

**REPORT OF**

**TECHNICAL WORKING GROUP**

**ON**

**CAPITAL MARKET DEVELOPMENT:**

**ROLE OF DIVESTITURES**

**AND PRIVATIZATION**

**OF**

**GOVERNMENT ASSETS**

**MAY 15, 2006**

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## **1. EXECUTIVE SUMMARY**

1. There are considerable delays in giving authorizations for divestitures to be consummated. It is recommended that some level of authority be given the Divestiture Implementation Committee (DIC), where desirable, to reduce the delays and thereby keep to divestiture time-table.
2. Public floatation and listing on the Ghana Stock Exchange should always be the first option in the sale of Government Assets.
3. All future Joint Venture Agreements should not have clauses that impede Government's exercise of its free will to sell its Joint Venture holdings to the public.
4. Government should initiate out-of-court settlement of all joint venture disputes and persuade JVs to waive their right of first refusal to pave the way for privatization through share issues.
5. Persons representing Government holdings on the board of joint venture companies must have performance contracts and laid down means of reporting to Government.
6. State Enterprises Commission should be empowered and resourced to outsource to private companies, some of the audit required to prepare companies for privatization.
7. The Divestiture Implementation Committee should be the sole implementing institution for divestitures. Sector Ministries should not execute divestiture of companies under their Ministries.
8. The structure of the Divestiture Implementation Committee should be reviewed to allow for capital market representation or alternatively a technical committee must be put in place urgently to advise DIC on capital market issues.
9. Government must give prompt formal authorizations to the Board of State Insurance Company of Ghana (SIC) and Ghana Oil Company Ltd (GOIL) for the eventual consummation of their privatizations and listing on the Ghana Stock Exchange. In addition, Government must solve port congestion and jute sack difficulties facing cocoa buying companies to enable Produce Buying Company return to profit and make it more attractive for further secondary market sale of Government shares therein.
10. In all privatizations, explore underwriting (whether by syndication or otherwise) as one of the criteria for the selection of consultants.
11. Give formal authorization and time frame to Bank of Ghana within which all all two and three year Government fixed and floating bonds will be listed on

the Exchange including future longer dated instruments.

12. Government should explore the subject of legislating to make going public and listing by companies, a future condition for granting rights, licences, concessions, if such companies operate in certain sectors of the economy and are of a certain minimum size. Sectors such as Mining, Telecommunication, Banking and Energy should be included in the proposal.

## **2. INTRODUCTION**

### **Background**

At paragraph 1098 of the 2006 National Budget, the Government of Ghana clearly stated its recognition of the capital market as the key medium for resource mobilization for private-sector development. It therefore announced a number of measures intended to support the development of Ghana's capital market.

These measures included but were not limited to the following:-

- (i) The decision to off-load the shares of Government's divested companies through the Ghana Stock Exchange(GSE).
- (ii) Projected receipts from divestiture of ₵335 billion in 2006.
- (iii) Lengthening the maturity profile of domestic debt to reduce the rollover or refinancing risk.
- (iv) The floatation of medium-term government securities (two and three-year fixed and floating rate bonds) on the GSE.
- (v) Introduction of unlisted securities market at the GSE to enable indigenous SMEs raise equity on the market to support their expansion programmes or clean their balance sheets, by replacing debts with equities. This is intended to reduce interest payments by SMEs and boost their profitability and growth.
- (vi) Supporting the GSE to establish an Automated Trading Platform under the proposed Economic Management and Capacity Building Project.

### **Discussions at the Request of MOFEP**

Subsequent to the Parliamentary approval of the 2006 Budget, the Ministry of Finance and Economic Planning (MOFEP) in February 2006, held several meetings with key institutions of the Capital market including the Ghana Stock Exchange (GSE), the Securities and Exchange Commission, the State Enterprises Commission (SEC) and the Divestiture Implementation Committee (DIC).

The meetings were chaired by Dr. Charles Wereko-Brobby, Chairman of the Implementation of the National Budget, and on one occasion by Hon. Baah-Wiredu, the sector Minister. These discussions were essentially about practical measures to be taken to realize the various targets set in the 2006 National Budget. The role of Privatization and Divestitures in the development of the capital market came up as an issue of major concern.

