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AGENCY FOR
INTERNATIONAL
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DEVELOPMENT ASSISTANCE PROGRAM

FY 1976 - FY 1980

GHANA

Volume V

ANNEX E

The Guidelines for the Five Year Development Plan and U.S. Assistance Strategy An Overview

DEPARTMENT
OF
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An Overview

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Shortly after the DAP was submitted, the Government of Ghana announced the publication of "The Guidelines for the Five Year Development Plan." This annex contains USAID/ACCRA comments on the DAP and U.S. assistance strategy in light of the philosophy and contents of the Guidelines.

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THE GUIDELINES FOR THE FIVE YEAR DEVELOPMENT PLAN AND U. S. ASSISTANCE STRATEGY

An Overview

I. Development Philosophy

At a press conference on January 9, 1975, Colonel I. K. Acheampong announced the publication of "The Guidelines for the Five Year Development Plan". As the title suggests, the document represents a primarily qualitative statement of the strategy of development that will be translated over the next few months into the programs and policies requisite to a comprehensive economic development plan. At the same time it provides considerable insight into the GOG's priorities and how they relate to the types of assistance A.I.D. may provide under the terms of its Congressional Mandate.

Perhaps the most notable feature of the document is its non-ideological nature and the absence of polemics. While it clearly and unequivocally asserts Ghana's desire for economic independence and Ghanaian control of the "commanding heights" of the economy it recognizes many of the problems inherent in government management of the economy. It contains no evidence of a return to the development strategy that characterized the Nkrumah era. It also presents a remarkably open view of the success/failures of the economic policies followed by the NLC and the Busia government. Little attempt is made to rationalize the NRC coup in terms of the failure of earlier economic policy. Taken as a whole the document reflects an increasing maturity and confidence as well as an increasing perception of the complexity of the task of developing the Ghanaian economy.

It is necessary to remember the the Guidelines is a preliminary document preparatory to the development of the plan itself. It is also clear that it is a rather uneven document both with regard to its coverage of various topics and the quality of the input. Various members of the National Economic Planning Council and the Ministry of Economic Planning contributed portions. Not all parts of the document stand up to close ex-

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John H. Kean, AD/P

amination. It contains inconsistencies, some major parts are based on outdated information and knowledgeable observers point to a number of proposals which are technically and economically unsound (e.g. the proposed National Water Grid). Those knowledgeable about the preparation of the document report that it was subject to substantial urgent last minute revisions in an effort to improve it and that it was necessary at the last minute to compromise some quite serious differences within the government. It was therefore rushed to the press on a very hurried basis with some parts still quite weak.

Notwithstanding the observable shortcomings, the document does present some useful guidance for the formulation of the Plan and around it donors can formulate future programs. It is clear, nevertheless, that the ultimate formulation of the plan itself will be more crucial to setting the stage for future action and that many hard decisions by government lie ahead if the progress projected is to be achieved.

II. Goals of the Plan

The major goals of the Plan, as set forth in the Guidelines are as follows.

1. Economic Growth: Expanding the production base commensurate with the need to raise the living standard of a growing population as far as resources will permit.

2. Full Employment: Promoting the full and efficient use of all the nation's resources, human, material and spiritual.

3. Equitable Income Distribution: Eliminating extremes in the distribution of income and wealth.

4. National Economic Independence: Economic independence in food and other essential consumer and investment goods. Ghanaian control of the commanding heights of the economy.

5. Maintenance of a Reasonable External Balance: Deficits in the external account will be deemed tolerable so long as they are consonant with ability to obtain foreign assistance without compromise as to national integrity, sovereignty and declared foreign policy.

