Draft for consultation

# Economic Growth in Northern Ghana

Draft Report for DFID Ghana
Prepared by

The Overseas Development Institute, London

The Centre for Policy Analysis, Accra

And associates

26 August, 2005

**Contents**



Note: This report has been prepared by a team consisting of Andrew Shepherd (Team Leader), Charles Jebuni, Ramatu Al-Hassan, Andy McKay, Colin Poulton, Ann Whitehead, Jonathan Kydd, with help from Seidu Alhassan. Comments and contributions from Steve Wiggins are gratefully acknowledged.

Additional short summary annexes on each Region still have to be added.

The report has been commissioned by the UK Department For International Development, but the contents are entirely the team's responsibility and do not reflect the policy or intentions of DFID.

## Abbreviations

| | |
|---|---|
| ADB | Agricultural Development Bank |
| AGI | Association of Ghana Indistries |
| CDC | Commonwealth Development Corporation |
| CSR | Corporate Social Responsibility |
| CWIQ | Core Welfare Indictors Questionnaire |
| GIPC | Ghana Investment Promotion Council |
| GLSS | Ghana Living Standards Survey |
| HACCP | Hazard Analysis and Critical Control Points |
| IFC | International Finance Corporation |
| LRDP | Lowland Rice Development Project |
| NR | Northern Region |
| MoFA | Ministry of Food and Agriculture |
| MoPSD | Ministry of Private Sector Development |
| MoTI | Ministry of Trade and Industry |
| PSI | Presidential Special Initiative |
| SWAp | Sector Wide Approach |
| UE | Upper East |
| UW | Upper West |
| USAID | US Agency for International Development |
| WATH | West Africa Trade Hub |

## Executive Summary

This report is the principal output of an investigation of how northern Ghana can contribute to the growth experienced by much of the rest of the country. If northern Ghana had grown at the country's average rate during the 1990s, it would have added substantially to Ghana's average income and foreign exchange earnings. Continued lack of growth threatens to undermine national stability. The study asks whether there is growth potential in the north, and if so how to stimulate it. It also asks what the alternative is, and what is necessary to allow the poorest to participate in growth.

Northern Ghana has not produced the key export commodities, has received much lower inflows of remittances, and participating much less in trading activities compare to the south. These are the major factors explaining the poor growth performance of Northern Ghana. A significant proportion (around half or more) of its population is extremely vulnerable and food insecure. A substantial majority remains poor. On the positive side, infrastructure has greatly improved in much of the north though less so than elsewhere in the country; human development outcomes have started to improve; and a number of medium sized companies have established operations in the north.

Changing global markets are likely to continue to be a prime source for additional demand for goods produced and processed in northern Ghana. The second source is the growing demand from Ghana's and West Africa's urban areas. While demand for what northern Ghana can produce is there, making connections with these markets is an increasingly sophisticated business, requiring, for the most part, medium scale enterprises with professional management and technical expertise. The scarcest factors are risk capital, or equity, and the entrepreneurs willing and able to develop and manage such businesses in the north. Government and donors will have to persuade venture capital companies to take northern Ghana seriously. Banks will be willing to lend to companies which have adequate risk capital. The key sectors where investment makes sense are: agriculture, especially the development of outgrower schemes; tourism, especially the development of the Mole game reserve, but also enough well developed tourist sites around the north to encourage tourists to stay for a week; and possibly mining. Existing private sector companies and business associations have a key role to play to attract businesses to these key sectors. Removing barriers to internal and cross-border trade will also substantially promote growth, as will developing the infrastructure for cross-border trade.

The study argues that significant economic growth is indeed possible in northern Ghana. However, a substantial proportion of the population will not be able to participate in growth. These people are located in areas which will remain without infrastructure for some time, and in resource-poor households. For these people, an alternative combination of policies is needed: the development of a social protection package, including a basic cash transfer scheme; an emphasis on widespread post-primary technical education enabling a search for better jobs; and a public debate on migration leading to new policy initiatives to increase the benefits and reduce the costs of migration.

Government has to play a critical role in creating the basic conditions for steady growth: ensure a permanent peace in the Yendi skin crisis – though the facilitation of this may best be done by parties other than government; develop a more solid

approach to improving the communications infrastructure, especially key main roads, which can be supported by donors; develop a package of measures, including an approach to social protection, which will ensure improved functioning of basic food markets for the substantial proportion of the northern population which is food insecure.

Economic governance needs to be deconcentrated (a one-stop window with all the relevant agencies somewhere in the north), and local economic development planned in economic zones where a number of District Assemblies would co-operate with regional planners and other key agencies to ensure the key enabling factors for business development are in place. Implementation of promised PSIs in cotton, cashew and sorghum would signal greater government interest in the north's economic growth, and a cotton PSI focused on opening up new areas for production once the necessary institutional changes are in place could have substantial impact. A new PSI on guineafowl development would have enormous growth and food security benefits. Greater co-operation with Burkina Faso in particular, and neighbouring countries in general, over trade promotion, joint development – eg in tourism; research, especially on sheanuts/sheabutter and horticulture would help Ghana catch up with these countries. This could be in exchange for making the Hamile-Tema road more useful to Sahelian long distance traffic.

Donors can support this process in a number of ways. They can accept that the development discourse on the north should move from a distributionist to a growth-oriented focus. They can accept that agriculture has a prominent role to play in leading that growth. They can alert venture capital companies to the potential. They can work with government to prepare a number of SWAps focused on the north – on agriculture, on infrastructure, on pro-poor tourism. They can work with government to monitor the spatial flows of budget support and government expenditure. Adjacent donor supported local governments need to link their efforts up with those of regional planners and other agencies to promote economic (as opposed to human) development: the geographical scale of a district is typically too small for economic planning. The donors and government could consider supporting a long term cash transfer scheme for the vulnerable.

The key economic growth priorities for the north, in summary, are: to achieve a lasting peace in the Yendi skin dispute; to attract investors, and with them risk capital especially but not only into agri-business; to step up the rate of infrastructure development with particular reference to the less well connected Upper West; and to significantly increase the level of government and donor support for these processes. Food markets need to be made to function more securely; the social protection strategy needs to be designed with the interests of northern vulnerable households strongly in mind; and a national debate on migration could be followed by the design of a policy which would ensure migrants and migrants' households better livelihoods.

# 1 Introduction

This study was commissioned by DFID in order to inform its internal discussion and programming on how to increase the effectiveness of growth in reducing poverty in Ghana, implying a particular focus on northern Ghana where high levels of poverty have persisted accompanied by a failure to achieve economic growth. The Terms of Reference (Annex 1) suggested a broad study with stakeholder consultation. Inevitably the stakeholder consultation has raised considerable interest, including media interest, and raised expectations. The broad focus was somewhat narrowed to two key hypotheses and associated questions which were tested out in a preliminary workshop in Accra. These were hypothesis (a) there is growth potential in northern Ghana, and (b) the best hope for northern Ghana is ‘better’ out-migration, and growth through remittances.

## 1.1 Objectives

The principal objective was to analyse the challenges and potential sources of economic growth in the Ghana’s three northern regions, and to provide the results to relevant policy makers through workshops and dissemination of the report. After some time, and as confidence grew that economic growth is indeed possible, the team felt that in practice there was an additional, unwritten, objective, which was to contribute to moving the policy discourse about regional development from one highlighting the need for distribution and redistribution by the central state to one which acknowledged that *sustained* regional development would have to come through economic growth in northern Ghana. The challenge remained to identify the sources of and processes which would lead to growth.

Why is this important for Ghana? There are several reasons: (i) In the 1990s northern Ghana grew at a very low rate. If instead income had grown at the average rate for Ghana (around 5%) this would have added 0.7% annually to Ghana’s per capita economic growth rate. Over the 7 years between household surveys this would have added 5% to national average per capita income. (ii) Northern Ghana will increasingly contribute to exports and foreign exchange – a key resource for Ghana’s development. Sheanuts exports are increasingly being replaced by higher value shea butter exports, and there are possibilities for downstream manufacturing, some of which are already being exploited. Mango exports will come on stream from next year. There is potential for other horticultural exports, but these will take longer to materialise. Cotton and cotton goods have been and could again be exported. Food crops are already exported into the sub-region, and this could be expanded. There is considerable possibility for expanding tourism in the north, and there may be substantial opportunities in mining. And (iii) civil conflict frequently maps on to poor/remote regions. Under-development provides time and motivations for civil conflict and there is the example of neighbouring Côte d’Ivoire. Conflict is importable, if there is already localised conflict, as already observed in recent West African history. Economic growth in the north is vital to bind the country together and provide opportunities for youth who could otherwise become disaffected.

## 1.2 Approach

Having scoured the literature on regional development, the team identified that in order to grow, and reduce the gap with the rest of their country, underdeveloped regions need to find ways of moving from being the periphery to being centres of economic activity in some areas. While this undoubtedly requires considerable public investment, the key process is one of 'cumulative causation', where successive firms entering a location make it more attractive to subsequent ones. In order to get pro-poor or widely shared growth, the key firms to attract would be those with strong upstream and downstream multipliers. In the Ghanaian context, and especially in the north, this would have to involve agriculture (the 'downstream' for most Ghanaians), but we were mindful that non-agricultural activities were likely to provide considerable economic stimulus, especially for the development of a skilled and higher waged labour market, so we included significant work on the non-farm economy, especially trading (commerce), tourism and mining.

## 1.3 Key hypotheses and questions

Under the two hypotheses mentioned above, the study was framed by a series of questions.

*(a) there is growth potential in northern Ghana*
A1 What is the geographic capital of the north: financial, physical (including infrastructure, natural endowments), human (including labour)?
A2 What are the perceptions of the north as a place to invest of investors, traders, migrants, FDI? The underlying idea here is that growth would require a considerable step up in investment.
A3 What is the 'agricultural story': agriculture is the leading sector capable of generating growth, but what is the evidence? What are the constraints and barriers to agricultural trade and the functioning of markets. Institutional development was considered to be key: what is and should be the role of the state and other actors in economic co-ordination and redistribution, especially in agri-business?
A5 The Non-farm economy: is diversification the route out of poverty?
A6 The trade story: where do (could) northern Ghana's products go? Constraints, barriers; can value be added?
A7 Risks and risk management. Major risks: political (conflict); climate (drought, in the absence of irrigation)

*(b) the best hope for northern Ghana is 'better' out-migration, and growth through remittances*
B1 Invest in human capital: are current investments enough to permit migrants enhanced life chances?
B2 What can be done to reduce stigmatisation of migrants, which may be growing?
B3 What practical measures to increase the returns and reduce the costs of migration?
B4 What are the social protection policies for those staying put, as well as for those left out of growth?

In practice the study focused far more on hypothesis (a) and its associated questions, since it was concluded early on (i) that there is growth potential, even if this is heavily constrained in some locations; and (ii) that the scope for migration to generate adequate returns was limited since the gap between north and south in basic education would take too long to bridge, and in any case, post-basic education is needed to make a dent in poverty.

### 1.3.1 Opportunities

The study attempted to identify what opportunities are currently within reach, either because they have been tried and succeeded on a small scale, or tried and failed but the failure can be rectified, or because the potential was confirmed from a number of different sources. A visit to neighbouring Burkina Faso's southern region was made to give the team a comparator region. This was useful in identifying approaches Ghana could try as well as areas for co-operation.

### 1.3.2 Constraints

A conventional view is that a combination of infrastructure, basic services and an enabling environment will produce growth. The study confirmed the importance of these. But the team took the view that inducing significant sustained growth in a long term underdeveloped region is not so simple, and focused on the nature of the market institutional arrangements as well as the nature of likely investors and conditions required for investment. These issues were thought to be more powerful in constraining growth in northern Ghana than resource scarcity.

### 1.3.3 Ways forward and basic assumptions

The study attempts to identify ways forward for a broad group of stakeholders – government (local, regional, national), donors, the private sector and civil society, including business associations. Certain assumptions were made: (i) widespread subsidies will not be available (eg on fertiliser); (ii) the banking system will remain unable to support medium term or more risky investment; (iii) the political and governance framework will remain as it is; (iv) any strategy will be largely private sector led, with government playing a supportive role.

## 1.4 Study process

Having reviewed the literature,[1] defined the approach and research questions, and tested these out, the team set off to interview key informants in the north as well as Accra. Relevant secondary data was also collected and analysed. Workshops were held in Tamale and Accra to explore preliminary findings. This is a first draft report, which is being posted on the websites of both the Overseas Development Institute and the Centre for Policy Analysis, and as many key informants will be asked for comment on this draft as possible, with a view to producing a final report for circulation to government, the private sector and donors.

[1] Shepherd and Gyimah-Boadi, 2005; McKay, Shepherd and Plagerson, 2005

# 2 Brief situational analysis

## 2.1 The growth record

The picture about growth and poverty reduction in Ghana as a whole has been well drawn. What is strikingly clear from this is that Northern Ghana grew little during the 1990s and poverty levels remained unchanged, while the rest of the country benefited from the growth of Accra and the forest region. There has been no data on income poverty since 1999. But there is little reason to believe this picture has changed dramatically, though there have been a number of public and private (including NGO) investments since the mid-late1990s in agri-business, tourism and the services sector, underpinned by road, electricity and water infrastructure and services which are beginning to make a difference in certain areas, principally in and around Tamale. It is likely that a process of agglomeration has already begun in this zone.

A tentative assessment of overall poverty trends since 1999 has been made using poverty predictors based on the results of the 2003 CWIQ survey in comparison with the 1997 CWIQ survey (Cavalcanti, 2005). While some caution is needed in interpreting these results (poverty predictors are imperfect correlates for predicting poverty levels and changes), the basic pattern this reveals is of a reduction in rural poverty between 1997 and 2003, and a slight increase in urban poverty. However, the regional pattern of change in poverty has not been estimated.

Key factors underlying growth in Ghana over the past fifteen years have been (i) greater openness, both through increased exports (cocoa and other agricultural products, gold and other minerals and timber) and increased imports; (ii) public spending, much of it aid financed; (iii) a significant increased in wholesale and retail trade, as well as transport and construction activity, with the increased imports and public spending important stimuli; (iv) increased receipts of remittances, from both outside and within Ghana. Each of these has been spatially differentiated though, with the result that growth has been fastest in the main cities and in the rural forest zone, the main export producing area as well as the main recipient of remittances in rural areas. Northern Ghana has benefited much less from each of these factors, not producing the key export commodities, receiving much lower inflows of remittances, and participating much less in trading activities. These are major factors explaining the poor growth performance of Northern Ghana.

To counterbalance this though Northern Ghana has benefited from increased spending, especially in the social sectors, by the public sector and NGOs, which has led to improved human development outcomes comparable to those achieved elsewhere in Ghana. Recent results from the 2003 CWIQ survey show that child malnutrition rates, which worsened in many others regions in Ghana over the period 1997 to 2003, fell or remained stable in the three northern regions. These improvements in human development indicators offer potential benefits for longer term growth in Northern Ghana, as does progress made over the 1990s in improving some roads and expanding the electricity network (the latter principally in the urban areas of the north; little in the rural areas and from a much lower base - see Figure 1).

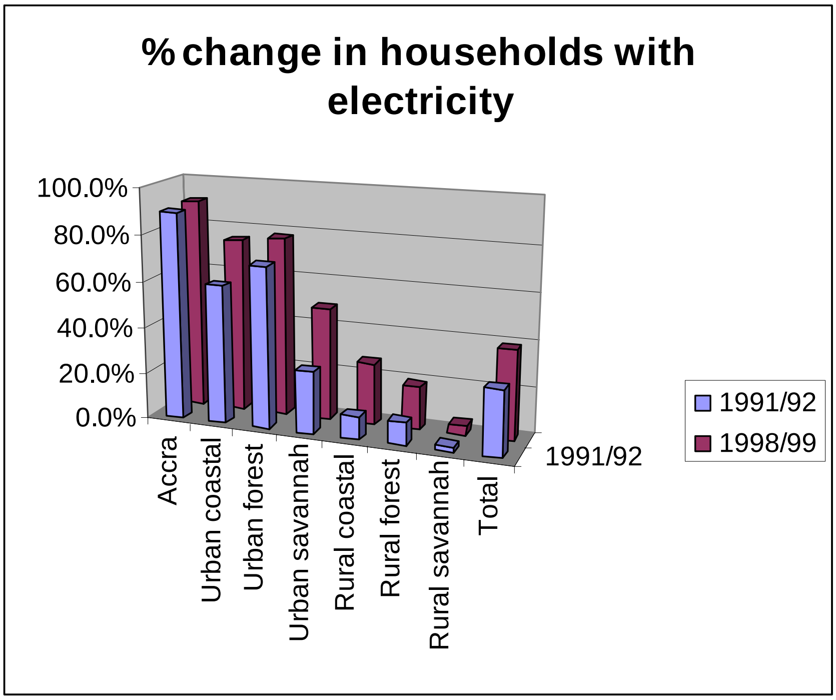



**Figure 1**

## 2.2 Regional development

The *reasons* for long term regional under-development are contested: some place the blame squarely on the northern elite, for not investing at home, or, in the case of the northern political elite, for not being accountable to their constituents. Others blame history, and in particular the pre-colonial and colonial construction of northern Ghana as a periphery – providing labour to the mines and cocoa farms of the south. Apart from a brief episode of investment under the import substitution industrialisation strategy pursued in the 1960s and especially the 1970s, the north has never become a centre for economic activity. The northern elite itself tends to blame the inadequate distribution of public investment by southern dominated governments. NGOs tend to blame structural adjustment and the neo-liberal economic model – reliance on the market – for the north's continued under-development.

Meanwhile, their interventions and those of government have in fact laid a foundation for economic development: much of the north is now connected by road, and the main road network will be substantially complete within 5 years. The telecommunications and electricity networks have expanded considerably and continue to do so. Substantial investments in drinking water, sanitation, health and education have raised the north's human development level at a time when indicators for parts of the south have been faltering. However, while there has been some inward investment into the north, this has been dwarfed by the continued economic concentration in Accra (Table 1).