### **Technical Working Group**

Arising out of the discussions was the decision to set up a Technical Working Group tasked with the responsibility of a working paper that will make, among

other things, recommendations on a road map, appropriate policies, and operational needs for realizing the desired outcomes.

### **Composition of Technical Working Group**

The Technical Working Group was made up of nominated representatives of the following institutions. They are:-

- |    |                                      |                             |
|----|--------------------------------------|-----------------------------|
| 1. | Ghana Stock Exchange                 | - K. S. Yamoah              |
| 2. | Ghana Stock Exchange                 | - S. K. Peprah              |
| 3. | Ghana Stock Exchange/Stockbrokers    | - Abena Amoah               |
| 4. | Securities and Exchange Commission   | - Emmanuel Ashong-Katai     |
| 5. | Securities and Exchange Commission   | - Ken Okwabi                |
| 6. | Divestiture Implementation Committee | - Walter Awuku              |
| 7. | Divestiture Implementation Committee | - Prince E. Achanfuo-Yeboah |
| 8. | State Enterprises Commission         | - David Djanie              |
| 9. | State Enterprises Commission         | - Anthony Mends             |

The GSE was to act as the Convenor and Secretariat for the Working Group.

### **Terms Of Reference**

The broad Terms of Reference of the Working Group were as set out below:

1. Review current policies and practices for the management and transfer of Government Assets into private ownership, with special reference to the role of domestic Capital Markets.
2. Identify and appraise policy options and implementation mechanism for promoting a greater role for the domestic Capital Markets in the transfer of Public assets to private holdings.
3. Review existing agreements governing joint ventures between public and private companies and identify measures that promote a greater use of domestic capital markets in the trading of equities and related transactions.
4. Review the current portfolio of companies slated for divestiture and determine which of them are best transferred to private holdings via the domestic Capital Markets.
5. Identify the key constraints and propose remedial measures for improving the mechanisms and timeliness of the flotation of shares of State-Owned Enterprises through the Ghana Stock Exchange.
6. To identify the key elements of and prepare a model template to assist State-Owned Enterprises to prepare themselves for flotation in a systematic and predictable manner.
7. To examine options and make recommendations for improving the relationships, communications and delivery between Government, the domestic capital market, state enterprises and statutory regulatory bodies.

**Time Frame**

The Group initially agreed to complete the assignment by mid March 2006. Its draft report was presented in April 2006 and this final report in May 2006.

**Briefs Obtained**

Some relevant documents relating to the task were obtained. They included some of the Joint Venture Agreements subsisting between the Government of Ghana on the one part and Joint Partners of the following companies on the other:

- a) Ghana Oil Palm Development Company (GOPDC)
- b) Ghana Agro Food Company (GAFCO)
- c) Phyto-Riker/GIHOC Pharmaceuticals
- d) PS Tema Shipyard and Dry Dock Ltd

**Report**

This document represents the final report of the Technical Working Group embodying recommendations some of which are with particular reference to targets in the 2006 Budget as well as recommendations for the period beyond 2006.

## **3.0 DELIVERABLES**

### **3.1 CURRENT POLICY AND PRACTICES ON DIVESTITURE**

The Group noted that the broad Government policy on divestiture was that all state-owned enterprises are potential candidates for divestiture.

The specifics were however not clear. For example it was not easy to discern whether two comparable enterprises in different sector ministries were likely to be treated equally in the context of candidature for divestiture.

The Group also formed the impression that divestiture of some enterprises come up either when the government felt that some divestiture proceeds could be obtained from those enterprises or when it needed to resolve serious difficulties in respect of those enterprises – capital or otherwise.

#### **Current Practices**

The following current practices in relation to the divestiture process were noted.

1. Names of enterprises are sent from Government to Divestiture Implementation Committee (DIC) and are added to the DIC List.
2. DIC then prepares those enterprises for sale.
3. The preparation include selection of consultants to do the valuation and legal due diligence.
4. The DIC Board then deliberates on the Consultant's reports and make a recommendation to Government.
5. The Executive or the Presidency gives final authorization to consummate the sale.
6. DIC executes the sale.

#### **Modes of Sale:**

The Group noted four (4) main methods adopted in respect of the sale of enterprises. These are:

- (i) Auctions;
- (ii) Direct Asset Sales (usually to Strategic Investors);
- (iii) Granting of Concessions; and
- (iv) Share Issue Privatizations (SIPs).

