PRIVATE ENTERPRISE FOUNDATION

WORKSHOP ON

"PUSHING FORWARD THE AGENDA FOR PRIVATE SECTOR DEVELOPMENT
• THE RESPECTIVE ROLES OF PARLIAMENT AND THE PRIVATE SECTOR"

HELD AT COCONUT GROVE, ELMINA

FROM 30TH MARCH TO 1ST APRIL, 2001

SPONSORED BY KONRAD ADENAUER FOUNDATION

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1.0. BACKGROUND

1.1 The Private Enterprise Foundation (PEF) is an umbrella private sector body devoted to the orderly and healthy development of the private sector in Ghana through ad roach and promotion. In the discharge of this responsibility PEF is involved in policy dialogue to ensure that policies favor the smooth growth of the private sector. In February 2000, PEF organized a workshop on the theme "Building Partnership with Parliamentary Committees – A Private Sector/Legislature Network on Policy and Laws for Effective Governance" for members of 3 relevant committees of parliament with a view to striking the necessary relationship and acquaintances to facilitate its advocacy role. Later events however did not allow for the full implementation of the recommendations of that workshop. Following the change of government in the 2000 elections, the leadership of parliament and members of the various committees also changed. To re-invigorate the process and kick-start the relationship to facilitate its advocacy role, PEF, with sponsorship from the Conrad Adenauer Foundation, organized another workshop from March 30 to April 1, 2001 on the theme "Pushing Forward the Agenda for Private Sector Development- The Respective Roles of Parliament and Private Sector" for the leadership of Parliament and members of the business related committees i.e.

- Finance
- Trade, Industry and Tourism
- Constitutional, Legal and Parliamentary Affairs and
- Employment, Social Welfare and State Enterprises, Committees.

1.2 Objective of the Workshop

The objective of the workshop was to:

I) strike a working relationship with the new members of the various committees,

ii) deliberate on venous aspects of the 2001 Budget and Economic Policy Statement, relevant policy issues relating to the National Reconstruction Levy, the decision to go HIPC and the private sector promotion programmes as a bounced in the budget, and

iii) Make specific recommendations to , guide effective implementation towards the realization of full benefits of the policy initiatives.

2.0. OPENING CEREMONY

2.1. Welcome Address

Mr. Kwasi Abeasi, Director-Genera! Of PEF delivered the welcome address. In welcoming participants to the workshop, he elaborated on the urgent need to salvage the private sector through good policies, conducive regulatory framework and faithful implementation of policies in the spirit of partnership between the public sector and the private sector. He urged the members to be interested in building a vibrant private sector, since invariably, the private sector turns out to be the sector where most public officials retire to when they go out of public service. It is therefore in the interest of everybody to ensure that the private sector is nurtured to have the necessary capacity to absorb everybody.

2.2. Chairman's Opening Remarks

In accepting the chair, Nana Deborah Kodie Asare II, President of PEF recalled with happy nostalgia, the previous years' intensive meeting and the cordiality that characterized the positive contributions from both sides of the political divide and hoped the honorable members of Parliament would exhibit the same level of cordiality devoid of partisan politics and approach all issues with the best interest of Ghana in mind.

Like the Director-General he also said parliament has a responsibility to make a contribution towards the building of a vibrant private sector which can appropriately respond to the accolade "engine of growth". He advocated for macroeconomic stability as necessary condition for business prosperity, describing the prevailing macro-economic situation, featuring critical and desperate fiscal position, tight external payment position, high inflation, inaccessibility to long term finance and high perception of conniption in the public sector as un-conducive and rather harsh for business growth.

He applauded the government's budget and economic policy but lamented the country's traditional lackadaisical approach to implementation, saying that unless the policies are implemented with faithful commitment and transparency, nothing good will come out of them. He was however not happy with the low level of consultation with stakeholders in the decision-making on the National Reconstruction Levy and Ghana's decision to go HIPC. He was glad that government had reduced the rate of the NRL after the necessary consultations and interventions.

He called for clarification on various aspects of the IRS advert in the Daily Graphic of March 24, 2001 on withholding tax . Nana called for a frank and serious discussion on the issue of management of the national debt, judicious resource utilisation, unemployment and job creation, development of efficient economic infrastructure and the chronic problem of access to capital. He called for a cordial atmosphere for presentation of views, careful analysis of issues, the courage to pick the best of strategies from many options, adding "in this session, there is no public and no private issue; there is no minority and majority what we have is corporate Ghana that we want to serve and to serve well to the best of our determination and ability".

He concluded by thanking KAF for sponsorship and the parliamentarians for finding time to attend the workshop.

2.3. **KAF Resident Director's Statement**

Mr. Martin Wilde, the Country Director of Konrad Adenauer Foundation was happy for the opportunity to sponsor such an important workshop, which in his view has the potential of bringing immense benefit to the average Ghanaian on the street. He hoped that whatever conclusions are arrived at would be implemented for the realisation of the benefits: He also expressed the wish that the meeting between PEF and the relevant committees of parliament would be institutionalised and become a tradition and part of our democratic culture. He pledged his foundation's support for any meaningful follow-ups and implementation activities arising out of the deliberations.

3.0. KEY PRESENTATION: AGENDA FOR PRIVATE SECTOR DEVELOPMENT

3.:. The key presentation of the workshop was made by Dry A. Fritz Gockel , senior lecturer, Economics Department, University of Ghana, Legon. His topic was “Pushing Forward the Agenda for Private Sector Development- the Respective Roles of Parliament and the Private Sector''.

3.2. He lamented that after several years of IMF stabilisation and World Bank Structural Adjustment Policies, key macro-economic variables suggest that "the anticipated growth and Structural change with a pivotal role of private sector Initiative As the growth point” has not Been realised and that the private sector was yet to be "the engine of growth". He proposed the following as the vehicle to the realisation of the middle-income status for Ghana by the year 2020.

- The creation of jobs at relatively low capital cost
- development of forward and backward linkages among the various sectors of the economy
- promotion of local entrepreneurial and managerial crop
- development of an indigenous pool of skilled and semi-skill labour force, provision of opportunities for developing and adapting appropriate technologies
- poverty reduction strategies and alleviation of negative cost of structural adjustment programmes
- adding that Ghana should develop with indigenous "home brewed strategies".

3.3. He analysed the 2001 Budget and Economic Policy framework and advocated for macro-economic stability as a necessary but not sufficient condition to advance the course of the private sector. He advocated for special programmes to make the private sector vibrant. He was not too sure if the inflation target was achievable in view of the huge domestic debt and the policy initiative to maintain open market operations as a menu for mopping up excess liquidity.

3.4. He lauded the initiative of zero tolerance for corruption and private sector promotion programmes contained in the budget and called for stringent implementation approaches to achieve the purpose of the initiatives. He doubted whether the decision to go HIPC was the right one because the experiences of those countries that had gone HIPC were nothing to write home about. He suggested that Ghana needs *to* negotiate the conditionality’s that go with the decision to go HIPC in order to realise optimal benefit for the country. Specifically he called for thorough preparations based on data, information and knowledge for the negotiations of HIPC conditionality’s. He doubted whether the decision to go HIPC was compatible with the government’s policy to provide subsidies for local agriculture. Dry Gockel was not happy that the budget did not touch on the much-talked-about health care financing and the national health insurance scheme. Drawing on the experiences of the pilot health insurance schemes in Nkoranza and Koforidua, he advocated for systematic implementation and reviewing of lessons from the pilot schemes to make the proposed health insurance scheme successful.

4.0. DISCUSSION ON THE PRESENTATIONS

4.1. The discussions on the presentations were done in an open, frank and cordial atmosphere. The idea that the meeting should be institutionalised was endorsed. However, the general view was that the meeting should have preceded the discussion of the budget in parliament so that the

Parliamentarians, as representatives of the people, could have factored private sector's views on the budget into the debate. The meeting's attention was drawn to the fact that the Bill on the National Reconstruction Levy in the form that had been passed did not provide for offences and sanctions, which could make effective implementation and the case of dealing with the defaulters difficult. It was agreed that the sector minister's attention be drawn to this omission for the necessary interventions. Some members felt that PEF should have made representations on HIPC and NRL if it felt strongly about them as it had done previously with VAT, EDIF etc. before the debate. It was, however, noted that, in the absence of these relevant committees that had then not been constituted. PEP's representations on these matters- NRL, HIPC, the private sector promotion programmes and zero tolerance for corruption management of the national debt etc. were sent to the respective ministers and other stakeholders. It was therefore agreed that the analysis views and conclusions of the meeting and the recommendations on the presentations could be used for the mid-year reviews of the budget. Achieving macroeconomic stability is the key condition for achieving a vibrant private sector and all partners should work towards achieving such stability. Besides macroeconomic stability, micro (firm level) efficiency and special initiatives to promote the private sector are required if quick rest it's are to be achieved.

On Ghana's decision to go HIPC, the consensus was that now that the decision had been made, the debate on HIPC should shift to how to make the best out of the decision for the overall benefit of the country.

4.2. It was argued strongly that government should take control over management of the economy rather than relying on the Bretton Woods Institutions as their policies and conditionality's may not necessarily lead to making the private sector the engine of growth. Participants cited for example that the privatisation of the banks under the financial sector reforms under the Structural Adjustment Programme has led to urbanisation of the banks to the neglect of the rural area. There could be similar situations under HIPC if government does not take control of the situation.

4.3. One other serious challenge is the management of the national debt. The idea to convert part of the domestic debt into bonds was endorsed. It was suggested further that demands or; government resources should be minimized. The private sector has a duty to limit its demand on government e.g. tax exemptions. Other initiatives should include revenue mobilisation and

Expenditure control.

5.0. GROUP WORK SESSIONS

The meeting broke into 4 groups as below to look at various aspects of the workshop theme

5.1. TRADE, INDUSTRY AND TOURISM COMMITTEE

The following topics were discussed:

- **Private Sector Promotion Schemes**
- **Credit Support Programmes**
- **Job Creation**
- **Land Tenure Issues**

5.1.1. Private Sector Promotion Schemes

One of the main issues that impact heavily on the promotion of the private sector is the macroeconomic environment. There is the urgent need to deal with macro-economic instability, which affects interest rates and of course the accessibility of credit to the private sector. While dealing with the macro economic factors, there is also the need to deal with the micro economic factors as well, in view of the fact that if this does not happen the sector will not be able to take off as expected. The micro economic factors deal with such issues as better infrastructure, machinery for processing etc.

It is also of necessity that private sector enterprises engaged in International Trade understand the intricacies/technicalities of international trade and international relations in order to effectively use the opportunities provided under international instruments for our co-operation such as the African Growth and Opportunities Act. This may involve appreciating and understanding the need to comply with International Quality Standards such as the ISO 9000. There is also the need for identifying our comparative advantage in the production of certain items and to encourage the growth of such industries.

The availability of markets and the access to markets is important to the development of the private sector and it is necessary that the bottlenecks inherent in the application of the ECOWAS TRADE LIBERALISATION SCHEME are dealt with and streamlined to allow private sector access to larger markets within the sub region.

There is also the need to strengthen management skills and competences and. To assist m training small and medium scale entrepreneurs in acquiring basic management skills in order to assist in the development of Management Expertise and Efficient Business practices.

Parliament and Parliamentary Committees must be adequately informed to understand the issues so that they can make effective inputs in the policy debate and also on amendments to the proposed legislation at the committee level. There should also be regular interaction between Parliamentary committees and Stakeholders to ensure that Parliament is abreast with The needs and concerns of industry and the private sector

5.1.2. Credit Support Programmes

The example of **BAF** should guide us in terms of what should not be done. When designing credit support programmes there is the need to look not only at the companies or businesses that are requiring assistance and the specific sector/industry in which, they are operating. There is the need to priorities credit support to sectors of the economy, which are growth oriented. There is the need to effectively think through the design of the credit support schemes so that they can be utilised effectively by the anticipated beneficiaries/consumers of the product. Parliament and Parliamentary Committees dealing with these issues must access inputs from the anticipated beneficiaries of the scheme in order to ensure that policy initiatives are translated into effective legislation.

Aside of providing credit support, there must also be other support services such as accounting services etc. which could be made available to smaller operators who cannot afford to utilise such services/professionals on a full time basis, as one of the problems of small scale busi!1esses is the lack of efficient record keeping.

5.1.3. Job Creation

Though there is obviously the need to create jobs, there isthe general recognition also that if the private sector is booming, more jobs that will be created.

However, it is also recognised that the education system must be dynamic and should be able to adapt the curricula to respond to the needs of business. There is also the need to efficiently utilise the skills that are available to their best advantage. The private sector

Must endeavor to influence educational curricular by creating research facilities and creating chairs within our universities in order to influence the trend of research.

