Some Suggested Measures for Industrial Development of The Republic of Ghana

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Foreword

The Republic of Ghana has shown a remarkable result of the structural adjustment. Industrial development is the next issue for Ghana to reach a higher stage of its economic growth. Although main stream for industrial development in Asia is to attract foreign direct investment, development of domestic industry is also important to form a coordinated and sound linkage of industry in a nation, which we have learned from the experiences of Asian countries. The purpose of this study is to seek the possibility of development of the domestic industries.

This study has been conducted under the Special Assistance for Development Policies and Projects scheme which was established to provide policy related advice and recommendations based on the study. This paper was written by Hajime Ino (Technical Advisor, Sector Studies), Kengo Mizuno (Economist, Sector Studies) and Hajime Takeuchi (Deputy Director, Sector Studies) under the direction of Naohiro Kitano (Director, Sector Studies). We would like to thank Professor Ryuichiro Inoue, Obirin University, Professor Hiroshi Kohama, University of Shizuoka and Associate Professor Hukunari Kimura, Keio University for their guidance in this study.

The authors and I are very grateful to the cooperation and suggestions given by the Development Policy and Research Division of the National Development Planning Commission, Ghana. We also acknowledge the cooperation given by the Ministry of Finance, Ministry of Trade and Industry, Ghana Export Promotion Council, Ghana Investment Promotion Center, Social Security and National Insurance Trust, National Board for Small Scale Industries, Private Enterprise Foundation, Association of Ghana Industries, National Investment Bank Limited and all others who provided valuable information.

I hope this paper would contribute to the development of industries in Ghana.

March 1999

Koichi Kosumi
Vice President, Chief Economist
Research Institute of Development Assistance
The Overseas Economic Cooperation Fund
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EXECUTIVE SUMMARY

Chapter I  INTRODUCTION

Ghana’s structural adjustment programme is considered to be one of the most successful in Africa. The government of Ghana has issued various policy measures for trade and investment promotion in its effort to further economic development. However, Ghana’s domestic industry, which is expected to be the locomotive of the development, has stagnated. Through the liberalization of trade and investment, Ghana has developed a market framework. However, the revitalization of domestic industry cannot be left to the market, government intervention is also required.

The purpose of this study is to review the policies of the government of Ghana regarding domestic industry development from the point of the private sector and suggest some options for future measures based upon the experiences of Asian countries.

Chapter II  ECONOMIC ENVIRONMENT

Structural adjustment and its result

This chapter reviews Ghana’s economic environment since the introduction of the World Bank and IMF inspired Economic Recovery Program (ERP) in 1983. Until then, the economy was characterized by many distortions such as price controls, import restrictions and an overvalued exchange rate. These distortions have been removed by the ERP and succeeding structural adjustment programmes. As a result of these liberalising activities, Ghana’s GDP growth improved significantly, from -3.4% (average of 1980 to 1983) to over 4% in 1990s.

Budget deficit and high inflation rate

In recent years, budget deficits and high inflation rates have been two areas of concern for the Ghanaian economy. The budget deficit was significantly worsened by an increase in public sector salaries in 1992. The government of Ghana has tried to decrease the deficit by increasing tax revenues and through the privatization of public enterprises. The budget deficit in 1997 was, however, still as high as 10.4% of GDP. The inflation rate climbed up to 70% in 1995. Since then, inflation has reduced, but still is greater than the government’s target of 10%.

High interest rates and crowding out

In order to cover the budget deficit, the government of Ghana has been issuing treasury bills. The interest rate has been high enough to attract investors, diverting funds which would otherwise have gone towards private sector investment. Ghanaian enterprises have been facing international competition.
since the liberalisation of the economy, and require financing for capital investment in order to improve their competitiveness. Because of the high interest rates, it has become difficult for enterprises to secure funding. This funding difficulty has been compounded by the banks, which prefer purchasing treasury bills, which is less risky than providing loans to the enterprises.

Chapter III MANUFACTURING SECTOR STATUS AND INDUSTRIAL PROMOTION FRAMEWORK

Manufacturing sector status

The share of manufacturing in GDP has continued to declining since 1988 from about 9.4% to 8.1% in 1997. The average annual growth rate for manufacturing was 12.6% in 1984-88 but only 2.7% in 1989-96. For the sustainable growth of Ghana, development of the manufacturing sector is an urgent requirement.

The output of the Ghanaian manufacturing sector had declined until 1983. In 1983, the total production of the manufacturing sector was about 35% of that of 1977. Since then, it has been improving and returned back to the 1977 level in 1994. This sector is mainly composed of micro, small and medium scale enterprises that are lack of competitiveness. They were negatively affected by an inflow of cheap imported goods as a result of trade liberalisation under the Structural Adjustment Programs. Most of Ghana’s manufacturing machinery and equipment are outdated, making the enterprises uncompetitive. For example, the garment industry, which used to be one of Ghana’s strongest manufacturers, was severely attacked by cheap imports and its production level in 1996 fell to only 58% that of 1977.

Industrial promotion framework

The government recognized that it was not possible to revitalize the country’s manufacturing sector only through the ERP. As a consequence, the government launched its “Industrial Policy Statement: A strategy for Industrial Regeneration” in 1992 and designated the following industries as the priority targets in the short term; food and agro-based industries, forestry, (these are the target industries for this study), earth-based industries, engineering, energy related industries, and chemicals. At the same time, the government introduced an incentive package to stimulate the development of the manufacturing sector. The target manufacturing industries nonetheless remain sluggish, in particular the textile/garment industry.

The government has attempted to respond by shifting its industrial policies to become more outward-looking, and in 1995 launched a new development program, “Vision 2020”. In “Vision 2020”, the government has issued a series of industrial policies which aims at making Ghana a middle income country by the year 2020. The program discusses the government’s direct involvement in (1) stabilisation of
the macro-economy, (2) promotion of investment in the private sector, (3) social and regional development, and (4) poverty reduction. Particularly regarding promotion of investment in the private sector, the government developed the “Gateway Program”, which aims at economic growth led by the private sector through revitalizing trade and investment.

In the first medium-term development plan (1996-2000), also under “Vision 2020”, the government stressed development of resource-based processing industries through utilization of domestic resources, in accordance with improvement of the business environment for those industries; e.g. technical support, financial policy, reform of the legal framework, infrastructure development, and support for small and medium sized industries.

The result of these plans have yet to be realised. The Vision 2020 requires very high performance such as increase in exports 10% each year but does not contain any concrete industrial development plan. The Gateway Program is still in the beginning of implementation.

**CHAPTER IV PROBLEMS ON DOMESTIC INDUSTRY DEVELOPMENT BY THE GOVERNMENT**

**Company survey**

The analysis is primarily based on an interview survey conducted within enterprises in the four industries of our focus. Further interviews with economic organizations and governmental agencies, and a review of existing schemes were also conducted to complement the company survey and to produce a unbiased conclusion.

Major issues identified in the company survey were; availability of acceptable finance (cost of and access to credit facilities) and technical assistance (technical, managerial, and marketing support). Other issues include; lack of industrial infrastructure, distrust between the public and the private sectors, and inconsistency among policies. However, trade liberalisation and investment promotion policies were evaluated relatively favorably.

**Issues on Securing Finance**

Banks in Ghana prefer to purchase high interest rate treasury bills rather than providing finance to entrepreneurs. Due to the high interest rate of the treasury bills (45% in October 1997), private banks are reluctant to provide finance toward rather risky private business. Along with the high interest rates (around 30-50%), it is difficult for entrepreneurs to access private banks. Furthermore, long term financing, which is an urgent requirement of the entrepreneurs, is scarce.

There are many credit support and export guarantee schemes available for Ghanaian manufacturers. Most of them are solely/jointly sponsored by foreign
donor agencies and are directed to private firms or entrepreneurs by way of
designated commercial banks. Those public financing support schemes include the
Business Assistance Fund, Funds for Small & Medium Enterprise Development,
Social Security & National Insurance Trust and Private Enterprises & Export
Development Project. Although there are such schemes, they also have the same
difficulties as other bank loans because they are provided through the private
banks.

The entrepreneurs are still facing problems such as lack of long-term financial
schemes, the reluctance of banks to offer credit to small and medium size
enterprises, unfavorable credit conditions such as high interest rates and severe
collateral requirements.

Issues of Technical Assistance

A number of technical assistance programs have been offered under various
initiatives, e.g. public education system such as Technical or Vocational Institute,
Entrepreneurship Development Programme by National Board of Small Scale
Industries, Export School by Ghana Export Promotion Centre, Business
Development Planning Fund by Enpretec. The public vocational training
institutes have problems such as lack of consciousness of the needs of the private
sector, ineffective R&D for the needs of companies, inadequate cooperation among
small companies, and a lack of competent staff. Others have problems of financial
support and their scales are limited.

Other Issues
- There is a shortage of infrastructure such as electricity and water supply,
especially in rural areas. These situations hamper the activities of
manufacturing enterprises.
- Communication between the government and private sector is not sufficient and
there is a distrust between them.
- There are inconsistency among policies, that hamper the objectives of each of
them.

CHAPTER V  SOME SUGGESTED MEASURES FOR INDUSTRIAL
DEVELOPMENT

General Issues of Industrial Development

In this section, we discuss three general issues for the industrial development of
Ghana: rethinking stabilization of the macro economy, necessity of proper
monitoring in the promotion of trade and investment, and giving higher priority to
the industrial development.

It should be noted first, that the stabilisation of the macro economy, especially
fiscal balance, is the key to industrial development. As is observed in Chapter IV, one of the largest issues for the domestic industry is the shortage of finance with acceptable conditions. This crowding out and accompanying high interest rates are a result of the budget deficit. The government is now struggling for a reduction of the budget deficit, which actually fell from 10.4% of GDP in 1996 to 8.6% in 1997, and is forecast to be less than 5.8% in 1998. Further reduction is necessary. When a decision is made to deal with the above issue, however, the impact on the private sector or the balance of its effects on different aspects should be considered carefully, since they affect industrial development greatly.

The government is promoting trade and investment through improvement of the legal framework and other conditions. In doing so, monitoring of each policy measure is important. Sometimes, the policy measure adopted by the government is not properly or perfectly implemented and the expected effect is hampered.

Without the development of manufacturing industry, the government cannot expect any fundamental increase of its revenues, even though the tax collection mechanism is improved. Hence there is an importance for the development of manufacturing from a budgetary perspective.

Some Suggested Measures

We would like to present some suggestions for Ghanaian Government drawn from the experiences of Asian countries. In this section, we would like to present several policy measures and systems of different counties.

First one is to establish permanent public-private dialog scheme. In order to grasp the problems that private enterprises encounter, to have a dialog between the government and the private entrepreneurs is useful. The Joint Public Private Consultative Committee (JPPCC) in Thailand, a permanent public-private committee consisting of the representatives of both sides, is a good example of this kind. The chairman of the JPPCC is a Prime Minister himself, and decisions made are directly reflected to the government's activities.

Second suggestion is to reinforce private-led technical assistance programs. The information obtained from our survey shows that government and private technical education systems both have their own shortcomings. Here again, our suggestion is a collaboration between the government and private sector. We can find a good system in the Penang Skills Development Center (PSDC), Malaysia. In this case, the training institute is managed by the state and private sector, and the needs of the private sector are well represented.

Third suggestion is to develop linkages among micro, small and medium size enterprises. We found out from our interviews that it is not common in Ghana to form a group of companies like cooperatives to make their commercial activity efficient. Especially in the small or micro scale industry, Ghanaian business people tend to act individually. In Japan, there are many cooperatives, the main
purposes of which are joint research and joint marketing. In Tsubame city of Niigata prefecture, Japan, there are strong linkages between small manufacturers. In this area, the manufacturers association is the center of technology development, supported by public research institutions; marketing and lobbying are supported mainly by the chamber of commerce; financing is supported by quasi-public financing institution.

Fourth suggestion is to provide long term financing for capital investment. One of the most common problems that small or medium size enterprises have is the shortage of the long term finance for capital investment. In the record of the National Economic Forum, there is a request asking the Social Security and National Insurance Trust (SSNIT) to provide financing to small and medium enterprises. If SSNIT can provide a part of its portfolio through some banks for the long term finance of the industry, it would have significant impact. Besides, this is an area that is suitable for receiving foreign assistance. An example of such support is the Industrial Finance Corporation of Thailand (IFTC), to which OECF provided a two-step loan for the development of small and medium scale enterprise since 1985.

The last suggestion is to strengthen the Ghana Export Promotion Council (GEPC). The GEPC is playing an important role in export promotion, however, the funding for GEPC is not sufficient, and as such the magnitude of its activity is limited. Higher budgetary priority is expected for this organization. This is the area that is also suitable for receiving foreign assistance. Basic knowledge as well as know-how can be obtained through technical assistance. Japan assisted Asian countries through Japan External Trade Organization (JETRO) and Japan International Cooperation Agency (JICA) by sending experts to the organizations promoting exports.
CHAPTER I

INTRODUCTION

1.1. BACKGROUND AND PURPOSE OF THE STUDY

Ghana’s structural adjustment program is considered to be one of the most successful in Africa. The government of Ghana has issued various policy measures for trade and investment promotion in its effort to further economic development. However, Ghana’s domestic industry, which is expected to be the locomotive of the development, has stagnated. Through the liberalization of trade and investment, Ghana developed a market framework. However, the revitalization of domestic industry cannot be left to the market, government intervention is also required.

The Overseas Economic Cooperation Fund (OECF) has provided loans of more than 100 billion Yen to Ghana, and helped the development of its infrastructure, such as transportation, telecommunication and power. OECF also helped the structural adjustment program by providing Structural Adjustment Loans (SALs) through co-financing with the World Bank. Among the SALs, OECF provided Private Investment Promotion Program in 1992, and after its implementation, OECF followed it up by extending a grant study scheme called Special Assistance for Project Sustainability (SAPS). After the SAPS, the Research Institute of Development Assistance (RIDA), the OECF’s research division, conducted a study on structural adjustment and industrial development in Ghana. In both of these studies, the importance of industrial policy to promote domestic industries was pointed out, but no practical prescriptions were advocated.

