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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

GHANA

ECONOMIC MEMORANDUM, 1967-68

February 5, 1968

Africa Department

CURRENCY EQUIVALENTS

Until July 7, 1967

1 new cedi	=	US$ 1.40
1 dollar	=	N¢ 0.714

These equivalents are sued in Chapters I, II and III A of the memorandum.

From July 8, 1967

1 new cedi	=	US$ 0.98
1 dollar	=	N¢ 1.02

For the purpose of comparability with the documentation prepared by the Government of Ghana balance of payments data in Chapter III B are in post-devaluation N¢.

PREFACE

The following memorandum is based on the findings of an economic mission which was in Ghana in November/December 1967. It has been compiled specifically for the Ghana Aid Meeting and is meant to supplement other documentation prepared by the Government of Ghana and the International Monetary Fund; it therefore omits certain aspects of Ghanaian economic performance which, though standard elements of the Bank's economic analysis, are covered in these other documents.

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Summary and Conclusions

1. Ghana, after the change of Government in February 1966, is now looking back on almost two years under an economic policy designed to guide the economy from a severe crisis back to a basis from which sustained economic development could be resumed. This crisis was marked by exhausted foreign exchange reserves and inability to service the external debt, by plant made idle by lack of spare parts and raw materials, and by inflation and falling standard of living. It called for a stabilization program during which private and public cliams on resources would be brought in line with the domestic product and available long-term finance. Given the extent to which these claims had been allowed to get out of hand, such a program inevitably had to have a strong deflationary element. Judging from two years' experience, the Government's courage and determination to carry out such a program, with its many unpopular features, has met with appreciable success.

2. Government finances have played a prominent role in the stabilization effort. Recourse to borrowing from the banking system was greatly reduced in the first year and in the current year should disappear as ordinary revenue, together with borrowing from statutory corporations and external sources, is expected to cover total expenditure. Of critical importance in this improvement were restrained current expenditures for which the rate of increase has been halved. Within two years the Government budget has thus been freed from inflationary financing.

3. Inevitably, economic stabilization had to affect the country's investment effort. In the past, this had been propelled towards over-ambitious targets in public investment with consequential sacrifice of sound investment criteria while private investment stagnated. By 1965, investment absorbed 25 percent of available real resources, while the savings rate had sunk to 12.5 percent. Not only were resources outstripped by this rapid growth of capital formation but, equally disastrous, it failed to generate an appreciable impact on growth. Public sector investment tripled in the period 1960-65, an expansion which could not possibly be matched by a similar increase in managerial talent. As a result, manpower shortages swiftly arose in project preparation, execution and management. A reduction of the level of investment during the stabilization period therefore had the two fold aim of reducing the over-expanded claim on resources and of bringing the level of public investment in line with the country's manpower resources. The quality of investment could be improved within a reduced total, because of the many non-viable programs in the public sector. This policy has been successful in reducing gross fixed investment by about 46 percent in the last two years, with both public and private investment sharing about equally in the reduction.

4. The restraint on Government expenditures and sharply reduced capital formation have helped Ghana's balance of payments, a third crucial element in the country's stabilization program. Long-term balance of payments prospects have been further improved by a 30 percent devaluation of the cedi in July 1967. Despite only moderately increasing exports,

largely a result of higher cocoa prices, the current account gap was reduced by two thirds within two years, chiefly by drastically restricting imports in line with available foreign exchange. Drawings on the IMF and new long-term aid were substituted for suppliers' credits and the use of reserves, which had previously been the chief sources of external finance. The reduction in the overall level of imports was accompanied by improved allocation through changes in licensing so that the supply of basic consumer goods, raw materials and spare parts was appreciably improved. Consequently manufacturing output was considerably increased and there was no obvious shortage of basic consumer goods. Prices stabilized in 1967 and, aided by a bumper food crop in that year, private consumption has been substantially improved by the stabilization effort. GDP in real terms, after only a marginal increase in 1966, may have grown by 3 percent in 1967.

5. With the balance of resources basically restored and substantial long-term aid beginning to show its impact, the economy's development effort comes up for consideration again. As originally envisaged, the aims of the stabilization period were to be mainly achieved by the middle of 1968, after which the emphasis was to shift to development. Indeed, the major question now facing the economy is whether new investment can be organized or, as far as private sector is concerned, encouraged to achieve economic growth, especially of agriculture and exports, while maintaining the gains of stabilization and devaluation and paying due attention to continuing foreign exchange constraints. This is as much a question of economic policies as of available finance, and while recent success with the latter may raise optimistic expectations for the future, the former, i.e. the reformulation and implementation of sectoral policies geared to economic growth, has been slower to develop than would appear to be desirable.

6. Agriculture, which is increasingly coming into focus as a key to economic development in Ghana, provides a good example. Though a bumper food crop in 1967 helped to mitigate the adverse effects of deflationary policies, this good crop appears to be partly the result of farmer response to attractive prices in the proceding years combined with increased rural population and better marketing facilities rather than the result of government policies and supporting programs. It is questionable whether this initial upturn will be permanent. The possibility of unfavorable farmer response to the food price slump in 1967 and therefore the reoccurance of short-term food shortage and high prices cannot be discounted. The Government has laid out the directions of future economic policy and, as far as agriculture is concerned, their objectives are reasonable. However, the implementation of these policies is lagging. One reason is that the agricultural agencies are undergoing a basic reorganization while consolidating the large programs inherited from the past. However, if ministries fail to draw appropriate implications from proclaimed policies and lag in organizing operational programs, priorities may be disregarded and the resumption of development can only be less successful than expected by Ghanaian authorities.

7. Progress in industry has been more appreciably affected by Government policy: firstly by the improved allocation of imports, which helped to bring about a sizeable increase of manufacturing output; and secondly, by the coming into operations of several state enterprises which had either not yet been completed or were operating much below capacity due to inadequate management. Some state enterprises have been sold to the private sector, and foreign private participation was obtained for others. In addition several management contracts have been signed for state enterprises, and, with UN assistance, the State Enterprise Secretariat is being converted into an independent holding corporation. While the public sector is still preoccupied with remedial actions to bring its inherited enterprises into profitable production, the private sector is expected to assume a more active role in industrial investment. Although the increase in productive private investment since 1966 has been most encouraging, future growth will depend on policies directed at further improvement in the investment climate.

8. The 1968 import program drawn up by the Government of Ghana reflects policies to further increase production and reverse the 1966-67 trend of declining capital formation while maintaining the achievements of the stabilization effort. Imports of food and consumer goods have been further reduced from the 1967 level in the expectation that a substantial increase in domestic manufacturing output as well as another favorable food crop will allow a further improvement in per capita consumption. The import program makes no allowance for a disappointing food crop and the Government would be well advised to provide for contingency imports in order to counter inflationary tendencies which would inevitable arise in such a case. Imports of raw materials as suggested in the Government program would result in a growth of output which, in the judgment of the mission, would exceed the absorbtive capacity of the domestic market in 1968 particularly when the impact of devaluation is taken into consideration. The mission therefore suggests a lower level of raw material imports. Finally, imports of investment goods have been amply provided for taking into consideration the absorbtive capacity of different investor groups. Such imports should allow a 25 to 30 percent increase in gross capital formation.

9. In total import requirements add up to N¢ 350 million (post devaluation) under the mission's suggested program and N¢ 369 million under the Government program. Both import programs and the resulting balance of payments gaps reflect the status of the Ghanaian economy in which considerable progress towards stability has been made but whose future development effort is severely limited by a continued balance of payments constraint.

10. On the basis of the N¢ 350 million import program, net capital inflow requirements from aid to be committed in 1968 would be in the order of US$ 54 million - a level which Ghana can only attain if the disbursement rate is drastically improved, as seems likely. Again the major share of aid will depend upon new direct balance of payments support. In 1967, only 14 percent of external aid commitments was project aid, and although a higher share is likely to emerge in 1968 projects suitable for

external finance are only slowly emerging. Some statutory corporations have projects but the Government's efforts to build up a pipeline of projects has been slower than anticipated. The pipeline of projects will probably not be large enough to shift the nature of foreign aid from balance of payments support to direct project assistance of the country's development until the conclusion of several sector studies now being undertaken by consultants.

11. Looking beyond 1968 a number of factors will influence the future direction of economic development. In the first place the effects of devaluation will be more fully felt in 1968 and subsequent years and future levels of exports and imports will depend upon the economy's reactions to the price changes imposed by devaluation. In particular, if devaluation will help to bring imports in line with available resources, future increases in imports should begin to correlate with the growth of total output and liberalization of essential imports could begin to replace the present rigid import programming. Prospects for this will depend as much on the outcome of further debt rescheduling and continued aid inflow, as on further improvement of export performance. On the other hand, a permanent solution to the balance of payments depends upon achieving sustained growth in exports and productive import substitution; indeed, the rate of growth in this area will be an important regulator of the pace of expansion of the economy. It will also be very important in 1968 to see to what extent demand constraint begins to influence the rate of expansion of manufacturing output and, equally important, if signs of revival in agriculture, which began to show in 1967, will continue in 1968 which would more clearly indicate that the stagnation of agricultural output has finally been overcome. Finally the Government's declared policy to promote private investment and in general the emergence of an investment climate will be important to observe, in order to judge if, while the public sector is preoccupied with reorganizing its development effort, the development impact of private investments will be able to play the role which it was planned to have under the original concept of Ghana's new economic policies.

ECONOMIC MEMORANDUM ON GHANA

I. THE ECONOMY IN 1966-1967

Introduction

1. Soon after taking power in early 1966, the Government embarked on a program to stabilize the economy, avoiding, so far as this was possible, stagnation of economic growth. A brief restatement of the original stabilization with development strategy is necessary, both to provide a "bird's-eye" view of what the Government is seeking to attain, as well as a benchmark against which this report attempts to assess how well the strategy is working. The report also seeks to evaluate where achievements appear to be well-founded and lasting, or where further adjustments are necessary.

2. The new Government recognized that the economic situation inherited in 1966 was such that deflation and retrenchment were unavoidable, but that its room for maneuver was limited. The Government sought to work on both supply and demand in restoring balance to the economy. On the demand side, there was scope for reducing both Government consumption and investment as there were many low priority expenditures and non-viable projects to be retrenched. However, they hoped that retrenchment would not go beyond the point where essential programs and staffs for future development and viable projects would be impaired. Private consumption and investment were more difficult because both had declined in real terms in the 1960's from the combined effects of stagnating domestic agriculture and manufacturing output, severely restricted imports, rising prices, and sharply increased taxation. There was therefore little scope for further restraint of private demand. On the other hand, restoring public sector balance, even after retrenchment of expenditures, left little scope for substantial reductions in tax rates except where incentives could be created for agriculture and export growth. Priority was given in this respect, to increasing cocoa producer prices and reducing mining and timber taxes as soon as resource availability permitted. In any event, it was hoped that despite further reductions in non-food consumer imports, increased domestic output from under-utilized manufacturing capacities, plus increased food imports, would arrest the decline in private consumption.

3. On the domestic supply side, the target was to achieve a quick increase in supply from existing capacities. The substantial under-utilization of industrial, mining and timber capacities provided significant scope if imports, even at reduced levels, were re-allocated to production. Resources made free by reduced Government programs were also to be re-allocated to private agriculture which, combined with price incentives and viable public programs, would, it was hoped, increase agricultural output.

4. The balance of payments was in a critical state with stagnant exports, a distorted pattern of imports, no reserves, an unmanageable external debt burden and accumulated arrears. The targets were in the short-run, to regain control of the balance of payments through resched-

uling medium-term external debt, reducing imports and obtaining external assistance from the IMF and other sources. Over the longer-term, the targets were to create incentives for exports; reduce the import content of consumption, production and investment through improved allocation of both imports and economic resources, and an orderly reduction in arrears. As resources permitted, the next phase would be to build up reserves to minimum levels, and liberalize essential imports and the remittance of profits.

5. Phasing was important. The first round was basically retrenchment of public sector expenditures and increasing domestic production. As equilibrium was being restored, it was hoped that resources could be found for an increase in productive private investment. In regard to public investment, the stabilization period was seen primarily as one of completing existing viable projects and preparation of new programs for future implementation. Only a few new projects that were necessary adjustments to existing ones, such as electricity distribution, or very high priority ones, as in agriculture or exports, would be started during the stabilization period. Finally, when equilibrium was restored, the economy could resume increased investment.

6. The Government recognized that its strategy required continuous adjustment, as there were many economic unknowns that could not be foreseen with any accuracy. Effective budgetary control had been abandoned by the previous Government and it was therefore uncertain where public expenditures could be stabilized without impairing essential programs and viable projects, and to what extent unemployment would result. How fast domestic output increased would influence import planning, employment, and public and private savings. The greatest uncertainties surrounded the balance of payments: how fast would exports respond to incentives and what would happen to cocoa prices; how much relief from external debt rescheduling, and how much new external assistance would be forthcoming?

7. The new Government inherited in addition a civil service that was seriously over extended by existing Government programs, and Government machinery characterized by multiple agencies, complex procedures and impaired budget and administrative controls. This meant that the stabilization program had to be implemented while a major effort was being made to reorganize the machinery of Government. This reorganization effort was especially important in the crucial policy areas available to Government for allocating resources: fiscal planning, coordination and control; program and policy management in the spending ministries; and import management.

8. Inevitably 1966 was a year of improvisations. Emergency reviews and adjustments were made to the inherited 1966 budget and import licensing program, but systematic expression of the stabilization policy could only begin with the budget of 1966/67 and the import program of 1967. Even then the economic leadership was heavily engaged with emergency measures like external debt rescheduling and attracting emergency external assistance, and therefore the scope for implementing the new stabilization policies was still limited given the administrative

capacities and time available relative to the magnitude of the tasks. It is fair to say that systematic implementation of new policies could only be more fully expressed in the 1967/68 budgets and the import programs of 1967 and 1968.

Output

9. After stagnating in the 1960's supply of essential foodstuffs improved in 1966 and 1967. Price statistics indicate that in 1966 domestic agricultural production including fish catches increased slightly though not sufficiently to arrest the upward trend of local food prices that had prevailed since 1964. There were no indications that 1966 domestic output increased more than population growth. However, the overall increase in the cost of living index which had been as high as 26 percent in 1965, was reduced to 13 percent because the total food supply benefited as much or more from increased imports of staple food, made possible by food assistance programs, as from domestic output. Food supply from imports increased even more than the recorded 10 percent increase in value because the composition shifted from high value to predominately lower value staple foods. Available statistics and informed opinion agree, however, that in 1967 domestic food output and fish catch increased significantly: the domestic food price index for the same period declined about 20 percent in that year. Food imports in 1967 are estimated at about the same level as 1966 so that increased food supply was primarily the result of increased domestic output. It is estimated that total agricultural production, excluding cocoa, may have grown by 7 to 8 percent in 1967.

10. Although the quality of data prevents reliable analysis, there are indicators that the increase of output in 1967 resulted as much from attractive relative food prices in 1965-1966, increased rural labor force and improved road transport as from weather. Increased labor resulted partly from the return to farming of those unemployed by the curtailment of Government programs especially in construction and state farms; possibly a slow down in the drift of rural workers to the cities because of the increased urban unemployment; partly as a result of increased cocoa producer prices attracting more farm labor who also grow food, and partly by the resumption of farming by those displaced by the flooding of the Volta lake in 1965.

