Document of

The World Bank

FOR OFFICIAL USE ONLY

CR 1911-GH

Report No. P-4781-GH

REPORT AND RECOMMENDATION OF THE PRESIDENT OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION TO THE EXECUTIVE DIRECTORS ON A PROPOSED CREDIT OF SDR 72.1 MILLION TO THE REPUBLIC OF GHANA FOR A FINANCIAL SECTOR ADJUSTMENT PROJECT

May 9, 1988

CURRENCY EQUIVALENTS

Current Unit	=	Cedi
Cedi 1.00	=	US$0.0055
US$1.00	=	181 cedis (February 1988)

GLOSSARY OF ABBREVIATIONS

ADB	-	Agricultural Development Bank
AfDB	-	African Development Bank
ASM	-	Accra Securities Market
Barclays	-	Barclays Bank of Ghana
BHC	-	Bank for Housing and Construction
BOG	-	Bank of Ghana
CCH	-	Credit Clearing House
CDH	-	Consolidated Discount House
COCOBOD	-	Cocoa Marketing Board
Coop Bank	-	Ghana Cooperative Bank
ERP	-	Economic Recovery Program
GCB	-	Ghana Commercial Bank
GIC	-	Ghana Investments Center
GOG	-	Government of Ghana
NIB	-	National Investment Bank
NSCB	-	National Savings and Credit Bank
PNDC	-	Provisional National Defense Council
SOE	-	State-Owned Enterprises
SSB	-	Social Security Bank
SSNIT	-	Social Security and National Insurance Trust
Standard	-	Standard Chartered Bank of Ghana

GHANA

FINANCIAL SECTOR ADJUSTMENT CREDIT

Table of Contents

ANNEXES

GHANA

FINANCIAL SECTOR ADJUSTMENT CREDIT

Credit and Project Summary

Borrower: Republic of Ghana

Credit Amount:
IDA: SDR 72.1 million (US$100 million equivalent)

Terms : Standard IDA terms with 40 years maturity

Program Description: The credit would support a comprehensive and far-reaching Government program for the development of a well functioning and broadly-based financial sector, through the implementation of in-depth policy and institutional reforms. An action program has been prepared with Bank assistance to cover the 1988-1990 period and to be supported by the proposed credit. The main objectives of the program are (i) the enhanced soundness of banking institutions, through an improved regulatory framework, strengthened banking supervision by the Central Bank (Bank of Ghana), and the restructuring of financially distressed banks, (ii) improved deposit mobilization and increased efficiency in credit allocation, and (iii) development of money and securities markets.

Program Benefits: The reform program is expected to foster the development of a strong, efficient, and responsive financial sector, with an effective banking system at its core, to provide the needed support for the ongoing structural adjustment effort. The liberalization of interest rates and removal of sectoral ceilings will greatly contribute to enhancing the efficiency of financial intermediation by channeling savings to higher yielding investments. The restructuring of financially distressed banks, training programs for their employees, and improvement in the supervision by the Bank of Ghana should ensure the soundness of future banking activities and increase confidence in the banking system. The development of money and capital markets and an initial program for corporate restructuring would stimulate private investment. The reform program would also provide for the development of the profession of auditors and accountants.

Program Risks: The main risk relates to the inherent complexity of undertaking a sector-wide restructuring of the banking system which requires the strong commitment of the Ghanaian authorities as well as the full cooperation of the banks' management. Other risks include the timely and adequate availability of resources, and the strain the project will place on the country's implementation capabilities.

These risks are, however, mitigated by (a) the Government's commitment to undertake banking restructuring on a sound basis, in accordance with principles formulated in consultation with IDA, and to se. : IDA's agreement on individual restructuring plans prior to their implementation; (b) the tranching of the credit, which would further ensure satisfactory progress in the implementation of the sector reform program overall, and of banking restructuring in particular; and (c) finally, the sector reforms contained in the Action Program, in particular the liberalization of interest rates, the improvement of the regulatory framework and strengthening of Central Bank supervisory functions, which are expected to go a long way in ensuring the future competitiveness, efficiency, and soundness of the banking system.

Financing Plan:

	(US$ million)
IDA	US$100
Cofinanciers	US$140
Government (1)	US$ 60
Private Sector	US$ 25
	US$325

(1) Principally through the conversion of loans into equity/quasi-equity and repurchase by Government of Ghana (GOG) of non-performing loans to state-owned enterprises (SOEs).

Estimated Disbursements: The credit would be disbursed in three tranches: The first tranche of US$45 million equivalent would be available upon effectiveness, the second of US$30 million after a first performance review to be held around February 1989 and the third tranche of US$20 million equivalent after a second performance review to be held around December 1989. IDA's disbursements have been adjusted to take into consideration the fact that contributions from two main other donors, Japan (US$55-70 million equivalent), and African Development Bank (AfDB--US$50 million equivalent) would be available for second and third tranches only. Disbursements of the US$5 million equivalent technical assistance component are not tranched, but will be monitored through an implementation schedule.

Staff Appraisal Report: This is a combined President's and Appraisal Report.

Map: No. 18112R1

INTERNATIONAL DEVELOPMENT ASSOCIATION
REPORT AND RECOMMENDATION OF THE PRESIDENT
OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION TO THE
EXECUTIVE DIRECTORS ON A PROPOSED DEVELOPMENT
CREDIT TO THE REPUBLIC OF GHANA FOR A
FINANCIAL SECTOR ADJUSTMENT PROJECT

1. I submit the following report and recommendation on a proposed development credit for the equivalent of SDR 72.1 million (US$100 million equivalent) to the Republic of Ghana on standard IDA terms to help finance a Financial Sector Adjustment Project.

I. THE ECONOMY

A. Background

2. A report entitled Ghana: Policies and Issues of Structural Adjustment (Report No. 6635-GH) was distributed to the Executive Directors in March 1987. Key economic indicators appear in Annex 1-1.

3. Ghana once enjoyed a high standard of living compared with most other West African nations. But drought, poor economic policies, and increases in oil prices led to a significant decline in per capita income during the 1970s and early 1980s. Ever since the inception of the Economic Recovery Program (ERP) in 1983, however, GDP growth has averaged above 5% a year, about 2% over the growth rate of the population. But the per capita income remains low at $380 (1985), and an estimated half of the population lives in absolute poverty (Annex 1-1).

4. The country is well endowed with natural and human resources. Agriculture accounts for 41% of GDP and provides income for about 70% of the population. Ghana is the world's third largest producer of cocoa, which accounts for about two-thirds of the country's export earnings. The country also possesses valuable mineral deposits, particularly gold, and hydropower generates most electricity, some of which is exported to neighboring countries. Manufacturing output increased substantially after Independence in 1957, due to government policies that encouraged import substitution industries behind a wall of protection. Services, which account for over a third of GDP, are dominated by retail and wholesale trade.

B. The Economic Recovery Program

5. Between 1970 and 1982, per capita income in Ghana declined by 30%, import volumes fell by a third, real export earnings halved, domestic savings and investment fell to almost negligible levels, and inflation ran at an average of 44% a year. In 1983, the newly constituted Provisional National Defense Council (PNDC) introduced an Economic Recovery Program to reverse the decline in living standards and restore growth to the economy.

6. The ERP's major objectives were to: (a) shift relative prices in favor of production, particularly for exports and efficient import substitution; (b) restore fiscal and monetary discipline; (c) initiate the restoration of the country's social and economic infrastructure; and (d) encourage private investment. The centerpiece of the reform was a move to

introduce a more realistic exchange rate. The cedi was devalued from 2.75 cedis to the U.S. dollar in April 1983 to 90 cedis to the U.S. dollar by January 1986. In September 1986, the Government introduced a second tier auction system, and in February 1987 the auction and official exchange rates were officially unified. Initially the auction was limited to producer goods, but its coverage has been expanded steadily, and by February 1988 all imported goods were eligible for funds from the auction. Administered prices, particularly cocoa and petroleum, have been adjusted at regular intervals to reflect changes in the exchange rate, and widespread price and distribution controls have been abolished. Interest rates were adjusted upwards steadily, and finally in September 1987 all interest rates except those for savings deposits were liberalized. In the area of fiscal policy, the Government's efforts have concentrated on eliminating subsidies, mobilizing resources through improved tax collection and selective increases in taxes, and providing more adequately for maintenance and capital expenditures. In addition, the Government raised public sector wages and salaries to offset partially the drastic erosion of real incomes in previous years. At the same time, it reversed the previous severe compression of salary differentials between the lowest and highest paid members of the civil service.

7. The response of the economy was crippled initially by the drought in 1983 and insufficient aid flows. Since 1984, however, performance improved on several counts. Growth averaged over 5% a year, the Government's fiscal position improved markedly, the rapid growth of the money supply was curbed, and the trade balance improved substantially (Annex 1-2). In addition, the Government introduced significant improvements in public expenditure policies. It initiated rehabilitation programs for infrastructure in the cocoa, timber, gold, and transport sectors. At the same time, the Government prepared a rolling three-year development program based on reviews of public expenditures conducted jointly with IDA. At this stage, the high level of inflation (39% in 1987) remains a major concern. The main reasons are (i) the significant devaluation of the currency in 1986, (ii) the decline in food production, (iii) the increase in domestic petroleum prices, (iv) a 50% rise in M2 in the latter half of 1986. However, there are signs that inflation is decelerating. The national consumer price index rose only 5.1% in the second semester of 1987.

8. The second phase of the Government's ERP (sometimes termed the Structural Adjustment Program) is currently under implementation and has as its principal objectives continued economic growth, sustained fiscal and monetary discipline, increased levels of domestic savings and investment, improvements in the efficiency of public resource management, and further development of the private sector. To achieve these goals, the Government is moving on five broad fronts. It is progressively liberalizing its trade and exchange rate policies by expanding the official foreign exchange market to include banks and authorized dealers, and by rationalizing the structure of trade taxes and tariffs. To maintain recent production gains in the cocoa sector, additional incentives are being provided for cocoa producers and steps are being taken to improve the efficiency of COCOBOD's operations. The Government is improving public resource management by further improvements in tax policy and administration and in refining the public expenditure planning process. The efficiency of the public sector is being enhanced through a reform of the state-owned enterprise sector, which includes policy changes to encourage the commercial operation of SOEs, rehabilitation of priority SOEs, and a divestiture program for SOEs through liquidation or outright sale to

the private sector. And finally, the Government is improving its management of the public sector by reducing the number of surplus civil servants, recruiting skilled Ghanaians to strengthen policy planning and coordination in the higher reaches of the Government, and providing logistical support to agencies responsible for implementing the Structural Adjustment Program.

9. Ghana's total external debt in 1987 was estimated at US$2.6 billion, including 1.76 billion medium and long-term foreign debt. According to IMF and World Bank estimates, the country's foreign debt is likely to increase over the years, reaching 3.24 billion in 1990 and 4.6 billion in 1995, with medium and long-term debt reaching 2.49 and 3.74 billion, respectively. In 1987, the debt service ratio excluding IMF and arrears was 26.3% (60.5% including IMF debt service and payment of arrears), down from 37.4% the previous year. However, this debt-service ratio is expected to decline steadily in the future, reaching 30.1% (including IMF debt-service and payments of arrears) by 1990 (Annex 1-3).

10. To support the ongoing reforms, and to facilitate the restructuring and rehabilitation of the economy, Ghana needs an efficient and dynamic financial sector that both mobilizes domestic resources and allocates them efficiently to different sectors of the economy. However, like some other sectors of the economy, the formal financial sector remains burdened by the legacy of its past, and is consequently unable to cope with the demands placed upon it by the Structural Adjustment Program. The banking system, in particular, faces severe financial difficulties, which if left unaddressed, could hamper the future progress of the economy, and constrain seriously the supply response to the new incentive framework that the Government has introduced. To address these problems, and to place the entire financial system in Ghana on firmer foundations, the Government has prepared a comprehensive financial sector action program that it has already begun to implement. The proposed credit would support the implementation of the program and finance technical assistance to strengthen key financial institutions.

C. Medium-Term Prospects

11. The Government's medium-term objectives, as stated in its policy framework paper, are to achieve an annual average growth rate of real GDP of about 5%, reduce the inflation rate to 8% by 1990, and maintain a healthy balance of payments position after meeting its program for the liquidation of external arrears. The GDP growth target of 5% per year will require a strong performance from both agriculture and industry. In agriculture, cocoa is expected to continue its recovery, and the prospects for food and industrial crops appear bright. And in the industrial sector, the rehabilitation of Ghana's mines will permit the steady expansion of mining output, and manufacturing is projected to respond to improved incentives and the greater availability of spare parts and inputs. Ghana's macroeconomic prospects, however, are contingent upon a continuation of its present structural adjustment program and a favorable international economic environment, particularly for its principal exports of cocoa and gold. In addition, the expansion of the economy will depend crucially on the availability of concessional assistance at the projected levels.

II. THE FINANCIAL SECTOR

A. Background

12. Work on Ghana's financial sector began some two years ago, as the structural adjustment process was underway, because the financial system appeared to be potentially a serious constraint to growth in the real sectors. This culminated in a major review in April 1987 by a joint "working group" of Ghanaians and Bank staff which identified key problems and proposed a wide ranging program of reforms (the Action Program) which the present operation intends to support.

B. The Structure of the Financial Sector

13. The formal financial system is dominated by three primary commercial banks (the Ghana Commercial Bank (GCB), the Standard Chartered Bank of Ghana (Standard), and the Barclays Bank of Ghana (Barclays)), seven secondary banks (the Social Security Bank (SSB), the Bank of Housing and Construction (BHC), the Agricultural Development Bank (ADB), the National Savings and Credit Bank (NSCB), the National Investment Bank (NIB), the Merchant Bank, and the Bank of Credit and Commerce), a small cooperative bank, Ghana Cooperative Bank (Coop Bank), and over one hundred rural banks. Of the total assets of the banking system of around 156 billion cedis (about 25% of GDP), some 57% are in the three primary banks, although the secondary and rural banks have been growing faster. All the primary and secondary banks accept deposits from the public and with the exception of the Bank of Credit and Commerce, are either partly or wholly owned by the Government. Annex 2-1 details the aggregate assets and liabilities of the banking system.

14. The three government-owned development finance institutions have increased their level of commercial banking activity in recent years, and at the end of 1986, one-quarter of their outstanding liabilities was accounted for by demand, savings, and time deposits. Nevertheless, they face serious financial difficulties arising from a huge foreign exchange exposure and/or loss, a substantial non-performing portfolio, and a complete erosion of net worth.

15. The rural banks are owned and managed by their respective local communities. They are private unit banks established to mobilize resources in rural areas and extend credit locally. The Bank of Ghana has usually contributed to the initial capital of each rural bank with the intention of divesting its holdings to the private owners at a later stage. Despite the large number of rural banks, the rural banking sector accounts for under 3% of the total deposits mobilized by the banking system as a whole. A large number of rural banks are in financial difficulties, but their "unit" nature has contained the effect of this problem on the banking system.

16. The money market is composed of the recently opened Consolidated Discount House Ltd. The Discount House is charged with the task of acting as an inter-bank intermediary for short-term assets to enable banks to manage better their liquidity position. The Consolidated Discount House is permitted to deal in treasury bills, short-dated government securities, bankers' acceptances, cocoa bills, negotiable short term certificates of deposit, and commercial paper.

17. Ghana possesses a very rudimentary capital market that has been unable to make a substantial contribution to the mobilization of long term resources. The few transactions that occur are usually in long dated government stock, and shares of private companies change hands occasionally. The National Trust Holding Company quotes shares of eighteen companies on a monthly basis, but its insufficient capital base and the limited number of tradeable shares in the system have prevented it from playing a more active part in capital market transactions.

18. The remaining non-banking sector is limited principally to the Social Security and National Insurance Trust (SSNIT) and eleven insurance companies. SSNIT is a government-owned institution charged with providing social security payments to workers upon their retirement from service. All enterprises with five or more employees must become members of SSNIT and contributions amount to 17.5% of the wage bill, 5% of which are contributed by workers and 12.5% by employers. Out of a membership of 1.5 million, however, only about 600,000 pay their monthly dues. Until late 1986, SSNIT was compelled to invest its funds in government stock specially created for it, yielding 5.5% to 6%, but it now has the freedom to invest its funds in assets of its own choosing. As a result it has been a major purchaser of treasury bills and long dated government securities.

19. Like the rest of the economy, the banking system in Ghana has suffered adversely from the generally low-level of productive activities during the period of economic decline, although a few institutions are reportedly profitable and relatively efficient. Its current distressed situation can be characterized inter alia by (i) huge non-performing loan portfolios, (ii) inadequate provisions for portfolio losses, (iii) inflated profits, (iv) high operational costs, (v) potential/actual foreign exchange exposure, (vi) insolvency, (vii) capital inadequacy, and (viii) inadequate accounting systems, management information and internal controls. Comprehensive external diagnostic audits by international auditors have been undertaken for the nine main banks (GCB, SSB, Barclays, BHC, NIB, ADB, Standard, NSCB and Coop Bank) to obtain an indepth and accurate assessment of the operating and financial condition of each of these banks, and provide a basis for determining their restructuring prospects and requirements.

C. The Policy and Regulatory Framework

1. Deposit Mobilization

20. The formal financial system has not proved an effective vehicle for mobilizing domestic resources. The M2/GDP ratio in Ghana is low by international standards, and indicates the low level of financial intermediation in the economy (Annex 2-2). During the 1970s and early 1980s, liquidity expansion was fuelled by large government deficits financed domestically by the Central Bank. Excessive money creation at a time of stagnant growth and investment stoked inflation and turned government-determined deposit rates deeply negative in real terms. In addition, the lack of longer term lending opportunities provided few incentives for banks to attract term savings. Instead those with surplus funds tended to invest in inflation-hedged assets such as real estate.

21. Since 1983, the Ghanaian authorities have pursued a flexible interest rate policy aimed at mobilizing domestic savings (Annex 2-3), in line with their growth and stabilization objectives. Accordingly, minimum

rates for savings and time deposits were adjusted upwards repeatedly from 8.25%-9% in 1983 to 22%-23% in 1987. In addition, declining inflation during this period as a result of fiscal and monetary discipline on the part of the Government helped turn real deposit rates positive for the first time in more than a decade. However, as the rate of inflation climbed in 1986 and 1987, real interest rates once again turned negative. In September 1987, the Government liberalized all interest rates except for savings deposits which have been pegged at a minimum of 21.5%. Full liberalization has been achieved in February 1988.

22. The disincentives to depositors during the 1970s and early 1980s arising from negative real interest rates were compounded by a series of ad hoc monetary measures which shook the confidence of the public in the banking system. These measures included the demonetization of 50 cedi notes, the freezing of bank deposit accounts in excess of 50,000 cedis and investigation for tax liability and possible corruption or fraud, the recall of bank loans for the financing of trading inventories, and the compulsory payment by checks for all business transactions in excess of 1,000 cedis. The immediate response by firms and individuals was to rechannel their financial resources into the unregulated informal financial sector.

23. There are signs that confidence in the banking system is returning gradually. Currency held outside the banking system as a proportion of narrow money fell to below 50% in 1986, and the Government's recent announcement that it would compensate those affected by the demonetization of the 50 cedi notes should serve to reinforce this trend. However, there remains a lingering distrust which can only be removed by assurances in word and deed that the Government will respect confidentiality of bank accounts, avoid undue interference in financial transactions, and take actions to preserve the sound financial health of banking institutions.

24. The poor record of deposit mobilization by the banking system can also be attributed to the inferior quality of customer services of a number of banks and the limited range of financial instruments aimed at mobilizing savings. In addition, banks find it difficult to improve the efficiency of their operations and red intermediation costs because of antiquated systems and procedures and the shortage of trained and qualified staff. The Bank of Ghana regulates charges that banks can levy on their customers, thereby curtailing competition between banks and reducing incentives to improve efficiency. The efficiency of banks is also affected by the lack of high denomination currency notes. The Bank of Ghana recently issued a 500 cedi note and plans to introduce a 1000 cedi note shortly. But a case can be made for yet higher denominations which can shorten queues in banks and reduce the costs of counting large wads of notes. As far as the branch network of the banks are concerned, the banks are required to obtain the permission of the GOB before altering their opening and closing hours. This practice reduces the ability of banks to respond effectively to the needs of their clientele, and could therefore be discontinued.

