

The 2012 KSP for Ghana: National Development and Government Capacity Building

2013



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and Government Capacity Building

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Preface

Under the notion that “In the 21st century, knowledge is one of the key determinants of a country’s level of socio-economic development,” Korea’s Knowledge Sharing Program (KSP) was launched in 2004 by the Ministry of Strategy and Finance (MOSF) and the Korea Development Institute (KDI). KSP seeks to share Korea’s development experience and knowledge accumulated over the past decades to assist socio-economic development of partner countries.

KSP’s main objective is to help the partner country facilitate the development of core infrastructure, which is the key to establishing a stable foundation and fostering capabilities to pursue sustainable growth. The program includes policy research, consultation, infrastructure development plan and capacity-building activities.

In 2012, the focus of the fifth KSP Project with the Republic of Ghana was chosen as “National Development and Government Capacity Building”. This report contains the results of the research collected over the past year in Ghana, the leading country of West Africa. The research was conducted by sharing Korea’s experience regarding four main issues in Ghana: Revitalizing SMEs in Ghana, Introduction of Credit Guarantee Fund, Strengthening National Policy Implementation Capability through Ghana Public-Private Partnership (PPP), and Improving Civil Training System to Develop Innovative Leadership.

As the end of this project approaches, I would like to use this opportunity to thank all the academics and specialists who have contributed and shared their knowledge in the completion of this project. First of all, this project would not have been possible without the guidance and support of former Deputy Prime Minister and Minister of Strategy and Finance and current KAIST Professor Dr. OKyu Kwon. Also, I would like to thank SungKyunKwan University Professor Dr. Dongsung Kong, Hannam University Professors Dr. HongKee Kim and Dr. Jong-Woon Kim, KODIT Director Youngpyung Park, Deputy Director In-Kook Hwang, Manager Jeong En Kim, Korea University Professor Jin-Wook Choi, and Kyung Hee University Professor Ji Woong Yoon for their dedicated work.

I would like to express my gratitude to the partner organizations and local experts of the partner country who have been cooperative every step of the way. In addition, I want to thank the reviewers and advisors for their valuable advice at the intermediate and final stages of the report, and to recognize the strong support and effort of the staff as they devotedly planned and implemented the KSP Project.

In regards to the administrative support, I would like to express my sincere appreciation to CEO of Samjong KPMG Group Kyo Tae Kim, KDI Center for International Development (CID) Executive Director Moon-Joong Tcha, Director Taihee Lee, Fellow Dr. WooJin Kang, Heads Dae Yong Kim and Wung Jang, Researcher Jean Lee, Ministry of Strategy and Finance Director General Tae Yong Yoon, and Ambassador Extraordinary and Plenipotentiary to the Republic of Ghana Jea-Min Kyun. Counsellor of Embassy of the Republic of the Ghana Nam-Hyuk Kim I would also like to thank the officials of the Ghanaian government and the Ghana KSP for their collaboration in organizing and delivering the successful completion of this project.

Lastly, I am very grateful to all the participants who have given their whole-hearted effort in carrying out the KSP Project, notably Partner Kwang-Ryeol Yi, Senior Manager Hwan-Woo Steve Kang, Senior Analysts A-Reum Ko and In-Kee Na, and Analyst Kwang Bin Park, YooSuk Doh, and So Yeon Yoon of Samjong KPMG Economic Research Institute (ERI).

Samjong KPMG ERI will actively engage in both the Knowledge Sharing Program as well as other opportunities in assisting Ghana to achieve further economic growth in the near future.

Youn-Sang Chung
President

Samjong KPMG Economic Research Institute Inc.



Contents

Abbreviation	17
2012 KSP with Ghana	19
Executive Summary	22

Chapter 1.

Revitalizing SMEs in Ghana

Summary	27
1. Status of Ghana Economy and SMEs	28
1.1. Overview of Ghana's Economic Situations	28
1.2. Analysis of Ghana's SME Environment	31
2. General Proposal to Increase Ghana SME Competitiveness	34
3. Analysis of Korean SME Policies	36
3.1. SME Policy-Making System	36
3.1.1. General Overview	36
3.1.2. Case of Korea: SMBA	37
3.2. Systems to Support Micro Enterprises	40
3.2.1. General Overview	40
3.2.2. Case of Korea : Small Enterprise Development Agency	41
3.3. Fund Availability for SMEs	43
3.3.1. General Overview	43
3.3.2. SME Public Policy Fund	44
3.3.3. Micro Enterprise Policy Fund	45
3.4. Youth Entrepreneurship Education	46
3.4.1 General Overview	46
3.4.2 Korean System of Entrepreneurship Education	47
4. Recommendations for Ghana SME Development Policies	48
4.1. Creating 'Ghana Innovation Fund' for SMEs	48
4.1.1. Purpose of the Fund	48
4.1.2. Target SMEs	49
4.1.3. Fund Source	49

4.1.4. Fund Usage	49
4.1.5. Benchmark: Korea’s “SME Startup & Growth Fund”	49
4.2. Creating ‘Youth Entrepreneurship Education Program’	49
4.2.1. Purpose of the Program	49
4.2.2. Target People	49
4.2.3. Operation	50
4.2.4. Benchmark : Korea’s “Technology Startup Academy”	50
4.3. Creating an Independent Ministry or Administration for SME Policies	50
4.3.1. Purpose of the Creation	50
4.3.2. A Ministry or Administration	50
4.3.3. Small Business Development Center	51
4.3.4. Benchmark : Korea’s “Small & Medium Business Administration” or US “Small Business Administration” and “Small Business Development Center”	51
5. Conclusion	51
References	53
Annex	55

Chapter 2.

Introduction of Credit Guarantee Fund

Summary	60
1. Ghana’s Financial Industry and SME Financing Scheme	61
1.1. Ghana’s Financial Industry: Policy and Status	61
1.1.1. Financial Industry Policy	61
1.1.2. Ghana’s Financial Industry	62
1.2. Ghana’s SME Financing Scheme	65
1.2.1. Policy to Support SME Financing	65
1.2.2. SME Credit Guarantee Scheme	68
1.3. Evaluation on Ghana’s Financial Industry and SME Financing Scheme	70
2. Korea Credit Guarantee Fund and Its Achievements	71



Contents

2.1. Overview of Credit Guarantee Scheme in Korea	71
2.1.1. Necessity of Credit Guarantee Scheme	71
2.1.2. Significance of Credit Guarantee Scheme	72
2.1.3. Limitations of Credit Guarantee Scheme	72
2.2. Development of Credit Guarantee Scheme in Korea	72
2.2.1. Period of Introduction (1976~1979)	72
2.2.2. Growth Period (1980~1987)	73
2.2.3. Period of Maturity (1988~1996)	73
2.2.4. Weathering the Foreign Exchange Crisis (1997~2002)	74
2.2.5. Period of Adjustment (2003~2008)	75
2.2.6 Successful Overcoming of Financial Crisis (2009~Current)	76
2.3. Operation and Achievement of Korea Credit Guarantee Fund (KODIT)	76
2.3.1. Overview	76
2.3.2. Services Provided by KODIT	77
3. Financial Institution Contributions and Cost-Benefit Analysis	81
3.1. Current Situation and Characteristics of Financial Institution Contributions	81
3.1.1 Current Situation of Financial Institution Contributions	81
3.1.2 Characteristics of Financial Institution Contributions	85
3.2. Cost-Benefit Analysis of Financial Institution Contribution System	90
3.2.1 Ratio of Contributions to Payment by Subrogation	90
3.2.2. Bad Loans vs. Loan-Deposit Margin	91
3.2.3 Results of Cost-Benefit Analysis	93
4. Recommendations for the Introduction of a Credit Guarantee Scheme	94
4.1. SWOT Analysis of Ghana's Financial Industry	94
4.2. Suggestions for the Establishment of a Credit Guarantee Organization	95
4.2.1 Structure and Financing	95
4.2.2. Types of Guarantees	98
4.2.3 Operation Plans	102
4.3. Roadmap and Conclusion	103
Reference	105

Chapter 3.

Strengthening National Policy Implementation Capability through Ghana Public-Private Partnership

Summary	108
1. Introduction & Executive Summary.....	109
2. Infrastructure and Financing in Ghana	110
2.1. The State of Ghana’s Infrastructure	110
2.1.1. Background	110
2.1.2. Road	113
2.1.3. Railroads.....	114
2.1.4. Harbors.....	115
2.1.5. Water Resource Management.....	116
2.1.6. Electricity Supply.....	116
2.2. The State of Ghana’s National Accounting.....	117
2.3. The State of Ghana’s Spending and Plans on Infrastructure	120
3. PPP Management and Operating Systems in Ghana	122
3.1. PPP Systems.....	122
3.2. Legal Framework of PPP	124
3.3. PPP Management and Operations	124
4. PPP Management and Operating Systems and Structures in Korea	127
4.1. PPP Systems.....	127
4.2. Legal Framework of PPP	130
4.3. PPP Training Program to Enhance Management and Operations Capabilities.....	135
4.3.1. PPP Basic Educational Program.....	136
4.3.2. PPP Advanced Educational Program	136
4.3.3. PPP Miscellaneous Educational Program.....	137
5. Policy Suggestion and Recommendations for Ghana.....	137
5.1. PPP Systems.....	137
5.2. Legal Framework of PPP	140
5.3. PPP Management and Operations	141



Contents

6. Conclusion	143
Reference	144

Chapter 4.

Improving Civil Servant Training System to Develop Innovative Leadership

Summary	146
1. Introduction	147
1.1. Importance of Innovative Leadership	147
1.2. Need for Effective Civil Servant Training Programs	147
1.3. Analysis Method for Ghanaian Civil Servant Training	149
2. Current Status of Civil Servant Training System in Ghana	149
2.1. Overview of Civil Servant Training	149
2.2. Organizational Structure	150
2.3. Budget System	151
2.4. Training Program	152
2.4.1. Process of Training Demand Identification	152
2.4.2. Types of Training Programs	154
3. Current Status of Civil Servant Training System in Korea	157
3.1. Overview	157
3.2. Organizational Structure	163
3.3. Budget System	163
3.4. Training Program	164
4. Comparative Analysis of Training System Between Ghana and Korea	164
4.1. Organizational Structure	164
4.2. Budget System	165
4.3. Training Program	166
4.3.1. Training Demand Identification	166
4.3.2. Basic Training Programs	167
4.3.3. Contracting-out Programs	168

4.3.4. Pathway Programs	169
4.4. Linkage of Incentives System in Personnel Management	171
4.5. Survey Results on Civil Servant Training	173
5. Policy Recommendation	178
5.1. Diversifying and Deregulating the Training Programs	178
5.2. Designing a Concentrated Budget System	179
5.3. Reinforcing Linkage Between Training and Incentive System	179
6. Conclusion	180
References	182

Contents | List of Tables

<Table 1-1> Macroeconomic Status of Ghana	29
<Table 1-2> International Trade Statistics of Ghana	29
<Table 1-3> Main Importing Countries from Ghana(%)	30
<Table 1-4> Trend of Ghana Exchange Rate	31
<Table 1-5> Ghana's Distribution of Business on Size	32
<Table 1-6> Workforce Composition of SMBA	37
<Table 1-7> Key Missions of HQ Bureaus of SMBA	39
<Table 1-8> Usages of the Fund (2012)	45
<Table 1-9> Usages of the Fund (by Year)	46
<Table A-1> Ghana Industry Statistics	55
<Table A-2> Key Functions of Regional SMBA	57
<Table 2-1> Main Points of Financial Policies	62
<Table 2-2>Quantity and Types of Financial Institutions	63
<Table 2-3> Percentage of Spread and NPL	64
<Table 2-4> NBSSI Financing Program	66
<Table 2-5> SME Financing Programs of International Development Organizations	68
<Table 2-6> Shareholders and Ownership Structure of the Eximguaranty	68
<Table 2-7> Guarantee Supply over the Past Five Years	69
<Table 2-8> Management Index in 2010	69
<Table 2-9> Ratio of Guarantee Provision to GDP in Ghana and Korea	70
<Table 2-10> Management Index of KODIT (1976~79)	73
<Table 2-11> Management Index of KODIT (1980~87)	73
<Table 2-12> Management Index of KODIT (1988~1996)	74
<Table 2-13> Management Index of KODIT (1997~2002)	75
<Table 2-14> Long-term Guarantee Operation Plan based on "6.23 Plans" and Actual Guarantee Operation	75
<Table 2-15> Management Index of KODIT ('03~'08)	76
<Table 2-16> Management Index of KODIT ('09~'11)	76
<Table 2-17> Change in KODIT Structure	77
<Table 2-18> SME Loans of Financial Institutions	80
<Table 2-19> Article 6 of the Credit Guarantee Fund Act	82
<Table 2-20> Change in Contribution Rate	86

<Table 2-21> Differential Rate of Contributions	84
<Table 2-22> Comparison by Investment Type	87
<Table 2-23> Changes in Contributions and Guarantee Fees	89
<Table 2-24> Contributions vs. Payment by Subrogation (1976~2011)	90
<Table 2-25> Contribution vs. Payment by Subrogation by Bank (1976~2011)	91
<Table 2-26> Bad Loans vs. Loan-Deposit Margin (1976~2011)	91
<Table 2-27> Uncollectible Obligations vs. Loan-Deposit Margin	92
<Table 2-28> Cost-Benefit Analysis	93
<Table 2-29> Thailand's Portfolio Guarantee Schemes	100
<Table 2-30> Cash Flow of Thailand's PGS4	101
<Table 2-31> Comparison of Guarantee Types	101
<Table 3-1> Ghana Road State	113
<Table 3-2> 2000 ~ 2010 Ghanaian Government Large-Scale Investment in Road	114
<Table 3-3> 2000 ~ 2010 Railroads Transportation	115
<Table 3-4> 2000 ~ 2010 Harbors Transportation	115
<Table 3-5> Ghana Central Government Revenue Prediction	118
<Table 3-6> Ghana Central Government Expenditure Prediction	119
<Table 3-7> GSGDA 2010-2013 Total Investment Plan Amount	121
<Table 3-8> Infrastructure Investment Plan (2012-2017)	122
<Table 3-9> Act on Public-Private Partnerships in Infrastructure and its Enforcement Decree, Structures and main Contents	129
<Table 3-10> PPP Capability Improvement Program (draft)	142
<Table 4-1> Collaboration with Development Partners in Ghana	152
<Table 4-2 > Types of General Training	155
<Table 4-3> GIMPA Training Programs	156
<Table 4-4> History Central Official Training Institute Core Functions and Tasks	162
<Table 4-5> Basic Training Program Analysis	167
<Table 4-6> Contracting-out Programs Analysis	169
<Table 4-7> Pathway Training System Analysis	170
<Table 4-8> Statistics on Numbers and Ratio of Ministers who Passed Civil Service Exam	172

Contents | List of Figures

<Figure 1-1> Industrial Output(in million Cedi, 2011)	30
<Figure 1-2> Business Proportions of Industries	33
<Figure 1-3> Output Proportions of Industries	33
<Figure 1-4> SMBA Organization	38
<Figure 1-5> SMBA Organization	40
<Figure 1-6> Organization of SEDA	42
<Figure 2-1> Overview of Ghana’s Banking Industry	64
<Figure 2-2> On-lending Credit Facility of BoG	65
<Figure 2-3> Overview of Credit Guarantee Service	78
<Figure 2-4> Guarantee Types	78
<Figure 2-5> Total Outstanding Guarantees (incl. P-CBO)	79
<Figure 2-6> Increase Rate in Credit Guarantees and GDP	80
<Figure 2-7> Determination of Interest Rate (Example of a commercial bank)	86
<Figure 2-8> Guarantee Schemes by Contribution Type	86
<Figure 2-9> Percentages of Contributions Made by Financial Institutions, Enterprises and the Government	88
<Figure 2-10> Cost-Benefit Analysis and Outstanding Guarantee by Year	94
<Figure 2-11> SWOT Matrix of Ghana’s Financial Industry and Strategies to Expand SME Loans	95
<Figure 2-12> Process of Establishing KODIT	96
<Figure 2-13> Characteristics of Financial Institution Contribution System	97
<Figure 2-14> Phased Introduction of Contribution System	98
<Figure 2-15> Introduction of Guarantee Types	98
<Figure 2-16> Changes in the Structure and Consigned Guarantee Percentage of KODIT	99
<Figure 2-17> Portfolio Guarantee Scheme : Example of Thailand Credit Guarantee Corporation(TCG)	99
<Figure 2-18> Coverage Ratio and Guarantee Fee System Strategy	102
<Figure 2-19> Policy Recommendations to Introduce a Credit Guarantee System	103
<Figure 2-20> Major Tasks to Establish Stable Credit Guarantee System	104
<Figure 2-21> Roadmap to Settle Ghana’s Credit Guarantee System	104
<Figure 3-1> SSA Countries Infrastructure Spending Comparison	111
<Figure 3-2> African Countries Infrastructure Inefficiency Waste	112
<Figure 3-3> African Countries Infrastructure Funding Gap	112

<Figure 3-4> Ghana Installed Generation Capacity	117
<Figure 3-5> Current Status of Photovoltaic Industry	126
<Figure 3-6> PPP System of Korea	127
<Figure 3-7> PIMAC Organizational Chart	129
<Figure 3-8> Korean PPP Laws Transition	130
<Figure 3-9> Korean PPP Laws Transition	138
<Figure 4-1> Organizational Training System in Ghana	151
<Figure 4-2> Training Demand Identification Process	153
<Figure 4-3> Performance Appraisal Form	154
<Figure 4-4> Time-Series Analysis on Development of Korea's Public Officials Training Programs	157
<Figure 4-5> 1985~2000 Number of Korea Officials Overseas Training Participants	160
<Figure 4-6> Fives Stages to Facilitate Innovative Leadership within Korean Public Officials	161
<Figure 4-7> Korea's Training System Organization Structure	163
<Figure 4-8> Ghana's Training System Organization Structure	165
<Figure 4-9> MOPAS Overseas Training Programs Structure	170
<Figure 4-10> Chronological Statistics on Korea's CSE Passed Ministers	172
<Figure 4-11> Effect of Job Performance on Promotions	174
<Figure 4-12> Effect of Training Programs on Job Performance	175
<Figure 4-13> Effect of Training Programs on Promotions	176
<Figure 4-14> Propriety of Training Program Budget Usage	177
<Figure 4-15> Propriety of Training Program Budget Size	177

Acronyms and Abbreviations

GHC	Ghana Cedi
MOTI	Ministry of Trade and Industry
MOFEP	Ministry of Finance and Economic Planning
NBSSI	National Board for Small Scale Industries
BTO	Build-Transfer-Operate
BTL	Build-Transfer-Lease
DMD	Debt Management Division
EDCF	Economic Development Cooperation Fund
GSGDA	Ghana Shared Growth and Development Agenda
GRC	Ghana Railway Company
K.D.I	Korea Development Institute
KRIHS	Korea Research For Human Settlements
Mo FEP	Ministry of Finance and Economic Planning
MOSF	Ministry of Strategy and Finance
NDPC	National Development Planning Commission
NIP	National Infrastructure Plan
OECD	Organization for Economic Cooperation and Development
PAU	PPP Advisory Unit
PIMAC	Private Infrastructure Investment management
PFA	Project and Financial Analysis
PICKO	Private Infrastructure Investment Center of Korea
PPP	Public Private Partnership
PID	Public Investment Division
SSA	Sub-Saharan Africa
TICO	Takoradi International Company
UN	United Nations
VFM	Value For Money
OHCS	Office of the Head of Civil Service
CSTC	Civil Service Training Centre
GSS	Government Secretarial School
ITS	Institute Technical Supervision

GIMPA	Ghana Institute Management and Public Administration
CSRP	Civil Service Reform Programme
RTDD	Recruitment Training and Development Division
CPA	Certificate in Public Administration
DPA	Diploma in Public Administration

2012 KSP with Ghana

Kwang-Ryeol Yi (Program Director, Samjong KPMG ERI Inc.)

Upon successful completion of Korean KSP (Knowledge Sharing Program) on various projects such as “Building the Basis of SME Development for Sustainable Economic Growth in Ghana (2007),” “Linking Annual Budget with National Development Plans – Korea’s Experiences and Lessons for Ghana (2009),” “Reform of Public Finance Management: Focusing on National Budget and Accounting System (2010),” and “Strengthening the Capacity of the Monitoring and Evaluation (M&E) System of Ghana at All Levels of National Administration (2011),” the Ghanaian government implemented the fifth KSP project in 2012.

The subject of 2012 KSP is “National Development and Government Capacity Building,” which is divided into following four tasks: Task I: Revitalizing SMEs in Ghana, Task II: Introduction of Credit Guarantee Fund, Task III: Strengthening National Policy Implementation Capability through Ghana PPP(Public-Private Partnership), and Task IV: Improving Civil Training System to Develop Innovative Leadership. This year’s KSP aims to share the Korean government’s expertise specified in each task through policy consultation in order enhance national development and government capacity building of Ghana.

Ghana has continuously formed a rigid partnership with Korea through the Ministry of Strategy and Finance of Korea, KDI, and Samjong KPMG.

From August 13th to 17th, 2012, the Korean KSP team visited Ghana for Demand Identification & Policy Research.” Visited places are as follows after Demand Identification & Policy Research, MOFEP recognized that sharing knowledge with Korea will help the project, “National Development and Government Capacity Building.” Moreover, institutions and organizations related

Note	Name of Ministry or Institution
Chapter 1	Ministry of Finance and Economic Planning(MOFEP), Ministry of Trade and Industry(MOTI), National Board of Small Skill Industries(NBSSI), Ze Yze Shoes(Ghana Small Enterprise), UNDP, and World Bank
Chapter 2	MOFEP, NBSSI, National Youth Employment Program(NYEP), Bank of Ghana(BoG), MOTI, UNDP, World Bank, ARB Apex Bank, Exim Guaranty
Chapter 3	MOFEP-PID, UNDP, World Bank, Africa Development Bank
Chapter 4	Office of the Head of Civil Service(OHCS), Civil Service Training Centre(CSTC), Institute of Technical Supervision(ITS), Government Secretarial School(GSS), Public Service Commission(PSC), Ghana Institute of Management and Public Administration(GIMPA)

to each task strongly requested to have us share Korea's expertise and system based on the needs of the four subjects.

From September 24th to 26th, 10 Ghanaian government officials (from Ministry of Finance and Economic Planning, National Board for Small Scale Industries, Bank of Ghana, Office of the Head of the Civil Service) headed by Yaw Okyere-Nyako, director of MOFEEP, visited Korea for Policy Demand Seminar, In the seminar, Korea KSP team and Ghana officials shared Korean Expertise related to each Projects.

From November 26th to 30th, 10 Ghanaian government officials (from Ministry of Finance and Economic Planning, National Board for Small Scale Industries, Bank of Ghana, Office of the Head of the Civil Service) headed by Yaw Okyere-Nyako, director of MOFEEP, visited Korea for Interim Reporting and Policy Practitioner's Workshop.

During the workshop, Ghana KSP team visited major organizations that are directly related to the subjects of all four tasks, including SMBA and SEDA in Daejeon Metropolitan City, Ministry of Strategy and Finance, COTI, Ministry of Public Administration and Security, SBC (Small and Medium Business Administration) at Bank of Korea, Incheon Port Authority, and PIMAC (Public and Private Infrastructure Investment Management Centre) at KDI. The objectives of the visits were to share roles of each organization or institution and their methodology regarding the four subjects of this year's project.

During interim reporting, the Korean KSP team presented policy analysis progressed to date. Then, the Korean KSP team had a discussion with Ghana professionals on each subject, details of the analysis, and the strategic direction for Ghanaian government. Lastly, suggestions on development of follow-up businesses were made.

KSP team, headed by Project Manager, Professor Dongsung Kong, visited Ghana on January 30th, 2013 to host Senior Policy Dialogues and Dissemination Seminar. During Senior Policy Dialogues, Professor Kong discussed about appropriateness and effectiveness of KSP with high officials of Ghana government and requested for further cooperation of Ghanaian Government for follow-up business. The presentation continued on to Dissemination Seminar, the Final Reporting of KSP Ghana project. At the seminar, Professor Kong and Chief Director Enoch H. Cobbinah of MOFEP presented their thoughts on current KSP project. Also, two representatives, one from Ghana and one for Korea, of each task gave a thorough presentation. Ghana representatives presented the current status and challenges on the four subjects, and Korean representatives gave policy recommendation and applicable methods based on the results for national development and government capacity building for Ghana.

Executive Summary

Dongsung Kong (Sungkyunkwan University)

The main theme for 2012 KSP project is “National Development and Government Capacity Building.” The following report includes Korea government’s experience and knowledge relating to each topic along with professional policy-recommendations on the areas where it requires remedies and improvements in the course of achieving Ghana’s national development. Samjong KPMG has worked closely and maintained robust partnership with MOSF and KDI throughout the project duration in order to produce the most relevant report. Thus, through various communications and policy-dialogue, Samjong KPMG has satisfied the Ghana government’s request in the four areas, as summarized below, by providing long-term directions and more specific policy recommendations in accordance with the purpose and objectives of KSP program.

The report is comprised of four chapters:

Chapter 1 : Revitalizing SMEs in Ghana (HongKee Kim, Jongwoon Kim)

Chapter 2 : Introduction of Credit Guarantee Fund (Yong-Pyung Park, In-Kook Hwang)

Chapter 3: Strengthening National Policy Implementation Capability Through Ghana
Public-Private Partnership (Jin-Wook Choi, Kwang-Ryeol Yi)

Chapter 4 : Improving Civil Training System to Develop Innovative Leadership (Ji woong Yoon)

Chapter 1, “Revitalizing SMEs in Ghana”, first summarizes Ghana’s current state of SMEs along with general economic trends. The SME environment in Ghana faces a number of problems in-

cluding weak entrepreneurial spirit, low levels of education and lack of job training which leads to inadequate labor skills and poor willingness to work. Also availability of funding is decreasing at a fast rate. Lending interest rates are very high and the asymmetry of information decreases fund availability for SMEs. Furthermore, domestic market is limited, social overhead capital is weak, and the high degree of market openness to competitive foreign companies decreases market accessibility for SMEs. Following the analysis, it provides comparisons between Ghana and Korea. Finally it proposes policy recommendations that are most relevant for Ghana in the early stage of revitalizing SMEs. First, the government needs to actively participate or intervene in the financial market to increase availability of funds to SMEs and micro enterprises for their start-ups and development. Second, it is necessary for Ghana to start entrepreneurship education, especially for young people to improve their attitudes and basic skill. Third, strengthening SME policy organization to increase support for SMEs is necessary

In Chapter 2, “Introduction of Credit Guarantee Fund”, the authors first examine current state of Ghana’s financial industry and financing policies for SMEs. Banks in Ghana take on a limited role in terms of supporting SMEs and in government policies due mainly to their oligopolistic position in the market. SME-related policy financing in Ghana is dependent on the on-lending facilities of the central bank and the development programs of international organizations. Although financing policies from the National Board for Small-Scale Industry (NBSSI) and the credit guarantee supply of the Eximguaranty for supporting SMEs exist in Ghana, their effectiveness remains weak due mainly to lack of available funds. Following the analysis, the Chapter provides comparisons between Ghana and Korea. Finally it proposes policy recommendations that are most relevant for Ghana in the stage of establishing a Credit Guarantee Fund. In order to facilitate SMEs’ access to financing, it is essential to develop a credit guarantee scheme. The Ghana government should introduce a credit guarantee scheme under the leadership of the central bank to strengthen the public roles of the banking industry and develop the scheme into a public institution to support SMEs. Additionally, it should enhance the sustainability of the credit guarantee scheme and further develop the SME sector and the financial industry by introducing a financial institution contribution system like the one currently utilized in Korea.

Chapter 3, “Strengthening National Policy Implementation Capability through Ghana Public-Private Partnership (PPP)”, first examines Ghana’s current state of infrastructure and the Ghana government’s financial capability. The main factor that prevents developing countries from realizing their potential economic growth is lack of industrial infrastructure required for economic activities. Although the governments of developing nations fully recognize the importance, their financial constraints prevent them from constructing infrastructures within their territory. As such, public-private partnership (PPP) is considered as an alternate solution. In spite of strong determination of the Ghanaian government, it is questionable whether it can achieve PPP in the short period of time for the following reasons: legislative and systematic frame concerning PPP is incomplete, the system of planning, implementation, and management of PPP is insufficient, and the PID that oversees PPP lacks the capability. The Chapter, also through comparison with Korea PPP system, reviews the appropriateness of Ghana’s PPP legislation, analyzes the

adequacy of PID's organizational operation, examines the capability development strategy of interested parties of PPP, and investigates the viability of establishing PPP research and supporting institution similar to Public and Private Infrastructure Investment Management Center (PIMAC) of Korea.

Chapter 4, "Improving Civil Training System to Develop Innovative Leadership", first diagnoses the Ghana government's personnel system focusing on its education & training policies and practices. The OHCS which is the overall education and training institute of the Ghana Civil Service and development partners executes the budget. However, the budget for education and training is absurdly inadequate and the internal budget for OHCS is also insufficient. Therefore, it is necessary to secure an adequate budget solely for the OHCS to facilitate a well-established budget system. The Chapter proposes a developmental policy for fostering innovative leadership through the diversification of the training program, and increasing flexibility and improvement of the budget system. The first step is to diversify programs and increase the variety of countries for overseas training to achieve internalization as has been done by emerging and developed countries such as South Korea. Secondly, with enhancement of the OHCS centered budget system, more funding should be put into education and training. Finally, government has to provide opportunities for promotion and additional rewards to well-trained public officials to allow them to demonstrate leadership and contribute the performance of the organization. Furthermore, personnel motivation needs to be deeply related to education and training.

It has been assessed that through the following project, Samjong KPMG ERI and KODIT have accomplished its main objectives by providing relevant and viable policy recommendations under the main theme of strengthening national development and government capacity building. The chief director of MOFEP set the tone during the visit to Ghana: "It is exciting and grateful that Korea is willing to share its successful experience with other developing countries. Ghana will examine Korea's policies implemented and hopes to achieve economic development just like Korea did." Also, during the Senior Policy-Dialogue, many senior officials expressed that the diagnosis and Korean practices we had provided were more than useful. In regards to the overall report, most relating Ghanaian officials responded that the policy recommendations were very relevant and would help Ghana's drive toward national development. In fact, Ghanaian officials expressed their wishes to continue on the two topics out of the four assigned this year. This clearly indicates that the consultation we provided is relevant and useful, and there is a strong need for the Ghana government to remain as a recipient of the KSP program.

Revitalizing SMEs in Ghana

1. Status of Ghana Economy and SMEs
2. General Proposal to Increase Ghana SME Competitiveness
3. Analysis of Korean SME Policies
4. Recommendations for Ghana SME Development Policies
5. Conclusion

Revitalizing SMEs in Ghana

Hongkee Kim (Hannam University)
Jongwoon Kim (Hannam University)

Summary

Ghana is now the fastest-growing economy in the world. Its growth rate in 2010 was 8.0%, and increased to 14.4% in 2011. The resulting GDP per capita was 1,329 US dollars in 2010, and 1,598 US dollars in 2011. There has been rapid increase in exports amounting to 14.59 billion US dollars in 2011, while imports totaled 19.63 billion US dollars. In 2011, the trade deficit was 5.04 billion US dollars.

In the industrial sector, there are 26,088 family businesses in the manufacturing industry. The clothing industry is dominant in the sector, taking 40% share of this market, closely followed by the furniture industry (20%), and the food and beverage industry (15%).

SMEs in Ghana show the following characteristics. First, the number of SMEs is 26,493 which is extremely low compared to other countries, giving a ratio of 1 SME per 884 people. Second, most of the SMEs are micro family businesses. The average number of employees of micro and small enterprises account for 93.4% of all businesses, which employ between 2 to 19 people. Third, the regional business distribution is extremely unequal. Many SMEs are engaged in manufacturing, timber, food processing, and cotton products, and they are mainly located in Accra and Tema.

The SME environment in Ghana faces a number of problems including weak entrepreneurial spirit, low levels of education, and lack of job training, which lead to inadequate labor skills and an unwillingness to work. Also, the availability of funding is decreasing at a fast rate. Lending

interest rates are very high, and the asymmetry of information decreases fund availability for SMEs. Furthermore, the domestic market is limited, social overhead capital is weak, and the high degree of market openness to competitive foreign companies decreases market accessibility for SMEs.

The following are policy recommendations for revitalizing SMEs in Ghana.

First, the government needs to actively participate or intervene in the financial market to increase the availability of funds to SMEs and micro enterprises for their start-ups and development. Second, it is necessary for Ghana to start entrepreneurship education, especially for young people, to improve their attitudes and basic skills. Third, strengthening SME policy organization to increase support for SMEs is necessary.

1. Status of Ghana Economy and SMEs

1.1. Overview of Ghana's Economic Situations

Currently, Ghana has high economic growth rates and the pace of growth is accelerating. The country is now the fastest-growing economy in Sub-Saharan Africa with a regional growth rate of 8.0% in 2010 increased to 14.4% in 2011. The resulting per capita GDP was 1,329 US dollars in 2010, and 1,598 US dollars in 2011.

Ghana's Inflation rate is decreasing but is still high, going from 19.3% in 2009 to 10.8% in 2010, and 8.7% in 2011.

<Table 1-1> Macroeconomic Status of Ghana

	Unit	2009	2010	2011
GDP at current market prices	million GHC	36,598	46,042	59,264
	million US\$	25,798	32,186	39,151
GDP per capita	GHC	1,563	1,901	2,419
	US\$	1,102	1,329	1,598
GDP at constant(2006) prices	million GHC	22,454	24,252	27,742
GDP growth rate	%	4.0	8.0	14.4
GNI at current market prices	million US\$	25,500	31,786	58,615
GNI per capita	US\$	1,089	1,312	2,392
Inflation(annual average)	%	19.3	10.8	8.7
Balance of Trade	million US\$	-2,207	-2,962	-3,183
Government expenditure	million GHC	8,346	11,532	5,642
Population	million	23.4	24.2	24.5

Source: Bank of Ghana

<Table 1-2> International Trade Statistics of Ghana

	2009	2010	2011
	Million US\$		
Exports of goods and services	7,609	9,487	14,596
Imports of goods and services	10,989	13,924	19,638
Balance of trade	-2,207	-2,962	-3,183
Current account balance	-3,380	-4,436	-5,042
Overall Balance(Balance of payment)	1,159	1,463	547
Major Exports:			
Cocoa Beans & Products	1,866	2,220	2,871
Gold	2,551	3,804	4,920
Crude Oil	-	-	2,779
	% of GDP		
Exports of goods and services	41.8	42.2	56.4
Imports of goods and services	60.4	61.9	75.9
Current account balance	(18.6)	(19.7)	(19.5)
Overall Balance	6.4	6.5	2.1

Source: Bank of Ghana

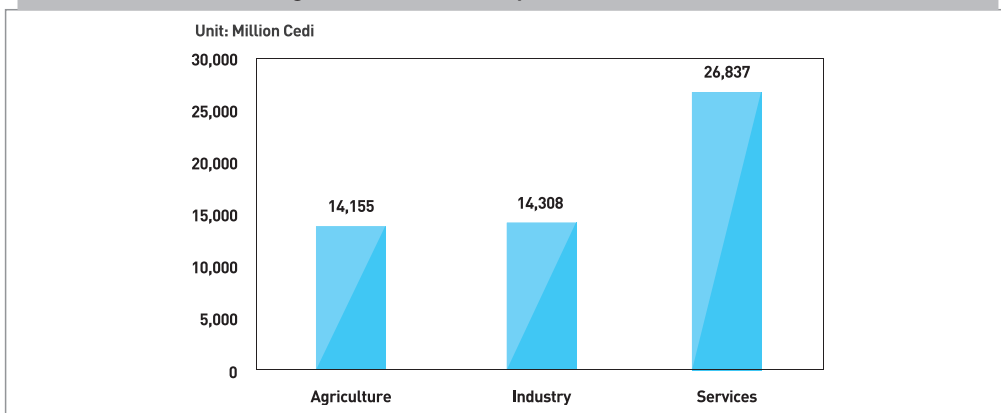
<Table 1-3> Main Importing Countries from Ghana(%)

	2008	2009	2010
South Africa	44.4	8.3	52.3
Netherlands	12.5	18.9	5.5
UK	3.7	7.0	3.3
Benin	0.1	5.4	2.4
Belgium	1.1	2.1	2.1
USA	2.8	4.1	1.9
Nigeria	2.3	3.4	1.9
Estonia	0.1	1.5	1.5
Burkina Faso	2.2	8.9	1.5
Togo	0.3	2.2	1.3
Germany	1.5	2.5	1.3
Spain	1.6	2.2	1.2
France	2.4	2.9	1.2
China	1.9	2.0	1.0
all other countries	23.1	28.6	21.6

Source: Ministry of Trade and Industry (MOTI)

Ghana's industrial output in 2011 was 59.26 billion Cedis, an increase of 28.7% compared to the previous year. Service industries, dominated the market with 48.5% of total industrial output, while manufacturing industry accounted for 24.1%.

<Figure 1-1> Industrial Output(in million Cedi, 2011)



Source: Ministry of Trade and Industry (MOTI)

The value of the Cedi, Ghana's currency, has continuously depreciated since 2008, from 1.06 per dollar in 2008, 1.41 in 2009, 1.53 in 2011, and recently to 1.89 in November 2012.

<Table 1-4> Trend of Ghana Exchange Rate

	2008	2009	2010	2011	2012.11.06
GHS/USD	1.06	1.41	1.42	1.53	1.89
GHS/GBP	1.96	2.22	2.19	2.46	3.00
GHS/EUR	1.56	1.97	1.88	2.13	2.40

Source: World Bank

Overall, Ghana's economy shows a high growth rate, but the macroeconomic structure is very unstable. First, despite the recent downturn in inflation, the rate still remains high. Second, the current trade deficit is 8% of GDP, which is a dangerous level. Third, export products are mainly composed of primary commodities such as cocoa, gold and crude oil, which have volatile prices that weaken the country's export trade. Fourth, foreign debt is not only excessive, but above 20% of GDP which is very high. Finally, regarding Ghana's industries, the industrial sector is fragile because the manufacturing sector is especially weak, while the service industry dominates making the industrial structure fragile.

1.2. Analysis of Ghana's SME Environment

SMEs in Ghana are defined as businesses with less than 100 employees. Micro enterprises are businesses with less than 5 employees and 10,000 dollars of fixed assets, small enterprises are businesses with 6 ~ 29 employees and less than 100,000 dollars of fixed assets, and medium enterprises are businesses with 30 ~ 99 employees and less than 1,000,000 dollars of fixed assets.

<Table 1-5> Ghana's Distribution of Business on Size

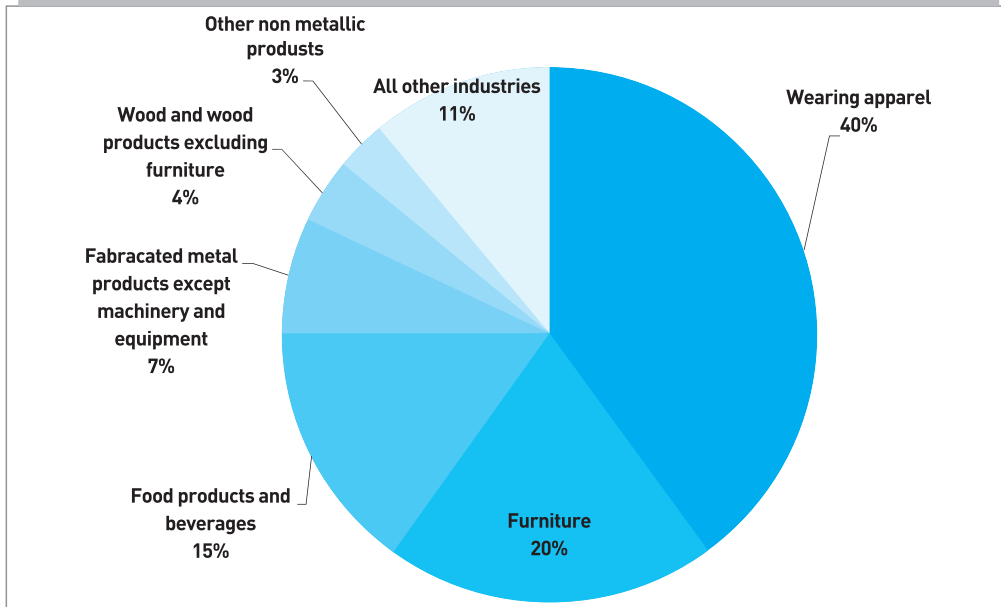
Industry	Number of Employees								
	1 - 4	5 - 9	10 - 19	20 - 29	30 - 49	50 - 99	100 - 199	200 - 499	500+
Mining									
- No. of Business	26	37	27	15	12	18	12	10	9
- Proportion(%)	15.7	22.3	16.3	9.0	7.2	0.8	7.2	6.0	5.4
Manufacturing									
- No. of Business	14,352	7,829	2,427	541	401	287	124	87	40
- Proportion(%)	55.0	30.0	9.3	2.1	1.5	1.1	0.5	0.3	0.2
Electricity, Water									
- No. of Business	60	27	46	41	29	15	7	10	4
- Proportion(%)	25.1	11.3	19.2	17.2	12.1	6.3	2.9	4.2	1.7
All Industries									
- No. of Business	14,438	7,893	2,500	597	442	320	143	107	53
- Proportion(%)	54.5	29.8	9.4	2.3	1.7	1.2	0.5	0.4	0.2

Source: Ghana Industrial Census

In comparison, large enterprises are defined as businesses with more than 100 employees. The number of small enterprises with less than 20 employees is 24,741, which accounts for 93.7% of all businesses, totaling 26,493. In addition, the number of micro enterprises is 14,438, accounting for 54.5%, which clearly shows that Ghana's business distribution centered on micro enterprises.

For main industrial products, 26,088 businesses are family businesses in the manufacturing industry. Clothing dominates the manufacturing sector with 40% share of the market, followed by the furniture industry (20%), and the food and beverage industry (15%).

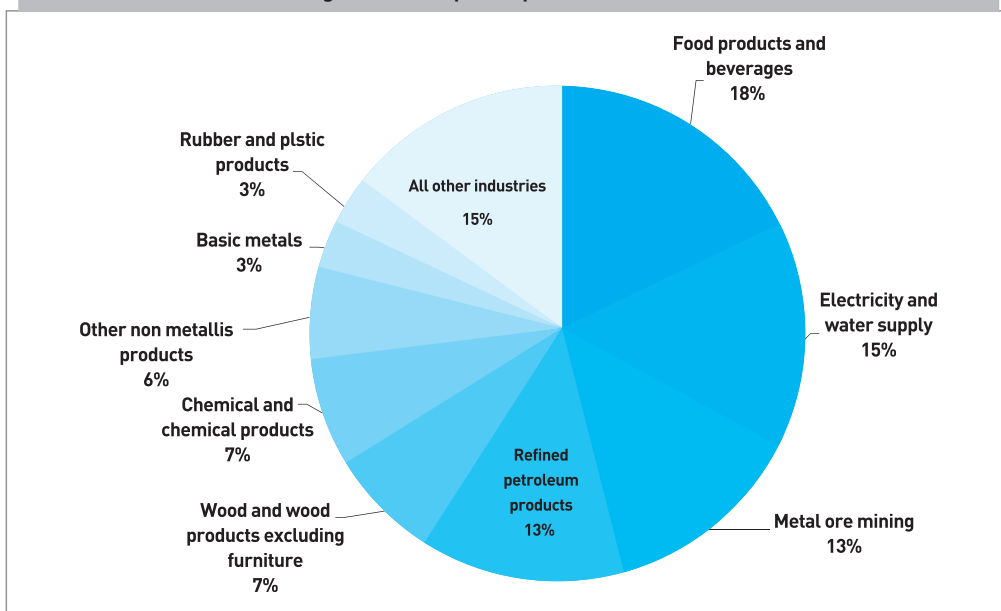
<Figure 1-2> Business Proportions of Industries



Source: Ghana Industrial Census 2003

In the meantime, the food and beverage industry takes up the highest proportion with 18%, followed by the electricity and water service industry (15%), ore mining industry (13%), the crude oil industry (13%), and the lumber industry (7%), based the amount of each industry's output.

