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REPORT AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL DEVELOPMENT ASSOCIATION

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED CREDIT OF SDR 74.0 MILLION

TO THE

REPUBLIC OF GHANA

FOR A

SECOND FINANCIAL SECTOR ADJUSTMENT PROGRAM

NOVEMBER 15, 1991

CURRENCY EQUIVALENT
(as of November 11, 1991)

Currency Unit	=	Cedi
US$1	=	₵383 (Auction Rate)
₵1	=	US$0.0026

ABBREVIATIONS

ADB	=	Agricultural Development Bank
AEF	=	Africa Enterprise Fund
ART	=	Aggregate Recovery Target
BCCG	=	Bank of Credit and Commerce Ghana
BHC	=	Bank for Housing and Construction
BOG	=	Bank of Ghana
CCH	=	Credit Clearing House
CDH	=	Consolidated Discount House, Ltd.
COOP	=	Cooperative Bank
CRP	=	Corporate Restructuring Program
ERP	=	Economic Recovery Program
ESAF	=	Enhanced Structural Adjustment Facility
GBA	=	Ghanaian Bankers Association
GCB	=	Ghana Commercial Bank
MFEP	=	Ministry of Finance and Economic Planning
NIB	=	National Investment Bank
NIC	=	National Insurance Commission
NBFI	=	Non-Bank Financial Institutions
NPART	=	Non-Performing Assets Recovery Trust
NSCB	=	National Savings and Credit Bank
ODA	=	Overseas Development Administration
PFS	=	Professional Financial Services
PFP	=	Policy Framework Paper
PVE	=	Potentially Viable Enterprises
SCB	=	Standard Chartered Bank of Ghana
SOE	=	State-Owned Enterprises
SSB	=	Social Security Bank
SSNIT	=	Social Security and National Investment Trust

FISCAL YEAR

January 1 - December 31

REPUBLIC OF GHANA

SECOND FINANCIAL SECTOR ADJUSTMENT PROGRAM

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This report is based on the findings of an appraisal mission which visited Ghana in June/July 1991. The mission, led by Mr. K. K. Framji (Task Manager), comprised Messrs./Mmes. Connolly (AF4IE), Dinh, Paulson (AFTEF), Karaoglan (CCMDR), Leechor (AF4CO) and Mallyon (Consultant). Mr. Ajay Chhibber (AF4DR) participated in the mission. Secretarial and administrative support was provided by Mrs. Leila S. Cruz. Ms. Mary Oakes Smith (AF4IE) and Mr. Edwin Lim (AF4DR) are the managing Division Chief and Department Director.

REPUBLIC OF GHANA

SECOND FINANCIAL SECTOR ADJUSTMENT PROGRAM

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REPUBLIC OF GHANA

SECOND FINANCIAL SECTOR ADJUSTMENT CREDIT
CREDIT AND PROGRAM SUMMARY

Borrower: Republic of Ghana

Amount: SDR 74.0 million (US$100 million equivalent)

Terms: Standard IDA with 40 years maturity

Description: The reform program supported by the first Financial Sector Adjustment Credit (FINSAC I) in 1988 was designed to address urgent structural and institutional problems facing the financial sector. The Government intends now to consolidate its achievements as well as move towards the second phase of sector adjustment with an enhanced program of policy and institutional reforms aimed generally at further deepening, diversifying and strengthening the financial sector. The second financial sector adjustment program would: (a) complete the program initiated under FINSAC I to restructure the formerly distressed banks and further improve their financial and operational performance and pursue the recovery of non-performing assets taken over by the Non-Performing Assets Recovery Trust (NPART); (b) further strengthen competition and efficiency within the banking sector through divestiture of public ownership in all banks and rationalization of taxation on bank profits; (c) improve the capacity and efficiency of the Bank of Ghana (BOG) through a reorganization of its structure, strengthening of its procedures and capabilities and improving its financial condition; and (d) prepare for the further development of the financial sector by developing an appropriate institutional framework for non-bank financial institutions, study the informal markets and upgrade the professional skills of bankers and accountants. The Government's Letter of Financial Development Policy and the accompanying matrix outline the actions designed to achieve these aims.

Benefits: The policy and institutional reforms under the second phase of financial sector adjustment in Ghana are expected to result in a broader-based, deeper and more diversified financial sector, with a stronger, more efficient and responsive banking system at its core. This in turn will improve the flow of funds to the productive sectors of the economy, thus facilitating the supply response to the ongoing structural adjustment efforts. The divestiture of government shareholdings in banks will lead to increased competition and efficiency in the banking system and, together with other initiatives help lower intermediation costs. Strengthening the financial, analytical and operational capacity of the BOG will enhance its effectiveness in policymaking and banking supervision. Building on the restructuring initiated under FINSAC I, the bank restructuring program would help improve the efficiency, transparency, as well as help sustain the viability of the formerly distressed banks. Improved performance by the banks would make them more attractive candidates for local or international private sector participation. The recovery of non-performing assets by NPART would help the Government mitigate the cost of the financial restructuring of banks. The establishment of an appropriate legal, regulatory and policy framework to supervise and foster the development of non-bank financial institutions will increase their contribution to Ghana's capital markets. The reform program also provides for the upgrading of the banking, accounting and insurance professions.

Risks: The main risk entailed by FINSAC II, just as with its predecessor program FINSAC I, would be the slow pace, relative to the agreed timetable, in the implementation of a reform program of considerable complexity, novelty and comprehensiveness. Drawing lessons from the past, the Government and IDA, therefore, will endeavor to minimize the risk by strengthening implementation capacity through the establishment of the FINSAC Implementation Secretariat. The latter will be appropriately staffed and equipped to enable it to discharge its mandate to generally guide, oversee, coordinate and monitor all activities pertaining to the financial sector adjustment program. By helping the Ghanaian authorities internalize the various skills brought to bear in implementing the reform program, the Secretariat is also expected to help enhance the long-term sustainability of the program. Another major risk would arise should the Government become unable in the years ahead to successfully implement the macroeconomic framework as agreed with IDA, in particular the measures for controlling inflation. Such a risk would be mitigated through regular monitoring by IDA of the macroeconomic program. Possible difficulties in attracting reputable international banks as shareholders of the government-owned banks to be privatized will be mitigated by employing experienced financial consultants to develop a strategy and assist the government in the divestiture of government shareholding.

Economic Rate of Return: Not applicable

Estimated Disbursements: The sector reform component of the Credit will be disbursed in three tranches: US$25 million upon effectiveness, and US$29 million and US$28 million following performance reviews to be held around October 1992 and April 1993, respectively. The technical assistance component which would not be tranched is expected to be fully disbursed by the first quarter 1995.

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 SECOND FINANCIAL SECTOR ADJUSTMENT PROGRAM

1. I submit for your approval the following report and recommendation on a proposed development credit to the Republic of Ghana for SDR 74.0 million (US$100.0 million equivalent) on standard IDA terms with 40 years maturity to support the Government's Second Financial Sector Adjustment Program.

2. The Country Economic Memorandum, entitled "Ghana: Progress on Adjustment" (Report No. 9475-GH), was issued to the Executive Directors in April 1991. Key economic indicators appear in Annex I.

PART I – COUNTRY POLICIES AND BANK GROUP ASSISTANCE STRATEGY

A. The Economy

3. Ghana once enjoyed a relatively high standard of living compared with other West African countries, but poor economic management during the 1970s and the early 1980s led to protracted economic decline. Expansionary fiscal and monetary policies, high inflation, and an overvalued nominal exchange rate, caused a substantial real appreciation of the currency, leading to external payments imbalances. Policymakers imposed a range of administrative controls on prices, imports, foreign exchange use and the distribution of goods and services. This policy mix contributed to a downward economic spiral from 1970 to 1982.

4. In 1983 the Government adopted an Economic Recovery Program (ERP) and has since devalued the currency, dismantled most price and distribution controls, eliminated many subsidies, broadened the tax base, improved tax collection, and provided more adequately for maintenance and capital expenditure. Under the ERP, economic growth has averaged about 5 percent a year. The current emphasis on ensuring macroeconomic stability to continue economic progress includes development of the foreign exchange market to maintain a free and flexible exchange rate, fiscal policies designed to increase public savings, and monetary policies to reduce inflation. This recovery effort has been supported by five adjustment credits to Ghana: an Industrial Sector Adjustment Credit, Structural Adjustment Credits I and II, a Financial Sector Adjustment Credit, and a Credit to support a Program to Promote Private Investment and Sustained Development.

5. Inflation remains a concern, notwithstanding significant progress in reducing the rate of inflation during 1991. Having fallen from 40 percent in 1987, to 31 percent in 1988, and 25 percent in 1989, inflation rose to 37 percent in 1990, partially because of higher oil prices and a shortfall in agricultural output, as well as continuing high liquidity in the economy. To combat this rise, in late 1990 and early 1991 the Government undertook measures to restrict monetary growth, including the sale of Bank of Ghana (BOG) bills to mop up excess liquidity in the economy, and a sharp increase in the discount rate. Results to

date have been impressive, with the end of period annual inflation rate down from 20 percent in May 1991 to 13 percent in September 1991. One of the fundamental macroeconomic objectives of Ghana's medium-term program, supported by both the IMF and the Bank in the context of the Policy Framework Paper (PFP), is to sharply lower inflation on an annual average basis from 37 percent in 1990 to 20 percent in 1991, 8 percent in 1992 and 5 percent in 1993. With the sharp decline in inflation in recent months, it appears that the target for 1991 will be achieved.

6. Continued efforts to lower inflation rates will be essential to sustain positive real interest rates. As part of the effort to curb inflation, the BOG rediscount rate was increased from 26 percent in October 1990 to 35 percent in January 1991. Nominal money market interest rates, led by the active marketing of BOG bills available to the banks and the non-bank public, rose by 8-9 percentage points between September 1990 and August 1991 to a range of 31-38 percent. As a result of these measures, commercial bank interest rates also rose markedly. During the period August to November 1991, the BOG lowered the discount rate in stages to 25 percent, inducing a downward adjustment in money market interest rates to a range of 23-31 percent. Deposit rates now range from 13-29 percent and lending rates from 23-35 percent. With the decline in the rate of inflation, most bank interest rates are now positive in real terms.

7. The overall fiscal deficit including external assistance has been above 3 percent of GDP since 1987. It rose to 4.4 percent in 1990, with a shortfall in revenues from direct and indirect taxes and some unanticipated outlays, although expenditures declined as a share of GDP. In 1991 the overall fiscal deficit is expected to drop to 3.1 percent of GDP. Throughout the period of the ERP the Government has shifted to long-term concessional foreign borrowing as the main source of deficit financing, to reduce the burden on the domestic banking system. There has been a net repayment from the Government to the domestic banking system every year since 1987, and the Government became a net creditor to the system in 1989.

8. The current account deficit widened from about 5 percent of GDP in 1987 to about 8 percent in 1990, reflecting a significant deterioration in the terms of trade. Nevertheless, because net aid disbursements rose and non-concessional debt amortization obligations declined, a sizable overall balance of payments surplus has been maintained between 1987 and 1990. The current account deficit is projected to decline from 7 percent of GDP in 1991 to about 5 percent in 1995. Most of this improvement needs to come from increases in the volume of exports, changes in export composition towards higher value-added products, continued prudent aggregate demand management, and maintenance of a competitive exchange rate. After peaking in 1988 at 67 percent of exports of goods and services, the debt service ratio, including IMF and arrears payments, dropped to about 39 percent in 1990. The debt service burden is projected to decline further, from about 30 percent of exports of goods and services in 1991 to 21 percent by 1993. Annexes II and III provide balance of payments and financing needs and availabilities data.

B. The Government's Policy Agenda and Issues

9. Ghana has made significant progress in recent years in restructuring the economy and restoring macroeconomic balance. Early in 1991 the Government reaffirmed its commitment to maintain the course of economic adjustment, by introducing a set of initiatives designed to create a more enabling environment for productive investment, especially from the private sector. Within a macroeconomic framework consistent with stability, the Government has introduced a series of tax reforms to broaden the tax base and improve general incentives. Efforts to make the regulatory framework and the financial system more consistent with a liberalized economy are underway, with the assistance of a newly created Private Sector Advisory Group. Public sector management is being upgraded along several dimensions, including reform of state-owned enterprises, further decompression of civil service pay, and continuing improvements in budgetary planning and control. These adjustment measures are being implemented along with a longer term agenda for human resource development, environmental protection and poverty alleviation. On the political front, the Government has taken major steps toward democratization. A Consultative Assembly has been set up to draft a new constitution. A national referendum on the constitution is scheduled to be held in February 1992, to be followed by parliamentary and presidential elections in the last quarter of the year.

10. The Government recently embarked on the development of a new strategy and program to achieve and sustain more dynamic growth over the next decade. The rationale is to shift focus from economic recovery to policies and investments needed to stimulate a more dynamic supply response, especially from the private sector. A high-level steering committee within the Government has been formed to map out a strategy to achieve this objective, building on the achievements of sustained adjustment and improved macro-economic stability over the last 8 years. A fairly major increase in domestic private savings and investment is required to support this strategy over the next years, supplemented by direct foreign investment and a return of flight capital. Public investment for social and physical infrastructure is also expected to grow under this strategy, but in a way that does not generate inflation, nor crowd out the private sector. There are two important concerns that are being kept in mind in the build-up towards faster growth -- the potential risks of macro-instability and the likelihood of increasing inequities in the system. A broad range of already completed or ongoing works will be used to guide this strategy, including the Medium Term Agricultural Development Strategy, the work of the National Population and Human Resource Commission, a recent study of the manufacturing sector "Towards a Dynamic Investment Response", and a new National Environmental Action Plan. The Government has requested Bank assistance in evaluating policy and investment options needed to achieve sustained growth.

C. Bank Group Assistance Strategy

11. The main objective of the Bank's assistance strategy is to help the Government in achieving its goals of economic growth, macro-economic stability, and poverty alleviation. There are three strategic elements in the Bank's assistance program. The first is an emphasis on how to achieve and sustain enhanced growth in Ghana, including an expanded role for the private sector, and to achieve this in a way that preserves macro-economic stability. Secondly, more emphasis on effective management of public sector resources is required, which would allow the Government to be an effective partner in promoting growth. Thirdly,

to sustain the achievements envisaged, improved efforts in human resource development and physical resource preservation are needed. The Bank's economic and sector work is aimed at examining the policy, institutional, and infrastructure constraints to implementing this strategy, and modifying strategic assistance options, as necessary.

12. Sustained Growth. The Bank's economic and sector work and lending program reflect the high priority given to assisting the Government to put in place the policies and investments needed to stimulate sustained higher levels of economic growth, including an enhanced role for the private sector. An Accelerated Growth Study to be carried out this year will form the springboard for identifying potential Bank operations targeted to supporting this strategy. Bank assistance will likely focus on the bottlenecks to development of the indigenous private sector, including the informal sector. Linkages between larger and smaller firms will be looked at, as will the roles of trading, financial and other services. Drawing from the results of this study, the Bank's lending program over the next few years is expected to include one or more operations to support more dynamic enterprise development. Additional economic and sector work will likely also be identified during the study, for example, on decentralization of decision making for key functions of Government, and on sub-contracting of public services. In agriculture, a particular concern is the lack of competition in domestic marketing of cocoa, as well as the need for further trade liberalization, and removal of remaining infrastructure and institutional bottlenecks. Policy and institutional reforms will be supported through an upcoming sector adjustment operation, complemented by investment lending to increase smallholder access to strengthened support services and infrastructure. These activities would pay careful attention to preserving the natural resource base.

13. Based on a review by the Bank, in collaboration with the Government, of the constraints to more dynamic entrepreneurial growth, comprehensive reform of the taxation and regulatory environment is under way. This is being supported by an adjustment credit - a Program to Promote Private Investment and Sustained Development. To complement this effort, the proposed second Financial Sector Adjustment Credit addresses outstanding institutional and policy reforms needed to increase the efficiency of the financial system, building on the assistance provided under the first Financial Sector Adjustment Credit.

14. Public Sector Management and Implementation Capacity. The Government's economic management capacity will be stretched over the coming years, particularly in a scenario of moving to sustained higher levels of growth. The need for efficiency and effectiveness in public expenditures, both recurrent and capital, as well as in revenues, will become more pronounced. Meanwhile the delivery of key services, supplied by either parastatals or sub-contracted to the private sector, will need to improve -- notably electricity, telecommunications, and some infrastructure (ports and roads). Through the Bank's sector and project lending, the intention is to continue to help improve the Government's overall implementation capacity. The public expenditure program and public enterprise reform are major vehicles for the Bank to give advice and assistance, for example on the composition of expenditures, and on institutional and sustainability issues.

15. A critical role of Government in support of economic growth is the provision of public goods and services, particularly infrastructure. To improve infrastructure delivery, the Bank's economic and sector work and lending in transportation, power, telecommunications, water supply, etc., is geared to assist the Government in: (i) continuing

to focus public expenditures on high priority infrastructure investments; (ii) introducing sound maintenance practices to prevent the existing capital stock from deteriorating; (iii) reducing the budgetary costs of infrastructure investments through increased commercialization of state owned enterprises, cost recovery, and local taxation reforms; and (iv) facilitating, as necessary, the private provision of public goods and services.

16. Better public sector management will be critical to the sustained success of the Government's economic strategy. Sector-wide as well as project-specific investments would continue to focus on improving the capabilities, performance and financial autonomy of relevant agencies, as would free-standing technical assistance projects. Further support for additional civil service and public enterprise reforms may also be required to support the scenario of higher economic growth.

17. Human Resource Development, Poverty and Sustainability. These are among the Government's central concerns. The Bank's strategy incorporates these concerns, as follows: by helping to increase the demand for labor through higher economic growth and some labor-intensive development; increasing the availability and efficiency of capital to raise labor productivity; increasing the productive assets of the poor through improved health and education programs; providing a social safety net for those hardest hit by reforms through carefully targeted public expenditures; and, in our policy advice and lending, addressing sustainability issues from rapid population growth, rapid economic development, and natural resource depletion.

18. In the area of human resource development, building on a first and second education sector adjustment operation, the Bank intends to address a broad range of policy and institutional issues, including tertiary education, functional literacy, and formal and non-formal skills training. To support women in development, the Bank's strategy is first to understand the main implications of gender issues, and support a range of pilot programs targeted to Ghanaian women, including, for example, a pilot labor-intensive feeder road construction program in the north, implemented by local NGOs, with women expected to comprise some 70 percent of the work force.

19. Bank support to date in health and family planning services has had limited success, mainly because of weak implementation. Recently, the Government has endorsed the findings of Bank work on population which lays out the consequences of alternative strategies and has started to implement an approach to reduce population pressures. Bank assistance also aims to increase access to quality primary health care, improve the availability of essential drug supplies, and improve hospital services. At the policy level, the emphasis is on adequate cost recovery and the development of a maintenance capability to improve the sustainability of health services. At the institutional level, the focus is on strengthening the Ministry of Health.

20. Environment. In the area of environment, the Bank is working closely with the Government to help implement the Environmental Action Plan (EAP). A substantial proportion of the environmentally-related investments and policy and institutional measures will be incorporated into the design of ongoing and planned programs and projects. In addition, direct interventions which do not lend themselves to integration with other activities would be included in a free-standing operation, to develop the Environmental Protection Council's capacity to provide policy guidance and effective oversight on environmental issues.

D. Aid Coordination

21. The Bank intends to continue in its efforts to mobilize adequate levels of concessional aid for Ghana. Over the next few years, the focus of donor financial assistance is expected to shift increasingly to investment activities, with declining levels of balance of payments support to be provided within the framework of the Special Program of Assistance. The most recent Consultative Group meeting for Ghana secured US$970 million in pledges for 1991. For the future, the main aid coordination challenges will be to make the public expenditure program the vehicle for determining investment priorities, for the Government and donors alike, and to minimize coordination requirements on the Government. This is being done to a limited extent already by, for example, joint missions, thus minimizing duplication in donors' appraisal and supervision activities and taking advantages of opportunities for cofinancing. Further efforts in this regard, under the umbrella of the public expenditure program, are being developed.

E. Bank Group Activities

22. The Bank has worked very closely with the Government of Ghana in designing its economic and sector work and lending activities in the country. This collaboration is continuing with the Government's request for Bank assistance in helping with formulating the issues and options for faster growth in the country over the next decade. Much of the Bank's economic and sector work will be directed towards supporting this effort. During the period FY86-91, IDA's lending program was heavily oriented to adjustment lending, some 40 percent, including three Structural Adjustment Credits. The composition of FY86-91 lending program is shown below.

GHANA: DISTRIBUTION OF IDA LENDING, FY86-91
(US$ million)

	Amount	Share in Total Lending %	Numbers of Projects
Adjustment lending	544.1	40.0	5
Agriculture and rural development	154.9	11.4	6
Population and human resources	141.2	10.4	5
Urban and water supply	105.6	7.7	3
Transportation	180.5	13.3	3
Power and telecommunications	113.3	8.3	5
Industry and energy	85.0	6.2	3
Technical assistance	36.3	2.7	3
Total	1360.9	100.0	33

23. Within the four-year period FY92-95, the IDA lending program envisages phasing out of adjustment lending. In the short-term, adjustment lending will shift from broad-based to sector adjustment operations, focussing first on the financial sector, to be followed by an agricultural sector adjustment operation. These proposed operations would further deepen policy and institutional reforms designed to transform finance and agriculture into competitive sectors with a major role for the private sector. The intention is to complement them with sector investment lending, with a major focus on sector policy and institution-building. At both the sector-wide and project-specific investment levels there will be increased attention to longer term issues, including human resource development, population and environment, as well as on ways to improve the efficiency and effectiveness of delivery of economic infrastructure.

24. IFC has played an important role in the development of the private sector since the initiation of the reforms and played a catalytic role in mobilizing direct foreign investment. IFC will continue to support the rehabilitation and expansion of gold mining, and locally-based firms in the manufacturing and agro-processing sectors. Support for small and medium scale enterprises will be provided through the Africa Enterprise Fund (AEF) and the Africa Project Development Facility. The response of Ghanaian entrepreneurs to the AEF has been strong. MIGA would be an important partner in helping build confidence among the business community. A statement of Bank Group operations in Ghana is presented in Annex IV.

F. Relations with the IMF

25. Since the inception of the reform program in 1983, the IMF has maintained a close policy dialogue with the Ghanaian authorities. Since 1988, IMF support has been through the Enhanced Structural Adjustment Facility (ESAF) under a 3-year arrangement equivalent to SDR 388.6 million, or 190 percent of quota. As of end-September 1991, Ghana's outstanding use of IMF resources amounted to SDR 557.5 million. The IMF has also provided substantial technical assistance to the Government, most recently on capital income taxation, systems for public expenditure control and monitoring, and monetary management, and is expected to be involved in technical assistance to the Bank of Ghana.

26. As the program supported by the third annual ESAF arrangement will expire by the end of 1991, the Government has requested the continuation of the Fund's assistance in the design and monitoring of Ghana's overall macroeconomic and structural policies, in the context of an arrangement for enhanced consultation as well as the preparation of the PFP for a transitional period. Repayments to the IMF over the period of 1992-95 will average US$80 million per annum.

27. There continues to be good collaboration between the Bank and Fund staff, both in the field, where there have been parallel missions and regular contact between the respective Resident Representatives and visiting staffs, and at headquarters. Staffs of the two institutions have worked closely with the authorities in designing the structural adjustment program, monitoring performance of FINSAC I, and the preparation of the proposed second financial sector adjustment program. The Fund staff have focused in particular on exchange and trade policy, monetary policy, fiscal and domestic resource mobilization issues, and external debt management, while the Bank staff focused on incentive policies, and public sector reform, including public expenditure policy, state enterprise reform and public sector

management. In a collaborative process, the Government, jointly with the IMF and the Bank, has prepared four PFPs, used to inform donors, through both the local aid coordination group and the Consultative Group, of the Government's future macroeconomic and sectoral policies programs.

G. Summary Assessment

28. As Ghana begins the move from stabilization and adjustment to self-sustained development, a new set of issues for the Bank's assistance strategy is emerging at center stage: the first is the need to manage the transition to enhanced growth in a way that preserves macro-stability and emerging investor confidence, taps more effectively than hitherto the resources of the private sector, and encourages domestic savings and investment; secondly, the need for the Government to strengthen further its own implementation capacity; and finally, the requirement to address human resource development, poverty and environmental issues, that will ultimately determine the economic and social sustainability of the Government's economic program.

