

## **2009-2013 Economic Growth Strategy Extension**

### **1. Situation Analysis**

On its path to middle income status and achievement of the Millennium Development Goals (MDGs), Ghana has demonstrated substantial progress; most notable is that the percentage of the population below the poverty line has shrunk from 50% in 1990 to 28.5% in 2007. Relative to its peers in Africa, Ghana can be more optimistic about reaching MDG 1 – Eradicating extreme poverty and hunger – by 2015. In fact, the percentage of people living on less than \$US1.50/day in sub-Saharan Africa as a whole is expected to increase by 2015. While much of the progress in Ghana is directly attributed to the Government's commitment to stimulating economic development, and particularly investing in agricultural growth, the role of development partners (DPs) in providing technical assistance and project funding has contributed to a large degree of this success. While agriculture extension services to raise production and increases in international prices for cocoa have led agriculture sector growth in Ghana, this growth is not sustainable.

The income gains over the past few years occurred during a flourishing global economic era where exports of Ghanaian goods expanded, inflows of capital and investment rose, and Ghana's economy was viewed as one of the most stable in Africa. The current global economic malaise and seemingly interminable uncertainty threatens much of Ghana's earlier achievements. Slowing exports and a depreciating currency raises the current account deficit and imprudent public spending has created an unsustainable fiscal deficit of 15% of GDP. In 2009, Ghana's status as a bastion of economic stability in West Africa does not seem so solid. Given the current precarious economic landscape, it is even more imperative that DPs provide the essential technical guidance and support for poverty reduction programs, particularly those that increase farm productivity and food security, to maintain progress towards achievement of MDG 1.

A third of Ghana's economy is based on agriculture output and over half the population is involved in this sector, yet a number of institutional and technical challenges exist which hinder agriculture development. Strengthening and modernizing agriculture are keys to developing a resilient economy that alleviates poverty and creates a solid base from which to grow household incomes. USAID in collaboration with DPs will participate in strategic planning exercises with the Ministry of Food and Agriculture (MoFA) and facilitate capacity building for the Ministry to provide the necessary direction and technical support to the agriculture sector. Technical assistance will also be targeted to Ministry of Trade and Industry (MoTI) to promote investment in processing and increased commercial production for domestic and regional markets.

Integral to maintaining progress towards MDGs and macroeconomic stabilization, good governance will require policy reform and institution building. The peaceful hand-over of power that occurred in 2001 and 2009 is a harbinger for a future stable political, economic, and social environment. However, the decentralization process to which the new government is committed creates both promising aspirations for local governments and anxiety over the capacity of such district governments to manage resources efficiently and transparently. A similar apprehension surrounds the oil and gas industry as recent discoveries off-shore raise expectations of tremendous revenue generation and general prosperity for Ghana while also representing a

potential minefield in management of those funds to ensure tangible development dividends in the poorest communities. Again, collaboration on governance and economic policy reform that creates an effective interface among national, district, and community organizations is essential to ensure transparency and maximization of revenue disbursement benefits.

## **2. Problem Statement**

Ghana is viewed as a politically stable and economically prospering country in Africa. However, the economic gains are threatened by the current global economic downturn. In 2008, the commodity price hikes for petroleum products, staple foods, and farm inputs had an adverse affect on Ghana's economy, causing the Government of Ghana (GoG) and DPs, including USAID, to reconsider how fit Ghana is to respond to such shocks. It is clear that a resilient economy requires not only more productive workers and modernized industries, but also a dynamic policy and regulatory environment which enable businesses to respond to such shocks.