2. Credit Allocation

25. The BOG has been controlling the growth and allocation of credit by the banking system through global and sectoral credit ceilings. To determine the total quarterly credit expansion by any individual bank, the BOG first determines the overall rate of credit expansion consistent with projections of real economic growth and inflation. Until February 1988, sectoral growth

rates were established according to the development priorities of the Government, and guidelines were then issued to individual banks based on the application of these growth rates to the outstanding loans at the beginning of the period. The allocation for agricultural lending (20% of the total) was serving as a minimum whereas for other sectors it was usually a maximum. All sectoral lending targets have now been removed, except for agricultural lending.

26. Until recently lending rates also were controlled by the Bank of Ghana. Before 1986, agriculture was favored with preferential lending rates. But while this encouraged the demand for credit, it also discouraged the banks from lending to the sector, with the result that agricultural lending invariably fell short of the targets required of each bank. After 1986, however, lending rates were more or less unified, and in September 1987 lending rates were completely liberalized. Between September and December, lending rates appear to have barely moved and continue to be negative in real terms. Some rates have edged upwards, particularly for riskier loans, but despite excess liquidity in the banking system, the rate structure has not changed substantially because the binding credit ceiling precludes any further expansion of credit.

27. Partly as a result of interest rate controls, term transformation has been a problem for the Ghanaian banking system. Banks were unable to compensate for risk and maturity by varying their interest rates. In addition, the high proportion of banks' liabilities at the short end of the maturity structure (mainly demand deposits) have constrained their ability to lend long term. Furthermore, large holders of long term funds, such as the Social Security and National Insurance Trust, were compelled to purchase low yielding government stock to finance the government deficit. These constraints, along with the limited number of viable investment opportunities brought to the attention of the banks, served to hinder the flow of financial resources for investment. The banks have tended to lend short term, mainly to their established customers, a high proportion of whom are in the trade and service sectors. In 1986, it is estimated that only around 15% of commercial bank loans outstanding (including those of development finance institutions) were of maturities over three years, and nearly 50% of all loans were to trade and services (Annex 2-4).

3. Liquidity Management

28. In addition to quarterly credit guidelines, the BOG uses two kinds of minimum reserve ratios to control the expansion of credit. The first is a minimum cash reserve ratio that relates a bank's cash and deposit holdings with the BOG to its total deposits. And the second is a minimum liquidity reserve ratio that relates a bank's secondary holdings (approved bills and securities) to its total deposits. For many years the minimum reserve ratios were not effective in controlling liquidity because bank financing of the government deficit was far in excess of what could be absorbed at the prevailing reserve ratios. But with the rapid depreciation of the currency, the excess liquidity was soon mopped up and the BOG reduced its minimum cash reserve ratio gradually until it reached 10% on demand deposits and 5% on time and savings deposits in October 1986.

29. In late 1987, however, a situation of excess liquidity once again emerged. The banking system appears unable to absorb the net repayments by the Government, especially since it cannot rechannel these to the private

sector on account of the credit ceilings. As a result, some banks have been turning depositors away, and private enterprises with surplus savings are finding means of lending to deficit enterprises directly rather than going through banking institutions. The "crowding out" of private sector financial savings was exacerbated by the substantial expansion of credit by the BOG to the cocoa sector which has added liquidity to the system adversely affecting as a result, the operations of the newly opened Discount House, and sending interest rates at the BOG's recently introduced treasury bill auction below the minimum savings rate and the rediscount rate.

30. The present situation of excess liquidity in the banking system is coincidental with a shortage of liquidity in parts of the manufacturing sector. The demand for credit in the manufacturing sector has risen sharply as a result of increased import costs, 100% deposit requirements for the foreign exchange auction, and improvements in the efficiency of tax collection. But the banking system has been unable to intermediate between the resource-rich cocoa and mining sectors and the resource-hungry manufacturing and foodcrops sectors. The distortions created by the credit ceilings are beginning to make it difficult for the Central Bank to manage liquidity, and this points to the need to develop as rapidly as possible indirect instruments for monetary management that are capable of absorbing or injecting liquidity as and when required. But the issue also goes beyond one of just introducing new instruments. It means that the financial sector needs to develop a secondary market in government backed securities and commercial paper, and use it to manage its twin objectives of liquidity and profitability. The Government is putting together a plan to address these issues, including the sale to commercial banks of cocoa bills, a better monitoring of banks' cash reserves and the timely issuance by BOG of short-term paper.

4. Money Market

31. The potential usefulness of a money market in Ghana has been recognized for some time, and one discount house, Consolidated Discount House Ltd (CDH), which is owned by banks and insurance companies, has recently become operational. After opening for business on 30th November 1987, however, and an initial flurry of activity during the first days, few transactions have subsequently been done by CDH. This disappointing performance can be traced to a combination of inadequate detailed agreement between CDH and BOG on an operational framework, unrealistic expectations by banks as to the absorptive capacity of CDH, and imprecise definition of the scope of CDH by all parties. The Ghanaian authorities are now in the process of taking the requisite steps to facilitate the development of a smoothly functioning money market. These will include consideration and resolution of the following defects and shortcomings: (i) prudential limits on the composition of CDH assets; (ii) liquidity status of money-at-call with CDH; (iii) CDH's method of computing interest; (iv) access by CDH to rediscount facility with BOG, or to any assured supply of treasury bills; (v) status of call money deposits by banks with CDH; (vi) the effect of the banking licence issued to CDH; (vii) continued access of banks to BOG for accommodation of their liquidity; (viii) definition of bankers' acceptances eligible for rediscount at BOG; (ix) BOG's policies for the sale to non-banks of bankers' acceptances; (x) further to (iv) basis on which CDH and BOG deal in longer-dated Government stock.

5. Capital Market

32. Ever since the early 1960's, when a comprehensive companies code was enacted, Ghana has been considering the introduction of a formal Stock Exchange. The clear benefits of such an institution, in Ghana, as elsewhere, would be to enable corporate issuers to access long-term funds provided by investors, both individual and institutional, and to provide liquidity in the secondary market for shares and bonds. The Accra Securities Market Ltd (ASM) has been formed for some years, but not activated. Ghana, however, already has public issues of companies. Some eighteen companies, owned primarily by foreign shareholders, were converted into public companies during 1975 and 1976, under the operation of the Investment Policy Implementation Decree. The only other issues since 1976 have been one issue involving the capitalization of reserves, and a failed rights issue, which was less than 25% subscribed. It may be generally observed that these public companies, some of which are among the largest enterprises in the land, either have not needed to raise capital from the public during the last decade or have determined that it would not be available at a reasonable cost. It may be argued that the program of divestiture of state-owned enterprises could best be accomplished through a Stock Exchange. Indeed, if such an exchange existed, it would be a natural conduit for such transactions. However, it is unlikely to be satisfactory for either the Government, or the future development of the capital market in Ghana, for an Exchange to be created based mainly on such a short-term flow of captive business. Furthermore, divestiture sales are not primary issues, since no funds are raised for the subject company, unless the sales are combined with a new issue of stock by the company.

33. One practical way to test the proposition that both supply and demand in primary market will be available in quantity, is to provide some incentives to private placement of equities, and to monitor the resultant flow of investment. Incentives to corporate issues could range from elimination or reduction of the 2% stamp duty on capital increases, to a permanent or temporary reduction of the corporate tax rate for companies attracting new capital. Investors might be encouraged to make equity investments by exoneration from capital gains taxation, by equalization of the tax treatment of bank interest and dividends, or by the ability to make investments up to a stated maximum limit out of pre-tax income. It seems that dividends in Ghana were treated as tax-free for some years in the 1970s. In addition to the above consideration, there are a number of other concerns that need to be addressed. These include: (i) the review of auditing standards applicable to public companies should be accelerated, such that any recommendation for improvement may be implemented well in advance of any Stock Exchange activity; (ii) the institutional and regulatory framework for any Exchange must be devised and erected before any attempt is made to activate the ASM; (iii) the possibility of forming a vehicle for provision of venture or development capital could be considered, which would hold the prospect of acting as a nursery for companies which could, on maturity, be sold to public investors through the Exchange; and (iv) the pricing policy and mechanism for new issues on the ASM should, ideally, be left in the hands of professional advisers to corporate issuers. The Technical sub-committee for the Establishment of a Stock Exchange, reported in 1986 that a Capital Issues Commission, under the auspices of the Ghana Investments Centre (GIC), should fulfil this pricing function. Although such a proposal seeks to utilize the skills which are available within GIC to provide an objective

framework for price-setting, it may be seen by the manager and shareholders of potential issues as unduly prejudicial to their interests.

6. Regulatory Policies

34. Regulation is intended to provide monetary stability, protection of depositors, and an efficient and competitive financial system. In Ghana, banking activities are governed by the Banking Act of 1970, the Banking Regulations of 1973, the Bank of Ghana Act of 1963, and amendments or decrees issued in due course since the enactment of the foregoing legislation.

35. Several serious omissions in this body of legislation, together with weak bank supervision, have led to the concentration of risk in the portfolios of banks, inadequate capital and reserves, inflated profits, and unrecognized loan losses.

36. The BOG has never specified the limits for unsecured credit as a limit of each bank's paid-up capital and reserves, and has never specified the percentage, thus banks have frequently extended credit to single borrowers far in excess of the bank's capital funds in clear violation of prudent banking practice, and with the result that these borrowers, in effect, control the future of the banks.

37. Because banks in Ghana operate without the benefit of uniform accounting standards, their treatment of interest on non-performing assets varies. In many cases, banks continue to count interest on assets as income even when collection of such assets is in doubt. This implies necessarily that a uniform definition of non-performing assets must be established. The lack of uniform accounting standards has also led to inadequate loan loss provisions and reserves. Currently, most banks make no attempt to accurately quantify the risk which exists in their asset portfolios and to provide adequate loan loss reserves. Diagnostic studies of the banks clearly indicate the need for banks to better assess the quality of their assets. Mandatory minimum provisions should be established in order to ensure that management is not overly optimistic over the eventual collection or recovery of the asset when determining an adequate level of loan loss reserves.

38. The problem of assessing asset quality properly carries over to the issue of capital adequacy. Not only are banks failing to recognize loan losses and set aside adequate reserves, but their assets have grown at rates far surpassing the growth in capital funds through retained earnings. As a result, the proportion of capital to assets has become insufficient to prudently support the banks' ongoing operations. In fact, if banks were required to recognize the loan losses currently existing in their portfolios, many would be technically insolvent. Unfortunately, existing banking legislation does not mandate a minimum capital adequacy ratio which would ensure that banks grow at a controlled pace with due attention to asset quality and off-balance sheet risk.

39. Other weaknesses or omissions exist in the current body of banking legislation. Development finance institutions which are engaged in commercial banking activities are not subject to the same requirements regarding the transfer of retained profits to the reserve fund. Monetary penalties cited within the legislation have not been revised upward to reflect the effects of inflation and, therefore, no longer serve to discourage illegal or imprudent acts. Prudential reports and audit reports

submitted to the Bank of Ghana are inadequate as sources of information with which to conduct off-site or early warning analysis. And a mechanism such as a credit clearing house does not exist to provide for the sharing of credit information between banks.

7. Banking Supervision

40. Supervision of the banking system is the responsibility of the Bank of Ghana, a function it provides through its Bank Examination Department. All banks, including rural banks, commercial banks, development finance institutions, and the discount house, come under its purview. Supervision is carried out through on-site examinations and off-site analysis of prudential returns. However, serious shortcomings exist in the Examination Department's capability to perform these tasks.

41. On-site examinations of each bank are required annually, yet only three banks were examined in the last year using comprehensive examination procedures. Furthermore, the three largest banks have never been examined in depth. Of the approximately 110 rural banks, only about 40 were examined. Implementation and enforcement of banking laws and regulations is ineffective and supervision weak. The existing examination methodology focuses primarily on a "snapshot" of the bank's condition at a given point of time rather than on strengthening the bank's management systems which are the first line of defense against imprudent and/or illegal banking practice. Besides, prudential reporting is limited to a handful of reports, and notwithstanding the lack of suitable prudential reports, no capability has been developed for conducting offsite analysis even if the proper reporting framework was in place.

42. There are several reasons for the Bank Examination Department's deficiency in meeting its responsibilities. The present staffing of 45 persons includes approximately 30 examiners; however, only five are judged by the Head of the Department as being capable to lead examination teams. Of the thirty individuals, only one has more than ten years experience, and only four have experience of between five and ten years. Low civil service salary levels make it difficult for the Bank Examination Department to attract and retain qualified examiners. And training is inadequate given the very specialized skills needed by the bank supervision staff. If the Bank Examination Department is to meet its responsibilities, the number of staff must be increased, salaries improved, and both skills and experience levels strengthened.

III. AN AGENDA FOR ACTION

43. The development of an efficient and broadly-based financial sector is crucial for the continued adjustment effort of the Ghanaian economy. The Government has prepared a Statement of Financial Policy which details the policy framework for reforms to be undertaken (including an Implementation Schedule) which the proposed credit would support (Annex 4). The main objectives of this program are outlined below.

A. Measures to Improve Deposit Mobilization and to Increase the Efficiency of Credit Allocation

1. Deposit Mobilization

44. A key factor in improving the deposit mobilization potential of the financial sector is to restore public confidence in the banking system. The Government is, therefore, considering the repeal of the Banking and Financial Institutions (Request for Information) Decree, with a view to stipulating that all disclosures of information from banks, including cases where criminal cases are pending in courts of law, will be in conformity with the Banking Act of 1970. In addition, the Government intends to amend the Banking Act of 1970 to incorporate provisions requiring the maintenance of secrecy in respect of customers' accounts by the banks' Directors, officers, staff, and auditors. The banks would also mount a public relations campaign to educate the public on the new laws and their implications for individual or corporate depositors, and thereby lessen any lingering fears about the maintenance of secrecy of bank accounts. Finally, measures to enhance the soundness of banking institutions under the proposed project will contribute towards the restoration of public confidence in the banking system. Consideration may be given to establishing a Deposit Insurance Scheme once the financial distress of banks has been alleviated and Government's shareholding in banks has been substantially reduced.

45. In recognition of the importance of improving customer services and as a means of mobilizing deposits, the banks will be permitted under a new regulation to vary the working hours and business days of their branches. This will allow them to respond flexibly to customer needs in different areas. In addition, the BOG intends to review the system for collecting and clearing local and outstation checks, with the principal aim of determining the reforms necessary to reduce substantially the extensive time and high costs involved in the present system.

46. The increased flexibility in the Government's policy towards interest rates has led to a discernible increase in the willingness of the public to hold deposits with the banking system. In addition, the BOG will agree with IDA on a timetable for decontrolling banking charges prior to February 1989.

2. Efficiency of Credit Allocation

47. The BOG has already taken the commendable step of liberalizing lending rates of banks. To follow up on this step, it issued on February 29, 1988 new credit guidelines abolishing all sectoral ceilings while maintaining the requirement that banks lend a minimum of 20% of their total lending to agriculture. BOG interprets "agriculture lending" in the broad sense to include, beyond primary agriculture, the processing, warehousing, and marketing of agricultural produce as well as forestry activities. Prior to December 1989, the BOG will review the results of the recent liberalization of the credit policy and determine in consultation with IDA whether the floor on agricultural lending should be maintained. To ensure that refinancing facilities, special lines of credit, and other special credit schemes are used only in exceptional circumstances, the BOG will prepare criteria and mechanisms for their use. These criteria should ensure that such credits are only employed when it is clearly established that there is a market failure preventing funds from reaching disadvantaged or priority groups, and that the

most appropriate way of dealing with the market failure is through a special line of credit. If and when such credit schemes are used, they will be kept to a minimum and their costs will be budgeted and made transparent. Finally, using similar criteria, the BOG will review the Credit Guarantee Scheme and in consultation with IDA, determine whether the scheme should be wound up. In the meantime, the scheme will not issue any further guarantees.

3. Efficiency of Banking Operations

48. To encourage banks to improve the efficiency of their operations yet further, the BOG will undertake a review of their operating practices with the aim of preparing and circulating semi-annually a set of average efficiency indicators so that banks can compare their performance vis-a-vis other banks. In addition, to reduce the costs of banking operations that arise from low denomination currency note, the BOG will issue notes of higher denomination. Recently the BOG brought out the 500 cedi note, and a 1000 cedi note has been approved by the Board and the Government. The BOG will keep this policy under constant review and issue notes of yet higher denomination when and as necessary. Besides, the need for introducing more modern banking methods and technology, upgrading the skills of the existing personnel, and recruiting and developing of new talent, would necessitate training programs, which given their magnitude, would be better undertaken centrally to serve the entire banking industry. Technical assistance to that end would be financed under the project (Annex 3-6).

4. Money Market

49. The emerging money market in Ghana, the principal institutional member of which is the newly established CDH, is laboring under the difficulty of an inadequately defined operational and regulatory environment (para 31). The indicative list of problem areas for the money market, and CDH in particular, covers a wide spectrum. These problems would be addressed through the preparation and subsequent implementation of a priority reinforcement plan, to be implemented prior to February 1989, including the drafting of a Statement of Operating Policy for CDH to be endorsed by BOG and developed after careful consultation with banks, BOG and CDH management and supported by technical assistance financed under the proposed credit (Annex 3-1). Speed would be an important factor to avoid loss of impetus in CDH's development. Meanwhile, pending the implementation of the reinforcement plan, CDH's activities would be expected to be on a modest scale and limited principally to facilitating overnight transactions between banks and channelling of funds between the banking sector and BOG.

5. Capital Market

50. The concept of establishing a capital market in Accra, probably through Accra Securities Market Ltd (ASM), has been fostered for some time by the notion that a strong demand exists for such services from potential investors and corporate issuers. Quantification of these factors will always be imprecise, but it is necessary for the foundation of a capital market to be as secure as possible. Accordingly, an assessment of the likely demand for, and supply of, quoted securities should be made covering the primary and secondary markets. This assessment would be undertaken in a study financed under the proposed credit (Annex 3-2) which in addition would cover the following areas (i) design of a package of suitable incentives to attract both investors and potential corporate issuers; (ii) design of an adequate

regulatory and institutional framework to generate users confidence and prevent financial abuse; and (iii) assessment of the suitability of establishing a specialized financial institution providing venture and development capital. In the meantime, and pending the review of the study's outcome, no substantial action should be undertaken leading to major institutional changes in capital-market related institutions (ASM, National Trust Holding Company, the proposed Capital Issue Commission).

B. Amending Laws and Regulations

51. In order to strengthen the hand of banking supervisors, the existing body of laws, rules, and regulations will be amended or revised to address the serious shortcomings described earlier. To facilitate this, a committee has been established at the behest of the government to review existing legislation, draft the changes necessary to improve the regulatory framework, and establish prudent standards to ensure the viability of the banking system (even if this means that many banks may not immediately conform to the new legal requirements). To assist in the revision of this body of laws, rulings, and regulations, a technical assistance component is included in Annex 3-3 to provide for the employment of a banking law expert on an ad hoc basis.

52. GOG has agreed to a number of critical changes or additions to the legal framework. Risk exposure limits as a percentage of capital will be set on a bank's exposure to a single customer or related group. These limits will encompass secured as well as unsecured credit to (and investments in) a single party or group of related parties. To the extent that credits to existing customers exceed the new limits, the banks should establish plans to reduce them to conforming levels within a reasonable time frame. Modifications to existing legislation will also place stricter limits on credit extended to directors' interests by subjecting them to similar exposure limits based upon the bank's capital.