PART II - THE FINANCIAL SECTOR

A. Background

29. In addition to the central bank, the Bank of Ghana, there are six commercial banks, three specialized banks, three merchant banks, a cooperative bank and over a hundred rural banks. The six commercial banks, including Ghana Commercial Bank (GCB), Standard Chartered Bank of Ghana (SCB), Barclays Bank of Ghana (Barclays), Social Security Bank (SSB), National Savings and Credit Bank (NSCB), and the Bank of Credit and Commerce Ghana (BCCG), have over 80 percent of the total assets and deposits in the system. Ghana Commercial Bank continues to dominate the system with over 50 percent of the assets and deposits but the GCB market share of net loans has declined to about one-third and is expected to decline further with growing competition and the entry of new banks in the market. The three former development finance institutions, Agricultural Development Bank (ADB), National Investment Bank (NIB), and Bank for Housing and Construction (BHC), have introduced commercial banking services. Deposits as a share of outstanding liabilities for these three banks rose from one-third at the end of 1989 to 55 percent at the end of 1990. With the exception of BCCG, all banks are either partly or wholly owned by the Government. The aggregate assets and liabilities of the banking system and other data on bank loans and advances and deposits is provided in Annex V.

30. Two private merchant banks, Ecobank Ghana Ltd. and Continental Acceptances, were established in 1990. These institutions and the existing Merchant Bank, take corporate deposits, finance trade and industry, provide advisory services and manage money and capital market activities such as underwriting, trading on the Stock Exchange, privatization, mergers and acquisitions and debenture issues. The three merchant banks have about 7 percent of the total assets and 5 percent of the deposits in the system.

31. Owned and managed by their local communities, the 122 unit rural banks were established to mobilize resources and extend credit locally in rural areas. BOG has

contributed to the initial capital of most rural banks with the intention of divesting holdings to private owners at a later stage. Despite the large number, the rural banking sector accounts for only about 3 percent of the total deposits and 4-5 percent of the assets of the banking system. Many of the unit banks are in very weak financial condition and will be closed or merged as part of the on-going program to restructure the rural banks (para. 49).

32. The Consolidated Discount House Ltd. (CDH), was opened in November 1987 to support the development of a money market. Owned by a consortium of banks and insurance companies, CDH acts as an interbank agent dealing in treasury bills, short-term government securities, bankers' acceptances, cocoa bills, negotiable short-term certificates of deposit and commercial paper. After some initial problems, CDH is operating with a limited but profitable business. A second discount house, Securities Discount House, has been established with IFC assistance.

33. There are a number of significant non-bank financial institutions in Ghana that are not regulated by the Banking Act. The non-banking financial system is comprised of a stock exchange, 21 life and non-life insurance companies with some 3,000 insurance brokers and agents, the Social Security and National Investment Trust (SSNIT), two discount houses, and building societies. Several non-bank financial institutions, life insurance companies and pension/provident funds in particular, are potential sources of long-term investment capital.

34. The capital market is in its embryonic stage, as yet unable to make a substantial contribution to the mobilization of long-term resources. Until very recently, the few private placement transactions were usually in long dated government stocks and shares of private companies. A newly formed Stock Exchange commenced trading in November 1990. Trading volume is still small with only 18 listed securities. However, the volume is expected to grow with the divestiture and privatization initiatives being pursued by the Government.

35. Financial Policy under ERP. Like other sectors, the banking system of Ghana was adversely affected by the deterioration of the economy and high inflation during most of the 1970s and the early 1980s. Inappropriate monetary and financial policies and loss of confidence in the system led to financial disintermediation. The authorities controlled interest rates and played a major role in directing the allocation of credit. Banks were instructed by the Government to fund inefficient public and private enterprises. The financial condition of these enterprises deteriorated with the necessary adjustment in the exchange rate after 1983. This policy mix led to pervasive financial distress with huge non-performing loan portfolios, inadequate provisions for portfolio losses, artificially inflated profits, excessive foreign exchange exposure, high operational costs, weak internal management, and the insolvency of several banks.

36. Since 1987 there has been a gradual liberalization of the financial system. All sectoral credit allocation targets were phased out with the last target, for agriculture, abolished in November 1990. Interest rate controls were gradually relaxed and full liberalization was achieved in February 1988. In November 1990 the BOG completed decontrol of all bank charges and fees. The Central Bank is now promoting rather than repressing interest rate competition in the system. From May 1991 foreign companies are no longer required to seek prior approval from the BOG for overdraft facilities at the commercial banks. Liberalization of financial policies complemented the liberalization of foreign exchange market. A foreign

exchange auction was introduced in 1986 with coverage expanded gradually. In 1988 the government permitted the establishment of foreign exchange bureaus. In April 1990 the government introduced an interbank foreign exchange market supported by weekly wholesale auctions. The government has also liberalized payments and transfers for current international transactions.

37. The BOG is laying the groundwork for a system of indirect monetary control. Bank credit ceilings are still used for monetary control given the high liquidity in the economy. Reserve requirements are high and until recently were not remunerated. In early 1991 the BOG started paying 3 percent interest on required reserves held by commercial banks and this was recently raised to 5 percent. The BOG has introduced new monetary instruments, including BOG bills, to improve liquidity management. Ultimately, it is expected that open market type operations, with other indirect instruments, will replace credit ceilings as the principal means of managing liquidity in the economy.

B. Progress Under the Financial Sector Adjustment Credit, 1988-1991

38. IDA's work on Ghana's financial sector began in 1985. As the structural adjustment process was under way, a broadly based and well functioning financial system was critical for ensuring continued progress in the reform effort and for growth in the real sectors. This work 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 number of wide ranging measures aimed at improving substantially the regulatory and supervisory framework, restructuring distressed banks, developing financial markets, and more generally improving the efficiency of financial resource mobilization and credit allocation. These general objectives were articulated in an Action Program that was supported by IDA through a Financial Sector Adjustment Credit of US$100 million equivalent. The Credit was approved by the Board in May 1988, declared effective in August 1988 and the second and third tranches of the Credit were released in June 1990 and December 1990, respectively.

39. The main objectives of FINSAC I were to: (i) enhance the soundness of banking institutions by improving the regulatory framework and strengthening bank supervision by the BOG; (ii) restructure financially distressed banks following the formulation of specific restructuring plans; and (iii) improve resource mobilization and increase the efficiency of credit allocation by the banking system. In addition, other initiatives in the financial sector supported by the Credit included initiating the development of money and capital markets, supporting a study for corporate restructuring, strengthening of the accounting and auditing professions and training of bankers. IDA also provided support for a technical adviser to the BOG to assist in the management of the program. The following paragraphs summarize progress to date under the program.

40. Legal and Regulatory Framework. During preparation work for the program it was noted that the Banking Act of 1970 did not provide sufficiently clear guidelines to banks and the banking authorities on, inter alia, minimum capital requirements, risk exposure and prudential lending limits for banks, provisions for possible loan losses and methods of interest accrual on non-performing loans. Accordingly, the Government undertook a comprehensive examination of the Act during 1988. To provide early guidelines for banks and to underpin the bank restructuring process, an interim Legislative Instrument was enacted on December 30, 1988. The authorities continued to develop a comprehensive legal and

regulatory framework for banking activities through extensive consultations with banking, accounting and other professional bodies in Ghana and abroad, as well as with IDA. This process culminated in the enactment of the Amended Banking Law on August 8, 1989, replacing both the Banking Act of 1970 and the Banking and Financial Institutions Decree of 1979.

41. The new Act provides a sound prudential and regulatory base for the country's banking system. Banks are required to maintain a minimum capital base equivalent to 6 percent of a net asset base adjusted for risk assets, and to limit secondary capital. Penalties include restrictions on dividend payments for banks that do not achieve prescribed capital adequacy ratios. Uniform accounting and auditing standards are established, and guidelines are provided for determining provisions for bad and doubtful loans, and for the treatment of related accrued interest. The Act also sets limits on bank risk exposure to a single financial group or individual to a percentage of net worth, and sets limits on loans and advances to directors and employees of banks. Restrictions are placed on the extent of direct exposure in commercial, agricultural, industrial and real estate activities. Improved reporting requirements for all banks considerably strengthen the BOG's ability to effectively regulate and manage the banking sector, and to take remedial measures if banks are not being managed in the interest of depositors and/or creditors.

42. Banking Supervision. The BOG is required under the Amended Banking Law to examine each bank at least once a year. Since the introduction in late 1988 of standard auditing and accounting principles (which follow international auditing guidelines and international accounting standards), the accounting records of banks are required to be audited by qualified external auditors at least once a year. Both statutory and long-form auditors' reports are also required for all banks, and are to be promptly submitted to BOG. These revised standards and procedures are now being enforced by BOG's Banking Supervision Department. At the same time, substantial effort has been made to strengthen the supervision capacity of BOG. Two high level advisors from the Reserve Bank of India have been retained to provide both formal as well as on-the-job training to staff working on bank supervision, and the Department's bank inspectors have all now participated in basic training courses. Manuals for both on- and off-site inspection have been substantially revised and expanded. The Supervision Department is continuing to build up its capacity in order to comply with the Act's requirement that all banks be examined at least once a year. To this end, BOG is reviewing the Supervision Department's management structure with a view to strengthening it and is considering further increases in the number of professional staff, as well as an expanded staff training program.

43. Bank Restructuring. An acceptable framework for restructuring distressed banks was outlined in the General Framework document approved by the Government in July 1989. The Framework established a one-time package of measures for each of the seven distressed banks to restore solvency, and to provide sufficient capital and adequate liquidity to enable them to operate in a self-sustained manner following their restructuring. The measures are tailored to the requirements of individual banks and the degree and nature of distress experienced by them. The financial restructuring of banks has been achieved by removing from the banks' portfolios all non-performing loans and other Government-guaranteed obligations to state-owned enterprises (SOEs), which totalled ₵31.4 billion at the end of 1989. The non-performing loans to the private sector for the six major distressed banks amounting to ₵21.9 billion at the end of 1989 have been redeemed through offsets and the issuance of

bonds. As a result of the financial restructuring and some injection of new capital, banks were able to meet the capital adequacy requirements by end-1990. For the remaining small cooperative bank, which accounts for only four percent of the non-performing loans of the banking system, validation and redemption of its non-performing loans will be completed in 1991. The non-performing assets of distressed banks have been transferred to a newly created and wholly-owned Government agency, the Non-Performing Assets Recovery Trust (NPART), whose mandate is to realize such assets to the extent possible. The 1989 law establishing NPART requires that NPART should carry out its mandate within a finite, 6-year timeframe, i.e., by end-December 1995. To facilitate NPART's work, a special judiciary tribunal has been appointed and given the necessary powers to speed up the asset recovery process. With its board of directors and the necessary technical assistance now in place, NPART is recruiting and training its professional staff, and has commenced operations. As at end-October 1991, NPART's recoveries from private sector and state-owned enterprises amounted to about ₵3 billion.

44. Individual restructuring plans for six distressed banks have been formulated and reviewed by IDA. A draft restructuring plan for the remaining small cooperative bank has also been prepared. Together, these seven banks account for 100 percent of the assets and of the non-performing loans and contingent liabilities of development banks and about 85 percent of the assets and 95 percent of the non-performing loans of the commercial banks at the end of 1989. These plans include appropriate proposals for addressing the management, financial and operational problems of the distressed banks and focus on the turnaround strategy required to return them to profitability and financial viability. Since late 1989, the Government and the banks have increased their efforts to hasten progress in the implementation of the bank restructuring program, and implementation of a number of the required measures is underway. Early in 1990, the Government changed the top management and reconstituted the boards of directors for all banks being restructured. To assist the restructuring process, twinning arrangements with suitable foreign financial institutions have been established for some banks and turnaround management teams of banking and financial experts have been put in place for others. All banks are implementing their restructuring plans, including adoption of their new organizational structures, reducing staff, closing unprofitable branches, reducing operating costs and making good progress in improving their operating efficiency.

45. Corporate Restructuring. Massive devaluations, high rates of inflation, and structural shocks resulting from necessary adjustment policies have been among the major factors accounting for the extensive distress of Ghanaian enterprises in both the private and public sectors. The impaired capacity of such enterprises to service their debts in turn led to the heavy accumulation of non-performing assets in the books of Ghanaian banks, and to the financial distress of the banks themselves. The Government, therefore, recognized that banking restructuring, in order to be successful on a sustained basis, would need to be complemented by the restructuring of enterprises in the corporate sector. To that end, the Government commissioned under FINSAC I a study to assess the magnitude and nature of corporate distress, and to recommend a program to facilitate the restructuring of potentially viable enterprises. The first phase of the study was completed in late 1989 and reviewed the condition of a sample of 214 enterprises identified by Ghanaian banks as possible candidates for restructuring. It concluded that a significant proportion of these enterprises have good prospects for viable operation, if suitably restructured from a financial, technical and managerial standpoint. The second phase of the study, completed in mid-1990, examined the

alternative institutional arrangements for carrying out the enterprise restructuring process. Following its review of the consultant's report, the Government has formulated a preliminary draft proposal for implementing the corporate restructuring program (CRP). The proposal envisages, inter alia, the establishment of a new corporate entity with private sector ownership to provide venture capital and other financial, managerial and technical services for the restructuring of distressed but potentially viable enterprises, together with a broad range of activities pertaining to a specialized financial institution. IDA's role under the proposed FINSAC II would be to help ensure that Government would adhere to appropriate modalities in proceeding with the corporate restructuring program, in particular, with the establishment of the above-mentioned corporate entity (para. 68).

46. Resource Mobilization and Credit Allocation. By 1988 the Government had liberalized interest rates as part of its structural adjustment program. With the establishment of two discount houses, a money market in which banks can invest surplus short-term resources is emerging. Its progress, and the regulatory framework within which it operates, will continue to be monitored by the BOG and IDA. Studies on suitable instruments and institutional arrangements for the promotion of a more active money market were completed in 1988 and 1989 with the cooperation of the Overseas Development Authority (ODA) of the U.K. and the IMF. The Government intends to take measures to encourage the development of primary and secondary money markets as part of a package of monetary policy reforms that would include phasing out the credit ceiling system. The Government is gradually putting in place the requisites for indirect tools of monetary policy and improvements have been made to open market operations. The availability of short- and medium-term securities in a money market, combined with the freedom to increase lending to productive enterprises in industry, agriculture and services, are expected to provide powerful incentives for banks to mobilize additional resources and to result in a range of market-determined interest rates that would reflect differences in risk and maturity, with consequent improvements in the allocation of credit. To enable banks to obtain credit information on borrowers, a Credit Clearing House (CCH) has been established. With technical assistance from the Central Bank of Malaysia,the CCH has been established as an affiliate of the Ghanaian Bankers Association (GBA).

47. Training of Accountants and Bankers. Plans to strengthen auditing and accounting skills and improve the infrastructure for those professions were included under the program. A comprehensive review of the training and professional development needs of the accountancy profession was completed in early 1989. Progress is being made by the Institute of Chartered Accountants in implementing the recommendations of the report. It has reorganized its Secretariat, made several key appointments, and completed the rehabilitation of its premises and facilities. The Institute has also conducted its first examinations in London and in other centers in Ghana, and improved delivery of continuing professional education courses. With assistance from the Chartered Association of Certified Accountants, UK, technical assistance support for the key member and student services functions is in place.

48. The need to introduce modern banking methods, upgrade banking skills, and recruit and develop new talent was emphasized during preparation of the program and included in the technical assistance component of the Credit. Accordingly, BOG recruited a senior training specialist who at the end of 1989 completed an assessment of the training needs and formulated training programs and preliminary course curricula for the banking

sector. Simultaneously, BOG staff has been trained in various areas of banking operations. Specialized courses have also been conducted for commercial banks with attendance of about 200. Efforts are under way to bring three external training experts to conduct urgently needed banking courses in core disciplines. Progress is being made in establishing a professional banking college, with assistance from external training experts and bank training staff. External assistance is being sought to strengthen the Ghana Institute of Bankers to develop professional and ethical standards, as well as certification requirements, and to provide more effective oversight of the banking profession.

49. Other Operations of Relevance to the Financial Sector. A study was commissioned in 1989 to examine the nature, structure and issues of the rural financial sector. The findings of this study formed a major input into the Rural Finance Project, currently under implementation. The Rural Finance Project is consistent with the Bank's lending strategy in the financial sector which emphasized the restructuring of financial institutions to enable them to mobilize increased domestic resources and provide increased credit to productive resources. The project, therefore, complements the overall financial restructuring by focussing on the remaining institutions comprising rural banks and credit unions and informal savings and loans institutions. Since the formulation of the financial sector program, there has been close coordination by the BOG and IDA between the FINSAC I and Rural Finance Project. A Private Small and Medium Enterprise Development Project is also under implementation. The project is an integral part of IDA's assistance to Ghana for structural adjustment of its economy. Its objectives are, inter alia, to finance the development of small and medium enterprises in the private productive sectors to generate a supply response, increase employment, output and income; and, to improve the availability of technical assistance and entrepreneurial training to smaller enterprises. The implementation of the project is generally satisfactory.

PART III – THE SECOND FINANCIAL SECTOR ADJUSTMENT PROGRAM, 1992-1994

A. Origin, Objectives and Program Outline

50. The Government, supported by IDA, has made considerable strides in placing the financial system on a firm footing since 1987, when the wide ranging program of financial sector reforms was launched. The comprehensive reform program supported by FINSAC I was designed to address the more fundamental and urgent structural and institutional problems then facing the financial sector. The Government intends now to consolidate its achievements as well as move towards the second phase of sector adjustment with an enhanced program of policy and institutional reforms aimed generally at further deepening, diversifying and strengthening the financial sector. The second financial sector adjustment program would: (a) support policy measures designed to strengthen the institutional framework in the financial sector, and improve the financial condition of the BOG; (b) increase competitiveness in the banking system through encouragement of new entries and through a program of divestiture of government shareholdings in banks; (c) lower intermediation costs, by aligning taxation on bank profits with levels applicable to other sectors; (d) improve the operational capacity and institutional efficiency of the BOG through a reorganization of its structure and strengthening of its procedures and capabilities; (e) support the ongoing bank restructuring program to

further improve the financial and operational performance of formerly distressed banks; (f) help pursue the recovery of non-performing assets taken over by NPART; (g) design the arrangements for the rehabilitation of potentially viable enterprises in the corporate sector; (h) develop a healthy and stable institutional framework and enhance the effectiveness of non-bank financial institutions which can be expected to play an important role in financial intermediation in Ghana; (i) study the informal financial markets to foster linkages with the formal financial sector; and (j) upgrade the professional skills of bankers, accountants and insurance professionals. The Statement of Financial Development Policy for FINSAC II, outlining the Government's objectives and reform proposals for the second phase of financial sector adjustment is shown in Annex VI.

51. The continued development of an efficient, sound and diversified financial system for Ghana in the 1990s will depend crucially on two sets of factors. The first relates to remaining policy distortions in the financial system that affect the conduct of monetary policy and impede the efficiency of financial intermediation and system stability. The second relates to the strengthening of the financial system by continuing the process of institution building, including institutional strengthening of the banks, money and capital markets, and non-bank financial intermediaries. The Central Bank has a crucial role in leading financial sector development in both areas, centering on its ability to formulate and conduct monetary, credit and foreign exchange policies, manage the payments system and supervise the financial system and nurture its development.

B. Macroeconomic Program

52. The deepening and further strengthening of the financial system will be necessary to promote higher levels of and more productive investment in Ghana. Two issues are of particular importance for the continuing recovery of the banking system: controlling inflation and reducing implicit and explicit taxation of the banking system. The previous progress made in financial deepening has periodically been reversed owing to high and variable inflation and negative real deposit rates. After rising from 13 percent in 1984 to 18 percent in 1988, the ratio of M2 to GDP fell to 15 percent in 1990 (Annex V). There are several factors accounting for this trend, including the slow recovery in confidence in the banking system, but negative real deposit rates have been a contributory factor. A deceleration of inflation, thereby sustaining positive real interest rates is critical to restore willingness of the public to hold domestic financial assets. The most recent information shows a considerable deceleration in the rate of inflation from around 41 percent end-October 1990 to about 13 percent end-September 1991. Most interest rates are now positive in real terms and sustaining these will involve broader aspects of monetary and other policies, in particular the monetary program agreed to with the IMF to bring down inflation further to around 10 percent by end-December 1991 as outlined in the PFP. This program is important for the containment of inflation and for the success of the financial sector adjustment program, and will be kept under review during the course of the Credit.

53. Improvements in the implementation of monetary policy would also increase the efficiency of financial intermediation. The Government is gradually putting in place the requisites for switching to indirect tools of monetary policy. Improvements have been made on open market operations, but additional efforts are needed to improve the systems, quality and timeliness of data, and the analytical capacity of the BOG before such a switch can be fully effective. Another requirement is that the financial position of the BOG be strong

enough so that it can carry out monetary policy without considerations of its own financial position. A step towards strengthening the financial position of BOG was taken in this regard by formally transferring to the Government the revaluation losses (amounting to about ₵311 billion at the end of September 1990), which had built up in the BOG, inter alia, because of the depreciation of the exchange rate, and replacing them with long-term Government bonds bearing at present a yield of 4 percent. Provision for the payment of interest on these bonds (equivalent to about 0.5 percent of GDP annually) has been made in the Government's budget for the medium term. Also, it was agreed in the context of the PFP that any revaluation losses accumulated in the future will be transferred in a similar fashion on an annual basis at an interest rate set at an appropriate level to ensure that the Central Bank has sufficient income to conduct its liquidity management operations without being impeded by considerations about its own profitability. IDA has ascertained that the large changes in the revaluation account of the monetary authorities in recent years reflected almost entirely the counterpart of valuation adjustments and as such they have not contributed to an increase in money supply or to an inability to meet established monetary targets. Information provided by the authorities, and reviewed by IDA during appraisal, showed that any future foreign exchange losses would be a liability of the government and as such reflected in the Budget. The same is true for the interest on the ₵311 billion Government bonds issued against the losses accumulated to September 1990.

C. Ownership of Banks

54. The Government considers the preponderant public sector ownership in Ghanaian banks (para. 29) to be a major remaining issue, which now needs to be addressed, in line with the ongoing liberalization of the Ghanaian financial sector and the Government's policy objective of reducing its direct involvement in the operation of the banking system and concentrating on its more important regulatory and supervisory functions. That issue was not addressed under FINSAC I in view of the need, felt both by the Government and IDA, to first proceed with the restructuring of distressed individual banks as a prerequisite for their subsequent privatization. While the bank restructuring is now well under way, the Government is envisaging a program, to be implemented under FINSAC II, for the privatization of the seven banks presently majority-owned and controlled by Government. It is expected that wider private sector ownership in the banking system will promote greater competition, thus improving efficiency and lowering intermediation costs.

55. The Government has formulated an acceptable action plan for the reduction of public sector shareholding in Ghanaian banks. The Government intends for the divestiture program to be pursued on a sectorwide basis, across-the-board, with the ultimate objective of effectively transferring ownership as well as managerial responsibility in each bank to the private sector. As an interim target, the Government envisages, through divestiture, reducing public sector ownership (i.e., by Government and public sector entities) in each bank to a level of not more than 40 percent by end-1993. In a number of banks (including Barclays and Standard Chartered Bank of Ghana), the public sector is presently in a minority position, and these banks are effectively being managed by their private sector shareholders, thus requiring no further divestiture. In those seven Ghanaian banks wholly-owned or majority-owned by the public sector, (GCB, SSB, NSCB, NIB, BHC, ADB and COOP Bank), the Government would attempt to reduce public sector shareholding to a minority position of no more than 40 percent, leaving the majority of shares to be subscribed by private shareholders, both Ghanaian and foreign. To the extent that the participation of Ghanaian private shareholders in

a given bank would not suffice to achieve the objective of majority ownership by the private sector, the participation of foreign partners will be sought. Wherever appropriate, the Government will seek out the participation of those foreign partners (e.g., foreign banks, bilateral and multilateral institutions) with a potential for contributions in terms of managerial and technical know-how apart from financial resources.