<Figure 1-3> Output Proportions of Industries



Source: Ghana Industrial Census 2003

Ghana has been trying to deregulate business restrictions on the private sector and has made the World Bank's list as one of the 10 most successful countries regarding business deregulations. It has especially created a better environment for the business startup processes. However, due to other bottlenecks, it is still ranked 112th in business environment. Therefore, the startup deregulations have not been able to produce many business startups, which is why the startup ratio is only 1.09 out of 1,000 economically active people.

Considering all the above situations, SMEs in Ghana show the following characteristics. First, the number of SMEs is 26,493, which is a ratio of 1 SME per 884 people. This is extremely low compared to other countries. Second, SMEs are mostly micro family businesses. The average number of employees of micro and small enterprises, which is between 2 to 19 people, account for 93.4% of all businesses. Third, the regional business distribution is extremely unequal. The main SME companies are engaged in manufacturing, timber, food processing, and cotton products, and these are located mainly in Accra and Tema.

The SME environment in Ghana is plagued by a weak entrepreneurial spirit. Ghana was colonized for a long period of time, and its citizens' spirit of adventure and creativity, along with entrepreneurship, has dropped. Second, low levels of education and lack of job training leads to inadequate labor skills and an unwillingness to work. The lack of job opportunities, which enhance workmanship when present, has played a large role in the drop in skilled labor.

Third, fund accessibility is rapidly dwindling. Lending interest rates are very high and the asymmetry of information for SMEs decreases fund availability. Fourth, Ghana's domestic market is small, social overhead capital is weak, and the relatively high degree of market openness decreases market accessibility for SMEs.

It is difficult for SMEs in Ghana to expand and support Ghana's growth and to help alleviate poverty under the current environment. Thus, proactive SME policies must be developed and implemented in the short to medium term.

2. General Proposal to Increase Ghana SME Competitiveness

Various efforts are required to nurture SMEs in Ghana. SMEs in Ghana have problems that other developing countries also have. Insufficient competitiveness due to low technology levels, lack of management support services, difficulties of procuring raw materials and intermediary goods, and disadvantages emanating from high financial costs are only a few examples. The most serious problem the Ghanaian Government needs to tackle immediately is the excessively high financial interest rate. Funds availability under appropriate financial regimes

should be increased for the improvement in price competitiveness of SMEs.

SMEs in Ghana are unable to accrue capital, making it almost impossible to manage with only internal funds. They are in need of external funds for startup, facility expansion, and working capital. However, cursory financial liberalization with financial structures that are not properly developed allows financial institutions to impose excessively high interest rates, variable lending rates, and deposit rates with superior bargaining power.

Currently, lending rates to SMEs are around 24~30%. However, deposit interest rates are around 4%, which makes a significant difference between lending and deposit interest rates of more than 20%. Considering that the rate of inflation is around 8~9%, the real lending rate should be approximately 15~20%, resulting in a real deposit interest rate of 4~5%, which makes financial provision for loans through deposits impossible. Financial institutions provide finance for loans by borrowing from the central bank or from overseas.

Thus, to increase fund availability for SMEs, the government needs to take action. The government needs to actively intervene in deciding interest rates to promote competition among financial institutions and reduce the excessive interest rate margin by reinforcing financial supervisions.

Generally speaking, governments in many countries actively intervene in the financial market during the early stage of development because markets do not operate efficiently. Essentially, the government intervenes in the financial market to prevent the adverse selection from the asymmetry of information. An example of government involvement is its intervention in deciding interest rates. Thus, the government of Ghana should actively intervene in financial market and lower interest rates at a reasonable level.

It is difficult for the government to support all SMEs. It is necessary to select promising and innovative SMEs to support to secure their international competitiveness. In particular, a measure to create a policy fund and support SMEs is required since it is difficult for the government to grant subsidies due to lack of resources. For example, a policy fund system such as an SME policy fund to increase financial availability for SMEs in Korea needs to be actively introduced. The government must also supply a lending source with a very low interest rate to commercial banks for SMEs .

Second, the government needs to adopt a training system and supply management support services to increase the level of workmanship of SME resources, technology and management techniques. Currently, skilled labor for SMEs in Ghana is very low because systematic training is not available. The inferior capacity of SMEs makes it difficult to execute self-education or training, and learning by doing has many limitations with unaccumulated human

capital. Thus, the government needs to expand basic training courses to increase skilled labor for the SME workforce in various industries. Education and training systems, like 'Meister High Schools' in South Korea, are necessary. Also, management and technology support services for SMEs should be expanded.

Third, distribution and transportation infrastructure is needed to facilitate the supply of raw materials and intermediary goods. Most SMEs in Ghana import raw materials or intermediary goods necessary for production. They experience difficulties in obtaining these goods because the distribution structure is not efficient and the import market is oligopolistic. Thus, the government needs to monitor to facilitate a smooth supply of materials and goods necessary for SME production.

Fourth, the government needs to identify promising and innovative SMEs and actively support their technological development. SMEs in Ghana are far from securing competitiveness from self-developing technologies. Thus, the government needs to help promising SMEs and support technological development to protect infant industries.

Finally, Ghana's currency should be devaluated to secure the competitiveness of Ghana's SME exports. Ghana is undergoing a revaluation of the real exchange rate due to crude oil exports since the discovery of oil in 2007. Macroeconomic policies not only to secure competitiveness for SME exports but also to compete with import products by maintaining the exchange rate at a reasonable level is required.

From now on, we will focus on a few areas of policies that we think are the most important, and relatively easily implementable in a short period of time to make success stories of Ghana's SMEs, among other things. The areas of our focus are 1. Reshuffling of SME policy systems, 2. Services for micro-businesses, 3. SMEs' credit availability, and 4. Entrepreneurship education. We are going to introduce the systems and programs of Korea, and then make some suggestions for Ghana's SME development.

3. Analysis of Korean SME Policies

3.1. SME Policy-Making System

3.1.1. General Overview

A strong government will for economic development is very important both internally and externally. In the case of Ghana, most businesses are SMEs, especially micro enterprises, and only a few are large enterprises. Thus, the government's policy direction for economic development is inseparable from nurturing SMEs. It is important to expand government organiza-

tions relevant to SMEs and to increase the resources for the government's strong support of economic development. A National Board for Small Scale Industries (NBSSI) currently exists in Ghana, but it does not play a big role in establishing policies and securing a budget, and is merely an institution that executes an allocated budget. A government organization that has the ability to develop and establish policies to nurture SMEs and supervise SME policies needs to be established. To do so, the Small & Medium Business Administration (SMBA) in South Korea can be an important benchmarking target. Although the SMBA is a non-ministerial agency, it is a strong organization that develops, establishes, and executes SME policies with the power given by SME related laws. The SMBA is perceived as a government organization that efficiently supports SMEs with various programs.

Second, policy programs meeting SMEs' demands should be identified, developed, and provided. Generally speaking, demands by SMEs are very diverse and extensive, and thus cannot be all met, especially in the case of SMEs in developing countries. Thus, efforts are needed to develop and extensively provide policies that can meet general and sectional demands by SMEs at low costs. Considering the current situation of SMEs in Ghana, education to raise workmanship, availability and access to information, and general technical training such as computer technologies is required.

Third, a separation of roles between the central and regional offices is necessary by benchmarking the SMBA structure in South Korea. To raise policy effectiveness, the central office should develop and establish policies and the regional offices should execute those policies through direct contact with SMEs.

3.1.2. Case of Korea: SMBA

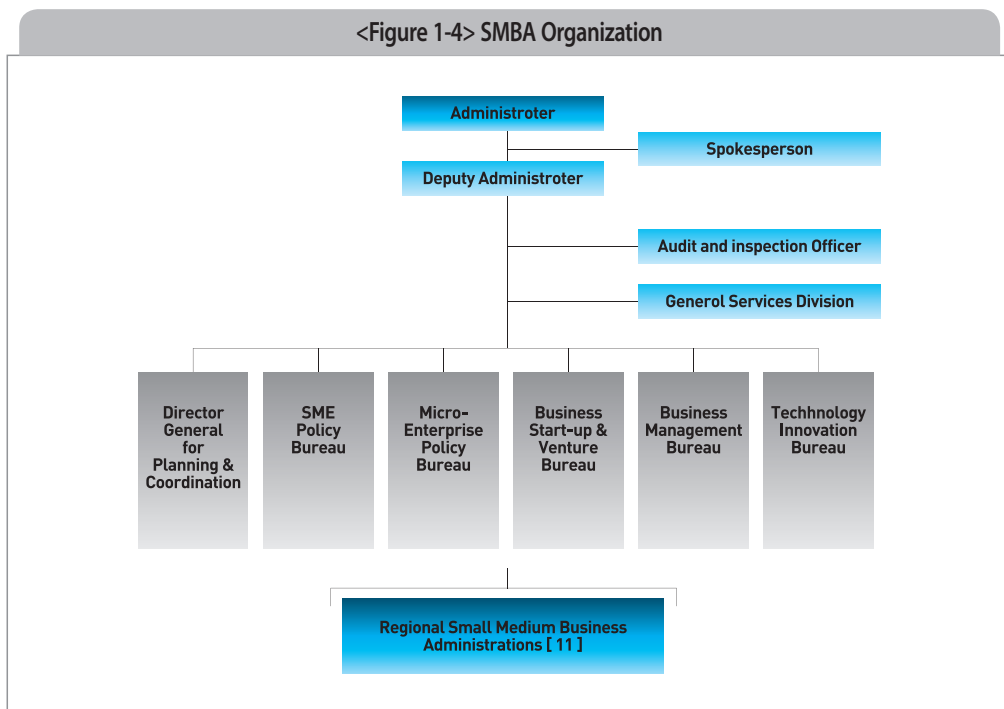
The Korean SMBA has 6 bureaus, 24 divisions, and 14 regional offices. It has as many as 703 employees, with 293 at the headquarters (HQ) and 410 at regional offices.

<Table 1-6> Workforce Composition of SMBA

Class	Total	Political	Special Service	SES	Senior	Director	Senior	Asst. Director	Specialist	Researcher	Technician
Total	703	1	4	11	7	31	29	139	345	67	69
HQ	293	1	4	6	7	16	28	94	120	1	16
Regional offices	410	-	-	5	-	15	1	45	225	66	53

Source: SMBA

The HQ of the SMBA has an administrator (political position), and a vice-administrator and 6 director generals (members of Senior Executive Service) and 24 directors. The remaining staffs are specialists for each SME sector. The HQ has the Bureau of Planning & Coordination, the Bureau of SME Policies, the Bureau of Micro-Business Policies, the Bureau of Business Startup & Venture, the Bureau of Business Management, and the Bureau of Technology Innovation.



Source: SMBA

The division between bureaus is according to the functional missions of SME assistance programs. The details of each bureau's missions are as follows:

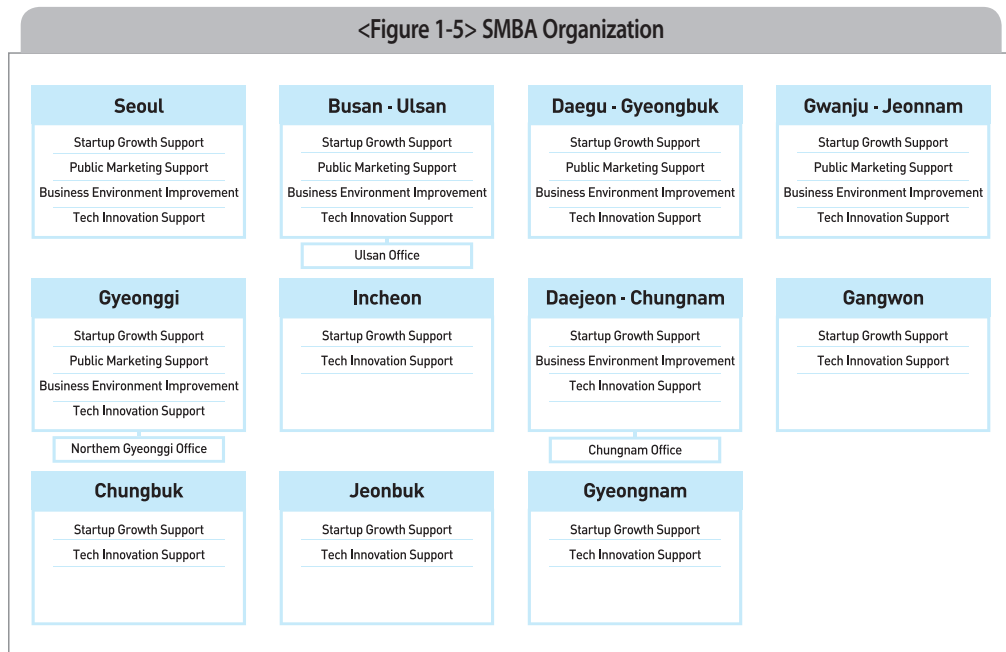
<Table 1-7> Key Missions of HQ Bureaus of SMBA

Class	Main Task
SME Policy Bureau	<ul style="list-style-type: none"> - Mid to long term SME policy and yearly nurturing policy - Regional SME nurturing policy execution and adjustment of provincial policies to support SME - Management of SME regulation effect evaluation and ombudsman - Support of SME finance-fund and guarantee - Plan to support workforce to SME and to manage public technical high school
Micro Enterprise Policy Bureau	<ul style="list-style-type: none"> - Establishment of micro enterprise nurturing policy and fund support, deduction system, investigation - Micro enterprise startup and store upgrade, support for organization - Establishment of basic plan to promote businesses by handicapped - Plan to revitalize traditional market and support for modernization - Establishment of plan to support shopping district revitalization and project adjustment system
Business Start-up & Venture Bureau	<ul style="list-style-type: none"> - Establishment of basic plan to nurture ventures and generalization-adjustment - Venture capital nurture and venture investment fund creation, support for startup investment company - Establishment and support of startup support plan, excavation-nurture of pre-entrepreneurs - Knowledge-based service SME support and nurture of one-man creative business - Excavation-nurture of tech and management innovative SMEs
Business Management Bureau	<ul style="list-style-type: none"> - Increase of cooperation between SME and conglomerates and establishment of support of policy to improve unfair trade - Administration of SME cooperative and nurture of female cooperations, support for North-South Korea economic cooperation - Policy to support SME export and export support center - Policy to support SME sales route and SME product sales - Public purchase of SME products and priority purchase of tech-developed products by public institutions

Source: SMBA

Regional offices of SMBA consist of 11 regional offices and 3 sub-offices. The 5 metropolitan areas (Seoul, Busan-Ulsan, Daegu-Gyeongbuk, Gwangju-Jeonnam, Gyeonggi) have large offices, while other areas (Incheon, Daejeon-Chungnam, Gangwon, Chungbuk, Jeonbuk, Gyeongnam) have smaller offices. Usually, a regional office has 4 divisions: startup & growth support, public sales support, business environment improvement, and innovation support. The total number of personnel of regional SMBA offices is 410 made up of the following: 5 senior executives, 15 directors, 1 senior assistant director, 45 assistant directors, 205 specialists or less and 86 researchers, and 53 technicians.

Regional SMBA offices support workforce, venture/startup, and technology by cooperating with the HQ of SMBA, for nurturing and developing of regional SMEs, and descriptions for key tasks are as annexed.



Source: SMBA

3.2. Systems to Support of Micro Enterprises

3.2.1. General Overview

Most of Ghana's SMEs are virtually equal to South Korea's micro enterprises. Micro-enterprises in South Korea are defined as having less than 10 employees in the case of manufacturing, mining, transportation, construction industries, and 5 employees for other industries, and it is the same for Ghana since micro enterprises are businesses with less than 5 employees and with 10,000 US dollars of fixed assets.

Ghana has the National Board for Small Scale Industries (NBSSI) as an agency which supports SMEs, which is equivalent to micro enterprises in South Korea. Thus, reinforcing NBSSI's capacity means reinforcing support for micro enterprises.

Primarily, the government's willingness to support micro enterprises should be reinforced. The government should recognize clearly that small businesses and micro enterprises are a pivotal function of the economy, and that every effort should be made to identify and support

promising businesses with potential for growth in the future. In other words, strong policies to support micro enterprises are necessary.

Second, its function as a control tower to establish and execute micro enterprise policies should be reemphasized. Currently, NBSSI is unable to participate in budget allocation and is merely an institution that implements the amount of budget allocated by MOFEP. Recently, the budget for micro enterprises has been consistently decreasing. Thus, NBSSI should be restructured into a strong organization that can establish and execute both SME policies and micro enterprise policies.

Third, there are many limits for micro enterprises to self-innovate and be competitive. Thus, public functions need to be revitalized for institutions similar to the Small Enterprise Development Agency in South Korea (regional offices of NBSSI) to provide information, consultation, and education to micro enterprises.

Finally, micro enterprises suffer from high interest rates from private financial institutions, as has happened in South Korea, since they have limited access to funding. Thus, the government needs to raise financial availability for micro enterprises by providing policy funds such as the 'Micro Enterprise Policy Fund' in South Korea.

An agency to reinforce support for micro enterprises should be benchmarked against the SEDA, which develops and executes micro enterprise policies under the supervision of SMBA in South Korea.

3.2.2. Case of Korea : Small Enterprise Development Agency

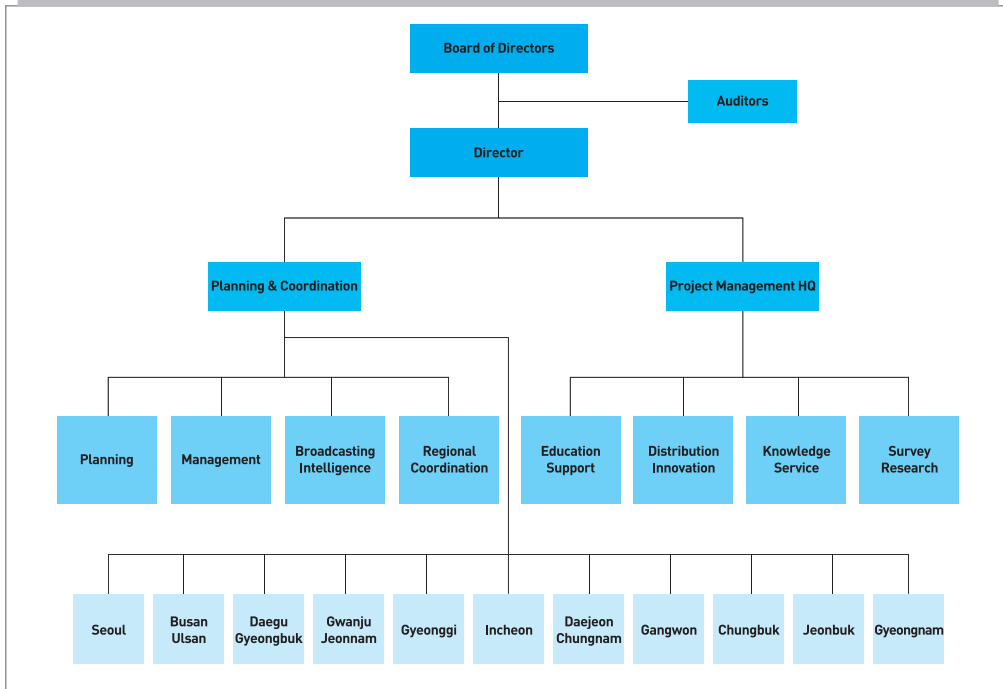
SEDA was established with the mission 「Special Act to Support Small Businesses and Micro Enterprises」 to increase competitiveness and stability of micro enterprises in June 2006, and it has 58 regional centers around the country.

The key tasks of the SEDA are

1. Education and consulting to reinforce startup and management capacity for micro enterprises,
2. Support to reinforce ability to propagate for micro enterprises,
3. Information to improve startup and management, like micro enterprise broadcasting, commercial information system, and
4. Establishment and management of regional centers.

The SEDA has 391 employees. The headquarters has 8 divisions, 11 regional head quarters, 58 centers, and 5 education centers for Korean micro businesses.

<Figure 1-6> Organization of SEDA



Source: SEDA

Details of the key tasks of SEDA are as follow:

1) Information provision

SEDA founded a 24 hour micro enterprise broadcasting system (“Yes-TV”) to provide information necessary for startup and management. It also provides specific and trustworthy information for the market analysis of each region and industry through mobile applications and the internet for all potential business people.

2) Education

SEDA provides field-centered entrepreneurship education for prepared startups through, for example, 80 hours of hands-on education on business district surveys, experience of successful businesses, business plan workshops, and startup internship programs. It also provides an e-learning education course on the internet(edu.seda.or.kr). In addition, it guides a structural improvement of overcrowded industry businesses for new promotion of industry and job transition education to pioneer ways for micro enterprises.

3) Consulting

SEDA provides consulting services to resolve management problems of micro enterprises through diagnosis, guidance on business validity, advertisement, and customer management for 2~3 days. Local experts with specialized techniques give on-site consulting for micro businesses such as food, bakery, beauty treatment, optician, florist, and car maintenance businesses. It also provides legal support to micro enterprises with the Korea Legal Aid Corporation.

4) Support for Senior Startup

SEDA supports successful startups by seniors through practices and coaching-centered entrepreneurship education based on experience, expertise, and social network of seniors. "Senior BizPlaza" is the center to provide office space and startup guidance information on reemployment for seniors preparing startups.

5) 'Nadle Store' Promotion

SEDA helps retail businesses change their signage and adopt POS system etc for them to be able to survive under the expansion of large retailers. They are called 'Nadle Store' and there were 4,700 in 2012. SEDA helps them through co-purchase and the common distribution system with Korea Agro-Fisheries & Food Trade Corporation.

6) Franchise Promotion

SEDA tries to evaluate superior franchises for small & medium franchise headquarters and provide tailored link support. It has programs to nurture promising micro enterprises to franchise headquarters by specialization and organization, and gives support of franchise management system to independent businessmen to grow into micro enterprises.

7) Support for Micro Enterprise Joint Cooperation

SEDA helps micro businesses to have joint business efforts through programs, such as the Bakery Festival for advanced bakery-bread making skill acquisition through seminars with foreign technicians (France, Japan) and opportunities for benchmarking. It also develops policies on micro enterprises and provides tailored support specialized for micro enterprises.

3.3. Fund Availability for SMEs

3.3.1. General Overview

The government should strongly participate or intervene in the financial market to increase

credit availability for SMEs and micro enterprises. The government can make small businesses have access to financial resources through small-business friendly designed programs, such as SME policy fund, a micro enterprise policy fund, or the central bank's provision of lending sources to commercial banks for small business lendings.

3.3.2. SME Public Policy Fund

Based on the SME Promotion Act, the SME Public Policy Fund was founded as a necessary security fund for SME startup promotion, growth assistance and restructuring acceleration, balanced development and construction of industrial bases in 1978. The Small Business Corporation(SBC) manages the fund under the supervision of the Korean SMBA. The fund's main responsibilities are:

1. Startup business support
2. Regional SME promotion and industrial development support,
3. Support for SME automation•informatization, tech development, and
4. SME cooperation, training and internationalization.

The value of the fund in 2012 was 3.623 trillion won (3.623 billion USD). As a rule of thumb, the loan limit to any business is 4.5 billion won (4.5 million USD) and should be less than 150% of its annual sales. The interest rate of the loan is basically variable, but some special purpose loans, such as the Youth Startup Fund, the Loan & Investment Hybrid Fund, and the Disaster Assistance Fund, have a fixed annual interest rate, which is around 4% currently.

Small businesses need to apply for the loans at the local offices of the SBC, and the SBC determines the eligibility and the amount of the loan based on the innovativeness and the growth potential of the business. The SBC provides loans through commercial banks (they get 1% commission) or through SBC local offices (especially for emergency programs, such as Disaster Assistance Loans).

The loans are to be used for factory buildings, facility purchases, startup funds, and emergency working capital for disaster recovery and export working capital. The SBC gives out the loans and has started a new hybrid type of fund provision for high growth SMEs, such as the Profit-sharing Loan Program and the Growth-sharing Loan Program.

The sources of the Fund are mainly from issuing bonds by the SBC and borrowing from commercial banks at a low interest rate. The government sometimes provides some amount of the budget for the fund in case of an insufficient amount of funds available for the programs.

<Table 1-8> Usages of the Fund (2012)

Usages		Amount (KRW, bil)
Loans	Startup Support	1,400
	Facility Investment	982
	Business Transfer	160
	Micro Business Support	400
	Emergency Working Capital	270
	Commercialization Support	258
	Hybrid Investment	160
Sub_Total		3,630
Projects	International Industry Cooperation	3
	Globalization of SMEs	12
	On-line Trades	4
	Leisure Industry Support	3
	Information Provision	2
	SME Employee Training	15
	International Expert Support	5
	Fund Efficiency Improvement Program	56
Sub_Total		106
Capital Expenditure	Investment in Fund of Funds	130
	Training Facilities	45
	Building Global Training Center	32
	Transfer of HQ of SBC	23
	Information Facilities	4
Sub_Total		234
Others	Operation of the Fund	82
Others	Repayment of Bonds and Interests	3,804
Sub_Total		3,886
Total		7,825

Source: SEDA

3.3.3. Micro Enterprise Policy Fund

The purposes of the Micro Enterprise Policy fund is to increase the startup success rate through a fund for startups and through support of management improvements for micro enterprises. This will result in new job creation and a higher stability of the social safety net. The total amount

of the fund is between 300~400 billion Korean won (300-400 million USD), and recently, around 10,000~15,000 micro businesses have obtained working capital or capacity expansion funds.

<Table 1-9> Usages of the Fund (by Year)

year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Budget	300	240	370	350	350	350	510	455	346	289	1097	300	445
Business	14,613	10,518	14,313	10,310	13,914	14,756	19,605	16,300	12,449	8,531	46,457	10,582	15,895

Source: SEDA

* 2009 : Expansion of budget to resolve credit crunch from global financial crisis

In 2012, funds available amounted to 425 billion won (425 million USD); most of the fund was for manufacturing, construction, transportation, mining (less than 10 regular employees), and various service industries such as wholesale•retail(less than 5 regular employees). Micro enterprise managers with micro business management education were the preferred candidates for the loans.

The fund is to be used for micro enterprises with damage from disasters or which are participating in government policy support projects such as franchise programs, new business entrepreneur programs, and handicapped entrepreneur programs, etc.

The lending interest rate is variable. The annual interest rate is 3.56% currently. The loan limit per business is 50 million Korean won (50,000 USD), and the loan period is within 5 years with a grace period of 1 year included. Businesses need to repay 70% of the loan amount from the 2nd till the 5th year, and the remaining 30% at termination of the loan period.

Micro enterprise managers who need funding need to go to the local centers of the SEDA for consultation about their business improvements. When they provide the certificate of the consultation to the Regional Credit Guarantee Fund, they can get the credit guarantee certificate, with which they can obtain the fund through local banks.

3.4. Youth Entrepreneurship Education

3.4.1 General Overview

Entrepreneurship education is an education program for the education and support of students including teenagers and adult entrepreneurs (2010, Korean Research Association for the Business Education). It includes education in not only knowledge, function, and attitude relevant to startups for future entrepreneurs but also on how to maintain positive attitude for per-

formance of one's duty in the position of an employee even when one does not start a business.

Entrepreneurship education programs include entrepreneurship education for teenagers, college and graduate students, and adults to boost entrepreneurial spirit and willingness to take risks related to creating and managing a business.

3.4.2 Korean System of Entrepreneurship Education

The Korean entrepreneurship education system, led by the government, was developed from BizCool in 2002, graduate school entrepreneurship education in 2004, startup education for college students in 2005, and Technology Startup Academy.

1) BizCool

BizCool is the startup•management education program for elementary • middle • highschool students to help grow an entrepreneurial spirit and the ability to commercialize prior to nurturing prepared entrepreneurs, and to prevent youth unemployment by enhancing self job-pioneering ability.

2) College Entrepreneurship Education

The College Entrepreneurship Education Program is to spread an atmosphere of startup and enhancement of understanding of startup•management through educating prospective entrepreneurs on startup capacity such as forming business minds and an entrepreneurial spirit in college students.

- a. University Entrepreneurship Course Support: Support for opening•managing entrepreneurship courses in regular curriculum (credits given)
- b. University Startup Club Support: Support for superior startup item development, opening of startup competition, international cooperation between young entrepreneurs.

3) Graduate School of Entrepreneurship

The Graduate School of Entrepreneurship aims to secure business competitiveness and satisfy global competition with entrepreneurship education for graduate students. This is achieved by systematically teaching the practical knowledge necessary for startup and entrepreneurial spirit for pre-entrepreneurs or entrepreneurs with superior technology and original ideas.

4) Technology Startup Academy

The Technology Startup Academy supports adult technology entrepreneurs for education, fund, location, management•technology support services to revitalize innovative firms in nationally strategic industries, for high creation of jobs and active growth.

- a. Education Step : 「Technology startup business procedure」 curriculum to enhance startup•management capacity of technology entrepreneurs.
- b. Commercialization Step: Increase of successful startup rate by providing on-site learning, counseling on management skills for their successful startups.

4. Recommendations for Ghana SME Development Policies

The following are fundamental policy recommendations for revitalizing SMEs in Ghana.

First of all, the government needs to actively participate or intervene in the financial market to increase the financial accessibility of SMEs and micro enterprises for their start-ups. Creating a public fund for innovative small businesses through public funding and import duties is a good way to develop entrepreneurs.

Second, it is necessary for Ghana to start entrepreneurship education, especially for young people to modify their attitudes and improve their basic skills. A larger number of young entrepreneurs will provide Ghana with more jobs and income. So, identifying potential entrepreneurs and giving them adequate education will make them successful business people.

Third, strengthening SME policy organization to increase support for SMEs is necessary. The government agency for SME policies, NBSSI, should be independent and be given adequate personnel and resources. NBSSI could be benchmarked against SMBA in South Korea to increase policy-making capability and ability to garner SME policy fund. In addition, public on-site services for micro enterprises should be provided for education and consultation.

4.1. Creating ‘Ghana Innovation Fund’ for SMEs

4.1.1. Purpose of the Fund

The Fund can supply startup and growth resources to innovative small businesses and potential entrepreneurs for their business activities, such as research & development, facility investment and marketing.

4.1.2. Target SMEs

Target innovative small businesses that need money for R&D, facility expansion, and international marketing activities, especially in the industries of clothing, furniture, food and beverage, metal products, and information technology.

4.1.3. Fund Source

These can be derived from Government funds, import duties, public bonds, and international assistance. Import duties can be a way to secure the initial funding, as in the case of Korea, Taiwan, and Hong Kong. The fund needs to garner around 40~50 million dollars annually, and the size of the fund should be 500 million dollars for its robust SME programs. If Ghana imposes 0.2% of additional import duties on imports, it can secure around 40 million US dollars (the amount of imports in 2011 is 19.6 billion dollars).

4.1.4. Fund Usage

It can select SMEs and provide 200~300 innovative businesses (roughly 1% of Ghana SMEs) with 10~50 thousand US dollars at an annual interest rate of 7~10% as long-term loans (for example, 5 years). The number of SMEs to be supported can be increased gradually.

4.1.5. Benchmark : Korea's "SME Startup & Growth Fund"

It secures funds through government support and public bonds, and is used for technology startups, facility investment and export marketing activities.

4.2. Creating 'Youth Entrepreneurship Education Program

4.2.1 Purpose of the Program

It is essential for an economy to have active entrepreneurs who can transfer ideas and technologies into products and services. Ghana needs to provide education and training for potential entrepreneurs in basic, industrial knowledge and management skills so that more people are able to start their own businesses and create jobs.

4.2.2. Target People

These include college and graduate students in addition to adults, who are interested in startups, and who have ideas and technologies. An example is Herman Chinery-Hesse who created SOFTtribe in 1991 and employed 80 programmers. The program could have two 50

entrepreneurial classes per year, and classes for various industries. Participants may be selected by the evaluation of their business plans.

4.2.3. Operation

The program needs to provide basic and advanced courses. The basic courses include how to write a business plan, startup process, how to get funds, how to recruit employees and etc. The advanced courses include how to do R&D, legal & management consulting, marketing, intellectual property right and etc.

A national university with management and engineering departments could manage the program. The program should operate with public funding, with no tuition or charges, and its successful graduates need to be given loans or investments from the Ghana Innovation Fund.

4.2.4. Benchmark : Korea's "Technology Startup Academy"

This program provides free entrepreneurship education for about 3 months, and graduates are preferred for technology startup programs. Successful graduates are able to access angel funds as well.

4.3. Creating an Independent Ministry or Administrations for SME Policies

4.3.1. Purpose of the Creation

Since the current government agency for SME policies in Ghana, NBSSI, is not sufficiently able to create SME policies actively or coordinate SME policies between government agencies, Ghana should create a new independent Ministry or Administration with responsibilities for active SME policy making and implementation. It also needs to create a system for on-site training and consulting programs for micro enterprises.

4.3.2. A Ministry or Administration

The new government agency should be independent and have more SME experts and a bigger budget. It also needs to have local offices that can contact SMEs and provide field services. With a new agency, it will be possible to create, implement, and coordinate SME policies more actively and more efficiently.

The objectives of creating new agency are 1. Managing the 'Ghana Innovation Fund' 2. Creating & managing a 'Youth Entrepreneurship Education Program' 3. Public procurement of SME products and services 4. Export assistance services and etc.

4.3.3. Small Business Development Center

As with the USA and Korea, a Small Business Development Center can provide on-site management assistance services especially for micro enterprises at local business areas. It should have micro business specialists and management services experts available, such as accountants, lawyers, and consultants.

The objectives of Small Business Development Center would be 1. Consulting for starting and growing micro enterprises 2. Providing information and education of management know-how and 3. Guidance for marketing and sales etc.

4.3.4. Benchmark : Korea's "Small & Medium Business Administration" or US "Small Business Administration" and "Small Business Development Center"

Korea's SMBA and US SBA create and implement SME policies and coordinates SME Policies such as public R&D, public procurement, and regulation flexibility policies. They have local Small Business Development Centers for on-site consulting services.

5. Conclusion

Ghana has a high growth rate but its macroeconomic structure is very unstable. Despite the recent downturn in inflation, the rate is still high. The current account deficit is more than 8% compared to GDP, which is at a dangerous level. Exports are mainly primary commodities such as cocoa, gold and crude oil, which have volatile prices and weaken the country's export trade. Foreign debt is not only excessive but above 20% compared to GDP, which is also very high. Ghana's industries, especially the manufacturing sector are weak, while the service industries dominate making the industrial structure fragile.

The SME environment in Ghana is plagued by a weak entrepreneurial spirit. Ghana was colonized for a long period, and its citizens' spirit of adventure and creativity, along with entrepreneurship, have dropped. Low levels of education and lack of job training leads to inadequate labor skills and decreased willingness to work. The lack of job opportunities, which when present enhance workmanship, has especially led to a drop in skilled labor. Fund accessibility is rapidly dwindling. Lending interest rates are very high and the asymmetry of information for SMEs decreases fund availability. Ghana's domestic market is small, social overhead capital is weak, and the relatively high degree of market openness decreases market accessibility for SMEs.

It is difficult for SMEs in Ghana to expand and support Ghana's growth and to help alleviate poverty under the current environment, so proactive SME policies must be developed and implemented in the short to medium term.

To revitalize SMEs in Ghana, first, the Ghana Government needs to actively intervene in the financial market to increase financial accessibility. It can create a 'Ghana Innovation Fund' for SMEs to supply startup and growth resources to innovative small businesses and potential entrepreneurs.

Second, the Government needs to provide education and training to potential entrepreneurs. Creating education programs such as the 'Youth Entrepreneurship Education Program' would help young people modify their attitudes and improve basic skills.

Third, since NBSSI cannot sufficiently create nor coordinate SME policies, the Government should create a new independent Ministry or Administration with the responsibilities of active SME policy making and implementation.

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< Table A-1 > Ghana Industry Statistics

Data Profile					
	2004	2005	2008	2009	2010
Population, total (millions)	19.17	21.64	23.26	23.82	24.39
Population growth (annual %)	2.4	2.4	2.4	2.4	2.4
Surface area (sq. km) (thousands)	238.5	238.5	238.5	238.5	238.5
GNI, Atlas method (current US\$) (billions)	6.46	10.02	24.09	28.17	30.47
GNI per capita, Atlas method (current US\$)	340	460	1,040	1,180	1,250
GNI, PPP (current international \$) (billions)	17.59	25.82	31.00	36.50	39.44
GNI per capita, PPP (current international \$)	920	1,190	1,330	1,530	1,620
People					
Life expectancy at birth, total (years)	58	61	63	63	64
Fertility rate, total (births per woman)	4.7	4.4	4.3	4.2	4.2
Adolescent fertility rate (births per 1,000 women ages 15-19)	84	75	69	68	66
Contraceptive prevalence (% of women ages 15-49)	..	..	24	..	..
Births attended by skilled health staff (% of total)	..	..	57	..	..
Mortality rate, under-5 (per 1,000 live births)	99	86	79	77	74
Malnutrition prevalence, weight for age (% of children under 5)	..	..	14	..	..
Immunization, measles (% of children ages 12-23 months)	98	83	86	93	93
Primary completion rate, total (% of relevant age group)	71	75	84	87	..
Ratio of girls to boys in primary and secondary education (%)	90	93	96	96	..
Prevalence of HIV, total (% of population ages 15-49)	2.3	2.0	1.8	1.8	..
Environment					
Forest area (sq. km) (thousands)	60.9	55.2	..	..	49.4
Agricultural land (% of land area)	63.4	66.4	68.1	68.1	..
Annual freshwater withdrawals, total (% of internal resources)	3.2	..	..	1.8	..
Improved water source (% of population with access)	71	79	..	..	86
Improved sanitation facilities (% of population with access)	10	12	..	..	14
Energy use (kg of oil equivalent per capita)	404	394	407	388	..
CO2 emissions (metric tons per capita)	0.3	0.3	0.4	..	..
Electric power consumption (kWh per capita)	330	247	267	265	..

Economy					
GDP (current US\$) (billions)	4.98	10.72	28.53	25.98	32.31
GDP growth (annual %)	3.7	5.9	8.4	4.0	7.7
Inflation, GDP deflator (annual %)	27.2	15.0	20.2	16.6	17.3
Agriculture, value added (% of GDP)	39	41	31	32	30
Industry, value added (% of GDP)	28	27	20	19	19
Services, etc., value added (% of GDP)	32	32	49	49	51
Exports of goods and services (% of GDP)	49	36	25	29	29
Imports of goods and services (% of GDP)	67	62	44	42	41
Gross capital formation (% of GDP)	24	29	21	23	27
Revenue, excluding grants (% of GDP)	..	23.7	15.7	15.4	..
Cash surplus/deficit (% of GDP)	..	-1.4	-5.9	-5.6	..
States and markets					
Time required to start a business (days)	..	18	13	12	12
Market capitalization of listed companies (% of GDP)	10.1	15.5	11.9	9.7	10.9
Military expenditure (% of GDP)	1.0	0.6	0.4	0.4	0.4
Mobile cellular subscriptions (per 100 people)	1	13	50	63	71
Internet users (per 100 people)	0.2	1.8	4.3	5.4	9.5
Roads, paved (% of total roads)	30	15	16	13	..
High-technology exports (% of manufactured exports)	2	0	1	4	2
Global links					
Merchandise trade (% of GDP)	93.3	76.0	54.5	53.5	57.6
Net barter terms of trade index (2000 = 100)	100	125	157	170	175
External debt stocks, total (DOD, current US\$) (millions)	6,116	6,780	5,382	6,331	8,368
Total debt service (% of exports of goods, services and income)	15.8	7.1	3.2	3.0	3.4
Net migration (thousands)	-51	12	..	..	-51
Workers' remittances and compensation of employees, received (current US\$) (millions)	32	99	126	114	136
Foreign direct investment, net inflows (BoP, current US\$) (millions)	166	145	1,220	1,685	2,527
Net official development assistance and official aid received (current US\$) (millions)	598	1,151	1,307	1,582	1,694

Source: Ministry of Trade and Industry(MOTI)

< Table A-2 > Key Functions of Regional SMBA

Function	Key Task
Adjustment Cooperation	<ul style="list-style-type: none"> ○ Youth startup association support ○ Public purchase adjustment association support ○ Regional cooperation for promotion of technological advancement committee support ○ Financial support committee support ○ Policy presentation support ○ Disaster Assistance Services
Venture Startup Support	<ul style="list-style-type: none"> ○ Venture business investment certificate issuance ○ Venture investment road-show opening ○ One-man creative business center support ○ Senior BizPlaza support ○ YES leaders support ○ Youth BizCool support ○ University entrepreneurship education package ○ Tech startup academy support ○ Well-being practice center support ○ Business incubating university designation & support ○ Nurture & support of pre-tech entrepreneur ○ Startup incubator support ○ Knowledge trade conditional commercialization support
Public Purchase Support	<ul style="list-style-type: none"> ○ Public purchase support system ○ Investigation and management of public purchase-separate order of publicly used material ○ Priority purchase of tech developed products ○ Confirmation system of direct production of SME products ○ Correction of violations of public purchase ○ Person in charge of support of purchase by public institution ○ Certificate for regional business by disabled-small businesses
Export Support	<ul style="list-style-type: none"> ○ Mid-term export capacity reinforcement project ○ Trade promoting group dispatch ○ Use of foreign private network ○ Designation of promising exporting SMEs ○ Support for foreign standard authentication acquisition ○ Export network support ○ Export consulting support
Workforce Support	<ul style="list-style-type: none"> ○ Support for industrial-academic tailored workforce training project ○ Specialized high school nurturing project ○ SME tech academy nurture ○ College major in SME contracts ○ Job fair, SME awareness project support ○ Priority supply of residence to long-term SME employee ○ SME experience project support

Unfair Trade Investigation Support	<ul style="list-style-type: none"> ○ Improvements to investigation of consigning trade between conglomerate-SME, or SMEs, and to unfair trade
Test Research Support	<ul style="list-style-type: none"> ○ Experiment analysis support ○ Open use of test facilities ○ Performance certification support ○ Support for joint use of research equipment
Technological Support	<ul style="list-style-type: none"> ○ SME tech development (startup growth, tech innovation, industrial-academic, convergence, science and agriculture fusion, tech transfer, making manufacturing site green, service R&D) ○ Industrial-academic, business affiliated lab ○ Digitalization of production site ○ IT-based management innovation reinforcement ○ Excavation-support of SMEs with innovative management ○ Excavation-support of SMEs with innovative tech

Source: SMBA

The 2012 KSP for Ghana: National
Development and Government Capacity Building

Chapter 2

Introduction of Credit Guarantee Fund

1. Ghana's Financial Industry and SME Financing Scheme
2. Korea Credit Guarantee Fund and Its Achievements
3. Financial Institution Contributions and Cost-Benefit Analysis
4. Recommendations for the Introduction of a Credit Guarantee Scheme

Introduction of Credit Guarantee Fund

Yong-Pyung Park (Korea Credit Guarantee Fund)

In-Kook Hwang (Korea Credit Guarantee Fund)

Summary

The financial industry of Ghana has seen rapid development since the implementation of government-led financial reforms, resulting in a wide range of financial institutions entering the market. The banking industry, in particular, has grown in terms of the number of banks and asset scale. However, the banking industry in Ghana takes on a limited role when it comes to support for the SME sector and the execution of government policies because of their oligopolistic position in the market. SME-related policy financing in Ghana is dependent on the on-lending facilities of the central bank and the development programs of international organizations. Although financing policies from the National Board for Small-Scale Industry (NBSSI) and the credit guarantee supply of the Eximguaranty for supporting SMEs exist in Ghana, their effectiveness remains weak due mainly to lack of available funds.

Korea's credit guarantee scheme was established based on contributions from financial institutions. During times of economic crisis, the fundamental property of the scheme is supplemented by government contributions. Since the Korea Credit Guarantee Fund(KODIT)'s foundation in 1976, the scheme has steadily developed both in quality and quantity, and is now considered a core policy tool to support SMEs. Banks have been able to expand SME loans in a stable manner and SMEs' access to financing has significantly increased through the credit guarantee scheme.