11. The increase in domestic fish catch resulted from continued expansion of the private motorized fleet for both inshore and long range ocean fishing; a particularly good herring season in 1967; and increased fishing on the Volta lake. Part of the expansion of the fleet resulted from the transfer of idle vessels owned by the State Fishing Corporation to private operators. The increased domestic fish catch ameliorated the effects of reduced fish imports, although because of the seasonal pattern of the catch and the lack of processing and storage facilities, dependence on imports was not significantly reduced. Nor could seasonal price declines be avoided which were reported to be pronounced in 1967.

12. Agricultural production for export continued to stagnate. The 1965/66 cocoa crop declined to 409,000 tons after the historically high 1964/65 crop of 572,000 tons. The subsequent 1966/67 crop was 375,000 tons and the 1967/68 crop is estimated at 410,000 tons. Cocoa receipts declined sharply in 1966 to N¢ 115.8 million from N¢ 148.7 million in 1965 as the smaller crop of 1965/66 was sold forward at lower prices before prices increased in 1966. They increased in 1967 to an estimated N¢ 140.8 million reflecting continued improvement in prices; average annual prices increased from U.S. 17.3 cents per pound (f.o.b.) in 1965, the lowest level since 1946, to U.S. 24.4 cents in 1966 and U.S. 29.1 cents in 1967.

13. The apparent stagnation in cocoa production results, in addition to seasonable weather conditions, from the increasing neglect of cocoa begun in 1962 with withdrawal of swollen shoot disease control and supported replanting. Capsid spraying using imported chemicals and sprayers has not been widespread since the 1964/65 season, and producer prices had declined to N¢ 4.0 per load (60 lbs.) in 1965/66 at which level farmers were apparently unable or unwilling to hire labor with a resulting decline in husbandry, harvesting and an increase in smuggling. A series of producer prices increases, starting in 1966, has raised the price to N¢ 6.5 per load in July 1967, and there are now indications that labor is returning to cocoa farming. However, disease controls have as yet to be reorganized, although imported chemicals were available in 1967. There are indications that planting must be resumed if Ghana is to maintain her share in world cocoa supply.

14. Output of logs and processed timber declined in 1966 and did not improve appreciably in 1967. The industry has faced a variety of problems resulting in a decline in Ghana's competitive position and significant under-utilization of capacities: softening world market prices since 1965, uncertainty surrounding Government's policy towards concessions; delayed approval of cutting programs from the Forestry Department; increased costs resulting from higher taxes upon and scarcity of imported equipment and spares; relatively high railway rates and occasional scarcity of wagons; and a 5 percent Timber Marketing Board (TMB) charge. Incentives improved in the latter half of 1967 with the devaluation of the new cedi, reductions in railway rates and timber taxes, and halving the TMB charges.

15. Mining output overall increased marginally in 1966 and decreased by an estimated 6.3 percent in value in 1967. Due to changes in stocks exports declined in 1966 and increased in 1967. Again the devaluation of July 1967 and reduction in diamond taxes have improved incentives for production.

16. The stabilization period began with the advantage of significant under-utilization of capacity in industry. Except for petroleum refining which began in 1963, output in constant prices remained virtually unchanged between 1963 and 1965, a period of rapid growth in capacity. Although many factors contributed to under-utilization of manufacturing capacity, all the evidence points to delays and shortages

of imported raw materials and spare parts as the primary factor in respect of private and joint state-private manufacturing firms, but not in respect of state enterprises where other problems inhibited output. Taking out excise taxes, overall manufacturing output in constant prices increased 13 percent in 1966 and increased a further 15.7 percent in 1967. The increase resulting from improved imports of raw materials is better illustrated if output from petroleum refining, mining and timber processing are excluded as petroleum imports are classified separately from industrial materials and mining and timber are not primarily imported raw material users. Manufacturing industries thus defined which accounted for about 83 percent of total manufacturing output increased production in constant prices by 27 and 21 percent in 1966 and 1967. (See table 9).

17. The Government stabilization strategy of achieving a quick increase in supply by shifting the composition of imports in favor of raw materials for production has clearly succeeded. The increased manufacturing output in 1966 benefited from the windfall of the large raw materials imports of 1965 being delayed and carried into 1966 as raw materials imports declined in 1966, whereas 1967 reflects the new import policies of Government which increased raw materials imports 50 percent over the recorded 1966 level. As more fully discussed later in this report, increased manufacturing, partly offset by reduced consumer goods imports, permitted an increase in real per capita consumption in 1967 after several years of declining consumption. It is estimated that value added from manufacturing alone contributed 1.1 percent of the estimated 3.0 percent increase in real GDP in 1967 even though manufacturing constitutes only about 7 percent of GDP.

18. Increased manufacturing output in 1966 and 1967 has been paralleled by increasing diversification of production; whereas beverages, tobacoo and timber were the principal industries in terms of output in 1962, by 1967 textiles, soap, paper, petroleum refining, construction materials and assembly of transport equipment had become significant industries (See table 1). Indeed, the textile industry has emerged as a boom industry since 1965. Other notable features of Ghanaian manufacturing that have emerged are that, except for timber processing and small amounts of food and textile output, all are import substituting; output for exports has stagnated; output is more dependent on imported inputs rather than local supplies; although the share of output contributed by state and joint state-private firms has grown rapidly relative to private firms, private firms control 68 percent of output; and non-Ghanaian firms account for about one half of output and predominate in the larger firms. Mining and manufacturing contribute about 12 percent of GDP in constant prices and employ about 10 percent of recorded employment in establishments employing 10 or more.

19. According to estimates food production and marketing, cocoa, large scale manufacturing and mining account for about 65 percent of GDP. In estimating the real growth in 1967, it was assumed that value added generated by food marketing grew at about the same rate as food production. Construction, as will be shown later, was very much depressed. Growth of other economic activities has been roughly estimated,

Table 1 : Value of Gross Output in Current Prices for Manufacturing Activities by Main Groups 1962-67

N¢ Million

	1962	1963	1964	1965	1966	Est. 1967
Food Manufacturing Industries except Beverage Industries	4.2	4.5	4.7	9.6	10.8	12.0
Beverage Industries	10.3	13.9	14.3	17.7	21.5	25.0
Tobacco Manufactures	12.7	14.5	16.4	18.1	20.5	21.9
Manufacture of Textiles	3.3	1.7	2.5	4.0	7.0	9.6
Manufacture of Footwear, other Weargin Apparel and made-up Textile Goods	1.7	3.3	4.4	5.8	7.1	8.9
Manufacture of Wood and Cork, except manufacture of - Furniture, Sawmills Planning and other Wood Mills	20.4	20.2	21.6	23.3	22.7	21.5
Manufacture of Furniture and Fixtures	2.5	2.8	3.5	3.0	2.9	2.4
Manufacture of Paper and Paper Products	2.5	8.5	9.8	1.4	2.9	5.4
Printing, Publishing and Allied Industries	2.4	4.1	3.1	3.4	5.4	7.6
Manufacture of Leather and Leather and Fur Products, etc.	5.3	4.4	4.5	3.4	4.1	5.1
Manufacture of Rubber Products	5.4	5.3	1.4	2.0	1.5	2.0
Manufacture of Chemicals and Chemical Products	5.5	10.1	13.5	11.4	16.5	21.1
Manufacture of Petroleum Products and Coal		2.1	5.0	5.1	5.2	7.6
Manufacture of non-metallic Mineral Products, etc.	9.6	1.3	1.1	1.4	3.0	3.6
Basic Metal Industries	5.3	5.4	7.0	1.5	8.5	1.1
Manufacture of Metal Products except Machinery and Transport Equipment	5.7	7.1	7.8	6.1	7.7	8.7
Manufacture of Transport Equipment	2.1	4.2	3.8	4.2	4.8	6.9
Miscellaneous Manufacturing Industries	4.1	9.8	1.8	1.5	1.3	1.3
T O T A L	71.4	93.1	107.1	120.1	142.0	167.4

Source: Central Bureau of Statistics

taking into consideration developments in these key sectors. Small industries, rent and services are assumed to have been determined by the growth of population, while the value added generated by the Central Government was calculated on the basis of actual budget outcome. Such estimates, crude as they are given the lack of reliable statistics on the origin of GDP, would indicate that GDP in 1967 grew by about 3.0 percent in real terms as compared with 0.3 percent in 1966 and -3.4 percent in 1965. This would be a more favorable development than was foreseen in the last Bank report.

Use of Resources

20. Expenditure on gross domestic product for 1965/66 and estimates for 1967 are shown in the table below:

Table 2: Expenditure on GDP, 1965/67

(At constant 1960 prices, except for stocks, exports and imports) 1/

(N£ million pre-devaluation)

	1965 Actual	1966 Actual	Percent Change	1967 Estimate	Percent Change
Private consumption	722	689	-4.6	751	+9.0
General Government consumption	165	172	+4.5	180	+4.5
Gross fixed investment	250	207	-17.2	134	-35.3
Change of stocks	+1	+15		+9	
Exports of goods and non-factor services	252	219	-13.1	235	+7.3
Imports of goods and non-factor services	-376	-285	-24.2	-262	-8.1
Gross domestic product	1,014	1,017	+0.3	1,047	+3.0

1/ See Appendix

Source: Central Bureau of Statistics and Mission Estimates.

69. The Ministry of Industries as presently staffed is preoccupied with three activities: granting investment approvals, allocating import licenses to private and joint state-private manufacturers, and completion of state enterprises now under construction. As a consequence, there is little time devoted to formulating industrial policy as such. The Ministry hopes to re-orient the emphasis of its work both by reducing the work load as when state enterprises are completed and transferred to GIHOC, but especially by contracting for an industry sector study under technical assistance, including training of Ghanaian counterpart staff. This sector study is now at the draft terms of reference stage. It is doubtful that the Ministry can achieve its objective unless the investment approval and import licensing system is improved and simplified, and as long as import licensing continues, it will probably require additional staff to effectively come to grips with future industrial policy.

C. The 1967/68 Development Budget

70. Budgeted development expenditures in 1967/68 amount to N¢ 89.96 million as shown in Table 5. If adjustments for devaluation (N¢ 4.7 million)and an allocation of N¢ 6.7 million for road maintenance, previously shown under recurrent expenditure, are excluded for comparability, budgeted development expenditure in 1967/68 exceed the actual level in 1966/67 by 4.2 percent. The development budget includes the devaluation effect on goods and services imported directly by the Government, but not the indirect devaluation effects on goods purchased locally (e.g. construction materials). However, taking into account the latter, which is estimated at about N¢ 2 to 3 million, the budgeted 1967/68 development effort in real terms is roughly the same level as the actual achieved in 1966/67.

71. However, some shifts in sectoral emphasis should be noted. The budgets of the Ministry of Industries and State Enterprises Secretariat could be reduced since more projects were completed and the Government adhered to its policy not to commence new projects in the industrial sector during the stabilization period. The development budget of the Ministry of Trade could be reduced markedly after the completion of the Trade Fair. Expenditure for defense which in Ghana is partly budgeted as development expenditure, also shows a reduction from the actual N¢ 8 million to N¢ 5 million in 1967/68. This allocation, however, appears to be unrealistic since already in the first three months of the new budget year the Ministry of Defense drew additional N¢ 1 million from contingency funds. The biggest increase finally is for construction works which, even if road maintenance funds of N¢ 6.7 million are deducted, show an increase of N¢ 6.8 million or 58 percent over actual expenditure in 1966/67. This increase favors mainly the Ghana Housing Corporation (GHC), the Tema Development Corporation (TDC), and the Ghana Water and Sewerage Corporation. The GHC and TDC programs emphasize labor intensive low-cost housing designed to absorb some of the unemployed labor and under-utilized capacity in the construction sector while reducing the import content. Although the direct growth impact of these expenditures will be lower than in productive agriculture or industry projects, a stepped-up program is sensible when the above-mentioned corporations have demonstrated their capacity to carry out sound programs and more productive alternatives are missing. In addition, rent and sales policies have been changed in order that such housing programs mobilize additional private savings, and construction is of course important to the market for the growing domestic manufacture of construction materials.

72. A special feature of the 1967/68 development budget is relatively ample contingency allocations under the Ministry of Economic Affairs which leave this Ministry with considerable scope to facilitate projects that may emerge in the course of the year. Out of a total allocation of N¢ 13.8 million for that Ministry N¢ 13.6 million or 15 percent of the total development budget is earmarked for such purposes as emergency and relief works, counterpart funds for new projects that might

Table 5: Central Government Development Expenditure

(N¢ thousand)

	1965 Actual	Jan.-June 1966 Actual	1966/67 Actual	1967/68 Budget after Devaluation	1967/68 Foreign Exchange Component After Adjustment	1967/68 Foreign Exchange Component Before Devaluation	1967/68 Budget before Devaluation	1968/69 Estimated expenditure on ongoing projects 1/
Agriculture								
Ministry of Agriculture			8,138	9,757	3,718	2,602	8,641	3,708
Forestry			293	573	90	63	545	150
Mining			3,595	3,588	1,390	973	3,171	1,587
Industries			9,720	5,232	217	152	5,166	2,551
Construction			11,792	26,576	4,280	2,996	25,292	15,027
Transportation and Commerce			3,151	4,065	2,198	1,540	3,407	1,794
Commerce (Trade)			3,726	595	-	-	595	-
Education			7,615	9,859	1,193	835	9,501	2,997
Health			753	2,159	299	209	2,069	1,062
Labor and Social Welfare			172	229	-	-	229	195
General Administration			856	2,301	-	-	2,301	1,010
Information			545	1,334	612	428	1,150	280
Internal Administration			810	1,649	539	377	1,487	904
Foreign Relations			224	-	-	-	-	-
Defense			8,031	5,000	-	-	5,000	7,000
Sub-total			59,421	72,917	14,536	10,175	68,556	38,265
Fiscal Administration			8,673 2/	3,238	981	687	2,944	2,940
Ministry of Economic Affairs			7,333	13,805	151	106	13,760	4,000
Sub-total			16,006	17,043	1,132	793	16,704	6,940
Total development expenditure	105.0 3/	48.4 3/	75,427	89,960	15,668	10,968	85,260	45,205

1/ estimated by Ministry of Economic Affairs and Mission
2/ includes miscellaneous supplementary allocations
3/ debt service on suppliers' credits was included in the development expenditure of various ministries up to 1967/68, when they were shifted to the recurrent budget. In earlier years total debt service payments can be deducted from total development expenditure but sectoral breakdowns are not readily available. Actual expenditures in 1966/67, however, are comparable with the budget 1967/68, since due to the moratorium on suppliers' debt there were no repayments in that year.

Source: Annual Estimates and Ghana Gazette

attract external finance, and new labor intensive projects such as the housing programs noted above, working capital for state enterprises or no specific purpose at all (unallocated - N¢ 4.3 million). By November 1967 roughly N¢ 2 million had been spent on defense (N¢ 1 million) state farms (N¢ 0.6 million) and farm mechanization (N¢ 0.5 million). Though a certain element offlexibility in the budget is desirable, allocations of this magnitude can only be justified if sound procedures for their actual spending are firmly established. In their absence adherence to the budget might be weakened if additional funds are known to be available subject to persuasion of the Ministry of Economic Affairs.