56. Following discussions with IDA, the Government will appoint a team of financial consultants to carry out, in accordance with IDA-approved terms of reference, a review aimed at designing a specific proposal for implementing the divestiture program as outlined above. Invitations to consultants for proposals for assisting the Government in this task have been issued by the Government. The consultants' review will spell out a strategy, including rationalization of the banking system, sequencing, valuation, marketing and other implementation steps, for the divestiture program. The first phase of the action plan, will cover the four largest banks (GCB, NIB, SSB, BHC) which together account for over two-thirds of the total assets of the banking system. The consultants' proposal for privatization of the four above-mentioned banks (first phase) will be reviewed jointly by the Government and IDA; its implementation will commence before October 1992 and will be completed by April 1993. The second phase of the consultants' review, covering the remaining smaller three government-controlled banks, namely the NSCB, ADB and COOP, is to be completed by April 1993 for implementation before end-1993.

57. Furthermore, in line with its objective of fostering greater competition in the banking system, the Government will continue its present policy of encouraging the entry in the market of new banks, including foreign banks, subject to the necessary process of examination prior to licensing, so as to ensure the adequacy of financial standing as well as managerial qualifications on the part of sponsors of new banks. There are presently in Ghana no regulatory barriers to the acquisition of shares in banks by private sector investors, foreign or domestic. In 1990, two new privately-owned banks opened for business, and one was licensed in 1991.

D. Intermediation Costs

58. High intermediation costs in Ghana continue to have a negative impact on the financial system. The reasons for this have included inefficient operations of the banks, large non-performing loans, high reserve requirements generating little or no return, high tax rates and little competition. The removal of non-performing loans under the bank restructuring program and the improvements in the efficiency of the banks initiated under FINSAC I and continued under the proposed program, and improvements in the payments system (para. 62) should result in lowering these intermediation costs. Nevertheless, some factors remain that continue to account for the high cost of financial intermediation.

a. Taxation of Banks

59. Financial institutions are still subject to the highest rate of corporate income tax. The corporate tax rate applicable to financial institutions (50 percent) is currently higher than the standard rate (35 percent) applicable to other sectors. The Government is aware that this differential could have a negative impact on the cost of intermediation, mobilization of financial savings and the growth of the financial system. Under the third structural adjustment program, the Government decided to unify corporate income tax at the current

standard rate (of 35 percent), in a phased manner. Consistent with these overall adjustment objectives, the Government is planning for a phased reduction of the tax rates applicable to financial institutions so as to align them with those applicable to other sectors, and is consulting with the IMF on the related budgetary implications. The Government will commence this phased alignment of taxation rates on financial institutions in 1992, and will complete it under the program

b. Reserve Requirements

60. Another factor which contributes to implicit taxation of banks has been the lack, until recently, of remuneration on bank reserve requirements. The BOG has taken steps to address this issue. Until recently, it paid interest at a rate of 3 percent on the primary reserve requirements imposed on the banks. An increase in this rate to a rate which is closer to the average cost of funds of the banking system would help reduce the implicit taxation of banks. To strengthen BOG control of the money supply primary cash reserves will be restricted to cash and deposits at the BOG. Previously acceptable call money lodged at the Discount House, which earns about 25 percent, will no longer be eligible. To moderate the impact on bank profits the cash reserve requirement is being lowered from 22 percent to 18 percent and interest on balances with the BOG raised from 3 percent to 5 percent. However, secondary reserves will be raised from 20 percent to 24 percent. The changes in the reserve requirements, on balance, will increase the implicit taxation of banks. Based on banks' holding of call money at the end of March 1991, of about 24 billion cedis, the loss in revenue to be incurred by the banking system would be about ₵4 billion per year following these changes. The loss would be smaller if the rates of inflation and interest rates were to decline during the next 12 months. The Government has agreed that the interest rate on bank reserve requirements will be kept under joint, periodic, review by itself and IDA, with a view to future adjustments as appropriate.

E. Bank of Ghana

61. The Government recognizes that as a central bank, the BOG must play a decisive role in: controlling the money supply, in order to promote and maintain the stability of the value of the currency; stimulating the mobilization and efficient utilization of financial resources; and regulating and directing the banks and other institutions of the financial system as appropriate, in order to protect their stability without unduly affecting their autonomy, development and efficiency. The second financial sector adjustment program has the objectives of reducing the difficulties faced by BOG in discharging its responsibilities through arrangements designed to help its recapitalization and to reduce its losses in foreign currency, thereby strengthening its financial condition; and improving the operational capacity of BOG with technical assistance to reorganize its structure and to strengthen its operational procedures and capabilities. The achievement of these objectives will help to: (i) improve the conduct of monetary, credit and foreign exchange policies; (ii) improve the effectiveness of control over money supply; (iii) replace gradually the existing system of monetary policy based on credit ceilings by a system in which open market operations will play a more important role; (iv) reduce the spread between deposit and lending rates in the banking system; (v) create conditions that will stimulate the interest of the banks to mobilize deposits and to pay higher interests rates on such deposits, thus contributing to financial deepening; and (vi) enhance the effectiveness of the supervision and guidance role of BOG over

commercial banks and other financial institutions. The measures for strengthening BOG under the proposed operation will be carried out in collaboration with the IMF.

62. The BOG has commenced taking actions necessary to achieve the above objectives. It has revised the Bank of Ghana Act of 1963, to more adequately reflect its role, responsibilities and autonomy and to give effect to the necessary organizational and procedural changes. A draft of the revised Bank of Ghana Act, which has been reviewed by IDA, has been submitted to the Provisional National Defence Council (PNDC) for approval and enactment. Its enactment is a condition of effectiveness of the Credit. A new organizational and management structure has been developed together with an implementation schedule and a manpower plan to address staff development and training needs. The BOG, in consultation with the Government, is addressing ways of enhancing its autonomy in recruitment, training for its personnel and the payment of performance-related salaries. More immediately, the BOG has been addressing critical needs to strengthen its Research, Foreign Exchange Management and Bank Supervision operations. In the latter case it is recognized that both on-site and off-site operations need to be sharpened and made more timely. The BOG has in place a program under which within the next twelve months BOG will have complied with the Banking Act requirement that all banks be examined at least once a year. It is recognized that achieving strong supervision is a critical task for the BOG. A Committee has been appointed to guide the computerization of the BOG and to prepare a work program and implementation timetable to improve through computerization, the operational efficiency in the payments system, open market operations, reserves management, supervision, research, accounting, MIS and other central bank activities. The Committee's work has resulted in development of an acceptable 3-year computerization work program (Information Technology Program) covering accounting, the creation of an integrated economic database, reserve management, foreign exchange, money and bond market functions. Commencing with publishing its annual accounts for the year ended June 1990, the BOG will publish its annual accounts and economic information in subsequent years in accordance with the Bank of Ghana Act.

63. Development Finance and Other Activities of the BOG. The BOG's profitability can also be protected by phasing out its quasi-fiscal activities. Like many central banks in developing countries, BOG has taken on a range of non-traditional activities such as development finance, subsidized lending, direct participation in rural banks, and the absorption of foreign exchange losses on behalf of the Government. Direct or indirect involvement of BOG in developmental and quasi-fiscal activities on behalf of the Government, however, has come into conflict with the objectives of its basic regulatory and supervisory roles. In consultation with IDA, the BOG has carried out a review of its development and rural financing activities with the objective of determining their financial implications and options for phasing them out. The BOG's Board of Directors has approved the divestment of non-central banking functions by the BOG. It has been agreed that the Government will consult IDA on steps for implementing this decision.

F. Bank Restructuring

64. The implementation of the bank restructuring program initiated under FINSAC I is well under way and needs to be sustained and reinforced to ensure the successful turn-around of formerly distressed banks. Subsequent to their financial restructuring, Ghanaian banks have been implementing their turnaround plans which involve, inter alia, rationalizing the branch network, reducing surplus staff, streamlining operating costs,

strengthening loan collection and internal controls, and generally improving operational efficiency. In order to sustain viability and further improve efficiency, the Ghanaian banks require further management reform and institutional strengthening including: (i) elaboration of a strategy and business plan addressing both qualitative and quantitative performance objectives and targets (based on a set of performance indicators including liquidity, profitability, loan collection ratios, portfolio arrears and operating costs); (ii) revision of the organizational and corporate structure to better delineate accountabilities and responsibilities and to provide for management functions which are not currently addressed; (iii) development of policies and procedures for the major functional areas such as credit risk management, financial management, human resource management; (iv) introduction of streamlined operating procedures to provide for improved customer service and efficiency and greater confidence in the banking system; (v) development of a commercial orientation toward both bank customers and financial management of the bank itself; and (vi) information systems technology to support the delivery of bank products and for financial management and reporting.

65. The Government considers that monitoring the performance of formerly distressed banks prior to their privatization is critical under the second phase of the adjustment program to ensure both system stability and efficiency. Accordingly, the Government has decided to set up a system for monitoring the future performance of these banks, based on a set of performance indicators. The first and fundamental indicator is the consistent compliance of the individual banks with prevailing banking law and prudential regulations, in terms of capital, reserves and liquidity. In addition, a number of specific indicators of the efficiency and soundness of the banks are to be used. These will include: (a) ratio of operating costs to average total assets; (b) ratio of arrears (principal and interest) as a percentage of total outstanding portfolio; (c) percentage of non-performing portfolio (i.e. loans affected by arrears) in relation to total outstanding portfolio; (d) ratio of actual loan collections as a percentage of scheduled collections; (e) return on shareholders equity; and (f) return on average total assets. The responsibility for implementing the monitoring system is to be entrusted to BOG's Banking Supervision Department, which will act in liaison with the FINSAC Implementation Secretariat referred to in para. 75.

G. Recovery of Non-Performing Assets

66. NPART's mandate requires it to exercise every reasonable effort to recover funds expended by the Government in acquiring the non-performing assets from distressed banks. With the recent commencement of its operation, NPART's first major task was to evaluate and categorize enterprises as non-viable or potentially viable, the latter group being candidates for restructuring under the CRP. In exercising its mandate, NPART will commence the liquidation or sale of the non-viable enterprises. For the recovery of non-performing assets to be effective, it is necessary that some of the larger non-viable enterprises (accounting for a greater share of non-performing assets) be liquidated early in the process. The special judicial tribunal, created to facilitate NPART's recoveries, has been legally established and its membership constituted.

67. The Government, in consultation with IDA, has formulated an action program to achieve an appropriate level of recovery of non-performing assets by NPART, taking into account the 6-year timeframe set in the 1989 law establishing NPART. The action program is summarized as follows: (a) NPART's recovery efforts will be focused on the 250 largest

accounts (more than ₵20 million each) representing ₵44.3 billion or 89 percent by amount of aggregate non-performing assets (NPAs) of ₵49.5 billion; (b) NPART has screened these accounts for classification into 4 categories (foreclosure, sale, workouts/restructuring and write-off); (c) following this classification of the individual accounts, NPART has assigned a recovery estimate (both in percentage and amount) to each individual account; (d) the end result of the above has produced an Aggregate Recovery Target (ART), initially estimated at about ₵18 billion, that has been reviewed by the Government and IDA for its reasonableness; and (e) NPART will attempt to recover the total amount of the Aggregate Recovery Target, which itself will be subject to subsequent periodic adjustments, in accordance with the following annual recovery targets: 12 percent in 1991, 22 percent in 1992, 26 percent in 1993, 23 percent in 1994, and 17 percent in 1995.

68. The Government is envisaging several initiatives to help the restructuring of distressed but potentially viable enterprises (PVEs). The initiatives include: (a) financial work-out arrangements for selected PVEs, by NPART with the voluntary participation of Ghanaian banks. NPART's role would generally consist of debt moratoriums, debt reschedulings, and conversions into subordined debts, to the exclusion of new lending, in accordance with its Charter and operating guidelines. The participation of the banks could consist of the infusion of additional credits and/or equity finance, while the enterprise owners would be expected to make financial contributions within their capacity; and (b) the encouragement to the private sector, both foreign and domestic, to set up new venture capital companies, which could play an active role in rehabilitating PVEs. In this regard, the Government is looking into preliminary inquiries by some private sector groups, with the sponsorship of bilateral donor organizations, for setting up new venture capital companies.

69. Following discussions with the Government, it has been agreed that a consultant review will be expeditiously initiated to carry out further preparatory work on the CRP, and focussing on: (a) updating and expanding the database on PVEs (including their re-classification) previously compiled by the consultants and collection of additional relevant data; (b) recommending appropriate modalities for financial work-outs and other financial relief measures for PVEs, by NPART and the banks; and (c) examination of the prospects and modalities for setting up new venture capital companies in Ghana (with the possibility that these could be supported under subsequent Bank Group operations). The terms of reference for the consultant's review have been prepared and agreed by the Government.

H. Non-Bank Financial Institutions and the Capital Markets

70. There are a significant number of financial institutions in Ghana which are not regulated by the Banking Act though some of them come under other regulatory or statutory control. These comprise the stock exchange, insurance companies, insurance brokers and agents, the discount houses, a building society, an export finance company plus unquantified numbers of credit unions, thrifts and savings and loan institutions. The insurance companies and pension/provident funds are major potential sources of long-term investment capital, and an analysis of their status and constraints is a key consideration in the development of Ghana's capital markets.

71. Regulation of the insurance industry has been shifted to the National Insurance Commission (NIC) which will require technical assistance in its new supervisory role, which includes market supervision, monitoring premium levels and payment, competition and

solvency. Capital adequacy, solvency and credit standards are all in need of reform and better regulation. Competition has been circumscribed by the Government which, under a 1972 law still requires the Government-owned State Insurance Corporation of Ghana to be allocated all Government and state-run business underwriting, resulting in over 75 percent of the non-life business going to one company. The life insurance sector is still somewhat under-developed and its nurturing because of the actuarial significance of its premium base will be an important factor to the developing capital markets. Until late 1986, SSNIT was required to invest in government paper with yields of 6-7 percent, causing considerable mismatch in its asset/liability management given the high inflation environment. SSNIT has recently embarked on a more focussed earnings-related pension scheme. Continued attention to appropriate investment rates to achieve a balanced asset/liability position will be necessary. With contributions currently at about 1 percent of GNP, SSNIT is potentially the dominant investment fund in the country. The possible over-concentration of assets is an issue requiring further consideration. The Government has initiated a review of the legal and regulatory framework applicable to all non-bank financial institutions to develop and enact, as appropriate, new legislative proposals for their licensing, regulation and supervision, as well as appropriate accounting, financial and prudential reporting requirements. The review is being carried out by a Committee established for this purpose and is proceeding satisfactorily. This review will include de-emphasizing Government mandated deposit and underwriting activities. The Government will also carry out a diagnostic study of the major insurance companies to review their capital adequacy, profitability, credit standards and competition in the market place, and a study of SSNIT's management of its asset/liabilities position, including an actuarial assessment of its new pension plan, and its future role in the capital markets. The terms of reference for these studies have been agreed with the Government.

I. Informal Financial Markets

72. A large portion of currency -- estimated at about 30 percent of M2 in March 1991 -- in Ghana is held outside the formal banking sector, creating a significant informal financial sector. This is due, inter alia, to: (i) the slow recovery in the public's confidence in the banking system; (ii) negative real interest rates; and (iii) the inadequacies of banking services. The deficiencies of the formal financial system have led to a situation where large parts of the population continue to prefer traditional forms of savings and financing and where myriads of financial agencies, including moneylenders, thrift groups, credit unions and trusts have developed all over the country. This informal financial sector is important in the Ghanaian context, first, because the high portion of currency outside the banking system means it may actually be quite significant compared with the operations of banks, and second, because it fills a gap left by the formal sector and may therefore hold important lessons for future Bank policies.

73. Lower information and transaction costs, and a greater ability to avoid losses, make the informal sector attractive relative to the formal sector. Moveover, the informal sector does not suffer from financial repression (e.g., negative real interest rates), which has been a major constraint on organized finance. Therefore, as long as the formal financial system in Ghana is repressed, moneylenders, thrift groups and credit unions will continue to play an important role in financial intermediation and a large part of money supply will remain beyond the control of the monetary authorities. Since informal sector operations are mostly conducted in secrecy, no estimates are available on the scope of such activities, their significance notwithstanding. A study will be undertaken on the informal sector to explore

prospects and modalities for its interaction with the formal financial system. Terms of reference for the study have been agreed with the Government.

J. Training of Financial Professionals

74. Building on the achievements made under FINSAC I, further measures will be taken for capacity building and training in the banking sector and in the accountancy and insurance professions. FINSAC II would support further training in urgently needed areas such as credit analysis and risk management, finance, financial management of financial institutions, money and capital markets, foreign exchange, marketing, and basic management skills. Such subjects would comprise the core curriculum of a training program for financial professionals in Ghana. Other components of the program would include the establishment of the banking college, management of training by a foreign banker's training institute, the development of training materials and assessment of training needs, and support for the work of the Ghana Institute of Bankers. The program would also support the strengthening of accounting and auditing capabilities of the Auditor General's office, continue to support the strengthening of the Institute of Chartered Accountants (Ghana), provide training for the new National Insurance Commission, and assist the further development of the Ghana Stock Exchange.

K. FINSAC Implementation Secretariat

75. To ensure continued effective implementation of the ongoing FINSAC I as well as the new FINSAC II programs/activities, there is a need to institutionalize and strengthen the implementation arrangements currently in place. A FINSAC Implementation Secretariat will be set up, with organizational arrangements and staffing acceptable to IDA, as the focal point to provide guidance, oversight, coordination and monitoring for all activities pertaining to the proposed financial sector adjustment program. The Secretariat will also be responsible for periodic reporting to IDA on program activities. It has been agreed that the Secretariat will have a light structure organized along the following broad lines: (a) it will be headed by an Executive Director backed up by an expatriate advisor; (b) initially it will comprise 3 sections, each headed by a Section Chief: Banking Restructuring and NPART; Corporate Restructuring; Non-Bank Financial Institutions and Administration and Legal Affairs; (c) subsequently, if the workload warrants it, Non-Bank Financial Institutions may be split into a Section separate from Administration and Legal Affairs; (d) the Secretariat will have a support staff, office facilities and other equipment as necessary. Matters relating to broad financial sector policy issues as well as the BOG strengthening component of FINSAC II will continue to be the responsibility of the Governor of the BOG. The Government proposes to set up within the Ministry of Finance and Economic Planning (MFEP) a small Desk to liaise with the FINSAC Implementation Secretariat. Technical assistance will be provided to the Secretariat and to MFEP under the program.

PART IV – THE PROPOSED CREDIT

A. Credit History

76. Preparation of the proposed Credit commenced at the time of the successful third tranche review for FINSAC I in November 1990. Appraisal was carried out in July 1991 and negotiations were held in November 1991.

B. External Financing Requirements

77. Strict management of aggregate demand and a market-determined exchange rate will contribute towards maintaining a manageable external payments position in the face of the decline in the terms of trade and only marginal recovery expected after 1990. The current account deficit is expected to decline from 8.2 percent in 1990 to 5 percent in 1995. The average growth in exports of goods and non-factor services will slip from 9.2 percent in 1987-90 to about 6 percent in 1991-95, mainly because of the expected response to low cocoa and gold prices. On the other hand, non-traditional products, particularly pineapple, coffee, furniture, and fishery products, are projected to grow strongly in the 1990s. Imports are expected to grow at about the same rate as GDP. This assumes continued foreign exchange savings through greater efficiency brought about by higher prices and taxes on petroleum products, and import substitution of food and other consumer goods as a result of increased agricultural production and manufacturing investment.

78. The average current account deficit over 1992-94 is projected to be 12 percent lower than the average level of the last two years. Amortization of official medium-term debt has shrunk as non-concessional debt incurred to finance oil imports has been replaced by concessional sources; repurchases from the IMF will diminish now that the Stand-By and Extended Arrangements have been replaced by the Enhanced Structural Adjustment Facility; and the Government has paid off all external arrears. As a result, total foreign exchange requirements for the period 1992-94 will on average be slightly lower than in 1990-91. Requirements include provision for a build-up in international reserves.

79. In view of the existing pipeline of concessional assistance and anticipated new commitments, disbursements of official grants and long-term loans from both bilateral and multilateral sources are expected to average about US$613 million a year during 1992-94, inclusive of resources mobilized through the Special Program of Assistance. A slow, but steady, decline in the real level of concessional commitments is projected. IDA disbursements would amount to about US$580 million during 1992-94.

80. In 1990 total external public debt is estimated at US$3.1 billion, equivalent to 53 percent of GDP, after taking into account the cancellation of outstanding bilateral debt by the United Kingdom, Canada, Denmark, France, the Federal Republic of Germany, and the United States. With declining repurchase obligations to the IMF and lower levels of commercial debt, the debt service ratio fell from 67 percent in 1988 to 39 percent in 1990. A further decline in the debt service ratio to 21 percent is expected by 1995. In addition, the share of debt outstanding and disbursed from commercial sources is expected to decline from 7 percent in 1989 (already down from 12 percent in 1987) to 2 percent in 1995, and that from non-concessional bilateral and multilateral sources from 14 percent to 10 percent.

C. Description

81. The US$100 million equivalent IDA Credit will be made to the Government on standard IDA terms with 40 years maturity. It would be comprised of a sector reform component and a technical assistance component.

D. Sector Reform Component

82. New and ongoing policy and institutional reforms to be carried out in the financial sector between 1992 and 1994 will be supported by the sector reform component of US$82 million equivalent. Its major objectives, are summarized as follows:

(a) support the removal of remaining policy distortions in the financial system by: (i) addressing the disintermediation in the financial system caused by negative real interest rates through a policy of encouraging positive real deposit and lending rates through the payment of adequate interest on required commercial bank deposits with BOG and of promoting open market operations; (ii) increasing competition in the banking system through the divestiture of public sector shareholdings in banks; (iii) reducing the high cost of financial intermediation; (iv) lowering the rate of corporate tax on financial institutions to the level applicable to other sectors;

(b) enhance the effectiveness of the Central Bank to lead the continuing financial sector reform program through: (i) development of a sound legal framework for the financial system including legislation for central banking; (ii) strengthening the financial condition of BOG by the phasing out of its non-central banking, quasi-fiscal activities; (iii) realigning the organizational structure of the BOG to enhance its capacity to formulate and implement monetary policies and financial sector reforms; and (iv) improving operational efficiency in the payments systems, open market operations, reserves management, bank supervision, research and other central bank activities through computerization and changes in operating procedures and staff training.

(c) continue the bank restructuring program started under FINSAC I through: (i) preparation for the divestiture of public sector shareholding in banks; (ii) formulation of an appropriate program for monitoring the performance of restructured banks; and (iii) improving the efficiency of management, accounting and information systems of the Ghana Commercial Bank (GCB) in view of its importance in the banking system.

(d) pursue the recovery of non-performing assets by NPART through: an action program to achieve an appropriate level of recovery of non-performing assets, including monitorable targets and a timetable;

(e) enhance the effectiveness of non-bank financial institutions, by strengthening the prudential regulation function and encouraging competition, through: (i) review of the legal and regulatory framework applicable to all non-bank financial institutions and develop, as appropriate, new legislative proposals for their regulation and supervision; (ii) the development of uniform accounting requirements and prudential regulations; and (iii) a review of the linkages and prospects for closer interaction between the formal and informal financial systems.

(f) upgrade the professional skills of bankers accountants and the insurance profession through: (i) training programs for bankers, development of the management and operations of the national banking college; (ii) strengthening national accounting and auditing capabilities and upgrading the standards and skills of the Auditor General's Office and of the accounting and insurance professions.

E. Technical Assistance Component

83. The Technical Assistance Program is outlined in Annex VII. This component of US$18 million equivalent will finance: (i) an extensive program of technical assistance for restructuring and institutional strengthening of the BOG, including purchases of hardware, software and services for computerization (US$2.6 million), training, technical assistance and advisory services in economics research, banking supervision, monetary policy and foreign exchange (including reserve management), organizational restructuring, clearing house, development of market operations, financial systems development and data coordination (US$2.6 million); (ii) computer hardware, software, services and training for the computerization of management information and accounting systems of GCB (US$2.8 million); continuing technical expertise for the institutional restructuring of seven banks, including an assessment of the computerization needs of the remaining banks (US$4.00 million) and for the operations of NPART (US$1.1 million), these costs include the cost of foreign bankers and experts and twinning arrangements with banking institutions; review of the legal/regulatory framework for non-bank financial institutions and development of new legislation, diagnostic study of the insurance industry, training and technical assistance for the new National Insurance Commission, the study of SSNIT's new pension scheme and its role in the capital markets, and the study of informal financial markets (US$0.7 million), consultancy services and preparatory work for CRP (US$0.2 million); capacity building and training for bankers and accountants, including technical assistance in establishing the banking college, teaching materials and books, faculty development and cost of foreign instructors (US$2.2 million), and upgrading skills and improving the effectiveness of the Auditor General's Office through technical advisory services, training and logistical support, and continuation of the strengthening of the Institute of Chartered Accountants (US$0.7 million); establishing the FINSAC Implementation Secretariat (US$0.7 million); equipment and training for a small FINSAC II liaison unit within the MFEP (US$0.1 million). A small amount has been left to be allocated as the program progresses (US$0.3 million). A Project Preparation Facility advance of US$600,00, approved by IDA to enable the commencement of key technical assistance activities, will be refinanced under the Credit upon effectiveness.

