
Factors Affecting Economic Growth in Ghana:

Bases for a New USAID
Approach to Economic
Growth

Sibley International
October 2008



**Factors Affecting Economic Growth in Ghana:
Bases for a New USAID Approach to Economic Growth**

Prepared for USAID/Ghana

by

Tom Easterling

James W. Fox

Fenton B. Sands

under

Contract EEM-I-02-07-00003-02

issued to

Sibley International

October 2008

ACRONYMS

Acronym	Meaning
BDS	Business Development Services
CEPS	Ghana Customs Bureau
CTO	Cognizant Technical Officer
DCA	Development Credit Authority
DFID	Department for International Development, U.K.
EBD	Export Business Development
EE	Enabling Environment
EMQAP	Export Marketing and Quality Awareness Project
EU	European Union
FASDEP	Food and Agriculture Sector Development Policy
FIAS	Foreign Investment Assistance Service of IFC/World Bank
FINSSP	Financial Sector Strategic Plan
GAP	Good Agricultural Practices
GAVEX	Ghana Association of Vegetable Exporters
GDP	Gross Domestic Product
GEPC	Ghana Export Promotion Council
GIPC	Ghana Investment Promotion Council
GIS	Global Information System
GISPA	Ghana Internet Service Providers Association
GOG	Government of Ghana
GPRS	Growth and Poverty Reduction Strategy
GSB	Ghana Standards Board
GTZ	Gesellschaft für Technische Zusammenarbeit – German Development Agency
HACCP	Hazard Analysis and Critical Control Point
HEII	Horticulture Exports Industry Initiative
IEHA	Initiative to End Hunger in Africa
IFC	International Finance Corporation
ICT	Information, Communications and Technology
IFAD	International Fund for Agricultural Development

IFC	International Finance Corporation
M&E	Monitoring and Evaluation
MCC	Millennium Challenge Compact
MiDA	Millennium Development Agency
MSMEs	Micro- Small, and Medium Enterprises
MOFA	Ministry of Food and Agriculture
MOFEP	Ministry of Finance and Economic Planning
MOU	Memorandum of Understanding
NGO	Non-Governmental Organization
NPA	Non-project Assistance (budget support in USAID argot)
NLC	National Labor Commission
NRGP	Northern Region Growth Program
PMP	project management plan
PSDS	Private Sector Development Strategy
RAFiP	Rural and Agricultural Finance Program
RCB	Rural/ Community Bank
RFSP	Rural Financial Services Project
SPS	Sanitary and Phytosanitary
TFP	Total Factor Productivity
TIP	USAID Trade and Investment Program
TIRP	USAID Trade and Investment Reform Program
TIPCEE	Trade and Investment Program for a Competitive Export Economy
TSSP	Trade Sector Support Program
UN	United Nations
UNDP	United Nations Development Program.
USAID	United States Agency for International Development
VAT	Value-added tax
WBI	World Bank Institute
WTO	World Trade Organization

Table of Contents

Executive Summary

1. Introduction
2. Background
3. GOG Policy Framework and Implementation Capacity
 - a. GPRS-II, FASDEP-II, the Long-Term Development Plan, Agricultural Sector Development Plan, and the Trade Policy Sector Strategy
 - b. Linkages between GOG planning goals and implementation capacity
4. A Review of USAID's SO 6 Activities
 - a. Summary of the findings from the TIPCEE evaluation
 - b. Assessment of the GSSP project
 - c. Review of other SO 6 Activities
5. Factors Affecting USAID Assistance to Ghana
 - a. GOG Policies and Implementation Capacity
 - b. Other Donor Programs
 - c. The Paris Declaration and Accra Action Agenda
 - d. USAID EG strategy and OP considerations
 - e. USAID's comparative advantage
 - f. Linkages with other USG programs, notably the MCC
 - g. Constraints to Agricultural Development in Ghana
6. A Prioritized Program Development Framework for USAID

Documents Cited

Executive Summary

USAID Results and Potential for Growth

USAID's past efforts in TIP, TIRP and TIPCEE are analyzed in detail in the full report, responding to the question, "Is USAID getting anywhere?" The answer to this question is important in thinking about future USAID activities aimed at promoting economic growth. If USAID efforts in the past in Ghana in export and economic growth promotion have yielded little, there is scant reason, short of a total rethinking of the USAID approach, for expecting better in the future.

Fortunately, the past USAID track record, though mixed, has promoted forward progress. Each of the three projects addressed a different, and evolving, development context. And each achieved significant results that helped Ghana move to a more advanced stage, requiring a different type of intervention. And through its past projects, USAID has experimented with various different sectors, looking for export engines. This is a sound approach, as Ghana would benefit from being able to export its abundant resources – low-cost labor and abundant land and natural resources – to countries with different endowments.

TIP supported export horticulture along with non-traditional exports generally, as well as exports of tourism services. Much of TIRP focused on macro policy issues and government finances – financial reform, improvements in tax and expenditure systems in the national government. The EBD portion promoted export horticulture, but also exports of handicrafts, wood and furniture, textiles and apparel, as well as tourism. TIPCEE narrowed the focus to the main chance – export horticulture – but its efforts in some promising areas were attenuated by the shift in project focus required by USAID 1-1/2 years into implementation.

Both TIP and TIRP identified the relative lack of foreign investment in Ghana as a significant impediment to the pace of modernization, to technological progress, and to access to foreign markets. TIP NPA was conditioned on the creation and staffing, with help from the IFC/World Bank FIAS, of the Ghana Investment Promotion Council. TIRP attempted to strengthen GIPC, with few results to show for the effort. Thus, albeit with numerous failed experiments and dead ends, USAID has moved to support the most promising emerging export sectors. There is little doubt that Ghana is a more prosperous place, with far more developed systems and capabilities in relevant export sectors, particularly horticulture, than it had at the beginning or end of TIP or at the end of TIRP. Real progress has been made, big time.

Nevertheless, the lack of up-to-date and reliable export statistics in the country is an important impediment to the country's insertion into the world economy. Its trade/GDP ratio has increased substantially over the last two decades, but Ghana still benefits too little from international trade. A more focused effort by the government to increase exports, based on much more up-to-date tracking of exports and foreign investment, is a critical component for achieving the goal of GPRS-II: reaching middle-income status by 2015.

The Way Forward

Ghana's GPRS-II is an important step forward for Ghana. Notably, there was a change in the name, from Ghana Poverty Reduction Strategy for GSPR-I, to the Growth and Poverty

Reduction Strategy for GPRS-II. This reflects the different mindsets in the two documents, with growth, and achieving middle-income status the overarching principle of the latter strategy.

Overall, USAID is a small player in Ghana, especially in the area of economic growth promotion (perhaps 1.3% of all donor resources aimed at promoting economic growth). Nevertheless, USAID has shown that it can be effective in using its flexibility, quick response with high-quality technical assistance and private-sector orientation to find niches where big things can happen. Indeed, USAID's efforts to promote pineapple exports from Costa Rica may have inadvertently contributed a bit to the development of the MD-2 variety that has made Costa Rica the leading exporter of pineapple in the world, to the detriment of Ghana.

Our assessment of the Ghanaian situation and opportunities at present makes us believe that a continued focus in the policy areas of trade, agriculture and finance is likely to have the highest payoffs. In terms of direct support to agriculture, we recommend a continuation of the bifurcated strategy of promoting value chain development for both export horticulture and increased productivity in the production of basic staples.

In the case of export agriculture, a World Bank study in 2007 (World Bank CEM, Volume 2) of the potential for various sectors of the economy to produce increased exports identified six sectors as having potential for rapid growth, either now or in the longer-term future. They concluded that two – horticulture and fisheries – “are big wins” in the near term. (The near-term future for fisheries may be more modest than the study expects, as over-fishing may be occurring both in Lake Volta and in the offshore waters, and aquaculture is nowhere near picking up the slack.) The study suggests that palm oil and other vegetable oils have potential in the medium term, and wood and metal products promising in the longer term. This agrees with our assessment that horticulture is the most-promising sector for near-term progress in exporting.

There is still much to do in strengthening value chains in both export agriculture and basic staples – promoting stronger linkages between input providers and buyers with small producers, and finding ways to improve the flow of finance to the sector. Technology may help to ease some of the problems with payments between different parts of the value chain that are taken for granted in more developed economies.

The strategy identifies a key role for increased direct foreign investment, both in export horticulture and (especially) in agro processing and marketing. Both TIP and TIRP tried to support a GOG-owned investment promotion organization, the Ghana Investment Promotion Council. Both efforts failed to achieve much. So it is with much more in the way of hope than experience that we recommend another effort in this area. Increased foreign investment is needed, to bring new technologies and managerial styles to Ghana and to improve access to the key horticultural product markets in the EU and elsewhere. Such an effort will not succeed with GIPC without strong and firm support from the top of the Ghanaian government. We understand that GIPC's new head is seeking to revitalize the institution, even though we have not had an opportunity to confirm this.

The basic goal of the new strategy would be to *Transform Agriculture into a Modernized Sector that Makes a Substantial Contribution to Overall Economic Growth.*

Agriculture is still the bedrock of the Ghanaian economy. The majority of its population, and more than 40% of the country's GDP, originate in agriculture. Therefore, the only way the country can reach its ultimate development goal is to modernize and transform the agricultural sector. Raising productivity and expanding market access for output is one of the ultimate objectives of this effort. This can be achieved by increased access to a package of modern agricultural technologies – e.g., high-yielding varieties of seed, chemical fertilizers and pesticides, and irrigation – together with broader improvements in infrastructure, particularly transportation and rural electrification. A strong, active and real partnership between the public and private sector is essential. They each have key roles to play. Since agriculture is dominated by smallholder agriculture, part of the impetus for making modernization happen needs to come from the public sector, which provides investments in public goods, such as infrastructure. Public policies need to be proactive in facilitating access to modernized means of production and marketing and linking smallholders to both input and output markets. The private sector has to be the means of delivering the goal and vision of achieving vibrant economic growth.

Commercialization based competitive business practices is critical to achieve agricultural transformation – the area in which one finds the strategic importance of the private sector. Productivity gains can be obtained from increased specialization and commercialization made possible by the development of more reliable and lower-cost markets and institutional arrangements. The span for commercialization can be both for domestic markets as well as international markets -- both regional and beyond.

Any approach USAID takes today will be tightly coordinated with the GOG, donor partners, other USAID/USG programs, and private sector partners. In this respect, the Mission can be highly selective and focused on interventions that complement what others are doing based on each other's comparative advantage built up over the years.

The proposed framework for a future initiative for agribusiness development in Ghana is composed of the six elements. The first two are critical and central, while the final four support the first two.

1. Economic growth through the export of high-value agricultural products
2. Poverty reduction through the production and marketing of food crops
3. Promote and support foreign direct investment (FDI) in agribusiness
4. Policy analysis, dialog, advocacy, and change
5. Matching grants for business development activities
6. Business management training for mid- level and senior agribusiness managers and entrepreneurs

1. Introduction

The team of consultants was contracted by USAID/Ghana to carry out four tasks:

- To review factors affecting foreign assistance to Ghana
- To review ongoing programs under Strategic Objective 6
- To assess the ongoing TIPCEE project, and
- To formulate a prioritized program-development framework for a future USAID/Ghana strategy in economic growth promotion

This report covers the first, second and fourth tasks. A separate report has been prepared assessing the TIPCEE project. The consultants spent four weeks in Ghana in September and early October 2008, meeting with relevant GOG, Donor Partner, and private-sector leaders, reviewing documents relating to the Ghanaian economy, growth prospects, and past experience, and consulting frequently with the staff of USAID/Ghana.

