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Millennium Challenge Compact with Ghana Executive Summary

I. Introduction

The five-year, approximately \$547 million Millennium Challenge Compact aims at reducing poverty by raising farmer incomes through private sector-led, agribusiness development. To this end, the program focuses on increasing the production and productivity of high-value cash and food staple crops in certain areas of Ghana, and on enhancing the competitiveness of Ghana's export base in horticultural and other traditional crops.

Agriculture is the backbone of Ghana's economy; it accounts for approximately 40 percent of the country's gross domestic product, directly employs approximately 60-70 percent of the labor force, and generates more than 55 percent of foreign exchange earnings.

The program will operate in 23 districts in the northern region, the central Afram Basin region and the southern horticultural belt in the southeastern region (each region, an Intervention Zone), where poverty rates are generally above 40 percent. In fact, in the northern region and parts of the Afram Basin region, the incidence of poverty in the rural population is as high as 90 percent, with incomes below \$2 a day.

II. Program

The program consists of three projects: (i) Agriculture Project; (ii) Transportation Project; and (iii) Rural Services Project.

Agriculture Project:

- *Farmer and Enterprise Training in Commercial Agriculture:* Accelerate the development of commercial skills and capacity among Farmer-Based Organizations (FBOs) and their business partners, including entities adding value to agricultural crops such as processors and marketers.
- *Irrigation Development:* Establish a limited number of retention ponds and weirs requested by the FBOs and FBO partnerships for whom access to water is critical to the success of their businesses.
- *Land Tenure Facilitation:* Improve tenure security for existing land users and facilitate access to land for higher value agricultural crops in the Intervention Zones.

- *Improvement of Post Harvest Handling and Value Chain Services:* Facilitate strategic investments by FBOs and FBO partnerships in post-harvest infrastructure improvements and build the capacity of the public sector to introduce and monitor compliance with international plant protection standards.
- *Improvement of Credit Services for On-Farm and Value Chain Investments:* Augment the supply of, and access to, credit provided by financial institutions operating in the Intervention Zones, providing seasonal credit to FBOs through commercial and rural banks, as well as through non-traditional channels such as input suppliers, and medium-term credit through banks to finance capital goods such as irrigation and post-harvest processing and storage facilities.
- *Rehabilitation of Feeder Roads:* Rehabilitate up to 950 kilometers of feeder roads in eight districts in the Intervention Zones to reduce transportation costs and time, to increase access to major domestic and international markets, and to facilitate transportation linkages from rural areas to social service networks (including, for instance, hospitals, clinics and schools).

Transportation Project:

- *Upgrades to Sections of N1 Highway:* Reduce the bottleneck in accessing the International Airport and the Port of Tema and support an expansion of Ghana's export-directed horticulture base beyond current production, by upgrading of 14 kilometers of the National Highway (N1 Highway) between Tema and Accra.
- *Improvements of Trunk Roads:* Facilitate the growth of agriculture and access to social services by rehabilitating or constructing up to 230 kilometers of trunk roads in the Afram Basin region.
- *Improvements of Lake Volta Ferry Services:* Facilitate the growth of agriculture in the Afram Basin region by improving the ferry service of Volta Lake Transport Company that connects Adawso on the southern shore to Ekye Amanfrom on the northern shore.

Rural Services Project:

- *Strengthening of Public Sector Procurement Capacity:* Support the development of procurement professionals and reinforce the capabilities of the Government of Ghana (GoG) to procure goods and services, reinforcing execution of the overall program and, in particular, the community services.
- *Support for Community Services:* Complement the Agriculture Project by funding construction and rehabilitation of educational facilities, construction and rehabilitation of water and sanitation facilities and electrification of rural areas, and by providing capacity building support to local government institutions.

- *Strengthening of Rural Financial Services:* Automate and interconnect 121 rural banks that are private, community-owned banks, and provide other improvements in the national payments systems that will draw a large number of people currently not served or under-served into the financial system.

The table below outlines the estimated MCC contribution to the program by year and category over the term of the Compact.