F. Credit Administration, Procurement and Disbursement

84. The proposed Credit of US$100 million equivalent would support the second phase of the Government's financial sector adjustment program. As with FINSAC I, the BOG would administer the Credit on behalf of the Government. The credit administration,

procurement, disbursement and auditing procedures that were developed for FINSAC I are well established and have operated satisfactorily, and will be followed for FINSAC II. These procedures are summarized below for the sector reform and technical assistance components.

a. Sector Reform Component

85. The proceeds of the proposed sector reform component (US$82 million equivalent) would be used exclusively to finance the foreign exchange cost of eligible imports through the foreign exchange auction of the BOG. Except for military equipment, luxury goods and environmentally hazardous products, any imports would be eligible for financing. Not more than US$20 million equivalent of the proceeds of the Credit would be used for petroleum imports. Up to US$15 million could be financed retroactively for imports paid for up to four months prior to loan signing. To speed up disbursements, imports below US$2 million by private entities and parastatals would be procured in accordance with established commercial practices which have been reviewed and generally involve competitive procurement. Quotations from at least two eligible countries would be sought, except for propriety procurement or standardized equipment required for reasons of compatibility. Imports by the government sector below US$2 million would be procured according to its procedures which have been reviewed and are acceptable to IDA. For contracts between US$500,000 (SOE limit) and US$2 million, a minimum of three quotations will be obtained except for proprietary spares or where compatibility with existing equipment requires use of standardized equipment. Imports exceeding US$2 million, by the public and private sectors would be subject to ICB, according to Bank guidelines, using standard documents acceptable to IDA. Import of commodities such as petroleum and foodstuffs by any purchaser will be packaged for bulk procurement following simplified ICB procedures. In isolated cases, where such procurement is less than US$2 million, competitive bids will be invited with a minimum of three quotations. IDA will assist the Government, if necessary, by providing sample bidding documents for simplified ICB for these products. 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. Preshipment inspection on quality, quantity and price verification of imports will be done by an external independent agency already in place. Contracts valued less than US$50,000 equivalent would not be eligible for IDA financing.

86. To facilitate procurement and disbursement, two special accounts would be established in U.S. dollars at commercial banks, on terms and conditions acceptable to the Association. Initially, US$16 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 (including final invoices, bills of lading/shipping documents and evidence of payment) with respect to payment against contracts of more than US$500,000 equivalent. Reimbursements for payments against contracts below US$500,000 will be made on the basis of statements of expenditure certified by the BOG. All supporting documents (including final invoices, bills of lading/shipping documents and evidence of payment) will be retained by BOG for review by visiting IDA missions and the external auditors.

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

(a) a first tranche of US$25 million would become available immediately upon effectiveness (January 1992).

(b) a second tranche of US$29 million would be made available following a review of performance, about nine months after effectiveness, that would determine that the reform program is being implemented satisfactorily (October 1992).

(c) a third tranche of US$28 million would be made available following a review of performance, about six months after second tranche release (April 1993).

88. Cofinancing of US$100 million equivalent is being sought for the program. Approaches have been made to the Swiss Government and to the Government of Japan (OECF), both of which were cofinanciers of FINSAC I. The Swiss Government participated in the appraisal of the program and has recently signed an agreement with Ghana, to contribute Swiss Francs 15 million (about US$10 million equivalent) to the cofinancing of the program. The Government of Ghana is seeking cofinancing from OECF of Japan. To the extent possible, cofinancing funds will be tranched in a manner that ensures balanced tranche disbursements.

b. Technical Assistance Component

89. Consultancy services for the various technical assistance subcomponents will be obtained as per the Bank's guidelines. Small packages of computer equipment and software not exceeding a value equal to or less than US$75,000 per contract, up to an aggregate limit of US$250,000, and office equipment (amounting in total to US$150,000) and vehicles (amounting in total to US$200,000) will be procured through shopping on the basis of comparison of price quotations from at least three qualified suppliers eligible under the Bank's guidelines. Packages for the procurement of computers and software in excess of US$75,000 will be procured under ICB procedures according to Bank guidelines. The threshold for prior review of documents for such procurement will be US$75,000. The Credit would finance 100 percent of the costs of technical assistance and studies under the program. Disbursement under the technical assistance component will not be subject to the tranche release conditions, and the technical assistance component is expected to be disbursed by the end of the first quarter 1995. Accordingly, the closing date for the program is March 31, 1995. Statement of expenditures would be used for expenditures not exceeding US$75,000. A special account of US$2,000,000 representing about four month's expenditures would be established at a commercial bank to expedite disbursements.

c. Auditing and Reporting

90. Present accounting and auditing arrangements for project expenditures are satisfactory. The BOG maintains separate accounts to record project-related transactions (disbursements, repayments, expenditures, etc.) and has these accounts audited by auditors acceptable to IDA. The auditors' report includes an opinion on the adequacy of procedures in operation at BOG for the use of Statements of Expenditures (SOEs). Certified copies of audited accounts have been submitted to IDA within six months of the end of each fiscal year, as required under FINSAC I. These arrangements will be continued under the proposed project and certified copies of audited project accounts and SOEs will be submitted to IDA

within six months of the BOG's fiscal year end. In addition, the audited financial statements of the BOG will also be submitted to IDA within six months of the BOG's fiscal year end.

91. To enable IDA to monitor the fulfillment of program objectives, during implementation, the FINSAC Implementation Secretariat would, through inputs from the BOG, the concerned banks, NPART, the non-bank financial institutions and other beneficiary agencies under the program, prepare semiannual status reports on key conditions and monitorable actions under the sector reform component, and quarterly progress reports on the technical assistance and training activities and the studies under the program. These reports will be sent to IDA within one month of the end of the agreed reporting period.

G. Monitorable Actions and Tranche Release Conditions

92. The Letter of Financial Development Policy (Annex VI) outlines the specific measures that have been or will be undertaken during the second phase of financial sector adjustment. These measures are summarized in the matrix of reforms and actions also shown in Annex VI. Credit effectiveness and tranche releases will be conditional upon the completion of the following actions in a manner satisfactory to the Association:

Condition for Effectiveness

(a) Enactment of the Bank of Ghana Act (para. 62).

Conditions of Second Tranche Release

(a) Satisfactory progress in the implementation of the financial sector adjustment program and consistency of the macro-economic policy framework with the objectives of this program (para. 52).

(b) Commencement of implementation of consultants' proposals for Phase I of the action plan for the divestiture of public sector shareholdings in banks as reviewed and agreed with IDA (para. 56).

(c) Implementation of the alignment of tax rates on financial institutions with levels applicable to other sectors in accordance with the modalities confirmed by the Government (para. 59).

(d) Compliance with requirements for annual inspection of banks in accordance with the Banking Law (para. 62).

(e) Satisfactory implementation of new BOG organization and management structure (para. 62).

(f) Implementation by NPART of the action program for the recovery of non-performing assets and for liquidations, including achievement of the agreed annual recovery target (para. 67).

(g) Submission to IDA of draft regulatory legislation for non-bank financial institutions (para. 71).

(h) Commencement of the review of SSNIT's management of its asset/liability position and the actuarial assessment of its new pension scheme and of its role in the capital market (para. 71).

Conditions of Third Tranche Release

(a) Satisfactory progress in the implementation of the financial sector adjustment program and consistency of the macro-economic policy framework with the objectives of this program (para. 52).

(b) Completion of implementation of consultants' proposals for Phase I of the action plan for the divestiture of public sector shareholdings in banks, and completion of review by consultants of the remaining banks under Phase II of the action plan (para. 56).

(c) Completion of the alignment of tax rates on financial institutions with levels applicable to other sectors (para. 59).

(d) Implementation by BOG of its computerization program and satisfactory progress in the strengthening of BOG's operational efficiency (para. 62).

(e) Implementation by NPART of the action program for the recovery of non-performing assets and for liquidations, including achievement of the agreed annual recovery target (para. 67).

(f) Enactment of legislation for non-bank financial institutions and adoption of uniform accounting requirements and prudential regulations (para. 71).

(g) Establishment of the banking college and acceptable progress in the programs for the training of bankers, accountants and insurance professionals (para. 74).

H. Risks

93. Actual experience gained so far with the implementation of financial sector reforms in Ghana suggests that the main risk entailed by FINSAC II, just as with its predecessor program FINSAC I, would be the slow pace, relative to the agreed timetable, in the implementation of a reform program of considerable complexity, novelty and comprehensiveness. Such a slowness would be on account, not of any slackening in Government's commitment to reforms, which remains steadfast, but of the strain the program will place on the country's implementation capabilities and of practical difficulties inherent in building up the requisite capacities within the large number of Government agencies and other entities (e.g., Ministry of Finance, BOG, NPART, the banks) involved in the reform process. Drawing lessons from the past, the Government and IDA, therefore, will endeavor to minimize the risk by strengthening implementation capacity through the establishment of the FINSAC Implementation Secretariat. The latter will be appropriately staffed and equipped to enable it to discharge its mandate to generally guide, oversee, coordinate and monitor all activities pertaining to the financial sector adjustment program. By helping the Ghanaian authorities internalize the various skills brought to bear in implementing the reform program, the Secretariat is also expected to help enhance the long-term sustainability of the program.

Furthermore, to minimize implementation lags in specific program components, care will be exercised to ensure the timely recruitment of key consultants and/or expatriate experts. Another major risk would arise should the Government become unable in the years ahead to successfully implement the macroeconomic framework as agreed with IDA, in particular the measures for controlling inflation. Such a risk would be mitigated through regular monitoring by IDA of the macroeconomic program. Possible difficulties in attracting reputable international banks as shareholders of the government-owned banks to be privatized, will be mitigated by employing experienced financial consultants to develop a strategy, value, package and assist the government in marketing the divestiture of government equity to potential groups of shareholders, foreign and local, who can bring the required expertise and talent to the banking system.

PART V -- RECOMMENDATION

94. I am satisfied that the proposed Credit would comply with the Articles of Agreement of the Association and recommend that the Executive Directors approve the proposed Credit.

Lewis T. Preston
President

Washington, D.C.
November 15, 1991

Attachments

GHANA
SECOND FINANCIAL SECTOR ADJUSTMENT PROGRAM
KEY ECONOMIC INDICATORS

	Actual			Prel.	Projected				
	1987	1988	1989	1990 i/	1991	1992	1993	1994	1995
GDP Growth Rate	4.8%	5.6%	5.1%	3.3%	4.2%	5.1%	5.1%	5.0%	5.1%
GDY Growth Rate a/	4.7%	5.1%	3.0%	2.0%	4.6%	5.4%	5.2%	5.1%	5.2%
GDY/Capita Growth Rate b/	2.0%	1.9%	0.0%	-1.0%	1.5%	2.3%	2.1%	2.0%	2.1%
Total Consumption/Capita Growth Rate	2.1%	1.5%	-1.9%	-0.5%	0.0%	1.1%	1.0%	0.9%	1.0%
Private Cons./Capita Growth Rate b/	2.8%	1.3%	-2.2%	0.3%	0.0%	0.8%	0.7%	1.0%	1.0%
CPI Growth Rate c/	40%	31%	25%	37%	20.0%	8.0%	5.0%	5.0%	5.0%
Debt Service (US$ mln) d/	560	643	517	372	307	284	274	283	328
Debt Service/XGS e/	61.8%	67.0%	58.3%	39.3%	29.4%	23.7%	20.6%	19.7%	20.7%
Debt Service/GDP	12.2%	12.4%	9.8%	6.3%	4.7%	4.0%	3.6%	3.5%	3.8%
Gross Investment/GDP	10.4%	11.3%	13.6%	15.8%	17.0%	18.2%	19.7%	20.8%	22.1%
Domestic Savings/GDP	4.2%	5.4%	6.0%	6.1%	8.5%	10.9%	12.7%	14.0%	15.5%
National Savings/GDP	5.8%	6.2%	7.6%	7.6%	10.1%	12.5%	14.3%	15.6%	17.2%
Public Investment/GDP f/	7.9%	8.0%	7.9%	7.4%	7.9%	8.5%	9.1%	9.5%	9.5%
Public Savings/GDP	2.9%	2.7%	2.5%	1.7%	1.5%	4.1%	4.9%	5.6%	6.0%
Private Investment/GDP g/	2.5%	3.3%	5.7%	8.4%	9.1%	9.7%	10.6%	11.3%	12.6%
Private Savings/GDP	2.9%	3.5%	5.1%	5.9%	8.6%	8.4%	9.4%	10.0%	11.2%
Ratio of Public/Private Investment	3.16	2.42	1.39	0.88	0.87	0.88	0.86	0.84	0.75
Government Revenues/GDP	14.1%	13.5%	13.6%	12.2%	14.4%	14.8%	15.2%	15.5%	15.8%
Government Expenditures/GDP	19.1%	18.9%	19.1%	18.0%	18.8%	19.2%	19.4%	19.5%	19.3%
Overall Deficit/GDP h/	-3.1%	-3.7%	-3.1%	-4.4%	-3.1%	-3.0%	-2.8%	-2.6%	-2.2%
Domestic Financing/GDP	-0.4%	-0.6%	-1.1%	-1.4%	-2.7%	-1.8%	-1.0%	-0.7%	-0.5%
Export Growth Rate	7.5%	12.1%	10.1%	7.3%	4.0%	10.1%	5.7%	4.5%	3.9%
Exports/GDP	19.7%	18.2%	16.7%	16.4%	16.3%	17.0%	17.5%	17.7%	17.9%
Import Growth Rate	15.1%	0.9%	2.1%	7.4%	5.6%	6.2%	4.8%	4.1%	4.5%
Imports/GDP	-24.1%	-22.4%	-22.7%	-24.4%	-24.5%	-24.3%	-24.5%	-24.5%	-24.5%
Current Account (US$ mln)	-224	-264	-314	-480	-455	-405	-402	-426	-434
Current Account/GDP	-4.6%	-5.1%	-6.0%	-8.2%	-7.0%	-5.7%	-5.4%	-5.3%	-5.0%
Terms of Trade (Index)	104	94	79	71	74	76	77	78	79

NOTE: Figures are rounded.

a/ GDY = GDP adjusted for changes in the terms of trade.
b/ Assumed population growth (U.N. estimates) differ slightly from Government official estimates.
c/ Yearly average.
d/ Includes IMF and arrears payments, but excludes private debt.
e/ Exports of goods and services; debt service includes arrears and IMF.
f/ Includes foreign aid and net lending.
g/ Staff estimates.
h/ Includes external assistance; grants are a financing item.
i/ Indicators for 1990 reflect the effects of poor rainfall and terms-of-trade deterioration largely owing to the Gulf crisis.

SOURCE: Government of Ghana and World Bank Staff estimates.
AF4CO: 30-Sep-91

ANNEX II

GHANA

SECOND FINANCIAL SECTOR ADJUSTMENT PROGRAM

BALANCE OF PAYMENTS

(Millions of U.S. Dollars)

	Actual		Prel.	Est.	Projected				
	1987	1988	1989	1990	1991	1992	1993	1994	1995
A. Exports of Goods and NFS	903	964	891	973	1042	1196	1323	1436	1558
1. Merchandise (fob)	824	881	808	897	957	1104	1220	1320	1427
of which: Cocoa	495	462	408	361	347	406	438	466	504
2. Non-Factor Receipts	79	83	83	76	85	92	103	116	131
B. Imports of Goods and NFS	-1200	-1269	-1292	-1542	-1599	-1709	-1850	-1986	-2140
1. Merchandise (cif)	-953	-991	-1006	-1233	-1369	-1455	-1580	-1697	-1833
of which: Petroleum	-144	-148	-160	-210	-206	-180	-198	-215	-236
2. Non-Factor Payments	-174	-171	-184	-215	-230	-253	-270	-289	-307
D. Resource Balance	-297	-305	-401	-569	-557	-513	-527	-550	-582
E. Net Factor Payments	-129	-131	-115	-113	-112	-111	-106	-104	-85
1. Interest Payments	-122	-126	-109	-107	-106	-104	-99	-96	-98
F. Net Private Transfers	202	172	202	202	214	219	224	228	233
G. Current Account Balance	-224	-264	-314	-480	-455	-405	-409	-426	-434
H. External Capital Inflow	363	364	442	556	555	515	519	546	554
1. Grants (Net)	122	175	219	223	234	227	238	244	240
2. Public Foreign Borrowings									
M&LT (Net)	218	187	192	276	291	308	329	346	335
* Gross Inflows (LT&MT)	413	409	378	414	414	427	441	455	469
* Amortization (LT&MT)	-195	-222	-186	-138	-123	-119	-112	-109	-134
3. Direct Foreign Investment	5	5	15	15	20	23	25	26	27
4. Other Capital (Net)	18	-3	16	42	10	-43	-73	-70	-48
I. Errors & Omissions	-1	25	0	9	0	0	0	0	0
J. Overall Balance	138	125	128	85	100	110	110	120	120
K. Financing, of which:	-138	-125	-128	-85	-100	-110	-110	-120	-120
1. Net Use of IMF Resources	-25	-45	4	-48	81	-61	-64	-78	-96
2. Changes in SDR Holdings	-12	13	0	0	0	0	0	0	0
3. Change in Gross Reserves	-49	-18	-52	-20	-181	-49	-46	-42	-24
4. Payments Arrears	-72	-35	-48	-17	0	0	0	0	0
5. Others	20	-40	-32	0	0	0	0	0	0
Shares of GDP (current US$)									
1. Resource Balance	-6.1	-5.7	-7.5	-9.1	-8.5	-7.3	-7.0	-6.8	-6.7
2. Total Interest Payments	-2.5	-2.4	-2.1	-1.8	-1.6	-1.5	-1.3	-1.2	-1.1
3. Current Account Balance	-4.6	-5.1	-6.0	-8.2	-7.0	-5.7	-5.4	-5.3	-5.0
4. LT Capital Inflow	6.3	5.8	5.8	5.3	5.1	5.1	5.1	4.9	4.7
5. Net Credit from the IMF	-0.5	-0.9	0.1	-0.8	1.3	-0.9	-0.9	-1.0	-1.1
Memorandum Items:									
1. Intern'l Reserves (US$ Mln) a/	194	201	269	290	435	479	522	461	581
2. Gross Reserves in Months Import	2.3	2.2	3.0	2.7	3.8	4.0	4.0	4.0	3.8
Exchange Rates (Cedis/US$)									
1. Nominal Official Rate (IFS)	154.0	202.0	270.0	330.0	-	-	-	-	-

NOTE: Figures are rounded. Data differ from PFP indicators because of Government revisions in national accounts and a downward revision in oil price assumptions subsequent to PFP negotiations in late 1990.

a/ Projected reserves do not reflect possible revaluation due to changes in exchange rates.

SOURCE: Bank of Ghana and World Bank staff estimates; International reserves and nominal official rate from IMF, International Financial Statistics.

GHANA
SECOND FINANCIAL SECTOR ADJUSTMENT PROGRAM
PROJECTED FINANCING NEEDS AND AVAILABILITIES
(Millions of U.S. dollars)

FINANCING ITEMS	Actual 1987	Actual 1988	Preliminary 1989	Estimate 1990	Projections 1991	Projections 1992	Projections 1993	Projections 1994	Projections 1995
FINANCING NEEDS									
A. Current Account Deficit	224	264	314	480	455	405	409	426	434
B. Official M&LT Amortization	195	222	186	138	123	119	112	109	134
C. IMF Repurchase	174	264	175	113	81	61	53	36	18
D. Arrears	72	35	48	17	0	0	0	0	6
E. Other Liabilities	-13	-2	38	-24	4	19	33	31	17
F. Reserve Requirements	49	18	52	20	181	49	46	42	24
Total	701	801	813	744	844	653	653	644	627
FINANCING SOURCES									
A. Grants (Net)	122	175	219	223	234	227	238	244	240
B. Long-term Borrowing	304	307	344	349	335	335	381	393	407
a. IDA (incl. SFA)	191	203	170	204	192	193	193	194	193
- Project	80	97	73	73	94	110	117	151	138
- Program	112	106	97	131	99	83	76	43	55
b. Other Multilateral & Bilateral	113	104	174	145	143	182	188	199	214
C. International Monetary Fund									
a. Stand-by Arrangements	59	0	0	0	0	0	0	0	0
b. Extended Fund Facility	35	101	0	0	0	0	0	0	0
c. SAF/ESAF (190% of quota)	56	118	179	65	157	0	-11	-41	-78
D. Net Private Foreign Borrowing	16	-2	37	42	39	-2	-15	-13	-4
E. Non-Concessional Loans	109	102	34	65	79	73	60	61	62
Total	701	801	813	744	844	653	653	644	627

Note: Figures are rounded. Data differ from PFP because of Government revisions in national accounts and a downward revision in oil price assumptions subsequent to PFP negotiations in late 1990.

Source: World Bank Staff estimates.

THE STATUS OF BANK GROUP OPERATIONS IN GHANA
STATEMENT OF BANK LOANS AND IDA CREDITS
(As of September 30, 1991)

Loan or Credit Number		Fiscal Year	Borrower	Purpose	Bank	IDA	Undisbursed
						Amount in US$ Million (less cancellation)	
10 loans and 36 credits fully disbursed					189.72	799.94	
Of which SALs and Program Loans a>							
Cr. 1393		83	Ghana	Recon. Imports		40.00	0.00
F-0090		84	Ghana	Export Rehab.		35.89	0.00
Cr. 1435		84	Ghana	Export Rehab.		40.10	0.00
Cr. 1573		85	Ghana	Recons. Import		60.00	0.00
A-0030		86	Ghana	Recons. Import		26.97	0.00
Cr. 1777		87	Ghana	SAC I		34.00	0.00
A-0250		87	Ghana	SAC I		81.00	0.00
A-0130		86	Ghana	Industrial Sector Adjust.		25.00	0.00
A-0251		88	Ghana	SAC I		15.00	0.00
Cr. 1911-1		89	Ghana	Financial Sector Adjust.		6.60	0.00
Cr. 2005-1		90	Ghana	SAC II		5.70	0.00
Cr. 2005		89	Ghana	SAC II		120.00	0.00
Cr. 1342		83	Ghana	Water Supply TA		13.00	0.00
Cr. 2005-2		90	Ghana	SAC II		8.30	0.00
<u>Sub-Total</u>						511.56	0.00
Cr. 1498		84	Ghana	Second Oil Palm		25.00	6.95
Cr. 1564		85	Ghana	Accra District Rehab.		22.00	4.33
Cr. 1601		85	Ghana	Road Rehab. & Maintenance		40.00	0.60
A-0010		85	Ghana	Road Rehab. & Maintenance		10.00	0.10
Cr. 1653		86	Ghana	Health & Education Rehab.		15.00	2.52
Cr. 1672		86	Ghana	Industrial Sector Adjust.		28.50	0.17
Cr. 1674		86	Ghana	Ports Rehabilitation		24.50	1.02
Cr. 1744		87	Ghana	Education Sector Adjust.		34.50	0.77
Cr. 1759		87	Ghana	Northern Grid Extension		6.30	0.33
Cr. 1778	*	87	Ghana	Struc. Adjust. Inst. Support		10.80	0.22
Cr. 1801		87	Ghana	Agricultural Svcs. Rehab.		17.00	7.13
Cr. 1819		87	Ghana	Petroleum Ref. & Dist.		15.00	10.02
Cr. 1847		87	Ghana	Public Enterprise TA		10.50	7.58
Cr. 1854		88	Ghana	Cocoa Rehabilitation		40.00	39.37
Cr. 1858		88	Ghana	Transport Rehabilitation I		60.00	36.91
Cr. 1874		88	Ghana	Priority Works		10.60	4.25
Cr. 1921		88	Ghana	Mining Sector Rehab.		40.00	21.38
Cr. 1911	*	88	Ghana	Financial Sector Adjust.		100.00	3.73
Cr. 1946		89	Ghana	Telecommunications II		19.00	11.90
Cr. 1976		89	Ghana	Forest Res. Management		39.40	31.67
Cr. 1996		89	Ghana	Private SME Dev.		30.00	22.49
Cr. 2039		89	Ghana	Water Sector Rehab.		25.00	21.47
Cr. 2040		89	Ghana	Rural Finance		20.00	17.69
Cr. 2061		90	Ghana	Fifth Power (ECG)		40.00	33.93
Cr. 2109		90	Ghana	VRA/Sixth Power		20.00	20.68
Cr. 2140	*	90	Ghana	Education Sector Adjust. II		50.00	35.32
Cr. 2157		90	Ghana	Urban II		70.00	68.33
Cr. 2180		91	Ghana	Agric. Diversification (Tree)		16.50	17.00
Cr. 2192		91	Ghana	Transport Rehabilitation II		96.00	91.32
Cr. 2193		91	Ghana	Health & Population II		27.00	25.39
Cr. 2224		91	Ghana	Econ. Management Support		15.00	13.59
Cr. 2236	*	91	Ghana	Private Investment		120.00	62.07
Cr. 2247		91	Ghana	Natural Agric. Research		22.00	22.17
Cr. 2278		92	Ghana	Community Secondary Schools		14.70	11.11
		TOTAL			189.72	1934.24	653.51
		of which has been repaid			114.13	13.28	
		TOTAL now held by Bank and IDA			75.59	1920.96	
		Amount sold		0.38			
		of which repaid		0.38			
		TOTAL undisbursed			0.00	1920.96	653.51

a> Approved during or after FY80.
b> Not yet effective.
* SAL/SECAL.