2. Background

a. Trends in Ghanaian Development

Ghana was the first of the colonial African countries to gain independence, doing so in 1957 under the leadership of Kwame Nkrumah. Like many others, Nkrumah believed that independence would set off an upward spiral of prosperity as the colonial yoke was lifted. He had earlier predicted, "If we get self-government, we'll transform the Gold Coast into a paradise in ten years," (cited in Yergin and Stanislaw 1998, 84). Unfortunately, Nkrumah's prediction was not realized.

Nkrumah's policies of forced industrialization through heavy government ownership, government control of foreign trade, and a large government bureaucracy failed to achieve their purposes. Nkrumah was deposed in 1966 during an economic downturn. Several subsequent governments continued the same policy orientation, worsened by increasing levels of corruption that led some to term the Ghanaian government a "vampire state," preying on the people of the country (Austin 1996). Karikari (1995, 85) provides econometric results showing that from 1963 to 1984, "... the impact of government on economic growth was unambiguously negative."

Per capita income remained about constant during the 1960s, but fell sickeningly through the 1970s and early 1980s. In 1984, after the existing model had clearly been shown to have been disastrous, the government began a structural adjustment program with the World Bank and IMF. Unlike many such programs, the original design and subsequent implementation occurred under strong Ghanaian leadership. The process appears to have been a very collaborative one between the host government and the international agencies (Tsikata 2001, 80–82.) Although many steps to free the economy were taken at the outset of the program, the reform process is best described as steady gradualism. Retrenchment of the bloated government bureaucracy,

privatization of government enterprises, freeing up of the market for cocoa, and reducing the cocoa export tax have all occurred gradually and incompletely.

The process of reducing Government management of private sector activities in the economy since 1984 has been slow, but relatively steady. Producers in the key cocoa sector gradually began to get a larger fraction of the value of their production. Their share had shrunk to as low as 10% of the export value of their production as the government had increasingly diverted cocoa earnings to finance government. Other changes in policy appeared gradually, and the pace of progress increased during the 1990s. Exchange rate and trade reforms were implemented, extensive price and distribution controls were dismantled, the fiscal system rationalized with a consequent reduction in inflation from 75 percent in the early 1980s to 10 percent in the early 1990s. As a result of these efforts, GDP growth averaged 5 percent, poverty was reduced, and social indicators improved.

Nevertheless, serious fiscal problems emerged several times during the 1990s, notably in 1992 and 1999. By the late 1990s, there was still a long agenda of unfinished reforms in the public sector, and private sector development continued to lag. But overall, growth after 1983 has been remarkably stable. Per capita income rose every year but one (1990) between 1984 and 2001, and subsequent growth has been even faster and more stable.

Economic growth since 1990 has resulted in a significant decline in poverty. The overall poverty rate fell from 51.7% of the population in 1991-92 to 39.5% in 1998-99, and then to 28.5% in 2005-06. Ghana is likely to be the first African country to meet the Millennium Development Goal of reducing poverty by half.

Besides achieving faster economic growth in recent years, productivity in the economy appears to be growing faster. The World Bank has estimated the growth of total factor productivity (TFP), a measure of how fast productivity is growing in the economy apart from increased inputs of capital and labor for the period 1990-2005. Their model shows TFP growth during 1990-2000 was essentially zero (i.e., all the growth came from increased use of land, labor and capital). For 2001-05, on the other hand, TFP growth was 1.6% per year overall, and 3.4% per year in the agricultural sector.

Essentially all of the difference in the growth rate from the 1990's average of 4.1%/year to the 2001-05 rate of 5.2% was due to growth in TFP. Some things in the policy environment clearly have improved.

Table 1
Ghana
Productivity Growth, 1990-2005

Period	GDP Growth	Total Factor Productivity	Agri Sector Total Factor Productivity
Indicator	% avg	%/yr	%/yr
1991-95	4	0.1	-1.7
1996-00	4.2	-0.1	0.9
2000-05	5.2	1.6	3.4

Source: World Bank, Country Economic Memorandum, 2007, Vol. 2

Digression on a key environmental question: Will the coming of oil in 2010 and later wash away any gains from horticultural investments by USAID and others?

It depends on how the Government of Ghana deals with the expected revenue inflow. Most countries faced with an oil bonanza have dealt with their new wealth rather poorly. It is easy to make the case, for example, that Nigeria would be far better off today, with its ordinary citizens having a much higher living standard, if oil had never been discovered.

Indonesia is generally seen as the lone developing country oil exporter for whom oil did not drown everything else. The Indonesian response is instructive. Indonesia did four things right. First, it devalued the currency to assure the continued rapid growth of its emergent manufacturing sector (much based on EPZs) despite the lack of any balance-of-payments rationale for doing so. Second, it launched a large-scale infrastructure effort – energy, roads, irrigation, telecommunications – that plowed the oil earnings into investment. Because the import content of these investments was typically high, the rapid growth in imports soaked up much of the earnings from oil. The effort also created millions of jobs, much of it for relatively unskilled labor in the construction work that was involved. Third, it focused much of the infrastructure work in rural areas, which led to big productivity increases as farmers acquired irrigation and easier access to urban markets. They were further encouraged by high-quality technical assistance on the staple crop (rice) that led productivity to more than double. Finally, Indonesia developed efficient, sustainable rural financial intermediaries. These intermediaries used high interest rates for savings accounts to capture large amounts of savings from the growing prosperity in rural areas. In fact, these rural banks were used more extensively by the rural population for savings than for borrowing.

Another country (Colombia) provides a cautionary tale that can also inform the Ghanaian case. In the 1970s, Colombia launched a national development plan based on investment in urban housing and infrastructure, using inflation-indexed savings accounts and mortgages to encourage

the necessary growth in private investment. The program ultimately came undone because the increased urban demand for food (with little investment in increased agricultural production) led to rapidly increasing food prices, which led to the undoing of the inflation indexing system. The TIPCEE innovations with food crops in Ghana would seem to be a timely way to prevent a recurrence of the Colombia experience. If staples production begins to rise rapidly at the same time that oil-induced income increases lead to increased demand, it could be a perfect synergy. The technology for more productivity in agriculture arrives just in time for the increased demand for such crops, creating additional demand just when needed, and avoiding the inflation on food prices that typically accompanies booms.

The oil boom aside, there is much room for optimism about the future growth of Ghana. There is far more pessimism about Ghana than would seem warranted by the objective circumstances. Yes, one can parade a long list of constraints and obstacles to Ghanaian growth. (A later section provides such a list.) Yet it is difficult to square this pessimism with the obvious success of Ghana over the last two decades – and especially the period since 2000. Yes, agriculture is in terrible shape, but agricultural production has grown by more than 4% every year since 2000. There are few countries that have been able to achieve a similar growth record.

In the last several years, the growth rate of agriculture has exceeded that of the total economy, a result that most economists would regard as anomalous. Yes, there are lots of poor people in Ghana who seem to have benefited little from economic growth. Yet, Ghana will be the first African country to meet the MDG goal of halving poverty in the country. Some have been left behind, but far more have benefited significantly. (And living-standards surveys are a limited picture of reality, requiring huge and often unacknowledged leaps of faith into theory. They are not reality. Notably, the recent Afro-Barometer survey of public sentiment in Ghana found that respondents in the Upper West – the region that donors lament as been having been completely left behind – were the most supportive of government policies and of the general direction of the economy of any region in Ghana.

There are problems. In the export horticultural sector, there has been significant contraction of the smallholder sector, particularly in pineapple. This has been due first to increasingly stringent standards for acceptance in developed country markets, which have been difficult for small producers to manage. Second, the shift in market demand toward MD-2 pineapples – which requires substantial investment and higher production costs – has eliminated producers without deep pockets and good technological capabilities. In sum, the export market has moved away from the smaller producer.

In sum, Ghana has shown that it can grow in a sustained way, and that “constraints” have not stood in the way in the past, so there is little reason to expect them to be more constraining the future. The resources that this country can command are huge. With serious commitments by Ghanaians, and smart aid by donors, there is good reason to hope for a better tomorrow.

b. USAID’s Efforts: TIP, TIRP, and TIPCEE

For the past 14 years, USAID has been promoting economic growth in Ghana through policy recommendations and through promotion of Ghanaian exports. Understanding what these

activities did and did not do is an important step toward identifying the road ahead. USAID's past efforts in TIP, TIRP and experience with TIPCEE need to answer the question, "Is USAID getting anywhere?" The answer to this question is important in thinking about future USAID activities aimed at promoting economic growth.

If USAID efforts in the past in Ghana in export and economic growth promotion have yielded little, there is scant reason, short of a total rethinking of the USAID approach, for expecting better in the future. This section describes the projects, their successes and failures, and their contribution to economic growth in Ghana.

The Trade and Investment Project (TIP). This project, which ran from 1992 to 1997, included \$60 million in non-project assistance (NPA), and \$20 million for promotion of exports. The NPA was aimed at policy improvements in the trade sector. Altogether, TIP had a total of 48 conditions to trigger its 5 tranches. A number of these related to the creation and staffing of the Ghana Investment Promotion Council (GIPC), increased staffing and programming for the Ghana Export Promotion Council (GEPC), establishment of a Trade Policy Unit (TPU) in the Ministry of Trade, and establishment of a Trade and Investment Management Unit (TIMU) and a Trade and Investment Management Office (TIMO). TIP claimed numerous improvements in the policy environment relating to trade, including elimination of foreign exchange controls in 1995 (with the consequent elimination of the 2% fee that commercial banks charged for processing such applications), reducing processing time for exports from 7 days to a few hours. Much of this was contained in the conditionality for tranche releases.

On the business-development side, TIP provided support for emergent exporters with technical assistance, mainly through business associations, and access to financing through an export finance guarantee fund. The project sought to increase non-traditional exports from \$62 million in 1991 to \$250 million in 1997. In fact, USAID reporting put the actual total for 1997 at \$300 million. Clearly, something good happened, even though USAID's role in causing this is uncertain.

No final evaluation was done for TIP. A USAID report stated near TIP's end that USAID had concluded that export promotion alone was not enough. The overall macroeconomic policy framework needed to be addressed if exports were to grow satisfactorily.

The Trade and Investment Reform Program (TIRP). The mixed results from TIP led USAID to give much more emphasis to macroeconomic policy in the follow-on program, TIRP. Two contracts were awarded, one to Sigma One for the policy portion of the project, and another to TechnoServe/CARE for business services. Altogether, USAID provided \$61 million in project funding for TIRP, and another \$14 million in NPA.

Much of TIRP focused on macro policy issues and government finances – financial reform, improvements in tax and expenditure systems in the national government. The business development services (BDS) portion of TIRP promoted a number of export sectors, working both through associations (e.g., PEF, FAGE, ATAG), Firm-level assistance included textiles, apparel and handicrafts (126 firms assisted) export horticulture (39 firms assisted), wood and furniture (39 firms assisted), as well as tourism. Pineapple exports took off during TIRP, rising from

9,700 tons in 1998 to 70,000 tons in 2004 (the last year of TIRP), producing \$47 million in export earnings, before a change in market preferences in Europe to the MD-2 variety caused a decline in Ghanaian exports. Even with the decline, Ghana still exported 47,000 tons of pineapple in 2007 – more than five times the level nine years earlier.

