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THE CORPORATE COUNCIL ON AFRICA
LAUNCH OF THE INSTITUTE OF STATISTICAL,
SOCIAL AND ECONOMIC RESEARCH (ISSER)'S
"THE STATE OF THE GHANAIAN ECONOMY IN 2012" REPORT

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PARTICIPANTS:

Moderator:

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Presenters & Discussants:

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P R O C E E D I N G S

MR. SCHNEIDMAN: Good afternoon. If I could ask you all to take your seats in the back, we'd like to start the panel discussion.

Thank you. We're going to be getting some more seats here in just a moment. So, if you can bear with us, there will be some more chairs coming.

Let me give you a warm welcome -- and I underscore the word "warm." My name's Witney Schneidman. I'm a Senior Nonresident Fellow here at the Brookings Institution, and I'm also Senior International Advisor for Africa-Covington. And it's just a real thrill for us to be able to do this session today on the state of Ghana's economy in 2012.

I don't know if you've had a chance to look at the product that was put out by the Institute of Statistical, Social, and Economic Research. There's some copies at the door. But just let me commend it to you, because it's really an extremely well-done product. It's very comprehensive, and for those of us here in Washington who live and die for policy

recommendations, there are a number of them there that give you some food for grist.

And it's also, I think, important to note that this is the 22nd year that ISSER has published this product. So, that suggests that they've been at it a long time. They know exceedingly well what they're doing, and we look forward to this panel discussion today, which will be led by Dr. Felix Asante, who's the Director of ISSER.

And he'll give some initial remarks, and then we'll move to a panel discussion that will be joined by Robert Osei, who is a Senior Research Fellow and head of the Economics Division at ISSER. And also joining will be Professor Peter Quartey, who's head of the Department of Economics at the University of Ghana, and my friend and colleague, Stephen Hayes, who is the President and CEO of the Corporate Council on Africa.

And before I turn it over to Professor Asante, I just want to mention that ISSER is one of six partner think tanks of the Africa Growth

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Initiative on the continent. And I think it's really important to underscore this, because AGI really works hard and prides itself on being the voice of Africa here in Washington. And that can't be accomplished without the strong friendships, and partnerships, and productivity relationships that it has with its partner institutes on the continent.

So, with that, let me ask Professor Asante to come up and get us going.

DR. ASANTE: Yeah, thank you very much for the introductory remarks about ISSER. A lot has been said about ISSER, so I wouldn't say much. I thought what I was going to say is going to be said more.

Like us, it was said, we started this publication since 1990. And so this is the 22nd issue, and this has run between about four Directors of the Institute.

What I'm going to do, I'm just going to give you highlights of what is in the book, and then I hope during questions time, we can include more details into it.

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So, the four quarters on the economic performance, with reference to 2012, we've tried to put in some few updates, in terms of what happened in 2013. So, for the 2013 update, it's for the period between January and September/October 2013.

Ghana's economy growth in 2012 was 7.9 percent. And in 2013, it decreased to 7.4 percent. And the 7.4 is between January and September.

This translates into a real GDP growth of about 30.1 billion Ghana cedis, and in nominal terms, 73.1 billion Ghana cedis.

And in 2012, the real GDP outturn was 32.3 billion Ghana cedis, with a nominal GDP of 84.4. We expect these figures to go up, because this is $\frac{3}{4}$ of 2013.

Growth rate has been comparatively high, despite the worldwide recession, and the main drivers of growth were the high prices of the major export commodities, including the oil find we had in 2007.

So, just after four months came from services that are compared to industrial -- and this

graph shows the training target: real GDP growth between 2007 and 2013. And you will notice that in 2011, our growth was 14.4. That was when we went commercial with our oil exploration. And in 2012, we came to 7.9. And in 2013, as of October, we estimate it's 7.4.

This is a table which was selected -- performance indicators of the economy. And as you will notice, there's a lot of talk about oil and its effects on agriculture and other sectors.

You will notice that in 2011, sectorial growth rate, in terms of in agricultural, is 0.8 percent. And it went up to 1.3 percent in 2012. We expect about 4.8. And in 2013, we have 3.4 percent.

You will notice that the industrial sector -- that is where the oil sector is based -- has shown quite an improvement in terms of the growth -- and then services, also -- being around between 8 and 10 percent.

Inflation -- yes, (inaudible) get inflation for some time. In 2013, as of October, we had

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inflation of 13.1 percent, after having a single digit for about two years.

Domestic revenue to GDP -- it's moved from 21 5/8 percent to about 16 percent in 2012. And domestic, especially to GDP, also, increased from about 24 percent to 25 percent.

And then the rest (inaudible) balance to GDP and a primary balance to GDP, which were negative.

This graph shows the sectorial contribution to the national output. And you will notice that the services sector is dominating the economy. The agriculture sector, in terms of the contribution, is going down. Most of the population is in agricultural -- 50 percent plus. Okay, and their contribution to agriculture is going down -- started around 2009, way before even the oil came in.

In terms of fiscal developments, the main policy objective for 2012 was continuation of prudence, fiscal policy to ensure macroeconomic stability -- and therefore, to increase the tax base and mobilize revenue -- to offset huge waste bill were

paramount in 2012.

In 2012 fiscal year the overall budget balance was at 4.1 percent of GDP, compared to 4.3 percent in 2011. And assets, September, October 2013, about 8.4 percent, and is projected to be around 10 percent by December 2013.

In terms of government payments -- and that is where we have some challenges -- total payments as percentage of GDP increased from 24.8 percent in 2011 to about 33 percent in 2012. And assets, October, November, it's about 24.3 percent.

Discretionary payments, in terms of government payment, was quite high, compared to the statutory payments. And discretionary payments -- under this, we have subsidy to the utility of petroleum and then, also, personal emoluments, that is salaries, that dominates the discretionary payment.

And for the statutory payments, those are the payments to the various funds that we have in Ghana. Then, also, made up of many of the Gates Fund towards education. And then we have the Road Fund and

all those. Those are the statutory payments.