Risk capital (ie equity) is in major short supply for the Ghana economy as a whole, partly explaining why the banks will so rarely make medium term loans to business. The banker's complaint that there are not enough 'bankable projects' often refers to the inadequate equity companies have been able to obtain. This affects underdeveloped regions particularly, since the risk environment is likely to be worse and banks even less likely to lend. In northern Ghana the additional risks to be managed are those of weather, conflict, variability of supplies, lack of infrastructure and living conditions, and remoteness from key economic governance institutions. The upshot is that there are very few enterprises for which banks will lend. Trading, property development, and hotels are among the few; loans are typically short term and against physical collateral. Agriculture can only borrow when there are project funds to back it. The exception is the Agricultural Bank's support for the cotton industry.

**Table 1 Registered GIPC Projects by Region, 2000 and 2005**

| Region | Greater Accra | Ashanti | Western | Central | Eastern | Volta | Northern | Brong Ahafo | Upper East | Upper West | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2000 | 911 | 89 | 58 | 35 | 32 | 17 | 11 | 4 | 2 | 1 | 1160 |
| 2005 | 1412 | 121 | 82 | 57 | 50 | 25 | 17 | 9 | 5 | 1 | 1779 |
| Change | 501 | 32 | 24 | 22 | 18 | 8 | 6 | 5 | 3 | 0 | 619 |

Source: GIPC, Accra
Note: this excludes investments in mining, petroleum, stock exchange and projects in the free zones area of Ghana.

The Ministry of Trade and Industry's Rural Enterprise Project attempts to solve this problem by allowing District Assemblies to inject capital into an enterprise. Each district has identified one or more priority enterprise for the district. However, none have yet been developed or look likely in the north. There may be two reasons for this: serious businesses would definitely not appreciate local government contributions to decision-making – they would see it as interference; and most districts may have too few facilities to woo small or medium scale enterprise.

At the same time, global and sub-regional economic conditions have been changing. There is demand for new products, greater value accorded to the kind of unpolluted environment characteristic of much of Ghana, including the north. In particular the market for shea butter is expanding, as is the global market for horticultural products. Tourism is reaching into ever more remote regions, and mining companies are looking further afield for deposits. It may be changing global economic conditions which provide the major impetus for economic growth in northern Ghana. While the demand for efficiently produced African cotton is artificially depressed by rich country subsidies, relative success in cotton elsewhere in West Africa and in countries like Tanzania indicate that cotton production can still be sustainably profitable provided the institutional arrangements are right.

Within the sub-region, the former powerhouse of West Africa, Côte d'Ivoire, has suffered massive disruption due to conflict, and Ghana has picked up transit trade and service sector investments as a result. ECOWAS and UMOA are slowly seeking to create the conditions for a more integrated sub-regional economy, de-linked to a degree from the metropoles.

### 2.3 Vulnerability, incomes and crop production

Many studies, including different participatory poverty studies, highlight the extent of vulnerability throughout northern Ghana, which is particularly acute in the Upper East. One key dimension of this which central importance for this study is food insecurity. One indicator of this is the extent of extreme poverty identified in the most recent GLSS survey, defined as when a household's total consumption level fell below the level needed to attain a food consumption basket to satisfy minimum subsistence needs. Compared to 26.8% of the population falling into this category at the national level, the corresponding proportions for the Northern, Upper East and Upper West regions were respectively 57.4%, 79.6% and 68.3% in 1998/9.

Vulnerability is associated with two particular indicators: income and access to food. A quantitative analysis of income and employment (Annex 1) reveal that:

- The north remains dependent on low return food crop farming, and this is the main explanation of low economic growth and persistently low incomes. However, recent employment statistics (from the CWIQ) indicate that there has been a sharp drop in reported dependence on agriculture between 1997 and 2003.
- The share of household incomes deriving from non-farm activities remains significantly lower than the rest of the country, and is lowest in the most food insecure region (UE).
- The Northern Region is significantly more diversified in terms of income sources, and the proportion of households with remittances is close to the Ghana average; however, even here the *level* of remittances is not enough to permit accumulation.
- Brong Ahafo has done better than the three northern regions in terms of reducing poverty despite its overwhelmingly agrarian economic structure. The key difference is that a far higher proportion of households sell crops (Annex 2, Table A2.2).

A quantitative assessment of changes in crop production is not of the same order of reliability as the above, since the surveys on which the data is based have only become significantly more reliable during the last few years (see Annex 2). The positive changes recorded between 1995-7 and 2002-4 are summarised in Table 2 below.

**Table 2 Growth in major food crops between mid 1990s and early 2000s**

| *Region* | *Upper East* | *Upper West* | *Northern* |
|---|---|---|---|
| *Growth in area cultivated* | Maize<br>Groundnuts | Sorghum<br>Yams<br>Groundnuts<br>Cowpeas | Rice<br>Cassava<br>Yams<br>Cowpeas |
| *Growth in yield* | Maize<br>Rice<br>Sorghum<br>Groundnuts | Rice<br>Maize<br>Groundnuts<br>Cowpeas | Rice<br>Cassava<br>Groundnuts |

Source: Annex 2
Note: small changes are omitted, given the low reliability especially of the

While there are potentials for both area and yield increases, the widest potential has lain with groundnuts, and the least with millet (and sorghum). The potential of rice looks good, though markets have been highly problematic. The MoFA statistics only began to record soyabean in 2004, so there is as yet no trend data, but soyabean is similar in many ways to groundnuts. Livestock is also not included, and nor is cotton, which was widely cultivated, with more than 35,000 tons being produced by small farmers in the late 1990s before slumping to around 15,000 more recently.

Farm households' engagement with the market varies considerably. Few sell millet and sorghum, especially in the two Upper regions. Groundnuts is the most widely sold common crop in all three regions; rice is often sold in the Northern and Upper West Regions. The level of market engagement is highest overall among Northern Region farm households, but this level is way below that achieved in Brong Ahafo. Vegetables are produced by most households but sold by few – something to be remembered when horticulture is assessed as a potential growth sub-sector.

Livestock are widely held, especially small ruminants and poultry, including guineafowl. Herds and flocks are generally small; production methods are simple, and sales are largely to finance consumption or working capital for farming. Along with charcoal production, livestock and poultry act principally as the rural households' savings bank.

## 3 Lessons from theory and comparative experience

Regional development theory gives us some strong pointers, and leaves us with some unresolved debates. The strongest conclusion of political analysis is that a central political commitment to regional balance is important, and can be achieved through a number of routes: nationalism; the embrace of diversity and measures to reduce marginality; the representation of poor regions in the elite; fractures among competing elites, giving scope for poor regions to gain a voice; elite appreciation of the risk of instability derived from regional inequality. A critical question for this study is what can be achieved with relatively weak political commitment from a ruling elite.

Economists have focused on the degree of mobility of factors of production as the prime determinant of whether regions converge or diverge. Where there are high internal barriers, regions will diverge (inequality will increase). Many of the barriers are institutional, though some are infrastructural. Capital is often less mobile than labour. There are policy measures – infrastructure investments, institutional policies, - which governments can advance to counter the immobility of capital. Liberalisation has tended to reinforce divergence, perhaps partly because sub-regional liberalisation has often been slower and more hesitant than liberalisation geared to wider international markets. Economic interests often lie in further agglomeration; a key question for this study will be whether there are emerging economic interests which may look for new locations for agglomeration.

Social analysis has focused on the discrimination and stigma faced by marginalised groups and minorities when they depend on migration to metropolitan areas. Again, there are public policy measures which can be undertaken to improve conditions for migrants.

The literature has left unresolved a number of issues: whether federalism may not be better than unitary government (the argument is partly that regional elites become more responsible under a federal system); whether strong regional policies are better than creating a level playing field. And whether, in the long term, regions do converge or diverge.[2]

What can be learnt from the comparative experience of Burkina Faso (see Annex 5)? No comparison is fair, and comparing a region of one state with an entire state is certainly unfair. Although Ghana and Burkina share many characteristics and some history, there are signal differences – Burkina's membership of the CFA zone, its later and slower liberalisation. However, given that it has performed rather better than northern Ghana in recent years, and given a similar if not worse resource endowment, it is reasonable to ask how this has been achieved. The answer is as follows:

- With its slower economic reforms, and more consistently pro-farm household policies, Burkina Faso has achieved a balance between state, foreign and domestic – including local – capital and investment in a way which has eluded Ghana as a whole.
- Coordination of agricultural production is achieved through commodity-based producer associations working from the grassroots to the national level. These provide services to members (marketing, credit assessments), complement

[2] See Shepherd and Gyimah-Boadi, 2005: 6-10 for a longer discussion.

technical staff of government or the private sector in service delivery, and form strong lobby groups which are politically powerful. Public sector support in the initial development of product chain is crucial i.e. infrastructure, seed, organization of groups etc.

- The cotton sector in particular was liberalized slowly, has benefited from continued state subsidies on agro-chemicals, and institutional arrangements (monopoly, and then oligopoly) which allow companies to profit and farmers to be relatively secure.
- Water resource management has been a high priority, with a comprehensive programme to expand irrigation nationwide, using rivers and aquifers. There is a long term target of 30,000 hectares of irrigated land by 2015.
- Micro-credit delivery is linked to producer organisations, and microfinance institutions are linked to formal financial institutions and have become professional organisations.

## 4 Elements of a pro-poor growth strategy for northern Ghana

In this section the main argument that economic growth is possible in northern Ghana is developed. This requires attracting medium scale enterprises, which has already begun, especially in the Tamale urban agglomeration. A consideration of the area's comparative advantage is complemented by a brief discussion of what turns comparative into competitive advantage (4.1). It is argued that the process of investment leading to economic growth has started, but needs to be greatly strengthened. The key pre-conditions for economic growth are discussed (4.2), before turning to the investment strategy (4.3). The section concludes with a summary (4.4) of the feasibility of economic growth in Ghana's poorest regions, and creates a stylised map of economic zones in which there will need to be different sequences pursued.

### 4.1 Is growth possible? Comparative and competitive advantage

Growth can be stimulated by the development of external or internal demand, or a combination of the two. Given Ghana's small size (in market terms – ie its population and income level) achieving a high rate of growth almost certainly requires exporting substantial and growing volumes and values. However, with a rapid rate of urbanisation, the growth in the domestic market can also be a source of growth.

Northern Ghana has an absolute advantage in producing a number of commodities – a range of sub-tropical or guinea savannah crops and wild products including the sheanut; and a range of minerals. Comparative advantage refers to the products which the country is *least bad* at producing – or, technically, where the ratio between domestic costs of production and those of the most efficient producer are lowest.[3] Competitive advantage generally refers to producing goods at low cost, but also to managing supply chains so that goods delivered on the world market are also low cost but meet all the other required criteria – quality, consistency, delivery time, reliability. While costs of production could not be measured here (this would be too large an undertaking), Table 4 below summarises the possibilities of achieving competitive advantage across several sectors, as revealed by key informants. These are further discussed in the text of section 4.3, and the various annexes attached to it.

Beyond establishing what northern Ghana can produce competitively, it is important to consider what the multiplier effects of different sub-sectors and enterprises are – the extent to which there are backward and forward linkages in the northern economy. The greater the multiplier effects, the more rapid growth will be.

Recent estimates of growth multipliers from investment in farm and non-farm tradable sectors show that a cedi investment in the farm sector can generate an additional 1.46 cedis through forward linkage production activities and consumption linkages. The multiplier is also largest among the lowest income groups because of their higher propensity to spend on farm nontradables. A comparison of multipliers from investment in the farm and non-farm sectors however shows that a growth stimulus is more likely to generate a larger impact through the nonfarm sector than through the farm sector. A decomposition of each multiplier reveals the higher

[3] We are grateful to Steve Wiggins for this pithy distillation of Ricardo.

contribution of farm sector than the nonfarm sector to overall growth multipliers. Again this is largely due to the higher marginal budget shares for the farm non-tradables such as vegetables, fresh meat.

**Table 3 Estimates of Growth Multipliers**

| | Ghana | | Lowest 3rd | | Middle 3rd | | Upper 3rd | |
|---|---|---|---|---|---|---|---|---|
| | Farm | Nonfarm | Farm | Nonfarm | Farm | Nonfarm | Farm | Nonfarm |
| Total Multiplier | 2.46 | 3.17 | 4.19 | 5.42 | 2.90 | 3.75 | 2.16 | 2.79 |
| Decomposed into: | | | | | | | | |
| Tradables | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Farm nontradables | 1.05 | 1.66 | 2.58 | 3.65 | 1.30 | 1.99 | 0.80 | 1.34 |
| Nonfarm nontradables | 0.41 | 0.51 | 0.61 | 0.77 | 0.60 | 0.76 | 0.36 | 0.45 |
| 6% savings | 2.62 | 3.39 | 5.03 | 6.51 | 3.19 | 4.12 | 2.26 | 2.92 |
| Change from base (%) | 6.50 | 6.94 | 20.05 | 20.11 | 10.00 | 9.87 | 4.63 | 4.66 |

Source: Al-Hassan Ramatu and John Baptist Jatoe (2003). The Role of Agriculture in Poverty reduction in Ghana. Paper prepared for the Roles of Agriculture International Conference, 20-22 October, 2003, Rome Italy. Agricultural and Development Economics Division (ESA) of the Food and Agriculture Organisation.

This analysis is for Ghana as a whole. It is likely that the differential between farm and non-farm growth is higher in northern Ghana, given that most farm products are low value and require little processing. On the other hand there is less non-farm economic activity.

Other criteria which could be applied include the extent to which employment is generated and the quality of that employment; the extent to which self-employment is generated, and the returns available. Significant multiplier effects are available where companies purchase raw materials from large numbers of producers, and where these raw materials are best processed *in situ*. This would apply especially to sub-sectors involving outgrower schemes and raw material processing – currently mangoes, sheabutter, and oilseeds, but potentially also cashews, other horticultural products, rice. Multiplier effects are also possible in mining, where concentrations of mining activity lead to increased demand for food and food products, and tourism where the existence of major attractions provides a market for minor sites as part of a tourist ‘package’, and where tourist enterprises can promote local supply chains.

**Table 4 Comparative and competitive advantage, by sector or sub-sector in northern Ghana**

| *Commodity or sector* | *National* | *Sub-regional* | *World* | *Supply Chain* |
|---|---|---|---|---|
| *Sheanuts, sheabutter* | Sheanuts only grow in guinea savannah. 99 million (wild) trees in northern Ghana (1996). Harvest collected by peasant women. | Some import and export of sheanuts to and from exporters from the sub-region and processing plants. | Very low cost fat for food and cosmetics industry. Growing world demand. Highest quality for cosmetics available in northern Ghana and Burkina Faso. | New ventures adding value in northern Ghana: quality sheabutter production for export; sheabutter products from southern Ghana |
| *Cotton* | Cotton production entirely located in northern Ghana. Entirely produced by smallholders. World market prices lower than Ghana costs of production. | Yields are significantly lower than neighbours'. | West Africa produces low cost, good quality cotton, competitive on world markets. Ghana's institutional arrangements and fully liberalised markets constrain its participation. | Institutional arrangements required review and renewal.<br><br>Currently no value added beyond ginning. Potential currently constrained by water. |
| *Horticulture* | Low cost products but available for very short season, and low quality. Little comparative advantage for the north with current level of irrigation, research and extension. | Extent of imports of fruit and vegetables from neighbours indicate little comparative advantage. | Very competitive sub-sector. May have comparative advantage in organic production, given low use of agro-chemicals. May apply to fruit (mangoes, papaya) and 'Asian vegetables'. | New venture in mangoes exploiting growing European organic market. Nucleus plantation and outgrowers' scheme, using river irrigation and research from USA etc. |
| *Cashews* | Northern Ghana produces best quality cashews. Brong Ahafo major production zone. | Neighbouring countries have more organised production. | Structurally over-supplied market. Yields in Ghana low; market poorly organised. | Export processing company located in Accra, currently purchasing from outside as well as inside Ghana to ensure supplies. |
| *Oilseeds* | Reasonably low cost soyabeans produced. Groundnuts heavily consumed and costs can be high. | No information on how Ghana compares. | GEPC has regular demand for oilseeds (soyabeans) exports. | Soyabeans transformed into oil by 2 companies in northern Ghana, for sale within Ghana. |

| | | | | |
|---|---|---|---|---|
| *Yams* | Widely produced and sold. Low cost, high quality. Can be stored in ground through the dry season. | Some exports to sub-region. | Some exports to Europe. | Yam flour an ingredient in the confectionary sub-sector. A potential. |
| *Rice* | Reasonably low cost rice produced all over Ghana; in substantial volume only in the north, due to land availability. | Mali exports high quality rice to the sub-region. Possible model for northern Ghana given growing urban demand. | Ghana is a substantial importer from USA, Thailand and Vietnam. Years of food aid and imports have transformed consumer tastes. | Gradual expansion of domestic demand for small scale parboiled rice produced by women's group. Further market development needed before re-opening major rice mill. |
| *Poultry: guineafowl* | Widely produced throughout the north. High value product, but very high mortality means few sales. | Guineafowl produced under similar conditions throughout sub-region. | Major potential export. Degree of competition with imported cheap US chicken unknown. | |
| *Livestock: small ruminants* | Little livestock production outside the north. Little released on to market as represent farm households' savings. Low cost and quality. | Domestic market consumes what is produced. | | Some traders/entrepreneurs fatten sheep for Ramadan, and livestock for other festivals. |
| *Tourism* | Big game and birds – Mole and Bui. | Low cost/good quality in sub-region. | Cannot compete with East/Southern Africa. | Need to expand domestic market and link to cultural/historical slavery tourism. |
| *Mining* | Substantial limestone deposit for cement. Significant gold and iron ore deposits. Higher costs due to poor infrastructure, low level of geological survey. | Cement and steel could be exported in the sub-region. However, costs of production need to be established. | | |

What this table indicates is that growth is possible in a number of agricultural sub-sectors as well as tourism and possibly mining. Indeed, sizeable investments capable of generating growth have already been made – in sheabutter, mango production, and oilseeds processing. Northern Ghana can produce efficiently both for the national market and for export. Exports will tend to be to the world market rather than the West Africa sub-region, but there are some possibilities even for sub-regional exports. Exports to the sub-region would be enhanced by the location of manufacturing plants in the north and better cross border transport links.