73. In general the 1967/68 development budget is largely in line with the views expressed by a Bank mission that visited Ghana in May/June 1967 during the preparation of the budget. The quality of the development budget is improved in that it reflects a continued effort to eliminate projects and programs of dubious merit. Moreover, the budgeted increases for new or expanded projects, estimated at about N¢ 6-14 million, depending on the definition of new projects, were concentrated in the economic sectors with the bulk allocated for credit for agriculture and industry and expansion of agriculture support programs for private farming. Social and administrative sector allocations were confined to ongoing schemes, except for the labor intensive low cost housing program. The sector breakdown of the budget (shown in Table 5) obscures these important reallocations between sectors: many economic sectors show little change because they were reducing expenditures on non-viable projects while adding new programs, and because over half the block allocation for the Ministry of Economic Affairs is for economic sector projects.

74 The development budget also reflects the Central Government's desire that streamlining of its development budget should not impair essential programs and staff required as a foundation for resumed development in the future nor generate additional deflation and unemployment Thus, it can be seen why the development budget contains programs which, while useful in themselves, are not of the highest priority and are being maintained until they can be reorganized into more productive schemes or in a few cases because they do not have to compete with better projects. In regard to the latter, for the reasons stated, the Government refrained from cutting the development budget further as long as more suitable alternatives, particularly in agriculture, were not available. New productive projects were not available because of the slow progress of new project preparation, and because the few large projects available such as electricity generation and distribution or railways, are now implemented by Statutory corporations and financed outside the budget of the Central Government.

75. There will thus be some room for further improving the quality of the development budget when new high priority projects are available to replace some lower priority projects without necessarily increasing the total size of the development budget. There will be even greater scope for introducing new projects without necessarily increasing the size of the budget, or not increasing it proportionately, as ongoing projects are completed.

76. Ghanaian authorities doubt, and the mission concurs, that actual development expenditures for 1967/68 will reach the budgeted level despite the effects of devaluation on the domestic price level, which was not taken into account when the development budget was prepared. In the first place, contingency allocations are unlikely to be needed in the budgeted magnitude. Secondly, certain ministries such as the Ministries of Health and Education and the Public Works Department will be unable to spend their total votes. Thirdly, shortage of foreign exchange might affect the Government's investment program, too. The 1967/68 budget is balanced in terms of domestically available resources but when translated into import requirements its feasibility will largely depend on the overall level of imports. The import program for calendar year 1967 was largely licensed before the new budget was published. The Government agencies then applied for imports under the 1968 program in September 1967 and licenses were issued on a limited scale in November 1967. But the full licensing for 1968 can only commence once the import program has been reconciled with available resources and this will largely depend on aid commitments for 1968. Since the budget year is over by the middle of the year it will be technically difficult for the Government to benefit from any increases in the 1968 import program that might become feasible with the emergence of the aid picture in 1968. The 1968 import program, as outlined in **Chapter III**, assumes actual development expenditures of N¢ 75 million. Should 1968 imports materialize below the level proposed in the Government's 1968 import program its ability to spend on development in 1967/68 and 1968/69 will be curbed even further unless the total reduction in imports is to fall on other sectors of the economy.

77. Table 5 shows development expenditures for 1968/69 which will be required to continue projects and programs commenced in 1967/68 and earlier. The underlying definition of "ongoing" is rather wide and includes for instance continued contributions to the Agricultural Credit Bank, the National Investment Bank (budgeted under Fiscal Administration), and construction programs of TDC and GHC on the same level as in 1967/68. It also includes another contingency allocation of N¢ 4 million in the Ministry of Economic Affairs. Depending on the definition of "ongoing" project the Government will be able to spend between N¢ 40 to 50 million on continuing projects in 1968/69. This implies that, if the 1967/68 level of N¢ 75 million for development is to be repeated in 1968/69, disbursements on new projects in the magnitude of N¢ 25 to 35 million will have to be ready for implementation in fiscal 1968/69. Given the pipeline of sound new projects and the pace at which additional ones are being prepared in the key sectors, there is some doubt that this level can be attained. If sound and rigorous criteria are applied to new public development projects a somewhat smaller development budget is likely to emerge for 1968/69. The institutional capacity in Ghana's public sector is not yet geared to resume a development effort on an increased scale compared to the level of 1967. However, there will be increasing scope for financing new projects from external sources within a roughly stable level of development expenditures because the share of ongoing projects will and should decline.

78. The importance attached to improving the productive quality of the development budget without necessarily increasing the size of the budget follows from considerations of growth and resource availability. Given continuing severe limits on the capacity to import, and with consumer imports already significantly reduced and the essential annual increase in growth in raw materials imports for production, there necessarily will be limited scope for allocating additional imports for investment over the near term. Thus future investment must be such as will achieve additional growth without proportional increases in imports in order to ease the balance of payments constraint by both restraining overall imports and by generating new exports or import substitutes. This logic applies equally to private investment. As the last Bank report noted, the long-term growth of Ghana depends upon improving the quality of investment while reducing investment to a level consistent with resource availability. This problem emphasizes the importance of both policies to induce increased productive private investment and efforts to expand the capacity of the public sector to prepare productive projects.

79. The Government originally envisaged, in 1966, that a new development program would be ready by the beginning of fiscal 1968/69. In recognition of the inevitable uncertainties associated with a stabilization effort and the necessity to be able to adjust to differing resource availability situations, the new plan was conceived as comprising long range sector programs and short range one to three year overall plans. In effect the overall plans would be constantly adjusted as resources permitted, but would pursue the policies and select investment components from the long range sector studies. The Ministry of Economic Affairs (MEA) was reorganized to direct and coordinate the planning effort, but equal emphasis has been placed on developing planning units in the principal development ministries. Both the MEA and the ministry planning units were to be supported by technical assistance.

80. Unfortunately the reorganization of this planning machinery and recruitment of technical assistance has taken longer than originally envisaged. A Harvard University Advisory Group was arriving in late 1967 and early 1968 to assist the MEA in overall planning. Terms of reference are now being prepared for technical assistance for long-range sector programming. The sectors to be studied include agriculture, industry, transportation, telecommunications and water resources. These sector programs will probably begin to appear in 1969. Future power requirements are fairly well known. The major planning gaps are in mining and education, and to a lesser extent in housing. Technical planning staff is particularly weak in the Ministries of Mining and Education, and technical assistance is urgently required to support these Ministries as both have or contemplate policies affecting major investment programs.

CHAPTER III

PROSPECTS FOR 1968

A. 1968 Import Program

81. Import requirements result from the economic policy objectives adopted for a given year, or conversely, the economic policy implications are reflected in any given level and pattern of imports. Given the uncertainties surrounding the financing of imports but awareness that it will be limited over a fairly wide range of assumptions regarding new external finance, the Ghana Government has designed an import program that attempts to achieve economic objectives with the minimum amount of imports. Its approach is to determine the import requirements for specific activities like consumption or investment. This approach recognizes the fact that the pattern of imports is equally or more decisive in its economic consequences compared to the total resulting import bill. The program can be evaluated therefore, in terms of the economic feasibility of the policy objectives and the adequacy of the specific import requirement to achieve the policy objective.

82. The Ghana import policy reflects experience gathered in 1966 and 1967, and what appear to be the requirements of an evolving stabilization and growth policy for 1968. Import policy in 1966, to the limited extent the Government could influence imports already licensed in that year, and 1967 stressed reducing the import content of GDP by curbing consumer imports without reducing essential staple food imports; reallocating imports to achieve a quick increase in manufacturing output, and while reducing invesment imports by curbing non-viable public projects, providing some scope for increasing productive private investment. The nature of the import problem and indications of improvements thus far achieved can be illustrated in the following table -

Table 6: DEPENDENCE ON IMPORTS; AVERAGE ANNUAL RATIOS OF IMPORTS TO COMPONENTS OF GDP

	1955-58	1959-61	1962-65	1965	1966	Est. 1967
a) Visible imports as a % of GDP 1/	22.9	27.0	29.4	34.2	24.8	21.3
b) Imports of consumer goods as a % of total consumption	15.0	16.1	11.8	12.4	9.0	7.7
c) Imports of investment goods as a % of gross fixed investment	38.8	42.8	48.4	58.4	56.4	54.5
d) Percentage increase in manufacturing output 2/ for domestic use	n.a	n.a	8.7	-1.4	27.0	22.0

1/ Imports in current prices; GDP and components in constant 1960 prices.
2/ In constant 1962 prices excluding excise taxes, petroleum, timber, mining and electricity.

83. One notable result of the stabilization program is that the ratio of imports to GDP which had increased constantly since the 1950's was sharply reduced to levels last approached in the mid-1950's. Although the reduction in imports reflected the reduced availability of import finance, it also reflected Government action to reduce demand by means of curtailing public sector expenditure, especially investment, and to restrain private demand and consumer imports. The devaluation of July 1967 should further contribute to the long-term objective of reducing the propensity to import, assuming that other major policies such as wages are consistent with this objective.

84. Another feature of the new import policy is that whereas in previous years a reduction in imports usually resulted in stagnating output and reduced real private consumption, the shift in the composition of imports in 1967 in favor of raw materials and spare parts contributed to both a significant increase in manufacturing production and arresting the trend of declining real private consumption in 1967 (see Table 7). On the other hand, the effect on investment was mixed. Overall investment, both public and private declined in both years. This was intentional in respect of public investment, and, on balance, the quality of public investment has improved markedly. The reduction in private investment in 1967 was not intended, but, again, the reduction was in respect of private construction, whereas more productive investment in industry, agriculture, timber and road transport increased thereby mitigating the effects on private investment.

85. A few remarks may be made about estimated 1967 imports which are provisionally estimated to be about 24 percent less than had been planned as the minimum essential requirements at the beginning of the year. The overall shortfall in imports resulted from less than anticipated import financing. The economic consequences as best as they can be estimated of this import shortfall, are broadly what was anticipated a year ago. Food imports were 24 percent less than the original minimum plan, but it is not clear whether such imports would have been adequate had domestic food production been less than the exceptionally good out-turn of 1967. Other consumer goods imports were about what was planned and petroleum imports slightly above, despite the decrease in overall imports. Consumer imports did not take a proportional reduction because medicines, school books and security forces consumables were not reduced from planned levels and residents returning from abroad brought in more than anticipated consumer durables.

86. Imports of raw materials were below planned levels proportionate to the reduction in overall imports although 50 percent above the recorded materials imports of 1966, which facilitated the significant increase in manufacturing output noted above. Partial evidence indicates that the larger private and joint state-private firms had adequate materials imports, and in most cases built up inventories approaching the minimum 3 to 4 months supply level compared to inadequate inventories at the end of 1966. Most state enterprises generally had more than adequate imported materials reflecting both ample licensing allocations and continued production and marketing problems. Many small and medium size firms did not have adequate

Table 7: ILLUSTRATIVE SUPPLY AND CONSUMPTION OF NON-FOOD CONSUMER GOODS

(N£ million)

Pre-Devaluation

	1962	1963	1964	1965	1966	1967 Estimate	1968 Estimate	Groundnut 1968 c/ Alternate A	1968 d/ Alternate B
1. Manufacturing Output adjusted a/ in constant 1962 prices	40.5	57.2	56.3	55.5	70.6	85.5	118.5	102	102
2. Imports of Non-food consumer goods current prices	76.5	75.0	52.5	82.5	46.7	41.5	36.8	36.8	25.0
3. Import price index	(100)	(97)	(109)	(124)	(124) est.	(124) est.	(124) est.	(124)	(124)
4. Imports in constant 1962 prices	76.5	77.5	48.0	66.5	37.6	33.5	29.6	29.6	20
5. Total Consumer Goods in constant prices (Col. 1 + Col. 4)	117.0	134.7	104.3	122.0	108.2	119.0	141.8	131.6	122
6. Population: millions b/	7.081	7.265	7.454	7.448	7.847	8.051	8.260	8.260	
7. Apparent Average Per Capita Consumption	16.7	18.5	14.1	16.4	13.8	14.8	17.2	15.9	14.8

a/ Excludes mining, timber, petroleum processing, electricity and excise taxes collected at the factory, Bureau of Statistics, Census of Manufacturing.
b/ Estimate. 1960 Census and assumed growth rate of 2.6 percent per year.
c/ Output reduced by reducing imported raw materials by N£ 7 million.
d/ Output reduced by reducing imported raw materials by N£ 7 million plus imports of consumer goods reduced by N£ 11.8 million.

Sources: Bureau of Statistics Census of Manufacturing.
Mission estimates.

imported materials and spare parts although difficulties in arranging credit played some part. It appears that additional production would have resulted if there had been more imported raw materials, but it is difficult to assess the amount. Demand for domestic manufacturing was firm in 1967 except for plastic goods and construction materials particularly after devaluation. As anticipated, the brunt of the import shortfall from planned levels fell on investment, as noted above. The implications of these results for 1968 imports are discussed below.

87. The 1968 Ghana import program is designed to maintain restraint on consumption, and continue the increase in imports for production for stabilization purposes, but to shift the emphasis to more investment. The crucial policy assumptions appear to be:

(i) The Government seeks a marginal increase in personal per capital consumption, but not to a level that prevents an increase in investment and current production. Therefore, in regard to food, the Government is reducing food imports on the assumption that the 1968 domestic food supply will grow at a rate equal to or greater than population. In regard to non-food consumer goods, the Government is further reducing these imports on the assumption that domestic production will increase by an amount sufficient to increase per capita supply of non-food consumer goods.

(ii) Imports for current production are estimated to provide all that can be effectively used by exporting industries and agriculture and to permit reasonable utilization of existing capacities in domestic manufacturing. The latter implies that the level of consumer goods is largely determined by the capacity of domestic manufacturing with the corollary benefits of increased savings, import substitution and employment.

(iii) Investment imports are designed to meet the requirements of a stable level of Government development expenditure which includes scope for new projects. They allow for increases in investment by statutory corporations and in all types of private investment.

88. These appear to be desirable objectives given the present stage of Ghana's economy and the question is to what extent the import program will contribute to their realization. The mission's appraisal of the 1968 Ghana import program that follows disaggregates the import program and seeks to evaluate the economic consequences of the program by tracing specific imports to specific economic end use activities. It should be emphasized that the data are such that the accuracy and reliability of the analysis varies quite widely, and the inevitable uncertainties require the use of qualitative judgments to a greater extent. This is emphasized because the mission arrives at different qualitative judgments from the Government in selected areas of the import program.

Food

	1961	1962	1963	1964	1965	1966	1967 Est.	1968 Program
Food imports 1/ (N¢ million)	52.4	44.6	42.2	38.9	34.2	37.6	41.8	40.5
Local Food Price Index	122	134	139	163	264	235	n.a.	n.a.

1/ Includes flour and livestock officially classified as raw materials.

89. Planning 1968 food imports is complicated by the fact that it is impossible to determine to what extent the 1967 increased food and fish output was due to permanent changes in supply or to weather and an unusually good fishing season. In addition, the effect of devaluation on food imports has been neutralized by concurrent reduction in import taxes, and demand is relatively inelastic as the bulk of imports consist of staple food items. It does not appear that significant import substitution possibilities will materialize in 1968 from the sugar plantations and food processing factories. 1968 food imports at N¢ 40.5 million are about the same as 1967 and assume a further increase in domestic food and fish output, a further shift into lower priced staple food imports and no imports of frozen fish. At this level of imports, there is a distinct risk that an average or less than average weather and fishing season would result in a shortage of food which would create pressure on food prices. The Government should therefore consider reserving funds from the planned allocation for non-food consumer imports or make standby arrangements for additional surplus food assistance to cover the contingency of a bad season.