Following previous activities, the purpose of this study is to review the policies of the government of Ghana regarding domestic industrial development, from the point of the private enterprises, and suggest some options by citing the experiences of Asian countries.

1.2. METHOD OF THE STUDY

In conducting this study, we focused our activity to interviews in order to obtain the opinions of private entrepreneurs and to find out the problems they encountered. For that purpose, thirty one enterprises from four sectors, namely textiles, wood working, food processing, and metal working were selected. At the same time, we visited various private sector organizations, such as the Private Enterprise Foundation (PEF), Association of Ghanaian Industries (AGI), Federation of Associations of Ghanaian Exporters (FAGE), Ghana National Chamber of Commerce (GNCC) and asked questions about their activities, the
problems they were facing and their opinions towards the government.

1.3. ORGANIZATION OF THE STUDY

In chapter II, we briefly review the situation of the Ghanaian economy to grasp its general condition. In Chapter III, we examine the performance of the manufacturing sector. In Chapter IV, we present the results of the interviews, highlight the common problems that private enterprises are facing and disclose the reasons which cause them. Finally, in Chapter V, we looked for countermeasures against them from experiences of Asian countries.
CHAPTER II

ECONOMIC ENVIRONMENT

This chapter reviews Ghana’s recent economic environment, especially after the introduction of the World Bank and IMF inspired Economic Recovery Program (ERP) in 1983. The ERP and following adjustment programs had significant effect and contributed to the recovery of the macro condition. However, because of the drastic increase of the money supply owing to the increase in the public expenditure in 1992, budget deficit and inflation has again become a focal issue for the Ghanaian economy.

2.1. BEFORE THE STRUCTURAL ADJUSTMENT ( - 1983)

Until the 1970’s, political instability had been the main constraint to the development of Ghana. Since its first military coup in 1966, it experienced three more until 1981 when the present President Jerry Rawlings took office.

The Ghanaian Economy had been badly affected by this instability, and the average annual GDP growth ratio during the 70’s was merely about 1%. Ghana’s economic environment was characterized by extreme macroeconomic instability and a state controlled economic system. Extreme micro and macroeconomic distortions and excessive regulation discouraged the development of the private sector. Because of the further deterioration of the economy since 1980, the government decided to invite the IMF and the World Bank to aid it in structural reform.

2.2. ECONOMIC RECOVERY PROGRAM AND STRUCTURAL ADJUSTMENT PROGRAMS (1983 - 1992)

In April 1983, Ghana introduced a comprehensive program of economic reform (Economic Recovery Program: ERP) under the auspices of the World Bank and IMF. Since then, several structural adjustment programs, also backed by the World Bank, have been launched. They have transformed the economic environment affecting business operations. Key elements of the reform process affecting industry and the macroeconomic environment are as follows:

a. Trade and exchange liberalization: Tariffs were reduced and rationalised and import licensing abolished. Exchange rates were gradually liberalised. These measures are aimed at promoting trade.

b. Changes in the tax administration and the expenditure policy of government: The tax structure was rationalized and its base broadened. Government
subsidies to public enterprises or particular sectors were reduced and shifted toward infrastructure and basic human needs projects.

c. Financial sector liberalisation and deregulation: Interest rates controls were liberalised and greater competition in the banking sector was introduced;

d. A market-friendly approach to economic management and development: Price and distribution controls were abolished.

e. Privatization of State-Owned Enterprises: In order to reduce expenditure, state-owned enterprises were gradually restructured and privatised. The number of public servants were also reduced.

The ERP has influenced nearly every facet of Ghana’s economy. According to the literature that compares Structural Adjustment Programs of various African countries, until 1990[^1], Ghana’s reform was the most extensive, and its implementation has been the most thorough (Table II-1).

Table II-1: Comparison of Structural Adjustment Reforms

<table>
<thead>
<tr>
<th>Policy Areas</th>
<th>Ghana</th>
<th>Malawi</th>
<th>Mali</th>
<th>Senegal</th>
<th>Tanzania</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade and Exchange Rate</td>
<td></td>
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<td></td>
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<tr>
<td>Import Licensing</td>
<td>Abolished</td>
<td></td>
<td></td>
<td></td>
<td>Simplified</td>
</tr>
<tr>
<td>Elimination of Quotas</td>
<td>Fully</td>
<td>Fully</td>
<td>Fully</td>
<td>Nearly fully</td>
<td>Fully</td>
</tr>
<tr>
<td>Tariff reform</td>
<td>Extensive</td>
<td>Partial</td>
<td>Extensive</td>
<td>Partial</td>
<td>Extensive</td>
</tr>
<tr>
<td>Exchange rate depreciation</td>
<td>Extensive</td>
<td>Extensive[^1]</td>
<td>No devaluation</td>
<td>No devaluation</td>
<td>Extensive</td>
</tr>
<tr>
<td>Regulatory</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>General regulatory reform</td>
<td>Partial</td>
<td>Partial</td>
<td>Extensive</td>
<td>Partial</td>
<td>Partial</td>
</tr>
<tr>
<td>Industrial price decontrol</td>
<td>Nearly fully</td>
<td>Partially</td>
<td>Fully</td>
<td>Nearly fully</td>
<td>Nearly fully</td>
</tr>
<tr>
<td>Financial</td>
<td></td>
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<tr>
<td>Interest rate liberalization</td>
<td>Fully</td>
<td>Nearly fully</td>
<td>Nearly fully</td>
<td>Nearly fully</td>
<td>Partially</td>
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<tr>
<td>General financial reform</td>
<td>Extensive</td>
<td>Partial</td>
<td>Extensive</td>
<td>Extensive</td>
<td>Partial</td>
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<tr>
<td>Public</td>
<td></td>
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<tr>
<td>Public enterprise reform</td>
<td>Partial</td>
<td>Extensive</td>
<td>Extensive</td>
<td>Partial</td>
<td>Slight</td>
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<tr>
<td>Tax structure reform</td>
<td>Extensive</td>
<td>Extensive</td>
<td>Partial</td>
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As a part of the reform process and to create incentives for the tradable goods sector, the exchange rate was gradually liberalised from 1983. From 1978 until September 1983, the official exchange rate was 1USD=2.75Cedis. Currently, the exchange rate is determined by market forces. In December 1997, it was 1USD=2,272.73Cedis.\footnote{Taking account of the inflation, the cedi depreciated by 90% during this period.} This change has reduced the constraints of foreign exchange on the imports of industrial raw materials and equipment. Together with the depreciation of cedi, the trade balance has been in deficit since 1987.

As part of the reform process, the Government of Ghana (GOG) has also tried to streamline the tariff/tax structure and to improve its administration. Levels of tariffs have been reduced significantly and the range of tariff bands has been narrowed to create a more uniform incentive system for Ghanaian industry.

As a result of these structural adjustments, the macro economic performance had improved considerably. The above mentioned literature\footnote{Parker, Ronald L., Randall Riopelle, and William F. Steel (1995)} compared the macro economic performance of the five African countries, in both relative and absolute terms, between the pre-reform (1980-83) and post-reform (1984-90) periods. (Table II-2). Based on overall quantitative results, Ghana’s economic reforms had considerable impact. In all categories except for government deficit, Ghana showed either the best post-reform level or the greatest change between pre-reform and post-reform levels.

According to the statistics, average annual GDP growth, which was -3.4% from 1980 to 83, was recovered after 1983 and has been keeping the level of about 4% per annum after 1995 (Figure II-1).

![Ghana GDP Growth](source: International Financial Statistics Year Book 1997, IMF)

\textbf{Figure II-1: Ghana GDP Growth}
### Table II-2: Annual Averages of Basic Economic Indicators Before and After Adjustment

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<tbody>
<tr>
<td>Real GDP growth(%)</td>
<td>-3.4</td>
<td>5.2</td>
<td>8.6</td>
<td>1.5</td>
<td>3.6</td>
<td>2.1</td>
<td>2.6</td>
<td>6.9</td>
<td>4.3</td>
<td>2.4</td>
<td>2.9</td>
<td>0.5</td>
<td>1.7</td>
<td>4.5</td>
<td>2.8</td>
</tr>
<tr>
<td>Real ind. VA growth(%)</td>
<td>-15.0</td>
<td>8.7</td>
<td>25.7</td>
<td>0.9</td>
<td>6.7</td>
<td>85.8</td>
<td>8.2</td>
<td>8.3</td>
<td>0.1</td>
<td>1.8</td>
<td>4.3</td>
<td>2.5</td>
<td>-3.9</td>
<td>5.5</td>
<td>9.4</td>
</tr>
<tr>
<td>Gross dom. inv.(%GDP)</td>
<td>4.3</td>
<td>10.8</td>
<td>6.5</td>
<td>18.6</td>
<td>18.4</td>
<td>-0.2</td>
<td>19.3</td>
<td>24.5</td>
<td>5.2</td>
<td>11.8</td>
<td>11.9</td>
<td>0.1</td>
<td>18.4</td>
<td>22.3</td>
<td>5.9</td>
</tr>
<tr>
<td>Govt. def/surp.(%GDP)</td>
<td>-4.7</td>
<td>-0.4</td>
<td>4.3</td>
<td>-9.5</td>
<td>-4.8</td>
<td>4.7</td>
<td>-6.7</td>
<td>-4.6</td>
<td>2.1</td>
<td>-4.5</td>
<td>-3.4</td>
<td>1.1</td>
<td>-6.9</td>
<td>-2.3</td>
<td>4.6</td>
</tr>
<tr>
<td>Inflation(%)</td>
<td>74.9</td>
<td>34.2</td>
<td>40.7</td>
<td>12.1</td>
<td>19.1</td>
<td>-7.0</td>
<td>3.9</td>
<td>-1.2</td>
<td>5.1</td>
<td>9.2</td>
<td>2.1</td>
<td>7.1</td>
<td>23.1</td>
<td>25.8</td>
<td>-2.7</td>
</tr>
<tr>
<td>Import growth(%)</td>
<td>-15.8</td>
<td>35.4</td>
<td>51.2</td>
<td>-7.7</td>
<td>20.6</td>
<td>28.3</td>
<td>2.2</td>
<td>10.3</td>
<td>8.1</td>
<td>-1.6</td>
<td>9.7</td>
<td>11.3</td>
<td>-2.9</td>
<td>6.8</td>
<td>9.7</td>
</tr>
<tr>
<td>Export growth(%)</td>
<td>-15.7</td>
<td>29.9</td>
<td>45.6</td>
<td>-2.1</td>
<td>13.7</td>
<td>15.8</td>
<td>2.2</td>
<td>17.1</td>
<td>14.9</td>
<td>2.7</td>
<td>10.8</td>
<td>8.1</td>
<td>-6.7</td>
<td>5.3</td>
<td>12.0</td>
</tr>
<tr>
<td>Curr. acct. bal.(%GDP)</td>
<td>-3.9</td>
<td>-1.9</td>
<td>2.0</td>
<td>-11.8</td>
<td>-5.2</td>
<td>6.6</td>
<td>-6.9</td>
<td>-4.0</td>
<td>2.9</td>
<td>-8.0</td>
<td>-4.4</td>
<td>3.6</td>
<td>-13.3</td>
<td>-8.8</td>
<td>4.5</td>
</tr>
</tbody>
</table>

**Notes:** The first column for each country shows the years since 1980 that comprise the prereform period; the second column shows the postreform years to 1990. The “Diff.” column shows the difference between the two periods. Inflation is derived from GDP deflator (1987=100). Import growth is derived from imports of goods and nonfactor services ($). Export growth is derived from exports of goods and nonfactor services ($). Ghana’s Deficit/surplus, import growth and export growth end in 1989. Malawi’s deficit/surplus data ends in 1989. Mali’s deficit/surplus 1989-90 is actually as a percent of GNP, not GDP. Senegal’s Deficit/surplus 1980-86 is actually from 1980-84. Tanzania’s gross domestic investment 1987-90 ends in 1989; its deficit/surplus data ends in 1988; and its import and export growth ends in 1989.

2.3. CURRENT ISSUE - BUDGET DEFICIT AND HIGH INFLATION RATE (1992 - )

Until 1991, the fiscal balance had been improving. Although it had still been in deficit, it recovered up to -1.4% of GDP in 1991. But the large expansion of the money supply at the time of the general election in 1992, due to increased civil service salaries, made it worse again (Figure II-2). This increase resulted in the high inflation rate.

The rate of inflation was reduced significantly from 1984 to 1990. It was brought down to about 10% in 1991. Since 1992, there has been a resurgence of inflation, with the rate hitting 70.8% year-on-year basis in 1995. After 1995, it has been calmed down, but still at the high level of 32.7% in 1996 and 20.8% in 1997 (preliminary figure).

![Figure II-2: Budget Balance and Inflation Rate](image)

Source: Ghana: Statistical Annex, Staff Country Report No. 98/2, IMF

2.4. OBSTACLES TO INDUSTRY - HIGH INTEREST RATES

In order to meet its financial obligations, the Ghanaian government has been issuing treasury bills (T-bills) with high interest rates. This has “crowded out” financial resources that would otherwise have been directed to the private sector.

Owing to the rapid liberalisation, Ghanaian enterprises are facing severe competition with foreign ones and seeking for finance to renovate their outdated equipment. However, because of the high interest rates, it is difficult for them to secure finance.
Huge fiscal deficits are the source of both the inflation problems and high interest rates that businesses have to face. In the initial periods of the reform process, Ghana attained a reasonable level of fiscal discipline. By 1986, Ghana recorded a budgetary surplus (although not taking account of the foreign financed capital expenditure) and it was expected that this would be maintained. However, since 1992, large budgetary deficits have occurred every year.

