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AGENCY FOR
INTERNATIONAL
DEVELOPMENT



FIELD BUDGET SUBMISSION
FY 1976

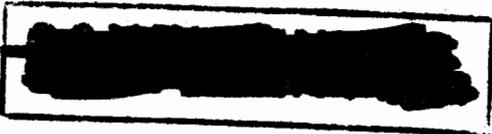
GHANA ANNEX

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OF
STATE

AUGUST 1974





GHANA ANNEX

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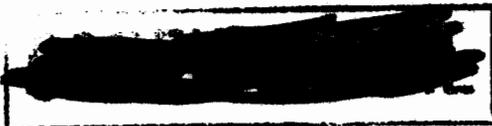
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I. ECONOMIC, SOCIAL AND POLITICAL OVERVIEW

ECONOMIC OVERVIEW

A. Developments and Trends in Recent Years

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

1. An inability to evolve a development strategy which would impact successfully upon the majority of Ghanaians producing not only an increase in welfare but also an increase in the equity of the distribution of that welfare.
2. A shortage of foreign exchange relative to development needs and an overdependence upon cocoa as an earner of foreign exchange and as a producer of domestic revenue.
3. Rapidly rising government expenditures leading to persistent budget deficits, an undesirable rate of increase in the money supply and a substantial amount of inflation.
4. A massive external debt which Ghana was committed to service out of limited and unstable foreign exchange earnings.

There were strong indications that, after the period of stabilization under the National Liberation Council, the Busia Government was moving towards a set of economic policies that would, over time, have largely overcome these problems. Indeed the critical failure of the Busia government was not a failure to develop an appropriate strategy but rather a failure to develop a political environment which would produce a broad base of support for such a strategy. The discontent brought about by the sacrifices inherent in the strategy plus the general lack of understanding of the strategy itself strengthened the hand of those who sought for other reasons to overthrow the Busia government. As a result, the evolution of the Busia economic strategy was halted and the critical problems remained to be solved. What then has been the basic outline of the NRC's initial response to these problems.

While the National Liberation Council and the Busia Government repudiated the statist centrally planned economic growth strategy that characterized the Nkrumah era they experienced difficulty in developing an economic strategy that would impact successfully upon the low income group that makes up the majority of Ghana's agricultural population. Under both Governments large amounts of money were spent to maintain the established standards

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of salary and benefits of civil servants and amenities for the urban population. While the needs of the rural areas were not entirely neglected expenditures and programs tended to be directed at the more affluent portion of this sector.

Little effort was made to reach the poor small-holders who make up the majority of this sector and produce most of the nation's food. Because they wield little political influence and are so numerous and dispersed as to be difficult to encourage and support they tended to receive a low weight in the development equation despite their large contribution to Ghana's output.

Towards the end of the Busia Government there was, however, a growing awareness that the costs of failing to reach the low income farmers had been high. Ghana continued to remain dependent upon food imports, real growth per capita remained stagnant and urban unemployment presented a growing problem. The transformation of the quality of rural life and increased incentives and rewards to agricultural production were receiving greater attention on the part of government policy makers when the coup forced the Busia government from office early in 1972.

Despite indications early in its tenure that the NRC might return to the emphasis on large scale, capital intensive state farms that characterized the Nkrumah era this has not come to pass. The NRC over time has become increasingly aware of the importance of the small scale farmer in the Ghanaian development equation. Increasingly, though hampered by weak institutions, it is seeking to provide the smallholder with the inputs, tools and technology he requires if he is to increase his output and improve his standard of living. Very clearly this is of the greatest importance as no real growth is likely to be possible in Ghana so long as the smallholder is denied an opportunity to modernize his operations, contribute to growth and have a meaningful share of the fruits of development.

Upon coming to power the NRC abandoned the Busia Government's market-oriented approach to dealing with the problems of the external sector and substituted a system of direct controls. While this approach was successful in reducing the volume of imports in 1972 and 1973 and in restructuring the composition of the import "bundle" it no doubt resulted in a reduced level of economic activity.

In addition to the imposition of a system of direct controls, the NRC also attempted to reduce the magnitude of the foreign exchange constraint through the encouragement of non-traditional exports. In January 1973 an export bonus scheme was introduced which provided a twenty percent bonus to exporters of a wide variety of non-traditional products. It has also given exporters of non-

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traditional products a high priority with respect to import licenses.

The NRC, as was the case with the Busia government, has not been successful in containing recurrent expenditures and the magnitude of the overall deficit. Recurrent expenditures rose from £381 million in FY 1972 to £428 million in FY 1973 due primarily to higher personnel expenditures and the government's desire to cushion the standard of living through the payment of subsidies on certain "essential" commodities. At the same time total revenue fell from £422 million in FY 1972 to £392 million in FY 1973 due largely to a further decline in receipts from cocoa export duties that began in FY 1972. As a result the overall deficit rose from £111 million in FY 1972 to £188 in FY 1973. This in turn led to a substantial amount of pressure on the price level. There is little indication that the NRC government has thus far been able to escape the pro-cyclical "trap" that haunted its predecessors: i.e. higher cocoa prices which lead to greater domestic revenues which lead in turn to increased expenditures which are difficult to reverse when the price of cocoa falls.

In February 1972 the NRC Government repudiated certain medium-term external debts (which it held to be tainted with corruption) and the rescheduling of the remainder in accordance with IDA terms. In October of 1972 Ghana's creditors met in London and formulated a counterproposal. Out of a subsequent series of meetings and discussions a final agreement was reached in Rome in March of 1974. This agreement will, unlike previous debt reschedulings, provide Ghana with long term debt relief within a framework that is consistent with Ghana's earlier public statements on the debt question. Unfortunately, its developmental impact will be overshadowed by increased petroleum prices and the impact of worldwide inflation.

B. Current Developments, Problems and Trends,
Output, Prices and Equity

According to estimates made by the IMF the rate of growth in real output probably did not exceed 2-3 percent per annum in 1972 and 1973. Allowing for population growth this would imply continued stagnation or perhaps a decline on a per-capita basis. There is little reason to anticipate a substantial improvement in this situation during 1974.

In the non-cocoa portion of the agricultural sector output has increased mainly in the case of rice and maize. Some improvement has been achieved in the marketing and distribution of local foodstuffs. The GOG's overall objective of achieving self-sufficiency in basic foodstuffs during 1974 is not likely to be attained. The performance with regard to non-food crops has been unsatisfactory as well. Real progress with respect to agricultural output would seem to depend upon improved inputs

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and services delivery and improvements in storage, marketing and distribution facilities, with these services and inputs being made genuinely accessible to the small holders who make up the majority of those employed in the agricultural sector. Appropriate price incentives are important as well.

Cocoa prices have been favorable recently and this has served to increase substantially the resources available to Ghana's domestic budget and the foreign exchange available for imports. At the same time exports of raw cocoa have fallen in volume since the record year of 1965 (494,000 long tons) with Ghana accounting for a decreasing share of world production. The Government of Ghana is very clearly aware of this problem. A National Cocoa Production Committee was recently inaugurated to examine and seek to solve the economic and social problems which have contributed to Ghana's absolute and relative decline as a cocoa producer. Increases in the producer price (25% in September 1972 and 20% in September 1973) as well as improvements in local purchasing arrangements should provide an incentive to increased production.

