; West Coast Shrimping; and Wire and Metal.

attracting foreign technical know-how. Thus, the divestiture of the Cocoa Board's majority ownership in its insecticide plant brought in a new foreign private partner and capital investment. In addition, in the mining sector, the divestiture by the State Gold Mining Corporation (SGMC) of its majority interest in one gold mine has led to the establishment of a joint venture with a foreign company that aims at resuming mining operations in a previously abandoned area. The SGMC also expects to divest itself of majority interest in three other concession areas. By securing private sector participation, the SGMC will be able to complement the funding it has obtained from the World Bank, the European Investment Bank, and the French Caisse Centrale in order to undertake the extensive rehabilitation and development, as well as the additional exploration, needed in its concession areas with high potential. Moreover, efforts are being made to finance the expansion of the Ashanti Goldfields Corporation through a market placement of a portion of the Government's 55 percent equity share in the corporation. Discussions have been proceeding with a number of financial houses to develop an effective strategy for such a placement not only in respect of the Ashanti Goldfields Corporation but also the SGMC. For the latter in particular, corporate restructuring and credit enhancement seem vital prerequisites to an effective placement, and steps are being taken to this end.

40. As to the enterprises remaining in the Government's portfolio, corporate plans and performance agreements are the principal means by which management and financial performance will be monitored and improved. Since corporate planning and the design of related performance contracts are relatively new concepts for state enterprises in Ghana, local know-how has generally been limited. In the circumstances, expert assistance has been sought, but the process of recruiting suitable consultants has at times involved delays. Nevertheless, the plans and agreements that have been prepared for 14 priority enterprises generally include clear statements of corporate objectives and quantitative performance targets, particularly with respect to cost and profitability. Statements of performance incentives, however, need to be made more specific. Performance agreements will be signed by the end of 1989, following the completion of negotiations between the state enterprise concerned, the SEC, the relevant sector ministry, and the Ministry of Finance and Economic Planning (if there are budgetary implications). In subsequent years, updated corporate plans will be prepared and performance agreements signed for all 14 priority state enterprises by the end of each calendar year. The SEC will monitor and evaluate the performance of priority state enterprises using the parameters agreed in the performance agreements. A performance-based incentive system will also be developed by the SEC to promote greater management efficiency.

41. The Government intends to encourage the commercial operation of state enterprises. This would include permitting greater autonomy in pricing, staffing, redeployment, remuneration, and procurement. Given the nearly full decontrol of prices, the remaining issue in the area of pricing relates to the regulated state enterprises, primarily utilities,

and the approval process required for rate changes. A study examining utility pricing and procurement will be completed by the end of 1989. The Government will rigorously enforce the guidelines defining the criteria and procedures for budgetary support to state enterprises. In particular, the Government will not provide state enterprises with subsidies, equity, or loans, nor will it guarantee loans, unless such resources are part of the approved corporate plans and consistent with the public investment program. Plans for the settlement of the cross-debts and arrears among the Electricity Corporation of Ghana, the Ghana Water and Sewerage Corporation, the Volta River Authority, and the Government have been put in place recently and repayment schedules are being observed. Similar plans for the 15 remaining enterprises and the Government will be formulated by the end of 1989.

Public sector management

42. Improving the efficiency of the civil service and public sector management remain important objectives of the program. The ongoing reform of the civil service aims at reducing staffing levels, raising remuneration, and increasing salary differentials. A civil service staffing and functional review has been instituted, which is focused on personnel needs consistent with the efficiency goals of the redeployment program. Based on the results so far, the Government intends to redeploy at least 12,000 employees in 1989 and to set appropriate objectives for 1990 and beyond. After accounting for the recruitment of skilled staff, the net reduction in the civil service in 1989 is expected to exceed the 3,100 attained in 1988. Provisions have been made in the 1989 budget to cover compensation payments and retraining costs for the retrenched workers.

43. To strengthen public sector management, special attention is being paid to improving the organizational structure and operations of the Ministry of Finance and Economic Planning. In particular, the various task forces in the Ministry are being better integrated with the regular departments, and duplication among divisions will be eliminated. Furthermore, the responsibilities of other agencies involved in the budget process will be re-examined. The implications of the creation of the National Development Planning Commission for the budgetary process will also be reviewed so that effective coordination mechanisms can be established. In addition, efforts are being made to upgrade the analytical and implementation capabilities of line ministries, as well as those of public utility companies.

The role of the private sector

44. To a large extent, the Government can best promote the private sector by consistently implementing appropriate macroeconomic policies. Tax reform has improved incentives for the private sector, and the liberalized exchange and trade system has decreased public intervention in the activities of enterprises, while allowing for transfers of profits and dividends.

45. To further improve the climate for private investment, several measures will be implemented. The dialogue between the Government and representatives of private enterprises will be intensified. As noted earlier, with Fund technical assistance, the Government will review the effect of the tax system on incentives to invest, and will rationalize the structure accordingly. The Ghana Investments Center (GIC) has requested the Foreign Investment Advisory Service, a joint facility of the IFC and the Multilateral Investment Guarantee Agency (MIGA), to help the Center better promote private investment. Actions will include: revising the Investment Code to make it more liberal for both local and foreign investors; simplifying the approval process, inter alia, by reducing the clearances required from government agencies; eliminating overlapping jurisdiction so as to make the GIC a "one-stop shop" for investors; and lessening the focus on the approval process in favor of an emphasis on investment promotion. In collaboration with the World Bank and the Development Assistance Committee of the Organisation for Economic Cooperation and Development, the Government will identify the remaining constraints on private investment, and design appropriate measures. Progress on both financial sector reform and state enterprise divestment will also be important for the growth of private investment. In cooperation with the MIGA, the Government plans to host a conference in early 1990 to promote foreign private investment in Ghana.

