

BRIEFING PAPER

Ghana Center for Democratic Development (CDD-GHANA)

Volume 8 Number 1

August 2006

The Millenium Challenge Account: A New Chance for Ghana

■ Introduction

In 2002 United States President George W. Bush established the Millennium Challenge Corporation (MCC) as a “common sense” compact for global development to link the “greater contributions from developed nations to greater responsibility from developing nations.” President Bush also pledged new resources to fight global poverty via the MCC administered Millennium Challenge Account (MCA). New funds would be added starting in 2004 leading to a \$5 billion annual increase above current foreign assistance levels by 2006.

The goal of the MCA, “to reduce global poverty through increased economic growth”, can be compared to the economic development theories of Walt Rostow (1960). Rostow’s theory states that the reduction of poverty leads to economic growth because an increase in investment facilitates an increase in production and an increase in global market participation. The objective of the MCA is to reduce poverty because it is “prosperity and opportunity” that “help defeat terror.”

The MCA is in support of the internationally agreed Millennium Development Goals, which propose to halve poverty around the world and give substantial improvements in health and education in developing countries by 2015. The MCA aims to be a unique opportunity to revitalize and redefine the foreign assistance policy of the United States and to maximize

the impact, effectiveness and coherence of aid programs. The MCA is unique in that it aims to reward countries for good policy, thus promoting morality. In addition, once a country is chosen, the MCA seeks to allow the recipients to decide how best to proceed.

The MCA focuses on low and lower-middle income countries with an average annual GDP per capita ranging from \$460 to \$1965. Eligibility for the MCA compact is based on 16 criteria of which a country “must surpass the median in three of the six ‘ruling justly’ indicators, two of the four ‘investing in people’ indicators, and three of the six ‘promoting economic freedom’ indicators.” So far, 23 countries have been selected including Ghana and 11 other African countries.

Once declared eligible, the recipient must submit a program proposal (MCA Compact) that tackles issues that the MCC considers indispensable to economic growth, and present a coherent five-year plan. Upon approval, the recipient country’s government must implement and publicize the MCA contract to involve civil society and increase accountability in the implementation process of the contract. Meanwhile, the United States government will provide technical assistance, disburse funds, and monitor and evaluate the implementation of the terms stated by the contract.

■ **Project Concept and the Millennium Development Authority, Ghana (MiDA)**

In February 2004, the MCC Board of Directors revealed that Ghana was one of the 63 “candidate” countries for MCA funding for fiscal year (FY) 2004. After meeting a variety of selection criteria, Ghana was chosen for funding for FY2004, FY2005, and FY2006. The Ghanaian government submitted an approximately US\$500 MCA Compact proposal on October 26, 2005 which was signed on August 1, 2006. In 2006, the Ghanaian Parliament also passed the Millennium Development Authority Act (Act 702), which established the Millennium Development Authority (MiDA) to “oversee and manage the implementation of the Ghana Programme under the Millennium Challenge Account for the sustainable reduction of poverty through growth.”

The goal of the MCA in Ghana is the “reduction of poverty through economic growth led by agricultural transformation,” which will be pursued by increasing the competitiveness of cash and food crops in local and international markets and by improving cash and food crop production in three targeted areas of Ghana—the Afram Basin, the Northern Agricultural Area, and the Southern Horticulture Area. To achieve the intended developmental ends, the MCA projects target three specific areas: the commercialization of agriculture, transportation infrastructure development, and rural development. Fundamentally, however, the MCA’s projects in Ghana aim at sustainability—the projects will build largely upon what people are already doing.

■ **Compatibility of GPRS II and MCA**

The MCA Ghana goal to reduce poverty by commercializing agriculture is an integral part of the pre-existing Ghana Poverty Reduction Strategy Phase II (GPRS II) plan. While MCA focuses on generating profit in a few select regions and GPRS II serves as a more wide-spread poverty reduction plan, both share many similar policies and programs. The three

interdependent programs and projects to be undertaken under the MCA-Ghana are to work together to bring about a drastic transformation of the agricultural sector and to strengthen the sector in order to achieve accelerated and sustainable growth and poverty reduction as per the GPRS II.