53. A minimum capital-adequacy ratio will be established. This ratio should take into account the riskiness of the bank's assets as well as its off-balance-sheet risk. Banking supervisors will have the ability to mandate even greater capital when, in their opinion, conditions warrant. Banks which do not meet the minimum guideline will not be allowed to pay dividends. Following implementation of new minimum capital guidelines, banks should prepare, and update on an annual basis, a capital plan for maintaining or restoring capital to an adequate level. In addition, the amount of paid-up capital to establish a new bank will be adjusted upwards to reflect the effects of inflation. The BOG will be delegated authority to revise this minimum amount as warranted. Development finance institutions which are engaged in commercial banking will also meet minimum capital adequacy requirements, although such limits may differ from commercial banks because of the added risk of the development portfolio. Development finance institutions will also be required to transfer a portion of their net profits to reserves in accordance with the relevant provisions of the Banking Act for commercial banks.

54. Regulations will specify the format and content of audit reports and the minimum scope of audit reviews. Uniform accounting and auditing standards and prudential reporting requirements will also be established. The accounting standards will include guidelines for loan portfolio review and classification, the treatment of interest on non-performing loans, and

provisioning for potential loan losses. To assist in establishing these standards and reporting requirements, the project would finance the services of an international accounting firm.

55. The establishment of a credit clearing house is a complex undertaking which will require a technical advisor to consult on its establishment, operation, and legal framework. A technical assistance program is proposed in Annex 3-4.

56. Lastly, monetary penalties for violations of laws and regulations will be strengthened and periodically revised to serve as a deterrent to illegal and imprudent acts. Initially, the penalties contained in the existing Banking Act are to be increased by a factor of 100 and revised thereafter as needed.

C. Banking Supervision

57. To enable the BOG to effectively carry out its role of monitoring and preserving the health of the financial system, the skills, training, staffing, and methodology of its Bank Examination Department must be strengthened. To this end, a number of steps are being taken. First, two banking supervision experts are in the process of being recruited to serve as technical advisors to the BOG. The proposed technical assistance program is outlined in Annex 3-3 including the terms of reference of the banking supervision experts, whose assistance is critical to the success of strengthening the supervision function. Besides, increases in compensation are critical to attract and retain high quality individuals in the Bank Examination Department. Therefore, the BOG will, in line with the overall review of compensation for civil servants as part of the structural adjustment program, reassess staffing and compensation in conjunction with the possible reorganization of the department.

58. Prudential supervision of banks is also provided in the forms of external audits and financial disclosure. Audits of banks conducted in the past failed to disclose the extent of problems subsequently identified in the diagnostic studies. It is apparent that not only auditing standards must be strengthened but training of auditors must receive high priority. In this regard, the Institute of Chartered Accountants has an important role to play in providing leadership to the auditing profession in Ghana. A technical assistance program is envisaged for the training of auditors (Annex 3-5). The program also includes a component for a consultant to assist in developing auditing standards.

59. Financial disclosure can help to instill discipline. However, given the present state of the banking system generally, full financial disclosure is considered inappropriate at this time. Nonetheless, certain information, such as deposit account statements and schedules of charges, should be made available to the public. In this regard, the Banking Law Committee will establish standard patterns of information disclosure to the public.

D. Bank Restructuring

60. As stated in para 19, a large number of Ghanaian banks are facing severe financial difficulties, which are threatening their liquidity and solvency and thereby the stability of the financial system overall. This is

particularly the case of the three development banks, but to a lesser extent also of some major commercial banks. This situation was attributable to inappropriate sector policies and regulations affecting the operation of the banks in the past, inadequate banking supervision by the authorities, internal weaknesses on the part of the banks themselves (in particular deficient management team and poor procedures and controls), as well as the massive devaluations in recent years which have considerably increased the corporate sector's indebtedness and reduced its capacity to service its debt to the banks, exacerbating the latter's portfolio arrears. The Government realizes the critical need to restore the financial health and operational capacity of the distressed Ghanaian banks. Comprehensive diagnostic studies by international auditing firms have been carried out for the three development banks and six major commercial banks to determine accurately their financial and operational condition and the appropriate remedial measures required. These audit reports constitute the first step in a review process which would determine for each bank its prospects for future viable operation and restructuring requirements. External audits under the aegis of BOG will be repeated for the coming two to three years until such a time as BOG's examination department has been satisfactorily strengthened.

61. The basic principles that are to govern the restructuring of the banks, have been agreed between the Government and IDA and are spelled out in the Statement of Financial Policy (Annex 4--paras 7 to 9), along with specific targets for restructuring plans (Implementation Schedule Section II - 4 to 7). The systematic review of audit reports by the Ghanaian authorities and IDA, will provide a basis for deciding on a future course of action (recapitalization/restructuring, merger, liquidation) for each bank. The eventual decision to recapitalize an individual bank will be based on a realistic assessment of this bank's prospects for viable operation within a reformed banking system more liberalized and competitive and with much reduced reliance on GOG/BOG funding and other concessional funding. This will entail a three-phased process of which the first step would be the preparation of detailed business projections for at least a 5-year period based on realistic assumptions of future operations. The iterative process by which these projections will be undertaken would involve consideration of fundamental issues such as sectoral specialization vs universal banking, the options of mergers and liquidations, degree of appropriate state financial support. Once satisfactory projections are obtained for an individual bank, a specific restructuring plan will be prepared for it, stipulating the arrangements (operational, financial, managerial, legal) for the bank's future operation. Monitorable steps for the implementation of the restructuring plan will be embodied in a performance contract to be signed between the Government/BOG and the bank setting out the respective obligations and commitments of each party. All restructuring plans for individual banks will be sent to IDA for review and agreement prior to their implementation.

62. In addition to immediate safeguard measures to be taken as necessary so as to arrest further financial deterioration (i.e., discontinuation/curtailment of new lending; concentration on loan recovery, reduction in operating costs; reconciliation of accounts), specific modalities will be worked out to settle the accumulated deficits involving an appropriate mix of cash injections and non-cash adjustments, in particular (i) rescheduling/conversion of external and GOG/BOG loans to banks; (ii) transfer to the Government of the banks' portfolio of non-performing loans to state-owned enterprises and/or those guaranteed by the Government. Beyond

internal measures at the level of each individual bank, arrangements for loan recovery might include the transfer of the banks' non-performing loan portfolio to a separate entity (collection agency, managed fund, restructuring fund) or its sale at a discount.

63. Financial requirements for restructuring Ghanaian banks (both for resorbing the aggregate deficits of the whole banking system and for recapitalization of selected banks) can only be roughly estimated at this stage, pending the completion/analysis of their audits and the subsequent decision-making process leading to their recapitalization/restructuring. Initial estimates indicate that overall needs would approximate US$280 million. Of this amount about US$40 million could be met with the conversion into quasi-equity of loans from GOG/BOG and external lenders to the banks (principally the development banks) and US$20 million through the repurchase by GOG of non-performing loans to state enterprises. To monitor the proper implementation of the bank restructuring program, the Government is in the process of establishing a Technical Committee, reporting to the Financial Sector Adjustment Committee (para 77). Given the magnitude and complexity of the exercise, the project would finance a bank restructuring adviser for a period of 18 months, acting as special adviser to the Technical Committee, to be recruited by September 1988 (Annex 3-7).

E. Corporate Restructuring

64. As evidenced by the banks' audits available to date, a number of Ghanaian enterprises, particularly those with foreign debts/or depending largely on imported inputs, are in need of both physical and financial restructuring, in the aftermath of recent massive devaluations, high inflation rates, and adjustment policies (trade liberalization, reduction in effective protection). This situation warrants the consideration of a nationwide program for corporate restructuring, the basic objective of which would be to offer comprehensive financial packages linking future debt repayments to the cash-generation capacity of individual firms, using such instruments as debt/equity swaps, reschedulings of remaining debts over longer maturities, interest capitalization, partial write-off of accumulated penalty charges, and injection of fresh money for increased liquidity and new fixed assets. Significant managerial and operational restructuring would have to be considered as well. Restructuring will be selective and confined to those enterprises temporarily in financial distress but with clear medium-term prospects for profitable operation. The provision of technical assistance and expert guidance to the banks and the enterprises will be needed for the design as well as the implementation of restructuring proposals. Although the responsibility for enterprise restructuring should normally rest with the banks, the magnitude and complexity of the problem appear to require putting in place, at the country level, an institutional framework that would (a) generally oversee the implementation by the banking system of the nationwide enterprise restructuring program; (b) refinance a part of the restructuring credits/investments by the banks; and (c) provide the technical assistance required. The Government has requested IDA's assistance in initiating a study toward the design and establishment of a corporate restructuring program along the foregoing lines (Annex 3-8).

F. Rural Finance

65. The Government places a high priority on improving the efficiency of rural financial mechanisms to support economic, particularly agricultural,

activity in rural areas. Financial intermediation in rural areas requires, however, special treatment because of the informal nature of the financial intermediaries that operate there, and the reluctance of formal financial institutions to undertake high-cost high-risk intermediation activities in rural areas. The Government is therefore conducting two studies of the rural financial subsector with the support of IDA. The first will be a comprehensive study of the entire range of rural financial intermediation required for the rural population. The second will focus on a diagnosis of a sample of rural banks (ten to fifteen) to provide the basis for the BOG to formulate a program of action vis-a-vis these banks. These two studies together will be used to design a sector specific action program, to be supported by a forthcoming Rural Finance project, and which will be fully consistent with the thrust of the present financial sector adjustment program.

G. Foreign Exchange Risk

66. Exchange losses resulting from loans denominated in foreign currency account for a large share of the financial sector deficit (about US$100 million). Although exchange rate fluctuations comparable to those observed between 1983 and 1986 are less likely in the future as long as the Government pursues its liberalized trade and exchange rate policies combined with monetary and fiscal discipline, it would be advisable to consider a mechanism by which borrowers could be adequately protected against unexpected future variations of the exchange rate. To that end the BOG intends to study and develop a model to forecast the foreign exchange risk and determine an appropriate level for the fee that borrowers would have to pay to BOG in exchange for exchange risk protection. This study will be financed under the proposed project. Based on the study's findings, it is envisaged that a fund managed by BOG would be established to cover actual losses as needed. Seed funding would be provided by the Government.

IV. THE PROPOSED CREDIT

A. Origin and Objectives

67. The proposed credit has originated from the Bank's sector work initiated in Ghana since 1985. Critical to continued progress in the structural adjustment effort is the need to develop a well functioning and broadly based financial sector. To that end, the Government has designed a comprehensive and far-reaching action program with the following main objectives: (i) to enhance the soundness of banking institutions through reforms of the regulatory framework and the restructuring of distressed financial institutions; (ii) to improve deposit mobilization and efficiency in credit allocation; (iii) to develop money and capital markets. Significant steps have already been taken towards the implementation of this program: interest rates have been liberalized in September 1987 and February 1988, external audits undertaken for the nine major banks, two specialists in banking supervision have been recruited by the BOG and a study on improved standards for banks' accounting and reporting has been initiated recently. The credit would support the initial action program of policy and institutional reforms as set out in the Government's Statement of Financial Policy (Annex 4).

B. The Macroeconomic Context

68. The financial sector adjustment program is a key element of the Government's economy-wide structural adjustment program (see paras 5-11). The total external financing required to support the structural adjustment program during the period 1988-90 is projected to be about US$2,200 million (see Annex 1-3). The proposed financial sector adjustment credit of US$100 million will meet 4.5 percent of this external financing requirement. A large part of the remainder (US$1,300 million) has been identified from existing and expected commitments from bilateral and multilateral donors. The residual financing gap of about US$800 million is expected to be met by the IMF enhanced structural adjustment facility, IDA's contribution to the African debt initiative, and additional financing from cofinanciers.

C. Description

69. The IDA credit of US$100.0 million will be made to the Government at standard IDA terms with 40 years maturity. The credit would have a sector reform component and a technical assistance component.

1. Sector Reform Component

70. This component of US$95 million equivalent would be in support of ongoing and new policy and institutional reforms undertaken in the financial sector over the 1987-1990 period, as outlined by the Government in the Statement of Financial Policy, the major objectives of which are to:

(a) enhance the soundness of banking institutions through (i) a review of the legal framework, (ii) improved modalities for bank supervision, (iii) strengthening the training of bankers, (iv) strengthening the accounting and auditing professions, (v) support to the financial restructuring of the corporate sector.

(b) restructure financially distressed banks on the basis of full external audits, followed by a thorough review of each bank's prospects for future viability within a liberalized and competitive system (with much reduced reliance on GOG funding and other financial privileges), and restructuring needs therefor. The decision on a future course of action for each bank (recapitalization/restructuring, merger, liquidation), on the basis of this review, would lead to the preparation of a specific restructuring plan, the implementation of which would be monitored by a performance contract.

(c) improve resource mobilization and allocation through (i) measures aimed at further restoring public confidence in banks, (ii) liberalization of interest rates, bank charges and commissions and sectoral credit ceilings, (iii) development of money and capital markets through the rationalization and strengthening of the CDH and the introduction of policies and institutional vehicles for capital market development.

2. Technical Assistance Component

71. This component of US$5 million will finance (i) a comprehensive program of technical assistance to the BOG (Annex 3-3 and 3-4), (ii) training

programs for the Institute of Chartered Accountants (Annex 3-5), (iii) training programs aimed at improving the profession of bankers (Annex 3-6), advisory services to the Technical Committee for Banking Restructuring (Annex 3-7), (iv) technical assistance to CDH (Annex 3-1), (v) an assessment of the potential for capital market development and related studies (Annex 3-2), (vi) a study to assess the need for corporate restructuring and the initiation of a pilot program (Annex 3-8), and (vii) a study on exchange risk protection (para 66). Costs of technical assistance and studies are summarized in Annex 3-9.

D. Procurement and Disbursement

1. Sector Reform Component

72. Procedures for procurement and disbursement would be largely patterned upon those applied for the recently approved SAC to Ghana. The proceeds of the proposed sector reform component (US$95 million equivalent) would be used exclusively for the financing of the foreign exchange cost of eligible imports through the foreign exchange auction in the BOG. Procurement procedures have been designed to permit rapid use of the funds while ensuring efficiency and economy. Except for a few exclusions such as luxury and defense items, any imports would be eligible for financing. Not more than SDR 20 million equivalent of the proceeds of the credit would be used for petroleum imports. In order to speed up disbursements, imports below US$2 million by private entities would be procured in accordance with their normal procedures; the Government and SOE procedures for imports below US$2 million equivalent would be acceptable to the Association. Imports worth US$2 million or more would be subject to international competitive bidding according to Bank Guidelines, using current standard bidding documents, which are acceptable to IDA. International suppliers are well represented in Ghana; this, together with the ongoing auction system and trade liberalization, should ensure an internationally competitive market in which importers can be relied on to procure their goods and services from the least costly and most reliable sources. 100 percent of the costs of technical assistance and studies would be financed under the project.

73. To facilitate procurement and disbursement, multiple special accounts (up to six), would be established in U.S. dollars at commercial banks, on terms and conditions acceptable to the Association. Initially, US$18 million of the IDA credit will be deposited in these special accounts. Applications for replenishment of the special accounts will be submitted monthly, or when withdrawals equal one-sixth of the amount advanced. Applications will be fully documented with respect to payments against contracts of more than US$500,000 equivalent. Reimbursements for payments against smaller contracts will be made on the basis of statements of expenditure certified by the BOG with supporting documents retained for review by visiting missions. Annual audit reports will include a separate audit of amounts withdrawn on the basis of statements of expenditure and on special accounts.

74. The proceeds of the proposed sector reform component would be disbursed in three tranches as follows:

(a) a first tranche of US$45 million equivalent (SDR 32.5 million) would become available immediately upon effectiveness (by August 1988);

(b) a second tranche of US$30 million (SDR 21.6 million) would be made available following a review of performance, six months after effectiveness, that would determine that the reform program is being satisfactorily implemented and in particular that the conditions stipulated in para 77.2 have been fulfilled.

(c) a third tranche of US$20 million (SDR 18.0 million) would be made available following a review of performance, nine months after second tranche release that would determine that the conditions stipulated in para 77.3 have been fulfilled.

Conditions for tranche release are detailed below under section E "Monitorable Actions".

75. Cofinancing of US$140 million is being sought under this project. The Swiss Government has indicated at negotiations its intention to contribute to the cofinancing of this project in an amount of Swiss Francs 15 million while AfDB and the Japanese Government (OECF) are expected to contribute in amounts of US$50 million and US$55 to 70 million equivalent, respectively. The British and Canadian Governments have also been approached. On the basis of the reactions received so far from these sources, it is expected that the target amount for cofinancing will be achieved. It is intended, to the extent possible, that these cofinancing funds be tranched in such a way as to ensure balanced tranche disbursements.

2. Technical Assistance Component

76. Consultancy services for the various technical assistance subcomponents will be obtained as per the Bank's Guidelines for Recruitment of Consultants. Procurement of other items such as vehicle and office equipment will be as per the procurement procedure described in para 71 above. Disbursement under the technical assistance component will not be subject to the tranche release conditions. Statement of expenditures would be used for expenditures not exceeding US$50,000. A special account of US$1,000,000 representing about four month's expenditures would be established at a commercial bank to expedite disbursements. Audit requirements would be similar to those of the sector reform component (paras 72-73).

E. Monitorable Actions

77. The Statement of Financial Policy (Annex 4) describes the specific reform measures that have been or will be taken during this phase of the adjustment program. These measures are summarized in the Implementation Schedule attached to this Statement. A high level Financial Sector Adjustment Committee chaired by the Secretary for Finance and Economic Planning, with the Governor of the BOG as Vice-Chairman, and reporting to the Chairman, Committee of Secretaries will oversee the implementation of the program. Conditions for tranche releases are listed below.

1. Conditions for Effectiveness

(i) Agreement with IDA on amendments to the Banking Act and other relevant regulations covering prudential rules relating in particular to capital adequacy of banks, reserve requirements, exposure limits, penalties and reporting requirements to the BOG.

(ii) Agreement with IDA on a proposal setting out uniform auditing and accounting standards for banks.

2. Conditions for Second Tranche Release

(i) Satisfactory implementation of amendments to the Banking Act and other regulations referred to under para 77.1 (i).

(ii) Satisfactory monitoring by BOG of compliance by banks with uniform accounting and auditing standards.

(iii) Agreement with IDA on a timetable for a phased decontrol of banking charges.

(iv) Enactment of the amended Social Security Decree.

(v) Receipt of a Government Statement satisfactory to IDA specifying the modalities for the restructuring of banks and in particular (i) the restructuring/conversion of loans and deposits extended to banks by GOG/BOG and external lenders; (ii) measures for dealing with banks' portfolio of non-performing loans; and (iii) additional measures for dealing with non-performing loans to State Enterprises.

(vi) Agreement with IDA and implementation of a specific proposal for the reduction by at least 50% of doubtful loans and off-balance sheet items in the aggregate portfolio of banks.

(vii) Agreement with IDA on restructuring plans for banks accounting for at least 50% of commercial banks' assets and 50% of development banks' assets.

(viii) Preparation and implementation of an action program for the strengthening of CDH.

(ix) Completion of a study on the potential for capital market development and related requirements.

(x) Completion of a study on exchange risk protection.

3. Conditions for Third Tranche Release

(i) Review of the sectoral credit floor for agriculture in consultation with IDA and implementation of the resulting agreement.

(ii) Satisfactory implementation of the plan for the reduction of non-performing loans and off balance-sheet items in the portfolio of banks and of the banking restructuring plans agreed upon under paras 77.2 (vi) and (vii).

(iii) Agreement on a program for the residual portfolio of non-performing loans and off-balance sheet items and on restructuring plans for the remaining commercial and development banks.

(iv) Satisfactory implementation of the recommendations of the study on the capital market (para 77.2 (ix)).

(v) Establishment of the Credit Clearing House.