Parliament can also influence the direction/emphasis of funding within the government policy framework on education. The Japanese for example have over the last two years laid emphasis on the funding of technical education and we may seek to focus on such inputs with regard to the utilisation of the Education Trust Fund.

5.1.4. Land Tenure

In the past there has been the proposal to create land banks in order to facilitate the acquisition of land for development by the private sector, this is an initiative that must be followed through in order to ensure that this bottleneck is removed.

With regard to compliance with environmental , forestry and mining regulations there is the need to ensure that the various regulatory bodies educate their staff in the performance of their functions and canny out the supervisory responsibilities as expected. The issue in this instance is not the lack of regulations for the purposes of ensuring protection of natural resources and the environment but the inability to enforce existing regulations.

5.2. EMPLOYMENT, SOCIAL WELFARE AND STATE ENTERPRISE COMMITTEE

5.2.1. Membership

1. Hon. Stephen Kawaka Balado Manu - Chairman
2. Hon Samuel Nkrumah
3. Hon D Y Mensah
4. Hon M A Seidu
5. Hon Victor Okuley Nortey
6. Hon Ama Benyiwa Doe
7. Mr S Abam Quartey
8. Mrs Rose K Anang Rapporteur/GEA
9. Mr J Ben Oduro PEF

5.2.2. Issues- Job Creation

Job Definition:

Any legitimate sustained economic activity that leads to the creation of wealth for the benefit of the individual and society

Job Creation Definition

The Process and activities involved in making job available for those who are able and willing to work

Responsibility for creation of jobs

1. State
2. Private Sector
3. Individuals (under the private sector)

Role of the state in the creation of jobs

- Facilitation and creation
- Facilitation – training and education, creation of infrastructure, macro and micro policy framework creating an investor confidence atmosphere etc.
- Creation – Public sector job creation by the state

Role of the private sector in the creation of jobs

- Skills development
- Entrepreneurial training
- Plugging back profits as investment in expanding the company
- However the following militate against the private sector in the creation of jobs
- Attitudes (time, absenteeism, traditions/culture, values of society)

5.2.3. Health Care Financing

- Health care has become the responsibility of the employer in most cases and is heavily impacting on the finances of enterprises
- Health care must be on a cost-sharing basis through health insurance schemes which should also cover the informal sector

Implementation Mechanism

- Legislation on health insurance scheme
- Education
- Further research into modalities
- Government financing – part financing

Types of scheme

- National Health Insurance Scheme which will operate at the regional and district level
- Private sector can operate within the framework of the National health Insurance scheme Framework

5.2.4. Zero Tolerance for corruption

Causes of Corruption

- Monopoly of essential/utility services
- Low wages
- Social pressures
- Bureaucracy
- Poverty
- Attitudes
- Ignorance/illiteracy

Proposals to Address the Problem of Corruption

- Education
- Encourage tips
- Commensurate wage tied to production

5.2.5. Industrial Unrest

Causes

- Unclear labour laws
- Monopoly of Trade Unions
- Casualisation of Employment
- Low wages
- Unemployment/minimum wage
- Excessive demands by the unions
- Poor condition of service vis-a-vis low prodactivity

Addressing Industrial unrest

- Draft labour bill to be passed into law
- Good conditions of service to be made possible by Increasing levels of investment/productivity
- Consultation between workers and management

5.2.6. Employment Creation

- Training of graduates to make them Employable
- Change of attitude to certain types of jobs
- Economic sectors – middle level jobs i.e. skilled jobs to be made attractive and available such as the field of agriculture
- Specific training to meet the needs of industries
- National industry needs identification so as to train people to meet the industry needs
- Expansion of the private sector to enable the sector create jobs

5.2.7. Manpower Development

- Entrepreneurial training be given by the private sector to enhance productivity
- Budgets to be allocated to training of personnel especially in private companies
- Motivation of personnel to be able to retain them through:
  - Productivity tied to remuneration
  - Career development on the job
  - Recognition of input of staff etc.

5.3. FINANCE COMMITTEE

5.3.1. Membership

1.	Hon Moses Asaga	Chairman MP
2.	Joe Addo- Yobo	Rapporteur/FAGE
3.	Martin J Wilde	KAF
4.	Hon J E Ackah	MP
5.	Hon P C Appiah Ofori	MP
6.	J Bentum-Williams	Ghana Chamber of Mines
7.	Hon S Sallas-Mensah	MP
8.	Hon B D K Adu	MP
9.	Jesse Clottey	PEF

5.3.2. Preamble:

The National Reconstruction Levy (NRL) and the HIPC initiative would have impact on the macro-economic stability of the country and thereby help improve the enabling environment for private sector development.

5.3.3. National Reconstruction Levy (NRL)

As a result of the fiscal imbalance faced by the economy, the Minister of Finance in his budget preparations had two options or a combination of the two to close the deficit. These are:

- Increased revenue
- Reduced expenditure
- A combination of the two

A levy of 10% on profits was imposed on the five leading banks whilst the smaller banks were levied at 7.5%. This group excludes the rural banks. Casting the net wider the

Levy roped in some profitable non-financial institutions and slapped *2Yz%* levy on their profits. The levies are to be reviewed after 2 years.

These levies are to be paid quarterly with the first instalment due at the end of March 2001.

5.3.4. Shortcomings

The NRL as presently passed into law, may experience some shortcomings. The committee listed some of these as:

- No provisions were made for sanctions for non-compliance
- Possible implementation problem especially in actual collection of the taxes. For example does the IRS issue a new provisional assessment every quarter?

The committee also examined the probable impact that the levy would have on the Banks in particular and the private sector in general.

5.3.5. Possible Impact/Effects

- How would it impact on the banks' interim financial statements
- It would affect the capacity of the banks to lend to the private sector which has been crowded out as a result of government excessive borrowing

- What signals would be sent to potential investors? There could be positive signals for the new investor who may regard the government as being serious to reduce its debt stock and not averse to taking tough decisions. The negative signals could be the uncertainty of the effective corporate tax rate in the minds of investors

- The levy could drive foreign companies especially multinationals to adopt TRANSFER PRICING strategies in procurement of essential inputs. Instead of buying direct from the source they may go through their parent companies or foreign agents e.g. Ghana Telecom and Ghacem could apply this method.

- Other companies may react by designing strategies to avoid bearing the full import of the levy.

5.3.6. Recommendation

- The levy in its present form does not indicate the specific use of the funds. The committee is of the opinion that in addition to using the levy to solve the fiscal imbalance, part of it should be used to support EDIF as long term funds for the private sector

- A more permanent way of achieving the same objective is to raise **RECONSTRUCTION BONDS** with the necessary incentives to attract voluntary compliance.

5.3.7. H I P C

HIPC is a statistical definition which groups any country with GDP per Capita of Jess than US$ 690. Ghana with its per capita income of $390 currently is automatically a HIPC candidate. Once the government has decided that Ghana should go HIPC our attention should be focused on how to derive the maximum benefit from the initiative. The committee is of the opinion that our government should negotiate skilfully on the conditions underlying HIPC so that we are not worse off at the end of the period.

For example, the sponsors of HIPC abhor the policy of subsidising agriculture. In this direction the government is urged to mount a serious public relations programme involving the international press, international NGOs and some important international Ghanaian sportsmen. These people should be invited to visit the country and taken to poverty-stricken areas. The objective is for them to lobby their respective countries and areas of action with a view to influencing the Bretton Woods institutions. It is important to build a national consensus and play down partisan interests.

Once the country has gone HIPC what effect would it have on private foreign borrowing? The committee is of the opinion that its effect may be mixed. By attempting to reduce our debt stock with the support of the World Bank and IMF, it may send the right signal to would-be lenders. On the other hand, other leader's especially lesser-known ones may not be sympathetic to applicants from a HIPC-declared country. We also feel that eventually it is the individual company's profile and balance sheet which would determine its success or failure

The committee recommends that the Minister of Finance should co-opt other experts outside the government to beef up its team for any negotiations with the sponsors of HIPC.

5.4. CONSTITUTIONAL, LEGAL AND PARLIAMENTARY AFFAIRS

5.4.1. Chaired by Hon Mohammad Mumu Ranking Member

5.4.2. Concern How to forge and assist in private sector development

5.4.3. Areas of Focus Land tenure issues

Issues:

- Mining
- Forestry
- Alternative Dispute Resolution
- Boundaries
- Land Courts/Commercial Courts
- Boundaries

Land Tenure

Ownership of land in Ghana rest in, stools, skins, families and individuals. Again land belongs to the living, the dead and the unborn.

Land Acquisition

The Constitution of Ghana makes provision for the acquisition of land by the government through the compulsory acquisition law. The State Land Act and the Stool Lands Act also provide guidelines for the acquisition of land from stools and families and individuals.

Limitation and problems with acquisition

- The government can only acquire land compulsorily if the acquisition is m the public interest. So the question is "when does public interest arise and could that be said to include acquiring land to give to a private investor"?

- The absence of prompt and quick payment of compensation in cases of compulsory land acquisition leads to multiple sale of lands by affected land owners to other investors

- There is the problem of finding and assessing who are the true owners of particular lands since most of them are subject of litigation

- Foreigners are not allowed by law to take leases of land for more than 50 years and this is a disincentive for foreigner private sector investment

- Processing documents with Lands Commission and Land Title Registry is unduly delayed
- There is the problem of boundaries identification
- Land cases unduly delay in court

5.4.4. Recommendations

- Parliament to come out with laws on land acquisition
- Land courts should be established and made operational
- Issues of foreigners not allowed to take leases for more than 50 years should be reviewed
- Harmonizing the several land Jaws
- Acquisition of land should be made more public and involving all stakeholders
- Alternative dispute resolution should be encouraged.

5.4.5. Alternative Dispute Resolution

It was realised that the Courts Act itself seems to promote this:

Limitation & Problems

- Many people are ignorant of this Act as means of solving land problems
- It is not the culture of most Ghanaian lawyers to resolve issues out of court
- This ADR is subject to the consent of the parties but most parties often refuse

5.4.6. Recommendation

- That there must be education on alternative dispute resolution
- The Ministry of Justice is to come up with guidelines on ADR

5.4.7. Boundaries

There is the problem of boundary identification and demarcation. Many landowners rely on landmarks like trees, which may fall, or die with time, or streams which dry up, making identification difficult over time. The survey school has become less functional then it used to be. Stool land settlement commission become virtually none functional

5.4.8. Recommendation

- The survey school should be strengthened to train more cartographers
- Aero survey and private surveys be contracted and encouraged

5.4.9. Sustainable Exploitation of Land & Environmental Issues

There have been a lot of abuses leading to land degradation. The Environmental Protection
Agency (EPA) was set up to prevent the abuses.

Limitation

Even though the investors and other business concerns have a duty to obtain an Environmental Assessment Impact Certificate for their activities before commencement of operations they normally abuse its application in their operations and this Is not often reviewed.

Problem

Enforcement of environmental laws

5.4.10. Recommendation

That the EPA enforces all the laws and reviews or causes the assessment to be conducted periodically.

5.4.11. Corruption

The problem is systemic and both the people and the checkers are often guilty. Even though there are agencies like police, A.G's department, S.F.O and CHRAJ corruption has still remained endemic.

Problems

- Low wages of the people
- Human factor
- Non coordination of the MDA's work in the area and duplication of functions

5.4.12. Recommendation

- That people should be educated on the evils of corruption
- A review of the law which makes the giver and the receiver all punishable sine it brings problems of the establishment of evidence to use in adjudication
- There should be enough coordination between the MDA's

5.4.13. Assets Declaration

There is the existence of Assets Declaration Act but people either under or over declare in anticipation of getting some more money through corrupt means.

Problem

There is no agency to ascertain the truth of the declaration which is also kept secret

5.4.14. Recommendation

The CHRAJ which under the Act has some responsibility to enforce the law should be given powers to verify declarations. The SFO should also be given the power to prosecute after Investigations.

6.0. FINAL Communique

The rapporteurs for the four committees and the chief rapporteur were constituted into a group to draft a final communique which was presented to the plenary, discussed and adopted.

6.1. IMPLEMENTATION AND FOLLOW-UP

6.1.2. It was agreed that PEF will distribute the final communique to the relevant authorities, drawing each minister's attention to the relevant portions relating to his ministry.