6. Reasonable Price Stability: Sustained and rapid increases in the general price level are to be avoided.

Each of these goals accord well with U. S. assistance strategy as defined by the Congressional Mandate. The simultaneous emphasis upon economic growth, employment and income distribution is particularly encouraging. At the same time Ghana must make considerable progress if these goals are to be attained over the plan period. The critical problems that Ghana faces with respect to each of these goals have been reviewed in DAP II, Accra 0074 and TOAID A-02. As such, they need not be reviewed here. Suffice it to say that Ghana faces many difficult and politically unpopular decisions if these goals are to be attained.

III. Policy and Implementation

Being a qualitative statement of strategy rather than a comprehensive development plan the Guidelines are not specific as to the form that the requisite decisions and actions will take. Here and there within the document however are statements which provide insight as to the current state of thinking with respect to a number of critical policy variables. A brief review of these statements thus seems worthwhile as it will provide not only some insight as to the current state of thinking but more importantly, an inventory of what remains to be done by way of policy decisions in order to flesh out the plan.

Government Expenditures

The Guidelines make no projection of the sectoral allocation of recurrent or capital expenditures over the plan period. No projection is made for total capital expenditures though data is provided for projected recurrent expenditures (government consumption). The document does note that every effort will be made to select projects and programs which increase export earnings, promote greater linkages between agriculture and industry and are labor intensive. The actual identification and planning of such projects and programs remains to be undertaken however.

Government Revenues

No mention is made of the magnitude or source of the revenues that will be required to implement the plan. From the analysis contained in DAP II it is clear that Ghana is in need of new,

income elastic and equitable revenue sources if the objectives of the plan are to be attained. The imposition of such new taxes will be politically difficult but must be undertaken if the required resources are to be mobilized without excessive resort to deficit finance. The Guidelines recognize the importance of improving the collection of taxes already imposed. Tax collection agencies will be strengthened with this objective in view. Tax concessions and incentives to industry will be reviewed and revised in order to encourage the adoption of more labor intensive techniques of production.

Money, Credit and Interest Rates

The relationship between excessive liquidity and rapid increases in prices is clearly recognized by the Guidelines. The document calls for a reduction in the extent to which the banking system is used as a means of deficit finance, particularly during periods in which the money supply is rising due to an accumulation of foreign exchange reserves. The ability of the GOG to make such a reduction depends in large measure upon developments with respect to new revenues.

The Guidelines also call for important new developments on the credit front. It calls for a more equitable allocation of credit among regions, districts and individuals (particularly small borrowers), a more progressive lending policy on the part of commercial banks and an interest rate structure that realistically reflects relative factor scarcities. These proposals, when implemented, should do a good deal to promote interregional and inter-personal equity. They should also promote increased employment both in terms of total availability and distribution over the country. They represent a significant departure from past practice under which the financial system tended: (1) to transfer loanable funds from rural to urban areas; (2) to provide loan funds primarily for commercial (inventory) finance; and (3) to charge rates of interest that were too low relative to the opportunity cost of capital.

Steps are also advocated to provide appropriate incentives to small savers and encourage the reinvestment of corporate profits.

Exports, Imports and Exchange Rates

The need to increase and diversify export earnings is recognized as essential if the balance of payments is not to exert a critical constraint upon the implementation of the plan. Be-

yond a reference to reciprocal trade agreements with neighboring African countries and other LDC's and a call for the development of a viable tourist industry little indication is given as to how this might be accomplished. Clearly substantial progress in this area is called for if the Plan's objectives are to be attained.

In regard to imports, the Guidelines call for a restructuring of the import licensing system to reflect government priorities and allow industries to undertake forward planning and reduce their working capital requirements. It alsocalls for a revision of the import tax structure to eliminate discrimination against firms using a higher proportion of domestic inputs. No mention is made of the problems encountered by the import licensing system during 1974.

Some combination of devaluation/increase in the average level of import duties will very likely be required at some point in the plan period, particularly if rising prices continue to increase the pressures of pent-up demand upon the licensing system. The Guidelines make no mention of this possibility. Likewise, after discussing the impact of interest rates upon investment decisions and employment it makes no mention of the adverse impact of an overvalued exchange rate upon labor intensive production and the advantage that such an exchange rate confers upon large farmers as opposed to small. As things now stand, the failure to address this question and the problems it has created represents the most significant omission of the Guidelines in the area of economic policy.