GHANA
STATEMENT OF IFC INVESTMENTS
(As of September 30, 1991)

Date	Borrower	Type of Business	Amount in US$ million Loan	Equity	Total	
1984	Ashanti Goldfields Corp.	Mining	55.0	-	55.0	1>
1986	Kera[illegible]in Oil Explora[illegible]	Oil	-	4.5	4.5	2>
1988	Canadian Bogosu Resources Ltd.	Mining	-	0.6	0.6	
1989	Canadian Bogosu Resources II	Mining	-	0.4	0.4	
1989	Wahome Steel Ltd.	Steel Mfg.	3.2	-	3.2	
1989	Canadian Bogosu Resources III	Mining	47.5	0.5	48.0	3>
1989	Continental Acceptances Ltd.	Merchant Banking	-	0.9	0.9	
1990	Ashanti Goldfields Corp. II	Mining	70.0	-	70.0	4>
1990	Iduapriem	Mining	-	3.0	3.0	
1991	Alugan (AEF)	Aluminum	0.3	-	0.3	
1991	Plastic Laminates (AEF)	Plastics	0.6	-	0.6	
1991	Hotel Investments, Ltd.	Tourism	4.2	-	4.2	
1991	Dimples Inn (AEF)	Tourism	0.2	-	0.2	
1991	Canadian Bogosu Resources IV	Mining	0.8	0.4	1.2	
1991	Continental Acceptances II	Merchant Banking	3.0	0.0	3.0	
1991	Ghanal	Aluminium	-	0.6	0.6	
1991	Securities Discount House	Discount House	-	0.2	0.2	
1991	Appiah-Nenkah	Soap Mfg.	0.9	-	0.9	
1991	Iduapriem II	Mining	48.0	-	48.0	5>
Total Gross Commitment			233.7	11.1	244.8	
Less repayments and write-offs			14.1	4.5	18.6	
Total Commitments Now Held by IFC			219.6	6.6	226.2	
Total Undisbursed			40.6	0.7	41.3	

1> Includes a US$27.5 million participation.
2> Amount was fully written off.
3> Includes a US$29.0 million participation.
4> Includes a US$35.0 million participation.
5> Includes a US$30.0 million participation.

GHANA
SECOND FINANCIAL SECTOR ADJUSTMENT PROGRAM
ASSETS AND LIABILITIES OF COMMERCIAL BANKS a/
(Million of Cedis at End Period)

	1985	1986	1987	1988	1989	1990
ASSETS						
Cash Reserves:	19796.7	16210.9	26712.8	46038.9	45042.4	35651.1
Ghana Currency	9193.3	4440.2	14439.8	19246.2	8571.1	8584.7
Balance at Bank of Ghana	10603.4	11770.7	12273.0	26792.7	36471.3	27066.4
Foreign Assets	449.0	383.4	4785.6	5557.5	69189.2	102800.4
Claims on Government:	5880.4	7619.0	8241.2	5856.7	8072.9	2947.7
Stocks and Bonds	3893.9	4888.0	4886.0	4156.8	7534.6	2947.7
Treasury Bills	1986.5	2731.0	3355.2	1699.9	538.3	0.0
Claims on Public Institutions:	11617.1	18840.1	29955.8	51468.7	17973.2	34846.1
Bills Discounted:	1784.3	537.6	860.5	7429.1	21372.8	13178.4
Cocoa Bills	1594.0	0.0	0.0	2982.3	293.2	13178.4
Other Bills	190.3	537.6	860.5	4446.8	21079.6	0.0
Loans and Advances	9832.8	18302.5	29095.3	44039.6	-3399.6	20059.8
Others	0.0	0.0	0.0	0.0	0.0	1607.9
Claims on Private Sector:	15453.5	26585.5	32182.0	37408.5	79341.2	80201.0
Loans and Advances	12666.0	22673.4	28291.7	33782.8	79341.2	80005.0
Other (Investment)	2787.5	3912.1	3890.3	3625.7	0.0	196.0
Other Assets	11514.4	42660.1	75471.4	84476.9	67161.0	137891.7
TOTAL ASSETS	64711.1	112299.0	177348.8	230807.2	286779.9	394338.0
LIABILITIES						
Private Sector Deposits:	35015.4	56331.7	89021.7	105969.9	103012.2	140117.9
Demand Deposits	23367.1	36271.2	52081.5	61698.3	56970.4	80443.1
Savings Deposits	8826.3	14125.2	22179.0	31643.9	42228.9	54824.7
Time Deposits	2822.0	5935.3	14761.2	12627.7	3812.9	4850.1
Public Sector Deposits:	3527.7	4399.7	7309.1	8982.7	39759.4	47015.4
Demand Deposits	3501.4	4338.8	7028.2	8418.5	33868.1	40405.9
Savings Deposits	5.9	15.6	59.9	98.4	397.2	895.9
Time Deposits	20.4	45.3	221.0	465.8	5494.1	5713.6
Government Deposits	989.4	1309.9	1847.4	3032.4	12511.8	16521.8
Foreign Liabilities	2298.4	2566.5	8657.0	13013.1	34420.0	38475.3
Credit from Bank of Ghana	-	0.4	-	-	3375.9	1074.3
Paid-up Capital, Reserves	6361.9	11503.8	17946.9	22632.2	17091.1	47977.5
Other Liabilities	16518.3	36187.0	52566.7	77176.9	76609.5	103155.8
TOTAL LIABILITIES	64711.1	112299.0	177348.8	230807.2	286779.9	394338.0

Note: a/ Includes secondary banks.
Source: Bank of Ghana. Monetary Accounts. (Audited financial statements for each bank are available available in the project file.)

GHANA
SECOND FINANCIAL SECTOR ADJUSTMENT PROGRAM
BANK LOANS AND ADVANCES a/ BY PURPOSE
(Millions of Cedis at End Period)

	1985	1986	1987	1988	1989	1990
COMMERCIAL BANKS						
Agriculture, Forestry, Fishing	5207.9	7476.3	10713.0	10350.6	11476.6	12645.2
Mining and Quarrying	960.2	1437.3	2631.2	1254.1	1927.6	1074.2
Manufacturing	6046.4	10800.4	15472.2	20963.9	26847.2	27099.4
Construction	2017.8	3899.4	6267.4	7229.5	8868.4	11012.2
Electricity, Gas and Water	37.8	46.1	169.5	62.9	326.7	297.6
Commerce and Finance:						
Import Trade	990.7	2931.4	3503.8	4325.3	4407.8	4306.1
Export Trade	490.0	1451.2	2658.6	2612.0	3259.7	3512.1
Other	2820.3	5042.0	4317.2	7923.4	9010.2	5806.1
Transport and Communications	1154.3	2021.5	2527.0	4778.6	5810.9	4304.5
Services	1224.6	2611.5	3137.6	5218.6	5738.6	6563.3
Miscellaneous	450.9	939.0	2088.7	1028.9	1632.1	2780.6
Total	21400.9	38656.1	53486.2	65747.8	79305.8	79401.3

Note: a/ Excludes staff loans, unpaid interest, cocoa marketing advances, and consortium loans.
Source: Bank of Ghana.

GHANA
SECOND FINANCIAL SECTOR ADJUSTMENT PROGRAM
GDP/MONEY SUPPLY
(Millions of Cedis at End Period)

	1985	1986	1987	1988	1989	1990	March 1991
Money Supply:							
1. Currency with Public	17241.2	31240.2	46116.5	65036.9	82916.7	80044.7	80125.6
2. Demand Deposits	26708.8	34575.5	48925.5	73994.1	102236.4	130913.4	125603.2
3. Money Supply [1+2]	43950.0	65815.7	95042.0	139031.0	185153.1	216958.1	205728.8
Savings:							
- Primary Commercial Banks					a/	a/	a/
4. Time Incl. Certificate Deposits	1510.8	2997.1	5628.2	7323.8	10722.2	10563.7	10321.4
5. Savings Deposits	6894.3	10954.4	17572.8	21058.1	44195.9	55720.6	60379.6
- Secondary Banks							
6. Time Deposits	1331.6	2983.5	9354.0	8969.5	b/	b/	b/
7. Savings Deposits	1937.9	3186.4	4666.1	12804.4	b/	b/	b/
8. Total Savings [4+5+6+7]	11674.6	20121.4	37221.1	50155.8	54918.1	66284.3	70701.0
Money + Quasi-Money (M2) [3+8] c/	55624.6	85937.1	132263.1	189186.8	240071.2	283242.4	276429.8
Memo Items:							
- Curr/M1 Ratio	39.2	47.5	48.5	46.8	44.8	36.9	38.9
- Curr/M2 Ratio	31.0	36.4	34.9	34.4	34.5	28.3	29.0
- M1/M2 Ratio	79.0	76.6	71.9	73.5	77.1	76.6	74.4
- M1/GDP Ratio	12.8	12.9	12.7	13.2	13.1	11.5	10.2
- QM/GDP Ratio	3.4	3.9	5.0	4.8	3.9	3.5	3.5
- M2/GDP Ratio	16.2	16.8	17.7	18.0	16.9	15.0	13.7
- Gross Domestic Product (Cedis Mln)	343048.4	511372.7	745999.8	1051140.0	1417158.0	1893530.0	2010497.5

Note: a. Included secondary banks from 1989.
b. Include in commercial banks from 1989; no longer available separately.
c. Money and quasi-money including secondary banks.

Source: Bank of Ghana and Statistical Service.

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

Our Ref. No. SEC/FP/087

Your Ref. No.

Tel. No.

REPUBLIC OF GHANA

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

15th November 1991

Mr. Lewis T. Preston
President
International Bank for Reconstruction
and Development
1818 H Street NW
Washington, DC
USA

Dear Mr. President:

SECOND FINANCIAL SECTOR ADJUSTMENT PROJECT - STATEMENT OF FINANCIAL DEVELOPMENT POLICY

As you may recall, as part of its Economic Recovery Program, the Government of Ghana, with technical assistance from IDA, began preparatory work in 1987 and embarked upon a Financial Sector Reform Program (FINSAC I) in 1988, supported by an IDA credit (Credit 1911-GH) and aimed generally at priority policy and institutional reforms. The main objectives were: (i) to enhance the soundness of the banking system through an improved regulatory and supervisory framework; (ii) to undertake the restructuring of financially distressed banks; and (iii) to improve the mobilization and allocation of financial resources, including the development of money and capital markets. In addition, other initiatives in the financial sector included the initial development of money and capital markets, the initiation of a study on corporate restructuring, the strengthening of the accounting and auditing profession, and the training of bankers.

As indicated in my earlier letter, the need to keep the FINSAC I reform program within manageable dimensions and within our implementation capacity, meant that a number of major areas and issues, of a medium or long term nature, had to be left out, to be addressed at a later stage. These include notably the reduction of public sector ownership in the banks, the institutional and financial strengthening of the Bank of Ghana (BOG), the strengthening of non-bank financial institutions through an improved regulatory framework, the further upgrading of the performance and efficiency of the restructured banks, the measures for ensuring the satisfactory recovery of non-performing assets taken over by NPART, the rehabilitation of distressed but potentially viable enterprises, and a study on the informal financial markets.

The purpose of this letter is to apprise you of progress so far made under FINSAC I (1988-91) and our plans and policy objectives for the second phase of the program (FINSAC II), 1992-94.

A. Program Achievements (1988 through 1991)

Despite some initial delays due in part to the complexity of the program, FINSAC I has progressed well overall, and the remaining implementation actions are continuing in a number of areas. Highlighted below are some of the key areas of achievements, details of which are already on record with IDA.

B. Regulatory and Supervisory Framework

With a view to more effectively protecting the integrity and soundness of the banking system, a new Banking Law (PNDCL.225) came into force on August 8, 1989, following a process of detailed review and consultations. The new law established prudential guidelines for the operations of banks and enhanced the supervisory capacity of the Bank of Ghana. Specifically, the law provides, inter alia, for minimum paid-up capital and capital adequacy ratio requirements of banks, sets prudential limits on credit exposures, establishes a uniform basis for loan classification and provisioning, issues accounting standards and audit guidelines for banks, consistent with international norms.

The BOG is now required to examine each bank at least once a year. Its Banking Supervision Department (BSD) has been strengthened to enable it effectively to carry out its supervisory functions and to enforce the new prudential regulations.

C. Restructuring of Financially Distressed Banks

Based upon the findings of diagnostic studies and subsequent audits, the basis of a General Framework document, agreed with IDA, and on restructuring plans have now been completed and implementation is under way for each of the seven distressed banks. The restructuring plans address financial, institutional and managerial deficiencies, and were phased to ensure that resource injection would go hand-in-hand with management improvements. To date most of the distressed banks have received external technical assistance, either through institutional twinning arrangements or the direct recruitment of experienced bankers. The Boards of Directors of the banks have been reconstituted and strengthened. On the whole, the individual bank restructuring plans have been implemented satisfactorily. The banks have reduced staff, closed unprofitable branches, cut down on operating costs and improved their operating efficiency. The balance sheets of the banks have been cleaned of their non-performing SOE and government-guaranteed loans, and the bulk of their private sector non-performing assets have also been redeemed, primarily in exchange for bonds or a mixture of bonds and limited infusion of cash, where necessary. Notwithstanding the foregoing, substantial efforts are still required to introduce necessary measures (both policy and institutional) inter alia to reduce the continuing high cost of financial intermediation, and to further upgrade managerial capacity and efficiency and staff training of the formerly distressed banks.

D. Recovery of Non-Performing Assets

In order to provide for a mechanism for the recovery of the non-performing loans acquired from the distressed banks, the Government has established a special agency, the Non-Performing Assets Recovery Trust (NPART). With the necessary technical assistance now in place, and a recently appointed Board of Directors, NPART is in the process of building up its professional staff, and has now commenced operations. The mandate of the Trust is to exercise every reasonable effort to recover all funds expended by Government in acquiring the non-performing assets from the formerly distressed banks. A Special Tribunal has been established to expedite the legal processes associated with loan recovery by NPART. In the exercise of its mandate, NPART will engage in re-schedulings, debt work-outs, sale of enterprises as "going concerns", and liquidations, to the exclusion of new lending. Where potentially viable but currently distressed enterprises are identified, these may be candidates for work-out and/or restructuring under the corporate restructuring initiative.

E. Improved Resource Mobilization and Allocation

A number of key initiatives have been taken in this area. Interest rates and charges have been liberalized, thereby substantially enabling the banks to apply market-based deposit and lending rates, which represents a meaningful step in increasing competition and improving financial intermediation. Sectoral credit ceilings have also been abolished. With the establishment of two discount houses - the Consolidated Discount House (CDH) and the Securities Discount House (SDH), a Stock Exchange, Home Finance Company (HFC) and an Export Finance Company (EFC), all of which providing avenues for more efficient management of short-term excess liquidity of banks, Ghana now has an emerging and functional money market in which the banks can invest their surplus funds. Furthermore, with the help of the Overseas Development Authority (ODA) of the UK and the IMF, a primary and secondary money market is being established as part of a policy reform package aimed at phasing out the current system of bank-by-bank credit ceilings. It is our belief that a vibrant money market could provide strong incentives for banks to mobilize more savings for lending as well as investment in short-term bills. A Stock Exchange Company was incorporated in early 1990 and commenced business in November, 1990. The Stock Exchange should provide a means for mobilizing long-term resources, through issues of equity and long-term debt instruments predominantly by the private sector. These initiatives represent significant steps in broadening and deepening financial intermediation.

F. Corporate Restructuring

As a consequence of years of low levels of production up to mid-1980s and the effects of subsequent economic recovery measures, including necessary exchange rate adjustments, a large number of enterprises both in the private and public sector have found themselves in financial distress and thus unable to service their obligations to the banks. Recognizing the need to protect potentially viable enterprises in the real productive sector, a study was conducted by a reputable international firm in 1989, under FINSAC I. The findings of the study, based on an examination of a sample of some 214 distressed firms, indicated that a significant number of them could be considered as potentially viable enterprises (PVEs), and thus possible candidates for restructuring. On the basis of these findings, and in consultation with IDA, the Government is envisaging a Corporate Restructuring Program which will, inter alia, provide the technical framework for identifying potentially viable enterprises, determine the nature and extent of their distress and provide, where appropriate, the necessary financial relief to arrest their deterioration and preserve their prospects, pending more substantive restructuring and financial work-outs. One element of this program involves the encouragement to the private sector to establish venture capital firms (i.e., financial institutions with risk orientation, management and entrepreneurial know how) which will be willing to participate in the rehabilitation of these firms.

G. Professional Training for Accountants and Bankers

A major constraint identified under FINSAC I was the lack of adequate professional skills in the fields of accountancy and banking. To rectify this situation, the Government is to implement, in consultation with the Ghana Institute of Chartered Accountants, a professional training program. To that end, the Institute is being re-organized and strengthened, with assistance from The Chartered Association of Certified Accountants of the UK.

The sound development of the financial sector, in particular the successful introduction of modern banking methods, requires the upgrading of professional skills of managers and officers of banks. Accordingly, a comprehensive assessment of the training needs of the banking sector was undertaken in 1989, resulting in the formulation of training programs and preliminary course curricula. A professional banking college will soon be established with the assistance of external training experts. At the same time external assistance has been sought to strengthen the Ghana Institute of Bankers (GIB) to set professional and ethical standards for the banking profession as well as its certification requirements.

THE PROPOSED SECOND FINANCIAL SECTOR ADJUSTMENT PROGRAM
FINSAC II

A. Objectives and Program Outline

The experience gained and progress made so far under FINSAC I has convinced Government of the need to sustain and build upon these gains and the lessons already learned and experiences acquired. I trust you will agree with me as to the need for a follow-up operation - FINSAC II, which would support critical on-going as well as new policy and institutional reforms in the financial sector between 1992 and 1994.

In general, the objectives of FINSAC II would be:

- to continue the ongoing bank restructuring begun in 1988;
- to reduce public sector shareholding in Ghanaian banks in line with our policy of liberalizing the financial sector and increasing competition in the banking system;
- to intensify the recovery of non-performing loans by NPART;
- to strengthen the capacity of Bank of Ghana to discharge more effectively its functions particularly in monetary and supervisory areas, policy formulation and implementation, as well as its operational capabilities in other related central banking activities, while shedding its involvement in non-traditional, quasi-fiscal functions;

- to correct remaining structural imbalances in the financial system;

- to enhance the effectiveness of non-bank financial institutions in playing their role as an integral part of the emerging more dynamic financial system, with the establishment of an appropriate regulatory framework including prudential regulations;

- to assist in the development of a program to restructure potentially viable but temporarily distressed enterprises;

- to undertake a study of the informal financial sector with a view to exploring prospects for strengthening its linkages with the formal sector.

The attached matrix contains the specific actions which we will take under the reform program.

B. Bank Restructuring

The bank restructuring exercise which began in 1988, is progressing satisfactorily and the formerly distressed banks are responding to the new legal and regulatory environment as well as prudential supervision instituted under FINSAC I. It will, however, take the banks some more time to adjust fully and fine-tune their operations for a successful turn-around as expected.

In order to ensure sustained viability and continued efficiency, the banks require further management reform and institutional strengthening. Accordingly, it is expected that FINSAC II will provide the needed momentum for the on-going management reforms and institutional strengthening including:

i) elaboration of business plans and operational strategies to achieve both quantitative and qualitative performance objectives based on a set of monitorable performance indicators including profitability, liquidity, loan collection ratios, portfolio arrears and operating costs;

ii) revision of organizational and corporate structure to better delineate accountability and responsibilities and to provide effective decision-making;

iii) development of policies and procedures for the major functional areas such as credit risk management, debt recovery, financial management, human resource management;

iv) introduction of new operating procedures to generate improved public confidence, customer service and greater efficiency;

v) development of a commercial orientation both towards bank customers and on the part of management of the banks themselves;

vi) informational systems technology to support the delivery of bank services and for financial management and reporting, including in particular the computerization of the information system of Ghana Commercial Bank (GCB), in view of its importance in the banking system; and

vii) formulation and implementation of an appropriate system for monitoring the future performance of the formerly distressed banks, based on a set of monitorable performance indicators.

C. Divestiture of Public Sector Shareholding in Banks

The preponderant public sector ownership in Ghanaian banks, which has historical origins, is a major issue which the Government now intends to address, in line with the ongoing liberalization of the financial sector and the Government's policy objective of reducing its direct involvement in the operation of the banking system and concentrating on its more important regulatory and supervisory functions. That issue was not addressed under FINSAC I because of the need, at that time, to first proceed with the restructuring of distressed individual banks, in order to restore their viability, as a prerequisite for their subsequent privatization. With the bank restructuring program now well under way, the Government is envisaging a program, to be implemented under FINSAC II, for the phased divestiture of public sector ownership in banks. Among other benefits, it is expected that greater private sector ownership, control and management in banks will promote greater competition among them, thus enhancing their efficiency and lowering their intermediation costs. To that end, in collaboration with IDA, the Government will formulate an action plan, with a phased time schedule, for divestiture and privatization.

The Government intends to pursue the divestiture program across-the-board, with the ultimate objective of transferring to the private sector ownership as well as management of the banks. As an interim target, to be achieved by end-1993, the Government envisages reducing public sector ownership (i.e., by Government and public sector entities) to a minority position of not more than 40 percent in each bank. In a number of banks (including Barclays, Standard Chartered Bank of Ghana), the public sector's shareholding is presently at that level of 40 percent or below, and these banks are effectively being managed by their private sector shareholders, thus requiring no further divestiture. In those other Ghanaian banks wholly-owned or majority-owned by the public sector, (including GCB, SSB, NSCB, NIB, BHC and ADB), the Government would attempt to reduce public sector shareholding to a maximum of 40 percent, leaving the balance to be subscribed by private shareholders, both Ghanaian and foreign. The Government's preference is to divest to Ghanaian private shareholders. However, to the extent that their participation in a given bank does not suffice to achieve the 60 percent level, the participation of foreign partners will be sought. Wherever appropriate, the Government will seek the participation of those foreign partners (e.g., foreign banks, bilateral and multilateral institutions) with a potential for contributions in terms of managerial and technical know-how apart from financial resources.

In consultations with IDA, under FINSAC II, the Government intends to commission a team of investment banking consultants to carry out a review aimed at designing a specific proposal for implementing the divestiture program. That review will spell out a strategy, including sequencing, marketing and other implementation steps, for divestiture. The first phase of the implementation of the divestiture program would cover the four largest banks (GCB, NIB, SSB, BHC) which together account for over two-thirds of the total assets of the banking system, leaving the remaining smaller three government-controlled banks (NSCB, ADB, COOP bank) to be addressed in the second phase.

Furthermore, in line with its objective of fostering greater competition in the banking system, the Government will continue its present policy of encouraging the entry into the market of new banks, including foreign banks, subject to the necessary process of examination prior to licensing.

