

SECTION EIGHT: POLICY INITIATIVES

Private Sector Development

Improving Regulatory Structures for Doing Business

1. Mr. Speaker, during the past two years Ghana's efforts to reform its business environment has made it a "top 10" reformer globally as measured by the World Bank Group's Doing Business Report. This also makes Ghana the highest ranked country in the ECOWAS sub-region.
2. Mr. Speaker, we wish to assure Ghanaians and the international community that we will not be complacent but rather maintain the pace of reforms that have brought us this far.
3. Mr Speaker, although a lot of progress has been made with the passage of new laws and revisions to existing laws, limited attention has been given to institutional issues that make such laws effective in promoting private sector-led growth. Typical weaknesses of our regulatory system include unclear divisions of regulatory responsibilities among agencies and duplication in their functions and powers.
4. Accordingly, Mr. Speaker, an initiative will be launched in 2008 to further strengthen the regulatory environment. Specifically, the initiative will focus on simplifying the current regulatory regime applicable in Ghana, reviewing the functions of regulatory agencies to remove overlaps, scale down on the number of regulatory authorities and establish benchmarks for good practices.

Energy Sector

Importation and Use of Incandescent Lamps

5. Mr. Speaker, the nation has just come out of an energy crisis that was characterised by shortage in power supply. Government's efforts to resolve the crisis have focused on modernising and expanding power infrastructure, ensuring full cost recovery of power supply and the productive and efficient use of energy.
6. While increasing the percentage of households with access to electricity supply, Government is mindful of the need to conserve power. In order to promote the efficient use of energy Government will introduce legislation seeking to phase out the importation and use of incandescent lamps in Ghana.

7. Mr. Speaker, under the proposed legislation, Compact Fluorescent Lamps will replace the high power consuming incandescent lamps in the system. Standards will also be developed for street lights which have become very popular but are not governed by any regulations or standards.
8. Mr. Speaker, to reduce the rate of energy waste through refrigeration, energy efficiency standards and labels will be developed and introduced.

Promoting Alternative Energy Sources

9. Mr. Speaker, the Government's efforts to secure the energy future of the country includes providing support for renewable energy sources. The key areas of concern in respect of renewable energy include solar, wind, small hydro resources, bio-fuel production and supply and the promotion of renewable energy technologies and their efficient utilization.
10. Mr. Speaker, the Energy Commission will, in 2008, undertake the following activities aimed at ensuring that renewable energy is integrated into the national energy mix:
 - develop and facilitate the passage of a Renewable Energy Law; and
 - develop and enforce standards and codes for renewable energy technologies. This will include standards for bio-fuels, solar lighting and solar water heaters.
11. To encourage the production of biodiesel, the government will introduce special incentives, including the removal of excise duties, VAT and all local charges on biodiesel for a minimum of 20 years. This will encourage the participation of private entrepreneurs in the sub-sector.

National Transportation Policy

12. Mr. Speaker, a good transportation system is a prerequisite for economic growth and poverty reduction. National targets for growth and poverty reduction also rely heavily on an effective transportation system.
13. Mr. Speaker, in 2008, Government will adopt an integrated Transport Policy which combines various modes (road, rail, maritime including inland water transport and aviation) of transportation together to achieve maximum benefit for the system.
14. Mr. Speaker, the objectives of the Transport Policy will be to:
 - Integrate Land Use, Transport Planning, Development Planning and Service Provision;
 - Create a vibrant investment and performance-based management environment that maximises benefits for public and private sector investors;

- Develop and implement comprehensive and integrated Policy, Governance and Institutional Frameworks;
- Ensure sustainable Development in the Transport Sector; and
- Develop adequate Human Resources and apply New Technology.

Financial Sector

Financial Sector Strategic Plan (FINSSP II)

15. Mr. Speaker, Ghana's financial sector has undergone significant changes since the first generation of financial sector reforms were launched under the Financial Sector Adjustment Program (FINSAP) in 1988. In 2003, government approved the Financial Sector Strategic Plan (FINSSP) to serve as the blueprint for Ghana's financial sector development for the period 2004 – 2008. The objectives of FINSSP were to:
 - make Ghana the preferred source of finance for domestic companies;
 - promote efficient savings mobilization;
 - enhance the competitiveness of Ghana's financial institutions within a regional and global setting;
 - ensure a stronger and more facilitative regulatory regime;
 - achieve a diversified domestic financial sector within a competitive environment.
16. Mr. Speaker, as at October 2007 nearly 80 per cent of the 98 recommendations in FINSSP had been implemented. The implementation of FINSSP has produced dramatic changes in Ghana's financial landscape.
17. The changes in Ghana's financial market have also brought new challenges:
 - Ghana's public and private sector investment needs have created a need for a further deepening of the bond market to provide long-term financing;
 - The entry of Ghana into the global capital market as a sovereign borrower has created new opportunities and challenges for both public and private sector participants in the domestic and international financial markets;
 - There is a continuing need to strengthen our regulatory agencies to adapt to the changes that are taking place on both local and international financial markets;
 - Ghana needs to develop appropriate strategic responses to the current ECOWAS drive for financial integration;
 - Capital account liberalization under the Foreign Exchange Act, 2006 has created new risks and opportunities for financial institutions as well as regulatory challenges; and