No statistical information is available on the recent performance of the manufacturing sector. It is thought that most enterprises are operating above their break-even point but well below their full capacity. There can be no doubt that intermittent shortages of imported spare parts and raw materials have adversely affected production. Though the industrial sector may receive a slightly larger proportion of all import licenses in 1974 than was the case in 1973 these problems may continue to be encountered. A recent decree permitting imports under Open General License (OGL) may ease this problem. For imports under OGL the importer will be given authorization to import goods falling within broad categories. This should make for a smoother operating licensing system. The allocation of foreign exchange for all imports remains subject to administrative control, however.

A rapid and persistent rate of inflation continues to be a problem. From February 1973 to February 1974 the national consumer index for all items rose by 23 percent. Increases in the price of local foodstuffs accounted for some 67 percent of this increase.

That the lower income group in Ghana has become worse off in recent years is beyond doubt. A virtually stagnant average per capita GDP combined with substantial rates of inflation is certain to reduce the welfare of the lower income group which is least able to protect its position in the face of inflation. Most of the inflationary impact on prices is reflected in the continuing rise in prices of foodstuffs. The urban poor who must of necessity spend a large portion of their incomes on food are thus particularly vulnerable while simultaneously the

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rural poor who might be expected to respond to the higher prices are prevented from doing so by the inadequacy of their inputs, tools, technology infrastructure and inefficient access to markets. Clearly, what is called for in terms of both growth and equity is a balanced strategy that provides the urban poor with increased employment and income and frees the rural poor from the impasse in which they are currently caught.

Revenues and Expenditures

Revenues during FY 1974 are likely to be higher than expected due to high receipts from cocoa export duties and taxes on imports. Income tax receipts are also expected to increase in large part due to improved collection procedures. The gains made in government receipts would have been even larger had the government not reduced the tax on gasoline in an effort to reduce the effect of higher petroleum prices on the ex-pump price that motorists must pay.

Little additional revenue will result from the imposition of a few new taxes. While additional revenue measures were announced in the FY 1974 budget they were very modest in nature (estimated as a group to yield only some ₦8.8 million). Tax effort, as far as non-cocoa receipts are concerned, is very probably declining due to a reduction in the tax base and the rates imposed. (i.e. the average import duty declined as a result of the revised import duties imposed by the FY 1974 budget.)

Recurrent expenditures may also be expected to increase substantially in FY 1974, perhaps by as much as 27 percent. Subsidies incurred in an effort to hold down the price of petroleum cost the government some ₦35 million before they were abolished in March of this year. The increased salary for public servants announced in January added about ₦15 million to recurrent expenditures. The elimination of subsidies on a wide range of commodities through an increase in their control price (announced on June 14 of this year) came too late in the year to have much effect on FY 1974's budgetary out-turn though it should help hold the line on the FY 1975 budget.

Overall, the deficit experienced in FY 1974 is likely to amount to ₦120 to ₦130 million. This in turn implies a continuation of the inflationary pressures that have prevailed in the past (even though the Government has recently been able to finance an increased proportion of its deficits without resort to the banking system).

Money and Credit

The money supply increased by 30 percent between April 1973 and

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the end of March 1974. This increase contributed to the persistent inflationary pressures operating in the economy.

With the beginning of the 1973/1974 fiscal year the Bank of Ghana changed the structure of interest rates. The Bank of Ghana lowered its discount rate from 8 to 6 percent and directed the commercial banks to lower their lending rates by 2 to 3.5 percent with a maximum of 10 percent. In order to maintain the commercial banks earnings the banks were allowed to reduce the rate of interest paid on time and savings deposits and the small rate of interest that had been paid on demand deposits was abolished. The rate of interest paid on three month Treasury Bills is now above the rate paid on time and savings deposits giving the Government an improved position vis-a-vis the banks in vying for private sector funds.

At the same time the Bank of Ghana announced new credit guidelines for the commercial banks for the 1973/1974 fiscal year. Experience over the first six months of the fiscal year indicates that the increase in credit to the private sector and public entities was pretty much in line with Bank of Ghana guidelines in total. The sectoral distribution appears to have deviated at least initially with non-priority sectors receiving more than should have been in the case. Credit to those non-priority sectors was, however, relatively low on June 30, 1973, the base date for the 1973/1974 credit program.

Balance of Payments

The attached table summarizes Ghana's balance of payments and resource shortfall over the remainder of the decade. Imports have been projected as those which would be required to support and sustain a rate of growth rising from three percent in 1974-1975 to five percent by the end of the decade. This import data takes account of the increased cost of petroleum and other imports.

Ghana, of course, has other commitments to meet out of the foreign exchange at its disposal from its own (and foreign investment) sources. When these are taken into account a substantial resource gap emerges even on the assumption that Ghana does not seek to maintain a level of reserves equal to 3-4 months imports (which might be required if Ghana were to seek to significantly liberalize its foreign exchange controls). In the wake of the successful rescheduling of Ghana's pre-1966 medium term debts the donors stand ready to commit substantial amounts of new assistance. It is not at all likely that this assistance will be sufficient to close the resource gaps that will emerge in the last half of the decade. Ghana will have to take certain vital actions

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herself if she is to have access to the resources required for moderate economic growth.

More specifically, Ghana will have to sharply limit non-essential imports and replace imports (i.e. notably rice, cotton, sugar) with domestic production to the maximum possible extent. It will also have to expand exports even more rapidly than has been assumed in the table attached and encourage foreign investment to the maximum possible extent.* In order to attain these goals, however, the domestic economy will have to be stabilized, inflation held to a minimum, domestic savings encouraged and a set of incentives and supportive policies and programs adopted to make a break through in non-traditional exports.

Impact of the World Petroleum Crisis and Inflation

There can be no question that Ghana's development efforts have been set back by the petroleum crisis and inflation. Ghana spent some \$40 million on petroleum products in 1973. This will increase to \$185 million in 1974 and to \$210 million and \$220 million in 1975 and 1976 respectively. In the absence of the petroleum crisis and relief provided by the debt rescheduling plus the new commitments on the part of the donors would have been sufficient to close the resource gap over the remainder of the decade even on the assumption of 3-4 months accumulation of foreign exchange reserves.

Abstracting from petroleum, worldwide inflation is likely to create difficulties as well. Ghana's small industrial base is highly dependent on imports whose prices are rising. With the exception of rubber (which is not now exported but could be in the future) gold and aluminum the prices of Ghana's exports are not likely to keep up with the prices it must pay for imports.+ Inflation will also create budgetary problems for the Government as it attempts to maintain the standard of living of certain income groups through the imposition of retail price controls, responds to pressures for wage increases and seeks to maintain government services in the face of mounting costs.

*Negotiations are now under way which could lead to an investment of some \$150 million to develop Ghana's bauxite deposits and set up an aluminum plant.

+ Imports amounted to ₵243.3 million and Exports to ₵242.1 million over the period January 1974 to March 1974. Over the same period in 1973 imports amounted to ₵124.2 million and exports amounted to ₵187.6 million. While some of this increase in imports has no doubt been the result of more generous licensing policies the majority of the increase is almost certainly due to higher petroleum prices and the impact of worldwide inflation.

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The Role of External Assistance

It has already been noted that, in light of the difficulties posed by the petroleum crisis, it is not at all assured that the donors will be able to fully close the resource gaps that will emerge in the last half of the decade. The donors nonetheless can be expected to play a major and significant role which will be of critical importance to the success of Ghana's own efforts.

As of this writing the major supporters of Ghana's development efforts are gearing up to resume their assistance as the Ghana Government completes the review of pre-1966 suppliers credit contracts. Indeed, the IBRD is already moving ahead to provide substantial assistance as are the Canadians. The West Germans are also anxious to resume assistance having built up a backlog of funds reserved for capital and technical assistance to Ghana. The United Kingdom is in the process of lining up projects for possible funding in FY 1975. The United States stands ready to commit a \$19 million program loan to provide balance of payments support for Ghana's development efforts. New grant funded sector related activities are also contemplated.