D. Recovery of Non-Performing Assets

NPART's mandate requires it to exercise every reasonable effort to recover funds expended by the Government in acquiring the non-performing assets from distressed banks. With the recent commencement of its operation, NPART's first major task is to evaluate and categorize enterprises as non-viable or potentially viable, the latter group being candidates for restructuring under the CRP. In exercising its mandate, NPART will commence the liquidation or sale of the non-viable enterprises. For the recovery of non-performing assets to be effective, recovery efforts by NPART will focus on the 250 largest accounts (each above ₵20 million) accounting for about 89 percent of the aggregate amount of non-performing assets, and some of the larger non-viable enterprises including willful defaulting borrowers will be liquidated early in the process. The Government is developing an action program to achieve an appropriate level of recovery of non-performing assets by NPART, including monitorable annual targets and a timetable, taking into account the timeframe set in the 1989 law establishing NPART. Furthermore, the Government has constituted the Special Tribunal provided for under the NPART law.

E. Strengthening The Bank of Ghana

The Government recognizes that as a Central Bank, BOG must play a decisive role in controlling money supply, in order to promote and maintain the stability of the value of the currency; stimulating the mobilization and efficient utilization of financial resources; and regulating and supervising the banks and other institutions of the financial system as appropriate, in order to protect their viability without unduly affecting their autonomy, development and efficiency.

FINSAC II will have the objective of reducing the difficulties faced by BOG in discharging its responsibilities through arrangements designed to help its recapitalization and to protect it against losses in foreign currency, thereby strengthening its financial condition; and improving the operational capacity of BOG by technical assistance to re-organize its structure and to strengthen its operational procedures and techniques. Action has already started on some of these problem areas. The Bank of Ghana Act, 1963 is being revised to give effect to the necessary changes. At the same time, the Exchange Control Act, 1961 is being reviewed in line with the liberalization of the foreign exchange market. A new organizational and management structure is being developed together with an implementation schedule and a Manpower Plan to address staff development and training needs. BOG is reviewing the management structure and capabilities of its Supervision Department to further strengthen it, in order to enable it to comply with the Banking Act's requirement that all banks be inspected at least once a year. The BOG is also addressing the need to strengthen the critical research and foreign exchange management functions. To improve through computerization the operational efficiency in the payments system, open market operations, reserves management, supervision, research and other central bank activities, a Committee has been appointed to guide the computerization of the BOG and to prepare a work program and implementation timetable. The implementation of the above measures should result in considerably enhancing the effectiveness of BOG's supervisory and guidance role over the commercial banks and other financial institutions.

F. Correcting Remaining Structural Imbalances and Addressing Policy Issues

Like many central banks in developing countries, BOG has taken on a range of non-traditional activities such as development finance, equity participation in rural banks, and borrowing or guaranteeing external loans on behalf of the Government. BOG's involvement in these activities was in the past necessary because of the general scarcity in Ghana of human, technical and financial resources. Direct or indirect involvement of BOG in developmental and quasi-fiscal activities on behalf of the Government, however, has come into conflict with the objectives of its basic monetary and supervisory roles, and therefore is to be phased out. BOG's past financial condition, in particular the large revaluation account losses, has also constrained the its ability to conduct open market operations, and forced it to impose comparatively high non-interest earning primary liquidity reserve requirements on the deposits of banks. The Government, following the advice of the IMF, continues to work towards the resolution of these structural problems.

Another policy issue affecting the Ghanaian financial system is the negative real deposit and lending rates (although recently some rates have become positive with the decline of the inflation rate), which has been a major cause of disintermediation. It is recognized that the attainment of positive real interest rates is a necessary condition for the long-term sound development of the financial system. The BOG intends to work towards an early attainment of that objective, inter alia, through the payment of more adequate interest on bank reserves. The Government and BOG recognize the drawbacks of the current system of bank-by-bank credit ceilings as a tool for monetary control, because it tends to discourage competition and mobilization of deposits, and are therefore gradually putting in place the requisites for switching to indirect tools of monetary policy including notably open market operations. Additional efforts will be made to further improve the system of open market operations, including the strengthening of BOG's analytical capacity for undertaking such operations. High intermediation costs in Ghana continue to have a negative impact on the financial system. The improvements in the efficiency of banks and the removal of non-performing assets under the bank restructuring program and increased competition in the future should lead to lower intermediation costs. The Government also intends to gradually align the rate of corporate income tax on financial and banking institutions with the levels of corporate tax rates applicable to other sectors, which should also indirectly result in lowering intermediation costs.

The BOG has already initiated actions to divest itself of most of its developmental activities. The measures proposed above for strengthening the BOG and its supervisory role including recapitalization and removal of revaluation losses from its books should make a major contribution towards the removal of these structural impediments to the proper functioning of the financial system.

G. Enhancing the Effectiveness of Non-Bank Financial Institutions and Capital Markets

Notwithstanding the general supervisory authority of BOG over the overall financial system under the Bank of Ghana Act, 1963, a number of significant financial institutions were not regulated by the 1970 Banking Act. These institutions comprise 21 insurance companies, some 3,000 insurance brokers and agents, the Social Security and National Insurance Trust (SSNIT), all of which are under the control of a Commissioner of Insurance. Also included in this category are two discount houses, a building society, an export finance company, other small finance companies and an unquantified number of credit unions, thrift societies as well as savings and loan associations. The insurance sector, in particular, is a potential source of long-term investment capital, thus their course of development will significantly affect that of our capital markets.

The key relevant issues to be addressed with regard to the non-banking financial sector and capital markets under the proposed FINSAC II are: (i) establishment of a sound legal and regulatory framework for the effective supervision of non-bank financial institutions; (ii) instituting prudential regulations, uniform accounting and stricter supervision over institutions and groups; (iii) ensuring competitive market conditions to promote consumer choice and efficient operations of institutions; (iv) achieving a measure of integration between the informal and formal non-bank financial sectors; and (v) expanding and deepening the capital market, with intensified public education, to provide an outlet for savings, equity and risk capital for enterprises.

H. Study of the Informal Financial Sector

It has long been observed that a significant portion of currency in Ghana is held outside the banking system for various reasons, including: (i) inadequate access to the services of the banking system; (ii) unattractive real interest rates; and (iii) inconvenience of certain banking practices.

The deficiencies of the formal financial system have led to a situation where large parts of the population continue to prefer traditional forms of savings and financing and where myriads of financial agents, including moneylenders, thrift groups, credit unions and trusts have developed all over the country. The informal financial sector is important in the Ghanaian context, first, because the high portion of currency outside the banking system means it is actually quite significant compared with the operations of banks, and second, because it fills a gap left by the formal sector and may therefore provide important lessons for future financial sector policies. Under FINSAC II, this important informal sector will be studied in order to explore prospects for its interaction with the formal financial system.

I. Corporate Restructuring Program (CRP)

Acting on the recommendations of the consultant study carried out in 1990, the Government, in consultation with IDA, is envisaging a number of initiatives for implementing a Corporate Restructuring Program (CRP). Among these, one alternative, subject to further examination of its feasibility, would call for the establishment of a new corporate entity, the First Finance Corporation (FFC), to operate as a venture capital company and take the lead in restructuring distressed but potentially viable enterprises in the corporate sector. To ensure its viability, the concept of the proposed FFC would adhere to the following main principles: (i) FFC should have predominantly private sector ownership, with public sector shareholding not exceeding 25 percent and to be divested subsequently to private investors; (ii) it would include among its foreign shareholders a number of investment banks and international institutions, so as to facilitate access to managerial and technical expertise; (iii) it will have strong and independent management reflecting its private sector ownership; and (iv) FFC will operate on the same competitive footing with other Ghanaian banks and/or financial institutions performing similar functions.

In parallel, the Government will also seek the voluntary participation of existing Ghanaian banks, in particular the three investment banks, in selectively restructuring potentially viable enterprises in the context of the CRP, and to that end will encourage these banks to upgrade their technical expertise. Furthermore, the Government is looking into preliminary inquiries by some private sector groups, with the sponsorship of bilateral donor organizations, for setting up new venture capital companies, which, if established, would also be potential participants in the CRP.

In the meantime, pending the eventual establishment of the FFC or in the event of its non-establishment, the Government will formulate, with technical assistance from IDA, an action program to initiate work-outs and provide other short-term relief measures for selected private sector enterprises, that are currently distressed but potentially viable. The implementation of this program would involve the participation both of NPART and, on a voluntary basis, of selected Ghanaian commercial and investment banks. NPART's intervention would generally consist of debt moratoriums, reschedulings, and/or conversions into quasi-equity, to the exclusion of any new lending, in accordance with its Charter. The participation of the banks would consist of the provision of working capital, other credits as needed and/or equity finance, while the owners of the enterprises assisted would be expected to contribute their own financial resources to the extent of their capacity. Care will be exercised to ensure that implementation of the CRP will be selective, limited to those enterprises whose potential viability will have been clearly established, and in conformity with sound banking principles.

J. Training of Professionals

On the foundations laid by FINSAC I, we have taken further measures for capacity building and training in the banking and accountancy professions. FINSAC II would support the process in urgently needed areas such as credit analysis and risk management, financial and institutional management, money and capital markets, foreign exchange marketing and basic management skills. Such subjects would comprise the core curriculum of the training program for professionals in Ghana. Other components of the program would include development of training materials, assessment of training needs, arranging for sponsorship by a foreign bankers' training institute and financial assistance to further the work of the Ghana Institute of Bankers (GIB). They would also support the strengthening of the auditing capabilities of the Auditor General's office.

K. FINSAC Implementation Arrangements

To ensure effective implementation of the on-going activities under FINSAC I, as well as the new FINSAC II, a FINSAC Implementation Secretariat will be set up with appropriate leadership, staffing and organization, as a focal point to provide guidance, oversight, coordination and monitoring of all activities pertaining to the financial sector adjustment programs.

L. Expected Outcome of the Second Program

The Government believes that the Ghanaian financial sector, with the support of IDA and the IMF, has made considerable progress since the inception of FINSAC I in 1987, when the initial reform program was launched, and is now on a reasonably firm footing. However, as you know very well, the task of fully reforming and revitalizing a country's financial sector requires a medium-term time frame, stretching beyond the 2-3 years implementation period of FINSAC I. It is therefore the Government's belief that it is important now to move towards a second phase of sector adjustment, to be implemented during 1992-94. This phase is aimed at consolidating past achievements as well as introducing the additional policy and institutional reforms, outlined above, for further deepening, diversifying and strengthening the financial sector. It is our expectation that the Ghanaian financial sector, during the implementation period of FINSAC II, will achieve further gains in efficiency, depth and scope, thus contributing more effectively to growth in the productive sectors.

M. Financial Requirements

In view of the significant benefits deriving from the implementation of the first financial sector adjustment program, and those to be expected from the enhanced second program, the Government requests your favorable consideration for a Credit of not less than US$100 million equivalent. Such an amount would help cover the residual financing requirements of, including continuing technical assistance to, the financial sector and banking system. It would also help enable the Government to cover the current account deficit for the period 1992-94, repay external debts and replenish foreign exchange reserves. The Government would also appreciate IDA's assistance in arranging cofinancing from other multilateral and bilateral sources to support the program.

Yours faithfully,

Dr. Kwesi Botchwey
PNDC Secretary for Finance
and Economic Planning

15-11-91

GHANA
SECOND FINANCIAL SECTOR ADJUSTMENT CREDIT
PROPOSED REFORMS AND ACTIONS
(1992-1994)

I. POLICY DISTORTIONS AND ISSUES IN THE FINANCIAL SECTOR

Objective: Removal of policy distortions in the financial system to improve the conduct of monetary policy and the efficiency of financial intermediation and system stability; reduce intermediation costs and increase competition in the banking system.

Performance Under FINSAC I Implications for FINSAC II	FINSAC II Action Program	Monitorable Actions and Schedule
1. Interest rates were liberalized in early 1988. 2. All sectoral credit targets were phased out, the last target, for agriculture, was abolished in November 1990. 3. All bank charges and fees have been decontrolled. 4. A new Banking Law was enacted providing a sound prudential and regulatory bases for the banking system. It establishes, inter alia, capital adequacy requirements, penalties for non-compliance, and limits on risk exposure. Uniform accounting and auditing standards and improved reporting requirements for banks have been introduced. 5. Policy distortions -- negative real deposit and lending rates; and high intermediation costs -- have undermined the efficiency of financial intermediation and system stability, and the conduct of monetary policy.	1. Reduce the implicit taxation of banks by renumerating required reserves at a rate of interest closer to the average cost of deposits of the banking system, in the context of the overall liquidity management policies. 2. Lower the high cost of financial intermediation through lowering corporate tax rates for financial institutions to levels applicable to other sectors (presently 35%). 3. A program for the phased divestiture of public sector ownership of banks, to promote competition through increased private sector ownership.	1. Before Negotiations: *(a) The Government has agreed to keep interest rates on bank reserve requirements under joint review with IDA, and to make future adjustments as appropriate. 2. Before Board Approval: *(a) Confirmation of the reduction in tax rates on financial institutions to levels applicable to other sectors, with implementation commencing in 1992. *(b) Submission of an acceptable proposal for the divestiture of public sector shareholdings in banks, and issuance of invitation for proposals by consultants. 3. Before Second Tranche: (a) Satisfactory progress in the implementation of the macroeconomic program as outlined in the PFP. (b) Implementation of the alignment of tax rates on financial institutions to levels applicable to other sectors, in accordance with the modalities confirmed by the Government. (c) Commencement of implementation of consultants' proposal for Phase I of the action plan for the divestiture of public sector shareholdings in banks, as reviewed and agreed by the Government and IDA. 4. Before Third Tranche: (a) Satisfactory progress in the implementation of the macroeconomic program as outlined in the PFP. (b) Completion of implementation of consultants' proposal for Phase I of the action plan for the divestiture of public shareholdings in banks, and completion of review by consultants of the remaining banks under Phase II of the action plan. (c) Completion of implementation of alignment of tax rates on financial institutions to levels applicable to other sectors.

* Conditions and actions already met.

GHANA
SECOND FINANCIAL SECTOR ADJUSTMENT CREDIT
PROPOSED REFORMS AND ACTIONS
(1992-1994)

II. THE BANK OF GHANA

Objective: Enhance the financial condition and operational effectiveness of the Central Bank to enable it to more effectively discharge its responsibilities in the areas of monitoring monetary, credit and foreign exchange policies, and the supervision and guidance of banks.

Performance Under FINSAC I Implications for FINSAC II	FINSAC II Action Program	Monitorable Actions and Schedule
1. The capacity of the BOG's Supervision Department to effectively supervise banks has been strengthened and it is enforcing the revised accounting and reporting standards. Procedures for both on-and-off site inspection have been developed. However, it is still not able to comply with the new Banking Act's requirement for the annual (on-site) inspection of all banks. Also, the proposed establishment of a computerized system for prudential returns from banks remains to be implemented. 2. BOG's supervision and guidance roles over commercial banks and other financial institutions need to be enhanced in order to maintain stability in the financial system. 3. The BOG's financial condition has been adversely affected by its quasi-fiscal activities such as development finance, subsidized lending, direct participation in rural banks and the absorption of foreign exchange losses on behalf of the Government. 4. BOG's operational efficiency in payments systems, open market operations, reserves management, bank supervision, payments system, research accounting and other activBities need to be improved.	1. Develop sound legal framework for the financial system. 2. Strengthen the financial condition of BOG by removal of the revaluation losses and non-central banking activities. 3. Institutional strengthening by realigning BOG's organizational structure to enhance its capacity. 4. Improve operational efficiency through computerization, changes in operating procedures, training to upgrade staff skills and technical assistance.	1. Before Negotiations: *(a) The draft Bank of Ghana Act has been submitted to IDA. *(b) The BOG has completed a review to determine the financial implications of its development and rural financing activities and the appropriate options for phasing them out. *(c) The new BOG organizational and management structure, including a schedule for implementation, has been submitted to IDA. *(d) An acceptable 3-year computerization work program and timetable covering accounting, the creation of an integrated economic database, reserve management, foreign exchange, money and bond market functions has been developed by the BOG and reviewed by IDA. 2. Before Board Approval: *(a) Publication of the BOG's audited annual accounts for the fiscal years ended June 1990. 3. Before Credit Effectiveness: (a) Enactment of the Bank of Ghana Act. 4. Before Second Tranche release: (a) Satisfactory implementation of new BOG organization and management structure. (b) Satisfactory progress in the implementation of the recommendations of the study to determine the financial implications for BOG of its development and rural financing activities and the options for phasing them out. (c) Completion of annual inspection of banks in accordance with the Banking Law. 5. Before Third Tranche release: (a) Implementation by BOG of its computerization program and satisfactory progress in the strengthening of BOG's operational efficiency.

* Conditions and actions already met.

GHANA
SECOND FINANCIAL SECTOR ADJUSTMENT CREDIT
PROPOSED REFORMS AND ACTIONS
(1992-1994)

III. BANK RESTRUCTURING/NPART

Objective: Enable formerly distressed banks to operate in a self-sustained manner following their restructuring; improve the operational efficiency of banks; commence to recovery of non-performing assets by NPART.

Performance Under FINSAC I Implications for FINSAC II	FINSAC II Action Program	Monitorable Actions and Schedule
1. Diagnostic studies of the major banks were carried out. 2. A framework specifying the modalities and timetable for restructuring was developed. It established measures for dealing with banks portfolio of non-performing loans (including loans to state-owned enterprises). 3. Specific proposals and targets for the reduction of bank's non-performing assets were developed and implemented to complete the financial restructuring of distressed banks. 4. Restructuring plans for commercial and development banks have been formulated and are under implementation. 5. Formerly distressed banks need further institutional strengthening, to enable them to operate in a self-sustained manner following their financial restructuring. 6. The recovery of non-performing assets by NPART needs to be expedited.	1. Commence liquidation of non-viable enterprises in accordance with NPART's action program. 2. Consolidate, deepen and streamline the ongoing bank restructuring program started under FINSAC I.	1. Before Negotiations: *(a) The membership of the special judicial tribunal, to facilitate NPART's recoveries, has been constituted. *(b) The Government, in consultation with IDA, has developed an action program for the recovery of non-performing assets and for liquidations, including agreed annual recovery targets. *(c) The Government has agreed to establish a program including performance indicators for monitoring performance of banks. 2. Before Board Approval: *(a) Development of a program and timetable for the computerization of GCB. 3. Before Second Tranche release: (a) Implementation by NPART of action program for the recovery of non-performing assets and for liquidations, including achievement of the agreed annual recovery target. 4. Before Third Tranche release: (a) Implementation by NPART of the action program for the recovery of non-performing assets and for liquidations, including achievement of the agreed annual recovery target. * Conditions and actions already met.

GHANA
SECOND FINANCIAL SECTOR ADJUSTMENT CREDIT
PROPOSED REFORMS AND ACTIONS
(1992-1994)

IV. NON-BANK FINANCIAL INSTITUTIONS AND CAPITAL MARKETS

Objective: Enhance the effectiveness of non-bank financial institutions in mobilizing long-term capital.

Performance Under FINSAC I Implications for FINSAC II	FINSAC II Action Program	Monitorable Actions and Schedule
1. The Consolidated Discount House has been strengthened and is operating profitably. 2. The feasibility study for the establishment of a Stock Exchange was completed and the Stock Exchange was incorporated. Trading commenced late-1990. 3. Amendments were made to the limitations on SSNIT's ability to invest and it is now able to invest in assets of its own choosing. 4. A credit clearing house for banks has been established. 5. The effectiveness of non-bank financial institutions in mobilizing long-term capital and thus in promoting the development of capital markets needs to be enhanced.	1. Strengthen the legal/regulatory framework, prudential regulation, and the supervision of non-bank financial institutions. 2. Improve competition in the insurance industry.	1. Before Negotiations: *(a) The review of the legal framework for non-bank financial institutions has been initiated. *(b) Terms of Reference for a diagnostic study of the financial condition, capital adequacy, profitability, and competitive position of the insurance sector have been agreed with IDA. 2. Before Second Tranche release: (a) Commencement of the review and actuarial assessment of SSNIT's new pension scheme and of its role in the capital market. (b) Submission to IDA of draft regulatory legislation for non-bank financial institutions. 2. Before Third Tranche release: (a) Enactment of legislation on non-bank financial institutions. (b) Review with IDA the results of the diagnostic study of the financial condition, capital adequacy, profitability and competitive position of the insurance industry.

* Conditions and actions already met.

GHANA
SECOND FINANCIAL SECTOR ADJUSTMENT CREDIT
PROPOSED REFORMS AND ACTIONS
(1992-1994)

V. TRAINING OF BANKERS AND ACCOUNTANTS

Objective: Develop capacity in the banking and accountancy professions at all levels.

Performance Under FINSAC I Implications for FINSAC II	FINSAC II Action Program	Monitorable Actions and Schedule
1. A study on the needs of the accountancy profession in Ghana was completed and its recommendations are being implemented. 2. The Institute of Chartered Accountants (Ghana), as the focal point to upgrade/strengthen the accounting profession has received technical assistance support. As a result of delays in the recruitment of two key technical advisors, progress in development of the important members and student services functions has been limited. 3. A senior training specialist was recruited by the BOG and an assessment of training needs, formulation of programs and course curricula for the banking sector have been completed. 4. Progress is being made in establishing a professional banking college. 5. Specialized courses have been conducted for banks but there remains an urgent need for banking courses in core disciplines, and external training experts are being sought. 6. Further measures need to be taken for capacity building and training in the banking sector and in the accountancy profession.	1. Upgrade the professional skills of bankers through the continuation of training programs, and the development of the national banking college. 2. Strengthen national accounting and auditing capabilities and help upgrade the standards and skills of the Auditor General's Office.	1. *Before Second Tranche release:* (a) Identify and complete contractual arrangements with an acceptable foreign bankers training institute or equivalent entity to assist in the establishment, management and operations of the banking college. (b) Complete recruitment of technical adviser to help upgrade the capabilities of the Auditor-General's office. 2. Before Third Tranche release: (a) Establishment of the Banking College and acceptable progress the training of bankers. (b) Satisfactory progress in the training of accountants and insurance professionals

GHANA
SECOND FINANCIAL SECTOR ADJUSTMENT CREDIT
PROPOSED REFORMS AND ACTIONS
(1992-1994)

VI. INFORMAL FINANCIAL SECTOR

Objective: Explore prospects of integrating the informal financial sector in the formal system.

Performance under FINSAC I Implications for FINSAC II	FINSAC II Action Program	Monitorable Actions and Schedule
1. Despite its significance in financial intermediation, and its potentially important lessons for future Bank policies, little is known about the informal financial sector.	1. Study the informal financial markets in order to investigate prospects for closer interaction between the formal and informal financial systems.	1. Before Negotiations: *(a) Terms of Reference for the Study on the informal financial markets have been agreed with IDA. 2. Before Second Tranche release: (a) Completion of study and submission of draft report to IDA for comments. 3. Before Third Tranche release: (a) Review with IDA the recommendations of the study on the informal financial sector.

VII. IMPLEMENTATION ARRANGEMENTS

Objective: Ensure effective implementation of the financial sector adjustment program.

Performance Under FINSAC I Implications for FINSAC II	FINSAC II Action Program	Monitorable Actions and Schedule
1. The FINSAC implementation arrangements currently in place need to be institutionalized and strengthened.	1. Establish the Program Implementation Unit as focal point to provide guidance, oversight, coordination and monitoring for all FINSAC related activities.	1. Before Negotiations: *(a) The Government has agred to establish a FINSAC Implementation Secretariat with organization and staffing satisfactory to IDA. 2. Before Board Approval: (a) Confirmation of the establishment of the FINSAC Implementation Secretariat and appointment of the Head of the Secretariat.

* Conditions and actions already met.