The mode of sale is generally determined by the objective behind the sale of the particular asset.

### **Difficulties**

Many difficult obstacles come up with respect to divestiture/sales. They include:

- (i) very long delays in receiving payment for agreed prices or installment payments;
- (ii) access to and use of assets by buyers even when payments for same had not been fully made;
- (iii) double sale of part of concession especially when divestiture is executed by different sector ministries; and
- (iv) litigations by communities because of lack of compensation for land taken over by Government which form part of divested assets.

### **Recommendations for the Future**

1. The State Enterprises Commission, the Non-Tax Revenue Unit of the Ministry of Finance and Economic Planning and the DIC itself should all be able to recommend companies for divestiture. There should be greater coordination between these institutions in the determination of divestiture candidates.

Performance contracts for SOEs should in future include contract clauses specifying a time frame for the consummation of the divestiture of the company concerned.

2. Companies coming to the DIC list must first have been prepared for divestiture i.e. financial records, titles to assets, etc. must be in place. This will help speed up the sale as well as receipt of divestiture proceeds.
3. DIC must first consider share issue privatization with a listing on the Ghana Stock Exchange before other modes of sale or alternatively adopt a combination of methods of sale which shall include share issue and listing.
4. Delays associated with authorizations for divestiture (i.e. seeking executive and final approval to go ahead with the divestiture) should be addressed as a matter of priority. Part of the difficulty is in the fact that the DIC Board's decision is only a recommendation to the Executive. Some level of authority should be delegated to DIC to proceed with a decision at that point in time. In the long-term, the relevant sections of the DIC law should be amended to give effect to this.

The Executive Secretary of the DIC should have enough authority and political connection to take key decisions along the process.

5. Sector ministries should not execute divestitures so as to prevent duplication and better co-ordination including ensuring that proceeds are actually received.
6. Communities owning land that are the subject matter of divestitures should be involved early in the process and adequate compensation paid in cash or shares or a combination of the two.

### **3.2 JOINT VENTURE AGREEMENTS**

#### **Difficulties**

In the course of its deliberations, the Group noted that at the core of the difficulties in divesting Government interest or holdings in Joint Venture businesses (JVs) is the structure of the Regulations and Venture Agreements. Included in the Regulations/Agreements of the JVs are clauses such as the following:

- i) New shares should not be issued to outsiders without the first right of refusal by the JV Partner.
- ii) No existing shares should be sold to outsiders without the JV partner being given the first right of refusal.
- iii) Disputes should be settled through the Arbitration process of the UNCITRAL (United Nations Commission on International Trade Arbitration Law).

These clauses itemized above prevented and continue to impede the packaging of such JV companies for listing on the Stock Market and even for sale outside the stock market.

Furthermore, an arbitration using UNCITRAL, complex and expensive as it is, is not in the interest of Ghana. It delays resolution of disputes because of legal difficulties as well as prohibitive costs.

In several instances, the Government did not use the significant influence it wields to persuade JV partners to waive their pre-emptive rights to enable Government sell its stake to the public through the stock market.

As a result, Ghana lost some of the finest opportunities to strengthen Ghana's capital market and in the process make thousands of Ghanaians share in the fortunes and risks of giant Ghana - incorporated entities such as Barclays Bank and Coca Cola.

These and many other such companies, have their parent companies listed on stock markets in their home jurisdictions. They contribute to the significance of those capital markets. They have by so doing created wealth for ordinary citizens in such jurisdictions and the least their local subsidiaries can do as far as social

responsibility is to share their fortunes and risks on the stock market with Ghanaians.

### **Other Specific Difficulties**

Aside of the difficulties resulting from the Regulations and Agreements, the group noted other problems, which were peculiar to specific JVs.

The list below highlights some of the JVs and the impasse, which will militate against their operations as well as speedy divestiture on the stock markets.

<u>JVP</u>	<u>Problem</u>
Twifo Oil Palm Plantation	Previous sale being contested in court.
ii. Ghana Agro Food Processing Co.	Dispute over ownership
iii. Ghana Textile Printing Co.	Company in distress
iv. Juapong Textile Ltd.	Company in distress
v. Tema Shipyard and Drydock Ltd.	Court action: purchasers have defaulted in making payment and seller has not yet passed title to buyer.
vi. Ghana Oil Palm Dev. Co. Ltd.	Ownership of part of the land is in dispute at the court.