The process of committing new aid to Ghana has been slowed not only by the desire of most donors to await completion of the pre-1966 supplier credit contracts review before entering into new commitments but by the Ghanaians' reluctance to enter into discussions of new initiatives. This reluctance has its origins in the fact that Ghana's leaders are still in the process of thinking through the development strategy that Ghana will follow over the next few years and the role of external assistance in relation to that strategy. It may be anticipated that as the main lines of the new development strategy are clarified and a plan is formulated it will become feasible to engage the Government more effectively in a dialog on future assistance strategies.

Development Planning and Strategy

Some of the most interesting recent developments with respect to planning and strategy concern changes in the structure of the responsible organizations. Early in 1974 the Ministry of Finance and Economic Planning was split into two separate ministries. Col. Acheampong, Chairman of the NRC retained his portfolio as head of the Ministry of Finance. Mr. Kwame Fordwor took charge of the day-to-day operations of that Ministry as Assistant to the Commissioner but also retained his position as Executive Director of the Capital Investments Board.

The Ministry of Economic Planning portfolio was vested in Lt. Col. R.J.A. Felli who formerly held the portfolio for Trade

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and Tourism. On March 21, 1974 Col. Acheampong announced the creation of a National Economic Planning Council. The Council consists of thirty-three members drawn from a wide range of experienced people from both within and outside the government. Its creation may be seen as a major effort to bring a maximum amount of talent and experience to bear on Ghana's development problems. Though most of the members will serve on a part-time basis, six permanent members have been appointed to posts in an expanded Ministry of Economic Planning. These changes alone should bring about considerable improvement in economic planning and policy making through a strengthening of the depth of top level leadership in these two key ministries.

It was originally hoped that a statement of strategy and a set of general guidelines for a five year development plan could be produced by July of 1974. It is now evident that this will be delayed and that such documents are not likely to appear until somewhat later. The Government expects to complete a draft of a Five Year Plan toward the end of the year. At the same time, however, it is possible, from the public statements of Lt. Col. Felli and others, to obtain an idea of the probable thrust that these documents may display.

It seems apparent that Ghana will not revert to the development strategy of the Nkrumah era which placed a heavy emphasis on state control over almost all economic activity and the creation of state farms and industrial enterprises.

Rather, the approach to be followed seems more likely to be marked by a "mixed-economy" approach with the Government playing a major role but leaving substantial scope for private Ghanaian initiative and foreign investment.

It seems clear as well that the primary thrust of the Five Year Development Plan will be directed towards the agricultural sector. It is well understood that agriculture (particularly small scale agriculture) forms the basis of the Ghanaian economy and hence the foundation upon which the development of the other sectors must rest. This being the case it is reasonable to expect that the plan will give substantial emphasis to insuring that small farmers have access to credit, fertilizer, pesticides, tools, and implements (with simple implements being domestically produced) and improved methods. Storage, marketing and transport will also receive a high priority as a part of Ghana's effort to eliminate its food deficit and to produce raw materials for its industry.

The Plan should also give emphasis to the creation of employment, the mobilization of savings and the expansion of exports all of

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which are areas of critical importance. In a public statement in April 1974 the Commissioner of Economic Planning stressed these points as the main needs of future development policy for Ghana.

C. Prospects for Growth with Equity

Can Ghana devise and implement a development strategy that will result not only in economic growth but in increased equity for the lower income group as well? The evidence suggests that this is possible and that indeed Ghana may be well placed to begin to devise and implement such a strategy.

First, Ghana, while not spectacularly endowed with resources, clearly possesses the resource base to support a more rapid rate of economic growth. Such growth is clearly a requisite for an improvement in equity as it makes possible a yearly "dividend" which can be used to increase the welfare of the lower income group without reducing the welfare of the upper income groups. They are powerful politically and protective of their relative standard of living. One cannot assume, however, that the dividends of growth will automatically accrue to the lower income group. Indeed the evidence worldwide suggests that, in the absence of positive policy, these dividends tend to accrue to the more affluent portion of the population. What is required therefore is not only growth but a positive commitment to the redistribution of the benefits of that growth with the redistribution to take place as the economy grows and not at some time in the future.

Given the restricted size of Ghana's domestic market growth in Ghana will of necessity have to be based on labor intensive exports (though as the redistribution of growth dividends deepens the Ghanaian market the relative importance of exports will be reduced). Thus the most important elements of Ghanaian development strategy are those that relate to the expansion of labor intensive exports. Only if such exports expand can Ghana expect to generate growth dividends of a magnitude to offer significant increases in welfare to the lower income group.

Such growth will only benefit the lower income group if a conscious decision to redistribute is undertaken. Foremost in importance in this decision to redistribute is a commitment to providing the poor with the basic skills they require to participate in the growth process. The time that it takes to develop such skills is a major constraint to the implementation to an equitable growth strategy. Ghana's substantial investments in human resources should weaken this constraint ~~some-~~ what though adjustments in the educational system (including

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non-formal education) may be required to give it a more practical and development oriented bias.

There may be some benefits from growth that will reach the urban poor directly. If labor intensive exports are expanded they could enjoy increased employment opportunities and access to the goods they require at world market prices. This is likely to be short lived if the rural poor are ignored as they will leave the farms, depressing urban wages while simultaneously raising the price of food. A positive policy to assure that the rural poor share in the fruits of growth is also essential. This policy must encompass more than effort to simply encourage the adoption of improved technology. A policy of promoting assured access to inputs, credit, markets and infrastructure is a necessity as well. A substantial portion of the growth dividend must be devoted to supporting such access if equitable growth is to become a reality. At the same time that growth is dependent, especially in the years just ahead, on an adequate flow of resources to start the process. Without both an adequate flow of resources and a set of redistributive policies neither growth nor equity may be feasible.

In broad outline, the following conditions will have to be met if Ghana is to have growth with equity:

1. Ghana must have access to the resources to support growth and the "dividend" that results from such growth. Some of these resources will be available from external sources but substantial amounts will have to be raised internally.
2. This growth must be based on labor intensive non-traditional exports. Appropriate incentives must be provided to insure this.
3. There must be a positive commitment to distributing the growth dividend to the urban and rural poor. This will take the form of insuring access to those basic services requisite to meaningful participation in economic life such as education, health services and housing. For the rural poor in particular, assured access to inputs, improved technology, credit and markets and strengthened infrastructure will have to be provided as well.

These conditions can not be simply met. A considerable commitment and willingness to make difficult and perhaps unpopular decisions will be required. The NRC seems increasingly committed, however, to a strategy that will, over time, allow

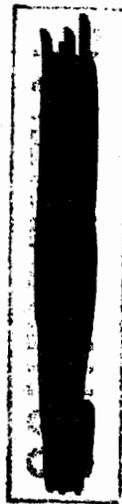
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these conditions to be met. There is thus reason to hope that not only will Ghana's considerable potential be realized but that the poor who make up the vast majority of the population will receive an increasing share of the benefits.