F. Justification and Risks

1. Justification

78. An efficient, broadly based financial sector, with an effective banking system at its core, is necessary to provide the support for the continued structural adjustment effort. Ghana does not yet have this. The formal financial system is at an early stage of development and has been handicapped by significant institutional weaknesses, limited mobilization of financial resources and deficiencies in credit allocation, all of which have constrained the supply of credit to the productive sectors. The initial action program seeks to address these handicaps. It aims to strengthen the financial institutions, expand the scope of the formal financial system and improve the efficiency of financial intermediation in Ghana. Emphasis is placed on priority policy and institutional reforms necessary to overcome the key constraints or imperfections in the financial system which are hindering the flow of funds to the efficient productive sectors, thus limiting investment and production responses to the ongoing adjustments of trade and incentive policies. Increased efficiency of the financial sector will thus enhance growth, both by increasing savings and by channelling them to higher yielding investments. The enhanced soundness of the banking institutions, which will be pursued through their restructuring, and training programs for banks' employees, together with the proposed amendments to the Banking law and other relevant regulations, and the improvement in the supervision and surveillance of the banking system by the BOG will increase confidence in the banking system, thus inducing its further growth. The credit will also address the development of the money market and capital market, which together with an initial program aiming at restructuring the corporate sector should contribute both to a broadening of the financial system and stimulate private investment. In addition, the development of the profession of accounting and auditing, and improved accounting systems will in the long-run improve the Government's budgetary control, improve monitoring of state enterprises performance and tax collection. In the private sector, efforts at productivity improvement and restructuring will be facilitated.

2. Risks

79. The main risk relates to the inherent complexity of undertaking a sector-wide restructuring of the banking system which requires not only the strong commitment of the Ghanaian authorities but also the full cooperation of the banks' management. Other risks include the timely and adequate availability of resources, and the strain the project will place on the country's implementation capabilities. These risks are, however, mitigated by (a) the Government's commitment to undertake banking restructuring on a sound basis, in accordance with principles formulated in consultation with IDA, and to seek IDA's agreement on individual restructuring plans prior to their implementation; (b) the tranching of the credit, which would further ensure satisfactory progress in the implementation of the sector reform program overall, and of banking restructuring in particular; and (c) finally, the sector reforms contained in the Action Program, in particular the recent liberalization of interest rates and the proposed improvement of the

regulatory framework and strengthening of Central Bank supervisory functions, are expected to go a long way in ensuring the competitiveness, efficiency, and soundness of the banking system in the future.

V. BANK GROUP OPERATIONS

80. Until March 1983, when lending was resumed after an 18-month hiatus, the Bank Group's assistance to Ghana was oriented towards projects with a strong emphasis on export promotion and rehabilitation of basic infrastructure. But the acuteness of the economic crisis of the past several years and the magnitude of structural distortions led the Government to develop a program of far-reaching economic reform which it announced in April 1983. This resulted in a major shift in the Bank's strategy. The main elements of this strategy are:

(a) to assist the Government, through the Bank's economic and sector work, supported where appropriate through technical assistance and program lending, to improve incentives for production, to increase the efficiency of economic management, and to restore in the medium term a sound financial basis for growth;

(b) to promote the long-term growth and development of the economy by underpinning structural adjustment lending with infrastructure rehabilitation and sector adjustment operations within a framework of appropriate sectoral policies, the latter encompassing industry and education; and

(c) to contribute to improved aid effectiveness in Ghana by acting as the focal point .or aid coordination between donors and Ghana as the Government strengthens its own planning and aid coordination ability.

81. Based on the strategy outlined above, the Bank is supporting changes in incentive policies and improvements in economic management through a series of program credits designed to provide critically needed imports, particularly to export sectors and supporting economic infrastructure such as transportation. The latest in this series of credits is the Structural Adjustment Credit approved in April 1987. The Bank supplemented this with a Structural Adjustment Institutional Support Project to support and strengthen the implementation agencies involved in the structural adjustment program. All program credits taken together amount to 57.1% of total commitments. To prepare for these credits, the Bank carried out a public expenditure review, an agricultural sector review, an industrial sector study and an assessment of issues and options in the energy sector, supervised cocoa sector studies under an ongoing project, and acted as Executing Agency for a UNDP-financed study of the public enterprise sector. In addition, an economic memorandum (Report No. 6635-GH, dated March 30, 1987) was prepared and used as a background document at the last Consultative Group meeting in May 1987.

82. Over the medium term, IDA lending will include a second structural adjustment operation, sector operations, and complementary project lending. Future project lending will concentrate on infrastructural rehabilitation, and focus on sectoral strategies, a sound policy framework, investment programs, public sector reforms, and institutional improvements.

VI. COLLABORATION WITH THE IMF

1. Fund Relations w_th Ghana

83. Since the inception of the ERP, the Fund's Executive Board has approved three successive stand-by arrangements and two Compensatory Financing Facility purchases by Ghana resulting in a total use of Fund credit by end December 1986 of SDR 611 million or 299 percent of quota. The third stand-by arrangement equivalent to SDR 81.8 million (40 percent of quota) was approved on October 15, 1986. On November 6, 1987, the IMF Board approved the request by GOG for a three-year extended arrangement (SDR 245.5 million) and a three-year structural adjustment arrangement (SDR 129.9 million).

2. Bank-Fund Collaboration

84. Collaboration between the Bank and Fund staff has been good, both in the field, where there have been parallel and joint missions, and where the Bank's Resident Mission is in close touch with the Fund Resident Representative, and at headquarters, where there are frequent consultations. The staff of the two institutions have worked extremely closely with the authorities in designing the structural adjustment program. The Fund staff have focused in particular on exchange and trade policy, fiscal and domestic resource mobilization issues, and external debt management, while the Bank staff have focused on incentive policies including cocoa policy and trade liberalization, and public sector reform, including public expenditure policy, state enterprise reform, and public sector management. A Policy Framework Paper prepared jointly by the Government, the Bank, and the Fund, provided the framework for Ghana's recourse to the Extended Arrangement and the Structural Adjustment Facility approved by the Fund Board in November 1987.

VII. RECOMMENDATION

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

86. I recommend that the Executive Directors approve the proposed Development Credit.

Barber Conable
President

Attachments

Washington, DC
May 9, 1988

ANNEX 1-1

GHANA

FINANCIAL SECTOR ADJUSTMENT CREDIT

KEY ECONOMIC INDICATORS

	Actual		Prelim.		Projected		
	1984	1985	1986	1987	1988	1989	1990
	(in %)						
GDP Growth Rate	8.6	5.1	5.3	4.5	5.5	5.0	5.0
GDY Growth Rate a/	5.6	4.2	6.1	4.5	5.5	5.0	5.0
GDY/Capita Growth Rate a/	2.3	0.9	2.8	1.2	2.2	1.7	1.7
Total Consump./Capita Growth Rate	-	0.0	1.1	-0.6	0.4	1.0	1.0
Debt Service, MLT (in US$ M) b/	403	415	386	567	561	464	376
Debt Service/XGS c/	59.7	59.2	44.6	60.5	56.1	41.8	30.1
Debt Service/GDP	5.4	6.1	8.0	12.3	11.3	8.8	6.4
Gross Investment/GDP	6.9	8.0	10.7	13.0	15.0	16.9	18.0
Domestic Savings/GDP	4.1	5.2	7.2	9.9	11.5	11.7	11.8
National Savings/GDP	4.0	4.1	6.5	8.2	10.3	11.2	12.0
Marginal National Savings Rate	-	40.0	32.8	45.8	39.3	23.0	22.5
Public Investment/GDP	2.5	3.8	5.9	7.9	7.8	8.2	8.4
Public Savings/GDP	-0.6	0.1	1.7	3.2	2.8	3.4	3.6
Private Investment/GDP	4.4	4.2	4.8	5.1	7.2	8.7	9.6
Private Savings/GDP	4.6	4.1	4.7	5.0	7.5	7.8	8.3
Ratio of Public/Private Invest.	0.56	0.92	1.21	1.57	1.09	0.94	0.87
Government Revenues/GDP	8.0	10.4	13.6	14.0	13.5	14.0	14.0
Government Expenditures/GDP	10.9	14.1	17.8	19.1	18.9	19.1	18.9
Deficit (-) or Surplus (+)/GDP	-2.9	-3.7	-4.2	-5.1	-5.4	-5.1	-4.9
Export Growth Rate	-	22.4	12.3	8.7	9.1	4.6	5.4
Export/GDP	8.0	9.8	16.6	19.3	19.1	19.0	18.4
Import Growth Rate	-	8.8	13.0	2.4	5.6	12.0	9.3
Imports/GDP	10.7	12.5	20.1	22.4	22.5	24.2	24.5
Current Account (in US$M)	-214	-263	-203	-220	-231	-299	-356
Current Account/GDP	-2.8	-3.8	-4.2	-4.8	-4.6	-5.6	-6.0

Source: World Bank Estimates.

a/ GDY per capita = GDP per capita adjusted for changes in the terms of trade.
b/ Includes IMF and payments of arrears but excludes repayments of short-term oil facility borrowings.
c/ Includes private unrequited transfers.

ANNEX 1-2

GHANA

FINANCIAL SECTOR ADJUSTMENT CREDIT

BALANCE OF PAYMENTS

(US$ million)

	1986	1987	1988	1989	1990
Exports of Goods (fob)	749	787	840	897	973
Cocoa bean and products	503	465	448	459	480
Other exports	245	322	392	439	493
Imports of Goods (cif)	-791	-836	-915	-1,069	-1,223
Oil	-125	-144	-162	-166	-176
Non-oil	-666	-692	-754	-903	-1,047
Trade Balance	-42	-50	-75	-172	-250
Non-factor Services	-127	-92	-98	-107	-107
Receipts	48	102	109	115	114
Payments	-175	-194	-208	-222	-221
Resource Balance	-169	-141	-173	-279	-357
Net Factor Payments	-106	-132	-113	-100	-87
Interest Payments	-102	-127	-110	-98	-90
Public	-45	-73	-55	-56	-57
Private	-1	-2	-6	-8	-8
Banking	-55	-52	-48	-35	-25
Factor Payments & Other	-4	-5	-3	-2	3
Net Private Transfers & sul	72	53	56	80	88
Current Account Balance = Foreign Savings	-203	-220	-231	-299	-356
As % of GNP	-4.3	-4.9	-4.7	-5.7	-6.1
External Capital Inflow	183	380	290	277	284
Grants	118	123	149	143	141
Public Foreign Borrowings	113	210	123	111	135
MLT net	124	223	137	122	138
Gross Inflows	372	405	286	267	282
Concessional (LT)	257	290	250	230	249
of which: SALs	0	58	88	56	43
Non-concessional (MT)	115	115	36	37	33
of which: oil	59	64	0	0	0
Amortization	-248	-182	-149	-145	-144
Trust Fund	-11	-12	-13	-12	-4
Private Foreign Borrowiung (Net) 18	-3	9	2	-0	
Direct Foreign Investment	4	5	6	7	8
Short term borrowing	-71	-45	2	16	0
Errors & Omissions	-38	-21	0	0	0
Overall Balance	-58	139	59	-22	-72

Source: World Bank Estimates.

ANNEX 1-3

GHANA

EXTERNAL FINANCING REQUIREMENTS
(millions of US$)

	1988	1989	1990
I. Requirements	761.0	743.0	696.7
Current Account Deficit (excl. official transfers)	231.0	299.0	356.0
-of which Interest payments on official debt a/	104.0	90.0	82.0
Amortization b/	162.0	157.0	148.0
Repayments to the IMF (Repurchases)	265.0	182.0	112.0
Increase in Reserves	35.0	39.0	38.0
Reductions in debt arrears	30.0	35.0	33.7
Other c/	38.0	31.0	9.0
IIa. Disbursements: Existing Commitments d/	204.0	143.0	88.0
Official Grants	71.0	43.0	24.0
Public MLT Loans	118.0	92.0	64.0
Bilateral	22.0	25.0	25.0
Multilateral	96.0	67.0	39.0
Project-related	96.0	67.0	39.0
SAL and cofinancing	-	-	-
Other	-	-	-
SAF	-	-	-
IMF disbursements	-	-	-
Private Creditors	15.0	8.0	0.0
Direct Foreign Investments	-	-	-
IIb. Disbursements: Expected New Commitments	346.9	276.2	343.2
Official Grants	78.0	100.0	117.0
Public MLT Loans	131.6	138.2	185.2
Bilateral	25.0	24.0	58.0
Multilateral	106.6	114.2	127.2
Project-related	18.5	58.0	84.0
SAL and cofinancing	88.1	56.2	43.2
Other	-	-	-
IMF disbursements	101.3	0.0	0.0
Private Creditors e/	30.0	31.0	33.0
Direct Foreign Investments	6.0	7.0	8.0
II. Total Identified Financing	550.9	419.2	431.2
III. Residual Financing Gaps before Rescheduling	210.1	323.8	265.5
IV. Debt Relief (expected rescheduling)	0.0	0.0	0.0
V. Residual Financing Gaps after Rescheduling (III - IV)	210.1	323.8	265.5
VI. Possible Sources	210.1	323.8	265.5
ESAF	113.7	131.7	154.4
IDA	8.4	30.3	23.3
Cofinanciers	88.0	161.8	87.9

Note: Possible sources of additional funds to fill the financig gap shown in the above table have been identified in the context of the Africa Debt initiative.

a/ Includes IMF charges.
b/ Includes IMF Trust Fund but excludes outflows for Government's purchases of petroleum.
c/ Includes outward official unrequited transfers.
d/ As of December 31, 1986.
e/ Excludes commercial financing of Government's purchases of petroleum.

AF4IE
March 1988

GHANA

FINANCIAL SECTOR ADJUSTMENT CREDIT

ASSETS AND LIABILITIES OF BANKS

(in million cedis at end period)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987 (Sept.)
Cash on Hand	39.6	51.1	186.7	312.1	196.8	469.4	461.6	760.7	1,401.1	2,294.8	3,431.8	3,681.4	7,888.8
Balance with BOG and Other Banks	357.8	504.1	613.5	1,358.6	1,762.8	1,965.0	1,902.9	3,421.7	4,424.3	5,514.3	12,732.1	24,884.0	28,880.5
Treasury Bills, Stocks and Bonds	216.3	341.5	578.5	764.0	1,111.8	1,689.0	2,300.8	4,233.7	6,527.8	6,380.6	8,634.2	11,581.1	10,784.0
Commercial Bills	118.2	155.8	189.4	302.3	364.8	35.0	41.1	420.2	402.1	48.2	2,071.7	1,064.3	443.3
Loans and Advances	604.1	776.9	1,097.9	1,543.5	1,748.8	2,382.8	3,163.4	3,876.5	6,423.4	12,258.0	22,498.6	40,936.3	52,968.5
Other Assets d/	248.2	289.9	458.7	885.4	1,506.0	1,432.9	2,356.3	5,359.6	8,477.2	15,204.9	15,842.6	30,811.9	57,907.7
Total Assets	1,584.2	2,118.3	3,129.9	5,165.9	6,691.0	7,974.1	10,226.1	18,072.4	27,655.9	41,700.3	64,711.0	112,299.0	158,382.8
Demand Deposits b/	598.9	838.9	1,387.7	2,393.1	2,514.5	3,019.0	3,263.5	5,749.0	8,712.9	13,238.9	21,871.2	32,920.4	36,982.6
Saving Deposits	294.0	408.6	606.8	1,029.5	1,367.9	2,134.0	2,711.3	4,369.8	4,992.1	5,999.0	8,832.2	14,140.8	18,818.2
Time Deposits	168.6	185.5	189.9	242.9	263.2	315.0	388.7	460.7	570.3	1,180.8	2,842.5	5,980.6	13,898.5
Balance with BOG and Other Banks c/	91.4	102.5	117.0	163.3	198.2	273.4	291.3	507.3	1,772.9	3,072.5	8,286.1	11,886.4	28,210.7
Paid-up Capital and Reserves	113.1	147.4	183.5	275.7	382.2	460.0	440.3	882.9	2,611.5	4,396.1	3,583.8	7,880.5	6,408.4
Other Liabilities d/	318.2	440.4	645.0	1,061.4	1,995.0	1,772.7	3,131.0	6,102.7	9,996.2	13,814.0	19,296.2	40,382.3	53,991.4
Total Liabilities	1,584.2	2,118.3	3,129.9	5,165.9	6,691.0	7,974.1	10,226.1	18,072.4	27,655.9	41,700.3	64,711.0	112,299.0	158,382.8

Source: Bank of Ghana, World Bank.

a/ Excludes BOG.

b/ Includes all government deposits.

c/ Includes external borrowings of banks.

d/ Other assets include fixed assets, other real assets, special deposits with BOG, miscellaneous, etc., other liabilities include margins against contingency liabilities, balance in transit, some borrowings from local banks, and miscellaneous, etc.

Note: The proportion of public sector deposits plus government deposits over total deposits is about 20% for 1985, 18% for 1986, and 15.8% as of September 1987.

GHANA

FINANCIAL SECTOR ADJUSTMENT CREDIT

GDP/MONEY SUPPLY

	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987 (estimate)
In million cedis or percentages										
Total GDP at current market prices	2,259	5,283	42,853	72,626	86,451	184,038	270,561	373,068	511,256	702,789
Banking system net assets (1)	572.7	1,745.3	9,862.2	15,393	19,930	28,146.7	33,129.2	48,591.4	67,397	96.129
Assets/GDP	0.25	0.33	0.23	0.21	0.23	0.15	0.12	0.13	0.13	0.14
Total Bank Credits			2,067.8	2,802.7	2,906.1	5,732.1	11,995.7	21,401.1	40,328.6	73,945
Credits/GDP			0.05	0.04	0.03	0.03	0.04	0.06	0.08	0.10
Total Narrow Money Supply (M1)	305.4	1,000.8	6,224.6	10,147.6	12,297.1	18,770.1	26,643.3	43,471.1	64,619.6	106,636
M1/GDP	0.14	0.19	0.15	0.14	0.14	0.10	0.10	0.12	0.13	0.14
Total Broad Money Supply (M2)	426.6	1,386.3	8,696.2	13,634	17,129.6	24,323.5	33,835.9	55,036.1	84,004	113,782
M2/GDP	0.19	0.26	0.20	0.19	0.20	0.13	0.13	0.15	0.17	0.19

Source: BOG and World Bank Estimates

(1) includes Bank of Ghana.

MONEY SUPPLY

	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987 (Sept.)
Million Cedis Currency										
Notes & coins in circulation	167.1	524.4	3,897	6,552	7,488.3	11,434.8	16,234.4	25,328.5	34,734.7	40,357.6
Held by commercial banks	16.4 *	38.8 *	469.4	606.9	760.7	1,398.2	2,291.2	3,429.6	3,494.5	7,038.8
Total held outside banks	150.7	485.6	3,427.6	5,945.1	6,727.6	10,036.6	13,943.2	21,898.9	31,240.2	33,318.8
Demand deposits										
With Primary Banks	154.7	523.2	2,090	3,369.8	4,048	5,477	8,778.1	13,240.1	17,736.1	19,825.6
With Secondary Banks	NA	NA	651.3	864.4	1,419.1	2,717.2	3,786.1	7,549.6	13,000.8	16,267
With Bank of Ghana	NA	NA	55.7	28.3	102.4	539.3	135.9	724.5	2,642.5	7,276.2
Total demand deposits	154.7	523.2	2,797	4,262.5	5,569.5	8,733.5	12,700.1	21,514.2	33,379.4	43,368.8
Total narrow money supply (M1)	305.4	1,000.8	6,224.6	10,147.6	12,297.1	18,770.1	26,643.3	43,471.1	64,619.6	76,687.6
Time & Savings Deposits:										
With Primary Banks	121.2	377.5	1,861.6	2,613.5	3,632.5	4,084.2	5,187.8	8,406.2	13,951.5	19,902.6
With Secondary Banks	NA	NA	610	872.9	1,200	1,469.2	2,004.8	3,159.8	6,032.9	11,220.5
Total Quasi Money	121.2	377.5	2,471.6	3,486.4	4,832.5	5,553.4	7,192.6	11,566	19,984.4	31,123.1
Total Broad Money Supply (M2)	426.6	1,386.3	8,696.2	13,634	17,129.6	24,323.5	33,835.9	55,036.1	84,004	107,810.7

*Primary Banks only.