Resolving the above difficulties require the courage and willingness on the part of the Government to dialogue.

### **Recommendations:**

The Group made the following recommendations.

1. The Government of Ghana should make the first move and initiate settlement of disputes out of court with the JVs. The Group noted that this may involve payment of compensations.
2. Government should ensure that joint venture agreements that the State enters into in future provide for disputes to be settled under Ghana's Arbitration Act, (Act 319).
3. Future JV Agreements should allow Government to exit by way of a public offer on the stock market. Therefore, clauses stating that no new shares should be issued or transferred to outsiders without the Partners being given the first right of refusal should be avoided in future Agreements and Regulations of JV companies.

All JVs should be public limited liability companies to start with.

4. Directors of JVs representing Government shareholdings must have performance contracts and a laid down reporting framework.
5. Government should initiate dialogue with its existing JVs to persuade them to waive their rights of first refusal.
6. With time, Ghana as country is encouraged to have a legislative framework which will oblige companies in certain sectors of the economy and of a certain minimum size to go public and list.

There are several benefits to be derived from such a policy move including:

- greater transparency of the operations of such enterprises and higher tax revenue for the state;
- contribution of such companies to the vibrancy and growth of Ghana's capital market and consequent further attraction of foreign direct investment; and
- wealth creation for the citizenry which citizenry are likely to identify more with such enterprises because of their shareholding status.

Sectors such as Telecommunication, Mining, Energy and Banking should be included in this proposal.

The legacy of the National Redemption Council's Investment Policy Decree which made companies such UAC, Pioneer Tobacco, Guinness, Kumasi Brewery, CFAO, Enterprise Insurance, Fan Milk, Mobil, Standard Chartered and PZ to offer part of their shares to the public are that:-

- It created wealth for those pioneer investors of the 1970s and worth seriously exploring.
- It provided a ready platform of publicly held companies, which formed the backbone of companies that the Ghana Stock Exchange commenced trading therein in November 1990 when it was established.

In deed the presence outside the stock market of companies such as Newmont, Shell, Areeba, NIB, GIAL and Ghana Telecom as well as many others is a pointer to the opportunities that Ghana is still losing to make its capital market vibrant and significant to further attract both local and foreign investment.

We need to reverse this situation to engender greater economic participation and wealth creation for our population.

### **3.3 GOVERNMENT ASSETS FOR PRIVATIZATION (SOES AND JVS)**

The Group took note of the List of Government Assets for Privatization. They include 100% state-owned enterprises (SOEs) and joint venture businesses in which Government has venture holdings. Some of them are good candidates for privatization as indicated against their names.

#### **List by State Enterprises Commission**

1. Architectural and Engineering Services Ltd
2. Ghana Highway Authority
3. Ghana Cocoa Board
4. Precious Minerals Marketing Corporation
5. New Times Corporation **candidate**
6. Graphic Communications Group “
7. Ghana Oil Company Ltd **-candidate, process has started**
8. Tema Oil Refinery **-candidate process has started**
8. Ghana Post **- candidate**
9. Ghana Ports and Harbours Authority **potential candidate**
10. Volta River Authority
11. Electricity Company of Ghana **- candidate**
12. Ghana Water Company Ltd
13. Community Water and Sanitation Authority
14. Volta Lake Transport Company Ltd
15. Kpong Farms
16. Volta Hotel
17. Ghana Trade Fair Company Ltd
18. Ghana Railways Company **- candidate**
19. Ghana Civil Aviation Authority
20. Ghana National Petroleum Corp.
21. Ghana Publishing Corporation **- candidate**
22. GNPA Ltd
23. Grains and Legumes Dev. Board
24. Irrigation Development Authority
25. State Housing Company Ltd
26. Tema Development Corporation
27. Ghana Supply Commission
28. Ghana Telecom **- candidate**
29. Ghana Broadcasting Corporation **- future candidate**
30. Ghana News Agency
31. GAMA Film Company Ltd **- candidate**

#### **DIC List of Distressed Companies**

1. Gihoc Tomato Processing, Pwalugu }
2. Subiri Plantation } **- potential candidates**
3. Gihoc Glass Factory, Aboso } **if they can be**
4. Ghana Consolidated Diamond } **packaged well**
5. Bonsa Tyre Factory }