Growth in expenditure was high, due to the recurrent spending, and increased clearance of aggregates and that formed about 20 percent of discretionary expenditures. And the recurrent spending was high because of these three main activities' high levels of personal emoluments. And this was about 36 percent of discretionary expenditures in 2012 and 9.3 percent of GDP.

This came about because we tried to implement from 2009 tried to align salary structures so just to try and remove the inequality. So, for instance, for me, working at the University, if I move to the public sector. My salary structure, it shouldn't be a disincentive, okay? And through that process, salaries went up, okay, and government had to look for responses to market. So, you notice that 2011, 2012, quite a lot of government payments went into salaries.

And then we also have the high payments for utility and for oil subsidies. Currently, there's an

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attempt by government to move out of going to those subsidies. And then high-interest cost payment for domestic debts -- about 53.7 percent of discretionary payment.

This graph shows a total expenditure in the ratio of discretionary payment to total ratio. And you notice about 78 percent of government payments goes into a discretionary -- which is quite huge.

In the monetary and financial developments, the main objective in 2012, as in 2011, was to sustain the single-digit inflation. And in 2012, we ended the year with 8.5 percent inflation, and this rose to 15.1 as of October 2013.

The target achieved in 2012 -- the increase in 2013 was influenced primarily by the partial effect of fuel and utility subsidy increments -- and demand pressures -- demand pressures, mainly from increases in salaries.

Reserve money was 36 percent in 2012, compared to 31 percent by December 2011, due to increased accumulation of foreign and domestic assets.

And reserve money growth decreased to 21 percent in 2013, due to a slower growth in domestic assets.

And this graph shows, in terms of growth, between a broad money supply, which includes foreign currency, and then the reserve money.

And this is the performance of the external sector over the periods. We've still continued to import more than what we export.

And then in conclusion, we've just come to an end of a development plan, which we know as the Ghana Shared Growth and Development Agenda, and considering the challenges and setbacks of the last four years, and the next development for Ghana in 2014, it's a proposal that should follow these areas.

One, policy of inclusive growth, with the aim of ensuring sustainable economic growth and social cohesion reduce the growing inequalities associated with growth and development. We have high growth. We want it to be spread throughout the country.

Pursue an employment-centered economic growth strategy that will ensure that employment

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expands along production, having in mind productivity issues.

Sustainable exploitation of Ghana's national resource endowment, in agriculture, minerals, oil, and gas.

And then, lastly, ensuring rapid infrastructure and human development, as well as application of science, technology, and innovation to enhance the creation of employment and income earnings opportunities.

Thank you very much for your attention.

MR. SCHNEIDMAN: Okay. Thank you, Professor Asante. That was a good overview, and, I think, a great framework for getting this discussion going.

Before we go, just let me acknowledge Ghana's Ambassador to the United States. Sir, if you'd just stand up, and just take a quick bow here. Thank you for being here. Thank you.

Getting into the discussion, we're going to start with Steve Hayes, who will give some remarks, and then we'll do some discussion here from the

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podium, and then turn it open to the floor.

But, Steve, why don't you start with some reflections on what we've heard, and what you're seeing from your seat as the head of the Corporate Council on Africa?

MR. HAYES: Thank you, Witney.

Dr. Asante, thank you for the opening. I have read the report quite a few times, and some of the points that you made were actually the ones that I was most concerned about, as well.

First of all, the Corporate Council on Africa -- we are sending a trade mission to Ghana and Cote d'Ivoire at the end of the month, because we are very high on Ghana in some ways, and we're also very optimistic about what's going on in Cote d'Ivoire.

We've also just signed an agreement with Harvard University/MIT at an institution in Qatar, to develop the Agriculture Knowledge Center in Ghana, with one of our members in the lead -- Africa Atlantic and Jon Vandenheuvel.

That's going to be, I think, an exceptional

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project. I hope it will be, because we have some of the same concerns that were noted in the report, in that the agriculture is declining, and that we are at a stage, as the report noted early on, that food stocks may be at an increasing risk. And, therefore, how do you keep the agriculture system going, working finer? How do you slow down the migration to the cities, and how do you start addressing more effectively youth unemployment -- all the problems noted in the report.

Also, the report also noted that there were the infrastructure shortfalls, which really do hinder development, the limited structural transformation, and the diversification of output. All those are issues that, I think, governments have to address. And, of course, it wasn't your point to call that specifically, but those are some of the issues that concern me.

The three points of concern in that report to me were the salaries. They've actually almost tripled, if I read your report right, in two years'

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time. Now salaries in government, what you're doing is developing an entitled class. Now I understand, also, the argument that to get good government people, you have to pay them well -- unlike the U.S. The average government employer is paid higher than the average worker now.

The problem is that that will draw some of your best minds into government, and government is dependent upon the labor of others. And, therefore, you're taking some of your best minds out of the system. You're taking it out of the university; putting them in government. And that's great, but how do you build capacity in the economy?

And, also, what you're developing, of course, is an entrenched class that will protect its own interests, as happens in many countries. Therefore, how do you develop the private sector to be at least a counterbalance to this? And, certainly, the private sector will be the driver of the economy.

So, the salaries and the enormously high percentage of government expenses on that were a

concern to me when reading the report.

The second area of concern is the lending rate. The lending rate is more than 25 percent. If you're going to develop your economy, and you're going to have entrepreneurs and small businesspeople, they can't afford to pay 25 percent on loans. The margin, even in the U.S., on businesses is normally less than 10 percent net for those that are profitable. Therefore, you'd be operating at a loss with that type of lending procedure.

So, that is a concern, I think, for the development in Ghana.

The third concern, as pointed out to me in looking at this, was the agriculture output going down. Again, Dr. Asante pointed out that 50 percent of the Ghana population is in agriculture. That's not a good trend, if the agriculture output and income is going down in proportion to the rest of the economy.