Attachment to Economic Overview

GHANA: BALANCE OF PAYMENTS AND RESOURCE GAP
(millions of U.S. Dollars)

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1980</u>
Imports including Non-factor Services required for moderate economic growth	-501	-760	-867	-1,021	-1,458
Exports including Non-factor Services	634	799	827	944	1,337
Balance of Goods and Non-factor Services	<u>+133</u>	<u>+ 39</u>	<u>- 40</u>	<u>- 77</u>	<u>- 121</u>
Investment Income (Net)	- 24	- 43	- 55	- 55	- 64
Private Transfers (Net)	- 6	- 10	- 10	- 10	- 10
Balance on Current Account	<u>103</u>	<u>- 14</u>	<u>-105</u>	<u>- 142</u>	<u>- 195</u>
Direct Investment (Net)	14	16	28	29	35
Short Term Credits (Net)	- 54	- 40	- 33	- 33	- 20
Repayment of Medium and Long Term Loans	- 12	- 18	- 18	- 20	- 13
IMF Drawings	- 9	--	--	--	--
Bilateral Balances (Net)	- 2	--	--	--	--
Use of Reserves (- = accumulation of reserves)	- 70	- 68	- 27	- 33	- 20
Errors and Omissions	- 12	--	--	--	--
Resource Gap allowing for accumulation of reserves equal to 3-4 months imports	- 42	-124	-155	- 199	- 213
Resource Gap not allowing for accumulation of reserves	28	- 56	-128	- 166	- 193



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The Ghanaian economy has a comparatively small, modern and urban sector and its social development reflects this situation. An educated urban elite consisting of not more perhaps than three percent of the country's total population and largely made up of civil servants and military personnel with much smaller components of professional and business people dominate the society. They 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 to perpetuate the dominance and a measure of exploitation by this urban elite of the rural masses which has characterized the pre-independence colonial period. The present government indicates in its public statements that it wishes to break out of this pattern and it gives evidence of attempting to do so though a rapid reversal is not to be expected.

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 more traditional than would be desirable and it largely fails to prepare school leavers at most levels for dynamic, technical or developmental roles;
- 2) health and family planning services are unduly 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 services 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 slow

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rate of growth in the economy in recent years;

- 5) problems of malnutrition and disease 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 hardship due to the ecological/environmental deterioration in the area which appears to be associated with such factors as increased density of human and animal population, land use practices (which are extremely detrimental resulting in erosion and loss of water resources and of fertility and productivity of the soil), and an apparent adverse climatological trend;
- 7) conditions in the rural areas discourage the young (especially the educated) from continued pursuit of 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 in recent years 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 dynamic growth;
- 10) a general absence of modern management concepts in most economic and social institutions thwarts achievement even where reasonable and ambitious goals are set.

Although this set of constraints to development in the social sphere represents a formidable array, there are a variety of other social aspects and trends which are more favorable. Among these are the increasing number of people who, despite the traditional educational patterns, have a modern outlook and aspire to fostering a more dynamic social and economic environment. In and out of Government such attitudes are evident and represent a significant leaven in the loaf. Nor is the academic community lacking for such people: modern and activist intellectuals are at work. The outreach efforts of University of Science and Technology to develop new industries, support cooperatives, etc., attest to the vigor of this movement. Similarly the willingness

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of the Department of Agricultural Economics at the University of Ghana at Legon to enter into a close working relationship with the Ministry of Agriculture for practical training of management manpower for the agricultural sector is another such evidence. There are also active Ghanaian minds at work in such bodies as the West African Examinations Council who wish to modernize and reform the system. At high levels of Government the declared intent for Ghanaians to shoulder the full responsibility for planning execution of national development is a further healthy and welcome sign. In summary then, there are a variety of developments which strongly suggest that neither apathy nor traditionalism will prevail in the long run in Ghanaian society. These developments are worth supporting and encouraging and give promise of a steadily growing progress towards development.

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POLITICAL OVERVIEW

A. Brief Historical Perspective

Ghana had a seventy year history of colonial administration prior to independence in 1957. Its own cultural, political and social inheritance has been intricately interwoven with that more recent colonial experience to form a mosaic with a variety of assets and some liabilities. Many very modern and highly motivated men and women operate at various levels and staff a wide range of institutions performing numerous functions. But they are beset by rigid colonial patterns, conflicts between the modern and traditional values, and weak management systems and practices (partly inherited from the past) as they pursue progress. Political instability having plagued Ghana since 1966 (with three changes of government) there is at times hesitation in committing the nation to firm policies. Ideological tensions put Ghana in a posture favoring a mixed economy but statist tendencies persist. The controlling civil-military elite have 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 average per capita income, the rural masses of Ghana suffer a relatively low standard of life judged by indicators of nutritional and health status. It will not necessarily be an easy or smooth road, therefore, to encourage the adoption of programs and policies to reduce the inequities of income distribution in Ghana.

B. Current Situation and Outlook

Hopeful signs for development-oriented action toward growth and greater equity are, however, discernible. The call by the Head of State for preparation of a five year development plan combined with a subsequent speech by the Commissioner of Economic Planning calling for policies to deal with the major economic problems of Ghana are encouraging. In particular his candid recognition of the slow overall rate of growth in the past, of the need for an accelerated rate of increase in food production, more savings, less expenditure of government revenue for recurrent costs and increased exports suggest that this government is determined

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to break old patterns. Still it must be expected that the future will continue to suffer from the same tensions as in the past. Greater equity will come slowly and probably only in the context of growth which permits greater incomes among the poorest groups to be achieved without being at the absolute expense of the powerful elite groups. Strategically, therefore, it will be vital not to lose sight of the need to facilitate an adequate resource flow to support a modest rate of growth if we wish to see development which has as its hallmark a substantially greater measure of equity.

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II. STRATEGY AND OPTIONS FOR U.S. DEVELOPMENT ASSISTANCE
FY 1976 - FY 1980

The U.S. Development Assistance program in Ghana is at a crossroads. In the course of the next year basic decisions will be necessary to define the structure and themes of A.I.D. assistance for the next five years, the period it will take for sound programs to evolve and become fully rooted.

A. Earlier Strategy and Developments

Up until the beginning of 1972, U.S. Development Assistance strategy sought to help bring about a major revitalization of the Ghanaian economy, lifting it out of the doldrums of economic stagnation and declining per capita GNP. Growth rates rising from three percent to six percent were projected for five and ten-year periods ahead. This goal was to be achieved by:

- a major self-help effort by Ghana with fundamental structural reforms of monetary, fiscal and balance of payments policy and practice and the inauguration of a new five-year development plan;
- a generous and final settlement of the medium-term debt problem in the context of development resource requirements;
- establishing the World Bank both as a major donor and as the principal external economic policy advisory agent with resident professional staff, thereby minimizing U.S. involvement and exposure on policy questions;
- assembling a package of external assistance for commitment in 1972 approaching \$150 million from several bilateral donors and the IBRD and IMF through the mechanism of the Consultative Group.

U.S. Development Assistance was to have a major role in this program; A.I.D. assistance was focused on the macro-economic issues with \$30 million in program lending envisioned as the U.S. share in 1972 and in successive years. Other A.I.D. programs were sharply curtailed or terminated except for population program assistance. The agriculture program, the area of major U.S. assistance during the previous decade, was reduced to a small project concerned with agricultural policy and planning. In essence, U.S. development assistance strategy was predicated on the belief that there was

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little that could be accomplished in advancing Ghana's development until major policy reforms were achieved to place the Ghanaian economy on a sound footing. The central theme of this strategy was that only broad based economic reform and liberalization of the economy accompanied by large-scale resource transfers in balance of payments support would create the economic environment and incentives which were the prerequisite to growth. To continue sectoral programs and project activities, particularly in agriculture, in an unfavorable economic environment would be inviting frustration and failure.