TIRP also sought to promote greater coordination within the GOG by establishing an Inter-Ministerial Competitiveness Council, (IMCC), which was intended to meet quarterly. The IMCC only meet two or three times over the period of TIRP before being disbanded.

The Trade and Investment Project for a Competitive Export Economy (TIPCEE). TIPCEE narrowed the focus of USAID attention in export promotion to the main chance – export horticulture. But these efforts in some promising areas were attenuated by the shift in project focus required by USAID 1-1/2 years into implementation. The project shifted its primary focus from export horticulture to domestic staple production. TIPCEE also worked on policy issues in trade, finance, agriculture, energy, macroeconomics, labor, and ICT. The project included embedded advisors in the ministries of finance and trade and in the Bank of Ghana. The detailed analysis of TIPCEE is contained in a companion report. That report's main findings are as follows:

1. In light of its overall objectives, TIPCEE is an effective program and a good use of USAID/Ghana's funding.
2. TIPCEE has developed highly creative, effective materials for farmer training, and it has developed innovative approaches to solving industry-wide problems in support of agricultural production and exports.
3. The Enabling Environment (EE) component has worked to support the project's Export Business Development activity, and has been instrumental in solving several major policy problems in Ghana. Its use of embedded advisors within different government ministries and institutions is particularly effective.
4. There are numerous opportunities for agribusiness development, including agro-processing in Ghana. Value chain concepts will be the most effective means for developing targeted agro-industries.
5. The shift in TIPCEE from a primarily focus on economic growth through export horticulture to a focus on poverty reduction through the production of food crops has had an adverse effect on the achievement of export goals.
6. TIPCEE has an excellent opportunity to collaborate with the Millennium Challenge Compact and with the International Fund for Agricultural Development within their respective operating areas.
7. Notwithstanding TIPCEE's involvement with private sector development, government officials at MOFA as well as MOFEP believe that the project should be more forthcoming by providing more information and better coordination on project activities, and those relevant government officials should have greater involvement in the planning and design of future projects.

Where did these projects succeed, and where did they fail? The projects have sought to assist Ghana in three areas: government and private institutions; trade-related policies; and actual outcomes in increased exports. Success and failure in each is discussed below.

Institutions. The extensive efforts to promote institutional innovations within the government (GIPC, GEXP, TPU, TIMU, TIMO, IMCC, and NEF) clearly were disappointing. Similarly, efforts to strengthen business associations related to exporting, most notably FAGE, did not move these organizations any closer to sustainability than they had been before USAID assistance. Nevertheless, the fact that FAGE and several other private associations were still in existence in October 2008 suggests sustainability at a low level of activity.

There was a particular failure with regard to the two government institutions most linked to the areas where USAID considered most essential for future economic growth – increased foreign investment and increased exports. Both TIP and TIRP identified the relative lack of foreign investment in Ghana as a significant problem that slowed the pace of modernization, of technological progress, and of access to foreign markets. TIP NPA was conditioned on the creation and staffing, with help from the IFC/World Bank’s Foreign Investment Advisory Service, of the Ghana Investment Promotion Council. TIRP attempted to strengthen GIPC, with few results to show for the effort. NPA assistance was also conditional on the strengthening of the Ghana Export Promotion Council (GEPC).

The first two exist today, but both are accounted to be ineffective in contributing to Ghana’s TSSP (Maxwell Stamp, 2008). The head of GIPC as of May 2008 professed to be unaware of the existence of the TSSP. The web pages of both institutions are typical of the low-performing organizations of this type that are typical of countries with little interest in export or investment promotion. Outdated reports and little real information provision characterize both web pages.

Overall, the results of the efforts to strengthen institutions of the Ghanaian government must be judged to have largely failed. But any such judgment needs to be filtered through the evolving character of the Ghanaian government – ruled for most of 20 years until 2001 by a single individual, Jerry Rawlings, before being replaced by an opposition party in 2001. The political evolution during the past two decades means that systems and processes for government ministries are young and evolving. Gradually, these institutions have been moving toward sector leadership, with accountability for their actions and processes. USAID has been active in pushing in the right direction on major issues.

Policies. On the policy side, the judgment is more positive – even though it is seldom possible to attribute credit for policy improvements to particular donors or particular actions. The policy improvements under TIP that were specifically linked to tranche disbursement – ending foreign exchange controls, simplifying export procedures and documentation, and numerous other smaller actions – clearly improved Ghana’s capacity to participate in the world economy.

Export Growth. So what did these projects, in support of the efforts of the Ghanaian government and other donors, lead to in terms of Ghanaian exports? The answer is more difficult to find than it ought to be. Neither Ghanaian nor outside sources, such as the World Bank, IMF, and the ITC seem to be able or willing to assemble a consistent long-term series of Ghanaian exports by type

of product. Table 2 is constructed from USAID reports for the first two projects, and from TIPCEE data for the third.

Three things are of note. First, there were substantial changes in definition of the result to be measured from project to project: TIP focused on all non-traditional exports, TIRP on a selected group, and TIPCEE on horticulture. (The TIPCEE data separates the pineapple and non-pineapple exports in recognition that a technological tsunami hit Ghana in the form of the MD-2 pineapple, for which TIPCEE bears no responsibility. On the other hand, a report for USAID/Ghana in late 2005 by Michigan State University encouraged a “not-to-worry” attitude about MD-2 does deserve some blame.)

Second, there was a considerable increase in the relevant exports under TIP (exceeding the target), apparently poor results from TIRP’s focus on a narrow group of products, and – adjusting for the pineapple problem – notable results from TIPCEE (i.e. a more than doubling of exports of non-pineapple horticulture from \$11 million in 2004, before TIPCEE was underway, to \$25 million in 2007).

Third, the table highlights the tendency for USAID to change the results that are to be expected from its activities every 4-5 years, thus obscuring any long-term consequences of its projects. Did USAID track the indicator for TIP after the end of the project? No. Is there any data on the subsequent trend in the products promoted by TIRP? No. This reflects the typical donor’s view that the project ends when the money runs out. This is exactly wrong. The project *begins* when the money runs out, for it is only then that any real, sustained, impact can begin to be observed. This is clearly the opposite of the performance appraisal system being dictated to overseas missions by USAID/Washington. Its consequence – unless counterbalanced by serious people in the USAID missions in the field – is to subsidize results during the implementation period, even if they evaporate once USAID subsidies are ended. In sum, USAID’s Washington-based systems have created perverse incentives for performance at the country level. Nevertheless, in the Ghana case, no evidence was found in the economic growth projects that USAID/Ghana or implementing contractors did anything but pursue their vision of Ghana’s long-term development, rather than the potentially-ephemeral results encouraged by USAID/Washington’s “results frameworks.”

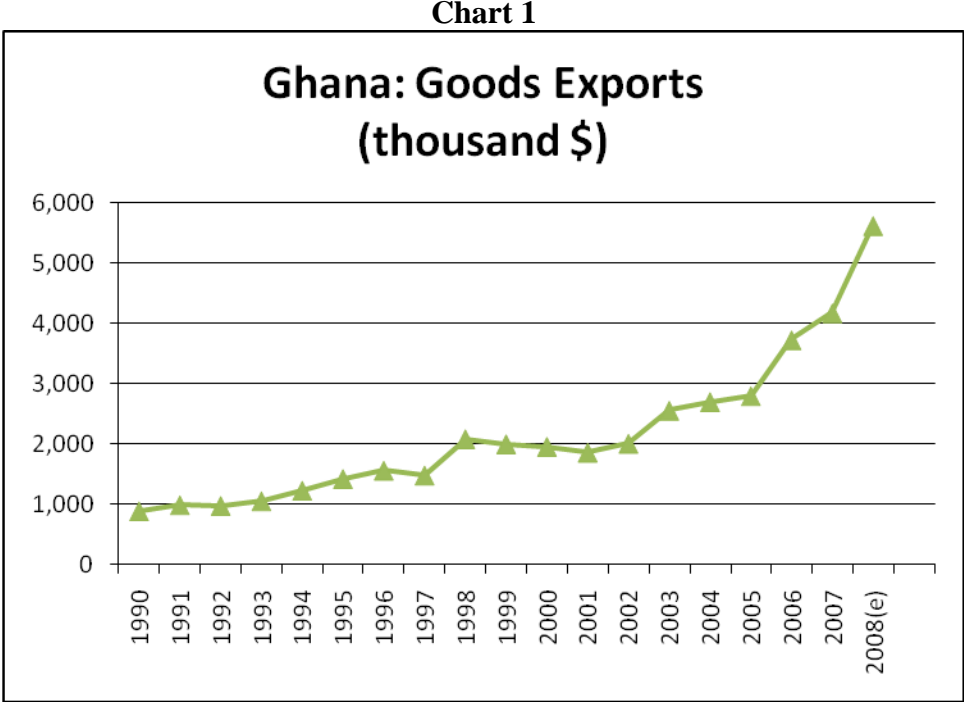
Table 2
Actual Export Results
USAID-Assisted Projects

Indicator	Total Non-Traditional Exports	Selected NTEs	Targeted Horticultural Exports	Non-pineapple Targeted Horticultural Exports
<i>Source</i>	<i>TIP</i>	<i>TIRP</i>	<i>TIPCEE</i>	<i>TIPCEE</i>
1990				
1991				
1992	68			
1993	71			
1994	119			
1995	180			
1996	227			
1997	300			
1998		44		
1999		46		
2000		39		
2001		39	41	14
2002		n.a.	56	14
2003			60	12
2004			58	11
2005			50	13
2006			53	19
2007			53	25

Broadly speaking, neither TIP nor TIRP sought to just get the numbers for some specific products to increase according to some pre-set schedule. Such year-by-year targets were driven by USAID/Washington requirements for measurable quantitative results during the life of the project. USAID/Ghana sought, of course, to meet the targets sent to Washington, but its goal was much broader: to make the Ghanaian economy more competitive and robust by increasing its total involvement in the world market, using all three tools – institutional reform, better policies, and direct export promotion. This broader, but more important, goal did not fit neatly into the boxes established by USAID/Washington, so it never became the basis for judging the success of the USAID effort.

Looking at the trend in total exports over the period since 1990, the overall growth has been impressive. Chart 1 provides this data, based on the World Bank’s WDI, which are apparently

drawn from the export statistics of the Bank of Ghana. Overall, the chart suggests four phases: stagnation during 1990-93, robust growth 1993-98, stagnation from 1998 to 2002, and very rapid growth from 2002 to 2008 (estimated from the six-month actual figures). Overall, exports grew by 178% over the period, a very respectable performance.



Clearly, much of the increase in total exports owes to exogenous factors – the run-up in prices for gold and cocoa, and the decline in the dollar for a country that mainly exports to the EU. Nevertheless, this is a big increase.

Another perspective is shown in Table 3, which shows the trend in both total and non-traditional exports. The latter, as indicated by the table, exclude cocoa, gold, other minerals, timber, aluminum and electricity. The non-traditional values for earlier years come from TIP reports, which also cite a 1986 value for non-traditional exports of \$24 million. Those for 2003 onward come from the Bank of Ghana. As earlier, the 2008 estimate comes from projecting the growth rate for the first half of the year, compared to the same period in 2007. If these figures are to be considered reliable, they represent more than a tripling of NTX between 2003 and 2008. The lack of analysis of this apparently remarkable trend – an annual average growth rate of 29% per year – makes it difficult to decide whether somehow these numbers are quite wrong, or whether, in their “matrix mania,” the GOG and donors have stopped paying attention to big-picture concerns in favor of numbers (or their absence) in each cell of a long list of targets and results.