- Agriculture Projects
- Improved Transport Infrastructure
- Rural Development Project

Commercialization of Agriculture Projects

GPRS II identifies agriculture as the backbone of the Ghana’s economy as it contributes 40% of GDP and employs about 70% of Ghana’s labor force. Consequently, GPRS II identifies agriculture as the basis for the economic growth and structural transformation in Ghanaian society. It places great value on the accelerated development of agriculture, through value addition as the growth pole, which will benefit the rural poor. However, agricultural development has been bedeviled by a series of constraints.

GPRS II has suggested various policy interventions to eliminate medium and long term agricultural development bottlenecks including:

- Accelerating the provision of irrigation infrastructure
- Enhancing access to credit and inputs for agriculture
- Promoting selective crop development
- Improving access to mechanized agriculture
- Increasing access to extension services
- Improving agricultural marketing
- Enhancing access to export market
- Facilitating the development of commercially viable export and domestic market oriented enterprise in rural areas
- Providing strategic support services to facilitate improved agriculture and agro-

industry including transport, energy, science, and technology

The Commercialization of Agriculture Project is designed to enhance the profitability of staple foods and horticultural crops, and aims at improving the delivery of business and technical services to expand commercial agriculture among farmer-based organizations (FBOS). The Commercialization of Agriculture Project will entail activities such as:

- Farmer and Enterprise Training in Commercial Agriculture Activity
- Access to Water Source Activity
- Post-harvest Improvement Activity
- Access to Capital Activity
- Land Tenure Facilitation Activity
- Improvement of Feeder Roads Activity

Improved Transport Infrastructure

Improved transport infrastructure will support the Commercialization of Agriculture Project by reducing transportation costs affecting agricultural commerce at sub-regional and regional levels. The project will consist of:

- Upgrading Sections of N1 Highway.
- Improving Trunk Roads
- Improving Lake Volta Ferry Services

Rural Development Project

The Rural Development Project will support agriculture and agribusiness development under the Commercialization of Agriculture Project and will strengthen existing rural institutions that provide complimentary services. The project will entail:

- Supporting Community Services
- Strengthening Rural Finance Services
- Strengthening Public Sector Procurement

Community Services

GPRS II also focuses on human resource development. The main goal of human resource development under GPRS II is to ensure the development of a knowledgeable, well trained and disciplined labor force with the capacity to drive and sustain private sector-led growth. In order to achieve this, the GPRS II identifies some broad areas of policy intervention, namely: education and skills development, improved access to health care, malaria control and HIV/AIDS prevention and treatment; access to safe water and adequate sanitation; housing and slum upgrading; and population management. Under the MCA-Ghana, community development services are defined under two main components that are identified as follows:

- Community development services with direct benefit to agricultural production
 - *Water Supply and Sanitation Facilities* - small communities and small town water and sanitation facilities targeting boreholes with pump and pipe water
 - *Electricity Supply* - network supply distribution for 33KV and 11KV
 - *Telecommunication Facilities* - landline and GSM networks
- Community development services that support agricultural production
 - *Educational Facilities* - Basic Education facilities, Senior Secondary School and Vocational and Technical Education facilities
 - *Health Facilities* - various types of health facilities ranging from Health Post for rural communities up to District Hospitals.

Rural Finance Services

Ghana's Poverty Reduction Strategy document recognizes the key role of the financial sector in

transforming the economy to achieve growth and accelerated poverty reduction. Recognizing the difficulty faced by the agricultural sector in securing financial support, GPRS II proposes to initiate special interventions to improve access to affordable credit by the farmers. Similarly, the MCA-Ghana seeks to strengthen the financial services to support the commercialization of the agricultural process. In this direction the program is to:

- Support Training to strengthen Local Government Service Delivery
- Enhance Capacity of Rural Financial Institutions through:
 - Rural Bank Computerization and Interconnectivity
 - Computerization using emerge WAN connections through Apex to national payments system, SWIFT, etc
 - Upgrade of check processing software (check truncation) and hardware (clearing house for electronic payments)
 - Technical assistance to review related payments systems laws and regulations.

Public Sector Procurement

Public sector procurement programs develop the capacity to support the development of procurement professionals and reinforce the capabilities of the government to procure goods and services.