The new government in Ghana appears committed to enabling the private sector to be the primary driver of the economy. This entails both a commitment at the national level to reform policies and regulations and local level assistance that provides inputs and transfers technical knowledge to small and medium enterprises (SMEs). A number of issues must be addressed to increase the contribution of agriculture to economic growth in Ghana, including:

- *Limited markets.* The marketing of agricultural produce in Ghana is a long-standing problem. Most small farmers are isolated from marketing centers due to their remote locations and/or poor roads leading to their farms.
- *Inefficient farm production.* Low productivity at the farm level is a major constraint to agribusiness development in Ghana. Ghana's smallholder agricultural production is inefficient, expensive and of generally poor quality due to inadequate agricultural practices and improper post-harvest handling and storage.
- *Inadequate physical infrastructure.* Ghana's road network is inadequate, especially in rural areas. Furthermore, there is a general lack of feeder roads over which agricultural products can be transported. The power sector has insufficient capacity to meet current demand and irrigation is deficient in meeting the demands for water for agriculture.
- *Limited availability of credit for agriculture and agribusiness.* The lack of commercial credit is a severe constraint to the development of the agricultural sector in Ghana.
- *Limited competitiveness of agro-processing.* Agro-processing in Ghana is generally not competitive with other countries, largely the result of deficient infrastructure, small-scale, fragmented production, lack of technology and erratic supplies of farm products. Consequently, most of the processed food products consumed in Ghana are imported.
- *Land tenure and property rights Problems.* Land tenure is highly insecure in Ghana. Local chiefs have authority to manage and allocate land; land vests in the President and is managed by the central lands commission, whereas the title to customary land is held in trust by local chiefs; and land is generally allocated and held in perpetuity and can be transferred by inheritance, but there are restrictions on its sale or transfer.
- *Lack of technical and management skills.* Ghana's secondary schools and universities are not providing a sufficient number of graduates with technical skills needed for industrial development, particularly in agro-industry.

- *Over-exploitation of fishery resources.* Fisheries are important both to Ghana’s economy and its food security. Per capita fish consumption is 27 kg per annum compared to the world average of 13 kg per annum. Local demand for fish already outstrips supply—with the gap between supply and demand expected to increase over the next decade. This places increasing pressure on fish stocks that are already considered some of the most overexploited in the region with some in danger of collapse.

### **3. Assistance Strategy**

The primary driver of USAID’s strategy is the need to strengthen the private sector along all levels of the agriculture value chain and to develop a strong business environment where enterprises make decisions based on market forces and market interventions by government are constructive and enabling. While filling the gap between smallholder suppliers and domestic and international consumers, Ghanaian businesses provide critical inputs, finance, and technical assistance to small farmers. USAID’s comparative advantage is in ensuring that the private sector is able to make rational decisions based on solid information, lowering the hurdles to business expansion, and facilitating linkages between suppliers and buyers (supply should meet demand).

As stated above, the business environment in Ghana is good relative to its peers in Africa, but does not measure well against comparable middle income countries. USAID is well-positioned to extend and expand its programs that provide bottom-up approaches to increase agriculture productivity and create linkages between farmers and enterprises further up the value chain. USAID is also dealing with policy and regulatory issues at the higher government institutional level that enable business operations. USAID through the Trade and Investment Promotion for a Competitive Export Economy program (TIPCEE) has achieved some success in facilitating dialogue on appropriate business promotion policies and regulations, and provided valuable technical assistance to relevant ministries, departments and agencies (MDAs). A continuation and amplification of this approach will address the upper tier issues of creating a national enabling environment for the private sector to operate efficiently. Through the Global Hunger Food Security Initiative (GHFSI), USAID will: (1) address constraints to access finance for agribusinesses with Ministry of Finance and financial institutions, (2) address barriers to regional trade of agricultural products and reliable energy for processing and cold storage facilities with Ministry of Trade and Industry, and (3) address private sector delivery of inputs in the agriculture sector with Ministry of Agriculture. Embedded advisors – utilized quite successfully by previous USAID projects – will be targeted to ensure coordination with local level project implementation and progress towards the overall strategic objective. USAID will also continue its relationship with policy research institutes to strengthen Ghanaian economic research expertise and provide guidance to GoG on appropriate reforms.

At the lower level, USAID/Ghana EG’s program will focus implementation on addressing agriculture productivity constraints and will be in accord with MoFA’s agricultural development strategy as articulated in the Food and Agriculture Sector Development Policy (FASDEP II). Productivity at all levels of the value chains for food and cash crops is severely limited by a variety of factors that are cited below and will be addressed by increasing the private sector’s ability to compete. USAID strategy will focus on promotion of rapid growth within priority

value chains in conjunction with regional and domestic markets. Achievement of objectives at this level will not only address short term food shortages and food price inflation, but also contribute to the long-term national goal of both alleviating poverty and achieving middle-income status. By transforming the agriculture sector, Ghana will become a reliable and sustainable regional leader in supply of staple crops.