V. Sectoral Adjustment Policies and Programs

46. The reforms described in the preceding sections provide the framework for structural adjustment and growth. In addition, to maximize the supply response to improved incentives, the Government has developed strategies to overcome the constraints in two key sectors, agriculture and industry. In order to lay the foundations for sustained human resource development, the Government has adopted strategies for health and education. Protection of the environment is also a priority.

Agriculture

47. To encourage a recovery in cocoa output, the Government has been increasing the price paid to producers. As a result, the producer price (inclusive of bonus payments) has risen as a share of the average f.o.b. export price from 36 percent in the 1987/88 crop year to an estimated 45 percent in 1988/89. In view of the sharp decline in world market prices for cocoa, in June 1989 the Government announced a modest increase in the producer price, from ¢ 165,000 per ton to ¢ 174,400 per ton for 1989/90, representing a projected 50 percent of the f.o.b. export price. As was the case in 1988/89, in the event that actual export prices in local currency terms are higher than anticipated, the additional receipts will be placed in a compensation account, with 60 percent going to farmers and 40 percent to the Government. On the basis of the results of a study on cocoa incentives, conducted with

World Bank assistance, the Government intends to improve further incentives for cocoa producers, consistent with world market trends and government budgetary requirements.

48. As an integral part of the Government's cocoa policy, steps are being taken to upgrade the efficiency of the marketing and distribution system. In this regard, the Cocoa Board's operating costs (excluding retrenchment costs) are to be reduced from an estimated 22 percent of the average f.o.b. export price in 1987/88 to some 15 percent in 1988/89. To achieve this objective, the Board reduced its staff by 6 percent (2,500) in 1988, and intends to implement cutbacks of about the same magnitude in 1989. The SEC is in the process of divesting 52 of the Cocoa Board's 92 plantations; 5 have already been leased, and arrangements for the remaining 47 will be finalized by the end of June 1990. The share of haulage provided by the Board on major roads has been reduced to no more than 10 percent, and the participation of the private sector and the railways in the transport of cocoa has been increased. Input delivery is being privatized. The Cocoa Board's corporate plan has been updated to cover the period 1988/89-1990/91, and a performance agreement for 1989/90 is expected to be concluded with the Government by the end of 1989. The plan incorporates a medium-term strategy involving further reductions in staff, a phased elimination of subsidies on inputs to farmers, and cutbacks in activities of the Board unrelated to its purchasing, marketing, research, and extension service functions.

49. In view of its potential contribution to growth and to improvements in rural incomes, the goal of increasing the output of food crops is an integral part of the Government's program. The Ministry of Agriculture, in cooperation with other government agencies and donors, is developing a medium-term agricultural development program to identify the activities needed to promote growth. A rehabilitation program has been drawn up focusing on basic services and other activities with the greatest potential for improving smallholder production. These include encouraging the adoption of appropriate technologies, improving logistical support for extension services, meeting essential input requirements, and increasing investment in feeder roads. Pilot extension programs have started in several regions. The Government is phasing out the transportation subsidy on fertilizer; prices of fertilizer were raised for the 1989 season, thereby lowering the subsidy covering transportation costs from 30 percent to 15 percent of the total price. The Government has also begun to privatize fertilizer marketing. In furtherance of this policy, the Government is registering retailers, and intends to complete this process by the end of 1990.

50. The objective of food security is to provide all Ghanaians with an adequate, nutritionally balanced diet at reasonable prices. The above-mentioned measures designed to increase productivity, as well as the development and promotion of better varieties and the reduction of pre- and post-harvest losses through disease and pest control, will enhance food security. In order to improve food handling systems,

community and on-farm storage programs will be strengthened. Other measures envisaged include irrigation and improved water control, tree planting to protect the environment, and steps to reinvigorate rural financial institutions.

51. The strategy for the timber sector is designed to boost productivity and output in a manner consistent with environmental objectives. Under a forestry resources management program, supported by several donors, the Government intends to: (a) stabilize production in accordance with a sustainable yield policy; (b) promote conservation through tree planting and counteract fuel wood shortages and ecological deterioration; and (c) strengthen institutions to enable them to effect policy reforms and better protect and manage forestry resources. Work has commenced to update the annual allowable offtake based on an inventory of forest resources and to improve the system of timber concessions. In addition, royalty fees have been increased to provide incentives for conservation.

Industry

52. The transitional effects of the liberalized exchange and trade system on domestic industries will be studied, and assistance will be provided over a limited period to adversely affected enterprises that are potentially viable. In addition, the Government will provide technical support to small- and medium-scale industries. By completely overhauling the legal and administrative framework of the mining sector, the Government has been able to attract substantial private investment, especially in gold mining. Over 55 gold prospecting licenses have been issued since the new Minerals and Mining Law came into force in 1986. Mining leases have been granted to five companies, of which one has started production while four others are expected to come on stream next year. Together with the previously mentioned efforts of the Government to establish joint ventures in the state-owned gold mines, the expansion program of Ashanti Goldfields Corporation and the legalization of small-scale gold mining, a strong recovery of gold production levels in Ghana, possibly reaching historic peaks, is under way. The new Precious Mineral Metals Corporation is effectively mobilizing the output of small-scale miners by offering remunerative prices. While encouraging these developments in production, the Government is supporting the institutions that monitor mining ventures in order to ensure that the mining methods employed maximize resources and avoid environmental damage or degradation. An environmental fund has been set up using some of the proceeds from the commissions on purchases from small-scale miners. Each of the new mining projects is also required to provide an environmental baseline and impact study as a precondition to obtaining a mining lease.