Table 3
Actual Export Results
Total and Non-Traditional Exports

Indicator	Exports of Goods	Total Non-Traditional Exports
<i>Source</i>	<i>BOG</i>	<i>TIP/BOG</i>
1990	897	
1991	998	63
1992	986	68
1993	1,064	71
1994	1,238	119
1995	1,431	180
1996	1,570	227
1997	1,490	300
1998	2,091	n.a.
1999	2,006	n.a.
2000	1,963	n.a.
2001	1,867	418
2002	2,015	n.a.
2003	2,562	400
2004	2,705	452
2005	2,802	489
2006	3,727	678
2007	4,172	1,056
2008(e)	5,618	1,454

Note: Non-traditional exports exclude cocoa, gold, minerals, timber, aluminum, and electricity

More detailed disaggregation of a consistent data series are needed to properly analyze the extent of, and reasons for, Ghana's apparent export success. **Nevertheless, the lack of easily-accessible up-to-date trends is strongly suggestive that neither the Ghanaian government nor its donor partners is really interested in such trends – and consequently unable to link real facts about the international sector with policy or program implementation.** Countries that have really succeeded in promoting exports – starting with South Korea in the 1960s – have paid great attention to such numbers on a month-by-month basis, seeking adjustments where export growth lagged behind expectations. In Ghana, the numbers look impressive. But the lack of apparent attention by government and donors is very troubling. If export trends suddenly became unfavorable, it appears that no one in the government or the donor community in Ghana would notice slippage until much later.

Overall Assessment of TIP, TIPR, TIPCEE. Clearly, the picture of the effectiveness of past USAID assistance is quite mixed. There were numerous failed experiments and dead ends, including an inability to promote sustainable support institutions in either the public or the private sector. The consequences of USAID's efforts to promote policy reform cannot be determined, but the fact that exports have performed so well in recent years suggests that USAID was pushing in the right direction. In its business development efforts, USAID experimented, and has gradually moved to support the most promising emerging export sectors. There is little doubt that Ghana is a more prosperous place, with far more developed systems and capabilities in relevant export sectors, particularly in horticulture, than it had at the beginning or end of TIP or at the end of TIRP. The export numbers are the best indicator, as they reflect the willingness of the rest of the world to purchase Ghana's production. Pineapples, despite Ghana's slowness in responding to changing market conditions, went from very little to a lot. Non-traditional exports overall showed spectacular progress – from \$63 million in 1991 to \$1.1 billion in 2007. In sum, real progress has been made, big time.

3. GOG Policy Framework and Implementation Capacity

a. Planning Goals

The Government of Ghana produced a development strategy in 2003, Ghana Poverty Reduction Strategy-I, drawing on wide consultations with the different sectors of the country. In 2006, it produced an updated strategy, which gave greater emphasis to faster economic growth. To emphasize the new focus, the title of GPRS-II was changed from the previous strategy to the Growth and Poverty Reduction Strategy. As articulated in GPRS-II, **The central goal of the new policy is to accelerate the growth of the economy so that Ghana can achieve middle-income status within a measurable planning period.**

Numerous other planning documents, each prepared to draw upon the basic approach in GPRS-II, draw upon this overarching goal to offer more detailed plans and implementation programs aimed at reaching the overarching goal. The Long-Term Development Plan, 2009-2015, currently in draft, reiterates the goals of GPRS-II, but adding a longer-term goal of reaching middle-income status by 2015.

FASDEP-II, the Food and Agriculture Development Policy, seeks to promote changes in the agricultural sector that will make agriculture a leading sector in the march to middle-income status. The Agricultural Development Strategy Plan, still in draft, is intended to provide implementation targets, benchmarks, and to assign responsibility for specific activities. It also identifies donor partner activities in support of the plan. The Trade Sector Strategy Plan (TSSP) provides a similar plan for the trade sector, and another document lays out a similar plan for the financial sector.

In sum, the Ghanaian planning framework at the strategic level is impressive. Much effort by both GOG ministries and donor partners is evident in the results. The numerous matrices identifying actions, action entities, and donor partner support create the impression of a well-oiled machine to translate broad strategic concepts into specific actions.

b. Link between Planning Goals and Implementation Capacity

If GOG planning goals are clear, consistent and appropriate, the capacity to implement them is weak, inconsistent, and often off-target. The GOG capacity to carry out the ambitious development strategy outlined in GPRS-II varies widely across ministries, with the ministry of finance and the Bank of Ghana the strongest, and other ministries considerably weaker. The Ministry of Trade is considered relatively weak. A recent assessment (Maxwell Stamp, 2008) concluded that "...modern management methods have not yet been introduced; there is no business plan with precise medium-term objectives and apart from the senior management the rest of the professional staff requires serious training in order to fulfill their tasks successfully."

Near the bottom of the heap is the Ministry of Food and Agriculture, MOFA. Like many of its counterparts in Africa and Latin America, the MOFA is an institution where the stated policy goal – support for a dynamic private-sector-led modern agriculture – is often inconsistent with the actual activities carried out by the ministry. Further, a revolving door for ministers and other senior officials, combined with fiefdoms of special interests in the central ministry, overstaffing of the central office, and a shortage of funds for regional and district offices to actually carry out programs are all symptoms of this dysfunction. One only need read the summary of the donor-MOFA joint review in June 2008 to be depressed about either the willingness or the capacity of the Ministry to carry out the ambitious program identified in FASDEP-II.

In sum, the Ghanaian strategic concept is very sound, but the GOG's capacity to implement it is weak, particularly in the areas – trade and agriculture – that are central to the USAID strategy in Ghana.

4. A Review of USAID's SO-6 Activities

a. Findings from the TIPCEE evaluation

The main findings from the TIPCEE evaluation are summarized above, in Section 2 (b). In essence, the project was judged to be very effective, despite USAID's radical revision in the goals of the project nearly one-third of the way toward project completion.

b. Assessment of the GSSP project

The GSSP project, managed by IFPRI, is an effort to develop a comprehensive analytical information system to build capacity for policy makers in Ghana to better direct government resources and investments in the agricultural sector. The program provides new and proven policy tools, economic modeling and data analysis, involving a broad range of institutions and other donors working in Ghana. GSSP also integrates existing data and information and works with USAID implementation partners and other donors, GOG institutions and private sector associations in formulating strategies for the agricultural sector.

The program has been able to create a niche in research and has been able to provide knowledge-based services that donors, the government of Ghana and other stakeholders can identify with. The program has helped to provide an avenue for improving analytical capacity amongst stakeholders namely the Ministry of Finance and Economic Planning, Ghana Statistical Service,

National Development Commission, ISSER, University of Ghana and University of Cape Coast. GSSP has collaborated with these institutions to prepare analytical research papers that have informed some policy decisions in Ghana; these papers have been discussed at a stakeholder workshop. With a proactive coordinator, coordination with MOFA and other donors in the agricultural sector has been remarkable. IFPRI has been tasked on a number of occasions to review various policy documents and assist with the preparation of others.

c. Other SO 6 Activities

The **Program for Bio-Safety Systems (PBS)** assists the GoG and interested bodies in the private sector to develop a practical and comprehensive policy framework for biotechnology applications. The PBS project promoted the judicious use of modern agricultural biotechnology in Ghana in order to increase agricultural productivity, leading to market development and higher rural incomes. The project was instrumental in creating awareness on issues of biotechnology to GOG and interested bodies in the private sector. The sensitization workshops carried out under the project helped to facilitate passing of the Legal instrument on the bio-safety bill. The project also helped to build capacity to conduct field trials on GM products, and to conduct environmental and food safety assessments.

The **Community-Based Ecotourism Project II (CBEP II)**, a partnership led by Nature Conservation Research Center (NCRC) including the Ghana Tourist Board (GTB), Wildlife Division (WD), SNV Netherlands Development Organization and US Peace Corps – Ghana, aims to reduce rural poverty in assisted communities and conserve biodiversity. Community-based organizations were trained to develop natural resource-based enterprises to provide sustainable livelihood opportunities in the Western Region. Achievements under the program include; increasing conserved lands in Ghana by 132,000 hectares over the past year. CBEP has also dramatically increased the knowledge of one of the most endangered bird species on the African continent (White-necked Rock fowl) resulting in the second most important known location for this species in its range. The program also built on sustainable bird-watching tourism enterprises for the economic growth of local communities. The program also included conflict mitigation over resource use, protection of natural buffers - wetlands; coastal watershed, reduced pollution and sustainable coastal tourism estuaries.

Land Policy Reform in Ghana as a three-year activity with the Institute for Statistical, Social and Economic Research (ISSER) of the University of Ghana, Legon to conduct research into Ghana's land tenure and administration systems. The objective of the land policy reform research was to provide greater clarity and knowledge about the nature and problems of land tenure and administration in Ghana in order to assist policy makers and civil society groups in their deliberations about the direction, character and specific areas land tenure reforms in Ghana should take to create an enabling environment for national development.

The ISSER land tenure and policy reform project succeeded in changing the information landscape for land tenure, in consolidating and synthesizing existing knowledge and in producing new knowledge through a national survey and 15 small studies arising from survey findings. It also succeeded in generating discussions about regionally specific and nationally relevant land tenure problems and their possible solutions. In its collaboration with researchers, policy makers, land owners and users and a broad range of stakeholders, the project forged a

unique partnership for producing and disseminating knowledge towards an equitable and efficient land tenure system in Ghana.

Inter-Agency Agreement (IAA) program with the U.S. Department of Treasury is jointly funded by USAID/Ghana and the U.S. Department of Treasury Office, embedding a resident debt advisor in the Ministry of Finance and Economic Planning to assist in debt management and to improve fiscal policy. The debt advisor also helped to implement improved organizational structures within the MoFEP to monitor and dissect the government's fiscal position with a special focus on the government's net domestic financing targets and position. The Capital Markets Committee, which the Treasury advisor is a member of, played a key role in facilitating the issuance process of Ghana's \$750 million bond issuance including the Request for Proposal for underwriters and subsequent due diligence work. The treasury advisor, being a member of the committees has enabled the Aid and Debt management unit at the Ministry of Finance and Economic Planning (MoFEP) to increase its capacity in handling Ghana's external debt portfolio as well as its domestic debt portfolio. The unit has been able increase its capacity to develop and implement fiscal policies that address debt management, institutionalize management of the economy and control government spending.

University of Ghana Capacity Building activity based on a grant awarded to the University of Ghana to strengthen its policy analysis capacity and that of economic policy research institutes in Ghana by strengthening the longer-term sustainability of their capacity to conduct policy analysis and advocacy. So far under the program, four economists have been trained. More are needed.

Development Credit Authority to improve access to commercial finance and promote the development of competitive private enterprises in Ghana, the Mission is sharing risk with EcoBank on a portfolio of loans to MSMEs and MFIs with good potential in non-traditional exports (NTEs), Tourism and Textile and Garment sector. The DCA facility increases financial intermediation and strengthens both the productive capacity of private enterprises and the willingness of banks to lend. Nevertheless, the impact of the DCA in Ghana appears to have been modest.

The **Business Association Policy Advocacy Challenge Fund (BUSAC)** funds advocacy activities aimed at achieving improvements in the business environment in Ghana, USAID's \$500,000 contribution to this Danish/DFID effort supports advocacy to promote better horticulture-related policies. It appears to be money well-spent.