One of the key factors that assisted in the stable establishment of the credit guarantee scheme in Korea was contributions made by financial institutions. Such contributions are viewed as costs that financial institutions pay for the benefits arising from the guarantee scheme. The results of a cost-benefit analysis of contributions made by financial institutions and the benefits they earned (calculated based on a comparison of loss cost and loan–deposit margin) show that the B/C ratio stands at 2.71, demonstrating the high efficiency of the contribution system.

In order to facilitate SMEs' access to financing, it is essential to develop a credit guarantee scheme. The Ghanaian government should introduce a credit guarantee scheme under the leadership of the central bank to strengthen the public roles of the banking industry and develop the scheme into a public institution to support SMEs. Additionally, it should enhance the sustainability of the credit guarantee scheme and further develop the SME sector and the financial industry by introducing a financial institution contribution system like the one currently utilized in Korea.

1. Ghana's Financial Industry and SME Financing Scheme



1.1. Ghana's Financial Industry: Policy and Status

1.1.1. Financial Industry Policy

The extensive financial reforms led by the Ghana government brought about many opportunities in the financial sector of the country over the past two decades. As part of such reforms (referred to as "Financial Sector Adjustment Programs" or "FINSAP"), which began in the late 1980s and continued until the mid 1990s, the financial sector controlled by the state-owned bank, the government's credit rationing, and price controls were all gradually liberalized. Under FINSAP I and FINSAP II, the Ghanaian government focused on restructuring banks faced with financial hardship by improving the regulatory and supervisory frameworks and fostering non-banking financial institutions. Thanks to such efforts, much progress was made in the privatization of the banking sector and a competitive market environment was introduced in the financial sector with new banks entering the market. As well, a wide range of non-banking financial institutions including lease firms, mortgage finance companies and savings banks appeared, and the Ghana Stock Exchange, established in 1990, helped lay the groundwork for the development of the capital market.

Despite the financial reforms, however, there remained much room for improvement. Problems such as high interest rates, lack of financial access for SMEs, absence of long-term bond markets, insufficient financial reforms, inefficiencies in the regulatory regime, outdated financial laws (Corporate Act, Bankruptcy Act, etc), and an ineffective registration system all needed to be dealt with urgently.

In order to solve these problems and advance the financial industry, the Ghanaian government implemented the FINSSP (Financial Sector Strategic Plan) in early 2000. FINSSP I, which was implemented from 2003 to 2008, carried forward 98 tasks for financial reforms, of which approximately 80 percent were effectively implemented and delivered positive outcomes. Currently, FINSSP II (2012~2016) is being carried out as a blueprint to develop the financial industry.

<Table 2-1> Main Points of Financial Policies	
FINSAPI, II (Late 1980s ~ Mid 1990s)	<ul style="list-style-type: none"> -Privatization of state-owned banks (liberalization of credit rationing and price control schemes) -Restructuring of banks; improvement of regulatory and supervisory regimes -Fostering of competition through the entry of new banks -Support of non-banking financial institutions (lease, mortgage, savings banks, etc) -Development of the capital market (establishment of the stock exchange, etc)
	
FINSSP I (2003~2008)	<ul style="list-style-type: none"> -Improved access to finance for SMEs (by reducing lending rates, etc) -Development of bond markets and promotion of financial innovation -Pushing ahead of 98 tasks including updating the Corporate Act
	
FINSSP II (2012~2016)	<ul style="list-style-type: none"> -Revision of laws related to disclosure of customer information in the process of credit information collection -Passing of legislation to grant authority to investigating bank monopolies in order to reduce interest rates -Carrying out of 88 tasks including plans to strengthen debtors' rights

Source: Ministry of Finance & Economic Planning of Ghana

1.1.2. Ghana's Financial Industry

Since financial reform policies were implemented, the financial industry in Ghana has undergone rapid growth particularly in terms of the quantity and diversity of financial institutions. Ghana's financial institutions are largely categorized into commercial banks, rural community banks, non-banking financial institutions such as insurance and securities firms, and others including savings banks and mortgage firms.

<Table 2-2>Quantity and Types of Financial Institutions

(Unit: Institution, %)

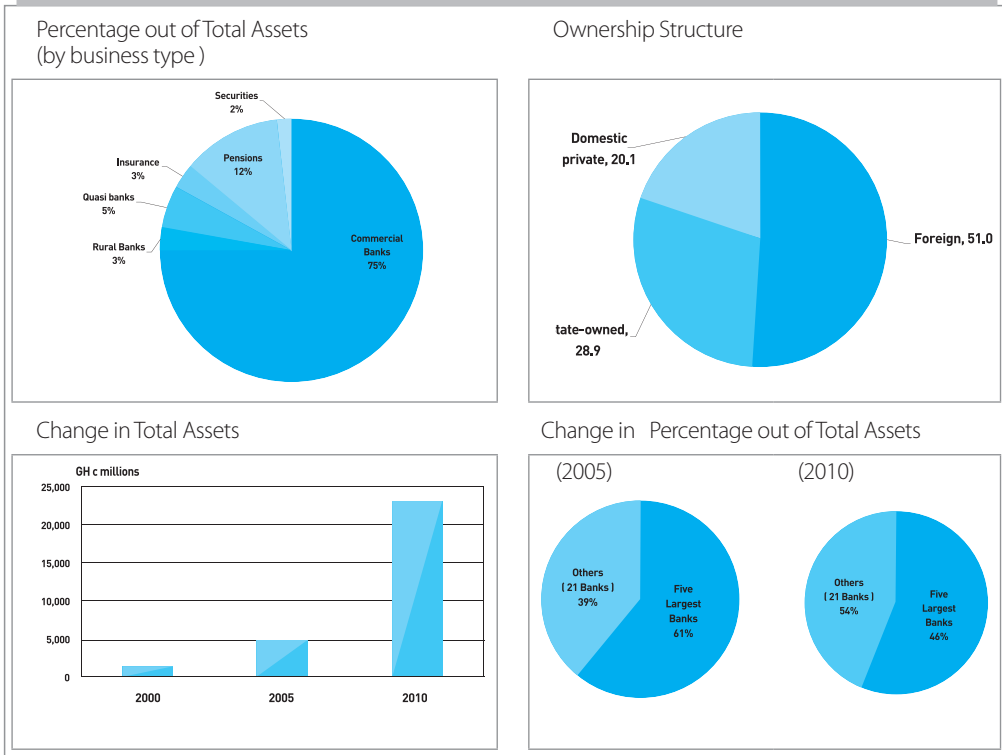
Type Type	2000		2005		2010	
	Number	Percentage of total assets	Number	Percentage of total assets	Number	Percentage of total assets
Commercial bank	16	76.9	20	70.5	26	75.1
Rural community bank	113	2.0	121	4.3	135	2.7
Non-banking financial institution	57	17.2	80	20.6	134	17.5
Others	33	3.9	34	4.6	47	4.7
Total	219	100	255	100	342	100

Source: Bank of Ghana

This chapter focuses on the banking industry which serves a central role in the financial sector. The banking industry has shown rapid development since the financial reforms were implemented. The number of commercial banks increased to 26 at the end of 2010 from 16 in 2000. Among them, 8 were local banks, 5 were state-owned banks, and 13 were foreign banks.

The total net worth of commercial banks increased almost three-fold to GH¢ 2.3billion (US\$1.56billion) in 2010 from GH¢ 792million (US\$8.14 million) in 2007. Profitability of the banking industry was high as well. EBIT of the banking industry recorded 30.4% in 2007, 26.1% in 2008, 19.7% in 2009 and 28.15% in 2010. Except in the year 2009 when the global financial crisis hit, profits hovered over 20%.

<Figure 2-1> Overview of Ghana's Banking Industry



Source: Bank of Ghana

While the share in total assets of the five largest banks declined to 46% in 2010 from 61% in 2005, the concentration ratio of the banking industry was high. Some analysts argue that such a high concentration ratio could cause bank monopolies which could lead banks to impose high interest rates. Despite high profitability, high lending rates (approximately 25%) and low deposit interest rates (about 5%) served as main obstacles to the development of the banking industry, and there has not been much improvement thus far. Meanwhile, NPL ratio to total loans rose to 17.6% in 2010 as the increase in government budget activity-related outstanding debt ratio led to a rise in corporate overdue loans.

<Table 2-3> Percentage of Spread and NPL

Category	2003	2004	2005	2006	2007	2008	2009	2010
Spread	23.0	9.5	19.6	19.5	9.6	18.25	22.75	21.75
NPL	18.3	16.1	13.0	7.9	6.4	7.7	16.2	17.6

Source: Bank of Ghana

1.2. Ghana's SME Financing Scheme

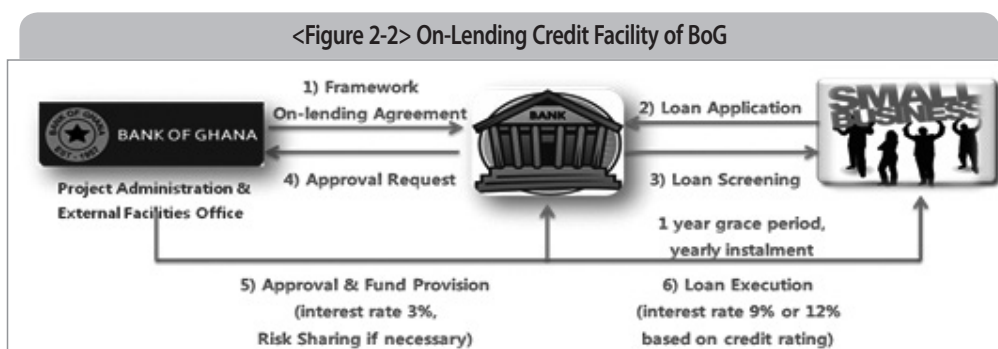
1.2.1. Policy to Support SME Financing

1) On-Lending Credit Facility of the Central Bank

The Bank of Ghana (BoG) provides low interest on-lending credit facility programs based on foreign credits and aids in order to help finance SMEs and the agricultural sector which are relatively high risk borrowers. Additionally, the BoG operates the Project Administration & External Facilities Office to effectively execute credit programs and collect debts. The credit facilities currently provided by the central bank are listed below.

- Ghana Private Sector Development Facility II (GPSDF II): EUR20 million
- Rural Enterprises Project (REP)
- Japanese Non-Project Type Grant, Japanese Project Type Grant
- Support Program for Enterprise Empowerment & Development (SPEED)
- Private Enterprise & Export Development (PEED)
- Chinese Credit Facility
- Belgium Credit Facility

As the first step of the credit facility program, the central bank and a commercial bank enter into a Framework On-lending Agreement (FOA). When an SME submits a loan application to a financial institution, the latter reviews the application and submits the document to the BoG if the conditions of the FOA are met. If the central bank approves the application, a low interest loan (about 3%) is provided and the financial institution extends a 9 to 12% rate loan to the SME based on its credit rating. The SME is required to pay back the loan in installments, usually with a one-year grace period. For high risk borrowers including start-ups, the central bank encourages financial institutions to cooperate with credit facilities via risk-sharing mechanisms (if necessary).



Source: Bank of Ghana

2) Funds Under NBSSI

The National Board for the Small-Scale Industry (NBSSI) is a sub-organization under the Ministry of Trade & Industry. It was declared in 1981 and began operations in 1985. The Ghana Corporate Development Commission and the industry division of the Ministry of Rural, Housing and Industry were absorbed into the NBSSI in 1991, expanding the board's structure and role. The NBSSI currently operates about 160 business advisory centers (BACs) to provide financing, consulting and education, and support for business start-ups.

The NBSSI provides financing through 10 programs including its three main programs—the Programme of Action to Mitigate the Social Cost of Adjustment (PAMSCAD), the Revolving Fund Loan Scheme (RFLS), and the Micro and Small Loans Scheme (MASLOC). These are mainly aimed at providing loans for small-sized enterprises to cover working capital and facility investments in order to earn capital assets. The rates are fixed at 20% under a redemption installment plan with a grace period of 2 to 4 months. Industries eligible for these programs include manufacturing, agricultural processing, service, machine, electronics, and barbering and beauty. While the agricultural, wholesale and real estate industries are in general ineligible, those who grow mushrooms, snails or rabbits are eligible to apply for the loans. An analysis of program records over the past three years indicate limited funds available for loans and failure to expand SME financing, as well as funding that is subject to change each year based on loan repayments and the scale of collected NPL.

<Table 2-4> NBSSI Financing Program

(Unit: GHS)					
Category	Limit per company	Funding scale	Funding (collection)		
			2009	2010	2011
PAMSCAD	100(Regional Administration), 50~250(Headquarters)	15,000	8,450	-	800
RFLS	500	8,000	-	-	-
MASLOC	10,000	250,000	208,701	-	(13,779)
Other	-	-	17,130	-	73,900 (16,842)
Total	-	-	234,281	16,840 (110,948)	88,479

Source: NBSSI

3) Start-Up Capital Under National Youth Employment Program

The National Youth Employment Program (NYEP) is a sub-organization under the Ministry of Youth & Sports which was established in October 2006 to resolve youth unemployment issues in Ghana. The youth unemployment rate which stood at about 65% was quickly emerging as one of the most serious social issues in the country, with the number of unemployed persons increasing by 250,000 each year. NYEP creates jobs for those aged 18 to 35, provides the technical training necessary for employment, and offers internships for youth who complete public service work. As of February 2011, it is operating 15 programs to assist 108,000 persons in finding employment. NYEP came up with a three-year plan in February 2011 which is aimed at helping 400,000 people find jobs or start businesses by the end of 2013.

NYEP initially provided subsidies to those who assisted youth in finding jobs through job training programs. However, the subsidy program was stopped due mainly to budget constraints. With the contribution of World Bank in Feb, in 2011, NYEP created a business start-up program that promotes the employment of young people. In addition to its existing job training courses (22, in such areas as security, firefighting, immigration, agricultural processing, health and medical care, cleaning, sanitation, paid internships, teaching assistant, environment organization, etc), a feasibility study was conducted to determine the possibility of adding start-up programs in the areas of information and communications technology, agriculture, and the energy industry. From 2013, the World Bank will fund a total of US\$65million to provide financial and non-financial support for start-up programs.

4) Loan Programs of International Development Organizations

International development organizations operate a wide range of loan programs through commercial banks and micro-financial institutions aimed at fostering development of SMEs. In particular, they provide credit facilities in cooperation with government agencies or directly enter into facility agreements with financial institutions to finance target groups. Major programs in operation are as follows.

<Table 2-5> SME Financing Programs of International Development Organizations

(Unit: GHS)					
Program	Organization	Funding Scale	Interest Rate	Loan Period	Target Group
Small Business Loan Portfolio Guarantee	USAID	USD 2M	Base rate +2~5%margin	5years	SME
EIB Facility	EIB	€ 5M	15%	12years	Mid-sized enterprise
DANIDA SME Fund	DANIDA	€ 4B	20%	3years	Exporter, Manufacturer
GTZ Fund for SMEs	GTZ	DM 10M	25%	5years	Manufacturer, Service
SME Financing Scheme	FMO	USD 2.5M	Base rate +5%	3years	Business with no More than 60 employees
SME Financing Scheme	SECO	USD 2.5M	"	"	Business with no More than 60 employees

Source: Bank of Ghana

1.2.2. SME Credit Guarantee Scheme

The only official credit guarantee provider in Ghana, except for guarantees provided by international development organizations, is the Eximguaranty Company. Incorporated in 1994, Eximguaranty is a privately owned limited company. In the early 1960s, the credit guarantee scheme was operated within a department of Ghana's central bank, but this department was separated from the central bank and established as an independent credit guarantee provider in 1994. Although the Financial Investment Trust owned by BoG (100%) holds 89.3% of the Eximguaranty's shares, the central bank is not directly involved in its management. However, two out of seven members of the Eximguaranty's board of directors are from the Financial Investment Trust. The total number of employees of the Eximguaranty is 36. It includes the Ashanti branch and the Western branch (newly established in 2012), in addition to its headquarters located in Accra.

<Table 2-6> Shareholders and Ownership Structure of the Eximguaranty

Shareholder	Share (%)	Remark
Financial Investment Trust	89.3	Subsidiary, 100% owned by BoG
Social Security & National Insurance Trust (SSNIT)	5.9	Largest non-banking investor in the Country (similar to National Pension Service in Korea)
National Investment Bank	2.7	Prime investment bank with considerable experience in floating venture companies
Trust Bank	2.1	Private bank targeting viable SMEs

Source: Exmiguaranty

The products and services offered by the Exim guaranty include credit guarantee (within 75%, consigned guarantee), performance guarantee, and material collateralized guarantee. Since its establishment in 1994, total guarantees provided have reached ₵201million (3,280 cases). However, general credit guarantees, excluding special guarantees offered to the Ghana Cocoa Market Board (GCMB, ₵46million) and construction-related performance guarantees (₵91million), stand at ₵64million only, which indicates that guarantees for SME financing account for only a small percentage of the total.

<Table 2-7> Guarantee Supply over the Past Five Years

(Unit: Million GHS/Supply Amount, 1,000 GHS/By Business)

Category	2007	2008	2009	2010	2011
Number of Cases	219	337	368	626	410
Supply	11.3	22.7	27.2	51.3	51.0
Agriculture	436	48	921	8,093	690
Manufacturing	214	107	34	45	1,292
Non-traditional Export	2,582	2,732	4,355	13,089	17,299
Service/Construction	8,065	19,811	21,860	30,100	31,766

Source: Exmiguaranty

The average guarantees annually provided by the Exim guaranty stands at about ₵120million or only 0.03% of the total assets of financial institutions in Ghana (₵4.0billion). Although it is putting efforts toward expanding the guarantee supply by increasing capital by ₵6million through the Export Development & Investment Fund (EDIF), the Exim guaranty faces difficulties in achieving this goal mainly due to limited equity capital and net profits.

<Table 2-8> Management Index in 2010

(Unit: Million, GHS)

Total Assets	Net Capital	Sales	Pretax Profit
14.3	13.2	3.1	0.66

Source: Exmiguaranty

Meanwhile, it imposes relatively high guarantee fees (2.5 to 6.0%) to maintain a certain level of profit as a limited company. It offers 1 to 8-year loans to facilitate the flow of credit to SMEs. However, its impact on SME credit markets has not been very significant, as it has failed to expand guarantee supply due to limited equity capital. Moreover, since there is no limit on the interest rates of guaranteed credit, it has also failed to contribute to reducing SME lending rates. This indicates that the credit guarantee serves as a kind of “cushion” that partly supplements rather than replaces collateral when financial institutions grant loans. As shown in the <Table 2-9> as below, the ratio of guarantee provision to GDP of Ghana in 2011 is 0.07%, an insignificant portion, in comparison with 5.1% of Korea. In order for the Exim guaranty to strengthen its role, sustainable funding on a larger scale is required.

<Table 2-9> Ratio of Guarantee Provision to GDP in Ghana and Korea

(Unit: Million, GHS/KRW, 100 Million)

Category		2008	2009	2010	2011
Ghana	Guarantee Provision(A)	22.7	27.2	51.3	51.0
	GDP(B)	54,307	49,543	61,236	74,614
	A/B	0.04%	0.06%	0.08%	0.07%
Korea	Guarantee Provision*(A)	454,687	658,263	640,660	627,057
	GDP(B)	10,264,518	10,650,368	11,732,749	12,371,282
	A/B	4.4%	6.2%	5.5%	5.1%

* Sum of KODIT, KIBO and Regional CGFs
 Source: Exmigaranty, KODIT, Bank of Ghana, Bank of Korea

1.3. Evaluation on Ghana's Financial Industry and SME Financing Scheme

In the previous chapter, it is clearly shown that Ghana's banking industry takes on a very limited role in terms of stimulating SME sector growth, especially stemming from its oligopolistic status in the financial market. It is pointed out that main obstacles to SME's access to finance in Ghana are high interest rates, lack of collateral, and asymmetry of information between SMEs and banks, etc. In addition, NPL ratio to total loans, which remain at relatively high levels, was one of the major hindrances for banking industry to willingly penetrate into SME loan market.

Against the backdrop of these failures of the financial market in Ghana, the development financing schemes for SMEs are critical to balanced economic development. However, as discussed earlier, Ghana's policy financing schemes are insufficient to cover the financing gap and not sustainable enough to revolve on their own. In more detail, the on-lending credit facility of the central bank, one of the key policy financing mechanisms, is depending on the aid from foreign countries and international development organizations, such as USAID, EIB etc. In the meantime, policy funds from NBSSI, despite their various programs, are too restricted to meet the demands of the needed SMEs, primarily due to the deficient government budget.

In this context of the limited funds for Ghana government, a public credit guarantee scheme, as a sustainable revolving fund, will be a key policy tool for the enhancement of available funds for SMEs and start-ups, because it has the obvious advantage of raising loanable funds from financial institutions, while bearing credit risk. Although there is a private guarantee company, Exmigaranty, it has suffered from the operational restrictions as a limited company and has not been able to penetrate its position into the major financial market since its establishment in 1994.

According to Green (2003), well over 2000 credit guarantee schemes exist in almost 100 countries. Such schemes seek to expand the availability of credit to SMEs and are considered to fit into kick-starting SME lending market in developing countries. As well as correcting market failures related to adverse selection, a well-designed credit guarantee scheme can function to exploit externalities from the entrepreneurial dynamism of under-resourced entrepreneurs. Additionally, it is used as a public policy to offset a credit crunch by filling in the role of private financial sector. Indeed, there has been a raft of new guarantee announcements from many countries since 2008 in order to cope with the aftermath of the financial crisis.

In the succeeding parts, the focus will go over to the experience of Korea's credit guarantee operation for the last several decades. Especially, a unique contribution system of financial contributions will be analyzed based on the benefit-to-cost perspective. From the standpoint of Ghana government, the contribution system from private sector, including financial institutions, will help a guarantee scheme promote SME loan market and revolve on its own with sustainability.

2. Korea Credit Guarantee Fund and Its Achievements

2.1. Overview of Credit Guarantee Scheme in Korea

2.1.1. Necessity of Credit Guarantee Scheme

Proper and effective financial systems are essential factors of sustainable economic growth. If SMEs, start-up businesses or individuals have a difficult time gaining access to financing, this amounts to depriving them of the opportunity to contribute to the economy. Problems caused by financial system inefficiencies are far more serious in developing countries than advanced ones. While small-scale enterprises or start-ups have relatively easier access to finance in advanced countries, there are considerable barriers to SMEs' access to finance in developing countries. Moreover, most SME loans in developing countries consist of short-term financing—unsuitable for long-term investments such as equipment purchase. Worse yet, as sufficient collateral constitutes a prime factor in the screening of a loan application, those who already have a vested interest tend to enjoy more benefits from financial systems. In general, financial institutions' lack of experience in dealing with SME loans tends to worsen the inefficiency of financial systems.

Meanwhile, SMEs are often alienated from having access to financing even in advanced countries. They face discrimination in the credit market due to such points as their relatively high transaction costs, information asymmetry, high risk factors, and insufficient collateral. In developing countries, SMEs face even greater challenges in having access to mainstream lenders due to financial system inefficiencies on top of the already tough environment they face.

2.1.2. Significance of Credit Guarantee Scheme

Credit guarantee schemes are popular in both developing and advanced countries as they are considered the best solution to limited credit access, as discussed in the previous chapter. The objectives of credit guarantee schemes vary. Among them, one of the most common is to scale up access to finance for SMEs. Others include lowering barriers to loan services for SMEs, easing economic and social tensions, and protecting the underprivileged. Generally, credit guarantee schemes act as leveraging factors for economic growth in developing countries, while serving as useful tools to ease market distortion in advanced ones.

2.1.3. Limitations of Credit Guarantee Scheme

Although credit guarantee schemes are widely adopted by many countries around the world, they do not provide solutions to all financial issues. Particularly in developing countries, it is practically impossible to resolve financial market inefficiencies through credit guarantee schemes only. If the procedure of disposing collateral is too complicated, it becomes necessary to revise legal and institutional systems above all. Meanwhile, in cases where information asymmetry is rampant, a better option would be to operate credit information companies such as credit bureaus rather than credit guarantee schemes.

2.2 Development of Credit Guarantee Scheme in Korea

2.2.1 Period of Introduction (1976~1979)

The Korea Credit Guarantee Fund (KODIT) was launched in January 1976 with fundamental property worth KRW27.9 billion and the credit guarantee businesses of the Industrial Bank of Korea, which were transferred to KODIT upon its establishment. The fundamental property consisted of contributions from the government and participating financial institutions and profits generated from fund reserves. At that time, participating financial institutions were obliged to pay 0.5% per annum of their average loan balance every month until the end of 1980. Fundamental property, which stood at KRW27.9billion at the time of KODIT's establishment, increased to KRW 42.6 billion at the end of 1976 and KRW 112billion at the end of 1979.

With KODIT, an independent credit guarantee service provider, beginning full-scale operations, guarantee balances which stood at KRW101.6 billion at the time of its establishment rose to KRW700billion by 1979. Before KODIT was established, credit guarantee services were hampered by various restrictions caused by the non-separation of lenders and guarantee providers.

<Table 2-10> Management Index of KODIT (1976~79)

(Unit: KRW 100million)

Category	1976. 6~12	1977	1978	1979
Guarantee Provided	1,116	2,729	3,689	6,788
Guarantee Defaults	1.1	2.0	1.4	2.7
Subrogated Performance	6	11	19	77
Government Contributions	-	-	-	-
Operation Multiple	3.7	4.3	4.9	6.3

Source: KODIT

2.2.2 Growth Period (1980~1987)

With the economy deteriorating in the early 1980s due to the 1979 (second) oil crisis and social and political unrest in Korea, business failures, particularly SMEs, occurred one after another, instigating a sharp rise in default rates. The financial difficulties suffered by KODIT worsened when the government carried out a guarantee expansion policy aimed at stimulating the economy. In 1983, given the grave situation, the government decided to make its first contribution to increase the fundamental property of KODIT.

<Table 2-11> Management Index of KODIT (1980~87)

(Unit: KRW100million, %, times)

Category	1980	1981	1982	1983	1984	1985	1986	1987
Guarantee Provided	17,610	18,416	15,490	13,860	16,491	18,707	22,365	23,712
Guarantee Defaults	3.8	6.4	7.5	7.7	4.3	2.9	4.4	3.8
Subrogated Performance	231	577	1,034	566	716	617	671	929
Government Contributions	0	0	0	250	150	83	100	200
Operation Multiple	9.3	11.2	12.1	8.1	7.8	7.4	7.6	7.2

Source: KODIT

2.2.3 Period of Maturity (1988~1996)

Accelerated trade protectionism strategies and the subsequent economic downturn that occurred in the early 1990s led to credit guarantee defaults, sharp increases in guaranteed loan performance, and impairments to the fundamental property of KODIT. These issues resulted in a reduction in credit guarantees, thereby worsening the already vicious cycle. Meanwhile, under

the new economic policies implemented since the inauguration of the civilian government, which included the real-name financial transaction system introduced in 1993, guarantees were provided on a large scale leading to increases in credit guarantee fund defaults and the subsequent deterioration of the financial conditions of KODIT. In 1994, defaults of the credit guarantee fund reached KRW916.9billion, accounting for about 12% of guarantee balances, while the number of insolvent enterprises stood at 11,497, taking up 16% of the total enterprises provided with credit guarantees.

After experiencing such difficulties, KODIT changed its policy direction and overhauled guarantee service systems for greater security and stability. In particular, it reinforced the guarantee amount evaluation limit and assessment criteria, and introduced a professional examiner system aimed at enhancing the professionalism of guarantee assessment.

<Table 2-12> Management Index of KODIT (1988~1996)

(Unit: KRW100million, %,times)									
Category	1988	1989	1990	1991	1992	1993	1994	1995	1996
Guarantee Provided	27,265	30,428	45,224	52,215	54,191	63,867	44,420	57,273	67,552
Guarantee Defaults	3.5	2.6	2.3	4.2	9.1	4.9	9.0	9.1	5.6
Subrogated Performance	1,034	776	711	1,565	4,610	3,962	4,376	6,846	5,051
Government Contributions	150	220	80	50	870	900	2,400	2,900	3,500
Operation Multiple	6.9	6.7	8.4	9.7	12.4	17.0	14.0	15.5	13.4

Source: KODIT

2.2.4 Weathering the Foreign Exchange Crisis (1997~2002)

The 1997 Asian financial crisis that started in Thailand with the financial collapse of the Thai baht aggravated already troubled global financial markets. In Korea, one of the most affected countries, the chain reaction of large-scale business' bankruptcies and the increasing number of insolvent financial institutions rapidly decimated the real economy. Worse yet, the IMF's high interest rate policy, the deterioration of Korea's sovereign credit rating, and the surge in foreign exchange rates resulted in a series of SME bankruptcies, which led to a surge in credit guarantee defaults and payment by subrogation at KODIT. In 1997, credit guarantee defaults stood at KRW1.20trillion and payment by subrogation at KRW735.7billion; while in 1998, credit guarantee defaults recorded KRW3.1195trillion and payment by subrogation, KRW2.0107trillion. However, as the bold reforms undertaken by the government, which included large-scale funding and financial restructuring, began to bear fruit, by year-end 1998 the Korean economy started to show signs of recovery.

<Table 2-13> Management Index of KODIT (1997~2002)

(Unit: KRW100million, %, times)

Category	1997	1998	1999	2000	2001	2002
Guarantee Provided	83,137	224,160	199,329	223,770	305,294	273,342
Guarantee Defaults	10.8	14.5	3.3	4.4	3.4	3.8
Subrogated Performance	7,357	20,107	11,191	8,146	8,884	8,389
Government Contributions	4,000	28,810	10,011	5,100	12,230	5,250
Operation Multiple	16.1	10.1	7.5	7.0	8.4	9.6

Source: KODIT

2.2.5 Period of Adjustment (2003~2008)

The Korean economy gradually revived from the financial crisis of the late 1990s thanks to bold restructuring efforts. With the Kim Dae-Jung government inaugurated in 2003, economic policy shifted its focus to “distribution” along with “growth.” The government policy for SMEs placed emphasis on enhancing the core capabilities and competitiveness of SMEs rather than on protection and fostering. However, guarantees outstanding exceeded KRW30 trillion in 2001 and stood at KRW33.5708 trillion in 2004, due mainly to the continued government policy of expanding guarantee supplies to overcome the financial crisis.

In 2005, the Korean government announced its “Plans to Revise the Financial Support System for SMEs” (the so-called “6.23 Plans”), as part of efforts to transition to an “innovation-driven economy.” In line with this, KODIT expanded its credit guarantee support to innovation-driven start-ups and technology-intensive businesses, shifting its focus from simple credit support to investment or investment-and-loan combined support. Such efforts were mainly aimed at providing financial support for SMEs through direct financing while revising SME financing support from a government-led approach to a more market-friendly one. Thus, KODIT broke away from its prior focus on expanding its credit portfolio toward improving the quality of its portfolio based on the rule of “selection and concentration.”

<Table 2-14> Long-term Guarantee Operation
Plan based on “6.23 Plans” and Actual Guarantee Operation

(Unit: KRW100million)

Year	2006	2007	2008	2009	2010
Total Guarantee Amount Target	276,600	270,000	263,000	256,000	250,000
Performance	285,243	285,423	303,868	392,494	403,364

* With the financial crisis hitting the country in late 2008, the government switched its policy to include expansion of credit guarantees.
Source: KODIT

<Table 2-15> Management Index of KODIT ('03~'08)

(Unit: KRW100million, %, times)

Category	2003	2004	2005	2006	2007	2008
Guarantee Provided	309,180	318,452	307,184	296,025	295,923	302,816
Guarantee Defaults	7.1	6.1	6.5	4.5	4.2	4.9
Subrogated Performance	17,263	16,739	13,251	6,645	7,754	10,659
Government Contributions	6,560	5,210	3,000	3,000	1,300	925
Operation Multiple	9.7	10.5	9.8	8.0	8.0	8.5

Source: KODIT

2.2.6 Successful Overcoming of Financial Crisis (2009~Current)

The global economic depression triggered by the financial crisis that began in the United States brought about a liquidity crisis among SMEs, which in turn led to a sharp rise in credit guarantee demand. As a result, the guarantee policy paradigm began shifting towards guarantee expansion. Though in early 2000 the government began efforts to carry out market-oriented policies and trim the credit guarantee scale, by late 2000 the government had significantly increased credit guarantees in order to overcome the financial crisis.

<Table 2-16> Management Index of KODIT ('09~'11)

(Unit: KRW100million, %, times)

Category	Guarantee Supply	Default Rate	Payment by Subrogation	Government Contribution	Operation Multiple
2009	456,202	3.7	13,374	16,800	7.4
2010	447,317	3.9	12,688	-	7.2
2011	434,695	4.9	13,780	-	6.9

Source: KODIT

2.3 Operation and Achievement of Korea Credit Guarantee Fund (KODIT)

2.3.1 Overview

1) Legal Characteristics of Korea Credit Guarantee Fund

Established under the Korea Credit Guarantee Fund Act, KODIT is a non-profit special incorporation that has some of the characteristics of an incorporated foundation. Like an incorporated

foundation, there is no concept of “share” or “stake” in KODIT. Its fundamental property mainly consists of contributions from the government and financial institutions which are similar to donations in an incorporated foundation. Contributors cannot demand profit sharing and cannot request distribution of residual property even when the fund is dissolved or liquidated.

2) Structure

KODIT headquarters was comprised of four divisions, one office and 14 departments at the time of its establishment. Its structure has constantly evolved (i.e. reorganization has taken place 49 times) in response to the expanding and changing business environment.

<Table 2-17> Change in KODIT Structure

Category	1976	1986	1996	2006	2011
Structure	<ul style="list-style-type: none"> ■ Headquarters 4 divisions 1 office 14 departments 	<ul style="list-style-type: none"> ■ Headquarters 11 divisions 4 offices ■ 41 branches 	<ul style="list-style-type: none"> ■ Headquarters 9 divisions 3 offices ■ 81 branches 	<ul style="list-style-type: none"> ■ Headquarters 4 divisions 11 departments 12 offices ■ 85 branches 	<ul style="list-style-type: none"> ■ Headquarters 4 divisions 14 departments 4 offices ■ 99 branches

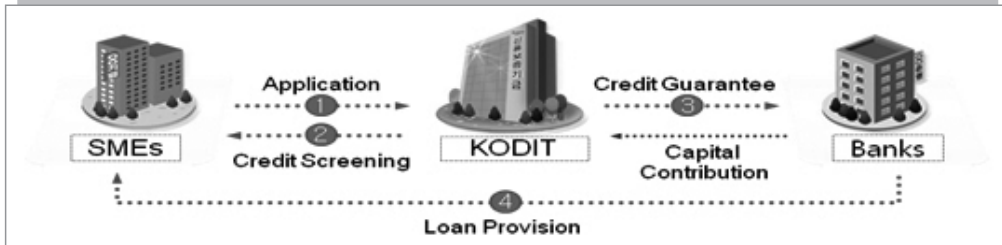
Source: KODIT

2.3.2 Services Provided by KODIT

1) Main Services

In 1974 when KODIT was established there were only four types of guarantees offered (i.e. loan guarantee, guarantee for payment guarantee of bank, guarantee for bond, and guarantee for tax payment). Over time, the types increased to 11 in response to the emergence of new financial products, changing B2B transactions, and the increase in demand for guarantees. Currently, credit guarantees are provided for any type of financial transaction including guarantees for direct and indirect financing, credit transactions between enterprises, and tax payment. Guarantees for loans, in particular, refer to “credit guarantees to monetary debts extended to enterprises from financial institutions,” which is one of the most general credit guarantees. Loans from financial institutions are a commonly used method for enterprises to raise financing from outer sources for working capital, facility purchase or equipment investment. For this reason, guarantees for loans account for more than 80% of total credit guarantees.

<Figure 2-3> Overview of Credit Guarantee Service



Source: KODIT

A) Target Individuals and Enterprises

A credit guarantee service is targeted at individuals, incorporations and organizations thereof (i.e. SME cooperatives) who run businesses for profit-making purposes.

B) Target Business

Credit guarantees are not provided to gambling establishments, adult entertainment businesses, and real-estate speculation businesses.

C) Guarantee Types

<Figure 2-4> Guarantee Types

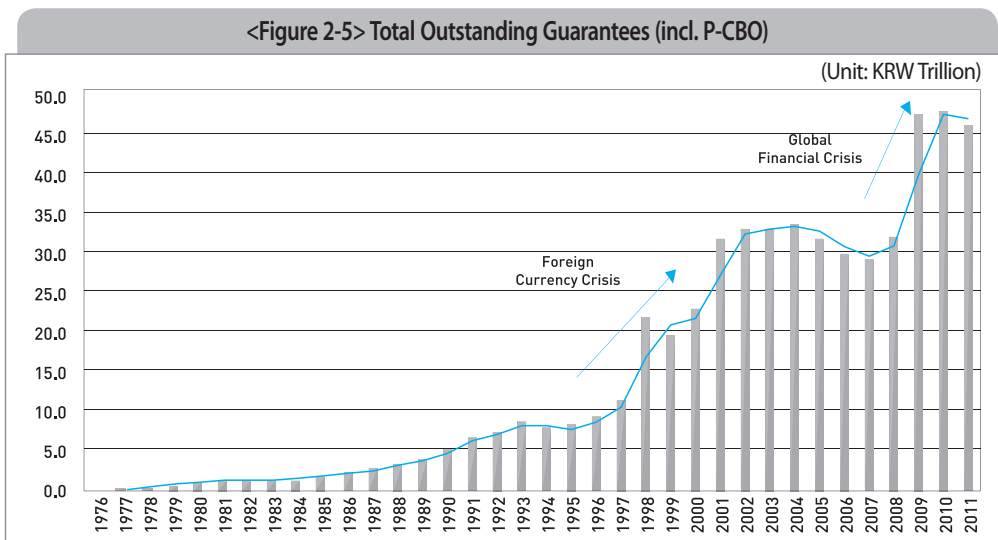
Type	Details
Guarantee for Bank Loans	Guarantees provided for loans which enterprises take out from banks for their working capital or facility budgets
Guarantee for Loans from Non-banking Financial Institutions	Guarantees provided for loans which enterprises take out from non-banking financial institutions for their working capital or facility budgets
Guarantee for Commercial Bills	Guarantees provided for payment of commercial bills exchanged as collateral or settlement means
Guarantee for Execution of Contract	Guarantees used as collateral when an enterprise participates in a tender or enters into a contract for construction projects, supply of goods or services
Guarantee for Payment Guarantee of Banks	Guarantees that enable the enterprise to receive a payment guarantee from a financial institution
Guarantee for Corporate Bond	Guarantees that obligate the redeeming of the principal (and interest accrued on such principal) when a corporate issues bonds
Guarantee for Tax Payment	Guarantees used as collateral in the case of installment tax payments or collection deferment
Guarantee for (Electronic) Commercial Transaction Collaterals	Guarantee for payment obligations relating to (electronic) commercial contracts

Source: KODIT

2) Performance of KODIT

a. Increase in SME Loans

The scale of guarantees provided for SME loans has increased alongside economic growth. As indicated in [Figure2-3], the credit guarantee balance showed a gradual increase until 1997. In 1976 when KODIT was established, the balance stood at only KRW157.9 billion. However, it rose to KRW 21.5 trillion in 1998 as credit guarantees were significantly and gradually expanded (based on government policy) to ease the credit crunch on SMEs immediately following the financial crisis and due to the IMF recommendation of guarantee reduction from 2005. In late 2008 when the global financial crisis hit the Korean economy, the urgent need to provide credit guarantee support for SMEs suffering under the credit crunch was recognized and outstanding credit guarantees dramatically increased reaching KRW46.9 trillion in 2009 and KRW47.3 trillion in 2010, with a gradual decline to KRW45.5 trillion recorded in 2011.



Source: KODIT

The sharp rise in credit guarantees played a crucial role in improving financial institutions' attitudes toward SME loans. In 1975, right before the establishment of KODIT, SME loans took up 35.0% of total loans in Korea. In 2010, that percentage surged to about 83.1%. Korea's credit guarantee scheme is viewed as an effective credit guarantee model particularly for its success in changing the perception and attitude of financial institutions towards SME loans and ensuring the smooth flow of corporate financing to promising SMEs.

<Table 2-18> SME Loans of Financial Institutions

(Unit: KRW1billion, %)					
1975			2010		
Total loans(A)	SME loans(B)	B/A	Total loans(A)	SME loans(B)	B/A
2,149	753	35.0	994,349	440,858	44.3

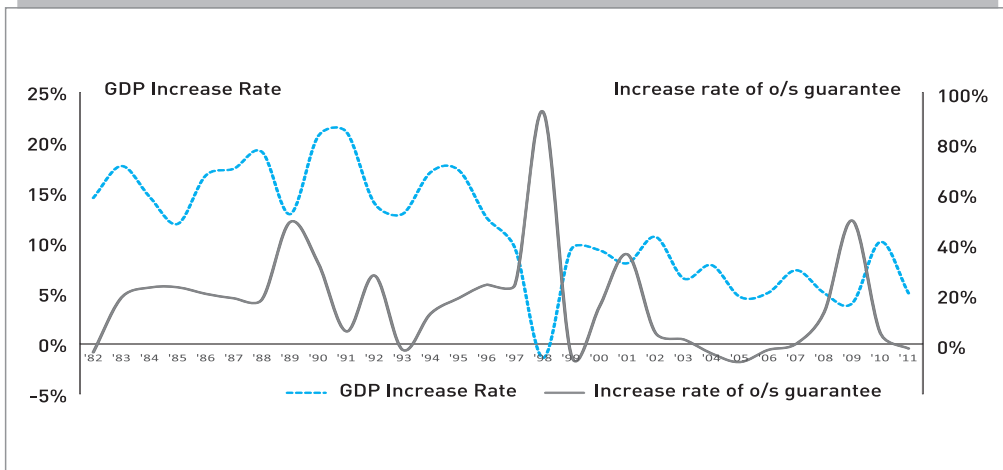
Source: KODIT

b. Eased Business Cycle Fluctuations

In an economic downturn, policy financing is urgently needed to ease business cycle fluctuations. Through the Asian financial crisis of the late 1990s and the global financial crisis in 2008, Korea came to understand that the most effective counter-cyclical policy for stabilizing SME financing and continuing smooth supply of liquidity to SMEs is to provide credit guarantees through a credit guarantee entity.

Credit guarantee scale and economic conditions move in the opposite direction from one another. When the economic growth rate rises, the credit guarantee supply reduces and vice versa. This is because the government tries to prevent a chain reaction of corporate bankruptcy and market volatility in times of economic downturn by supplying credit guarantees. In particular, expansion of credit guarantees in an economic downturn is viewed as a notable major counter-cyclical policy.

<Figure 2-6> Increase Rate in Credit Guarantees and GDP



Source: Seogang University (2013), "Competitive Environment of Policy Finance Market and KODIT's Strategic Plan"

c. Reduced Bank (Financial Institution) Capital Requirement

Credit guarantees, major policy-financing tools, are particularly useful because they help secure the stability of the financial market. Thanks to the lower risk weight for guaranteed loans (10% → 0%) under Basel II, bank capital requirements may actually fall. Thus banks can exploit the capacity spared from the reduced bank capital requirements for public interest. This shows how credit guarantees can indirectly contribute to the expansion of SME loans.

d. Contribution to Economic Growth

Credit guarantee schemes can be viewed as a useful means to contribute to economic growth. The need for efficient allocation of financial resources is particularly important in developing countries. Credit guarantee schemes can promote economic growth by helping financial resources flow smoothly into strategic businesses and promising enterprises. Also, credit guarantee schemes can facilitate the balanced growth of SMEs and large-scale enterprises. Furthermore, credit guarantee schemes promote SMEs' access to finance, funds which increase their productivity and with it jobs, and enhance their ability to attract investment.

KODIT has been focusing its credit guarantee supply on innovative SMEs, enterprises in their start-up phase and green-growth enterprises that can create many new jobs based on the rule of "selection and concentration," making a significant contribution to job creation, a priority policy of the Korean government.