6.1.3. PEF will initiate action towards monthly meeting with the leadership of the respective committees to monitor on the implementation and follow-up actions

6.1.4. The Konrad Adenauer Foundation offered support in that direction.

7.0. FINAL Communique ON THE WORKSHOP ON "PUSIDNG FORWARD THE AGENDA FOR PRIVATE SECTOR DEVELOPMENT – THE RESPECTIVE ROLES OF PARLIAMENT AND THE PRIVATE SECTOR" HELD AT ELMINA FROM MARCH 30TH TO APRIL 1, 2001

7.1. The Private Enterprise Foundation (PEF) is an umbrella private sector body devoted to the orderly and healthy development of the private sector in Ghana through advocacy. Conrad Adenauer Foundation (KAF) is a German NGO devoted to enhancing good governance and democracy. The Parliament of Ghana which is an elected representative body of the people is the legislative arm of the state. In the discharge of its legitimate functions, parliament makes laws, regulations. And policies which influence the country's development and also the performance of the private sector. To facilitate the work of parliament, parliament has put in place relevant committees that look at various aspects of its work.

- Realising the immense role that parliament can and must play in creating the conducive environment for the orderly development of the private sector,

- realising that the Finance, Trade, Industry and Tourism, Subsidiary Legislation, Legal and Constitutional Affairs and Manpower and human resource development and employment committees are of particular importance to the advocacy work of PEF,

- appreciating that the realisation of its objectives would depend on a good working partnership with parliament and especially the relevant committees,

- considering that such relationship and partnership is built upon understanding of each other's views and appreciation of the relevant issues, concerns and problems, PEF in collaboration with KAF structured a workshop with selected members of such relevant committees on the theme – "Pushing Forward the Agenda for Private Sector Development- The Respective Roles of Parliament and the Private Sector" at the Coconut Grove Hotel Elmina on March 30- April 1, 2001 to,

- deliberate on various aspects of the 2001 Budget and Economic Policy, relevant policy issues on the National Reconstruction Levy, the decision of Ghana to go HIPC, the private sector promotion programmes as announced in the budget and to make specific recommendations and guidelines to assist in effective implementation of the policies to ensure full realisation of the benefits of such policies,

7.2. having deliberated extensively on the issues outlined at both the plenary session and committee sessions, all the partners here assembled hereby issue the following communique as constituting the major issues for attention and recommendations and conclusions for consideration by all stakeholders,

7.2.1 that such meetings between the relevant parliamentary committees and PEF should be institutionalised and made a permanent feature of our democratic culture to create the opportunity for continuous, open and frank dialogue on issues for the overall benefit of Ghana,

7.2.2. That non-commitment to policy implementation especially in the areas of monitoring and evaluation has been a major cause of non-achievement of policy

Targets and that to be committed to policy implementation and learn from our mistake, the Watch dog institutions like parliament should be up and doing and should be able to put authorities on their feet, 7.2.3. That the best and surest approach to the development of this country should be "home brewed strategies" putting emphasis on indigenous businesses,

7.2.4. That one necessary condition for the development of the private sector is to achieve macroeconomic and micro (firm level) stability. This will require prudent and creative management of the national debt including restructuring of some of the short-term debts into long term bonds,

7.2.5. Provision of appropriate financing mechanisms, efficient economic infrastructure and prudent firm level management practices,

7.2.6. that by the decision of the government to opt for the HIPC initiative, the emphasis and the debate on the issue should now focus on how to negotiate the conditionality's attached to HIPC to ensure optimal benefits for the country,

7.2.7. that the rationale for the introduction of the Nation Reconstruction Levy is laudable but the private sector is dissatisfied with the apparent lack of consultation and the overall negative impact it can have on business; we are however happy to note that upon further discussion with relevant stakeholders the rates have been adjusted downward,

7.2.8. that the bill on the National Reconstruction Levy as passed now does not indicate the offences and sanctions and would make it difficult for implementation due to the omission of sanctions for noncompliance in the bill for dealing with offenders for non--compliance,

7.2.9. That land acquisition continues to be a formidable constraint to investment. The problem of land acquisition relates to multiple ownership claims, lack of clear demarcation of boundaries and land litigations,

7.2.10. that to address these issues, the government should acquire trouble-free land for the creation of land banks for the benefit of prospective investors. For this to be successful there is the need for government to pay adequate compensation to the custodians of

Such lands for the creation of land trust funds to cater for the interest of not only the Current generation but also generations unborn,

7.2.11. that considering the frequent land litigations and the traditional courts' apparent inability to effectively and speedily deal with land litigation issues, government should facilitate the establishment of land courts and the use of Alternative Dispute Resolution (ADR) mechanisms to facilitate the disposal of land cases.

7.2.12. That unemployment continues to constitute a major social problem. Job creation and self-employment seem to be two surest ways to a solution. The proposals in the budget for job creation should be accompanied by appropriate implementation mechanisms, for example, graduate training for self-employment must go with appropriate financing, technical direction and supervision,

7.2.13. That credit support schemes announced in the budget should benefit from the implementation experiences of similar support schemes in the past (e.g. BAF, FUSMED) and should be directed at priority sectors of the economy with the potential for growth, wealth creation and job creation,

7.2.14. That the agricultural sector remains the most important sector with immense potential for employment generation, food security and export earnings,

7.2.15. The subject of, support to agriculture should be revisited, but the focus should move away from subsidies to more creative ways of providing support for agriculture,

7.2.16.1. that the militancy of the country's labour force and low productivity of labour are serious problems of industry which are affecting investment. Government's and managements' apparent inability to deal effectively with these problems are related to inadequacies in the country's labour laws. Therefore ongoing efforts on the new labout Code must be pursued urgently,

7.2.17. that for our educational system to be effective and able to meet the skill needs of Industry, educational cubiculum should be dynamic; educational institutions should

Relate to industry on regular basis and make use of training opportunities offered by industry,

7.2.18. that the existing health financing systems at the workplace are too burdensome and unsustainable and that government is encouraged to set the necessary policy framework for the development of health insurance schemes to facilitate cost sharing and ensure Sustainable health financing alternative.

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(1[51] DEPUTY SPEAKER)

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NA A YEBOA KODIE ASAI'tE II

(PR SIDENT, PEF GOVERNING COUNCIL)

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HON. ALHAJI MUHAMAD MUMUNI

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HON STEPHEN KWAKU BALADO MANU

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(RESIDENT DIRECTOR, KAF)

such lands for the creation of land trust funds to cater for the interest of not only the Current generation but also generations unborn,

7.2.11. that considering the frequent land litigations and the traditional courts' apparent inability to effectively and speedily deal with land litigation issues, government should facilitate the establishment of land courts arid the use of Alternative Dispute Resolution (ADR) mechanisms to facilitate the disposal of land cases.

7.2.12. That unemployment continues to constitute a major social problem. Job creation and self-employment seem to be two surest ways to a solution. The proposals in the budget for job creation should be accompanied by appropriate implementation mechanisms, for example, graduate training for self-employment must go with appropriate financing, technical direction and supervision,

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HON. FREDDIE A. BLAY
(1ST DEPUTY SPEAKER)

NA A YEBOA KODIE ASAI'I.E II
(PR SIDENT, PEF GOVERNING COUNCIL}

HON. ALHAJI MUHAMAD MUMUNI

HON STEPHEN KWAKU BALADO MANU

(RESIDENT DIRECTOR, KAF)

Appendix 1

WELCOME ADDRESS BY THE DIRECTOR-GENERAL OF THE PRIVATE ENTERPRISE FOUNDATION (PEF) MR KWASI ABEASI AT THE WORKSHOP ON PUSHING FORWARD THE AGENDA FOR PRIVATE SECTOR DEVELOPMENT THE RESPECTIVE ROLES OF PARLIAMENT AND THE PRIVATE SECTOR

Honorable Deputy Speaker of Parliament

Resident Representative of Conrad Adenauer Foundation

Honorable Members of the Parliamentary Select Committees for Finance, Trade, Industry and

Tourism, Human Resource and Employment, Legal and Subsidiary Legislation

Business Leaders

Distinguished Ladies and Gentlemen,

Late February 2000, the Governing Council of PEF and the leadership of Parliament met here on an agenda to forge a closer relationship between parliament and leaders of the private sector for the purpose of pushing the private sector development agenda higher on the calendar of parliament. The platform created was to foster a relationship with parliament which would allow us to take full Advantage of the synergies between the efforts of the private sector and the legislature. The need to develop a mechanism for continuous dialogue and interaction between parliament and the private sector was the obvious conclusion of the meeting.

Later events did not allow the full implementation of some of the conclusions envied at, but that was a start. With the change in government and the structure of parliament, we see the need to reconvene this meeting, strike new relationships and new acquaintances and to re-focus on the issues to push the Private sector development agenda forward.

Today, it is accepted globally that the private sector assumes greater roles in the development paradigm. The role of government is to create the necessary conducive environment for the private sector to thrive and flourish. To achieve this, parliament has an immense role to play. Beyond this I believe every one of us here should be interested in the advancement of the private sector because invariably that sector is where all of us or at least some of us, retire to when we go out of public service. We have a collective responsibility to make the private sector flourish so that it will have the Capacity to receive and absorb us into its fold when we retire.

What we are looking for in this meeting is a collaborative effort to create the environment conducive for growth. We believe this can only be achieved through partnership and we have identified the legislature as one such powerful body for the development of the required partnership for the development of the private sector and the country as a whole. We admit that some progress has been made in the development of this sort of partnership, and we believe a lot more needs to be done to push forward the agenda for private sector development.

Honorable members, Ladies and Gentlemen, with these few words, I want to welcome you to the serene atmosphere at Coconut Grove Hotel away from the pressures of Accra. We thank you sincerely for responding to our call in spite of your heavy schedules. Let me use this opportunity to thank the Konrad Adenauer Foundation the sponsors of this meeting, who incidentally sponsored last year's meeting as well, for their support to PEF

Distinguished ladies and gentlemen, let me end these remarks by introducing the chairman for this important occasion, Nana Yeboah Kodie Asare II, known in private life as Mr Ben Addae who, is a lawyer, an accomplished businessman and the Managing Director of KIKU Industries who having distinguished himself in the NTE sector, and having won the Ghana Export Promotion Council export award continuously for a period of time has been 'pensioned' from competing in the awards.' Nana is also the President of the Federation of Association Ghanaian Exporters (FAGE); but more importantly, Nana Yeboah Kodie Asare II is the President of the Governing Council of the Private Enterprise Foundation. Ladies and Gentlemen, Honorable members, let us welcome Nana to assume the mantle of chairmanship for the occasion.

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Appendix 2

ADDRESS BY THE PRESIDENT OF THE PRIVATE ENTERPRISE FOUNDATION (PEF) NANA YEBOA KODIE ASARE II AT THE WORKSHOP ON PUSHING FORWARD THE AGENDA FOR PRIVATE SECTOR DEVELOPMENT – THE RESPECTIVE ROLES OF PARLIAMENT AND THE PRIVATE SECTOR

Honorable Deputy Speakers of Parliament
Honorable Members of Parliament
Resident Representative of KAF, our sponsors
Colleague Council Members of PEF
Distinguished Business Association Executives
Ladies and gentlemen

I recall that some time last year, we gathered here as business leaders and parliamentarians, though some of the faces have changed and some of the old faces have changed portfolios- the agenda hasn't changed much. At last year's meeting, the focus was on how to achieve good governance which we saw as critical for private sector development.

Today with support from our partners – the Konrad Adenauer Foundation, we have structured a similar workshop to see how, with the assistance of parliament, we can push forward an agenda for private sector development. This is not a mere repetition of what happened last year but an opportunity to re-Focus on the issues of private sector development which is certainly of interest to both the business Leaders and parliament. We believe that parliament as the legislative arm of state has an immense Contribution to make to the development of a viable and vibrant private sector which can appropriately respond to the accolade "engine of growth". This would require a conducive business environment that features access to capital, low interest rate and macroeconomic stability that favors private sector growth.

Indeed the prevailing business environment is far from conducive... In our last round table discussion on the current budget and economic policy, the presentation suds up the background and economic conditions prior to the presentation on the budget in the following highlights.

- Critical and desperate fiscal position as indicated by high levels of domestic debt of ¢6.65 trillion representing 26% of GDP. Domestic interest payment alone amounting to 43% of total budgetary revenues in 2000
- Tight external payments position indicated by buildu p of arrears and inadequate reserve cover for imports. Indications are that the reserves were just about adequate for only one month's imports

- High inflation which was 40.5% as at December 2000, excessive government borrowing and high lending rate that tends to crowd out the private sector and persistent depreciating exchange rate that has engendered loss of confidence in the cedi as a national currency resulting in increasing dollarization of the economy

- High perception of corruption in the public sector which has permeated the whole fiber of the public and private sectors and government's lukewarm approach to dealing with corruption and lack of transparency

- A weak private sector struggling under the weight of high cost of capital, old and deteriorating equipment and unbridled trade liberalization policy

Honorable Deputy Speaker, Honorable members of Parliament, ladies and gentlemen, these indeed aptly describe the economic situation and the environment in which business operates. These also define the challenges that business must respond to, to survive. Certainly business will not throw up its arms in desperation but needs a better and more conducive environment to operate in.