From 1969 onwards, after Ghana and the donor group had decided to shift away from the IMF-led stabilization program of 1966-69, the several elements of a development oriented strategy were being pieced together. There is reason to believe that those elements would have fallen into place during the early months of 1972. That prospect came to an end with the military coup of January 13, 1972. The fact of the coup itself brought an end to a parliamentary democracy. The subsequent politically expedient economic decisions -- debt repudiation and unilateral rescheduling, imposed participation on private foreign investors, massive subsidies for "essential" commodities, reversal of the devaluation and other measures -- undermined the structure of the reforms that was being built up. The donors and creditors shelved their new assistance plans, deciding to wait to see what the new National Redemption Council's policies, plans and orientation would be. The basic lines of the earlier development assistance strategy continued, however, to be accepted as sound and it was believed might again be followed as soon as the debt issue was resolved.

B. Current Setting for Development Assistance

Little by little over the past two and a half years there have emerged patterns and trends which suggest that the NRC's development policies are moving in directions similar to those of 1971. Though now clothed in revolutionary rhetoric, more assertive nationalism and self-determination, the elements of the earlier strategy are again beginning to fall into place. The heavy political-psychological burden of the debt issue has been eased and for the first time Ghana has a generous and final settlement. The donors appear to be as enthusiastic as before and prepared to provide over \$100 million over the next eighteen months. The IBRD is now well established as a major donor with the commitment of \$25 million in new IDA loans within the last year--the largest sum for any one year for the IBRD since the early '60s -- and is projecting substantially greater amounts for FY 1976 and beyond. Professional IBRD staff are assisting Ghanaian economic policy and planning ministries. A new Five-Year Development Plan

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is being prepared with completion sometime in FY 1975. Other government actions suggest that step by step the Ghana Government has a growing appreciation of its economic problems and the actions needed to deal with them. This process is, however, still in its early stages; it will be another year before the full pattern of self-help actions emerges.

For the present the NRC displays a greater interest in action programs in selected sectors than in macro-economic policy considerations. Tangible development activities have more appeal than the subtler, harder to comprehend policies and concepts of the macro-economists, even though recent experience is beginning to force the NRC to appreciate the significance of the latter. Ghana's economic growth and development requires a careful orchestration of both dimensions of development. The success of one cannot be assured without the success of the other. The emerging pattern of development suggests major resource requirements for new infrastructure, for balance of payments support and for specially focused agricultural and rural development programs and related social services. A recent IBRD study suggests that the country requires \$100 million each year in additional resource flows if a reasonable growth rate with a greater prospect for equity is to occur. (The Economic Overview section provides a detailed review of Ghana's economic situation and trends.)

During the past two years or so, the interests of the donor community have begun to shift. Prior to the 1972 coup there was an interest in providing major resource transfers in response to Ghana's request for balance of payments assistance. The IBRD was beginning to consider a program loan, and Canada, Germany and the U.K. (the other major donors) were prepared to provide a major part of their assistance in this form. The trend has now shifted and the donor community almost uniformly wishes to concentrate on agriculture and aspects of integrated rural development. The major infrastructure projects in power, bauxite mining facilities, telecommunications, major urban water and sewage systems that are on the horizon do not generate, for concessional term lenders, the enthusiasm of earlier times; at best, harder-term export promotion loans and IBRD conventional financing may be available. At present Program Loans enthuse no one. While in substance the new focus of interest of the donor community corresponds in part with the biases of the NRC, the underlying facts of Ghana's development requirements point to a more comprehensive approach. If the trends of external assistance continue, there will inevitably be a tension between the level and form of resources required for broad based development and what is possible through the more narrowly focused interests of the donors. How does one achieve an annual supplementary resource flow approaching \$100 million per annum beginning in 1975 if donor

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interest is focused on complex low capital use agricultural and rural development or, assuming an interest, on large infrastructure schemes not yet designed?

C. U.S. Development Assistance Strategy and Options

Now that the overriding obstacle of the debt issue has been cleared away (except for some ragged tag ends) and the Government has affirmed its interest in external assistance, what should be the role of U.S. Development Assistance over the next five years or more? Should we attempt to revive and press forward the strategy of the earlier period? How do recent developments in U.S. foreign assistance orientation affect the strategy for Ghana? What alternatives are open to us? What assumptions for Ghana's future can be drawn from recent events? FY 1975 will be a year of active transition and the time when A.I.D. will need to make a basic decision on its development strategy for Ghana. To a limited degree a pattern of U.S. assistance is beginning to emerge on the technical cooperation phase of the program; the full character of U.S. assistance strategy will be reflected, however, in decisions on the provision of financial and capital resources. A review of development assistance strategies suggests four strategy options that should be considered:

Option One - Limited Technical Cooperation Program:
Under Option One U.S. assistance would be scaled down to a limited \$2-3 million TC grant program in agriculture, health and population and reduced extension of P.L. 480 Title II MCH assistance. Ghana would also benefit from selected regional projects such as onchocerciasis control to which A.I.D. contributes. The presumption behind this minimum level program is the pessimistic view that there is little prospect of Ghana's having the leadership and stability to tackle the deep-seated and long-range economic and social problems that have plagued the country for so long. The frequent turnover in governments frustrates efforts to help get Ghana's economy on a sound economic footing. In spite of the considerable talented manpower in the country and the reasonably well-developed infrastructure, Ghana's leadership is too weak and uncoordinated to provide concentrated sustained attention to a well-thought-out, consistent, long-term development program. Moreover, the relatively affluent middle class and urban populations are unlikely to tolerate any further reduction in their standard of living, which includes a high propensity for imported consumer goods, in order to provide a substantial increase in savings for investment and to permit a wider sharing of development benefits. Wide swings in cocoa prices will continue to be disruptive to sound economic policy. This pessimism reflects a continuing reaction to the extreme actions of the NRC in its early period after the coup. The unilateral rescheduling and repudiation

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of debts, the abrupt demand for participation in many long-established foreign enterprises, the attacks on foreign assistance and the revolutionary rhetoric suggesting a highly authoritarian and statist political-economic orientation still rankle the Western investors and donors. The echoes of these actions, though muted, continue to reverberate. The doubters believe they could come to the fore again; they give little credence to positive trends that have been emerging over the past year. In sum, this option concludes that the Ghanaian political and economic environment for development is not likely to improve sufficiently to justify more than a minimal presence type assistance program, particularly in the light of pressing priorities for limited funds in other less developed countries. At best Option One suggests putting off any consideration of major development assistance and waiting to see what happens.

Option Two - Limited Sector Development: Option Two points to a Technical Cooperation program of \$3-4 million in sectors of A.I.D.'s principal interests -- food and nutrition, health and population. It would include \$3-5 million sector or capital project loans in FY 1976 and subsequently as the opportunity arises and the Ghana Government presses for them. The loans would provide supplements to food and health TC projects and be based on fully developed economic and technical feasibility studies. P.L. 480 Title II and participation in regional projects would be encouraged. Option Two presumes a somewhat more positive view of Ghana's situation and the prospects for achieving some development impact in carefully delineated sectors. It disassociates A.I.D. assistance from the larger concerns of what is happening to the country's development generally. It assumes (hopes) that conditions outside the specific sector problems on which A.I.D. is concentrating will be sufficiently favorable to enable A.I.D.-financed programs to achieve their objectives. It reflects a continuing skepticism about the overall prospects for Ghana's development and a marked decline in U.S. interest in Ghana compared with the 1966-72 period.

Option Three - Major Sector Development and Support for Growth: Under Option Three there would be a concerted effort to build a Technical Cooperation program of \$4-4.5 million aimed at making a substantial impact on root problems in priority sectors of food and nutrition, health and population focused on the poorer rural populations. This effort would be reinforced by a loan program of \$10 million each year oriented toward major resource transfers in the chosen sectors, particularly food and nutrition, health and related rural development. In so doing, there would be a parallel concern with helping to ease the basic foreign exchange constraint which inhibits Ghana's rate of growth. The underlying theme of Option Three is the importance of working with the Ghanaians both in addressing the problems of increasing

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the growth rate above the present stagnant levels and in supporting a redirection of resources and services toward the poorer rural populations.