So, again, also, I think the urban migration is another issue that African cities, especially -- if not all cities all over the world -- are going to

face. So, how do you develop that gives you a broad population base, and, again, addresses youth unemployment?

The youth unemployment is a major issue, not simply in Ghana, but it's in Africa. I suspect the figures that were given in the report are probably low -- probably as realistic as they can be on all data, but I suspect that youth employment figures, as high as they were, are probably low.

So, I think youth employment, food stocks, oil prices are factors that are going to affect the economy that Ghana has to address, as well as those issues.

So, thank you, and that's my -- oh, I should say -- what I did also want to add is that -- you know, again, I want to praise the report. I think what Ghana is doing is very good. My job is not to concentrate on the half-full glass, but trying to resolve and solve the problems represented by the half-empty portion. So, that's what I'm looking at.

Also, as CEO representing U.S. businesses in
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Africa, I've got to look at, how can the economies be more open, to get more U.S. investment? You can't get U.S. investment at the rate you want to in Ghana or other countries with finance rates at 25 percent or higher. Large corporations can take care of themselves, but what you really need to address is the small business. And I would say those need to be addressed in the U.S., too, by the way.

But nevertheless, the small business sector is going to be key to providing jobs in any country -- and including the United States -- and that really has to be addressed. You can't do it on those types of interest rates.

Thank you.

MR. SCHNEIDMAN: Great. Thank you very much, Steve; very interesting comments.

Professor Quartey, let me turn to you, and pose a question, based on the Prof's presentation.

We saw a lot of numbers up there, saw a lot of data -- very important data. But translate that for us. When we go to the average man or woman in the

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street in the crowd of Kumasi, what are they concerned about, with the economy? What do they feel most optimistic about, and what are they most concerned about?

DR. QUARTEY: Well, thank you very much, and let me thank Brookings for this opportunity.

The average Ghanaian will say, "While you have all these numbers, we don't feel them in our pockets." That is the basic thing you hear.

Yes, they are concerned about the growth that the years have recorded -- good growth rates -- but what extent that this translates into improved livelihood, or what little you have increased inequality. So, as you grow, the rich become richer, and the poor become poorer.

Thankfully, there is a policy -- the Livelihood Implement Against Poverty. It's a kind of social protection for those who fall below the poverty line, the vulnerable, and the rest. And that is the area we need to focus most, so that we redistribute the growth.

The other challenge is to do with jobs. There are quite a number of youth unemployment, as the previous speaker mentioned. A lot of people are churned out of universities, every year from the tertiary institutions -- yet, you cannot find the jobs. The government cannot employ everybody.

The private sector, you realize, is also challenged, because cost of lending is about 25 percent. What kind of business can you do, and recoup all your costs, and, also, pay for the borrowing?

So, it is a major challenge for the economy. But I must say, we have impressive growth rates, and there are significant signs for improvement.

MR. SCHNEIDMAN: And just let me follow up on that. I mean, do you feel that in the urban areas, people are accumulating wealth? I mean, we read about a growing middle class in Africa, and Accra is one of those areas. Are you experiencing that yourself -- or your friends?

DR. QUARTEY: Yes, certainly. If you compare Ghana 10 years ago, you'll see that there is a

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growing middle class. You see a lot of cars on the street. You see traffic. You see new buildings. You see quite a lot of developments within the country.

But, yes, the poor continue to remain poor. And just like any economy, as you grow, there should be a system to redistribute the growth. And that is where we need to focus more attention on.

MR. SCHNEIDMAN: Great. Thank you.

Robert, let me ask you a followup on another point that Professor Asante raised. He noted that the national development strategy, the Ghana Shared Growth and Development Agenda, this is the last year of that.

Many countries in Africa have national development strategies and agendas. How important is this document? Is this document the result of a national debate, and does it really reflect national priorities, or is this document produced by government bureaucrats who sort of put forward a list of their concerns? How seriously should we take these documents?

MR. OSEI: Thank you very much.

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In terms of the seriousness of the document, I don't think there is any doubt about the intentions of the document. And, indeed, the projections that are actually made in the document lead in terms of the policies, but, also, in terms of the outcomes that they are supposed to achieve.

I guess that the bigger challenge has been the implementation -- how we translate these documents into reality, in terms of the outcomes in the documents.

And so the documents, they do identify what the problems are, as some of us see them. They are quite inclusive, in terms of the development. They use -- and they actually do consultations quite broad-based.

And so, generally, in terms of the documents themselves, I think they are actually very, very fine documents. The issue is that there is sometimes a bit of a disconnect between policies that are actually put in the document, and then what the outcomes generally have been.

MR. SCHNEIDMAN: Is ISSER involved in the development of the next national development strategy?

MR. OSEI: To some extent. So, some colleagues are part of the review process, for instance, so that once the National Development Planning Commission have had first drafts of the different chapters in the document, some of our colleagues are asked to then review and then input into the documents. So, we are definitely involved in it.

MR. SCHNEIDMAN: And just one other point -- some of us have been involved in the work of the Extractive Industry Transparency Initiative. And I've been very impressed by Ghana's civil society, and how involved they have been in this.

Does that translate into a broader dialogue with government? I mean, is there a dialogue between civil society, government, and, let's say, the private sector, when it comes to setting development agendas?

MR. OSEI: I think, generally, one could say so. Of course, Ghana's civil society -- I think it is

well known that it is very vibrant; it is very strong. And the media also has quite significant independence.

And so the discussions relating to the extractive industries, the general government policies, are actually quite vibrant, and, indeed, it comes from all spheres. So, sometimes, of course, it takes political dimensions, but it's both sides. So, really, everybody gets their voice heard.

MR. SCHNEIDMAN: Okay.

And Professor Asante, let me ask you a question based on your presentation and, I think, one of Steve's comments, on this issue of youth unemployment.

As it was noted, it's not unique to Ghana. But it's a problem for Ghana. And what is your recommendation to the government on how to deal with youth unemployment?

DR. ASANTE: Yeah, thank you very much.