Starting in FY 2009, the Economic Growth Office (EG) has begun creating new implementing mechanisms to support work on all levels of the agricultural value chain and to achieve the objectives of the GFSSR framework – increasing agricultural productivity, reducing trade barriers, establishing sound market based principles for agriculture, and accelerating participation of the ultra poor in rural growth. While DPs are primarily focused on specific crops and/or links along the value chain, USAID has sufficient funding and capacity to address the constraints along all levels of the agriculture value chain. USAID’s program will continue to consult and coordinate with DPs and Millennium Challenge Corporation (MCC) to ensure harmonization of programs and build upon synergies that currently exist (see section 6 “Harmonization and Alignment”). The rationale for addressing the whole agriculture value chain through multiple instruments is based on a few justifications: (1) Food security is a priority for the U.S. Congress and White House and addressing such an issue comprehensively requires interventions along the whole value chain; (2) the substantial FY 2009 GHFSI funding and anticipated increasingly higher levels of funding reflects the growing importance of agriculture development in Ghana and requires appropriate and multiple implementing partners’ expertise to achieve the various objectives of the GHFSI; (3) taking a “whole of government” approach, EG will work closely with MCC as a mutual partner to fill in gaps left by the MCC program and sustain efforts when the Compact is terminated; and (4) to address both productivity issues at the farm level and enabling environment constraints at the national policy level requires different partners with specialized expertise. However, all partners will work in coordination to maximize effectiveness of USAID interventions.

*Geographic Coverage:* Consistent with the Paris Declaration on Aid Effectiveness and the express desire of the GoG, USAID will continue implementing programs at a national level. Under the previous and current strategies, agricultural development activities targeted specific commodity value chains and therefore natural crop agro-climatic production zones influenced the geographic location of farm-level and marketing interventions. However the variety of crops and aquaculture activities targeted for support and the diversity of the economic growth portfolio mandates that USAID/EG contributes to agricultural, environmental, and business development projects nation-wide. While the focus of much of the program will be on eliminating rural poverty, USAID/EG support at the national level to develop a strong business environment through appropriate policy and regulation reform is critical to the competitiveness of the private sector in global markets. Under this strategy extension, all ten regions of the country would be eligible for USAID agriculture, environment and business development assistance.

#### **4. Assumptions and Risks**

Various independent assessments of the Ghanaian economy and factors of production have reached the similar conclusion that agriculture is and should be the primary driver of economic growth in Ghana. However, institutional and technical constraints prevent the agriculture sector from taking off and leading economic expansion. The new government has spoken publicly of the commitment to increase agriculture productivity and modernize the sector to become a regional leader in agricultural exports. This promised support must also be coupled with strong coordination with the private sector to improve value added processes along the various crop value chains. Public-private collaboration may at times be problematic for the current populist NDC government, although political coalitions with more pragmatic and private sector-oriented entities, and key ministers with business backgrounds, suggest that the private sector will play a substantial role in Ghana's economic development.

The greatest risk to Ghana's economy for the next few years, indeed all developing economies, is the secondary effects of the global financial crisis. In particular, the squeezing of lines of credit to businesses and the closing of international markets as developed economies sputter will adversely affect private investment in Ghana and may retard industrialization and modernization of the agriculture sector. Furthermore, a worsening macro-economic condition for the Government will require fiscal austerity measures, leading to fewer social services such as agriculture extension programs, infrastructure construction and maintenance, and education and training programs.

Given the potential scenario of slowing global economic growth and further volatility in capital and commodity markets, DPs must focus programs that facilitate Ghana's capacity to adapt to wild swings in the international economic pendulum. USAID's iterative agriculture support programs, has built upon experience and lessons from previous programs and TIPCEE is now seen as a model for future development programs to help diversify the economy – one of the key rationales for a focus on non-traditional exports. GHFSI funds represent a significant commitment of the USG to strengthen Ghana's agriculture with the goal of increasing Ghana's agricultural exports in staple crops, thereby favorably affecting a large segment of the population.

