

**AGENCY FOR
INTERNATIONAL
DEVELOPMENT**



**ANNUAL BUDGET SUBMISSION
FY 1979**

**USAID GHANA
NARRATIVE STATEMENT**

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**DEPARTMENT
OF
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ANNUAL BUDGET SUBMISSION

NARRATIVE STATEMENT FOR GHANA

June, 1977

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FY 79 ABS
USAID/GHANA

NARRATIVE STATEMENT

SYNOPSIS

Ghana faces a sharpening economic crisis which threatens the present regime. The standard of living for the average Ghanaian is worse now than it has ever been since independence.

The nation is crippled by critical food and other shortages, industrial stagnation, deteriorating infrastructure, a mounting budget deficit, virtually no foreign exchange, soaring inflation and high unemployment. Charges of corruption and mismanagement in government are becoming ever more widespread. Political change is a distinct probability. Against this pessimistic scene our Congressional Mandate to assist the poor majority becomes more meaningful in both the short and long run.

With or without the disruptive effects of political change, alleviating hunger is of prime importance. It can be anticipated that P.L. 480 Title II food may be required for a partial ration for approximately one million people, with other donors covering any additional requirements. P.L. 480 Title I could be utilized both to ease the food shortage and provide needed raw materials essential to stimulating domestic industrial production while alleviating the critical shortage of foreign exchange. Equally important, Title I would provide leverage for necessary economic reforms, hopefully to be undertaken with IMF, World Bank, and/or other donors' assistance.

Two important assumptions about the large-scale loan to assist small farmers (MIDAS) are that, should political change occur, it will not prove overly disruptive of governmental machinery, and that any new administration would wish to continue this program. Because of the need for close coordination of various ministries and the banks, this project is the most vulnerable to political change. Efforts to implement a low-cost health delivery system might also face some delay. However, any new government will probably wish to appear fully responsive to the needs of the people.

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By

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This is certainly the case of the incumbent moribund government as reflected in the Five-Year Plan. Loans programmed for FY 78 and 79 might suffer some slippage should a change in administration occur but the proposed loans remain germane to the country's needs and should benefit the poor majority.

The balance of the other proposed programs to assist the poor majority will be channeled through voluntary agencies or through district or village community groups and are likely to be less affected by political change. These programs will concentrate on helping the small farmer to increase food production and income, improving the opportunity of women to become active participants in and beneficiaries of development, and improving health. Of equal importance is the heavy training component necessary to advance the development of Ghana.

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NARRATIVE STATEMENT

A. Economic

Since the overthrow of the Nkrumah Government in 1966, Ghana's efforts to develop have been hampered by the presence of five key problems:

1. An inability to evolve a development strategy which would increase economic opportunity and social benefits for most Ghanaians.
2. A shortage of foreign exchange and an overdependence upon cocoa to earn foreign exchange and to produce government revenue.
3. Rapidly rising government expenditures leading to large budget deficits, an undesirable rate of increase in the money supply and uncontrolled inflation.
4. A massive external debt which Ghana was committed to service out of limited and unstable foreign exchange earnings.
5. Widespread corruption at all levels of government.

Many of the economic and social indicators point to Ghana as having one of the highest standards of living in sub-Saharan Africa. Yet, real economic growth since independence in 1957 has just barely exceeded population growth, if at all. The industrial sector, which generates over 20 percent of real GDP, is based primarily on import substitution and is heavily dependent on imported inputs. Moreover, Ghana remains extremely dependent on cocoa earnings, which generate about 9 percent of GDP, 67 percent of export earnings, and 28 percent of government revenues.

Since 1975 the economic situation has deteriorated sharply. Annual inflation is now running at an estimated rate of 100 percent and local food inflation at well over 100 percent. Largely responsible for this inflation has been the government's propensity to spend greatly in excess of its revenues, resulting in a deficit for 1976-77 that is estimated to be equal to almost 60 percent of total expenditures. Compounding these problems

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has been the government's policy of a fixed exchange rate which, in the face of high inflation, is becoming more and more overvalued with no prospect of devaluation in sight under the present regime.

While foreign exchange earnings should have increased markedly in the past year, those earnings actually repatriated have stagnated. This, plus increasing prices of imports, a continuing high propensity to import, and virtually zero foreign investment, have created a severe foreign exchange shortage. The foreign exchange shortage is recognized in the recently published Five-Year Plan as the most critical problem facing the economy. Since most of Ghana's industries are heavily dependent on imported inputs, many of them are operating at far below capacity. An imperfect system of foreign exchange control operates in Ghana with the government in charge of allocating all import licenses.

Besides controlling the foreign exchange situation in Ghana, the government is becoming increasingly involved in other sectors of the economy. More and more of agricultural production and distribution are being taken over by state corporations and boards. Many prices are also "controlled" by the government, a practice which discourages production and encourages smuggling out because of artificially low levels of domestic prices compared to prices in neighboring countries.