Other Consumer Goods

	1959-61 Annual Av.	1962-65 Annual Av.	1965	1966	1967 Plan	1967 Est.	1968 Program
Consumer Goods Imports other than food (N¢ million)	89.0	72.5	82.5	46.7	42.4	41.5	36.8

90. Imports of other consumer goods rose in the 1950's and then declined after 1961 under licensing restrictions in every year except 1965. The reduction in 1966 was even more pronounced, or about 35 percent less than the average of 1962-65. Given population growth, price increases and even after allowing for increased domestic manufacturing, per capita real consumption of these goods declined between 1963 and 1966. (See Table 7). When it is considered that this import group includes medicines, school books and security force consumables, the decline in per capita consumption was even more pronounced. As noted in paragraph 84, this downward trend was arrested in 1967. In that year, per capita supply of combined imports and domestic production of consumer goods in constant prices apparently increased by about 7.2 percent.

91. Establishing the 1968 import level for consumer goods depends in part on the projected level of domestic production, and on how much further imports of finished consumer goods can be reduced. The Ghana program of N¢ 36.8 million of consumer imports is 11 percent below the apparent level of 1967. It implies a strict control of imports brought back from abroad by returning residents, and about N¢ 5 million of import substitution. As will be seen below, the Ghana program for raw materials implies an increase in domestic production of about N¢ 45 million (pre-devaluation) which raises the question both of the scope for further import substitution and the level of consumption to be attained. In regard to further import substitution, Ghana confronts the problem that as consumer import levels decline, there is less scope for substitution. It should also be noted that out of N¢ 36.8 million imports suggested for 1968, probably less than one-third is for consumer goods which are at present locally produced in any appreciable quantity. Therefore, scope for import substitution is limited, at least in the short-term until the industrial sector diversifies further. Furthermore, about N¢ 18 million out of the proposed total consists of Government consumables, school books and medicines which would be extremely difficult to suppress further. Finally, there is inadequate information to judge the effect of devaluation on imports of durable consumer goods although there are indications that high priced articles are encountering sales resistence. But as noted earlier in this report, demand will depend to a great extent on the size of wage increase that materializes and the size of the 1968 food and cocoa crop.

92. In regard to the implications for overall increase in consumption for 1968, the Ghana import plan for consumer goods and raw materials for domestic production implies an increase of 16.8 percent in per capita supply of these goods in real terms. This is a rate of increase that is not consistent with increased domestic savings. As will be discussed below, the mission judges that domestic output of the magnitude envisaged cannot be absorbed by the market, and suggests lower imports of raw materials than envisaged by the Government. Imports of raw materials as proposed below by the mission would allow a level of production which, when combined with imports, suggests that per capita supply (in constant prices) would increase by 7 percent in 1968 or about the same rate of increase as in 1967. The balance of economic advantage lies in reducing consumption by reducing imported consumer goods rather than raw materials for production, but this encounters the structural problem cited above. However, if the total import program cannot be financed, both economic benefit and necessity indicate that consumer goods should be one of the first areas to seek further reductions.

Raw Materials and Spare Parts

	1959-61 Annual Av.	1962-65 Annual Av.	1965	1966	1967 Plan	1967 Est.	1968 Program
Raw Material Imports (N¢ million)	35.8	43.0	51.5	46.1	78.9	63.4	80.8

93. The Ghana import policy has been most successful in increasing manufacturing output by provision of increased raw materials and spare parts. More importantly, manufacturing output in constant prices of consumer goods and construction materials increased 27 and 22 percent in these two years. In addition to contributing to increased per capita consumption, this output contributed to increased import substitution, savings and employment. The question now is what is a feasible level of increase for 1968, especially as the 1967 devaluation has altered price relationships.

94. The Ghana program of N¢ 80.8 million of raw materials is about 27.5 percent above the apparent level of 1967, but well below the N¢103.8 million projected in the sample study made in 1966. The total conceals important changes in the composition: N¢ 22.2 million of the total is materials for agriculture, mining, timber, food and tires, leaving about N¢ 58.6 million for manufacturing (see Table 8). Materials for these priority non-manufacturing users in 1968 will increase about 5 percent over 1967 levels. The N¢ 58.6 million of materials for manufacturing includes an increase of N¢ 16.3 million, or about 30 percent over the 1967 level.

95. The Government bases its estimated imported material requirements on a 1967 sample survey of manufacturing firms. As noted in the last Bank report, the inherent difficulty of this method is correcting for the upward bias in the data. Furthermore, this method does not systematically appraise marketing problems. Given this background the mission, additionally, approached imported material requirements from two alternative perspectives: estimating the additional 1968 requirements of existing larger firms where data is reasonably reliable, and evaluating the feasibility and economic consequences of the output implied by the imported materials program. The additional 1968 requirements for larger private, joint state-private and a few state firms is estimated at about N¢ 9 million. The Ghana program's total increase of N¢ 16.3 million of materials implies that N¢ 7.3 million is available for other users. There are indications that the 1968 requirements for other state enterprises as a group might be less than in 1967 if imports are re-allocated within the group taking into account inventory positions and production prospects, but there is no systematic estimate of what reduction would be feasible. On the other hand, there is evidence that the smaller size private firms could use additional materials although, again, there is no data on what amount is required. Therefore, it appears that additional imported materials requirements in terms of what could be used for production are greater than the N¢ 9 million for larger firms, but there is no way of estimating whether the N¢ 16 million in the Ghana program is high or low.

96. The mission agrees with the Government's assumption that the ability to produce and therefore utilize imported materials is a less serious question in 1968 at the level of imported materials being planned. However, the question of what the market will absorb given devaluation and the implications for the rate of increase of total private consumption are equally or more important considerations for 1968. Although it is too early to reliably assess the effect of the 43 percent devaluation price increase on imported materials, it is possible to indicate the broad directions and magnitudes that might result. Based on studies of the relationship between

Table 8: MANUFACTURING AND IMPORTED RAW MATERIALS
(N¢ million)

	Pre-devaluation								Post devaluation		
	1962	1963	1964	1965	1966	1967 Estimate	1968 Estimate	1968A Alternative	1967 Estimates	1968 Estimates	1968A Alternative
1. Gross Output in current prices	71.37	93.05	107.01	120.12	142.01	168.7	214.0	193.0	178.9	241.0 d/	217.5
2. Less excise taxes	-10.32	-10.30	-16.60	-21.50	-24.29	-27.1	29.0	29.0	-27.1	29.0	29.0
3. Less output petroleum, timber and meat processing	-20.52	-22.46	-26.68	-28.59	-24.21	-29.31	29.0	29.0	30.3	30.8 c/	30.8
4. Adjusted Gross Output net of excise taxes and excluded industries (1-2-3)	40.53	60.31	63.73	69.97	93.50	112.3	156.0 b/	135.0 e/	121.5	181.2	157.7 e/
5. Adjusted raw material imports, excluding agriculture, timber, mining (as per line 3)	17.08	23.91	22.34	29.85	27.83	42.69	58.6	51.6	51.87	83.8 c/	74.3 (51.6) e/
6. Ratio output to imports (col. 4 ÷ col. 5)	2.36 to 1	2.51 to 1	2.85 to 1	2.34 to 1	2.2 to 1	2.65 to 1	2.66 to 1 b/				
7. Adjusted Gross Output in constant 1962 prices (price deflator)	40.53 (100)	57.2 (106)	56.3 (113)	55.5 (126)	70.6 (132)	85.5 (132)	118.5 (132)	102.0 (132)			(102.0) e/
8. Adjusted imports in constant 1962 prices (price deflator)	17.08 (100)	24.61 (97)	21.3 (109)	24.1 (124)	22.5 (124)	34.4 (124)	47.3 (124)	41.6 (124)			(41.6) e/
9. Ratio adjusted output to imports in constant 1962 prices (col. 7 ÷ col. 8)	2.36 to 1	2.32 to 1	2.64 to 1	2.3 to 1	3.14 to 1	2.5 to 1	2.5 to 1 b/	2.5 to 1			(2.5 to 1) e/

a/ Assuming full devaluation effects on second half of 1967 and thereafter on import content except where price controls obtain.
b/ Output in current prices derived from constant price ratio output to imports inflated by price deflator, e.g., constant price imports x 2.5 x 132. Thus, current price ratio output to imports is a residual.
c/ Petroleum refinery products inflated by devaluation effect on imports (2/3 output x 0.43); 1968 pre-devaluation adjusted output plus devaluation effect on imports.
d/ Sum of columns 2 + 3 + 4.
e/ Imports reduced 7 million and then derive output from constant price ratio as per pre-devaluation assumptions; then devaluation effect on imports added; other items unchanged. See 1968A alternative in current prices for pre-devaluation series.

Source: Bureau of Statistics and Mission estimates.

imported material inputs and output, the Ghana program implies that manufacturing output would increase by about N¢ 62 million in 1968 compared to an annual increase of N¢ 13 to 22 million in recent years assuming the full devaluation effect was passed on to ex-factory prices. (See Table 9). Virtually all of this increase in output will be for domestic use, and the bulk is consumer goods. Although not all of the devaluation effect may be passed on, the pressure from the cost side and the price advantage relative to imported goods are in this direction. In any event, the magnitude of the possible increase is such as to raise the question what the market will absorb.

97. At one extreme, the one circumstance where demand might increase substantially would be if 1968 food prices decrease markedly, paralleled by substantial wage increases (in excess of 10 percent) throughout the economy. The former is unpredictable, and the latter contrary to Government policy as it would erode the gains of devaluation. At the other extreme, high food prices and only moderate wage increases would create serious marketing problems for the amount of additional output envisaged. As an illustration of a less extreme possibility, the mission estimated that private money incomes might increase at most by about N¢ 30 million from cocoa and assuming a 10 percent increase in wages and salaries in 1968. Ignoring both other personal income increases and personal expenditures on local food and services, the latter comprising about 80 percent of average personal consumption expenditures, this assumed increase in personal incomes may be compared to increased personal consumption expenditures implied in the import program, again assuming that full devaluation effects are passed on in prices after mid-1967 except for food imports:

	N¢ Million Including Devaluation Effect			
	1965	1966	1967 Est.	1968 Est.
Food Imports	34.2	37.6	42.0	41.5
Consumer Imports	82.2	46.7	50.4	52.6
Output for consumer use 1/	91.5	116.3	147.6	205.0
	207.9	200.6	240.0	299.1
Implied annual increase in consumer expenditures	-	- 7.3	+39.4	+59.1

1/ Net of export production and intermediate goods.

98. Although the analysis above is subject to a considerable margin of error, the mission judges that the magnitude of increased consumer expenditures relative to possible increased personal income is not feasible from the marketing aspect. As already noted, the implied increase in private consumption is not consistent with a reasonable rate of increase in consumption and the objective of increasing domestic savings. As an alternative the mission suggests a N¢ 7 million reduction in the Ghana

Table 9: MANUFACTURING AND MINING - GROSS OUTPUT AND VALUE ADDED
(N£ million pre devaluation)

	1962	1963	1964	1965	1966	1967 Estimate	1968 b/ Govt. Plan	1968 Post devaluation
1. Gross Output in current prices								
a) Mining	43.8	42.3	42.8	43.7	48.8	45.9 a/	n.a.	n.a.
(Percentage change p.a.)		(- 3.4)	(+1.1)	(+2.5)	(+10.4)	(-6.3)		
b) Manufacturing	71.4	93.1	107.0	120.1	142.0	168.8a/	214.0	214.0
(Percentage change p.a.)		(+30.4)	(+15.0)	(+12.2)	(+18.0)	(+18.8)	(26.8)	
2. Value added in current prices								
a) Mining	34.5	33.1	33.5	33.3	41.0	38.6 b/	n.a.	n.a.
b) Manufacturing	41.0	52.5	59.1	69.5	85.1	101.0 b/	n.a.	n.a.
3. Gross Output in constant 1962 prices net of excise taxes								
a) Mining	43.8	44.6	43.9	44.6	47.8	45.0 b/	n.a.	n.a.
(Percentage change p.a.)		(+1.8)	(-1.6)	(+1.6)	(+7.2)	(-5.9)		
b) Manufacturing	71.4	87.8	94.7	95.4	107.4	127.0 b/	n.a.	n.a.
(Percentage change p.a.		(+23.0)	(+7.9)	(+0.7)	(+12.6)	(+18.6)		
4. Value added in constant 1962 prices								
a) Mining	34.5	35.2	35.7	34.6	38.9	36.6 b/	n.a.	n.a.
b) Manufacturing	40.9	49.3	51.9	54.9	64.4	76.0 b/	n.a.	n.a.
5. Manufacturing Output excluding mining, timber petroleum, and excise taxes								
a) Current prices	40.5	60.3	63.7	69.9	93.5	112.3 b/	156.0	181.2
b) Constant prices	40.5	57.2	56.3	55.5	70.6	85.5 b/	118.5	
(Percentage change p.a.)		(+41.0)	(-1.6)	(-1.4)	(+27.2)	(22.0)	38.4)	

a/ Bureau statistics

b/ Mission estimates

Sources: Bureau of Statistics and Mission estimates

raw materials program. Using the same assumptions, this implies a 7 percent increase in the supply of imported and locally produced consumer goods in 1968 in constant prices 1/ and an increase in the value of domestic manufactures of upwards of N¢ 38.6 million depending on how much of the devaluation effect is passed on into prices. Although this alternative would ease the demand and consumption problem by about N¢ 24 million, there is no systematic way of telling whether this is consistent with possible disposable income. The mission program would thus cover only the additional requirements of the larger firms unless savings can be found from state enterprises for re-allocation to small private firms.

Investment Goods

	1959-61 Annual Av.	1962-65 Annual Av.	1965	1966	1967 Plan	1967 Est.	1968 Program
Investment goods and spare parts 2/ (N¢ million)	81.4	106.3	145.3	116.5	119.5	73.0	98.4

2/ Excludes ships and aircraft in 1966, 1967 and 1968.

99. Investment goods imports comprise construction materials and capital equipment, but also include most spare parts. Although the distinction between spare parts and capital equipment is ambiguous in the data, spare parts are about N¢25.3 million of the Ghana program for investment imports of N¢ 98.4 million, plus another N¢ 3 to 6 million in other import categories. Spare parts are now on open general licensing and the Ghana program handles this problem by separately estimating spare parts for each priority group (agriculture, mining, timber etc.) and adding N¢ 5 million to cover extra demand under open general licensing. There is no way of judging whether this amount is an adequate contingency. Imports of spare parts have increased rapidly since 1965 and have materially improved the productive capacity of the economy.