Health

53. The Government's health policy has concentrated on primary health care, but implementation has fallen short of objectives. To redress the situation and improve the quality and coverage of health

services, the Government has embarked on reforms focusing on management, procurement, financing, and manpower. The Ministry of Health is preparing proposals to restructure and strengthen the procurement of pharmaceuticals, rehabilitate stores, and rationalize the financing and pricing of pharmaceuticals. The 1989 recurrent budget significantly improved allocations for travel/transport and maintenance, as well as for pharmaceuticals. A new Hospital Board Law has been enacted, aimed at improving management and self-financing, with implementation to begin initially in the teaching hospitals. The Ministry itself is being reorganized, with a view to decentralizing operational responsibilities and the control of resources. Investment in health centers will concentrate on emergency rehabilitation and completion of projects under construction, with priority being given to the most needy regions.

54. As Ghana's population is growing at about 3 percent a year, it consumes a major portion of the income gains from economic recovery. Moreover, continuation of the present rate of growth would make it more difficult for the Government to improve the quality and coverage of health and education services, particularly for the poor. A renewed commitment to population control and redoubled efforts are required. The Government has thus recently decided to revitalize its population program and is preparing an implementation plan. Specific actions include a more effective education campaign, more adequate logistics, and additional technical and financial resources.

Education

55. Since 1987 the Government has been implementing a major reform of the education system. Key elements include reduction in the length of pre-university education, curriculum reform, provision of more textbooks and instructional materials, increased and revamped teacher training, and improved resource allocation. During the first phase (1987-89) significant progress was made in addressing three main objectives: to improve pedagogic effectiveness; to make education financing more efficient and equitable; and to ensure that the new system can be sustained with only modest increases in national resources. The proportion of the education budget allocated to nonwage recurrent expenditures has risen substantially. At secondary and tertiary schools, subsidies for room and board have been gradually eliminated. Textbook fees have been increased in primary schools and will be raised in secondary schools to levels sufficient for full cost recovery. The Government has also revised the curriculum for primary and junior secondary schools. The second phase (1990-92) will focus on restructuring senior secondary schools, improving quality and efficiency, and implementing policies to ensure the financial sustainability of the new system. The Government will achieve cost savings by enforcing staffing norms to reduce excess personnel, tightening control over investments, and improving maintenance practices and funding.

Environmental issues

56. Environmental problems are a continuing source of concern, as they involve: soil erosion and degradation in the north; salination of arable land; use of hazardous chemicals; inadequate management of marine and coastal resources; and health issues related to water resource and urban development. To address these problems, an environmental action plan has been developed, which seeks to ensure sound management of natural resources and the environment, as well as to avoid any exploitation that might cause significant damage to the ecological balance. The plan also aims at ensuring that specific account is taken of the environmental implications of investment projects. It thus provides for the institution of land use planning, improved water resource management, environmental quality standards, control of hazardous chemicals, and a framework for implementing these actions.

VI. Social Impact of the Program

57. The economic gains realized since the beginning of the Economic Recovery Program in 1983 have benefited large segments of the population. The resumption of growth permitted real increases in per capita income for the first time in more than a decade, particularly in rural areas where most of Ghana's poor live. Higher tax revenue and inflows of concessional assistance enabled public expenditure to increase, notably for operations and maintenance, as well as for rehabilitation of infrastructure and essential services. The negative impact of the program has been felt primarily by groups relying on economic rents in a restrictive environment. The major beneficiaries have been producers of tradable goods, especially those in the cocoa and other directly productive sectors. Nevertheless, only in the longer term can economic expansion and the social development focus of public investments generate sufficient employment and increased incomes for the poorest groups, whose plight remains extremely difficult. Moreover, some components of the program may exacerbate the problems of certain vulnerable groups. The Government is addressing these concerns in several ways, including implementation of the special program of actions to mitigate the social costs of adjustment (PAMSCAD). These actions comprise community initiative projects, training and employment generation programs, and projects to enhance access by the poor to basic services in the areas of health, education, nutrition, and shelter.

58. Although progress in implementing PAMSCAD has been slower than expected, owing to donor delays in finalizing commitments, as well as to domestic administrative constraints, several projects have been undertaken successfully. The first 20 community initiative projects are nearly complete, and an additional 198 have recently been started. A pilot project in nonformal education has commenced in two districts, and a medical program for deworming children is scheduled to begin shortly.

Priority public works have been started in urban areas, while feeder roads are under construction with labor-intensive techniques. Finally, training is being offered to the redeployed and unemployed.

59. To accelerate the implementation of PAMSCAD, ten mobile planning teams have been placed in the regions to facilitate the training of district officers, provide technical assistance to district councils, and follow up local proposals. The personnel responsible for projects have been identified for each implementing agency and, in most cases, committees have been established to improve administrative efficiency and coordination. Meanwhile, donors are being encouraged to accelerate their support through more flexible procedures. Complementary measures to PAMSCAD include projects in the public investment program, as well as food-for-work projects and related activities undertaken by nongovernmental organizations.

60. The first results of the ongoing Ghana Living Standards Survey support a strategy of poverty alleviation based on improving the rural terms of trade and agricultural productivity. The data also confirm the appropriateness of the emphasis of public investment on rehabilitating infrastructure and improving access to social services for the rural population.

61. Overall, the continued economic growth that is expected to be achieved with the implementation of judicious macroeconomic policies should expand employment opportunities. In this respect, growth in agriculture will be particularly important. The strengthening of production incentives, especially for small-scale farmers, and the shift in resources from urban to rural areas as well as from traders to producers, are programmed to enhance economic opportunities and increase incomes. At the same time, the reform program will continue to rely on public expenditure to rehabilitate basic infrastructure and improve the delivery of social services. Accordingly, recurrent expenditure for equipment, materials, and other inputs in health, education, and other basic needs will be further increased. Social sector development projects will also be specifically targeted to improve the living conditions of the poorest sections of the population.