Option Three interprets the trends of the past year as encouraging signs that Ghana is moving toward a more rational and pragmatic approach to development policy and practice. The resolution of the debt issue, the increased bias toward a mixed economy orientation, growing interest in revived foreign private investment and external assistance, growing political confidence and stability of the leadership, a return to efforts to prepare a Five-Year Development Plan, and an increasing concern with small farmer programs and rural development and associated amenities all point to a movement in the right direction which deserves support and reinforcement. This view looks on the heavy stress in rhetoric and in programs on self-reliance as a healthy sign demonstrating a greater self-assertiveness and determination to maximize the benefit to Ghana of the resources at its disposal for the country's development. It recognizes but is not deflected by the inevitability that this new self-assertion will spill over into actions at times that clash with developed and donor country vested interests.

At the same time, strategy Option Three recognizes that 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, the Five-Year Development Plan needs to be completed and evaluated. Accompanying fiscal and monetary policies need to be formed and held to, to correct some of the fundamental and long-standing imbalances in Ghana's external and internal economic condition. In brief, Ghana will need to demonstrate a commitment and capability to carry out a development strategy along the lines outlined in the Economic Overview.

An Option Three strategy would aim to reinforce movement in that direction; it would be primarily concerned with sector emphases but also continue to encourage and facilitate efforts toward an accelerated overall growth rate. To commit the level of resources envisioned under this option and not be concerned about underlying economic conditions affecting overall growth would be unwise. Thus A.I.D. would need to work closely with the IBRD and other major donors to assist Ghana, through a revived, more palatable Consultative Group (perhaps focused on agriculture and rural development), to take the self-help measures essential to achieving growth with equity.

Option Four - Major Growth With Equity: A major growth with equity strategy builds on the already established pattern of U.S. assistance to Ghana. It is based on the generally accepted

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view, as cited in IBRD studies, that a first order of business in Ghana is to lift the growth rate above the present stagnant level of 3% or less. The IBRD projects a possible and desirable growth rate for Ghana as 3% in 1975, rising to 5% by 1980. To achieve this will require a significant self-help effort accompanied by major supplementary resource flows in magnitudes of \$100 million per year. Without this boost in growth rate there is little likelihood of attaining greater equity in the country's development. Efforts to induce greater equity will be frustrated and tensions between the more affluent urban and middle income groups and the poorer populations in rural areas and the poorest urban dwellers will be exacerbated. The program for bringing about this boost in growth is essentially the same as the one that was being put together prior to the 1972 coup. To it should be added greater attention to key sector developments which emphasizes economic services and amenities to the least developed communities in the country. The elements of the A.I.D. program would include:

- Expanded Technical Cooperation program with major sector involvement in food and nutrition, health, population and related rural development and specially focused attention in human resources development to improve management capabilities - \$4-4.5 million.
- Sector Resource Loans each year in food and nutrition and health and related rural development - \$10.0 million.
- Supplementary Program Loan - \$10-15 million.
- Regional Project activity and P.L. 480 Title II.

The essential difference between the above program and that of prior years is the increased emphasis on sector development addressing problems of equity.

What does such a program for FY 1976 presume about the situation in Ghana? It anticipates that the trend in Ghanaian economic planning and decision-making will continue its present evolution towards sounder policies and programs as the plan exercise progresses. By FY 1976 there should have emerged a pattern of self-help actions and external assistance support which would justify the major level of U.S. development assistance outlined. Donor interest in Ghana is reflected in a relatively firm projection of over \$100 million in new assistance reported to the Ghanaian Government as feasible over the next eighteen months once the debt issue is resolved. An important part of this strategy option is the assumption of a positive U.S. effort to encourage multi-donor

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cooperation and active IBRD leadership with the Ghanaian Government in putting together the several key parts of a major development program. It accepts the view that the potential for accelerated growth exists in Ghana but requires the catalytic action of Ghana's development plan and significant donor support. With IBRD guidance, building on the Bank's established major lending and advisory role, Ghana and the donors could again come together in a Consultative Group restyled to make it more collaborative and more sensitive to Ghanaian interests and leadership. FY 1976 would be the target year for beginning this new development thrust and the process of bringing it about would need to begin in the coming months. The first step would require exploratory high level discussions with Ghanaian leaders on their views and aspirations for the country's long-term development predicated on the view that the principal donors are prepared to provide substantial additional resources over an extended period.

D. Ghanaian Aspirations and Strategy Options

As the horizon of the Ghanaian Government rises above the immediate problems at hand, its long-term aspirations begin to take shape. The principal characteristics are:

- Overriding preoccupation with achieving greater self-sufficiency in food production and the production of agricultural raw materials for domestic processing industries. Rapidly rising costs, largely caused by production and marketing problems of local foods, have intensified this concern with agriculture. Almost every institution in Ghana in one way or another has an agriculturally related component in hand or under planning. The Central Bank of Ghana has become a prime mover in agriculture policy and programs.
- A growing interest in the rural development dimensions -- health, feeder roads, rural water supply, adult education, cooperatives, agricultural credit -- of agricultural growth, stimulated by political pressures from the outlying regions.
- A greater appreciation of the importance of foreign public and private capital to the achievement of their aspirations. This has been most notably reflected in the drive to get the \$150 million bauxite mining - alumina processing enterprise under way -- a project which has been central in Ghanaian aspirations from the early days of the Volta River Development -

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Valco project. The desire for this new scheme has been a significant force in moderating the Government's actions on other external investment and financial matters.

- A recent awakening to the impact of accelerating power requirements on the long-term options for additional hydroelectric facilities. \$100 million will need to be lined up in FY 1976 for the Kpong Dam; additional schemes in the \$200-300 million range are suddenly becoming more urgent. The pressures for these vast schemes in turn will generate more intensive consideration of alternative uses of available water for power and/or irrigation in the poorer drought-prone areas of northern Ghana and neighboring Sahelian countries.

Underlying these aspirations is the continuing debate on the country's political-economic ideologic orientation which centers on the definition of self-reliance. Simply expressed, it is a debate between the advocates of statist-socialistic biases from the Nkrumah era and the advocates of a liberal economic (though now more assertive and nationalistic) philosophy. An interpretation of self-reliance from the socialist viewpoint carries with it an insistence on go-it-alone austerity which to a certain extent characterized the first year or two of the NRC's administration; it was saved from its severest economic consequences by the sudden rise in export earnings from the country's major exports. The liberal economic view has increasingly come to the fore as the longer term prospects of major new investments and growth become more attractive and the authoritarian discipline of a socialistic austerity less so. This movement is guided by leaders who are essentially pragmatic, learning their lessons in economics from what they find does or does not work. Their aspirations will draw them increasingly towards those development policies and programs which call for an expanding flow of external resources from private investment, external assistance and trade.