5. Factors Affecting USAID Assistance to Ghana

a. GOG Policies and Implementation Capacity

As discussed above, GOG policies are highly supportive of economic growth, and identify clear guidelines at a general level for the achievement of national goals. It is with respect to implementation that the main problem lies. The GOG and DPs have tried to address this weakness through agreement on time-bound commitments by both the GOG and its DPs on myriad specific issues. Matrices abound in Accra. Their proliferation suggests that the effort required for their initial preparation, for discussion of drafts, and for attempting to track performance in so many narrow areas, may be diverting energy from actually carrying out development programs to just talking about them

b. Other Donor Programs

Donor support for Ghana is huge – more than \$1 billion per year. Ghana’s reputation for democracy and for good economic policies has made it a magnet for donors wishing to support development in Africa. Clearly, USAID is an outlier among DPs in its refusal to provide either general budget support or sector-wide approaches (SWAs). Still, interviews with other donors suggested a general appreciation of the quality of USAID programs and – at least from some DPs – a hope that USAID would continue to provide significant amounts of project funding.

c. The Paris Declaration and Accra Action Agenda

The Paris Declaration highlighted serious weaknesses in donor assistance to developing countries. Too many donors were doing too many parallel or conflicting things, making demands on the time of overworked senior government officials, with each donor requiring reports, procurement approaches and monitoring plans that were different from other donors. Clearly, the Paris Declaration is a step forward toward smarter aid.

And yet, the Paris Declaration is not a panacea for smarter aid. At least three reservations might be raised. First, the central focus, “country ownership,” is impossible to define. This suggests that “countries” are action entities. Actually, countries are geographical expanses that have no capacity to act. In this context, they are what Marx called reification – an abstract concept that does not have a meaningful reality. What the Paris Declaration really means is “developing country governments, possibly influenced by other power centers in the country.”

In the real world, it is governments that act. But the first aim of high level officials of government is usually to find ways to continue in power. If country ownership is really government ownership, then donors may find themselves manipulated by government to do things that enhance re-election chances, but are bad for the country. Further, donor activities intended to promote development in some areas may conflict directly with government. Examples might include governance efforts to support democratic political development or free elections, programs for women’s rights in the face of misogynist senior officials, or for addressing HIV/AIDS in the face of government indifference or opposition.

Second, donor coordination is costly, both in time and effort. Greater coordination will usually mean that activities happen slower than originally planned, and that donors and government officials may spend time coordinating that might have been more usefully spent actually carrying out development programs. Further, coordinators are often generalists without specific sectoral expertise or development understanding that would make coordination more fruitful.

Finally, there is much evidence that “coordination,” as a general development strategy, does not work. The Soviet or Indian five-year plans were exquisite efforts to promote faster development by assuring that all sectors of the economy marched together – that shortages or excess capacity in one sector or another would not lead to wasted capital investment in that sector, or to production bottlenecks in other sectors. In fact, both models produced exactly the result that they sought to avoid – an economy full of both bottlenecks and excess capacity. In sum, coordination has its limits. The biggest limitation is its stifling of experimentation and creativity.

Donors ought to be encouraged to experiment, at least some of the time. Nevertheless, donors, unlike private-sector firms, do not need to meet a market test. Their funding relies more on promoting and articulating concepts than from results on the ground. Notably, donors judge host country performance, but host countries seldom judge donors. This is an area where the Ghanaian government might seek a more productive relationship with donors. Annual reviews of donor activities, where the donor is required to present the planned results of its programs for the year with the actual outcomes, would be likely to produce more humility in the donor community. It might also be the basis for more productive interaction between government and donors.

The recently-agreed Accra Action Agenda (AAA) is a step forward towards implementation of the Paris Declaration. Numerous of the proposals made in the document should have that effect. Nevertheless, others are likely to have negative consequences. It is therefore difficult to determine whether, on balance, the AAA will make things better or worse for the effectiveness of donor programs.

There no doubt will be many reports that will suggest how the AAA will make effectiveness better, with little attention to the downside. To highlight the problems, this analysis will focus only on the areas where its implementation is likely to make donor effectiveness worse. In particular, the AAA text contains a number of assertions that are surely not to be taken seriously. Here are three.

1. *“Donors will respect developing countries’ priorities, ensuring that new arrangements will not result in individual countries receiving less aid.”*

If a developing country’s priorities are stupid or utterly wrong-headed, donors cannot reduce aid flows? The governments of Zimbabwe, Myanmar, Cuba, etc., etc. would be happy to hear this. Some of the biggest failings of aid in the past have flowed from supporting well-meaning governments (Tanzania, Zambia, etc., etc.) when the donors prolonged the government’s capacity to continue policies that were certain to impoverish the people.

2. *[Donors] “will elaborate plans to ensure the maximum coordination of development cooperation.”*

This makes the mistaken assumption that maximum coordination is an unalloyed good. In fact, donor coordination entails both benefits and costs. Often, the big problem is not lack of donor coordination, but individual donors undertaking wrong-headed activities. Microfinance has been a particular egregious case. Some donors, through inadequate coordination, have persisted in making grants to never-to-be-viable microfinance institutions and in so doing undercut the efforts of other donors to create viable ones.

Second, the unspoken implication is that coordination will occur at the national-government level. Particularly in poor countries, the articulation of implantation between the national government bureaucracy and the actual activity being carried out in the regions is usually poor, and often close to non-existent. Further empowering the central bureaucracy – already unable to do its job – with further co-ordination responsibilities is unlikely to increase effectiveness.

Finally, this mandate ignores the fact that in most endeavors, it is competition, not coordination, which yields the most real benefits. In the business world, coordination would make consumers poorer, and impede innovation. As suggested earlier, developing country governments have the potential to use donor competition to improve their effectiveness. For example, a developing country government could allocate responsibility for programs in a particular sector (such as agriculture, education, or health) to different donors for different geographical regions of the country. With careful monitoring of progress in each region – carried out by an objective third party – one can only imagine the incentive effects on each donor to work more effectively to produce the intended results.

3. *“Donors will support them [developing countries] by respecting countries’ priorities, ...increasing the predictability of aid flows.”*

No. Donors only properly respect countries’ priorities when they choose to support priorities that are likely to reduce poverty and promote economic growth. Providing aid when these conditions are absent only produces aid ineffectiveness.

Despite the imperfections of the AAA, there is much in it to be encouraged and supported. In particular, its support for assistance to the private sector remaining outside budgetary channels is a provision that can be particularly useful in implementing the private-sector focus of much of USAID’s EG activities. Full implementation of the AAA, however, poses serious challenges for the U.S. Government. MacCarthy (2008) identifies the main ones clearly. Briefly:

1. *The U.S. Government is not a single entity, but an amalgam of different actors, with different priorities, approaches, progress benchmarks and goals.* Even USAID is not a single entity, but a collection – USAID/Ghana, the West Africa Regional Office, the Initiative to End Hunger in Africa, the PEPFAR, the various entities in USAID/Washington that have budgetary resources that might flow to Ghana. Outside USAID, the MCC is the largest source of funding in the Executive Branch, but not the only one. Finally, there is the U.S. Congress, with legislation that dates back 47 years, and has accumulated numerous barnacles along the way – including the tendency for earmarked funds for specific purposes to limit the capacity of USAID to put money where the Ghanaian priorities warrant. Congressional opposition to budget support, to medium-term planning cycles, and its preference for “buy America” all further constrain the capacity of the United States to respond effectively to the AAA. In essence, even if the U.S. Government were to wholeheartedly endorse the AAA, it would likely be unable to fulfill that commitment.
2. *Country ownership is easier said than done.* In weak ministries, with revolving-door senior officials, collaboration between government and donor partners is difficult. This is particularly the case where information flows within ministries are weak, and sometimes non-existent. Fiefdoms inside ministries can impede information flow, so the idea that USAID and the ministry have agreed to an approach may well mean that other parts of the ministry are completely in the dark, and will complain of lack of coordination. This can be even worse when USAID, as in TIPCEE, develops strong links to regional or district ministry offices. If the information flow within the ministry is inadequate,

USAID is easily charged with operating outside proper coordinating channels. In sum, this is a difficult and multi-faceted problem, and it cannot be solved by matrixes.

3. *Definitions of country ownership are slippery things.* The MCC is a very interesting case in point. The MCC prides itself that its compacts are “country-owned.” They are developed by the government of the country, and proposed to MCC. After consultations and revisions mutually agreed to, the compact is signed. An implementing agency, sanctioned by the Ghanaian government and ratified by parliament, with substantial government participation, is established, and the “country-owned” program is implemented. Is this not government ownership, big time? Senior officials of the Ghanaian MOFEP do not believe it is, even though their minister sits on the board of directors of MiDA, the implementing entity. One dispute might be whether MiDA is a donor-established project implementation unit (PIU), discouraged by the Paris Declaration, or a legitimate Ghanaian government entity likely to live beyond the current compact. Only time will tell which it is. In sum, the complexity of reality makes individual or corporate perceptions of what is country-owned and what is not, an area for debate and dispute, and where opinions, whether well- or ill-informed, matter.

d. USAID EG strategy and OP considerations

The approach proposed below is fully consistent with the USAID EG strategy by making more rapid private-sector-led economic growth the central focus of the proposed future directions, and by emphasizing the key role that improved policies play in enabling such growth. Moreover, the emphasis on working with the next government during its first 1-2 years in office responds to the EG strategy’s conclusion that the most important policy initiatives tend to be implemented during the early period of any government’s tenure.

The bifurcated approach (export horticulture and small-farm staples), moreover, seeks economic growth in both areas. The emphasis on staples comes not from a “poverty alleviation” mind-set, but rather from a belief that substantial increases in outputs, productivity and incomes are likely to result. Clearly, the counterpart of rapid productivity increases in the agricultural sector is a consequent reduction in the amount of labor associated with each unit of output. Because demand for additional staples output will not permit all agricultural workers to continue to earn their incomes in the sector. This is why a value-chain approach is essential. Assuring that agro-processing, input and marketing services, transportation and communication services, grow sufficiently to create new employment opportunities for those who no longer find remunerative opportunities on the farm. And the value-chain approach, with its emphasis on promoting off-farm opportunities in small towns and regional centers, is important in preventing excessive migration to Accra and other large cities.

e. USAID’s comparative advantage

USAID is a small donor in Ghana. It is even dwarfed by another USG activity, the MCC. Nevertheless, USAID does have comparative advantages within the DP community of some importance. In general, USAID’s flexibility and its capacity to respond quickly with high-quality technical experts compare well with other organizations. For the purposes of economic

growth and export promotion, USAID has a particularly strong advantage. This is due to USAID's ability to work directly with private sector firms and associations. Most other DPs generally seek to promote the private sector through programs with government agencies – ministries of agriculture, and trade and industry. Despite professions that their role is to support the private sector, such organizations typically have little capacity to understand or work cooperatively with the private sector. Ministry plans typically involve much more intra-ministerial and inter-ministerial plan-making,

f. Linkages with other USG programs, notably the MCC

The MCC Compact with Ghana, valued at \$547 million, is a high-visibility program combining agricultural development in selected poor areas with infrastructure and social services. From the perspective of the effectiveness of the overall USG program in Ghana, it is critical that USAID and MCC programs be mutually supportive, and that USAID's long experience in Ghana be available to the MCC implementers. All but two of the districts where the MCC intends to operate are also TIPCEE concentration areas, so there is a natural means for collaboration.