Source: Bank of Ghana

GHANA

FINANCIAL SECTOR ADJUSTMENT CREDIT

DEPOSITS AND THEIR STRUCTURE

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	(Sept.) 1987
(In million cedis)												
Demand Deposits	765.2	1,294.7	2,208	2,334.5	2,777.3	2,958.8	5,476.1	8,160.4	12,635.6	20,881.8	31,610.4	34,419.5
Savings Deposits	408.6	606.8	1,029.5	1,367.9	2,134	2,711.3	4,369.8	4,992.1	5,999	8,832.2	14,140.8	17,816.2
Time Deposits	185.5	189.9	242.9	263.2	315	388.7	460.7	570.3	1,180.8	2,842.6	5,980.6	13,898.5
Total	1,359.3	20,91.4	3,480.4	3,965.6	5,226.3	6,058.8	10,306.6	13,722.8	19,815.4	32,556.5	51,731.8	66,134.2
(In percentages)												
Demand Deposits	56	62	63	59	53	49	53	59	64	64	61	52
Savings Deposits	30	29	30	34	41	45	42	36	30	27	27	27
Time Deposits	14	9	7	7	6	6	4	4	6	9	12	21
Total	100	100	100	100	100	100	100	100	100	100	100	100

Source: Bank of Ghana

Note: Includes primary and secondary banks; and for both private and public sector.

GHANA

FINANCIAL SECTOR ADJUSTMENT CREDIT

TOTAL BANK CREDIT TO PRIVATE SECTOR AND PUBLIC ENTERPRISES BY SECTOR
(in million cedis)

	1980	1981	1982	1983	1984	1985	1986	(Sept.) 1987
Agriculture, forestry, fishing	412.4	655.0	688.6	2,012.9	3,779.1	5,207.6	7,476.3	9,447.1
Export trade	69.4	172.9	67.2	92.0	187.4	490.0	1,451.2	2,255.6
Manufacturing	472.0	508.3	635.2	866.6	3,288.4	6,046.4	10,800.4	15,952.5
Transport, storage, communications	1[illegible]3.5	215.2	201.8	331.3	653.7	1,154.3	2,021.5	3,451.2
Mining, quarrying	55.0	137.1	243.0	416.3	497.5	960.2	1,437.3	2,430.5
Import trade	34.4	47.6	42.4	107.4	307.7	990.7	2,931.4	4,476.4
Construction	289.1	411.9	511.2	796.6	1,273.9	2,017.8	3,899.4	5,052.9
Commerce and finance	246.0	321.1	293.5	683.2	1,175.0	2,820.3	5,042.0	5,265.7
Electricity, gas, water	116.0	44.2	42.2	49.6	21.4	37.8	46.1	83.8
Services	108.5	157.1	175.0	250.8	533.7	1,224.8	2,611.5	3,449.3
Miscellaneous	71.5	13[illegible].3	86.0	125.4	277.9	451.2	2,611.5	1,144.1
TOTAL	2,067.8	2,802.7	2,986.1	5,732.1	11,995.7	21,401.1	40,328.6	53,009.1

Source: Bank of Ghana

GHANA

FINANCIAL SECTOR ADJUSTMENT CREDIT

STUDY OF MEASURES NEEDED TO ENHANCE THE MONEY MARKET

1. An expert should be engaged to carry out an urgent assessment of the measures necessary to establish a proper operational and regulatory framework for the newly-opened Ghanaian money market. The expert should be, or have been until recently, a senior practitioner in a discount house or similar money market institution, preferably in a market similar to that in the UK. He will be fully familiar with the operations of a discount house, and will understand well the range of potential instruments in which it can deal. He should be accustomed to being involved in the formal and informal relationships which bind together the various participants in a money market, and particularly those between a discount house and the Central Bank. His standing and seniority should be such that his advice delivered in Accra, after a short visit, should be authoritative and self-evidently neutral and objective. For this reason, he should, desirably, be fully committed elsewhere, and unavailable for any longer term engagement in connection with the Ghanaian money market.

Terms of Reference

2. The expert will review all the available papers concerning the background of the Ghanaian money market, and the formation and operation of Consolidated Discount House Ltd. (CDH), including any money market regulations by then promulgated by the Bank of Ghana (BOG).

3. During a field visit to Accra of no more than two weeks, the expert will visit all institutions involved in the money market, for discussions on their expectations, and the degree to which these have been met since the opening of the money market on 30 November, 1987.

4. The expert will hold detailed meetings with officials involved at BOG, and have a dialogue on BOG's concerns in connections with the prudential regulation of CDH and the money market generally. This may or may not be in the context of extant regulations, but should also take cognizance of BOG's monetary control responsibilities.

5. Through extensive discussions with management and staff of CDH, the expert will form a view of the operational scope for a discount house in the Ghanaian environment, and the degree to which it is prospectively able to provide a useful and reasonably profitable service to its clients in the money market. This must include an in-depth assessment of the adequacy of the financial support and regulatory arrangements between CDH and BOG.

6. The expert will tender advice to CDH on the ambit and content of its Statement of Operational Policies, noting the extent of any differences existing on it between CDH and BOG.

7. Having performed the tasks described in 1-6. above, the expert will prepare a presentation which identifies all the significant issues requiring attention, to establish and maintain a soundly-based money market. It will go on to present unequivocal recommendations, with justification where appropriate, as to how each of these issues should be resolved.

8. The presentation referred to in 7. above will first be made to BOG officials, who will be invited to make observations. These will be considered by the expert, who, in his discretion, may modify the contents of the presentation, before subsequently delivering it to the management of CDH. This latter audience may be widened, if considered appropriate by the expert, to include representatives of other financial institutions.

9. On return to base, the expert will write a confidential report, outlining the presentation as originally prepared, the BOG observations, the resultant changes, if any, and the germane comments by CDH or other recipients.

AF4IE
April 1988

GHANA

FINANCIAL SECTOR ADJUSTMENT CREDIT

STUDY OF POTENTIAL FOR A STOCK MARKET

1. An expert on stockmarkets in developing countries should be engaged, to perform a study of certain aspects applicable to the introduction of a Stockmarket in Ghana, as detailed in the TOR's below. The expert should be particularly familiar with assessing the demand for the services to be offered through such a Stockmarket, from private investors, institutional investors and corporate issuers. The expert should be able to comment on the need for, and likely encouraging effect of, a variety of investment and issuing incentives. Knowledge of the workings of an exchange, and the influences on its profitability, are more important than expertise on legal frameworks or regulatory arrangements, which have been dealt with by others.

Terms of Reference

2. The expert should review the available reports on the background to, and implementation programme for the establishment of a Stockmarket in Ghana.

3. During a field visit to Accra of at least two weeks, the expert should meet the Government and Bank of Ghana officials responsible for the Stockmarket implementation plan, to understand more clearly their viewpoints, and expectations.

4. The expert should interview members of the Technical Sub-committee of the Committee on the Establishment of a Stock Exchange, and fully brief himself on the status of its draft plan.

5. A comprehensive study should be made of the prospective demand by investment institutions to purchase equity investments, and the likely use such institutions would make of the proposed Stockmarket in the initial purchase of such instruments, and subsequent trading. The study should cover, inter alia, commercial, merchant, development and specialized banks, insurance companies, pension and provident funds, the Social Security National Investment Trust and the National Trust Holding Company.

6. As much data as possible should be assembled on the use likely to be made of the proposed Stockmarket by individual and corporate investors, in both initial purchases and secondary trading.

7. An assessment should be made, based on management and shareholder interviews with a meaningful sample of private companies, of the likely use of the proposed Stockmarket by such enterprises in raising capital.

8. The expert should consider what types, if any, of incentive measures might enhance significantly the flow of investment funds and potential corporate issuers to the Stockmarket. He should determine the

likely and indirect effects of the proposed incentives, and provide a condensed statement of recommendation for transmission to the Ghanaian Authorities.

9. The expert should familiarize himself with the Government's latest privatization plans, and make appropriate enquiries about the suitability of using the facilities of the proposed Stockmarket for such divestitures.

10. Based on the results of his investigations, the expert should ascertain the likely profitability of the Stockmarket institutions, and form an opinion on the adequacy of the proposed institutional and administrative arrangements.

11. In the course of his work, the expert may well discover facts, or draw conclusions, which may be of relevance to the establishment of the Ghanaian Stockmarket, even though being peripheral to the main body of these TORs. These should be recorded separately, in an Annex to the report required under 12. below.

12. The results of the expert's work should be embodied in a full but concise report, covering all of his investigations and conclusions, for which two weeks preparation time should be sufficient. For the avoidance of doubt, it is required that the report contains his clear opinion on the prospects of an adequate quantum of business becoming available to the proposed Stockmarket, within a stated timeframe.

AF4IE
April 1988

GHANA

FINANCIAL SECTOR ADJUSTMENT CREDIT

TECHNICAL ASSISTANCE PROGRAM

FOR

THE BANK OF GHANA

1. Background

A strong system of bank supervision and a sound legal framework are necessary for the BOG to effectively carry out its role of monitoring and preserving the health of the financial system. Shortcomings in the existing legal framework and weak banking supervision have led to serious problems in the banking sector. Both prudential regulation and banking supervision must be improved if the BOG is to ensure the safety and soundness of a restructured banking system. This technical assistance program seeks to meet many of the needs for specialized expertise and technology necessary to strengthen prudential regulation and supervision including the:

(i) establishment of uniform accounting and auditing standards;

(ii) improvement in skill levels and examination methodologies of supervision staff;

(iii) strengthening of prudential reporting and development of an offsite analysis/early warning capability; and

(iv) revision of banking laws, rules, and regulations.

2. Concept for Technical Assistance

There should be several components to assist the BOG in strengthening prudential supervision and the legal framework. The components are:

(i) appointment of two bank supervision experts as long-term technical advisors;

(ii) training for bank supervision staff;

(iii) provision to employ a major international accounting firm for short-term assignments;

(iv) provision to employ a banking law expert for short-term technical assistance;

(v) provision to employ a technology consultant for short-term technical assistance; and

(vi) microcomputers and peripherals.

2.1 Bank Supervision Advisors

To strengthen bank supervision, specialized expertise is needed from abroad. Two advisors should be appointed for two year assignments to work closely with the BOG's Bank Examination Department. These advisors should be experts in bank supervision as demonstrated by their experience and standing in their home countries. At least one of the advisors should have experience at a senior level. Since they will be heavily involved in training, prior training experience and excellent communication skills are also desirable. It is anticipated that the advisors will have direct access and report to the Governor of the BOG. The primary functions of these advisors will be to:

(i) coordinate and conduct training of bank supervision staff and develop a permanent program for continuing examiner education;

(ii) develop and implement new concepts of bank supervision which focus on assessing the quality of management, asset quality, capital adequacy, earnings and efficiency, and liquidity/asset and liability management. The methodology should also be prospective in scope and should attempt to upgrade the quality of each bank's management systems as the first line of defense against imprudent and/or illegal practices. The new concepts of bank supervision should be formalized in written form in a manual of examination procedure;

(iii) improve prudential reporting and develop an offsite analysis/early warning capability;

(iv) establish uniform accounting and auditing standards;

(v) review organization, staffing, and compensation of the supervision unit and make appropriate recommendations;

(vi) develop mechanisms for handling distressed or failed banks and assist in the restructuring of banks; and

(vii) assist in such other matters as relate to banking supervision and the framework of banking laws, rules, and regulations.

These advisors should be selected and brought on-board as soon as possible. However, given the critical role they will play in the successful strengthening of the bank supervision function, considerable care should be taken in their selection.

2.2 Bank Supervision Training

In most countries, it takes four to five years, at a minimum, for an examiner to acquire the skills necessary to lead an examination team into a bank as the examiner-in-charge. To acquire these skills, a combination of on-the-job training, classroom instruction, seminars, and reference materials is needed. Therefore, a program is recommended which combines these features:

(i) a program of continuous education for examiners. The most critical skills in need of improvement are the following: (a) credit assessment and classification; (b) financial analysis; (c) asset and liability management; and (d) foreign exchange management;

(ii) fellowships for three senior examiners to travel abroad each year to participate in courses or seminars conducted by other bank regulatory agencies;

(iii) provision for two foreign experts to participate as instructors in two seminars to be held locally each year; and

(iv) provision for the purchase of books, instructional aids, and other materials necessary for training or reference.

2.3 International Auditing Firm

Uniform accounting and auditing standards should be introduced to eliminate existing accounting practices which understate problem assets, inflate income, and present a distorted picture of a bank's true condition. Uniform standards will also enable banking supervisors, investors, depositors, and creditors to compare the performance of institutions with a more reasonable degree of accuracy and comfort. To assist and expedite this process, it may be necessary to contract the services of a major international accounting firm. This firm will also be expected to assist in developing the prudential reporting formats necessary for bank supervisors to conduct offsite and early warning analysis. Therefore, a technical assistance component is included for two persons for three months during 1988.

2.4 Banking Law Expert

The BOG, together with the Ministry of Finance and Economic Planning, is proposing revisions to the existing body of laws, rules, and regulations which govern the conduct of banking. The proposed revisions seek to strengthen the hand of banking supervisors and correct omissions in the current law. For this reason, it may be necessary to review the legal framework as it exists in other countries and to consult the advice of an expert in the field. Therefore, a technical assistance component of has been allocated to support a one week visit during 1988 by an expert in the field of banking law and regulation.

2.5 **Technology Consultant**

The BOG will be establishing an offsite analysis/early warning function in its Bank Examination Department. This requires a short-term consultant to help select the appropriate hardware, program the application software, and train bank supervision staff in the basics of using and maintaining the system. The consultant will be required to work closely with the technical advisors for bank supervision to establish standard output reports. However, the system should remain flexible enough to manipulate data, prepare ad hoc reports, perform financial modeling, and permit revisions to the standard reports. The estimated need is for one consultant for approximately three months in 1988.

2.6 Microcomputer Component

The Bank Examination Department of the BOG requires three microcomputers, peripheral equipment, and software for its offsite analysis function.

3. Technical Assistance Program Cost Estimates

3.1 Capital Expenditures

(i) The cost for microcomputers, peripheral equipment, and software for the offsite analysis/early warning function is estimated at $30,000.

(ii) The cost of books, reference materials, instructional aids, and other materials for training during 1988 and 1989 is estimated at $10,000.

3.2 **Recurrent Expenditures**

(i) The cost of salaries and benefits, relocation and settling in expenses, housing, and amenities for two bank supervision advisors for a period of two years is estimated at $400,000 and 12,000,000 cedis.

(ii) Travel, subsistence, and enrollment expenses for three senior examiners to attend seminars abroad each year during 1988 and 1989 is estimated at $50,000.

(iii) Salary, travel, and subsistence expenses for two foreign experts to instruct at two seminars in Ghana each year are estimated at $70,000 and 320,000 cedis.

(iv) The cost of contracting two individuals from a major international accounting firm for a period of three months in 1988 is estimated at $250,000.

(v) Salary, travel, and subsistence expenses for a banking law expert to visit Ghana for one week during 1988 is estimated at US$7,000 and 120,000 cedis.

(vi) Salary, travel, and subsistence expenses for a technology consultant for three months during 1988 is estimated at US$35,000 and 1,800,000 cedis.

BUDGET FOR BANK OF GHANA TECHNICAL ASSISTANCE PROGRAM

	1988			1989			Total		
	Man Months	Foreign $	Local cedis	Man Months	Foreign $	Local Cedis	Man Months	Foreign $	Local Cedis
A. Capital Expenditures									
Microcomputers		15,000						15,000	
Peripheral Equipment		6,000						6,000	
Software		6,000						6,000	
Other		3,000						3,000	
Books, reference materials, instructional aids, etc.		5,000			5,000			10,000	
TOTAL CAPITAL EXPENDITURES		35,000			5,000			40,000	
B. Recurrent Expenditures									
Bank Supervision Advisors	24			24			48		
Salaries		120,000			120,000			240,000	
Benefits		30,000			30,000			30,000	
Relocation/Settling In		50,000			50,000			100,000	
Housing and Amenities	—	—	6,000,000	—	—	6,000,000	—	—	12,000,000
	24	200,000	6,000,000	24	200,000	6,000,000	48	400,000	12,000,000
Seminars Abroad	2			2			4		
Fees		3,000			3,000			6,000	
Travel		12,000			12,000			24,000	
Subsistence	—	10,000	—	—	10,000	—	—	20,000	—
	2	25,000	0	2	25,000	0	4	50,000	—
Foreign Instructors	2								
Salaries		20,000			20,000			40,000	
Travel		15,000			15,000			30,000	
Subsistence	—	—	160,000	—	—	160,000	—	—	320,000
	2	35,000	160,000	2	35,000	160,0[illegible]	4	70,000	320,000

ANNEX 3-3
Page 6 of 6

BUDGET FOR BANK OF GHANA TECHNICAL ASSISTANCE PROGRAM

	1988			19[illegible]			Total		
	Man Months	Foreign $	Local cedis	Man Months	Foreign $	Local Cedis	Man Months	Foreign $	Local Cedis
International Accountants									
Contract	—	250,000	—	—	—	—	—	250,000	—
	6	250,000	0	0	0	0	6	250,000	—
Banking Law Expert	0.25						0.25		
Salary		3,000						3,000	
Travel		4,000						4,000	
Subsistence	—	—	120,000	—	—	—	—	—	120,000
	0.25	7,000	[illegible],000	0	0	0	0	7,000	120,000
Technology Consultant	3						3		
Salary		21,000						21,000	
Travel		14,000						14,000	
Subsistence	3	—	1,800,000	—	0	0	—	—	1,800,000
	3	35,000	1,800,000	0	0	0	3	35,000	1,800,000
TOTAL RECURRENT EXPENDITURES	37.25	552,000	8,080,000	28	260,000	6,168,000	65.25	812,000	14,240,000
	=====	=======	=========	==	=======	=========	=====	========	==========
TOTAL EXPENDITURES	37.25	587,000	8,080,000	28	265,000	6,160,000	65.25	852,188	14,248,000
	=====	=======	=========	==	=======	=========	=====	========	==========

GHANA

FINANCIAL SECTOR ADJUSTMENT CREDIT

TECHNICAL ASSISTANCE TO SUPPORT THE ESTABLISHMENT OF A CREDIT CLEARING HOUSE

A. BACKGROUND

1. One of the major problems in the Ghanaian banking system is unduly large exposure and loan concentration, largely as a result of State majority ownership in a number of banks and enterprises, inadequate banking legislation, and defective management practices. Improving the transparency of risk concentration among banks and from banks to the BOG would lead to more prudent lending by banks and to better supervision by BOG. This could be achieved through the establishment a "Centrale de Risques" or "Credit Clearing House" (CCH) along the lines of similar institutions that exist in other countries.

2. The CCH to be established would make it mandatory for banks to regularly report on any risk (working capital, term loans or guarantees) above a certain limit on any single company or group of companies. After proper computerization by the CCH, each bank would be allowed to receive information on the aggregated risk of each company or group with the whole banking system (the risky position with any single bank would, of course, not be disclosed.) The system should include all banks, whether commercial or development banks, privately or publicly owned.

3. The system could be implemented gradually, starting with risks above the cedi equivalent of US$100,000. Once the system has been tested, the minimum level could be gradually lowered to US$50,000 and possibly to US$25,000. Rural banks could use different standards.

4. The CCH should be operated by the BOG. However, if reasons of public confidence warrant it, it could be established by the Bankers' Association, provided BOG has the possibility to monitor and inspect its operations and to have regular access to the information necessary for supervisory purposes.

B. SCOPE FOR TECHNICAL ASSISTANCE

5. The program for assisting in the setting up of the CCH would include: (i) Appointment of a technical advisor; (ii) Training for BOG's staff; and (iii) Computer equipment.

6. Owing to the complexity of the proposed mechanism, specialized foreign expertise would be needed. Twelve man-months of advisory services would be required--to be provided consecutively or in successive periods. The technical advisor would have to design the system, train staff, assist in the selection of computer equipment and supervise the initial stage of implementation until smooth operation is achieved. Purchase of the necessary computer equipment would also be financed.