These deficits have been financed by increasing the supply of money, aid inflows and public sector borrowing. The result has been high interest rates and a crowding-out of money. The discount rate on 91-day Treasury bills, i.e. October 1997 is 45%. Bank lending rates range from 30% to 50% per annum (Figure II-3).

Because of this instability of the economy, national savings and investment rates are low. National savings as a percentage of GDP, increased from 8.3% to 11.2% between 1987 and 1989, but declined to 7.1% and as low as 4.4% in 1992 and 1993 respectively. Since 1994, the level of national savings has increased, but remains below the average of 16% for Sub-Saharan Africa.

Table II-3 shows East and Southeast Asia’s savings rates. Ghana’s average savings rate of 6.5% in 1991-97 is still below the average for East Asia and Southeast Asia in 1967-90. In East and Southeast Asia, most countries saved at least 20% of their GDP on average between 1967 and 90, and many saved over 30%. Foreign capital and aid appear to have compensated for Ghana’s savings deficiency.

Gross fixed investment has been low but is on a gradual upward trend. As a percentage of GDP, investment increased from the very low levels of the 1980’s to 13.0% in 1990 and 16.0% in 1994, but declined 13.9% in 1995 and 13.9% in 1996. In 1997, the level of investment remained at about 13.8%. Table II-3 shows that Ghana’s investment rate of today is still lower than that of East Asia and Southeast Asia during the initial stage of development in 1960’s-1980’s.
<table>
<thead>
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</tr>
</thead>
<tbody>
<tr>
<td>Gross Domestic Savings</td>
<td>6.5</td>
<td>21.1</td>
<td>28.4</td>
<td>33.2</td>
<td>18.9</td>
<td>28.1</td>
<td>31.9</td>
</tr>
<tr>
<td>Gross Domestic Investment</td>
<td>14.4</td>
<td>25.4</td>
<td>27.0</td>
<td>27.7</td>
<td>20.1</td>
<td>21.0</td>
<td>22.1</td>
</tr>
</tbody>
</table>

*Source: Ghana Statistical Service and The World Bank (Discussion Papers 310).*
CHAPTER III

MANUFACTURING SECTOR STATUS AND INDUSTRIAL PROMOTION FRAMEWORK

As described in Chapter II, Ghana’s macro-economic status has basically been stabilized by structural adjustment. This chapter examines the status of Ghana’s manufacturing sector and the government’s industrial promotion strategy.

3.1. MANUFACTURING SECTOR STATUS

3.1.1. Manufacturing Sector's Position within Industry Framework

The real growth rate and percentage distribution to GDP in manufacturing sector during 1984-96 are shown in Figure III-1. The share of manufacturing in GDP has continued the declining since 1988 from about 9.4% to 8.1% in 1997. The average annual growth rate for manufacturing was 12.6% in 1984-88 and only 2.7% in 1989-96.

![Figure III-1: Real Growth and Percentage Distribution to GDP in Manufacturing Sector](image)

Source: NDPC, prepared from data of Ghana Statistical Service

Table III-1 shows the comparison of the structure of output for Ghana and Southeast Asian countries in 1980 and 1995. This table indicates that the economic development of East Asia is largely the result of success in industry development, in particular in rapid development of manufacturing.
Table III-1: Structure of Output

<table>
<thead>
<tr>
<th></th>
<th>Agriculture value added % of GDP</th>
<th>Industry value added % of GDP</th>
<th>Manufacturing value added % of GDP</th>
<th>Services value added % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ghana</td>
<td>58% 41% 12% 14% 8% 8% 30% 47%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>24% 17% 42% 42% 13% 24% 34% 41%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>22% 13% 38% 43% 21% 33% 40% 44%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td>23% 11% 29% 40% 22% 29% 48% 49%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: World Development Indicators 1997, World Bank

From the beginning of the Economic Recovery Programme (ERP) to the end of 1991, the Government of Ghana did not have a formal industrial policy framework. During this period it was expected that the creation of a stable macro-economic environment and the reform of the trade and exchange rate regime would provide incentives for the industrial sector. The reform of the tradable and exchange rate regimes was to create incentives and increase the profitability and competitiveness of the traded goods sector, the industrial sector, and in particular the manufacturing sectors.4

The reform of the financial sector under the Financial Sector Adjustment Program (FINSAP), and the change in monetary policy strategy from direct control to indirect methods of monetary management, were expected to increase financial resource flows to the industrial sector. However, competition with the public sector for loanable funds, and low levels of domestic savings, resulting in high interest rates, have rendered finance capital both expensive and inaccessible to the industrial sector.

By placing all sectors on an equal footing, liberalization has led to a very rapid increase in imports, depreciation of the currency and, over a relatively short time period, a significant shift in the composition of GDP from manufacturing and agriculture to services, as shown in Table III-1. Among the important

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4 The Overseas Development Institute stated in July 1996 that: “Structural adjustment policies appear to have been implemented without sufficient attention to ensuring that the private sector was responding to the program. Thus when industrial capacity utilization increased in the initial years of the program it was on the basis of an old and absolute capital stock...” and “ There have been revisions of the Investment Code to provide tax and other incentives but these have not generated the expected growth in capital formation. Factors contributing to this failure have been the inadequate infrastructure reflecting decades of under investment and inadequate maintenance; the unstable macro-economic environment; and continuing doubts about attitude of the government forwards private investors. (ODI Briefing Paper, “Adjustment in Africa: Lessons from Ghana”, July 1996, P.3)

5 The UNIDO/ILO Industrial Sector Review and Programming Mission to Ghana in 1991 observed that while “it is generally agreed that the thrust of macro economic policy is correct......for many enterprises in the private sector, the transitional costs now appear to be greater than the benefits they have so far undoubtedly gained” (UNIDO/ILO, August 1992, P.2)
underlying reasons for the shift are the very short period for trading activities, rapid turnover in the commercial sector and complete passing through of cost increases in local currency due to very high profit margins. Manufacturing activities, on the other hand, are characterized by longer learning periods, more roundabout production, and significant downward price pressure from imported goods. The most obvious result of these interrelated problems is a low level of domestic investment and capacity utilization in manufacturing, and rising unemployment.

3.1.2. Index Numbers of Manufacturing Sector

The output of the manufacturing sector had been significantly dropped before the introduction of the ERP. This sector is mainly composed of micro, small and medium enterprises. Also, after its introduction and liberalization of trade, it was stagnated in the face of competition with cheap imports. The index of manufacturing production (1977 = 100) shows that it had recovered from devastating 35.3 in 1983 to the 1977 level (101.2) only in 1994 (Table III-2). The level of recovery, however, differs from industry to industry. The textile, apparel and leather goods industry have still been suffering while iron and steel products, although the weight is low, is booming significantly.

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Food Manufacturing</td>
<td>15.00</td>
<td>58.8</td>
<td>38.2</td>
<td>46.3</td>
<td>57.5</td>
<td>59.3</td>
<td>62.8</td>
<td>90.3</td>
<td>90.8</td>
<td>99.6</td>
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<tr>
<td>Textile, Apparel &amp; Leather Goods</td>
<td>13.71</td>
<td>32.1</td>
<td>15.7</td>
<td>10.6</td>
<td>37.7</td>
<td>39.1</td>
<td>23.7</td>
<td>60.2</td>
<td>48.0</td>
<td>54.8</td>
</tr>
<tr>
<td>Sawmill &amp; Wood Products</td>
<td>7.22</td>
<td>52.4</td>
<td>36.0</td>
<td>45.6</td>
<td>74.2</td>
<td>133.6</td>
<td>120.2</td>
<td>91.9</td>
<td>98.2</td>
<td>100.2</td>
</tr>
<tr>
<td>Iron &amp; Steel Products</td>
<td>3.25</td>
<td>69.8</td>
<td>30.9</td>
<td>12.8</td>
<td>5.2</td>
<td>-</td>
<td>356.0</td>
<td>392.8</td>
<td>541.1</td>
<td>548.6</td>
</tr>
<tr>
<td>Non- Ferrous Metal Basic Indust.</td>
<td>9.62</td>
<td>104.5</td>
<td>113.8</td>
<td>25.6</td>
<td>103.8</td>
<td>104.6</td>
<td>115.8</td>
<td>109.9</td>
<td>88.8</td>
<td>119.8</td>
</tr>
<tr>
<td>Cutlery &amp; other non-Ferrous Metal</td>
<td>0.49</td>
<td>20.1</td>
<td>4.4</td>
<td>9.1</td>
<td>55.2</td>
<td>63.2</td>
<td>83.3</td>
<td>99.9</td>
<td>124.0</td>
<td>102.4</td>
</tr>
<tr>
<td>Others</td>
<td>50.71</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>All Manufacturing Industries</td>
<td>100.0</td>
<td>63.3</td>
<td>50.4</td>
<td>35.3</td>
<td>63.5</td>
<td>71.3</td>
<td>76.9</td>
<td>87.3</td>
<td>101.2</td>
<td>109.9</td>
</tr>
</tbody>
</table>

Source: Quarterly Digest of Statistics, Statistical Service

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6 In 1988, manufacturing companies which had less than 5 employees consisted of 34.5% of total numbers, 5 to 29 employees did 57.5% and 30 to 99 employees did 5.1% according to the OECF report (1995).
3.1.3. Status of the Four Sectors

As is shown above, the ERP has had mixed effects on Ghana’s manufacturing sector. The status of the capacity utilization of four sectors are as follows.

Food Processing Industry

As is shown in Table III-3, the rate of capacity utilization in the food processing industry increased from 31.2% in 1985 to 51.0% in 1991 and 52.3% in 1993. The production index for the food processing industry has increased 40.6% in 1986 to 59.3% in 1991 and significantly increased to 102.5% in 1996 from a base of 100 in 1977. Although data on the rate of capacity utilization is not available since 1994, it is estimated that the rate of capacity utilization in the food processing industry also increased significantly after 1992.

Textiles/Garment Industry

Both the textiles and garments industries represent the areas most affected by the ERP since its start in 1983. Prior to the ERP, these industries were completely protected by the import substitution policy. The average rate of capacity utilization in the textile industry during 1985-91 was around 31% and 41.3% in 1993. The average rate of capacity utilization in the garment industry during the same period was around 27% and 53% in 1993. In terms of production, their average combined production index (including a small amount of leather goods) during 1986-91 was at 29.8% and 49% during 1992-96 with a base of 100 in 1977.

The garment industry has suffered mainly because of obsolete machinery and low quality of products. Most enterprises were established during the period with high protection from the imports. Since then they have not been able to renew their machinery and equipment, which a World Bank survey indicated had an average age of 13 years in 1990.

The garment sector has also been depressed. Domestic mass produced goods are almost absent from the market because of low price-competitiveness. Second hand imports, which are donated to developing countries, are made available to local traders at the cost of preparing, packing and shipping. The value of imports of second hand clothing more than doubled between 1993 and 1994, from $10.2 million to $21.9 million.

Wood Processing and Metal Working Industries

Wood processing and metal-working are two industries that have benefited from the adjustment program. Both recovered 1977 levels of production by 1991. In part, their successful performance is due to exporting. Capacity utilisation in

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7Rehabilitation of Ghanaian Textile and Garment Industry (1996), UNIDO
wood processing increased from 32.5% in 1985 to 70% in 1980 and has been kept almost the same level since then. In metal working, capacity utilisation has increased from 16.2% in 1985 to 58% in 1991, and remarkably, increased to 80% in 1993.

Table III-3: Estimated Rate of Capacity Utilization (%)

<table>
<thead>
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<th></th>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Textiles</td>
<td>19.7</td>
<td>17.0</td>
<td>24.0</td>
<td>33.0</td>
<td>45.0</td>
<td>35.0</td>
<td>45.0</td>
<td>67.0</td>
<td>41.3</td>
</tr>
<tr>
<td>Garment</td>
<td>25.5</td>
<td>27.0</td>
<td>25.0</td>
<td>35.0</td>
<td>22.0</td>
<td>22.0</td>
<td>30.0</td>
<td>35.0</td>
<td>53.3</td>
</tr>
<tr>
<td>Metals</td>
<td>16.2</td>
<td>-</td>
<td>42.0</td>
<td>60.0</td>
<td>45.0</td>
<td>49.0</td>
<td>58.0</td>
<td>65.0</td>
<td>80.0</td>
</tr>
<tr>
<td>Food Processing</td>
<td>31.2</td>
<td>36.0</td>
<td>42.0</td>
<td>60.0</td>
<td>51.0</td>
<td>55.0</td>
<td>51.0</td>
<td>49.0</td>
<td>52.3</td>
</tr>
<tr>
<td>Wood Processing</td>
<td>32.5</td>
<td>-</td>
<td>43.0</td>
<td>70.0</td>
<td>70.0</td>
<td>65.0</td>
<td>65.0</td>
<td>65.0</td>
<td>65.0</td>
</tr>
<tr>
<td>All Manufacturing</td>
<td>25.0</td>
<td>25.0</td>
<td>35.0</td>
<td>40.0</td>
<td>40.6</td>
<td>39.8</td>
<td>40.5</td>
<td>44.5</td>
<td>87.3</td>
</tr>
</tbody>
</table>

Source: Quarterly Digest of Statistics, Statistical Service

3.2. INDUSTRIAL PROMOTION FRAMEWORK

3.2.1. Industrial Policy Statement

The government recognized that it was not possible to revitalize the country’s manufacturing sector only through the ERP. As a consequence, the government launched the “Industrial Policy Statement: A Strategy for Industrial Regeneration” in 1992 and designated the following industries as the priority targets in the short term: food and agro-based industries, forestry, (these are target industries for this study), earth-based industries, engineering, energy, and chemicals.

