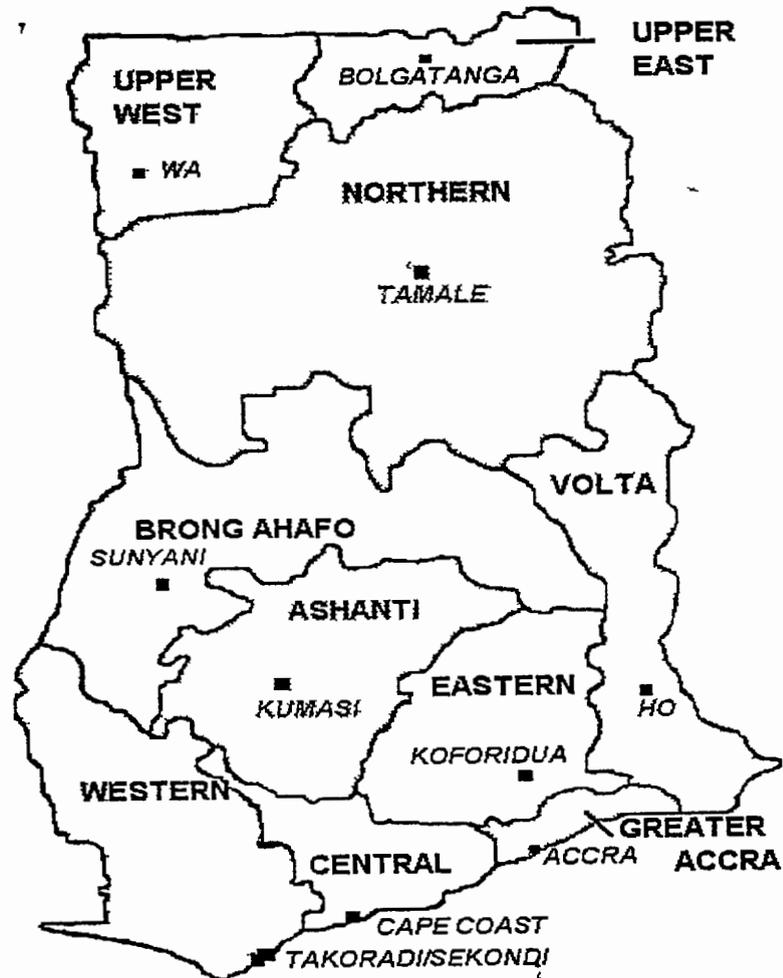


GHANA



USAID COUNTRY STRATEGY
STRATEGY OBJECTIVE NO 1 REVISION
APRIL, 1997



C. STRATEGIC OBJECTIVES

1. Strategic Objective No. 1: Increased Private Sector Growth

"The long-term vision for Ghana is that by the year 2020 Ghana will have achieved a balanced economy and a middle-income country status and standard of living. This will be realized by creating an open and liberal market economy, founded on competition, initiative and creativity, that employs science and technology in deriving maximum productivity from the use of all of our human and natural resources and in optimizing the rate of economic and social development, with due regard for the protection of the environment and equity in the distribution of the benefits of development." (Ghana -- Vision 2020, The First Step, Government of Ghana, 1995)

The Government of Ghana has put forth an ambitious vision -- to achieve middle-income status by the year 2020. New and bold initiatives are needed if Ghana is to attain the rapid and broad-based growth required to fulfill this vision. The challenges are many, but with the strengthening of democratic institutions that is taking place -- and the resultant political stability, sustained peace and opportunities for greater participation of civil society in making choices -- the prospects for economic growth in Ghana are quite positive. USAID, will support the efforts of Ghanaians to accelerate growth and to reach the next level of economic performance.

Over the next five years (1997 - 2001), USAID will carry out activities to develop the productive capacity of private enterprises -- the preponderance of which are agriculturally-based -- and to increase the efficiency of Ghana's marketing systems. This will assist Ghanaian products to become increasingly competitive in global markets. Strategic Objective No. 1 will be comprised of assistance to improve policies, improve availability of and access to finance, increase the access to and use of technology and information, increase the skills of managers, private entrepreneurs and policy makers, and improve the quality and efficiency of support services. Full participation of all segments of Ghanaian society is a must, because the small and micro-level enterprises in the rural and urban informal sectors hold much of the real potential in the economy.

If USAID is successful over the five-year strategy period, yields, revenues and competition among enterprises will be increased. This, in turn, will raise the income needed at the household and enterprise levels to improve the welfare of rural and urban Ghanaians. Food security will be increased. Forests and eco-tourism infrastructure will be better managed, leading to increased sustainability and use of these natural resources. And, the role of government as well as the public sector share of GDP investment will decline, in turn improving the opportunities and circumstances for private sector investment.