VII. External Financing

62. According to the latest available projections, the medium-term outlook for world cocoa prices is unfavorable. Ghana's average f.o.b. export price for cocoa beans is projected to decline from US\$2,102 per ton in 1988 (and a peak of US\$2,407 per ton in 1986) to US\$1,444 per ton in 1989 and further to US\$1,250 per ton in 1990, before recovering somewhat in the subsequent two years. Combined with a decline in gold prices, the weakness in cocoa prices would contribute to a cumulative deterioration of 29 percent in Ghana's terms of trade during 1989-90, following losses of 16 percent during 1987-88. Thus, despite an expected strong growth in cocoa export volumes, export earnings from

cocoa are projected to continue to decline through 1990, and to pick up only moderately thereafter; by 1992 cocoa export earnings would still be significantly below (by about 20 percent) the 1986 level. However, other exports, notably gold and nontraditional goods, are projected to grow rapidly, offsetting by 1991 the unfavorable outlook for cocoa exports. On the basis of an annual average increase of about 6 percent in the volume of imports, Ghana's trade balance is expected to show a deficit averaging US\$312 million a year during 1989-92. Over the same period, the services account is projected to register net outflows averaging US\$354 million, with external debt interest payments averaging US\$107 million a year. Partly in response to the more realistic exchange rate and the improved confidence in the banking system, inflows of private transfers are projected to increase to an average of US\$209 million. As a result, the current account deficit, excluding net official grants, is programmed to increase from US\$264 million in 1988 to an average of US\$456 million a year during 1989-92 (Table 3).

63. In view of the existing pipeline of concessional assistance and anticipated new commitments, based on the outcome of the fifth meeting of the Consultative Group for Ghana in early 1989, disbursements of official grants and long-term loans are expected to average nearly US\$100 million a year during 1989-92, inclusive of resources mobilized through the Special Program of Assistance. Of this total, substantial amounts are expected from both bilateral 1/ and multilateral 2/ sources. Approximately 50 percent of the projected drawings of official grants and long-term loans is expected to come from commitments made as of end-December 1988. World Bank disbursements, including the Special Africa Facility, would amount to about US\$825 million during 1989-92. Taking account of the amortization payments due and the other net capital flows, Ghana's balance of payments would record overall surpluses averaging about US\$85 million a year. Together with the remaining drawings from the Fund under the enhanced structural adjustment facility, totaling US\$363 million in 1989-91, the balance of payments surpluses would facilitate the programmed elimination of external payments arrears, help reduce the foreign liabilities of the Bank of Ghana, and cover the scheduled repayments to the Fund, while allowing for a significant accumulation of gross official reserves.

1/ The current bilateral creditors and donors are Canada, Denmark, France, the Federal Republic of Germany, Italy, Japan, Kuwait, the Netherlands, Norway, Saudi Arabia, Sweden, Switzerland, the United Kingdom, and the United States.

2/ The current multilateral creditors and donors are the African Development Bank, the Arab Bank for Economic Development in Africa, the European Communities, the European Investment Bank, the International Fund for Agricultural Development, the OPEC Fund, the United Nations Children's Fund, the United Nations Development Program, the World Bank, and the World Food Program.

Table 1. Ghana: Selected Economic and Financial Indicators, 1985-92

	1985	1986	1987	1988		1989	1990	1991	1992
				Prog.	Prov.	Prog.		Projections	
(Annual percentage change, unless otherwise specified)									
National income and prices									
Real GDP	5.1	5.2	4.8	5.5	6.2	6.0	4.8	5.5	5.0
Real GDP per capita	2.3	2.6	2.1	2.1	3.5	2.9	1.7	2.4	1.9
Nominal GDP (in billions of cedis)	343.0	511.4	746.0	958.6	1,057.9	1,312.1	1,567.3	1,818.1	2,004.1
GDP deflator	20.7	41.7	39.2	21.8	33.5	17.0	14.0	10.0	5.0
Consumer price index (annual average)	10.3	24.6	39.8	21.8	31.4	20.0	15.0	10.0	5.0
Consumer price index (end of period)	19.5	33.3	34.2	20.0	26.6	15.0	10.0	8.0	5.0
External sector									
Exports, f.o.b.	11.6	18.5	10.0	-1.1	6.9	-4.2	-0.4	11.5	10.8
Imports, f.o.b.	9.0	9.3	27.3	6.2	6.1	9.2	8.2	8.4	9.3
Export volume	21.1	10.8	7.7	0.5	12.3	19.9	7.0	7.1	6.8
Import volume	11.2	14.3	12.9	2.2	4.7	7.1	6.7	4.3	5.0
Terms of trade	-5.9	12.5	-8.3	-5.2	-7.8	-21.7	-8.1	0.1	-0.2
Nominal effective exchange rate	-27.0	-49.8	-40.4	...	-17.6	...	...	...	...
Real effective exchange rate	-27.3	-42.4	-22.8	...	-4.5	...	...	...	...
Government budget									
Revenue and grants	78.0	82.6	50.8	28.5	38.5	34.6	30.0	17.1	11.0
Total expenditure	74.2	53.1	45.9	29.8	40.1	31.5	27.6	15.8	10.8
Current expenditure	64.9	58.2	32.5	29.0	37.8	27.1	26.2	13.9	8.5
Capital expenditure ^{1/}	126.7	32.5	111.4	32.0	47.2	46.4	25.2	23.0	18.1
Money and credit									
Net domestic assets ^{2/}	77.1	49.8	11.8	10.3	8.5	9.3	6.7	9.4	2.9
Credit to the Government ^{2/}	8.5	4.4	-8.6	-4.5	-8.5	-8.3	-5.6	-5.5	-5.8
Credit to the rest of the economy ^{2/ 3/}	63.0	35.7	14.3	13.4	13.3	13.1	12.3	14.9	8.7
Broad money	59.5	53.7	53.0	27.4	43.0	22.9	17.2	14.9	10.2
Velocity (GDP/average broad money)	...	7.6	7.2	...	7.0	6.6	6.5	6.4	6.3
Interest rates (in percent; end of period) ^{4/}									
Minimum rate on savings deposits	16.5	18.5	21.5	...	17.5	...	...	...	...
Maximum rate on nonagricultural loans	23.0	23.0	26.0	...	30.3	...	...	...	...
(In percent of GDP)									
Investment and savings									
Gross investment	9.6	9.7	10.8	13.2	12.3	14.8	18.0	18.7	19.0
Gross national savings	8.1	7.9	9.0	10.8	10.6	12.0	12.9	14.1	14.8
Government budget ^{5/}									
Surplus or deficit (-) ^{6/}	-2.2	0.1	0.5	0.4	0.4	0.8	1.1	1.3	1.4
Overall surplus or deficit (-) ^{7/}	-3.0	-3.3	-2.4	-2.8	-2.6	-3.1	-2.9	-2.7	-2.6
Revenue and grants	11.8	14.4	14.9	14.9	14.5	15.8	17.2	17.3	17.5
Total expenditure ^{6/}	14.0	14.3	14.3	14.5	14.2	15.0	16.0	16.0	16.1
External sector ^{5/}									
Current account balance ^{8/}	-2.5	-1.6	-2.3	-2.4	-1.7	-2.8	-5.1	-4.5	-4.2
External debt outstanding	33.9	51.5	68.3	64.0	56.1	62.2	64.0	63.7	62.1
Debt service	5.8	7.4	11.6	13.0	12.6	10.8	7.5	5.8	5.0
(In percent of exports of goods and services)									
External debt service									
Including the Fund	54.5	47.8	58.3	75.0	68.0	56.6	37.4	28.6	24.3
Excluding the Fund	46.8	36.9	31.8	38.9	34.0	32.9	22.1	18.9	17.2
(In millions of U.S. dollars)									
Current account balance ^{8/}	-156.9	-84.7	-101.9	-121.0	-89.5	-136.4	-234.7	-229.8	-234.6
Overall balance of payments	-115.5	-56.8	138.5	125.0	124.6	110.0	90.0	55.0	85.0
External payments arrears (end of period)	175.0	171.4	99.8	69.8	65.0	20.0	0.0	0.0	0.0
Gross international reserves									
(end of period)	145.2	148.7	193.6	203.2	200.8	215.0	293.0	337.0	361.5
(equivalent weeks of imports c.i.f.)	10.4	9.7	9.7	9.8	9.6	9.4	11.8	12.5	12.3