As has been acknowledged, issues of unemployment is a major concern not only to Ghana. But the issue and what has been coming out in

discussions is the disconnect between investment in education and what industry is doing. That is one part of it.

But we also know that industry is using high technology, which, at the end of the day, you don't demand a number of new employment.

I think that one area, in my view, we need to tackle is -- come up with a middle-level manpower, okay? Currently, everybody who finish university expects a white-collar job, okay? But there's a limit to what the economy can take, okay? And you notice that the middle-level manpower is literally getting lost, okay?

And so you go to industries. Those people you need to drive the industry like technicians and nobody wants to do that, okay? So, at times, they are setting jobs, but people think I'm a graduate; it doesn't affect me. That is one side to it.

We also appreciate that, yes, the turnout of graduates from universities is quite high, compared to some years back. Now we have quite a number of

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universities, and virtually anybody who goes to high school stands a chance of entering a university.

Some years back, we had five public universities, and that was all. Now we have about 7, 8 public universities and about 30 to 40 private universities, okay? So, we appreciate that the turnout is quite high. But as a nation, we hear too much the turnout with the job creation.

And, certainly, with the job creation, there's a limit. I mean, the industries that we've been operating some years back are still there. So, only a few has been added to it.

So, we need to find a way of getting these young guys to fill middle-level manpower, and not assume that once you finish university, you need to be driving in an air-conditioned car; you should be putting on a tie to work. That is the mentality that is currently popular.

MR. SCHNEIDMAN: Which, I think, goes to one of your recommendations, and that is ensuring rapid human development.

And, again, let me push you for specifics. What are you talking about, and how's that going to happen?

DR. ASANTE: Yes, yes. Well, you'll notice that most of the graduates coming out and for most of the private universities, what they are running are business courses. So, you'll notice that the area of science and technology is restricted to some few public universities, where government has funded. So, the University of Ghana, Kwame Nkrumah University of Science and Technology, that's where the core science is being done.

And for most of the private universities, about 50 plus, are all into business, okay? So, now there's a disconnect between technology, right, and then the business. But we need to have a blend, okay?

So, if the public universities also decide that they want to go more private, then that leaves science is getting missing. So, we have to find a way of making conscious effort that science and technology complement is strong. And I think that will drive the

nation.

MR. SCHNEIDMAN: So, if the science and technology component is stronger, that does what? I mean, that creates training programs? What does that do to respond to the deficit of human capacity?

DR. ASANTE: I mean, we know that, for most of the new business that's coming into oil sector, into mining, you have quite a number of expatriate who run it, taking over key positions, okay?

If we have very good science and technology, then some of those positions could be taken over by Ghanaians, okay?

And we all see it, and I think we have to make a conscious effort to bridge that gap.

MR. SCHNEIDMAN: And the traditional divide between the formal and the informal sector -- so for all these college graduates, is the informal sector actually growing, as these men and women seek to generate income to support themselves?

DR. ASANTE: Yeah, the informal sector is very, very huge in Ghana.

One area that we need to do more with and more serious is to know who they are, what they are doing, and so they can contribute to the national basket.

Currently, there are quite a number of activities going on in the informal sector. It is very difficult to track them, okay?

Literally, when you come to Ghana, we always hear, "Oh, once you finish degrees, why don't you go to the informal sector?" But there's a limit, also, to the activities of the informal sector.

When you look at the type of technology and the type of equipment being used by industry, there's a limit to what the informal sector can take. They play a very important role, but I think we don't know much about them, what they are doing, where they are, for them to contribute to the national economy.

MR. SCHNEIDMAN: Great; thank you.

Steve, let me turn to you before I open it up to the floor, and ask you about the trade mission that you're taking to Ghana. Who's going? Who's

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lining up to invest in Ghana? And what are you hearing about Ghana as an investment destination for the U.S.?

MR. HAYES: Well, we are hearing that Ghana's a good place to go, and, therefore, we're doing this.

We have a lot of companies interested. I think there's 20 to 25 lined up already. I think, frankly, that's a manageable number, and I'm not sure we want many more.

But I want to say something on the report, which I think is an excellent report of Ghana to-date. I think its most important part of the report was also its most understated -- and that was the conclusions. And what it says -- the growing inequalities associated with growth and development needs to be addressed -- that an employment-centered economic growth, as opposed to large returns.

And I think World Bank and others have spent far too much time talking about large returns in Africa, and not promoting more the employment-centered

growth. Large returns don't necessarily mean large employment. I think we have to shift our thinking to large employment.

And so what we're doing -- to answer your question and not to duck it -- on the trade mission is looking at smaller and more diverse companies. It's a very diverse group of companies. It's not simply oil. And oil, in fact, is a very small part of the delegation -- but a lot of small businesses who are looking to invest.

My concern is, are we setting those small businesses up for disappointment? And the reason I say that again is, if they're going to invest, and look for partners, and help the small businesses in Ghana and Cote d'Ivoire, their investment is going to have to be backed by financing.

And the financing is too high for small or medium-sized businesses to prosper, so I think that's a major concern.

I should say that for those of you who are interested in the trade mission afterwards, Ambassador

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Perry is leading that, and he's in the audience.

MR. SCHNEIDMAN: Bob, do you want to stand up? You get a lot of takers here. Thank you.

MR. PERRY: Could I just take a moment?

MR. SCHNEIDMAN: Please.

MR. PERRY: Some of the companies going are focused on ICT and housing.

MR. SCHNEIDMAN: Right.

MR. PERRY: And I think those are opportunities --

MR. SCHNEIDMAN: Right.

MR. PERRY: -- for --

MR. SCHNEIDMAN: That was going to be my next question.

MR. HAYES: Yeah, some of the companies going are focused on ICT and housing. And I think with the growth of the middle class in Ghana, the deficit of housing, it's a ripe opportunity for American companies going with technology to help address that demand.

However, the point on financing is key to

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that. The rates have to come down to support the growth that's there.