- The International Financial Services Centre project needs to be expanded to cover the non-bank financial sector.
18. Mr. Speaker, in view of these developments, Government will, in 2008, undertake a comprehensive review of FINSSP with a view to identifying the next generation of financial sector reforms. The review is expected to result in an updated FINSSP document (FINSSP II) to guide financial sector development for the next five years.

Development of the Bond Market

19. Mr Speaker, in 2006, the development of a vibrant capital market requires a well balanced bond market, which implies that instruments on the market must have regular issuances with varying maturities to promote secondary activity and thus liquidity on the capital market.
20. In this regard, Government has been implementing a programme to issue long-dated instruments as part of measures to lengthen the yield curve of Government debt to serve as a benchmark for the pricing of medium- to long-term corporate bonds.
21. Mr Speaker, last year the Government successfully sold two issues of a debut 5-year fixed rate bond on the domestic market and a maiden \$750 million dollar Eurobond with a maturity of 10 years on the international capital market.
22. Mr. Speaker in furtherance of its objective to develop the long term investor segment of the domestic capital market, Government will issue for the first time a 10-year domestic bond in 2008. Additionally, Government will rationalise the issuance calendar to achieve issue predictability and to encourage secondary trading between issues.

Enhancing Access to Agricultural Finance

23. Mr. Speaker, Government has observed with concern the decreasing flow of credit to the agricultural sector. Although agriculture accounts for 35% of GDP and 60% of employment, only 6% of bank credit goes to the sector. The lack of access to credit for key activities such as farming, fishing, livestock and needed ancillary services and infrastructure has been a drag on productivity growth and incomes in the sector.
24. Mr. Speaker, to address the agricultural finance problem, a number of measures will be introduced in the course of 2008. The objective of these measures would be to ensure that viable projects in the sector are fully funded. The measures will include:
- Tax incentives to financial institutions to increase not only the flow of credit to the sector but also to reduce interest rates on

agricultural loans to the 5%-10% range and to lengthen maturities of term loans to between 5 and 10 years

- The development of an Agricultural Investment Fund/Farm Credit Corporation with a 100% agriculture focus to provide a range of financial services such as working capital and term loans, insurance and leasing.
25. Mr. Speaker, the implementation of these measures will expand the sources of funding for the agricultural sector and provide a significant boost to the sector's contribution to our growth agenda.

National Switch and Biometric Smartcard Project

26. Mr. Speaker, the banking system in Ghana serves a small proportion of the population with only an estimated 20 per cent of the population having bank accounts. To deepen the financial system, the un-banked and under-banked segments of the population should be joined with the banked segment within a coherent national payments system framework.
27. Mr. Speaker, guided by this goal, the Bank of Ghana is establishing a national switch (the E-ZWICH) to allow the establishment of a common platform for all payments transactions in the country. E-ZWICH will have the capability to deal with transactions that take place online (in places with telecommunications) and offline (i.e. where telecommunications are not present, e.g. in some rural areas).
28. Mr. Speaker, associated with the E-ZWICH is a biometric smart card that eliminates the need to have basic literacy and numeracy to operate a bank account since it relies on the identification features of fingerprints. The E-ZWICH smart card is a major vehicle for financial inclusion. The smartcard will address the shortcomings of existing debit cards which cater for only a small fraction of the population.
29. The smartcard can also be used for:
- payment of wages to workers on government payroll. Because of the biometric identification system, ghost workers on the public payroll should become a thing of the past;
 - payment of pensions to pensioners;
 - spending on goods in merchant outlets with VAT credited directly to Government;
 - payment of utility bills;
 - transferring funds to third parties; (Individuals, Merchants, Employees, Cocoa farmers, Pensioners, Revenue Agencies, etc);
 - receiving funds from third parties from within or out of the country;
 - withdrawing cash from any ATM in the country.

30. Mr. Speaker, the National Switch and smartcard project will serve as the vehicle to transform Ghana from a predominantly cash economy to an economy dominated by electronic transactions using modern state of the art technology.