### **MOFEP List - Financial Institutions**

- |                                  |  |
|----------------------------------|--|
| 1. Agricultural Development Bank | - <b>candidate</b>                           |
| 2. Ghana Commercial Bank         | - <b>secondary market sale</b>               |
| 3. National Investment Bank      | - <b>immediate candidate, already public</b> |
| 4. Ghana na Reinsurance Company  | - <b>candidate</b>                           |
| 5. State Insurance Company       | - <b>candidate (process has started)</b>     |

### **Others**

- |                                 |                                |
|---------------------------------|--------------------------------|
| 1. Ghana International Airlines | - <b>candidate</b>             |
| 2. VALCO                        | - “                            |
| 3. Westel Ghana Ltd.            | - “                            |
| 4. Produce Buying Company       | - <b>secondary market sale</b> |
| 5. Cocoa Process Company        | - <b>secondary market sale</b> |

### **Recommendations**

The Group made the following recommendations.

1. Government must take action to publicly list these companies, particularly those indicated to be candidates, on the stock market so that they can be re-capitalized and at the same time permit the public to own shares in such businesses.
2. State Enterprises Commission (SEC) must be authorized and resourced to prepare the above-named companies for privatization.
3. DIC should be mandated as the co-coordinator or implementing institution.
4. DIC should subsequently appoint advisors/consultant for the divestiture of those endorsed.
5. The process should be flexible to permit the Board of Directors of the various companies concerned in consultation with DIC/SEC to act as quickly as possible including coordinating to secure Executive approvals.

For the companies labeled distressed, the Group endorsed the position that in addition to exploring the above steps, DIC should do some bit of on the ground fact-finding so as to determine whether and how they can be repackaged. Among other things, market for potential products, new working capital requirement, equipment and technical personnel needs have to be carefully assessed as part of the repackaging.

### **3.4 PRESCRIPTIONS FOR DIVESTITURE CONSTRAINTS**

1. For all JV businesses that have on-going disputes, Government should seek out of court settlement.
2. Explore up-front underwriting of shares to be publicly floated particularly large Offers so that Government can be assured of success and early access to funds.
3. Take advantage of Ghana increasingly becoming a preferred investment destination and raise funds to finance specific projects or to re-capitalize enterprises in difficulties through public offers on the stock market.
4. Give the Lands Commission a seat on the DIC Board to tap their immense expertise in resolving land issues that come up. Where such land difficulties cannot be resolved before public offers, Government should provide indemnities and disclose same in the public offer document.
5. Pay compensation for lands, which are the subject matter of a public offer either in cash or with shares under the offer.
6. To bring arrears of accounts up to date, SEC and or DIC should be mandated and resourced to outsource some of the audit work to be done prior to divesting such companies to the private sector.
7. Divestiture activities should be centralized under DIC. We should avoid the situation where different sector ministries execute the divestiture of companies under them.

### **3.5 INSTITUTIONAL ARRANGEMENTS FOR DIVESTITURE**

Some of the institutional arrangements currently in place for divestiture need to be changed. To that end, the following recommendations are made.

1. DIC must be the sole institution to co-ordinate all divestitures. Various sector ministries must inform DIC and handover correspondence on companies they previously were engaged on to DIC but continue to offer suggestions along the line. Sector ministries should however not execute the divestitures themselves.
2. Putting companies on the DIC list – Preparatory work before putting companies on the DIC List must be the responsibility of the State Enterprises Commission (SEC). SEC should have completed all preparatory work so that once on the DIC list, divestiture will be faster. This is because during the period that they are on the DIC List, some companies find it extremely difficult dealing with banks and other institutions in respect of credit (money or supplies).

3. There should be DIC/SEC representatives (among Government nominees) serving on the boards of all joint venture companies. This is to ensure that the privatization objective is kept in focus and that Government, as a shareholder, is adequately informed of the state of affairs of such companies.
4. Where companies on the DIC list are being sold as going concerns, SEC and DIC should be empowered to hold management and staff accountable for the assets of the company to prevent pilferage.
5. Public floatation should always be considered as the first option for divestiture. It has the added potential for dealing more effectively with the key difficulties of severance awards and the problems it creates for Government, new owners and employees.
6. As much as possible, the authority approving the divestiture should go by the timetable or in the event that the authority is not in a position to act quickly, it should delegate such powers to DIC.
7. The structure of DIC Board should be reviewed to allow for capital market representation and expertise or alternatively, a technical committee that will advise DIC, on capital market issues must be put in place quickly.