MR. SCHNEIDMAN: Yeah, very good.

And, Steve, let me ask you one more question. Do you hear about U.S. companies using Ghana as a springboard into the larger West African ECOWAS market, or to access East Africa or Southern Africa? Or is it pretty much a Ghana-destination investment?

MR. HAYES: I think -- and I assume you want as clear an answer as possible --

MR. SCHNEIDMAN: It'd be helpful.

MR. HAYES: I think there's a wait-and-see attitude, as basing in Ghana yet, for a number of reasons. The oil economy -- how is that going to affect the governance and so forth?

What we're hearing from our companies is because of interest rates, especially, but for other reasons yet, it's still too early to make it as a base. There are companies that are definitely interested. We are very high on Ghana, but we're

often ahead of some of our companies, as well.

MR. SCHNEIDMAN: Thank you.

Well, let me open this up now to a larger conversation, larger discussion. And let me ask you, please, to identify yourselves, keep your questions short and specific, so we can get a lot of them, and turn it over to you -- the gentleman with his hand up. Sir?

We have microphones that will be brought around.

SPEAKER: Good afternoon, everyone -- Eric (inaudible).

I was going to rebound on the interest issues. It's coming from, probably, the Central Bank choosing, you know, currency stability and reduction of inflation, and charging a very high interest rate to commercial bank in the country. And that's why, you know, at the desk it's 25 percent.

So, I have a question. Do you expect that with the, you know, inflow of currency that is going to come with the oil revenues in the next few years,

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the Central Bank will be able to reduce, you know, its target, and then, thereby, you know, decrease interest rates in commercial banks?

Thank you.

MR. SCHNEIDMAN: Okay, let me take two or three questions here. Right behind you -- yep.

SPEAKER: Thank you very much. My name is (inaudible). I'm a graduate of (inaudible) in Cape Coast, but I've been here a while.

My question has to do with the issue of overcoming the inequality. We have the same problem here in the U.S., but it goes to Congress, where one party thinks that's the wrong way to go.

So, my question to you is, how are the two major parties in Ghana looking at the issue of what to do about inequality or the outcome of growth?

And, Steve, if I might ask you quickly, one of the things that worries us here is, why is it that China is clobbering the U.S. economy all over Africa? How is it that Chinese companies do a better job of engaging Africa when the U.S. has a much longer

record, a larger population of black people here, and is better at capitalism?

Thank you.

MR. SCHNEIDMAN: Okay, those are two interesting questions. And let me get one more from Ambassador Cook here.

MADAM COOK: Hi -- Frances Cook, still with Lonrho.

Two of the issues that you raised several times today on infrastructure and inequality have been addressed recently, I think, in the legislative process in Ghana.

And I would welcome your evaluation of the new infrastructure fund, and what you think it will accomplish, and how priority's going to be set.

And I gather the other issue of addressing inequality -- one of the legislative ways that they attempted to deal with it is through local content legislative, which Angola, among other places, has done a lot on recently. I gather it's a little bit stuck, perhaps, in the legislative process.

So, if you could give us your evaluation of that, I think everybody'd be very interested.

MR. SCHNEIDMAN: Great. Let me thank Ambassador Cook. Let me ask Prof Asante to grapple with the first question, about, will increased oil revenues lead to lower interest rates?

DR. ASANTE: Not necessarily, because we've had the oil inflow coming in since 2011, okay? And we have yet to see that impact, in terms of the interest rates, okay?

So, I think it's more the dynamics within the country, in terms of the businesses and all that, yes. So, I don't see the oil influencing that.

Maybe, Peter, you can add more to it, since you went on the monetary section.

DR. QUARTEY: Yes, I think he's said it. We've had the oil inflow, and that is not a challenge. That is not what is causing the high interest rates.

Government itself is cash-strapped, and, therefore, government has been borrowing from the banking system. Government treasurable rates are

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about 22, 23 percent.

So, as a bank, if you have money, and want to lend to a private business model, there's more risk than if you were to lend to a government. Obviously, you lend to the government.

So, the banks have been lending to a government which is always ready to borrow. And, therefore, it is affecting the interest rates.

We have quite a number of banks in the system, so you can't say there's no competition. There is competition, but this is the real challenge. If government can ease off, and allow the private sector, private businesses, to borrow, that may help. But, otherwise, the interest rate will continue to be high, because of high borrowing from government.

MR. SCHNEIDMAN: And do you see government taking actions over the next 12 months to bring down interest rates?

DR. QUARTEY: It's a bucket economy. The government does not control the banks. The banks are allowed to operate like a business, and, therefore,

unlike the past, where there's a ceiling, there's a cap on how much of the rate of interest, this time, it's a demand-and-supply issue.

The only area we've seen is for the Central Bank to come up with a formula for the banks to use to calculate their base rate -- that is, their cost of funds. We're hoping that will help, so it'll bring some transparency in the way they compute their base rates, and how much margin they charge.

But, as we speak, we haven't seen much happen.

MR. SCHNEIDMAN: Steve, let me ask you to take on that question, about why China's clobbering the United States in Africa.

MR. HAYES: Yeah, and I think they are. And, also, I think China's entry into Africa has been, by and large, very positive overall. I think it's helped Africa, and I don't think that we would have moved nearly as fast if China hasn't -- not that we're moving fast -- but if China hadn't entered the African market.

I think there's several reasons for it, having spent a lot of time in China in the '80s and '90s, and a lot of time in Africa in the last 15 years. I think I'm, you know, qualified to at least answer some of that.

China has a top-down decision-making process, so they can make the decisions quicker. I think it's ironic, but they do have a stronger public-private cooperation than most countries. And there is a very vibrant private sector in China, contrary to myth.

That private sector is engaged throughout Africa, both the private sector that's not supported by the China government, and then China can put the financing together within six months. They can pull in the different companies that are needed for a project all together, which takes us, in our system, far longer.

I also think there is a more active support for investment by China than from certain sectors of the U.S. government.