INSERT FIGURE 7

a. Problem Identification

Ghana's substantial, market-oriented reforms have reduced obstacles and lowered the costs of doing business in Ghana. This has contributed to strong economic growth. GDP has increased at an average annual rate of 5 percent since economic reforms began in 1983. Ghana has a strong record of growth in services, mining, construction, cocoa and timber, although this is blemished by weaker performance in food production and manufacturing. Export diversification and tourism have been important factors in this growth. Ghana is increasingly competitive in the exportation of wood products, African textiles, garments and home decorations, seafood, pineapples, and other agricultural products, and in tourism.

Ghana's vision of achieving middle-income status by 2020 requires increasing economic growth rates to well above 7 percent per annum. The commitment to this vision provides important opportunities to address some of the fundamental problems limiting competitiveness of Ghanaian goods and services, and the achievement of accelerated economic growth. Improving productivity and competitiveness in the agricultural sector is central to the USAID Ghana strategy. Agriculture is broadly defined in this context to include trade, agro-processing, marketing, production, micro-enterprises, as well as enterprises providing support services. Agriculture -- including crops, livestock, fisheries and forestry -- accounts for 40 percent of GDP and 70 percent of the labor force, but it has failed to keep pace with population growth. Agricultural GDP has increased at an average rate of only 2 percent per year since 1983. Nevertheless, there are significant opportunities to foster transformation in agriculture, but, for sustained economic growth to occur, the forward and backward linkages with nonagricultural parts of the economy also need to be cultivated. This process must include private (for profit and not for profit) entities in environmentally sustainable use of resources.

In the Country Strategic Plan approved in July, 1996, USAID Ghana's Strategic Objective No. 1 focused exclusively on products and markets based on agriculture. The present modifications to SO1 recognize that there are other dynamic industries or subsectors -- such as selected manufacturing and tourism activities -- that will complement agriculture's contributions to accelerated economic growth and that will benefit from a coordinated program of assistance. This broader approach to private sector development will help to foster significant linkages across industries, as in the domestic supply of packaging materials that are used in exporting of horticultural products. It will also attract increased private investment from both domestic and international sources that will have positive influence on agriculture and the economy more broadly.

USAID's analysis identifies four, inter-related constraints to attaining the next level of economic growth: a) many economic policies and regulations still impinge upon Ghana's productivity and competitiveness, b) mechanisms for carrying out policy change have not kept pace with the rapid progress of democratization, and c) resource mobilization through the financial system is weak, and, d) the managerial and technical knowledge and capacity

of private enterprises of all sizes to produce and market their goods and services tends to be weak

Policy and Regulatory Constraints: Despite considerable improvements in the policy environment since 1983, current policies and regulations still dampen investment, private sector productivity and international competitiveness. Three broad policy constraint areas are identified

Macroeconomic Balance: Presently, tight credit and high interest rates facing the private sector are the dominant concern of private enterprises. These problems may be traced to extensive lending by Ghana's financial system to finance Government budget deficits. Other policies and regulations increase the costs of funds to borrowers, limit innovation in financial services, or serve to restrict access to financing. The high and uneven tax burden hurts the competitiveness of some enterprises and industries, even as the management of large public budget deficits hurts the access to credit and the cash-flow of private enterprises. In the past few years, the weakening of the value of the cedi through inflation has not been matched by equivalent depreciation in the nominal exchange rate. This has resulted in a favoring of imports, to the disadvantage of domestic value-added. Defending the value of the cedi has also resulted in the drawing-down of foreign exchange reserves.

Trade Policy A number of policies, regulations and practices weigh on specific industries. Excessive regulation of the importation of inputs for agriculture and manufacturing causes delays and raises costs. Policies affecting the exportation of wood products are neither economically nor environmentally sound. Specific bans or licensing requirements hurt non-traditional exporters and are often applied without proper authority. There is still some unnecessary interference with the movement of goods in country or across borders.

Structural Issues A number of structural rigidities tend to slow private sector growth. The state still controls a number of enterprises, particularly in the industrial, financial and agricultural, support-service sectors. This limits productivity and competition, and sometimes creates a financial burden on the Government. Labor policies, such as those regarding workers' assignments, their benefits and end-of-service entitlements, serve as disincentives to employers in the formal sector, resulting in loss of productivity. Labor and business may both gain if greater flexibility is introduced into industrial negotiations. Improvements in access to and ownership of land will also be needed, over time, to foster private sector development.