The forthcoming petroleum revenues, slated to begin flowing in second quarter 2010, are an additional concern with potential to impact Ghana's economic development and DPs' support. While the estimates from taxes and royalties vary widely with the differing deposit estimates and world oil price fluctuations, there is no doubt that the revenue will be a sizeable addition to the national budget. Managing these revenues to contribute significantly to social development and poverty alleviation may force donors to re-examine their strategies and role in Ghana's development. More likely, Ghana will require assistance in managing these resources and creating transparent procurement instruments. Partners will need to engage the government as a more active stakeholder in development programs.

## **5. Results Framework and Illustrative Activities**

The overall success of this strategy extension will be measured by increased demand for Ghana's goods internationally through raising the competitiveness of Ghanaian's private sector in world markets. Ghana's private sector global competitiveness will be evident by: (1) the percentage of

non-traditional exports (NTEs) and export of agricultural products within the Mission's strategic interest as a percentage of world totals, and (2) Ghana's diversification of exports relative to historical cocoa, gold, and timber exports. As stated above, the whole of the agriculture value chain will be targeted, including input supplies, access to finance, technology transfer to farmers, linkages between farmers and processors, increased capacity of processors, and access to markets (domestic, regional, international). Given the expected higher funding levels during the life of this strategy, the following Intermediate Results (IRs) and illustrative activities are proposed (NOTE – these activities are illustrative and not a comprehensive description of anticipated projects). In 2009, discussions continue within the wider U.S. Government on developing an agriculture development program for Africa (starting with the GHFSI) modeled after PEPFAR. If so, this larger USG strategy which Ghana is likely to be part of, will be even better positioned to address the complex facets of the agriculture value chain.

*IR1: Enabling Environment for Private Sector Improved*

The World Bank's 2009 *Doing Business Report* ranks Ghana 87 out of 181 economies – down five spots from 2008 – but fifth in sub-Saharan Africa (African countries comprise 17 of the final 20 lowest ranked economies for doing business). While the World Bank report is not comprehensive in its evaluation of the business climate, it does highlight the need for continued emphasis on designing policies and regulations that facilitate business as a driver of economic growth and eliminating those that hinder it. While the GoG is committed to a broad reform agenda to enable the private sector to compete, there is concern that the rate of reform is too slow and key priorities have not been clearly identified

*IR2: Private Sector Capability to Compete in Selected Industries/Sectors Strengthened*

The consistent quality and constant supply of any product, including horticulture, staple, and aquaculture products, are keys to establishing market share in global markets. Furthermore, the management capacity of agricultural enterprises needs to be enhanced to develop the business acumen within those organizations. Currently, productivity at most levels of the value chains for food and cash crops and fish is limited by inefficient transactions, weak input and output linkages, poor service delivery, and lack of technology and communications. As such, smallholder farmers are disconnected from output markets and enterprises' capacity to access and supply world markets is constrained. USAID experience has demonstrated that targeting technical assistance to key actors along the value chain and creating strategic partnership with the private sector can improve productivity and increase access to foreign markets for Ghanaian goods. In July 2009, ACDI/VOCA was awarded a grant to address the production constraints encountered by smallholders and agribusinesses.

*IR3: Regional Integration and Policy Harmonization Enhanced*

In many ways, Ghana is viewed as the regional leader of sustainable and responsible economic development, utilizing the indigenous endowment of resources to provide appropriate social services to the population. The continued economic development of Ghana is very much tied to accessing markets in neighboring West African countries. The reverse is also true, given Ghana's economic and political importance to the region. The focus will be on coordination and

harmonization of policies, rules, and regulations among ECOWAS member countries to facilitate commerce and eliminate overly-stringent market requirements and standards. Although USAID/Ghana as a bilateral mission does not have a regional focus, programmatic linkages with USAID/West Africa, regional alliance programs, as well as with other DPs will contribute to the result of integrating Ghana into a regional system on issues related to trade liberalization, regional harmonization of energy, transport, tourism, and telecommunications regulations, and strengthening a regional agricultural marketing information system.