Promoting Financial Literacy

31. Mr. Speaker, as Ghana's economy becomes increasingly complex, there is a mounting concern that understanding and managing the details of financial products and services is becoming a daunting task for most Ghanaians, especially the low-income and rural segments of the population.
32. Even in more developed markets, research shows that a large percentage of people of all ages, incomes and education levels, lack the basic financial knowledge and skills to ensure long-term stability for themselves and their families, and to drive the savings-investment requirements of the economy.
33. Mr. Speaker, lack of financial literacy undermines efforts to deepen financial intermediation. In Ghana's case, savings and investment rates have been consistently below the levels needed for accelerated growth and poverty reduction. Thus, financial literacy should be part of any comprehensive strategy to develop a financial sector that supports growth and poverty reduction.
34. Mr. Speaker, in pursuit of this, Government will, in 2008, establish a financial literacy programme, anchored by an Annual Financial Literacy Week to raise awareness of the range of products and services available to consumers and the rights and obligations of consumers and service providers to help Ghanaians better understand and manage their finances. The proposed Financial Literacy Week will be a cooperative effort of the Ministry of Finance and Economic Planning, regulatory agencies, industry associations and consumer groups.

Promoting Long Term Investment by Insurance Companies

35. Mr. Speaker, a new Insurance Act was passed by Parliament in December 2006. The new act aims among other things, at ensuring adequate capitalisation of insurance companies, improving corporate governance, and ensuring adequate protection for policy holders.
36. The Act also abolished composite insurance companies. This means that an insurance company can either be a life or non-life company. It also implies that insurance companies that are currently composite must separate their life business from the non-life.

37. Mr. Speaker, the main rationale for the separation of the life and non-life business is to make it possible for the necessary attention to be given to the life business to enable it to grow and contribute effectively to national development by helping to mobilise long term funds for development.
38. Mr. Speaker, to achieve this objective, the regulatory framework will be reviewed to enable insurance companies restructure their investment portfolios to reflect the current economic environment. There will be provisions to encourage insurance companies, especially life companies, to invest in such areas as real estate and long-term mortgages.

Fiscal Responsibility Act

39. Mr. Speaker, Ghana's overall fiscal deficit was reduced from 9.0 per cent of GDP in 2000 to 2.7 per cent at December 2005. However, by December 2006 the fiscal deficit had increased to 7.8 per cent due to nonrecurring expenditures such as the Golden Jubilee celebrations, the energy crisis, shortfalls in anticipated divestiture proceeds and import related taxes and overruns in spending on wages relative to budget due to one-off discretionary adjustments.
40. Mr. Speaker, although significant progress has been made in fiscal consolidation, we cannot afford to be complacent. Ongoing fiscal consolidation holds the key to macroeconomic stability and maintaining the confidence of the international capital markets as expressed through our sovereign credit ratings and our cost of access to global capital markets.
41. Mr. Speaker, several countries have adopted "fiscal responsibility" legislation - encompassing a variety of fiscal rules and administrative/managerial processes aimed at ensuring better discipline and efficiency at all levels of government. Key elements of a fiscal responsibility law are:
 - ceilings on public debt or debt service, expenditure, or budget balances, expressed in actual or cyclically-adjusted terms; and
 - escape clauses allowing for deviations from fiscal targets under exceptional circumstances.
42. Mr. Speaker, in 2008, Government intends to begin the process of introducing a Fiscal Responsibility Bill which will be designed to achieve the following objectives:
 - to set out fiscal targets and fiscal principles for the State
 - to make it a goal for the Government to pursue its policy objectives in accordance with those fiscal targets and fiscal principles

- to provide for reports on departures from those fiscal targets and fiscal principles to be prepared by the Minister of Finance and Economic Planning
 - to provide for corrective measures when fiscal targets are missed.
43. The Fiscal Responsibility Bill will also provide a powerful signal to underscore Ghana's commitment to fiscal discipline and debt sustainability.

Special Initiative on Sustainable Development of Northern Ghana

44. The development gap between Northern Ghana and Southern Ghana has been a long historical process dating from the colonial era. The recent floods that affected most of the North have exacerbated the gap.
45. Government of Ghana is preparing a medium to long-term development strategy that will transform the economy and society of Northern Ghana, in a manner that will ensure effective utilization of the region's competitive advantages in food production, adding value to agro-processing, boosting private sector confidence and improving incomes and general living conditions.
46. Following the formulation of the Northern Development Strategy, a more detailed financing plan will be prepared by the Government.
47. In the interim, Government has earmarked an amount of GH¢25.0 million as seed money for the establishment of a Northern Ghana Development Fund, and will encourage Development Partners to contribute to the Fund.