We believe the government 's intensions and policy initiatives as contained in the budget and as reflected in public pronouncements by public officials all indicate that government is determined to address these constraints. As a country, our history has always exhibited excellent policies, plans and good intentions but we have always faulted in implementation. We have never been committed to faithful implementation of policies and programmes and our watchdog institutions and roles have not been able to put people in authority on their toes.

Zero tolerance for corruption, fiscal control, employment generation and proposals for rationalization Of tariffs are all good policies. But these policies would yield no results, whether positive or negative if they remain on paper. We want a faithful implementation of these policies to address the sorry state of the econmy as described above. We need to be able to address the challenges posed by the high

Fiscal imbalances, the decision to go HIPC the provision of long-term funds for the development of the private sector, and the National Reconstruction Levy.

Ladies and gentlemen,

The private sector is noted for its concern for details and the removal of ambiguities, especially in the area of tax administration. The business community recalls how some tax laws were misinterpreted or read out in error and various punishments were imposed. That has been part of the memory and the spirit of the private sector in business in Ghana.

We raised a few topical issues on the National Reconstruction Levy, and there have been some frank discussions and acceptable explanations, and new rates are to be applied. In the same spirit of openness, transparency and professional finesse, the private sector would appeal that some obvious flaws or doubts have been included or seem to be included in the operational directives concerning the Withholding Taxes as per the mandate of the 2001 budget. A publication by the Internal Revenue Service in the Daily Graphic of Saturday, March 24, 2001 on page 6 had the following message- that is, some extracts from the full text. ..

"With effect from 1st January 2001, any person who is responsible for the payment of any amount to any of the following categories of persons shall withhold tax as indicated".....

ii) fees, emoluments, benefits paid in cash or m kind to a resident director, manager or board member of a company or body of persons who is not a full time employee of such company or body of persons- 15% (please, note the implication of having 15% paid in cash or in kind)

viii) Royalties, natural resource payment, rents and endorsement fees to a non-resident person- 15%

ix) Management and technical service fees to a non-resident person – 20%

x) Payment for goods and services to a non-resident person- 20.%
"

I wish to suggest that there are genuine fears of the private sector about this notice and I hope these doubts would be appreciated, and some time would be devoted to a proper interpretation of the implementation guidelines, or there would be a fresh rendition that would remove any apparent or

Obvious doubts. I hope many more problems about the tax laws and directives would be identified, analysed and the right changes or amendments presented or effected in good time, so that any inconveniences or unfair penalties can be avoided or prevented.

This is a serious concern and we hope the private sector would be well understood as we strive to keep the rules that promote the tenets of a brighter future for the private sector. The spirit and letter of the golden age of business would remain on our minds and propel us to present constructive inputs to all discussions on the economy.

The subject of judicious resource development, human and national, for job creation, employment generation, wealth creation, development of infrastructure and efficient delivery of utility services to industry and the whole society are all critical issues of concern. We need to tackle all these challenges as efficiently and as effectively as we can. The looming threats of industrial unrest and the obvious implications for the economy are other issues of concern.

The private sector IS prepared to utilise its resources and initiative to create wealth when it is convinced that the enabling environment is right and all the incentives point to successful business. The enterprise required for such initiative separates the bad business person· from the good ones. However, the ambitions and targets of the private sector will elude us if we do not forge this partnership between PEF and Honorable members. We are encouraged by the provisions of Article 36 (1) of the 1992 Constitution, which states the following: "The state shall take all necessary actions to ensure that the national economy is managed in such a manner as to maximize the rate of economic Development and to serve maximum welfare, freedom, and happiness of every person in Ghana and to provide adequate means of livelihood and suitable employment and public assistance to the needy".

We are therefore confident that with your co-operation and involvement we will be able to achieve this aim. Our interaction is to find the common ground, on which the process of creating wealth would be developed, improved upon and sustained over a long time. We look forward to a cordial atmosphere for the presentation of views, for the consideration of details presented through careful analysis and the Courage to pick the very good strategies from the many options made available.

We wish to emphasize the spirit of cooperation and a determination to bring facts and figures that would advance the process and the prospects of economic development in Ghana. The challenge is very clear. In this session, there is no public and no private issue; there is no minority and no majority

Focus. What we have is corporate Ghana that we want to serve and to serve Ghana well to the best of our determination and ability. I can count on the commitment of all our participants. I can expect some careful steps in analysis being relied upon to make the appropriate cases for the issues to be Raised and discussed.

Our focus is on Ghana. Our agenda is to see a better and more prosperous private sector. I hope we shall succeed in our endeavors and the strategies that would be accepted would be implemented faithfully.

Once again, Jet me take this opportunity to thank KAF for accepting to collaborate with us in executing this important workshop and also to thank USAID our principal funding agency for the immense financial support we continue to receive from them.

Appendix 3

PRIVATE ENTERPRISE FOUNDATION

WORKSHOP HELD ON 30[TH] MARCH - 1[ST] APRIL 2001
AT COCONUT GROVE HOTEL, ELMINA

PUSIDNG FORWARD J: HIS AGENDA FOR PRIVATE SECTOR DEVELOPMENT- THE RESPECTIVE ROLES OF PARLIAMENT AND PRIVATE SECTOR

Background Paper Prepared and Presented By:

Dr. Augustine Fritz Gockel
(Senior Lecturer)
Department of Economics
University of Ghana
Legon

PUSHING FORWARD THE AGENDA FOR PRIVATE SECTOR DEVELOPMENT -THE RESPECTIVE ROLES OF PARLIAMENT AND PRIVATE SECTOR

1 Introduction: Background Information

Although Ghana has ostensibly pursued IMF Stabilization and World Bank Structural Adjustment Policies since 1983 as means of reversing several decades of poor economic performance, key macroeconomic variables have suggested that the anticipated growth and structural change with a pivotal role for private sector initiative as the growth point are yet to be realized. This was notwithstanding the fact that various Government documents and policy pronouncements quite correctly acknowledged the fact that the private sector was to be the engine of growth with the emergent New Political Economy Order. Indeed, it was anticipated that with the Private sector as the engine of growth, the following socio-economic gains would be made to put Ghana in the middle income bracket comparable to where Singapore is now by the year 2020. The anticipated gains include:

- Creation of jobs at relatively low capital cost
- developing intra- and inter forward and backward linkages among the various sectors of the economy;
- Promotion of excellent breeding ground for local entrepreneurial and managerial Development;
- Development of an indigenous pool of skilled and semi-skilled workers;
- Provision of opportunities for developing and adapting appropriate technology;
- Promotion of output growth and increased employment thereby reducing the incidence of poverty;
- Alleviation of negative costs of structural adjustment programmes.

Unfortunately however, the Private Sector has not made any appreciable impact on the development process of Ghana. It is still reeling under hydra-headed problems some of which according to the perceptions of private enterprises are, in order of severity:

- Lack of credit, apparently as a result of stringent credit requirements
- No demand or low demand for goods produced
- Utility prices
- Taxes

- Competition from imports
- Lack of Infrastructure
- No business support services
- Location regulation
- Labour regulations
- Investment Benefits
- Government restrictions
- Foreign Exchange Bottleneck
- Difficulty obtaining licenses
- Ownership regulations

It was against this background that the 2001 Budget Statement and Ecc1homic Policy was formulated with "The Golden Age for the Private Sector" as the driving force to achieving economic development. By this, the conception of the 2001 Budget envisions *establishing a new Golden Age for the private sector as the principal source of economic growth, the generator of opportunities, and the creator of the resources for social progress.*

Laudable as the visual conception is, the essential issue that begs the· question relates to the measures and policies that have been put in place by the budget to making "The Golden Age for the Private Sector" the needed engine of economic development. Whilst the Private sector has its own peculiar problems, we wish to' digress a bit to examine the macroeconomic conditions under which these private enterprises are to deliver the goods.

2 Macroeconomic Instability And Background To The 2001 Budget And Economic Policy

Ghana's economy has been characterized by macroeconomic instability, largely reflected in intractable inflation, persistent declining cedi-exchange rate, and very high lending rates with large spreads. In each of these shades of macro-instability, there are significant unpredictable changes in prices of goods and factors of production that distorts the .planning horizon. Emphasis tends to be put on short-term interest with disastrous consequences for private sector investment projects, especially long term ones. In particular, by December 2000, both policymakers and economic researchers appear to be unanimous that the economy was characterized by:

- Critical and desperate fiscal position as indicated by high levels of domestic debt of about ¢6.65 trillion representing 26% of GDP. Domestic Interest payment alone amounted to 5.19% of GDP in 1998 and 4.24% in 1999. Interest on domestic debt amounted to 43% of total budgetary revenues in 2000. Indeed, domestic debt servicing Alone has been greater than what was spent on Health and Education combined.

- Tight external payments position indicated by buildup of arrears and inadequate reserve cover for imports. Indications are that available reserves were just about adequate for only a month's import.

- High inflation which was about 40.50% by December 2000; Excessive Government borrowing and high lending rates that tend to crowd out private sector investment; and persistent depreciating exchange rate that has engendered loss of confidence in the Cedi as a national currency with increasing dollarization that has forced Bank of Ghana to redefine money in Ghana as M2+.

- Lack of investor confidence so that the needed investment, both domestic and foreign direct investment, is not forthcoming. On this, the World Bank "has this to say. *In addition, some government statements during the I980s were hostile to private enterprise. This is in sharp contrast to Mexico under President Salinas, where the rhetoric was pro-business and the government actively consulted with business leaders about economic policy decisions. More damaging to Ghana's credibility than these statements were actions that the government took against some businesses. In 1987-88, for example, the government took the principal domestic tobacco company from one set of private owners and gave it to another, changing the name from International Tobacco to Meridian in the process....Moreover, as Leith and Lofchie (1993) report, in the early years of the Rawlings regime, peoples defense committees and workers' defense committees were set up to monitor and arrest business people suspected of "counter-revolutionary" activity. Actions such as these would have severely undermined the credibility of a government of a government with investors"* (emphasis mine, World Bank, (1995) Bureaucrats In Business: The Economics and Politics of Government Ownership, p. 212, OUP.

The sum total of the effects of the macroeconomic instability and hostile business environment was the lack of confidence in the economy, especially as an enabling environment for private sector initiative. Not surprisingly, economic targets set in previous Budgets and Economic policy Statements could not be achieved, as shown in table 1.

Key Macroeconomic Indicators

Year	Inflation Target%	Actual Inflation%	Rate of¢/$ Depreciation %	GDP Growth Target	Realized GDP Growth Rate
1995	18.00	27.90	37.71	4.5 0	4.00
1996	20.00	46.60	20.33	5.2 0	4.60
1997	15.00	27.90	22.70	5.10	4.20
1998	9.50	15.70	4.10	4.60	4.70
1999	9.50	13.80	49.22	5.50	4.40
2000	12.50	40.50	96.73	5.00	3.70

Source: Government Budget Statement: Various Issues

Against this background of poor economic performance in the late 1990s it is desirable to restore macroeconomic stability for an inflation free process of economic growth alongside respect for private property and ownership. Apparently, it is this background that has informed Government to come out with modest macroeconomic objectives for the 2001 year.

3 Interim Budget and Economic Policy Framework

A controversial novelty about the Budget is its interim character. Apparently, Government has not got the full data and the extent of the arrears to prepare a comprehensive budget. Yet, since Constitutional requirement enjoins the presentation of a budget by 31st March, Government has no choice but to comply. On the other hand, Government has sufficient latitude to effect changes in the mid-year report on the State of the Economy to Parliament. It is within this framework that Government appears strengthened to present an interim budget now, and review this in July after a National Forum is held in April 2001. It is important to emphasize the fact that the mid-year review is important as it is to be preceded by a national economic forum in May 2001. The economic forum should be one of consensus building on issues affecting the growth process of the economy. Such opportunities existed in the past but were lost. Examples include Akosombo One, Akosombo Two and the National Economic Forum

Held in Accra. For once, the May Forum should usher **in** a positive change for economic policy formulation that will be the guiding principle for a long time to come. **This means that there is the opportunity for all stakeholders including the Private Enterprise Foundation and Parliamentarians of all divide to make inputs into the July Budget based on their observations from the interim and changes in the actual situation on the ground between now and June 2001.**

Without pre-empting further analysis, the budget seeks to implement transparent financial and management audit systems, and to establish some economic policy co-ordination process that would ensure sound implementation of expenditure policies and forestall tax evasion. However, although high levels of consultations appeared to have been made before the budget formulation, the HIPC issue appears to have derailed the corporatist mechanisms that would involve stakeholders, in particular entrepreneurs/employers, and labour in the policy formulation, implementation and review process of budgets. Indications are currently that Parliament is divided on some of the issues already.