Sources: Data provided by the Ghanaian authorities; and Fund and World Bank staff estimates and projections.

^{1/} Includes net lending and, from 1987 onward, the special efficiency program.

^{2/} In percent of broad money at the beginning of the period.

^{3/} Includes financing of the Cocoa Board's operations, but excludes other items (net).

^{4/} Controls on the maximum lending rate and the minimum savings rate were lifted in September 1987 and February 1988, respectively.

^{5/} The time series are significantly affected by the exchange rate changes that took place in recent years and those assumed for the period ahead.

^{6/} Excludes capital expenditure financed through external project aid.

^{7/} Includes capital expenditure financed through external project aid.

^{8/} Includes official grants.

Table 2. Ghana: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, July 1989-June 1992

	Objectives and Targets	Strategies and Measures	Timing of Measures ^{1/}
1. External sector policies			
a. Exchange and trade system	Pursue a flexible exchange rate policy, unify the exchange market, and liberalize further the exchange and trade system.	Ensure smooth functioning of the auction market for foreign exchange.	1989 and early 1990.
		Progressively narrow the differential between the foreign exchange auction and the foreign exchange bureau rates by channeling to the bureaus through special auctions at least 20 percent in December 1989 of the Bank of Ghana's total auctioned foreign exchange during the preceding month, and at least 50 percent in March 1990.	1989 and early 1990.
		Unify the exchange market by replacing the present dual exchange rate arrangement with an extended interbank system.	June 1990.
		Eliminate all remaining restrictions on payments and transfers for current international transactions.	June 1990.
		Avoid granting new foreign exchange retention privileges, except as provided under existing law.	1989, 1990, 1991, and 1992.
		Limit the volume of cocoa exports under bilateral payments agreements to no more than 10,000 tons annually.	1989, 1990, 1991, and 1992.
	Rationalize and lower effective protection.	Reduce standard import duty rates; transfer role of luxury taxation to excises and sales tax; phase out special import taxes; reduce scope of duty exemptions and concessions, and establish procedures for reviewing rates of duty on particular products and responding to requests for changes in protection.	1990, 1991, and 1992.
		Equalize the sales tax rates on domestically produced and imported excisable products.	1989 and 1990.

^{1/} Where a single date is indicated, it means that the measure(s) will be implemented no later than that date; where one year or several years are specified, it means that actions will be taken each year.

Table 2 (continued). Ghana: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, July 1989-June 1992

	Objectives and Targets	Strategies and Measures	Timing of Measures ^{1/}
		Prepare a study on the effects of trade liberalization on the manufacturing sector.	1989.
	Provide further incentives for export production.	Waive or reimburse import taxes paid on production for export; improve exporters' access to working capital; and strengthen the Export Promotion Council.	1989, 1990, 1991, and 1992.
b. <u>External debt management</u>	Reduce external debt service burden.	Strictly limit new external borrowing on nonconcessional terms by the Government or with government guarantee in the maturity ranges of 1-5 and 1-12 years.	1989, 1990, 1991, and 1992.
	Re-establish orderly relations with external creditors.	Eliminate progressively all remaining external payments arrears.	1989 and 1990.
2. <u>Monetary policy and financial sector reform</u>	Enhance the effectiveness of liquidity management.	Phase in a new system of monetary control whereby overall liquidity is managed primarily through control of the net domestic assets of the Bank of Ghana by using market-based indirect policy instruments, thus shifting away from the present system of credit ceilings on individual banks. To this end, sterilize existing excess reserves of banks; set up a liquidity management and forecasting unit at the Bank of Ghana; and adapt and refine refinancing facilities and reserve requirements.	March 1990.
		Restore and maintain positive real interest rates, and thereby encourage the mobilization of financial savings, by absorbing on a continuous basis all excess liquidity through open market operations on competitive terms.	1989, 1990, 1991, and 1992.
	Recapitalize the Bank of Ghana.	Assumption by the Government of the foreign exchange losses of the Bank of Ghana by a special issue of interest-bearing government securities, thereby	1989, 1990, 1991, and 1992.