### **Intermediate Results Beyond USAID/Ghana’s Manageable Interest**

*IR4: Construction and Maintenance of Economic Infrastructure Improved (WB, AfDB, EC, DfID, MCC)*

Key physical infrastructure projects are the backbone to any growing economy. Without appropriate ports, roads, electrical grids, and water sanitation facilities, a country’s economy will stagnate and even recede as trade and business is choked by the inability to move goods and poor public health deteriorates employee productivity. In Ghana, USAID does not have the financial resources required for such major investments. Infrastructure investments by the World Bank/IFC, African Development Bank, Millennium Challenge Corporation, and European Commission contribute considerably to the overall economic development of Ghana.

IR4: Illustrative Activities

Activities related to infrastructure investment and construction will directly contribute to USAID’s strategic objective of increasing the competitiveness of the Ghanaian private sector in world markets. USAID will identify smallholders who can potentially benefit from improved access to urban markets as feeder roads connect rural farmers to main roads. USAID will also utilize cold storage facilities to target agribusinesses with the potential to export processed horticulture products to international markets.

### **6. Alignment and Harmonization with GoG and Development Partner Priorities**

The extension of the strategic objective “Competitiveness of Ghanaian Private Sector in World Markets Increased” is aligned with host-country needs, harmonized with the development assistance of other donors, and in accordance with the **Paris Declaration**.

- **Ownership:** Implementing partners will continue to engage GoG counterparts in design and implementation, particularly to ensure a strong sense of ownership at the district level. Embedded advisors will be utilized more effectively in design and implementation of programs.
- **Alignment:** EG support to research institutes has been integral in the development of GoG sector strategies. This support will continue as additional phases of strategies are developed and ensure alignment with USAID/EG programs.
- **Harmonization:** EG is an active participant in various sector working groups, which include GoG participation. Agriculture programs will continue working closely with

- **Managing for Results:** As usual, EG is focused on results and will manage, monitor, and evaluate programs based on results. Evaluations will be shared with GoG and DPs.
- **Mutual Accountability:** EG works to strengthen civil society capacity to advocate for greater transparency and hold GoG accountable. Future assessments of EG program will examine compliance with Paris Declaration.

The Economic Growth program comprises projects in natural resource management, agriculture, financial sector support, business development, and trade and investment. EG coordinates closely with sector plans of various MDA's, including Ministry of Food and Agriculture on the Food and Agriculture Strategic Development Plan (FASDEP II), Ministry of Trade and Industry on Trade and Strategic Support Program (TSSP), Ministry of Finance and Economic Planning on Financial Sector Strategic Plan II, and Environmental Protection Agency. In FY 2009, EG funded numerous embedded advisors in MOFEP and MOTI and contracted an agriculture advisor to serve as a liaison between the Minister at MOFA and USAID. These advisors are vital to not only USAID and MDA coordination, but also useful in informing the overall development partner community on MDA strategic planning.

In the governing party's Manifesto, the MDC highlighted agriculture development as a leader for Ghana's economic growth. USAID's implementing partners on GFSR program will collaborate with the relevant ministries to support the government's efforts to harness the full potential of the agricultural sector through the Strategy for Accelerated Modernization of Agriculture (SAMA), which will include the following interventions:

- Provide easier and faster access to marketing centers for agricultural produce;
- Scale-up credit support facilities for agricultural producers;
- Provide some subsidy for the agricultural sector for the procurement of improved seeds, grade breeders and stocks, pesticides, and fertilizers;
- Scale-up upstream processing and value addition;
- Expand irrigation infrastructure;
- Support land tenure arrangement that yield win-win outcomes for both tenants and land holders;
- Structure and intensify relationships between farmers, farmer-based organizations (FBO's) and Extension Service providers;
- Promote small-holder productivity in transition to large scale production.