The trend toward greater state control of the economy in Ghana could conceivably make the task of central planning more manageable. The recently published Five-Year Plan for 1975-1980, however, is of little value. The fact that it was published two years late makes it operative only for the last three years of the plan period. Moreover, much of the forecasted budget data are already so outdated as to make them useless. Another major shortcoming of the Plan is that the individual sector budgets are completely unrelated to and far exceed the overall budget prepared by the Ministry of Economic Planning.

B. Social

Ghana has a comparatively small urban sector and its social development reflects this situation. An educated urban elite dominates the society; it consists of perhaps three percent of the country's total population and is largely made up of civil servants and military personnel, with much smaller

components of professional and business people. The members of this elite are the inheritors of both the income and the positions (with the perquisites that accompany those positions) of the earlier colonial officialdom. In the years since independence there has been a strong tendency by this urban elite to dominate and to some extent to exploit the rural masses. Although the present government indicates in its public statements that it wishes to break out of this pattern, it is unlikely that any substantive change will be achieved in the immediate future.

Among the characteristics of the society and the institutions which serve it, the following seem to be among those which most basically affect the potentialities for social mobility and development:

1. The philosophy of education which predominates in Ghana is too traditional and fails to prepare school leavers at most levels for technical or other developmental roles.
2. Health and family planning services are too concentrated in the urban areas and effectively reach less than 30 percent of the total population.
3. The urban population enjoys the major part of government expenditures not only for education and health services but also for other social amenities and infrastructure development.
4. Population is growing at a rate which may exceed three percent annually and the cities are growing at a much more rapid rate, with accompanying serious social and economic problems exacerbated by the economic stagnation of recent years.
5. Problems of malnutrition and disease, particularly in the rural areas, are serious and there is a continuing high rate of infant mortality despite a steady overall decline in the death rate.
6. The north of Ghana, with about 20 percent of the population, is experiencing increasing hunger and hardship due to increased density of human and animal population, poor land use practices (which result in erosion, loss of water resources and lower fertility and productivity of the soil), and an apparent adverse climatological trend.

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7. Conditions in the rural areas discourage the young (especially the educated) from the rural and agricultural life and increase the drift to the already overcrowded cities.
8. The same factors as in 7. above deter professionals, more affluent business people and officials from accepting positions in the rural areas which further deters and postpones their modernization and development.
9. The instability of government and the absence of a coherent, growth-oriented development program has demoralized the Civil Service and rendered it, at least temporarily, unable to make its maximum contribution to growth.
10. Lack of modern management concepts in most economic and social institutions thwarts progress even where reasonable goals are set.

C. Political

Ghana had a long history of colonial administration prior to independence in 1957. Its own cultural, political and social inheritance has been intricately interwoven with the colonial experience to form a mosaic with a variety of assets and some liabilities. Many educated and highly motivated men and women operate at various levels and staff a wide range of institutions. They continue to be beset by rigid colonial patterns, conflicts between modern and traditional values, and weak management systems and practices which are partly inherited from the past. Political instability having plagued Ghana since 1966 (with three changes of government), there is usually hesitation in committing the nation to much needed reforms. The controlling civil-military elite has sustained an inherited set of policies which still substantially perpetuates the colonial exploitation of the rural masses. The realities of political life have generally caused the leadership to favor the urban elite and potentially volatile urban workers in the allocation of government funds for amenities and services. Thus, despite a comparatively high standard of living in Accra, the rural masses of Ghana suffer a relatively low standard of living judged by indicators of nutritional and health status.

The inability of the present Government to contain inflation, combined with acute food shortages and generally

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recognized widespread graft and corruption, portend a change of Government in the near future. Any new regime will probably be dominated by the military but may include a much greater civilian participation.

It is unlikely that a post-Acheampong government will move Ghana any closer to a socialist model because state-controlled enterprises have proven notoriously inept. At the same time it is equally unlikely to encourage laissez-faire capitalism for fear of criticism of being too pro-West.

Because of the continuing economic deterioration, we are being asked for additional aid to alleviate internal problems and relieve the shortage in foreign exchange. We should be prepared to be responsive to these emergency requests while maintaining the focus on long-term development.

While the political outlook is decidedly uncertain, one important fact must be borne in mind. Unlike many newly independent countries, Ghana is managing its affairs without relying heavily on expatriates. While, to date, the experience of self-government cannot be characterized as overly successful, there is hope over the long run that a government may emerge capable of addressing the problems besetting Ghana. While the military are presently in power and are likely to remain dominant, pressures are such that any new government will almost certainly have to include a larger mix of civilians. Should this occur, there are many well-qualified Ghanaians capable of providing the type of leadership presently lacking in government.