3.2.2. Trade and Investment Promotion

At the same time, the government had reformed or improved customs and foreign investment procedures, and set an incentive package for promotion of foreign direct investment.

In addition to various financial incentives, the government enacted the Investment Promotion Centre Act in 1994 to promote investment in the private sector. At the same time, the government established a series of investment incentives such as tax holidays, capital allowances, location incentives, a special rate for corporate tax, an exemption of income tax, and a tax exemption for R & D expenses. Moreover, the Free Zone Act was enacted. (The import quota system or import license system was abolished in 1989.) In order to promote exports, the
government restructured and strengthened the Ghana Export Promotion Council (GEPC) to provide export enterprises with useful information since 1969. There are also other export incentives. The initially slow process of privatization of state-owned firms, started in 1987, has been accelerated. Since 1980, there has been aggressive improvement of the country’s infrastructure. Table III-4, III-5, III-6 show the entire incentive packages provided by the government.

However, the crucial issues are to what extent manufacturing industries (in particular the four target industries) have enjoyed benefits resulting from these policies, what prevents them from enjoying the benefits, if they do not, and what can both the public and private sectors do to make these policies more effective. It is important to note that the “Economic Forum” was established in 1997 as a revival of the “Round Table” policy dialogue between the public and private sectors, which ceased in 1992.

Based on the GIPC’s five-year corporate plan, the investment promotion strategy pursued by the Centre within the last three years continues to post encouraging results, particularly in the year ending December 1997, with 237 projects as against 187 and 150 recorded in 1996 and 1995 respectively. This amounts to a total of 593 projects so far registered by the Centre since it started operations under the GIPC Act 478 in September, 1994. (Table III-7)

The 593 projects registered so far are estimated to have cost US$ 1.10 billion in both foreign (US$ 832.21 million, 76.4%) and local (US$ 257.09 million, 23.6%) investments (Table III-8) and to have generated 35,212 employment opportunities for 33,055 Ghanaians and 2,157 non-Ghanaians (Table III-9). Out of 593 projects, 168 projects are in manufacturing, costing US$ 230 million, and 52 projects are for export trade, costing US$ 6 million. Wholly foreign owned projects total 178 (30.02%) in foreign equity and loans. Foreign-Ghanaian joint-venture projects total 415 (69.98%) and are estimated to have cost US$ 930.94 million (85.46%) in foreign (US$ 673.84 million) and local (US$ 257.10 million) investments (Table III-10). Total foreign direct investment (FDI) is made up of US$ 292.65 million as equity and US$ 539.57 million as loans. As of September 1997, 306 projects were in operation.

The bulk of FDI approvals have gone into two activities: food processing and wood products. These are relatively simple resource-based industries, with reasonable export prospects because of their local material inputs. However, these investments may not signify much upgrading of industrial capabilities in Ghana, because they have few linkages with the rest of manufacturing.

In the absence of protection from imports, the main draw for manufacturing FDI into high value-added activities in a developing country is a good base of local skills and technical expertise, together with a network of efficient subcontractors and suppliers. Unfortunately, Ghana cannot offer these factors at this stage. FDI inflows therefore have to rely on cheap raw materials and the natural protection
given by transport costs. What is less expected is the inability to attract more foreign interest in labor-intensive activities. Ghanaian labour is now relatively cheap, and the country enjoys, with most of Sub-Saharan Africa, special access to the EU market. Its failure to draw the relocation of garments and other assembly activities from the developed and newly industrializing economies points to low labour productivity and/or infrastructural deficiencies.

The Ghana Free Zones Board has so far approved forty-six firms, both local and foreign, to operate under free zones conditions, since it began considering applications in September 1996. Of those approved, seventeen firms are already operating and a further seventeen firms are in the process of start-up/build-up. The forty-six approval projects comprise fourteen wholly foreign-owned projects, seventeen joint Ghanaian/foreign projects and fifteen wholly Ghanaian-owned projects. Out of the forty-six projects, thirty-four are manufacturing projects, which comprise five food-processing, nine textile/garment projects, five wood processing projects, one metal project and fourteen other projects. The Board has currently has on hand over eighty applications going through the various processes for approval.

### 3.2.3. Vision 2020

In its efforts to secure economic growth and development the government has shifted its industrial policies to become more outward-looking, and in 1995 launched a new development program, “Vision 2020”. In “Vision 2020”, the government has implemented a series of industrial policies with the aim of making Ghana a middle income country by the year of 2020. The program discusses the government’s direct involvement in (1) stabilization of the macro-economy, (2) promotion of investment in the private sector, (3) social and regional development, and (4) poverty reduction.

### 3.2.4. Gateway Programme

Particularly designed to promote investment in the private sector, the government developed the “Gateway Program” which aims at economic growth, lead by the private sector, through revitalizing trade and investment. The objectives of the “Gateway Program” include: (1) simplifying the process of customs clearance and duties, (2) establishing a Free Zone, (3) liberalization of aviation and shipping industries and maintaining the infrastructure for this liberalization, (4) establishing or improving the infrastructure of commercial business for the development of the financial sector in the country, (5) implementing a series of policies to promote foreign direct investment, (6) diversifying and expanding value-added industries (e.g. agriculture product processing industry) and service
industries, (7) strengthening R & D and job-training activities, (8) attaining sustainable economic growth through development of strategic projects for private sectors and creating more employment opportunities.

3.2.5. The First Medium-Term Development Plan  
- Ghana Vision 2020 (The First Step 1996-2000) -

In the first medium-term development plan Ghana Vision 2020 (The First Step 1996-2000), the government stressed the development of resource-based processing industries through the utilization of domestic resources. In an effort to improve the business environment for these industries the government has introduced various policy measures, including; technical support, financial policy, reform of the legal framework, infrastructure development, and support for small and medium sized enterprises.
### Table III-4: Investment Incentives, Benefits and Guarantees

<table>
<thead>
<tr>
<th>ITEM</th>
<th>CONTENT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customs Import Duty Exemptions:</strong> Administered by the Customs, Excise and Preventive Service (CEPS)</td>
<td>Total exemption from payment of import duties on plant, machinery, equipment and parts.</td>
</tr>
</tbody>
</table>
| **Income Tax Incentives:** Administered by the Internal Revenue Service (IRS) | Tax Holiday  
Manufacturing enterprises that use local raw materials enjoy a 3 year tax holiday.  
Capital Allowances  
The qualifying plant expenditure depreciation rate is 50% per annum for two years; the qualifying expenditure depreciation rate is 20% per annum for five years.  
Location Incentives (Tax Rebate)  
25% rebate for manufacturing industries located in regional capitals other than Accra and Tema; 50% rebate for all other manufacturing industries located outside regional capitals.  
Corporate Tax Rates  
8% for income from non-traditional exports; 25% for hotels. 35% for all other sectors.  
Exemption from Income Tax  
Exemption applies for the provision of accommodation for employees on farms, as well as building, timber, mining and construction sites.  
Loss Carry-Over  
5-year unlimited loss carry-over for all sectors except for insurance business.  
Exemption from the Minimum Chargeable Income Tax  
Exemption from the minimum chargeable income of 5% of turnover during the first five years.  
Capital Expenditure for R&D  
Capital expenditure for R&D of a manufacturing company in Ghana is fully deductible, with the approval of the Ministry of Trade and Industry.  
Withholding Tax  
Dividends: 10%, royalties, management and technology transfer fees: 15%, interest: 10%. |
| **Immigrant Quota** | Enterprises benefit from the grant of an automatic maximum immigrant quota, depending on the enterprises’ paid-up capital. |
| **Investment Guarantees** | Act 478 guarantees:  
Free transferability through any authorized dealer bank in freely convertible currency of:  
- dividends or net profits attributable to the investment;  
- Payments in respect of loan servicing where a foreign loan has been obtained;  
- Remittance of proceeds (net of all taxes and other obligations) in the event of sale or  
- liquidation of the enterprise or any interest attributable to the investment. |
### Table III-5: Export Incentives

<table>
<thead>
<tr>
<th>ITEM</th>
<th>CONTENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export Proceeds Retention Scheme</td>
<td>Exporting firms are permitted to hold up to 35% of the export value in a foreign bank for the purchase of goods and services. In the case of non-traditional exports, there are no surrender requirements and firms can negotiate the exchange rate with their own banks.</td>
</tr>
<tr>
<td>Corporate Tax Rebate</td>
<td>Allows any manufacturer or any person engaged in agricultural production, exporting part or all of his production, to claim tax rebate between 40% and 75% of his tax liability.</td>
</tr>
<tr>
<td>Customs Duty Drawback</td>
<td>Allows exporters to draw back up to 100% of duties paid on imported raw materials intended for manufacturing for export in secured places without payment of duty.</td>
</tr>
<tr>
<td>Up-Front Duty Exemption</td>
<td>Enables exporters enjoy 100% duty exemption on imports intended to go into production for export.</td>
</tr>
</tbody>
</table>

### Table III-6: Incentives Under the Ghana Free Zones Scheme

<table>
<thead>
<tr>
<th>ITEM</th>
<th>CONTENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duties</td>
<td>Total-100%-exemption is granted free zone developers and enterprises from payment of income tax on profits for 10 years. Income tax rate after 10 years shall not exceed 8%. Total exemption from payment of withholding taxes from dividends arising out of free zone investment. Relief from double taxation for foreign investors and employees.</td>
</tr>
<tr>
<td>Customs</td>
<td>No import licensing requirements. Minimal customs formalities.</td>
</tr>
<tr>
<td>Zone Ownership</td>
<td>100% ownership of shares by any investor-foreign or national-in a free zone enterprise is allowed. No restrictions on total foreign or local ownership of free zone enclaves and enterprises.</td>
</tr>
<tr>
<td>Capital/Profit Repatriation</td>
<td>No conditions or restrictions on: Repatriation of dividends or net profit; Payments for foreign loan servicing; Payments of fees and charges for technology transfer agreements; and Remittance of proceeds from sale of any interest in a free zone investment.</td>
</tr>
<tr>
<td>Management of Foreign Currency</td>
<td>Free zone investors are permitted to operate foreign currency accounts with banks in Ghana.</td>
</tr>
<tr>
<td>Sales to Local Market</td>
<td>Up to 30% of annual production of goods and services of a free zone enterprise are authorized for sale in the local market.</td>
</tr>
<tr>
<td>Investment Guarantee</td>
<td>Free zone investments are guaranteed against nationalization and expropriation.</td>
</tr>
</tbody>
</table>
### Table III-7: Cumulative Sector Breakdown and Investment Cost of Project

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Subtotal</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ghanaian</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Ghana Investment Promotion Centre

### Table III-8: Financing Plan of Projects (US$'M)

<table>
<thead>
<tr>
<th>Financing Plan</th>
<th>US$</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Local</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subtotal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan Local</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subtotal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Local</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grand Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Ghana Investment Promotion Centre

### Table III-9: Expected Employment Creation by Projects

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Subtotal</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ghanaian</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Ghana Investment Promotion Centre

### Table III-10: Ownership Structure of Projects and Investments

<table>
<thead>
<tr>
<th>Type of Investment</th>
<th>1994(Sep-DEC)</th>
<th>1995</th>
<th>1996</th>
<th>1997 SEP94-DEC97</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subtotal</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ghanaian</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: F/G JV: Foreign/Ghanaian Joint Venture
Source: Ghana Investment Promotion Centre
CHAPTER IV

PROBLEMS ON DOMESTIC INDUSTRY DEVELOPMENT
BY THE GOVERNMENT

This chapter presents an assessment of the industrial environment in Ghana, from the viewpoint of the private sector. The industrial environment includes the government’s industrial policies, institutions, and infrastructure. Critical problems which the private sector recognizes as preventing its viable development are also presented.

The analysis is primarily based on an interview survey conducted in the enterprises in the four industries on which we have focused. Further interviews with economic organizations and governmental agencies, and a review of existing schemes were conducted to complement the company survey and to produce an unbiased conclusion.

Major negative issues identified in the company survey included the low availability of acceptable finance (cost of and access to the credit) and technical assistance (technical, managerial, and marketing support). On the other hand, trade liberalization and investment promotion policies were evaluated relatively favorably. Other issues which appear to present obstacles against industrial development will also be discussed.

4.1. COMPANY SURVEY

4.1.1. Method of Company Survey

The Company Survey was conducted by carrying out interviews in thirty-one firms, in order to collect primary data. Among the 31 firms, 6 are in the Textiles/Garment sector, 12 in Wood Working, 8 in Food Processing and 5 in Metal Working (two metal working firms answered in writing). Of the 31 companies interviewed, 12 were randomly selected from a list of 50 enterprises provided by the Ministry of Trade and Industry (MOTI), 8 were through the Association of Ghana Industries (AGI), and the rest of 11 were selected by the study team itself.

As a complement to the Company Survey, an interview survey of economic organizations and governmental agencies was also conducted. The organizations and agencies interviewed are shown in Table IV-1. The questions were about trade liberalization, investment promotion, export promotion, financial liberalization, infrastructure services, and technical support, etc.
Table IV-1: List of Organization Interviewed

<table>
<thead>
<tr>
<th></th>
<th>Name</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ministry of Finance (MOF)</td>
<td>Ministry</td>
</tr>
<tr>
<td>2</td>
<td>Ministry of Trade and Industry (MITI)</td>
<td>Ministry</td>
</tr>
<tr>
<td>3</td>
<td>Ministry of Education, Science and Technology (MOEST)</td>
<td>Ministry</td>
</tr>
<tr>
<td>4</td>
<td>National Development Planning Commission (NDPC)</td>
<td>Gov. Agency</td>
</tr>
<tr>
<td>5</td>
<td>Ghana Export Promotion Council (GEPC)</td>
<td>Gov. Agency</td>
</tr>
<tr>
<td>6</td>
<td>Ghana Investment Promotion Center (GIPC)</td>
<td>Gov. Agency</td>
</tr>
<tr>
<td>7</td>
<td>National Board for Small-Scale Industries (NBSSI)</td>
<td>Gov. Agency</td>
</tr>
<tr>
<td>8</td>
<td>National Investment Bank (NIB)</td>
<td>Gov. Bank</td>
</tr>
<tr>
<td>9</td>
<td>Bank of Ghana (BOG)</td>
<td>Gov. Bank</td>
</tr>
<tr>
<td>10</td>
<td>Private Enterprise Foundation (PEF)</td>
<td>Private Org.</td>
</tr>
<tr>
<td>11</td>
<td>Federation of Association of Ghanaian Exporters (FAGE)</td>
<td>Private Org.</td>
</tr>
<tr>
<td>12</td>
<td>Association of Ghanaian Industries (AGI)</td>
<td>Private Org.</td>
</tr>
</tbody>
</table>

4.1.2. Result of the Company Survey

On the issues of trade liberalisation and investment promotion policies, most of the firms interviewed felt a positive effect. In general, all four industries appreciated the investment promotion policies, such as the provision of financial incentives, as well as export promotion policies.