Policy Change Process The sweep, swiftness and success of the 1983 Economic Recovery Program may be attributed to the mandate given to a small and well-qualified group of presidential and ministerial advisors. Although dramatic policy changes have been made, in order for Ghana to realize 7 percent growth, bold new initiatives in policy reform are

required through a well defined and well managed policy change process. Further, the maturing of democratic institutions means that a much more intensive process of consultation and consensus-building is required. Parliament, business and labor interests and civil society are now parties to policy formulation. Improvements are needed in public and private sector capacity to analyze policy questions and to participate in consensus-building, in mechanisms for public-private consultation, and in the carrying-out and monitoring of policy changes.

Financial Systems: Dramatic increases in investment will be required for Ghana's economy to move to the next level. Above and beyond the policy-induced problems of high inflation and sizeable lending to the public sector, there are institutional constraints to increasing investment. Few of the key players in Ghana's financial system are familiar with the workings of the international credit and equity markets. Yet, it will be necessary for Ghana's private sector to attract new foreign investment.

Greater innovation in financial instruments is needed to mobilize resources for long-term investments. For instance, the extensive resources of the Social Security and National Insurance Trust (SSNIT) are not being used to the extent possible to finance private investments. Similarly, it is estimated that only five percent of household incomes enter the formal financial system, while actual savings rates are as high as 20 to 25 percent. These funds must be mobilized for productive investment. In addition, private initiatives are required to leverage more effective use of public resources.

Few firms are successful in accessing credit. One reason is the inability of many firms to develop viable business plans and to submit bankable financing proposals. Another is the weak capacity of financial institutions to assess project proposals. Regulations and practices regarding securing of loans and recovery of debts must also be addressed.

Capacity of Enterprises and Support Services: Ghana's private sector has significant opportunities to export. There are also significant opportunities in manufacturing, agro-processing and tourism. Since 1992, USAID has focused assistance on increasing Ghana's non-traditional-exports. This effort is based on the recognition that, for Ghana to sustain increased economic growth, it must expand and diversify its exports beyond the traditional export base of gold, cocoa, timber and electricity. NTEs have grown from \$68 million in 1992 to \$227 million in 1996. Nearly 80 percent of this growth has been in agricultural products: horticultural crops, fish and seafood and wood products. USAID analyses indicate that future growth of NTE's will be led by agriculture-related products, such as cassava, cashew, black pepper, seafood and wood products.

In the non-traditional export sector, agriculture and tourism, the private sector is comprised of relatively few larger enterprises and a wide range of smaller and microenterprises. Microenterprises are firms with five or fewer employees, including agricultural small-holders and firms engaged in light industry, commerce and other services. With few exceptions, the capacity and efficiency of private enterprises in Ghana are weak. Ghana carries the legacy

of an earlier period of central control, in which the state was at once regulator and benefactor. More often than not, a strong business orientation and knowledge of distant customers are lacking.

Common limitations of Ghanaian businesses include weak management, out-moded technology, contributing to low productivity, difficulty in accessing credit, poor market information, and weak linkages with markets. In agriculture, weak marketing systems for inputs and products limit productivity and increase crop losses. Export marketing is also constrained by uncertain supplies and uneven quality. In addition, there is little tradition of cooperation within given markets, so that business associations are not effective advocates for their members' interests. Although women play a critical role in production and marketing of many goods and services, mechanisms for them to participate in the governance processes that affect them are poorly developed.

b. Analysis of Options

Strategic Objective No. 1 is to *Increase Private Sector Growth*. This objective responds to the compelling need and opportunity for rural and urban households to engage in productive market-led enterprises to generate the revenue needed to improve their own development and welfare. SO1 will result in an increase in the value of goods and services produced and marketed by the private sector. An increase in the value of sales of selected goods and services of 5.5 percent per year will yield a direct increase of nearly 1 percent in agricultural and manufacturing GDP and boost Ghana's economic growth rate by more than 0.4 percent.

Private sector growth will contribute to the Mission Goal for sustainable, broad-based economic growth in several ways. It will contribute directly to increases in incomes of rural and urban Ghanaian households. It will increase the contribution of the private sector to the economy and increase the responsibility of the private sector for development efforts. Food availability will be expanded through increases in production. Access to food will be enhanced through increases in incomes from both production and trade of goods and services. Environmental sustainability will be addressed through conservation and afforestation activities and through the introduction of improved production practices in agriculture and manufacturing. It will lead to a more efficient use of scarce resources to achieve development objectives of interest to both Ghana and the USA. And, it will help build a sustainable framework for growth, with significant civil society participation, well beyond the duration of the strategy period.