IV. Assumptions and Projections

In attempting to forecast the macroeconomic performance of the economy the Guidelines make certain assumptions. These are as follows:

1. Population will continue to grow at 2.7 per cent per annum (evidence indicates rate of growth may now be somewhat higher).

2. Per capita consumption will grow by at least 2.0 per cent per annum (real terms).

3. The capital output ratio will average 3 over the plan period.

4. 6 percent of GDP will have to be allocated for depreciation of capital.

5. Real exports will grow by 2.0 percent per annum over the plan period.

6. Government consumption expenditure will grow by 4.0 percent per annum in real terms.

It may be concluded that they are also assuming that external assistance will be available to cover the trade deficits that their projections show as emerging toward the end of the decade.

The national accounts projections that emerge from these assumptions are shown in Table I.

How realistic are these projections? This is difficult to assess in the absence of more detail. Clearly a lot will depend upon the specific actions that are taken to restructure interest rates, mobilize savings, promote exports, control imports, develop government revenues and promote efficient capital saving policies for the productive sectors, etc. As such the realism of the projections or lack thereof can only be fully evaluated after the plan is developed and its implementation begins.

For the present then it is only possible to note that the trade surpluses projected for 1975 and 1976 seem highly questionable in view of the out-turn for 1974 (Accra 0074, TOAID A-02). In point of fact, Ghana will no doubt need substantial external assistance in 1975 and 1976 if implementation of the plan is to begin.

V. Regional Planning and Rural Development

From the point of view of the Congressional Mandate and USAID assistance strategy the section of the Guidelines dealing with regional planning and rural development is of particular importance. This section clearly recognizes that in the past development efforts have been unduly concentrated in the urban areas of Accra, Kumasi and Sekondi-Takoradi. This has resulted in an inequitable distribution of social services and facilities such that most areas of the country lacked the infrastructure

required to attain their full productive potential. It has also resulted in more migration to the urban areas than can be productively absorbed. The Guidelines call for a reversal of this trend through a strengthening of regional planning mechanisms and the creation of "growth foci" at the national, regional, district and local/village level. The primary emphasis will be given to those "foci" at the district and local/village level. The district "foci" will aim at the provision of inputs and services to farmers and serve as the location of agro-industries. At the local/village level development service centers will be established to serve as channels for social and economic influences and ideas such that they may reach all regions of the country. The objective is clearly to create a hierarchy of places such that every area of the country will have access to the inputs and services required to achieve its fullest productive potential. The creation of such a system of sites, it is hoped, will not only increase production in rural areas but improve equity as well through increased income and employment for rural inhabitants and lower local food prices for lower income urban inhabitants. It is thus highly supportive of U. S. assistance strategy as defined by the Congressional Mandate and is a sound basis for proceeding with the rural/agricultural development strategy proposed by the DAP.

Overall Implications of the Guidelines for Donors

Viewing Ghana's development prospects in light of the Guidelines and prospective assistance from multilateral and bilateral donors as a whole suggest that some major problems exist. It seems likely that during the next two to three years an adequate volume of resources may be available from the donors. There is some doubt, however, that Ghana will be able to mobilize the necessary internal resources to carry the plan forward on the scale contemplated. Substantial additional domestic saving will be required to provide the Ghanaian contribution to the projects to be financed in part by external resources. Technical constraints will also be significant in conditioning Ghana's ability to absorb external assistance.