Problems were found in two aspects of financial and technical issues. Lack of access to finance and the high cost of credit were pointed out by all firms except for those with foreign ownership. These factors deprived small and medium enterprises (SMEs) of access to finance for capital investment. The causes are the high interest rates and short repayment periods imposed by commercial banks. Interestingly, most of the firms interviewed were unaware of the financial support provided by international donor agencies.

On technical assistance, it was argued that many of the currently available schemes neither met the needs of SMEs in each sub-sector nor were they effectively implemented. Some immediate measures should be undertaken to assist SMEs to improve their technological capabilities, especially in production technology, quality control, and R&D, as mentioned earlier.

(1) Trade Liberalisation

Only Textiles/Garments firms were negative to the trade liberalisation policy under the Economic Recovery Programme (ERP), and had a high demand for governmental support and policy reforms. Firms in other categories were relatively positive. A major complaint of the Textile/Garments firms focused on the increased domestic competition after trade liberalisation. They said that imported
products were highly price competitive due to high government subsidies and smuggling.

However, on a positive note, they said that the production of high quality products became easier after liberalisation. The causes included the abolition of import licenses, which realized easy access to high quality raw materials and production facilities.

(2) Investment & Export Promotion Policy

In general, all four industries welcomed the government policies to promote investment and exports, such as the provision of financial incentives. Many of the firms enjoyed incentives and gave a positive evaluation.

**Tax Exemption**

Customs import duty on tools and implements, machinery and mechanical, and electrical machinery for exporting products are fully exempted.

**Capital expenditure for research and development**

R&D by a manufacturing company in Ghana that is approved by the Minister of Trade and Industry is fully deductible.

**Depreciation Allowance**

Accelerated depreciation allowance is applicable to all sectors except banking, finance, commerce, insurance, mining and petroleum. Sectors that enjoy accelerated depreciation allowance do not enjoy annual allowances. The qualifying plant expenditure depreciation rate is 50% per annum for two years; the qualifying building expenditure depreciation rate is 20% per annum for five years.

**Corporate Tax Exemption**

The income tax rate from nontraditional exports is 8%, while that for all other sectors is 35% except for hotels with 25%.

**Local Incentives**

Manufacturing companies located in Regional Capitals other than Accra and Tema will enjoy a 25% tax rebate. All other manufacturing companies located elsewhere shall enjoy a 50% tax rebate.

Though the investment and export promotion by the government is going well as a whole, the following problems were presented by some companies:

- Producers of export products cannot receive the corporate tax exemption unless they directly exports their products.
- It takes too much time to draw back the import duties paid.
- Only 2 firms, out of 31 interviewed, enjoy the Free Zone Status at present.

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Please refer to Table III-4, III-5, and III-6 for detail.
(3) Financial Reform

The most serious concern for all the industries was the “cost of credit” and “access to credit”. All firms except for those with foreign ownership suffered from the cost of credit and the lack of financial access. Considering the results of the interview surveys, the major financial issues identified by the private sector can be summarized as follows:

Lack of long-term credit

In order to compete in the international market after liberalisation, it is necessary to introduce new machines, which require long-term funds. But most of the credit available for private companies is short-term, therefore they cannot secure finance for capital investment.

High interest rates

Most of firms interviewed complained about high interest rates. The rates are sometimes higher than 45%. Some companies don’t want to borrow money from existing financial schemes or banks. The firms called for financial support from the Government. Companies with foreign ownership don’t have such a problem.

Unfavorable lending conditions of existing financial schemes

Only a small number of the firms used existing financial schemes, such as FUSMED and BAF. The reasons being that lending conditions are unfavorable (high interest rate and short repayment period), and disqualification.

(4) Technical, Managerial, and Marketing Support

All the firms recognized the necessity of technical support for SMEs in order to improve their production methods, the quality of products, and management practices. But only a few of them made use of seminars, workshops, and training programs managed by governmental organizations. The reasons for the low uptake of technical support included:

- Support schemes are not well known.
- Many of currently available technical assistance schemes neither meet the needs of SMEs in each sub-sector nor are effectively implemented.
- Some consultants offering technical support are not competent to transfer the necessary technologies.

Areas which require technical support are: (1) maintenance of imported machines, (2) better marketing technology for export-oriented industries, (3) managerial technology, especially that required for applications to receive credits.
4.2. ISSUES ON SECURING FINANCE

4.2.1. Review of Existing Financial Schemes

There are many credit support and export guarantee schemes available for Ghanaian manufacturers. Most of them are solely/jointly sponsored by foreign donor agencies and are directed to private firms or entrepreneurs through the conduit of designated commercial banks. The following section describes several Ghanaian public financing support schemes.

(1) Long-term financial scheme

In the Company Survey, private companies claimed that long-term financial schemes were lacking, such that they could not raise sufficient money for capital investment. The following table (Table IV-2) lists the medium and long-term financial schemes available for SMEs.

Table IV-2: Long-term Financial Schemes

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Business Assistance Fund (BAF)</td>
<td></td>
</tr>
<tr>
<td>Beneficiary</td>
<td>distressed but potentially viable enterprises, including relatively</td>
</tr>
<tr>
<td></td>
<td>large enterprises</td>
</tr>
<tr>
<td>Loan Term</td>
<td>medium-term (max. 7 years), short-term (within 12 months)</td>
</tr>
<tr>
<td>Int. Rate</td>
<td>3% below interbank lending</td>
</tr>
<tr>
<td>Size Total</td>
<td>10 billion Cedis (1994)</td>
</tr>
<tr>
<td>Funded by</td>
<td>Government of Ghana</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>b) Funds for Small and Medium Enterprise Development (FUSMED)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Beneficiary</td>
<td>small and medium sized private enterprises for purchase of machinery/equipment (w/working capital)</td>
</tr>
<tr>
<td>Loan Term</td>
<td>For equipment, max. 10 years with 3 year moratorium</td>
</tr>
<tr>
<td></td>
<td>For working capital, max. 3 years with 1 year moratorium</td>
</tr>
<tr>
<td>Int. Rate</td>
<td>Average of 180 day deposit rate + bank’s margin</td>
</tr>
<tr>
<td>Size/Loan</td>
<td>US$750,000.- max.</td>
</tr>
<tr>
<td>Funded by</td>
<td>IDA (WB)</td>
</tr>
<tr>
<td>Condition</td>
<td>Bankers must guarantee the loan, bear the risk, and finance 10-15% of the total project cost.</td>
</tr>
</tbody>
</table>

a) Business Assistance Fund (BAF)

BAF is one of the largest schemes managed by the Government of Ghana, namely the Ministry of Trade and Industry. This Fund was set up in 1992 to assist distressed but potentially viable enterprises to contribute to GDP and/or exports with the seed fund of 2 billion cedis. The fund was increased to 10 billion cedis in 1994.
Although the interest rate is fixed at three percentage points below the interbank lending, which is fairly concessional, 41% of its members who utilized this facility do not intend (or are unable) to repay the loans, according to the Association of Ghanaian Industries (AGI). One complaint was that they have to repay everything within 6 months, with a 26-27% interest payment, even before starting production. Another complaint was that, although the inflation rate decreased to under 40%, the interest rate was unchanged.

Most of the firms interviewed claimed that they were unable to utilize this fund, because only a limited number of firms who were certified as distressed were eligible to apply.

A MOTI official said that the high default rate of the BAF was attributable to the general economic condition of the country.

b) Funds for Small and Medium Enterprise Development (FUSMED)

FUSMED is a lending scheme provided by the International Development Association, designed to finance the purchase of plant machinery and equipment by small and medium size enterprises. Working capital can also be provided. The maximum size of a FUSMED loan is $750,000. Applicants are required to contribute at least 25% of the cost of their project. The reference interest rate of average of 180 day deposit rate is applied, and then banks add their margin over and above the reference interest rate. Credit for the acquisition of fixed assets and consultancy services is repayable over a maximum period of 10 years including 3 years maximum moratorium. Credit for working capital is repayable over a maximum period of 3 years including 1 year moratorium. Applicant must first apply to their bankers having completed a feasibility study. The Commercial Bank will file the application together with a feasibility report and an appraisal with the Bank of Ghana.

c) Social Security and National Insurance Trust (SSNIT)

SSNIT Pension Scheme, which was formerly a Provident Fund from 1965 to 1990, became a Social Insurance Scheme in January 1991 under PNDC Law 247. The principal objective of SSNIT’s investment is to earn a positive rate of return. The investments are developmental in nature and the arrears are carefully selected. Generally SSNIT has invested in real estate, commercial properties, services, and financial and manufacturing sectors of economy. Corporate loans, medium- and long-term loans, are provided at the interest rate lower than the commercial bank lending rate but a little bit higher than the rate of Treasury Bill. SSNIT is also an active participant on the Ghana Stock Exchange. However, in keeping with the tenets of social insurance, SSNIT also does some social investments such as building health facilities for donation to deprived communities. The total investment held by the SSNIT as at the end of 1995 stood
at 379.876 billion Cedis. An increase of 22% compared to the previous year.

(2) Other financial schemes

Financial schemes presented in this section are for SMEs but not long-term schemes (Table IV-3).

Table IV-3: Other Financial Schemes

<table>
<thead>
<tr>
<th>d) Private Enterprises &amp; Export Development (PEED) Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beneficiary: Small and medium non-traditional exporters</td>
</tr>
<tr>
<td>Loan Term: Max. 360 days (with technical assistance)</td>
</tr>
<tr>
<td>Int. Rate: 180 days commercial bank deposit rate for Cedi Loan</td>
</tr>
<tr>
<td>Size/Loan: Max. US$500,000 in US$ or Cedi</td>
</tr>
<tr>
<td>Size Total: US$41 million equiv. was extended by IDA, and</td>
</tr>
<tr>
<td>Funded by: IDA (WB), Government of Ghana</td>
</tr>
</tbody>
</table>

e) Program of Actions to Mitigate the Social Cost of Adjustment (PAMSCAD)

<table>
<thead>
<tr>
<th>Beneficiary: small-scale enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Term: *****</td>
</tr>
<tr>
<td>Int. Rate: 20% per annum</td>
</tr>
<tr>
<td>Size/Loan: Max. 2,500,000 Cedis</td>
</tr>
<tr>
<td>Size Total: seed capital of 150 million Cedis, since 1989 until 1996, a total of 487 million Cedis was disbursed to 1256 projects</td>
</tr>
<tr>
<td>Funded by: Government of Ghana</td>
</tr>
</tbody>
</table>

f) National Board for Small Scale Industries (NBSSI) Revolving Loan Scheme

<table>
<thead>
<tr>
<th>Beneficiary: Small-scale enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Term: 1 year with 7 months grace period</td>
</tr>
<tr>
<td>Int. Rate: 5%</td>
</tr>
<tr>
<td>Size/Loan: Max. 3 million Cedis</td>
</tr>
<tr>
<td>Size Total: Until 1996/end, 184 million Cedis was disbursed to 175 projects</td>
</tr>
<tr>
<td>Funded by: the Government</td>
</tr>
</tbody>
</table>

d) Private Enterprises & Export Development (PEED) Project

With the support of the International Development Association (IDA), the Government of Ghana set up the PEED in 1993. The overall objectives of the PEED are to foster the growth of private Ghanaian exporters by (1) providing foreign exchange for export finance and developing a credit enhancement program to encourage the inclusion of incremental exporters, in the effort to expand non-traditional exports; (2) providing technical assistance to the banking and
commercial export sectors, to increase their efficiency and competitiveness; and (3) supporting the development of a business action plan to assess the legal and business issues.

With the total credit of SDR29.6 million (US$41 million equivalent) extended by the IDA, the PEED Fund comprises three schemes: Export Refinance Scheme, Export Guarantee Scheme, and Technical Assistance to bankers and non-traditional exporters (i.e., all exporters, other than those dealing in gold, diamonds, cocoa, unprocessed timber and electricity). Out of US$41 million equivalent, US$7 million was earmarked for Technical Assistance. At the end of December 1997, the number of small and medium-scale non-traditional exporters that have been supported by the scheme stood at 82. In all, a total of US$14.3 million has been disbursed in support of these beneficiaries.

e) Program of Actions to Mitigate the Social Cost of Adjustment (PAMSCAD)

PAMSCAD was set up in 1989 to relieve the financial constraints facing small-scale industries. The financial assistance for amounts not exceeding 0.5 million Cedis is appraised and approved by the Regional Secretariats of the National Board for Small-Scale Industries (NBSSI). Applications for assistance that exceed 0.5 million Cedis but do not exceed 2.5 million Cedis are considered by the National Credit Committee at the NBSSI headquarters. Under the scheme, an interest rate of 20% per annum is charged. The total disbursed amount as of the end of 1996 was approximately 487 million Cedis.

f) National Board for Small Scale Industries (NBSSI) Revolving Loan Scheme

The scheme started operations in August 1992. The Government of Ghana provided an amount of 80 million Cedis as a seed fund to the NBSSI for the operation of a Revolving Loan Scheme. The interest rate is 5% and the repayment period is one year with seven months grace period. The maximum loan ceiling under the scheme is 3 million Cedis per enterprise. The average recovery rate was 65% in 1997. To minimize incidences of defaults, NBSSI encourages potential beneficiaries to apply in groups but not as individuals. The NBSSI project officer visits project sites and assesses the business plans.