7. A preliminary survey to be carried out by an expert for about three weeks would lead to the preparation of a more detailed action program project.

AF4IE
March 1988

GHANA

FINANCIAL SECTOR ADJUSTMENT CREDIT

TECHNICAL ASSISTANCE FOR THE INSTITUTE OF CHARTERED ACCOUNTANTS

A. Background

1. The Institute of Chartered Accountants (Ghana) was established under an Act of Parliament in 1963. It is the sole body charged with the development and regulation of the accountancy profession in Ghana. Its statutory functions include:

(a) the conduct of qualifying examinations for membership of the Institute;

(b) the supervision of professional standards and ethics among members of the Institute; and,

(c) the duty to maintain a library of books and other literature on accountancy and related subjects and to encourage publication of such literature.

2. The governing body of the Institute is the Council consisting of eleven members all of whom must be members of the Institute and who render voluntary service to the Institute for no remuneration. The Institute has a Secretariat of fifteen members of staff headed by an Executive Secretary. Presently, the membership of the Institute stands at 400, with 3,500 registered students at various stages of the qualifying professional examinations of the Institute. The Institute is a member of the International Federation of Accountants (IFAC). It is also a founding member of the Association of Accountancy Bodies in West Africa (ABWA), a sub-regional body of the IFAC, whose objectives include the development and enhancement of the accountancy profession and the promotion and development of professional ethics and accountancy standards and practices in West Africa.

3. In order to strengthen the framework within which financial institutions operate, a strong accounting profession is needed to enhance the reliability of financial information, to strengthen audits of banks to provide a true and accurate picture of each bank's financial condition, and to assist in upgrading the quality of operations and systems employed by these institutions. However, in Ghana, weaknesses in the accounting profession have failed to disclose the enormity of problems present in the financial institutions. Accounting standards need to be strengthened to prevent the capitalization of interest, to preclude the accrual of interest into income on non-performing assets, to mandate provisions for problem assets, and to force the recognition of losses on bad assets. Further, the training and skills level of accountants need to be strengthened through

modernization of the qualifying examination process, continuing education, and provision of research and advisory facilities.

4. Continuing efforts to train accountants locally, to keep pace with current events in accountancy, and to develop the profession in Ghana have met with numerous problems including:

(a) inadequate financing to support the Institute's activities;

(b) an insufficient supply of qualified teaching personnel;

(c) an inappropriate structure for the training and education of accountants;

(d) a lack of adequate teaching materials, books, and other teaching aids; and,

(e) a lack of current accounting literature necessary to keep pace with worldwide developments in the profession.

B. Concept for Technical Assistance

5. There should be several components to assist the Institute of Chartered Accountants in strengthening the accounting profession in Ghana. The components are:

(a) appointment of two technical advisors;

(b) training, teaching aids, and equipment;

(c) reference library; and

(d) motor vehicles.

Technical Advisors

6. To strengthen the accounting profession, specialized expertise is needed from abroad. Two advisors should be appointed for an initial two-year assignment to work within the Institute of Chartered Accountants. These advisors should be qualified certified or chartered accountants, preferably from the UK Chartered Association of Certified Accountants or the Institute of Chartered Accountants in England and Wales. Their functions should be as follows:

(a) One advisor will be responsible for setting up a Practice Advisory Service to give professional counselling or a second opinion to practitioners on technical matters relating to auditing, accounting, and allied areas. This service will be of particular use to sole practitioners and smaller firms who do not have the resources for such services in-house.

(b) The other advisor will be responsible for setting up and developing a Technical Department. The Department will be responsible for initiating and organizing:

(i) the technical and research programs of the Institute;

(ii) the continuing professional education program for the professional development of the members of the Institute;

(iii) the development of teaching aids and other material to incorporate material and examples related to the local environment;

(iv) the review and update of the examination syllabus of the Institute; and,

(v) workshops for examiners and moderators who administer the Institute's professional examinations.

7. The Institute has advertised for the appointment locally of a professionally qualified accountant who will be developed into a competent and effective Technical Director. The Technical Advisor will contribute to his professional development.

Training, Teaching Aids, and Equipment

8. Training is an integral part of the process to upgrade the accountancy profession in Ghana. Therefore, a program is recommended combining the following features:

(a) a program of continuing professional education for members of the Institute to be organized and conducted by one of the technical advisors. This program is to be supplemented by experts from the United Kingdom to conduct seminars on specialized areas such as computers, international accounting standards and international auditing practices. It is envisaged that two foreign experts will participate in two-week seminars to be conducted twice a year in Ghana;

(b) provision for the Technical Director to attend up to four two-week training seminars abroad during a two-year period;

(c) a program of training for examiners and moderators of the Institute's qualifying professional examinations to be organized by one of the technical advisors. It is envisaged that two foreign experts will participate in one two-week seminar to be held in Ghana each year;

(d) fellowships for three members of the Institute to travel abroad each year and participate in professional development courses conducted by a recognized accounting body; and

(e) provision for teaching aids and equipment.

Reference Library

9. Current literature concerning accountancy, auditing, and allied subjects is lacking and, therefore, serves to constrain the development and modernization of the accountancy profession in Ghana. There is an urgent need for textbooks, reference materials, technical bulletins, and periodicals, as well as microfilm readers and other library equipment, to assist members of the Institute and students in their professional development.

Motor Vehicles

10. The technical advisors will require vehicles for transportation during their assignments. In addition, a vehicle is necessary for upcountry visits to universities and other institutions for work related to the Institute.

C. Technical Assistance Program Cost Estimates

Capital Expenditures

11. (a) The cost of teachings aids to be used in continuing professional education courses is estimated at US$15,000. This includes monies for two video recorders, four TV monitors, twelve videotapes, two personal computers, software, and peripherals, and two overhead projectors and accessories.

(b) The cost of books, reference materials, photocopies, and other classroom aids to be used in continuing professional education courses is estimated at US$5,000 per year.

(c) The cost of procuring textbooks, reference books, technical bulletins, periodicals, and other reference materials for the Institute's library is estimated at US$50,000 per year for two years. This estimate represents the initial capital costs necessary to bring the library up to standard. At present, less than 25% of available shelf space is filled.

(d) The cost of three motor vehicles is estimated at US$40,000. Two vehicles are to be used by the technical advisors. The third vehicle, a four-wheel drive, is to be used for upcountry visits to universities and other institutions.

Recurrent Expenditures

12. (a) The cost of salaries and benefits, relocation and settling in expenses, housing and amenities for two accountancy advisors for a period of two years is estimated at US$360,000 and 12,000,000 cedis.

(b) Travel, subsistence, and enrollment fees for (1) two foreign experts to instruct in two two-week continuing professional education courses each year and for (2) two foreign experts to conduct a two-week course for examiners and moderators each year are estimated at US$50,000 and 240,000 cedis each year for two years.

(c) Salary, travel, and subsistence expenses for (1) two foreign experts to instruct in two two-week continuing professional education courses each year and for (2) two foreign experts to conduct a two-week course for examiners and moderators each year are estimated at US$50,000 and 240,000 cedis each year for two years.

13. A budget for technical assistance program cost estimates follows on subsequent pages.

BUDGET FOR INSTITUTE OF CHARTERED ACCOUNTANTS ASSISTANCE PROGRAM

	1988			1989			Total		
	Man Months	Foreign	Local	Man Months	Foreign	Local	Man Months	Foreign	Local
		$	cedis		$	Cedis		$	Cedis
A. Capital Expenditures									
Teaching Aids		15,000						15,000	
Books, reference materials, classroom aids, etc.		5,000			5,000			10,000	
Reference Library		50,000			50,000			100,000	
Motor Vehicles		40,000						40,000	
TOTAL CAPITAL EXPENDITURES		110,000	0		55,000	0		165,000	0
B. Recurrent Expenditures									
Accountancy Advisors	24			24			48		
Salaries		100,000			100,000			200,000	
Benefits		30,000			30,000			60,000	
Relocation/Settling In		50,000			50,000			100,000	
Housing and Amenities	—		6,000,000	—		6,000,000	—		12,000,000
	24	180,000	6,000,000	24	180,000	6,000,000	48	360,000	12,000,000
Seminars Abroad	3			3			6		
Fees		9,000			9,000			18,000	
Travel		12,000			12,000			24,000	
Subsistence	—	15,000		—	15,000		—	30,000	
	3	36,000	0	3	36,000	0	6	72,000	0
Foreign Instructors	3			3			6		
Salaries		30,000			30,000			60,000	
Travel		20,000			20,000			40,000	
Subsistence	—		240,000	—		240,000	—		480,000
	3	50,000	240,000	3	50,000	240,000	6	100,000	480,000
TOTAL RECURRENT EXPENDITURES	30	266,000	6,240,000	30	266,000	6,240,000	60	532,000	12,480,000
TOTAL EXPENDITURES	30	376,000	6,240,000	30	321,000	6,240,000	60	697,000	12,480,000

GHANA

FINANCIAL SECTOR ADJUSTMENT CREDIT

TECHNICAL ASSISTANCE PROGRAM FOR BANKERS' TRAINING

A. Background

1. The Government of Ghana has embarked on a program of development and liberalization in its financial markets. As part of this program, the banking system, which has operated within an oligopolistic environment, will operate within a more open and competitive environment leading to greater efficiency and modernization. Lending policies of banks which, in the past, sought to meet social goals will, in the future, be predicated on more prudent banking principles. These changes in the banking system require stronger banking skills and expertise at all levels, a more professional approach to management of financial institutions, and greater depth in the ranks of management. To upgrade the skills and expertise of banking personnel, a bankers' training program is proposed.

2. The need to upgrade the skills of new and existing personnel, particularly at the management and professional levels, can best be addressed by first designating an appropriate body to organize and coordinate training needs for the entire banking industry. The Bank of Ghana is the logical focal point for this body in the absence of a strong bankers' association. Bringing management and professional level personnel together for training would offer substantial economies of scale, reduce training staff to a manageable level, permit specialized expertise to be brought from abroad to participate and instruct in training courses, and provide a sharing of experience and a discussion of problems common to the local environment with the hope of improving banking practices and resolving common problems.

3. The objectives of providing management and professional level training would be to:

(a) Upgrade and internationalize banking skills in the core functions of management, lending/marketing, operations/technology, planning/financial management, and treasury/asset and liability management.

(b) Develop a more professional approach to management and to upgrade the quality of management systems used by financial institutions in Ghana.

(c) Introduce the most recent developments and techniques in banking and the financial markets.

(d) Upgrade the quality of training materials and instruction conducted in-house within banks in Ghana through the transfer of skills, technology, and knowledge from abroad.

4. In addition to training at the management and professional level, assistance at the institutional level is needed to support training of clerical and support staff in-house or in cooperation with the Ghana Institute of Bankers. This assistance includes support for curses in fundamental banking skills and the theory of banking, training materials and teaching aids, and motor vehicles to transport instructors and students.

B. Concept for Training Program

5. There should be several components to strengthen the skills and knowledge of the banking profession in Ghana. The components are:

(a) Seminars and courses for managerial and professional level staff to be conducted locally and abroad.

(b) Teaching aids, reference materials, equipment, and motor vehicles.

(c) Financing to support the work of the Ghana Bankers' Institute, to enable it to develop and strengthen its own capabilities for training bankers in Ghana.

Managerial and Professional Level Training

6. Managerial and professional level training is required at all levels of management. The most critical training needs are in the areas of management, credit, asset and liability management, foreign exchange management, and planning. To meet these needs, a program of continuous professional education is recommended which features seminars conducted both locally and abroad. (The decision of whether to hold a seminar locally or abroad will largely depend upon the number of personnel to be trained in a particular skill and the degree of specialization required).

7. The core courses recommended are:

(a) Entry and Junior-Level Managers and Professionals

(1) Financial Statement Analysis
(2) Introductory Foreign Exchange Management
(3) Microcomputers
(4) Bank Accounting
(5) Money and Banking
(6) Cash Management Services and Operations
(7) Introduction to Asset and Liability Management
(8) Introductory Credit Analysis
(9) Marketing
(10) Managing People
(11) Introductory International Banking
(12) Project Management and Appraisal
(13) Banking Laws and Regulations
(14) Audit and Compliance Systems

(b) Mid-Level Managers and Professionals

(1) Intermediate Foreign Exchange Management
(2) Intermediate Credit Analysis
(3) Intermediate Asset and Liability Management/Treasury
(4) Intermediate International Banking
(5) Intermediate Management Seminar
(6) Establishing Effective Internal Controls
(7) Problem Loan Identification, Workout, and Debt Recovery

(c) Senior-Level Managers and Professionals

(1) Advanced Management Skills (i.e., managing people)
(2) Strategic Planning
(3) Advanced Foreign Exchange Management
(4) Developing Written Policies
(5) Advanced Credit Analysis
(6) Advanced Asset and Liability Management/Treasury
(7) Advanced International Banking
(8) Establishing an Effective Loan Review System
(9) Establishing an Effective Audit System
(10) Management Information Systems
(11) Financial Planning and Budgeting
(12) Human Resource Management
(13) Establishing an Adequate Loan Loss Reserve
(14) Capital Planning
(15) Loan Portfolio Management

(d) Directors

(1) Duties and Responsibilities of Directors
(2) Strategic Planning
(3) External and Internal Audit
(4) Banking Laws and Regulations

8. In addition, specialized courses are recommended for professionals engaged in law, research, training, and other fields. For legal staff, courses concerning the legal aspects of debt recovery, project procurement and contract negotiation, international financing sources and techniques, public and parastatal enterprises, loan negotiation and renegotiation, foreign direct investment and joint venture negotiation, etc. are recommended. For research staff, courses in advanced research techniques are recommended. For instructors, train the trainer seminars are suggested.

Teaching Aids, Reference Materials, and Equipment

9. Teaching aids, reference materials and equipment are needed to support training activities. These include audio visual aids, overhead projectors, microcomputers, slide projectors, video equipment, copying machines, stationery, textbooks, and library facilities. Motor vehicles are needed to transport instructors and students to training facilities.

Ghana Bankers' Institute

10. The Ghana Institute of Bankers' educational program seeks to provide the appropriate academic foundation for a professional-oriented career and a professional qualification designed to improve job performance and demonstrate a commitment to the banking profession.

11. The banking qualification is in two parts. The Stage 1 examination covers English, economics, the structure of accounts, general principles of law, and elements of banking. The Stage 1 examination is administered locally. The Stage 2 qualification covers banking law, monetary economics, accountancy, investment, the nature of management, the finance of international trade, and the practice of banking (parts 1 and 2). The Stage 2 qualification is administered from London by the British Institute of Bankers.

12. Part-time evening classes are held at three locations: Accra, Kumasi, and Tema. Self-study and correspondence courses are other options available to students trying to acquire the knowledge to pass the qualifying examinations. However, a lack of textbooks, student materials, and the high-cost of correspondence courses make the last two approaches less effective than part-time evening classes.

13. To strengthen the work of the Institute in providing banking education, the following technical assistance program is suggested:

(a) Revision of the course curriculum and examination syllabus to reflect local needs, changes in the operating environment, and recent developments and technological advances in the industry.

(b) Training of tutors and examiners as part of a program to localize the Stage 2 qualifying examination.

(c) Financial support for the purchase of textbooks and reference materials for students.

(d) Library facilities and associated equipment, textbooks, periodicals, and reference materials.

(e) Instructional aids including video equipment, overhead projectors, copying machines, microcomputers, printing equipment, and motor vehicles to transport instructors and students.

C. Technical Assistance Program Cost Estimates

Capital Expenditures

14. (a) The cost of teaching aids, textbooks, reference materials, overhead projectors, slide projectors, video equipment, copying machines, microcomputers, and printing equipment is estimated at US$90,000 for 1988 and US$45,000 for 1989. The amounts are allocated between the Bank of Ghana (two-thirds), as coordinator

for the managerial and professional level bankers' training programs, and the Ghana Institute of Bankers (one-third).

(b) The cost of stocking a reference library with appropriate reference materials, textbooks, library equipment is estimated at US$50,000 per year for two years. The library facility will be maintained and operated by the Ghana Institute of Bankers. However, the facility will be available for use by all banking professionals.

(c) The cost of motor vehicles is estimated at US$100,000. These vehicles are to be used to transport instructors and students to classes. The estimate provides for three buses (allocated to the National Savings and Credit Bank, the Ghana Institute of Bankers, and the Bank of Ghana) and one automobile (allocated to the Ghana Institute of Bankers).

Recurrent Expenditures

15. (a) Foreign instructors are expected to expend 20 man-months per year conducting courses in banking at the professional and managerial level. Salaries are estimated at US$120,000 per year. Travel is also estimated at US$120,000 per year. Annual subsistence expenses are estimated at 8,400,000 cedis.

(b) Provision is made for eight persons from each of the nine largest banks and the Bank of Ghana to attend seminars abroad each year. Fees are estimated at US$120,000, travel at US$160,000, and subsistence at US$170,000 per year.

(c) Provision is made for three persons from the Ghana Institute of Bankers to attend seminars abroad each year for the purposes of acquiring the skills necessary to upgrade the course syllabus, becoming acquainted with recent developments in the banking industry, and training tutors and examiners in order to localize the Stage 2 qualifying examination. Costs are estimated at US$4,500 for fees, US$6,000 for travel, and US$6,300 for subsistence.

16. A budget for technical assistance program cost estimates follows on the subsequent page.

BUDGET FOR BANKERS' TRAINING

	1988			1989			Total		
	Man Months	Foreign $	Local cedis	Man Months	Foreign $	Local Cedis	Man Months	Foreign $	Local Cedis
A. Capital Expenditures									
Teaching Aids		30,000			30,000			60,000	
Books, reference materials, classroom aids, etc.		60,000			15,000			75,000	
Reference Library		50,000			50,000			100,000	
Motor Vehicles		100,000						100,000	
TOTAL CAPITAL EXPENDITURES		240,000	0		95,000	0		335,000	0
B. Recurrent Expenditures									
Seminars Held	41.5			41.5			83.0		
Fees		124,500			124,500			249,000	
Travel		166,000			166,000			332,000	
Subsistence		176,300			176,300			352,600	
	41.5	466,800	0	41.5	466,800	0	83.0	933,600	0
Foreign Instructors	20.0			20.0			40.0		
Salaries		120,000			120,000			240,000	
Travel		120,000			120,000			240,000	
Subsistence			8,400,000			8,400,000	40.0		16,800,000
	20.0	240,000	8,400,000	20.0	240,000	8,400,000	40.0	480,000	16,800,000
TOTAL RECURRENT EXPENDITURES	61.5	706,800	8,400,000	61.5	706,800	8,400,000	123.0	1,413,600	16,800,000
TOTAL EXPENDITURES	61.5	946,800	8,400,000	61.5	801,800	8,400,000	123.0	1,748,600	16,900,000

ANNEX 3-7

GHANA

FINANCIAL SECTOR ADJUSTMENT CREDIT

TERMS OF REFERENCE FOR A BANK RESTRUCTURING ADVISER

1. The adviser will be stationed in Accra, Ghana, for a period of 18 months (consecutively, or in 3 separate semesters) to work as a resource person with the Technical Committee in charge of monitoring the proper implementation of the bank restructuring program. The latter is a Government entity in the process of being established, the core of which would comprise senior officials from the Central Bank and the Ministry of Finance, and which will be charge of directing, coordinating and overseeing the implementation of an ongoing program for restructuring the Ghanaian banking sector. He will:

- help the Technical Committee design mechanisms to systematically deal with insolvent banks in terms of both financial and managerial restructuring;
- assist in establishing the regulatory and institutional framework to that effect;
- develop a package of policies and procedures to restructure insolvent institutions through remedial management measures, removal of existing losses, liquidation of bad assets and access of new shareholders to ownership;
- help the Technical Committee and/or the management of individual banks prepare, review and refine specific action programs and/or restructuring proposals; and advise the management of the banks undergoing restructuring in their initial implementation stage; and
- assist the authorities in generally overseeing the implementation of the bank restructuring program and monitoring its progress.