■ Implementation Structure

The MCA's projects in Ghana are connected by reliance upon market mechanisms. The MCC requires that there is a return on investment; therefore Ghanaian projects will be "based on investment banking principles" with funding targeted toward "places with the potential for growth."

Consequently, the MiDA's role will be to serve as coordinator of the various actors along the production chain by contracting out work to intermediaries, such as consultants, NGOs, and other service providers, who in turn will be directly engaged with local-level actors, such as agricultural producers. The District Assemblies (DAs) and rural banks are two additional local level structures involved in MCA implementation.

Although the MCA's programs in Ghana will be decentralized and exploit market mechanisms, this does not mean that they will be devoid of national-level governmental input and oversight. Formally, the MiDA is housed within the Ministry of Public Sector Reform. In addition, a Ministerial Taskforce meets once weekly to discuss MCA program issues.

District Selection

The MCA and GPRS II agree that poverty is worse in rural areas; therefore district selection was based on the following three criteria:

- Scope for rural poverty reduction
- Agricultural growth potential
- Private sector participation in the growth process

The Millennium Development Authority (MiDA) was in charge of the selection of recipient districts in accordance with MCA and GPRS II guidelines. In order to make the selection, an extensive consultation process (including policy makers, agricultural industry players, farmers, farmer based organizations, exporters, industry associations, environmental groups, gender organizations, the media and other civil society organizations) took place. First, poverty-ridden districts were identified. Then areas were selected due to their competitive advantage in horticultural crops such as bananas, mangoes, papayas, and yams which could produce returns on investments and significantly reduce poverty within five years. Finally, the selection of districts was made

on the basis of where the private sector had already invested with a demonstrated return on investments. Based on recommendations arising from the consultation process, 23 districts spread throughout three regions: the Northern Agricultural Area, the Afram Basin, and the Southern Horticultural area were selected to receive MCA aid.

According to the ministry of Local Government, Rural Development and Environment, those districts were excluded because they are already benefiting from many on-going projects aimed at poverty alleviation (including urban environmental sanitation projects, district capacity building projects, community driven initiatives for food security, etc.) The extension of MCA projects to these areas would simply be a duplication of ongoing projects and consequently a waste of resources.

The MCA-Ghana program hopes to build skills that can then be replicated in other districts when future funds become available. The MCA needed to choose projects that were “manageable and do-able” since “Ghana is awash in un-disbursed donor funds.”

■ **Millennium Challenge Account: Analysis and Critique**

Overview

The Millennium Challenge Account (MCA) program for Ghana has the potential to improve the country’s agricultural production levels, which in turn may help to spur economic growth and reduce rural poverty. Civil society groups, political actors, and the private sector have worked together to construct a basic framework for the MCA program in Ghana, which will be managed by the Millennium Development Authority (MiDA). However, it remains to be seen how the MCA program for Ghana will function in practice; an assortment of variables will intervene between the plans—as they are conceived on paper—and the end goal of agricultural transformation.

On the whole, four issues stand out that are critical to the success of the MCA program in Ghana:

- governance and accountability
- prudence in investment and awarding contracts
- redressing of social disparities
- sustainability

Together, these issues speak to the fundamental point of whether the MCA program amounts to a “resource curse.” That is, will the MCA projects do more harm than good? Will the resources be squandered and will MCA assistance perpetuate a cycle of dependency? Will the MCA program be able to realistically achieve its objectives, and will the costs incurred along the way be too great?

This report analyzes these core issues and offers some tentative assessments on the viability of the MCA program in Ghana, and has been primarily informed by information gathered through interviews with a variety of stakeholders and interested parties including: the National Development Planning Commission (NDPC); Ibis; the Integrated Social Development Centre (ISODEC); the Institute of Statistical, Social and Economic Research (ISSER); the Millennium Development Authority, Ghana (MiDA); the Private Enterprise Foundation (PEF); and faculty of the University of Ghana.

It is worth mentioning that there is a great deal of confusion among the various interviewed parties on the basic tenets of the MCA program in Ghana. In some cases, this is to be expected, since many of the MCA’s precise plans, such as for monitoring and evaluation, have not yet been made publicly available. However, some of the parties that we interviewed seemed to hold misconceptions on the goal of the MCA or on how the MCA projects would actually be implemented. These misconceptions underscore the need for MiDA, as the body implementing the MCA projects for Ghana, to be open about its objectives and activities; a lack of information on its activities

only invites criticisms that the project is politically motivated or that the funds will be squandered.