100. 1968 investment goods imports have been separately estimated as best as possible by type of user: Government development budget, statutory corporation, supplier credit financed public projects, private construction and private manufacturing, mining, timber, agriculture and road transport. Government investment in the development budget is projected at N¢ 75 million in 1968, the same level as in 1967. This assumes that disbursements on new projects in the 1968-69 development budget will be N¢ 25 to N¢ 35 million. The Bank mission judges this to be the maximum level that

1/ The Government program implies a level of manufactured consumer goods which before taking into account food and other services, would increase total private consumption by about 4 percent in current prices in 1968 whereas the mission program implies an increase of about 2 percent.

could be attained assuming only well prepared priority projects go forward, and the total might be less, given probable absorptive capacity. To the extent that disbursements on new projects in 1968-69 fall short of this estimate, the import requirements will be reduced; a decline of N¢ 10 million of development expenditures in 1968-69 involves about N¢ 2 million of imports in calander 1968. However, as some new projects will be externally financed, any reduction in imports in this regard might be offset to some extent by reductions in capital inflows.

101. Statutory corporation investment will rise from about N¢ 14 million in 1967 to N¢ 21 million in 1968 largely in respect of the Volta River Authority (generators and transmission lines) and the Electricity Corporation of Ghana (electric distribution); it is assumed that the import content of these electricity projects will be externally financed. Existing supplier credit financed project will be about one-third of the 1967 level, and will be virtually complete in 1968, except for a few supplier credit projects already started before 1966 but whose future is subject to negotiations.

102. The Ghana program implies an increase in private construction other than factory buildings by about 25 percent, or a recovery to about the 1966 level. This appears to be a reasonable target although it is difficult to judge whether this investment will materialize: the latent demand exists but construction turns very much on access to credit about which little is known. Private investment in industry, mining and commercial agro-industries is equally difficult to estimate. It is estimated that about N¢ 40 to 50 million of projects are under consideration, of which up to N¢ 20 - 30 million are at advanced stages of preparation. The mission judges that about N¢ 22 million of these projects will go forward in 1968 assuming no last minute cancellations or postponements. When this investment is phased over 18 months and combined with the balance of 1967 investment in the pipeline, it results in investment of about N¢ 15 million requiring imports of N¢ 7.5 million equipment and N¢ 3 million construction materials. It appears that up to 80 percent of these imports will be financed by private capital inflows, which would be roughly consistent with private capital inflow estimated for balance of payments purposes (see Table 11). In addition, investment in road transport is estimated at about N¢ 6 million involving N¢ 4.2 million in imports for vehicle assembly.

103. The Ghana import program implies a higher level of private investment in industry, mining and commercial agro-industries. It assumes that about N¢ 20-30 million of projects will commence in 1968 of which N¢ 20 million can be completed in 1968. The Ghana program also assumes that only about 50 percent of the total import content will be financed by private capital inflows so that the higher investment figure is still consistent with private capital inflow shown in Table 11. The mission thus differs from the Ghana program in respect of the phasing of the investment and the percentage to be financed by foreign capital inflow. The mission estimates are clearly more conservative than the Ghana position. The difference represents about N¢ 6.5 million of imports (N¢ 4.5 million equipment and N¢ 2 million construction materials) and is based on different

qualitative judgments. These differences are summarized in the table below (in N¢ millions) -

	Ghana	Mission
Projects to commence in 1968	20 - 30	22
of which to be carried out in 1968:	20	11
Add: projects in the pipeline	4	4
Total private investment - 1968	24	15
Import component	17	10.5
of which financed by private capital inflow	8	8

104. The total investment program implied by the Ghana program would increase investment by about 30 percent over the apparent 1967 level. The mission's suggested lower level of private investment, on the other hand, implies an increase of about 25 percent in total investment. Both the Ghana and the mission suggested investment programs would thus reverse the 1966-67 trend of decreasing capital formation. Equally important, both investment programs continue the trend to improve the composition of investment: relatively more investment is in productive sectors with relatively more private investment and investment in export growth in the total.

Summary of 1968 Imports

105. The Government 1968 import program adds up to N¢ 258.3 million whereas the mission suggests a program of about N¢ 245 million resulting from lower raw materials imports of N¢ 7 million and private investment imports of N¢ 6.5 million. The Government program would be 15.5 percent and the mission suggested program 10 percent above the apparant level of 1967 imports. Both programs continue the policy of combining stabilization with growth objectives. Imports of food and consumer goods are further reduced, the former to a level involving the risk of inadequate supplies and pressure on prices if there is a bad crop season. Imports of consumer goods although reduced to half the level of the early 1960's, when combined with domestic production would increase private consumption by about 2 percent. Depending on the 1968 food crop total private consumption will vary around this rate of increase implying that an improvement in per capita consumption will primarily depend upon increased 1968 food production. The growth potential of the import program is in increased current production of about 18 percent and increased investment of about 25 percent over the apparent 1967 levels, both related to estimated absorptive capacities of the market and investment groups. On balance, 1968 import program appears to be formulated on as realistic grounds as the circumstances permit.

106. A summary of the Government program and recent import trends is shown in the table below:-

Table 10: IMPORT TRENDS AND THE 1968 IMPORT PROGRAM
(N¢ million c.i.f. pre-devaluation)

	1959-61 Annual Average	1962-65 Annual Average	1965	1966	1967 Plan	1967 Est.	1968 Program	1968 Program Post devaluation
Food, drink & tob.	38.2	29.9	27.4	31.0	39.9	29.9	27.6 3/	(39.5)
Other consumer goods	88.8	73.1	82.2	46.7	42.4	41.5	36.8	(62.6)
Petroleum	11.6	13.3	12.5	10.3	12.5	15.0	14.7	(21.0)
Raw materials	35.7	43.2	51.5	46.1	78.9	63.3	80.8 3/	(115.5)
Investment goods and spare parts	81.4	106.3	145.3	116.5	119.5	73.0	98.3	(140.6)
Total 1/	255.6	265.6	318.7	250.6	293.0	223.0 2/	258.2	(368.8) 4/
				Percentages				
Food	14.9	11.2	8.5	12.4	13.5	13.4	10.6	
Other consumer goods	34.7	27.5	25.7	18.6	14.4	18.6	14.4	
Petroleum	4.5	5.0	4.0	4.1	4.2	6.8	5.7	
Raw materials	13.9	16.2	16.1	18.4	26.9	28.4	31.3	
Investment goods and spare parts	32.0	40.1	45.7	46.5	41.0	32.8	38.0	
Total	100	100	100	100	100	100	100	

1/ Bureau of statistics classification which excludes most ships and aircraft unlike the balance of payments data of the Bank of Ghana.

2/ Estimate based on Ghanaian information. Other data indicates that imports might be higher in 1967 depending upon the last quarter results.

3/ Differs from comparable Ghana Government classification by addition of N¢ 1.4 of tobacco to food and subtracting the same amount from raw materials.

4/ Difference due to rounding.

B. External Finance 1/

107. There is every indication that 1968 will bear all the markings of a continued stabilization effort characterized by restored domestic financial equilibrium but continued severe constraints on balance of payments despite higher exports and improved utilization of external aid. If the 1968 import program can be financed domestic manufacturing should continue to increase rapidly contributing to increased consumption. On the other hand, agricultural output is more unpredictable with weather still a decisive factor, and uncertainty over whether the improvements in 1967 are permanent. Even if weather is reasonable and labor stays in farming, the farmers might react with disappointment to the food price slumps in 1967 resulting in a smaller rate of growth in the economy. The level of food output will, however, mainly affect the growth rate of private consumption. The proposed increase in investment if it materializes should also increase employment and service activities. Export growth in 1968 will depend on the response of existing capacities to new incentives, weather and world prices. Apart from such possibilities, however, prospects of the Ghanaian economy in 1968 and over the long-term will largely depend on the level and quality of investments that can be built on the achievements of the past two years. If with the aid of devaluation and better utilization of foreign assistance external finances can be improved further in 1968, Ghana would be approaching the end of the stabilization period which was to be marked by the introduction of a new development program for the public sector. It was also part of the original stabilization concept that, while the public sector was preoccupied with remedial actions and the reintroduction of a sound approach to development, the private sector would be given every encouragement to fill the investment gap left by a stock-taking public sector. On both fronts, however, the question is how much progress will be made in the near term.

108. It has been mentioned repeatedly that the formulation of development policies and the preparation of projects has been less rapid than was originally considered feasible. This is particularly so for agriculture which is increasingly recognized as the key to, though not as the sole source of, economic growth in Ghana. But signs of improvements should not be overlooked and the Government with the help of technical assistance may be able to put into effect a new three-year development program by mid-1969. But this schedule does not take into consideration the possibility of a new civilian Government and its approach to Ghana's future economic development. By the time the mission was in Ghana, the timetable for the intended return to civilian rule was not known and this timetable and the character of the political transition materially affects any prognosis about the volume and direction of the future development approach. Even if a development program

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1/ The following discussion is in post-devaluation cedis.

could technically be ready for introduction in mid-1969 a new Government would need sufficient time to develop its commitment to such a program. This time-span would be even longer if the new Government felt inclined to change economic policies pursued under the present regime and, if, as should be expected, it wished to leave the marks of its own policies on economic development. In short, even if institutional shortcomings would be overcome within the near future, economic development still requires political guidance and leadership and since this leadership is expected to change, Ghana, so it would appear, is facing a period of transition where economic decision-making might change or become more cautious.

109. This might affect investment plans in the private sector, too. From the point of view of investment opportunities Ghana offers a very encouraging picture. As has been outlined elsewhere in this report, the private sector is impressively active in identifying projects and numerous investment plans of both domestic and expatriate groups are under consideration or implementation. In fact one gets the impression that private investment especially by resident firms is reacting very rapidly to the numerous attractive investment opportunities in the Ghanaian economy. But whether new private investors will step in and resident firms continue to realize some of these opportunities depends on a continuing improvement in the investment climate. Although the present Government through policy statements and subsequent actions has generated a feeling of confidence in private investors, as previously noted in this report, there continues to be room for improvement in regard to the investment climate. This will be important in determining whether the private investors continue to implement investment plans or prefer to await the emergence of economic policies under a new regime before committing themselves substantially to Ghana. Thus how the political future emerges will influence the prospects of the Ghanaian economy particularly in the longer-term.

110. Given the advanced status and source of most investment projects in the private sector, it has nevertheless been assumed that there would be a substantial increase in private investment in 1968 provided it can be supported by adequate imports. Despite lower imports of consumer goods these import requirements for investment together with more raw materials and spare parts for a further expansion of manufacturing activity add up to a total of N¢ 350 million. Whether this program and its policy objectives can be attained depends upon the balance of payments.

111. Exports for 1968 as projected by the Government are considered reasonable even though the estimated size of the 1967/68 cocoa main crop of 380,000 tons seems too low in view of recent reports which indicate that the main crop available to the Cocoa Marketing Board will be in the range of 395,000 tons. Additional cocoa exports of 15,000, assumed to fetch £280 per ton f.o.b., have therefore been added which increases the Government estimate of total exports by N¢ 10.3 million to N¢ 363.4 million. This would result in an 18.2 percent increase over 1967. Favorable as such an increase would prima facie appear it does

not necessarily indicate that Ghana's export structure has gathered strength. Firstly delayed cocoa shipments account for some part of the difference between 1967 and 1968 exports. Secondly higher receipts from cocoa are largely the effect of improving world market prices rather than increased output. In November/December when most of the new crop is sold world market prices were approaching the £280-290 per ton f.o.b. level while during the comparable period in 1966 prices were fluctuating around a post-sterling devaluation equivalent of £220-240. In terms of production, however, a main crop of 395,000 tons, though it would mark a 8.8 percent increase over 1966/67, would still be slightly below the 1965/66 output and well below the record crop of 556,700 tons in 1964/65. For the 1968/69 season the Bank of Ghana has estimated a main crop of 400,000 which, given the uncertainties surrounding the conditions of cocoa production, is probably the best guess possible at present. Since usually about 80 percent of a main crop is exported in the calendar year after the crop season the 1968/69 cocoa crop will be less important for 1968 export revenues, anyway. No further price increases have been assumed for that part of the 1968/69 crop which will be shipped during 1968. The value of total cocoa exports including products has thus been estimated to increase from N¢ 189.3 million in 1967 to N¢ 240.8 million in 1968 which would increase the share of cocoa in total exports from 61.6 percent to 68.2 percent.

112. Estimates of other exports include an unusually large margin of error due to uncertainties about how some industries particularly timber, Ghana's second most important export, will react to devaluation and other incentives. Ghana's timber industry has long been burdened by relatively high costs and taxes combined with a basically hostile attitude towards log exporting expatriate firms. The industry's prolems were partly compounded by uncertain concession practices which prevented long-term planning. In November 1967, the Government announced a new concession policy whereby a redistribution would be undertaken to favor businesses with processing facilities in the country. But details of this new policy were not available to the mission. Although capacity already exists, a 10 percent increase in timber exports in 1968 as envisaged by the Government seems to imply a satisfactory solution of this concession issue as well as a positive response to devaluation and other incentives. In regard to gold and diamond exports devaluation has encouraged both short-run increases in output from existing capacity as well as long range expansion plans which should result in growing exports from this industry. Gold and diamonds are now expected to contribute 14.4 percent of exports in 1968 while manganese where reserves of high grade ore are known to be declining will continue its downward trend.

113. With these export prospects and import requirements of N¢ 350 million as suggested by the mission, Ghana will face a current account deficit on balance of payments of N¢ 71 million which for the third year in a row will be a reduction from the record gap of N¢ 226.7 million in 1965 (see table 11).

Table 11 BALANCE OF PAYMENTS, 1965 - 1968
(N¢ million post devaluation)

	1965	1966	1967	1968
	Actual		Estimate	Proj.
Exports (f.o.b.)	327.7	286.2	307.5	363.4
Imports (c.i.f.)	490.9 a/	380.1 a/	319.0	350.0
Trade Balance	-163.2	-93.9	-11.5	13.4
Non factor services	- 22.7	-21.6	-27.2	-24.2
Net investment income	- 27.4	-20.6	-29.4	-42.2
Net transfer payments	- 13.4	- 8.9	-18.2	-18.4
Current account balance	-226.7	-145.0	-86.3	-71.4
Financed by:				
Private capital (net)	87.6	66.1	37.1	23.4
Trade credits	50.6	6.3	-	-4.9
Volta Aluminum Corp.	25.3	41.7	17.2	7.8
Reinvested profits	13.7	12.9	12.9	8.6
Other private capital	-2.0	5.2	7.0	11.9
Public Capital (net)	88.2	43.6	-4.1	12.5
Suppliers' credits	30.2	24.6	2.8	-25.5
Bilateral balances	35.4	- 6.3	-20.0	-
Volta River Authority	19.7	15.2	- 2.3	- 2.7
Long-term borrowing	2.9	10.1	15.4	40.7 b/
IMF (net)	-10.9	51.1	18.9	-
Net change of reserves	58.4	-11.6	34.3	- 7.4
Arrears				
Accumulation	-	-	20.0	-
Clearance	-	-	-14.3	-29.4
Errors and Omissions	3.4	- 4.2	- 5.6	-
Capital account balance	226.7	145.0	86.3	- 0.9
Additional capital inflow requirements	-	-	-	72.3

a/ Adjusted for imports of ships and aircraft not fully covered by trade statistics.

b/ US $ 39.9 million as shown in Table 12

Source: IMF and Bank of Ghana

The import program of N¢ 369 million proposed by the Government would on the other hand, result in an increase of the current account gap to N¢ 90.4 million compared with the estimated 1967 gap of N¢ 86.3 million. Projections of invisibles again follow Government estimates. Higher net payments of investment income reflect interest payments on suppliers' credits for the full year. These payments were resumed on July 1, 1967 hence the smaller figure for 1967. Another feature of invisible payments projected for 1968 is the increase in profit remittances by a small but hopefully permanent amount which is important to encourage foreign private investment.

