ICR Review

Operations Evaluation Department

Report Number : ICRR10243

1. Project Data :	
OEDID:	C2502
Project ID :	P000920
Project Name :	Private Enterprise and Export Development Project
Country:	Ghana
Sector:	Other Education
L/C Number:	C2502
Partners involved :	
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2. Project Objectives, Financing, Costs and Components :

The project, approved in April 1993, was intended to support Ghanaian exporters by providing US$ 34 million equivalent for an export credit and guarantee facility to allow private exporters of nontraditional products to obtain short-term pre- and post-shipment finance from banks. It also included a US$ 7 million equivalent technical assistance component to finance setting up an export finance office at the Bank of Ghana; training bankers and exporters in export finance; developing an international payments settlement system; beginning work on development of a forward foreign exchange market and a short term debt market; a study of commercial insurance products; a feasibility study for a credit reference agency; and preparation of plans to restructure enterprises in Ghana's Non-Performing Assets Recovery Trust. The PEED project was part of a series of operations designed to support the Economic Recovery Program adopted in 1983, including adjustment credits for the Industrial Sector Adjustment Credit of 1986 and Financial Sector Adjustment Credits of 1988 and 1991. It was designed to complement and run parallel to a USAID Trade and Investment Project (TIP). The latter provided for liberalized exchange rate of exporters, amended regulations for duty and tax relief for exporters, improved customs clearance, changes in the investment code, establishment of the export finance guarantee fund, streamlining the duty drawback scheme and export processing procedures, and a review of legal constraints to private sector development . The policy framework supported by the PEED and spelled out in a Letter of Strategic Development involves (i) carrying out programs to diversify exports, by enhancing technological capabilities of firms, aiding small and medium enterprises, and studying improvements in export infrastructure; (ii) liberalizing investment and incentive regulations; (iii) divesting government shareholding in commercial banks and reducing corporate taxes on financial institutions; (iv) development of the legal and regulatory framework for corporate restructuring under the asset liquidation programs; (v) acceleration of divestiture of other public entities; and (vi) expanded dialogue with the private sector. Only US$ 16.8 million was disbursed and the balance (60% of total credit) was canceled upon closing.

3. Achievement of Relevant Objectives :

OED agrees that the project implementation was generally unsatisfactory because default rates on credit repayment were high, credit management of participating financial institutions remain problematic, and TA objectives were not realized. However, its major objective, a doubling of nontraditional exports in five years was, in fact, exceeded . This contradiction is not adequately explained. Neither performance of IDA nor the borrower was satisfactory. IDA misjudged the Government's ability to deal with the macroeconomic situation, the availability of other sources of export financing, and the risks of non-repayment. The borrower did not give sufficient attention to the problem of the inability or unwillingness of firms to repay their loans. The provision of funds to commercial banks for on-lending at negative interest rates undermined the project and was contrary to the commitment to market determined financial policies. The ICR also indicates that there were tensions and misunderstanding between IDA and the borrower involving the closing of the project.

4. Significant Achievements :

The Export Finance Office increased the capacity of nine banks to provide trade financing to exporters and 84 loans were provided to a diverse group of 65 exporters. Despite the shortcomings of the project, Ghana's nontraditional exports increased from US$ 72 million in 1993 (when the project became effective) to US$ 329 million in 1997. Implementation of the technical assistance component of the project was generally successful : the study of the feasibility of establishing a forward foreign exchange market was completed; Ghana subscribed to the SWIFT system and the project financed some of the hardware and software required; a study determined that establishment of a credit reference agency was a viable proposition; a study of the long term debt market was completed, but further development was inappropriate because of the prevailing macroeconomic situation; a study of the commercial insurance market was completed; trade promotion campaigns were financed; training programs were held for bankers and exporters; and diagnostic studies of 14 businesses were carried out.

5. Significant Shortcomings :

The project was approved at a time when Ghana's macroeconomic environment, especially the fiscal situation, was deteriorating. It was expected that the Government would take corrective action expeditiously. However, action was not taken in a timely manner and, as a result, inflation accelerated, and the exchange rate and interest rates soared. This had a negative effect on the banking system and resulted in a crowding out of the private sector. Utilization of the credit was slow. Banks were unwilling to take risks on new, smaller exporters given the availability of risk-free government paper, market rates were high, and some exporters could borrow medium-term funds from the MOF at below market interest rates. Default rates were high and credit management capacity of banks remained low. The credit was modified to ease exporters' access, increase the guarantee ceiling and reduce reference interest rates for dollar denominated loans. Nevertheless, commitments remained low, and defaults high. The project was closed with only approximately US$ 17 million for half the expected amount having been disbursed.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Unsatisfactory	Unsatisfactory	
Institutional Dev .:	Partial	Negligible	Few studies or TA appear to have had significant impact.
Sustainability:	Uncertain	Uncertain	
Bank Performance:	Deficient	Unsatisfactory	
Borrower Perf .:	Deficient	Unsatisfactory	
Quality of ICR:		Satisfactory	

7. Lessons of Broad Applicability :

The lessons of this project have been noted in similar projects: namely, that operations involving the financial sector are unlikely to succeed when the macroeconomic situation is unstable; when the legal and regulatory framework of the financial sector is problematic, and when participating financial institutions and potential borrowers are weak and/or inexperienced. In addition, operations of this type should have clear monitoring indicators linked to expected outcome and impact attributable to the project.

8. Audit Recommended? ○ Yes ● No

9. Comments on Quality of ICR :

The ICR is satisfactory, although it could have taken a broader perspective. The project was one element in a broader program to promote private sector development outlined in the Government's Letter of Strategic Development Policy and also supported by the USAID Trade and Investment Project. The ICR has no discussion of whether these reforms were carried out and if so, what their impact was. It is not possible to gain a full appreciation of its impact without reference to the broader policy context and at least a brief review of complementary policies and operations.