### **3.6 PROJECTED DIVESTITURE FOR 2006**

#### **Background**

In 2006, the Government has targeted divestiture proceeds of ₵335 billion. The Working Group was informed that this amount is essentially to come from the divestiture of Government shareholding in:

- (i) Ghana Oil Company Ltd (GOIL);
- (ii) State Insurance Company of Ghana (SIC); and
- (iii) Produce Buying Company Ltd. (PBC) which is already listed on the stock market.

#### **Additional Benefits of the Divestiture**

The immediate goal of the divestiture of GOIL and SIC is the projected proceeds of ₵335 billion to help execute the Government's 2006 Budget agenda.

Equally important is the fact that, the divestiture of these two giants will position these companies to be able to compete better in their respective industries or sectors.

Among other things, these divestitures can do the following:-

- Bring in new equity capital injection to the companies from the sale of new unissued shares (alongside the offer for sale by the Government) for growth, expansion and modernization.
- Increase public confidence in the divestiture process itself in view of the greater transparency associated with public offers.
- Allow the Ghanaian public, the opportunity to participate in the offer and give backing to the goals of “wealth creation and poverty alleviation”.
- Permit employees of these institutions to own shares under the offer as another means of engendering higher and efficient output.
- Foreign investment will come in from the participation of non-residents in those public offers, knowing that Ghana’s market is open to non-resident investors.
- Such securities will sooner than later discover their true price which is often far above those of comparable unlisted securities.

**Roadmap for the Divestiture of GOIL and SIC**

- (i) The formal Government authorization permitting GOIL and SIC to be divested must be issued to the Managing Director(s) of the institutions before close of May, 2006.
- (ii) Such a letter will also serve as a shareholder resolution and must specify the percentage of shareholding to be divested.
- (iii) The company acting through its board and executive management shall give effect to the authorization by immediately appointing the team of advisors, if not already done, to work on the offer including a sponsoring Licensed Dealing Member of the Exchange (stockbroker). Usually, the team will include the broker, the legal advisors, the reporting accountants, statutory auditors, financial valuation advisors, etc.
- (iv) The Government acting through the DIC or Ministry of Finance or whichever institution or ministry that is for now tasked with the oversight responsibility for the public offer (and we strongly recommend that going forward this institution should be no other than the DIC), should on receipt of the draft work of the team of advisors discuss, agree and sign off within ten (10) working days.
- (v) The sign-off letter is the go ahead to actually launch the offer. The signing off should include discussion and agreement on the pricing of the shares to be sold.

The goal is to launch the two public offers by the beginning of the third quarter of 2006.

### **Roadmap for Sale of PBC shares**

PBC is already listed on the market. Government owns a significant stake in PBC. To sell these shares:

- (i) The selling broker must be encouraged to explore a syndicate of buyers as well as the general public.
- (ii) Government must in principle be willing to discuss with potential buyers the difficult subject of whether PBC would ever be allowed to export a portion of its purchases on its own.
- (iii) Port congestion difficulties as well as problems of shortage of jute sacks must be sorted out quickly and permanently to allow PBC to return to bottom line profit to make it more attractive.

### **3.7 TEMPLATE FOR DIVESTITURES ON THE GSE**

The Group identified the following as the key steps in the divestiture process for the guidance of Government, the DIC and the State Enterprises Commission.

1. The sole shareholder (or shareholders) of the company must pass resolutions at a properly-constituted shareholders' meeting to convert the company from private to a public company limited by shares.

By the same shareholder resolution or a Board resolution, the company must agree to seek listing on the Ghana Stock Exchange.

2. The company must with the guidance of its Legal Advisors prepare new company Regulations that complies with the requirements of both the Companies Code of 1963 and the GSE Rule Book.
3. The implementors of the privatization must in consultation with the Board of the company appoint an Advisory Team for the privatization and share floatation. The terms of reference, performance time table, the basis of determination of Advisory fees and sanction for delays or non-performance must be included in the contract (appointment letter).
4. The Advisory Team then prepares the company for privatization working closely with the Board of the company as well as DIC. The work will include the following:-
  - Account or Financials to be brought up to date.