114. Estimated available financing towards this gap is shown in Table 11. Substantial disbursements of long-term aid committed through the end of 1967 and estimated higher inflow of private capital, both direct investment and private borrowing abroad, will be largely offset by repayments of rescheduled suppliers' credits and clearance of arrears. in the amount of N¢ 29.4. The latter consists of N¢ 20 million of current arrears, which were accumulating towards the end of 1967, when cocoa could not be shipped as expeditiously as originally planned, and N¢ 9.4 million of old arrears which are being cleared in accordance with the Bank of Ghana announcement of June 1966. In addition, there is a provision of N¢ 7.4 million to increase reserves which will still leave reserves at an inadequate level in terms of orderly management of external finance much less in terms of minimum import coverage. The net effect of these transactions on capital account would be payments of N¢ 0.9 million which adds up to a total gap of N¢ 72.3 million. Inflow of new private capital is consistent with both Government and Bank estimates of foreign private investment. If the higher level of private investment assumed by the Government materializes, the increase in imports would be fully reflected in the external gap. Towards this gap, a third PL 480 commitment of N¢ 12.3 million has already been signed in early 1968. Imports under this loan are expected to arrive in Ghana during this calendar year. For the purpose of an illustrative gap analysis it might also be assumed that a third IMF standby would be arranged. An amount of N¢ 5 million for calendar year 1968 has been assumed as available from this source. Such foreign exchange inflow would then reduce the overall gap to N¢ 55 million (US$ 54 million).

115. Hopes to cover such a gap and therefore to achieve a level of imports as suggested by the mission depend upon how far donors can increase their previous commitments. But even then this gap is clearly unrealistic unless the utilization of aid is drastically improved. Table 12 records the pattern of commitments and estimated disbursements since 1966. Out of total commitments of US$ 49.2 million in 1967 only US$ 6.1 million or 14.4 percent were drawn down in the same year. If project aid, which inevitably has a longer disbursement period, is excluded the percentage rises to 16.4 percent which is still very low. In part this low disbursement rate reflects Ghanaian inexperience with the sometimes rather intricate mechanisms of foreign aid disbursements, and that commitments were signed relatively late in the year. Altogether this is not surprising considering the fact that long-term foreign aid was, with very few exceptions, practically unknown during the former

regime. Procedures had to be established, both on the Ghanaian and on the donors sides, and cooperation of various governmental agencies with the new aid coordination group in the Ministry of Economic Affairs was slow to develop. Serious understaffing of this group compounded the problems. But Ghanaian authorities seem to be fully aware of the need to utilize foreign aid more efficiently and there is room for the assumption that utilization of aid will significantly improve in 1968. It would seem rather difficult to venture a guess about the disbursement rate particularly since the project element of this year's commitments is likely to be higher than last year. But assuming that the average disbursement rate could be raised to 50 percent an import program of N¢ 350 million as suggested by the mission would require new aid commitments of N¢ 110 million (US$ 108 million). The Government proposed import program of N¢ 369 million would require new aid commitments of N¢ 148 million (US$ 145 million).

116. The estimate of new external finance commitments assumes that in 1968 about N¢ 8 million of disbursements will come from external financing of projects now at some stage of discussions with financing agencies. There might also be some disbursements resulting from additional commitments that might materialize in respect of other new project financing. However, securing the remaining balance of new financial commitments depends upon non-project financing or its equivalent (financing local costs of projects). This suggests that upward of N¢ 47 million (US$ 46 million) will have to be disbursements of non-project financing based on the assumptions outlined above.

117. A complete assessment of new external financial requirements for 1968 ordinarily takes into account the carry-over of disbursements from 1968 commitments into 1969 and how these relate to the possible 1969 external financial requirements. This would facilitate orderly budget and balance of payments planning. Unfortunately, it is not possible at this time to construct a meaningful 1969 gap exercise given the uncertainties surrounding future external debt rescheduling, exports or other elements such as 1969 investment and effects of devaluation, that will influence the size of import requirements. All that can be noted here is that, for example, if the projected new 1968 external financial commitment and the disbursement rate assumed above materialize, this would leave about N¢ 47 million from commodity aid plus the carry over from project finance available for financing the 1969 future gaps. Filling future financial gaps will be eased to the extent that the Government can bring forward additional new projects and secure external finance for them in 1968.

118. Longer term balance of payments prospects have not been systematically evaluated since the last Bank report because of the uncertainties mentioned above. However, it appears to the mission that no fundamental changes have emerged in the last year that would materially change the conclusion of that report in regard to the terms of new external lending to Ghana: that is, that even assuming improved export growth rates and another rescheduling of medium-term external debt in 1968 on the same terms as the 1966 agreement, Ghana would need to borrow on concessional terms if another external debt rescheduling is to be avoided in the 1970's.

Table 12: Long-Term Aid Commitments and Disbursements since 1966

(US$ million)

By Country

	Commitments		Disbursements			
	1966	1967	1966	1967	1968	Thereafter
Canada a/						
Denmark (project aid)		3.0			2.0	1.0
Germany						
project aid	5.0		1.9	2.8	0.3	
commodity aid	5.0		0.4	4.6		
project aid		3.0			1.5	1.5
commodity aid		3.3			3.3	
United Kingdom (commodity aid)		9.6 b/		0.6	9.0	
USA						
PL 480, Title I	7.5		6.6	.9		
PL 480, Title I		10.3		6.5	3.8	
Commodity Aid		20.0			20.0	
Total	17.5	49.2	8.9	15.4	39.9	5.0

a/ Canada, apart from technical assistance, made two wheat flour grants of US$ 2 million each in 1966 and 1967, which are all shown as official transfers on current account. The same applies to imports under the World Food Program.

b/ Adjusted for sterling devaluation.

SUMMARY

	1966		1967		1968		Thereafter	
	commodity	projects	c.	p.	c.	p.	c.	p.
Commitments	12.5	5.0	43.2	6.0	--	--	--	--
Disbursements								
1966 commitments	7.0	1.0	5.5	2.8	--	.3	--	--
1967 commitments	-	-	7.1		36.1	3.5		2.5

Source: Mission Estimates

119. If additional new aid inflow of such magnitudes materialized Ghana could at last match her considerable improvements on current account with a similar improvement on capital account. While domestic deflationary policies combined with rigorously suppressed imports and higher exports produced a fairly swift response on current account as demonstrated by the reduction of the current account gap from N¢ 226.7 million to N¢ 86.3 million within two years, an appreciable relief from the foreign exchange shortage was not brought about because the structural changes on capital account are showing longer time lags. In 1965 the current account deficit was basically financed from four sources: the introduction of compulsory 180 day import credits which effected a once and for all delay of payments in that year but raised the cost of imports and will require a similar amount of foreign exchange when this credit rule is abandoned; a high level of suppliers' and contractors' credits even though in that year repayments of these credits were beginning to catch up with disbursements; growing debit balances on bilateral accounts and a draw-down of foreign exchange reserves. In early 1966 all four sources were no longer available since additional suppliers' credits were ruled out, the swing margins on bilateral accounts had been reached and external reserves were almost depleted. Since debt service on suppliers' credits was temporarily halted in that year there was some subsequent inflow from contracts signed before February 1966 but net availability of foreign exchange in 1966 was largely secured by a N¢ 51.1 million drawing on the IMF. In 1967, finally, long-term public borrowing together with foreign private investment began to show impact. While drawings on the Fund will play a decreasing role the latter two will be Ghana's major sources of external finance on capital account in the future. The impact of this new reliance on long-term external finance should be more appreciably felt in 1968.

Appendix

Notes on Ghana's National Accounts

In working with Ghana's national accounts as published by the Central Bureau of Statistics in its annual "Economic Survey", the mission has made certain adjustments which should be pointed out in order to facilitate comparison with the data used in this memorandum:

1. Official national accounts at constant 1960 prices adjust exports and imports for changes in terms of trade by expressing the annual value in constant 1960 prices. The mission has used current values of exports and imports in its constant series, since it is of the opinion that foreign exchange earned from current exports is a better indicator of real resources available to the economy. For example, increases in cocoa production are irrelevant for real growth of the economy if what Ghana can buy in the world market for its cocoa revenue does not increase proportionately. Ideally, in order to measure the effect of exports and imports on real GDP, both should be deflated by the import price index. But, since no reliable import price index is available, the mission chose current exports and imports for its constant price series. However, with devaluation beginning to affect trade data the application of a price index will be inevitable in the future. Export and import data in Chapter I of this report are still in pre-devaluation N¢.

2. Since change of stocks in official statistics reflects mainly stocks of some imported goods and cocoa stocks which were purchased by the Cocoa Marketing Board but not yet shipped abroad by the end of the year, these stocks should be valued at current prices, too, in order to be consistent with the treatment of exports and imports. It may be noted that GDP at constant 1960 prices as published in the Economic Survey 1966 grew by 1.1 percent in that year. If effects of changing stocks are eliminated, there was a decrease of 1.2 percent. This elevates the deflator of the stock element to a rather dubious importance.

3. In calculating the current price values for both private and public consumption, as well as for capital formation, the Central Bureau of Statistics basically works with real series and then arrives at current series by inflating with relevant price indices. Through this process, price indices are introduced as an additional source of error, which led the mission to work mainly with national accounts expressed in constant 1960 prices.

4. Due to lack or inadequacy of agricultural statistics the Central Bureau of Statistics is compelled to calculate private consumption at constant prices by applying the annual rate of growth of population to the results of the household survey in 1961/62 and then adjusts the total for imported consumer goods. This approach neglects the effects of fluctuating domestic food crops. However, in estimating GDP in 1967, the mission had to take into consideration the very good food crop of that year in order to show economic growth and private consumption in 1967 in a more realistic light. Crude as these estimates had to be, they produced at least trends which, though not satisfactory from a scientific point of view, appear to be more plausible than the assumption of a constant per capita consumption of domestic foodstuffs.

21. Private consumption in real terms appears to have declined in 1966 by 4.6 percent as increased domestic manufacturing and food imports did not offset the continued stagnation in food production and a 43.5 percent decline in imports of consumer goods other than food. Since the growth of GDP in 1967 resulted primarily from increased production of food and manufactures for consumption, private consumption increased in 1967 by an estimated 9.0 percent despite no increase in food imports and a further 11 percent decline in non-food consumer imports. However, on the basis of these estimates and assuming an annual rate of population growth of 2.5 percent per capita consumption in 1967 would still have been below the 1965 level in real terms.

22. Government consumption in real terms increased in both 1966 and 1967 by an estimated 4.5 percent compared with the average annual increase of 11.5 percent in the earlier 1960's. The lower rate of increase in Government consumption in 1966 is a proof of the austerity measures introduced by the new Government. On the other hand, the Government had budgeted in 1966/67 for a lower rate of recurrent expenditure but actual expenditure turned out to be 8 percent above the budgeted level which is, in part, a measure of the difficulties encountered in re-establishing budgetary control. For example, about 40 percent of the supplementary increases in 1966/67 recurrent expenditure was for education where accurate estimates of costs were not available and budgetary control has yet to be effectively applied. Indeed, Government's attempt to curtail recurrent expenditure in 1967/68 found education to be the major problem area because accurate cost estimates, made available only in June 1967, showed a higher actual expenditure level than had previously been foreseen. A second area of increased Government consumption has been for security forces.

23. The 1967/68 budget aimed at an implied increase of 1.4 percent in Central Government consumption, but this implies that no supplementary estimates are granted and the effects of devaluation have been accurately estimated. It is too early to judge these prospects, but the mission estimate of a 4.5 percent increase in public consumption conservatively assumes some supplementary recurrent expenditures either because of inability to control expenditure programs or under-estimated devaluation effects.

24. Increases in Government consumption in 1966, and increases in both Government and private consumption in 1967, were accompanied by declining capital formation which appears to have fallen in real terms by 17.6 percent in 1966 and as much as 35 percent in 1967. This brought the investment ratio, expressed in constant 1960 prices, down from 24.8 percent in the peak year 1965 to 21.8 percent and 13.7 percent in 1966 and 1967. It thus appears that reductions in capital formation emerged as the major method of restoring equilibrium in Ghana's stabilization effort.

25. The reductions in gross fixed investment in 1966 and 1967 is estimated in table 3. These estimates should be used with reservation especially in regard to supplier financed public investment and private investment:

Table 3: Estimated Composition of Fixed Capital Formation 1965-67

(At current prices - by type of investor)

(N£ million)

	1965 Actual	Jan-June 1966 Actual	1966/67 Budget	1966/67 Actual	1967/68 Budget	1967/68 Actual
Central Government development expenditure	105.0	48.4	76.2	75.4	89.4	75.0 a/
Converted into calendar years	1965 105		1966 82		1967 75	
Investments of statutory corporations (estimate)	15		15		14	
Investments financed by suppliers' credits b/	63		28		15	
Total public sector	183		125		104	
Private Investment						
Valco investments	17		42		9	
Other private investments	71		79		46	
Total fixed capital formation	271		246		159	

a/ See paragraph 76.
b/ Import component assumed to be 80 percent

Source: Mission Estimates

26. The decrease in investment in 1966 was mainly the result of pruned down Government development expenditures and supplier credit financed projects in the public sector. This was an intentional policy in that the 1965 level of public investment was unmanageable in terms of available resources and the stabilization strategy was to eliminate non-viable programs. As a result the quality of public sector investment has improved substantially offsetting to a great extent the 35 percent decrease in public sector investment in 1966. Private investment

increased in 1966 largely because of heavy expenditure for the VALCO aluminium smelter, but also because of continued private construction and also because of higher investments in manufacturing and agriculture.

27. The larger reduction in investment in 1967 was in respect of both public and private investment. Again the reduction in public investment reflects further improvement in the quality of public investment and that the stabilization period is seen as one of preparing rather than embarking on new projects. The reduction in private investment was in respect of completion of the VALCO aluminium smelter, and a sharp drop in private construction which was not offset by the increase in investment in manufacturing and road transport. On balance, however, the growth potential of reduced levels of private as well as public investment might not be substantially smaller than prior higher levels of investment because of the improved composition of investment in 1966 and 1967.

Conclusions from Economic Performance in 1966 and 1967

28. In general the estimated changes in GDP, consumption and investment in 1966 and 1967 cast a favorable light on Ghana's stabilization effort. This effort was clearly aided by a good food crop in 1967 which demonstrates not so much the effectiveness of agricultural policies as the basic strength of traditional agriculture and the price responsiveness of the Ghanaian farmer. This favorable crop supported by increased manufacturing resulting from improved allocation of scarce imports took the pressure off private consumption that had prevailed through 1966 and certainly helped to ease the political pressure which is inevitably generated by such deflationary policies.

29. Improved private consumption is equally important in creating the market and incentives for the larger private investment effort in agriculture and industry desired by the new Government. The two-year experience with stabilization in Ghana also indicates that Government consumption should be considered least responsive to any deflation attempts. The best one can obviously hope for is a tight control of its rate of expansion and given Ghana's experience in the period 1960-65, she has done well in this respect. As far as investments are concerned the economy has gone quite far in reducing their level to more manageable proportions and, in doing so, has both improved the productivity of investment while substantially reducing the domestic resource gap.