The donor community in Ghana is fairly tightly aligned on most development issues, but particularly so on agriculture. USAID is an active member of the Agriculture Working Group and collaborates and coordinates closely with DPs on agriculture development programs, including with GTZ, World Bank, and DANIDA. The leader in terms of funding commitments in agriculture is the MCC. MCC's approximately \$220 million investment in agriculture in Ghana includes infrastructure development, production training, input supplies, and access to finance. Currently USAID and MCC agriculture activities are closely aligned and will continue to be as such as USAID seeks to fill in some of the value chain gaps that MCC is constrained from addressing due to compact limitations. Utilizing a mutual implementing partner –

ACDI/VOCA – will ensure both program complement each other and avoid duplication of efforts.

Finally, fulfillment of EG objectives will require collaboration with additional USAID sectors. While difficult to manage a multi-sector program, the EG strategy recognizes that social improvements at the local level that result in sustainable improvements in livelihoods require programs that address educational, health, and community organizational constraints.

### **Lessons Learned from Previous Strategy**

During an assessment of the EG portfolio and an external evaluation of the TIPCEE program, the following lessons were highlighted to inform a future strategy.

- **Effective Interventions.** USAID has shown that it can be effective in using its flexibility, quick response with high-quality technical assistance and private-sector orientation to find niches where big things can happen. This is in contrast to budget support which is not as effective.
- **Appropriate Strategy.** USAID projects have been highly relevant strategically, and have produced an effective model (through the value chain process) for introducing new products and technological packages, management practices, strengthening the vertical integration of value chains, improving marketing linkages, improving farmer business skills, etc. Linking farmers to local commercial buyers has had a considerable positive impact on the success of most value chains. In terms of direct support to agriculture, it is appropriate to continue the bifurcated strategy of promoting value chain development for both export horticulture and increased productivity in the production of basic staples.
- **Information Sharing and Government Collaboration.** Government and other donors would appreciate obtaining more project information and lessons learned – which would be especially useful in informing the public sector on how they can support the private sector. In regards to national policy development, USAID’s analytical policy work and dialogue has been highly effective. A continued focus in the policy areas of trade, agriculture and finance is likely to have the highest payoffs. The use of imbedded advisors in key ministries (selected by the Ministers) has proven to give outstanding results in terms of exchanging critical policy and strategic thoughts and idea.
- **Partnerships.** Excellent opportunities exist to leverage USAID assistance (such as TIPCEE) through collaboration with MCC and IFAD within their targeted areas. In fact, the MCC used the TIPCEE approach to design and implement their MCA Compact.
- **Continuing constraints.** USAID identifies five main constraints to economic development that still persist: land tenure, finance, infrastructure, limited technology by small farmers, limited development of agro-processing, and lack of management capacity.

### **Illustrative Areas for Cross-Sectoral Collaboration**

- **Climate Change:** Global Climate Change is an emerging phenomenon with consequences of aggravating water and food insecurity. Changing water supply patterns, rises in temperature, ozone depletion, more severe droughts, floods and storms, bush-

- **Environment:** The EG's Integrated Coastal Management (ICM) program will support IR 1.3 – Public-private dialogue on policy and regulatory reform strengthened. The ICM program will not only protect coastal biodiversity and manage in-shore fisheries, but will enable local community organizations to manage their own resources and advocate for appropriate level policies and programs from the government and the private sector, including oil companies. The program will also increase the social and economic benefits to targeted west coast communities.
- **Health:** The ICM program will work with the health sector to ensure appropriate sanitation facilities and disposal of inorganic waste to protect biodiversity and marine environment; EG and Health will continue exploring synergies around nutrition and food security (especially under the GFSR) through a public-private partnerships with processors and food companies; and partnership with health program on preparation and response to avian influenza outbreaks in the poultry industry will continue.
- **Education:** Collaboration with learning institutes on workforce development and appropriate outreach education such as financial literacy for small borrowers; potential to work on higher technical education for appropriate skills development in the petroleum industry, including training for government officials in the management of oil revenues.
- **Democracy and governance:** Collaboration in focus regions on development of systems for accountability and community oversight of the district authorities; help support training, materials, and other resources for strengthening accountability and governance of joint teams at the regional and district levels.