Nevertheless, the MCC approach of only working through large FBOs differs from TIPCEE's use of lead farmers and mostly informal groups. The previous experience of MOFA, TIPCEE and other DPs with FBOs has not been encouraging. This is particularly the case – as with the MCC Compact – many of the FBOs being supported are somewhat artificial groups, formed to receive assistance. A possible approach might link TIPCEE activities to a sub-set of the FBOs who have shown over time the cohesion and progress that would be most compatible with TIPCEEs ongoing approach.

g. Constraints to Agribusiness Development in Ghana

Ghana presents a number of obstacles to development of the agribusiness sector proposed below. Eight serious constraints are identified below: limited markets, insufficient farm production, inadequate physical infrastructure, lack of finance for agriculture, limited competitiveness of agro-processing in Ghana, land tenure and property rights issues, a low level of technical and managerial skills, and the low esteem given to farming in Ghana. More specifically:

Limited markets. The marketing of agricultural produce in Ghana is a long-standing problem. Most small farmers are isolated from marketing centers due to their remote locations and/or poor roads leading to their farms. In many cases, farmers must carry their products as head loads to the nearest road before they can be transported to market. Distance from markets discourages the production of higher value more perishable crops, and reduces the linkages between these producers and more specialized markets. Land holdings are fragmented, farms are widely disbursed, and farmers are generally not organized into self-help groups that could provide them with information and services, such as joint marketing. The Ministry of Agriculture is institutionally weak, and its support to small farmers in the form of information, technology, and extension is extremely limited. Storage facilities for agricultural products hardly exist, so farmers must sell their products during the producing season when prices are at their lowest levels. Marketing "systems" are weak – that is, purchases of farm products tend to be on a spot basis, normally by middlemen or consolidators who have the means for transporting the farmer's products to a collection point. Stable, long-term relationships between buyers and sellers that would provide an assured market do not exist. For example, the possibility of selling to agro-

processors who could provide year-round markets for farm products is limited since relatively a few of these agribusinesses presently operate in Ghana. Furthermore, the farmer's bargaining power is extremely limited when confronted with a potential buyer, particularly during the production season when supplies are abundant. If the farmer refuses to sell at the buyer's offered price, the buyer simply moves on to the next farm.

Inefficient farm production. Low productivity at the farm level is a major constraint to agribusiness development in Ghana. Ghana's smallholder agricultural production is inefficient, expensive and of generally poor quality due to inadequate agricultural practices and improper post-harvest handling and storage. There are many reasons for their lack of competitiveness. First, the lack of stable markets provides little incentive to invest heavily in crop production, since there is no assurance that the farm products will be sold. Second, Ghana's rural landscape is covered with small-scale subsistence farmers whose excess food production and only a few cash crops are produced for commercial markets in limited amounts. These smallholders are poorly-capitalized, use labor-intensive farming systems with little mechanization, and are dependent on favorable rainfall for crop production. Furthermore, their use of improved agricultural technology, such as improved seeds, adequate fertilizer and the control of pests and diseases is extremely limited; hence, their productivity is low. Another limitation is that rural credit is generally not available and this constrains smallholders from financing the purchase and use of improved seed, fertilizer and farm chemicals that would ensure greater productivity. Due to these reinforcing factors, Ghana's small farmers are generally not competitive with imported food crops, even with a modest amount of tariff protection.

Inadequate physical infrastructure

i. Inadequate road network

Ghana's road network is inadequate, especially in rural areas. Furthermore, there is a general lack of feeder roads over which agricultural products can be transported. Major highways, particularly those linking the port of Tema with neighboring countries are congested and poorly maintained. While both the African Development Bank's Export Marketing and Quality Awareness Project (EMQAP) and the Millennium Challenge Compact's (MCC's) Millennium Development Account (MiDA) have components for road improvement, their effect will be felt mostly in the poorest rural areas and will not likely have a major impact on Ghana's exports.

ii. Limited and expensive electric power

Ghana's infrastructure, including the power sector, has insufficient capacity to meet current demand. However, with the support of the donor community and the Chinese Government, Ghana has begun to rehabilitate the electrical supply and distribution systems, but there still remains a large shortfall between the supply of electricity and potential demand.

The shortage and high cost of electrical power is a major problem for the agricultural sector, especially for agro-processors. While many companies have access to commercial power in industrial areas, the erratic supply requires the company install stand-by generators to provide uninterrupted electrical power.

iii. Deficient irrigation

Agriculture requires water and although some parts of Ghana receive more than two meters of annual rainfall, it is unevenly distributed. Annual rainfall ranges from about 1,100 mm (about 43 inches) in the north to about 2,100 mm (about 83 inches) in the southeast. However, based on the

experience of the past few years, rainfall patterns are becoming increasingly unreliable, especially in the North. According to official sources, only 310 square kilometers of farmland is irrigated in Ghana, which corresponds to a mere 1.5% of the area planted to permanent crops. The few irrigated farming systems that exist, primarily in the areas near the Volta River and Lake Volta, are poorly maintained, poorly managed, and unreliable. Ghana's food production is almost entirely weather-dependent.

What would be needed to overcome this problem is the introduction of small- and medium-scale irrigation projects that are owned or managed by their users - the farmers. These would require substantial investments in wells, canals, and pumping equipment over several years that would likely be considerably greater than the amount of available USAID funding. However, the Millennium Challenge Compact (MCC) and the IFAD Northern Rural Growth Program (NRGP) include plans for substantial investments in smallholder irrigation systems. Should USAID decide to support improved irrigation for Ghana's smallholders, one possibility would be to collaborate with MCC and NRGF by helping to strengthen smallholder water users' associations and train their members in effective irrigation practices.

Limited availability of credit for agriculture and agribusiness. The lack of commercial credit is a severe constraint to the development of the agricultural sector in Ghana. A myriad of overlapping and interlocking factors limit the availability of agricultural credit. First, the rural banking sector is somewhat thin, although it is slowly expanding. With limited banking coverage, there is a lack of aggressive competition for the placement of loans. Second, the number of different financial instruments, such as factoring, warehouse receipts, and inventory credit that are available to Ghana's borrowers is quite limited. Third, banks only do collateral-based lending with steep coverage requirements, amounting to two or three times the value of the loan. Given the structural problems related to land titling in Ghana, most farmers cannot produce a clear title to their land and consequently, cannot qualify for bank loans. Furthermore, banks in Ghana will simply not lend against unsecured future cash flows, or against a signed sales agreement. Fourth, there is a strong reluctance by most banks to do agricultural lending, in view of the perceived risks of agriculture investments. Banks are concerned about crop failure due to too much or too little rainfall, pests, and diseases. Only a very small amount of Ghana's farmland is irrigated during the dry season, which considerably reduces the risk of crop loss due to unfavorable weather. Fifth, most Ghanaian businesses are not capable of preparing investment project analyses and investment proposals that present a "bankable" project. They require assistance and training on business planning, as well as financial accounting and business records. Furthermore, loan repayment terms are not sufficiently flexible for some longer term agriculture crops such as pineapple, and particularly for agro-forestry. Finally, agricultural credit that may be available is prohibitively expensive - with annual interest rates on the order of 25 percent - for all but the most valuable crops.

Limited credit is such a deep-rooted problem in Ghana that no single solution is likely to provide much of an impact. Instead, a number of different programs running concurrently will likely be required to improve rural credit in this country.

A possible enhancement to Ghana's agricultural loan prospects would be to expand the loan portfolio guarantee facility by USAID's Development Credit Authority (DCA) to serve participating rural banks by guaranteeing up to 50 percent of the amount of development loans. Although a DCA facility was established in Ghana a few years ago with Ecobank, this initiative has not been particularly successful because the bank has benefited from the partial loan

guarantee but has not aggressively sought additional business in rural areas. The bank has reportedly imposed its normal loan qualification requirements on borrowers, and has used simply the guarantee as added security for its loans. It may well be worthwhile to explore the possibility of expanding the DCA facility to a more progressive Apex bank or possibly consortia of rural banks.

The Millennium Challenge Corporation has developed a similar guarantee facility that it applies through the commercial banks operating within its project area. MCC also purchases existing loans from these commercial banks, which adds liquidity to the rural banking system.

Another possible intervention would be to provide skills training to rural bankers and borrowers alike so that they better understand one another's needs and acquire the skills to present, as well as to analyze, a bankable document for a potential investment.

A third possibility would be to expand on IFAD's approach to linking small grants to rural entrepreneurs with bank financing for small- and medium-scale rural investments. This refers to IDAD's Rural and Agricultural Finance Program (RAFiP) that is now beginning implementation. Under IFAD's approach, a fairly modest grant provided to an investor for an investment project will serve to drive the effective interest rate of a complementary bank loan to zero, or even less than zero. The grant serves as added assurance to the bank that the investment against which the loan is made is sound, and also serves as an inducement to the entrepreneur to enter the formal credit system. This initiative could be reinforced with skills training for bankers and borrowers described in the previous paragraph.

A related technique for facilitating rural credit to small farmers is to link the farmer, the lead buyer or processor, and the rural bank. Under this scenario the buyer contracts with the farmer to buy a farm commodity; the rural bank provides credit to the farmer, and the buyer provides the bank with a "comfort letter" stating that the buyer will retain the required amount from the farmer's payment to repay the bank loan. This procedure works best when there is little chance that the farmer can divert the contracted commodity to sell to a third party.

Yet another approach would be to work to strengthen targeted banks that are already involved in rural credit. For example, according to the Financial Sector Strategic Plan (FINSSP) the Agricultural Development Bank (ADB) has played a leading role in supporting the agricultural sector, with as much as 85% of the market. However, given its mandate to be commercially viable and its past bad experiences with performance of agricultural lending, ADB has in recent years substantially diversified its portfolio, with agriculture falling from 65% in 2002 to under 30% in 2006. ADB funds equipment (3-5 years, in the range of US \$700 K - US \$2 million) and working capital (with a term of twelve months, in the range of US \$20,000 - US \$400,000). These loan sizes, and the fact that only 23 of its 51 branches are in rural areas, indicate that it works at the upper end of the market. ADB is moving toward a value chain approach, which it is piloting in poultry and tomatoes. The ADB could be a good candidate for strengthening through technical assistance and training to improve its capabilities for lending to the agriculture/agribusiness sector.

Another possible candidate for strengthening would be the National Investment Bank (NIB). TIPCEE has engaged the NIB in discussions on how it could effectively provide credit under a pilot program to the actors in a limited number of its supported value chains, such as pineapple and mango. The NIB now has a new cadre of well schooled young portfolio analysts who have

considerable knowledge of agricultural lending, which can help to reduce the risk of lending to the agricultural sector.

Finally, credit can be facilitated through the creation and strengthening of highly cohesive self-help groups such as producers' associations that have the skills to effectively serve their members by consolidating their production output; through joint marketing and joint purchase of input supplies. Successful associations can act as a reliable credit middleman between their members and the rural banks, and can also provide loan guarantees for their members.

Limited competitiveness of agro-processing. Largely the result of deficient infrastructure, small-scale, fragmented production, lack of technology and erratic supplies of farm products, agro-processing in Ghana is generally not competitive with other countries. Consequently, most of the processed food products consumed in Ghana are imported.

The cost of manufacturing is high in Ghana, since most input materials are imported. Another factor is economies of scale: small processors in Ghana are less efficient than large processing facilities in neighboring countries. With few exceptions, most agro-processors use outdated production and their management and staff lack the skills needed for efficient processing and effective business management. Finally, transport costs in Ghana are high, the result of a less developed highway system and higher fuel distribution costs. As a result of these factors the agro-processing industry has seen limited development.