AF4IE
April 1988

GHANA

FINANCIAL SECTOR ADJUSTMENT CREDIT

CORPORATE RESTRUCTURING

Background

1. As evidence appears in the partial results already available on banks' audits, a large number of Ghanaian enterprises, particularly those in the industrial sector, have greatly suffered from the adverse effect of massive devaluations, high inflation rates, trade liberalization, reduction in effective protection rates, and other reforms of the adjustment program, which are expected to result in the medium-term in the development of a stronger, more efficient and more competitive corporate sector. The sharp deterioration in the financial situation of enterprises, however, and its strong bearing on the health of the financial system, justifies the consideration in the proposed project of the initialization of a program for restructuring Ghanaian enterprises in financial distress. The basic objective of such a component will be to offer a comprehensive package to financially-distressed enterprises with clear medium-term prospects for profitable operations. Although the responsibility for rehabilitation/ restructuring should rest in principle with the banks, the magnitude and intricacy of the problem and the current weak status of most financial institutions will require both important financial resource and high-level technical expertise, and might justify the establishment of a specialized financial corporation through which corporate restructuring proposals would be prepared, negotiated and implemented. An assessment of the need for a corporate restructuring program and proposals on its composition, covering in particular the conceptualization and design of the required regulatory and institutional support, would be undertaken under this project. A preliminary study is expected to be initiated during project preparation under PPF financing (Annex 3-8). If the conditions are felt propitious, this assessment would lead to the undertaking of a pilot program with a modest initial-funding in the vicinity of US$15 million (funded by the Government and by the banks).

Some Elements of Enterprise Restructuring

2. Objectives and Investments. The basic objective of enterprise restructuring is to offer comprehensive financial packages linking future debt repayments to the cash-generation capacity of each individual firm. Typically, a financial package could include: (a) debt swapping with equity or quasi-equity instruments such as convertible debentures or non-voting preferred shares; (b) rescheduling of the remaining debt over longer maturities; (c) capitalization of interests; (d) write-off of part of accumulated penalties and other charges; (e) injection of fresh money for working capital; and (f) investments in new fixed assets. There would be as well a need to provide technical assistance both to banks and to enterprises for preparing and implementing restructuring proposals.

3. Conditions for Restructuring. Restructuring should be selective and confined to firms temporarily experiencing financial distress (usually on account of over indebtedness) but with clear medium-term prospects for profitable operation, as demonstrated by a thorough appraisal and supported by a specific, restructuring proposal. The latter would contain four basic elements: (a) a management plan, including any organizational arrangements as deemed necessary; (b) a marketing plan, including any product redesign; (c) a production plan linked to the marketing plan, including either curtailment or fuller utilization of capacity; and (d) a financial workout plan that would reflect the elements listed in paragraph 3, as well as internal measures to reduce financial burden such as (i) streamlining of administrative expenses and (ii) sale of non-essential assets.

Involvement of Ghanaian Banks

4. The responsibility for rehabilitation/restructuring of enterprises should rest partially with the Ghanaian commercial/development banks, who will have to take the lead, because of their knowledge of client companies and their interest in seeking to improve their own loan portfolios. The financial strengthening of the banks will ultimately critically depend on the financial condition of borrowing enterprises. However, if left to their own devices and to act individually, the Ghanaian banks may not be able to do much in relation to the magnitude of the problem, the resolution of which requires both financial resources and technical expertise.

Institutional and Financial Arrangements

5. In light of the foregoing, there appears to be a need for exploring appropriate support measures at the country level, both institutional and financial, to supplement and coordinate the efforts to be undertaken by individual banks.

6. Consideration would have to be given to some institutional framework through which corporate restructuring proposals would be designed, appraised, reviewed, negotiated, financed and implemented. One alternative would be to set up a new specialized financial corporation, or some trust fund, to be funded by GOG/BOG (through possible external resources as well as domestic), with some participation by the Ghanaian banking system. The new entity, acting as an apex institution, would oversee the overall program as well as refinance (including the acquisition of the equity in the enterprises to be restructured held by the banks as a result of debt/equity swap arrangements) up to a fixed percentage individual of restructuring proposals submitted by the banks;

7. The financial requirements for restructuring Ghanaian enterprises are not presently known, and will be difficult to determine with any degree of accuracy. The completion of the banks' audits will give an assessment of their loan portfolios, and therefrom some idea of the (maximum) extent of corporate restructuring, although, as noted earlier in para 3, restructuring should be selected and limited to those enterprises with

clearly demonstrated prospects. The initial funding for the pilot program should therefore be relatively modest to be replenished in due course assuming successful implementation of the program.

8. Technical assistance would be needed to help set up and operate the Apex institution including provision for consultancy services to assist in the preparation/appraisal/review of enterprise workout proposals. Initially, expert assistance would be needed to help conceptualize the program (which is touched upon here only in a preliminary way) and to draw up operating guidelines and procedures. Consideration would also be given to whether there is a need to proceed first with a preliminary study to assess the impact of recent adjustment policies (including devaluations and trade liberalization) on enterprises, and the extent of rehabilitation investments and financial restructuring needed. The preliminary study is expected to be initiated during project preparation under PPF financing.

ANNEX 3-9

GHANA

FINANCIAL SECTOR ADJUSTMENT CREDIT

TECHNICAL ASSISTANCE AND STUDIES

Summary of Costs

		US$	Cedis ('000)	
1.	Bank of Ghana (Annex 3-3)	850,000	14,250	
2.	Credit Clearing House (Annex 3-4)	150,000	4,500	
3.	Institute of Chartered Accountants (Annex 3-5)	700,000	12,500	
4.	Training of Bankers (Annex 3-6)	1,750,000	16,900	
5.	Consolidated Discount House and Study on Capital Markets (Annexes 3-1 and 3-2)	75,000	1,500	
6.	Corporate Restructuring (Study)	300,000	6,000	
7.	Bank Restructuring (Adviser)	225,000	6,750	
8.	Exchange Risk (Study)	75,000	1,500	
9.	Contingency and Others	450,000	12,600	
	Total	4,575,000	76,500	
	(Total US$ equivalent)	(4,575,000)	(425,000)	(5,000,000)

The project would finance 100% of total expenditures.

In case of reply the number and date of this letter should be quoted.

Our Ref. No. SEC/FP/036

Your Ref. No. ______

REPUBLIC OF GHANA

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

11th March, 1988.

MR. BARBER B. CONABLE,
PRESIDENT,
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT,
1818 H. STREET N.W.,
WASHINGTON D.C.,
U.S.A.

Dear Mr. President,

RE: FINANCIAL SECTOR ADJUSTMENT PROJECT
STATEMENT OF FINANCIAL POLICY

As part of its Economic Recovery Program, the Government of Ghana is undertaking a program of institutional and policy reforms of the financial system. This statement outlines the objectives of such an Action Program and the framework within which the reforms have been formulated. An implementation schedule for the main policy actions is annexed. The Government of Ghana requests from the International Development Association consideration of a Financial Sector Adjustment Credit to support the implementation of this Action Program.

OBJECTIVES AND SCOPE OF THE PROGRAM

1. A well functioning and broadly based financial sector, with an effective banking system at its core, is necessary to support the structural adjustment effort. Yet Ghana's financial system is fragile. It is still at an early stage of its development and is handicapped by significant institutional weaknesses, limited mobilization of financial resources, and deficiencies in credit allocation, all of which have constrained the supply of credit to the productive sectors. Rural areas in particular have suffered from inadequate credit and financial services. Formal financial intermediation is low, with the broad money to GDP ratio averaging around 17 per cent in 1986 (after falling to a low of 13 per cent in 1984 from a level of well over 20 per cent during the 1970s). Myriads of money lenders, thrift groups, trusts and other unregulated financial agencies with only limited interactions with the formal system, exist all over the country and it is to these that a large part of the population turn to for financial intermediation.

2. The Government of Ghana has decided to address these handicaps. The Government's action program aims to strengthen financial institutions, expand the scope of the formal financial system, and improve the efficiency of financial intermediation in Ghana. Emphasis is placed on priority policy and institutional reforms necessary to overcome the key constraints or imperfections in the financial system which are hindering the flow of funds to the efficient productive sectors, thus limiting investment and production responses to the ongoing adjustments of trade and incentive policies. The restored health of financial institutions is of overriding concern. The reforms required to meet these aims are grouped under four principal heads: (i) enhanced soundness of banking institutions through an improved regulatory framework, strengthened banking supervision by the Bank of Ghana, and the

2.

restructuring of financially distressed banks; (ii) improved mobilization and allocation of financial resources including development of money and security markets; and (iii) improved mechanisms for rural finance.

3. The necessity to ensure that the coverage of the initial action program is of manageable dimensions has meant that important medium and long-term issues related to, for example, integration of the regulated and unregulated financial markets, and the basic structure of the financial systems have only received partial attention; these issues will form an important part of the on-going reviews of the financial sector. However, the overall framework within which the priority reforms have been have been formulated envisages a move towards a considerably less regulated and more competitive and efficient financial system, with the Bank of Ghana's principal role being to effectively manage key monetary aggregates, ensure compliance with banking regulations, and monitor the health of the financial institutions. Banking prudence, institutional viability, and reasonable operating autonomy must be maintained by banks, while at the same time they must be responsive to market forces and sensitive to national development priorities. Reliance would be placed on a relatively free functioning market for the channelling of credit, although limited Government intervention may be necessary where market failures prevent funds from reaching disadvantaged groups.

4. The action program covers a two year period and will be continually revised to reflect the progress in implementation, assessments of the impact of the reforms and the results of the various daignostic studies and related follow-up being undertaken. It will also be revised, where appropriate, to incorporate the findings of the on-going reviews of issues which have not yet been adequately addressed. It will thus be a 'rolling' program, extending over a number of years. A high level Financial Sector Adjustment Committee chaired by the Secretary for Finance and Economic Planning, with the Governor of the Bank of Ghana as Vice-Chairman, and reporting to the Chairman, Committee of Secretaries, will oversee the implementation of the program.

Enhanced Soundness of Banking Institutions

5. The supervisory functions of the Bank of Ghana will be substantially strengthened so that it can carry out effectively its role of monitoring and preserving the health of the financial system. However, the Bank of Ghana will ensure that a careful balance is maintained between sound and effective banking supervision, and without undue interference in the day-to-day operations of the respective banks. The supervisory functions of the Bank of Ghana will apply equally to all banks and non-bank financial institutioins. In the case of rural and specialized banks, aspects of the supervision - though not compromised - may take on slightly different forms (e.g. reporting formats).

6. The effectiveness of banking supervision is largely dependent upon the strengthening of staff capabilities within the relevant departments of the Bank of Ghana, updating of and adherence to procedures, enforcement of existing laws and regulations, logistical support, and encouragement and assistance given to individual banks to improve their own internal controls. Although the Banking Act and its regulations provides a generally acceptable framework and legal basis for regulating and supervising the banking system,

.../3

amendments relating to prudential aspects, including capital adequacy, portfolio classification, exposure limits, and auditing and reporting standards and requirements for banks will be undertaken.

Banking Restructuring

7. A large number of Ghanaian banks are facing severe financial difficulties, which threaten their liquidity and solvency and thereby the stability of the whole financial system. Although this is particularly true of the three development banks, most commercial banks are also affected. Several factors contributed to this situation, including inadequate banking supervision by the authorities, inappropriate sector policies and regulations affecting the operation of the banks, as well as the rapid depreciation of the cedi in recent years, which increased the indebtedness of the corporate sector, reduced its capacity to service its debts to the banks, and consequently weakened the asset portfolio of the banking system. Poor management has also played a major role in this respect.

8. The Government realizes the need to restructure the distressed Ghanaian banks with a view to restoring their financial and operational viability. As a first step, special diagnostic studies (audits) by international consulting firms have been carried out for the three development banks and most of the commercial banks, to determine their financial/operational condition and the appropriate measures required to remedy their situation. These audits will be subject to systematic review by the Ghanaian authorities in consultation with IDA. The first main objective of such reviews will be to ascertain the magnitude of the financial deficits of the individual banks (and by extension, of the banking system overall) and to decide on an appropriate future course of action (e.g. merger, recapitalization, restructuring) for each bank to be agreed with IDA, based on a realistic assessment of its prospects for future viable financial operation as well as of the role it can be expected to play within the reformed Ghanaian banking system. The second main objective of this review process will be to decide on the appropriate modalities (such as injection of fresh money; conversion/rescheduling of debts owed to Government/BOG and external lenders by the banks; transfer to the Government of non-performing loans to state enterprises and/or guaranteed by Government) for the complete resolution of these deficits, so as to restore the solvency of banking institutions. Any decision to reacapitalize/restructure a distressed bank for future operation (beyond the mere settlement of its accumulated deficits) would be also subject to business projections covering not less than a 5 year period, based on explicit and realistic assumptions, indicating the bank's prospective capacity to operate profitably on competitive terms. The decision to restructure a bank would then be reflected in a comprehensive restructuring plan specifying all necessary arrangements (financial, organizational, managerial) to ensure the bank's successful rehabilitation. This restructuring plan, when available, will be jointly reviewed and agreed with IDA, and subsequently embodied in performance contracts between the Government of Ghana and each of the banks setting out the respective commitments and obligations of the Government and of the bank concerned.

.../4

9. It is the Government's intention to carry out the restructuing of the banking system in accordance with the overall thrust of the Action Program and sound banking principles, some of which are listed below. First, financial restructuring (that is, the injection of fresh money into a bank to clean up its balance sheet and to recapitalize it for future operation) will not be attempted in isolation from a simultaneous or prior managerial/organizational restructuring that would ensure the proper use of the new resources and more generally the non-recurrence of past mistakes. Second, all restructured banks will have independent, professional management with autonomy in day-to-day affairs and investment decisions. To this end, qualified managers will be sought as necessary. The management of the banks will be accountable for their performance. Even for those banks with predominant state ownership, the Board of Directors would include appropriate members from the private sector so as to broaden its range of expertise and enhance its business outlook. Third, the Government would be prepared if warranted to consider gradually reducing its share ownership (and hence, its managerial responsibility) in banking institutions, by seeking significant private Ghanaian participation along with foreign participation in the restructured banks. This would include, in particular, the participation of development-oriented multilaterial and/or bilateral organizations. Subject to proper safeguards, the entry into the banking system of new banks with private ownership and management, both domestic and foreign, will be encouraged. Fourth, pending the outcome of the ongoing banking restructuring process, appropriate safeguard measures will be taken where necessary to arrest the further financial deteriorati:oin of banks, including the discontinuation/curtailment of new lending (which is to be done only on a stringent basis), utmost concentration on loan recoveries, reduction in operating costs, reconciliation of accounts where inconsistencies/discrepancies were identified by the audits. Fifth and lastly, the basic objective of banking restructuring, consistent with the Action Program, is to foster the emergence and growth of a sound, dynamic banking system in which all banks, irrespective of ownership, development or commercial, will compete freely and operate by the rules of the market.

Corporate Sector Restructuring

10. A large number of Ghanaians enterprises, including those in the industrial sector, are in urgent need of physical as well as financial restructuring. Several have been unable to respond to the new incentive policies of the Government because of their fragile financial position. Crippled by large debts, in many cases denominated in foreign currency, their debt-service obligations have mounted rapidly as the cedi has decpreciated. The basic objective of enterprise restructuring is to offer a comprehensive program including a financial package linking future debt repayments to the cash generatioin capacity of individual enterprises. Significant managerial and operational restructuring would have to be considered as well. Restructuring will be selective and confined to those enterprises temporarily in financial distress but with clear medium-term prospects for profitable operation. Corporate restructuring will require the involvement of the Ghanaian banks, because they know their clients well, and because they have an interest in improving their own loan portfolios. However, given the limited expertise in the Ghanaian banks at present, the Government will give consideration to a program or framework at the national level that would provide both the requisite technical expertise and supplementary financial

resources (possibly in the form of a refinancing mechanism, or a trust fund for equity participation). In light of the foregoing, the Government would appreciate IDA's assistance in undertaking a study that would (i) provide an up-to-date assessment of the restucturing requirements, both physical and financial, of the Ghanaian industrial sector, covering major sub-sectors, and industrial SOEs as well as private firms; and (ii) recommend an appropriate program (institutional framework, methodology, mechanisms, guidelines) for corporate reconstructuring. This study, upon its completion, will be reviewed by the Government and IDA, as a basis for future action.

Improved Mobilization and Allocation of Financial Resources

11. In September 1987, the Government liberialized all interest rates on deposits and credits, except rates for savings deposits which were liberalized in February 1988. The Government will agree with IDA by February 1989 upon a timetable for the phased decontrol of banking charges. Moreover, the Government will undertake parallel actions to further enhace banking confidence. The increased soundness of the financial institutions emerging from the improved supervision of the Bank of Ghana will play a positive role in this.

12. Within the Government's overall ceilings on credit expansion, and following the full liberalization of credit rates, further steps have ben taken by dismantling in February 1988 sectoral targets on lending; targets for lending to agriculture will be reviewed by December 1989 in the context of the proposed rural finance subsector project in particular, and the overall financial sector program, with a view to taking appropriate actions. Special credit schemes and budgeted credit subsidies for disadvanged groups will not be used except under exceptional circumstances where market failures are clearly indicated and more appropriate alternatives are not available to correct them. Interest rates charged to beneficiaries under special credit schemes/lines of credit will largely be based on prevailing market rates.

13. The initiatives in the above areas rest principally with the Government. However, banks will also need to take complementary actions. For example, they will need to diversify financial instruments aimed at customer services. Banks will also need to adopt appropriate measures to improve overall efficiency through rationalization of their branch networks (where necessary), improvements in their systems and procedures (in particular for internal controls and acounting, non-performing loans and other obligations), and staff training. The Government will provide supportive actions in these areas where appropriate.

14. The Government has supported the initiative to establish a discount house by the banks and insurance companies as an initial step towards the development of a money market. The gradual building up of its activities will be carefully planned in order to ensure a manageable and stable development, while ensuring that it has no undue exposure at the initial stages. In addition to bringing together into a single market those institutions with cash surpluses or deficits and thus promoting a more intensive use of cash balances in the economy, the discount house will allow demand and supply to determine short-term interest rates.

.../6

15. The concept of establishing a capital market in Accra, probably through the Accra Securities Market (ASM), has ben fostered for some time by the fact that a growing demand exists for such services from potential investors and corporate issues. As it is necessary for the foundation of a capital market to be as secure as possible, the BOG will assess the demand for, and supply of quoted securities covering the primary and secondary markets. In order to instill confidence in both suppliers and users of long term debt and equity finance, the Government will support the development of both an adequate package of incentives, as well as a suitable regulatory and institutional framework to prevent financial abuse. In addition, the BOG with the assistance of IDA will assess the suitablility of a specialized institution providing venture and development capital.

Improved Mechanisms for Rural Finance

16. All banking institutions have a crucial role to play in rural finance. However, the efficient development of the rural banking system will form the backbone of the efforts to ensure appropriate support to agriculture and other rural pursuits. The focus of these efforts will be on supervision, strengthening their operational performance, and rationalizing and expanding the scope of the system. However, the system must be allowed to evolve at its own natural pace with the minimum of Government intervention but with the maximum of Government support. While the commercial banks will be encouraged to expand their rural branch network and local lending of deposits, this should not be at the expense of the efficiency of their overall operations.

17. A detailed review of the rural financial subsector including the rural banking system will be undertaken over the course of the next six months with the assistance of the World Bank and other multilateral/bilateral agencies. Detailed actions to deal specifically with rural financing issues will emerge from this review, particularly means of assuring the availability of finance for long gestation viable activities.