The resource base is important here. Land is still relatively abundant; labour is scarce for many households. Land-using enterprises and technologies should be amnong those where there is a comparative advantage. However, river water is also abundant and largely unexploited for irrigation, whether through pumping or dams. High risk intensive production is also a possibility, provided the marketing channels are assured.

Commodities widely produced in northern Ghana which have not been included here include: maize, sorghum, millet, and cattle. Maize is more competitively produced in Brong Ahafo, and therefore remains generally a subsistence crop in the north. Millet and sorghum have experienced little growth in demand, although there is local demand and some demand in the region's growing urban centres. However, the real growth in demand there is likely to be for the food crops mentioned in the table. Cattle are widely owned, largely herded by specialist Fulani herders, and sold to southern markets in an entirely traditional pattern. Ghana is a livestock importer – the demand for meat is far in excess of what Ghana can produce. There is considerable scope for enhanced livestock production, and this is one of the most neglected areas of policy.

The majority of livestock in northern Ghana is kept extensively and with low labour and other inputs in small herds and flocks (typically up to 20 birds and 15 small ruminants, and a few cattle owned by wealthier households only. They perform a critical savings function in the peasant economy, with irregular small sales financing consumption and financing farming activities. Privatisation of veterinary services has led to a drop in demand for vaccination; finding ways of improving animal health would be one priority. Simple improvements in production methods, tied in to market development, would be the most likely growth-enhancing approach, especially in poultry and small ruminants (see Annex 4).

As mentioned in section 2, trade can also be a source of economic growth. The particular opportunity Ghana now has is that Mali and Burkina Faso have re-routed much of their exports through Tema, via northern Ghana.

International competition can be a problem for Ghana. While relatively few of Ghana's economic development problems can be laid at the door of international trade arrangements or negotiations, there are some exceptions which have had an impact in the north.

- Vietnam's take-over of Ghana's craft markets since 2000.
  - This has killed exports of baskets and other handicrafts from the UE, and now from elsewhere in Ghana.
- Imported rice (from Vietnam, Thailand and the US), supported by extensive food aid in the 1980s and 1990s has taken over Ghanaian

taste buds. Recapturing a segment of the market for Ghanaian rice, which can be competitively produced, requires aggressive marketing, and would be assisted by continued protection for a period of time.

- US Cotton
    - Low cotton prices since the late 1990s attributed to US and EU subsidies is one factor which has made profitability difficult for Ghana's cotton companies. There are others, however, to do with how the sector is organised, which can be adjusted to good effect.

However, some of Ghana's neighbours have developed creative responses to international competition. Mali imports cheap rice from the world market to satisfy poor consumers, and exports quality rice to the West African sub-region. Burkina Faso has developed robust institutional arrangements in the cotton sub-sector (see Annex 4) which have ensured producers a decent income, companies assured supplies, without undermining international competitiveness in the absence of a level international playing field.

### 4.2 Pre-conditions for growth

If growth is possible, what are the key constraints? This study identifies several, four of which are considered to be pre-conditions for rapid growth. These are the achievement of peace, especially in the Northern Region; for certain areas, the development of key roads to reduce transport time and costs; for a large proportion of households in the north, the development of a workable transitional strategy to improve food security which will enable participation in growth; and finally, ‘political will’ and a degree of deconcentration of economic governance – which is not easily come by due to the interest structures characterising Ghana’s political economy. These are key areas for government and donors to focus on.

#### 4.2.1 Peace

The threat of insecurity has hung over the north in a significant way since 1994. Peace is a critical foundation for investment, savings and economic development. The absence of peace is a particular issue for the north of Ghana. Other regions are barely affected by insecurity. Insecurity in the Northern Region affects the UE and UW. There are substantial obstacles to peace, in particular the increasing inability of governments in Accra to be seen as independent, neutral arbiters in what are essentially local disputes. As with any intractable dispute, the Yendi crisis requires that both sides are prepared to make concessions in order to move on from the impasse. Given the record of clumsy political interventions in this continuing dispute, it would be much sounder if the parties to the dispute could reach a settlement themselves. The facilitation of a neutral party is probably required to bring this about. The Northern House of Chiefs, ECOWAS, a group of former colonial powers are examples of neutral interest groups which could have a favourable impact on the disputing parties. It should be possible for the disputing parties to identify and agree on a neutral facilitator, and/or for government to do this.

There are other unresolved inter-ethnic tensions in the north, which have in the past erupted into war, and may in future again lead to violent conflict, which are currently receiving little if any public or governmental attention. These are less immediately a constraint on investment, but developing a standing conflict-prevention and resolution mechanism independent of government would be advisable.

#### 4.2.2 Selected roads to especially under-served areas and borders

There are widespread infrastructure needs throughout Ghana. However, the absence of good road communication to the Upper West Region is a particularly acute constraint, which will continue to stymie development in that region to an exceptional degree: no other region has waited so long to get reasonably well connected to the rest of the country. Moreover, the connection through Upper West to the Bobo Diolasso commercial area of Burkina Faso is also a major issue. Completion of a good quality road connection from the Burkina border at Hamile down to Techiman offers major economic opportunities for trade through Ghana to Tema, and the Governments of Burkina Faso and Mali have been lobbying the Government of Ghana to complete this road. This offers major opportunities to Ghana as a whole (due to a substantial increase in trade through Ghana) and as well as to the Upper West region specifically.

Other key main roads include the Wa-Tamale road, via Mole (see 4.3.3 below), which has been studied, and for which international funding is being sought; and the road from Bawku south through the Northern and Volta Regions to Accra, which would open up the east side. All of these roads are being constructed in patches; what is needed is for more rapid progress, so that the basic main road infrastructure of northern Ghana is completed in the short term (ie 2-3 years).

Achieving this pre-condition in the short term is feasible, although it is likely to require care in the selection of contractors (including some changes in past practices for identifying contractors – see 4.4 below), and a re-prioritisation of some public expenditure.

### 4.2.3 A 'transitional' food and livelihood security strategy for food insecure households

A strong argument can be made that food insecure farm households will be reluctant to participate in growth so long as there is a strong chance that their food needs will remain unmet. Land is relatively abundant (except in some areas); labour is the scarce factor of production for most, especially the poorer households; such households will allocate available labour with significant priority to food crops so long as they worry that the market will not serve them well. Substantial seasonal price variations for the major food crops mean that farm households continue to prefer to produce themselves, even if they might do better in cash terms to produce crops for the market. While there appear to be structural changes going on in the occupational structure of northern Ghana, with radical moves out of agriculture (see section 2.3, and Annex 2), well over half the population of the north is likely to have remained food-poor - they neither produce enough nor earn enough to assure basic food requirements. If economic growth is to include such households, it is likely that the level of food and general livelihood security of these households needs to be 'jacked up' to a new level.

**Box 1 Three categories of rural food producer household**

(i) Regular food surplus producers (often the better off, may also grow cash crops in significant quantities): can readily respond to improved market opportunities or new technologies; extension officers often gravitate towards these people (more innovative, able to try things out)

(ii) Middling households (may be food self-sufficient in good years, but not in the majority of years): it is plausible for improved support services to reach these households and assist them to intensify so as to be comfortably self-sufficient in food, hence also able to develop their cash cropping activities further. (in land scarce areas, may also have households who are land-poor, but otherwise better off - may be interested in achieving food self-sufficiency, but focus main energies on non-farm activities).

(iii) "Poor" households (currently the majority in many areas, especially outside the higher potential parts): even well directed support services (including NGO agricultural projects) will only stimulate a response from a minority of these - help them move towards the second category over time? The remainder will remain dependent on local food markets; hence the importance of improving the functioning of food markets, including stimulating local supply to achieve lower (and less volatile) prices.

The likelihood is that returns to investment in improved support services will be higher in higher potential areas and amongst the top two categories of producers elsewhere. The justification for such a focus is, therefore, the food access benefits for the poorer households who do not benefit directly from the extra investment in service provision.

Reducing seasonal (and inter-year) basic food price fluctuations is a priority: improved infrastructure and reduced trade barriers (literally – the numerous road checkpoints) will help. Ultimately the state has to be prepared to step in on a regular basis during this transitional period in areas of chronic food shortage and supply either free grain or subsidised grain if other social protection measures have been put in place.

This could be done by introducing, over a period of time, a set of targeted social protection measures which will provide a baseline of security in the face of widespread chronic vulnerability to climatic variation and other hazards affecting food production. The measures which are of particular relevance include: insurance against health shocks; measures to further reduce child mortality; making basic education genuinely free of all levies and charges; mainstreaming food for education; livestock insurance. Beyond this a basic cash transfer to the destitute and near-destitute would ensure food security for these groups. Once such protective measures are in place, and food markets are working better, the food market interventions can be reduced.

This transitional strategy needs to be regionally differentiated. In particular there are chronically food insecure areas in Upper East where food security will have to precede more market oriented approaches for very many households. Even there, however, there is considerable scope for development of crops and livestock which widely provide both food and cash. This issue will be returned to below, section 4.3.1.

### 4.2.4 Political economy

The discourse about northern development is almost entirely a distributionist one. In order to get poverty reduction through sustained economic growth it needs to shift gear and focus squarely on growth. Health and education expenditures by themselves will not develop northern Ghana economically. There is a key government role to be played, and the returns are substantial. In the 1990s northern Ghana grew at a low rate. If income had grown at the average rate for Ghana (around 5%) this would have added 0.7% annually to Ghana's per capita economic growth rate. Over the 7 years between household surveys this would have added 5% to national average per capita income – a significant amount.

The President has recently recognised the need to 'bridge the north-south divide', so there is apparent willingness at the highest level. Whether this can be translated into the kinds of institutional, enabling and expenditure commitments necessary to underpin growth in the north remains to be seen. There are some 'acid test' issues: the decision to make Kumasi a second international airport (despite it not being prepared, and despite the in principle approval for Tamale since 1996); the continuing reluctance of the Ghana government actually to promote sheanut exports in world markets where it sees it as a competitor for cocoa. Beyond these specifics, all significant government policies (eg private sector development, agriculture, infrastructure, security) need to have a 'northern component' with differentiated strategies and prioritised expenditures.

The political economy constraint suggests that the strategy will need to be more private sector and civil society led than would be in principle desirable. Government will surely respond to pressure from these sources, at least to a degree. The private sector is already supported by donors through a variety of projects, but with little explicit focus on under-developed regions. This would be one way of strongly bringing together the growth and poverty reduction agendas. The critical question is how to develop a critical mass of private investors in medium scale enterprises in the north. Government could support this process with a small degree of economic deconcentration: the creation of a 'one stop window' for business somewhere in the north, so that businesses do not always have to travel to Accra to see relevant government departments and agencies.[4] Donors could also support civil society to become better informed about economic development issues.

### 4.3 Key elements of an investment strategy

Economic growth in northern Ghana can best be promoted through a combination of the continued development of agri-businesses with strong out-grower/out-sourcing dimensions, investments in tourism and mining, and the facilitation of trade within Ghana and with its neighbours and for wider export. The further development of regional infrastructure and urban agglomerations are critical enabling investments requiring considerable state support.

The argument here is that small scale investments will not achieve the objective: there is a need for significantly more than has occurred to date by way of substantial, at least medium sized, enterprise to generate sustained and widespread growth with significant multiplier effects. The argument is also that most investors will choose to invest where there are more other investors: it is important to identify the particular factors which are likely to attract investors to northern Ghana.

The establishment of a larger number of medium sized investments will provide opportunities for the development of smaller enterprises alongside. However, such smaller enterprises will continue to be constrained by the poor availability of business finance, a constraint which medium scale investors are more likely to solve.

Given the preponderance of agriculture in the economy, and the likelihood that many of the enterprises will have an agricultural base, the organisation of agricultural producers to interface with enterprise is a further critical component of the strategy, and is an area for substantial state and NGO support.

#### 4.3.1 Attracting medium-scale investors to key sectors

The supply of investors is the principal constraint to development in the north as a whole. Potential investors from the north invest elsewhere, partly (it is asserted) to escape family pressures and partly because returns are higher and uncertainties lower. The majority of businesses based in the north are diversified portfolios in a variety of sub-sectors to spread risk. Few employ the skilled professionals or management

[4] The one stop window would include personnel with adequate devolved powers from the Registrar General's Office, GIPC, GEPC, MoTI, MoPSD, Co-operatives, key business promotion projects

necessary in a modern company. There may be categories of Ghanaian investors who are prepared to invest – for example, those contemplating retirement in the north. Ghanaian or overseas investors presently based in the north have particular reasons to be there – they are not 'off the shelf' investors, though their businesses are generally resource-linked. There have to be strong reasons to invest in the north to overcome the risks and disadvantages. The trick will be to identify additional investors who also have strong reasons, whether these are purely commercial or involve CSR. It is likely that many will involve the latter as well as resource-based reasons.

Investments in mining and tourism would often be located in remote areas, where little other development has taken place, poverty is rife and where infrastructure is weak. Supportive infrastructure investments around enterprise opportunities in such remote areas will be particularly critical.

- **Involve existing entrepreneurs/investors in identifying new investors: AGI/CC to organise with existing investors**

The state has a poor track record in identifying business winners. Existing investors may be best placed to identify others who could also assemble what it takes to make a significant investment. Ghanaian business associations have benefited from years of donor supported capacity building; this is an opportunity to show what they can do, and AGI has already been trying to mobilise local entrepreneurs and external investors in the north. If these two forces (AGI and existing investors) could join hands, the combination could be powerful. Other organisations with networks (eg the West Africa Trade Hub, Mapronet, GEPC, GIPC) could also provide information.

- **Identify one or two leading medium scale investors in each key sub-sector/commodity line, so that the overall result is a diverse portfolio rather than dependence on any one commodity.**

Dependence on a single source of growth is risky. The strategy would be to identify investors in tourism, mining, and agriculture, and in the latter covering the following sub-sectors which have potential: horticulture (mangoes already covered at least to a degree), cashew, sheabutter – especially to extend the for marketing of sheabutter produced by women's groups (sheanuts adequately covered by the existing Loders Croklaan investment at Savelugu), cotton (for a possible public-private partnership at GCCL), rice, possibly yam flour, guineafowl.

While dependence on a single investor and the resulting monopolistic market has disadvantages, open competition is also not desirable as too many competitors may find it difficult to source adequate raw material supplies – witness the experience of the cotton sub-sector. Initially, one or two investors could be attracted to each sub-sector, and allowed time to become competitive before others come in.

Developing a number of companies in related fields would begin to provide a regional labour market for skilled and professional workers and managers, which would in turn attract skilled people who to date have looked to southern or overseas labour markets.

- **Focus investment where infrastructure is already available, while infrastructure is being strategically spread to other areas**

This will tend to happen anyway. The Tamale urban agglomeration, and the Tamale-Bolgatanga 'corridor' are already relatively well connected, and incoming businesses have tended to focus here, taking advantage of the transport links, including the airport, the relatively well developed feeder road network in the Northern Region, and the urban facilities (eg hotels and restaurants, the better power supply) offered by Tamale and neighbouring areas.

Tamale has grown rapidly since 1980, and continued development (eg of the industrial area infrastructure) should be encouraged in order to support the process of agglomeration.

- **Continue to facilitate economic agglomeration through:**

(i) Urban development – the development of Tamale as a sub-regional hub. Coca Cola and Schweppes have both recently considered setting up bottling plants to supply the sub-region. The investments have not been made because of firstly, an inadequate water supply, and (once this was solved) inadequate security.

(ii) Appropriate communications infrastructure. This is critical in the medium term if northern Ghana is to become a trading hub within West Africa. It may be that the easiest way is through extension of telecoms companies into neighbouring countries.

(iii) Decentralised business facilitation. Currently almost all government and private services required by businesses are located in Accra or Kumasi. A one-stop business services window in the north would be very helpful for the establishment of businesses in the north, cutting out some of the frequent travel to Accra. This could include: the Registrar-General's Office, GIPC, GEPC, The National Commission for Small Scale Industries (already in regional capitals) and the Minerals Commission.

- **Explore the possibility of attracting venture capital, with possible support from CDC.**

Potential sources of risk capital which can help kickstart medium sized companies are:

(i) the Venture Capital company being set up by the Government. It would be reasonable to expect such a company to have a particular mandate for investment in underdeveloped parts of the country, with a special focus on the north, as a key mechanism of bridging the north south divide. It is possible that co-funding this company, if correctly set up, would be beneficial for the north.

(ii) Donors and the Government could put pressure on the IFC and CDC and other similar bodies to develop a particular interest in northern Ghana, especially with agri-business investments in mind. Both IFC and CDC have been considering establishing agri-business funds, with a focus on taking equity in medium scale companies with out-grower schemes.

CDC's experience with its venture capital fund in Ghana in the 1990s was not promising: it found it hard to avoid businesses established by people with good aid connections but inadequate business experience; politically well connected entrepreneurs; and rent seekers. Having re-structured its operations, CDC and its affiliated companies are in a much better position to negotiate realistic business deals and insist on adequate transparency when investing equity.

The kind of portfolio of companies establishing in northern Ghana – agri-business, tourism and mining – offers a good basis for venture capital funding, particularly if the venture capitalists are able to work with somewhat lower expected average returns than the market (ie 15% rather than 20%) and higher level costs in performing due diligence. Ultimately, risk capital has to be able to lever in other capital flows to an enterprise and sub-sector. However, successful funds in Africa typically thrive on a brilliant success, some reasonable performers and a majority of failures; so the failures should be expected.

Government and donors should ask risk capital companies to take northern Ghana seriously. It would be possible to construct a small project to bring together the necessary actors to explore the options.[5]

#### 4.3.2 Agriculture - walking on three legs: export led agricultural growth, with a possible organic niche; food for the towns; and rural food security

Ghana is an international trading economy, and its elite sees the economy in these terms. Thus it is exports and imports that are prized, give status and importance to particular economic activities. Export led growth is a logical aim for underdeveloped regions which wish to improve their economic and political status within the country. A key issue is to identify the markets and niche markets which northern Ghana could occupy.