GHANA: SECOND FINANCIAL SECTOR ADJUSTMENT PROGRAM
TECHNICAL ASSISTANCE PROGRAM

1. Introduction: The technical assistance component of the second financial sector adjustment operation aims to help the Government strengthen the sector's capacity by improving the capabilities of key financial sector institutions through appropriate institution building, technical assistance and training programs, and to consolidate and make further progress on institutional development programs initiated under FINSAC I. The Central Bank's leadership in this second phase of the reform program is critical to ensure that the financial system is prepared to meet the challenges of the 1990s, and its restructuring and operational strengthening is, therefore, an important objective of the program. In addition to the Bank of Ghana, the principal institutional beneficiaries to be supported by the Credit are: the formerly distressed banks, for which the bank restructuring program initiated under FINSAC I needs to be sustained and reinforced to ensure their successful turnaround and future viability; NPART, which requires expert assistance in order to be more effective in recovering the funds expended by the Government for the acquisition of non-performing assets from the formerly distressed banks; the proposed Banking College as part of the overall program of capacity building and training for bankers; non-bank financial institutions including the new National Insurance Commission, the Social Security and National Insurance Trust, the Auditor General's Office, the Stock Exchange and the Institute of Chartered Accountants. Technical assistance support is also to be provided to establish the FINSAC Implementation Secretariat to guide, coordinate and monitor all activities pertaining to the financial sector adjustment program, and to the small liaison desk in MFEP, which the Government proposed to establish to ensure coordination between the Secretariat and MFEP.

2. The Table below provides a summary of costs of technical assistance. The project will finance 100 percent of total expenditures.

SUMMARY OF COSTS OF TECHNICAL ASSISTANCE AND TRAINING
(in thousands)

	1992		1993		1994		Total	
	US$	Cedis	US$	Cedis	US$	Cedis	US$	Cedis
Bank of Ghana	2,597	28,957	2,108	18,639	461	5,250	5,166	52,846
Bank Restructuring	2,215	2,135	1,694	3,810	91	2,185	4,000	8,130
Ghana Comm. Bank	1,722	-	1,066	-	-	-	2,788	
NPART	370	11,250	370	11,250	340	10,000	1,080	32,500
Banking & Financial Training	1,484		723		43		2,250	
NBFI, CRP & PFS	803		685		112		1,600	
FINSAC Secretariat and MFEP	390		280		180		850	
Unallocated	88		89		89		266	
Total	9,669	42,342	7,015	33,699	1,316	17,435	18,000	93,476

3. The total consultant services under the program are estimated at about 965 man months, of which 140 man months would be for local and 825 man months for foreign consultants. The estimated total man months of consultancy services for the principal beneficiary institutions to be supported by the Credit are as follows:

	1992	1993	1994	Total
Bank of Ghana	100	78	34	212
Bank Restructuring *(including "twinning" arrangements and privatization)*	205	154	7	366
Ghana Commercial Bank	13	5	-	18
NPART	30	30	27	87
Banking and Financial Training *(BOG training institute, Ghana Institute of Bankers' and the Ghana Stock Exchange)*	41	27	3	71
Non-Bank Financial Institutions, Corporate Restructuring and Professional Financial Services *(including the Auditor General's office and the Institute of Chartered Accountants)*	79	64	8	151
FINSAC Implementation Secretariat	24	24	12	60
Total	492	382	91	965

4. Detailed cost tables are in the project file. The description of various components of the technical assistance program and the related detailed budgets are provided in pages 2 through 23 of this Annex.

A. Technical Assistance Program for the Bank of Ghana

1. Background

5. The second financial sector adjustment program II is aimed at: initiating policy and institutional reforms directed at still further deepening, diversifying and strengthening the financial system, so that it will support both higher levels of and more productive savings mobilization and investment in Ghana; and continuing and consolidating the restructuring of the financial system and institution building started under FINSAC I.

6. Strengthening the performance of the Bank of Ghana (BOG) is a critical element of FINSAC II. The Central Bank should be the focal point of the financial system. The financial changes to be made in Ghana require the support and encouragement of the Bank of Ghana. At the same time, the BOG must be in a position to ensure that the developments are both consistent with overall financial stability and provide effective means for the implementation of monetary policy (including foreign exchange policy).

7. In this situation, the manner and implementation of financial policy in general and monetary and supervisory policy in particular will be extremely important since it must nurture an environment conducive to financial development. The effectiveness of the BOG's own internal operations, such as those associated with the cheque clearing system are also important, since they are a basic ingredient of the financial services offered to the community generally. Consequently as financial development progresses, improvements must be made in the formulation and implementation of monetary, foreign and supervisory policy with more reliance being placed on market-based mechanisms that has been the case to date. Some changes in the means of implementing monetary policy have been made. The process must be continued. It must be supported by increased analytical capacity in the Bank of Ghana, as well as improvements in the quality and timeliness of data. Much work needs to be done in the research area, and in foreign exchange area to develop the Bank of Ghana's capacity to deal in foreign exchange and to manage the countries reserves. Considerable work has been put into identifying the supervisory policy needed, but much work must be done to make its operation adequate and effective.

8. To properly fulfill its role, the Bank of Ghana needs to make major changes to the resources available to it and in their organization. Its structure needs to be changed. Management tools, including Budgets, work plans and manpower and computerization plans need to be developed and put into effect. These must deal with the needed development and training of staff at the management and professional levels, as well as improvements to the quality and timeliness of the management, business and economic data derived from its operations.

9. The needed changes will involve critical changes in the work of virtually all areas of the BOG, but in particular, the Research, Monetary and Foreign Exchange Policy, Supervision and Prudential Oversight and Banking functions of the BOG. The Computer and Systems and Accounting and Budget Departments will need to upgrade their operations to support the work of the BOG and to produce timely data and management information.

2. Broad Technical Needs

10. To achieve the needed changes in the performance of the BOG, a technical assistance program involving a range of advisors/consultants, increased technology in the form of computer hardware and software, as well as assistance in training is required.

(a) Computerization and Modernization of Operations

11. The BOG has a rudimentary computerization operation under way, utilizing hardware and software which has limited functionality and effectiveness. The BOG uses an 8-year old IBM mainframe system together with a recently acquired IBRD 9370 system. The existing computers and basic procedural software, human resource and control elements of the overall program need to be considerably enhanced to improve the BOG's effectiveness in carrying out its various monetary management functions as well as for its internal operations.

12. The modernization program includes: (a) the initial review and streamlining of the procedural framework with the assistance of technical expertise; (b) a definition of the information processing and reporting needs of each major functional area (including foreign exchange operations, external debt, domestic operations, accounting, research, banking supervision, secretariat, exchange controls, etc.) in order to investigate and select a responsive application software package; (c) formulation of an automation strategy and implementation plan; (d) financing

the procurement of additional hardware and software; (e) supporting the contracting of local expertise to implement a comprehensive MIS and streamlining of internal operations; (f) substantial training in support of the program; and (g) establishing efficient and timely linkages with commercial banks to facilitate clearings, settlements, and compliances with the regulatory and prudential frameworks.

13. It is expected that several application packages will be purchased for the use of the BOG. These include packages to handle: accounting and banking applications for domestic operations; foreign exchange and reserve management; integrated economic database; money/bond market and securities; statistical packages for analysis; interbank funds transfers and settlements/clearing house operations; monthly/weekly reporting from all financial institutions; management information system for monitoring financial position of major accounts. Some of the application programs will be develop at the BOG or by a local software house.

14. A Computerization Steering Committee has been established by the BOG. With consulting assistance, the Steering Committee has developed an Information Technology Program for the BOG which has been reviewed by IDA and found to be acceptable. A six-stage approach is proposed for the upgrading of the information technology resources at the BOG. Each stage of the computerization program is divided into several phases so as to provide a sound framework to facilitate quality control and effective project management. Each phase will be made up of several tasks and subtasks. The work carried out for each stage will be documented in a report. The first stage pertains specifically to the identification of domestic banking operations application systems requirements and comprises the design of a new system for banking applications following an evaluation of the existing general ledger package.

15. Stage 2 covers the development of the information technology plan, and comprises: evaluation of existing information technology system at the BOG; specification of user requirements; propose new information technology system; development of the proposed information technology system; review implementation, and the recruitment of information technology specialists for BOG. Stage 3 is establishing the procurement of hardware and software: evaluation criteria for tenders; preparing and issuing tender documents; evaluating bid offers; attending demonstrations and reference site visits; finalizing selection of bids and award contracts; placing order for equipment and software. Stage 4 is manpower development and training, covering local and foreign training in computer appreciation; management information systems; systems analysis; computer programming skills; advanced systems analysis; programming (systems and software development). Stage 5 is systems development: installation and testing of hardware and systems software; preparation of systems specification for application software enhancement and customization; implementation of new controls and manual procedures; systems design and development; modification and enhancements of application packages; and software development. The final stage is testing, training and review: testing software packages; conduct parallel runs; train BOG personnel on the new application software; conducting a post implementation review.

16. Under the Information Technology program, computerization/modernization is scheduled to be accomplished within three years of credit effectiveness, i.e., by end-December 1994. The BOG is already implementing recommended remedial measures and improvements in procedures and controls in preparation of the program. The investment costs over the next three years of the FINSAC II program are about US$2.6 million comprising US$1.4 million in hardware, microcomputers and other equipment and US$1.2 million in software. To help the BOG develop systems and software and other requirements, substantial assistance will be needed from consultants

and computer experts. This is estimated at 60 man months from 1992 through 1994, comprising about 50 man months of local and 10 man months of foreign consultants services. Provision is made for introductory courses (local) and advanced and specialized courses (foreign) in computer appreciation and management, systems development and analysis, programming and software development and systems maintenance and support. Foreign courses costs include fees, travel and subsistence expenses budgeted at US$10,000 per person for a total of 11 persons. Estimates of foreign and local courses are based on the Information Technology program.

(b) Research and Policy Division

17. The proposed Research and Policy Division is to be responsible for the BOG's economic research activities, as well as the formulation (and to a degree implementation) of monetary (including foreign exchange) policy. At present, its role is heavily statistical and its research and analytical activities less extensive than is appropriate for such a unit in a Central Bank. The statistical work itself needs to be upgraded so that the information available is more timely, accurate and comprehensive. Along with these changes, the formal outputs of the Department's work, in terms of papers for the Board and the Government and its publications, need to be expanded.

18. The present department has a basic core of professional staff, but experience in economic analysis and the policy activities envisaged for the unit is extremely limited. Recent attempts to recruit a head of the department were not successful. Efforts to recruit the head of the department need to be actively pursued.

19. The advisors/consultants as needed to have the department fulfill its role and to train staff for the future are:

(i) An adviser on contract to help strengthen the capabilities and procedures of the Research area of the Bank for two years;

(ii) An expert to assist for one year in the development of market instruments to assist in the implementation of monetary policy;

(iii) A consultant on contract for two years to assist develop the BOG's expertise in reserves management and foreign exchange trading;

(iv) An expert on data coordination to ensure data preparation and use is timely and appropriately coordinated both within the Bank and between the Bank and other areas of government. This exercise, which is expected to take six man months, would extend the work of an expert currently in Ghana.

(c) Supervision

20. The fundamental role of the Supervision Department is to safeguard the soundness and stability of the banking system with a view to protecting depositors. The department should also be responsible for financial stability generally with a view to generating and maintaining confidence in the overall financial systems and savings institutions, in particular. As an aspect of this, the department should monitor institutional developments and ensure all non-bank financial institutions are appropriately supervised.

21. The supervisory framework (legislation, statistical requirements, etc.) in Ghana has been improved in recent years. It is basically sound although it would benefit from still further development. There is an immediate need to substantially strengthen current operational practices and the Supervision Department's capacity in order to comply with the Banking Act's requirement that all bank's be inspected at least once a year, and to develop the Department's resources for the future.

22. Work is needed to develop and implement more timely and stronger on-site examination practices (including follow-up requirements), and off-site monitoring. In particular, an early warning system, even if of limited scope, needs to be operating with minimum delay. There is a need to develop expertise in and operational arrangements to handle distressed or failing banks, including their restructuring. Work is also needed to upgrade work manuals, staff training, and otherwise improve the work of the department which also must continue its program of local recruitment.

23. To help upgrade this area of the Bank of Ghana's operations, the BOG needs:

(i) A senior advisor, experienced in supervisory practices in a number of countries to guide the Department's work. It is anticipated that the Advisor would have direct access to and report to the Governor of BOG. The BOG will need expert oversight of its Supervision work for most, if not all, of the three years of the FINSAC II operation. The advisor would be recruited on a contract for an initial period of two years, with an option for extension.

(ii) A consultant on short-term contract for about one month to assist in developing a framework to ensure that appropriate supervisory arrangements are developed to cover the full spectrum of financial institutions. The task would involve assessment of the adequacy of both current and proposed legislation, as well as institutional arrangements to put necessary supervision into effect.

(d) Banking Operations

24. Banking and clearing arrangements are not timely in Ghana. The BOG itself has to upgrade its associated account keeping arrangements. Similar improvements are needed to account keeping arrangements within the commercial banks. Beyond this, basic clearing operations need to be streamlined in order that the time taken to clear cheques in Accra and outer cities/regions is brought down from 3 days and 21 days, respectively, to 2 working days and a maximum of 8 working days, respectively. This should not be difficult because cheque volumes are not large. A consultant familiar with banking practices in a range of countries should review operations of the clearing house and the associated account keeping in commercial banks and the BOG and advise on changes necessary to achieve a more timely operation. The task would require a well qualified expert for about 2 man months allowing for the need to review fundamental banking operations in the Head Offices and some branches of banks involved in clearing.

(e) Accounting and Internal Auditing

25. As a matter of priority, the accounting and auditing procedures with the BOG need to be upgraded. At present, the accounting and expenditure approval processes are split between a number of Departments. The Accounting and Budget Department must have full responsibility for the preparation of the Bank's accounts in conformity with appropriate accounting standards and for ensuring that Budget processes are complied with. Expenditure processes need to be modified to ensure they are effective but not operationally cumbersome. The Internal Auditing processes need to move to being less reliant on extensive pre-checking and detailed verification of accuracy, etc. (which should be the responsibility of operational departments) to greater reliance on verification that the Bank's systems and procedures have been followed.

26. The BOG will require an accounting adviser to help with the upgrading of accounting and budgeting. Provision has been made for such an adviser for two years. While in Ghana, he could also be required to help establish appropriate accounting standards for the commercial banks in conjunction with the upgrading of the BOG's supervision work.

27. Provision has also been made for about 9 man months of expert assistance to help improve the BOG's internal auditing function. The expert would help the Internal Auditing Department make the transition to a predominantly systems-based auditing approach, enhance the usefulness of the function as a tool for management, train staff (on-the-job) and develop appropriate training program for their professional development. He would also assist in the area of appropriate financial systems development.

(g) Resources

28. The BOG recognizes that it must undertake a substantial program to:

(i) Fill some critical gaps in its staff structure (some of which have been discussed above),

(ii) Strengthen the performance of its staff, and

(iii) Introduce suitable technology.

It has been working with local consultants to develop both manpower and information technology plans.

29. The manpower plan might as an immediate task identify critical gaps in the senior levels of the Bank and the recruitment and training requirements to alleviate them. It then could move on to a more comprehensive audit of job requirement and skills of present staff. It is clear that many changes should be made to organizational arrangement and operational procedures in the BOG. An external consultant could work in parallel with the management consultants to coordinate an enhancement program. An expert with experience in central banking would not only help the BOG improve its operational performance in the short run, but would also provide an additional and useful dimension to the manpower plan and the associated identification of staffing needs. The expert would be needed for about 6 man months. It is expected that he would need to spend an initial period of 3-4 months in Ghana and then visit on occasions to advise on progress. Provision has been made for two trips to Ghana in 1992.

30. <u>Training</u>. The manpower plan will be an important ingredient in clearly documenting the extensive training needs of the BOG. The training to be undertaken will involve a full range of arrangements, including extension of present on the job and in-house training, as well as participation in training courses at international bodies and secondments to other Central banks. As noted above, many advisors/experts are to be employed by the BOG. In all cases, their contracts should include the need to pass onto BOG staff expertise relevant to their continuing work.

31. BOG's training includes provision for an external instructor to upgrade the general in-house training for senior and middle management (six man months), the attendance at overseas seminars, including fees, travel and subsistence for six persons each year, and computer training.

FINSAC II: BUDGET FOR TECHNICAL ASSISTANCE PROGRAM FOR THE BANK OF GHANA

	1992		1993		1994		TOTAL	
	FOREIGN US$	LOCAL CEDIS	FOREIGN US$	LOCAL CEDIS	FOREIGN US$	LOCAL CEDIS	FOREIGN US$	LOCAL CEDIS
A. EQUIPMENT EXPENDITURES								
COMPUTER HARDWARE	500,000		420,000		-		920,000	
MICROCOMPUTERS	140,000		95,000				235,000	
SOFTWARE/DBMS/UTILITIES	150,000		100,000		20,000		270,000	
BANKING SOFTWARE	450,000		450,000				900,000	
TELECOMMUNICATIONS EQUIP.	65,000		40,000				105,000	
ENVIRONMENTAL EQUIP.	100,000		70,000				170,000	
TOTAL EQUIPMENT EXPENDITURES	1,405,000		1,175,000		20,000		2,600,000	
B. CONSULTANCY AND TRAINING EXPENDITURES								
(i) COMPUTERIZATION & TRAINING								
COMPUTER SERVICES	12,000		12,000		10,000		34,000	
TRAINING (LOCAL)	30,000		30,000		30,000		90,000	
CONSULTANTS	110,000		110,000		90,000		310,000	
TRAINING (EXTERNAL)	30,000		40,000		40,000		110,000	
Total	182,000		192,000		170,000		544,000	
(ii) LONG-TERM ADVISORS (contracts)								
ECONOMIC RESEARCH	130,000		130,000		-		260,000	
BANKING SUPERVISION	130,000		130,000		130,000		390,000	
ACCOUNTING	130,000		130,000				260,000	
FOREIGN EXCHANGE	130,000		130,000		-		260,000	
HOUSING AND AMENITIES		16,000,000		16,000,000		4,000,000		36,000,000
TOTAL ADVISORS	520,000	16,000,000	520,000	16,000,000	130,000	4,000,000	1,170,000	36,000,000
(iii) CONSULTANTS								
MONETARY POLICY								
FEES	130,000						130,000	
TRAVEL	9,600						9,600	
SUBSISTENCE		3,750,000						3,750,000
	139,600	3,750,000					139,600	3,750,000

FINSAC II: BUDGET FOR TECHNICAL ASSISTANCE PROGRAM FOR THE BANK OF GHANA

	1992		1993		1994		TOTAL	
	FOREIGN US$	LOCAL CEDIS	FOREIGN US$	LOCAL CEDIS	FOREIGN US$	LOCAL CEDIS	FOREIGN US$	LOCAL CEDIS
(iii) CONSULTANTS (CONT'D)								
ORGANIZATIONAL								
FEES	44,000		11,000		11,000		66,000	
TRAVEL	19,200		9,600		9,600		38,400	
SUBSISTENCE		1,875,000		312,500		312,500		2,500,000
	63,200	1,875,000	20,600	312,500	20,600	312,500	104,400	2,500,000
CLEARING HOUSE								
FEES	11,000		11,000				22,000	
TRAVEL	9600		9600				19,200	
SUBSISTENCE		312,500		312,500				625,000
	20,600	312,500	20,600	312,500			41,200	625,000
FINANCIAL SYSTEMS DEVELOPMENT								
FEES	7,200		7,200				14,400	
TRAVEL	9,600		9,600				19,200	
SUBSISTENCE		144,000		144,000				288,000
	16,800	144,000	16,800	144,000			33,600	288,000
INTERNAL AUDITING DEVELOPMENT								
FEES	44,000		33,000		22,000		99,000	
TRAVEL	9,600		9,600		9,600		28,800	
SUBSISTENCE		1,250,000		935,000		625,000		2,810,000
	53,600	1,250,000	42,600	935,000	31,600	625,000	127,800	2,810,000
DATA COORDINATION								
FEES	66,000						66,000	
TRAVEL	9,600						9,600	
SUBSISTENCE		1,875,000						1,875,000
	75,600	1,875,000					75,600	1,875,000
NBFI LEGISLATION								
FEES	11,000						11,000	
TRAVEL	9,600						9,600	
SUBSISTENCE		3,125,000						3,125,000
	20,600	3,125,000					20,600	3,125,000
TOTAL CONSULTANTS	390,000	12,331,500	100,600	1,704,000	52,200	937,500	542,800	14,973,000

FINSAC II: BUDGET FOR TECHNICAL ASSISTANCE PROGRAM FOR THE BANK OF GHANA

	1992		1993		1994		TOTAL	
	FOREIGN US$	LOCAL CEDIS	FOREIGN US$	LOCAL CEDIS	FOREIGN US$	LOCAL CEDIS	FOREIGN US$	LOCAL CEDIS
(V) BOG TRAINING								
EXTERNAL INSTRUCTORS								
FEES	22,000		33,000		11,000		66,000	
TRAVEL	9,600		19,200		9,600		38,400	
SUBSISTENCE		625,000		935,000		312,500		1,872,500
	31,600	625,000	52,200	935,000	20,600	312,500	104,400	1,872,500
SEMINARS ABROAD								
FEES	18,000		18,000		18,000		54,000	
TRAVEL	30,000		30,000		30,000		90,000	
SUBSISTENCE	20,000		20,500		20,500		61,000	
	68,000		68,500		68,500		205,000	
TOTAL CONSULTANCY AND TRAINING	1,191,600	28,956,500	933,300	18,639,000	441,300	5,250,000	2,566,200	52,845,500
EQUIPMENT + CONSULTANCY + TRAINING	2,596,600	28,956,500	2,108,300	18,639,000	461,300	5,250,000	5,166,200	52,845,500

B. Technical Assistance Program for Bank Restructuring and NPART

1. Background

32. The implementation of the bank restructuring and the non-performing asset recovery programs initiated under FINSAC I are well under way but need to be continued and reinforced to ensure the successful turnaround of these formerly distressed banks, and effectiveness in the recovery of non-performing assets by NPART. In order to sustain the viability of the commercial banks and further improve their operational and technical efficiency, they require further management reform and institutional strengthening including;

(a) Elaboration of strategies and business plans addressing both qualitative and quantitative performance objectives and targets (based on agreed performance indicators);

(b) Revision of the organizational and corporate structures to better delineate accountabilities and responsibilities, and to provide for management functions which are not currently addressed;

(c) Development of policies and procedures for the major functional areas including credit risk, financial and human resource management;

(d) Improved operating procedures and customer service to foster greater confidence in the banking system;

(e) Improved information systems through computerization of Ghana Commercial Bank and a computer needs assessment for the commercial banks as a whole.

(f) The continuation of external advisory support to assist in the complex and sensitive task of loan classification, asset evaluation and recovery management for NPART.

2. Continuation of the Program for Management Improvement and Restructuring of the Commercial Banks

33. The technical assistance portion for these institutions will encompass the 7 formerly distressed commercial banks and NPART: (a) the present expatriate banking staff involved in the "twinning" arrangements and technical assistance teams plus additions for the three banks which do not yet have in full the required support is calculated at 42 man-years, and (b) the program is tapered off over the period of FINSAC II on the basis that as banks acquire private shareholders the governments commitment to financially assist them will diminish, resulting in about 28 man years funded under the credit.

3. Concept for Technical and Investment Banking Assistance in Bank Privatization

34. With the acceptance by the Government of a reduction its overall shareholdings in the commercial banking sector to a minority position, the Government is in the process of developing an action plan for the successful privatization of the banks. This will require investment

banking expertise for assessment, valuation, packaging and marketing of the banks to both domestic and international investors. The Government has agreed to appoint a team of financial consultants to carry out a review aimed at designing a specific proposal for implementing the divestiture program. The time required for this effort for the seven banks to be privatized is estimated to be 26 man months over the duration of the FINSAC II program.

4. Concept for Technical Assistance for Computerization Program for GCB and Needs Assessment for the Remaining Banks

35. Ghana Commercial Bank has a nation-wide network of over 150 branches and has approximately 60% of the private sector current and savings deposits. GCB's computer-based system is considered to be unreliable and inefficient. It currently has computerized only its Accra branch (out of a total of 16 branches in the greater Accra area), and is dependent on outdated equipment inadequately supported by the supplier. This often results in lack of spares to maintain the hardware and extended periods where manual operations supersede the computerized process. In view of its importance in the banking system, the Government wishes to support GCB in its efforts to modernize its operations, and improve service levels and its competitiveness. The proposed technical assistance will support GCB in its efforts to modernize its operations to improve its customer service. This will be achieved through the implementation of a mini computer hardware and packaged banking software for back-office operations. In addition, the use of microcomputers at the sixteen branches in Greater Accra area and nine regional branches will act a focal points for inter and intra settlements in their respective regional area. There will be close coordination with the BOG to ensure timely financial supporting through electronic linkages. GCB plans to complete its computerization program in about 5 years at a total investment cost of US$4.5 million. However, the proposed Credit will provide about US$2.8 million for procurement of hardware and software and training during 1992 and 1993.