(3) Opinions about existing schemes

The following are interviewee opinions about existing financial schemes, which may be of some help in considering how to refine them.

- Some financial schemes established by the government are not convenient to use because their minimum loan amount is too large.
- The BAF’s lending conditions, including its interest rate, were too hard, causing many borrowers to default.
• The grace periods should be longer.
• The reason why financial schemes for SMEs, established by the Bank of Ghana, such as BAF, were not successful is that the lending conditions are identical, in terms of interest rates and collateral conditions, to those of general loans, because the schemes are run by private banks.

4.2.2. Analysis of the Problems

In this section, we will discuss the following issues, which have much to do with the problems revealed in the Company Survey.

• Existence of long-term financial schemes
• The reluctance of banks to extend credit to SMEs
• Unfavorable credit conditions
• Poor managerial capability of small scale enterprises

(1) Existence of long-term financial schemes

As shown in the previous section, there actually are several long-term financial schemes available for SMEs. The first problem is that, as far as we have been able to ascertain, the number of long-term schemes is insufficient. Secondly, is the difficulty of obtaining access. The following are some opinions from the government which tend to support the arguments made by the private companies, and as such reinforcing the view that the present schemes are not being utilized efficiently.

• Banks are not eager to provide long-term credit, because people in Ghana don’t have a custom of long-term savings and bankers procure only short-term funds.
• The finance schemes of FUSMED or BAF were established for business assistance. But because the finance was provided to the beneficiaries through commercial banks, which are risk-avoiding, the results were not as expected. The PEED scheme had similar results, because it is also a short-term scheme. The risk-avoiding attitude of banks comes from the fact that they have many non-performing assets.
• Though the SSNIT Pension Scheme can provide long-term finance to manufacturers, it tends to concentrate more on investing in real estate than in manufacturing.

(2) Reluctant attitude of banks to credit to SMEs (conservative lending policies of commercial banks)
The banks have been accused of being unwilling to provide finance to private companies. This unwillingness stems from the fact that loans to SMEs are not attractive to banks, for several reasons:

- The interest rates of treasury bills are very high, and treasury bills bear small risk. This diminishes the incentives of lending to private companies. About 80% of credit by commercial banks are for the government, who are borrowing at interest rates higher than 40%, even though the inflation rate has been stabilized to between 20-30%.
- The costs of small loans are disproportionately higher than those of larger loans, in terms of processing and screening, providing extension/consulting services, and monitoring business operations.
- Commercial banks do not have adequate personnel to properly appraise the business plans of small and medium-sized enterprises under the government financing schemes.
- SMEs' collateral is inadequate and insufficient; for example, liquidation of collateral is often very difficult.
- Obtaining credit checks on applicants who are not backed by designated banks is difficult.
- There is a prevailing attitude held by potential beneficiaries that the institutional loans are to be given on grant terms. Private companies don't have a culture of utilizing long-term funds.

(3) Unfavorable credit conditions

The major constraints are a) high interest rates, b) heavy collateral requirements and c) ineffective guarantee system. Interest rates of above 40-45%, with inflation rates of 20%-30%, make repayment of loans very difficult for many companies. Another obstacle is the high collateral requirement, which is sometimes greater than the loan amount.

a) High interest rates and short repayment periods

Huge government borrowings from commercial banks, high inflation and the liberalization of interest rates resulted in high interest rates. This high interest rate and the short repayment periods imposed by commercial banks have deprived numerous SMEs of access to finance for capital investment to improve their productivity. Although there are several financial schemes for those industries established by the government, the lending conditions are similar to those of commercial banks.

b) Issues of collateral

Collateral is an issue repeatedly raised by both lenders and borrowers as a major constraint to the growth of the manufacturing sector in Ghana. The major
form of collateral is land. The current system of land ownership and transfer regulations clearly retards, and to some extent limits, access to formal credit.

- Due to the lack of clear titles to the usable land in Ghana, there is a limited amount of real property that can be put up as collateral.
- The government embargo on the “transfer-of-stool” (tribal lands) and family land has further restricted the land available for collateral.
- Where title and leases are clear and are alienable, transfer regulations unnecessarily delay the formalizing of mortgages and, consequently access to borrowed capitals.

For the reasons mentioned above, all potential borrowers, including manufacturing firms, face this constraint and would prefer to pledge a different form of loan collateral.

The most common complaint against the foreclosure judgment is that judges tend to side with the debtors, extending repayment terms and lowering repayment amounts in favor of the debtor. This is explained by the strong tradition of equity in Ghanaian courts. After winning judgment from the court, the lender must then sell the collateral in order to realize his cash, a process which takes five to twelve months. Before the lender may sell, however, the debtor is entitled to redeem the property within thirty days of the judgment. If the debtor has not redeemed the property by then, the property is appraised by a certified appraiser. Due to a shortage of qualified appraisers, this can take three months. Then the property is auctioned. The sale of real property can take anywhere one to six months.

Comments by the government on the issue are as follows:

- The heavy burden of collateral is a major issue on financing private companies. The situation is the same for finance schemes by assistance organizations, because they are provided through commercial banks.
- Private companies have not made any efforts to mutually guarantee themselves or to share risks by forming joint ventures.
- The co-signatory system is not common in Ghana.

c) Guarantee systems

One of the guarantee systems for credit schemes is the Eximguaranty Company (Ghana) Limited. The Eximguaranty is a private company established in May 1994 to provide various credit support schemes to assist micro, small, and medium-sized business enterprises operating in Ghana. It was incorporated under the companies code of 1963 (Act 179) as a limited liability company in April 1994. The schemes being administered by the Eximguaranty include:
- Credit guarantees for medium, small and micro enterprises for production;
- Credit guarantees for the purchase of commodity inventory;
- Documentary credits and letters of credit for the importation of raw materials by wholly owned Ghanaian manufacturing enterprises;
- Credit guarantee scheme for foreign credit lines;
- Credit guarantees for pre and post shipment export credit;
- Export proceeds insurance
- Export credit refinance.

Table IV-4 shows the system of this guarantee.

For most of the SMEs, this system is also difficult to access. Without proper financial record, at least, it is difficult to obtain the guarantee. The cost for the guarantee is also a substantial obstacle.

The government plans to carry out trials of another guarantee scheme. The objective is to extend financing to the SMEs. It is hoped that lower loan conditions can be offered by providing the banks with risk-hedges. The emphasis will be put on export promotion, though certain non-exporters will also be able to benefit. Mid and long-term credit schemes are also issues being discussed.

(4) Poor managerial ability of small companies

The poor managerial ability of small enterprises is often pointed out as a reason why the financial schemes for SMEs are not successful. Common managerial failures are that the small companies do not keep detailed accounting records. They cannot, therefore, provide balance sheet or other financial documents and business plans necessary for applying loans. Due to such problems, commercial banks tend to reject a high proportion of loan applications from small businesses.
<table>
<thead>
<tr>
<th>Scheme &amp; Description</th>
<th>Qualifying Criteria</th>
<th>Guarantee % and Max. Amount</th>
<th>Cost &amp; Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit guarantee for medium, small and micro enterprises for production.</td>
<td>Initial fixed assets: Maximum $2 million for Medium and Small. Maximum $100,000 for Micro.</td>
<td>67% of credit. 75% for micro. 30 million cedis at 1992 prices or as agreed with Company.</td>
<td>2% per annum. Minimum of 3 months and maximum of 15 years.</td>
</tr>
<tr>
<td>Credit guarantee for purchase of commodity inventory.</td>
<td>Used for the purchase of Ghanaian agricultural produce.</td>
<td>67% of credit. 75% for export. No limit.</td>
<td>2% per annum. Minimum of 3 months and maximum of 15 years.</td>
</tr>
<tr>
<td>Documentary credits and letters of credit for the importation of raw materials by wholly owned Ghanaian manufacturing enterprises</td>
<td>Company 100% owned by Ghanaian residents.</td>
<td>75% of L/C or documentary credit value. 30 million cedis at 1992 prices or as agreed with Company.</td>
<td>20% per annum. Minimum of 3 months and maximum of 15 years.</td>
</tr>
<tr>
<td>Credit guarantee scheme for foreign credit lines.</td>
<td>Qualification for foreign credit line.</td>
<td>75% of credit. No limit.</td>
<td>1% commitment fee plus 3% per annum charged on the amount drawn in the previous quarter. Minimum of 3 months and maximum of 15 years.</td>
</tr>
<tr>
<td>Credit guarantee for pre and post shipment export credit.</td>
<td>Non-Traditional exporters with firm contracts for delivery in less than 180 days under L/C or goods imported for processing and export.</td>
<td>75% of credit. 75 million cedis or as agreed with ECGL on case by case basis.</td>
<td>2% per annum. 12 months or as determined by Company.</td>
</tr>
<tr>
<td>Export proceeds insurance.</td>
<td>Non-Traditional exporters.</td>
<td>90% of c&amp;f value. No limit.</td>
<td>5% per annum. None given.</td>
</tr>
<tr>
<td>Rural credit refinance scheme.</td>
<td>Eligible credit institution. Beneficiaries must be private sector organizations engaged in productive economic activities. Not real estate or speculation.</td>
<td>80% of credit. No limit.</td>
<td>Interest charged will be based on average 180 days fixed deposit and minimum savings rate. Maximum of 10 years including moratorium of 3 years.</td>
</tr>
<tr>
<td>Export credit refinance.</td>
<td>Eligible credit institution and exporter submitting irrevocable L/C or established exporter (2 years history) with verified export order.</td>
<td>100% of credit. 300 million cedis ($0.5 million at 1993 constant prices).</td>
<td>Interest charged will be based on 180 days fixed deposit and minimum savings rate. Maximum period of 360 days.</td>
</tr>
</tbody>
</table>
4.3. ISSUES OF TECHNICAL ASSISTANCE

4.3.1. Review of Existing Training Programs

(1) Entrepreneurial and Business Management Training

At the National Economic Forum held in September 1997, it was pointed out that assistance to micro and small-scale enterprises (MSEs) should be concentrated on training and development. There are a few government institutions who provide entrepreneurial development and management training. The National Board of Small-Scale Industries (NBSSI), under its Entrepreneurship Development Programme (EDF), provides entrepreneurial training to potential entrepreneurs as well as practicing ones and industrial associations, to upgrade knowledge, skills and attitudes through ten Business Advisory Centres (BACs), which are located in every regional capital. The training fee for the 5-10 days program is 10,000 cedis, while that for courses of less than 5 days is 5,000 cedis.

The Export School, which was established in 1989 by the GEPC, conducts a number of types of entrepreneurial and management courses as well as technical training ones, to raise the overall business management standard of both existing and potential export-oriented entrepreneurs. The School has 35 trainers drawn from GEPC, industry, commerce, the universities and training institutions under the tutelage and sponsorship of UNDP/ITC. Over 3,000 exporters and personnel from export-related enterprises have been trained from its inception in 1989 to 1996. The lecturers of the courses are outsourced. The tuition fees, per course, ranges from free to 150,000 cedis. See Table IV-5 below for details.

The Business Development Planning Fund (BDPF) is a technical component of the Small and Medium Enterprises Development Programme, which was formally launched in January 1996 by the Government with the assistance of the European Union. Under the management of an NGO named Empresario Tecnologicas (EMPRETEC), the BDPF aims at (1) assisting target enterprises to obtain technical assistance to prepare business plans; (2) assisting clients for whom business plans are prepared to raise funds from financing institutions in Ghana and from the Enterprise Fund (a credit component of the Small and Medium Enterprises Development Programme); (3) raising the standard of business plans prepared by Ghanaian consultants. As of December 31, 1997, 602 million cedis had been disbursed as payment for services of consultants contracted and ninety-seven business plans had been commissioned. However, despite the fact that high standard business plans have been prepared under the scheme, the attitude of the banks towards lending to SMEs has been negative, posing a major problem.
**Table IV-5: Export School**