However, evidence from across West Africa suggests strongly that producing food for the rapidly expanding cities and towns is an equally valid approach. Tamale had been the fastest growing city in West Africa until conflict dampened its speed. Demand for commodities like yams, cassava, rice, vegetables, fruit, meat and fish is buoyant, and traders source these from far and wide, in some cases from Sahelian countries! There are considerable domestic potentials in all these, in some of them for sub-regional export, and in shea butter, cotton (and eventually processed cotton goods), and horticulture for wider export.

Food security needs to be assured alongside growth (see above). The major strategy advocated here for this is a concentration on commodities which are both sold and consumed – oilseeds, yams and rice, sheabutter and fruit and vegetables. This should not be to the exclusion of maize, sorghum and millet, but the potential for market led food security are lower here.

Supply side approaches have been relatively unsuccessful or, if successful in generating increased production, unsustainable because the market has not been able to absorb supplies. What is needed is a market led approach. No development project or programme should be approved unless demand is demonstrated in the market and there are market intermediaries which are willing and able to carry the volumes likely

[5] Terms of reference for this could be written should this be of interest.

to be produced. This should be phase one of any project rather than phase 2 (see Box 2). Promising commodities are given in Table 5.

The reason for this is that supply chains for many commodities are disorganised, multiple, and difficult for both producers and exporters or end-users to handle. Shea is a case in point. This is particularly important when it comes to the global market which generally has clear 'quantity & quality' demands, it will also affect the possibility of adding value for the domestic market. While shea, being a semi-wild product, is an extreme case, the general picture is one of markets which are incapable of delivering required quantities at required quality. This reinforces the general case made above that the key constraint in developing northern Ghana's agriculture is the 'investor-intermediary' who will manage parts of the value chain.

*Box 2 Need for a Market Led Approach: The Lowland Rice Project*

The first phase of a MoFA project supported by French Aid developed a network of rice producing groups of small farmers. While it was technically successful, the farmers were not well enough organised and the market proved demanding and competitive. A second phase was designed to strengthen the producer groups through forming and building the capacity of 30 village level co-operatives and to work intensively on improving the quality of 'lowlandi' rice so that it can find a niche in the domestic market. At the time of writing quality is still problematic, and price fluctuations mean that farmers do not always honour contracts, with consequences for loan recovery.

The lesson from this project is that phase 2 focused on marketing and farmer organisation should really be phase 1 of a project, with technical development following or accompanying institutional and market development.

Source: interviews with project staff, and MoFA/AFD (2002) *LRDP External Evaluation, Final Report*

*Cotton*

The major learning experience in the development of smallholder based commercial farming in northern Ghana lies in the cotton industry (Annex XX). The lessons from this experience are that the institutional arrangements within a sub-sector can be critical to its success – they should not be played with for political ends. In particular, there is a case for a regulator's role in enabling a sub-sector to avoid excess competition which in turn prevents companies from making a profit. MoFA is now in a position to scrutinise companies' performance and discontinue the licences of 'non-performing' companies. (Up till now the Agricultural Development Bank, which is also the major investor in the industry) has effectively been playing this role. There is also a case for companies developing innovative contracts with farmers to reduce their incentives to sell to opportunist buyers. Further more, there is a case for stronger producer organisation – as is the case in Burkina Faso. Ghana is way behind its neighbours in terms of developing producers' associations, the advantages of which are many: they can inform their members, provide services to them, mediate with the market, and lobby government.

**Table 5 Promising Agricultural Commodities Where There Is a Ready Market**

| *Commodity* | *Location of production* | *Level of market development* |
|---|---|---|
| Yams | Growing production especially in Southeastern part of NR, and elsewhere | Well organised 'Konkomba' market in Accra |
| Soybeans | Many areas | 2 companies purchasing; cannot get enough raw material |
| Cowpeas | Many areas, especially good for degraded soils | ?? |
| Mangoes | Near sources of irrigation – rivers | 1 company purchasing from outgrowers |
| Other horticulture | Near sources of irrigation – generally rivers | Ready market: traders purchase large volumes of fruit and vegetables from far outside northern Ghana |
| Cashewnuts | NR and UW, but little production as yet | Reliance on purchasers from south; no steady market |
| Rice | Valley bottoms, mainly NR; irrigated in UE and NR. | Production generally runs ahead of market. Need to develop market niche within sophisticated market for imports. |
| Cotton | Tumu area, large parts of NR… | Purchasing collapse since late 1990s. Companies being reorganised. |
| Small ruminants | UW, UE | Some purchasing for fattening for festivals. No systematic market ?? |
| Guineafowl | Throughout | Large demand. No effective intermediary. |
| Pigs | UW | Ditto? |
| Sheanuts | Throughout | 1 sheabutter factory established. 1 regular purchaser of sheabutter from women's groups. |

Source: Team members' interviews

The immediate issue which needs to be sorted out is the status of the Ghana Cotton Company Ltd, the inheritor of the parastatal Cotton Development Board. The Agricultural Development Bank has just rescued it from receivership; and ceased funding for a number of its competitors. This company was almost taken over in a hostile bid by a relatively unknown firm in 2004; it urgently needs an injection of equity to remove it from the dependence on the ADB.

Given a stable profile of cotton companies, the potential coverage by the sub-sector of farm households is unparalleled, and could be expanded, given the capital to develop new areas. A Presidential Special Initiative on cotton was announced in 2003. Developing new cotton producing areas would be a suitable focus for a PSI.

*Producer associations*
The scarcest ingredient in developing agriculture and adding value to agricultural products is the investor-intermediary between farmers and the market. Equally scarce in Ghana is the producer organisation which can mediate between investor and the numerous farmers. ITFC is building a producer organisation to support its organic mango exports; the NGOs promoting soybean cultivation could also do so; the Shea producers association probably needs to separate from the old Coffee, Cocoa and Sheanut Farmers Association, which is defunct in any case, and be reconstructed from the grass roots up. A possible model for this is the 'Rice Coalition', an initiative to construct a rice producers association from the grassroots for the first time.

**Table 6 Farm households linked to the market through various companies, 2005**

| *Company/crop* | *Geographical Area* | *No of farmers (2005)* | *Target* |
|---|---|---|---|
| ITFC (mangoes) | Savelugu/Nanton; Janga; Karaga | 1000 | 2000 |
| Bosbel (soyabean) | Yendi, Karaga, | 3000 (+ c 1500 organised by NGOs) | |
| GCCL (cotton) | Many areas | 18,000 hectares, ie 36,000 farm households | Potential is much greater (eg was 27,000 hectares inj 1999) |
| Nulux (cotton) | Several areas | 10,000 | |
| PDL (Plantations Development Limited) | Wa, Tumu | 3-4,000 | |
| Shebu (sheanuts) | Northern Ghana and neighbouring countries. Direct purchases only in northern Ghana | 400 church womens' groups x 25 = c10,000 farm households | Will expand direct purchases |
| Body Shop (shea butter) | Karaga, Tamale etc | 12 groups x c25 women = 300 women | Can expand – depends on market |

Source: Team members' interveiws

*Womens' groups*
Medium sized companies are part of the market led agricultural story; women's groups are another. Nowhere is this more in need of positive market links than in the sheabutter sub-sector. The Shebu company established in Savelugu, a subsidiary of the Dutch oilseeds company, Loders Croklaan, purchases low value sheanuts, potentially providing secure self-employment for thousands of women across northern Ghana. However, women can make a lot more from sheanuts if they make sheabutter, for which there is a substantial steady local and national market, but also a rapidly growing and developing international market. This market can only be accessed,

however, if two conditions are met: the quality has to be right, and there has to be an intermediary to buy the butter.

The UK Body Shop has been purchasing its sheabutter from 10-12 women's groups since 2000, has solved the quality problem through training and testing, and has engaged an NGO as intermediary. For the Body Shop this is CSR, but also a regula supply of a quality product; and its demand will expand only slowly. The US cosmetics market's use of sheabutter is expanding rapidly, monitored by the West Africa Trade Hub. Mapronet has been established in Tamale by a group of NGOs precisely to act as a market intermediary: it has said that it could explore the US market to discover further end users who could establish similar buying operations.

*Intensive versus extensive farming*

A major debate is whether northern Ghana is suited to the higher value, more intensive horticulture sub-sector, or should remain focused on land using commodities, given that land remains the most abundant factor of production. The ITFC organic mango enterprise would suggest that intensive production is possible, given the widespread availability of river water for irrigation and sun for plant growth, and land which can be negotiated on a 99 year lease. The horticulture sub-sector is, however, very competitive, and northern Ghana has as yet little or no comparative advantage.

*Box 3 Lessons from the Kenya and Cote d'Ivoire horticulture industries*

'Factors in the growth and success of horticultural exports include a realistic exchange rate, stable policies, a good investment climate, competitive international transport connections, institutional and social links with markets in Europe, and continual experimentation with the market institutions to link farmers and exporters. Smallholder participation is encouraged by farmer training and extension schemes, investment in small scale irrigation, and assistance in establishing links with exporters.' Kenya has been more clearly successful that Cote d'Ivoire – more is produced by smallholders, and the market is unprotected. Cote d'Ivoire's exports are almost entirely produced by large industrial estates, growth has been uneven, and reliant on European trade preferences.

The Kenya model is being copied by other countries in Africa. However, market institutions and links take a long time to develop and demand constraints will prevent the same level of success being achieved. Ghana does not yet have the competitive air transport links, and is only beginning the process of experimentation with market institutions. Given the competitive nature of the international market, and the shifting trend towards large scale production in response to rising standards in European and other retailing industries, it may be sensible for Ghana to specialise, niche and brand its products very carefully.

Source: N.Minot ands M.Ngigi (2004) *Are Horticultural Exports a Replicable Success Story? Evidence from Kenya and Cote d'Ivoire* Washington: International Food Policy Research Institute, Discussion Paper

Box 3 illustrates that northern Ghana would be deluding itself if it could easily become a major vegetable and fruit exporter. However, there are niches which could be filled. In particular, there is so little agro-chemical use in northern Ghana, and so many NGOs which have been advocating low external input or organic methods, that it could have a significant advantage in producing organic fruit and vegetables. However, this is a sophisticated and now sizeable market which needs committed and knowledgeable intermediaries to invest in it. Occupying a niche market would mean Ghana did not have to compete with Kenya and Cote d'Ivoire. ITFC could be tasked with identifying other companies which could develop organic markets.

There is a school of thought which argues that tree crops (mango, cashew, other fruit) are particularly valuable as, after the period of establishment, they require relatively little labour and relatively low levels of inputs for relatively good returns over long periods of time. They provide cash for consumption and for other farming operations. Hence the large interest in both mangoes an cashews. However, the international market may not be very favourable for either in general. Mangoes generally are becoming a widely traded commodity with a declining world price. It remains to be seen if the 'organic' label can maintain a sufficient price premium to continue to attract producers.

*Box 4. Developing a Cashew Industry: Advice from an International Trader*

The options available to a new cashew export industry are limited essentially to the following points:

(i) Close the borders to the export of seed. The idea is that a country needs to choose between raw and processed cashew exports, and not try to do both, which Ghana is currently doing.

(ii) Prohibit new plantings, but allow replacement plantings and upgrading of the stock. This is because large new plantings in Brazil, India and Vietnam will come on stream before long.

(iii) Build medium sized semi-mechanised plants (minimum 15,000 tons, maximum 25,000 tons) that are implemented from the ground up on HACCP standards. Try to eliminate labour from the sensitive grading part of the process.

(iv) Develop a product which is not only clean and attractive, but of such marvellous quality that your customers beat a path to your door to buy it.

(v) Assuming that you have made the effort both on your plant and with your quality, the question of performance will be secondary – your customers should have no reason to question your commitment to the contract.

(vi) It has been shown time and time again in our industry that factories with reputations for high quality and integrity always survive, while those who would rather go with the flow eventually disappear.

(vii) Finally, be prepared for the fact that prices from here on out will be much lower than previously (due to increased plantings in India, Vietnam and Brazil) and factor this in to your costing now.

Source: J.Holt (2002) *A pragmatic approach to developing a cashew export business* International Trade Centre, Regional Meeting on development of cashew nut exports from Africa, Cotonou

Cashew already represents a very tight international market. It is an example of an industry which Ghana has attempted to develop through a supply side response, getting farmers to plant. The enabling environment in Ghana has been assessed as good compared to other West African countries (Williams, 2005). However, the world market is structurally over-supplied, a small (in cashew terms) country will be a 'high risk' for international purchasers. Yields are low in Ghana and production is poorly organised and supported. Within Ghana most production is in Brong Ahafo, but quality – a key consideration in the cashew industry – is better in the north. Currently Ghana imports cashews from Burkina Faso. An Accra based company, TITEC, produces good quality shelled nuts (kernels). What is not clear is whether its supply area can be *regularly* extended to the north. However, Box XX would urge caution about putting too many eggs in the cashew basket. A review of the government's Cashew Development Programme, especially its marketing component is urgently needed.

A major focus needs to remain on the land using field crops and livestock, which are likely to be mostly for the national and sub-regional markets. Yams, cassava, rice and oilseeds are all in significant demand.

Oilseeds are promising both for the internal market, and if enough can be produced, for export. Soybean in particular seems capable of expansion as a commercial crop supplied to oil mills, where it is difficult for mills to get enough groundnuts as these are in heavy local demand. Both crops are both food and cash crops, and therefore very attractive to farmers. Both contribute nitrogen to farming systems. A first step in expanding production for the market would be the organisation of a producers' association (which could be oilseeds or crop-specific).

Rice is the most problematic crop, since it has to compete with imports which have been allowed to colonise the domestic market since the 1980s. A significant and sustained marketing exercise will be needed to advertise and develop the taste for Ghanaian, parboiled rice. How this should be done could be the subject of a multi-stakeholder consultation involving farmers, Ghanaian rice traders, producers' organisations, projects, NGOs, Nasia Rice Mills and MoFA. Once the market is in the process of development, the milling capacity exists (mothballed, in Tamale) and can be re-activated.

*Livestock*

Livestock are the other land using potential. The greatest immediate potential appears to be in the production, marketing and processing of guineafowl. The greatest potential lies in developing the guineafowl value chain. There is substantial demand for this high value product which is produced in most northern households on a backyard basis. Northern households sell birds when they need to buy food – so it contributes hugely to food security. Very high chick mortality can be greatly reduced through simple measures of housing, clean water and better nutrition, all of which are possible on a wide scale if there is an organised market to sell into. Chick mortality can be further reduced if there is an accompanying vaccination programme. Again, the combination of agri-businesses focused on marketing the fowl, extension work and vaccinating the chicks and a producer association would help to realise the potential. This is a possible PSI topic.

*Technology*

While this report is advocating a market led approach, there are supply constraints some of which can be addressed through research and extension. There is a strong case for expanding investment in irrigation, and this would be a key part of an infrastructure development strategy. Ways to design and construct small dams so they are useful need to be found urgently; and the process should be led by competent designers, engineers, and irrigation planners. The medium scale dams, which have been reasonably productive, are being rehabilitated; once this is accomplished further medium scale dams could be constructed. However, the biggest potential is likely to be pumping irrigation water from the river systems of the north. This can be accomplished by private investment either on a substantial scale, as an input into outgrower schemes or nucleus plantations, or on a small scale for local level production. The Water Resources Commission has developed regulations on abstraction.[6] However, these have hardly been applied in northern Ghana to date. A new river basin office has recently been set up to initiate this process.

Given the abundance of land, mechanisation would seem an obvious way forward, although, in a labour scarce peasant economy the knock-on labour market effects of large scale mechanisation could be difficult to absorb. Northern Ghana has a long experience of both tractor mechanisation and animal traction. Both have roles to play, though there appear to be significant limits on the extent of animal traction which is feasible and projects have had mixed results. Tractor hire services, on the other hand, are popular, and the economics workable. They could be promoted both by agri-businesses working with outgrowers and by private tractor owners. The GPRS has already made the import of tractors a priority.

Much investment has been made in the improvement and adaptation of crop varieties, though not in horticulture. Systematic assessments of adoption by farmers are not available, though there is evidence that technologies requiring no purchased inputs (eg row planting to improve plant densities) tend to be adopted widely.[7] It tends to be wealthier households with access to non-farm income who adopt practices requiring purchased inputs.[8] Projects have significant difficulties making inputs available for farmers on credit, because the record of repayment is low. Other channels for funding agriculture – whether this is through agri-business or trade finance are urgently needed, as are the institutional arrangements which will encourage the repayment of loans. This is possible where farmers are effectively linked to a company over a period of time, and loyalty is cemented. It is very difficult with respect to field crops for which there is an open market.

The extension services have been very project-dependent, quality depending on whether a project is in place. Donors could work with government to develop an agricultural SWAp to put both public and private extension (and research) services on a more secure foundation.

As far as export led agricultural growth is concerned, northern Ghana comes late to this, and it is likely to be necessary to seek out niches in the world market it can occupy competitively. With the low levels of agro-chemicals in use (and, given financial constraints likely to remain in use) it would make sense to explore the scope for producing for organic markets. Where these involve intensive production for

[6] See Water Use Regulations, 2001, Legislative Instrument 1692.
[7] MoFA (1997)
[8] Jatoe, John Baptist D. (2000). The Determinants of Adoption and Impact of Improved Sorghum Varieties in the Upper West Region. MPhil Thesis, Department of Agricultural Economics & Agribusiness, University of Ghana.

sophisticated markets, the agri-business model may be the only one which will generate results.

Grain and other staple production for the domestic is neither susceptible to the agri-business model where a company provides key inputs on credit, against a clear oligopolistic position in processing or exporting, nor to the organic route, since there is little domestic (or export) market for organic staples. Intervening directly to increase production significantly remains problematic, with no obvious solution in sight, except subsidising fertiliser on a massive scale. However, the evidence suggests that yields have increased in some crops in some areas, and farm households with better returns from cash crops (or from non-farm activities) will be able to use these returns to invest in the food crops over time, once the returns are larger than those needed for consumption purposes.