A possible breakthrough would be to employ a value chain approach for the development of different agricultural commodities - including agro-processing is an essential part of the value chain – that serves captive markets. For example, a viable animal feed industry could be developed within a closed system whereby a manufacturer of animal feed sells its output to livestock producers, who themselves produce maize, soybeans and other inputs that are sold, in turn, to the same manufacturer of animal feed. Another approach is for agro-processors to ensure that a minimum quantity of raw materials would be available for factory processing, by engaging in crop cultivation. Their base volume could be supplemented by contracting with small farmers for additional production of their required products. While out-sourcing to small farmers can be an effective solution, there are some potential limitations to this approach: Should local markets not be available for the product that small farmers grow for the factory (i.e. yellow corn grown for animal feed), there is a risk in the short run that the agro-processor will have monopoly buying power. In this event, more buyers are needed to increase competition. On the other hand, in the event that local markets are readily available for the agricultural products contracted with small farmers, there is a risk that farmers will not deliver the required volumes when local market prices exceed the contract price. Under Ghana's legal environment it is difficult and costly to enforce contracts with small farmers. The only practical approach to solve this problem is for both parties to engage in a long-term relationship with progressively increasing mutual trust, leading to reliable supplies of agricultural products for the agro-processor and a reliable market outlet for small farmers.

Land tenure and property rights Problems. Land tenure is highly insecure in Ghana, for many reasons. Ghana's constitution gives the authority to local chiefs to manage and allocate land, and divides land into public tenure and customary land holdings. Public land vests in the President and is managed by the central lands commission, whereas the title to customary land is held in trust by local chiefs. Land is generally allocated and held in perpetuity and can be transferred by inheritance, but there are restrictions on its sale or transfer.

The legal framework for land is a complex array of more than 150 different pieces of legislation and regulations that have a considerable amount of overlap, conflicting provisions and gaps in the legislation. Legal issues are further complicated by inconsistent court decisions interpreting land legislation, which forms part of the legal framework.

Land administration is also fragmented and confusing. There are six main land sector agencies that are directly involved in land administration and registration that have evolved as a result of decentralization and fragmentation of the original land administration structure. As a result of changes in policy on land management, separate institutions have been created over time to administer different functions. These agencies are highly centralized, institutionally weak, have little coordination or cooperation between the different organizations.

Land boundaries are not well defined, as a result of the use of unreliable maps and dubious origin or maps that are simply inaccurate.

Land disputes are common. However, there is a large backlog of pending cases before the courts and resolution is slow due to poor documentation, conflicting regulations, and cumbersome procedures.

Transacting land in Ghana is a difficult process and land markets function neither transparently nor securely. There is a real need for improved land purchase procedures.

Finally, land tenure and ownership have become politically charged issues with little motivation to change the current, difficult situation.

Consequently, accessing land is difficult for agricultural, industrial, commercial and residential development purposes due to conflicting claims of ownership, and outmoded land disposal procedures. Rationalizing Ghana's regulatory framework for land tenure and ownership will likely be a long-term process.

While land tenure and land ownership are constraints to agriculture and agribusiness investments, it is possible to assemble relatively large tracts of land in Ghana, in particular if the government is favorable to the investment. It is possible to lease land from government or from the chiefs for long periods of time. For example, the tropical fruit exporter, Golden Exotics, has a long-term lease for some 2,000 acres used for pineapple and banana crop production.

Smaller investments are possible as well, if the investor is willing to engage in the lengthy process of locating the land, determining its availability, and negotiating with the respective chief of the region. For example, it would be possible for an investor to assemble from 50 – 100 acres a medium-scale investment in export melon production. However, the process would be difficult, cumbersome, and relatively costly in time and effort.

Lack of technical and management skills. Ghana's secondary schools and universities are not providing a sufficient number of graduates with technical skills needed for industrial development, particularly in agro-industry. The result is a large number of family businesses whose owners are not highly educated, along with very few numbers of trained engineers, technicians and other professionals available to seek specialized careers within a particular agro-industry. While it is feasible to bring in skilled technicians from neighboring countries, cross-border labor flows are less than free. What is required to overcome this problem is the strengthening of technical curricula in Ghana's universities, and the development of training programs for technical, managerial and other business skills within training institutions. Ideally,

these would be able to contract with businesses to provide specific skills training that the businesses require.

Farming is an undesirable profession. The propensity of farmers and indeed Ghanaians in general to invest in agriculture is low. Agriculture still has the image of being the poor man's way of life rather than a modern business. The urban-rural divide exists not only in living standards but also in the mind-sets of the participants.

6. A Prioritized Program Development Framework for USAID

The Proposed Strategic Approach

Goal: *Transform Agriculture into a Modernized Sector that Makes a Substantial Contribution to Overall Economic Growth*

Agriculture is still the bedrock of the Ghanaian economy. The majority of its population, and more than 40% of the country's GDP, originate in agriculture. Therefore, the only way the country can reach its ultimate development goal is to modernize and transform the agricultural sector. Raising productivity and expanding market access for output is one of the ultimate objectives of this effort. This can be achieved by increased access to a package of modern agricultural technologies – e.g., high-yielding varieties of seed, chemical fertilizers and pesticides, and irrigation – together with broader improvements in infrastructure, particularly transportation and rural electrification. A strong, active and real partnership between the public and private sector is essential. They each have key roles to play. Since agriculture is dominated by smallholder agriculture, part of the impetus for making modernization happen needs to come from the public sector, which provides investments in public goods, such as infrastructure. Public policies need to be proactive in facilitating access to modernized means of production and marketing and linking smallholders to both input and output markets. The private sector has to be the means of delivering the goal and vision of achieving vibrant economic growth.

Commercialization based competitive business practices is critical to achieve agricultural transformation – the area in which one finds the strategic importance of the private sector. Productivity gains can be obtained from increased specialization and commercialization made possible by the development of more reliable and lower-cost markets and institutional arrangements. The span for commercialization can be both for domestic markets as well as international markets -- both regional and beyond.

Any approach USAID takes today will be tightly coordinated with the GOG, donor partners, other USAID/USG programs, and private sector partners. In this respect, the Mission can be highly selective and focused on interventions that complement what others are doing based on each other's comparative advantage built up over the years.

A focused Mission strategy, framed by filtering the approach through a set of contextual factors, should aim at increasing productivity in of selected staple food/cash crops and a selected set of non-traditional export crops with an emphasis on horticultural products. The current economic

growth program has given the Mission a head start on transforming and modernizing these sub-sectors and continued work on linking agricultural development to industrial development will be a necessary part of continuing the agricultural transformation process. At the same time, one of the most valued contributions USAID has made to the creation of sound policies is the evidence upon which this should be based, and the tools Ghanaians need to internalize their own analytical capacity to take ownership. Thus, USAID will continue to support this same policy-making process and the provision of specialized advisory services so highly appreciated by the GOG.

A staples-led growth strategy centered on rapid growth in staples production in conjunction with improved regional integration – can (a) utilize Ghana’s short run supply potential to help address immediate problems – food shortages and food price inflation; (b) directly address the country’s short and medium term development challenges of poverty, hunger and malnutrition; and (c) put Ghana on a sustainable development path. The leading crops should be maize and cassava based on their widespread cultivation and dependence on them by numerous poor farm households, and in that increases in revenue from a more integrated regional can be significant, \$6.6 and \$7.5 billion respectively in total in the five years.

Export-led growth provides a program balance in which USAID has developed a unique comparative advantage over many years that goes as far back as Economic Growth strategies of the late 1980s. The Mission has gained enormous operational knowledge, effectiveness, and success and has been a critical player in especially the horticulture sub-sector. Therefore, it is rationale to build on this foundation and niche role in which enormous investments have been made over the years. Many of these investments are finally gaining traction while lessons-learned in SO-6 have led to a fine-tuned approach heavily based on agribusiness commercialization – one of the pillars of a forward looking agricultural growth strategy. In this vein, the Mission will continue adoption of a recommendation made after SO-1 to consider a narrow and bold vision with high goals that will inspire everyone involved. The Mission was encouraged to aim for real *impact* on economic growth calling for intervention(s) that can really *drive* the economy.

The Value Chain Approach will be utilized to take into account all the actors operating within an industry—from input suppliers to end market buyers; the support markets that provide technical, business and financial services to the industry; and the business environment in which the industry operates. Such a broad scope for industry analysis is needed because the principal constraints to competitiveness may lie within any part of this market system or the environment in which it operates. Here is where the Mission will direct activities towards addressing weak managerial and technical knowledge, and capacity of private enterprises.

Weak mobilization of financial resources throughout the value chain will be tackled from within the rural banking community, rather than relying on external prodding and attempts to influence banking behavior. The approach will be to strengthen the ability of the ABR Apex Banking system itself to provide tailored new and different financial services using more contemporary, innovative means of delivering these services. This will be integrated with other parts of the financial/banking system to improve mobilization and access to financial resources.

On the policy side, the USAID strategy will limit the number of legacy policy activities from the past and provide a sharper, more focused emphasis on improved agricultural policies that truly

enable growth in the sector. This will involve better policy design and a renewed emphasis on the implementation of effective policies. The institutional and governance dimensions of policy reform will be addressed. The Mission will respond to the GoG's strong desire for continued support in the areas of access to new policy-making tools and the provision of specialized technical advisors. USAID has been successful at supporting highly effective embedded advisors who both accommodate the needs of the public sector and are individuals whom are trusted to give reliable technical advice to policy-level people in the ministries where they have worked.

Proposed Strategy Framework for Agribusiness Development in Ghana

The proposed framework for a future initiative for agribusiness development in Ghana is composed of the following six elements. The first two are major elements, and the final four elements play a supporting role to first two. Of the latter elements, the basis for the recommendations lies primarily in international experience rather than in proofs that can be garnered from previous activities in Ghana. The six elements:

1. Economic growth through the export of high-value agricultural products
2. Poverty reduction through the production and marketing of food crops
3. Promote and support foreign direct investment (FDI) in agribusiness
4. Policy analysis, dialogue, advocacy, and change
5. Matching grants for business development activities
6. Business management training for mid- level and senior agribusiness managers and entrepreneurs

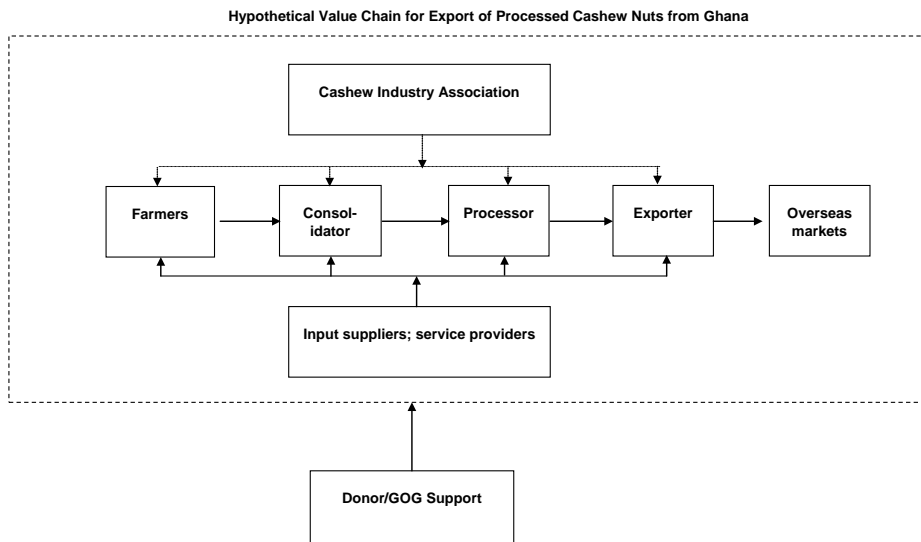
Economic growth through the export of high-value agricultural products

In light of the positive results by the TIPCEE project and the strong potential for horticultural exports from Ghana, it is recommended that future USAID programs contain an export horticulture component, based on the development of targeted agricultural products through the value chain approach. These products should be identified, analyzed, and their priority established for development into agro-industries, based on their export potential and their contribution to economic growth. Value chain interventions would begin in locations throughout Ghana where the crops are grown. The number of value chains to be supported would depend on the amount of donor (USAID and others) funding available for economic growth through high-value agricultural exports. The objective of this initiative would be to create viable agro-industries by supporting the production, transformation and marketing of these targeted products. The recommended strategy would be to support the creation of agribusiness clusters involving all the economic actors and supporting players for each of the targeted products by working along their respective value chains to solve problems, remove constraints, and encourage private investment.