The Results Framework presents the causal relationships between various components of the strategy (see Figure 7). Private sector growth will be achieved through increases in productive capacity and improved market efficiency (Intermediate Results 1 and 2). The six Intermediate Results presented in the lower tier of the framework represent outcomes that will influence and drive changes in the productive capacity of private enterprises and improve the efficiency of markets, leading to progress in private sector growth. These results include *Improved Policy and Regulatory Environment, Improved Financial*

Intermediation, Increased Management Capacity of Production and Marketing Enterprises, Increased Use of Improved Technologies, Increased Access to Market Information, and Improved Infrastructure Of these "fundamental" results, policy and regulatory reform is the most critical to the eventual achievement of the Strategic Objective That is, without meaningful policy reform, it will not be possible to make progress necessary to achieve the other IRs and, in turn, the SO

Increased Productive Capacity of Private Enterprises (Intermediate Result 1) Changes in productive capacity being targeted include increased output of private enterprises, increased numbers of private enterprises, and lower costs of production relative to the value of production. To achieve these results or changes balanced portfolio and approach will be needed to relieve several constraints that are limiting the productive capacity of private enterprises These constraints include policies (e.g., macro-economic policy, trade and investment policy and structural policies), availability of and access to finance, management capacity of enterprises involved in production and marketing, access to and use of improved technology, and access to market information

Increasing the productive capacity of private enterprises has far reaching impacts and implications, especially for support services needed to promote and facilitate these changes The SO will promote and support institutional innovation to generate new approaches to provide vertically integrated support services that can respond to the problems of enterprises throughout the subsector, and, to reduce the role of the public sector as a direct service provider where services can be provided efficiently by the private sector Further, changing and managing policy will require new fora and consultative procedures to include the broader range of partners and more complex policy environment emerging as the economy grows and democracy takes hold

More Efficient and Lower Cost Marketing Systems (Intermediate Result 2) This IR reflects required changes needed to reduce distortions in the input and output markets which, at present, significantly increase the final price of goods produced in Ghana Successfully achieving these changes will permit enterprises to access wider and more numerous markets, as well as to sell more to existing markets, thereby driving private sector growth Such changes will also result in more efficient and lower cost movement of inputs and contribute to increases in production and lower cost, more profitable, enterprises for all sizes of enterprises

Based on experience gained under the Trade and Investment Program, interventions will be directed, initially, to subsectors that experienced the most growth over the past three years, nontraditional exports (i.e. seafood, wood products, horticulture and garments) and tourism, together with other agricultural products (e.g., cassava, yams) that have demonstrated potential for high growth and marketability The SO and programs it funds will promote Ghanaian products that are competitive in international, regional (West Africa) and local markets

The present definition of the Strategic Objective, "increased private sector growth", is a refinement of two previously proposed SOs. The initial definition of the SO, "increased marketed value of agricultural products" (presented in the Mission's CSP approved in July, 1996) was subsequently modified as "increased revenues from selected goods and services." The revised strategic objective submitted here provides the flexibility that the Mission seeks and which is essential if the program is to build linkages between agricultural and nonagricultural enterprises necessary for economic growth. In this re-formulation, much of the Mission's activities will remain focussed on the agricultural sector, particularly the agricultural export sector.

In proposing this change, USAID Ghana considered a number of options for concentrating assistance in specific sectors with the potential for contributing to economic growth. In many of these, such as mining and infrastructure development, sizeable investments are being financed by other donors or by private investors, and USAID's comparative advantage is less apparent. A narrower focus upon non-traditional exports or within agriculture was also considered. One option was to retain a tight focus on NTEs. A second option was to assist production and marketing of a single food crop. For example, cassava alone accounts for 48 percent of all food staples produced, and so could potentially result in both greater economic growth and food security. To focus on any single agricultural product, however, is unduly risky.

While the SO is broad, it focuses attention on the intent of USAID Ghana and its partners to promote new ways of doing business, to promote market-led, demand-driven investments in private enterprises, to stimulate innovation in support services, to increase civil society to more directly take on the burden for development, and to stimulate government action to get out of businesses and services that can be efficiently provided by the private sector.

c Critical Assumptions

USAID's success in assisting Ghana to reach the next level of economic growth is predicated upon three critical assumptions:

GOG Commitment The GOG will foster economic and political stability, improvements in trade and investment policies, and provide supporting infrastructure. The GOG will maintain its commitment to allowing the processes for policy change and public resource allocation to become increasingly participatory.

Market Demand Barring any major economic shocks, as Ghana's economy continues to grow, so will demand for domestically-produced goods and services. Similarly, since markets for Ghanaian products are large and Ghana's market share is small, substantial export demand exists. Analyses conducted under the Trade and Investment Program have confirmed the existence of marketing opportunities for products such as pineapples, cashews, cassava chips, black pepper, shellfish, wood products and tourism. The challenge for Ghana is to compete effectively, to take advantage of these existing marketing opportunities.