*Principles for agricultural sub-sector development*
To conclude several underlying principles can be suggested, in order to sustain an equitable pattern of growth.

- All development work should be ‘market led’
- Be clear where monopoly, oligopoly and competition are useful
- Link social protection to market development (see section 5 below)
- Use land – most abundant factor of production, but use water as well

### 4.3.3 Give higher weight to tourism development

Northern Ghana contains what could be Ghana’s single biggest tourist attraction, the Mole Game Reserve, which has seen rising visitor numbers. However, to date this substantial park has remained largely undeveloped, and the Bui Reserve even more so. The Wildlife Division now has well presented ambitious plans to develop the park through private investment and is awaiting expressions of interest. Its plans also include creating strong links with communities around the Mole Reserve, which have been structurally disadvantaged by loss of access to the Reserve.

However, if tourism is to achieve its potential, tourists need to be attracted to the north for at least a week, rather than the current 2-3 days which most remain. This week could be for domestic tourists, or added to a week of slave heritage tourism on the coast, or to Francophone tourism in neighbouring countries. A network of developed sites around the north with at least minimal facilities is needed to keep tourists for this period of time. Many sites have been identified. However, it is largely left to District Assemblies to develop them, sometimes in conjunction with local eco- or cultural tourism groups. Regional Tourist Board offices have no or little budget or human resources to galvanise the process. There is a need to provide local groups and businesses with the means to attract visitors to the sites – ideas, access roads in some cases, signposting, toilet facilities. It is possible that some of the (approximately 40) hotels now established in the north, could enter into joint ventures with local groups and District Assemblies to develop the sites, with a view to increasing hotel occupancy rates through the promotion of tourism.

There are critical public investments which would facilitate tourism: the tarred road through the Mole Reserve which is now designed and seeking funding (Mole already has a functioning airstrip), roads within the reserve; the tarred road between Wa and Techiman for access to the Bui site; smaller roads to other key sites, requiring some local re-prioritisation of road investment; and the development of enough local sites to give tourists considerable choice on where to go.

The Hoteliers Association is already providing training for hotel staff. It could be encouraged (and funded) to support appropriate training for local tourist site managers and developers, and for eco- and cultural tourist enterprises.

### 4.3.4 Review mining development

Although the extent of mineral deposits in the north is not always clear, there are sites where the potential is clear, some investigations have taken place and some mining is in prospect. However, it has been slow to develop. The substantial Buipe limestone has been surveyed; a company has held a mining licence since 1996, but has not developed the joint venture required to develop it. The potential is good, and transport costs to the south would be low, on the Volta Lake. The key constraint would appear to be equity. If there are other constraints, the Minerals Commission could consider terminating the licence and re-opening the site.

There is renewed interest in the Sheini Iron Ore deposits near Yendi from Chinese and American companies. However, it is unlikely that any company would make a substantial investment there until the Yendi crisis is resolved. Ghana currently produces steel from scrap metal at two factories in Tema. There would be potential to produce steel near the Sheini site, using water from the Oti river. Sahelian countries import steel.

Areas with gold deposits (eg Dakrupe, in Bole; sites in Upper East) typically have poor infrastructure: roads and electricity provision would help to open them up, especially for small scale mining. Attraction of larger companies requires hotels for executives to stay in, airstrips and an electricity supply with adequate voltage.

Other possibilities include production of burnt bricks from clay deposits, and dimension stone for interior design work. The latter is already being exploited. Very little information was available in the north on any of these potential developments. District Assemblies, the Regional Economic Planners were not in the picture.

*Promote organised small scale mining*

Large numbers of people earn part of their livelihood from small scale '*galamsey'* mining, especially in UE, though far more have migrated from the north to western Ghana for mining. It is estimated that there are $20 million worth of gold exports per annum from small scale mining in the north (Iddrissu Yakubu, 2005). Mining brings in small migrant populations of skilled mineworkers from elsewhere in Ghana (Upper West and gouthern Ghana), some shadowy investors and some shorter distant migrants (men and women) doing the least skilled tasks. Investment, production processes and rewards are stratified, with local men and women mostly only entering at the bottom – the lowest reward jobs: they don't have dynamiting skills and do not invest – eg in pumps etc to become mine owners – who are mainly from the south.

Most 'miners' in the north add their *galamsey* incomes to their existing livelihood portfolio and do not see it as a sufficient, long term or reliable income. Any scheme needs to consider how the participation of these local miners can be improved.

Services – rent of machinery - can be provided to small scale miners which would enable them to increase the efficiency of their operations (eg increase the speed of extraction, extract a higher proportion of the gold from the deposits, pump water out of the high water table – dam and use for vegetables – to increase the quantity of gold which can be extracted), improve working conditions, and make it possible for local people to rise up the mining ladder. This can be done commercially, but starting it probably requires state or other long term risk capital. Existing trading networks do not need to be broken.

The World Bank's CASM programme[9] on small scale mining can support this type of development, and this would be useful in Ghana as a whole. There is a need to add a 'social component', so that incomes from mining are usefully invested, and any people losing employment are assisted to diversify their income sources.[10] Many northerners are migrants at mining sites in Western Ghana from Brong Ahafo to the Western Region. The development of a Small Scale Miners' Association was attempted by a World Bank supported project, but like many top-down efforts has not materialised into an effective body. This would also help move away from the government's 'containment' policy towards the more positive policy that the volume of exports from small scale mining ($100 million from Ghana as a whole) would suggest.

It is likely that a more organised approach to small scale mining will require a similar approach to identifying investors and intermediaries as has already been developed. Areas need to be prospected and plots demarcated before miners will operate. Money has apparently been provided for such regularisation twice, but 'nothing happened'.[11]

#### 4.3.5 Develop sub-regional trade.

Currently trade focuses on export of manufactured goods from southern Ghana, export of food crops from the Northern Region to Togo and Burkina Faso, seasonal import of fruit and vegetables and some basic foodstuffs from Sahelian countries. Sheanuts are also imported (to the Savelugu factory) and exported (to other factories – eg in Cotonou - or ports). Future trade is likely to include expansion of imports of mangoes from Burkina Faso (to ITFC), and sheanuts to the Savelugu factory.

Northern Ghana could become a trade hub for the Sahelian sub-region. With the disruption of north-south traffic through Cote d'Ivoire, this is already happening as heavy lorry traffic has relocated through Tema port. If critical road infrastructure (roads to borders from Ghana's main roads), inter-country telecoms, and border transactions were improved, Tamale's airport was upgraded to international status and more regional flights developed, peace is negotiated and road checkpoints reduced dramatically, Ghana's future trading with its Sahelian neighbours has not inconsiderable potential. The establishment of factories in Tamale supplying the sub-

[9] www.casmsite.org
[10] This was done successfully in a project in Burkina Faso – Alhaji Iddrissu Yakubu (int)
[11] Information from Gavin Hilson.

region has been considered by major multi-national companies, but rejected because of the potential for conflict.

There is a process organised by the Ministry of Trade and Industry (MoTI) to get Ghanaian business associations together with their counterparts in neighbouring countries to identify trade obstacles. These include the poor roads leading to the borders. The Highways Dept gives these roads no priority above other roads. This could be reviewed (see suggestions under Infrastructure). Checkpoints on both sides of the border represent a considerable informal tax burden on trade, as reported by traders. MoTI representatives make representations to the security agencies (police, customs and army) and this leads to temporary reduction, but then the number creeps back up again. A major joined up policy from government is needed to break this circle. Other obstacles emerge from time to time, such as the recent Togo transporters' move to get Ghanaian transporters to offload goods at the Tatale border post and load onto Togolese lorries. This indicates that the culture of free cross border trade has a long way to go.

### 4.3.6 Other non-farm activities

The village level non-farm economy is largely at a subsistence level, with commodities produced sold in local markets for small amounts of money. Charcoal and millet beer (*pito)* are produced on a large scale, as part of a diversified livelihood strategy, with women playing a large role. Charcoal and wood in particular would seem to be a major source of cash during the 'hungry season', being the major fuel used in towns. Urbanisation has greatly increased its market demand. Many trees are used but the shea tree is ranked highly for quality charcoal. Where there is a better market for sheanuts, farm households are beginning to guard sheanut trees on their farms, and it is ceasing to be a wild resource. The extension of the gas pipeline through the north may eventually reduce demand. In the meantime, there is a strong case for improving the method of charcoal making.

**Table 7: Main Source Of Cooking Fuel: Tamale 2000**

| **Fuel** | **Frequency (households)** |
|---|---|
| None, no cooking | 1,727 |
| Wood | 20,407 |
| Coconut husk | 121 |
| Gas | 1,936 |
| Electricity | 1232 |
| Kerosene | 571 |
| Charcoal | 19,115 |
| Other | 160 |
| **Total** | **45,269** |

Source: 2000 Population and Housing Census

Northern Ghana has a number of distinctive craft products, in particular handwoven smocks (and the material can be made into other garments and manufactured goods), and baskets. The latter were being exported until around 2000 when Vietnam began to undercut Ghana, using inferior raw materials, cheaper labour, but with a greater ability to supply to order and with consistent colour and quality. Ghana has now practically lost its export market. Recapturing the export market will require developing niche markets for high quality, consistent (standardised) products. This is the line which Aid To Artisans Ghana (ATAG) is adopting. It will also require trademarking under TRIPS. Standardisation will be a major challenge. In the short term a more promising line is to link craft sales to the expansion of tourism.

Basket weaving represents a survival strategy in heavily populated food insecure areas of the UE – the equivalent of charcoal elsewhere. Companies attempting to develop the industry and exports faced the typical supply problems of the smallholder economy – contracts were difficult to fulfil because producers were not always loyal to the suppliers of credit and raw materials when it came to selling their goods. Companies have also had to pay export taxes, VAT and health insurance during recent years, all of which have contributed to the demise of exporting. There is a case for exempting this industry, given the dependence on it of many very poor producers at the breadline.

### 4.4 Infrastructure

Infrastructure has improved tremendously during the last 10 years. Further improvement is vital for various aspects of the above strategy. In particular, the western and to a lesser extent the eastern parts of the three regions could usefully be opened up through investments in roads and bridges, electricity and telecommunications. As mentioned above, some priority for border roads would help with trade development, as would the reduction of checkpoints both in Ghana and its neighbours.

The existing approach to contracting roadworks (and other infrastructure, eg small dams) has failed, and needs to be revised. Furthermore, infrastructure is generally considered in Ghana as a distributive public good – a service which all should get equal rights to. From an economic growth point of view, this restricts the possibility of assembling scarce public financial and human resources to address the *economic* priorities. A degree of economic prioritisation could usefully be developed, and districts encouraged to support key enterprises with infrastructure.

*Western and eastern trunk routes, and roads for regional trade*
Northern Ghana is well connected to the south only through the Tamale-Techiman road. Completion of the tarring of the Techiman-Wa road, with its extension to the border at Hamile is a massive priority which will help bring the entire UW and the eastern part of the NR into the economic mainstream. This would probably benefit about 1 million people as well as greatly facilitate sub-regional trade and Ghana's position within that. The Highways Dept has existing IDA projects on parts of this road, and is seeking funds for other parts. It is also seeking funding to upgrade the link between this western route and the Techiman-Tamale highway. These roads should remain top priority. This will also benefit northwest Brong Ahafo.

Upgrading the eastern route from Bawku through the Northern Region and to Accra through the Volta Region is also a priority, given that the distance is so much shorter from the eastern part of the UE and NR than the route through Kumasi. This will also benefit northern Volta Region. In addition upgrading the roads to the borders at Tatale will assist the development of sub-regional trade.

Co-ordination among regions on road projects is almost absent, everything being decided in Accra. It would assist the regions if a task force of regional Highways officers (to include the three northern Regions and Brong Ahafo and Volta Region) were established to decide on priorities and linking projects.

*A new approach to contracts and contractors*
There is a history of government and donors supporting the capacity of local contractors since the early 1990s, and road and other contracts (eg for small dams) being divided into small lots. This approach may have succeeded for labour intensive feeder roads (as witnessed by the Northern Regions greatly expanded network), but has failed when it comes to the more technically demanding work of upgrading earth to tarmac roads and constructing dams. These contracts need to be given to contractors who can finish the jobs, have the capacity, can access needed equipment and can mobilise the financial resources. There are currently few such contractors in the north, but if this was the general strategy adopted by government as well as the World Bank, more would be established.

While World Bank road upgrading contracts are awarded of a sufficient scale to attract bigger contractors, government contracts are not. Small contracts of 5 km per road are given each year, in an attempt to distribute scarce resource politically. The possibility of significantly expanding the resources available for road construction should be investigated (a good use for general budget support?); otherwise districts should be encouraged to develop joint priorities for individual roads to be developed as an economic priority.

There is also a widespread reluctance by contractors to work on government funded projects, in particular due to substantial delays in receiving payments. They are much more willing to work on donor funded projects because they receive payment on time. However, there are also major problems with donor funded projects, reflecting lack of capacity of contractors and also underbidding for projects. On the latter point, the World Bank insistence that contracts should be awarded to the lowest bidder has frequently led to contracts being when the government knew that the job could not be completed at these rates.

*Strategic infrastructure (water, electricity, roads, telecoms) for enterprise development – guidance by Regional Economic Planners to DAs (to support tourism, agriculture, mining, trade)*
Up till recently few enterprises have been locating in the north, so infrastructure has not been prioritised on an economic basis. It is now time to develop mechanisms to do this. Once likely locations for key enterprises have been established, regional economic planners can work with district assemblies, MPs, and Regional Ministers to get priority allocated to infrastructure which services developing industries. Critical points already identified include: the upgrading and proper signposting of the road to the Mole Game Reserve, and internal roads within the Reserve; roads to open up riverain areas for irrigated horticulture, new areas for cotton production etc; feeder roads to less accessible mining areas (eg Sheini, Diggery).

The extension of electricity, water and telecoms services could be considered in the same light. All of this requires a strengthened regional economic planning process.

### 4.5 Summary: can northern Ghana become a 'centre'?

The overall verdict is that: parts of northern Ghana are 'becoming the centre' – an economic centre which sometimes stretches out beyond Ghana's borders. This is already true for yams, and was true for cotton. It can happen in other sectors and sub-sectors. This will be true for the organic mangoes and sheanut sub-sectors in the coming years; it could also be true in cotton again in the short term, given the right institutional framework, in other (probably organic) horticultural products in the medium term once further investors have been attracted and/or further irrigation developed, and in manufactured products with a transport advantage to the sub-region, once infrastructure to the borders is improved and there is peace. Overall the prospects are encouraging.

The driver of this process is not any thought through regional development strategy. It is rather the opportunities perceived and demands placed by the international and national private sectors. In fact it is the process of 'globalisation' which will bring northern Ghana out of poverty, the transmission of demand for its raw materials, and the concomitant opportunities this throws up for adding at least some value before products leave the north.

The major investments will be made by medium sized companies, which can organise the financial, technical and managerial inputs needed. The process will happen faster if venture capital can be encouraged to take northern Ghana seriously. Both government and donors can do this.

There is a strong role for government in providing the infrastructure (or ensuring and planning for its provision). This includes not only roads, telecoms, electricity and water, but also hotels especially out of Tamale, and airstrips. This needs planning, and regional and district planning needs to be geared up for the task. Critically, the private sector needs to be involved in generating the demand for infrastructure investments, to avoid the risk of white elephants.

Regional economic planning processes are too weak to develop a strategy and oversee its implementation. They need strengthening. The human resources for such strengthening are by and large present in the region – in Ministries of Food and Agriculture, Transport, Trade and Industry, National Commission on Small Scale Industry, Minerals Commission, and other governmental units. It is a matter of bringing this expertise together from time to time, and forming an inter-region economic development unit which would deal with issues affecting more than one region, and include the Volta Region and Brong Ahafo as well. The Regional Ministers could sponsor such an exercise.

We have seen that the north is a heterogeneous zone. The three regions could be divided into 'economic zones', with appropriate plans drawn for each. Districts are too small a geographical area to work on. The zones could be:

**Figure 2 Northern Ghana economic zones**

| | | |
|---|---|---|
| Tumu cotton | Burkina/Ghana Oncho-free zone | Upper East densely populated |
| Mole Reserve (UW/NR) | Gambaga scarp: Riverain and Walewale cotton | |
| Remote west (UW/NR) | Tamale urban agglomeration | Yam zone |
| Northern Region Brong Ahafo transition zone | Kintampo Special Development Area | Northern and Volta Region transition zone |

Note: this will be converted into a map for the final report

Economic governance remains severely centralised in Accra. There is a need to deconcentrate (not devolve) it. The suggestion is for a business facilitation one-stop window in the north, bringing together GIPC, GEPC, Customs, Registrar General, Co-operatives. This would underpin and add greatly to the scope for useful regional economic planning, but would also provide businesses in the northern part of the country with an alternative to the periodic visits they have to make to Accra, provided the window was equipped with some decision-making powers. This possibility needs to be explored with the relevant bodies.

There is also a lighter role for government in *steering* aspects of this process. Its venture capital company can be encouraged to take northern Ghana seriously. It can also request other venture capital companies to do so. With the experience of the cotton sub-sector in mind, it can monitor the performance of companies entering into contracts with outgrowers to ensure that excess competition does not undermine the industry's ability to add value or exploit export markets.

## 5 'Hypothesis (b)'

### 5.1 Will everyone be able to benefit?

Not everyone will benefit from the growth strategy outlined in section 4. Initially investment will concentrate in the Tamale area, and extend along the Techiman-Tamale-Navrongo road, where there is already some business agglomeration and service concentration. Many deeper parts of the north will wait for infrastructure connections, and market development. Even within better developed areas, some households will not be able to participate from enhanced wage labour, production or trading opportunities.

There will be particular areas which will not benefit: large parts of the UE will remain food insecure, although increased incomes from mining, tourism, and small scale commercial agriculture will help.