4 Macroeconomic Outlook For 2001

For the year 2001 the following macroeconomic targets have been specified in the Budget.

- A real GDP growth rate of 4% compared to 5% target in? OOO;
- An end-of-period rate of inflation of 25% compared to 12.5% set for 2000
- An overall Broad Budget deficit equivalent to 5.2% of GDP compared to 6.1% in 2000; And
- An Overall balance of payments surplus of US$165.7 million compared to an overall BOP position of zero in 2000

Compared to year 2000, the targets for 2001 are very modest and if we note that previous budget targets are seldom achieved, then it appears as that this year's targets are more in tune with Ghana's economic capabilities. Nevertheless, we still have to do a critical analysis of these macroeconomic targets and assess their reliability. We first look at the Vision framework that drives the Budget and Economic Policy Statement, and then proceed to examine measures that could be adopted to achieve macroeconomic stability.

5 A New Golden Age Of For the Private Sector

As mentioned earlier, the driving spirit of the 2001 Budget envisions *establishing a new Golden Age for the private sector as the principal source of economic growth, the generator of opportunities, and the creator of the resources for social progress.* Laudable as the Vision is, it appears quite passive and not very catchy as a rallying point for human centered activity. "The Golden Age for the Private Sector" is a passive tool for mobilizing the energies of the people to tackle the huge economic problems facing the country. History has taught us that previous vision failed because they did not whip up the enthusiasm of the target groups. Moreover, the expectations, guidelines and operational details of the visions including the current one appear not to be properly spelt out.

Lessons from Vision 2020 are worth looking at, especially as the Vision appeared not to have nerve centuries that would drive it. There appears to be lack of co-ordination between the National Development Planning Commission and Ministry of Finance in so far as the growth targets and strategies towards the realization of the basic goals of Vision 2020 are concerned. This appears to filter through the implementation of the programmes under Vision 2020. If the Vision is the guiding star to Ghana achieving a middle-income status, then it is necessary that the annual budgets must reflect the spirit of Vision 2020. Vision 2020 had suffered greatly from implementation bottlenecks. Furthermore, a critical analysis of the Vision 2020 document and the budget statements that were to actualize the vision indicates that the link between the budgets and the Vision has been tenuous, especially if one considers that **the Programme of Action For The First Medium-Term Development Plan** that was to serve as the action plan directing the annual budgets never came out until June 1998. This is in spite of the fact that Budgets make passing references to the Vision 2020, as for instance was done by the 2000
Budget (p.7) that "Overall, we remain guided by the programmes and projections contained in our economic growth and development blueprint: **Ghana -Vision 2020"**. Both as a cause and a consequence of this divergence several gaps exist between the Annual Budgets and the Ghana Vision 2020. Thus it has not been possible so far to use the Annual Budgets to realize most of the medium term objectives of the Vision 2020.

At least, the Golden Age Vision Budget has provided for the establishment of a Ministry for Private Sector Development in addition to Ministry of *Economic* Planning & Co-operation as both formulation and implementation institutions of programmes that would enable the private

Sector to create wealth. These ministries are to complement the activities of the Ministry of Trade & Industry, which is itself in a coordinated tripod relation with Ministry of Finance and Ministry of Agriculture. If these relationships are maintained and implemented through the measures spelt out in the Budget, then gaps would not be created in the Vision and Budget targets. This way, Government may likely achieve its real GDP target growth rate of 4%.

One vision that was however focused was Acheampong's Operation Feed Yourself (OFY). One year of Operation Feed Yourself in 1972 galvanized the whole population to work under the banner of "National Self-sufficiency", apparently because it was people centered. Ghana was able to produce enough agricultural produce to feed the nation and for exports. Consequently, it is advised that the Golden Age of Business must be re-tuned to focus on people- labour, employers, investors and enterprises for people to be mobilized. It is easier to mobilize people because they are human and can react positively to incentives. The Operation Feed Yourself has shown the way just as the drought and hard times of 1983 showed that people do react to incentives to improve their lot.

6 Ensuring Price Stability

For the year 2000, macroeconomic stability has largely remained elusive as indicated by intractable rates of inflation and persistent exchange rate depreciation. The end of year rate of inflation rose from 13.8% in December 1999 to 40.5% in December 2000. This was in spite of the fact that the 2000 Budget targeted an end of period inflation of 12.50. Similarly, the yearly average rate of inflation more than doubled from 12.4% in December 1999 to 25.2% in December 20p0. Table 2 shows trend in inflation and the rate of exchange between 1992 and 2000.

The story is not any different for the exchange rate. The exchange rate market experienced difficulties and depreciated against the major currencies. Although the immediate cause of the pressures on the foreign exchange market could be attributed to the terms of trade shock - rising price of oil alongside falling prices of cocoa and gold, it was nevertheless important that Government did not react positively to contain the terms of trade shock. Policy responses to the shock were ad hoc and ineffective, apparently due to wrong diagnosis of the term of trade shock as not fundamental but transitory. Thus, the preferred policy choice of Government was Controls and depletion of foreign exchange reserves. In particular, domestic prices of petroleum products as well as electricity and water rates were not revised to reflect the increased cost.

The crisis was compounded by weaknesses in fiscal management, especially tendering and procurement. Not surprisingly, the Cedi-dollar rate fell by 96.73% from ¢3500 at the beginning of January 2000 to ¢6886.80 at the end of the year.

For 2001, Government intends to bring down end-of-year- inflation to 25%. This is to be done allowing for a monetary growth rate of 32% for 2001. Government is to use open market operations, interest rate policies and REPOS as well as the signaling role of the Bank of Ghana's rediscount/bank rate. Analytically, these measures are adequate to reduce excessive growth in the money supply (M2+) to contain inflationary pressures in so far as borrowing is strictly restricted to the non-bank private sector and the DMBs. However, if Government should monetizes its debt, especially through deficit financing from Bank of Ghana, then price stability would remain inclusive as usual.

From experience, weekly Public Sector Borrowing Requirements have not been met by the private sector. The basic explanation is that Bank of Ghana has held down the Treasury bill rate so that bids that were made beyond the Bank's predetermined rate were not accepted. Indeed, if Bank of Ghana were to allow the market to operate freely, interest rates would tend to be higher they are now, with adverse effects on private sector borrowing for. investment.

7 Interest Rates Structure

The interest rate structure appears to be generally directed by Bank of Ghana. This stems from the fact that Bank of Ghana, on behalf of Government, has maintained a dominant presence in the money market and has not been able to vary its rates appreciably, even in periods when inflation was reported to have significantly fallen. By the conduct of open market operations, Bank of Ghana seeks to control the size of deposits and currency directly, by persuading private agents to hold fewer assets issued by the DMBs. This, Bank of Ghana does by manipulating the rate of interest on alternatives to holding these instruments, typically treasury bills and other Government securities. Table 2 shows that both Bank of Ghana and Treasury bill rates have consistently been higher than deposit rates of the DMBs.

Table 2 Real Interest Rate Structure: March 1995 To December 1999 (In Percentages)

Year	Inflation	Real Treasury Bill Rates	Real Bank Rate	Real Lending Rat	Real Borrowing Rate	Nominal Spread
June 1995	61.85	-17.83	-14.12	-16.11	-24.81	14.79
Sept 1995	69.80	-17.26	-18.14	-19.73	-28.33	14.61
Dec 1995	70.82	-17.75	-15.12	-16.99	-26.38	16.04
Mar 1996	64.79	-14.44	-12.01	-13.40	-22.51	15.19
June 1996	48.42	-4.66	-2.30	-3.62	-14.08	15.53
Sept 1996	36.51	4.46	6.22	4.79	-6.59	15.53
Dec 1996	32.66	7.64	9.30	9.54	-3.87	17.80
Mar 1997	29.22	10.51	12.21	12.85	1.52	18.57
June 1997	32.70	7.61	9.27	9.89	-3.92	18.32
Sept 1997	27.73	11.80	13.52	14.48	-0.18	18.85
Dec 1997	20.46	18.28	20.37	21.73	5.99	18.95
Mar 1998	20.26	16.00	20.57	21.61	5.81	19.00
June 1998	21.84	11.00	19.01	19.21	1.77	21.25
Sept 1998	17.38	11.88	20.97	20.12	3.94	19.00
Dec 1998	15.75	9.50	18.36	21.38	0.65	24.00
Mar 1999	13.74	10.63	16.05	20.67	2.87	20.25
June 1999	10.30	12.83	15.14	21.26	4.94	18.00
Sept1999	13.10	11.39	13.60	21.20	1.52	22.00
Dec 1999	13.80	15.54	11.60	19.95	-0.70	23.50

Source: Bank of Ghana records. (Real interest rates are defined as (l+Ril+P*) -1 where R is the nominal rate and P* is inflation).

Theoretically, if the banking system were competitive, once Bank of Ghana raised interest rates of its instruments, DMBs would also immediately increase the rate they pay on bank deposits, especially when the DMBs have alternative investment opportunities for funds with higher rates of return. But as it is, the DMBs, and indeed other financial institutions, do not match

Bank of Ghana's interest rate rises from open market operations. Apparently, Bank of Ghana's actions have introduced distortions into the interest rate structure, militating against effective intermediation. Thus, even when Bank of Ghana has been able to sell securities, the thinness of the market has risked a very strong interest rate effect which private entrepreneurs see as undesirable for investment opportunities. Lending rates appear to be excessively high, relative to Bank of Ghana's bench mark rates. Similarly, Bank Rates and Treasury Bill Rates have generally remained very high relative to borrowing rates during the period. This was in spite of the fact that reported inflation has fallen in several periods. This was particularly so since December 1996 when there appeared to be significant deceleration in inflation. Expectedly, the Treasury bill rates should have fallen to reflect the inflationary trend. Rather, the bank rate and Treasury bill rate were virtually twice the rate of inflation between March 1996 and December
1999. Much more disturbing was the trend in the lending rates of the DMBs. These rates were also very high and as reported earlier, much of the profits posted by the banks appeared to have come from the large spread between lending and borrowing rates. It is interesting to note that since June 1998, the spread is even greater than inflation. Indeed, it is only the borrowing rate that has remained largely negative in real terms within the period. Treasury bill rates, bank rates and lending rates were all generally positive in real terms. Not surprisingly, financial deepening measured as M2+/GDP was still very low, generally below·20%.

This structure of interest rates has raised several issues, mainly about the transparency in the conduct of the weekly auctions and the subsequent determination of the treasury bill rates. Anecdotal evidence suggests that Bank of Ghana fiddles with the auction so as to maintain the rates at predetermined levels. As the rates are not market determined the primary dealers do not have the incent\Yes to purchase the total supply of bills offered for sale. What Bank of Ghana has to reckon with is the fact that there is a complex link between Government's fiscal deficits and its public sector borrowing requirements on the one hand, the rate of growth of money supply, however defined, and the level of interest rates. With a given public sector borrowing requirement, either the money supply or the level of interest rates is determined in the market; Government cannot determine both simultaneously, let alone Bank of Ghana attempting to influence the exchange rate as well. If Bank of Ghana has targeted the Money supply, it must necessarily allow the market, especially the primary dealers to interact in the market to determine the interest rates if the management of money is to succeed.

Indeed, Bank of Ghana can set the rate of interest as the operational target, and not the money supply or other monetary aggregate. However, Interest rates are not ideal as long term goals, especially in an undeveloped capital market environment such as Ghana. First, interest rate targets are nominal and all sorts of problems arise in relating them back to real rates. Secondly, in a country characterized by dynamic instability and where external shocks and structural imbalances in the food sector do increase inflationary pressures, targeting nominal interest rates becomes intractable as the real rates of interest tend to decrease. The unsuitability of interest rates as targets, vis-a-vis reserve money or any other monetary aggregate for that matter, cannot Be more pithily expressed than was done by Friedman ' when he stated that:

Trying to control the money supply through *fiscal policy...and interest rates* (Quoting the Green Paper on Monetary Control) is trying to control the output of one item (money) through altering the demand for it by manipulating the income of its users (that is the role of fiscal policy) or the prices of substitutes for it (that is the role of interest rates). A precise analogy is like trying to control the output of motorcars by altering the incomes of potential purchasers and manipulating rail and airfares. In principle, possible in both cases, but in practice highly inefficient. Far easier to control the output of motor cars by controlling the availability of a basic raw material, say steel, to the manufacturers - a precise analogy to controlling the money supply by controlling the availability of base money to banks and others (Friedman, 1980, p.58).