- Legal due diligence to be performed.
  - Valuation of assets, if necessary.
  - Share price valuation.
  - Consent of Government as to what proportion is to be off-loaded and at what share price.
  - Decision on number of new shares the company is also issuing to raise new capital.
  - Clarification of the order in which proceeds of the offer will be allocated between existing shareholder who is selling and the company which is issuing new shares, in the event that 100% subscription is not achieved. (The GSE and the sponsoring broker are always in a position to offer guidance in that direction).
  - Decision as to any Underwriting arrangement. This is an important factor for the success of large public offers. It is therefore desirable to explore the possibility of the lead managers/sponsoring brokers being appointed, among others things, on the basis of their ability to bring an underwriting arrangement to the Offer.
  - Decision on whether and how many shares are to be reserved for purchase by employees of the company under the Offer.
5. Draft Public offer document or prospectus submitted to the Securities and Exchange Commission for approval and to the Ghana Stock Exchange as a document in support of its listing application.
  6. Public offer is launched after GSE has approved the listing application and Securities and Exchange Commission has approved the prospectus.
  7. At the close of the Offer, allotment is made taking into consideration the number of shares on offer and the total applications received. The results are published.
  8. Proceeds of Offer handed over to the Government and or Company after paying all agreed fees.
  9. Trading in the shares of the company commences on the Ghana Stock Exchange once certificates are dispatched or the Central Securities Depository confirms that all successful applicants have been so advised.

## **OTHER ISSUES:**

### **4. LISTED DEBT MARKET**

#### **Background**

The 2006 National Budget also indicated that among Government's strategy objectives on Domestic Debt to support the development of the capital market are the following:

- (i) Lengthening the maturity profile of such domestic debt so as to reduce the roll-over/refinancing risk;
- (ii) lowering borrowing costs; and
- (iii) listing the two and three-year fixed and floating rate bonds on the GSE.

#### **Instruments**

The securities or instruments to be listed are likely to include:

- (i) two and three-year fixed and floating rate bonds already in issue;
- (ii) longer term debt instruments that will be issued to replace maturing Government of Ghana Index-Linked Bonds (GGILBs); and
- (iii) longer dated instruments that may be issued in partial replacement of maturing 91-day Treasury Bills.

#### **Benefits**

The listing of Government debt instruments on the market will help in establishing benchmark in the market place not only for corporate but Government, Municipal and other debt issues.

The preponderance of securities with different maturities will help improve trades in such securities and lead to better price discovery (interest rate) for the bond side of the market. Long-term Government bonds are often regarded as the best as far as benchmarking is concerned.

#### **Road Map**

- Ministry of Finance and Economic Planning (Government Debt Unit) should authorize Bank of Ghana to list existing and future issues of the two and three-year as well as any future longer - dated Government bonds of similar or longer maturities on the Exchange. This must be done before close of May, 2006.
- Bank of Ghana upon the authorization will prepare the brief prospectus and/or Guideline document in discussion with the Exchange for eventual adoption by the two institutions. Bank of Ghana has significant experience in that regard (ref Commemorative Stocks of 1990 and GGILBs).
- Trading will commence in these securities based on the time table and modalities agreed between Bank of Ghana and the GSE.

- Existing bonds can be listed within six weeks of such an authorization by the Ministry of Finance and Economic Planning.
- The Ministry is also encouraged to explore the suitability of issuing longer dated debt instrument to finance specific revenue-generating projects such as:
  - railway rehabilitation;
  - alternative energy-producing projects; and
  - metropolitan and/or municipal assembly projects.

## **Appendix**

### **5. OVERVIEW OF GHANA'S CAPITAL MARKET**

#### **Key Players**

Ghana's capital market include the Ghana Stock Exchange (GSE), the Securities and Exchange Commission, Listed Companies, Licensed Dealing Members, Registrars, Custodians, Investment Bankers, Fund Managers, etc.

The Ghana Stock Exchange provides the facilities and framework for trading securities (shares, bonds, and stocks, etc.) in a transparent, fair and efficient manner. The Securities and Exchange Commission is the regulator of the securities industry (capital market). Listed Companies are companies whose securities are listed and traded on the Ghana Stock Exchange.

Licensed Dealing Members (LDMs) or Stockbrokerage companies are companies that have been approved to trade in the securities that are listed on the GSE. They buy and sell such securities mainly on behalf of their client and at times on their own behalf. There are currently 16 LDMs on the market.