How will Ghanaians with this perspective before them view the strategy options outlined? Certainly Options One and Two will be viewed as a decline in U.S. interest in Ghana and a turning away from our policy of the post-1966 period. Option One is essentially the course followed during the bitterest days of the Nkrumah period apart from extraordinary commitment to the Volta River Dam - Valco Smelter projects. Option Two, while more positive, will not be considered significantly different and the time necessary for the refined advanced planning and implementation may undermine its positive intent. Options Three and Four are more in line with

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Ghanaian expectations, arising from their own perception of the importance of the U.S. to Ghana's development and from their understanding of the assurances they received of U.S. support following a debt settlement. Option Four will appear less attractive until such time as the resource pinch becomes more sharply defined and felt. The fear of overly embracing foreign influence which could accompany Option Four and a current distaste for generalized commodity import loans will likely deter them for awhile from taking the lead in such a development strategy. The tension between its advantages and disadvantages may become significant as the implications of the \$100 million annual gap sink in. The style and performance of the donor group, in the interim, will be the key to how Ghana copes with the tensions. Option Three would likely seem to the Ghanaians the most attractive. Its emphasis on sector development, particularly in agriculture, and subordinate but continuing concern for the constraining foreign exchange problem appears consistent with Ghanaian views of their priorities.

One vital characteristic of the Ghanaian position derives from their view of collaborative style. This view is rooted in their more assertive economic nationalism; it is reinforced by our own stress on greater LDC initiative in development planning and decision making. The hat-in-hand approach is out if it was ever in style. Ghanaian leaders in various regimes have stressed their preference for the donors to outline the level and focus of their interest first so that Ghanaian planning could then be adjusted accordingly. They have consistently resisted the Consultative Group concept which required Ghana to outline its development programs and self-help measures first to be scrutinized by the donors to determine whether they are worthy of support. The prevailing view calls for the donor to offer what it believes it can help with and on what basis; the Government will then decide whether to accept or reject. For Ghana, the collaborative style is at its best a process of mutual initiative with more stress on Ghana's molding donor proposals to fit its interests than the other way around. Strategy Options Three and Four will call for donor group initiative and flexibility.

E. Level of Assistance and Alternative Strategies

The choice of strategy to a considerable degree will be influenced by the program preferences in A.I.D.'s mandate. There is little point in adopting a development assistance strategy that is incompatible with the primary mandate given A.I.D. Options Three and Four would call for Sector Resources Loans and, for Option Four, in addition, Program Loans to enable relatively rapid planning and implementation to meet the requirement for resource flows consistent with the developmental objective

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envisioned. Sector Loans and capital projects require longer lead times for planning; implementation extends over a longer period of years. The objectives which call for a concern with both growth and equity would not likely be achieved by the TC-Sector Loan aid instruments in Option Two. If, however, Program Loans are ruled out then the achievement of the Option Four objective is unlikely; there is no sector or project mechanism which will permit the rapid large-scale flow of resources required to achieve the growth objectives outlined in the IBRD projections. The size of Sector Resource Loans are constrained by the narrower programming limits implied in a sector focus.

Another factor bearing on the level of assistance stems from Ghana's relatively advanced development compared to the least developed countries in Africa. The IBRD has advised the Ghanaians that the amount of IDA term money will be available for Ghana at substantially reduced levels. Mixed IDA and conventional IBRD terms are likely to be the pattern of the future with the character of the project a key determinant. The large-scale financing envisioned for the Kibi bauxite mining infrastructure and for new power requirements is unlikely to attract the concessional financing Ghana would like. Other infrastructure schemes such as telecommunications and urban water systems will similarly be less attractive to concessional donors who are shifting their attention to agriculture and rural development and social service programs in general. Ghana will thus have to absorb a higher percentage of conventional IBRD-EXIM type financing along with continuing concessional lending for the less commercially oriented activities. Having just overcome a major debt servicing problem, this prospect will be painful, placing considerable pressure on A.I.D. and other concessional lenders.

F. West Africa Development and U.S. Development Assistance for Ghana

The implications of the choice of strategy option for Ghana go beyond Ghana itself. Future development in Ghana cannot go on isolated from neighboring countries; moreover, stepped-up growth in Ghana can contribute to the salvaging of the ravaged economies of nearby Sahelian countries. Ghana can become an important market, employer and food source for impoverished Upper Volta and other Sahelian countries. Ghana imports cattle worth several million dollars each year from the Sahelian countries. As its economy expands the demand for labor will grow as it has already in some Ghanaian agricultural areas. Substantial quantities of Ghana's food production move across the borders in response to high prices and ease of transport -- one estimate suggests that 10-20% of Ghana's expanded rice production is smuggled out of the

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country. This will inevitably increase as Ghana's agricultural development accelerates. Ghanaian manufacturers are meeting demands in the surrounding countries, e.g., textiles to Mali. Various studies have pointed out, however, that Ghana's internal economic difficulties -- its lack of growth, its overvalued cedi -- have isolated it from a greater involvement in West African development. Conversely, it is believed that significant growth in Ghana and a reordering of its external financial position could contribute to growth in neighboring countries. Parallel with this view is the conclusion that the Sahelian countries can only survive and develop in close association with the more prosperous, more developed and growing coastal states. Ghana, moreover, is becoming increasingly involved in regional schemes. It is a key participant in the onchocerciasis control program and in regional links in telecommunications, power and transport. It is an active supporter of the West African Economic Community. Future river development in northern Ghana will have important consequences for Sahelian countries.

Strategy Options One and Two preclude A.I.D.'s encouraging and supporting a greater Ghanaian contribution to West African regional development and support for the Sahelian countries. Option Three and particularly Option Four can, over the long term, make a distinct contribution, provided a regional perspective is built into the planning to resolve the problems of the tragically frail economies of the interior countries. In the same process its own people can come to share more equitably in a better life.

G. Selected Areas of Sector Concentration and U.S. Development Assistance Strategy

All four options contain the same three areas of concentration: food and nutrition, including rural development, population, and health. Their selection reflects:

- their high priority in Ghana's development planning and policy;
- areas of earlier A.I.D. experience in Ghana and the opportunity to build on this experience;
- A.I.D.'s own priority interests and areas of competence;
- complementarity with other donor interests;
- the identification of opportunities where a significant development contribution can be made.

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The area of food and nutrition envisions:

- concentrated attention on the problems of delivering basic agricultural services -- credit, seed, fertilizer, and research results -- to the small farmer;
- the development of farmer associations and private agribusiness enterprises to enhance the linkage between agricultural services and the small farmers;
- the development of a permanent capability within Ghanaian institutions to train middle management staff for agricultural enterprises -- the major bottleneck to the expansion of Ghana's agriculture program;
- the introduction of the nutrition factor in the planning of development activities.

It is proposed that this work in the area of food and nutrition will be supported by assistance to Ghana's Council for Science and Industrial Research which is the focal for practical research in Ghana, particularly as it relates to the agricultural sector.

It is anticipated that the Sector Resources Loans will enable A.I.D. to provide capital support to the development of agriculture services -- credit, seed and fertilizer. The Government's growing interest in integrated rural development centered on agricultural production will provide additional opportunities for the application of these loan resources. The areas freed from the threat of onchocerciasis will be among those under consideration.

The population program continues the basic lines of assistance already well established, i.e., support to the Ghana National Family Planning Program and to research on rural health and family planning services. The aim will be to find ways to intensify the delivery of family planning services drawing to an increasing extent on the research findings of the Danfa project. A.I.D. continues as the major supporter of Ghana's population program although we will seek to encourage greater participation by other contributors.

The third area of concentration is health with particular concern for the delivery of health services to the rural populations. Ghana has a considerable number of medical and health personnel who need the catalyst of effective management and planning if they are to contribute to the extension of health services.

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The TC project and a possible Health Sector Resources Loan are concerned with strengthening the health delivery system and its management. Progress in this effort will open the way for significant advances in the extension of nutrition and family planning services as well.