As we see later, monetary management is further compounded by the constraint imposed by the relationship between international capital flows, the exchange rate and the domestic money supply. As it is, now that Ghana has avowed to pursue market based policies and once stringent capital controls have been removed, Bank of Ghana must choose between both an exchange rate and a monetary target. In this case, without pre-empting further discussions, since Bank of Ghana has a conflict situation between money supply and interest rates, and then, between exchange rates and money supply, once it is prudent to concentrate on monetary target in the earlier conflict choice, then it stands to reason that same must be chosen and exchange rates left to be market determined. The crux of the argument is that the three fundamental prices in the economy, product prices as reflected in inflation, interest rates and exchange rates are all largely driven by the money supply. Consequently, it is just prudent that Bank of Ghana should concentrate on managing the money supply so that the various prices would be market Determined.

The emergent interest rate structure has brought to the fore the divergence between the desired paths in money and credit growth rates. For long term economic growth prospects, Bank of Ghana has to adapt its liquidity management techniques in order to influence money and credit growth through interest rates. Bank of Ghana can develop an array of rates at which it is prepared to make loans or buy short term assets of viable industrial enterprises without subjecting them to rates of interest that were designed solely to curb monetary growth. The newly industrialized countries of East Asia have used similar interest rate differentials to support key enterprises that could be destroyed completely with temporary monetary management practices, albeit, within the market based approach to monetary control.

8 Dollarization and Making Payment in Dollars

Another lacunae in Bank of Ghana's monetary management is the increasing dollarization of the economy. Dollarization is the process whereby national money is replaced by other currencies as a unit of account and a store of value. The substituted currency need not necessarily be the US dollar; it can be any other convertible currency. As it is, dollarization has forced Bank of Ghana to redefine money supply as M2+ including foreign currency deposits. Laudable as this is, it must be pointed out that the amount of liquidity in the system is greater than captured by M2+. This is as a result of the foreign exchange kept in people's private rooms as a store of value or for transactions or *both*.Only God knows how much this is! At best, we can use household's savings habits to anive at a guess-estimate. Even with the cedi, wealth holders prefer to hoard Cedis in their homes, as reflected in the large currency- money rations that are typical of the economy. Indeed, it must be emphasized that Bank of Ghana has cautioned that without foreign currency deposits, broad money (M2+) would have risen by 7.4% in the year to October; an indication of the strong impact foreign currency deposits Have had on broad money growth due to sharp depreciation of the cedi (emphasis mine) [2]

It is true that Bank of Ghana Law 1992(PNDC Law 291) and the Exchange Control Act 1961 (Act 71) as well as the Exchange Control Amendment Law .of 1986, PNDC Law 149, have all reinforced the notion that the Cedi is the legal tender or generalized means of payment in Ghana. As it is, what is happening in Ghana shows that legal provisions are not a sufficient condition for an asset to be accepted as the generalzed means of payment. At its most basic

Level, a payment system is merely an agreed upon way to transfer value between buyers and sellers in a transaction. What **assets or things** that are used as money to transfer value in an economic exchange of goods and services are far beyond legal provisions. The **things** that are used to transfer value are what economists define as money. This ranges from using commodities for money, to using currency, to using cheques, to finally using electronics to transfer value. These are what are termed money and have engendered various definitions of monetary aggregates in the advanced industrialized economies.

This is what has informed Bank of Ghana to define money in Ghana to include foreign currency deposits with the deposit money banks in Ghana since the mid-1990s. Bank of Ghana has its new monetary aggregate as M2+ including foreign currency deposits. These foreign deposit accounts are checkable accounts and the holders have their cheques books. When the money used in a transaction is a cheques, once it is determined that there are sufficient funds in the drawer's account, the paying bank will transfer "good and final funds" to the payee directly or through his account at some other bank. The ramifications of money less of an asset are clear to Bank of Ghana in its informed judgment to redefine money in Ghana as M2+. Not surprisingly, Bank of Ghana has accordingly been targeting M2+ for monetary policy purposes. Even with a five-thousand Cedi note, its money qualities are substantially different from a thousand Cedi note. Bank of Ghana must not bend backwards to proscribe the use of dollars a generalized means of payment in so far as they are defined as money. Either Bank of Ghana's definition of money to include foreign currency deposits Is illegal or if economic rationality
Must prevail over mere legal provisions, then the existing laws would have to give way.

It is very true that dollarization has adverse consequences for macroeconomic management but outright restrictions aimed at reducing holdings of foreign deposits are surely going to prove ineffective. Private economic agents are rational and have the capacity to evade restrictions through parallel market transactions. We must not forget that dollarization is the reversal of Gresham's Law. Increasing levels of dollarization are not a cause but rather a symptom of Underlying financial imbalances and weaknesses in the Ghanaian economy.

If Inflation expectations are high, then the level of dollarization will increase. Given the track record of inflation management in Ghana, it is not surprising that inflation expectations are high, as reflected in the levels of dollarization as means to stave off inflation.

9 Budgetary Deficit Equivalent To 5.2% of GDP: Revenue Issues

The 2001 interim budget has projected an overall broad budget deficit to GJ?P ratio of 5.2%, compared to 8.5% recorded in 2000. The projection is based on an anticipated total revenue of ¢7974.9 billion comprising a tax revenue of ¢5802.9 billion and a non-tax-revenue of ¢300 billion.

The projection appears to have taken into account the historical trend in revenue performance, especially as the ton-tax revenue was not given the traditional wild projection which was never realized. For instance, in 2000, the tax revenue/GDP ratio was put at 17.10 whilst the non-tax-revenue/GDP ratio was put at 1.70%. As was to be expected the budgetary out-turns fell short of the projections. Consequently, the 2001 Budget has made conservative revenue estimates of 15.6% and 0.9% of tax revenue/GDP and non-tax revenue/GDP respectively. Once these revenue estimates are brought down to realistic levels, expenditures are expected to fit with cash budgeting practices.

On the other hand, the revenue projections from Grants appears to be too ambitious, having been raised from 3.89% of GDP in 2000 to 4.9% of GDP in 2001.

The Budget has also put in place credible measures that could enhance revenue mobilization to achieving the projected targets. Some of these measures to be taken are:

1. review of tariffs
2. review of exemptions
3. improvement in the operational capacity of revenue collection agencies
4. establish Revenue Agencies Governing Board by 3oth April 2001
5. upward revision of fees and charges
6. widening of tax base
7. upward revision of Airport Tax
8. Establishment of Tax Courts
9. Aggressive collection of dividends due Government

Consultants and Professional Private Practitioners are to make good their tax obligations. As it is, contractors and professionals would be required to submit their Tax Clearance Certificates

Before contracts and consultancies are given. It is expected that with these and other measures outlined in the Budget revenues would increase to at least 36.4% of GDP in 2001.

In attempts to promote revenue generation Government has also instituted the National Reconstruction Levy (NRL) on financial institutions. NRL requires financial institutions to contribute 15% of gross profits after providing for doubtful and bad loans during the period
2000-2002. Also, 2.5% of gross profit before tax of companies operating in Ghana for the period 2000-2002. Whilst these measures appear adequate especially for the financial institutions, it must be borne in mind that they may have dis-incentive effects on business savings and investment, especially if these companies would want to plough back their profits against the background of very high lending rates. It is also noteworthy that the period 2000 - 2002 covered by the NRL has a retroactive element which must be rectified.

It may be advised that transnational companies could take measures to circumvent the NRL, especially using transfer-pricing g mechanisms. Transfer prices or accounting prices are the prices charged on transactions that take place within multinational companies such as Ghana Telecom. Anecdotal evidence suggests that the prices charged on these intra-corporate transfers do deviate from market prices as trade within the multinational takes place outside the market. Such manipulation of transfer prices take place to avoid social pressures if high profits are declared in Ghana. For example, local workers may demand higher wages or Government may
Increase taxes as has been done now.Thus to forestall such social pressures, multinationals in Ghana may manipulate transfer prices to even declare zero profits. By this, the anticipated levy may not materialize to boost Government revenue.

Consequently, it is advisable for Government to take measures to reduce transfer pricing practices, and if Government considers the profits to be excessive with minimum risk, then credit policies could be reviewed to ensuring that banks in particular give some concessions to private manufacturing enterprises. Government may also wish to introduce a medium-term development bond which the financial institutions and other private agents may subscribe voluntarily.

10 Private-Sector Promotion Schemes

The Budget has spelt out some measures that would promote the wealth creating potentials of the private sector as either large-scale enterprises or MSEs. Some of these promotional measures include:

1. Pursue enhanced trade relations with the USA within the context of the African Growth and Opportunity Act, and the Trade and Investment Framework Agreement;

2. Pursue new product development in textiles and garments through the establishment a sewing laboratory to train operators in computer-aided design and manufacturing;

3. Promote, develop and sustain growth of micro and small- scale enterprise by improving entrepreneurial, managerial and technical competence of MSE operators through its training programmes;

4. Train graduates from tertiary and vocational institutions to enable them establish viable micro and small-scale enterprises;

5. Further rationalize and streamline tariffs to cushion the effects of excessive trade liberalization;

6. Promulgate a law on competition and fair trade;

7. Legislate on anti-dumping

8. Develop financial incentives for companies using locally generated technologies;

9. Import environmentally sound technologies to support the country's development efforts;

10. Promote small-scale on-farm technologies through which farmers can process and thus add value to agric produce;

11. Establish Micro Financing Fund with an initial estimated capital of US$3 million;

12. Special incentive for value added processing of cocoa and gold;

13. Establishment of Small Business Services (SBS) Ghana as a public-private partnership support for SMEs.

Although the above measures and indeed, others mentioned in the Budget, are laudable, it must be emphasized that the implementation mechanisms have not been adequately specified. Experience has shown that these measures exist in other guises but have suffered from implementation bottlenecks. Typical is the Business Assistance Fund (BAF) and Fund Small and Medium Scale Enterprise Development (FUSMED). These schemes were intended to make credit available to local companies. However, most of the beneficiaries have not paid back such loans. In the case of BAF, the default rate is 70% and for FUSMED, 47% of the 102 beneficiaries had defaulted in repaying the loans. The reasons for the default can be divided into two general categories, namely, poor management of the schemes on one hand, and

Weakness on the part of the beneficiaries. In the former category are:

1. Late disbursement of loans
2. Exorbitant lending rates of between 22% and 29%
3. Exchange rate fluctuations
4. Trade liberalization
5. limited co-operation between the implementing banks and the SMEs
6. Lack of effective monitoring at the implementation stage of loans

The firm level problems include:

1. Late arrival of equipment
2. Inadequate capitalization of company
3. Lack of working capital
4. Lack of appropriate marketing strategies resulting in low demand for product
5. High operational costs
6. Poor management practices.

To ensure the success of any promotional measures intended to make local enterprises competitive, it is suggested that both the design/implementation of the scheme as well as the competence level of the firm must be critically looked at. This is reinforced by the fact that studies have shown that banks are reluctant to make loans to private companies because **of management weaknesses as** well as the following factors:

Lack of acceptable collateral;

Not enough information on potential borrowers;

Poor project reports and/or lack of comprehensive project plans;

Poor performance in relevant sector;

Applicant does not show managerial competence;

Poor previous performance or unfavorable track record;

Ability to pay back not proven;

Poor financial and/or managerial expertise;

Lack of a clear repayment plan;

End use of loan request not being bank's target market or suspicion of fusibility.

Small size of transaction with high ratio of transaction costs to loan size

Income instability of MSEs and micro businesses

inexperience, illiteracy and lack of numeracy

Physical remoteness of many enterprises, especially in the rural areas.

Lack of book keeping or inadequate compliance framework

Lender prejudices against small business

restriction of loan use

In particular, 'the private sector must itself take measures to promote good man agreement practices. In fact, as early as 1953, the year in which the Ghana Commercial bank was established to meet the credit demands of indigenous entrepreneurs, Arthur Lewis (1953) in his "Report on Industrialization and the Gold Coast" noted that indigenous entrepreneurs were deficient in technical knowledge, managerial capacity and in capital. He argued that among these deficiencies, technical knowledge and capital would be easiest to remedy whilst lack of managerial capacity would be more difficult to remedy. He detailed the significance of managerial capacity as five-fold, which we report verbatim for emphasis as follows;

"First, there is the management of physical resources - factory layout, the organizing of a smooth flow of work through the factory, material handling, care of machinery. Secondly, there

Is the keeping and use of records - of stocks, orders, costs, debits and credits? Thirdly, there is the management of men - selection of staff, discipline, loyalty, esprit de corps, delegation of duties and authority. Fourthly, there is the commercial sense, which cuts out taste, adjusts the use of resources to the flow of output, knows what prices to pay or to charge, and knows how to buy and to sell. And finally, there is the sense of integrity, without which a firm cannot acquire reputation or goodwill, and without which it cannot therefore last......It is a common error, in undeveloped countries, to believe that entrepreneurship requires mainly technical knowledge and capital. The truth is the reverse: if people really have managerial capacity they will in most cases be able to find technical knowledge and capital to work with. What makes a business successful is the efficiency of its management, for, given this, all else will follow" (Arthur Lewis, 1953 p.12).