In this regard, an agribusiness cluster is a group of related businesses and supporting institutions that are involved in the production, transformation, and marketing of a particular agricultural product. For example, a palm oil cluster is comprised of farmers, harvesters, processors, exporters, input suppliers, buyers of manufactured by-products, and service providers such as government extension and university training providers.

A value chain includes all the steps, and defines the relationships of the different actors in the chain of events required to produce, transform, and market an agricultural product. Value chains operate by creating collaborative relationships and sharing information, costs and benefits along the chain by the different actors involved.

An example of how this might work is shown by the following flowchart for a hypothetical cashew agro-industry, based on the production and export of premium-quality organic cashew nuts, bulk packed for export. As shown by the flowchart, the value chain would be composed of cashew farmers, consolidators of the harvested cashew nuts, a factory for processing the raw nuts into whole, shelled cashews, an exporter with links to foreign markets, and input suppliers for farmers and the processor. The donor community, in collaboration with GOG would support the entire process, and would work to help create an industry association that would serve as a channel for providing technical assistance, information, the transfer of production and processing technology, and as a forum for the exchange of ideas within the cashew sub-sector. All these participants would form the cashew “cluster”.



The roles and responsibilities of the different actors within the value chain would be the following:

Donor community The donor community would provide technical assistance and support to all the actors within the value chain, including farmer training in cashew production; linkage with and access to export cashew markets, and the transfer of technology for the manufacturing process. The donor community would also provide support, encouragement and seed capital

	for the creation of the cashew association.
<i>Government of Ghana</i>	The GOG would support farmer training and extension for organic cashew production; it would provide improved varieties of cashew seedlings as planting material to the farmers, and it would provide phytosanitary certification required to export the product.
<i>Small cashew farmers</i>	Small farmers would invest in the production of improved cashew varieties in their farms; they would participate in the agricultural practices and record keeping as needed for organic certification, in collaboration with the cashew association and the cashew processor.
<i>Consolidator</i>	The consolidator would perform the necessary marketing function of assembling the output from numerous small farmers and transporting the consolidated load to the cashew processing plant. This role could be filled by the processor, or by a farmers' association.
<i>Processor</i>	The processor is the primary investor in the value chain; the entrepreneur and the risk-taker for the collection and transformation of cashew nuts.
<i>Exporter</i>	Provides a market outlet for the processor by linking to export markets. This role could also be filled by the processor.
<i>Cashew Industry Association</i>	The association, organized as an NGO, would represent all the participants in the value chain. Over time, it could be comprised of sub-units for the different actors in the value chain, such as the cashew farmers' association, the cashew processors' association and the cashew exporters' association. The Association would serve as a channel to provide technical assistance, information, and the transfer of technology to its members, and would continue to serve the cashew agro-industry after donor support ends.

Poverty reduction through the improved production and marketing of food crops

Since poverty reduction is a key element of Ghana's economic development policy, it is recommended that USAID embark upon a strong initiative for poverty reduction through the improved production and marketing of food crops by small farmers. Recommended parameters for this intervention are the following:

- Focus on specific geographical locations, with large numbers of rural poor.
- Focus on specific products and product clusters within these geographical locations that are produced by small farmers and rural families, such as maize, cassava, cowpeas, small ruminants, and shea butter. By means of interventions along their respective value chains to solve problems and remove constraints, develop appropriate practices to increase the output and improve the efficiency of farm production, post-harvest handling, processing and marketing of the targeted products. Implement this program within the greatest possible number of Ghana's poorest regions, within budget limitations.
- Link increased farm production to traditional local and regional markets, increased local consumption as incomes rise, to Ghana school feeding programs, to World Food Program food purchases, as well as lead buyers and exporters, as appropriate.

- Work to support regional market access for Ghana’s food crops through collaboration with regional projects that encourage trade to neighboring countries, such as USAID’s Agribusiness and Trade Promotion (ATP) program. ATP helps agro-suppliers provide timely and regular suppliers to producers; it strengthens the capacities of umbrella producer and trader organizations to provide relevant services to member associations and individuals, and it provide market information (prices, bids/offers, contacts) to users (including producers, wholesalers, retailers) so they can make better more informed transactions.
- Specifically work to create and/or strengthen local marketing “systems” within the different value chains, such as the Ghana National Tomato Traders Association.
- Leverage the initiative by collaborating with existing programs carried out by other donors and NGOs in these locations, such as IFAD, GTZ, MiDA, and the World Bank.
- Help to create and strengthen naturally-evolving farmer based organizations as a vehicle for joint marketing, consolidation, transformation, joint purchases of input supplies, group credit, and as a conduit for transferring information and technology.
- Develop interventions to jump-start the rural economy by providing matching grants to encourage village processing facilities that would purchase agricultural products from small producers for processing and re-sale. The matching grants could also be linked to commercial bank loans for emerging entrepreneurs. Grants would be accompanied by basic training in business planning and financial record-keeping for the grantees.

This program would work throughout the targeted value chains to increase rural household incomes through improved farm productivity, reduced costs, and the establishment of more transparent and efficient marketing systems. The program would seek to achieve four main goals:

- Increased food production per unit of production area
- Increased agricultural trade
- Increased access to business services
- Increased effectiveness of small holder organizations to provide services for their members

The recommended approach to implementation would be to work through smallholder organizations to provide their members with technical assistance, training, and access to production and post-harvest technology as a means to improve on-farm productivity of the targeted food crops. The cornerstone of this assistance would be to teach the concept that “farming is a family business”. Most of the training would be carried out through demonstration plots and organizing focus groups.

The implementation team would also provide technical assistance and training to the smallholder organizations to strengthen them as institutions. The goal would be for the smallholder organization to act as a consolidator and a broker of that portion of its members' maize crop that is to be marketed; in some cases the organization will even engage in maize trading by buying its members' maize production outright, and forward selling it to millers. The most successful farmers' organizations would also provide low-cost input supplies to its members. The implementation team could also link the smallholders' organizations to grain millers and other buyers, and to input suppliers as well.

Implementation strategy would be to start from a nucleus of farmers and expand the program outward for progressively expanding geographical coverage. It would also seek synergy with other programs within its geographical area.

Promote and support foreign direct investment (FDI) in agribusiness

It is further recommended that USAID support a program to increase FDI for agribusiness development in Ghana. The framework for this program would be the following:

- Focus on foreign, as well as local investors for possible agribusiness investments. There are a many citizens of Ghana who have accumulated considerable wealth and are looking for investment ideas. Ghana's Diaspora would also be a fertile area for investment capital.
- Assist the Ghana Investment Promotion Center (GIPC) to truly become a one-stop investment shop for agribusiness by providing information, contacts and assistance to potential investors.
- Support the opening of an Agribusiness Investor Service Center within GIPC. This would be staffed by local and expatriate agribusiness professionals capable not only of communicating effectively with international agribusinesses but also would be able to identify and analyze trends in international commerce that could make Ghana more competitive. For example, recent increases in the cost of ocean transport may give Ghana a competitive advantage for fresh fruit exports to Europe vis-à-vis the traditional suppliers in Central and South America.
- Incorporate a strong communications element within the Agribusiness Investor Service Center that would serve to counter the often expressed nationalist sentiments against FDI in Ghana.

Policy analysis, dialog, advocacy, and change

In view of the positive results achieved by TIPCEE's Enabling Environment (EE) component and the continuing need to strengthen pro-business policies in Ghana, it is recommended that future USAID initiatives include a strong component for policy change, particularly for agriculture and agribusiness. Policy emphasis should be on agricultural/agribusiness sector, trade, and finance. Specific activities should be focused on continuing the legacy work toward creation of a Ghana Tariff Commission; promote regional trade with Ghana's neighbors where

opportunities exist; promote policy relevant research and dialogue, and work to improve Ghana's "business-friendly" indicators for foreign direct investment.

This component should be designed specifically to achieve results that improve the ability of agro-industries to grow, attract private investment to Ghana, and compete in world markets. Through enhanced public-private dialogue, capacity building of key policy units, and improved policy analysis, formulation, implementation and monitoring, this initiative would seek to achieve significant policy changes to improve the operating environment for agribusiness. A separate, stand-alone project is recommended in view of the specialized technical and management skills needed for this work. The team believes there is more to be gained from a stand-alone policy project than a dual policy-economic development project. Furthermore, the use of imbedded advisors and providing mid-level managers within strategically-important public entities is encouraged.

Matching grants for business development

It is recommended that USAID consider as an element of future initiatives for economic growth as well as poverty reduction the use of a Special Activities Fund (SAF) to co-finance new, innovative concepts (and facilities) that improve the competitiveness of Ghana's agriculture and agribusiness for local, regional, and international markets. These matching grants would enable future agribusiness development programs supporting both these objectives to provide a combination of technical assistance and training interventions with financial support to overcome deficiencies in the value chains of the different commodity groups. The matching grants component would help to create and strengthen new businesses and business expansion to support the two major components of economic growth and poverty reduction. The SAF should be structured to quickly and effectively allocate funds to support development of the targeted products through local operators. The matching grants portion should be a substantial part of future development programs.

Business management training for mid- and senior level agribusiness managers and entrepreneurs

The purpose of this activity would be to help overcome Ghana's business management gap. Training would be composed of a series of weekend workshops and seminars, each covering a specific business topic, for mid-and senior level agribusiness managers and company owners. Training sessions would be held in the locations where the businesses operate. Trainers would include local business development service providers, local universities, expatriate business training specialists and US universities.

Documents Cited

Afrobarometer, 2008. "Economic Conditions in Ghana in 2008," June.

Austin, Gareth, 1996. "National Poverty and the 'Vampire State' in Ghana: A Review Article," *Journal of International Development* 8(4): 553-73.

Karikari, John, 1995. "Government and Economic Growth in a Developing Nation: The Case of Ghana," *Journal of Economic Development* 20(2): 85-97.

Papazafirropoulos, George and Kwasi Yeboah-Konadu, 2008. "Development of a National Export Strategy for Ghana," Draft Final Report, August, for Maxwell Stamp PLC.

Tsikata, Yvonne, 2001. "Ghana," in *Aid and Reform in Africa*, Edited by David Dollar, et al. Washington, DC, World Bank.

World Bank, 2007. "Country Economic Memorandum: Ghana," in three volumes, World Bank, Washington, D.C.

Yergen, Daniel, and Joseph Stanislaw, 1998. *The Commanding Heights: The Battle between Government and the Marketplace that is Remaking the Modern World*, New York: Touchstone Books.