Outcome of the Program

18. The Government believes that the implementation of the action program will result in a sound, efficient and diversified financial system, capable of mobilizing both short and long term resources and allocating them efficiently. The financial system will be able to support and facilitate investment and production responses by the private sector to the on-going reforms under the structural adjustment process. A dynamic and responsive financial system will also permit more effective monetary management of the economy. However, it is recognized that reforms in the financial system will not in themselves lead to increased investment and production. The ongoing trade and incentive policy reforms under the Structural Adjustment Program (Being supported by an IDA Structural Adjustment Credit) are necessary to highlight growth opportunities, while parallel actions are required to ensure that the operating climate for enterprises does not hinder the conversion of these opportunities to investment and production decisions.

Financial Reuirements of the Program

19. Preliminary estimates of the financial requirements to implement the principal aspects of the action program are in the order of US$325 million; this estimate will be revised as the detailed actions are firmed up and when the findings of the specific diagnostic studies have been reviewed. The amount will need to cover restructuring requirements of most of the commercial banks and development finance institutions, foreign exchange losses linked to lending by these institutions which have to be assumed by the Government and Bank of Ghana, as well as technical assistance, logistical support, instituion building and seed funding for venture capital. The Government will substantially contribute through appropriate financial means to the restructuring of distressed institutions; it is anticipated however, that a significant part of the restructuring requirements will be met through equity contributions by non-govenment parties.

20. In view of the initiatives taken by Ghana in the formulation and implementation of the Initial Action Program of reforms of the Financial system the Government requests your favourable consideration for the extension of a Financial Sector Adjustment Credit in the amount of at least US$100 million. The Government would also appreciate IDA's assistance in organizing cofinancing from other multilateral and bilateral sources to support the program.

Yours faithfully,

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

GHANA - FINANCIAL SECTOR ADJUSTMENT PROJECT

IMPLEMENTATION SCHEDULE FOR POLICY ACTIONS

Action	Party Responsible	Date of Implementation
I. MEASURES TO ENHANCE SOUNDNESS OF BANKING INSTITUTIONS		
A. PRUDENTIAL REGULATIONS		
1. (i) Establish a minimum capital adequacy ratio for prudential purposes; (ii) increase minimum amount of paid-up capital to establish a bank (to be revised from time-to-time by BOG); (iii) apply capital adequacy provisions to development finance institutions engaged in commercial banking; (iv) limit dividends by banks that do not meet capital adequacy guidelines; and (v) empower BOG to mandate greater capital for prudential purposes for individual banks on case-by-case basis.	BOG/MFEP	1-5 Agreement with IDA on draft legislation: July 1988 Enactment: February 1989 Implementation: December 1989
2. Require development finance institutions, where engaged in commercial banking, to provide for statutory reserves of at least the levels required of commercial banks.	BOG/MFEP	
3. Place limits on secured as well as unsecured loans to any single borrower (individual or enterprise). Place stricter limits on secured as well as unsecured loans to companies in which a bank's director has an interest exceeding a certain percentage.	BOG/MFEP	
4. Review and increase penalties for violation of banking regulations.	BOG/MFEP	
5. Require audited reports on banks submitted to BOG to be in long form format in accordance with other BOG guidelines, based substantially on international standards.	BOG/MFEP	

Action	Party Responsible	Date of Implementation
6. BOG to require banks to classify their portfolios according to criteria for substandard, doubtful, and loss assets (to be reported on a periodic basis, together with the specific provisions established). These standards to be developed with the assistance of an international accounting firm. Implementation of the full range of remedial actions to await the appointment of two technical advisors in bank supervision.	BOG/MFEP	6-7 (i) Appointment of two technical advisors in Bank supervision: March 1988 (ii) Recruitment of international accounting firm: March 1988 (iii) Agreement with IDA on guidelines and reporting requirements: July 1988 (iv) Review implementation progress: February 1989
7. Introduce improved reporting requirements from banks to the BOG, offsite analytical capabilities and indicators, as well as logistical support.	BOG	
8. Support establishment of a credit clearing house for banks.	BOG	Terms of reference and identification of consultant satisfactory to IDA: December 1988 Establish CCH: December 1989
B. BANKING SUPERVISION		
1. Enforce, through guidelines and monitoring action, internal controls and in-house audits of banks.	BOG	Part of restructuring of banks.
2. (i) Issue mandatory minimum terms of reference expanding scope of external audits of banks, (ii) hold periodic discussions between BOG and the auditors.		Agreement with IDA on draft banking regulations: July 1988 Issuance: February 1989 Implementation: December 1989
3. Strengthen examination methodology and skills. Review staffing needs of BOG's Examination Department, incentives and staff training, and set up a permanent training program for examiners.	BOG/MFEP	Drafting of Examination manual and preparation of training programs: February 1989
4. Establish computerized system for prudential returns from banks and analyze the financial situation of banks based on a set of performance indicators. Provide feedback to bankers.	BOG	Implementation prior to February 1989

Action	Party Responsible	Date of Implementation
5. Draw up and implement an annual inspection plan, including full and targetted examinations (each bank to be visited at lease once a year).	BOG	Satisfactory review by IDA of implementation: February 1989
6. Repeat external audits of banks with assistance of international auditors.	BOG	Satisfactory review by IDA of implementation: February 1989
C. ACCOUNTING AND AUDITING		
1. Institute of Chartered Accountants (ICA) has agreed to be the focal point for efforts to upgrade and strengthen the accounting profession in Ghana.	BOG/ICA	Recruit technical assistance and initiate training program in agreement with IDA: February 1989
II. BANKING RESTRUCTURING		
1. Carry out full diagnostic studies by international auditing firms.	BOG	Completed
2. Implement safeguard measures to prevent further deterioration.	BOG	April/May 1988
3. Recruitment of an adviser on banking restructuring.	BOG	September 1988
4. Formulation of a framework and timetable satisfactory to IDA specifying the modalities for the restructuring of banks, in particular (i) measures for dealing with banks portfolio of non-performing loans, including loans to state-owned enterprises. (ii) rescheduling/conversion of Government's loans to banks.	BOG	February 1989
5. Agreement with IDA on specific proposals and targets for a reduction of banks' non-performing portfolio (including off-balance sheet items).	GOG/BOG	Agreement with IDA by October 1988 on a program for reduction of at least 50% by February 1989. Satisfactory review by IDA on progress of implementation and agreement on reduction of remainder: December 1989
6. Finalization of specific restructuring plans acceptable to IDA for commercial banks.	GOG/BOG/ Banks	Agreement with IDA on plans for commercial banks accounting for at least 50% of commercial banks assets February 1989--satisfactory review by IDA of implementation progress: December 1989

Action	Party Responsible	Date of Implementation
		Agreement with IDA on plans for remaining commercial banks: December 1989
7. Finalization of specific plans acceptable to IDA for development banks.	GOG/BOG/ Banks	Agreement with IDA on plans for banks accounting for at least 50% of DFC's assets: February 1989. Satisfactory review by IDA on implementation progress: December 1989. Agreement with IDA on plans for remaining development banks: December 1989.
7. Undertake study on needs for corporate sector restructuring.	GOG/BOG/ Banks	Completion of study by February 1989 according to terms of reference agreed with IDA.
8. Carry out study on exchange risk protection.	BOG	Completion: February 1989
III. DEPOSIT MOBILIZATION AND CREDIT ALLOCATION		
A. DEPOSIT MOBILIZATION		
1. Review provisions in laws and regulations relating to disclosure of information.	PNDC	
2. Allow banks to set scale of charges; undertake survey of charges on a semi-annual basis and publish results.	BOG	Agreement with IDA on timetable for decontrol: February 1989
3. Amend regulations to permit banks to vary working days and business hours of branches.	BOG	Circular to be issued by July 1988
4. Review system for collecting and clearing cheques.		
5. Allow banks to set own interest differential on demand, savings, and time deposits.	BOG	Effective
6. Design and introduce package of measures to attract emigrants remittances.	BOG	Effective

Action	Party Responsible	Date of Implementation
B. CREDIT ALLOCATION		
1. Allow banks to set their own interest rates on loans.	BOG	Effective
2. Discontinue sectoral credit targets.		Sectoral ceilings discontinued. Floor for lending to agriculture to be reviewed by December 1989 with a view to making appropriate revisions.
3. Establish mechanisms and criteria for determining use of special lines of credit and other special schemes to be used only in special circumstances.	BOG	Task force to be established by May 1988.
4. Review efficacy of Credit Guarantee Scheme.	BOG	Scheme to be reviewed in connection with forthcoming SME project. In the meantime scheme to remain dormant.
C. EFFICIENCY OF BANKING OPERATIONS		
1. Prepare and circulate standard set of average efficiency measures for banks.	BOG	December 1988
IV. MONEY AND CAPITAL MARKETS		
A. MONEY MARKET		
1. Determine modus operandi for Consolidated Discount House (CDH). Establish nature and extent of liquidity support by BOG. Identify prudential reporting and monitoring requirement of BOG. Define operational limits through acceptance by CDH and BOG of a CDH Statement of Operational Policies, to be developed with Technical Assistance.	CDH/BOG/GOG	Identification of consultants April/May 1988 Implementation of an action program agreed upon with IDA February 1989.
B. CAPITAL MARKET		
1. Conduct study of (a) investors (b) corporate issuers and (c) secondary trading to determine demand.	GOG/BOG	1-2 Study to be completed on the basis of terms of reference satisfactory to IDA prior to February 1989. No major Government initiative in capital market until results of study are available.
2. Review experience in other countries, possibly with IFC assistance, and make decision on applicability in Ghana.	GOG/BOG/GIC	
3. Discuss available incentives, review likely effects, and implement.	GOG/BOG/GIC	3-4 Implementation prior to December 1989

Action	Party Responsible	Date of Implementation
4. Develop with technical assistance, a suitable regulatory framework depending upon outcome of study (IV.B.1)	GOG/BOG	
5. Give financial and logistical support to Institute of Chartered Accountants (ICA) to review and upgrade auditing standards for corporate sector.	GOG/BOG	Recruitment of TA: February 1989 (see I.C.1)
6. Amend Social Security Decree Regulation to allow some of social funds generated to be invested in long-term securities of credity-worthy finance institutions and companies.	GOG/SSNIT	Implementation on basis of draft reviewed by IDA February 1989

GHANA

FINANCIAL SECTOR ADJUSTMENT CREDIT

THE STATUS OF BANK GROUP OPERATIONS IN GHANA

STATEMENT OF BANK LOANS AND IDA CREDITS (as of March 30, 1988)

Loan or Credit Number	Fiscal Year	Borrower	Purpose	Amount Less Cancellation	Undisbursed a/
				(US$ million)	
25 loans/credits fully disbursed				377.32	
Credits					
1009-GH	1980	Republic of Ghana	Volta Region Ag. Dev.	29.50	7.23
1170-GH	1981	Republic of Ghana	Railway Rehabilitation	29.00	1.74
1342-GH	1983	Republic of Ghana	Water Supply T.A.	13.00	2.51
1373-GH	1983	Republic of Ghana	Energy Project	11.00	6.16
1435-GH	1984	Republic of Ghana	Export Rehabilitation	40.12	1.40
F009-GH	1984	Republic of Ghana	Export Rehabilitation	35.88	7.73
1436-GH	1984	Republic of Ghana	Export Rehabilitation Technical Assistance	17.10	2.60
1446-GH	1984	Republic of Ghana	Petroleum Refinery Rehab. and Technical Assistance	6.90	1.40
1498-GH	1984	Republic of Ghana	Second Oil Palm	25.00	14.06
1564-GH	1985	Republic of Ghana	Accra District Rehab.	22.00	11.27
1573-GH	1985	Republic of Ghana	Second Reconstruction Imports Credit	60.00	16.00
1601-GH	1985	Republic of Ghana	Road Rehabilitation and Maintenance	40.00	21.72
1628-GH	1986	Republic of Ghana	Power System Rehabilitation	28.00	11.77
1653-GH	1986	Republic of Ghana	Health and Education Rehabilitation	15.00	11.10
1672-GH	1986	Republic of Ghana	Industrial Sector Adjustment Credit	28.50	8.46
A013-GH	1986	Republic of Ghana	Industrial Sector Adjustment Credit	24.95	6.42
1674-GH	1986	Republic of Ghana	Ports Rehabilitation	24.50	16.32
1744-GH	1987	Republic of Ghana	Education Sector Adjustment	34.50	23.29
1759-GH	1987	Republic of Ghana	Northern Grid Extension	6.30	4.40
1777-GH	1987	Republic of Ghana	Structural Adjustment Credit	34.00	23.50
A025-GH	1987	Republic of Ghana	Structural Adjustment Credit	80.89	35.44
A0251-GH	1987	Republic of Ghana	Structural Adjustment Credit	14.66	14.66
1778-GH	1987	Republic of Ghana	Structural Adjustment Institutional Support	10.80	9.09

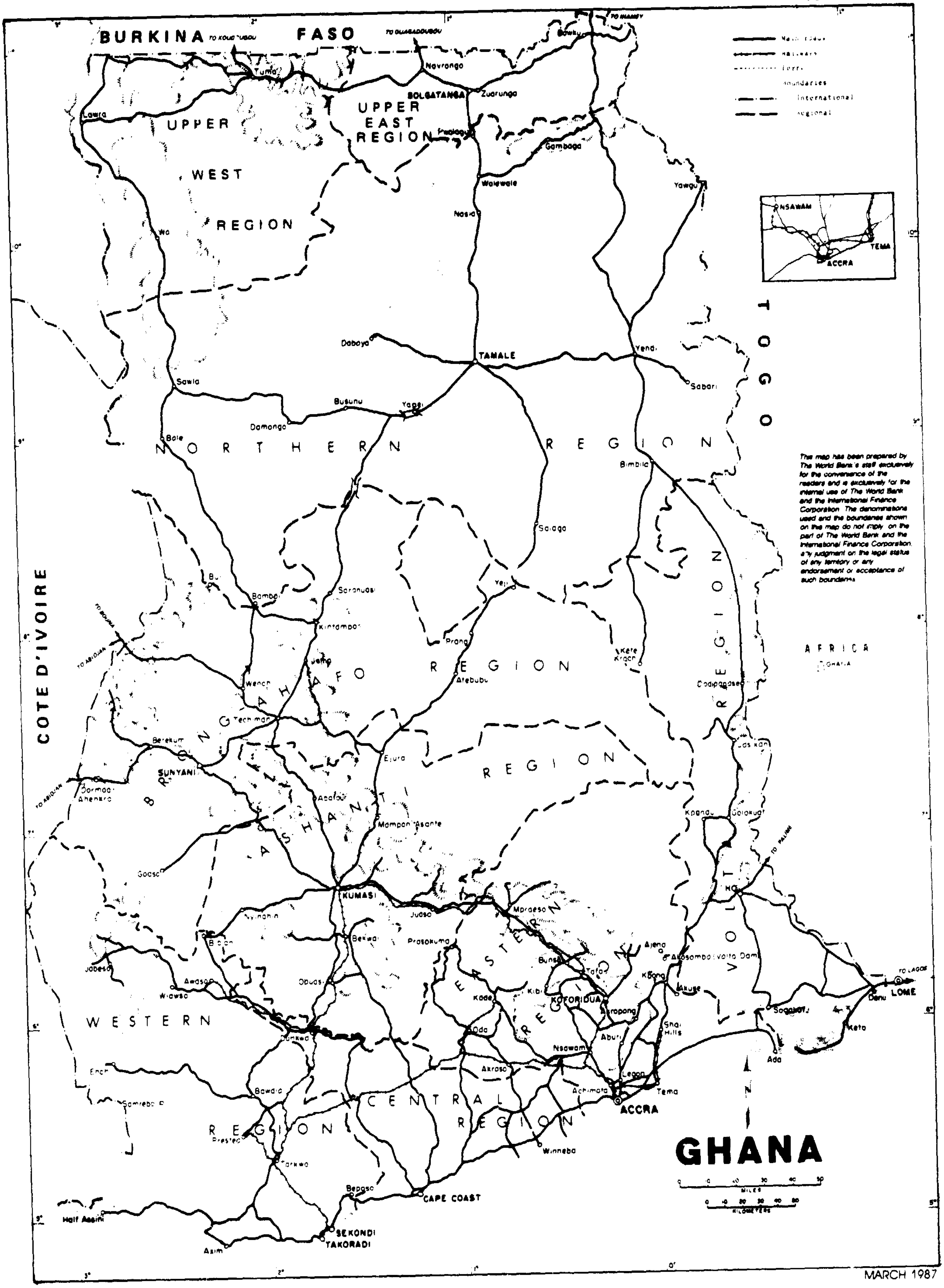
a/ Calculated at the exchange rate applicable on March 30, 1988.

Loan or Credit Number	Fiscal Year	Borrower	Purpose	Amount Less Cancellation	Undisbursed a/
				----------(US$ million)--------	
1801-GH	1987	Republic of Ghana	Agricultural Services Rehabilitation	17.02	16.03
1819-GH	1987	Republic of Ghana	Petroleum Refinery and Distribution	15.00	15.00
1847-GH	1988	Republic of Ghana	Public Enterprise TA	10.50	9.85
1854-GH b/	1988	Republic of Ghana	Cocoa Rehabilitation	40.00	40.00
1858-GH b/	1988	Republic of Ghana	Transport Rehabilitation	58.87	58.87
1874-GH b/	1988	Republic of Ghana	Priority Works	10.00	10.00
Total number of credits = 29				783.59	408.64
			Total (net approved)	1,160.91	
			of which has been repaid	135.34	
			Total outstanding	1,025.57	
			Total undisbursed		408.64

a/ Calculated at the exchange rate applicable on March 30, 1988.
b/ Not yet effective as of March 30, 1988.

STATEMENT OF IFC INVESTMENTS
(as of March 30, 1988)

Investment No.	FY	Obligor	Business	Loan	Equity	Total
				--------US$ million--------		
777-GH	85	Ashanti Gold Field Corporation, Ghana Ltd.	Mining	27.5	-	27.5
914-GH	87	Keta Basin Oil	Oil Exploration	-	4.5	4.5
973-GH	88	Bogosu	Gold Mining	-	0.5	0.5
		Total Commitments		27.5	5.0	32.5
		Total Undisbursed		7.5	2.9	10.4


BURKINA FASO
TOGO
COTE D'IVOIRE
UPPER WEST REGION
UPPER EAST REGION
NORTHERN REGION
BRONG AHAFO REGION
ASHANTI REGION
EASTERN REGION
VOLTA REGION
WESTERN REGION
CENTRAL REGION
GREATER ACCRA REGION
Navrongo
BOLGATANGA
Zuarungu
Tumu
Lawra
Bawku
Walewale
Gambaga
Yawgu
Nasia
Wa
Daboya
TAMALE
Yendi
Sabari
Sawla
Busunu
Yapei
Damongo
Bole
Bimbila
Salaga
Yeji
Bamboi
Kintampo
Prang
Kete Krachi
Wenchi
Jema
Atebubu
Techiman
Berekum
SUNYANI
Ejura
Dormaa Ahenkro
Mampong Asante
KUMASI
Juaso
Mpraeso
Bekwai
Prasokuma
Bibiani
Goaso
Awaso
Wiawso
Obuasi
Kade
Kibi
KOFORIDUA
Bunso
Tafo
Ajena
Akosombo/Volta Dam
Kpong
Akuse
Somanya
Shai Hills
Aburi
Nsawam
Akroso
Oda
Achimota
Legon
Tema
ACCRA
Winneba
HO
Kpandu
Golokuati
Kadjebi
Denu
LOME
Keta
Ada
Dunkwa
Bawdia
Enchi
Prestea
Tarkwa
Bogoso
CAPE COAST
SEKONDI
TAKORADI
Axim
Half Assini
NSAWAM
TEMA
ACCRA
AFRICA
GHANA
Main roads
Railways
Ferry
Boundaries
International
Regional
TO NIAMEY
TO OUAGADOUGOU
TO ABIDJAN
TO LAGOS
TO PALIME
This map has been prepared by The World Bank's staff exclusively for the convenience of the readers and is exclusively for the internal use of The World Bank and the International Finance Corporation. The denominations used and the boundaries shown on this map do not imply, on the part of The World Bank and the International Finance Corporation, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.
MILES
KILOMETERS
GHANA

MARCH 1987