3. Financial Institution Contributions and Cost-Benefit Analysis

3.1 Current Situation and Characteristics of Financial Institution Contributions

3.1.1 Current Situation of Financial Institution Contributions

The legal grounds for financial institution contributions in Korea are found in Article 6 of the Credit Guarantee Fund Act and Article 1 to 3 of the Enforcement Rule of the same Act. Article 6 of the Act states that fundamental property shall be built with resources contributed from the government, financial institutions and enterprises. Paragraph 2 of the provision requires financial institutions to make contributions to the fund within 3/1000 per annum of their loans. The Enforcement Rule of the Act prescribes the rate for contributions at 0.225% per annum. From 2006, different rates have been applied depending on the ratio of subrogation payments to financial institution contributions.

<Table 2-19> Article 6 of the Credit Guarantee Fund Act

Article 6(Acquisition of Fundamental Property)

- ① The fundamental property of the fund shall be built up with resources falling under the following subparagraphs.
1. Contributions from the government
 2. Contributions from financial institutions
 3. Contributions from enterprises
 4. Contributions from others than those referred to in subparagraph 1 through 3
- ② The budget of the contributions made by the government as provided in Paragraph 1, subparagraph 1, shall be under the jurisdiction of the Small and Medium Sized Business Administration.
- ③ Financial institutions shall make contributions to the fund at the rate prescribed by the Ordinance of the Prime Minister within 3/1000 per annum of their loans.
- Source: KODIT

Source: KODIT

The period requiring financial institutions to make contributions to the fund was five years in the beginning. However, with the development of the credit guarantee scheme, the need for contributions was recognized and the period was extended several times (four times in total). In December 2000, the requirement of financial institutions to make contributions became a permanent provision in order to promote the stable development of the credit guarantee scheme. The contribution rate has changed depending on economic conditions as follows.

<Table 2-20> Change in Contribution Rate

Date of Change	Contribution Rate	Reason for Change	Remark
Aug. 3, 1972	0.5% per annum	- Under the "Order on Economic Stabilization and Growth," financial institutions'(except for the Bank of Korea) obligation for contribution was signed into law - Financial institutions were required to contribute to the 0.5% increase in lending rates by collecting the increased interest income from enterprises	Chapter 4 of the "Order on Economic Stabilization and Growth"
Dec. 21, 1974	0.5% per annum	- The Credit Guarantee Fund Act was enacted	Enactment
Feb. 14, 1977	0.3% or 0.5% per annum	- 0.3% for Kookmin Bank's non-enterprise low-income family loans and non-enterprise low-income family mutual installment benefits - 0.5% for other loans	Revision of Enforcement Rule

Date of Change	Contribution Rate	Reason for Change	Remark
Dec. 28, 1979	0.3%per annum	<ul style="list-style-type: none"> - 0.3% for loan balances regardless of lending rate increases - Adjustment of loans that became the basis of the contribution (household loans were excluded) ☞ To break from the concept of enterprises as beneficiaries of credit guarantee letters, a market consensus which viewed financial institutions as prime beneficiaries was built 	Revision of Law
Apr. 1, 1989	0.2%per annum	<ul style="list-style-type: none"> - The Technology Guarantee Fund(1989.4.1) was established and the contribution rate distributed → Credit Guarantee Fund: 0.2%, Technology Fund: 0.1% 	Revision of Enforcement Rule
Apr. 24, 1992	0.17%per annum	<ul style="list-style-type: none"> - Sharp increases in the default rates of the Technology Guarantee Fund (1991: 6.6% → 1992: 16.1%) led to a 0.03% rate decrease in order to secure the financial resources of the fund → Credit Guarantee Fund: 0.17%, Technology Guarantee Fund: 0.13% 	Revision of Enforcement Rule
Aug. 25, 1994	0.2%per annum	<ul style="list-style-type: none"> - Stabilization of the default rates of the Technology Guarantee Fund led to a reduction in contribution rates from 0.13% to 0.1%, with the difference (0.03%) contributed to the fund → Credit Guarantee Fund: 0.2%, Technology Guarantee Fund: 0.1% 	Revision of Enforcement Rule
Aug. 26, 2005	05.8~06.1: 0.0%per annum	<ul style="list-style-type: none"> - To resolve the liquidity crisis faced by the Technology Guarantee Fund, financial institutions' contributions to the Credit Guarantee Fund were temporarily transferred to the Technology Guarantee Fund during the period from August 2005 to January 2006 → Credit Guarantee Fund: 0.00%, Technology Guarantee Fund: 0.30% 	Revision of Enforcement Rule
	06.2~: 0.2%per annum		

Date of Change	Contribution Rate	Reason for Change	Remark
Jan. 24, 2006	'06.1: 0.1%per annum 06.7~: 0.25%per annum ±Differential Rate*)	- '06.2: 0.2%per annum, '06.3~'06.6: 0.25% per annum - To secure the financial resources of the Credit Guarantee Fund, the contribution rate of the Credit/Technology Guarantee Fund increased (0.3%→0.4%) and differential rates were introduced → Credit Guarantee Fund: 0.25%, Technology Guarantee Fund: 0.15% ± Differential Rate (respectively)	Revision of Enforcement Rule
Jun. 4, 2007	0.225%per annum ±Differential Rate*	- Loans that had become the bases of contributions were clarified as "loans in the balance sheet submitted to FSS each month."To adjust loans that had become the bases of contributions and ease the burden of financial institutions, the contribution rate was reduced by 10%. → Credit Guarantee Fund: 0.225%, Technology Guarantee Fund: 0.135% ± Differential Rate (respectively)	Revision of Enforcement Rule

* Differential Rate: ±0.02% depending on the "total payment by subrogation of the immediately preceding half-year/ the total contributions of the immediately preceding half-year"
Source: KODIT

<Table 2-21> Differential Rate of Contributions

Category		Rate	
Base Rate		22.5/10,000 per annum	
Differential Rate	Total payment by subrogation of the immediately preceding half-year/total contributions of the immediately preceding half-year	Less than 1	-2/10,000 per annum
		1 - 2	-1/10,000 per annum
		2 - 3	0
		3 - 4	+1/10,000 per annum
		More than 4	+2/10,000 per annum
Differential Rate		Base Rate+ Differential Rate	

Source: KODIT

3.1.2 Characteristics of Financial Institution Contributions

If financial institutions' contributions are simply interpreted as amounts paid out of obligation, such an interpretation would constitute a very limited understanding of the contributions. They may seem on the surface as charges to be borne by financial institutions, but over time it has been proven that financial institutions are in fact one of the biggest "beneficiaries" of the contributions.

First, given that the contributions made by financial institutions are used as financial resources for payment by subrogation in the case of SME loan defaults, the contributions are equivalent to insurance premiums against the default risks of SME loans rather than just obligatory charges.

Second, financial institutions can reduce loss, expand loans and attract new customers through credit guarantees. Given that financial institutions increase profits through spread by expanding loans and solidify their sales foundations by attracting new customers, the contributions can be interpreted as "cost for reinvestment" toward sustainable profits.

Third, the contributions can be viewed as social and economic costs to support and foster SMEs. Since the financial crisis in 2009, the demand for financial institutions to seek a harmonious balance between profitability and public interest has been rising. As financial institutions provide loans and make profits through financial resources acquired by deposits made by the public, serving public interest is a significant aspect for financial institutions. In this context, financial institution contributions have significance as "public costs" used for achieving a viable credit guarantee system that can bridge the gap between the needs of SMEs and the concerns of lenders.

Fourth, the contributions are actually borne by enterprises which take out loans from financial institutions. Since banks shift the levy to enterprises by adding the contributions to lending rates, it is safe to say that the contributions of financial institutions are actually borne by enterprises taking out loans from such institutions. Financial institutions include credit guarantee contributions and education tax in their spreads when calculating interest rates. Credit guarantee agreements state that banks cannot impose interest rates for credit spread on guaranteed loans, and provide incentives to reduce the interest rates of guaranteed loans by deducting the portion to which credit spread is imposed in the subrogation payment.

<Figure 2-7> Determination of Interest Rate (Example of a commercial bank)

[Unit : %]			
	Credit Loan [non-collateral]	Guaranteed Loan	Property Loan [Collateral]
Base Rate	X	X	X
+ Contribution & Educational Tax	0.37600	0.37600	0.37600
+ Expected Loss	1.87200	-	0.58180
+ Equity Cost	1.00844	0.22858	0.31340
+ Operational Cost	0.20000	0.20000	0.20000
+ Policy Margin	-	-	-
+ Expected Margin	1.65010	0.37402	0.51200
≡ Interest [±adjustment]	$x+y \pm \alpha$	$x+y \pm \alpha$	$x+y \pm \alpha$

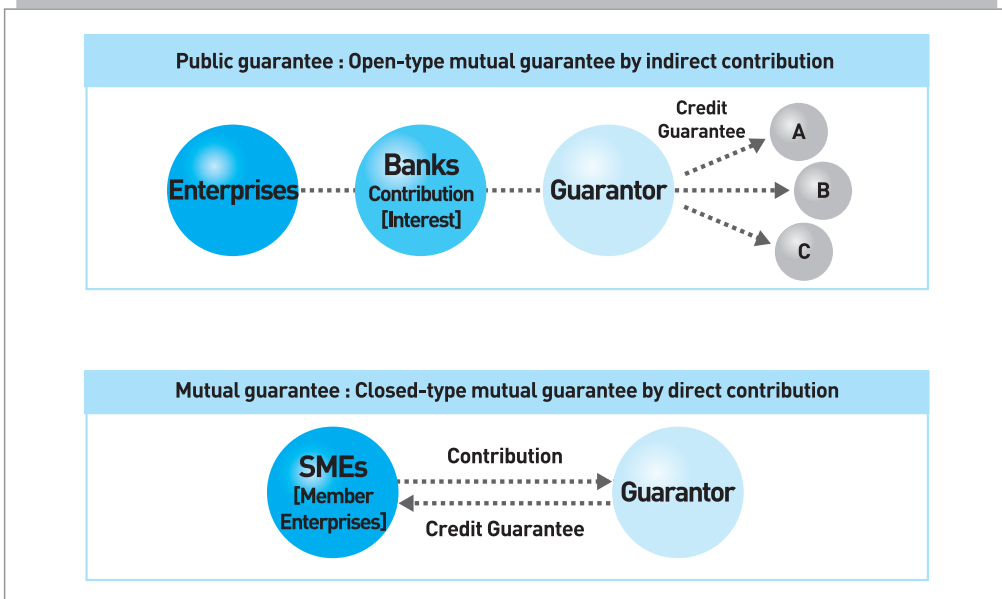
* Total contributions to the Credit Guarantee Fund and the Technology Guarantee Fund (Differential rates apply depending on subrogation payment ratio).

** Credit spread is not imposed on loans secured by guarantee.

Source: Interview with a commercial bank

Meanwhile, contributions collected by financial institutions from enterprises in the form of “quasi-tax” share characteristics of “open-type” mutual guarantees to which enterprises make indirect investment by paying interest rates.

<Figure 2-8> Guarantee Schemes by Contribution Type



Source: KODIT

Unlike the closed-type mutual guarantee system in Europe, the open-type mutual guarantee system based on indirect investment encourages public confidence in the system through strengthening the capital of the guarantee entity, and gives promising enterprises including non-member enterprises easier access to guarantees without additional investment.

<Table 2-22> Comparison by Investment Type

Category	Korea	Europe
System	• Public Guarantee System	• Mutual Guarantee System
Guarantee Entity	• Independent public organization	• Autonomous mutual guarantee Association
Investment Type	• Contributions of financial institutions (Actually borne by enterprises, indirect investment) • Contributions of the government	• Direct investment by member enterprises • Investment by local governments and banks
Contributions	• Borne by enterprises (more than 50%*)	• Borne by member enterprises (50%)
Access	• Open (any enterprise)	• Closed (member only)

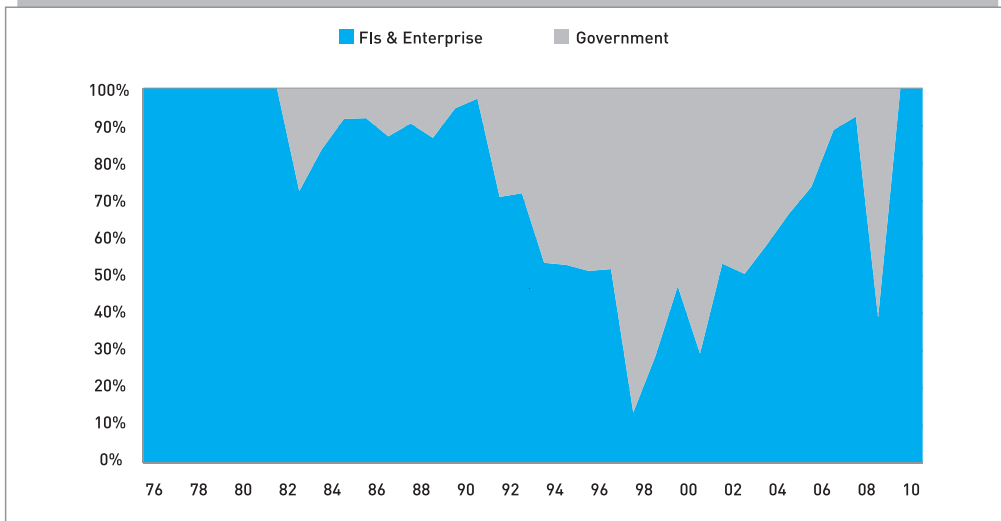
* The contributions of financial institutions are actually borne by enterprises (Government contributions: Financial institution contributions-> 52:48).

** Considering guarantee fees, the percentage reaches about 55%.

Source: KODIT

For sustainable operation of the public credit guarantee system, consensus on the share of financial resources is essential among the government, financial institutions and enterprises. In Korea, the government enacted a law requiring financial institutions to make contributions. In the early stages, the Korea Credit Guarantee Fund was entirely dependent upon the contributions made by financial institutions (no contributions were made by the government). It was not until 1982 when the government began to make contributions (with the exception of KRW 2.4billion transferred from IBK in 1976). However, the government was actively involved in increasing the capital of the fund whenever economic instability hit. Particularly, in 1998 and 1999 right after the financial crisis, the government contributed KRW3.8821 trillion in response to the financial turmoil and in 2009, when the global financial crisis hit the country, the government contributed KRW1.9800 trillion to cushion the blow to the economy. During periods of economic stability, the credit guarantee system is operated without government contributions. <Figure 2-9> shows the percentages of contributions made by financial institutions, enterprises and the government.

<Figure 2-9> Percentages of Contributions made by Financial Institutions, Enterprises and the Government



Source: KODIT

Statistics on the division of financial resources from the establishment of the system to 2011 indicate the ratio of the government to financial institutions/enterprises as 45:55. Within that 55 percent, 37 percent was made by financial institutions and 18 percent by enterprises. Given the stable operation of the credit guarantee system, the government's contribution is expected.

<Table 2-23> Changes in Contributions and Guarantee

(Unit: KRW million,%)

	Government Contributions		Financial Institution Contributions		Guarantee Fees	
	Amount	Weight	Amount	Weight	Amount	Weight
1976	0	0	66	89	8	11
1977	0	0	141	89	18	11
1978	0	0	177	85	31	15
1979	0	0	237	83	50	17
1980	0	0	208	69	92	31
1981	0	0	276	67	134	33
1982	0	0	422	76	135	24
1983	250	27	543	58	120	13
1984	150	16	638	68	131	14
1985	83	8	778	75	163	16
1986	100	8	960	75	206	16
1987	200	13	1,112	70	255	16
1988	150	9	1,165	72	295	18

	Government Contributions		Financial Institution Contributions		Guarantee Fees	
	Amount	Weight	Amount	Weight	Amount	Weight
1989	200	13	981	64	339	22
1990	80	5	1,003	66	431	28
1991	50	3	1,260	67	559	30
1992	870	29	1,465	48	673	22
1993	900	28	1,600	49	720	22
1994	2,400	47	1,963	38	796	15
1995	2,900	47	2,511	40	747	12
1996	3,500	49	2,834	39	855	12
1997	4,000	48	3,307	40	992	12
1998	28,810	87	3,513	11	982	3
1999	10,011	71	2,929	21	1,084	8
2000	5,100	53	3,238	33	1,335	14
2001	12,230	71	3,342	19	1,715	10
2002	5,250	47	3,576	32	2,409	21
2003	6,560	49	4,243	32	2,459	19
2004	5,210	42	4,563	36	2,719	22
2005	3,000	33	3,060	34	2,925	33
2006	3,000	26	5,369	47	3,065	27
2007	1,300	11	6,940	59	3,546	30
2008	925	7	7,693	62	3,759	30
2009	19,800	61	8,122	25	4,455	14
2010	0	0	7,923	63	4,661	37
2011	0	0	7,953	63	4,625	37
	117,029	45	96,111	37	47,489	18

* Fundamental property of KRW2.4 billion was transferred to the fund at the time of its establishment (June, 1976).
Source: KODIT

3.2 Cost-Benefit Analysis of Financial Institution Contribution System

Cost-benefit analysis is a common way to compare the benefits and costs of a project, decision or government policy by converting all costs and benefits into a common currency for the purpose of objective evaluation. If the B/C ratio is 1 or higher, the policy is viewed as “efficient”; if the ratio is less than 1, the policy is considered “inefficient.” Here, we will determine whether financial institution contributions are efficient through cost-benefit analysis.

3.2.1 Ratio of Contributions to Payment by Subrogation

Contribution costs and payment by subrogation received from the credit guarantee entity are beneficial from the perspective of financial institutions. During the period from 1976 to late 2011, the B/C ratio (the ratio of contributions and payment by subrogation) stood at 2.53, demonstrating the efficiency of financial institution contributions. The total contribution amount made by 16 banks was about KRW10 trillion, while payment by subrogation received by the banks stood at KRW25.3 trillion during the same period, indicating that benefits exceeded costs by KRW15.3 trillion.

<Table 2-24> Contributions vs. Payment by Subrogation (1976~2011)

(Unit: KRW trillion, times)			
Contributions(a)	Payment by Subrogation(b)	Difference(b-a)	Multiple(b/a)
10.0	25.3	15.3	2.53

Note) Based on the data of 16 commercial banks.
Source: KODIT

The B/C ratios of all banks except KDB whose customers mainly consist of medium or large-scale enterprises exceed 1. Those that pay high contribution amounts include IBK, KB, Woori Bank, Shinhan Bank and Hana Bank. Given that these are the five largest banks in terms of total assets, the result indicate that the five banks have used the credit guarantee system as a main tool for lending. Their B/C ratios exceed 1, and IBK, in particular, which takes up the largest SME loan market share, made contributions reaching a total of KRW1.4790 trillion and received KRW 7.2926 trillion of subrogation payment with a B/C ratio of 4.93. This demonstrates that the bank has been using the credit guarantee system as its main tool for expanding SME loans.

<Table 2-25> Contribution vs. Payment by Subrogation by Bank (1976~2011)

(Unit: KRW million)			
Category	Contribution(a)	Payment by Subrogation(b)	Ratio of Payment by Subrogation(b/a)
KDB	759,740	139,063	0.18
IBK	1,479,047	7,292,581	4.93
EXIM	13,479	75,355	5.59
KB	1,523,879	5,500,593	3.61
WOORI	1,507,444	2,655,956	1.76
SHINHAN	1,534,473	2,745,620	1.79
HANA	1,026,347	1,865,364	1.82
CITI	307,416	819,331	2.67
KEB	603,198	1,186,082	1.97
SC	393,716	750,916	1.91
Daegu	230,975	698,873	3.03
Busan	238,595	497,178	2.08
Gwangju	125,435	425,502	3.39
Jeju	30,933	66,986	2.17
Jeonbuk	57,949	158,575	2.74
Gyeongnam	165,909	457,025	2.75
Total	9,998,533	25,335,001	2.53

Source: KODIT

3.2.2 Bad Loans vs. Loan-Deposit Margin

For cost-benefit analysis, the unguaranteed portions of guaranteed loans which are subrogated are considered as cost, while loan-deposit margins through guaranteed loans are considered as benefits. The results of analysis show that the amount of uncollectable obligations under the risk-sharing system stood at KRW2.9trillion and the loan-deposit margin through guaranteed loans recorded KRW9.6 trillion during the period from 1976 to 2011. The benefit was higher than the cost by KRW 6.7 trillion and the B/C ratio reached 3.31, demonstrating the high efficiency of the contribution system.

<Table 2-26> Bad Longs vs. Loan-Deposit Marging(1976~2011)

(Unit: KRW trillion,times)			
Bad Loans(a)	Loan-Deposit Margin(b)	Difference(b-a)	Multiple(b/a)
2.9	9.6	6.7	3.31

Note 1) Based on the data of 16 commercial banks.

Note 2) Loan-deposit margin: (Guaranteed Balance ÷ Coverage Ratio) × Difference between lending and deposit rates (2.19% on average)

Note 3) Amount of Bad Loans: Payment by Subrogation ÷ Coverage Ratio × (1-Coverage Ratio)

Note 4) Considering the amount to be collected after subrogation, B/C ratio is expected to rise.

Source: KODIT

From 1976 to 1999, there were no uncollectable accounts of guaranteed loans among financial institutions as coverage ratio stood at 100% during the period. With the introduction of a partial guarantee scheme in 2000 and the average coverage ratio applied, uncollateralized portions of guaranteed loans (within 14 to 15%) were considered as uncollectible obligations. In the early days of the partial guarantee scheme, financial institutions tended to require collateral or joint guarantees for loans. However, as provisions on proportional allocation for collateralized portions were included in agreements, and the scheme was gradually settled, such practices were significantly reduced.

Since statistics on the loan-deposit margins of financial institutions before 2000 are not available, statistics of the year 2000 were applied retroactively and BOK data on SME loan-deposit rates for the period after 2000 were utilized. Although loan-deposit margins are directly linked to loan-deposit rates, the average margin during the given period stood at about 2%. This means financial institutions enjoyed benefits at 3.31 times the amount of losses that could arise from guaranteed loans.

<Table 2-27> Uncollectible Obligations vs. Loan-Deposit Margin

(Unit: KRW million, % times)

Year	Guarantee Balance	Coverage Ratio	Difference b/t Lending and Deposit Rates	Lending-Deposit Margin (A)	Uncollectible Obligations (B)	Ratio(A/B)
1976	133,559	100.0	2.19	2,925	-	-
1977	224,512	100.0	2.19	4,917	-	-
1978	345,192	100.0	2.19	7,560	-	-
1979	592,726	100.0	2.19	12,981	-	-
1980	1,061,676	100.0	2.19	23,251	-	-
1981	1,019,631	100.0	2.19	22,330	-	-
1982	1,002,909	100.0	2.19	21,964	-	-
1983	963,560	100.0	2.19	21,102	-	-
1984	1,099,922	100.0	2.19	24,088	-	-
1985	1,297,944	100.0	2.19	28,425	-	-
1986	1,644,367	100.0	2.19	36,012	-	-
1987	2,076,150	100.0	2.19	45,468	-	-
1988	2,547,063	100.0	2.19	55,781	-	-
1989	3,059,551	100.0	2.19	67,004	-	-
1990	4,256,217	100.0	2.19	93,211	-	-
1991	5,455,556	100.0	2.19	119,477	-	-
1992	5,893,676	100.0	2.19	129,072	-	-
1993	7,254,475	100.0	2.19	158,873	-	-
1994	6,497,204	100.0	2.19	142,289	-	-
1995	6,998,991	100.0	2.19	153,278	-	-
1996	7,991,500	100.0	2.19	175,014	-	-

Year	Guarantee Balance	Coverage Ratio	Difference b/t Lending and Deposit Rates	Lending-Deposit Margin (A)	Uncollectible Obligations (B)	Ratio(A/B)
1997	9,795,345	100.0	2.19	214,530	-	-
1998	7,966,345	100.0	2.19	174,463	-	-
1999	8,807,954	100.0	2.19	192,894	-	-
2000	12,734,143	88.3	2.19	315,830	141,099	2.24
2001	15,189,620	85.6	1.95	346,025	207,864	1.66
2002	22,009,148	85.1	1.96	506,909	177,754	2.85
2003	24,367,492	85.1	2.24	641,400	288,673	2.22
2004	26,197,975	85.1	2.39	735,760	318,461	2.31
2005	25,171,412	84.9	2.54	753,067	319,808	2.35
2006	24,281,392	83.3	2.11	615,051	262,750	2.34
2007	24,276,169	83.4	2.06	599,627	214,929	2.79
2008	25,868,432	83.9	1.91	588,900	261,105	2.26
2009	32,586,797	87.9	2.20	815,597	236,338	3.45
2010	33,173,090	87.4	2.37	899,545	240,919	3.73
2011	32,674,469	86.9	2.32	872,322	263,844	3.31
Total	386,516,725	-	-	9,616,939	2,933,543	3.31

Source: KODIT

3.2.3 Results of Cost-Benefit Analysis

For the period from the establishment of KODIT to 2011, benefits garnered by financial institutions stood at about KRW35trillion and costs recorded around KRW12.9trillion. As a result, the B/C ratio reached 2.71, demonstrating the efficiency of financial institutions' contributions. In the 1970s, the ratio remained at less than 1. However, with the utilization of the credit guarantee increasing over time, the ratio increased as well. During the financial crisis, the benefits for financial institutions grew further with the active intervention of the government to expand credit guarantees.

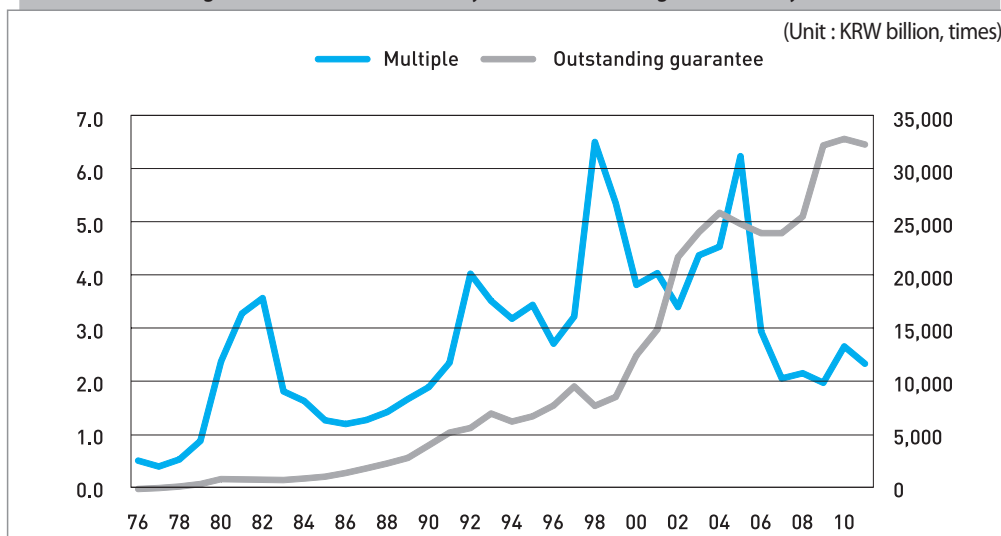
<Table 2-28> Cost-Benefit Analysis

(Unit: KRW trillion, times)

Benefit (a)		±	Cost (b)		=	Difference (b-a)	Multiple (a/b)
Lending-Deposit Margin	Payment by Subrogation		Uncollectible Loans	Contributions		22.1	2.71
9.6	25.4		2.9	10.0			

Source: KODIT

<Figure 2-10> Cost-Benefit Analysis and Outstanding Guarantee by Year



Source: KODIT

4. Recommendations for the Introduction of a Credit Guarantee Scheme

4.1 SWOT Analysis of Ghana's Financial Industry

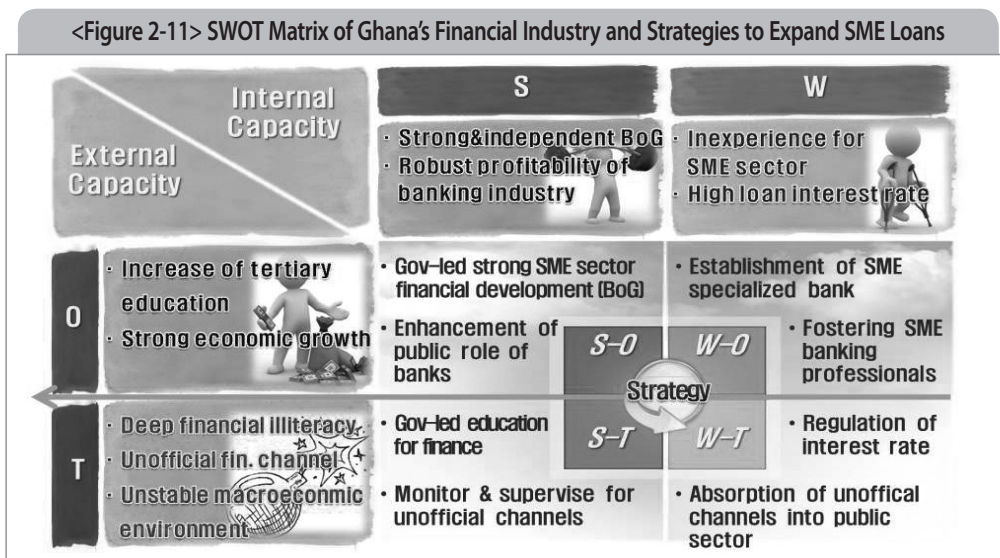
As a first step to assist Ghana in introducing a credit guarantee scheme, a SWOT analysis was carried out based on the current situation of Ghana's financial industry and the SME financing systems mentioned in Chapter 1. Using the results of SWOT analysis, realistic strategies were devised to develop Ghana's financial industry and SME sector. Our policy suggestions for establishing a credit guarantee entity in Ghana are as follows.

First, Ghana has a strong and independent central bank system; it has great governing power and authority in the domestic financial industry. The government pushed ahead with plans to privatize state-owned banks under its financial reform strategy beginning in 1980. In order to enhance market competition, it encouraged establishment of commercial banks and as a result, the number of rural community banks and non-banking financial institutions has increased. In addition, a wide range of financial institutions including the Eximguaranty (established in 1994) entered the market. The bold financial development policy carried out by the central bank, the increasing number and variety of financial institutions, and the high profitability of the banking sector are the main strengths of Ghana's banking industry.

However, commercial banks face limitations in financing due mainly to a relatively high base rate and MOR. The oligopoly of a few major banks which generate high profits prevents the

banks from expanding their sales range beyond the public sector, large-scale companies and mortgage businesses, and serves as a stumbling block to seeking opportunity in SME loan businesses. For this reason, SMEs find it difficult to have access to financing due to high interest rates and lack of collateral. Currently, SMEs and individuals in Ghana tend to depend on “Susu collectors (daily installment loan)” or private money lenders rather than official financial institutions such as banks due largely to interest rates. This is driving up financial illiteracy in the country, and holding back the development of the financial industry.

There are 53 colleges including eight national and public colleges in Ghana. In addition, a total of 126 higher education facilities including nursing colleges generate about 45,000 graduates every year. The recent growth of the oil and gas industries with the development of nuclear facilities is making a significant contribution to the economy and is creating many opportunities in the market. Meanwhile, since the number of jobs in the market is insufficient compared to the number of college graduates, a government effort to support start-up businesses and SMEs is urgently required.



Source: KODIT

4.2 Suggestions for the Establishment of a Credit Guarantee Organization

4.2.1 Structure and Financing

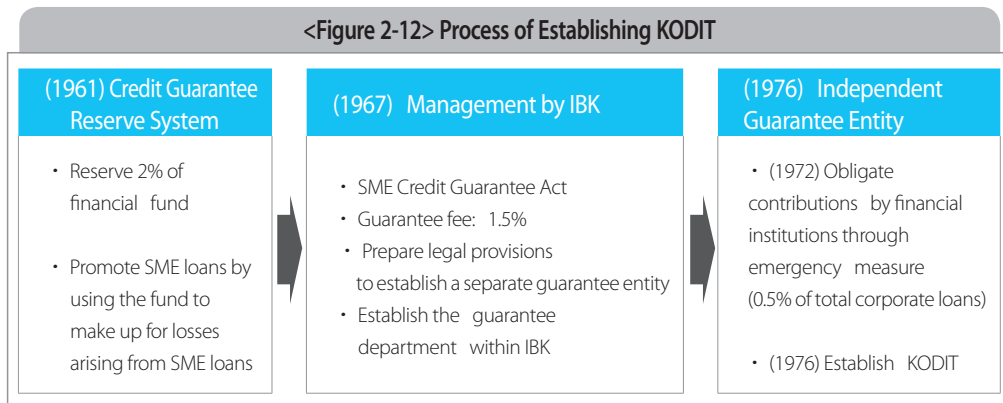
Prior to the establishment of KODIT, certain preparatory steps were taken, as follows:

1. A reserve fund to increase SME loans was established;

2. A credit guarantee scheme was introduced through the enactment of the Small and Medium Sized Enterprise Credit Guarantee Act and management of the scheme was delegated to the Industrial Bank of Korea (IBK); and
3. The fund was expanded through the collection of contributions (0.5%) under government-led emergency measures; and
4. An independent credit guarantee entity was established.

In 1961 when the Industrial Bank of Korea (IBK) was founded, the government had the bank reserve 2% of its financial fund to make up for losses arising from SME loans with the aim of promoting such loans. However, the reserve amount was very low and the reserve fund did not clearly fulfill its purpose.

The Small and Medium Sized Enterprise Credit Guarantee Act was then legislated in 1967 based on suggestions made by SMEs, and the government introduced a credit guarantee scheme under the Act. In the early days, the government delegated management of the scheme to IBK and made a plan to establish an independent credit guarantee entity within five years. The emergency order on stability and growth of the economy issued in 1972 (“8.3 Measure”) required every financial institution to contribute 0.5% of outstanding loans to lay the financial groundwork for the credit guarantee scheme in a short period of time. With the Credit Guarantee Fund Act legislated in 1974 and KODIT established in 1976, the credit guarantee scheme began developing in line with Korea’s economic growth.

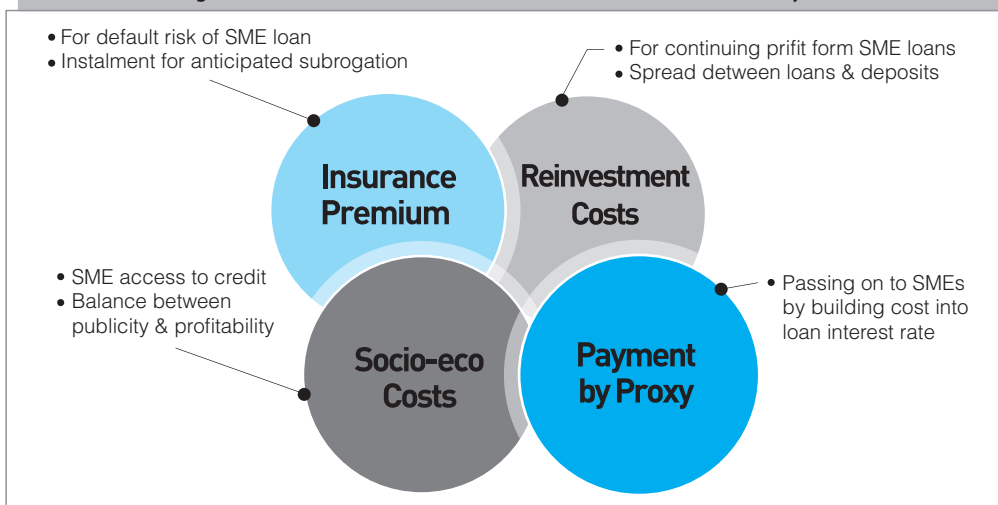


It took 15 years from the introduction of the reserve fund system in 1961 until a credit guarantee entity was established (in 1976). The reserve funds were insufficient for facilitating SME loans and expanding credit guarantees in the early stages. A stable foundation to develop a credit guarantee scheme was created when the emergency measure announced in 1972 obligated financial institutions to make contributions based on their corporate loans. As shown in <Figure4-1>, Ghana has a strong central bank and its banking sector enjoys high profitability.

The number of commercial banks in Ghana is as high as 26, much higher than the 16 in Korea. As well, the demand for financial institutions to serve public interest by reducing excessive loan-deposit margins to facilitate credit supply to individuals and enterprises is rising.

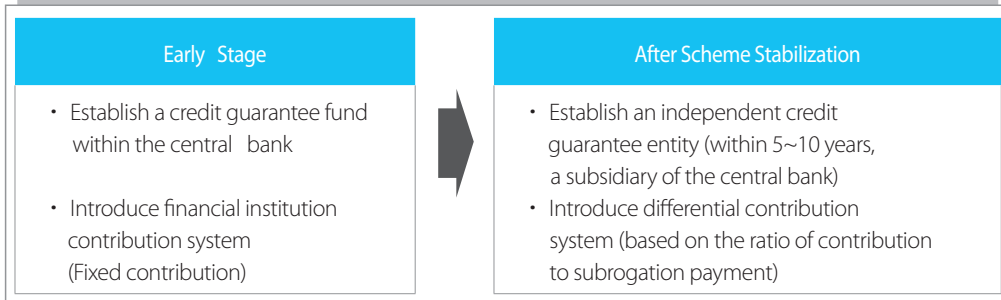
Given the absence of a public credit guarantee entity in Ghana, the limited role of the Eximguaranty and the high profitability of the financial industry, it would be desirable to newly establish a credit guarantee fund led by the Bank of Ghana, legalize the contributions of financial institutions to the fund, and provide SMEs with easier access to financing through credit guarantee programs. However, even after an independent credit guarantee entity is established, it will not be easy for such an entity to induce the active participation of commercial banks in guarantee schemes, and operational costs could be high as well. Therefore, a better approach might be to operate a credit guarantee fund within the central bank at the early stages, and then establish an independent credit guarantee entity in the form of a subsidiary of the central bank (100% owned by the central bank) when the contribution system is stabilized and credit guarantees increase to a certain level. In this way, sustainability of the entity would be secured based on expanded guaranteed loans and stable contributions. In the process of governmental action to legalize the contribution system, it is recommended to benchmark Korea's case of which the effectiveness has been logically and quantitatively certified (as discussed in Chapter 3).

<Figure 2-13> Characteristics of Financial Institution Contribution System



In the meantime, the government should make efforts to stabilize the credit guarantee fund at an early stage by fostering professionals in the central bank and set a certain timeframe to establish an independent credit guarantee entity (e.g. within five years). In addition, even after a subsidiary (100% owned by the central bank) is established, the central bank should assist in developing the subsidiary into a public organization with clear policy goals. As for contributions to the credit guarantee scheme, a fixed contribution system should be adopted at an early stage and once the scheme is settled, a differential contribution system based on the performance of financial institutions should be introduced to enhance system fairness.

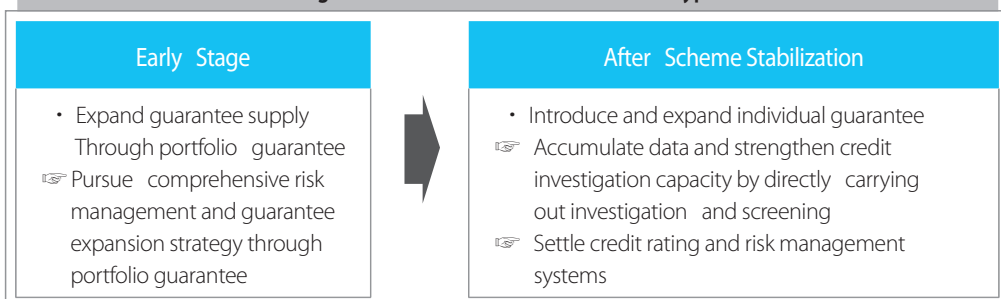
<Figure 2-14> Phased Introduction of Contribution System



4.2.2. Types of Guarantees

Guarantees are, by means of the approval type, largely categorized into individual guarantee and portfolio guarantee. Individual guarantee (also known as selective approach) refers to guarantees extended on a case-by-case basis. In other words, it is determined whether guarantee is provided or not, after screening each enterprise in each case of guarantee application. On the other hand, by way of portfolio guarantee (also known as collective approach or global approach), accredited lenders are entitled to attach guarantees to loans within an eligible category without prior consultation of the guarantor. Eligibility criteria may be defined in terms of the characteristics of borrowers (in terms of size, sector of operation, gender, location etc.) or the loan size. In the portfolio approach, there is thus no direct contact between the guarantor and borrower. Before the structure of an independent guarantee entity is expanded, it would be desirable to increase guarantee supply in the form of portfolio guarantee to settle the guarantee scheme. Once the guarantee scheme is firmly established through portfolio guarantee and the structure of the entity is sufficiently expanded, the credit of enterprises should be investigated through individual guarantee schemes and a risk management system should be set up and strengthened over time to fortify the capacities of the official credit guarantee entity.

<Figure 2-15> Introduction of Guarantee Types



In Korea, KODIT expanded guarantee supply in the early stages by using the sales networks and loan screening functions of banks. Before laying solid groundwork for business, it introduced the portfolio guarantee system. In 1976, KODIT had four branches and 345 employees; as of 2012, the number of branches stands at 99 and employees at 2,146. Meanwhile, the percentage of portfolio guarantees declined to 0.7% as of late 2011 due mainly to the expansion of sales networks and settlement of the loan screening system.

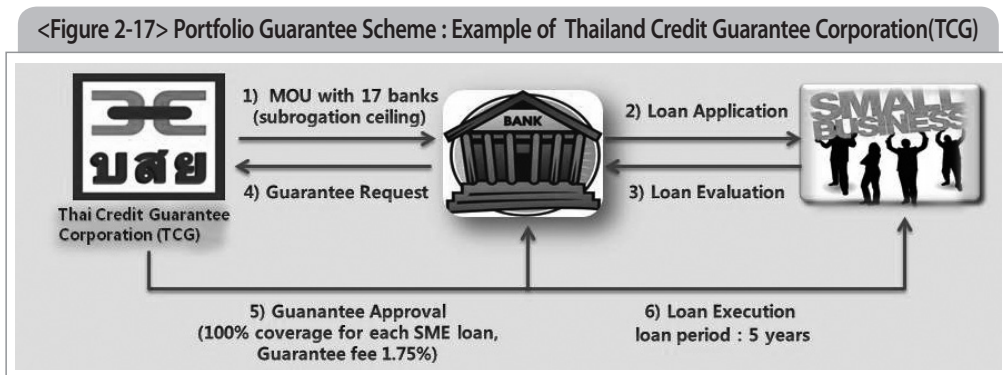
<Figure 2-16> Changes in the Structure and Consigned Guarantee Percentage of KODIT

(Unit: KRW million, %)

Category	1967	2011
Branch(Employees)	4(345)	99(2,146)
Outstanding Guarantee	157,909	38,431,434
Portfolio Guarantee(%)	157,909(100)	267,969(0.7)

In Ghana's case, it would be suitable to introduce a portfolio guarantee to supplement its weak sales function at an early stage. However, in order to prevent the moral hazards of financial institutions, a portfolio guarantee scheme with a pre-defined subrogation payment ceiling would be a better approach. Under this approach, a guarantor negotiates the criteria of the portfolio. For example, a guarantor can specify the guarantee ceiling and subrogation payment limit in advance by entering into a contract with a financial institution. The financial institution investigates and screens an enterprise to ensure it meets certain criteria, requests a credit guarantee to the guarantor, and executes a loan.

The following is the figure of portfolio guarantee scheme, an example of Thailand case, which can be best suited for Ghana, considering its shortage of operational networks in the beginning phase.



Source: TCG

The PGS approach with subrogation payment ceiling has the advantage of greater risk management in terms of projecting loss limit due to setting the subrogation payment limit in advance. It also reduces moral hazards on the part of financial institutions because in the case of exceeding limits, the relevant financial institution is liable for the default.

The Thailand Credit Guarantee Corporation introduced the Risk Participation Scheme (RPS; individual guarantee, coverage ratio 50%), but the low coverage rates reduced the incentives of financial institutions to participate in the guarantee program. For this reason, the corporation decided to introduce PGS in 2009 to expand guarantee supply. Since under the Risk Participation Scheme full coverage was provided for individual enterprises included in the portfolio, outstanding guarantees surged by 624% to 136,464 million Baht in June 2012 from 21,854 million Baht in 2008. For now, the percentage of PGS accounts for 98% of the total. The Thailand Credit Guarantee Corporation is stepping up its marketing efforts for its portfolio guarantee programs through TV commercials made in cooperation with commercial banks.