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Table 2 (continued). Ghana: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, July 1989-June 1992

Objectives and Targets	Strategies and Measures	Timing of Measures ^{1/}
	restoring the profitability and financial independence of the Bank.	
Improve the financial position of the banking system.	Fully implement the new banking regulations that tighten risk exposure limits; establish higher minimum capital adequacy ratios; upgrade accounting standards; broaden the scope of audits; and impose more stringent reporting requirements for banks.	December 1989.
	Strengthen bank supervision.	1989, 1990, 1991, and 1992.
	Prepare and start implementing restructuring plans for three banks, accounting for a substantial share of the assets of all commercial and development banks, which would, inter alia, reduce by at least 50 percent the banking system's nonperforming loan portfolio.	September 1989.
	Undertake restructuring plans for the remaining commercial and development banks facing difficulties.	September 1990.
Substantially improve the Government's net position vis-à-vis the banking system to ensure an adequate flow of resources to the private sector within the constraints set by the balance of payments and inflation targets.	Generate a significant government budgetary surplus.	1989, 1990, 1991, and 1992.
3. <u>Incomes policy</u>	Implement a balanced incomes policy based on three key principles: the productivity gains in individual sectors; the programmed rate of inflation; and the employers' ability to pay.	
	Apply the principles of incomes policy in the determination of general wage increases in the civil service and the state enterprises that rely on the Government for financial support.	1989, 1990, 1991, and 1992.
	Embody the principles of incomes policy in the guidelines for the application of the collective bargaining process used for wage	1989, 1990, 1991 and 1992.

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Table 2 (continued). Ghana: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, July 1989-June 1992

Objectives and Targets		Strategies and Measures	Timing of Measures ^{1/}
		determination in the private sector and certain state enterprises.	
4. <u>Fiscal policy</u>			
a. <u>Revenue</u>			
Improve domestic resource mobilization, while promoting incentives for production.		Continue the reform of the personal income tax by further widening tax brackets, gradually increasing the standard personal exemption, and taxing a wider range of cash and in-kind allowances.	1989, 1990, 1991, and 1992.
		Implement reforms of the company income tax and the Investment Code, including measures to make the company tax more even across industries.	1989, 1990, and 1991.
		Rationalize the structure of taxes on capital and savings, with a view to stimulating private sector activity, and reduce the disparity in the taxation of income from interest and capital gains.	1990, 1991, and 1992.
		Increase indirect taxes on main petroleum products, except kerosene, and raise other excise duties in accordance with revenue targets.	1989, 1990, 1991, and 1992.
		Complete reform of indirect tax system, with a view to transforming the sales tax into a major nondistortionary revenue source, limiting the number of excise duties, and ensuring that the import tariff embodies an appropriate pattern of effective protection.	1989 and 1990.
		Strengthen tax administration through implementation of further reforms regarding taxpayer registration, collection and assessment procedures, staffing and training, and work facilities.	1989, 1990, 1991, and 1992.

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Table 2 (continued). Ghana: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, July 1989-June 1992

	Objectives and Targets	Strategies and Measures	Timing of Measures ^{1/}
		Review study on "credit" system of sales tax and, as appropriate, prepare action plan to implement the recommendations in the 1990 budget.	December 1989.
b. <u>Expenditure</u>	Gear government expenditure toward meeting the requirements of structural adjustment, consistent with the availability of domestic and foreign resources.	Revise annually a three-year macroeconomic framework for public expenditure.	1989, 1990, 1991, and 1992.
		Increase the efficiency of capital outlays and the related operating and maintenance expenditure, in order to ensure higher rates of return and contain the increase in external indebtedness.	1989, 1990, 1991, and 1992.
	Strengthen expenditure control and monitoring.	Upgrade planning, monitoring, and implementation capacity of the Ministry of Finance and Economic Planning.	1989, 1990, 1991, and 1992.
		Improve control over spending commitments in health and education, and introduce a commitments-based monitoring system.	December 1989.
		Rationalize the policy on subventions, with a view to eliminating funding of potentially self-supporting entities and providing adequate resources to other entities entirely dependent on the budget.	1989 and 1990.
		Publish budget documents on a more timely basis, providing information on both recurrent and development expenditures, including all externally assisted projects.	1990, 1991, and 1992.
	Improve provisions for government services by correcting the imbalance between wages and salaries and other recurrent expenditure.	Limit the Government's annual wage bill to a level consistent with the incomes policy and the overall fiscal targets.	1989, 1990, 1991, and 1992.