30. The effect of the stabilization program on savings and the domestic resource gap is estimated in the table below:

Table 4: Savings and Investment

(At constant 1960 prices)

(N₦ million)

	1960-64 Average	1965	1966	1967
Gross domestic product	995	1,014	1,017	1,047
Consumption	838	887	861	931
Gross domestic savings	157	127	156	116
Gross domestic investment	202	251	222	143
Domestic resource gap	45	124	66	27
Investment ratio	20.3	24.8	21.8	13.7
Average savings rate	15.8	12.5	15.3	11.1
GDS as percent of GDI	78	51	70	81

Source: Central Bureau of Statistics and Mission Estimates (1967)

The stabilization program has resulted in decreasing resource gaps in 1966 and 1967, and an increasing share of investment covered by domestic savings. Although the average savings rate appears to have decreased in 1967 to 11.1 percent after increasing in 1966, this should be treated with some reservation as gross capital formation omits agricultural investment that cannot be related to imports and there are indications that agricultural investment in the form of land clearance and the like increased in 1967. Private savings, therefore, may well have been higher than these tentative estimates would suggest. In addition, there is no way at present to estimate the effect on private savings resulting from increased manufacturing although there are indications that manufacturers' savings increased and are beginning to be reflected in increased investment. Recorded statistics show that reduced resource gaps reflect relatively greater reductions in investment more than increased savings.

31. Given the continued constraint of foreign exchange and the character of the improvement in resource supply and use in 1966 and 1967 the major question now facing the economy is whether and to what extent capital formation can be resumed especially to achieve sustained growth of exports and agriculture while maintaining the gains of the stabilization program and devaluation. It is apparent that stabilization of the economy is not yet complete. Therefore, the resumption of investment requires that the rate of increase in private and public consumption does not absorb domestic and foreign resources needed for growing capital formation.

32. An increase in private consumption in the order of 3 to 4 percent in real terms would be desirable in terms of creating the market to sustain production and incentives for increased investment in agriculture and industry. However, the problem is that the Government has only limited and usually indirect methods of controlling the rate of private consumption because the major component of private consumption is domestic food which is determined by the annual crop size. In regard to taxes on income and prices of services, there appears to be small scope for feasible increases in rates given the present level of taxes, administrative difficulties and political consideration assuming no major wage increases (above 5 percent). On the other hand, a substantial wage increase in the private sector is likely to increase private consumption as well as erode the effects of devaluation. Thus the rate of wage increase that materializes in the private sector is likely to be one of the decisive factors in determining the rate of increase in private consumption in 1968.

33. A second component of private consumption is imported and manufactured consumer goods and here the Government has a greater capability to influence consumption through its import allocations. As more fully discussed later in this report, relative price changes resulting from devaluation are likely to play a more significant role in determining the level of consumption of these goods. Briefly, the effect of devaluation as intended, is to raise prices of consumer imports other than food relative to domestic manufactures, but both will have higher prices relative to domestic food except possibly in a very poor crop year. Thus unless there is another bumper food crop in 1968 with very low food prices, and/or wages increase substantially, demand for other consumer goods, is not likely to grow more than in 1967, e.g. roughly about N$ 30 to 40 million in current prices. This is at best, an approximation but it indicates a market limit to this type of consumption, and also for imports in 1968.

34. Public sector consumption thus emerges as the component of consumption both more decisive to resource use and amenable to Government control. As noted above, the problem is to contain public consumption to levels equal to or below recent rates of increase. This implies no further wage increases in the public sector, and allocating resumed development more in economic sectors relative to social sector programs and strict control of administrative sector expenditures. As discussed later in this report, this pattern of expenditures should be feasible within the level of development expenditures foreseen for 1968, but implies continued rigorous control of recurrent expenditures.

35. Given wage restraint in the private sector and restraint of public consumption to or below the 1967 rate of increase, the scope for new investment depends primarily upon the level of imports that can be financed; the response of private investors, and the rate at which new productive investments are prepared in the public sector. The prospects for investment and imports are discussed in the following sections of this report.

II. DEVELOPMENT PROSPECTS

36. This chapter discusses the development prospects and performance in selected areas of Ghana's economy that materially affect development over the near and long term as well as the import requirements over the near term. The areas discussed are agriculture and industry including both public and private investment, and the Government development program for 1968 and 1969.

A. Agriculture

37. Ghana's agricultural sector is presently undergoing significant changes. The private sector consisting mainly of small farms operated as family units, has demonstrated basic strength and, in 1967, signs of revival after a period of stagnating output. The public sector which under the former regime was to assume a major role in agricultural production is being reoriented to support the private farmer rather than compete with him. The program to retrench non-viable public ventures in large-scale farming has been reasonably successful, but the new policy of Government support for agricultural development in the private sector has moved slowly. The required changes on both fronts are substantial and strain the present capacity of the Ministry of Agriculture. In fairness it should be added that two years is a relatively short period to drastically redirect the efforts of a Ministry which, in addition to not only being preoccupied with its own internal reorganization, is also suffering from a general spirit of discouragement after failures of earlier programs to reshape and modernize the country's agriculture.

38. Reorganization alone was a major task. The intense development effort of the past had resulted in a spectacular proliferation of agencies all geared to pursue different aspects of a vision of modern agriculture. By 1965 there were five ministries and over twenty-five specialized agencies and enterprises: these included the United Ghana Farmers' Cooperative Council employing over 30,000 on farms and in cocoa buying, the State Farms Corporation with 105 farms and a labor force of over 30,000, the Ghana Young Farmers League and the agricultural wing of the Workers' Brigade to mention only a few of the most important organizations. In addition, there were large public enterprises in fishing, sugar production, tobacco and food marketing. This mammoth set-up had to be restructured by dissolving a number of organizations, redeploying experienced staff and resources where available and restoring the functions of other vital agencies, such as the Cocoa Division, the extension service and agricultural research stations, which had been seriously neglected in the past. By the end of 1966, the whole agricultural administration had been consolidated into one ministry with 13 divisions and an assortment of public corporations. The latter are struggling separately to gain viability while developing new relationships with the Ministry of Agriculture.

39. There was appreciable progress with many of these corporations. The State Farms Corporation abandoned unviable farms and is now operating a core of 45 farms producing chiefly cotton, palm oil, tobacco and rice. Financial dependence upon the central budget has been greatly

reduced and improved management is being introduced. However, the efficient operation of the corporation requires that it be given sufficient autonomy to operate on commercial lines. The State Fishing Corporation has made good progress towards streamlining its operations, too. It is now operating a fleet of six trawlers under a management contract, and has sold or leased other trawlers to private Ghanaian operators. However, the future of its ten Russian trawlers still lying idle in Tema has yet to be resolved. This appears to be a pressing problem in view of the rapid deterioration of the vessels, but a difficult one in terms of finding a purchaser at a reasonable price. Effective management for the two sugar refineries and plantations has yet to be obtained and it will take considerable time and additional investment to grow sufficient input for the factories. Processing plants for pineapple, tomato and mango are still idle for lack of raw materials and no concrete proposals to grow the necessary inputs are as yet in sight. However, the Government has employed consultants to study growing the necessary crops for these processing plants. Finally the Food Marketing Corporation as another potentially important public corporation is, as will be seen later, still in a process of defining its future functions, as well as ways and means to implement them. Thus, as far as public corporations are concerned, there are still major tasks ahead to cope with inherited difficulties but on balance one gets the impression that progress has been made in the past two years.

40. The Ministry of Agriculture itself, however, is adjusting less quickly to the changed environment. After reducing its role in direct production, the Ministry is expected to return to the concept of a Government agency that is mainly serving the private sector. Here the Ministry turns to a task which offers good prospects for success. All the evidence indicates that the Ghanaian farmer is responsive to incentives and will take to cash farming. The task which the Ministry is now facing is to assist and guide the farmers' production effort, which embraces the improvement of extension services, credit and the provision of farm supplies. Secondly, the Ministry will have to devise policies to improve marketing facilities which is one of the major impediments to agricultural development in Ghana. Finally, a general improvement of rural living conditions is important if Ghana's agricultural sector is to benefit in the long-term from the increase in rural population that has taken place as a result of retrenchment in the economy.

41. Examples of the urgency of this task are numerous. The sharp drop in maize prices in 1967 when prices dropped from about N¢ 10.5 per bag in 1965-66 to N¢ 4.5 in 1967, for instance, signals deficiencies in Ghana's food marketing system which might result in lower agricultural production in 1968. Due to the absence of suitable storage facilities on the farm or near the markets, a sizeable part of one year's crop is usually marketed within a relatively short period causing prices to vary sensitively with the crop size. As long as the problem of storing the harvest on the farm itself is not solved, a scheme to provide middle-men with inexpensive storage facilities could be very effective in spreading supply more evenly over one year. It would reduce their risk and encourage their efforts to obtain supplies from the farms. Even though the middle-man is looked at

with suspicion because of his occasional ability to make sizeable profits, he is a highly effective and flexible element in the food marketing chain, and the Government was well advised to shelve the idea to replace him with a state-owned food marketing organization. Instead, it announced in a White Paper on future economic policy issued in August 1967, that it would introduce a price support scheme, if this proved feasible, by which it would become the buyer of last resort if prices for selected staple crops dropped below a certain level. Implementation of this scheme, however, is not immediately possible because the Government, quite similar to the middleman finds itself without facilities to store safely any buffer stocks that may result from such an open market operation. It is unlikely that the Government will be able to organize the implementation of this policy early enough to announce guaranteed minimum prices for the 1968 crop. In the absence of this, the farmers' reaction to lower prices for maize, cassava and yams in 1967 might result in reduced acreage under cultivation and a classical supply-price cycle would affect output of domestically used produce in 1968.

42. In any event, the envisaged price support scheme is only one avenue open to the Government to encourage the reviving Ghanaian interest in farming, and there is room for debate whether it is the most suitable one. First, it requires the re-orientation of the Food Marketing Corporation which has been chosen to operate the scheme. As noted above, the Corporation is new and will have to develop a new program requiring pricing policy, storage facilities, money, staff and equipment which, given the difficulties the Agriculture Ministry is presently having with the implementation of decisions, indicates that a quick or effective implementation of the scheme is doubtful. Secondly, if the buffer stocks cannot be disposed of on the market without threatening the guaranteed floor price, the scheme quickly turns into farm subsidies which, apart from the surpluses it is bound to generate, is costly and raises the question whether the money can be spent more effectively elsewhere in agriculture with less burden on administrative capacity. For instance, the Ministry of Agriculture could direct the interest of the farmers to crops where the market is now flexible because they can be exported or substituted for imports: rice, cotton, groundnuts, tobacco and practically all tree and fibre crops offer good possibilities if the farmers are properly directed by an effective extension service and if marketing facilities and price incentives are provided. At present a variety of organizations are trying to sponsor various crops and marketing arrangements: the Tobacco Corporation is encouraging tobacco growing for use in the two local factories; the State Farms Corporation which has recently acquired a new cotton gin, is planning to organize cotton growing; and the Cocoa Marketing Board would like to expand from marketing export crops such as coffee, banana, sheanuts, palm kernels, groundnuts and copra into domestic marketing of these and other crops. Basically, it is a sound idea to delegate sponsorship of certain crops to agencies which seem equipped to handle the task, but one gets the impression that this proliferation is without direction and support from the Central Government, and not well coordinated with other efforts of the Ministry of Agriculture such as those of the Extension Services, the Irrigation, Mechanization and Transport or Farm Supplies Division.

43. Equally important are programs to reorganize extension services, research, credit and farm supplies focused upon economic crops for export and domestic use. Progress has been most uneven in this area, and program priorities and operational plans are generally not yet established much less implemented. In fairness the burden of an orderly disposal of non-viable programs and administrative reorganization has seriously distracted agricultural officials during 1966 and 1967. However, the crucial problem is that the reorganization and coordination of these service programs cannot proceed far until specific operational priorities are determined based upon detailed appraisal of the economic, agro-technical and institutional aspects of major crop possibilities. Instead of this type of work, it appears that too much time and resources are devoted to marginally productive on-going programs like farm mechanization and land settlement, or discussion of policy in very general terms as illustrated by the discussion of marketing above.

44. One result is that identification and preparation of new productive programs has lagged behind more than foreseen two years ago. Except for preliminary work on cotton, oil palms, cocoa replanting and credit for fishing boats, there is very little in the way of building a pipeline of new programs. There are a few exceptions: irrigation programs for small dams and pilot projects appear well organized although the lack of experienced staff and agro-technical results from field experience will limit any major expansion in the next few years. The new Agricultural Development Bank (ADB) has built up an impressive list of loan applications, but it is too early to judge their capacity for orderly expansion. The ADB will inevitably face the problem of comparatively high default rates and high administrative costs of supervision in the initial years, but if held within reasonable limits, these are properly counted as development costs. The National Investment Bank is also financing a few large commercial agricultural schemes. On balance, agricultural credit appears to be well started.

45. The special problems of cocoa have already been noted (see paragraphs 12 - 13). The crux of the problem is that the Cocoa Division of the Ministry, which handles disease control and planting programs, as well as the Marketing Board are still perfecting major internal reorganizations. Once these agencies are in a position to more effectively handle their tasks the major policy issue is how to coordinate new planting, domestic processing (two of the three processing plants are independent of the CMB) and producer price policy to maximize gains from what is still Ghana's principal export.

46. Parallel programs are being developed to improve conditions for production, marketing and rural living of the private farmers. The feeder road program after initial difficulties, is now moving with an initial target of some 550 miles of reconstructed roads in 1968. As soon as methods of appraisal and implementation are worked out, there is substantial scope for expansion of feeder roads. The new Water and Sewerage Corporation is redirecting its resources to rural water supplies with one scheme now being considered for external finance. As the Corporation develops competence, there will be scope for expansion of economic rural water supply schemes. The expansion of credit by the ADB, and a new program for inexpensive farm market storage has been noted above. Finally, Government is considering

schemes for rural electrification. All of these schemes will help increase the attractiveness and therefore the incentives to remain in farming, but the possibilities have not been exhausted. Unfortunately, major expansion in rural health and education programs are not now possible given staff and budget constraints in regard to health and these plus major program reorganization requirements in education.

47. Private commercial agriculture has emerged as one of the more promising development since 1966. Many small and medium size poultry and crop farms have been started, frequently by urban based investors, and as noted above, the ADB and NIB have provided credit for some of them. One large commercial farm has been started by a foreign private group and several others are in the planning stage. A joint state-foreign private firm has taken over the rubber estates which opens the prospects of increased exports of high priced natural rubber types partially offset by imports of lower priced rubber for tire manufacturing. The very significant ocean fishing industry continues to expand its fleet, and private canning and freezing capacity has been installed. Government is working with external assistance to improve credit for inshore motorized boats and expansion of fishing harbor space. However, there is still a problem of inadequate processing facilities to handle the seasonal peak of the catch. There are two public sector fish canning factories in Tema that remain incomplete pending clarification of legal and financial issues with the suppliers. Once completed the prospects for reduced fish imports will improve. In addition, one of the large private long range operators is converting existing trawlers to catch tuna for export.

48. If this proves feasible, tuna exports might rise rapidly as West African waters are excellent tuna grounds and the comparative advantage is of the order of US $100 per ton for exported tuna compared to imported fish prices. Tuna exports would require lifting the present ban on fish exports which, if tuna exports materialize, would clearly benefit Ghana.