Managing Future Oil Resources

48. Mr. Speaker, Ghana has been blessed with the discovery of oil in significant commercial quantities at the Cape Three Points off the West Coast.
49. Mr. Speaker, the discovery of oil is usually celebrated as a one-way ticket to wealth and economic growth. But recent history shows that poorly managed oil resources in a developing country can make life worse, not better, for most of its population. Oil can ruin local environments and create inequalities of income that destroy the fabric of a society and can become a curse rather than a blessing.
50. Mr. Speaker, in pursuit of the objective of maintaining social and economic stability and long-term economic growth, Government has set up a Task Force to prepare a Master Plan for the emerging oil industry. In 2008 the Task Force will examine the social and economic implications of Ghana becoming an oil-producing country and present proposals that will, among others, ensure that oil revenues will be used for economic diversification

for the benefit of all Ghanaians, and to minimize the potential social and economic dislocations associated with oil wealth.

51. Additionally, the task force will identify the requisite legal and regulatory framework as well as the infrastructure and human resource needs of the new sector.

Establishment of a Stabilisation Fund

52. Mr. Speaker, achieving and sustaining macroeconomic stability has been the cornerstone of our economic development strategy. This strategy has served us well and the Ghanaian economy has been resilient in recent times as evidenced by the recent high oil prices. However, the economy remains exposed to external shocks as a result of volatility in commodity prices, compounded by an anticipated progressive reduction in donor inflows, and increased competition from other emerging economies for foreign direct investment.
53. Mr. Speaker, Government will, in 2008, design a Stabilisation Fund to serve as a measure to insulate the economy from external shocks specifically the unpredictability of export earnings from our major exports, i.e. cocoa, gold, timber and oil in the near future.
54. The funds will be invested to ensure protection as well as the growth of the Fund.

Excise Tax on Phone Airtime

55. Mr. Speaker, because it is easy to smuggle mobile phones, a great proportion of them enter the country undeclared and, therefore, untaxed. Import duties and import VAT on such undeclared phones are lost to the state. The nation is, thus, not deriving maximum revenue from the expected taxes on mobile phone imports.
56. Mr. Speaker, considering the situation, Government has decided to abolish import duty and import VAT on all mobile phones imported into the country and introduce a more effective means of taxing mobile phone usage. Consequently government proposes to impose a specific excise duty per minute of air time use.
57. Mr. Speaker, it is worthy of note that over the last several years, the cost of phone airtime has fallen dramatically in Ghana due to competition and technological advancement. It is, therefore, expected that further technological advancement and improvements in the efficiency of the sector will further reduce the cost of airtime and, thereby minimize the impact of the excise tax.

Easing the Burden of Importing Vehicles

58. Mr. Speaker, in line with Government policy of easing the burden of transportation for Ghanaians, government has since July 2007 established a Committee to review the valuation, depreciation of values and the age penalties of vehicles.
59. Mr. Speaker, Government will shortly announce new policies for imported vehicle valuation and age penalties that will reflect a significant simplification of the existing regime and ease the financial burden of vehicle acquisition.

Tax on Stated Capital for Companies

60. Mr. Speaker, currently, a stamp duty of 0.5 per cent is levied on stated capital of a business on incorporation, and on subsequent increases in stated capital during the life of the company. The effect of this tax is that the incorporated business is left with less cash with which to start operations, at a time when external financing is most difficult to raise.
61. This regime could be quite burdensome for businesses, small and large. Furthermore, it has the tendency to discourage formalizing business through incorporation and could be a disincentive to raising equity capital, as no such tax is borne for capital raised through loans.
62. Mr. Speaker, in keeping with the objective of making Ghana an attractive destination to do business compared with other jurisdictions and making the private sector the engine of growth, Government will initiate a comprehensive review of the stamp duty on stated capital with a view to eliminating its negative impact on the capitalization of companies.

Climate Change and Preservation of Environment

63. Mr. Speaker, the Government is committed to ensure a balance between physical development and preservation of the environment. The phenomena of climate change and environmental pollution poses a great challenge to all countries, both developed and developing.
64. Mr. Speaker, in 2008, Government will work closely with international partners to establish programmes for reducing greenhouse gas emissions that contribute to global warming, with appropriate incentives for local companies to reduce their emissions.
65. Mr. Speaker, there is an emerging market in the trading of carbon emissions with daily quotations in the commodities section of the Financial Times of London. Mr. Speaker, the proposed programme will encourage local companies with low levels of emission to participate in carbon emission trading as a source of income.