Description	Year 1	Year 2	Year 3	Year 4	Year 5	TOTAL
	(US \$ million)	(US \$ million)	(US \$ million)	(US \$ million)	(US \$ million)	
Agriculture Project	32.6	47.1	70.3	65.1	25.9	241.0
Transportation Project	14.8	20.1	35.4	43.1	29.7	143.1
Rural Services Project	15.6	21.1	30.5	34.1	–	101.3
Administration of Program & Audits	8.8	8.8	10.0	10.3	8.7	46.6
Monitoring & Evaluation of Program	3.0	3.0	3.0	3.0	3.0	15.0
TOTAL	74.8	100.1	149.2	155.6	67.3	547.0

III. Impacts

Under the Agriculture Project, approximately 51,000 farm households are expected to complete a comprehensive program in agronomic, organizational and business skills training as members of FBOs. These households with five members on average comprise over 250,000 people. Less directly, the improvement of the GoG’s Ministry of Food and Agriculture’s extension services and the agents’ work with FBOs will have collateral spillover benefits for a large number of farmers which are not quantified.

The Agriculture Project will also support the development and improved operations of approximately 120 small- and medium-size enterprises providing services to agriculture where concentrations of farmer and FBO training will have taken place. Increased access to credit will finance a majority of these changes, including irrigation and post-harvest infrastructure. Its support to facilitate the formal acquisition of land will decrease the transaction costs associated with negotiating and formalizing land leases with traditional land custodians, enhancing the willingness and ability of farmers to invest in on-farm improvements. As a further measure to improve the local profitability of agriculture, the Agriculture Project will finance the improvement of over 950 kilometers of feeder roads, which, along with the trunk roads below, will benefit a total population of more than 120,000 farming households with over 600,000 members. These activities will increase farm incomes from cultivation by US \$450 to about US \$1,000. For many of the poor, the compact intervention will represent an increase of one dollar or more in average income per person per day.

The Transportation Project is expected to open new economic opportunities for rural households by lowering transportation costs, including travel times, for both individuals

and cargo, to markets and social service delivery points. Because the N1 Highway is a principal route from the south to the Port of Tema, widening the N1 Highway should benefit approximately 150,000 daily users. Upwards of 500,000 people in the surrounding area of Accra, including consumers and agricultural export producers and other users of the highway in the Greater Accra Metropolitan Area, would benefit from the improved operation of the N1 Highway. Rehabilitation and upgrading of trunk roads and expansion of the ferry service in the Afram Basin region are expected to benefit up to 100,000 farm households, most of which are among the rural poor.

By improving both the community-service infrastructure and enhancing local government capacity to provide, operate and maintain community services related to this infrastructure, the Rural Services Project should benefit several tens of thousands of households, decrease the incidence of disease and the time spent collecting water and fuel, and increase school attendance, which in turn should lead to greater productivity. Linking banks and their branches nationwide via a wide-area network should increase access to financial services for the entire population of Ghana, especially in remote rural areas, in the form of savings, credit or cash transfers and remittances. Finally, strengthening of public sector procurement capacity will improve execution of the Support for Community Services activity directly and, more generally, all citizens of Ghana with material improvements in performance of the entire public sector.

In conclusion, as a first approximation, the program is anticipated to help directly alleviate the poverty of over 230,000 Ghanaians, and to substantially enhance the livelihoods and welfare of over one million Ghanaians in the aggregate.

IV. Program Management

Through an act of its Parliament, the GoG has created the Millennium Development Authority (MiDA) that will serve as the entity accountable for the implementation of the program under the Compact. MiDA will be governed by a Board of Directors comprised of members of GoG, the private sector, and the non-governmental organization (NGO) community. A chief executive officer will manage the day-to-day activities of MiDA and will be supported by key officers in the areas of operations, agriculture, infrastructure, financial services, land, and administration. MiDA will remain accountable for the successful execution of the program while working through project implementers, whose interaction will be facilitated by a fiscal and procurement agent. As an organ of the GoG, MiDA will be subject to GoG audit requirements alongside those audit requirements of MCC under the Compact.

V. Other Highlights

A. Consultative Process

Ghana's Poverty Reduction Strategy process provided the basis for its process of consultation regarding the development of its proposal for the program. Specifically, in 2004, the GoG held the first of a series of Compact-related consultations with civil society members of the Ghanaian Association of Private and Voluntary Organizations in

Development. Subsequent consultations included: (i) initial consultations with stakeholders at both the national and local levels to focus the program's objectives; (ii) consultations with stakeholders in each district within each Intervention Zone throughout the design of the program regarding the exact type of interventions, proposed locations, arrangements for implementation, as well as the ownership structure for certain infrastructure investments; (iii) consultations with NGOs representing the environmental and social sector (including women and youth), local agribusinesses and farmers. MCC observed a number of the consultations, both local and national. The consultative process is ongoing and is expected to continue through the term of the Compact.