MR. SCHNEIDMAN: Great. Thank you.

Robert, if I could ask you to grapple with the issue about the politics of inequality. I know we don't have a problem with that in the United States, but just curious how that plays out in Ghana, between the two major parties.

MR. OSEI: We don't also have a problem with the politics of it.

Generally, I think that it's fair to say that the governments, over the past years, have tried to use both social policies and economic policies to try and address the inequality problem.

The challenge, however, which -- I mean, there is a bias towards the social policies, okay? So, you have things like school feeding programs, you have free maternal healthcare (inaudible) Livelihood Empowerment Against, which is a social grants program, et cetera.

The challenge is -- however, that's because we lean more towards the social policies. There is limited fiscal space that we have to actually be able

to pursue the inequality in a very rigorous manner.

I mean, undoubtedly, for sustainable reduction in inequality, you have to lean more towards the economic policies. And on that front, again, we have tried, and, again, it's government. So, it doesn't matter which political colors have been empowered.

We have pursued some of these economic policies, but the response hasn't been great, due to many, many reasons -- including some of the infrastructure challenges that you tend to find.

Indeed, once you tend to find the largest form of inequality are social. So, for instance, if you look at the northern part of Ghana, *vis-à-vis* the southern part, you tend to find that inequality plays out in many, many indicators -- both economic and social.

So, in terms of the politics of it, we don't have a problem with it. The challenge has been with respect to the fiscal space, to try and deal with the inequality challenge.

MR. SCHNEIDMAN: And has the oil wealth been used to address some of these issues -- and in a way that the government is putting aside a relatively considerable amount for a rainy day fund and social investment?

MR. OSEI: Not explicitly. So, the oil fund, essentially, the bulk of it goes into the consolidated fund.

So, in terms of it affecting some of these direct inequality-related outcomes, it has to do with, generally, how we've done our fiscal management or economic management.

And so we don't have -- for instance, say we take in X percent of the oil fund, and then plug it into a particular social fund, per se.

MR. SCHNEIDMAN: Okay, thank you.

And, Peter, let me ask you to respond to Ambassador Cook's questions about the infrastructure fund legislation and the local contact legislation that was passed into law last year. Are these two pieces of legislation helpful? Are they clear, or do

they confuse the matter, as sometimes happens with government?

DR. QUARTEY: Yeah, they are good legislation, but it's early to assess its impact.

But I would say that, in terms of the infrastructure fund, the idea is to increase the value-added tax by 2.5 percentage points, so that the monies realized -- part of it will be used for infrastructure development. So, you see in the 2014 budget, some steps to make sure that these amounts are realized and then used.

But the challenge we've had with infrastructure is not just about the funding, but maintenance, as well. We are very quick to construct new roads, but maintenance becomes a challenge.

That's also because we are not used to the culture of charging for the use of roads tolling on these roads, and raising money. Everything has to come from government. And, of course, government is often constrained by how much it can spend in road construction and maintenance. Oftentimes, we find

don't have money used for constructing roads.

These days, we know. Eight funds have been declining, and, therefore, that has repercussions for how much we raise to finance this infrastructure development.

So, yes, they are good policies, but it's early yet to assess.

MR. SCHNEIDMAN: And local content? Do you think the way it's structured, it will result in more Ghanaians being trained, and more jobs being created?

DR. QUARTEY: Yeah, to a large extent, it will. We're in the process of assessing Tullow Oil's operations in Ghana, to what extent some of these are local content, and the rest are reflected in the lives of ordinary Ghanaians -- suppliers and the rest.

We haven't finished with that assessment, so I won't be able to tell much, but I think it's a good policy that we need to pursue.

The other challenge is what my colleague alluded to earlier the availability of skilled manpower. If it's local content, you want to employ

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more Ghanaians to work in the oil and the mining sector. You also have to have the skills to be engaged. So, it is for us to position ourselves, including government, to train people ready to be absorbed into some of these areas.

MR. SCHNEIDMAN: Great. Thank you.

Let me take some more questions -- and start with some folks in the back, maybe, who haven't had a chance.

Yep -- if you could identify yourself, please.

MR. SMITH: Sure. Good afternoon. I'm Malik Smith. I'm the Executive Vice President --

MR. SCHNEIDMAN: Sorry -- can you hold that closer to you?

MR. SMITH: Yes. I'm Malik Smith. I'm the Executive Vice President of Nationwide Finance. We're based in Florida, but we've been in Nigeria for 15 years, and Ghana is definitely on our market and in our scope.

I hear us keep reflecting back on Ghana's

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oil industry. It's really not a gigantic industry. Ghana is still importing oil to make diesel and gasoline for its economy every day. So, that's not what we have to focus on.

Steve said earlier it's so important -- the SMEs -- the small-medium enterprises -- have to be funded in a way to train local people, youth especially, to begin to put money in the economy to make it grow.

I think that Ghana has a tremendous amount of potential, and I think government is not the solution for jobs. It's the private industry. It's the banks -- the banks and the government are in business together, because the government borrows money from the banks. In terms of bonds, they pay high interest rates back to the banks, so they don't lend the public money.

So, we come in -- our company -- we come in, and we take a small company, and we bring in construction equipment, and we fund it ourselves. And we have the local banks issue bank guarantees -- or

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what we call unconfirmed letters of credit. And we're the only company in Africa that's accepting unconfirmed letters of credit from African banks in lending money. We do about, I guess, \$750 million in Nigeria.

MR. SCHNEIDMAN: Can I just ask -- keep it to questions, so we can keep it flowing here.

MR. SMITH: But it's not a question. I want --

MR. SCHNEIDMAN: I know it's not. Can you please keep it to a question?

MR. SMITH: -- to just add to what everybody's saying. No, but I didn't have a question, but, you know, we're talking about some things, but we're not hitting the point. I wanted to say something to hit the point.

MR. SCHNEIDMAN: Okay, thanks.

Right back there -- is that State Department?