36. In addition, the government wishes to carry out a computerization needs assessment study on the remaining commercial banks being restructured preparatory to bringing their information and technical systems into line with the overall upgrading of the banking sector.

5. Continuation of Technical Assistance for NPART

37. NPART is now duly constituted and carrying out its mission to recover the non-performing assets (NPA's) transferred from the formerly troubled commercial banks. In order to enable NPART to adequately fulfil its role of asset recovery from the 1332 transferred accounts with an aggregate value of ₵49.5 billion, there is a continuing need for external advisors to aid in and expedite the process of recovery and liquidations.

6. Technical Assistance Program Cost Estimates

(a) Bank Restructuring: Continuing technical expertise for the commercial banks including the cost of foreign bankers, banking experts and twinning arrangements with banking institutions $3,900,000. Cost and man year estimates (total of 28) are based on the actual costs of ongoing arrangements for four banks plus additions for the three banks which do not yet have the full technical support requirements.

(b) GCB Computerization and Needs Assessment Study: Costs of computer hardware, microcomputers, peripheral equipment and software for the computerization program are estimated to be $2,564,000. Computer training services, local and foreign consultants and the related training requirements are estimated to cost $224,200. Estimated costs for a sector-wide banking computerization needs assessment study is $100,000.

(c) NPART: Continuing technical expertise costs of foreign loan recovery experts is $1,080,000 and ₵32,500,000 for housing and subsistence. Cost estimates are based on the actual costs of the three experts (two full time and one for about six months each year) for NPART over a further three years.

FINSAC II: BUDGET FOR TECHNICAL ASSISTANCE PROGRAM
BANK RESTRUCTURING AND NPART

	1992 FOREIGN US$	1992 LOCAL CEDIS	1993 FOREIGN US$	1993 LOCAL CEDIS	1994 FOREIGN US$	1994 LOCAL CEDIS	TOTAL FOREIGN US$	TOTAL LOCAL CEDIS
A. BANK RESTRUCTURING:								
(i) ADVISORS, FOREIGN BANKERS AND "TWINNING ARRANGEMENTS"	2,040,000		1,530,000				3,570,000	
(ii) PRIVATIZATION								
INVESTMENT BANKERS/CONSULTANTS								
FEES	110,000		99,000		77,000		286,000	
TRAVEL	15,000		15,000		14,000		44,000	
SUBSISTENCE		3,125,000		3,810,000		2,185,000		8,120,000
TOTAL BANK RESTRUCTURING	2,165,000	3,125,000	1,644,000	3,810,000	91,000	2,185,000	3,900,000	8,120,000
B. GHANA COMMERCIAL BANK:								
(i) EQUIPMENT EXPENDITURES								
COMPUTER HARDWARE	360,000		240,000				600,000	
MICROCOMPUTER	340,000		225,000				565,000	
SOFTWARE/DBMS/UTILITIES	110,000		70,000				180,000	
BANKING SOFTWARE	519,000		300,000				819,000	
ENVIRONMENTAL EQUIPMENT	250,000		150,000				400,000	
TOTAL EQUIPMENT EXPENDITURES	1,579,000		985,000				2,564,000	
(ii) CONSULTANCY AND TRAINING EXPENDITURES								
COMPUTERIZATION & TRAINING								
COMPUTER SERVICES	12,000		4,800				16,800	
TRAINING (LOCAL)	27,000		6,800				33,800	
CONSULTANTS	77,000		33,600				110,600	
TRAINING (EXTERNAL)	27,000		35,800				62,800	
TOTAL CONSULTANCY AND TRAINING EXPENDITURES	143,000		81,200				224,200	
EQUIPMENT + CONSULTANCY TRAINING EXPENDITURES	1,722,000		1,066,200				2,788,200	
C. COMPUTERIZATION NEEDS ASSESSMENT STUDY: CONSULTANTS	50,000		50,000				100,000	
D. NPART:								
FOREIGN EXPERTS								
FEES	330,000		330,000		300,000		960,000	
TRAVEL	40,000		40,000		40,000		120,000	
SUBSISTENCE		11,250,000		11,250,000		10,000,000		32,500,000
	370,000	11,250,000	370,000	11,250,000	340,000	10,000,000	1,080,000	32,500,000
TOTAL EXPENDITURES	4,307,000	14,375,000	3,130,200	15,060,000	431,000	12,185,000	7,868,200	40,620,000

13-Nov-91

C. Technical Assistance Program for Banking and Financial Training

1. The Need for Training

38. Financial sector development prompts the need for radically different methods of managing banks, marketing and delivering banking services, financing investment, controlling risk, ensuring banks' financial viability and performance, and carrying out basic banking operations. The government of Ghana has undertaken a program of liberalization of its financial markets and bank restructuring. Competition in banking services has increased and greater emphasis is now placed on efficiency and prudent banking practices. These changes in the banking system create a need for stronger banking skills and expertise at all levels, a more professional approach to the management of financial institutions and greater depth in the ranks of management. To respond to these needs, FINSAC II proposes to finance a comprehensive training program for bankers.

39. Building on the achievements made under FINSAC I, further measures will be taken for capacity building and training in the banking and financial sectors. FINSAC II would support further training in urgently needed areas such as credit analysis and risk management, finance, financial management, money and capital markets, foreign exchange marketing and other basic skills. Such subjects would comprise the core curriculum of a training program for financial professionals in Ghana. Other components or the program would include development of training materials; assessment of training needs; assistance in the establishment of the banking college and management of training by a foreign bankers' training institute; and technical support to further the work of the Ghana Institute of Bankers and the Stock Exchange.

2. The Concept of Technical Assistance to Enhance the Training Needs in the Banking System

40. The project would provide financing for the establishment of a Bankers' Training Institute. The Institute would conduct training in basic banking disciplines with the objectives of: (i) strengthening banking skills in the basic functions of management, lending, planning, financial management, and internal audit; (ii) introducing recent instruments and techniques in banking and financial markets; (iii) developing a more professional approach to management and management systems; and, (iv) upgrading the quality of training conducted within banks in Ghana through the transfer of skills, techniques and knowledge from abroad.

41. In order to bring the necessary technical expertise and experience to bear on the development of banking skills in Ghana, a foreign institute with relevant experience in training bankers in developing countries would be contracted to provide technical assistance. The foreign institute would be complemented by Ghanaian counterparts to ensure sustainability and sensitivity to national issues and practices. The role of the foreign training institute would consist of:

- Establishing and initially managing the training institute;
- Training national staff to assume management of the institute;
- Providing selected instructors and course materials from own repertory;

- Selecting courses to be taught from other sources: commercial firms providing training courses, professors, bank training institutes;
- Supervising the development of case materials based on Ghanaian experience.

42. A program of core skills development would be introduced. The core curriculum has been developed and is in the project file. In summary, it consists of: (a) credit training (principles of credit and credit risk assessment, forecasting client needs, identifying problem loans, collateral valuation, portfolio evaluation and loan administration and supervision; (b) financial accounting (accounting standards, financial analysis, budgeting, corporate finance, cashflow analysis, etc.); and (c) specialized lending to small and medium enterprises and corporate restructuring). Additional courses in financial management (planning, foreign exchange management, internal audit, etc.), money, capital markets and financial instruments, branch management, human resource management, marketing and information technology would be integrated into the program primarily through short seminars and courses. Possession of these skills would permit bankers to participate effectively with foreign technical experts in the elaboration of institutional development as well as in the evolving financial markets.

43. In order to enhance the capacity building and the training needs in the banking sector, detailed plans are being developed covering such issues as expatriate support, professional and administrative training and the necessary capital investments to support these efforts. The estimates below allow for some cost recovery from users beginning in 1993.

3. Ghana Institute of Bankers

44. The Ghana Institute of Bankers provides banking education in fundamental banking skills and in the theory of banking. It performs an important role in diffusing banking education. It administers the Part I exam of the British Institute and is embarking on a program to adapt and administer Part II in Ghana. Part II is now given in the U.K. Financial assistance to further the work of the institute in tailoring their syllabus to Ghanaian requirements and to carry out training in more remote areas would be included under the project.

4. Stock Exchange

45. There is a need to promote greater public awareness in Ghana on the role and operations of the newly formed Ghana Stock Exchange, and to build capacity in the area of financial instruments, bond market operations and the use of information technology.

5. Financing

46. In conformity with the Bank's approach toward education projects in Ghana, FINSAC II would provide financing for training experts, course materials, books, teaching aids, equipment and administrative vehicles. It would also finance a service contract with a foreign bankers' training institute and training abroad both for trainers and for professional staff requiring specialized training in limited demand. Attachment II provides a preliminary estimate of costs which would be eligible for such financing.

6. Technical Assistance Program Cost Estimates

(a) The capital costs of books, reference materials, instructional aids and motor vehicles are estimated to be $375.000.

(b) Costs of financial training includes management of training at the banking college by a foreign bankers training institute. Provision has been made for trainers' fees, travel and subsistence for seminars and faculty development and for external instructors. In total they are estimated to cost $1,725,000. The program provides for about 58 man months of specialist instructors and other technical assistance.

(c) Consultancy costs related to the assistance to be provided for the Ghana Institute of Bankers are budgeted at US$40,000 for about 4 man months of work in developing the examination syllabus. A small provision of US$10,000 has been made to assist in training and course delivery in areas presently not served by the Institute.

(d) Estimated costs related to the Ghana Stock Exchange for promotional activities and training total $100,000.

FINSAC II: BUDGET FOR TECHNICAL ASSISTANCE PROGRAM
BANKING AND FINANCIAL TRAINING

	1992		1993		1994		TOTAL	
	FOREIGN US$	LOCAL CEDIS	FOREIGN US$	LOCAL CEDIS	FOREIGN US$	LOCAL CEDIS	FOREIGN US$	LOCAL CEDIS
A. EQUIPMENT EXPENDITURES								
BOOKS,REFERENCE MATERIALS, INSTRUCTIONAL AIDS	125,000						125,000	
REFERENCE LIBRARY	75,000		25,000				100,000	
MOTOR VEHICLES	150,000						150,000	
BANKERS TRAINING TOTAL CAPITAL EXP	350,000		25,000				375,000	
B. CONSULTANCY AND TRAINING EXPENDITURES								
(i) SEMINARS & FACULTY DEVELOPMENT								
FEES	120,000		45,000				165,000	
TRAVEL	160,000		65,000				225,000	
SUBSISTENCE	170,000		40,000				210,000	
	450,000		150,000				600,000	
(ii) EXTERNAL INSTRUCTORS								
FEES	240,000		185,000				425,000	
TRAVEL	240,000		185,000				425,000	
SUBSISTENCE	150,000		125,000				275,000	
	630,000		495,000				1,125,000	
BANKERS TRAINING TOTAL	1,080,000		645,000				1,725,000	
C. OTHER PROFESSIONAL TRAINING								
GHANA STOCK EXCHANGE								
PROMOTIONAL ACTIVITIES AND TRAINING	34,000		33,000		33,000		100,000	
GHANA INSTITUTE OF BANKERS								
CONSULTANCY SERVICES AND TRAINING COSTS	20,000		20,000		10,000		50,000	
	54,000		53,000		43,000		150,000	
TOTAL EQUIPMENT, CONSULTANCY & TRAINING EXPENDITURES	1,464,000		723,000		43,000		2,250,000	

14-Nov-91

D. Technical Assistance Program for The Non-Bank Financial Institutions, Corporate Restructuring Program, and Professional Financial Services

1. Background

(a) Non-Bank Financial Sector

47. There are a significant numbers of financial institutions in Ghana which are not regulated by the Banking Act though some of them come under other regulatory or statutory control. These include: insurance companies and brokers, credit unions, thrift and savings and loan institutions, the stock exchange, discount-houses, an export finance company and other institutions. Issues pertaining to the sector include: the capital adequacy, solvency and credit standards of the major insurance companies, the management of SSNIT's assets and liabilities given the high inflation environment and limited investment opportunities, and the need for the regulation, supervision and appropriate accounting, financial and prudential reporting in the sector.

(b) Technical Assistance to the Non-Bank Financial Sector

48. The Ghanaian government has made it a clear policy objective to broaden and deepen the capital markets to enable it to more effectively implement its fiscal and monetary policies. In order to support that policy through the technical assistance program, a number of key reviews have been agreed. They are as follows;

(i) Review of the legal/regulatory framework for non-bank financial institutions presently being drafted by the government as the Financial Services Act;

(ii) A diagnostic study of the insurance industry to evaluate its financial position, performance, profitability and competition;

(iii) A study of SSNIT's asset/liability management, its forecasted growth projections and their potential impact and importance to the future of the capital markets.

(iv) There is a need, in the context of broadening the capital market, to investigate the informal financial markets and assess the linkages and interactions between the formal and informal sectors

2. Background

(a) Corporate Restructuring Program

49. The distress of the Ghanaian Corporate sector was evident under FINSAC I, as a substantial portion of the banking system's loan portfolio was non-performing. The successful rehabilitation of the potentially viable distressed enterprises is an important step in restoring the productive capacity of the Ghanaian economy, particularly in the mining and manufacturing sector.

(b) Technical Assistance for Corporate Restructuring

50. The Government is envisaging several initiatives to help the restructuring of distressed but potentially viable enterprises (PVEs). These initiatives include: (a) financial workouts for selected enterprises, by NPART with the voluntary participation of banks, (b) the encouragement to the private sector to set up new venture capital companies which could participate in the CRP, and (c) continuation of the preparatory work to establish a new corporate entity to be called First Finance Corporation (FFC) with predominantly private sector ownership to provide venture capital along with other financial, managerial and technical services for the restructuring of distressed but potentially viable corporate enterprises. In the meantime, a temporary program will be formulated and implemented, with a view to proving financial relief measures for distressed but potentially viable enterprises (PVEs) to arrest their further deterioration and preserve their prospects for subsequent rehabilitation. The first steps in this temporary program are to update the database on PVEs and examine and develop modalities to achieve these objectives. In this regard, an expert consultant team is being sought to assist the Government. It is expected that this task would require about 16 man months of consultant expertise. The terms of reference for the consultant's review have been agreed with the Government.

3. Professional Financial Services

51. Upgrading of skills and improving the effectiveness of the Auditor-General's office through technical advisory services, training and logistical support.

52. Continuation of capacity building and training for accountants through technical assistants the Institute of Chartered Accountants, Ghana. Provision is made for the extension of the services of the two advisers appointed under FINSAC I. Costs are based on their existing salaries, travel and subsistence expenses.

4. Technical Assistance Program Cost Estimates

(a) Expert consultancy fees for the review of the legal and regulatory framework for non-bank financial institutions, the diagnostic study of the insurance industry, training for the new National Insurance Commission, the study on SSNIT and the study of the informal sector are estimated in total to be $700,000 for a total of about 68 man months.

(b) Specialist consultants for corporate restructuring are estimated to cost $200,000

(c) Expert for two years to help develop the capabilities of the Auditor-General's office, $225,000, and books, reference materials, computers, and travel for overseas training of staff from the Auditor-General's office are estimated to be $75,000

(d) The continuation of the services of the two advisers to the Institute of Chartered Accountants, Ghana, for two more years are estimated on the basis of their present costs to amount to US$400,000.

FINSAC II: BUDGET FOR TECHNICAL ASSISTANCE PROGRAM
NON-BANK FINANCIAL INSTITUTIONS (NBFI), CORPORATE RESTRUCTURING (CRP) AND PROFESSIONAL FINANCIAL SERVICE (PFS)

	1992		1993		1994		TOTAL	
	FOREIGN US$	LOCAL CEDIS	FOREIGN US$	LOCAL CEDIS	FOREIGN US$	LOCAL CEDIS	FOREIGN US$	LOCAL CEDIS
A. NBFI CONSULTANTS								
(i) LEGAL/REG REVIEW	75,000		50,000		-		125,000	
(ii) DIAGNOSTIC STUDY INSURANCE IND.	175,000		100,000		-		275,000	
(iii) NATIONAL INSURANCE COMM: TRAINING	50,000		50,000		50,000		150,000	
(iv) STUDY OF SSNIT	50,000		50,000		-		100,000	
(v) STUDY INFORMAL SECTOR	40,000		10,000		-		50,000	
TOTAL NON-BANK FINANCIAL SECTOR	390,000		260,000		50,000		700,000	
B. CRP CONSULTANTS								
FEES	65,000		75,500		32,500		173,000	
TRAVEL & SUBSISTENCE	10,000		12,000		5,000		27,000	
	75,000		87,500		37,500		200,000	
C. AUDITOR-GENERAL'S OFFICE:								
EXPERTS FEES	112,500		112,500				225,000	
BOOKS, REF. MATERIALS & COMPUTERS	10,000		10,000		10,000		30,000	
FOREIGN TRAINING (TRAVEL & SUBSISTENCE)	15,000		15,000		15,000		45,000	
	137,500		137,500		25,000		300,000	
D. INSTITUTE OF CHARTERED ACCTS:								
ADVISERS FEES	200,000		200,000				400,000	
TOTAL NBFS, CRP & PROFESSIONAL FIN. SERVICES	802,500		685,000		112,500		1,600,000	

14-Nov-91

E. Technical Assistance Program for Implementation Secretariat and MFEP Liaison Unit

1. Background

53. To ensure effective implementation of the ongoing FINSAC I as well as the new FINSAC II programs and activities, there is a need to institutionalize and strengthen the informal implementation arrangements currently in place. A FINSAC Implementation Secretariat will be set up, with organizational arrangements and staffing acceptable to IDA, as the focal point to provide guidance, oversight, coordination, monitoring and reporting all activities pertaining to the proposed financial sector adjustment program. The Secretariat will have a light structure organized along the following lines:

(a) It will be headed by an Executive Director backed by an expatriate advisor.

(b) It will comprise initially 3 sections each to be headed by a Section Chief: (1) Banking Restructuring and NPART;(2) Corporate Restructuring;(3) Non-Bank Financial Institutions, Administration and Legal Affairs

(c) The Secretariat will be supplied with the necessary support staff, office equipment and transportation.

54. The MFEP is to establish a small Liaison Desk to ensure coordination between MFEP and the FINSAC Implementation Secretariat.

2. Technical Assistance Program Cost Estimates

(a) Salaries of the head of the unit for three years and an expatriate advisor for two years, office equipment, and three motor vehicles for the Secretariat are estimated to be $750,000.

(b) Office and equipment and logistical support for the MFEP liaison unit are estimated to amount to $100,000.

FINSAC II: BUDGET FOR TECHNICAL ASSISTANCE PROGRAM
FINSAC II IMPLEMENTATION SECRETARIAT
AND MFEP LIAISON UNIT

	1992		1993		1994		TOTAL	
	FOREIGN US$	LOCAL CEDIS	FO[illegible] U[illegible]	LOCAL CEDIS	FOREIGN US$	LOCAL CEDIS	FOREIGN US$	LOCAL CEDIS
FINSAC SECRETARIAT:								
UNIT HEAD & ADVISORS FEES & BENEFITS	250,000		250,000		150,000		650,000	
OFFICE EQUIPMENT, MVS & LOGISTICAL SUPPORT	100,000						100,000	
MFEP LIAISON DESK:								
MFEP LIAISON DESK LOGISTICAL SUPPORT AND OFFICE EQUIPMENT	40,000		30,000		30,000		100,000	
TOTAL SECRETARIAT & MFEP DESK	390,000		280,000		180,000		850,000	

GHANA

SECOND FINANCIAL SECTOR ADJUSTMENT PROGRAM

Supplementary Data Sheet

I. **Timetable of Key Events**

(a)	Time taken to prepare the program	13 months (November 1990-November 1991)
(b)	Appraisal mission	July 1991
(c)	Negotiations	November 1991
(d)	Planned date of effectiveness	January 1992

II. **Special IDA Implementation Actions**

(a) Around October 1992 and April 1993, or other agreed date, IDA will review the Government's progress in implementing the program and the status of actions to be completed for the release of the second and third tranches of the Credit, respectively.

III. **Documents in the Project File**

(a) Bank of Ghana: Computerization program and timetable; audited financial accounts for the fiscal years ended 1988 through 1990, organizational structure, and the draft Bank of Ghana Act.

(b) Terms of reference including action plan for privatization of government-owned banks.

(c) Categorization of enterprises for recovery, NPART's action program and Aggregate Recovery Target (ART).

(d) Various terms of reference for studies pertaining to the CRP, non-bank financial institutions, SSNIT and informal financial markets.

(e) Detailed cost tables for the technical assistance component.

MAP SECTION

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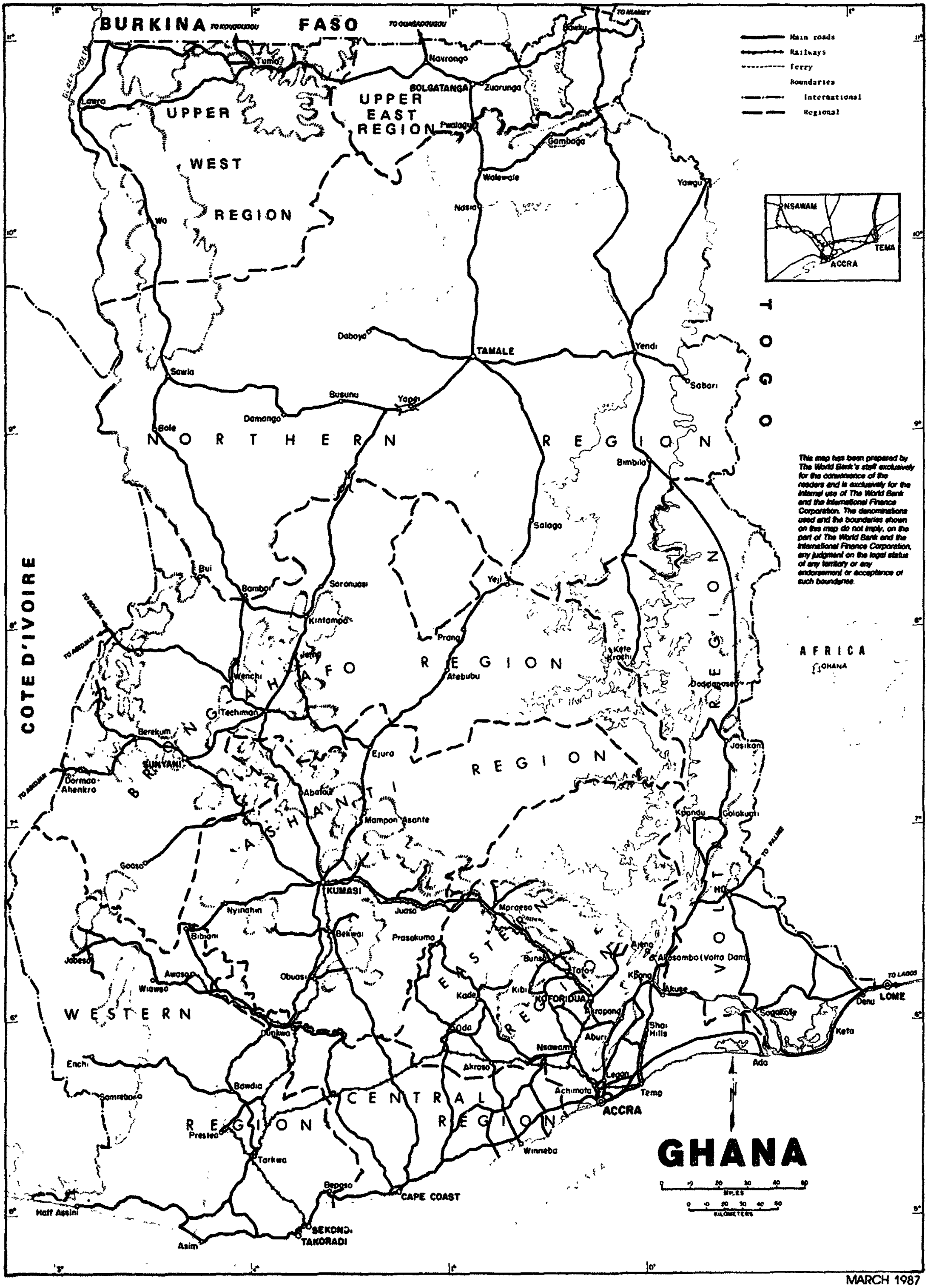

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