Governance Issues

For the MCA program in Ghana, arrangements for good governance should occur at a variety of levels of analysis—ranging from the state level, involving governmental bodies, to the local level, involving decentralized governmental structures and civil society groups. The Millennium Development Authority Act 2006, Act 702, established MiDA and laid out oversight plans for DAs, FBOs, and NGOs. Although plans exist in theory to address governance at these various levels, some parties have expressed their concerns regarding the extent to which the envisioned arrangements are adequate or will function as planned. While interviews revealed a fairly high degree of support for the MCA program and the belief that the program has a great deal of potential, many expressed their beliefs that the greatest challenges will come in the implementation of the projects.

At the national level oversight is conducted by the MiDA taskforce comprised of members of the private sector, civil society, local beneficiaries, and members of various ministries. As a public authority, MiDA is bound by the rules of the Constitution and subject to internal audits and to the Auditor General's reviews.

At the local level, there are a variety of structures that will be involved with MiDA to varying degrees, including the District Assemblies (DAs), farmers' organizations, rural banks, and civil society groups, such as media organizations.

The DAs will serve in an oversight role. Act 702 Section (1) (d) states that "one representative each nominated by the District Assemblies within the zones that are covered by the investment" will be "members of the Board without voting rights, and will have the status of observers only."

Farmer-based organizations (FBOs) will also be involved with MiDA in the oversight and implementation of MCA projects. MiDA plans to work through these local organizations to help with advocacy and transparency at the grass-roots level. Specifically, MiDA requires that farmers are involved in organizations in order to receive agricultural extension assistance. MiDA plans to help organize farmers into FBOs of approximately 1,200 members each. Furthermore, FBOs will assess their own demands, and then be provided with the necessary equipment, training, and infrastructure. The government has already implemented a training program in Cape Coast to support FBOs with technical know. Also, farmers will be able to take their complaints and concerns to the Zonal Advisory Committees that are being established.

In addition, Act 702 also formally provides for civil society involvement with MiDA. Specifically, Section 7 (1) states that the Board shall include "one representative of non-governmental organizations. NGOs are expected to play the watchdog role even though there is involvement by governmental agencies that would be monitoring the implementation process of the MCA.

Finally, a variety of measures have been taken at the level of the MCC and MiDA to reduce the potential for corruption. According to the PEF, a representative was elected to represent the interests of the private sector. The MiDA Board is hiring, in accordance with the procurement bill, competitive applicants with impressive CVs rather than relying on networking or patronage processes. The medium-term expenditure framework is much more difficult to manipulate because a budget has been drawn up not just for the particular year, but for subsequent years as well. Thus, the money cannot go missing without the Board knowing. Moreover, the heterogeneous dynamics of the Board would create a system of checks and

balances that would hopefully make this program more effective and accountable than past ones.

However laudable these measures are in theory, in practice a variety of issues must be addressed to gauge the extent which the mechanisms for accountability are sufficient and realistic. Possible governance problems include:

- National level
 - Accommodation of MiDA within the Ministry of Public Sector Reform, as opposed to within the Ministry of Local Government could generate administrative problems
 - Too little involvement by the Ministry of Local Government
 - MiDA has not developed or publicly disseminated its internal auditing procedures
- Local Level
 - Despite training, FBOs and DAs lack sufficient oversight capabilities
 - NGOs and the media lack sufficient resources to serve as watchdogs

Contract Issues

As the overall management office, MiDA is responsible for awarding all contracts for MCA projects. MiDA will use a “non-preference” approach for evaluating bidding. Therefore, both foreign and domestic firms can bid on projects. MiDA still needs to determine what will be the most efficient way of parceling out work for the intended projects (such as whether certain projects will be contracted out to many or few firms), although it will basically depend upon the needs of the project. However, the envisioned investment strategy is not without shortcomings. If bidding for MCA contracts is open to international actors, there is a chance that Ghanaian actors would not be sufficiently involved in the process. The MCA goal is to engage recipient countries to the greatest extent possible, thus, allowing

international actors to bid for contracts defeats this purpose.