<table>
<thead>
<tr>
<th>Objectives:</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>● To assist the business community in developing techniques for exporting;</td>
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<tr>
<td>● To raise the overall business management standard of both on-going and</td>
<td></td>
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<tr>
<td>potential export-oriented entrepreneurs through the training of the operators</td>
<td></td>
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<tr>
<td>of such establishments.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Outline of courses:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) General Courses</td>
<td></td>
</tr>
<tr>
<td>● Foundation Course in Export Marketing (5 days)</td>
<td></td>
</tr>
<tr>
<td>(b) Specialized Courses</td>
<td></td>
</tr>
<tr>
<td>● Costing and Pricing for Exports (2 days)</td>
<td></td>
</tr>
<tr>
<td>● Trade Fairs and Exhibitions (3 days)</td>
<td></td>
</tr>
<tr>
<td>● Export Procedures and Documentation (2 days)</td>
<td></td>
</tr>
<tr>
<td>● Contracts and Negotiations (2 days)</td>
<td></td>
</tr>
<tr>
<td>● Packing, Packaging Design and Labeling (2 days)</td>
<td></td>
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<tr>
<td>● Business Ethics and Company Image for Exporters (2 days)</td>
<td></td>
</tr>
<tr>
<td>● Banking &amp; Financial Matters (Financing of Exports) (2 days)</td>
<td></td>
</tr>
<tr>
<td>● Quality Assurance and Standards for Exports (1 day)</td>
<td></td>
</tr>
<tr>
<td>● Multilateral and Bilateral Trade Agreements (1 day)</td>
<td></td>
</tr>
<tr>
<td>● Commercial Representation Abroad (5 days)</td>
<td></td>
</tr>
<tr>
<td>● Export Orientation for Chief Executives (1 day)</td>
<td></td>
</tr>
<tr>
<td>● Employment Opportunities in Export (1 day)</td>
<td></td>
</tr>
<tr>
<td>● Group Marketing and Export Houses (2 days)</td>
<td></td>
</tr>
<tr>
<td>● Women in Export (3 days)</td>
<td></td>
</tr>
<tr>
<td>(c) Product Specific Courses</td>
<td></td>
</tr>
<tr>
<td>● Post Harvest Handling and Export of Cashew (2 days)</td>
<td></td>
</tr>
<tr>
<td>● Post Harvest Handling and Export of Black Pepper (2 days)</td>
<td></td>
</tr>
<tr>
<td>● Post Catch Handling, Hygiene &amp; Quality Control for Fish and Fish Products</td>
<td></td>
</tr>
<tr>
<td>(3 days)</td>
<td></td>
</tr>
<tr>
<td>● Processing and Marketing of Cassava Products (2 days)</td>
<td></td>
</tr>
<tr>
<td>● Handling and Marketing of Cut Flowers and Ornamental Plants (1 day)</td>
<td></td>
</tr>
<tr>
<td>● Processing and Marketing of Coconut Products (2 days)</td>
<td></td>
</tr>
<tr>
<td>● Handling, Processing and Marketing of Fruits and Vegetables (2 days)</td>
<td></td>
</tr>
<tr>
<td>● Export of Processed Wood Products (2 days)</td>
<td></td>
</tr>
<tr>
<td>● Production and Marketing of Straw Products (2 days)</td>
<td></td>
</tr>
<tr>
<td>● Export of Garments/Textiles (3 days)</td>
<td></td>
</tr>
<tr>
<td>● Export of Jewelry (2 days)</td>
<td></td>
</tr>
<tr>
<td>(d) Export Opportunities by Country</td>
<td></td>
</tr>
<tr>
<td>● Exporting to Economic Community of West African States (ECOWAS) (1 day)</td>
<td></td>
</tr>
<tr>
<td>● Exporting to North America (1 day)</td>
<td></td>
</tr>
<tr>
<td>● Exporting to Middle East &amp; Gulf Regions (1 day)</td>
<td></td>
</tr>
</tbody>
</table>
(2) Technical Skills Training/Extension Services

Technical skills training is provided by several government agencies. The Ghana Regional Appropriate Technology Industrial Service (GRATIS) is responsible for establishing Intermediate Technology Transfer Units in regional and district centres such as machine workshops for training artisans in engineering skills. The Development and Application of Intermediate Technology (DAPIT) is responsible for the development, transfer and commercialization of intermediate technologies to small-scale operations.

(3) Research and Development

Council for Scientific and Industrial Research (CSIR), established in 1968, collates, publicizes and disseminates the results of research conducted by eighteen independent institutes controlled by CSIR and of other useful technical information. Out of eighteen institutes, only one specializes in industrial research. The others are principally for agricultural development. Their minimal linkages with the manufacturing sector reflect deficiencies on both sides: the firms may lack the ability to identify their technical problems and formulate them into projects that can be dealt with by an institution, and the institution may lack the skills and equipment to offer practical assistance to problems faced by firms.

Ghana Standards Board (GSB) was initially established in 1967 under the Standards Decree 1967 (NLCD 199) which was later replaced by Standards Decree 1973 (NLCD 173). GSB is mandated to draw a national standardization policy covering industry, commerce, private companies and international trade. Although there are a number of R&D institutions in Ghana, GSB has the most common interaction with manufacturing companies. The activities of GSB are limited to visiting the firms on the regular basis (particularly the food-processing firms) to check the quality of their products. GSB does not go beyond checking quality. It does not provide advice on how to improve quality or to prepare to meet international standards.

(4) Marketing

Insufficient marketing capability has long been recognized as a crucial problem faced by SMEs. In general, SMEs do not have the capacity to undertake marketing functions in an organized manner. Unattractive packaging and labeling of products and inefficient promotion and advertising campaigns contributed to the inability of SMEs to penetrate world markets. Many small firms lack knowledge of export procedures, overseas market opportunities and demand for their products. This deters them from commencing export activities and forces them to remain heavily dependent on the domestic market.

The Ghana Investment Promotion Centre (GIPC) and the Ghana Export Promotion Council (GEPC) undertake marketing functions at the national level.
The GIPC encourages and promotes investment in the Ghanaian economy by collecting, collating, analyzing and disseminating information about investment opportunities and sources of investment capital, and advising on the availability, choice, or sustainability of partners in joint-venture projects. The GEPC, is responsible for the development and promotion of non-traditional exports. The GEPC provides export advisory services on shipping, packaging and product development. It also engages in trade facilitation such as international trade fairs and export development using Ghana’s trade and diplomatic missions. The development of export incentives, offering advice and assistance on export financing are other responsibilities of the GEPC. However, the GEPC lacks competent marketing specialists as well as an integrated information system on international markets.

The Export School mentioned earlier also has courses on export marketing, while NBSSI provides advisory services, counseling and extension support for improvement in existing business, including marketing and matching with partners. Under the UNDP / Capacity Development and Utilization Programme, the AGI established five Business Growth Centers (BGCs). Through the BGCs, the AGI provides a pro-active, support-service, particularly in the areas of technology transfer, market promotion, and industrial subcontracting as well as mutual guarantee/equipment financing schemes and specialized technical services, to assist the growth of micro and small-scale industries.

The Trade and Investment Programme (TIP) undertakes technical assistance and training to improve management and technical capacity as well as the development of linkages between micro enterprises and exporters/buyers.

Opinions about existing programs

- Although the government says that it is supporting human resource development through the NBSSI, such programs have not been sufficiently successful because of bureaucratic procedures and low motivation.
- Six Polytechnics in the nation are not providing effective training because their facilities and equipment are much older than the ones actually used in enterprises. Most of the students are from high schools, and very few from enterprises.

4.3.2. Analysis of the Problems

(1) General Issues

Most of the problems with SMEs revealed in the survey in Ghana are those generally observed in developing countries, such as:

- low level of production technology,
low level of managerial technology,
no long-term vision or plan for their business,
family business with few assets,
inward business attitude and despise joint ventures,
reluctance to disclose financial/managerial information.

Many technical assistance schemes (training programs) have been prepared to alleviate these problems in Ghanaian firms. However, the following issues need to be overcome:

- The level of training programs are not satisfactory.
- Programs by the government don't meet the needs of companies.
- Insufficient private programmes due to cost constraints.

(2) Lack of consciousness of the needs

Government has often pointed out that many enterprises have a very low recognition of the importance of training in raising efficiency and productivity. The government argues that private companies are lacking in long-term vision, and that they are anxious about losing trained man-power to competitors, and as such, are dissuaded from investing in human development. Several entrepreneurs commented, however, that private companies realize the importance of training, but are unable to afford the costs.

(3) Ineffective R&D for the needs of companies

Most industrial R&D is managed by the government in Ghana. It is frequently said that the results of the R&D are not utilized for the development of industry. For the improvement of R&D management, and better utilization of the results of R&D, the government and the private sector are working together. One example is cooperation between AGI and CSIR, propagating the technology from the CSIR's R&D by holding lectures throughout the nation with hired consultants.

(4) Cooperation between small companies

A measure to compensate for inefficiency in small companies is cooperation among them. Attempts at cooperation have been tried by both government and private companies. The NBSSI is carrying out a trial of cooperation by setting up various industrial organisations. Joint operations through these bodies, such as group purchasing, will allow greater efficiency and economies of scale. The AGI is also conducting trials. They involves grouping micro enterprises through Business Growth Centers (BGC). The BGCs allow groups of companies to gain economies of scale by amalgamating various factors, such as shipping.

(5) Lack of competent staff
Technical support institutions lack competent staff to assist private enterprises. For example, the GEPC lacks competent marketing specialists as well as the integrated information system on international markets.

4.4. OTHER ISSUES

4.4.1. Lack of Industrial Infrastructure

In the Company Survey, the lack of industrial infrastructure, namely water, electricity and telecommunications, in remote regions was often raised. Due to this, enterprises are forced to spend much on utility cost.

4.4.2. Distrust between the Public and the Private Sectors

Though the "Economic Forum" was highly appreciated, there still is much mutual distrust observed between the public sector and part of the private sectors.

4.4.3. Inconsistency among Policies

Problems of inconsistency of governmental policies were pointed out in the interviews. Inconsistency was found not only within policies (including execution), but also among different policies.

An example of inconsistency in a policy is found in the tariff system. Foreign companies say that the system has changed too often (almost every year) recently. For example, according to the GIPC, tariffs on finished products were reduced to be zero, while tariffs on parts or raw materials were charged.

More serious problems are those among different policies, or problems of coordination.

An example is the relationship between privatisation of shipping companies and export promotion. The GEPC held a trade fair, at which a Ghanaian exporter attracted the attention of a buyer from West Africa. But, because there were no cargo boats on the coast, they didn't reach to conclude a contract. Though there used to be a shipping company run by the government, the company was privatised and its cargo boats were sold to foreigners. Chartered boats are expensive, so they are not a reasonable option.

Another example is provision of long-term finance. The National Investment Bank (NIB), a rare financial institution that provides long term lending (13 Billion Cedis in 1996), is a candidate for privatization, one of the measures for reducing public sector expenditure. According to our interview with the top officials of the NIB, if no restrictions are imposed on the operation of the privatized NIB, there is a high possibility that its new management (private entrepreneur) will prefer less risky short term lending rather than long term.
In this chapter, we first discuss general issues related to industrial development in Ghana. Then we would like to present several possible options to the Ghanaian government, by citing the experiences, policies and systems of some successful Asian countries.

5.1. GENERAL ISSUES OF INDUSTRIAL DEVELOPMENT

5.1.1. Rethinking Stabilization of the Macro Economy

It should be noted first, that the stabilisation of the macro economy, especially fiscal balance, is the key to the Industrial Development. More specifically, as it is observed in Chapter IV, one of the largest issues for the domestic industry is the shortage of finance at acceptable conditions. Due to the high interest rate of treasury bills (45% in October 1997), private banks are reluctant to provide finance toward rather risky private business. This crowding out and accompanying high interest rates (around 30-50%) are derived originally from the budget deficit. The government is now struggling to reduce the budget deficit. It actually achieved a reduction from 10.4% of GDP in 1996 to 8.6% in 1997\(^9\), and is forecasting a fall to less than 5.8% in 1998\(^10\). The government will continue to strive for further reductions. However, the effect of policy measure aimed at this problem should be considered in their wider aspects, especially the impact upon the private sector. The possible privatization of NIB, as we saw in Section 4.4.3 is an example.

Expenditure on infrastructure projects is another area where there are issues of balance between macro stability, and infrastructure development: the former is beneficial to the financial aspects of the industrial development, while the latter is beneficial to the physical aspects of industrial development. Improvement of the industrial infrastructure is still one of the main concerns of private enterprises, as we saw in Section 4.4.1. However, development of the infrastructure is a financial burden for the national budget, even foreign financed projects. This is especially true of counterpart fund requirements, which have an immediate impact on the budget. The suggestion by USAID, that in the 1990's expenditures for foreign financed projects have become a financial burden and source of inflation in

\(^9\) The Budget Statement and Economic Policy of the Government of Ghana got the 1998 Financial Year, Section 45
\(^10\) In the National Economic Forum, recommendation for the budget deficit is 5.0% in 1998, 2.5% in 1999, 1.5% in 2000 and 0% in 2001.
developing countries, is worth considering carefully.  

5.1.2. Necessity of Proper Monitoring in the Promotion of Trade and Investment

The government is promoting trade and investment through improvements of the legal framework and other conditions. In doing so, the monitoring of each policy measure is important. Sometimes, policy measures adopted by the government are not properly implemented and their expected effects are hampered.

We should recall the case shown in 4.4.3. in which inconsistency among policies are shown. This is an issue that can be minimized through closer monitoring.

There is a simpler case of lack of monitoring. ECOWAS countries are to be the first targets for Ghanaian exporters because of their geographical closeness and relatively similar living standards. If exportation to those countries is successful, there will be a chance for widening the target to other counties. However, some members of the Federation of Ghana Exporters (FAGE) pointed out that there are barricades near the border both inside and outside of Ghana that block exports. A high ranking Ghanaian government official said that ECOWAS countries, including Ghana, have been discussing this matter and there must be no such problem. One exporter claimed, that from Accra to Abidjan, there are normally about 18 barricades, some of them illegal, and that a wait of 8 hours is typically spent. Such inconvenience, together with the additional costs necessary to pass these barricades, form a major obstacle to exports at what should be their easiest points of entry.

Another complaint came from investors, regarding the frequent changes to the tariff structure ¹². The tariff structure is changed every year together with the approval of national budget. Those complaining claim, the change is unpredictable and sometimes disadvantageous to them. Disclosing the future tariff structure is not necessarily advisable, but if doing so would improve the confidence of foreign investors, it is worth considering, because confidence in government policy is one of the most important elements in decision making by investors.

In order to avoid these kinds of problems, it is important to monitor the effects of policies, and to ascertain the real needs of traders and investors. We will present one solution in 5.4.1. below.

¹² We got this opinion through GIPC.
5.1.3. Giving Higher Priority to Industrial Development

Without the development of industry, the government cannot expect any fundamental increase of revenue, even if the tax collection mechanism is improved. Hence it is important to place priority on industrial development in the national budget.