Favorable Weather Fluctuations in annual rainfall and growing conditions are expected and will affect attainment of program targets on a year-to-year basis. The critical assumption is that Ghana will not experience drought that is so prolonged or severe as to render USAID assistance ineffective.

d. Identification of Affected Customers

The principal actors and potential customers of interest to USAID are the wide range of private sector enterprises: input suppliers, households and businesses engaged in farming, forestry and fishing, processing, distribution, exporting and tourism, and suppliers of storage, transportation and other support services. The largest group of potential beneficiaries is comprised of rural households, representing a population of 12 million, of which 32 percent are female-headed households. Two-thirds of rural household incomes are derived from farming, while nearly one-third is derived from commercial or light manufacturing activities.

Clearly, the number and needs of potential customers far exceed USAID's resources and the capacity of Ghana to absorb assistance effectively. USAID can, however, achieve significant impact with respect to SO1 by developing linkages of larger producers, manufacturers, and marketing and exporting intermediaries with smaller producing enterprises, and by assisting cooperation within small producers' groups. Assistance will be focussed on more than 50,000 enterprises. Ten to fifteen larger enterprises will out-source or distribute through networks of small and microenterprises, in addition, 850 groups of microenterprises averaging 60 members per group will be assisted. USAID experience with the on-going Trade and Investment Program and the P L 480 Program suggests that interventions under this SO will have the potential to provide quantifiable benefits (increases in productivity and income) to approximately 1 million people. Policy and regulatory reforms effected through part of the program will have a widespread impact throughout the agricultural, manufacturing and tourism sectors.

e. Commitment and Capacity of Other Development Partners

Ghana is committed to achieving middle-income status by 2020. GOG policies recognize the importance of private-sector-led growth in agriculture, manufacturing and tourism. In practice, however, the state still plays a substantial role in the provision of infrastructure, financial services, agricultural research and extension, cocoa exports and services, and manufacturing. This approach has not been sufficient to accelerate growth in recent years.

The GOG has recently introduced the Ghana Trade and Investment Gateway Program. This program will use increased trade and investment within West Africa as the focal point for improving policies, institutions, infrastructure and attitudes affecting the private sector. It will support activities to establish Ghana as a center of manufacturing, value-added processing, trade, finance and commerce in the sub-region.

The GOG has also completed a review of its agricultural strategy. This resulted in recommendations for the development and multiplication of appropriate planting materials for exportable crops, the development of research, extension and marketing linkages with the private sector to increase agricultural productivity, timely provision of extension packages to all categories of farmers, the provision of up-to-date information on investment opportunities, and an increased role for PVOs and NGOs in assisting increased productivity and improved marketing.

With the assistance of the UNDP and the World Tourism Organization, the Government of Ghana has developed a National Tourism Development Plan for 1996 - 2010. The Development Plan is based on optimistic projections of 5 to 10 percent growth. It recognizes the importance of both business and heritage tourism, targets domestic and regional, as well as international visitors, and it stresses the need for development of infrastructure, human resources, and the private sector. The Development Plan embodies a strategy of attracting "high-value" as opposed to low-cost, mass-market tourism.

The GOG is expected to resume its Enhanced Structural Adjustment Facility with the International Monetary Fund with clear economic stabilization and adjustment targets. The World Bank and bilateral donors provide substantial assistance in tax and financial management reform, institutional restructuring and capacity building, and infrastructure development. Private enterprise development projects include export financing (World Bank and European Union), microenterprise development activities (UNDP and Canada), and tourism development (UNDP and World Tourism Organization).

In addition, donor support to the agricultural sector is substantial. Between 1991 and 1993, six donors invested a total of \$149 million in this sector. Assistance has been focussed upon research and extension (World Bank), rural poverty alleviation (CIDA and UNDP), financing (World Bank, CIDA, and the European Union), rural feeder roads (World Bank, DANIDA and USAID), and bio-diversity and forest management programs (World Bank, European Union and DANIDA).

A number of PVOs and NGOs have been effective in assistance for agricultural production, microenterprise development and market development, notably Sasakawa/Global 2000, TechnoServe and the Adventist Development and Relief Agency. These groups have achieved substantial increases in production and marketed sales of agricultural products in beneficiary communities.

f. Illustrative Approaches

In order to move to the next level of economic growth, USAID's approach to increasing private sector growth is to support activities that increase productive capacity of private enterprises and lead to more efficient and lower cost marketing systems. To achieve this, two results packages (RP's) will be formulated (see Results Framework, Figure 1). RP-1 will include initiatives to improve policies and regulations as well as enhance financial

intermediation, and RP-2 will focus on increasing the management capacity of production and marketing enterprises, the use of improved technologies and access to market information. The results package defines the type of interventions or activities that will be implemented to achieve the intermediate results and strategic objective.