D. Program Direction

Over the next five years AID will continue efforts to build a technical cooperation program of \$5-6 million aimed at making a substantial impact on root problems in priority sectors of food and nutrition, health and population focused on the poor majority. In addition to P.L. 480 Title II assistance, this effort would be reinforced by a loan program of approximately \$10 million each year oriented toward major resource transfers in the chosen sectors, particularly food and nutrition, health and related rural development. To help ease the basic foreign exchange constraint which inhibits Ghana's growth rate, we see an ongoing need for P.L. 480 Title I food and commodity assistance to run in parallel to sector assistance. The underlying theme of the A.I.D. program is the importance of working with the

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Ghanaians both in addressing the problems of increasing the growth rate above the present stagnant levels and in supporting a redirection of resources and services toward the poorer segment of the population.

Ghana must do a great deal more on its part to demonstrate its determination to carry out a sound long-term development program. For one, while the goals of the Five-Year Plan are laudable, they are not consistent with resource availability and must be realigned accordingly. Accompanying fiscal and monetary policies need to be formed and followed to correct some of the fundamental and long-standing imbalances in Ghana's external and internal economic condition. Inflation, the major problem in the economy, must be brought under control. In brief, Ghana will need to demonstrate a commitment and capability to conceive and carry out a development strategy along the lines outlined in the Economic Overview.

E. Other Donor Response to the Current Situation and Trends

The foregoing description of the economic situation and trends in Ghana describes a discouraging environment in which to attempt to promote development. If that development is important to U.S. policy in this country, then it follows that our efforts to assist and foster development may either need to be modified or that efforts must be made to find a resolution to the current set of constraints to that development. It is not appropriate for the U.S. Government to play the central role or to assume the initiative in resolving the problems faced by Ghana. Such steps to bring about economic reform must be undertaken by a multilateral agency such as the International Monetary Fund or the World Bank.

The earlier Consultative Group which guided major policies of the donors in the era before the coup of January 1972 which brought the present government to power is unlikely to be suitable for revival in its earlier form, since it was regarded as a form of "ganging up" by the donor community. The Government of Ghana (GOG) regarded this arrangement as an unfriendly act and as inconsistent with its quest for self-reliance and complete independence. Obviously, the difficulty is that the GOG has failed to take adequate measures so that its stance of independence is matched by adequate resolve in dealing with its own economic problems. What seems equally clear is that the GOG has not accurately appraised the situation, and/or that it has failed so far to recognize the true nature and extent of the problems it faces or the steps necessary to

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achieve a solution to those problems. As many observers have pointed out, government economic action has generally addressed the symptoms rather than the causes of its economic difficulties.

The failure to date of the GOG to evolve a comprehensive set of policies addressing the real difficulties facing the nation is not because there are no Ghanaians who understand the problems. Instead, the root of the problem of the government's failure to address these difficulties is that the leadership has both significant misconceptions about the nature of its problems and an inadequate understanding of the political and economic repercussions of failing to address them seriously. It must also be admitted that it clearly sees the real political liabilities inherent in facing up to the problems. The leaders of the Supreme Military Council (SMC) are in some cases suspicious of outsiders and are uncertain that Western ideas coincide with Ghana's interests or the preservation of their power. If this is so, we must recognize that efforts at persuasion may be slow and tortuous, and that the GOG will only gradually accept the inevitability of the need for major economic reforms, perhaps only as conditions deteriorate yet further. This may also suggest that if outside recommendations for reform are ever to be followed, assistance must be offered to ease significantly the political risks inherent in such reform action. A careful plan and program to deal with the political aspects of economic reform are essential to its success.

High-level officials, outside of the SMC, have begun to think seriously about these problems and to talk informally about their solution. These officials recognize that unless such reforms are undertaken, far more serious problems (both economic and political) lie ahead for Ghana, and that it will be necessary to persuade the present leaders of the country that a new course is required. The Commissioner for Economic Planning is pressing his staff to canvass alternative approaches to the solution of the inflation problem. He has spoken in public, though obliquely, of the need for currency reform. It may be possible for outside representatives of the multilateral agencies to begin a dialogue which can be used by those civilian officials of Ghana who do understand the problem to encourage the SMC to bring forth a coherent set of reform proposals. While this does not ensure that there will be a receptive audience, at least it is a combination which may cause the military leadership to recognize that there are serious reasons to examine alternatives to the present, rather negative and limited treatment of symptoms

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as their main means of addressing Ghana's acute economic problems.

Once the GOG agrees to grasp this nettle it may be expected to recognize also its need for external support to achieve the objectives of stabilization, restructuring of its producer prices and incentive policies, and for having at its disposal an adequate flow of resources to meet internal demand and hence restore confidence to eliminate or slow the now built-in inflation psychology which dominates present economic decision making. Such a program will require the mobilization of any and all resources which are available to the GOG but is also likely to mean that Ghana will turn to the donor community for additional resources. Traditionally, the assistance needed during a period of stabilization and realignment of the exchange has taken the form of program loans. Clearly, it seems likely under the exceptional circumstances which will prevail, that the donors must make the decision to support the GOG through resource transfers if the pace of development is to be quickened and a greater measure of equity achieved in the longer run. Program loans may be the best instrument though other means of providing the necessary resources to back up a stabilization and devaluation program may be devised.

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