The signing late in 1974 and early in 1975 of bilateral debt settlement agreements by all the major donors pursuant to the Rome Agreement has cleared the way for major assistance inputs. It is clear that a very sizable volume of external resource transfers will be available. The Canadians were the most

nearly ready and were anxious to proceed and hence have moved into high gear already. Commitments during the period of the Five Year Plan by CIDA are projected to total approximately $100 million. During FY 75 the IBRD anticipates commitments totalling approximately $50 million partly on IDA terms, partly on somewhat stiffer IBRD terms. The UK contemplates a commitment of 10 million pounds sterling (approximately $23 million) and the German Federal Republic has a wide range of projects in a tentative state of readiness which they hope will absorb in a backlog of funding deriving from the suspension of German capital aid to Ghana since 1972. The FRG contemplates committing amounts equivalent to what would have been carried out if the program had moved steadily forward during the 2-3 year hiatus. The amount available from the FRG is tentatively estimated at $80 million for the 1975-80 period of the Five Year Plan.

Where the Ghanaians are likely to have the greatest difficulty is in the mobilization of domestic resources (savings) to make the Ghanaian contribution that these foreign exchange availabilities imply. Both public and private savings need to be increased. Mobilizing the necessary volume of public savings will require both substantial restraint on the growth of current expenditures under the budget and the mobilization of additional revenues through new taxes. Unless this can be done, it is unlikely that the investment which donor external resources would make possible can be carried out on the scale which their availability would suggest would be possible. Both are essential to the achievement of the 5.5 percent growth projected.

Another area of constraint is the technical capacity of the Government of Ghana and various public and private institutions to absorb and administer the volume of activity implicit in projections of the Guidelines and in the donor contributions which appear to be available. The concept of self-reliance will need to be interpreted with a long run objective rather than a short-run purpose in mind, thereby making possible the use of outside advisors on a comparatively liberal basis if this technical constraint is to be minimized.

It is hoped that with the experience of preparing the Guidelines behind them, the Ministry of Economic Planning and the Government of Ghana at large will address their problems with appropriate seriousness and attention so that the quality of the ultimate

plan developed and of the policies and programs which must accompany it will be given the necessary coordinated high level attention and addressed with adequate political courage. A full measure of both will be essential to success.

TABLE I

NATIONAL ACCOUNTS PROJECTIONS (VALUED AT 1968 PRICES)

	1972	1973	1974	1975	1976	1977	1978	1979	1980
Private Consumption	1,486.60	1,560.93	1,670.34	1,720.93	1,806.98	1,897.32	1,992.32	2,091.18	2,195.74
Government Consumption	266.50	277.16	288.25	299.78	311.77	324.24	337.21	350.69	364.72
Capital Formation	117.90	173.02	222.59	276.80	335.96	400.56	471.05	548.73	632.64
Exports	406.29	414.42	422.70	431.16	439.78	448.58	457.55	466.70	476.03
Less Imports	291.50	330.52	362.29	396.87	434.45	475.35	519.90	567.61	621.57
G.D.P. 1/	1,985.79	2,095.01	2,210.23	2,331.80	2,460.04	2,595.35	2,738.09	2,888.69	3,047.56
Trade Gap	+107.29	+ 83.90	+ 60.41	+ 34.29	+ 5.33	- 32.04	- 62.35	-100.91	-145.54
Savings Ratio	0.11	0.12	0.12	0.13	0.14	0.15	0.15	0.16	0.16
Capital Ratio	0.06	0.08	0.10	0.12	0.14	0.15	0.17	0.19	0.21
Import Ratio	0.15	0.15	0.17	0.17	0.18	0.18	0.19	0.20	0.20
Consumption per Capita	164.37	167.12	170.91	174.71	178.73	182.61	186.71	190.80	195.18

1/ Corrected for terms of trade.

VI. Health Sector

USAID long term strategy as discussed in the Health Sector Assessment, is in accord with the Government of Ghana Guidelines regarding health programs for the Five Year Plan period.