The Ghanaian Government’s budgetary priorities are clear. In the 1998 budget, the education sector received about 33% of the recurrent budget and about 6% of the development one, the highest allowance to any sector. The health sector received the second highest, with 8.52% of recurrent budget and 15.87% of development one. (Table V-1)

The expenditure on trade and industry was far less than those items, amounting to only 0.38% of recurrent and 0.25% of development budget.

Table V-1: Selected Items of the National Budget 1998 (expenditure)
(Top six expenditure items and Trade & Industry sector) (unit: Million Cedis)

<table>
<thead>
<tr>
<th>Items</th>
<th>Recurrent (A)</th>
<th>(% Development (B))</th>
<th>Sum (A)+(B) (C)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>534,561</td>
<td>67,570</td>
<td>622,131</td>
</tr>
<tr>
<td>Health</td>
<td>137,960</td>
<td>225,094</td>
<td>363,054</td>
</tr>
<tr>
<td>Mines &amp; Energy</td>
<td>785</td>
<td>257,106</td>
<td>257,891</td>
</tr>
<tr>
<td>Roads &amp; Transport</td>
<td>18,894</td>
<td>186,368</td>
<td>205,262</td>
</tr>
<tr>
<td>Defence</td>
<td>96,013</td>
<td>36,800</td>
<td>132,813</td>
</tr>
<tr>
<td>Local Govt. Rural Devt.</td>
<td>19,518</td>
<td>111,457</td>
<td>130,975</td>
</tr>
<tr>
<td>Trade &amp; Industry</td>
<td>6,082</td>
<td>3,514</td>
<td>9,596</td>
</tr>
<tr>
<td>Others</td>
<td>806,187</td>
<td>510,275</td>
<td>1,316,462</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,620,000</strong></td>
<td><strong>1,418,184</strong></td>
<td><strong>3,038,184</strong></td>
</tr>
</tbody>
</table>


Actual observation of an executing agency established to foster industrial development draws a grim picture. The actual released budget of GEPC for the last five years shows that only an average of 65% of the approved budget had been actually released. (Table V-2) Because of this shortage, the GEPC was forced to reduce its programmed activity already committed to foreign entrepreneurs or investors.

Table V-2: Budget of GEPC
(unit: Million Cedis)

<table>
<thead>
<tr>
<th>Requested (A)</th>
<th>Approved (B)</th>
<th>Released (C)</th>
<th>(C)/(A)</th>
<th>(C)/(B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,200</td>
<td>397</td>
<td>209</td>
<td>17%</td>
<td>53%</td>
</tr>
<tr>
<td>1,100</td>
<td>637</td>
<td>449</td>
<td>41%</td>
<td>70%</td>
</tr>
<tr>
<td>3,300</td>
<td>616</td>
<td>370</td>
<td>11%</td>
<td>60%</td>
</tr>
<tr>
<td>2,000</td>
<td>716</td>
<td>643</td>
<td>32%</td>
<td>90%</td>
</tr>
<tr>
<td>1,500</td>
<td>994</td>
<td>512</td>
<td>34%</td>
<td>52%</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td></td>
<td></td>
<td><strong>27%</strong></td>
<td><strong>65%</strong></td>
</tr>
</tbody>
</table>

Source: GEPC (interview)
Although vocational training or higher technical education is covered by the budget of education sector, it can be said that the government is ignoring the development of the trade and industry sector. Clearly budgetary constraints require a prioritisation of expenditure. However, since industrial development is one of the main objectives of the current economic policy, it is worth considering putting higher priority on industrial development activities in budgeting.

5.2. SOME SUGGESTED MEASURES

As a result of the Asian financial crisis, the economies of many Asian countries have been in trouble since July 1997. The causes of this crisis are discussed widely, but whatever the reasons, there are still many industrial policies and systems, implemented in these countries in the past, considered effective and worth introducing. We would like to present some measures, drawn from experiences of Asian countries, for the Ghanaian Government to consider.

In this section, we would like to present several policy measures and systems of different counties. The role or the policy of the government in Asian countries varies from strong interventionist policy found in South Korea and Japan to the more market friendly ones found in Hong Kong and Taiwan. Since the Ghanaian economy has already been liberalized considerably, as we saw in Chapter II, it is not realistic to suggest of strong interventionist options, such as slow liberalization of markets or putting conditions on foreign investment. However, there are policy measures, taken by the former countries, which are still applicable.

5.2.1. Establish Permanent Public-Private Dialog Scheme

The first step to take in vitalizing industry does not require any substantial financial burden. It is to establish a permanent public-private dialog scheme. This dialog has two major effects. The first one is to gather information necessary for the policy makers, and the second one is to proliferate the direction of the policy and help its implementation.

There are many obstacles and failures in the free market system. Those shown in 5.2 above are the examples. In order to find and eliminate these obstacles, some sort of systematic measures should be established for the government to gather proper information for policy making and adjustment. It is impossible to draw a complete picture by doing research at only one point in time.

For that purpose, it is effective to establish permanent and systematic ways of gathering information from private sector and using it properly in political decision making. A good example can be found in Thailand (Box 5.2.1). In that case, the information and opinion of the private sector had a strong influence on the government and this was directly reflected in the policy making process.
Round Table meetings and the National Economic Forum in October 1997 were good examples of information gathering systems in Ghana. Unfortunately, the Round Table meetings were terminated and the National Economic Forum was just one event and not designed to act as permanent system. There are many entrepreneurs asking for the opportunity to organize such systems. The PEF is expected to act as an umbrella organization gathering private sector opinions and relaying them to the government, but it is not doing so systematically. It is not necessary to have a symbolic event like the National Economic Forum. Its preparation is time consuming and costly. Rather than expensive solo events, continuous meetings should be encouraged.

**Box 5.2.1**

**Joint Public Private Consultative Committee (JPPCC) in Thailand**

The JPPCC was established in 1981 in order to create cooperative relations between the government and private sector in Thailand. Its members are the Prime Minister, several other Ministers, representatives of the Chamber of Commerce, representatives of Industrial association, Governor of the Central Bank, etc.

The main roles of the JPPCC were as follows:

a) Investigate countermeasures to obstacles for both public and private sector
b) Coordinate public and private sectors in economic policy decision making and implementation
c) Find out ways to strengthen the role of the private sector in promoting national economic development

In 1984, JPPCCs at provincial levels, headed by provincial governors, were also established. They acted within each province, but if necessary, they collaborated with JPPCC at the national level.

The important feature of this committee is that these are permanent committees and the chairman of the national level JPPCC is the Prime Minister himself. The decisions of this committee are handed to the government’s executive branch or JPPCC’s sub-committee for actual implementation. The committee was designed as a consultation body of the national government, but actually acted as a decision making body. The influence of industry became significant and there was some opposition from bureaucrats about industry’s excessively strong power.
5.2.2. Reinforcement of Private-led Technical Assistance Programs

The information obtained from our survey shows that government and private technical education systems both have their own shortcomings: The government system does not necessarily reflect the real needs of private enterprises; while the private system has a limit in its operating scale because it does not have sufficient financial and human resources.

Here again, our suggestion is a collaboration between government and private. Penang State, Malaysia, gives a good example with the Penang Skills Development Center (PSDC) (see box 5.2.2). In this case, the training institute is managed by the state and private sector. This allows the needs of the private sector to be reflected in its training. Another good point of this institute is that it is open to all enterprises, not only wealthy ones, but also small enterprises can benefit.

Box 5.2.2
Malaysia Penang Skills Development Center (PSDC)

The state of Penang together with the 30 private companies established Penang Skills Development Center in April 1989 to cope with the demand of skilled labor. It is a joint effort of the public sector and the private industry. It is an industry led training organization to meet the needs of the industry, and its member enterprises provided financial and training resources. The training programs are offered to the present workforce and pre-employment school graduates in the field of technical, manufacturing and management. It is also open to non-member companies.

It trained 39,667 persons from its establishment to the end of May 1998, and also generated profit from its operation.

Source: Penang Development Corporation
5.2.3. Develop Linkages Among Micro, Small and Medium Size Enterprises

Here we would like to stress the linkages between enterprises of the same sector and scale (horizontal linkage). In the future, after small scale industries develop up to a certain level, linkages between enterprises of different sector and scale (vertical linkage) such as Japan’s automobile industries can be established, but the horizontal linkage are the first to be dealt with.

We found from our interviews that it is not common in Ghana for companies to form cooperative groups in order to improve commercial efficiency. In the small or micro scale companies, Ghanaian business people tend to act individually when they purchase materials and sell products.

In other countries it is quite common for the small scale manufactures to cooperate with each other, especially to benefit from economies of scale and information gathering. In Japan, there are many cooperatives, one of the main purpose of which are joint research and joint marketing. In Tsubame city of Niigata prefecture, Japan, there are strong linkages between small manufacturers. In this area, the manufacturers association is the center of technology development, marketing, financing and even lobbying. (Box 5.2.3)

It is difficult to change the mentality of people. To introduce or strengthen linkages, using existing private association such as AGI or FAGE may be effective. In those organizations, linkages between the organization and member companies are existing and active. But we found out that linkages among member companies are rare. If successful examples can be shown, there may be the possibility of changing attitudes.

Know-how is necessary to add such additional functions to existing bodies. Foreign technical assistance is one means of gaining know-how.

**Box 5.2.3**
Manufacturer’s Association in Tsubame and Sanjo City, Niigata Prefecture, Japan

Tsubame, Sanjo is one of Japan’s largest centres for metal work. There are various metal related enterprises such as forging, pressing, heat treatment, grinding, welding and plating firms. They collaborate closely with each other, and as a whole constitute a large metal industry. Among five thousand manufacturers, about 90% of them are micro enterprises with less than 10 workers each.

In Tsubame city, there are two Manufacturer’s Associations: one for metal tableware and another for houseware. The main activities of the metal tableware association are registration of design (under the name of ‘Tsubame’) and quality control, quantity allocation for exportation to particular nations, study of the
foreign and domestic markets and operation of a permanent showroom in the United States.

These associations are backed by the local government and universities (research institutes). The city government provide subsidies to the association and requests to the central government, while the local research institute is conducting research jointly with the member enterprises. There is a Chamber of Commerce in Tsubame city, which supports the association lobbying the central government. There is also a public loan program for members through quasi-public financial institutions.

The association for the metal tableware has acted as a core of the development of this sector. The metal industry faced competition from Europe and United States in early 1960s, and the association negotiated directly with these foreign countries.

Source: Nihon no jiba-sangyou shinkou shisaku no tekisei gijutu kennkyuu, Japan International Cooperation Agency, 1992

5.2.4. Providing Long Term Financing for Capital Investment

One of the most common problems that small or medium size enterprises face is the shortage of long term finance for capital investment. In the record of National Economic Forum, there is a request to Social Security and National Insurance Trust (SSNIT) to provide financing to small and medium enterprises.

According to the Financial Statistics of the SSNIT, it invested about 20% of its portfolio to properties development the rate of return of which is only 1.86% in 1996 (20.26% in 1995). Considering the borrowing rate of the banks (25% to 31.5% for savings deposit in 1996 and 18.25% to 24% in the middle of 1995), this investment is not very profitable. If SSNIT would provide a part of its portfolio through some banks, for the long term finance of industry, the impact would be significant.

This is also an area that is suitable for receiving foreign assistance. Even if it is provided in the form of a loan, if proper appraisal is done and the necessary extension services are provided, there is the possibility that the amount of non performing loans will decrease and the government will not have to shoulder this financial burden. In Box 5.2.4, we show Japan’s assistance to Thailand.

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13 Section 4.3.2
Box 5.2.4
Industrial Finance Corporation of Thailand (IFCT)

The IFCT was founded in 1984 for the purpose of providing finance to small and medium scale enterprises (SMEs). At that time, although one of the main objectives of the government was to promote development of SMEs for exportation, financing sources for them are quite limited in numbers and conditions. The purpose of the IFCT is to provide long term low interest loans. To meet financial needs, OECF provided resources to IFCT through Two-Step loan (IFCT Loan) three times since 1985.

The target enterprises for this loan are export oriented SMEs, namely food processing, garment, rubber processing, electronics, wood works, metal processing, shoes and toys. Conditions of the loan to the end users are maximum of 15 years of repayment period with the interest rate of 11.7%. Maximum amount of sub-loan is 5 million Bahts (about 184 thousand US$ in 1985) for small scale enterprises, and 20 million Bahts (about 736 thousand US$) for medium scale enterprises.

This scheme has been quite successful. The amount provided by OECF by the first loan was 4,059 million yen. It was used for 127 projects and after their repayment, the repaid amount is used for another projects. All of the 127 were completed. They contributed to the increase of exports and creation of employment according to the OECF’s post evaluation.

5.2.5. Strengthening of Ghana Export Promotion Council

GEPC is playing an important role in export promotion. Its advisory services for exporters, training of managerial skills (Export School) and international marketing activity are appreciated by many exporters. In Asian countries also, this type of organizations, e.g. Japan External Trade Organization (JETRO), Malaysia External Trade Development Corporation or Department of Export Promotion of Thai Ministry of Commerce, were established and played an important role.

However, as we saw in 5.1.3. above, the funding for GEPC is not sufficient, and the magnitude of its activity is consequently limited. Only 738 exporters were trained in 1996 by its Export School. According to a GEPC official, to perform activities planned and publicly announced is very important in acquiring credibility from potential foreign buyers or investors. Shortages of funding, especially the difference between approved budget and its release, caused serious problems. Higher budgetary priority is necessary for this organization.

Apart from funding, the GEPC officials also admitted that they found difficulty
in finding appropriately trained people in Ghana. The number of persons capable of giving lectures in the field of trading is limited and usually they are very busy. Inviting lecturers from abroad is expensive.

This is an area that is suitable for receiving foreign assistance. Basic knowledge as well as specialist know-how from experienced countries can be obtained through technical assistance. Japan assisted various Asian countries through JETRO and Japan International Cooperation Agency (JICA) by sending experts to the organizations promoting exports.
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