We emphasize Lewis' remarks for the fact that virtually all the other constraints listed by the studies as inhibiting industrial expansion may be subsumed under managerial deficiencies. Particularly the inability of entrepreneurs to forecast demand either due to depressed conditions or to unaffordable prices of products. Product marketing is an important managerial function which cannot be left exclusively to consumers to decide. In fact, that the other constraints were more important than the credit scarcity emphasized by the surveys is evidenced in the large amounts of non-performing loans carried by the banks in their assets portfolio. We saw that by
1989, bad loans amounted to 32 billion Cedis, representing some 41 percent of bank credit to the non-government sector. This is an evidence of the inability of many enterprises to use credit productively.

11 Zero Tolerance for Corruption

Whilst measures are taken to enhance revenue mobilization, the Budget has also specified measures that would ensure that Government gets value for money by eschewing corruption. Corruption has many ramifications; it threatens foreign direct investment and reduces the value of internally promoted projects. Corruption distorts the economic and financial environment, reduces the efficiency of government and businesses by al4>wing people to assume positions of power and obtain contracts through patronage rather ability. Value for money is lost, especially in Government expenditures. Thus, Government's call for zero tolerance for corruption and measures to control it.

The measures include:

Public Procurement Reform

MDAs are to audit and review all contracts for the supply of goods and services

In particular, Government's stand on Zero Tolerance for Corruption is commendable as a way of enhancing revenue mobilization and getting value for expenditures. Indeed, one thing that has dominated the Ghanaian political economy with the new political dispensation is the need to ensure probity, accountability and transparency. Ironically, the NDC Government pioneered these concepts and showed the path to achieving these without itself travelling any length of the way. No other Government can enjoy that legacy. Not surprisingly, the present Regime is saddled with the responsibility of ensuring value for money and zero-corruption in Ghana. To this end, the Budget has announced the following measures.

- Heads of Management units are required to confirm the existence of their staff by signing the relevant portion of the payroll monthly;
- Controller and Accountant General's Department will conduct payroll audit to ensure compliance and elimination of ghost names;
- MDAs are to audit and review all existing contracts, the supply of goods and services including consultancies;
- Agents that collect tax revenues on behalf of Government, e.g. GPRTU, must pay all such monies into the consolidated Fund;
- Subverted organizations are required to submit the previous month's actual payroll to the Controller and Accountant General before the current month's release is effected;
- Government to carry out financial audit of road arrears with a view to determining that value is obtained for money spent;
- Government to carry out financial and managerial audit of the Divestiture Implementation Committee as an institution;
- Financial and management audit of the following institutions to improving on Transparency, minimizing corruption and ensuring accountability;

  Ghana National Petroleum Corporation

  Bulk Oil Storage and Transport

  Tema Oil Refinery

  Electricity Corporation of Ghana

Timber Export Development Board
Social Security and national Insurance Trust
State Insurance Company
Vanef/STC

It is important to note that an examination of budgetary out-turns shows that expenditures tend to exceed those provided for in the Budget. That is, substantial amounts of off-budget expenditures are made. However, these expenditures appear not to get the necessary Parliamentary approval. It is therefore suggested that Government should take measures to ensure that prior approvals are sought before expenditures are made from the Consolidated Fund. **Where appropriate, sanctions should be brought to enforce compliance. This is one important area that Parliament can be very dynamic and functional to stem unauthorized expenditures.**

12 Domestic Debt

One other major concern is the level of both the domestic and external debts. The total debt stock was ¢41.10 trillion at December 2000. This comprises ¢31.70 trillion or $5.80 billion external debt and a domestic debt of ¢9.40 trillion representing 26% of GDP. Domestic Interest payment alone amounted to 5.19% of GDP in 1998 and 4.24% in 1999. This was about

4.37 In 2000 and is expected to be 5.5% in 2001. As emphasized in the 2001 Budget, domestic debt servicing was over 43% of total revenue Government in the previous year, greater than what was spent on Health and Education taken together. This trend is unacceptable as it deprives Government of resources, which could be used to provide the necessary public services that would enhance growth activities undertaken by the private sector and others. It is advisable that measures are taken to reduce the debt stock.

The Budget has recognized this and measures have been spelt out accordingly including open market operations and use of divestiture proceeds. As noted earlier, the payment of the

Domestic debt will affect several variables with the notable ones being interest rates and their Impact on private sector borrowing. As it is, Government will have to borrow from the private Sector to avoid inflationary financing. To do this, Government would have to offer very competitive rates of interest which the deposit money banks (DMBs) would not be able to match. This would mean lower levels of intermediation, higher lending rates and crowding out of the private sector. And yet, the 2001 Budget does not intend to yield a surplus which could

Be used to finance subsequent interest payments. Mindful of the fact that inflation is already high, interest rates are going to be high, at least at their present levels.

13 Job Creation

The Budget has indicated that jobs will be created in the agricultural sector, starting with Cocoa extension services through mass spraying of cocoa farms. Under this scheme, farmers would be encouraged to spray their farms through facilities provided to the Ghana Cocoa-Coffee and Sheath Farmers Association. Added to this is afforestation of our fast depleting forests. In addition, the rural labour market, especially in the northern parts of Ghana, is envisaged to raise rice production to reduce total rice imports by 30%. However, it is not shown how the 30% reduction in rice imports will be achieved to enable consumers shift to local rice consumption for its production to increase.

These particular exerc1ses combine employment activities that enhance productivity with improving environment and restoration of resource heritage. However, the implementation modalities have not been adequately specified. As we continue to emphasize, the problem in Ghana is one of action on implementation of policies and programmes. It is not particularly clear what the incentive mechanisms are to entice the youth into agriculture noting the hazardous nature of agricultural production in Ghana.

To these may be added imitation activities by the youth as a basis for creating favourably conditions in the agricultural sector for increased food production. It may be noted that the World Bank has advocated labour intensive techniques in road construction for developingg countries. This may be extended to litigation projects. The Dawhenya experience is worth looking at in this respect. By this student-labour was used extensively in the Dawhenya project. Similarly, Government assistance or subsidies to agriculture, storage (silos) facilities to ensure post-harvest loss and guaranteed prices for agricultural output have not been sufficiently discussed. These are employment generation mechanisms for rural areas. Consequently, employment generation schemes in urban areas are also very important and must be addressed. The politically urban conscious youth are much more potentially explosive.

Next, Government would have to look at the land tenure system more seriously. Many projects have been stalled because of land litigation. Parliament would have to look at this and provide the necessary legislative framework that could facilitate the acquisition of land for soc1o-

Economic purposes. Parliament may further look at the establishment of Land Courts and other alternative dispute resolution mechanisms including Commercial Courts and Arbitrations. Land cases in particular take extremely long years to be adjudicated on. Means must be found to solve them expeditiously. The Ghana Arbitration Centre as a private initiative is worth looking at in this respect.

14 HIPC

The HIPC Initiative has become an albatross on our neck. Now that Government has decided to avail itself of the facilities under the HIPC Initiative, all efforts must be made to get the best benefit out of this. The HIPC Initiative is available to countries that have unsustainable debt burden. A country will qualify for HIPC if its debt to export ratio is at least 150% and if it has a net present value debt-to-revenue ratio of 250% as well as debt-service to exports ranging between 20-25%. By this, it is argued that too much debt inhibits development as investment tends to below. With low investment, output growth is further reduced to exacerbate debt burden. Consequently, HIPC would lead to sustainable debt management with higher investment and output growth to enable the country get out of debt.

By this statistical definition, Ghana is a heavily indebted poor country, although the debt ratios are arbitrary as they do not take each country's economic circumstances and environment into consideration. The issue which needs to be critically examined is the costs of things that must be done to qualify for the benefits under the HIPC Initiative. First, the cut-off point is very important just as is the conditionality's, especially those under ESAF. Government must be aware that these conditionality's are very important and defaulting could lead to derailing of the Initiative and suspension/postponement of the benefits. Other countries experiences have shown that the process of offsetting heavy debt payments with grants and new loans is very highly unstable and erratic. If Ghana should not disburse an amount under the ESAF, a financing gap opens up as the IMF withholds payment to the Heavily Indebted Poor Country. The IMF's action would in tum block the disbursement of funds by other donors such the World Bank and bilateral creditors. In the interim, public services would collapse with adverse consequences.

Government must not underestimate the political economy costs of going HIPC. A HIPC Country is tagged with all pejorative descriptions that tend to kill the spirit of its people. In

General terms, the greater the popular dissatisfaction with government's policies, the greater the chances that the government will be forced to change tack or will fail. This is particularly so for Ghana when socio-economic conditions suggest that there is urgent need for public support for agriculture. If anything, some sort of subsidy or assistance has been promised to agriculture. But this is not a negotiable issue in the IMF/World bank support schemes.

So far, the countries that have gone HIPC have not made appreciable gams m growth or poverty reduction. What is important to note is that development is essentially a product of a people's own efforts and must be fashioned around the socio-economic circumstances of the people. Government must ensure that the condionalities to be agreed upon are in the interest of the people. In particular, Government must watch the 1999-2001 ESAF and Governments intentions to help Agriculture with some type of SUBSIDY. To the World Bank, agricultural subsidies are no go areas.

In this regard, it is advised that Government receives explicit assurance on three important Issue, VIZ;

- The cutoff date
- The exact amount of debt relief available
- The conditionality's Ghana must fulfil before disbursement is affected.

Government would then evaluate these against the political economy costs and other resource inflows that would be foregone with the HIPC Initiative. In particular about the conditionality's, Government must be aware that the current ESAF enjoins the privatization of Agricultural Development Bank and the Ghana Commercial Bank. Government must note that with the increasing financial services are becoming urbanized. Whilst the existing banks are closing their branches in the rural areas, the newer banks being established are similarly just operating in the principal cities. Indeed, none of the banks that was established after 1988 has a branch outside Accra, Kumasi and Takoradi. And since these banks are in the front of the technological innovations, they are not likely to open branches in the rural areas in the near future.

Indeed, the disheartening emerging pattern of urbanization of banking is that rural banks are also fast failing in their initial conceptual framework. Bank of Ghana has assessed that the rural banks are now tending to devise financial services that satisfy urban residents in Kumasi and

Takoradi, neglecting the peculiar financial needs of the rural population for which they have been set up. This cannot be more tersely put than was done in an editorial by the Daily Graphic after the Governor of the Bank of Ghana expressed its indignation against the practice where rural banks are establishing agencies in urban centers.

"The concept of rural banks evolved as an antidote to the lack of banking services in the rural areas. Since the rural banks are sited in the rural areas and their customers are resident in those areas, they are better predisposed to play the intermediation role in mobilization and provision of financial resources to stimulate activities. But somewhere along the line, some of them veered and established mobilization centers in the urban areas. The initial successes motivated them to set up permanent agencies in the urban centers to the extent that for some of them, the managers spend more time with the agencies than at the main offices of the banks. In all these instances, they are either directly or indirectly supported by officials of the BOG who are interested in the profits of the rural banks [more] than their impact on the rural areas. This might have given the wrong impression about the approval of the Central Bank, resulting in more rural banks competing among themselves to establish agencies in the urban centers. But once the banks become firmly rooted in the urban centers, they needed to do things so as to attract and retain their urban customers. That is where the possibility of neglecting the rural areas become apparent" (Excerpt from Daily Graphic Editorial Captioned BOG's ORDER TO
RURAL BANKS, Monday, September 14, 1998).