<Table 2-29> Thailand's Portfolio Guarantee Schemes

(Unit: Baht million, %)					
Category	PGS 1	PGS 2	PGS 3	PGS 4	Start-Up
Portfolio Ceiling	15.5			15	30
Coverage Ratio	100				
Coverage Ratio per Enterprise	40			40	2
Guarantee Fee	1year=0 2year~5year=1.75	1year=0.75 2year~5year=1.75	1.75	1year~5year =1.75	1year=0.752 2year~7year =2.5
Government Subsidy for Guarantee Fee	1 year=1.75	1 year=1	0	0	1year=1.75
Government Subsidy for Subrogation Payment	2,000	1,875	2,250	1,500	1,250

* The portfolio period is 5 to 7 years and the subrogation payment limit is divided equally each year.

** Ex) 5-year PGS1's maximum loss: Guarantee Ceiling-Guarantee Fee=15.5%-5years × 1.75%= 6.75%

Source: TCG

The basic structure of PGS4, which recently obtained Cabinet approval, is as follows. The government contributes 1,500million Baht and the Thai Credit Guarantee Corporation provides 24,000million Baht (16 times the government contribution) after entering into a contract with 17 commercial banks. The maximum loss rate of subrogation payment stands at 15% and up to 3% is paid by installment each year for five years. The guarantee fee income is 1.75%×5 years (portfolio guarantee period) = 8.75%. Since the difference between the maximum loss rate (15%) and the guarantee fee income (8.75%) is equal to the ratio of the guarantee supply to government contributions (1,500million Baht/24,000million Baht=6.25%), the Thailand Credit Guarantee Corporation's loss is zero.

<Table 2-30> Cash Flow of Thailand's PG54

(Unit: Baht million, %)						
Year	Guarantee Supply (B=A×16)	Government Subsidy (A=B×6.25%)	+	Guarantee Fee Income (C=B×1.75%)	=	Subrogation Ceiling (D=B×3%)
1 st year	24,000	1,500		420		720
2 nd year	24,000	0		420		720
3 rd year	24,000	0		420		720
4 th year	24,000	0		420		720
5 th year	24,000	0		420		720
Total	-	1,500	+	2,100	=	3,600

Source: TCG

Meanwhile, portfolio pools managed by individual financial institutions are primarily comprised of promising SMEs. The Thailand Credit Guarantee Corporation, for its part, is strengthening policy support by raising the subrogation payment ceiling to 30% for portfolio guarantees to start-up businesses. Moreover, the Thai government has recognized the public's role in the guarantee scheme and is providing subsidies for guarantee fees and subrogation payments to expand portfolio guarantees. In the case of developing countries, a better option would be to introduce a portfolio guarantee at an early stage to expand guarantee supply, and when the guarantee scheme settles, increase the percentage of individual guarantees to provide prompt support in line with economic policies and strengthen capacity as a credit guarantee entity. A comparison of each guarantee type follows.

<Table 2-31> Comparison of Guarantee Types

Category	Portfolio Guarantee	Individual Guarantee
Outreach	High	Low*
Additionality	Low	High
Operational Cost**	Low	High
Default Rate	Middle	Middle
Moral Hazard of Financial Institution	Middle	Low

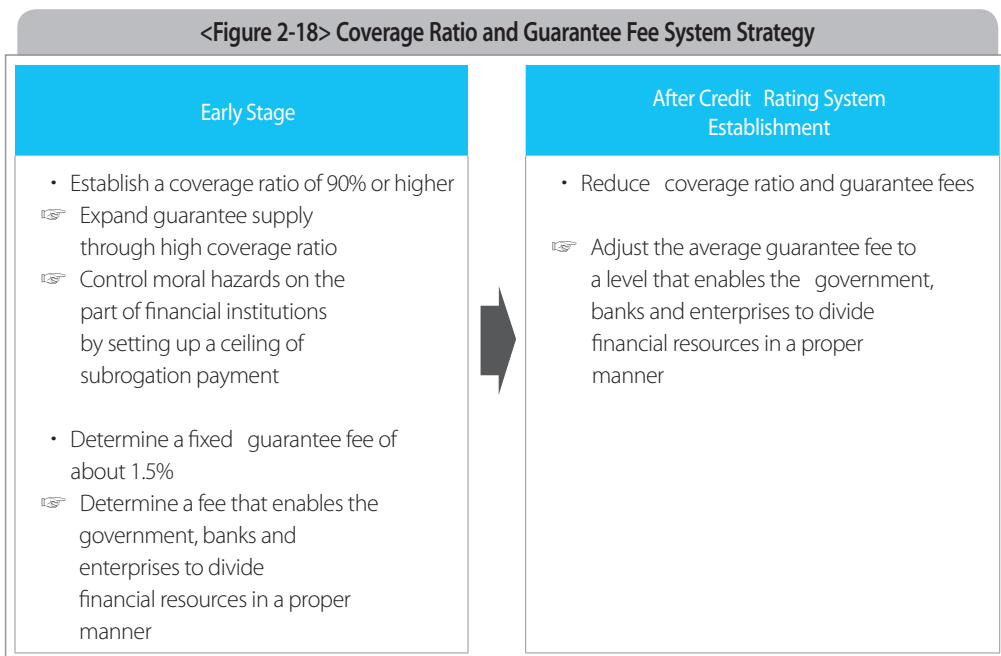
* When the structure of a guarantee entity is well aligned and a credit rating system is set up, outreach is relatively easy.

** Operational costs for individual guarantee are higher. However, overall operational costs should consider transaction costs incurred due to transfer to financial institutions in the case of portfolio guarantee, defaults that arise from moral hazards, and additionality.

Source: UNIDO

4.2.3 Operation Plans

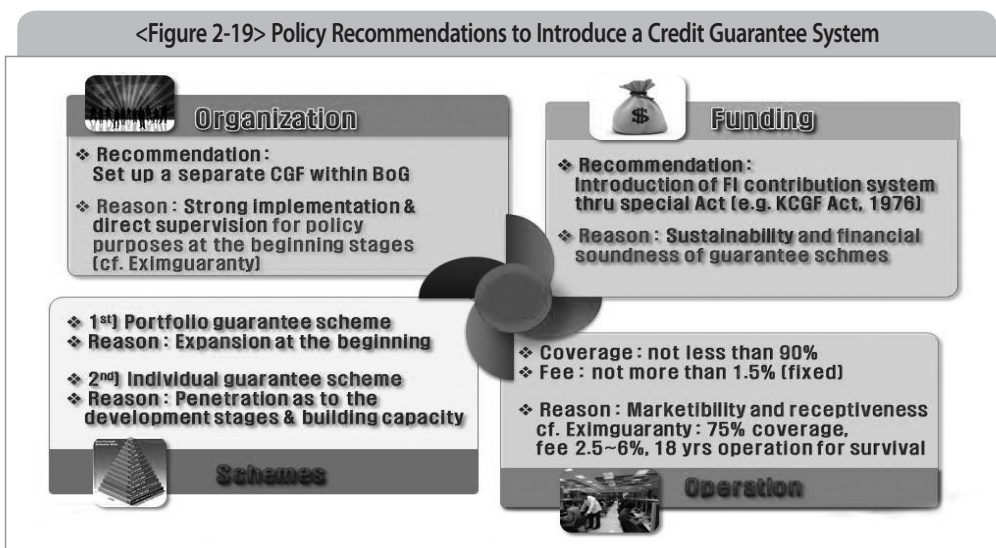
The coverage ratio and the guarantee fee should be dealt with first when considering ways to operate a credit guarantee scheme. In the previous chapter, we recommended portfolio guarantees because these make it relatively easy to expand guaranteed supply through financial institution sales networks and to control moral hazards. An important aspect of moral hazards is the coverage ratio of individual enterprises. When coverage ratio is high or 100% (full guarantee), it serves as a strong incentive to financial institutions to participate in the guarantee scheme. However, high coverage ratios could lead to moral hazards on the part of financial institutions. In the case of Thailand, comprehensive risk management to the ceiling of subrogation payment was possible through portfolio guarantees, and the country adopted a 100% coverage ratio that served as a key factor in expanding guarantee supply in a short period of time. Given that Ghana does not have a bank specialized for SMEs, its financial institutions lack experience in dealing with SME loans, and most loans are extended on collateral, it would be desirable to maintain a coverage ratio of 90% or higher in the early stages to maximize incentives for financial institution participation in the guarantee scheme. In the case of KODIT, full guarantees continued in the early stages and partial guarantee schemes and guarantees for indirect financing were introduced in 1998. Partial guarantee schemes and guarantees for direct financing were introduced in 2000.



Given that portfolio guarantees and ceilings of subrogation payment serve as useful tools in controlling the moral hazards of financial institutions, it would be desirable for Ghana to maintain a coverage ratio of 90% or higher (100%) to give strong incentives to financial institutions to

participate in the guarantee scheme, and introduce a fixed guarantee fee system at about the 1.5% level. KODIT maintained a 1% fixed guarantee fee for a significant period, adopting a differential guarantee system based on credit rating in 2000.

The fixed guarantee rate should be determined at a level that enables the government, financial institutions and enterprises to adequately allocate financial resources. The allocation ratio should be calculated based on the available budgets of the government, financial institutions' contribution scale, and enterprises' use of the scheme. The next step would be introducing differential coverage ratios and guarantee fee systems after the guarantee entity secures independence, develops credit investigation skills, and implements an internal credit rating system. At this stage, the credit guarantee entity should play the role of a public organization to reduce the burden of enterprises in using the guarantee scheme (e.g. stop excessively high interest rates of loans on guarantee by including provisions to prevent interest notification and credit spread). The following is a summary of the policy recommendations outlined above.



4.3 Roadmap and Conclusion

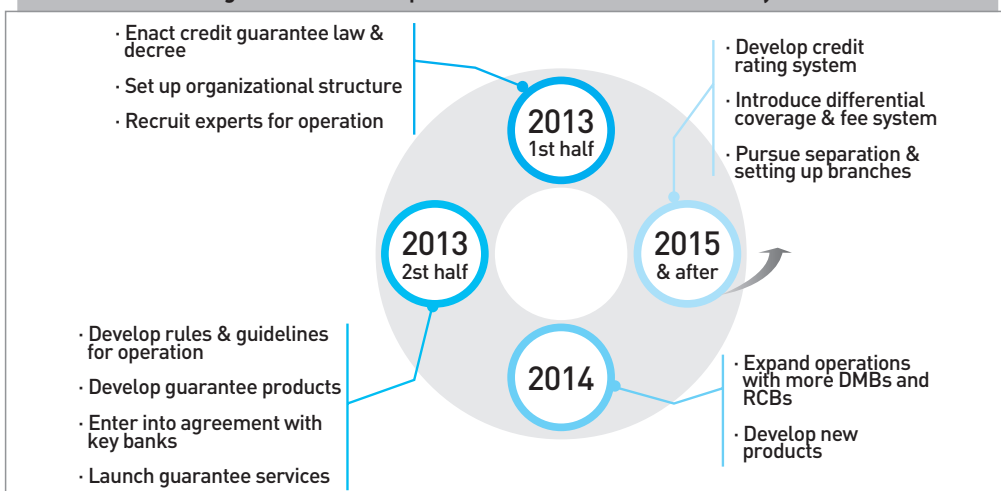
We have explained the structure of Ghana's credit guarantee system, investment, types of guarantees and ways to operate guarantee systems. In addition to these factors, it will be necessary to consider in the process of establishing a guarantee scheme transparent and rational screening methods to prevent the moral hazards of guarantee entities; credit assessment infrastructure; joint liability guarantees and acquisition of proper collateral to alleviate the moral hazards of enterprises; and an effective credit rating system that should be built based on SME data and statistics.

<Figure 2-20> Major Tasks to Establish Stable Credit Guarantee System



In Korea, it was not until 1976 that an independent credit guarantee entity was launched. It took about 15 years through trial and error and social and political demands after the reserve fund was established in 1961 to launch the credit guarantee system. After its establishment, there were many difficulties including lack of understanding on the credit guarantee scheme and limited supply of guarantees mainly due to the instability of fundamental property. However, after successfully overcoming such difficulties, the Korea Credit Guarantee Fund has gone on to solidify its position as a core public organization that has for 36 years provided support for SMEs. As a first step, the Ghanaian government should launch a credit guarantee fund committee based on basic plans referred to in the policy recommendations discussed earlier. It should then build a roadmap to develop a credit guarantee scheme and faithfully carry out the plans. At the same time, those in charge of credit system establishment should enhance their understanding of the system and strengthen capacity by benchmarking the development case of Korea.

<Figure 2-21> Roadmap to Settle Ghana's Credit Guarantee System



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The 2012 KSP for Ghana: National
Development and Government Capacity Building

Chapter 3

Strengthening National Policy Implementation Capability through Ghana Public-Private Partnership

1. Introduction & Executive Summary
2. Infrastructure and Financing in Ghana
3. PPP Management and Operating Systems in Ghana
4. PPP Management and Operating Systems and Structures in Korea
5. Policy Suggestion and Recommendations for Ghana
6. Conclusion

Strengthening National Policy Implementation Capability through Ghana Public-Private Partnership

Jin-Wook Choi (Korea University)

Kwang-Ryeol Yi (Samjong KPMG ERI Inc.)

Summary

One of the factors critical to the achievement of economic development in Ghana is the enhancement of the nation's infrastructure such as roads, railroads, and ports. Such enhancement will shorten the physical and logistical distance between regions and countries, thereby creating integrated markets within the nation. Constructing information-communication technology and electricity power infrastructure is also an important factor for economic development in Ghana, as it directly influences business and industrial activities as well as the national quality of life. The main factor that prevents developing countries from realizing their potential economic growth is a lack of industrial infrastructure required for economic activities. Although the governments of developing nations fully recognize this importance, their financial constraints prevent them from developing infrastructure within their territory. As such, public-private partnership (PPP) is considered as an alternate solution in providing and operating infrastructure efficiently while alleviating the financial burden of governments. However, obstacles to achieve PPP remain. For private investors to successfully invest in industrial infrastructure, they must complete legislation related to private investment and become capable of efficiently implement the scheme should be attained.

Ghana is one of the few African countries that is achieving constant economic growth and political stability. In order for the Ghanaian economy to achieve sustainable growth and development in the future, expansion of industrial infrastructure is a prerequisite. However, Ghana is far behind in industrial infrastructure development when compared to other mid-

range income countries. The government of Ghana fully recognizes the importance of industrial infrastructure, but since it lacks the financial capability to invest in required facilities, the government is unable to implement the investment it wishes to pursue. As an alternate solution to current problems, Ghana governments has recently considered PPP as an important policy option. To accommodate PPP as a full-scale policy tool, the Ghana government established the Public Investment Division (PID) within the Ministry of Finance and Economic Planning (MoFEP) in 2010, adopted National Policy on PPP in 2011. A PPP infrastructural development law is currently being drafted and is expected to be passed by 2013. Despite the strong determination of the Ghanaian government, it is questionable whether it can achieve PPP in the short period of time for the following reasons: legislative and systematic frame concerning PPP is incomplete, the system of planning, implementation, and management of PPP is insufficient, and PID that is responsible for developing PPP lacks capability.

Korea has a short PPP history compared to other developed countries. However, within a relatively short period of time, PPP has successfully been implemented, and knowledge has been accumulated in PPP system. As such, Korea has a great deal of programs and experiences to share with developing countries including Ghana. In this KSP report, we will share the technological knowledge of the process of establishing the PPP model and capacity building with the Ghana government. Also, through comparisons with Korea PPP model, the report shall review the appropriateness of Ghana PPP legislation, analyze the adequacy of PID's organizational operation, examine the capability development strategy of interest parties of PPP, and investigate the viability of establishing PPP research and supporting institution similar to Public and Private Infrastructure Investment Management Center (PIMAC) of Korea.

1. Introduction & Executive Summary

One of the factors critical to the achievement of economic development in Ghana is the enhancement of the nation's infrastructure such as roads, railroads, and ports. Such enhancement will shorten physical and logistical distance between regions and countries thereby creating integrated markets within the nation. Constructing information-communication technology and electricity power infrastructures is also an important factor for economic development in Ghana; as it directly influences business and industrial activities as well as national quality of life. The main factor that prevents developing countries to realize their potential economic growth is lack of industrial infrastructure required for economic activities. Although the governments' of developing nations fully recognize the importance, their financial constraints prevent them from constructing infrastructures within their territory. As such, public-private partnership (PPP) is considered an alternate solution in providing and operating infrastructure efficiently while alleviating the financial burden of governments. However, obstacles to achieving PPP remain. For private investors to successfully invest in industrial infrastructure, legislation related to private investment should be completed and the capability to efficiently implement the scheme must be attained.

Ghana is one of the African countries that is achieving constant economic growth and political stability. In order for the Ghanaian economy to accomplish sustainable growth and development in the future, expansion of industrial infrastructure is essential. However, Ghana is far behind in industrial infrastructure development when compared to other mid-range income countries. The government of Ghana fully recognizes the importance of industrial infrastructure but since it lacks financial capability to invest in required facilities, it is unable to implement the investment it wishes to pursue. As an alternate solution to current problems the government of Ghana has recently considered PPP as an important policy option. To accommodate PPP as a full-scale policy tool, the government established the Public Investment Division (PID) within the Ministry of Finance and Economic Planning (MoFEP) in 2010, and adopted National Policy on PPP in 2011. A Public-Private Partnership (PPP) infrastructural development law is currently being drafted and is expected to be passed by 2013. Despite the strong determination of the Ghanaian government, it is questionable whether it can achieve PPP in the short period of time for the following reasons: legislative and systematic frame concerning PPP is incomplete, the system of planning, implementation, and management of PPP is insufficient, and the PID that oversees PPP is lacking the capability.

Korea has a short PPP history compared to other developed countries. However, within a relatively short period of time, PPP has successfully been implemented, operated, and knowledge in PPP system has been accumulated. As such, Korea has a great deal of programs and experiences to share with developing countries including Ghana. In this KSP report, we will share the technological knowledge of the process of establishing PPP system and building capacity with Ghana government. Also, through comparison with Korea's PPP system, the report shall review the appropriateness of Ghana's PPP legislation, analyze the adequacy of PID's organizational operation, examine the capability development strategy of interested parties of PPP, and investigate the viability of establishing PPP research and supporting institution similar to Public and Private Infrastructure Investment Management Center (PIMAC) of Korea.

2. Infrastructure and Financing in Ghana

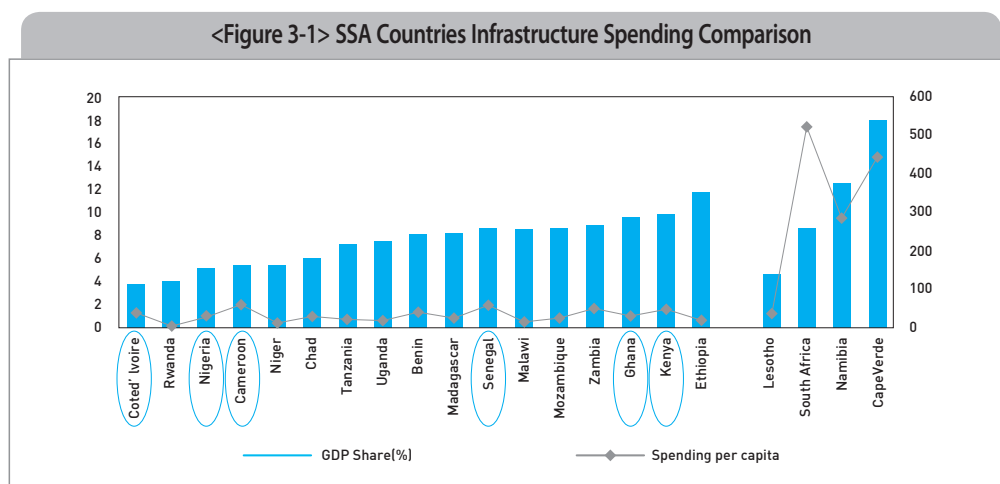
2.1. The State of Ghana's Infrastructure

2.1.1. Background

According to a recent report by the World Bank, it will be difficult to develop robust economies with the current infrastructure of Sub-Saharan African (SSA) countries. Also, given that these nations lack the financial resources to invest in infrastructure, the prospect for their future economic advancement remains pessimistic. In order to build adequate level of infrastructure in SSA countries, 15% of total GDP of the region, which amounts to 93 billion dollars per annum must be invested in the region. However, the governments of the regions are not capable

of meeting these financial obligations. The maximum financial obligation that these countries can accumulate is 45 billion dollars. Considering the given estimate of potential efficiency gains of 17 billion dollars, they are assumed to still be short of 33% of the required sum, which is 31 billion dollars per annum.¹

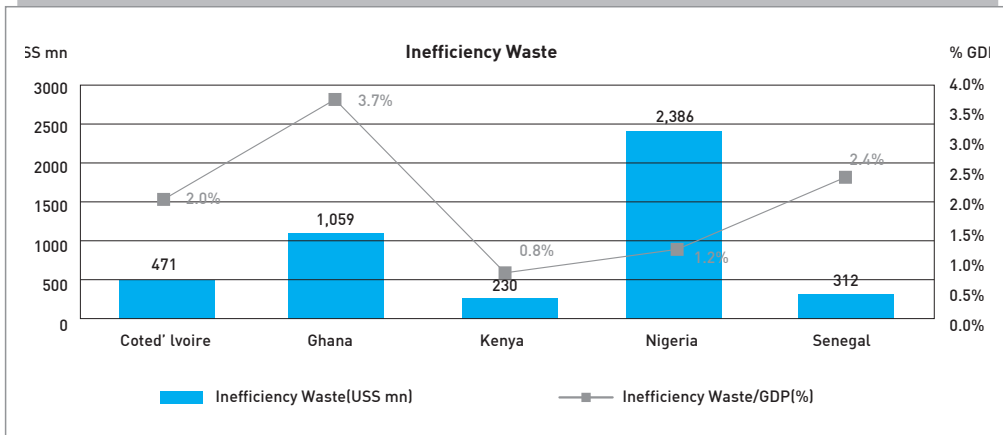
Although situated in the SSA region, Ghana's case is different. In Ghana, government spending on infrastructure is 7.5% of total GDP, as illustrated by <Figure 3-1>; this is slightly lower than those of Namibia, Ethiopia, and Kenya, but comparatively higher than other SSA countries. When compared to similar income level African countries, as illustrated by < Figure 3-2>, we can see that infrastructure inefficiency² of Ghana is around 3.7% of GDP(1 billion dollars), slightly higher than Côte d'Ivoire, Kenya, and Senegal. Meanwhile, as illustrated in < Figure 3-3>, infrastructure funding gap³ of infra investment is 1.3% of yearly GDP, 35.7 billion dollars, which is still a significantly large figure when compared to those of other countries. Hence, it is assessed to be in the relatively better state.⁴



Source: Shendy et. al. (2011)

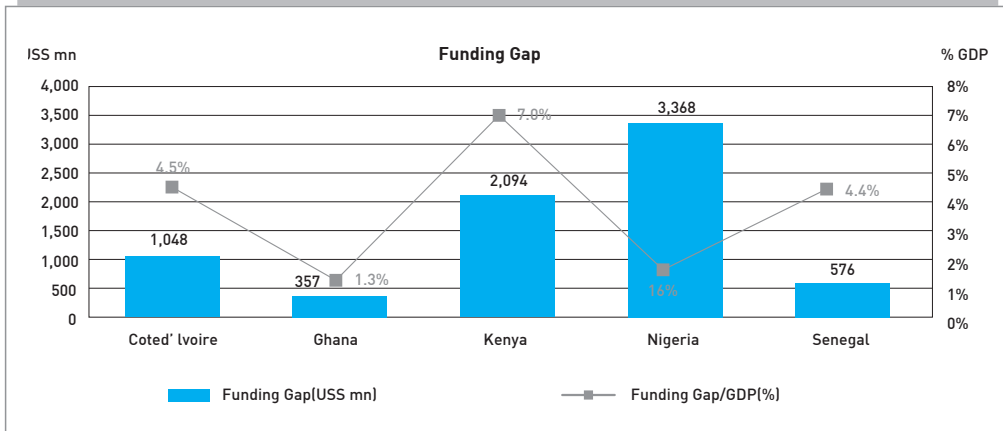
- 1) Shendy, R., Kaplan, Z. and Mousley, P., "Towards Better Infrastructure: Conditions, Constraints, and Opportunities in Financing Public-Private Partnerships", Washington, D.C.: World Bank, 2011
- 2) Infrastructure Inefficiencies: the amount that the spending on infrastructure investments exceeds actual investment required
- 3) Infrastructure Funding Gap : the gap between investment spending needs and existing spending on infrastructure
- 4) World Bank, "Project Appraisal Document," Report No. 66198-GH., 2012

< Figure 3-2> African Countries' Infrastructure Inefficiency Waste



Source: Shendy et. al. (2011)

<Figure 3-3> African Countries' Infrastructure Funding Gap



Source: Shendy et. al. (2011)

The World Bank's estimation has shown many discrepancies in infrastructure funding as stated in the report, depending on the institutions collecting the data and the period when the study was conducted. The reason for such differences is largely due to many different factors such as economic growth rate, domestic tax collection prospect, and possible foreign loans. Moreover, it is largely affected by the decision on the range of infrastructures attracting investment. For reasons stated above, the Ghanaian government has estimated a funding gap of approximately 2.6 billion dollars in sectors such as transportation, water resource and health, and electronics for the periods from 2012 to 2013⁵

5) Government of Ghana, "Ghana Infrastructure Plans", Consultative Group Meeting, June 19th 2012

Considering the level for of national development that Ghana has achieved the infrastructure of Ghana is severely undersupplied. Infrastructure contributed just over one percentage point to Ghana’s improved per capita growth. Compared to other mid-income nations’ economic benefit from infrastructure at a 2.7% increase in economic growth rate, infrastructure of Ghana and its economic benefit is relatively low.⁶ In this context, the Ghanaian government is urging for an expansion of infrastructure and improvement of efficiency through Medium-Term Development Policy Framework; a policy also known as Ghana Shared Growth and Development Agenda (GSGDA, 2010-2013). The following details the current status and conditions of Ghana’s infrastructure.⁷

2.1.2. Road

Ghana’s total road network is 66,200km, out of which, 12,400km are urban roads, 1,628km trunk roads, and 42,192km feeder roads.

<Table 3-1> Ghana Road State

Unit: KM	
Roads category	Length
Urban roads	12,400
Trunk roads	11,628
Feeder roads	42,192
Total	66,200

Source: Consultative Group Meeting (2012.06.19.)

Compared with other SSA countries, the overall condition of roads in Ghana is better than most. The main reasons for Ghana’s good management of road is a fuel tax levied on gasoline. The tax 0.06 cents per liter, and the revenue earned from taxation is re-invested to construct new roads and for maintenance. Furthermore, the Ghanaian government has demonstrated its determination to maintain roads by investing an average of 1.5% of GDP annually on roads which is a significant amount in the West African region. In absolute terms, investment on roads was consistent until the early 2000s, but has been largely increased since 2006. This reflects the willingness of the Ghanaian government to invest and expand on road infrastructure.

6) Foster, V. and Pushak, N, “Ghana’s Infrastructure: A Continental Perspective”, Policy Research Working Paper 5600, World Bank, 2012

7) National Development Planning Commission, Republic of Ghana, “Medium-Term National Development Policy Framework: Ghana Shared Growth and Development Agenda (GSGDA), 2010-2013, Volume II: Costing Framework”, Accra: NDPC, 2010

<Table 3-2> 2000 ~ 2010 Ghanaian Government Large-Scale Investment in Road

										Unit: Million USD
Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Amount	17.9	7.3	25.5	23	19	41	61	62	162	159

Source: Ghana Road Agency 2010

In spite of recent financial increases in investment in the roads sector, unresolved issues remain. The problem with Ghana's road infrastructure is that paved roads are concentrated mainly in major cities; which contrasts with small or regional cities where paved roads are in short supply.⁸ A lack of road infrastructure in the countryside is recognized as a hindrance to national economic development. Since 80% of agricultural products are produced in these regions, the lack of road infrastructures make transportation difficult.

2.1.3. Railroads

Ghana has a total length of 1,300km of railroads, but these are concentrated in the capital Accra, mining areas of the Ashanti region and Kumasi, and the port city of Takoradi. Most of the railroads were built in these areas to transport natural resources. Ghana's railroads are operated by the state firm, Ghana Railway Company (GRC), and are owned by the government.

The biggest problem with the railroad infrastructure is deteriorating facilities of railroads, stations, and platforms at a period where the demand for these railroads has increased due to the expansion of the mining business thereby failing to meet the demand of the mining industry.⁹ The aging railroad facilities lead to inefficiency in railroad transportation. For these reasons, mining companies depend on ground transportation instead of railroads for efficiency. The consequent increase in transportation cost has led to increase in the price of natural resources. Unless an innovative solution is found, cost competitiveness of natural resources in Ghana will continue to be weakened and ultimately negatively affect the economy. As shown in the table below, total transportation by railroads is decreased after the mid-2000s, and it remains an important task for the government to recover the transportation share ratio of railroads.

Policy Framework: Ghana Shared Growth and Development Agenda (GSGDA), 2010-2013, Volume I: Policy Framework", Accra: NDPC, 2010

8) Ibid.

9) National Development Planning Commission, Republic of Ghana, "Medium-Term National Development Policy Framework: Ghana Shared Growth and Development Agenda (GSGDA), 2010-2013, Volume II: Costing Framework", Accra: NDPC, 2010

<Table 3-3> 2000 ~ 2010 Railroads Transportation

Unit: Thousand tons											
Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Amount	1,157	1,554	1,682	1,867	1,764	1,827	1,654	1,136	306	154	446

Source: Ghana Rail Transport Agency 2010

2.1.4. Harbors

In Ghana, there are small-scale harbors at Akosombo, Buipe, Yapei, and Debrem. The sea ports at Takoradi and Tema contribute significantly to the national economy.¹⁰ As shown in the table below, the quantity of goods transported via harbors are increasing annually. In fact, the volume of goods tripled between 2000–2010. Motivated by the increase in harbor activity, the government is modernizing harbors through the “Ghana Gateway Program” which started with the privatization of the Tema harbor in 2006. Nevertheless the biggest problem facing Ghana’s harbors include inefficient processing of the increasing number of goods awaiting transfer. This is underscored by the shortage and deterioration of facilities, especially cargo loading and unloading which have bottlenecks resulting in ultimately transfer of and cargoes.¹¹

<Table 3-4> 2000 ~ 2010 Harbors Transportation

Unit: TEU											
Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total	206,678	221,468	270,878	346,981	385,902	442,082	471,368	547,653	504,273	573,522	643,189
Export	103,806	114,686	145,568	183,191	198,149	230,334	250,527	280,871	245,499	295,797	336,719
Import	102,962	106,782	125,310	163,790	187,753	211,748	220,841	266,782	258,775	277,725	306,470

Source: Ghana Ports and Harbours Authority

10) Ibid

11) Ibid

2.1.5. Water Resource Management

The quality of water reserve management in Ghana is perceived to be higher than those of neighboring African nations. However the most pressing issues regarding water resources management in Ghana is inadequate management of multi-purpose reserve capacity. Compared with Ghana's water reserve capacity, its capacity to utilize multi-purpose water resources in areas such as electricity-generation, irrigation, and flood-control is relatively weak. In addition, Ghana lacks comprehensive management and control of water resource and is therefore unable to effectively deal with rainfalls caused by the climate change. In recognition of these problems and with supports from other countries, the Ghanaian government is devising a framework for the solution of total water resource management.

With regards to water supply facilities, the government is endeavoring to provide sufficient tap water for household-use and undertaking various reforms to decrease surface water dependency. However, based on 2008 figures, only 40% of households in Ghana are supplied with tap water, and 11% of population has no access to water supply. In the case of surface water dependency of the population, the ratio decreased from 32% in 1993 to 18% in 2008, yet it would be difficult to admit that water supply penetration rate is high. Along with the shortage of water supply facilities, another crucial problem in Ghana is leakage from deteriorated facilities. Therefore, in Ghana, the most imperative issues with water supply are expansion facilities and repair and maintenance of existing resources.

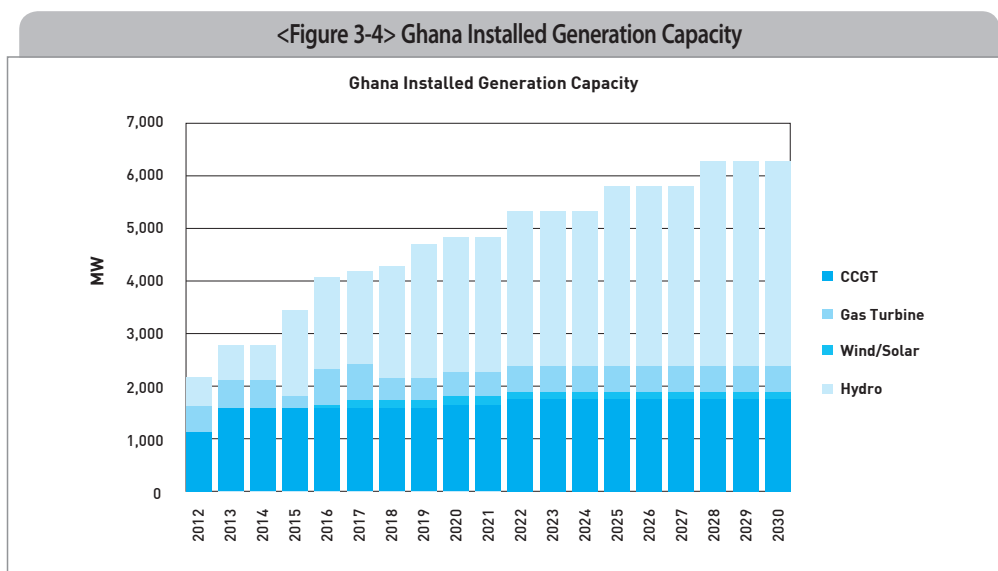
2.1.6. Electricity Supply

Stable electricity supply and demand has significant implications for national economic development. Although Ghana's overall the electricity supply is in the better than other African countries in absolute terms, electricity penetration ratio remains low. For instance, in 2012, total electricity generation was only 2,200MW with 67% of the population connected to the electricity supply grid.

In addition to a low electricity penetration ratio, instability of electricity supply is bane to the government. In 2007, blackout occurred for as many as 116 days, instable electricity supply obviously contributed negatively to Ghana's economy. For example, analysis revealed that blackouts in 2006 reduced Ghana's GDP by about 1.9%.

Another problem with electricity supply is that most of the electricity generated in the country is dependent on hydro power. Hydro power generation is affected by rainfall, and during a low-rainfall season, the whole country experiences difficulty with the electricity supply. With the increase in electricity demand, reservoir release has become frequent and coupled with the absence of water resource management, declining water levels caused by reservoir release is contributing to the failure of electricity supply.

There are various plans to increase electricity generation and stabilize the supply. Most importantly, the government plans to expand power generation capacity from the current 2,200MW to 4,000MW by 2017. Along with electricity generation augmentation, power grid expansion is being planned. Various power supply plans are being developed including a shift from hydro-dominant electricity generation to more stable and cost-effective power generation such as natural gas generation.¹²



Source: Consultative Group (2012)

2.2. The State of Ghana’s National Accounting

According to the 2012 central government finance prediction, total revenue is GH¢15.6 billion while government expenditure is GH¢17.5 billion. Thus, the expected fiscal deficit is approximately GH¢1.9 billion which is 2.7% of national GDP. Meanwhile, projections for fiscal years 2013 and 2014 indicate that for FY 2013, revenue is expected to be GH¢18.2 billion with expenditures of GH¢20.4 billion. In 2014, revenue is expected to be GH¢21.2 billion with expenditure of GH¢23.4 billion. Therefore, fiscal deficits for each year are expected to be GH¢2.2 billion (2.7% of GDP) and GH¢2.2 billion (2.4% of GDP) respectively. On a separate note, total debt of the public sector was 11.2 billion dollars in 2010 representing 37.8% of GDP. In 2011, it increased to 14.7 billion dollars, which was 38.98% of GDP. Given these financial deficits and public sector debts, government forecasts to adequately manage its revenue account, taking into consideration the recent healthy growth of the national economy and appreciating price of oil and gas exports.¹³

12) Government of Ghana, “Ghana Infrastructure Plans,” Consultative Group Meeting, June 19th 2012

13) Republic of Ghana, The Budget Statement and Economic Policy of the Government of Ghana for the 2012 Financial Year Accra: Government of Ghana, 2012

<Table 3-5> Ghana Central Government Revenue Prediction

	2012 Budget Estimate	2013 Indicative	2014 Indicative
I. Revenue	15,614,347,998	18,290,887,264	21,250,079,568
Total Revenue & Grants (Percent of GDP)	22.4	22.8	23.0
Total Revenue	14,458,328,566	16,959,794,785	19,785,877,841
Tax Revenue	12,036,239,499	14,032,278,720	16,138,480,355
Direct Taxes	5,656,186,333	6,624,096,059	7,610,450,468
Company Taxes	2,510,220,000	2,964,569,820	3,409,255,293
Company Taxes on Oil	334,110,000	453,633,910	521,678,997
Other Direct Taxes	2,761,856,333	3,205,892,329	3,679,526,179
Indirect Taxes	3,463,150,000	4,089,980,150	4,703,477,173
VAT	2,804,270,000	3,311,842,870	3,808,619,301
Domestic	1,167,510,000	1,378,829,310	1,585,653,707
Imports	1,636,760,000	1,933,013,560	2,222,965,594
Petroleum	440,660,000	520,419,460	598,482,379
Other Indirect Taxes (excise)	218,220,000	257,717,820	296,375,493
International Trade Taxes	218,220,000	257,717,820	296,375,493
Import Duties	1,898,720,000	2,242,388,320	2,578,746,568
Export Duties	74,624,165	88,131,141	101,350,812
Import Exemptions	382,659,000	325,260,150	382,659,000
National Health Insurance Levy (NHIL)	682,144,067	805,612,143	922,105,280
Customs Collection	327,350,000	386,600,350	444,590,403
Domestic VAT Collection	233,550,000	275,822,550	317,195,933
SSNIT Contribution	121,244,067	143,189,243	160,318,945
Other Revenue Measures	208,590,000	246,344,790	283,296,509
Non-Tax Revenue	2,092,255,000	2,537,982,032	3,203,782,032
Other Revenue	0	0	0
Grants	1,156,019,432	1,331,092,479	1,464,201,727
Project Grants	690,602,352	795,190,436	874,709,480

	2012 Budget Estimate	2013 Indicative	2014 Indicative
Programme Grants	187,224,416	215,578,551	237,138,423
HIPC Assistance (Multilaterals)	149,439,824	172,071,697	189,278,867
Multilateral Debt Relief Initiative	128,752,840	148,251,779	163,076,957
International Monetary Fund	0	0	0
World Bank	117,135,440	134,874,985	148,362,483
African Development Bank	11,617,400	13,376,794	14,714,473

Source: Republic of Ghana(2011)

<Table 3-6> Ghana Central Government Expenditure Prediction

	2012 Budget Estimate	2013 Indicative	2014 Indicative
II. Expenditure	17,515,078,098	20,494,872,901	23,469,787,230
Total Expenditure (Percent of GDP)	25.1	25.5	-
Recurrent	11,817,167,748	13,577,663,885	16,161,125,756
Non-Interest Expenditure	9,933,455,070	11,524,864,379	13,710,286,761
Personal Emoluments (Percent of GDP)	5,050,000,000 (7.2)	6,266,397,725 (7.8)	7,196,133,510 (7.8)
Goods & Services	967,168,124	1,114,480,745	1,281,286,064
o/w Recurrent Expenditure Share of ABFA from Oil (30% of ABFA)	184,363,350	231,907,300	246,196,769
Subventions	0	0	0
Transfers	3,208,783,690	3,643,985,909	4,532,867,187
o/w TOR for Under-recovery	0	0	0
Reserve Expenditure Vote	707,503,256	500,000,000	700,000,000
Required Fiscal Measures	0	0	0
Transfers into Oil Fund	0	0	0
Interest Payments	1,883,712,678	2,052,799,506	2,450,838,996
Domestic	1,387,360,000	1,664,832,000	1,834,482,277
External	496,352,678	387,967,506	616,356,718

	2012 Budget Estimate	2013 Indicative	2014 Indicative
Capital Expenditure (Total)	5,697,910,350	6,917,209,016	7,308,661,473
Capital Exp (Dom. financed)	2,666,201,598	3,666,981,539	3,909,290,673
Capital Wxp (Foreign financed)	3,031,708,752	3,250,227,476	3,399,370,800
HIPC-financed Expenditure	0	0	0
MDRI-financed Expenditure	0	0	0
Overall Balance (Commitment) (Percent of GDP)	-1,900,730,100 (-2.7)	-2,203,985,637 (-2.7)	-2,219,707,662 (-2.4)
Road Arrears (Net Change)	-250,000,000	-250,000,000	-200,000,000
o/w Commitments & certs for works done	-250,000,000	-250,000,000	-200,000,000
Non-Road Arrears	-1,141,030,000	-300,000,000	-200,000,000
o/w Other Outstanding Payments/ Deferred Payments	-1,141,030,000	-300,000,000	-200,000,000
o/w DACF	0	0	0
o/w GETF	0	0	0
Tax Refunds	-77,069,752	-91,019,378	-104,672,284
Overall Balance (Cash) (Percent of GDP)	-3,368,829,852 (-4.8)	-2,845,005,015 (-3.5)	-2,724,379,946 (-3.0)
Divestiture Receipt	0	0	0
Divestiture Liabilities	0	0	0
Discrepancy	0	0	0

Source: Republic of Ghana (2011)

2.3. The State of Ghana's Spending and Plans on Infrastructure

The government is currently implementing its mid-term development plan, GSGDA (Ghana Shared Growth and Development Agenda) (2010~2013). The objectives of GSGDA are improving quality of life, establishing a transparent and fair government and developing national infrastructure, etc. Other core goals include maintaining the stability of the macro economy, increasing private sector competency, modernizing agriculture, and managing natural resources.

Above all, the government is aware that infrastructure development in transportation, water supply, sanitation and electricity are top priority areas underpinning sustainable social and economic growth and development.

According to the GSGDA, the Ghanaian government plans to invest 23.9 billion dollars on the national development plan for the period of 2010 to 2013, and 42% of these, totaling USD 10 billion will be spent on national infrastructure. The transportation sector takes up 51.7% of all infrastructure spending, reflecting the importance of transportation network expansion and maintenance.

<Table 3-7> GSGDA 2010-2013 Total Investment Plan Amount

Unit: Million dollars					
	2010	2011	2012	2013	Total
Total Investment	3,322.250	6,584.238	6,834.916	7,150.056	23,891.459
Infrastructure	1,431.169	2,873.334	2,879.702	2,864.619	10,048.824
Water Supply & Sanitation Facilities	383.701	486.662	461.021	603.526	1,934.910
Transportation	772.795	1,441.265	1,420.878	1,567.515	5,202.454
Info & Comm. Technology(ICT)	16.043	29.688	19.270	18.854	83.854
Electricity & Gas Supply	258.630	915.719	978.533	674.724	2,827.606

Source: GSGDA, NDPC, 2010

The government plans to invest around USD 5.7 billion in transportation, water supply and sanitation facilities, and electricity supply sectors by the end of 2010, with a resource gap estimated at USD 7.7 billion. However, the government's fiscal revenue increased in 2011 and non-concessional loans from China Development Bank created fiscal surplus to invest in infrastructure. Therefore the government increased the 2012-2013 investment plans from the initial amount of USD 5.7 billion dollars to 10.6 billion dollars in April 2012. Moreover the resource gap for the same period decreased from 7.7 billion dollars to 2.6 billion.