Results Package 1: *Improving the Policy Environment and Financial Intermediation*

RP 1 includes activities to change selected policies, improve the process of policy change, and facilitate innovation to improve quality and variety of financial services available to the private sector. Priorities for policy change are (1) macroeconomic balance, (2) trade and investment policies and regulations, and (3) structural issues, in that order. Among other things, change in the policy environment will increase the availability of finance and reduce the cost of finance to invest in productive private enterprises. Policy changes will also reduce transaction costs of the marketing systems, reduce costs of production, and improve access to land for agricultural and industrial investors.

RP 1 will support a participatory approach to policy change, and financial engineering, to facilitate growth in the private sector. Participatory policy change is process-driven, in contrast to the traditional conditionality and output driven formula that was followed under the Trade and Investment Program. The new approach differs by placing greater emphasis on stimulating Ghanaians -- public and private -- to drive the policy change process, across the continuum from problem identification to implementation of critical policy improvements. This process approach will help institutionalize tools and fora for policy change, that will improve policy management and improve sustainability of policy change.

Guided by an internal policy dialogue agenda, USAID will support the policy change process through a) flexible use of non-project assistance, b) the services of Ghanaian, American and international experts in policy analysis, change management and technical issues, working under short-term consultancies, and, c) support to local research institutions and private and civic organizations, to strengthen their capacity to participate in the policy change process. The unifying objectives of USAID's policy dialogue agenda are to improve Ghana's productivity and international competitiveness. USAID will promote policy change in the three categories of policies which most greatly impinge on private sector growth. The pace of change will be a function of USAID influence and acceptance of these initiatives by the host government and stakeholders. The three categories, in priority order, include

A. Macroeconomic Balance: Principal complaints of private sector operators and observers are the high inflation and tight credit that have characterized the Ghanaian economy over the past few years. These problems are directly traceable to unsustainable public sector deficits and the efforts to accommodate deficit spending through public sector borrowing. In addition, current trade and exchange rate policies and practices tend to penalize agriculture-based and nontraditional export activities.

The policy dialogue will place a first priority on changes required to improve the performance of the financial system and to improve public and external sector balances. These measures are critical to increasing investment and non-traditional exports. USAID's interventions will be supportive of Ghana's stabilization and structural adjustment efforts as established through IMF and World Bank agreements. Desired policy outcomes include

- Reducing (or eliminating) government budget deficits. Specific initiatives may include reducing Bank of Ghana advances to the GOG ("ways and means advances"), reducing government lending and subsidies to state-owned enterprises, limiting lending to the public sector by the Social Security and National Insurance Trust (much of which is through Treasury Bills), and applying receipts from the divestiture of state-owned enterprises to the reduction of long-term debts, rather than current spending.
- Reducing (or eliminating) monetary financing of budget deficits.
- Reducing interventions by the Bank of Ghana to prop up the value of the cedi (which favors imports over domestic production and draws down foreign exchange reserves), while stabilizing the nominal value of the cedi by fighting inflation. Use of a credible "crawling-peg" regime with pre-announced and realistic targets for the nominal exchange rate will be considered.
- Rationalizing trade duties and tariffs by applying them more uniformly and, to the extent possible, lowering rates.

B. Trade and Investment Policies and Regulations: Second priority is placed on sector- or industry- specific barriers to trade and investment. While dialogue on these issues is critical to increasing international competitiveness, the dialogue must not lose sight of the more fundamental issues of macroeconomic balance addressed above. Desired policy outcomes include

- Reduction of controls on the importation of agricultural and manufacturing inputs.
- Consensus on policies affecting the production and export of wood products, to balance increases in value-added with environmental concerns.
- Elimination of export bans and controls, such as those currently in place for yams, cotton and rubber.
- Reduction in police and customs barriers.

- Full implementation of policies eliminating foreign exchange declarations for nontraditional exports
- Liberalization of private telecommunications
- Improved stewardship of revenues from tourist attractions

C. Structural Issues: USAID's dialogue will address additional constraints involving land and labor markets, and the role of the state in the economy. While these issues have important long-term implications for international competitiveness, they will receive lower priority by USAID in the first instance than macroeconomic balance or trade and investment issues. Desired policy outcomes are

- Introduce greater flexibility into formal sector compensation, by reducing the rigidities of end-of-service benefits and other non-salary compensation requirements, and giving employers more flexibility in assigning workers according to their productive potential. The challenge will be to achieve consensus on the balance between labor interests and growth objectives
- Improved access to land for agricultural and industrial investors
- Privatization of state-owned enterprises. This process is important to limiting the role of the state in productive activities. However, in light of substantial support provided by the World Bank and the British Overseas Development Agency, USAID anticipates relatively little direct involvement