Registrars provide share registration and transfer services in listed securities on behalf of the Listed companies. There are three (3) main Registrar Service providers on the market. Custodians provide fund and share custody services on behalf of non-resident as well as locally resident investors. Government Securities Dealers are mainly banks that have been registered by the GSE to deal in only Government securities. There are other Advisory Service providers such Reporting Accountants, Legal Advisors, Financial Valuation Advisors, etc.

#### **Securities Listed**

There is one preference share listed on the GSE – an irredeemable non-cumulative preference shares issued by Standard Chartered Bank Ghana Ltd. The market also has three corporate bonds – Series F, G and H of the HFC Bank's Housbonds, which are denominated in US dollars and one in pound sterling. The Government of Ghana has 3 stocks listed under the Government of Ghana Index-Linked Bonds (GGLIBs).

Finally and most importantly, there are 29 equities securities listed on the market representing banking and insurance, manufacturing, beverage/drink, vegetable oil processing, distribution, mining and paper printing, among others.

#### **Market Statistics**

The main measure of the market's performance is the GSE All-Share Index. The index has as its base, the average capitalization for the period November 12, 1990 to December 31, 1993. The base of the index is 100. In 1994, 1998 and 2003, the GSE by its index was adjudged the best performer among all merging markets globally.

The index also gained 154.67% in 2003 and 91.83% in 2004 but dropped to – 29.85% in 2005. On May 12, 2006, the year-to-date gain in the index for 2006 was a positive 0.44% a sign of recovery from the slump of 2005.

Market capitalization which measures the aggregate market value of all listed shares (equities and preference) was ₵91.86 trillion at December 2005 and ₵92.45 trillion in May 2006.

In terms of market traded volumes, 931.53 million shares worth ₵2.27 trillion has been traded since inception. 81.4 million shares worth ₵464.36 billion was traded in 2005 and for January – May 12, 2006, the respective values are 26 million worth ₵101.68 billion.

Approximately ₵800 billion has been raised from public offers and right issues on the market since 1990. A number of high profile Take-overs and Mergers have taken place on the Exchange in recent times. They include the takeover of SSB by Societe Generale (SG) to form SG-SSB Ltd in 2003; Ghana Breweries Ltd by Guinness Ghana Ltd to form Guinness Ghana Breweries Ltd in 2004; and that of Mobil Oil by Total Outre Mer in 2005. There was also the merger of AngloGold and Ashanti Goldfields to form Anglo Gold Ashanti in 2004.

### **Trading and Settlement**

Trading on the floor of the Exchange is daily between 9.30 am and 12 noon under the Continuous Auction System though not fully automated. Settlement after trade must occur by T + 3 i.e. within 3 business working days of the trade.

Settlement is centralized at the Exchange but not yet automated.

### **Major Challenges facing the Market.**

The very low number of listed securities, which directly impacts on the vibrancy, and the financial strength of the Exchange and all market participants is a major concern. The trading system, which is largely manual, needs to be automated to enhance efficiency, greater liquidity and enable GSE's Market Surveillance function to be significantly strengthened.

The Market still requires to intensify and sustain public education and awareness creation particularly aimed a potential issuers and investors since the proportion of Ghanaians participating in the capital market is very small and less than one (1) percent of the population.

### **Up-coming (2006-2007)**

The market expects a Central Securities Depository Bill (CSD Bill) to be laid before Parliament soon. Once passed, it will provide for the market to do away with the need to use only certificates as evidence of ownership of securities. Therefore, when the CSD Bill becomes law, the market will begin a phased-out migration of listed securities into the National Depository, which is already in operation for Government Securities.

The new GSE Rule Book will shortly receive regulatory approval for implementation and this will go a long way to strengthen surveillance and compliance.

Perhaps the most important up-coming matter is the prospect of automating the Exchange's Trading Platform with support from the Government of Ghana under its Economic and Management Capacity Building project. Under this, it is expected that an Automated Trading Platform would have been installed for practical test runs and training to start at the end of December, 2006.

Without doubt, these up-coming events will have significant long-term impact on the market – efficiency, greater transparency, improved surveillance and more importantly greater liquidity and further attraction of the market as far as potential issuers (whether shares or debt instruments, corporate or government) are concerned.