Meanwhile, aside from the 2012-2013 GSGDA plan announced in 2012, the government has introduced an infrastructure investment plan of USD 13,996 million for the period of 2012-2017. Of these, the most heavily weighted sector is road (5,497 million dollars), taking up 39.2% of future investment, followed by rail road (1,110 million dollars) making up 7.9% of total investment. This adds up to 47.1% of investments on ground transportations.¹⁴ For these infrastructure investments, the government is devising various funding methods. According to the mid-term macroeconomic plan, out of the total investments amounting to USD 210,439 million for 2014-2017, domestic funding is estimated at USD 1,361 million, ODA funding at USD 1,070 million, and other foreign sources at USD 6,768 million.

14) Ibid

<Table 3-8> Infrastructure Investment Plan (2012-2017)

		Unit: Million dollars
Generation		1,980
Transmission		903
Distribution		1,000
Roads		5,497
Ports		674
Rails		2,832
Water and Sanitation		1,110
Total		13,996

Source: Consultative Group (2012)

Also private sector investment estimated at USD 770 million will be invested in Takoradi International Company (TICO) and Suron Asongli power plan construction. The TICO project will be financed via PPP (Public Private Partnerships), with 10% share participation of the Volta River Authority. The government is giving priority to via PPP, with as a means to reduce the infrastructure gap, however, with the exception of the TICO project, other PPP projects are not included in the mid-term investment plan.

3. PPP Management and Operating Systems in Ghana

3.1. PPP systems

In 2010, the government established the Public Investment Division (PID) under the Ministry of Finance and Economic Planning, (MoFEP) to oversee PPP activities in Ghana. It has been 2 years since its establishment and as such it is difficult to state that the division is functional. Many areas still need to show progression such as PPP legislation and other related laws which are still at the drafting stage. However, the 2011 "National Policy on Public-Private Partnerships (PPP)" report has stated and emphasized the roles and responsibilities of central government authorities in charge of PPP, PID in this case. Therefore, the following chapter shall examine PPP implementation institutions.

First, primary roles and responsibilities of PPP institutions are as follows:

The Ministry of Finance and Economic Planning, (MoFEP): MoFEP is the national authority on Ghana's PPP with responsibilities and roles resting, with the following three divisions which are under MoFEP.

Public Investment Division (PID): PID is responsible for developing the legal, institutional, and regulative framework related to PPP. In addition, regarding implementation of PPP, PID is in charge of establishing standard procedure and composing/dissemination of PPP implementation guidelines and manuals. PID has two subsidiary units and their functions are as follows:

- Project and Financial Analysis (PFA) Unit: The primary role of PFA is to conduct financial analyses of PPP projects. In addition, PFA performs the role of “PPP Approval Committee”, responsible for PPP project feasibility review and mediation of MoFEP internal & external affairs in the approval process. More detailed responsibilities of PFA are as follows:
 - * Decision in accordance of PPP (National Infrastructure Plan (NIP) with government policies
 - * Proving PPP project’s efficiency over government’s direct investment
 - * Analysis of PPP project’s fiscal feasibility and Value for Money
 - * Analysis of integrity of PPP long-term contracts before project contract signing
 - * Securing procedural legality of PPP procurement
 - * Inspection of PPP negotiations and contract management and fulfillment
- PPP Advisory Unit (PAU): PAU is in charge of PPP projects to ensure success, feasibility, sustainability of projects in realization of the national PPP plan. Detailed responsibilities of PAU are as follows:
 - * Inception of PPP projects, preparation of validity analysis, providing counsel and support regarding project organization, negotiation, and procurement to relating government & contracting institutions
 - * For successful PPP project implementation from preparation to completion stage, the capabilities of public sector parties and government institutions
 - * Improve Ghana's PPP programs' awareness and understanding
 - * Support government and contracting institutions to understand the requirements of PPP project approval and to prepare required paperwork
- Debt Management Division (DMD): DMD is in charge of reviewing the financial continuity of PPP projects taking into account of government finance, especially analyzing long-term financial risk and the effects of PPP projects, and reviewing suitability of government financial guarantee of PPP projects
- Budget Division: the Budget Division is in charge of planning PPP projects in accordance with the national budget, concurrently performing the role of reviewing in accordance with PPP related expenses of each office
- The National Development Planning Commission (NDPC): NDPC has the responsibility of drafting the National Infrastructure Plan(NIP) and consulting with related central and regional governments. All government PPP projects must be based on PPP plan of NIP or pre-approved institutions (central and regional government institutions).
- PPP Approval Committee: PPP Approval Committee reviews the request of contracting institutions that implements PPP projects, and has the authority to approve PPP projects

per PPP approval procedure and PPP regulation to be announced. Per regulation, the committee is comprised of Minister of MoFEP, Minister of Justice and Attorney General, Minister of Trade and Industry, Chief Executive of Ghana Investment Promotion Center, Chief Executive Public Procurement Authority, Heads of PPP implementing divisions and units, and PFA Unit under MoFEP fulfills the role of secretariat.

3.2. Legal Framework of PPP

As stated above, Ghana’s PPP law is still pending, but it is expected to be passed into legislation by 2013. Until the law is enacted, PPP will abide by the principles and procedures of the National Policy on Public Private Partnerships (PPP) announced by the government in 2011.

Though the PPP law proposal has been publicized, the detailed form and contents of the law are not known. Hence, the interim report of the consulting firm that provided counsel to the government concerning the PPP law and its structural framework has presented the following as required contents and form of the Ghana PPP law.¹⁵

Part I	Preliminary Issues
Part II	Institutional Framework
Part III	Project Identification and Project Feasibility
Part IV	Competitive Procurement Process and Contract Award
Part V	Contract Implementation
Part VI	Public Private Partnership Agreements
Part VII	Government Support and Financing
Part VIII	Settlement of Disputes
Part IX	Complaints and Appeals Procedures
Part X	General Provisions/Miscellaneous Provisions

3.3. PPP Management and Operations

The operational procedure for solicited government project is as follows:

First stage, Project Inception: The principal agents of PPP project inception and proposition are central government(MDA) and regional government authorities(Contracting authority). For a contracting authority to propose a PPP project, a Project Brief/Concept Note should be submitted and this stage requires the following steps:

- Project is registered to MoFEP-PID
- Project proposing contracting authority notifies MoFEP-PID of its expertise
- Project proposing contracting authority appoints a Project Officer from internal or exter

15) AB& David and Norton Rose, “Consultancy Services for the Preparation of Legislation Governing Public Partnerships for Ghana: Interim Report,” Consulting Report for the MoFEP, 2012

nal human resource

- If requested by MoFEP-PID, Project proposing contracting authority appoints a Transaction Advisor

Second stage, Pre-Feasibility Study-Approval I: Project proposing contracting authority conducts a pre-feasibility study to show the efficiency of the proposed project and presents the results to its own Project Management Unit, PMU for review and approval. Internal approval is the "Approval I"; a contracting agency cannot conduct Feasibility study before approval of Sector Ministry-PMU and review of MoFEP-PID. Pre-feasibility studies should sufficiently explain the strategic and operative effects on the strategic goals of contracting authority and demonstrate that the proposed project closely aligns with the national infrastructure plan and government policy.

Third stage, Feasibility Study-Approval II: For projects which have completed stage 2, the contracting authority conducts feasibility studies and seeks approval of its resulting report from MoFEP-PID, PPP Approval Committee. This approval process is "Approval II". The principal agent of the proposed project differs depending on the size of the project. If the expected project cost is less than GH¢2 millions, the approval authority is MoFEP-PID. For projects with expected costs of GH¢2M to GH¢50M, the PPP Approval Committee is the approval authority, and for projects with expected costs exceeding GH¢50M, its approval is based on PPP Approval Committee's recommendation, the approved via a cabinet meeting. Aside from the approval authority, all second stage approved projects should be reported to the cabinet meeting. A feasibility study should include the followings:

- Financial affordability of contracting authority for the financial burden of the proposed project
- Financial, technical, operative risks are shared between contracting authority and private business operator
- Expected VFM(value for money) with the proposed project
- Project required viability gap and need for incentives to private business operator
- Capability of contracting authority concerning overall PPP procurement, implementation, management, fulfillment, monitoring and reporting

Fourth stage, Procurement-Approval IIIA and IIIB: Before issuing instructions for a PPP arrangement, the contracting authority should seek approval from MoFEP-PID(Approval IIIA) concerning procurement documentation including PPP contract draft. The procurement procedure should have the following features:

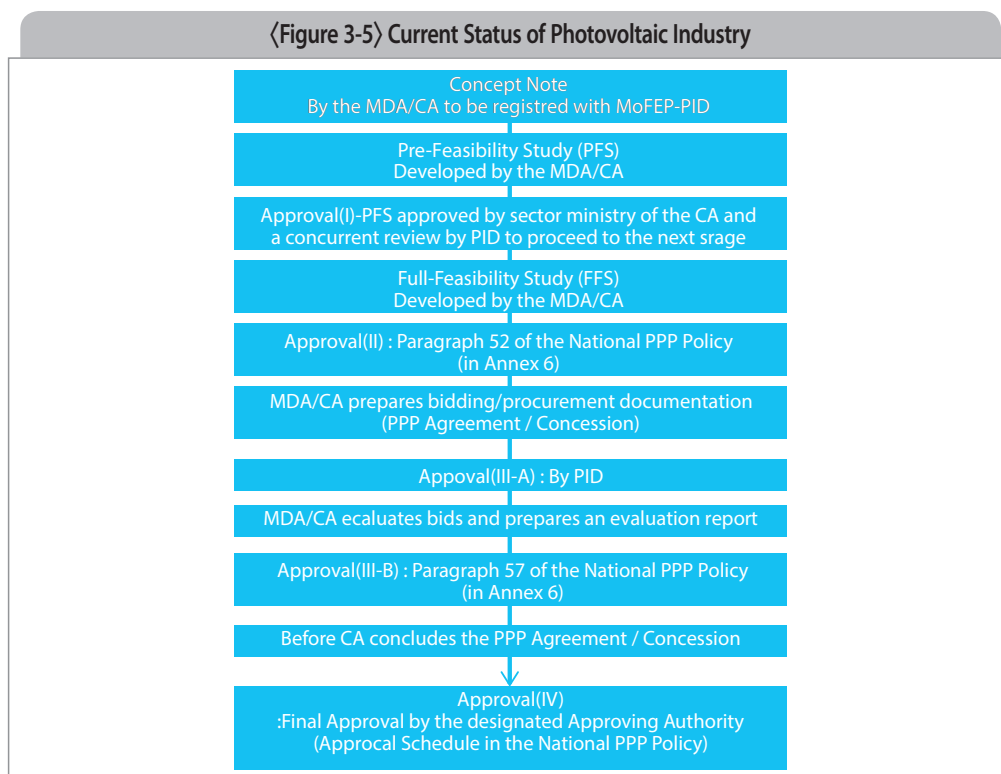
- Be just, transparent, competition-based, cost-effective
- Be in accordance with the Public Procurement Act
- Maximize the growth of Ghana's domestic industry and local content and transfer of technology

Moreover, after the procurement evaluation and before selection of the project operator, the contracting authority must submit a proposal evaluation report and the recommendation of MoFEP-PID to the approval authority as specified, in stage 3. The corresponding PPP project should follow the regulations pertinent to the approval schedule of the National Policy on Public Private Partnerships and the regulations pertinent to project operator approval of future PPP law enforcement ordinance. This procedure is "Approval IIIB". With regard to project operator selection, the contracting authority should submit the data of assessment criteria applied for proposal assessment, and to what extent the project operator satisfied the criteria, and any additional information demanded by MoFEP.

Fifth stage, Contracting PPP Agreements/Concessions-Approval IV: After completion of procurement-approval IIIB, and before completing PPP contract agreements, the contracting authority should seek approval from the approval authority specified on stage 3. The following should be satisfied. This is approval "Approval IV" the final approval for the project.

- Requirements of financial obligation, VFM, operative risks of the project be met
- Project management capability of the contracting agency must be sufficient
- Capabilities of the contracting agency and private project operator are sufficient to sign project agreements. Legal requirements relating to project agreements must be satisfied

The PPP project approval procedural flow is as illustrated in <Figure 3-5>.

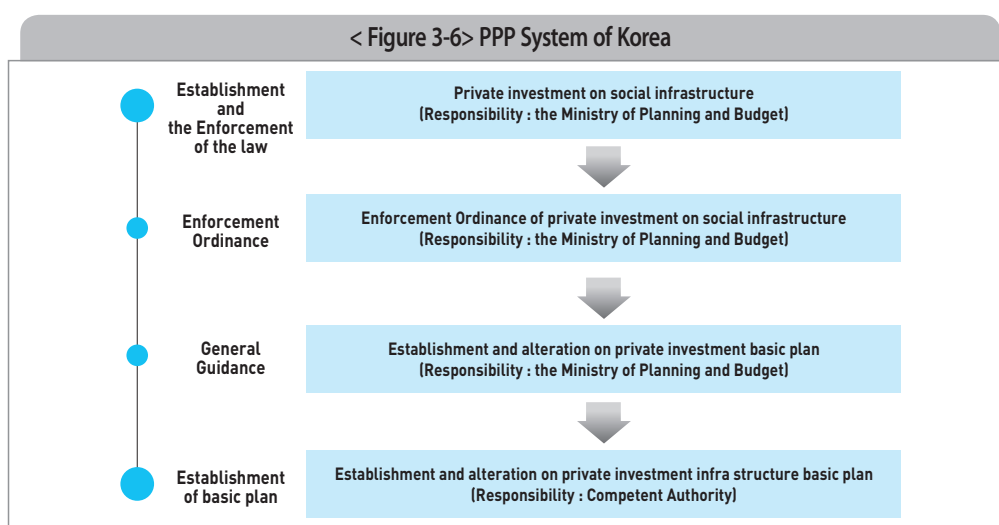


Source: World Bank(2012)

4. PPP Management and Operating Systems and Structures in Korea

4.1. PPP systems

The PPP system of Korea is set by the Law of Private Participation on Infrastructure. The Ministry of Strategy and Finance(MOSF) is responsible for the establishment of this law, enforcement ordinance, and general guidance. Competent Authority is in charge of establishment of a basic plan related to PPP and operation of specific facility. This PPP system of Korea is as follows in <Figure 3-6>.



Source: Private participation operation manual

According to the Law of Private Participation on Infrastructure, the main direction and policy regarding PPP are determined by the “Private Participation Project Review Committee” under the Minister of MOSF. The Minister of MOSF is the chairman of the committee, which comprises of the office of the vice Minister of social infrastructure and fewer than eight private members appointed by the Minister of MOSF.¹⁶ The main responsibilities and roles of the Private Participation Project Review Committee are as follows:¹⁷

- Establishment of principal policies regarding private investment on social infrastructure
- Per regulation of article 7, establishment and alteration on private investment basic plan
- Per two of two. 2 of Article 8, Designation of private investment project
- Establishment and alteration of private participation project basic plan satisfying the

16) Article 6 of Act on public-private partnerships in infrastructure

17) Article 5 of Act on public-private partnerships in infrastructure

requirements of the Presidential decree

- Per regulation of article 13, designation of project operator
- Per latter part of regulation of article 47, section 1, administrative measure for public interest
- Per regulation of article 50, annulment of project designation
- Per article 51, 2, section 3, comprehensive evaluation of private invested project
- Other considerations presented by the minister of MOSF for favorable progress of private participation project

Meanwhile, the public & Private Infrastructure Investment Management Center(PIMAC) which is affiliated with Korea Development Institute(KDI) is the support institution for PPP.¹⁸ PIMAC was founded in 2005 through the amendment of the Law of Private Participation on Infrastructure, and the former Private Infrastructure Investment Center of Korea(PICKO), a subsidiary to Korea Research Institute For Human Settlements(KRIHS), founded in April 1999, in line with the Law of Private Participation on Infrastructure (1998) and which had similar responsibilities.¹⁹ According to the Private Investment Project Basic Plan, PIMAC is to perform the following responsibilities.²⁰

- Inception of private investment project, validity analysis and review of analysis outcome
- Support for establishment of private investment project basic plan
- Counsel and review for private sector project proposal and private investment basic plan
- Review and evaluation of project plan or proposal
- Overall negotiation regarding designation of project operator such as conclusion or alteration of implementation agreements or project profit ratio estimation and support for project profit ratio negotiation
- Counsel on concluding or alteration of project implementation agreements, or review of implementation agreements
- Perform Eligibility study for privately-proposed projects with costs over 200 billion Won, and review privately-proposed projects with costs less than 200 billion Won
- Counsel regarding fund replacement, support for mediation in case of disputes, organization of fund replacement advisory committee, support for discussion with the project operator.
- Estimate of profitability at operation commencement, adjustment of profitability per index interest rate change, counsel and review of financial model change from interest rate fluctuation risk sharing
- Advice for foreign investors, domestic and foreign public communication including

18) Article 23 of Act on public-private partnerships in infrastructure

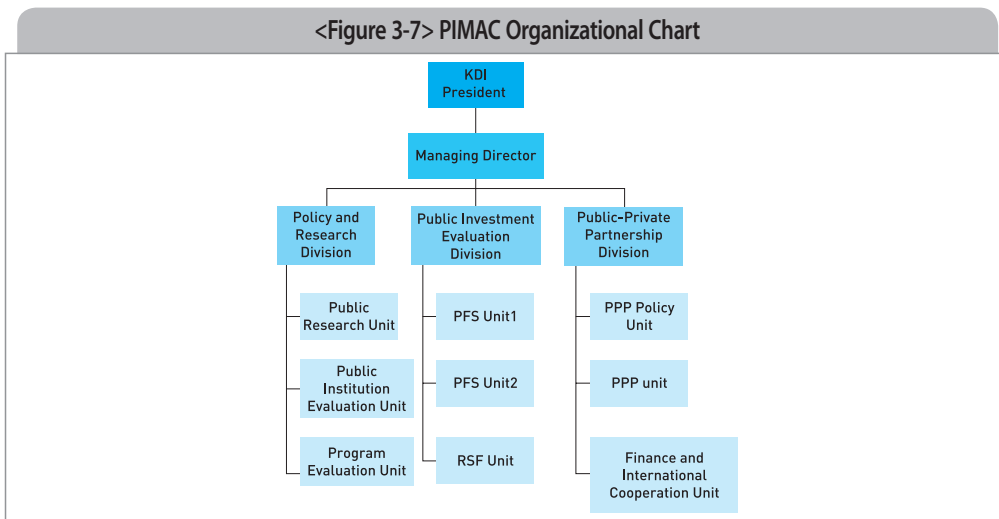
19) Organisation for Economic Co-Operation and Development (OECD), Dedicated Public-Private Partnership Units: A Survey of Institutional and Governance Structure, Paris: OECD, 2010

20) MOSF, the Private Investment Project Basic Plan, 2012

- foreign capital attraction and project presentation hosting
- Educational program regarding private investment project implementation, development and operation of educational program
- Research on improving private investment scheme and related areas
- Statistical reporting and announcement of private investment projects operation state
- Reporting and announcement of detailed advice on private investment project tasks

PIMAC is responsible for the core activities in PPP project implementation, such as pre-validity study, validity re-study, private investment eligibility study, facility project basic plan review, bid evaluation & negotiation support for agreements signing, and review of related guidance and fund replacement, PIMAC performs not only the role of comprehensive supporting institute, but also that of PPP-specialized research institute.²¹

PIMAC's organization comprises 3 divisions and 9 teams, and organizational chart is as follows:



Source: PIMAC Homepage

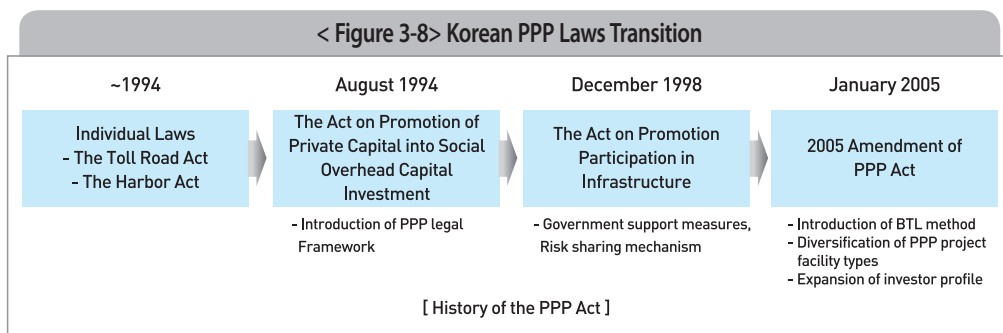
As of September 2012, PIMAC is made up of five personnel at the head office, four at the financial investment evaluation office, three at the private investment evaluation office, two at the public investment policy office, nine at the pre-validity study team 1, twelve at the pre-validity study team 2, four at the performance evaluation team, nine at the private funding policy team, nine at the private project team, nine at the international finance cooperation team, seven at the policy study team, seven at the public institute project team, and seven at the validity re-study team, comprising total of 87 personnel. The yearly budget of PIMAC is around 17 billion Won.

21) <http://pimac1.kdi.re.kr/intro/intro00.jsp>

4.2. Legal Framework of PPP

Before the Act of private capital attraction on social overhead facilities was enacted on August 1994, private projects were executed based on the individual acts, such as the Act on private roads and the Act on harbors. However full-scale private investment on social infrastructures commenced with the enactment of the private capital attraction on social overhead facilities in 1994. In Oct 1998, a comprehensive plan to facilitate private capital solicitation was introduced, In December of the same year, this plan was legalized as the Act of Private Investment on social overhead infrastructure, which effectively replaced the Act of private capital attraction on social overhead facilities. With the enactment of the private investment on social overhead infrastructure act, the Korean government established a legal base, meeting the international standard for private investment.²²

On January 2005, the private investment on social overhead infrastructure act was again revised to the Act on Public-Private Partnerships in Infrastructure, expanding the subjected facilities for private investment from previously social overhead facilities to life facilities, thus enabling private investment on 44 types of facilities. Before the revision of the act in 2005, private projects were mainly focused on Build-Transfer-Operate(BTO), but with the revision of the act, Build-Transfer-Lease(BTL) projects became available, enabling private investment on projects that are difficult to break-even solely from fee collections.²³



Source: MOSF-KDI, better future made together: Private investment projects

After many legal amendments to the act, Korean PPP projects now depend on the Act on public-private partnerships in infrastructure and its enforcement decree. The Public-private partnership act provides the overall systematic frame regarding PPPs planning, implementation, management/operation, supports for investment facilitation, and supervision, while the enforcement decree specifies details granted by the act. The Partnership act of Korea comprises a total of 5 chapters and 65 articles, its enforcement decree, 5 chapters and 41 articles. Structures and main contents are as follows in <Table 3-9>.

22) [http:// www.digitalbrain.go.kr/kor/view/intelligence/intelli02_03_05.jsp?code=DB03020305](http://www.digitalbrain.go.kr/kor/view/intelligence/intelli02_03_05.jsp?code=DB03020305).
 23) [http:// contents.archives.go.kr/next/content/listSubjectDescription.do?id=006460](http://contents.archives.go.kr/next/content/listSubjectDescription.do?id=006460).

<Table 3-9> Act on Public-Private Partnerships in Infrastructure and its Enforcement Decree, Structures and main Contents

Act on Public-Private Partnerships in Infrastructure	Enforcement Decree of the Act on Public-Private Partnerships in Infrastructure
<p>CHAPTER I GENERAL PROVISIONS</p> <p>Article 1 (Purpose)</p> <p>Article 2 (Definitions)</p> <p>Article 3 (Relationship, etc. to Related Acts)</p> <p>Article 4 (Methods of Conducting Public-Private Partnership Projects)</p> <p>Article 5 (Establishment of Public-Private Partnership Review Committee)</p> <p>Article 6 (Composition and Operation of Committee)</p>	<p>CHAPTER I GENERAL PROVISIONS</p> <p>Article 1 (Purpose)</p> <p>Article 1-2 (Infrastructure Facilities)</p> <p>Article 2 (Scope of Financial Institutions)</p> <p>Article 3 (Composition of Public-Private Partnership Review Committee)</p> <p>Article 4 (Operation of Committee)</p>
<p>CHAPTER II INFRASTRUCTURE FACILITIES PROJECTS</p> <p>SECTION 1 : Basic Plan for Public-Private Partnerships in Infrastructure</p> <p>Article 7 (Formulation of Basic Plan for Public-Private Partnerships in Infrastructure)</p> <p>Article 7-2 (Resolution on Aggregate Ceiling of Public-Private Partnership Projects, etc. by National Assembly)</p> <p>Article 7-3 (Modification of Aggregate Ceiling)</p> <p>Article 7-4 (Agreement to Increase, etc. in Limit Amount)</p> <p>Article 8 (Details of Basic Plans for Public-Private Partnerships in Infrastructure)</p> <p>Article 8-2 (Designation of Solicited Public-Private Partnership Project)</p> <p>Article 9 (Unsolicited Project Proposal by Private Sector)</p>	<p>CHAPTER II INFRASTRUCTURE PROJECTS</p> <p>SECTION 1 : Basic Plan for Public-Private Partnerships in Infrastructure</p> <p>Article 5 (Procedures for Formulation of Basic Plan for Public-Private Partnerships in Infrastructure)</p> <p>Article 5-2 (Submission to National Assembly of Total Spending Limits, etc. for Build-Transfer-Lease Projects)</p> <p>Article 6 (Solicited Projects to be Deliberated by Committee)</p> <p>Article 7 (Implementation Process for Projects Proposed by Private Sector)</p>
<p>SECTION 2 : Implementation of Infrastructure Facilities Projects</p> <p>Article 10 (Formulation and Announcement of Request for Proposals)</p> <p>Article 11 (Details of Instruction for Proposal)</p> <p>Article 12 (Proposal for Modification of Instruction for Proposal by Private Sector)</p> <p>Article 13 (Designation of Concessionaire)</p> <p>Article 14 (Establishment of Public-Private Partnership Project Corporation)</p>	<p>SECTION 2 : Implementation of Infrastructure Projects</p> <p>Article 8 (Scope of Instruction for Request for Proposal Requiring Deliberation by Committee)</p> <p>Article 9 (Insignificant Modification of Request for Proposal)</p> <p>Article 10 (Public Announcement of Request for Proposal)</p> <p>Article 10-2 (Solicited Projects whose Basic Design Drawings, etc. should be Offered for Inspection)</p>

Act on Public-Private Partnerships in Infrastructure	Enforcement Decree of the Act on Public-Private Partnerships in Infrastructure
<p>Article 15 (Approval of Detailed Implementation Plan)</p> <p>Article 16 (Divisional Implementation of Public-Private Partnership Projects)</p> <p>Article 17 (Authorization and Permission under Other Acts)</p> <p>Article 18 (Access to Land)</p> <p>Article 19 (Restriction on Disposal of National or Public Property)</p> <p>Article 20 (Expropriation or Use of Land)</p> <p>Article 21 (Implementation of Supplementary Project)</p> <p>Article 22 (Confirmation of Construction Completion)</p> <p>Article 23 (Establishment of Public and Private Infrastructure Investment Management Center for Infrastructure Facilities)</p>	<p>Article 11 (Proposal for Modification of Instructions for Proposal by Private Sector)</p> <p>Article 12 (Submission of Project Proposal)</p> <p>Article 13 (Examination and Evaluation of Project Proposal)</p> <p>Article 14 (Designation of Concessionaire Requiring Deliberation of Committee)</p> <p>Article 15 (Application Period for Approval of Detailed Implementation Plan)</p> <p>Article 16 (Approval of Detailed Implementation Plan)</p> <p>Article 17 (Insignificant Modification of Detailed Implementation Plan)</p> <p>Article 18 (Entrustment of Tasks, such as Land Purchase)</p> <p>Article 19 (Confirmation of Construction Completion)</p> <p>Article 20 (Role of Public and Private Infrastructure Investment Management Center)</p> <p>Article 21 (Organization, etc. of PIMAC)</p>
<p>SECTION 3 : Management and Operation of Infrastructure Facilities</p> <p>Article 24 (Management and Operation of Infrastructure Facilities)</p> <p>Article 24-2 (Preparation of Written Estimation of Government Disbursement for Build-Transfer-Lease Projects)</p> <p>Article 25 (Use of Facilities)</p> <p>Article 26 (Rights to Manage and Operate Infrastructure Facilities)</p> <p>Article 27 (Nature of Management and Operation Right)</p> <p>Article 28 (Change of Rights)</p> <p>Article 29 (Change of Details of Use)</p>	<p>SECTION 3 : Management and Operation of Infrastructure</p> <p>Article 21-2 (Preparation and Submission of Written Estimation of Government Disbursement for Build-Transfer-Lease Projects)</p> <p>Article 22 (Assessment of Total Project Costs, etc.)</p> <p>Article 23 (User Fee)</p> <p>Article 24 (Registration of Infrastructure Management and Operation Rights)</p> <p>Article 25 (Management and Maintenance of Facilities)</p> <p>Article 26 (Change of Facility Use)</p>

Act on Public-Private Partnerships in Infrastructure	Enforcement Decree of the Act on Public-Private Partnerships in Infrastructure
<p>SECTION 4 : Infrastructure Credit Guarantee Fund</p> <p>Article 30 (Establishment and Management of Infrastructure Credit Guarantee Fund)</p> <p>Article 31 (Establishment of Fund)</p> <p>Article 32 (Management of Fund)</p> <p>Article 33 (Accounting and Settlement of Fund)</p> <p>Article 34 (Object, Limit, etc. of Guarantee)</p> <p>Article 35 (Establishment of Guarantee Relation)</p> <p>Article 36 (Guarantee Fee)</p> <p>Article 37 (Duty to Notify)</p> <p>Article 38 (Discharge of Guarantee Obligation)</p> <p>Article 39 (Losses)</p> <p>Article 40 (Rights of Indemnity)</p>	<p>SECTION 4 : Infrastructure Credit Guarantee Fund</p> <p>Article 27 (Operation Standard of Management Institution)</p> <p>Article 28 (Management of Fund)</p> <p>Article 29 (Ceiling on Guarantee)</p> <p>Article 30 (Guarantee Fees)</p> <p>Article 31 (Claim for Performance of Guarantee Obligation)</p> <p>Article 32 (Scope of Subordinate Debt)</p> <p>Article 33 (Damage)</p>
<p>SECTION 5 : Infrastructure Facilities Fund</p> <p>Article 41 (Purposes of Establishment of Infrastructure Fund)</p> <p>Article 41-2 (Equity Capital of Infrastructure Fund)</p> <p>Article 41-3 (Acceptance and Payment for Stocks by Promoters in Case of Promoted Establishment)</p> <p>Article 41-4 (Subscription, etc. for Acceptance of Stocks in Case of Recruited Establishment)</p> <p>Article 41-5 (Loans of Funds and Issuance of Bonds)</p> <p>Article 41-6 (Consultation, etc. on Registration of Infrastructure Fund)</p> <p>Article 41-7 (Conditions on Issuing New Stocks)</p> <p>Article 41-8 (Listing Stocks)</p> <p>Article 41-9 (Supervision and Inspection of Infrastructure Fund, etc.)</p> <p>Article 42 (Prohibition of Side Trade)</p> <p>Article 43 (Scope of Asset Management)</p> <p>Article 44 (Relation with Other Acts)</p>	<p>SECTION 5 : Infrastructure Facilities Fund</p> <p>Article 34 (Capital, etc. of Infrastructure Fund)</p> <p>Article 34-2 (Explanation Note and Subscription Note for Stocks)</p> <p>Article 34-3 (Borrowing of Funds and Issuance of Bonds)</p> <p>Article 34-4 (Report on Assets of Infrastructure Fund)</p> <p>Article 34-5 (Conditions on Issuing New Stocks)</p>

Act on Public-Private Partnerships in Infrastructure	Enforcement Decree of the Act on Public-Private Partnerships in Infrastructure
<p>CHAPTER III SUPERVISION</p> <p>Article 45 (Order of Supervision)</p> <p>Article 46 (Disposition of Violation of Acts and Subordinate Statutes)</p> <p>Article 46-2 (Limitation of Qualification for Participation in Public-Private Partnership Project on Unjust Concessionaire)</p> <p>Article 47 (Disposition for Public Interest)</p> <p>Article 48 (Hearing)</p> <p>Article 49 (Measures concerning Cancellation of Concessionaire Designation)</p> <p>Article 50 (Cancellation of Designation of Such Solicited Project)</p> <p>Article 51 (Reporting and Inspection)</p> <p>Article 51-2 (Submission and Evaluation of Actual Results, etc. of Promotion of Public-Private Partnership Projects)</p>	<p>CHAPTER III SUPERVISION</p> <p>Article 35 (Order for Supervision)</p> <p>Article 35-2 (Restriction on Eligibility of Unlawful Business Entities Participating in Public-Private Partnership Projects)</p> <p>Article 35-3 (Evaluation, etc. of Results of Promoting Public-Private Partnership Projects)</p>
<p>CHAPTER IV SUPPLEMENTARY PROVISIONS</p> <p>Article 52 (Investment by Public Sector)</p> <p>Article 53 (Financial Support)</p> <p>Article 54 (Introduction of Foreign Loan)</p> <p>Article 55 (Special Case of Dividends)</p> <p>Article 56 (Reduction and Exemption of Charges)</p> <p>Article 57 (Reduction and Exemption of Tax)</p> <p>Article 58 (Issuance of Infrastructure Bond)</p> <p>Article 59 (Grant of Buyout Right)</p> <p>Article 60 (Deliberation over and Responsible Supervision of Design of Reversible Facilities)</p> <p>Article 61 (Delegation of Authority)</p>	<p>CHAPTER IV SUPPLEMENTARY PROVISIONS</p> <p>Article 36 (Investment by Public Sector)</p> <p>Article 37 (Financial Support)</p> <p>Article 38 (Issuance of Infrastructure Bond)</p> <p>Article 39 (Grounds for Recognition of Buyout Right)</p> <p>Article 40 (Procedures for Exercise of Buyout Right)</p>
<p>CHAPTER V PENAL PROVISIONS</p> <p>Article 62 (Penal Provisions)</p> <p>Article 63 (Penal Provisions)</p> <p>Article 64 (Joint Penal Provisions)</p> <p>Article 65 (Fines for Negligence)</p>	<p>CHAPTER V PENAL PROVISIONS</p> <p>Article 41 Deleted.</p>
<p>ADDENDA</p>	<p>ADDENDA</p>

Source: MoFep, Ghana

Apart from the partnership act and the enforcement decree, the implementation of Korean PPP projects is based on annual PPPs fundamental plan. The plan is drafted by the MOSF in consultation with related offices, per enforcement decree article 5, and deliberated and determined by the PPP Deliberative Committee. In accordance with enforcement decree article 5, PIMAC is responsible for supportive tasks in drafting the fundamental plan. Therefore once core political direction has been determined by the PPP deliberative committee, MOSF decides on the direction of the fundamental plan considering the circumstances of the year and PIMAC draws up the detailed plan.

Legal particulars to be included in the annual private investment projects fundamental plan are as follows:²⁴

- Direction of private investment policy for each sector of social overhead facilities
- Details on the investment scope, methods, and conditions of private investment projects or projects subjected for private investment
- Details on management and operation of private investment projects
- Details on support of private investment projects
- Miscellaneous policy details relating to private investment projects

The 2012 Private Investment Project Basic Plan, established by the MOSF according to the above legal specifics, includes core policy direction of private investment system, implementation focus of each sector, 2012 main investment plan of each sector, and general guidelines regarding PPP development (investment model, government subsidy estimate of lease type PPP, reasonable sharing of project funding and risk, primary action agency and project operator, PPP management and operation, dispute prevention and resolution, PPP development procedure).²⁵

4.3. PPP Training Program to Enhance Management and Operations Capabilities

PPP requires many steps such as project identification, bidding, evaluation, negotiation, and contract; PPP staff requires understanding of the nature of PPP, along with knowledge on demand projection, finance, and related regulations. To improve PPP's staff understanding of responsibilities and smooth business operation, PIMAC develops and conducts PPP related educational program for the relevant authorities public officers, financial institutions, and private working personnel. This function of PIMAC is also prescribed in Article 20 of the Role of Public and Private Infrastructure Investment Management Center, Enforcement decree of the Act on public-private partnerships in infrastructure, amended March 8, 2005.

²⁴) Article 6 of Act on public-private partnerships in infrastructure

²⁵) MOSF, Private Investment Projects Fundamental Plan", MOSF Notice No. 2012-72, 2012

Currently PIMAC has undertaken a total of 19 sessions of lectures on PPP related educational program between 2006-2009 in Korea. PIMAC offers a comprehensive educational program on private investment targeting Korean civil servants. The education curriculum contains basic, intensive and other courses.²⁶

PPP related educational programs operated by PIMAC can largely be classified into basic program for relevant government officials, advanced program, and miscellaneous program.²⁷

4.3.1. PPP Basic Educational Program

PPP basic educational program is conducted two to three times a year to PPP working officials. Korean government officials rotate their position every two to three years. Such a rotation assignment system assists in corruption prevention and gaining various working experience, but limits specialism. As PPP demands various procedures, comprehension and knowledge of various sectors, PIMAC provides education programs for newly assigned public officials to enhance their skills. PPP's basic educational program improves the understanding of PPP for public working staff and introduces current issues and future policy direction of PPPs, promoting smooth operation of government PPPs. The main curriculum of basic program includes introduction to PPP and policy direction, PPP development procedure, understanding of validity and suitability evaluation, know-how to drafting facilities projects fundamental plan and projects plan evaluation, main issues of negotiation and implementation agreement, guidelines on core documents drafting and submission. These comprise the basic contents that should be understood by each government PPP officials for each step of PPP implementation.

4.3.2. PPP Advanced Educational Program

PPP advanced education comprises a comprehensive curriculum covering overall PPP systems, demand projections, cost measurements, related regulations, and financing for those officials who have completed the basic program. Advanced education is conducted two to four times a year, and targets invited specialists of each field. Each session lasts for four to five days. The program enhances the degree of understanding of working staff by introducing the main issues and future policy direction of PPP, case studies, and site visits. This leads to the experiences sharing of related to PPP and a smooth training. A significant portion of the advanced program throughput demands further programs relating to financial and legal issues for projects approval contract, Advanced programs for financial factor analyses were developed and have been provided since 2008.

26) KDI & ADB, *Public-Private Partnership Infrastructure Projects: Case studies from the Republic of Korea, 2011*
27) *Ibid.*

4.3.3. PPP Miscellaneous Educational Program

In addition to basic and advanced educational programs, regular seminars and educational sessions on various topics are conducted. In September 2006 and February 2007, PIMAC held workshops introducing BTL projects operation and new systems, also in August 2007, PPP DB system (Infra Info) operational techniques and methods sessions were provided for working staff. Also, PPP senior-official level workshops are held to share and discuss PPP experiences and to introduce PPP core issues and policy direction. PIMAC provides an educational program, not only for public officials but also for private businesses. The purpose of private operators' education lies in promoting smooth PPP development by providing insight into current issues and future policy direction of PPPs. The educational program mainly deals with an introduction to the PPP system, a PPP validity and suitability evaluation, a PPP funding analysis, and the connection between EDCF and PPP.

PPP educational programs, operated by PIMAC, had throughput of had 185 personnel in 2006, the first year of operation. The number increased to 799 in 2009, totaling 1,943 personnel who completed the program for the period of 2006 to 2009. Educational programs have expanded gradually, and as of November 2012, 9 educational sessions have been conducted for 776 personnel. Such programs are contributing directly and indirectly to a better understanding of PPP operational know-how by working personnel.

As the PPP program becomes widely used and becomes a part of tools to enhance infrastructure in Korea, demand to learn about Korean PPP program from developing nations is increasing. As such, the Korean government formerly requested PIMAC to share their knowledge via offering education program and conducting seminars and conferences that provides consulting and directions.²⁸

5. Policy Suggestion and Recommendations for Ghana

5.1. PPP Systems

To establish and manage the infrastructure necessary for national development to work more efficiently, PPP operational organizations perform an absolutely vital role. Although specific functions of PPP operative organizations are somewhat dissimilar from country to country, they are responsible for overall administration of PPP related national core policies, and their establishment, development, planning, execution and management.²⁹ However, in the case of Ghana, the PPP operational organization was set up in 2010, it lacks clear a legal basis for its

28) KDI & ADB, *Public-Private Partnership Infrastructure Projects: Case studies from the Republic of Korea*, ADB, 2011
29) Organisation for Economic Co-Operation and Development (OECD) (2010). *Dedicated Public-Private Partnership Units: A Survey of Institutional and Governance Structure* (Paris: OECD)

functions and responsibilities and falls short of capabilities and resources. These have resulted in utterly inadequate conditions that prevent organizations from performing the functions and responsibilities of leading PPP countries. In particular, according to the classification of national PPP development system defined by the UN(2008), Ghana's PPP system and operational organization seems to be between the 1st and the 2nd stage of development. Still actual cases of Ghanaian PPPs fail to commence as national level projects, and considering the state of the national PPP system in 2012, it should be evaluated as being in the first stage. Therefore the core task underpinning the success of the Ghanaian PPP would be to choose the right method to institutionalize the Ghanaian government-led PPP system in its initial stage.

< Figure 3-9> Korean PPP laws transition

Stage One	Stage Two	Stage Three
<ul style="list-style-type: none"> · Define policy framework · Test legal viability · Identify project pipeline · Develop foundation concepts (PSCs etc) · Apply lessons from earliest deals to other sectors · Start to build marketplace 	<ul style="list-style-type: none"> · Introduce legislative reform · Publish policy and practice guidelines · Establish dedicated PPP units · Refine PPP delivery models · Continue to foster marketplace · Expand project pipeline and extend to new sectors · Leverage new sources of funds 	<ul style="list-style-type: none"> · Fully defined, comprehensive "system" established · Legal impediments removed · PPP models refined and reproduced · Sophisticated risk allocation · Committed deal flow · Long-term political consensus · Use of full-range of funding sources · Thriving infrastructure investment market involving pension funds and private equity funds · Well-trained civil service utilises PPP experiences

Source: MOSF-KDI, better future made together: Private investment projects

As explained above, the Ghanaian PPP development system is the responsibility of the Public Investment Division(PID) a subsidiary of the Ministry of Finance and Economic Planning(MoFEP). Taking a functional perspective, the PPP offices of MoFEP are responsible for almost every process of PPP, such as policy establishment, financial analysis including project validity evaluation, and capabilities reinforcement. These can be regarded as performing similar roles for both Korean MOSF and PIMAC simultaneously. However, apart from the legal functions, as for 2012, the mere size of the organization with less than 20 personnel and inadequate capabilities, is utterly incapable of performing its expected functions. As Ghana lacks the experience of central government-led PPP development, it is unclear how the current PPP system would operate efficiently and effectively. Not only is the issue of personnel and funding deficiency being questioned, but also the ability of main institutions, such as MoFEP and PID, to execute PPP fairly and independently with expertise is also in doubt. This can be seen especially in the issue of independence and neutrality in PPP policy decision and implementation with regards to the situation in which the Ghanaian government's policy decisions regarding the allocation of main national resources are largely affected by external political pressure. If fairness, independence, and objectivity are

not maintained in identifying and implementing PPP, it can aggravate the financial burden on the government, This can also make projects deteriorate by causing corruption and perceived favoritism to specific private business, which ultimately leads to a high possibility of transferring the cost of inefficiency to the people.