MR. BARLERIN: Hi -- Peter Barlerin, from the Africa Bureau of the State Department. I'd like

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to thank Brookings, first of all, for hosting this excellent event.

I just wanted to make a point about income inequality and poverty reduction. And I guess the point is that income inequality is not an end in itself. And from what I've read, Ghana has done a relatively good job of translating GDP growth into poverty reduction, compared to a lot of other countries in sub-Saharan Africa.

So, I was wondering if any of the panelists would like to comment on that.

Thank you very much.

MR. SCHNEIDMAN: Okay, a couple more. Yes, sir -- in the back.

SPEAKER: Good afternoon. My name is (inaudible).

I wanted to ask -- I know Nigeria faced the same, similar question when the Minister and the Central Bank asked for recapitalization of the major banks, because they found out that some of the Nigerian leading banks don't have enough capital base

to be able to finance some of the infrastructure.

So, my question is, how much capitalization -- what is the base of the major lead-in in Ghanaian banks? What can they do? Are they able to actually finance big infrastructure project -- because you might have many banks, but if their capital base is not enough, that's nothing.

Thank you.

MR. SCHNEIDMAN: Yeah, great question.

Thank you.

Let me take a couple more -- down here in the front, my colleague.

MR. SY: Thank you. My name is Amadou Sy, and I'm a Fellow here at Brookings.

I have a question regarding the high interest rates. The government is borrowing a lot, but the government is also restricting foreign investors from lending to the government for long maturity. So, basically the yield curve, if you look at the long maturity, foreigners cannot invest.

Not surprisingly, those foreign portfolio

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investors, including U.S. ones, are eager to come in, and, presumably, that could lower interest rates.

What are your views?

Thank you.

MR. SCHNEIDMAN: Yes, do you have a question?

MR. KEELEN: Sure. It's Matt Keelen, with the Keelen Group.

And a lot of our clients are doing a lot of business in Africa. And I just was wondering what the government is doing with the energy infrastructure. I think everyone agrees on the panel that growth is going to be beneficial, both to the government and the people, but is there the ability to grow for those small-medium enterprises, through the energy infrastructure -- meaning, can the infrastructure handle the growth? Because I think that's been a problem in many countries.

MR. SCHNEIDMAN: Great.

Yes, sir.

SPEAKER: Good morning. My name is Dr.

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(inaudible). I just want to thank Brookings for this event.

And my question is to Professor Asante and the team. It's good work that was done in this project over two years.

Have you addressed the 2014 during this next data? Because this is a good report, but I think that when you look at the ease of doing business in Ghana, then it didn't perform as well as, you know, many other African countries.

And we are in the business of encouraging you, as businesses, to invest in Africa, just like Corporate Council does. But the main challenge we face is financing, and we have a lot of business.

I just came back from Ghana you see this bottleneck you know, in the government. So, we want to have some of these issues addressed, so that we can institute a confidence in U.S. businesses.

And one thing I wanted to add that, Stephen, there is a report on the share -- you know, your recommendation to second term of Obama administration

-- was that the U.S. is losing, because, as you said, China goes to Africa with what I call cash-and-carry. They go on with the financing, and we keep grappling with this issue of, you know, encouraging U.S. businesses to invest in Africa.

The reports are there. There are thousands. It's good. But we need to find a middle ground whereby there is financing, and I want to, you know, ask to participate you know, the Ghanaian diaspora participation in this project.

Thank you.

MR. SCHNEIDMAN: And, Ian, let me just go to you quickly, before turning to the panel.

MR. GARY: Hi -- Ian Gary, from Oxfam.

As the panelists know, the Petroleum Revenue Management Act requires an annual budget funding amount to go into the consolidated fund. In the last two years, the majority of the money has gone to the Ghana National Petroleum Company, as well as to the Office of the President, with very little money going into health, education, and agriculture. The World

Bank has predicted that in the next 10 years, there'll be \$22 billion in oil revenues.

If you had the magic wand to direct that money in certain sectors, how would you invest that money to achieve the aims of your report?

MR. SCHNEIDMAN: Okay, that's a lot on the table here. And I'm all about magic wands. I don't know about you, Prof, but sounds good to me.

So, let's just jump into -- as a number of important issues came up, but let's start with what might be the biggest, and that is about Ghanaian banks. Do they have the resources to invest? And I think that sort of ties in with the portfolio investment. You know, how do we use domestic and international capital to be a catalyst for investment, and infrastructure, and investment in some of these other areas?

DR. QUARTEY: Yeah, I think the speaker's right. The Ghanaian banks, initially, did not have what it takes in the capital to finance these projects, especially when we became a middle-income

country, when we struck oil. If we look at the size of the GDP and look at the size of capital in the banks, that is not all liquid.

So, the Central Bank came with policies of recapitalization, where a ceiling was set for the banks. So, we saw some majors, some takeovers, and the rest to try and recapitalize the banking system.

So, I must say, at the moment, the risks move towards assuring that the banks are adequately capitalized to handle some of these big infrastructure projects.

Previously, there were about 27 banks, of which three owned 57 or 50-something percent of the total assets. So, the rest of the banks were just small banks who were, like, price-takers. These three banks were basically leading and operating like monopolies.

Now with this recapitalization, that monopoly has been reduced, and more capital has been injected into the economy.

There was a question about government

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frowning on foreign capital investors fund. I'm not too sure that is the case, because if you look at the bonds that were floated, some were from foreign investors -- the majority, actually, were from foreign investors. So, I don't think there's a frown on foreign capital. I don't have the statistics to tell, but at least I know that quite a number were from foreign investors who applied, the euro bond that were being floated.

They actually were subscribed by 1.5 billion or so.

MR. SCHNEIDMAN: Steve, let me turn to you to answer a question that's sort of come up repeatedly here. And that is access to capital by SMEs.

Now as Ambassador Perry said, there are a number of SMEs that have signed up for your trip. And you must have a kind of conversation when they sign up that, you know, there's some constraints to investing in Ghana, such as access to capital and these problems.