Vulnerable households are those with very low asset levels and subject to uninsured idiosyncratic risks, such as accidents…and unprotected against co-variant risk (drought, conflict). There will remain a substantial group of chronically poor people in northern Ghana for the foreseeable future. Based on Whitehead's detailed work in the Bawku area, we could estimate that as much as 80 or 90% of the population was vulnerable or destitute over the period 1975-89. It is unlikely this picture has changed radically, although changes in principal occupation reported in the CWIQ suggest that a process of change is indeed under way.

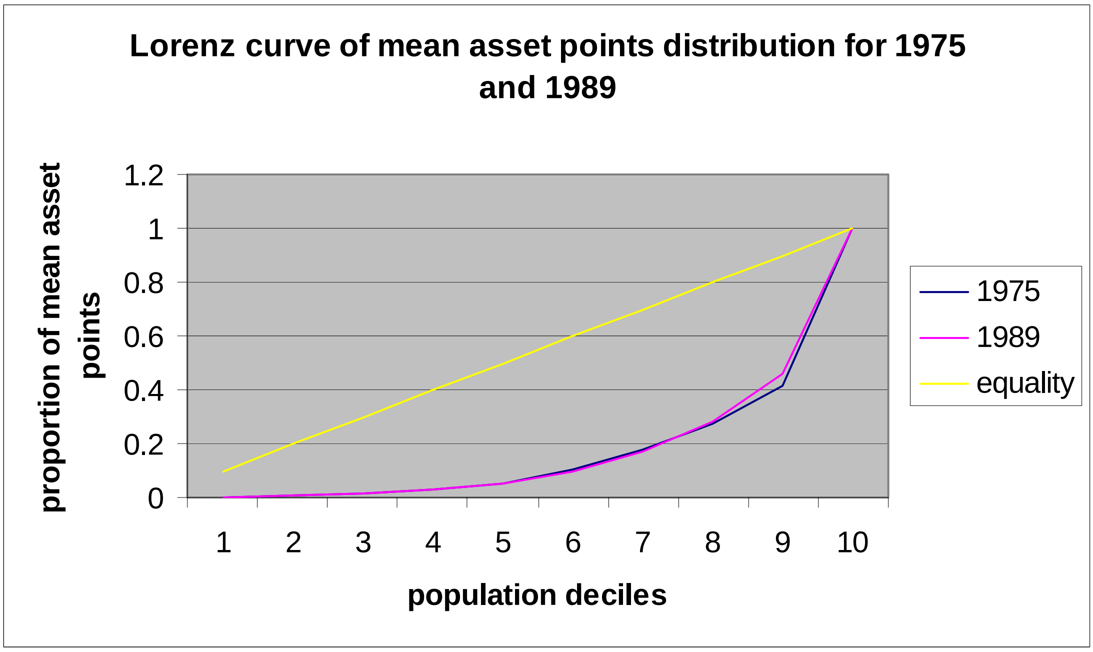



**Figure 3 60 to 70% of the population may have less than 20% of the mean level of asset s**

Note: this is based on work in the Bawku area, which is the poorest part of northern Ghana

Within this vulnerable population as much as 60 or 70% have so few resources (20% of average assets) that participation in growth is extremely unlikely. It is this population which needs another strategy.

### 5.2 A complementary approach: human capital, migration and social protection

#### 5.2.1 Migration is a very important livelihood strategy, but returns are low, and policy is weak

Migration in Ghana as a whole has been a substantial means of achieving poverty reduction. The significance of remittances for farm households can be seen from Figure 4. However, the north has benefited from this effect to a much lesser extent than other parts of the country, especially Accra and the forest zone. This is because the level of remittances has been relatively low as migrants have largely worked in the low wage rural labour market. Only the more educated migrants work in the higher waged urban labour markets, and in regular, salaried jobs. There is some evidence that returns to migration declined over the 1990s.[12] Nevertheless, even this low level can not only support consumption, but also leaves some room for small savings and investments.

Even migrant miners have found their opportunities of gaining a foothold in the local non-mining economy very restricted and were mainly confined to underground labour with limited possibilities of promotion, while surface jobs, administrative or skilled manual jobs were reserved for southerners. Because of these divisions northerners were also frequently excluded from subsidised food and accommodation and therefore unable to establish permanent urban residence and commitment to wage labour.[13] In a study on ethnicity and wage determination, Barr and Oduro (2000) found that Northerners earn considerably less than other groups in the formal sector, but they attributed this to their lower years of education.

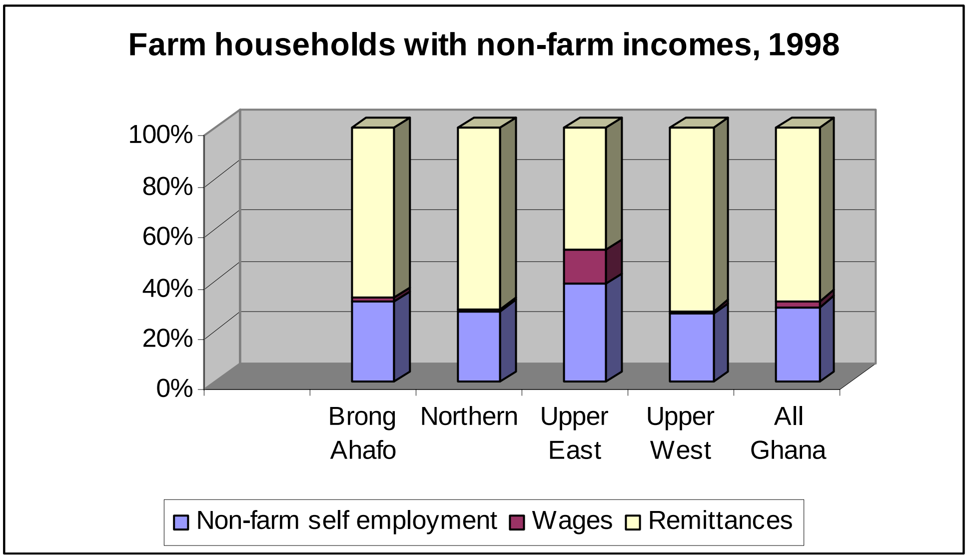



**Figure 4 The significance of remittances**
Source: GLSS, 1998

There is little good recent quantitative and representative information on migration and livelihoods:[14] this is important, as the steady growth which Ghana has

[12] Litchfield, 2003; Black et al, 2003
[13] Lentz,1989
[14] See A.McKay, S.Plagerson and A.Shepherd (2005) *People, Place and Sub-National Growth: Ghana country case study* DFID, draft report, for a recent review.

experienced since 1990 is likely to have led to substantial changes in labour markets which are poorly understood. One aspect of this is the large influx of migrants – young unskilled men and women, many from the north, seeking to compete in the urban labour markets, where a previous generation would have mostly migrated to do farm work. This reflects the much higher growth rate of the cities and Accra in particular. Some are known as '*kayaye'*, which generally refers to young women acting as porters. (There is still a substantial flow of migrants to southern farms and mines as well.)

***Box 5 Youth migration to cities***

Youth migration is both a response to growing labour market opportunities away from home and reflects changes in gender and generational relations and is a form of 'education' – into more sophisticated ways. (The negativity associated with the perceived backwardness of the rural north is very real – and indeed all kinds of knowledge and skills and aspirations are imparted by the fact of migration itself.)

Some young women who migrate are essentially being sent across family links to support adult women who have gone south with husbands and don't have enough domestic labour. Young women appear to be migrating because the younger generation no longer wish be wives, or to have wives, that are mainly bearers of children and farmers and beer brewers. Diversification into non farm incomes has become a desired goal for young wives and this has probably lead to girls getting married a little later and a strong desire for women to demonstrate their capacity for some kind of non farm activity – ideally some kind of business or skill such as seam-stressing and hairdressing. This is crystallised in the requirement that girls should bring some kind of trousseau to marriage – (they used to go with nothing to their husbands). Young women frequently give getting this trousseau together as a reason for migrating. This gives them a legitimate reason to leave home and validates a period of independence that they did not used to have. They particularly want apprenticeships in the south, but these skills are then oversupplied when they return home.

There is considerable scope for a policy on migration. Ghana is concerned to maximise the benefits and reduce the costs of international migration – in particular to reduce the brain drain pf health and education professionals to the EU; and there is large concern about the poor northerners who have flooded southern cities, including youths and young women. There is need for a public debate, which should emphasise the constructive role migrants have played in building Ghana's economy, the rights of migrants and the danger of criminal practices developing around migration – especially trafficking, and around young migrants. Migrants themselves can also be criminalised. Research to dispel widespread myths which contribute to stigmatisation would also be useful. This debate could lead to a constructive policy on internal migration. Improved information on opportunities, improved facilities for remittances, and special efforts to protect the rights of migrants would all contribute to better livelihoods for migrants and their households. Much might be achieved by strengthening migrants' associations.

### 5.2.3 Education key to increasing the returns

There are signs that a greater effort on education in the sending areas will have an impact on increasing the returns to migration. Education enables migrants to explore different, higher waged and urban labour markets; northern migrants are typically unskilled and therefore in the lowest wage markets. There is evidence that few children who are in education drop out in order to migrate. Keeping children in education for longer is thus a key.

Some of the growing independent child migration from the north is motivated by children seeking education, particularly vocational, or funds to support themselves through school. Many informants were concerned about the costs of this sort of migration for the children, and their households. Easier access to good educational opportunities, especially vocational, at home would help to reduce this particular reason for child migration, and would improve the quality of labour from the north. Girls are especially likely to migrate, in search of vocational education and work, as the pressure on young women to have their own independent means has gown, and the skills they typically pick up – in sewing – have little market at home.[15]

So the priorities here would be (i) to continue with existing improvements in the supply of education, but to add to these a greatly strengthened investment in vocational education; and (ii) to broaden and deepen demand for education through public support for a food for education programme targeted at poor communities (using the new poverty map).

### 5.2.4 Social protection

In order to permit many people in northern Ghana to participate in growth it is necessary to protect the vulnerable majority against the major hazards they face, and for which they have no alternative than to deplete their assets. This can be achieved through a combination of:

- Insurance against health shocks – the national health insurance scheme needs to be assessed in terms of the extent to which the shocks of illness, and especially chronic illness and disability which drive vulnerable households into destitution[16], and can render even secure households vulnerable over time.
- Effective disaster prevention, in particular the prevention of famine in famine prone areas (principally UE).
- Measures to further reduce child mortality: food or cash incentives for mothers with pre-school children to attend regular clinics, and associated preventive health measures. This is important as achieving household demographic growth is still the most effective way to enhanced livelihood security in rural northern Ghana.
- Making basic education genuinely free of all levies and charges. The government has already announced it plans to do this. A GSS study found

[15] Unpublished work by Iman Hashim, University of Sussex, Development Research Centre on Migration.
[16] Whitehead, 2005

the highest proportion (64%) of children not attending school in the UE did not do so because their parents could not afford it.[17]

- Mainstreaming food for education: attendance at school is under pressure, especially but not only for girls and poor children in general, enrolment and retention is significantly helped by provision of food in schools.
- Livestock represent the basic insurance against shocks of all sorts – rainfall, health, death, market induced. Livestock insurance would provide excellent protection; however there is a high degree of moral hazard, so this is probably not realistic, unless linked to a well organised market intermediary. Simple measures to enhance poultry (especially guineafowl) production, and free or subsidised veterinary services especially for small stock would represent an alternative – however, this latter implies a reversal of current policy.

Public investments in irrigation which enables dry season production and employment could be seen as social protection, especially in the UE, but also elsewhere. The markets for horticultural products are either there, or could be created over a period of time as discussed above.

If further substantial public social protection is unlikely for political and/or financial reasons in the short term, an alternative, private sector based solution to this problem needs to be pursued for the moment, which could usefully receive public sector support. This could take the form of encouraging or requiring the commercial companies which have invested and will invest in out-grower schemes, and the NGOs involved in organising farmer groups to offer farm households insurance schemes against key identified local risks as part of the package of inputs supplied to farmers. Just as the state is investing in national health insurance building on local mutual health insurance schemes, such private sector based schemes could also be supported (subsidised) by the state.

Companies investing in northern agriculture could also usefully acknowledge the inter-dependence of cash and food crop production, and be willing wherever possible to extend the services they provide to small farmers beyond the specific crop to be marketed. However, farm households have long accepted, even in the most food insecure areas, that food security is achieved as much by having things to sell during deficit periods as by their own food production.

[17] Ghana Statistical Services, 2003 *Ghana Child Labour Survey* (http://www.ilo.org/public/english/standards/ipec/simpoc/ghana/report/ gh_rep.pdf)

# 6 Policy implications

Growth in Ghana historically has been led by the private sector – in cocoa, mining, tourism, and trade, and the private sector will continue to lead economic growth in northern Ghana. Harnessing the potential of the private sector, including finance, is the key to unlock the undoubted economic growth potential in the north. The public sector has to provide not only the enabling environment, which critically includes greater food security for farm-households and will involve some deconcentration of economic governance; but also a small number of inputs which would otherwise be significantly under-supplied by the market: these include risk capital (though the newly established venture capital company, and the encouragement of private venture capital to take northern Ghana seriously; a stepped up level of infrastructure, with particular emphasis on key roads and irrigation, and an international airport at Tamale; adaptive agricultural research especially (but not only) in horticulture, with a preference for organic methods; a recognition and strengthened support for internal migration, as a cross cutting policy issue, starting with education; and a social protection strategy built around the National Health Insurance scheme.

The donors have an important role to play in supporting the public sector in infrastructure, agriculture and tourism; getting migration accepted as a positive cross cutting policy issue; and also need to play a role in transforming the general approach of policy to the north from one centred on handouts to an economic growth perspective. Within an economic growth perspective, one or more long term cash transfer schemes may be the only way to reduce the vulnerability of the poorest on a wide scale, and make food markets work better. This strategy is summarised in the table below.

There are a few important areas where further information is needed to implement such a strategy. These include: an analysis of the reasons for absence of investment in mining; a feasibility study on organic horticulture; a need to update the 1991 migration survey; a study of the feasible options for venture capital.

**Table 8 Key strategies for shared growth in northern Ghana**

| *Key actors* | *Strategy* | *Locations affected within the north* |
|---|---|---|
| Government; donors | Establish venture capital interest in northern Ghana to provide risk capital to medium sized enterprises | All, but initially likely to be concentrated where infrastructure and facilities better |
| AGI, existing private investors | Identify investors for new medium scale enterprises in new sub-sectors | All, but initially likely to be concentrated where infrastructure and facilities better |
| NGOs, West Africa Trade Hub, existing investors | Identify further shea butter endusers to develop purchasing schemes (Body Shop model) | Widespread |
| Government to create opportunity; private sector | Private sector to articulate demands for priority infrastructure | Widespread |
| Private investors, NGOs | Develop insurance schemes attached to outgrower enterprises, small miners' servicing schemes etc | Locations where enterprises establish |
| Government: NDPC; MoFA | Continue to improve enabling environment: social protection strategy; regional (zonal) planning; monitoring competition where excess competition risks undermining industry | Whole north |
| Government: MoPSD, MoFA | Develop a key investment plan: (i) implement cotton, cashew and sorghum PSIs; (ii) MoPSD to develop further PSIs eg in guineafowl. (iii) Support private sector insurance schemes for outgrowers. | Widespread benefits |
| Government | National measures to improve food markets to give people confidence they will be able to buy food - includes roads, reduced checkpoints, cash transfers to the vulnerable (part of the growth strategy), small and medium scale dams for dry season cultivation, extended telecoms. | Benefits especially food insecure areas and households. |
| Government (MoHFR; IDA; WRC; donors) | Develop an Infrastructure SWAp for government-donor funding:<br>(i) Focus road investments where they will have greatest economic impact, with priority to UW and border roads. The Hamile-Tema road will capture re-exports; the Bawku-Accra via the Volta Region will shorten transport time considerably to the country's most vulnerable markets in UE; and the Wa-Tamale road will link the western side with the centre of the north including the airport; and roads to all the borders to maximise trans-border trade.<br>(ii) Getting a better approach to contracts is a key pre-condition. They need to be large enough to attract contractors with capacity to finish the job. Stop building local contractor capacity (this has failed over a long period).<br>(iii) Irrigation: emphasis on pump schemes; further new medium and small dams, once design problems of smaller dams are resolved.<br>(iv) Strengthen Tamale urban agglomeration. Develop further agglomerations in Wa and Bolgatanga. | UW and western part of NR; UE and eastern part of NR.<br><br>Widespread benefits from irrigation development. |

| | | |
|---|---|---|
| Government: NDPC, MoTI | Prioritise tourism and trade with neighbouring countries as potential sources of economic growth in addition to agriculture. Investigate reasons for lack of significant mining development. Prepare a Pro-poor Tourism SWAp with significant northern component. | Mole area. Widespread. Border areas. |
| Government | Co-operation with Burkina Faso - on trade, on shea research, on horticultural research, cotton. | Trade benefits to UW. Others widespread. |
| Government security agencies (Police, army) | Reduce road checkpoints drastically, and keep them reduced. | Widespread |
| Government | Public debate to inform a national migration policy. | Widespread |
| Donors, government | (i) Move discourse on northern development from distribution to growth and development.<br>(ii) Accept that agriculture is the main source of growth. Government to prepare a regional agriculture SWAp to promote market-led development, and put research and extension on a programme footing. Consider regional infrastructure and pro-poor tourism SWAps.<br>(iii) Advocate venture capital interest in northern Ghana (eg CDC).<br>(iv) Donor northern co-ordination group to review private sector promotion programmes so that they have more of a focus on the north (USAID – TIPSI, WATH; Danida etc)<br>(iv) Ensure budget support results in inclusion of 'northern' economic development priorities (eg technical education, infrastructure, social protection).<br>(v) Develop approach to regional public expenditure monitoring to enable (iv).<br>(vi) Stop supporting contractor capacity development.<br>(vii) Consider substantial cash transfer scheme to enable excluded households to participate in economic growth.<br>(viii) A World Bank CASM project for small scale miners in northern Ghana.<br>(ix) support joint action by DAs and regional authorities to develop economic zones. Accept that DAs are not the right level to plan for economic growth. | Widespread |

## Annex 1 Terms of Reference (Draft December 2004)

### Background

1. The Ghana Poverty Reduction Strategy Paper (GPRS), endorsed by the International Financial Institutions (IFIs) early this year, sets out the Government of Ghana's (GoG) vision for achieving rapid poverty reduction through wealth creation and accelerated economic growth, and identified northern Ghana as the poorest area. In operationalising the Strategy GoG requested support in helping to understand the drivers for growth in Ghana that will lead to poverty reduction. In response to this request GoG, supported by DFID, organised a workshop aimed at stimulating discussion between government and the private sector to identify potential sources of future economic growth. International and local experts on economic growth discussed the issues with a range of representatives from parliament, government, private sector, NGOs and donor partners.