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Table 2 (continued). Ghana: Summary and Time Frame for Microeconomic and Structural Adjustment Policies, July 1989-June 1992

	Objectives and Targets	Strategies and Measures	Timing of Measures ^{1/}
		Ensure that adequate appropriations are being made for operating and maintenance costs, notably in the areas of agriculture, health and education, by implementing guidelines on nonwage recurrent expenditure.	1989, 1990, 1991, and 1992.
		Improve monitoring through a twice yearly review of non-wage recurrent expenditure.	1989, 1990, 1991, and 1992.
	Raise public capital expenditure (including projects financed by external aid) from 8 percent of GDP in 1988 to 11 percent of GDP in 1991.	Fully implement public investment program for 1989-91.	1989, 1990, and 1991.
		Update and extend public investment program to cover 1990-92. (Expenditures outside the public investment program not to exceed 10 percent of total development outlays).	March 1990.
		Apply appropriate criteria for project selection and protect budgetary funding of key projects.	1989, 1990, 1991, and 1992.
5. <u>State enterprise reform</u>	Rationalize the state enterprise sector through mergers, divestitures, and liquidations.	Continue to apply the moratorium on the creation of new state enterprises, except under agreed conditions, and subject to existing laws.	1989, 1990, 1991, and 1992.
		Complete negotiations for the sale of the Government's interests in six joint ventures.	August 1989.
		Divest 11 additional state enterprises, including 7 outside the original list of 32.	December 1989.
		Divest a further 12 state enterprises.	December 1990.
		Allocate in budget an agreed amount to support the redeployment and other costs of the divestiture program.	1989, 1990, 1991, and 1992.
	Settle cross-debts and arrears among state enterprises and the Government and restore financial discipline to state enterprises.	Prepare plan for clearing the cross-debts and arrears among the remaining 15 (of the 18) selected enterprises and the Government.	December 1989.

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Table 2 (continued). Ghana: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, July 1989-June 1992

Objectives and Targets	Strategies and Measures	Timing of Measures ^{1/}
Improve management and efficiency of state enterprises.	Implement the above plan.	1990 and 1991.
	Implement guidelines on access by state enterprises to current and capital budgetary transfers, with a view to largely eliminating subsidies.	1989, 1990, 1991, and 1992.
	Monitor closely bank credit to state enterprises.	1989, 1990, 1991, and 1992.
	Implement performance monitoring/evaluation system.	1989, 1990, 1991, and 1992.
	Finalize updated corporate plans and sign performance agreements with the 14 priority state enterprises.	December 1989.
	Prepare on an annual basis three-year rolling corporate plans and performance agreements for the 14 priority state enterprises.	1990, 1991, and 1992.
	Develop a performance-based incentive system to encourage greater management efficiency.	1990 and 1991.
	Continue to apply hiring freeze, except for professionals.	1989, 1990, 1991, and 1992.
	Identify excess staff in major state enterprises (including the Cocoa Board) and take steps to effect appropriate staff reductions.	1989, 1990, 1991, and 1992.
	Complete a study of the pricing and procurement policies of public utilities.	December 1989.
	Introduce policies to encourage the commercial operation of state enterprises, permitting, inter alia, greater autonomy in pricing, staffing, redeployment, remuneration, and procurement.	1989, 1990, 1991, and 1992.

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Table 2 (continued). Ghana: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, July 1989-June 1992

	Objectives and Targets	Strategies and Measures	Timing of Measures ^{1/}
6. <u>Public sector management</u>	Strengthen key economic management functions of the Ministry of Finance and Economic Planning, particularly policy analysis and planning, budgetary control, aid coordination, and external debt management.	Install an external debt management system. Establish an information system on external aid linked to the budget.	1989 and 1990. 1989 and 1990.
	Rationalize civil service salaries.	Widen the salary differential between the highest- and lowest-paid civil servants.	1989, 1990, 1991, and 1992.
	Redeploy surplus personnel.	Remove at least 12,000 staff from the payroll in 1989 (on a gross basis) and set appropriate objectives for 1990 and beyond, based on the results of the review of civil service personnel needs.	1989, 1990, 1991, and 1992.
	Improve management of the civil service.	Strengthen office of the Head of the Civil Service.	1989 and 1990.
7. <u>The role of the private sector</u>	Complement the macroeconomic policies by implementing measures to further improve the climate for private investment.	Intensify the dialogue between the Government and representatives of private enterprises. Revise the Investment Code to make it less restrictive to the activities of both local and foreign investors.	1989, 1990, 1991, and 1992. 1990.
		Streamline the approval process of clearances required by private investors from government agencies.	1989, 1990, 1991, and 1992.
		Eliminate the overlapping of jurisdiction of government agencies so as to make the Ghana Investment Center a "one-stop shop" for investors.	1989, 1990, and 1991.
8. <u>Sectoral policy reforms</u>			
a. <u>Agriculture</u>			
1. <u>Cocoa policy</u>	Rationalize producer incentives to ensure production goals.	Increase the producer price for the 1989/90 crop year to ₵ 174,400 per ton,	1989/90 crop year.

^{1/} Where a single date is indicated, it means that the measure(s) will be implemented no later than that date; where one year or several years are specified, it means that actions will be taken each year.

Table 2 (continued). Ghana: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, July 1989-June 1992

	Objectives and Targets	Strategies and Measures	Timing of Measures ^{1/}
		representing about 50 percent of the projected world market price.	
		Share the benefits of any larger-than-expected exchange rate depreciation, or higher-than-projected world market price, in a ratio of 60/40 between cocoa farmers and the Government.	1989/90 crop year.
		Based on the results of a study of cocoa incentives, improve further incentives for producers, consistent with world market trends and government budgetary requirements.	1990, 1991, and 1992.
		Gradually phase out input subsidies.	1989, 1990, and 1991.
	Confine the Cocoa Board's operations to those that cannot be carried out more efficiently by other public institutions or the private sector; and eliminate activities that do not have a direct bearing on its basic purchasing, marketing, and extension service functions, thereby reducing the relative size of its operating costs, net of retrenchment costs.	Reduce the operating costs of the Board from an estimated 22 percent of the f.o.b. export price in 1987/88 to about 15 percent in 1988/89.	1988/89 crop year.
		Complete the sale of 52 plantations.	June 1990.
		Reduce the share of road haulage provided by the Board on major roads to no more than 10 percent.	1989.
		Gradual withdrawal of the Board from road haulage on other roads.	1989, 1990, 1991 and 1992.
		Permit private sector to supply inputs and to provide storage.	1989, 1990, 1991 and 1992.
		Prepare annually three-year rolling corporate plan and performance agreement for the Board, reflecting rationalization measures.	1990, 1991, and 1992.
2. <u>Other agricultural policies</u>	Upgrade policy planning and monitoring capacity of the Ministry of Agriculture.	Implement new organizational structure for the Ministry.	1989.
	Strengthen agricultural research and improve link with extension services.	Review agricultural research and develop action program based on results of study.	September 1989.