The Guidelines give significant attention to development of the social sector and within this sector improvement of the health status is considered one of the primary requirements for economic and social development. Of particular importance is a proposed shift from urban bias to emphasize reaching the rural population. The climate for reform/improvement in this sector is encouraging. Problems related to the delivery of health care which are identified in the document agree with USAID's assessment, namely:

1. Lack of effective and efficient health management and administrative services at all levels.

2. Lack of planning, coordination and evaluation of health programs.

3. Lack of adequate funds for investment.

4. Shortage of manpower at all levels.

5. Lack of vehicular support particularly for the rural health service.

6. Inequitable distribution of health services.

7. Over concentration on hospital services leading to the neglect of the health protection and promotive services.

8. Poor development of research activities in the health sector.

9. Lack of inter-ministerial coordination and planning.

The objective of the government health policy is to provide "the most effective form of health care delivery systems which our limited manpower and financial resources will permit and to distribute the health services as widely as possible among people and regions". In addition, the Guidelines strongly state that hospital construction (with some exceptions) is

to be suspended until "large sections of the population have been provided with basic health services".

The approach to implementation of the policy includes reorganization of the Ministry of Health to provide greater autonomy to Regional Health Services. Immediate steps are to be taken to set up a planning unit within Ministry of Health with similar planning units at regional levels. USAID has encouraged such reorganization in the past and these proposals signal renewed interest in activities contemplated under the Management of Rural Health Services Project.

The planned reorganization recognizes the need for training of health personnel with management and administrative responsibilities. The USAID proposal included in the sector assessment describes a program for the training of managers with a focus on regional planners and their staff. The need for expansion of public health training has been voiced both at the Ministry level and at the Ghana Medical School. USAID has also included provision for community health training in both the loan and grant proposals.

The Guidelines are clear in stating priority interests for health delivery programs i.e. preventive and promotive services with priority, within this general category, on environmental health, nutrition education, community and school health education, communicable disease control, maternal and child health services and "...family planning as part of the basic health services". The Ministry of Health is also charged with working with the Ghana Water and Sewerage Corporation and local authorities in the supply of pipe-borne water and sanitary facilities. These priorities cover virtually every problem area identified in the USAID assessment.

Service programs will necessarily have to be carefully planned to avoid straining or over-extension of both manpower and financial resources. The present management capacities of central and regional planners to assume this responsibility are deficient, placing great pressure on the system in the initial years. USAID proposes to assist by providing infusions (technical and financial) to selected programs which are critical and show a potential for a high degree of success.

VII. Population Sector

The Guidelines for population and family planning activities are noticeably brief. The document states that "it is assumed that population will continue to grow at 2.7 percent." However,

indications are that the present rate actually approaches 3.1 percent. Recent discussions with Government officials suggest that this was unintentional; the intention was to indicate that the population growth rate would be reduced from the present rate to 2.7 percent by end of plan period which is optimistic. The section on the "General Plan Policies" neglects to link the adverse effects of population growth to the development objectives of the country, especially in the agriculture and social services sectors. The lack of clear policy direction has obvious implications for external donors and central planners.

Under the health sector guidance it is stated that family planning services will be offered as a part of the basic health services. On the positive assumption that family planning will be vigorously promoted within the health system, USAID would be actively interested in supporting such an approach provided that other aspects of the National Family Planning Program such as work with other Ministries (Social Welfare, Agriculture, Education) and Volags is continued along with commercial distribution, etc. However, there are complex administrative problems, including mobilization of manpower and contraceptive distribution difficulties, that must be dealt with if the Ministry of Health and the GNFPP are to deal effectively with the problem. In any case a well planned and timely introduction and implementation of programs is needed. Such problems should be tailored to specific local or regional circumstances.

VIII. Agricultural Sector

There is general correspondence between the DAP and the Plan Guidelines in the statement of agricultural sector, regional planning and rural development goals and in the identification of some of the major constraints to achieving agricultural sector goals. However, there is less correspondence between the DAP and the agricultural sector discussion of the Guidelines with respect to the relative priority attached to the various programs proposed for the plan period to overcome the problems of the small farmer and the non-farm rural poor which are more explicitly treated in the manpower, regional planning and community development discussions than in the agriculture sector discussions of the Plan Guidelines.