49. Future export prospects will depend upon the success of the cocoa program, oil palm plantations, rubber, tuna fish and timber. As previously noted, incentives for the timber industry have been improved by devaluation, reduction in marketing charges and taxes and lower railway freight rates. The ability to keep spare parts on open general licensing will materially influence costs in the industry. The principal remaining problem is clarity and certainty of concessions. The Government announced in late 1967 its intention to re-allocate concessions in favor of timber processing firms. It is too early to judge the effects of this policy in what is a very complex area - what is clear is that certainty of concessions will be necessary before substantial new investment will proceed.

50. It appears, therefore, that the potentials and deficiencies of Ghana's agriculture are now widely recognized and the broad policy framework featuring a greater role for private farming is now well understood. However, the translation of broad policies into specific operational programs has lagged behind except for the few areas noted above. One result is that the pipeline of new productive programs is still small. Agricultural

development expenditures will not therefore increase appreciably over the near term because even when new programs emerge they can replace marginally productive on-going programs whose returns are not commensurate with Ghana's growth requirements and scarcity of agricultural staff. Indeed, the great problem in the near term, will be to resist the temptation to expand these marginally productive programs in order to be "doing something" in agriculture. This would not only slow down work on productive new programs, but would divert resources and staff from the promising areas of private farming that are now emerging.

B. Industry

Current Position and Prospects

51. The new Government inherited a situation where existing industrial capacity was seriously under-utilized and output had stagnated; private investment either domestic or foreign had virtually dried up; and the large direct state investment program had encountered serious difficulties in attaining economic viability. The new Government's industrial policy has been directed to these three problems. The broad framework of this policy has been reasonably clear although detailed policies and their implementation are still at different stages of evolution. A brief summary of Governemnt's existing policy is given in the last two budget statements and the memorandum submitted to the April 1967 Aid Meeting and in regard to future policy in the recent white paper (Outline of Government Economic Policy, August 4, 1967).

52. The highlights are:

(i) A basic objective is to encourage private enterprise as the principal source of new industrial investment; adequate incentives and credit are to be created; special programs will be devised to promote Ghanaian private enterprise; and policies evolved to regulate monopolies.

(ii) A basic objective during the consolidation period is to make better use of existing industrial capacities especially by allocating import licenses for raw materials and spares.

(iii) In regard to state enterprises, emphasis will be on remedying the deficiencies of existing state enterprises; completion of unfinished projects that are potentially viable and abandonment of non-viable projects; the Government does not envisage direct state investment in new state manufacturing enterprises during the stabilization period, but will favorably consider establishment of priority ventures in the future which would not be undertaken by private investors, either wholly in the state sector or on a joint state private basis.

(iv) The stabilization period will be used to prepare new long term industrial programs, projects and policies with appropriate supporting organizations.

53. Considerable progress has been made in increasing the utilization of existing manufacturing capacities in the private and joint state/private firms principally by increasing the supply of imported raw materials and spare parts for current production - this is more fully discussed in the section dealing with imports. This program has been supported by parallel measures to insure that adequate credit is available for productive enterprise within the overall restricted credit supply; realignment of price controls on textiles, soap and staple commodities after devaluation to assure both reasonable prices and profit margins; and by placing spare

parts on open general licensing. Although designed primarily for long term incentive purposes, devaluation and reduction of taxes should also encourage increased production in existing timber and mining operations. On the other hand, improved utilization of capacities in existing state manufacturing enterprises has not progressed as well.

54. Inevitably most of the time and energy of Ghanaian authorities have been directed to the existing state enterprises which presented much the biggest problem. Here the Government inherited two groups of problems: to determine whether to complete or abandon projects not yet completed or started, and how to remedy the deficiencies of completed projects. In regard to incomplete projects, work was suspended on 27 projects either because viability was in question or because the legal and payments status was in dispute. This included 19 separate installations with one of the largest Western supplier credit contractor and 4 projects with the Eastern Bloc. Negotiations have been protracted in regard to the future of these projects. Although the Government sought to cancel over 15 projects that had not started into construction, their status and the prospect of cancellation was usually commingled with the legal and financial issues of other projects already under construction by the same suppliers and the penalties of cancellation. Thus far the Government has been successful in cancelling contracts for 1 jet aircraft, 2 ships and a farm tractor assembly plant and there are fair prospects of cancelling further projects that have not yet gone into construction.

55. Equally difficult has been the task of dealing with the existing or recently completed state manufacturing enterprises. These have generally encountered one or more of the familiar teething problems of new industries accentuated by the manner in which they were implemented: suppliers usually selected the site, size of installation and constructed factories without Ghanaian supervision or participation although nominally under the supervision of the Ministry of Industires. Once built, they were turned over to the State Enterprise Secretariate (SES) which was created in 1964 as a supervising agency, but which has never been adequately staffed for the task. The most common problems of the state enterprises are lack of adequate domestically produced raw material; lack of depth in management, production, finance and marketing staff; and no financial accounts or adequate capitilization. Sometimes suppliers continued as managing agents, but these agreements are not always to the advantage of Ghana.

56. The new Government has attempted to deal with the problems of existing state enterprises by one of two basic strategies:

(i) Some enterprises were to be offered for sale in whole or part to foreign and Ghanaian private investors; and

(ii) In regard to those not sold, to re-organize the SES into a semi-autonomous holding company operating on commercial principles and under its ultimate supervision, to arrange for direct hire of staff, managing agents (including re-negotiating existing agreements) or leasing whichever proved most suitable to the particular enterprise.

57. Initially some 18 enterprises were offered for participating sales to the private sector. Ghanaian authorities recognized that it was important to establish a proper negotiating position (establishing current market value, identification of suitable purchasers and conducting orderly negotiations) as few projects had feasibility studies, original cost was frequently unknown, and production records tended to be poor. As an interim measure, the authorities established a valuation committee, comprising Ghanaian engineers and accountants, and a negotiating committee. Ultimately the authorities sought the services of independent professional consultants to establish either a negotiating position, or define remedies for the enterprises that would be retained.

58. Initially progress was slow: in part because of the inexperience of the Ghanaian officials; in part because prospective purchasers of varying reputation and seriousness offered widely divergent proposals which complicated evaluation; and in part, because of the time required to establish facts and conduct negotiations. A more serious problem was that private investors naturally sought only profitable enterprises whereas the Government tried to sell the more marginal enterprises, and private investors usually sought a maximum of tax and other benefits including preemptive market positions. Determining a reasonable sales agreement for both parties was extremely difficult in such circumstances.

59. Professional consulting services were secured to study four enterprises operating 8 factories, but their reports are only now becoming available. As of late 1967 contracts had been signed to sell all or part of 6 smaller enterprises to Ghanaian investors and 6 enterprises to foreign private investors. These private investors would be investing in the order of N¢ 8 million in the form of equity or working capital. The smaller enterprises were sold outright to Ghanaians whereas Government held a majority of the equity in all but one of the 6 enterprises sold to foreign investors. The Government strategy in practice appears to be to hold a majority share when the enterprise is clearly going to be profitable in order to maximize income for Government, and to take a minority position in enterprises with more doubtful futures.

60. As of late 1967, Government was considering offers on several other enterprises, and planned to seek offers for others, e.g. the large shipyard and dry dock project. However, just as this program began to pick up momentum, public debate developed in late 1967 over the sale of some of the state enterprises resulting in the Government's agreeing to one foreign participant's withdrawal from the contract to purchase a share of a pharmaceutical factory. Although Ghanaian authorities plan to continue to seek participations, the prospects for concluding additional sales in the near future is now doubtful given the current environment of public criticism.

61. On the parallel front of introducing remedies for enterprises to be retained, progress has been made in re-organizing the SES but there was less progress at the factory level. A decree has established the Ghana Industrial Holding Corporation (GIHOC) to supersede the SES, impowered to initiate, operate or hold Government shares in enterprises in

manufacturing and commercial activities including trading at home and abroad. GIHOC is enjoined to operate on sound commercial lines and to produce a reasonable return on its assets. Nineteen state enterprises are to be initially vested in GIHOC which is to come into operation by April 1, 1968. Technical assistance in the form of headquarters staff has already been provided.

62. It is too early to anticipate the prospects for GIHOC, but several issues will require immediate clarification. GIHOC looks to the Government to absorb existing long term indebtedness of the 19 enterprises as well as Bank overdrafts of over N¢ 6.0 million. In addition, they expect Government to advance working capital provisionally estimated at over N¢ 11 million. The question of whether Government should and could provide such resources over the near term has yet to be settled. As few of the 19 enterprises have adequate financial accounts or plans and as most are operating on a deficit basis, it will be difficult to determine adequate capital requirements until operating prospects and financial plans are formulated. Second, there is some expectation that the Government will transfer its equity shares in existing joint state-private enterprises, all of which are profitable to GIHOC. This would divert dividends now going to the budget and increase the cash flow of GIHOC. Whether this is a feasible step from the fiscal point of view before GIHOC's financial requirements are defined has as yet to be settled. Third, GIHOC is evolving a large headquarter staff. Whether this will be conducive to creating plant level autonomy and enterprise, one of the principal purposes of establishing GIHOC, remains to be demonstrated and the question of financing this headquarters staff when the 19 enterprises are as a group in deficit, remains to be solved. Fourth, it is not clear what would be the legal status if Government should sell all or participations in any of the enterprises as is possible with 6 of the 19. Fifth, the organization of GIHOC makes no provision for issuing of stocks and therefore there is no apparent way for Government to roll-over its capital for other investment purposes short of selling all or part of a particular enterprise. This apparent omission warrants further consideration. Finally, staff efforts and recruiting have been focused on the headquarters for GIHOC whereas the operational problems are at the plant level. Except for the appointment of two expatriate managers, virtually no improvements have been made at the plant level in the 20 months since the coup. In addition, direct recruitment will be a slower route to improvement compared to participations sales, managing agency arrangements or leases. In any event, permanent improvements require formulation of systematic operational plans as well as adequate staffing. This will require a sizeable amount of expertise not now available to Government or GIHOC. This seems to call for an extension of the use of consultants to study the requirements of these enterprises.

Private Investment

63. Private investment in manufacturing, timber and agro-industries (including fishing and commercial farms) has increased significantly in the last 20 months, but it is still too early to judge whether it will continue as a permanent feature of the Ghanaian economy. Although the

estimates must be used with reservation, there are indications that new private investment projects costing in the order of N¢ 15 million were started since February 1966, exclusive of investment in VALCO, mining, road transport, trade and construction. A further N¢ 40 to 50 million of projects are at some stage of preparation of which N¢ 20 to 30 million are at advanced stages in terms of Government approvals obtained and financing arranged. There is preliminary planning on two mining ventures which, if they materialize, would involve in the order of N¢ 15 million of new investment, and investment in road transport averages about N¢ 6 million per year.

64. Most of the new private investment now underway or planned is sponsored by resident firms in Ghana with the bulk of this investment in money terms coming from expatriate firms operating alone or in joint state-private investment. New foreign private investors, with a few notable exceptions, have invested in the purchase of existing state enterprises. Most of the private investment is in import substituting industries with over one-fifth in textiles alone. On the other hand, about one-fifth is in timber processing for export. Ghanaian private investment is concentrated in timber processing, ocean fishing and fish processing and commercial agro-industries.

65. The total environment for private investment was improved by statements of the new Government favoring private investment, activating existing incentive legislation, and by new fiscal measures. Tariff protection continues to be relatively high in Ghana for import substituting commodities other than staple foods. Although no systematic study is available, it appears that effective rates of protection created by the combination of tariffs and sales taxes assessed principally on imports, is in excess of 45 percent for most products. The Capital Investment Board (CIB) established in 1963, can grant, among other things, exemptions from company, property and import taxes for up to ten years. The CIB has been reactivated; where 29 projects were approved between 1963-65, some 73 applications were received and 46 projects approved in 1966-67. However, company taxation at 50 percent of net profits is still relatively high compared to neighboring countries. In addition there was a 20 percent surcharge on profits remitted abroad but the new Government announced in 1967 a reduction to 12.5 percent with the balance to be phased out over 3 years. The 1967 devaluation and reduced taxes and charges on timber and diamond mining have increased incentives for export industries. Finally, Government has increased domestic funds available to the Agricultural Development Bank and the National Investment Bank (NIB) to increase the supply of credit to the private sector. In regard to the NIB, it is negotiating to re-organize the NIB into a predominantly private development finance institution, and to increase its total resources.

66. There are some problems remaining whose resolution will influence the environment for continued private investment. One of the most serious is the severely restricted level of profits that can be remitted abroad, a consequence of the severe balance of payments constraints. This has resulted in the involuntary accumulation of profits in Ghana which both detracts from the investment climate and complicates liberalization of external payments. Although foreign exchange shortage will not permit full liberalization of remittances over the near term, the 1968 balance of payments program being proposed by the Government includes a

marginal increase in the level of profits remittances. If, as intended, this provision can be made a permanent feature, it should improve investment incentives. Another potential problem will be the resolution of private sector wage demands which have built up after devaluation. Holding wage increases to reasonable levels will influence investors in terms of wage costs and the general impression of wage prospects as well as in the allocative effects of preserving the gains of devaluation.

67. Finally, the investment environment will be influenced by the clarity, consistency and efficiency of the administration of policy at all levels of Government. At present, the investor encounters costly delays of obtaining successive approvals from different agencies for his investment: CIB incentives, immigration of foreign staff, land, utilities, import licenses and foreign exchange. Delays are sometimes paralleled by contradictory interpretations of Government policies by officials of different agencies. Part of this reflects the time required to re-orient government policy at the implementation level when policy is changing rapidly or is still in evolution, and part is the result of officials not being well informed and over-burdened with other duties. Ghanaian authorities recognize this problem and propose to establish an investment promotion center to supply liaison services for investors. The CIB is moving to simultaneous decision making by all agencies involved in implementing exemptions granted to approved projects, and is considering defining approved industry groups where an applicant would automatically be granted approval. These principles of simultaneous rather than successive decision making, and making approvals of projects automatic for approved industrial groups could be usefully extended to other decisions affecting investment.

Public Investment

68. Public investment in industry now comprises expenditures on completion of projects started before 1966; provision of working capital; and transfers of funds to the National Investment Bank. The 1967-68 development budget for these three items allocates N¢ 9 million but actual expenditures are estimated at about N¢ 6 million. Expenditures on completing existing projects will decline rapidly and should disappear in 1968. As noted above, it is impossible to accurately estimate working capital requirments; they could easily range from N¢ 2 to 6 million depending on final remedial solutions for existing state enterprises and espcially on the number sold to private investors who generally supply the working capital. Government's policy, as noted above, is not to directly invest in industry during the stabilization period, and there are no industrial projects requiring Government investment that are at advanced stages of preparation. Government's policy is to promote industrial investment by transfer of funds to the NIB, but Governmnet cash investment in NIB is not likely to exceed recent levels. Thus Government development expenditures in industry are unlikely to increase and might well decline in 1968 and 1969. It is worth mentioning, however, that Government investment in mining might increase substantially in 1968-69 if new development programs for the State Gold Mines prove feasible and if the joint venture in diamond dredging, now at advanced stage of preparation, materializes. Both investments would be in the vital area of exports.