^{1/} Where a single date is indicated, it means that the measure(s) will be implemented no later than that date; where one year or several years are specified, it means that actions will be taken each year.

Table 2 (continued). Ghana: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, July 1989-June 1992

	Objectives and Targets	Strategies and Measures	Timing of Measures ^{1/}
		Implement action program.	1989, 1990, 1991, and 1992.
	Improve agricultural extension services.	Develop action program based on results of pilot projects on extension services.	1989 and 1990.
	Strengthen Irrigation Development Authority.	Maintain twinning arrangement; and implement agreement on irrigation policy.	1989, 1990, 1991, and 1992.
	Rationalize the budget of the Ministry of Agriculture.	Gradually phase out fertilizer subsidy.	1989 and 1990.
		Ensure timely supply of fertilizer and progressively privatize fertilizer operations.	1989 and 1990.
		Gradually discontinue mechanization services.	1989, 1990, and 1991.
		Implement cost recovery measures for irrigation and veterinary services.	1989 and 1990.
	Provide incentives for conservation and efficient use of forestry resources.	Increase forestry royalty fees from 6 percent of f.o.b. export value in 1989 to 12 percent by June 1990 and 18 percent by January 1992.	1990, 1991, and 1992.
b. <u>Manufacturing and mining</u>	Streamline services provided to industry by support institutions.	Review operations of institutions providing support services and develop action program.	1989.
		Implement action program.	1990 and 1991.
	Strengthen mobilization of gold production by small-scale miners.	Offer more remunerative prices through the Precious Mineral Metals Corporation to gold produced by small-scale miners.	1989, 1990, 1991, and 1992.
c. <u>Health</u>	Upgrade management of health services.	Complete the reorganization of the Ministry of Health.	December 1990.
	Improve the efficiency and cost effectiveness of supply of pharmaceuticals.	Complete the preparation of proposals to restructure and strengthen drug procurement, rehabilitate stores, and rationalize drug financing and pricing.	December 1989.

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Table 2 (concluded). Ghana: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, July 1989-June 1992

	Objectives and Targets	Strategies and Measures	Timing of Measures <u>1/</u>
d. <u>Education</u>	Improve cost effectiveness of public financing of education.	Formulate plan of action for university rationalization.	1989.
		Implement district quotas for the maximum allowable staff numbers for the Ghana Education Service.	1990, 1991, and 1992.
		Maintain user fees for secondary school textbooks at levels sufficient for full cost recovery.	1989, 1990, 1991, and 1992.
e. <u>Environmental issues</u>	Ensure sound management of natural resources and the environment.	Finalize environmental action plan.	December 1989.
	Strengthen environmental safeguards in the mining sector.	Monitoring by the Mines Department of air quality and effects at major underground mines.	1989, 1990, 1991, and 1992.
		Complete report on reclamation of surface mines.	June 1990.
		Formulate appropriate reclamation regulations.	June 1991.

1/ Where a single date is indicated, it means that the measure(s) will be implemented no later than that date; where one year or several years are specified, it means that actions will be taken each year.

Table 3. Ghana: External Financing Requirements and Resources, 1988-92

(In millions of U.S. dollars)

	1988		1989	1990	1991	1992	Total over 1989-92	Average over 1989-92
	Prog.	Prov.	Prog.	Projections				
Requirements	-878.7	-838.1	-855.9	-816.5	-722.9	-701.6	-3,097.0	-774.2
Current account deficit, excluding official grants	-295.8	-264.4	-375.4	-475.9	-479.3	-494.3	-1,824.9	-456.2
Medium- and long-term debt amortization	-207.7	-208.8	-168.7	-118.7	-114.4	-118.3	-520.1	-130.0
Other capital outflows <u>1/</u>	-21.5	-9.9	-14.0	-5.7	-11.1	-4.0	-34.8	-8.7
IMF repurchases	-255.0	-264.3	-172.4	-106.4	-73.8	-60.5	-413.1	-103.3
Trust Fund repayments	-12.6	-13.1	-11.1	-3.4	-0.4	—	-14.9	-3.7
Reduction in payments arrears	-30.0	-34.8	-45.0	-20.0	—	—	-65.0	-16.3
Increase in gross international reserves	-9.6	-7.2	-14.2	-78.0	-44.0	-24.5	-160.7	-40.2
Reduction in other net foreign liabilities of the Bank of Ghana <u>2/</u>	-46.6	-37.3	-55.1	-8.4	—	—	-63.5	-15.9
Resources	878.7	838.1	855.9	816.5	722.9	701.6	3,097.0	774.2
Official grants (net)	174.8	174.9	239.0	241.2	249.5	259.7	989.4	247.3
Long-term loan disbursements	300.1	307.5	336.9	340.6	352.6	377.0	1,407.1	351.8
Medium-term loan disbursements	142.4	101.6	74.2	50.4	32.2	32.5	189.3	47.3
Other capital inflows	45.2	36.6	29.0	61.4	25.9	32.4	148.7	37.2
Bilateral trade agreements	6.5	-1.4	—	—	—	—	—	—
Use of Fund resources	209.7	218.9	176.8	122.9	62.8	—	362.5	90.6
Of which: SAF and ESAF	112.2	117.9	176.8	122.9	62.8	—	362.5	90.6

Sources: Data provided by the Ghanaian authorities; and Fund and World Bank staff estimates and projections.

1/ Including short-term capital outflows, and net errors and omissions.

2/ Excluding external payments arrears and liabilities to the Fund.