RP 1 will also address financial engineering -- improving the quality and variety of financial services available to Ghanaian entrepreneurs. As the world's leader in financial markets, the US has considerable expertise that can be brought to bear on financial engineering in Ghana. USAID's role will be key in assisting the development and testing of financial innovations, without infusing capital into the system. Policy change and financial engineering activities are complementary in that innovative financial instruments cannot substitute for prudent financial management in the public sector. During the transition to higher savings rates, creative financial engineering must provide conduits for mobilizing existing resources into productive uses by the private sector. USAID will support a) private sector analysis and development of improved financial instruments, b) improvements in public sector management and supervision of financial markets, and c) innovative private-public partnerships to leverage more effective use of public resources (e.g. the Ghana Historic Conservation Trust Endowment in the Central Region)

Results Package 2 - Improved Private Enterprise Performance

RP-2 includes activities to increase the management capacity of production and marketing enterprises, increase the use of improved technology, and increase access to and use of

market information RP-2 will also support improvements in the management of eco-tourism and forest resources These interventions or activities will assist Ghanaian private enterprises to realize their growth potential in domestic, regional and international markets Since the overwhelming majority of Ghanaians are engaged in microenterprises, much of the emphasis of this RP will be on forging market linkages among microentrepreneurs and with the larger, non-traditional export enterprises Assistance will also be provided for the improvement of tourism services in the Central Region, one of the focal areas for microenterprise development activities Additionally, USAID will support the strengthening of business associations, to better represent and serve the needs of their members

The activities supported will build on three key lessons from past efforts The first lesson is that it is important to develop and strengthen market-led, demand oriented vertical linkages between various agents or actors in a subsector This includes pre-production services, production, processing and marketing The second is that constraints to effectively using capacity and participating in markets may occur throughout the subsector, and it is necessary for support services to be flexibly structured to be able to respond to these problems, where ever they may occur in the subsector The third lesson is that the first point of intervention in a subsector is the market, and, it is especially important to understand market demand and product characteristics that make it possible to compete In line with this, assistance will be provided to improve management, production, processing, marketing and distribution of selected agricultural and non-traditional export and domestic products Assisted subsectors will account for 30 to 35 percent of GDP Illustrative criteria that may be used to chose subsectors and markets for attention include the following

- Subsectors with strong effective demand for products being generated
- Subsectors with prospects for diversification of product markets
- Subsectors that are important to the Ghanaian economy, with significant multiplier and spread effects
- Subsectors with significant prospects for technical improvement in production and productivity
- Subsectors that support integration of Ghana into international and regional economies

In the initial stages of the strategy period assistance will be focused on a few subsectors that have previously demonstrated prospects for growing, and which have substantial analysis underpinning the programs At the same time, analysis will be initiated both by USAID and subsequently by institutional contractors, to help focus the portfolio This will include an assessment of the multiplier effects on economic growth of the mix of subsectors and enterprises that are focused on Alternative mixes will be examined Analysis has been completed, and will be continued, to identify the markets that will be focused on This will

include a description of opportunities, market structure, size, types of agents participating in markets, and current transaction costs for Ghanaian goods and services in the markets

The approach being promoted by USAID Ghana to make assistance available can be characterized as "push-pull" A limited number of innovative or "lead" firms involved in such areas as seafood, wood products, horticulture, floriculture, garments, staple foods, and tourism services will be selected for assistance These will be firms involved in the production and marketing of goods and services with the highest potential for increasing revenues and significant multiplier effects on economic growth And, by involving firms already committed to these products and markets, their knowledge and affiliated resources will be leveraged to expand and deepen Ghana's ability to competitively participate in markets Technical assistance and training will be provided to increase Ghanaian firms' capacity to produce and export, i.e., assistance to improve management, production, processing, distribution and marketing, including access to market information. The selection of firms and partners to provide assistance will be based on specific criteria, such as the following

- Involvement in the production and marketing of goods and services with the highest potential for increased revenues and significant multiplier effects
- Willingness to help develop related micro and smaller enterprises into sustainable business ventures This will include input dealers, producers, traders, processors and transporters
- Possibility of value addition to the enterprise's primary products/commodities
- Potential for marketing the product/commodity in the United States as well as the West Africa sub-region
- Development and the application of unique approaches to expansion and production of commodities/products

In the process of increasing their production and sales larger firms will develop linkages with groups of farmers and microentrepreneurs or, in effect, "pull" them into the production and marketing chain At the same time, assistance will be provided to help "push" microenterprises into higher levels of performance beyond subsistence and local markets with value-adding activities and broader market participation (national, regional and international) International PVOs, local NGOs and indigenous business associations and groups will be the principal implementors of direct assistance to the microenterprises Assistance will be provided in such areas as improving business management skills, appropriate and sustainable production techniques, technical use of production inputs, negotiating skills for the marketing of output, processing technology, credit management, and, in the case of small scale agricultural producers, post harvest practices This support will assist microenterprises to access required inputs and existing sources of finance It will

help cut costs, improve storage and handling practices to reduce post harvest losses and stabilize product prices, add value through processing and manufacturing, increase knowledge of prices, buyers and consumer preferences, and establish effective linkages with supplies and distributors