B. GoG Commitment and Effectiveness

The GoG is committed to assembling a capable team to staff MiDA. Recruitment is underway currently for the chief executive officer of MiDA and 13 other key officers who will directly support the implementation of the program. The incumbent Minister of Public Sector Reform, who led the GoG's team to develop the Compact, will become the chair of the board of directors of MiDA. Other members of the board will come from line ministries directly relevant to the program, and the private sector and NGOs as a means to provide feedback on the implementation of the program. One advisory committee for each Intervention Zone will be formed to bring the on-the-ground perspective back to the MiDA. President Kufuor remains engaged, providing leadership and ensuring that MiDA will have the inter-ministerial cooperation necessary for the success of the program. In addition, the GoG will undertake to make up eventual shortfalls in funding, if any, necessary to sustain the program in such areas as road maintenance, community services recurrent costs, and environmental mitigation.

C. Sustainability

The activities under the Agriculture Project will create new and strengthen existing input suppliers, processors and marketers and enhance a climate that attracts additional outside investment in the agriculture sector, thus leading to its continued growth. The GoG has affirmed that it will maintain the rehabilitated roads in accordance with standards that have been agreed with the broad donor community and will increase funding commitment to the road sector accordingly. MCC is requiring from GoG that it will provide for the staffing, equipping, and other recurrent costs of new (and some existing) infrastructure investments. Selection criteria for community services infrastructure will also stipulate a minimum level of community contribution to investment and participation in upkeep of new facilities. Environmental and social sustainability of the program will be enhanced through oversight and ongoing public consultation. The Rural Services Project will include a capacity building component to reinforce participatory planning, procurement, financial management, maintenance planning and budgeting, operations and maintenance of physical infrastructure. MCC investments in secure land access will emphasize community consultation and resolution of disputes, important for durable secure tenure.

D. Environment and Social Assessments

According to MCC’s environmental guidelines, the Agriculture Project is classified as “Category A” (with the exception of the credit-related activity that is classified as a “Category D” and requires lending guidelines that stipulate environmental requirements). Specifically, potentially adverse environmental impacts may result from the irrigation retention ponds and weirs, the feeder roads, and large-scale agricultural intensification and conversion (e.g., deforestation, monoculture). The Transportation Project is classified as “Category A” due to potentially adverse site-specific impacts resulting from improvements to the N1 Highway and select trunk roads, including the acquisition of, or compensation for, approximately 800 permanent and temporary structures (e.g., containers and kiosks) on the N1 Highway’s right of way. Furthermore, there will be both induced and cumulative impacts on the Afram Basin region resulting from increased access provided by the trunk roads and ferries. The Rural Services Project is classified as “Category B” and will require selection criteria for provision of community services that take into account environmental and social impacts.

Overall, because of the breadth and scope of the proposed program, strategic environmental assessments and baseline studies will be required for each Intervention Zone prior to initiating any required project-specific environmental impact assessments and substantial investment in physical infrastructure. Environmental management plans and resettlement action plans will be developed for all Projects as necessary. The environmental and social benefits expected from the Compact include enhanced livelihoods, greater access to social services, and more sustainable agricultural practices, ultimately leading to reduced slash and burn agriculture and improved soil quality.

E. Donor Coordination

The \$547 million Compact will place the US among the top three donors to Ghana. As such, donor coordination is particularly important to ensure that MCC’s investment is building upon and complementing the work of other donors.

There are significant complementarities between the program and current donor activity in Ghana. The Agriculture Project, for instance, will build upon activities pioneered by U.S. Agency for International Development’s Trade and Investment Program for a Competitive Export Economy (TIPCEE), and those developed under the Agricultural Services Sub-Sector Investment Project supported by the World Bank, the UK’s Department for International Development (DfID), African Development Bank, the International Fund for Agricultural Development and others. TIPCEE activities are expected to continue during the course of the Compact.

In implementing the Transportation Project, MCC is working alongside several other donors active in the sector, namely the World Bank, European Union, Danish International Development Agency and DfID to avoid duplication and to ensure policy coordination.

MCC is basing its investments under the Rural Services Project on an existing Community Based Rural Development Project (CBRDP) financed by the World Bank and Agence Française de Développement. The MCC investments will extend the

services of the program implementation unit developed under the CBRDP and the capacity building activities financed in the project will use the existing training program piloted by CBRDP.