2. Concrete actions required to improve the enabling environment for private sector development were identified and have since been taken up under the more comprehensive Private Sector Development (PSD) strategy, under the leadership of the Ministry for PSD. The wider strategy includes the design of the institutional arrangements that will be required to implement the measures.

3. The process so far has helped to identify the broad impediments to growth and potential sources of future accelerated growth, however less attention has been paid to the patterns of growth that will deliver the fastest poverty reduction. Given the very high rates of poverty in the northern regions, and accepting the potential for migration, <u>an analysis of the potential sources of growth for these areas will contribute to a better understanding of relationship between potential growth and poverty reduction.</u>

4. The recent Northern Political Leadership Summit that highlighted the particular development challenges of the north provided further justification for this study.

### Complementary Processes and Analysis

5. The study should build on and complement on-going analysis, policy development other relevant areas:

a) The Poverty and Social Impact Analysis on the Economic Transformation of Agriculture under the GPRS;
b) The Private Sector Development Strategy;
c) Organisation for Economic Cooperation Development (OECD) work on regional integration;
d) The GPRS Strategic Environmental Assessment;
e) The Food and Agriculture Sector Development Policy
f) The DFID study Economic Growth and Environment/Natural Resource Linkages study;

g) The DFID Drivers of Change work, including the focus on northern traditional leadership, that provides important insights in to potential impediments and stimulus for change
h) The Making markets work for the poor literature and tools of analysis.
i) The proposed support to compile and analyse the financial and social data for the northern regions.

**Suggested Frame of Reference**

6. In terms of international comparative advantage Ghana is often considered to be a relatively natural resource and land abundant country; endowments that suggest a comparative advantage in natural resource and land- intensive goods. Therefore theory predicts that increased engagement with international trade and lowering barriers would result in export growth for natural resource intensive products. However, analysis undertaken for the Growth workshop indicated that in fact Ghana's resource endowments, relative to the rest of the world, was somewhere in between labour-abundant and land-abundant. Ghana's endowment composition is comparable with that of countries like Malaysia, giving greater hope of emulating Malaysia's achievements in gaining a dynamic shift in comparative advantage. This is where population movements and increasing investment in education, health and infrastructure, facilitates a move towards high value addition labour-intensive and eventually skill intensive production and exports.

7. However, considering the three northern regions as a trading unit is likely to define the area as being low-quality land abundant, with a comparative advantage in products that require a high proportion of low quality land that requires little water. The study should consider the northern regions as a trading unit with its own comparative advantage, trading with the rest of Ghana and the sub-region and the rest of the World. Barriers to trade with the rest of Ghana include distance and weak infrastructure, barriers to trading with neighbouring countries include both tariff and non-tariff barriers, including non-compliance with ECOWAS protocols.

8. The northern regions trading account with the rest of Ghana is likely to comprise exports such as: minerals, food crops, timber and non-timber forest products (bush meat, medicinal plants etc) fuel wood and charcoal, labour and tourism; and imports: consumer goods, food, and energy. Aid, fiscal transfers, and remittances finance the deficit. It will be important to consider barriers to trade both internal and external to the Northern region, and with particular reference to constraints including transportation, storage, access to markets and availability of businesses services.

**Scope of Work**

9. To undertake a study that should challenge the received wisdom that countries such as Burkina Faso and Mali are way in advance of the northern regions in their use of similar resource endowments. If this is the case, establish the key factors that have given rise to these advances and provide policy recommendations for Ghana.

10. Include a limited historical profile that captures the ancient trading characteristics, and impact of colonial governance, as well as the experience of the region since independence.

11. Examine what constraints to growth are exclusive to the North with particular reference to and relative to Burkino Faso and Mali. Do these include features of natural resource endowment (such as soil fertility and water availability); or institutional issues (such as land tenure), role of socio-economic networks, which reach over sub-national regional boundaries and first order economic principles (property rights, operations of markets and market competition and access, and sound macroeconomic and financial polices). The team should also consider the following:-

- lack of overall urbanisation in the North could be holding back growth potential of many regions – ie. creating demanding local market for agricultural products, providing service centre for business and government services, support to non-farm rural economy, opportunities for people to move off dry and low potential land
- lack of connectivity might be restraint on growth and private sector investment – this could include road infrastructure in particular border crossings, telecommunications infrastructure, government infrastructure and services in Northern region such as business registration, connectivity across space through household and other networked relationships that could support trade etc.
- lack of autonomy – little fiscal incentive for Northern Assemblies (District government) to invest in supporting growth and encouraging private sector development

12. Rural should not be equated with agriculture - view the North as a place where Agriculture takes place, and where potential for it exists.

13. Provide an understanding of the non-farm rural economy and its potential to contribute to growth and employment with particular reference to and relative to Burkino Faso and Mali.

14. Agricultural export potential (domestic, regional and global) to be viewed as one of many opportunities, but not necessarily the mainstay of the North economy.

15. Consider the role of public investment outside of Agriculture (infrastructure, communications, education) looking at the most spatially efficient aspects of this public investment i.e focus on where growth is happening – poles and corridors.

16. Consider the constraints to northern farmers ability to produce a surplus, investigate the factors that consistently lead to food deficits and food insecurity with particular reference to and relative to Burkino Faso and Mali.

17. Map the flows of people, multi-spatial households, and goods.

18. Consider the potential for the north to respond to longer-term demand shifts including increasing demand for meat products, and exploit preferential trade arrangements such as Africa Growth and Opportunities Act (AGOA).

19. Consider the contribution of donor partners to growth in the north, and how to support operationalising the Private sector development strategy in the Northern Ghana context.

**Inputs**

20. The work should be carried out in two phases:

a) Phase 1: Design a framework for analysing the north and establish links with GoG counterparts and raise awareness of this initiative among GoG, Research and Advocacy Organisations, Civil Society Organisations, private sector and donor partners. Framework design should build on the growth workshop literature review (including influential work on Africa growth potential by Kydd et al and Fafchamps et al.), the Ministry of PSD's strategy and other relevant GoG strategies and policies.
b) Phase 2: In-depth analysis <u>of the potential sources of growth for Northern Ghana</u>, including technical analysis of constraints (both natural resource and institutional) and sub-regional analysis. Provide recommendations referenced to the emerging PSD policy matrix and institutional arrangements that can help to influence future versions of the GPRS.

20. The contract will require both desk and field based work in Ghana. It is recommended that the consultant(s) undertake a brief visit to Burkina Faso, to contrast and compare growth and trade comparative advantages, and to capture lessons from Burkina Faso that are relevant to growth in northern Ghana.

**Outputs**

21. The consultants will be required to:

- Provide a brief summary of work undertaken in phase 1 (maximum 6 pages) and submit the analysis framework designed for phase 2 by the 29$^{th}$ February 2005.
- submit a draft report (in both electronic and hard copy), to DFID by 30$^{th}$ April. The report must include an executive summary and be restricted to 40 pages in length excluding annexes.
- make a presentation to DFID Ghana of their findings and recommendations set out in their draft report by 30$^{th}$ April 2005.
- submit the final version of their report within 2 weeks of receiving DFID's comments on the draft.

**Consultant skills**

22. DFID require a small team of both international and local consultant experts that can provide a mix of skills and experience in the following areas: macro and micro economics, trade, private sector development, institutions, social development and gender; and a strong cross-cutting emphasis on infrastructure and agriculture

(including the application of new technology such as Genetic Modification and irrigation).

**Timing**

23. The consultancy will begin in mid March 2005 and consist of approximately 60 person days input to be delivered over four month period from mid March to July 2005.

**Reporting**

24. The consultant will report to Catherine Martin, DFID Private Sector Adviser (Lead Adviser) and Ben Davies, DFID Rural Livelihoods Adviser for technical / mission issues; and to Galina Okartei-Akko, Deputy Programme Manager for contract / logistical issues.

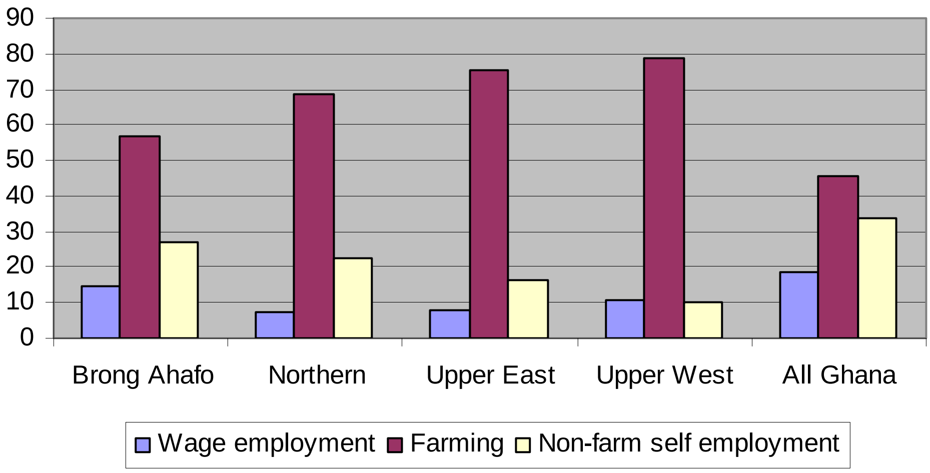
**Selected Reference Documents :**

OPPG studies for Ghana and Burkina Faso
Nnenne Iwujieme (FCO) summary of the key issues around UEMOA and ECOWAS
OECD, Ernest Aryeetey, paper on ECOWAS and its challenges.
EC papers on the advantages of regional integration
IIED paper on agriculture in West Africa, and how to respond to the opportunities that trade presents.
PSIA on study on the Economic Transformation of Agriculture under the GPRS;
Private Sector Development Strategy;
The GPRS Strategic Environmental Assessment
Northern Leadership Study commissioned by DFID
The DFID study Economic Growth and Environment/Natural Resource Linkages study
The DFID Drivers of Change work
Making Markets Work for the Poor; A framework paper; DFID November 2000
Papers prepared around the Ghana Growth Workshop

## Annex 2 Changes in sources of income in northern Ghana

In terms of its economic base, the north has remained more dependent on low income food crop farming than the rest of Ghana, with more than 70% of households engaged in agriculture as their main activity in the 1990s (Figure 1, and Table A1.1)). The 2000 Census gave the proportions engaged in agriculture and fishing as 75%, 69% and 76% respectively in the Northern Region, the Upper East and the Upper West.[18] The predominance of low return, chiefly rainfed, food crop farming is the main explanation for low growth and persistent low incomes, with farming limited for many to the relatively short rainy season. Relatively few households have non-farm activities as their major economic activity, much less than for Ghana as a whole. The share of household incomes in the north deriving from wages and non-farm activities is significantly lower than Ghana's average, with less than 20% of households having any income from non-farm self employment and less than 5% having any wage income (Annex Table A2.2).

**Figure 1: Frequency distribution of households according to their primary income source, by region, 1998-99**




There is very little diversification in the livelihood strategies of households in the north, especially whose primary activity is agriculture (Tables A2.3 and 2.4). However, nearly half of households though receive some income from remittances (the most commonly received source outside of agriculture), and this proportion, as well as the share of income derived from remittances, increased over the 1990s. UE is particularly low on non-farm businesses and remittances. This is perhaps one of its sources of food insecurity.

Within the north there are significant differences – the NR economy is significantly more diversified away from food crop farming into non-farm businesses, and the proportion of households getting remittances is close to the Ghana average. But the incomes received from remittances are low, and are rarely sufficient to enable accumulation.

[18] Government of Ghana, Ghana Statistical Service (2002) *Population and Housing Census*

The three regions all have well below average incomes from public and private sector formal and informal employment: this provides the a strong quantitative basis for a case to deconcentrate public and private jobs to the benefit of under-developed regions. However, it is doubtful that priority would be given to deconcentrate MDA functions to the regions, as has been done in so many countries, since the major pre-occupation is with increasing government efficiency. Its effectiveness in certain fields such as business support (see below) might be enhanced – this *is* worth examining.

However, a comparison with Brong Ahafo indicates that in many respects the latter is an equally agrarian region. This has not stopped it growing economically and reducing poverty faster than the north. The key difference is that a far higher proportion of households in BA sell the crops they produce. The agrarian economy in the north is still far more subsistence oriented. The market is present, most households sell some crops, and many sell other commodities (charcoal, small ruminants, guineafowl); however producers clearly do not have confidence in it to assure their basic needs, especially food, and so still devote substantial attention to own food crop production. In order to achieve substantial economic growth this will need to change. Large numbers of small farmers though will only be able to participate in this growth if they have adequate food security – with having options for dry season cultivation being a key dimension of this.

The CWIQ surveys conducted in 1997 and 2003 enable this picture to be partially updated, in terms of employment of the household heads (Table A2.3). This does show some important changes over this period. In all northern regions there has been a sharp drop in the proportion of household heads reliant on agriculture as their main economic activity. This change is most dramatic in the Upper East, where there has been a corresponding increase in the number of household heads working in construction, manufacturing and wholesale and retail trade. Of course this partly reflects the issue of dry season cultivation, which requires farming households to seek other occupations for much of the year. The same changes are present in the Upper West and Northern regions though to a less dramatic extent. The proportion of household heads working as employees (casual or regular, often the former) has increased in all locations; more households rely on this form of work in the poorer Upper East and Upper West regions compared to the Northern region. These data do suggest significant structural changes in the northern economy between these two years, but this comparison cannot be used to draw conclusions about trends with any confidence.

**Table A2.1: Average share of household income from main sources, 1991/92 and 1998/99**

| | *Average percentage of income from:* | | | | | |
|---|---|---|---|---|---|---|
| | **Agriculture** | | **Non-farm self employment** | | **Remittances** | |
| | *1991/92* | *1998/99* | *1991/92* | *1998/99* | *1991/92* | *1998/99* |
| Brong Ahafo | 53.4 | 41.4 | 26.0 | 25.1 | 6.8 | 20.2 |
| Northern | 48.2 | 47.8 | 21.4 | 19.6 | 2.6 | 16.2 |
| Upper East | 60.1 | 60.8 | 24.3 | 8.3 | 2.4 | 3.1 |
| Upper West | 69.4 | 52.0 | 13.0 | 13.6 | 1.9 | 10.8 |
| All Ghana | 40.2 | 35.9 | 29.1 | 28.4 | 8.6 | 13.2 |

*Source: computations from GLSS3 and GLSS4 surveys.*

*Note: small sample sizes for Upper East and Upper Wets, combined with measurement errors in income data, mean that these estimates are subject to a significant margin of error.*

**Table A2.2: Percentage of Farming households with any income from non-agricultural sources**

| Administrative region | Non-farm self employment | Wages | Remittances |
|---|---|---|---|
| Brong Ahafo | 29.2% | 1.5% | 61.9% |
| Northern | 18.6% | 0.6% | 47.7% |
| Upper East | 13.5% | 4.8% | 16.8% |
| Upper West | 20.1% | 0.9% | 54.3% |
| All Ghana | 21.2% | 1.5% | 48.7% |

*Source: computations from GLSS3 and GLSS4 surveys.*

**Table A2.3: Employment characteristics of household head, 1997 and 2003**

| | Year | Northern | Upper East | Upper West | Ghana |
|---|---|---|---|---|---|
| *Sector of employment of household head (percent, main sectors)* | | | | | |
| Agric | 1997 | 75.9 | 78.7 | 80.4 | 57.2 |
| | 2003 | 61.5 | 35.4 | 57.1 | 44.5 |
| Construction | 1997 | 2.5 | 1.3 | 0.3 | 3.0 |
| | 2003 | 1.6 | 12.0 | 5.2 | 3.9 |
| Manufacturing | 1997 | 4.0 | 1.4 | 2.0 | 4.7 |
| | 2003 | 5.6 | 9.1 | 10.2 | 6.4 |
| Wholesale and retail trade | 1997 | 7.4 | 6.1 | 4.0 | 15.9 |
| | 2003 | 20.7 | 22.4 | 14.8 | 22.3 |
| Services | 1997 | 8.5 | 11.5 | 12.2 | 15.5 |
| | 2003 | 7.3 | 8.2 | 9.8 | 11.1 |
| *% of heads working as employees (casual or regular)* | | | | | |
| | 1997 | 6.7 | 12.1 | 12.0 | 15.4 |
| | 2003 | 8.0 | 15.4 | 14.9 | 15.6 |