The approach and mix of products promoted will also develop synergies and a balance between low value and high value products that are exported to regional and international markets. This will ensure that the complementarities are developed at the farm level, for example, between cassava and cashew, to reduce risk and enable microenterprises to transfer labor and other resources from one subsector to another to participate in markets. This will also increase the cash flow of small enterprises that enables them to gain access to more, higher yielding and profitable, inputs

The selection of microenterprises for assistance will be based in criteria related to the commercial and technical feasibility of the enterprises, and what is best characterized as their commitment to success. This involves, in addition to assessing product markets with significant potential, identifying enterprises and groups of enterprises based on technical potential to capitalize on market linkages, institutional or management potential to use assistance effectively, commitment to the program and willingness to share costs, and equity considerations

In the Central Region, tourism is an important nontraditional source of revenue to support economic growth. Mechanisms are being developed under RP-2 to use resources generated to ensure the sustainability of forts and castles that have been restored, improve management of forest resources, and support community based programs to increase incomes. These efforts are an integral part of RP-2 and constitute an innovative approach to building the synergies between sustained use of resources and economic growth

Management and Implementation. Non-project assistance will be used to reenforce policy initiatives identified under RP-1. Technical assistance will be provided through institutional contracts to facilitate policy change and financial engineering, and to develop market linkages in specific industries. An institutional contractor will work with leading producers, export intermediaries, and business associations. As noted, PVOs and NGOs will provide direct managerial, production and marketing support to groups of farmers and microentrepreneurs. Additionally, USAID will provide assistance to assure the sustainability of investments in natural resource conservation and historic preservation in the Central Region, investments which serve as catalysts for the dramatic growth in Ghana's tourism industry

Food security will be improved through assistance to agricultural enterprises utilizing both PL 480, Title II resources and development assistance. By emphasizing economic growth, SO1 will address both food access and availability, since Ghanaians will be assisted to increase their incomes and food production, and to reduce seasonal fluctuations in food prices. Assistance will focus on the production and marketing of selected food crops, and

will thus directly enhance food security. While better utilization is being addressed primarily by other donors, USAID assistance in primary education and family health (SOs 2 and 3) will promote a better understanding of nutrition and hygiene, keys to improving food utilization.

Improved Infrastructure : Poor infrastructure has been identified as a significant constraint to increased private sector growth. Infrastructure investments will contribute to the reduction of marketing costs. Similarly, improved agricultural research and extension will contribute to increases in sustainable farm output, and improved financial services will increase investment and marketed production. These development needs are being addressed by several other donors, and so are not included in results packages specified in the results framework.

g Sustainability

Financial sustainability will be achieved by strengthening the capacity and profitability of assisted enterprises to maintain and expand their operations over time. In addition to providing assistance to modify and implement selected policies that directly affect the international competitiveness of Ghanaian goods and service, support will be provided to improve the technical production and management practices of assisted enterprises. Emphasis will be placed on improving the domestic and export marketing systems. Included in this effort will be improving storage and handling practices for agricultural products, establishing market linkages with market intermediaries, and adding value to natural resources through processing. All of these initiatives will enable private enterprises, both those which are directly assisted and those which indirectly benefit, to become productive and profitable on a sustainable basis.

h. How Achievement of the Strategic Objective Will Be Judged

Achievement of SO1 will be measured through increases in private sector growth and investment. A principal indicator of this growth is increased value of sales of selected goods and services, as derived from the newly revised national accounts statistics. The sales from selected agricultural and manufacturing products are targeted to increase from \$1,072 million in 1994 to \$1,480 million in 2001, of which sales attributable to domestic markets are projected to increase from \$971 million in 1994 to \$1,179 million in 1996. In addition, non-traditional exports -- which increased from \$68 million in 1992, prior to TIP, to \$227 million in 1996 -- are expected to reach \$475 million by 2001, and foreign exchange earnings from tourism are expected to increase from \$240 million in 1994 to \$420 million by 2001. Although this list of commodities included is not exhaustive, it will capture a majority of the growth resulting from USAID assistance during the Strategic Plan period. USAID will also track private investment as a share of GDP. This is targeted to increase from 3.3 percent in 1994 to over 10 percent in 2001.

USAID Ghana will also monitor and report on progress indicators derived from the Intermediate Results and the policy agenda. Existing monitoring instruments will be adapted to the new strategy. Grants and contracts with implementing agencies will specify monitoring requirements and the monitoring and evaluation of program activities will be the responsibility of the Mission's extended Strategic Objective Team.

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