It is noteworthy that the Government of Ghana sees, inter alia, "the creation of employment opportunities, the improvement of incomes and conditions of living in the rural areas as agricultural sector goals." It is encouraging that "the absence of an integrated approach to public investments" in the agricultural sector is recognized as a principal development constraint and that the Guidelines call for closer cooperation amongst public institutions serving the agricultural sector, more rational price and income (factor price subsidies) policies and programs that "require low capital inputs and preferably are labor intensive wherever these are economically and technically feasible." It is also encouraging that in the context of the proposed Regional Planning and Rural Development Strategy planning, programming and implementation will be decentralized at regional, district and village levels through the creation of growth centers and the more active participation in the growth process of the private sector, cooperatives and local development committees and local councils. The resolution of these questions of policy and public administration were identified in both the DAP and in the Agricultural Sector Assessment as a sin qua non to the successful implementation of specific programs/projects designed to overcome specific agricultural sector constraints. These constraints, identified in both the Plan Guidelines and the DAP, and, for which USAID is prepared to assist GOG in financing and implementing appropriate programs are as follows:

1. "Inadequate roads and facilities for storage distribution and marketing;

2. "The absence of an effective machinery to determine overall national priorities in research and to translate the re-

sults of this research into practical application."

There are two other constraints identified in the Plan Guidelines but which have not been explicitly treated in the DAP. These are:

1. "An almost prohibitive cost of land clearing and preparation within a variety of land tenure systems and practices, all of which do not stimulate agricultural development."

2. "Inadequate supply of water for all year farming and for stocking of livestock especially during the harmattan season."

There are several reasons that these constraints were not specifically addressed in the DAP. First, the variation in land tenure systems may not be a serious problem for small-scale production units. Land tenure may be a constraint to large-scale production units insofar as it is difficult for "strangers" to gain access to large tracts of relatively fertile land. Second, the cost of land clearing and preparation is only prohibitive from a social and economic point of view when capital intensive methods are subsidized and employed by relatively inefficient large-scale units in the Savanna zone. The cost of land clearing in the forest zone could be less prohibitive if labor could be mobilized by public work projects during the off-season. Third, although lack of water is a constraint to both large and small holdings it is not clear from experiences gained so far in Ghana whether solutions to overcome these constraints with present systems of management and organization are economic and benefit small farmers. It is likely that the inclusion of these constraints in the Plan Guidelines are meant to justify the major activities of the Ministry of Agriculture. These are irrigation and mechanization activities which together account for about 50% of the Ministry's FY 1975 capital budget. The Guidelines intend to give even greater emphasis to these activities during the plan period. For example, both private and public sources will be encouraged to set up machinery and equipment pools and a "program of developing more irrigation facilities will be pursued as a cornerstone of the national strategy in agricultural development." In this respect there is little correspondence with the programs recommended in the DAP and the relatively capital intensive and costly programs the Ministry of Agriculture intends to implement during the plan period. However, this is not to deny the possibility that selective mechanization and small-scale irrigation programs can have significant impact on production, employment and foreign exchange savings in the short run if they are effectively managed.

In reading the agriculture sector discussion of the Plan Guidelines, one is not left with a strong conviction that the Ministry of Agriculture will shift away from its present crop focus, its emphasis on large-scale production units and its tendency to compete with rather than support the private sector. If USAID is to assist GOG in implementing a small farmer development strategy it must actively seek out other institutions and organizations in addition to the Ministry of Agriculture. It is for this reason that the Guidelines emphasis on regional planning and rural development is so encouraging; however, experience will have to be gained in working through and funding organizations such as Regional Development Corporations, cooperatives, local councils and development committees which are to be the major vehicle for implementing rural development programs.