In order for the PPP system to succeed, various conditions are required as follows: ³⁰

- Clear legal and regulatory statement about the functions and responsibilities of PPP organization
- Efficient PPP organizational structure
- Sufficient personnel and budget for proper functions and responsibilities execution
- High Capabilities of personnel and organization dedicated to PPP
- Political and Social support for PPP system
- Independence, fairness, and political neutrality of PPP system
- Capabilities of PPP related public institutions and private sectors

From the above requirements, legal regulations should be contained in the PPP Act planned to be enacted in 2013. Concerning other conditions, the government should consider the following;

- Efficient PPP organizational structure, operational fairness, political neutrality, and independence: If political independence and neutrality are not granted in PPP policy decision making and execution, the current core structure, which is composed of PID subsidiary to MoFEP may not be adequate. Therefore, it is necessary to separate the PPP policy developing function from implementation and supervision functions. For example, the separation of functions in MOSF and PIMAC of Korea can be an alternative solution. Simultaneously, to secure political neutrality and independence in the whole PPP process, it is imperative to grant the functions of projects evaluation and supervision to a separate body such as the supreme audit institution.
- Funding for PPP working personnel and capabilities of personnel and organization: The most urgent issue in PPP implementation is adequate personnel support and capabilities enhancement. It is difficult to estimate the necessary size of PPP working staff and budget as the scope and size of national PPP projects are yet to be determined. However, it is difficult to expect the current office, with a size of less than 20 personnel, to handle effective functions and responsibilities. With this situation in mind, alternative actions of the Ghanaian government include employing outside experts via contracts. When employing experts, both domestic and foreign personnel, should be considered and the cost may be met by sourcing either internal finance or with foreign grants. For instance, international institutions, such as the World Bank and AFDB, have an active interest in supporting Ghana's PPP. Also, the government of Korea may extend its foreign grant fund. In the short run, recruiting

30) Farrugia, C., T. Reynolds and R.J. Orr, "Public-Private Partnership Agencies: A Global Perspective", OECD, Dedicated Public-Private Partnership Units: A Survey of Institutional and Governance Structure, Paris: OECD, 2010

outside experts can resolve the problem of insufficient personnel and budget while, in the long run, it can facilitate the capability of the organization by skills transfer to local staff.

- Political and Social support for the PPP system: For the success of PPP, it is essential to gain support from the President and the Parliament to obtain overall agreement and support from the people of Ghana. Political support is closely related to the above mentioned financial and personnel support for PPP and political neutrality and independence. With regards to social support, in cases of profit-oriented projects such as BTO, its fee collection can lead to a burden on the user(the people), therefore, public understanding and support for PPP is important for successful project operation and management. Above all, to gain political and social support, the inevitability of PPP for national economic development, clearness of mid to long term PPP plan, expertise, fairness, and objectiveness of PPP implementation must be guaranteed.
- Capabilities of PPP related public institutions and private sectors: Participation of private bodies and capabilities of the implementation office that manages specific projects is vital to PPP. Regarding the capabilities of the private sector, understanding the direction of government PPP projects, their strategy, and structure is of utmost priority, together with clear comprehension of PPP legal and regulatory statements(enforcement degree) and implementation process. Thus, the PPP operational office should prepare a program which can aid the understanding of the private sector. Capabilities of public institutions include the competent authorities'(central government offices, regional government) own mid to long term PPP development plan and discovery and economic validity analysis. Considering the current development stage of the Ghanaian government, PPP related public institutions and private sector capabilities cannot be improved within a short timeframe, hence cooperation with external expert groups and opportunities for oversea grant-aid should be actively utilized.

5.2. Legal Framework of PPP

In order to facilitate PPP, laws and enforcement decrees should be predictable and consistent, especially in order to gain the trust of the private investors. UN(2008) suggests the following as basic direction and implementation principle of PPP laws:

- Protection of the right of investors to dispose of assets
- Minimal and simple clauses
- Business friendly law enforcement
- Promoting effectiveness of the judiciary in law enforcement regarding contracts
- Adequate review of areas most affected in PPP implementation(land use right, tax, procurement, etc.)

In Ghana, the PPP act was drafted with the goal of enactment in 2013. However, since the draft

is not open to the public yet, adequacy of structure and the detailed clauses are unconventional. However, according to the 2012 report of the consulting firm specializing in Ghana PPP Act, AB & Davis and Norton Rose, the draft of the Ghana PPP Act is somewhat similar to the Korean PPP Act. The biggest difference between the draft of the Ghana PPP Act and the Korea PPP Act is believed to be the exclusion of clauses concerning credit guarantee funds and infrastructure investment funds. Clauses of the Korean act on credit guarantee funds and regulation of the infrastructure fund are intended to improve private investment capacity through government guarantees and to facilitate private participation by guaranteeing indirect investment opportunity through an infrastructure fund investment firm. A credit guarantee scheme should be proactively introduced into Ghana, since the private capital market is insufficient to provide the required capital for active private investment in PPP projects. Currently, Ghana's capital market has an excessively high interest rate, suppressing private investment that is dependent on private financing. Therefore, should the government create a credit guarantee fund, as in the case of Korea, to support private business, it would lead to more active investment.

5.3. PPP Management and Operations

The preparation stage of PPP requires the capabilities of project discovery and project validity analysis. At the procurement stage, capabilities for negotiation and after project implementation, monitoring and evaluation are required, These are comprehensive and specialized capabilities that cannot be bred within a short period of time.³¹ The most direct method in developing PPP capabilities is specific educational training in identified required capabilities. In Ghana, the PPP Advisory Unit(PAU) subsidiary to MoFEP PID is responsible for PPP capabilities enhancement, however the central government lacks the operational experience of a PPP capabilities development program, and thus, no such program exists. For this reason, to improve PPP capabilities for Ghana, it is urgent to equip the office in charge(PID of MoFEP) with the required capability at the earliest possible time, and simultaneously develop the educational training programs to improve the capabilities of public institutions and the private sectors. The scope and focus of the PPP education program may be broad depending on the nature of project, but Ghana needs to start with the development and operation of PPP basic educational programs. <Table 3-10 > details the fundamental knowledge and capability for the whole process of PPP preparation and execution, and based on this basic structure, a detailed training program should be devised.

31) United Nations, Guidebook on Promoting Good Governance in Public-Private Partnerships, UN: New York, 2008.

<Table 3-10> PPP Capability Improvement Program (draft)

PPP concepts, Rationale, and Contractual Options

- Overview of the forms of PPPs
- The global experience with PPP and SADC examples
- New variations on PPP, including output-based aid
- Case Study

Project Appraisal and Feasibility Studies

- Objective and key elements of feasibility studies
- The 'value of money' and 'public sector comparator' concepts
- Criteria for screening projects
- Managing and allocating risks in PPP
- Engaging consultants to assist with the PPP process

Project Finance and Investment Analysis

- Options for financing PPPs
- The rationale of a project finance approach
- The challenges of project finance for PPP, including currency devaluation, the need for guarantees, and special considerations for donor-financed projects
- Case Study and Simulation

The procurement Process

- The various forms of procurement including competitive bidding, competitive negotiations, and sole sourcing
- Methods for structuring bid evaluation criteria
- Maximizing transparency in the procurement process
- Case study

Communications and Stakeholder Relations

- Methods for managing stakeholder relations
- Structuring a communications program
- Addressing the human resources and labor relations implications of PPP
- Case study

Contract management, Monitoring and Evaluation

- Using the PPP contract as a regulatory instrument
- Establishing an independent regulatory framework for PPP
- The forms of economic regulation, including price cap and rate-of-return
- Monitoring contractors' performance through key performance indicators (KPIs)
- Case study

Source: IMF - World Economic Outlook, October 2012

PPP capability improvement should be sustained consistently as the environment for PPP projects changes and this should be supported with a significant amount of funding and time. Considering the lack of experience and funds in Ghana, self-enhancement of PPP capability is practically limited, thus initially there is need for the support and cooperation from outside PPP expert groups, especially from overseas experts. In Korea, PIMAC is responsible for PPP capability improvement, and programs in operation are divided into basic and advanced courses. Therefore more effort should be made to cooperate with overseas PPP improvement agencies including PIMAC. Sourcing for the required funding from foreign grant-aids is believed to be the right alternative solution.

6. Conclusion

Amongst Sub-Sahara African nations, Ghana has shown moderate progress in democracy and robust economic development. It has also demonstrated higher national economic development potential than other African nations. In order for Ghana to sustain its economic development growth, it is imperative to secure the backbone of economy, infrastructure. However, the national infrastructure of Ghana does not yet meet the required level for further economic growth and the government lacks the capacity to fully take advantage of previously found infrastructure via management and operation. With this situation, the strategy is important to fully utilize private investment to attain the required infrastructure and to maximize efficiency of the private sector and promote economic development.

The Ghanaian government is fully aware of the current situation and recently set up a division dedicated to the PPP and is in the process of enacting related laws and regulations. However Ghana's PPP system is at the initial set-up stage, and the priority is successful legalization. The most important tasks in institutionalizing a PPP system is reasonable and efficient organization of the PPP agencies, predictable and sustainable legislation of laws and regulations, and PPP management capability. In order to organize PPP agencies, clear roles and function differentiation of PPP, a plan to secure fair operation, political neutrality and independence of PPP agencies, sourcing funds for personnel dedicated to PPP, capabilities enhancement of personnel and organization, securing political and social support for the PPP system, and lastly developing the capabilities of PPP related public institutions and private sectors should be the foci for consideration. With regard to PPP legislation, it is necessary to establish a system to increase private investment capacity and to facilitate private participation as exemplified in the credit guarantee fund and infrastructure investment fund of Korea. PPP management capability enhancement should include not only PPP institutions but also PPP projects administrative offices and private business operators which require the development and execution of educational programs. PPP capability improvement will require significant time and funding for which the government is unable to adequately provide. Therefore to effectively establish a PPP system and improve capabilities, government should actively utilize overseas experts, in addition to seeking foreign grant-aid in the process.

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Improving Civil Servant Training System to Develop Innovative Leadership

1. Introduction
2. Current Status of Civil Servant Training System in Ghana
3. Current Status of Civil Servant Training System in Korea
4. Comparative Analysis of Training System between Ghana and Korea
5. Policy Recommendation
6. Conclusion

Improving Civil Servant Training System to Develop Innovative Leadership

Ji woong Yoon (Kyung Hee University)

Summary

The fourth subject is searching for a way of improving the civil servant training system to develop innovative leadership, which is crucial for government performance, and eventually national economic development. To do so, we analyze the civil servant training system of Ghana from three aspects: organizational structure, budget system, and the type of training programs.

Central civil servant training organizations in Ghana are established in two different groups based on the types of civil services that need to be provided. One group is a group of institutions responsible for educating low and middle level civil servants, which are CSTC, GSS and ITS. The other one is GIMPA which provides training for high-level government officials. GIMPA is a privatized education institution in which the Ghanaian government requires mid-level government officials to take mandatory training course to get promoted to the high-level positions.

The Ghanaian government runs a distributed budget system for civil servant training. Although the OHCS is in charge of civil servant training of the Ghanaian central government, the OHCS does not have its own sufficient budget for program development and internal capacity development. The training budget is allocated to each department to meet their needs and each department pays for the training programs which what OHCS provides. Therefore, it is necessary to secure an adequate budget solely for the OHCS to develop well-established training programs and build internal capacity.

In terms of the training programs, it can be concluded that the basic object of the training program is the same for both countries. However, In the case of external training programs by private institutions, the program is restricted to a master degree's program in public administration in Ghana. So, it is recommended that the program should be more internationalized and diversified to cultivate global capability and innovative leadership. Moreover, it is vital to provide more opportunities for training internationally and locally.

Finally, the Ghanaian government has to link promotional and personnel incentive for well-trained public officials to allow them to demonstrate leadership, which will ultimately lead to the development of Ghana.

1. Introduction

1.1. Importance of Innovative Leadership

Since, Schumpeter conceptualized innovation as a value creating process of forming and implementing new ideas, and combining or recombining existing ideas, Innovation has been acknowledged as an essential activity for organizational performance, and economic development.

Innovation has been attempted in various ways and in various fields, including public and private sectors, to improve performances and create values. Particularly, innovation can be an activity which improves cost, quality, service, and speed dramatically through reconsidering and redesigning the existing working procedures.

To realize and foster innovative activities, entrepreneurship was pointed out to be a vehicle to lead and achieve innovation effectively. Hence, so-called innovative leadership could be an aspect of entrepreneurship. If the leader with innovative leadership creates and carries out a new policy, the government performance is likely to be linked with economic and social development at the end.

Ghana, one of the rising economies in Africa, recognizes the importance of innovative leadership development which is necessary for creating and executing policies to help the country to develop in a rapidly changing economic and social environment.

1.2. Need for Effective Civil Servant Training Program

How can we make the top government officials to have and make use of so-called "innovative leadership", when designing and implementing policies? One way is to establish an effective civil servant. In particular, we need to establish an effective training system for the mid-level

29) Choi Seung Bum, 2004
30) Schumpeter, 1921

government officials to develop innovative leadership, and give them a chance to contribute to the development of Ghana.

Establishing a training system that can ensure the development of innovative leadership is necessary for maintaining productivity and economic development, although the type and content of leadership training for the mid-level government officials can vary depending on the stage of national development and the environment. Assuming the government shares such a perspective, we believe it is necessary to improve the training system in a number of ways so that officials can attain innovative leadership both during, and after economic and national development. Hence, this paper focuses on the training of mid-level civil servants, who are the main targets for the cultivation of innovative leadership.

In order for an organization to survive in the long-term, acquisition of knowledge and skills to adapt to the environmental changes is needed. In today's information-oriented society, marked by rapid social change, citizens demand high-quality administrative service. In order to manage these changes, behavior adjustment and a flexible organization are required in the government as well. In particular, to facilitate the innovative leadership necessary to respond to the rapidly changing environment, training for government officials needs to be approached from the perspective of life-long education. In line with this, reform in the civil servant training system seems to be directly connected to the development of innovative leadership, and eventually the economic development of Ghana.

First, effective training of the government officials is directly related to the increase of productivity. Training that provides the required knowledge, skills and attitude for performing one's job and changing one's perspective improves administrative efficiency, quality of service and one's performance. Secondly, building an effective training system helps in human resource management. In other words, with an effective training system, an organization can deal with sudden changes or modification in personnel more easily. In addition, with such a system, an organization can easily cope with manpower shortage. Thirdly, training reduces monitoring costs through self-control and improvement of adjustment.

Furthermore, training can rectify the malady of bureaucracy such as formalism, peace-at-any-price principle and lack of creativity. Training will lead to cooperation and a reduction of the manager's control. From an organization's perspective, cost can be reduced through regulation and supervision, and from an individual's perspective; one can experience psychological satisfaction through self-control and self-adjustment.

Lastly, training increases job satisfaction and provides an opportunity for career development. In particular, an improvement in an individual's skills through training can raise confidence in performance and inspiration. Also, one can receive a degree or certificate through the training institutions, leading to a sense of accomplishment. In the past, training put emphasis on improving current abilities. However, nowadays, it extends to the development of long-term skills. As men-

tioned above, establishing and managing an efficient training program is an effective means of promoting consistent development for organizations and individuals in the long term.

In order to achieve this goal, this paper provides comparative analyses between Ghana and Korea, which show Ghana a room for improvement in training mid-level government officials. In particular, we first compared the Ghanaian civil servant training system from three perspectives: organizational structure, budget and program. And next Ghanaian civil servant training system is compared with Korean civil servant training system. In addition, we conducted a survey that attempts to identify the needs and shortcomings of the Ghanaian training system. Finally, recommendations for improving the training program for cultivating innovative leadership will be made. This will cover the agency that is in charge of training civil servants, their budget and educational programs.

1.3. Analysis Method for Ghanaian Civil Servant Training

According to academic business theory, most researchers examine organization structure, budget and system or program to analyze specific system in a country. Therefore we analyzed organization structure, budget and program first and then compared Ghanaian civil servant training system to Korean's training system. For a more practical analysis, the report should include demand survey, an instructor in training, and human resource management. However, because of the limits of data availability, we focused on these three main aspects on training. Additionally, our KSP team used the comparative analysis method to compare the civil servant training system of both countries.

2. Current Status of Civil Servant Training System in Ghana

2.1. Overview of Civil Servant Training

Indeed, up until 1960, no formal institutional training was given for new entrants to senior posts in the civil service. There are a number of reasons for this. In the first place, the Ghana Civil Service had its origins in the machinery created by Britain to consolidate its colonial administration and to execute its colonial policies in this part of Africa.

According to a director at the Training and Manpower Development Division of OHCS, before the CSRP the training division was on the verge of collapse. There was no permanent head for several years. In addition, syllabi for the civil service owned training institutions(CSTC, GSS, ITS) had not been revised for over ten years before Civil Service Reform Programme induced reforms in 1987. Furthermore, these institutions, as well as the Training and Manpower Division of the OHCS, lacked the necessary manpower. There was no systematic training policy. After CSRP, an analysis of training needs was carried out to ascertain the shortcomings and to

determine which areas needed to be emphasized in order to equip the service with the skills and knowledge required to make it an effective instrument for socio-economic administrative reform and long-term development.

2.2. Organizational Structure

Training in the Ghana Civil Service has been organized into three parts: central training by the OHCS, local government officers' training, and outsourced training by GIMPA. However, local government officers' training, which is not under the OHCS, is not included in this report.

Looking closely at the civil service training institutions, the country has three training institutions under the OHCS made up of the Civil Service Training Centre, Government Secretarial School and the Institute of Technical Supervision. All of these institutions provide civil service training specific to civil service. The purposes for the OHCS, the three training institutions under OHCS and GIMPA are detailed below.

A. Office of the Head of Civil Service

OHCS was formerly the Colonial Service in the Gold Coast when the country was a British Colony. It was reborn as OHCS in accordance with article 190(1) of the 1992 Constitution. As the civil service training headquarters, OHCS is responsible for the development of civil service training policy and management of civil service training programs, running training programs and developing training policies for experienced civil servants, MDAs and MDA related institutions. In 2012, OHCS was in charge over 23 ministries, 2 specialized departments, and 48 departments agencies.

B. Civil Service Training Centre

CSTC was established in 1953 with the goal of low and middle level civil servant capacity building. CSTC provides general training programs for new entrants and the occupational group of civil servants. In 2012, CSTC provided 70 programs on six topics (Public Policy and Governance, Leadership and Management, Office Administration, Personal Development and Effectiveness, Job Commencement, Progression and Succession, Programs for International Participants).

C. Government Secretarial School

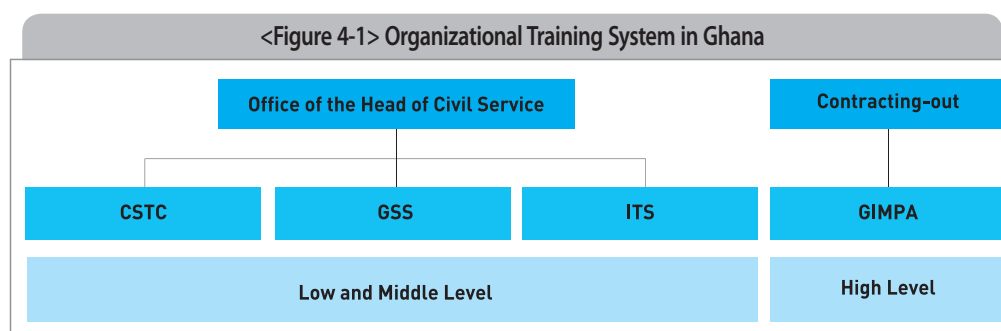
GSS was established in 1952 by the British Colonial government to cultivate secretarial level civil servants with the aim of enhancing civil service through training secretaries, stenographer secretaries, senior private secretaries and data typists. In spite of being affiliated to the OHCS, GSS is an institution for the secretarial grade. It is the only training institution operating satellite campuses at Koforidua, Kumasi, Sekondi, Ho and Tamale. The training target is low and middle level civil servants on the secretarial grade.

D. Institute of Technical Supervision

The Institute of Technical Supervision (ITS) was established in 1958 by the then government to develop indigenous manpower to support its industrialization policy. ITS aim was the enhancement of Technical Supervisory Management in civil service and promotion of an effective civil service through the cultivation of professional manpower fit for industrialization. Furthermore, it trains management in the Civil Service, enabling them to contribute effectively to Technical Supervision of Government Projects. The training targets low and middle level civil servants on the technical supervision grade.

E. Ghana Institute of Management and Public Administration

GIMPA, an institution providing outsourced training to the Civil Service, was established in 1961 and funded by Ghanaian Government and the United Nations. GIMPA was set up to help in the development of the civil service and was turned into private institution when funding from the United Nations stopped. Currently, GIMPA runs six departments including the Business School, School of Governance, Leadership and Public Management, School of Technology, GIMPA Public Services School, and GIMPA Law School GIMPA Consultancy Services and the Public Service School which is being run with the cooperation of the Ghana government. The target of GIMPA Public Services School is senior civil servants who are required to complete its programs for promotion.



Source: OHCS Information, Samjong KPMG ERI

2.3. Budget System

The budget for civil service training is consolidated and comprised of budget of OHCS, MDAs, Government and Collaboration with Development Partners.

First, with the budget of OHCS, the Chief Director of OHCS who is in charge of budget allocation and the Director of Recruitment, Training and Development Directorate (RTDD), which is in charge of training planning and training needs, is allocated the budget. However, the budget is used for the maintenance of the training facilities or training for the staff and lecturers' instead of

training for the civil servants. Also, the allocated budget is used for the development of training programs and internal specialist training to develop professionals in personnel administration.

Second, MDAs allocate 1~2% of the annual total service budget for the training of their officers. The allocated budget is reallocated to OHCS by the Head of MDAs and OHCS who provide training for the MDAs' officers.

Third, the budget from Collaboration with Development Partners is made by request of the government or a project at the national level, and the budget is then used for expanding training infrastructure and training resources. The collaboration with Development Partners for training is as provided below

<Table 4-1> Collaboration with Development Partners in Ghana

Collaboration with Development Partners
French support to the Ghana Public Sector Reform(GPSR)
Japan International Cooperation Agency(JICA)
Commonwealth Secretariat, U.K.
University of Ghana Business School, Legon-Accra
Ghana Central Government Project, Canadian International Development Agency(CIDA) and Institute of Public Administration(IPAC)
School of Public Administration, Ghana Institute of Management and Public Administration(GIMPA)
Accra Institute of Technology(AIT)

Source: The Training & Development Policy of Ghana Civil Service and Guideline for Implementation

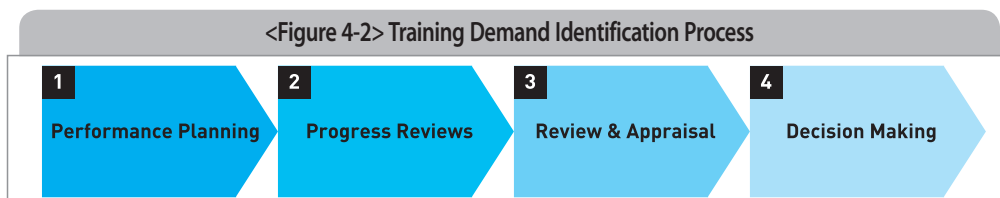
According to interviews held during the Policy Practitioners Workshop, the biggest challenge in civil service training in Ghana is expanding the training budget. Interviewees revealed that it is difficult to satisfy training demand with the limited training budget. Also, the training budget from MDAs or other agencies is 1~2% of their total budget, so it is inadequate in meeting training demand. Indeed, the total budget for training was approximately GH¢417,500 Ghana Cedi (\$220,900) in 2011, and a number of training programs were cancelled because training demand exceeded the training budget.

2.4. Training Program

2.4.1. Process of Training Demand Identification

For the last 10 years, Ghana's performance evaluation for training needs assessment has changed and has been designed to contribute to the enhancement of the Civil Service. For this reason, this report includes the civil servants' performance evaluation as an important factor for training needs assessment.

After implementing the Civil Service Reform Program (CSRP), the government prioritized performance appraisal as a means of providing an effective and consistent civil service. The framework of the performance appraisal is the Staff Performance Appraisal Form of the Public Service Commission, which is in charge of policy planning and formulation in the civil service. The performance appraisal process is divided into four parts: Performance Planning, Progress Review, Review and Appraisal and Decision-Making. Afterwards, reward, training, promotion and counseling for development are given based on results of the performance appraisal.



Source: OHCS Information, Samjong KPMG ERI

First, the planning and setting of individual performance targets through work plans are obtained from the organization's strategic plans and objectives set at the corporate, divisional, developmental and unit levels. The target setting process is a top-down approach and is conducted every January.

Second, discussion and communication between appraiser and appraisee on progress of work as well as the adjustment of targets if necessary are completed through the provision of formal feedback.

Third, an evaluation the appraiser's performance is conducted at the end of the performance management period. Finally, reward, training plans, promotion, career development plans, counseling and sanctions are given in accordance with the results of the performance appraisal.

The Performance Appraisal Form includes the following sections: Section 1 is the Appraisee's Personal Information, Section 2 - Performance Planning Form, Section 3 - Mid-Year Review Form, Section 4 - End-of-Year Form, Section 5 - Annual Appraisal, Section 6 - Annual Appraisal(comments), Section 7 - Career Development, Section 8 – Assessment Decision, Section 9 – Appraisee's Comments and Section 10 – Head of Department's / Division's Comments (Overall Performance Appraisal Form is attached as an Appendix).

<Figure 4-3> Performance Appraisal Form

SECTION 5: Annual Appraisal							
Assessment of Core Competencies							
Rating	Explanation						
<input type="checkbox"/> 5	- Exceptional, exceeds expectations: Exhibits the highest level of performance. Exceeds goals and objectives.						
<input type="checkbox"/> 4	- Exceeds Expectations: Performance above standard level. Job performance clearly more than satisfactory. Meets all goals and exceeds several.						
<input type="checkbox"/> 3	- Meets Expectations: A solid, consistent performance. Meets most goals and exceeds some.						
<input type="checkbox"/> 2	- Below Expectation: Performance needs to be improved in several major areas. Did not meet many goals.						
<input type="checkbox"/> 1	- Unacceptable: Performance is below job requirements and needs definite and significant improvement. Did not meet most goals.						
A/ CORE COMPETENCIES	(W) weight	(S) Score on Scale			W x S	COMMENTS	
(i) Organisation and Management:							
- Ability to plan, organise and manage work load.	0.3	-1	-2	-3	-4	-5	Total.....
- Ability to work systematically and maintain quality.	0.3	-1	-2	-3	-4	-5	Average.....
- Ability to manage others to achieve shared goals.	0.3	-1	-2	-3	-4	-5	
(ii) Innovation and Strategic Thinking							
■ Support for organisational change	0.3	-1	-2	-3	-4	-5	Total.....
■ Ability to think broadly and demonstrate creativity.	0.3	-1	-2	-3	-4	-5	Average.....
■ Originality in thinking	0.3	-1	-2	-3	-4	-5	
(iii) Leadership and Decision Making							
■ Ability to initiate action and provide direction to others	0.3	-1	-2	-3	-4	-5	Total.....
■ Acceptance of responsibility and decision-making.	0.3	-1	-2	-3	-4	-5	Average.....
■ Ability to exercise good judgment	0.3	-1	-2	-3	-4	-5	
(iv) Developing and Improving							
■ Commitment to organization development	0.3	-1	-2	-3	-4	-5	Total.....
■ Commitment to customer satisfaction	0.3	-1	-2	-3	-4	-5	Average.....
■ Commitment to personnel development	0.3	-1	-2	-3	-4	-5	
(v) Communication (oral, written & electronic)							
■ Ability to communicate decisions clearly and fluently	0.3	-1	-2	-3	-4	-5	Total.....
■ Ability to negotiate and manage conflict effectively.	0.3	-1	-2	-3	-4	-5	Average.....
■ Ability to relate and network across different levels and departments	0.3	-1	-2	-3	-4	-5	

Source: Public Service Commission, Annual Appraisal Handbook

In “The Training & Development Policy of the Ghana Civil Service and Guidelines for Implementation”, the process of training needs identification is as follows: First, the Human Resource Development Director of MDAs evaluates a civil servant’s performance. Second, Reporting Officers are required to reflect on the training and development needs of their subordinates as part of the performance appraisal which also serves as a basis for determining the training and development needs. Third, identified training and development needs for each officer are compiled and forwarded to the OHCS. Fourth, the Head of the Performance Management Directorate (PMD) in OHCS collates these needs from the performance appraisal report and submits them to the Director of the Recruitment Training and Development Division (RTDD). Finally, RTDD in OHCS determines the nature and organization of programs in general.

2.4.2. Types of Training Programs

2.4.2.1. General Training

The training and development program in the Ghana Civil Service focuses on short term functional training with the goal of enhancing job specialty and individuals’ capacity through academic knowledge cultivation. The types of training programs are divided into Scheme of Service Training, Induction Course, Promotion Course, Local Training, Academic/Specialized courses and IT training.

<Table 4-2> Types of General Training

Types	Contents
Scheme of Service Training	Specialist candidate training fit for features of departments
Induction Course	Aimed at all public officials entering into public service. Completed in less than 3 months
Promotion Course	Training for skill and knowledge cultivation for the promoted
Local Training	Job training instructed by internal education personnel
Academic/Specialized Course	Training implemented by scholarship institutes
IT Training	IT related training for all public officials

Source: The Training&Development Policy of Ghana Civil Service and Guideline for Implementation

First of all, the Scheme of Service Training is for training and development programs specified in the various schemes of service of MDAs and are compulsory. Induction Courses are for all new entrants into the civil service and are obligatory within the first three months of service, together with an appropriate orientation training program. Staff undertake core and functional training programs when and where necessary and in accordance with relevant scheme of service or job training recommendation. On promotion, appropriate training is provided to equip the staff with the knowledge and skills required for their new roles. Mandatory in-service orientation programs are offered to prepare personnel for higher responsibilities. Additionally, workshops and seminars are arranged periodically to address identified knowledge, skills and attitudinal gaps. Local training comprises on-the-job training within the MDAs by departmental training officers and off-the-job training at public and private sector training institutions in the country. Overseas training is the most important aspect of diversity and globalization of the training program in Ghana, The next chapter of our report discusses this in detail.

Academic/specialized courses in pursuit of higher academic, technical and professional qualifications in relevant areas are encouraged by granting study leave with pay or making specific internal arrangements at the MDA. IT training provides skills in new technology and encourages the adoption of leading practices for improved systems. Its aim is to enhance IT capacity of civil servants in a changing environment.

2.4.2.2. Contracting-out Program

The outsourced training programs in Ghana are run by GIMPA as academic courses. Training programs at GIMPA are requirements for promotion of senior civil servants and attendees are issued with certificates which influence their performance evaluation. The GIMPA training programs are divided into two parts: certification courses and diploma courses.

<Table 4-3> GIMPA Training Programs

Types of Training Programs
Certificate in Public Administration(CPA)
Diploma in Public Administration(DPA)
Senior Management Development Programme and the Chief Executive Programme
Certificate in Agriculture
Certificate in Procurement
Certificate in Logistics & Transport

Source: GIMPA Academic Catalogue

The length of the CPA program varies from eight weeks to two years and its curriculum includes Principles and Practices of Public Administration, Public Economy, Human Resource Management, Legal and Regulatory Framework for Public Servants, Communication and Administrative skills and Principles of Management. The DPA program is a 16 week program and includes Public Policy and Public Sector Communication, Strategic Management, Public Finance and Accounting etc. The duration of the Senior Management Development program is 10 weeks and covers topics such as “Understanding Ghana’s Public Administration System”. The Chief Executive Program is a 2 week course aimed at cultivating insight and a global mindset in senior civil servants. GIMPA also provides Health Administration and Management, Certificate in Occupational Safety and Health and Environmental Management.

2.4.2.3. Overseas Training

The OHCS is not adequately supported to manage the overseas training function. The MDAs have their individual budgets for overseas training which is funded through government sources, Development Partners' support and project funds. The Scholarships Secretariat of the Ministry of Finance and Economic Planning is the only official institution responsible for overseas training. For this reason, Ghana does not have a specialized institution and standardized guidelines for overseas training. Also, in the normal scheme of things, MDAs do not budget for overseas training. Most of the expenses for overseas training are covered from the Foreign Travels allocation of the various MDAs. The types of the overseas training are Bilateral Cooperation funded by the Government of Ghana and the “Cooperation” countries' governments, the Year Abroad for language courses and Other Awards for Overseas Studies funded by development partners. The requirements for the three types of programs are described below.

First, candidates must have a minimum of aggregate 18 in their West African Senior School Certificate Examination(WASSCE) for undergraduate studies. Also, the candidate's must be no more than 21 years for undergraduate programs, no more than 35 years for Masters programs and no more than 45 years for Ph. D. Selected candidates are made to undergo medical screening, and police CID clearance. They must serve the nation for a period of at least 5 years upon

completing training.

Second, the Year Abroad program is funded by the Ghana Education Trust Fund and participating institutions select students on basis of quotas given them. The names of candidates are collected and forwarded to the Office of the President for approval.

Third, the requirements for Other Awards for Overseas Studies are: Be a Ghanaian citizen resident in Ghana, must have a genuine birth certificate in addition to a bachelor's degree, and should not be more than 35 years of age (Ph.D. candidates should not be more than 45 years of age). Selected institutions must monitor and submit progress reports on each student.

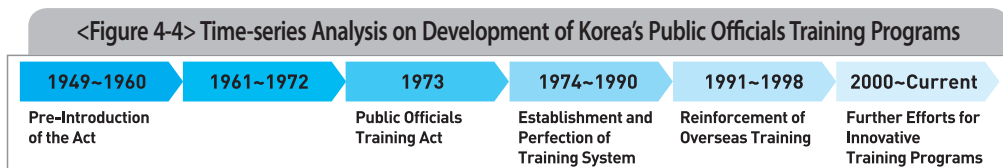
Notification for overseas training is given each year either in March or May by the countries concerned through Ghana's Ministry of Foreign Affairs and Regional Integration. The notification includes information about the courses and eligibility criteria as indicated by offering countries. Applicants are interviewed and selected by a selection panel whose membership is drawn from Office of President, Ministry of Education, and National Council for Tertiary Education.

3. Current Status of Civil Servant Training System in Korea

3.1. Overview

Korea's public officials training is forward-looking, adaptable to the changing environment and focused on personnel development. Its objective is overall performance enhancement through individual advancement and job efficiency improvement. Therefore, Korea's public officials training provides the opportunity for officials to advance while taking pride in executing public service and elevating morale.

Korea's public officials training system has reached the current stage of training innovation effort after a series of phases, starting with the phase of pre-introduction of the Act (49~60), public officials training legal frame forming phase (61~72), public officials training law enactment phase (73), training system establishment and perfection phase (74~90), and external training reinforcement stage (91~98).



Source: Korea's Public Officials Training System, Characteristics, and Development Course, 60 Years of Korea's Personnel Administration: Training, Reconstructed by Samjong KPMG ERI

Pre-Introduction of the Act (1949~1960)

In March 1949, the National Officials Training Center was established with the responsibility of the general training of officials and new hires as well as intensive training. In 1958, by signing the technical aid agreement with the University of Minnesota, the training program was revised and new training techniques were introduced; managerial training for mid-level managers and senior officials were introduced. This move by the National Officials Training Center instilled the new perspective on management training into the Korean government.

Since then and until 1961, new training institutions established at the department level included the Postal Tech-Training Center of the Postal Service, Traffic Officials Training Center of the Ministry of Transportation, Tax Officials Training Center of The Ministry of Finance, Police School, and the Prison Officers School. At the time, legal framework for training was absent, and thus training institutions were regarded as temporary stations for public officials and dogged with periodic personnel reshuffling. Furthermore, programs were not focused on the requirements for training civil servants and needs of trainees.³¹

Establishment of Legal Frame for Public Officials Training (1961-1972)

In 1961, with the enactment of the Public Officials Training Act, training for civil servants was largely transformed. The Act established the basic policy concerning training, defined the purpose of the training, and designated responsibility of training junior staff to heads and managers of institutions.

As the legal framework of training of civil servants was established, government institutions at all levels created training centers, strengthened existing ones, and created a training system comprising training programs for enhancing specialist and peculiarities of institutions or lower level officials. Once the Act became effective, the institution responsible for managing government personnel, the General Affairs Bureau, established a new training office to handle the planning and coordination of training to improve performance. Also, in line with the Act, the Central Officials Training Center was established the same year the Act was passed. The Act provided the legal basis for these training institutions to conduct outsourced training to domestic and overseas institutions when needed.

In addition, the promotion system for civil servants was revised. Completion of training and the grade obtained accounted for 15% in assessing candidates for promotion; the grades obtained from training directly impacted personnel management. This was the first-ever institutional framework that linked the result of training to personnel management. Thus, the enactment of the Act of Officials Training, which provided the institutional framework for training adequate for the needs of the Korean government, was the starting point for facilitating systematic training.

31) Lee Geun Ju. "60 years: Personnel Administration Training", 20070.

In 1966, focusing on expertise, a second level training program was initiated which was divided into different segments. However, it was judged to be too uniform, failing to address the needs of various levels and tasks.

In 1967, a third level training program was begun, and the civil service conducted a training needs survey for all job areas in order to provide specialist training for identified gaps. After evaluating the results of the survey, areas requiring improvement were identified. Based on these, job training and orientation for new hires were rigorously improved.

Public Officials Training Act (1973)

In 1973, the Act of Public Officials Training was abrogated and was followed by the Public Officials Education and Training Act.³² Simultaneously with the enactment, officials training by the Central Officials Training Center was strengthened with the focus on periodic and job training, new management techniques training, and new hires training.

The Act detailed the training responsibility of managers of each institution towards their staff. The heads and supervisory level officials were to conduct job-related training to subordinate staff and affiliated officials once in every five years. Also, to consolidate officials' leadership and mindset as public officers, the moral education plan was created, on the job training to enhance capacity, and results of the job training were ultimately used in promotions.

Lastly, the Act of Public Officials Education and Training ensured that all training courses were executed by the Central Officials Training Center, specialist training centers and regional officials training centers belonging to the head of central institutions.

Establishment and Perfection of Training System (1974-1990)

The new community movement (Saemaetul) in the mid 70s emphasized the moral education of public officials, and the training that was conducted focused on new management methods, job based training, and new hires. Also, as the outsourced training system was organized, the training of officials was not only run by the government-operated institutions but also by the private institutions.

In 1982, the "Public Officials Training Program Development 5-Year Plan" was drafted; its main contents included advanced training and correspondence courses for senior officials ranking higher than 3rd level and mandatory training for new hires and replacements. In November of the same year, the program for senior officials commenced, and a year-long training program for high ranking officials was initiated.

This training system continued through the 1980s. International exchange was enhanced

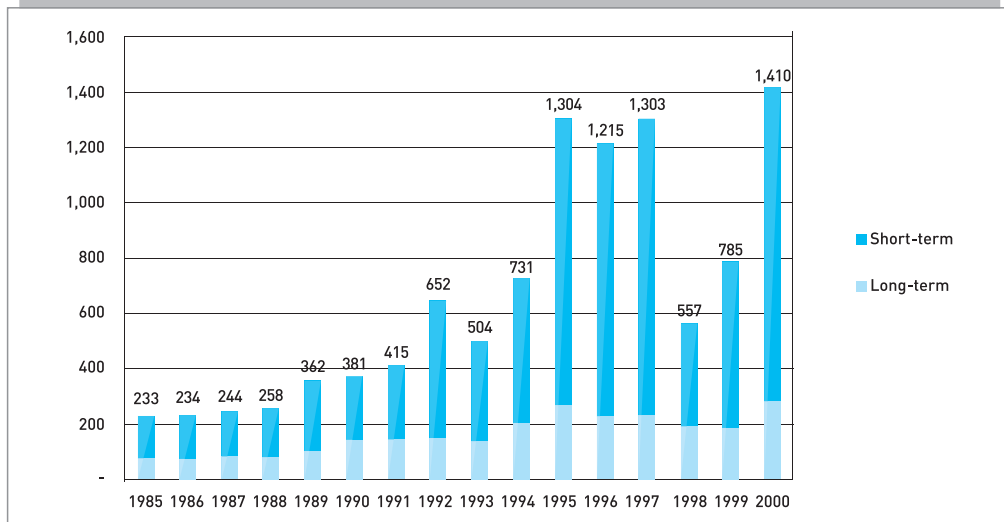
32) Lee Geun Ju. "60 years: Personnel Administration Training", pg. 4, 2007

by hosting the 88' Seoul Olympic Games, and the training program for developing countries' officials('84 Malaysia officials) led to a diversified and globalized overseas training program.

Reinforcement of Overseas Training (1991-1998)

In 1991, diversification of overseas training began. While previous training emphasized individual job handling capability, the training conducted from the 1990s was comprehensive with the purpose of policy responsiveness. The government, instead of simple technical management training, promoted systematic job training which enhanced policy responsiveness, government administration, and comprehensive administrative capability, in order to allow trainees respond flexibly to the rapidly changing global environment.³³ Before 1990, the number of officials participating in the overseas training program was around 200 annually. Since 1995, the number has increased to over 1,000, and though it decreased in 98 and 99, due to the Asian financial crisis, analysis revealed a gradual increase afterwards.

<Figure 4-5> 1985~2000 Number of Korea Officials Overseas Training Participants



Source: Annual Administrative Government Statistics, Reconstructed by Samjong KPMG ERI

Furthermore, with the enactment of the Regional Officials Education and Training Act in 1995, training of regional officials was improved and new personnel assessment regulation was revised to reflect the results of the officials training to contribute 20 percent from the previous 15 percent to personnel promotion.

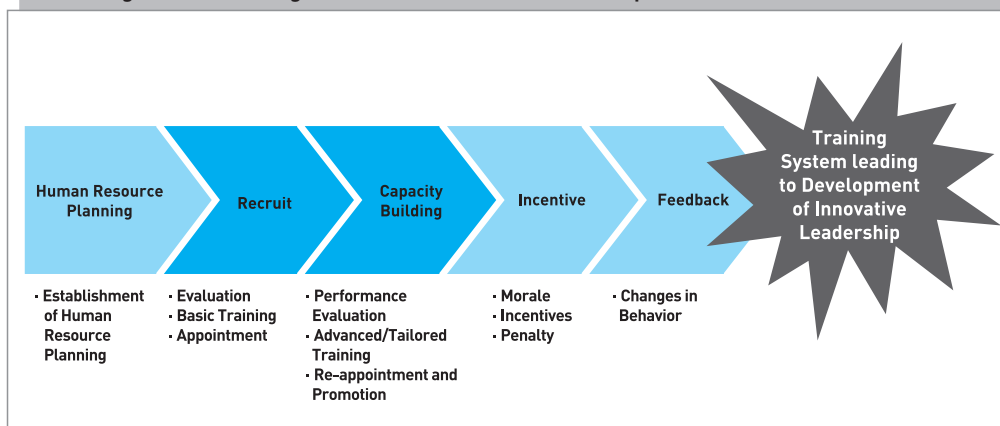
Further Efforts for Innovative Training Programs (2000~Present)

Various attempts were made by the government to catch up with trends in reform of training

33) Lee Geun Ju. "60 years: Personnel Administration Training", pg.5~6, 2007

institutions organization, specialist training improvement, professional training for high-quality administrative service, user-oriented service and cyber training service. Notably, cyber training conducted since the late 90s provided user-oriented training courses, and intensive investment for this training seems to have been the main reason for the increase in officials training budget in 2000s. Through the officials training reform took place only from 2004 to 2005, official training was greatly improved both quantitatively and qualitatively. In order to facilitate the innovation and techniques of officials and their behavioral leadership, the Korean government concentrated on the human resource development based on the five stages of human resource planning, recruitment, capability facilitation, providing incentives, coordination and reflux.

<Figure 4-6> Five Stages to Facilitate Innovative Leadership Within Korean Public Officials



Source: Samjong KPMG ERI

The characteristic of Korea's civil servants training is Strategic Human Resource Development, which develops human resources that contribute to achieving strategic goals of government and its offices instead of individual capability development. Training institutions have advanced to be the strategic partners in government policy achievement instead of being simple human resources management and development organizations, and accordingly government investment in training has gradually increased every year.