It is understandable why people are so vehemently against it. First was the structural adjustment programmes which were ostensibly designed to promote growth and development along the market paradigm when conservative Governments took office in the late 1970s and early 1980s and when the world became unipolar. Having pursued structural adjustment policies since 1983 only to be classified as heavily indebted and poor, the skepticism of the citizenry is well-founded. Just as its pre-cursor the Structural Adjustment, the HIPC Initiative is an innovation without strong empirical foundation. Just as many of the programmes under Structural Adjustment were conceived as after-thoughts, so are many of the prescriptions under HIPC to warrant its revision at the Cologne Initiative. What the experiences of the rest of the developed world has amply demonstrated is that there is no one formula for achieving economic development and that . Development cannot be doled out or externally driven. Development is essentially a product of a peoples own efforts. Unless the people themselves
Are not adequately equipped to bend the environment to provide their needs, no matter the

amount of resource inflow from the rest of the world, that country cannot develop. The experiences of the Latin American countries and the East Asian economies confirm this. The Development efforts of the East Asian countries are bottom-up to the rest of the world so that they respond to and use external resource inflows productively. On the other hand, the impetus for development in the Latin American countries has been externally driven. That is why poverty levels are still high in Brazil and Mexico with scattered affluence and the rich are calling for the elimination of the street children. That is why criminal activities are rifer in the Latin American economies compared to the East Asian countries. That is the East Asian countries now have their own brands of multinational corporations whilst the Latin American countries reel under the multinationals of America and Europe. That is why the East Asian economies are better at managing international financial crisis than the Latin American countries.

Foreign Direct Investment responds to internal domestic industrial development faster. Government must therefore take measures to promote domestic private sector development as a basis of achieving a robust and resilient economy that would not be subject to the volatile world market conditions that would everyday derail Ghana's terms of trade and revenue potentials.

16 Outstanding Issues

16.1 Health Care Financing

Nothing on Health insurance although the cash and carry system is unacceptable.

Expanding access to health care services is no doubt one of the long-term strategies for. Sustained economic growth and poverty reduction in Ghana, and indeed a goal that is worth striving to achieve. However, the question is how can health care delivery be made generally available and cost-effective in Ghana? In fact, even if economic growth improves and Government's resource base improves somewhat, competing claims for these resources will continue to make them scare in the health sector -health care must compete for its share with many other worthy programmes including education, roads and transportation, and other social infrastructure. Consequently, the overriding question is where will the resources come from to improve on and make health care delivery sustainable, generally accessible, equitable and efficient in Ghana?

In this direction, user fees or CASH AND CARRY have been emphasized and indeed implemented in as means to providing and sustaining improved health care services in Ghana, like most other Sub-Saharan African countries pursuing economic reforms. Theoretically, user fees or increased prices of health services is superior, more cost-effective, to zero or uniformly low price for health deli very. The general advantages of user fees in cost-sharing health delivery programmes are that;

A). Cost-sharing will increase revenue and provide access to quality services. Cost sharing entails increased opportunities to complement inadequate government revenues so that recumbent budgets can be partially sustained and investment undertaken to expand and improve services;

b). efficiency will prevail as services will be priced in such a way that they are more in line with their unit costs, and reflect their actdual value and benefits rendered. Moreover, effective pricing helps reduce excessive or unwanted demand for a service and bring us ply capacity more in line with willingness and ability to pay. Furthermore, signals transmitted by efficient pricing will restore efficiency in the reveal system by informing users that basic preventive and curative services can be provided at lower costs at facilities such as community clinics than at facilities such as hospitals, which shold be reserved for more complex curative treatment at higher user charges;

c). cost sharing or efficient pricing will produce more equity in health care delivery by charging those who make most frequent use of expensive curative care and are able to pay supplementing public coffers thereby generating funds to help subsidize those least able to pay; and

d). efficient pricing encourages public and private collaboration. Fees and higher prices help foster competition between private and public providers and promote su constitution of private for public providers. This shift can help reduce pressure on public providers

And release resources to deliver free health care to those who are really poor.

Although the theoretical expectations of the user fees to mobilize revenues, promote efficiency, foster equality, foster private sector participation in health care delivery, and to release public funds for other important social overhead capital formation are laudable, the operation al

Practices in Ghana so far tend to suggest that the use of prices and markets to allocate health Care is not generally desirable in Ghana. Not only are incomes not distributed in the same ways as the need for health but the most affluent section of the population, especially in the urban

Areas, virtually pay nothing towards health care delivery as Government or other formal sector provision has been made to provide them with free health services.

The picture that has emerged from Ghana's experience with user fees is that, the most vulnerable sections of the society, the people in the rural areas, particularly women and children, who do not have control over family budgets are those who bear the brunt of the fee for service. The rural poor because of their lack of adequate basic needs including food, shelter and sanitation often need health care most, but ironically, their lack of economic power or general poverty limits their ability to purchase the needed health care. Invariably, those on lower and/or seasonal incomes are those with higher risks and would need support in part from people with higher incomes and low risk. By implication, the payment of user fees for health care delivery was largely by the sections of Ghanaian population in the informal sector. Not only are incomes low in the informal sector but they tend to be unstable. It is this sector, representing about 95% of the total population of Ghana, that is largely forced into paying market prices for health care so that, not surprisingly, the use of public health facilities has been reported to be not only low but on the decline.

True, exemptions were made for the pauper and other categories of persons suffering from certain communicable diseases, but as we examined earlier, budgetary provisions were not normally made to operationalize these. More often than not, such persons were not well-informed about such facilities. World Bank Participatory Poverty Assessment findings also reveal that provisions for cost exemption for the poor do not generally work. Such exemption provisions were found to be much more effective when executed by ailment rather than by direct means testing. Cost exemption for the poor is costly to administer, both in terms of money and staff-time. Although the cost exemption was functional in the mission and charity hospitals, it was apparent that these entailed huge amounts of hidden costs. In many instance, it was reported that the hospital authorities have to seek the assistance of Department Of Social Welfare in order establish the poverty status of the patient. Invariably, such exercises involve the provision of transport facilities to enable the patient's circumstances to be investigated. Not only is the process bureaucratic and painfully slow but available information shows that even if the patient is identified as poor, treatment is normally not given, as there is no budgetary provision of resources to assist the "Pauper".

The inadequacy of the user fees to allocate health care is most importantly reflected in the fact that health crises that call for the demand for health services are random and often catastrophic. Invariably, individuals and households are generally not able to budget sufficiently for health care, especially of the crises or emergency type. In fact, recent catastrophic events as report by the Ghanaian media and other emergency cases at several hospitals in Ghana tend to suggest that the user fee scheme or cash and carry system as it presently operates in Ghana is defective in the coverage of certain classes of illness/accidents, at least. In these instances, because the patients could not immediately raise the user fees charged at the health delivery points, they had to do without medical treatment. Ideally, as is common in the developed countries, access to some system of emergency care, regardless of ability to pay, exists. The lack of such access In Ghana has no doubt generated considerable disquiet when people in serious medical need are?

Denied treatment because of their inability to pay the user fees demanded in the CASH AND CARRY system.

It is suggested that Government mounts a very high awareness creation programme. Health insurance thrives on confidence as it seeks to transfer resources from the healthy to the sick, and from the rich to the poor. Available evidence from the studies of health insurance schemes by the Catholic Church confirm that moral hazard and adverse selection are very crucial determinants in health insurance schemes. These must be studied and identified. A poorly formulated health insurance scheme that fails makes it difficult for a very good one to be Started.

What the Nkoranza Health Insurance Scheme has taught us so far is that, before a health insurance programme is implemented on large scale, a strong foundation must be laid and knowledge on how to manage such factors as adverse selection, moral hazard, and cost escalation must be improved upon. The range of benefits that can be provided under an insurance scheme depends largely on the available financial resources. If these are enormous, other problems are relatively easy to overcome. These in turn call for pre-requisites that entail:

1. analysis of patterns of disease and injury in the population and disease-and risk-factor specific analysis by geographical areas (a comprehensive assessment of the amount of ill-health attributable to specific diseases and injuries, premature death and disability, is important for cost-effectiveness of health outcomes through cost-sharing). The burden of disease approach based on incidence perspective and number of years of life lost due

To premature death, and number of years of life lived with a disability arising from new cases of disease or injury [DALYs] is worth adopting, albeit, it is involving. Alternatively, mortality data and/or prevalence and incidence of disease data may be Used to assess the burden of disease instead of disability-adjusted life years or DALYs.[3]

2. the adequacy of and accessibility to existing infrastructure -if there are no hospitals in remote areas, patients will not be able to demand inpatient treatment Or if there are no specialist physicians, patients will have no access to specialist services although they are entitled to them; this calls for a complete inventory of available resources for health (both public and private, national and international).

3. examination of the costs of the desired benefit scheme through the estimation of utilization rate and cost of service or product;

4. Educating the public on the basic tenets of risk-sharing and the pooling of resources for the collective benefit;

5. Setting premiums at levels that are substantially below the expected cost of individual medical treatments;

6. The ability and willingness to pay contributions by the members of the scheme;

7. The feasibility of collecting contributions;

8. Initially restricting the coverage to selected populations that would ensure its success so as to serve as a centripetal force;

The provision of information and the maintenance of transparency are vital for making the proposed National Health Insurance generally more acceptable and making the start-up period easier. During the planning phase, it is very essential to furnish complete information about the planning process to all relevant groups, and to involve the groups in discussions before any plans are implemented. The experience of the Nkoranza scheme reinforces this argument since most people have misconceptions about the scheme and feel that the scheme belongs to the hospital and that Diocese was the agent financing the health care delivery. If all the groups

Concerned feel that they have participated in the planning process, they are less likely to raise objections.

Indeed, it must be emphasized that if conditions are not suitable before social health insurance is introduced, no matter how the pressures are for its desirability, it can lead to higher costs of health care, inefficient allocation of health care resources, inequitable provision and dis-satisfied patients. Like the value added tax which was badly packaged and introduced in early 1996 only to be withdrawn a few months later, a failed health insurance scheme can make it more difficult for its re-introduction in the future even if the health care infrastructure and administrative skills have basically been improved upon.

17 Conclusion

The Budget has tried to grapple with the main issues confronting the economy. However, there is still room for improvement. Fortunately, the Budget is an interim document and there is going to be a national forum in April 2001. Parliamentarians of all political persuasions and private entrepreneurs as well as labour unions and civil society groups would have the opportunity to make inputs into the way Ghana must go economically for poverty to be reduced The forum will provide an opportunity for consensus building on major economic issues to serve as rallying point for all Ghanaians for all times.

1 Friedman, Milton, (1980), Treasury and Civil Service Committee on Monetary Policy: Memoranda, Vol. 1, pp. 55-66 HMSO, and London

2 Bank of Ghana, the State of the Ghanaian Economy 2000, January 2001, pilot

3 World Bank, (1993) World Development Report 1993: Investing In Health, New York, Oxford University Press.

Appendix 4

LIST OF PARTICIPANTS

No.	Name	Organisation
1.	Mrs. Abam Quartey	GNCCI
2.	Hon. Hanna Tetteh Kpodar	PARLIAMENT HOUSE
3.	Hon P. C. Appiah-Ofori	"
4.	Hon B. D. K. Adu	"
5.	Hon. Victor Nortey	"
6.	Hon. Norbert Awulley	"
7.	Mr Augustine Adongo	FAGE
8.	Mr Cletus Kosiba	AGI
9.	Mr J Bentum-Williams	CHAMBER OF MINES
10.	Hon S. Adu Yeboah	PARLIAMENT HOUSE
11.	Hon Seth D. Wiafe	"
12.	Hon Stephen Adoma-Yeboah	"
13.	Hon. Asamoah Ofosu	"
14.	Hon. A. D. Mante	"
15.	Hon. Dwamena Bekoe	"
16.	Hon Nana Asante Frempong	"
17.	Hon Amos Buertey	"
18.	Hon Francis A. Agbotse	"
19.	Mr Joe Addo- Yobo	FAGE
20.	Hon D. Y. Mensah	PARLIAMENT

No.	Name	Organisation
21.	Hon Joe Baidoe-Ansah	PARLIAMENT
22.	Hon J. E. Ackah	"
23.	Hon S. Sallas-Mensah	"
24.	Hon Owusu Baidoo	"
25.	Hon S. K. Balado Manu	"
26.	Hon Alhaji Muhammed Mumuni	"
27.	Hon Freddie Blay	"
28.	Hon M. A. Seidu	"
29.	Hon S. Nkrumah-Gyimah	"
30.	Hon Ama Benyiwah-Doe	"
31.	Nana Yeboah Kodie Asare II	PEF
32.	Mr Sal. Doe Amegavie	GNCCI
33.	Mr Kwasi Abeasi	PEF
34.	Mr Ben Oduro	"
35.	Mr Harry Owusu	"
36.	Ms Betty Beecham	"
37.	Mr Jesse Clottey	"
38.	Hon Harry Hayford	PARLIAMENT HOUSE
39.	Hon Moses Asaga	"
40.	Hon Kyei-Mensah Bonsu	"
41.	Mrs Rose Karikari-Anang	GEA
42.	Ms Sophia Akushie	KAF
43.	Mr Martin Wilde	"