Region and Crop Selection Issues

The PEF believes that MiDA selected the beneficiary districts on the basis of their export potential; the selection process was not politically motivated or biased. Yet, the main opposition party, the National Democratic Congress (NDC) accused the government of having selected only those districts that are strongholds of the governing New Patriotic Party (NPP.) If this argument holds, then one of the criteria for qualification to benefit from the fund, namely a bipartisan approach to the compact, has not been met.

The rationale of crop selection has also been questioned. According to the PEF, the crops that were chosen for MCA funds are intended to be for both local consumption and for export; one major goal is to raise agricultural production up to supermarket shelf quality levels in order to compete in U.S. markets. In addition, the PEF explained that the African Growth and Opportunities Act (AGOA) had been taken into consideration in the planning stage of the MCA program for Ghana; consequently, the cash-crops had been chosen based on their low tariff rates to the United States.

Sustainability of the MCA

In regards to potential program benefits, MCA is the most holistic program to ever occur in Ghana in that it has focused on all aspects of the production process. Past projects have allotted aid for a particular aspect of development, pushing a project or region rather than letting the development transpire endogenously. The MCA will be different because it will allow the local actors at the beginning of the supply chain to voice their own demands potentially benefiting society and in turn encouraging project sustainability. It is important, as a first step for the MCA development efforts to have a holistic framework

where each key player is considered in the process of planning.

In terms of sustainable planning, the National Development Planning Commission (NDPC) has set out a Development Policy Framework (DPF) which, if rigidly followed by MiDA, will be enough to sustain the program. Furthermore, the NDPC finds that the project outcomes of the MCA are in line with what the GPRS 2006-2009 (supervised by NDPC) sets out to achieve. NDPC feels confident in their efforts of planning with and for the MCA. This conveys not only forward thinking about the MCA project implementation and sustainability, but a confident commitment to see that project objectives are complemented by surrounding efforts.

Overlap and compatibility with other existing programs can further ensure the sustainability of MCA programs. As stated previously, the Ghana MCA programs were designed with GSRP objective strongly in mind. Also, MCA and USAID programs are compatible. For instance, USAID deals with economic growth, helping the government improve the investment climate in Ghana, where the MCA does not. USAID facilitates private sector advancement in exports (pineapple, papaya, and mango) with technological innovation (research and development) and these achievements can be picked up by the MCA and rolled out to their regions of project implementation, thus using resources more efficiently. Concerns have been raised over the lagging efforts of the MCA in regards to building complementary relationships with all partners. In sum, although the relationship between the MCA and USAID appears to be a positive one as far as preliminary project planning goes, partnerships with other development organization may not be as sound.

The program could also be sustained by farmers paying back to the program the value of what they receive. If the MCA projections are realistic, the


money received from the farmers can be reinvested in other areas.. Yet, it is important at this point for the MCA to consider how these theoretical projections will play out in the realistic market.

■ Conclusion

Fundamentally, the MCA aims to build local-level capacity so that by the end of the five-year period recipient countries are in more favorable positions to attract investment and donor support. In addition, the MCA aims to enable recipient states, like Ghana, to make better use of its own funds by building local capacity and expertise. Finally, barring any serious mismanagement of funds, political changes in the US government will not affect the MCA. Therefore, it is up to MiDA and the Ghanaian government to make greater efforts in implementation, governance, and sustainability of MCA

The following CDD interns and Fellows made significant contributions to this paper:

**Agustin Diz - University of Pennsylvania,
Katrina Neubauer - The George Washington University,
Jennifer Reddy - University of Calgary,
Jessica Vernon - Stanford University,
George Oforu - University of Ghana, Legon
and Chris Woledzi - University of Ghana, Legon**

 *CDD-Ghana Briefing Papers are generated from commissioned research on topical issues, as well as presentations at round-table discussions at the Center.*

**Correspondence:
The Publications Officer**

**Ghana Center for Democratic Development, CDD-
Ghana
P.O. Box LG 404, Legon - Accra, Ghana**

Tel: (+233-21) 776142/763029/784293-4

Fax: (+233-21) 763028

E-mail: cdd@ghana.com

Website: www.cddghana.org

ISSN: 0855-4005