What do you say to them, and how do you see

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companies grappling with this issue?

MR. HAYES: Well, I think it is a real issue. More than half our members, by the way, are small companies. And we tell small companies that if you're going to become a member of CCA, then you need to look at it, and realize it's going to be a long-term proposition. You're not going to get a quick return in one year, and if you're wanting to come in and look at this for one quick hit and out, you're probably going to waste your money.

And so to small businesses, we say, "Look, this is a long-term issue. We will work with you. We will work with the Ghana government and others, but it's not going to be easy."

And I think having that caution from the very beginning -- we try not to sell euphoria. I think that we try to sell reality, and then work with them to make a difference for their companies.

I think that a couple other points I just wanted to make on this that may not come my way otherwise is that training is really important. Local

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content is important, but without training, then the local content is useless, and the companies can't deal with it.

So, there's got to be training. And we, as a global society, put a lot of emphasis on education, higher education. I think we need to put more emphasis on vocational education. And I think there's a real opportunity for vocational training as a business opportunity all over the continent. Ghana would be further ahead than almost anybody else in being an excellent base on that.

I also want to say that I think Peter's right. Ghana deserves a lot of praise, but, as I said, a lot of my remarks are on the half-empty part, as opposed to the half-full.

And other thing I wanted to point out -- oil -- our companies aren't convinced that it's a long-term proposition -- that there's as much oil as others may think. And I think Ghana deserves a lot of praise of not banking totally on oil, but still trying to develop other parts of its economy. And I think the

oil industry, though, has been responsible for what was pointed out in the report -- 50 percent of the growth has been services in Ghana.

A lot of those services are because of the oil industry coming in.

MR. SCHNEIDMAN: Great. Thank you.

And, Robert, let me ask you to respond to the question about energy infrastructure, and is it a constraint to the growth of the SMEs and other businesses? And if so, what steps is government taking? What steps should government be taking to address the problems?

MR. OSEI: Thank you.

So, that is absolutely right, and it is one of the biggest challenges -- or constraints, if you like -- that the country faces, in terms of economic growth or private sector growth generally.

But that has been recognized by the governments. Two or three years ago, the government, in preparing to take advantage of the Millennium Challenge Accounts, prepared a constraint analysis,

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and identified energy as the most binding constraint to private sector development.

And, as a result, have been working, both in terms of trying to assess the MCE, but on its own, to try and then tackle some of the key constraints, with respect to the energy constraints.

So, you have, for instance, a gas infrastructure being developed, with the aim of making it more conducive for independent power producers to also come on board. The pricing mechanism, which was one of the concerns that had been raised by the independent power producers -- again, government has taken that on board, and I think with the start of this year, for instance, there is absolutely no subsidy on energy products.

And, also, there are some regulatory issues. Governments, I know for a fact, is looking at, with respect to try to deal with the energy challenges. Of course, you should also note that the Bui Dam has been commissioned which will bring about 400 MW in power, which comes to complement the already energy supply in

the system.

Of course, it's not enough, and it is working hard to try and encourage independent power producers to come on board.

MR. SCHNEIDMAN: So, it's a problem, but you think government is addressing it effectively.

MR. OSEI: I think we are actually working towards it. I mean, so you have the West Africa gas pipeline, for instance, which has come with its own challenges, because if there's a problem with the gas or if one -- which Nigeria says it also needs the gas for its own power generation.

But I think, in the last year or so, there have been quite a lot of negotiations on that, and I think some agreements have been reached as to how the West Africa gas pipeline can actually serve countries, in terms of dealing with a key ingredient for the energy supply.

MR. SCHNEIDMAN: Great. Thanks.

Well, Professor Asante, let me give you the last word, and sort of segue into that, I think, very

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important question that was posed by our colleague from Prince George's County.

How do we use something like the doing business report, which the World Bank produces and, I think, is generally seen as a useful contribution to the debate on improving investment environments?

And, I guess, a specific question is, can we look forward to a chapter in next year's report responding to the concerns raised by the doing business report?

DR. ASANTE: Yeah, thank you very much.

We will take the last part of your question. Yes, we can look at the doing business report as an option or a chapter in this book. What we do is, for the last 20 years, we always keep one chapter as a topical issue, okay?

So, we've just started working on a 2013, and we will take that into consideration, and try and address it.

But just to add issues concerning doing business -- I mean, there are bottlenecks and

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challenges in terms of institutional arrangements. I mean, when you look at the energy sector, yes, we are making conscious effort to increase our energy demand.

But institutions, okay, it's where sometimes some of these problems -- okay. So, in terms of, for instance, the investment you talk about, yes, we have the legal environment that allows foreigners to come in. But it is the institutions who are supposed to make sure that these laws and acts are implemented. That is where we have the problem. And it's a challenge -- I mean, not only to us, but globally.

So, one area that I think, as a nation, we need to start thinking of is trying to address the institutional bottlenecks. And once we do that, our rank on doing business will be improved.

And then, also, issues of SMEs getting actively involved in the economic pool also will be improved. I mean, issues of customs, the issues of getting land -- government has nice policy and programs, but this is the institutions who needs to operationalize it.

That is a bottleneck, and I think government is also looking at that. They've come up with various combinations of packages; there was a time when the investment promotion center was to have one center, where a businessman comes in. You have somebody from lands commission, from customs. We've tried it, and, still, there are bottlenecks, okay?

So, institutional -- it's an issue, which has been accepted, and I think we are working on it.

MR. SCHNEIDMAN: Great. Thank you very much.

Well, we've run out of time, and just let me -- one housekeeping piece -- as we leave, please use the back door. The side doors are closed. There's another event going on next door.

But let me just thank my colleagues from ISSER for coming over, and delivering this report, and discussing it with us.

Thank you, Steve Hayes, for being here as a commentator, and for CCA taking the trade mission to Ghana.

And let me thank all of you for coming, and
wish you all a very productive 2014. Thank you.

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