Throughout all the programs proposed there is the common thread of management in its fullest sense. Over time progress in improving management capabilities will in large measure determine the success or failure of these several programs and their contribution to the country's development. Thus the Mission proposes to continue its Economic Development Management project as a further reinforcement of its concern for management within the particular areas of concentration.

The choice of areas of concentration excludes education, which should undergo major reforms to make it more supportive to the development process. Ghana's well entrenched educational system is not at present readily amenable to significant change and would not likely be a fruitful area for A.I.D. assistance. Moreover, there is already a heavy concentration of other external assistance including the Peace Corps in the education area.

A.I.D. will likely be pressed to assist with various major capital projects in the power, telecommunications and mining infrastructure area. We believe these are more appropriately covered by other sources in spite of our very considerable involvement in prior years. It seems appropriate that more conventional term financing be applied, including EXIM loans, to these activities owing to their high commercial orientation to international markets. Stiffer terms may also have the effect of slowing Ghana's move toward capital intensive enterprises which would do little for equity considerations in Ghana's development.

Strategy Options Two and Three are particularly compatible with a primary concern with the selected areas of concentration. They differ primarily in the intensity of A.I.D.'s involvement.

H. USAID Conclusions and Program Recommendations on U.S. Development Assistance Strategy

In considering the four strategy options, the USAID Mission recognizes that a number of variations in dollar levels and program instruments can be designed with differing shadings in justification. It believes the four options that have been laid out provide significantly different courses that could be followed as U.S. interests in Ghana and West Africa may dictate

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and Ghana's domestic performance justifies. (A final conclusion on A.I.D.'s Development Assistance strategy will, of course, require further exchanges with the Ghana Government; however, guidance for these exchanges will be needed drawing on the USAID's presentation.)

We would seriously question the wisdom of Option One; it is a backward looking view insensitive to the nuances and trends and opportunities for development in the Ghanaian situation. It fails as well to appreciate Ghana's profound interest in and desire for American ideas, technology and relationships.

Option Four represents from an economist's point of view, such as outlined by the IBRD, the strategy most likely to achieve the structural changes and economic reforms necessary to bring about the higher growth rates Ghana has been deprived of for the past decade. It provides the opportunity for building substantially greater equity into Ghana's development -- a course which would have to be purposely pursued or the attractions of capital-intensive investments would again distort the country's growth. It is the option most consistent with the aim of promoting Ghana's participation in and support to West African and Sahelian development, perhaps a primary justification for such a major U.S. program. By the end of FY 1975 Ghana could be and may be in the best position it has been in since the 1966 coup to launch a broad based growth with equity strategy. Many of the elements are falling into place -- debt burden cleared, large-scale external assistance pending, a healthier view of self-help evolving, and a new development plan being prepared. At the same time, however, the focus of international development concerns is shifting as is Ghana's view of itself in the international setting. The opportunity for Option Four, in spite of its merits, may have been missed. For the donors, the problems arising from the interaction of population growth, food production and provision of social services and the concern for the poorer members of the society are concentrating attention on sectoral crises and the condition of the least developed countries. Ghana, for its part, hopes that a favorable balance in its export prices and import costs will be sustained to enable it to achieve by trade what it previously sought by aid. Option Four should be put on the back burner; as events unfold it may again be appropriate.

There is merit in Option Two. It will not provide the level of resources, however, that could bring about a significant impact on basic sectoral problems and would not be supportive of a move to accelerated growth. It is well below the level of assistance Ghana expects from the U.S. as indicated by past U.S.

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performance. It will make little or no contribution in helping Ghana participate in easing the urgent development problems of the Sahelian countries. With tight funds and greater priority being given the least developed countries, it may, however, be the best option feasible.

Option Three provides, from the USAID Mission perspective, a particularly promising strategy. It would permit a concentrated and significant impact on Ghana's agriculture and rural development. It could help free one of the most fundamental forces for development in Ghana -- the mass of the rural population and small farmers. It could pave the way for Ghana's contribution to easing the Sahelian problem with food, supplies and farm employment. Its larger resource flow would help, in concert with other donors, stimulate movement toward a higher growth rate while giving equity concerns a primary thrust. Option Three is directly consistent with both A.I.D.'s and Ghana's current development interests. Once accepted in principle by A.I.D. as a feasible and appropriate strategy from its position, a dialogue with Ghanaian officials would be necessary to determine whether it is, in fact, practicable. Are they prepared and willing to work with us in close collaboration on the design and implementation of Sector Resource Loans? Are the mechanisms that would be involved acceptable to them? The Mission believes that step by step it is establishing the kind of working relationship which would permit such an effective collaboration. But this relationship will have to emerge over time built on a confidence that is now rising out of our responsiveness to specific requests. Under Option Three, the USAID recommends the following funding levels for planning purposes:

	(\$ thousands)			
	<u>FY 1975</u>	<u>FY 1976</u>	<u>FY 1977</u>	<u>FY 1978</u>
Technical Cooperation and Development Grants	5,206	4,333	3,645	2,954
Sector Resources Loans	10,000	10,000	10,000	10,000
Title II (MCH)	<u>1,336</u>	<u>1,641</u>	<u>1,810</u>	<u>2,000</u>
	16,542	15,974	15,455	14,954

Technical Cooperation and Development Grants

The higher level for TC reflects the USAID effort to move the Ghana program into the mainline of A.I.D.'s new mandate. In FY 1976 approximately 50% (60% in FY 1975) is for programs in the

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food and nutrition category including the Science and Technology project under Selected Development Problems which will be concerned with aspects of agricultural development. This compares with less than 10% in FY 1974. About 30% in FY 1976 is for population programs and 10-15% for health. The large increase in FY 1975 reflects the advance funding requirements for several new projects. We anticipate that the actual level in FY 1975 may fall between \$4-4.5 million as new projects are reviewed and initial implementation delayed. However, the USAID Mission urges early approval in principle (i.e., PPP approval) so that detailed planning can proceed expeditiously. The project narratives in the FBS are written to serve as or refer to previously submitted PPPs. Funding for the TC/DG activities could include allocations from the Voluntary Agency set aside fund for the Farmer Association and Agribusiness Development Project and Sahel appropriations for the Savannah Desertification Study under the Development Application of Science and Technology Project.

Development Loans

The USAID Mission proposes for planning purposes an annual level of \$10.0 million for each fiscal year. In FY 1976 it is proposed that \$8 million apply to an Agriculture Sector Resources Loan and \$2.0 million for a Health Sector Resources Loan. These loans would provide a combination of local currency generations and commodity imports required by the sector. The loans would encompass an agreed set of subactivities associated with the A.I.D. Technical Cooperation program. As soon as the negotiation of the current \$19 million loan is completed, the Mission will proceed to discuss with the Government the design of these loans.

The Mission has doubts whether a \$10 million Sector Resources Loan can be developed by the end of FY 1975 as proposed in the Congressional Presentation. The delayed implementation of the \$19 million Program Loan and the slow pace of Ghanaian development planning suggest that a deferral to FY 1976 would be prudent. However, the Mission intends to press ahead as rapidly as possible with the Ministry of Economic Planning in an effort to define an appropriate Development Loan program. Thus it proposes that a final decision on the \$10 million Sector Loan for FY 1975 be deferred until December 1974.

P.L. 480 Title II

Details of the Title II program are outlined in the FBS budget section. The objective would be to strengthen and expand the Maternal - Child Health program in areas of greatest need in conjunction with the strengthening of the health delivery system.

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Other

Ghana will continue to benefit from many regional and centrally funded programs particularly in health and population but including such activities as the regional science and mathematics programs, the African Association of Universities scholarship program and the O.I.C. vocational training project.

USAID/Ghana
July 25, 1974