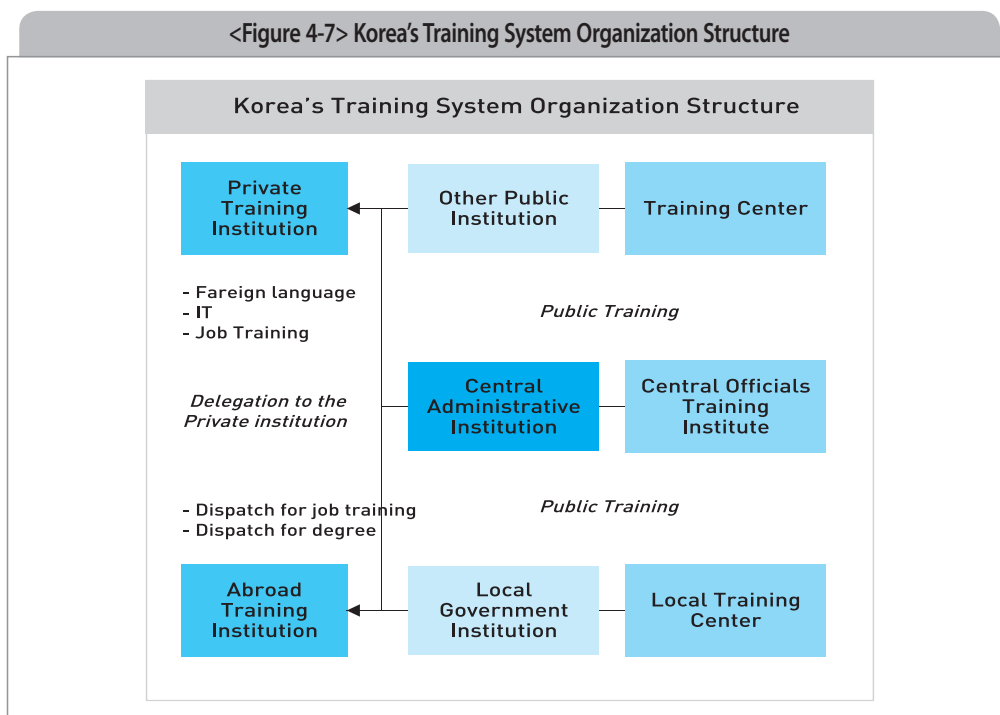
<Table 4-4> History Central Official Training Institute Core Functions and Tasks

Period	Core Functions and Tasks	Note
1949-1960	<ul style="list-style-type: none"> • Basic Job training • Probationary Clerk training 	1948.8 Foundation of Rep. of Korea government 1949.3 National Officials Training Center established 1960.6 The 2 nd republic commenced
1961-1972	<ul style="list-style-type: none"> • Commenced revolutionary spirit and anti-communism training • Administrative new techniques adopted (Taskforce staff research, new official documents drafting regulations, etc.) • Training customized per task areas and positions 	1961.5 Military coup 1961.10 Act of National officials training institute enacted 1961.11 Act of public officials training enacted 1963.12 The 3 rd republic commenced
1973-1980	<ul style="list-style-type: none"> • Training of The October Revitalizing Reforms Ideology and Saemaeul movement spirit • Special training for newly hired (CSE passed, ex-military special employment, etc) & modern management techniques training 	1972.10 The 4 th republic commenced 1973 Act of Public officials education & training enacted 1973 Saemaeul movement
1981-1988	<ul style="list-style-type: none"> • Training divided into moral, task, and professional training • Routinized training through Periodic training (2-5 years) • Training reinforced based on training before employment principle • Along with the elevation of global position of Korea, commenced foreign public officials training • Diversified training techniques(active, experience focused) 	1980.10 The 5 th republic commenced
1989-1992	<ul style="list-style-type: none"> • Nationalistic pride facilitation training • Reinforced foreign language and expertise training • Reinforced training system related research function • Expanded support for training institutes • Expanded foreign officials training 	1988.02 The 6 th republic commenced
1993-1997	<ul style="list-style-type: none"> • Consolidated public official mission awareness and improved administrative management capability • Training for policy responsiveness • Systemized task training to facilitate comprehensive administrative capability • Expanded support for training institutions to respond to regionalization • Organizational reform based on function and courses • Reform of training system for training validity, including extended training period 	1993.2 The civilian government established 1994.4 Training organizational reform
1998-2003	<ul style="list-style-type: none"> • Training institutions structural reform and professional training reinforcement • Professional training for high-quality administrative service • Change of focus to users, Provided cyber training service • Overhaul of training courses and contents • Commenced innovative training and manager-level capability building training • Commenced expert training regarding offices renovation common tasks 	1998.2 The people's government commenced 1999.1 Reform of training system 2003.2 The participatory government commenced

Source: GIMPA Academic Catalogue

3.2. Organizational Structure

The current officials training program of Korea has various structures per demand and requirements of the government and the private sector. Specifically, in the case of Korea, with MOPAS and COTI focusing on supervision of experienced officials of central institutions, each office, regional government and semi-public offices operate customized programs to meet their separate training demands. The training budget is also allocated to the MOPAS and COTI. Each office strives to systematically conduct training suited and customized to its tasks and COTI operates a common training program, if needed, while developing and carrying out training programs according to legal requirements.



Source: Reconstructed by Samjong KPMG ERI

3.3. Budget System

Korea's officials training budget system is a combination of a centralized and shared training budget system. Specifically, COTI is responsible for training officials above level 5 and high ranking officials, has its own budget for developing and operating training programs, and other offices and regional governments have established subsidiary training institutions providing customized training meeting their specific demands with a separate budget.

3.4. Training Program

Training programs in Korea are divided into central government training, local government program and the contracting-out training program. However, we do not cover local government training in this report since the civil service in Ghana has different organization structure from that of Korea.

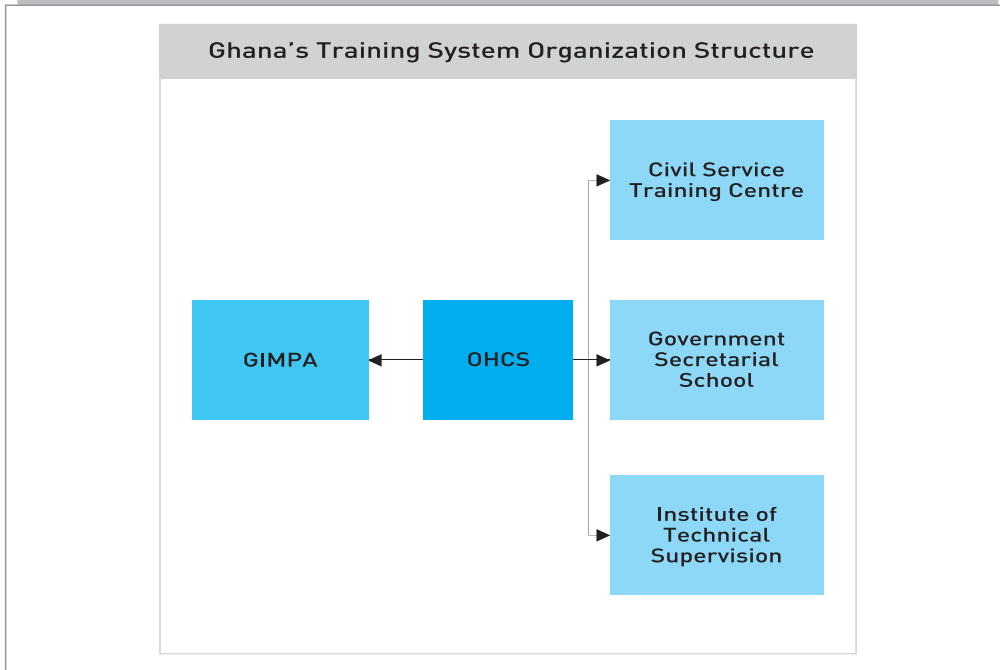
Central Officials Training Institute has seven types of training programs such as the grade-based development program, core competencies training, specific competencies development program, global competencies training, international programs for foreign government officials, online training and the national agenda workshop. Contracting-out training programs have three types of training like the academic degrees program, foreign language program, and specific development program such as IT training. Also, each central ministry sends their officials to various region and countries to cultivate innovative global leader in public sector.

4. Comparative Analysis of Training System between Ghana and Korea

4.1. Organizational Structure

In comparison, Ghana has a basic training system. Unlike that of Korea, Ghana's civil service training program is composed of central offices training conducted by OHCS and private training by GIMPA. Regional government institutions conduct their own training separately from the Central government, and OHCS has no jurisdiction.

<Figure 4-8> Ghana's Training System Organization Structure



Source: Reconstructed by Samjong KPMG ERI

Ghana's central government offices conduct their own training, yet the civil service lacks an independent training institution along with a training institution overseas. Also in Ghana, training for mid and low level officials, is conducted at the training institution under OHCS and for high level officials, at the private institution, GIMPA. This is dissimilar to the Korean system, where COPI only conducts training for officials of level 5 or above.

4.2. Budget System

Ghana's training budget system is dispersed, since the budget is allocated by the government, ministries, OHCS, and development cooperative partners. Also, while Korea allocates the training administration budget and training management budget to the COTI expendable at its own discretion, in the case of OHCS of Ghana, only the budget for training management is allotted, causing financial difficulty in sourcing training.

Therefore, it is an urgent matter to establish a centralized budget system which allows for easy application as in the case of Korea's COTI. Korea has successfully consolidated and coordinated its system after the civil servants training reform in 2004. Through the reform, civil servants training institutions improved the budget coordinating system between their departments and related institutions which resulted in an increase of the budget allocated for training implementation. The mutual coordination led to a consensus in the importance of officials training

through which the perception of the budget was transformed from 'cost' to 'investment'. This is evident in changing statistics in the budget. Until the mid 90s, the budget never exceeded \$5M, but throughout the 2000s, it increased rapidly. In 2006, the budget allocated for officials training quadrupled to USD 19.3M, compared to the figure of mid the 90s.

However, according to interviews held, in the case of Ghana, the Civil Services budget allocation for training is a mere 1~2% of the total budget. OHCS is allotted an amount that only suffices for its operation; thus in reality, only a limited budget is assigned for purposes such as the new program development. Even the training budget allocated to each office is not executed adequately and the optimum training quality is yet to be attained. Although this tendency is attributable to the fact that existing financial priority lies in resolving current issues rather than training programs, this vicious cycle aggravates the difficulty OHCS is facing operationally. Reflecting on the development path Korea has taken, to expand the training budget, a consensus should be reached regarding the urgency of civil servants training; and development of a coordinated system.

4.3. Training Program

4.3.1. Training Demand Identification

In Korea, performance assessment for training is determined by official task evaluation. Task evaluation is further divided into evaluations such as contract performance evaluation for officials above level 4 and job evaluation for officials below level 5.

The training needs surveys of Ghana and Korea are similarly structured. They are also similar in that the results of civil servants evaluation are reflected to training and personnel management. Both countries' governments analyze the weak and strong areas of trained personnel based on the evaluation results and the outcome is reflected in the following year's training needs plans.

Contract performance evaluation procedure is composed of 6 steps: strategic planning, performance contract signing, interim check-up, final assessment, assessment result announcement, and objection acceptance. The official job evaluation largely comprises three stages that include performance interview (performance planning interview, interim and final interview), announcement of evaluation results and appeals, and utilization of evaluation results. In the case of Ghana, analogous to that of Korea, the performance evaluation procedure has four levels: performance planning, progress review, review and appraisal, and decision-making. The disparity between the training needs surveys of Korea and Ghana is that the latter lacks the appeal process for evaluation subjects disagreeing with evaluation results.

4.3.2. Basic training programs

Basic training for civil servants in Ghana is fundamentally different from the centralized and distributed training system of Korea. The central authority, OHCS operates three institutions influenced by Ghana’s administrative and economic environment. Therefore, for effective comparison of basic training programs, this report has categorized training by the type of courses offered. Basic training has been further categorized into new hires, newly promoted, and on the job training. Detailed comparative analyses of private outsourced program and the pathway program (overseas training) is discussed later in the report.

The core courses of the basic training were categorized into new hires, newly promoted, and on-the-job training and analyzed accordingly. If the program is firmly in place and efficiently operated, it is marked ○, when the program is established, but the structure is still weak, it is marked △, and lastly if the program is not implemented, it is marked ×.

<Table 4-5> Basic Training Program Analysis

Basic training Course type	Korea	Ghana
Newly-hired Course	○	○
Newly-promoted Course	○	○
On-The-Job Training course	○	△

Source: Samjong KPMG ERI

Korea’s new hires course aims to instill nationalism in public servants and to develop policy execution and job capacity to facilitate a success. The core training contents are essential job capability and working know-how. Analysis reveals that Ghana’s basic training program is close to that of Korea’s, in the new hire training in essential knowledge as public officials and required skills training. A point of note in the case of Ghana is that, while it conducts uniform training for all new hires, COTI of Korea has more segmented basic training corresponding to various categories of newly hires, such as low and mid level officials, regional talents hires, and the handicapped.

Korea’s newly promoted course comprises a total of four steps: trainee designation, pre-training, collective training, and training evaluation. Training evaluation criteria weight is as follows: individual evaluation 65% and allocated-task evaluation 35%. Courses for newly promoted staff have a total of five separate modules each focusing on the following: official training as public officials, defining public servant values, enhancing administrative knowledge and facilitating

task-handling capability, developing responsiveness and problem-solving capability in a changing social environment, and reinforcing leadership and communication. Ghana also conducts training in knowledge and techniques required for the newly promoted which, in principle, are no different to those of Korea. Ghanaian training programs have been developed to suit its own civil servants training institutions thus the recommendation presented in 5. Recommendations for future development should be more concise instead of a detailed analysis.

Lastly, on-the-job training in Korea is conducted as customized courses per periods and trainees. Every year COTI considers new training needs arising due to the changing environment. Korea's core capability curriculum is divided into pre-training, collective training, and after training programs. Pre-training is conducted on-line and includes basic capability training; collective training modules include leadership, communication, reinforcing decision making capability, simulation education for each capability, history, and stress management. Lastly, after training involves individual coaching and consulting, monitoring the individual per psychology type and providing feedback.

Similar practices occur in the Ghanaian on the job training provided according to levels of responsibility, and each office provides customized training. However, while COTI of Korea provides OJT for officials above level 5, Ghanaian CSTC, responsible for public servants basic training, mainly provides training for low and mid level officials. The Executive officer training, mainly comprises document drafting in English, executive job training, ethics based leadership, project management, efficient performance management, and professional leadership. For general officials, core subjects for training include security, civil service code of conduct to enhance productivity, document drafting, and public administration principles. As Ghana and Korea are in different environments, analysis of differences in the job training programs will not be meaningful. However, leadership training suitable for each level of civil servants is a notable area for improvement as the core objective of this project is to facilitate innovative leadership.

4.3.3. Contracting-out Programs

In comparing Ghana's and Korea's outsourced programs, core courses were largely categorized into curriculum offering, foreign language courses, and professional courses. If the program is firmly in place and efficiently operated, it is marked ○, when the program is established but the structure is still weak, it is marked △, and lastly if the program is not implemented, it is marked ×.

<Table 4-6> Contracting-out Programs Analysis

Contracting-out Program Type	Korea	Ghana
Curriculum Offering	○	△
Foreign Language	○	△
Professional Course	○	△

Source: Samjong KPMG ERI

The curriculum in Korea is provided by domestic universities and graduate schools, and offers degree programs in B.A., M.A., and Ph.D. Many domestic universities and graduate schools participate in the program including the Korea National Open University. With the curriculum, officials can have the opportunity of re-education, which results in improved and developed task capacity. Conversely, Ghana only has a single outsourced institution, GIMPA, which is absolutely deficient in providing the required curriculum. The existing curriculum offers degree programs only in public administration and certification programs that are comparatively much more simplified than the courses offered in Korea.

Korea's foreign language contracted training is composed of online and offline courses; and the latter takes place at the Hankuk University of Foreign Studies in Korea. Recently, the online course started offering differentiated programs for a total of 14 languages, such as English, Chinese, and Japanese, which expanded opportunities to achieve foreign language proficiency and self-improvement. However, currently no such regular foreign language program is available in Ghana, and the program is only partially provided through overseas pathway programs.

With professional training, exemplary courses offered in Korea include core capability improvement and specialized training for technical officials and female officials. Whereas GIMPA only provides a senior management development program and an executive professional program, specialist training is limited and covers agriculture, procurement, distribution, and transportation, pointing to the difference in the program composition of Korea. The core objective, reinforcing the leadership, is also one of the many courses offered by the outsourced institutions, while Ghana offers no such training.

4.3.4. Pathway Programs

For a simplified comparison of Ghana's Pathway programs and Korea's programs, core overseas courses were largely categorized into professional training, study-abroad language course, and curriculum offerings. If the program is firmly in place and efficiently operated, it is marked

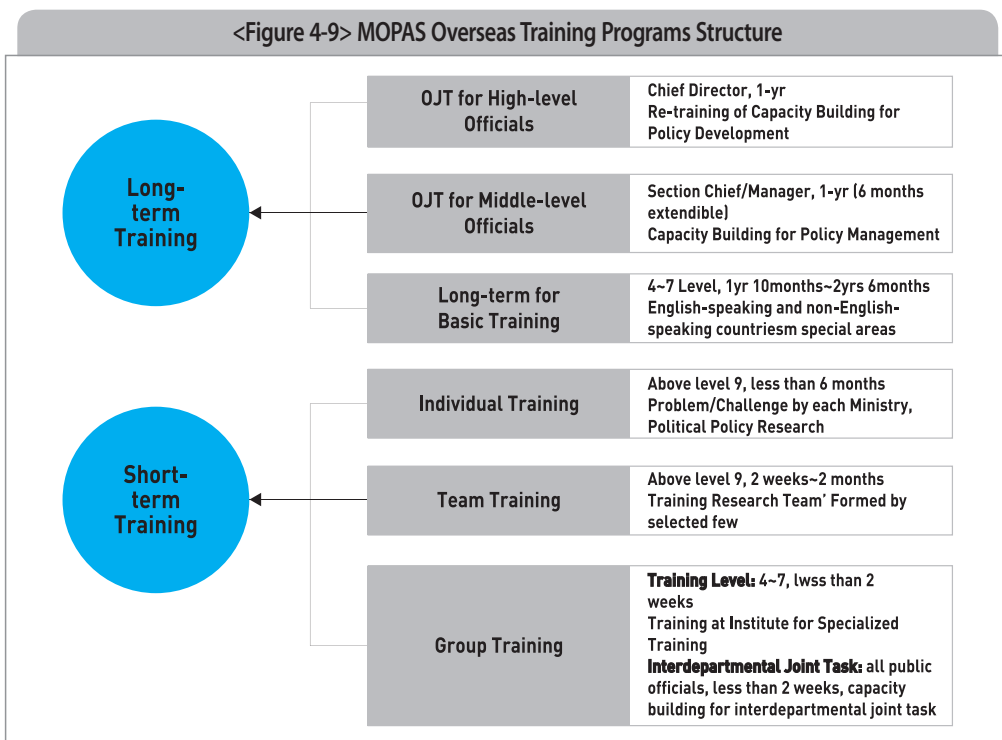
○, when the program is established but the structure is still weak, it is marked △, and lastly if the program is not implemented, it is marked ×.

<Table 4-7> Pathway Training System Analysis

Pathway Training	Korea	Ghana
Professional Training	○	△
Abroad Language Course	○	△
Curriculum Offering	○	○

Source: Samjong KPMG ERI

Korea's pathway professional training program is divided into short (under 6 months) and long (over 6 months) courses, and is managed by MOPAS. Each office conducts their own overseas trainings Long and Short pathway programs managed by the MOPAS are as follows:



Source: Reconstructed by Samjong KPMG ERI

Ghana is glaringly lacking in overseas professional training courses. As the subjects for professional training are determined by the Minister of Foreign Affairs, they are somewhat job-related. However, in Ghana, professional training overseas needs strengthening in order to improve public administration and ultimately advance national development.

Korea's foreign language course is offered before the pathway professional training and curriculum offering in the format of language preparation for a period of less than 6 months. Ghana's foreign language course is granted by the state-owned Ghana Education Trust Fund, and normally comprises one year programs. Korea's language courses are separately grouped into English-speaking, Non-English speaking, and special countries, in line with trends in globalization. Therefore, Ghana seems to be in need of a diversified number of countries offering training and curriculum.

Contrasting the curricula of Ghana and Korea, Ghana's main curriculum prescribed by the Ministry of Foreign Affairs are science, technical education, liberal arts, and social sciences. These are full-time courses for periods between four and seven years, while Korea's program is two years. The reason is that the Ghanaian pathway program is funded with grants from foreign governments rather than the Ghanaian government's own budget, which opens up the window for an extended period of education. Korea's curriculum program is a correspondence course, accounting for the difference in the period for training.

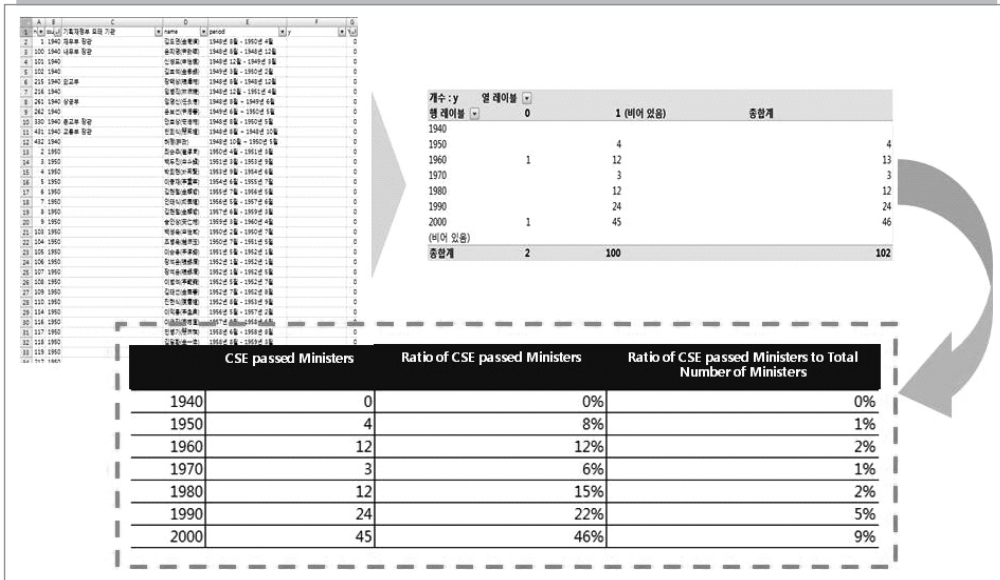
4.4. Linkage of Incentives System in Personnel Management

Previously, the core factors facilitating innovative leadership, organization systems, budgets, and programs were comparatively analyzed. Not only is cultivating innovative leadership through civil servant training important, it is also equally vital in creating an environment for innovative leadership to excel. In order to do so, establishing an incentive system in personnel management to motivate officials is imperative.

For Korean officials who have passed the Civil Service Examination, a suitable environment for advancing to the highest ranking position, i.e. Minister, exists. However, the highest position attainable by the Ghanaian civil service is limited to Chief Director, hence a motivational environment is non-existent. Interviews with the Ghana officials during KSP Ghana Policy Practitioners Workshop disclosed frequent cases of senior officials avoiding promotions. This may be attributed to the limitations in potential promotion through the ladder, since early promotion can lead to early retirement. To bring about a change in the incentive system and increase motivation in Ghana's civil service management, the system needs to be reformed in line with that of Korea.

To analyze the incentive system of Korea in promotion and personnel management, the statistics of Ministers who had passed the Civil Service Examination was studied from chronological data. This confirmed the rate of Ministers passing the CSE to the number of Ministers of each decade and the number of Ministers who had passed the CSE to the total number of Ministers.

<Figure 4-10> Chronological Statistics on Korea's CSE Passed Ministers



Source: Samjong KPMG ERI

A total of six institutions were surveyed including MOSF(Ministry of Strategy and Finance), MKE(Ministry of Knowledge Economy), MOPAS(Ministry of Public Administration and Security), MEST(Ministry of Education, Science, and Technology), MLTM(Ministry of Land, Transport, and Maritime Affairs), and MU(Ministry of Unification). The survey used chronological data from 1940. Statistical results indicated a steady increase in the number appointed ministers who had passed the Civil Service Examination since the examination was introduced. This illustrated the contribution of CSE to fair advancement and the impact of the incentive system for facilitating innovative leadership. After the 2000s, the rate of Civil Service Exam-qualified ministers was close to 50%, thus, it may be concluded that the incentive system had improved.

<Table 4-8> Statistics on Numbers and Ratio of Ministers who Passed Civil Service Exam

	Number of CSE Passed Ministers for Each Decade	The rate of CSE Passed Ministers to the Number of Ministers of Each Decade (%)	The Rate of CSE Passed Ministers to the Total Number of Ministers (%)
1940	0	0%	0%
1950	4	8%	1%
1960	12	12%	2%
1970	3	6%	1%
1980	12	15%	2%
1990	24	22%	5%
2000	45	46%	9%

Source: Samjong KPMG ERI

4.5. Survey Results on Civil Servant Training

The survey was taken in order to investigate progression of the Ghana Civil Service. In addition to assessing the structure of the civil service, budget, and training programs, it is important to investigate awareness of the civil servants, who are direct beneficiaries, in order to effectively improve the training system. The objective of this survey was to find out the utility level of training programs provided by the Ghanaian government and the types of programs that are needed, and use them for the establishment of a civil service training program.

Surveyed targets were limited to civil servants of Ghana's Ministries. Targets were specifically the civil servants who have attained a certain level of work experience and also had previously completed several types of training programs in Ghana. This is because in order to perform a detailed analysis and draw plausible conclusions, targets had to have experiences and knowledge about training programs and how they affect job performance and promotion. The survey was based on 5-point Lickertis scale and the targets were directly interviewed.

A total of 21 civil servants from 7 different government departments participated in the survey. The average length of service of targets was 20 years and 3 months, while the average age was 40. Therefore, targets had a certain level of work experience as the survey required. Also, targets' positions were usually above Deputy Director, they were also all well-aware of the realities of the Ghanaian civil service training programs.

All targets had agreed that the Ghanaian civil service training programs require improvement and this finding was underpinned by the current survey results.

First, the survey asked which types of training programs were needed in Ghana. The results indicated that demand for long-term (1-year or longer) training programs was much higher compared to short-term training programs. Also, more opportunities for training programs are urgently needed, including unofficial OJT and study-abroad programs.

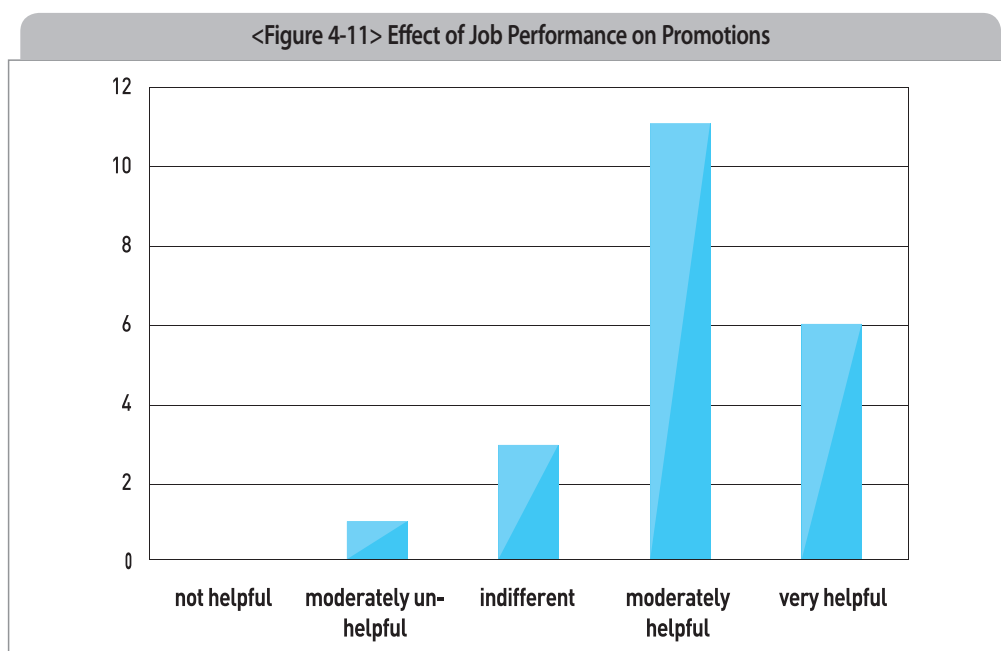
Such results demonstrate how Ghana's civil servants are demanding improvement in the detail of training programs. The survey results also indicate that the Ghanaian government tends to provide only short-term training programs. It shows excess demand for more opportunities to go overseas in order to learn and experience various training programs in developed countries.

Second, in response to a question asking about capacities built through training programs, most answered "ethical attitude as a civil servant." Next were capacities for policy development and management of changing policy environment. Last were capacities for communication and organization management. Such results give an indication of how Ghana's civil servants prioritize strong ethical attitude in order to increase performance and eventually contribute to national development. Next prioritized factors are policy development and management of changing policy environment.

If the essence of innovative leadership is what training programs can provide, innovative leadership will result when novel policy development and management of changing environment are well-harmonized based on the ethical code of civil servants. Harmonization of these capacities will ultimately increase the performance level of the Ghana government, and, in the long-term, will work as a sustainable driving force of national development.

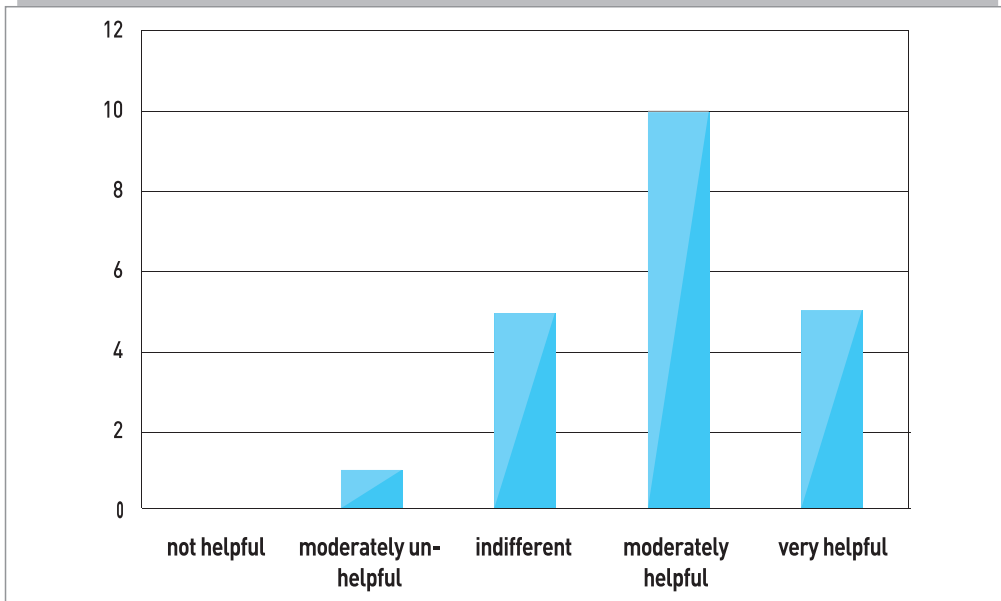
Third, survey results show how outcomes of training programs are directly connected to job performance, and also to promotions. According to the survey results, outcomes of training programs have a positive influence on increasing job performance (average 3.90/5.00 full points).

Furthermore, job performance is improved when the chances of promotions are increased (average 4.005/5.00 full points). Ultimately, training programs have a positive influence on the promotion of each civil servant (average 3.61/5.00 full points).



Source: Samjong KPMG ERI.

<Figure 4-12> Effect of Training Programs on Job Performance

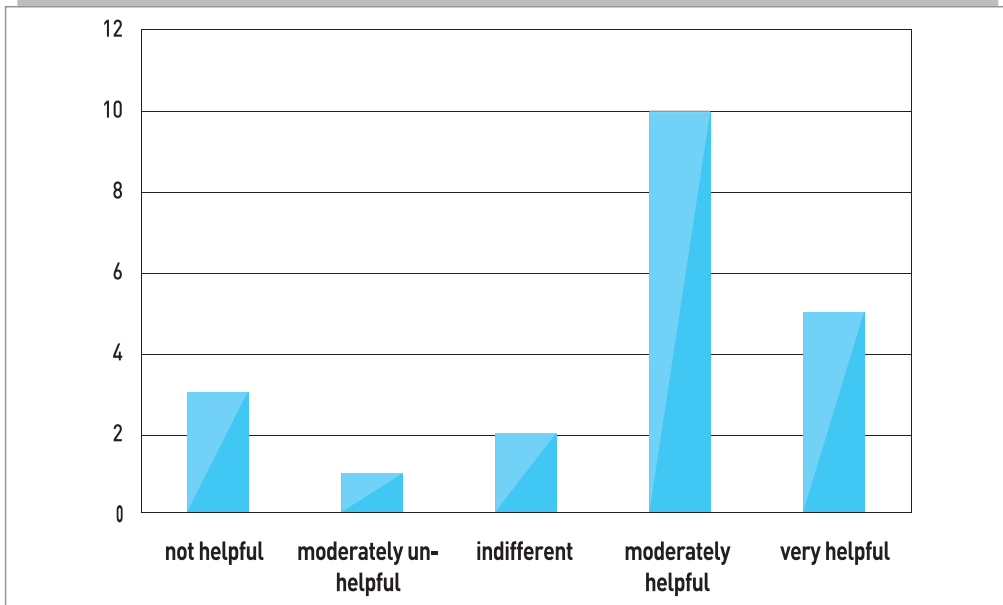


Source: Samjong KPMG ERI.

These survey results have been somewhat expected due to the institutional structure of the Ghana Civil Service. In Ghana, in order to be promoted to senior civil servant, the candidate must complete training courses at a private organization called GIMPA. So it is natural for the Ghanaian civil servant to believe that the results of such training programs have an ultimate link to promotions.

However, such an institutional structure has pros and cons. On the pro side, since each individual civil servant is aware of how building capacity through training programs are important steps to get promoted to senior positions, in the long-term, Ghana's human resource development will be positively affected. However, it is irrational to conclude that training programs only have a positive effect on promotions when requirements that one must satisfy before completing such training courses are ambiguous. In-depth analysis is needed in order to arrive at any conclusions, especially in Ghana's administrative environment where political appointments occurs within senior public officials positions in career service.

<Figure 4-13> Effect of Training Programs on Promotions



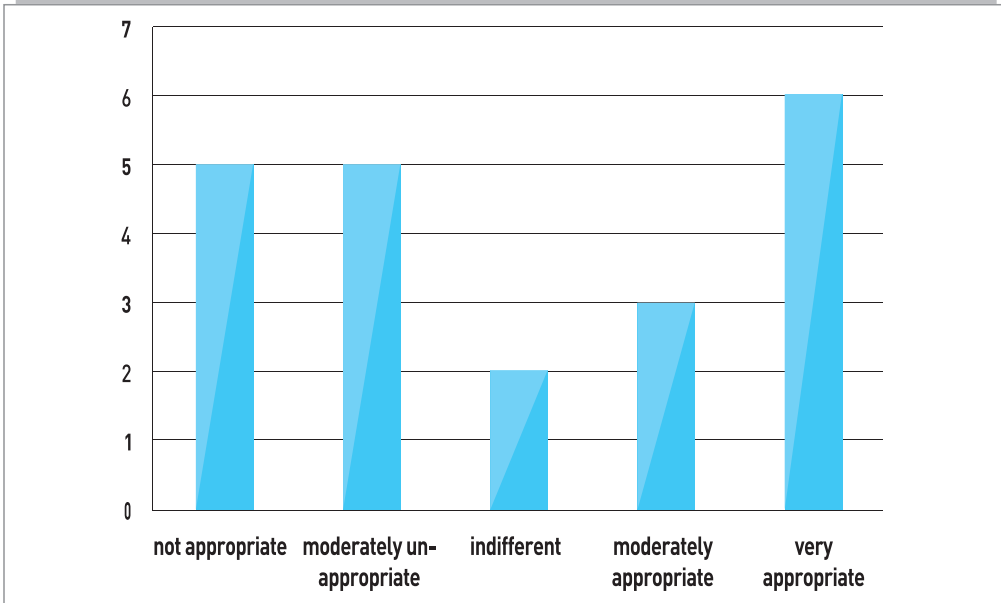
Source: Samjong KPMG ERI.

Fourth, the survey asked about the budget for training middle-level civil servants and the propriety of budget usage. Targets answered that the budget is not so suitable (2.48/5.00 full points). However, when the answer of distribution was analyzed, there was wide variation between two answers – one states that the budget is extremely small and the other states the budget is very appropriate. Such results indicate that a wide perception gap exists between governmental departments.

Furthermore, although the survey results show that the propriety of budget usage is considered 'average' (3.00/5.00 full points), there is also a perception gap on this issue depending on the department. Such results coincide with the results from the analysis of Ghana's budget system.

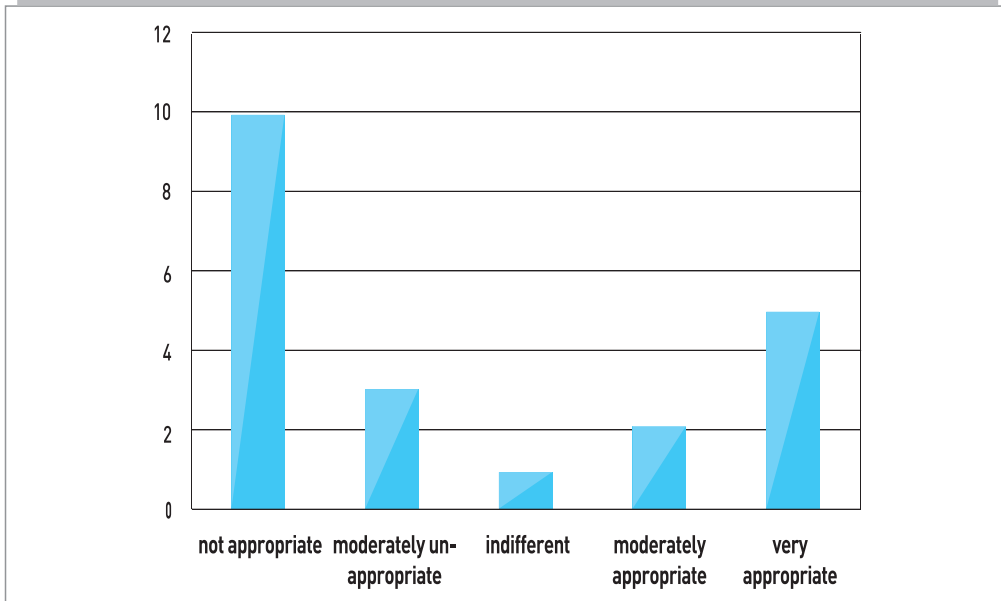
Lastly, the survey asked about which parts needed improvements for more robust overseas programs. The answers indicated that after domestic training programs are improved preferentially, budget and policy for overseas programs should be improved.

<Figure 4-14> Propriety of Training Program Budget Usage



Source: Samjong KPMG ERI.

<Figure 4-15> Propriety of Training Program Budget Size



Source: Samjong KPMG ERI.

5. Policy Recommendation

5.1. Diversifying and Deregulating the Training Programs

It is recommended that the education and training system of the Ghana Civil Service should be internationalized. In particular, this will facilitate the assimilation of rapidly changing technology innovation and business models and assist in implementing training programs in a number of varied countries to study how governments react to these innovations and models. It would help public officials to improve their absorptive capacity and to develop innovative leadership.

As was said earlier, the Ghanaian government is currently implementing overseas education and training in only 13 countries. Included in the list are Germany, Russia, China, Japan and Turkey. To enhance the quality of education and training, the government needs to increase the number of participating countries and regions.

The list of countries providing overseas education and training should include emerging and stable developed countries as it is necessary to support overseas education and training in countries that are adequate in meeting the needs of the Ghanaian government. For example, South Korea can be a representative candidate which has experienced economic growth and crisis by maintaining and establishing a sustainable growth strategy. Furthermore, enhancing overseas training to include emerging countries like Brazil or India would allow for comprehension of the pros and cons of those systems.

In the case of South Korea, the country supports overseas education and training with various programs of 25~30 countries every year. The range of countries is broad and includes America, West and East Europe and East Asia. We do not presume that the absolute number of countries is important when considering the improvement of the effects of education and training of public officials. However, it is certain that the more diverse countries and regions the more opportunity to absorb a wide range of knowledge and experience. Thus, it is helpful to increase the number of countries in that it can provide a base network to cultivate specialists of those countries.

Again, we suggest applying flexibility in the regulations of overseas education and training as the qualifications of candidates for overseas education and training has an age limit of less than 21 years old for undergraduates, less than 35 years old for graduates and less than 45 years old for Ph. Ds. This age restriction acts as a constraint in managing the operations of the civil service and puts officials under pressure. The government is therefore required to give opportunities fairly to all public servants.

In addition, it is considered to be appropriate to expand the opportunities of education of foreign language and high quality discipline training such as policy planning and evaluation.

These are the basic fundamentals to developing and demonstrating innovative leadership. That is, securing the measurements of international communication and theoretical capability would serve as the basics to develop innovative leadership.

5.2. Designing a Concentrated Budget System

We propose to complement the existing education training budget system with a more concentrated operating system. To strengthen the education training program the budget should be allocated to one central institution instead of individual institutions. By accumulating the capacities of developing training programs internally, the government can prepare for a time when local talented people will be required to replace overseas education and training.

Currently, the budget system of Ghana involves assessing the demand for overseas education training by individual institutions and executing the budget individually by putting a request for education and training to OHCS. This kind of shared type of budget structure is useful in that it is possible to provide training according to needs. However, it is limited since it is difficult to provide basic skills in education and training or continuous development and distribution of the programs.

As covered in the previous chapter, the central training institute is responsible for basic education and training as in the case of South Korea. It also accepts individual requests from other institutions to develop necessary programs. Recently, the institute has been offering training and education to foreign public officials.

This type of organization can be operated because the program can develop and manage its own budget. Similarly it is recommended that the Ghanaian government increase its own budget to OHCS and accumulate developing skills in the long run to improve the overall capability of public officials.

5.3. Reinforcing Linkage Between Training and Incentive System

Finally, we suggest strengthening the connection between the education program and the personnel inducement system. The final object of education and training is to contribute to the improvement of performance of the organization through the enhancement of individual capabilities. That is, to truly demonstrate the effects of education and training, the individual public servants are to grow to be the leaders of the organization and contribute to the entire performance improvement of said organization.

Therefore, the government has to give opportunities to well trained public officials to develop their capability and improve organizational performance continuously. This opportunity includes both promotion and appropriate rewards. Providing commensurate rewards to public

officials to similar levels as occurs in the private sector is difficult for both Ghana and South Korea. But, even if the financial rewards are difficult to provide, the personnel benefits related to education and training may suffice.

As we said earlier, the senior public officials in South Korea on the same level as Chief Directors as their counterparts in Ghana are career public officials. Public officials appointed to political positions have career service too. In particular, this is evident in economic related departments where it seems that because of the specialism required, it is considered important to develop innovative leadership.

6. Conclusion

As stated in the earlier chapter, the three main policy suggestions for Ghana to improve its civil servant training system for the development of innovative leadership are 1) diversification and deregulation of training system, 2) completion of training budget to concentrated system, and 3) reinforcement of connections between training and personnel inducement system.

Firstly, the education and training systems for Ghana's civil servants should be more globalized in order to adapt to rapidly changing environment. Training should be further enhanced in order to expand the official's absorptive capacity and capability to develop leadership. Secondly, it is recommended that Ghana begins concentrating on its budget system to appropriately and timely allocate the budget. Lastly, the linkage between training and personnel inducement system should be reinforced to have outcomes of the training programs contribute, not only to increase individual capability, but also to improve the performance of the organization.

In order to provide detailed observations and accurately compare and contrast the two systems of Korea and Ghana, data collection and interviews with officials from both countries were demanded. While historical details and quantitative data of the Korean system were located through KPMG network and in-depth interviews with officials, Ghanaian materials were more difficult to collect.

Due to the absence of details for periodic development of the Ghanaian civil servant training system, most of the information was collected by depending on the presentations of Ghanaian officials or interviews and casual conversation with them. Also, in order to establish unique data and precisely analyze the Ghanaian system through pointing out specific training needs, surveys on the training system were collected. However, it was challenging to have a lot of officials not participate in the surveys. Though the survey was successfully completed with 21 answers, the data is considered limited due to inadequate cooperation.

Priority expected effect of policy suggestions is improvement of training system in relevance to development of innovative leadership. The results of the study aim to nurture

innovative leadership in Ghanaian civil servants and to ultimately have them play their role as a core element in national development. Moreover, innovative leadership through the expansion of absorptive capacity of each individual, strengthened training abroad system and on-the-job training, increased foreign language ability, concentrated budget system, and motivation triggered through stronger linkage between training and personnel inducement system are also expected.

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