*Source: computed from CWIQ 1997 and 2003 reports.*

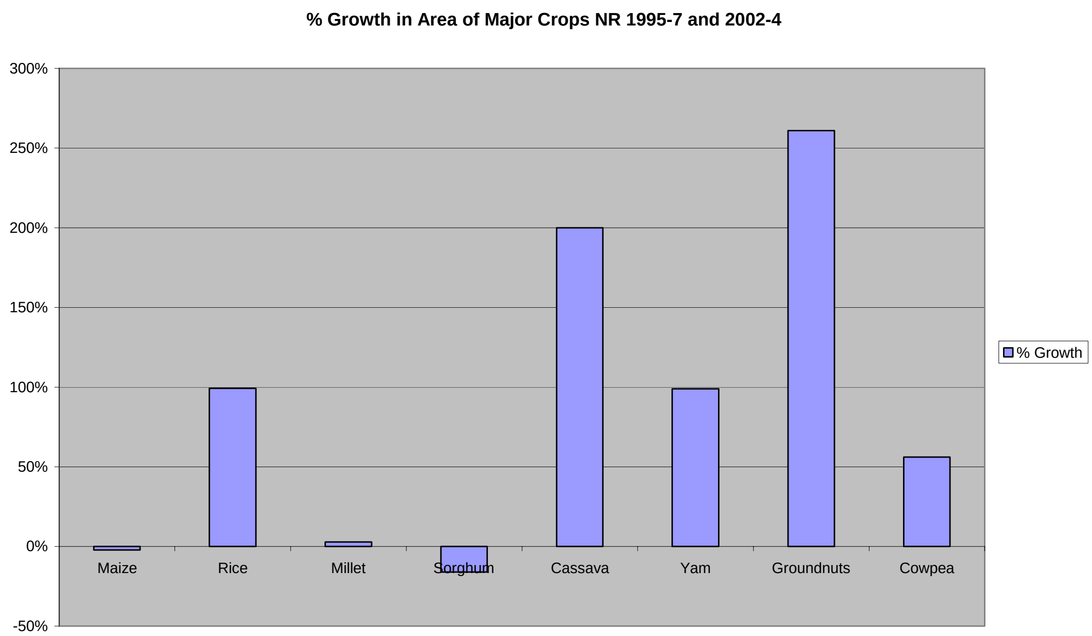
## Annex 3 Changes in crop production in northern Ghana

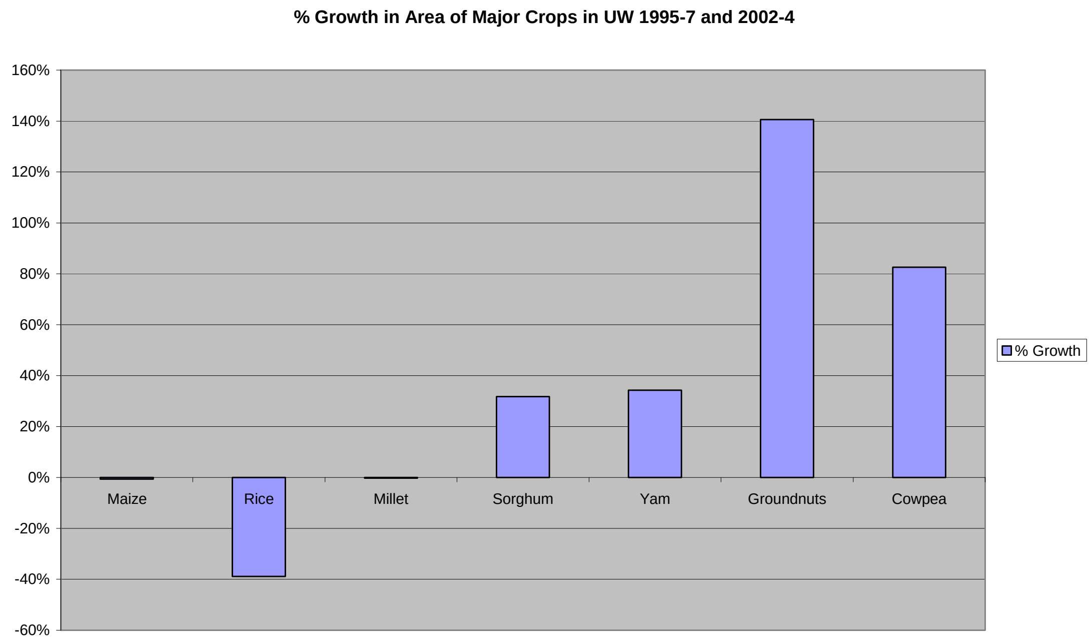
Figure A3.1 shows the changes in area and yield of the major food crops in the three regions between 1995-7 and 2002-4. The grains (maize, millet and sorghum) show declining levels of production in both the Northern and Upper West regions, generally associated with falling yields over this period, raising questions about their development potential. This too has happened at a time when there has been considerable public investment (government and donor) in increasing food security through production of food crops. Rice is the only cereal showing a consistently more encouraging picture in these regions. However, the pattern differs in the Upper East where the production of cereals increased modestly (the high percentage increase for maize is a consequence of the low starting point), as a result of yield increases and some area increases, while rice production fell. This role of area expansion in the increase in traditional grains in the UE is testimony to the desperate search for food security through own production in a very difficult agro-ecology.

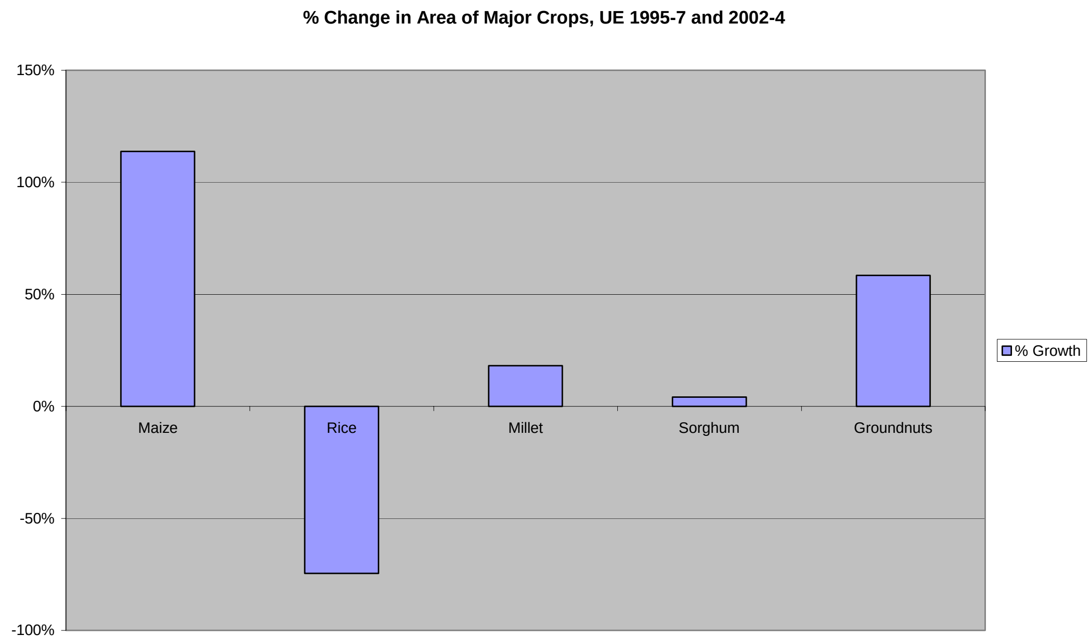
Groundnuts though show a large increase in production in all three regions, reflecting both yield and area increases, and similar patterns are shown by cowpeas in the Northern and Upper West regions, and cassava in the NR. However, yams in the NR show a worrying decline in yield, given that increasing production through expanding area cultivated has substantial environmental (deforestation) costs. By contrast with the northern regions, most of the expansion in production of maize, roots and tubers in BA reflected area expansion.

The MoFA statistics unfortunately do not cover livestock, for which the north has a clear comparative advantage within Ghana, and which is so important as a source of livelihood security.

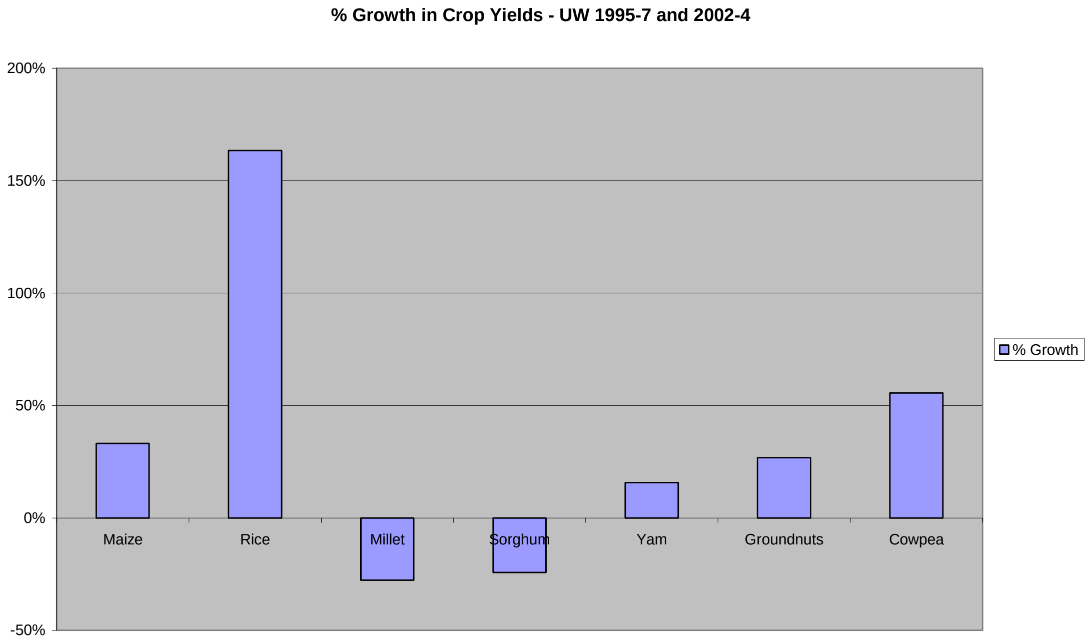
**Figure A3.1 Change in Area Cultivated (Major Food Crops, between 1995-7 and 2002-4)**

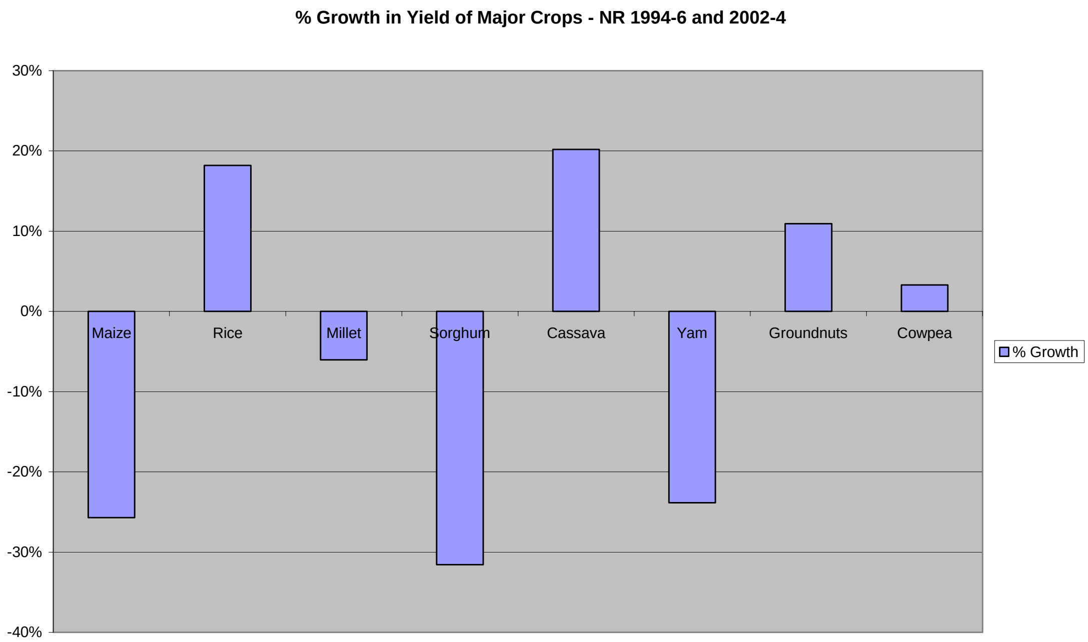


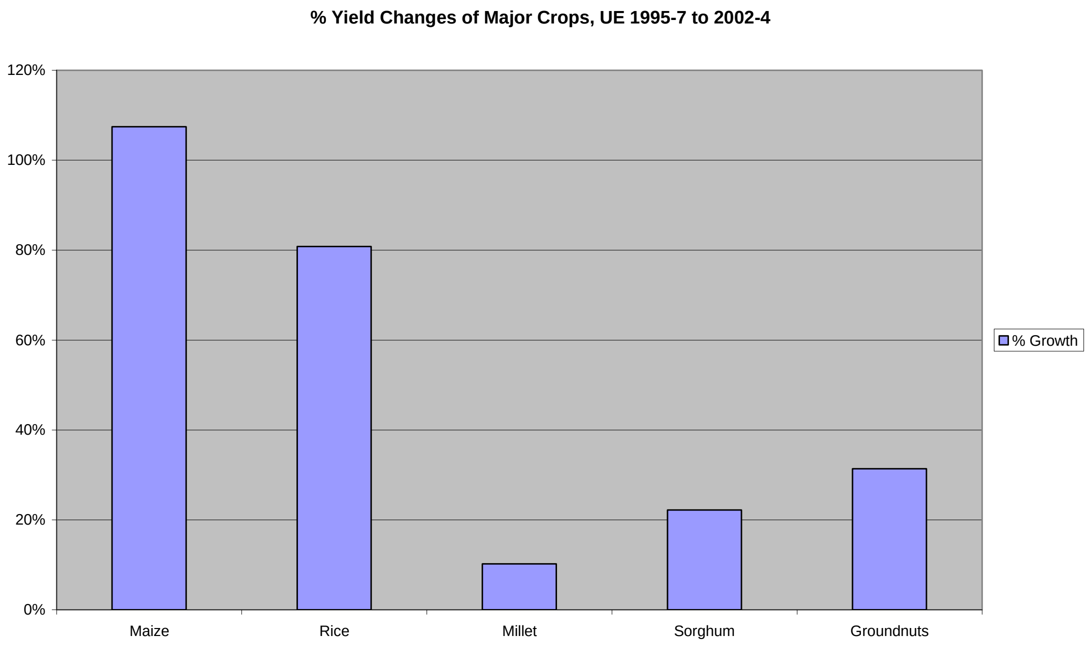

% Growth in Area of Major Crops in UW 1995-7 and 2002-4
160%
140%
120%
100%
80%
60%
40%
20%
0%
-20%
-40%
-60%
Maize
Rice
Millet
Sorghum
Yam
Groundnuts
Cowpea
% Growth


% Change in Area of Major Crops, UE 1995-7 and 2002-4
150%
100%
50%
0%
-50%
-100%
Maize
Rice
Millet
Sorghum
Groundnuts
% Growth

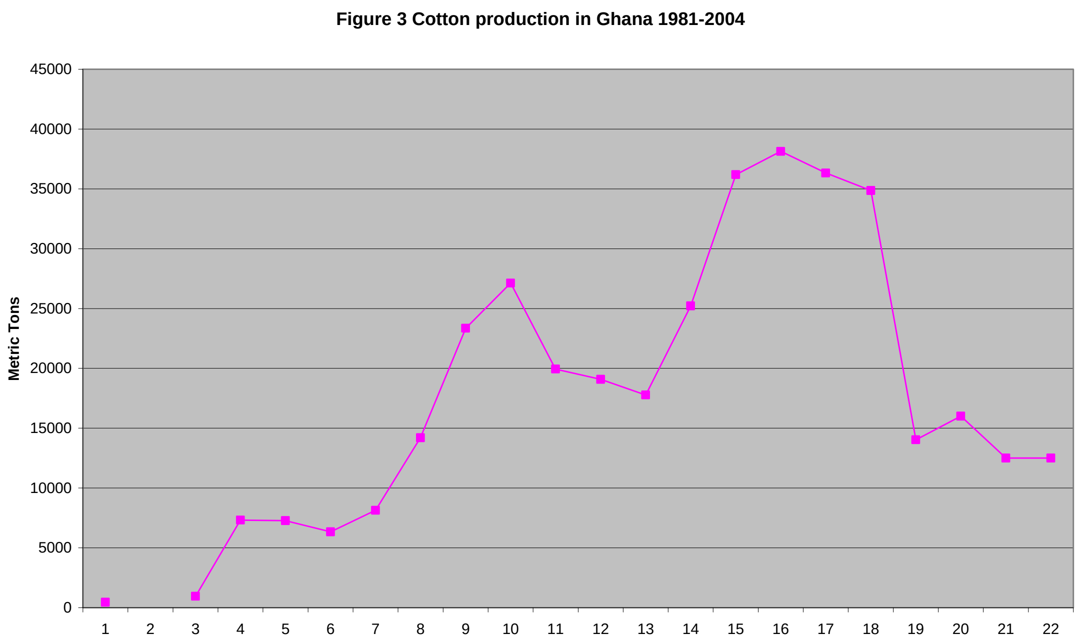
## Figure A3.2 % Change in Major Crop Yields between 1995-7 and 2002-4






## Figure A3.3 Cotton Production in Ghana, 1981-2004




*Engagement with the market*
Information on the number of households cultivating different crops in 1998/99 and their extent of engagement with the market was extracted from the 1998/99 GLSS survey. A large majority of farming households in UE and UW, and a majority in the NR, cultivate millet and sorghum, but relatively small proportions sell some of their output – especially in the two Upper regions. In the NR a large majority of farming households cultivate maize, but only 40% sell some of their output. Groundnuts are cultivated by a majority of faming households in all three regions, and in each case

two thirds or more of the households sell some of their output. Few households sell any rice in the Upper East, but many do in the Upper West region.

The level of engagement with the market therefore varies by location (being greatest in the NR) and by crop. It has though increased over the 1990s as revealed by a comparison with the 1991/92 GLSS3 survey.

Vegetables are produced by many households, but sold by almost none. Proposals for horticulture development need to bear this in mind – the surplus has been very small to date. Also the proportion of households producing vegetables appears to have fallen over the 1990s.

A relatively small proportion of households reported producing cotton, but this proportion increased over the 1990s in the NR and fell in the UE. This though has been the major cash crop in many parts of the north since the mid 1980s. The importance of cotton can be seen from Table XX, showing the number of farm households in the NR who are currently linked up to markets through cotton and other companies. However, it has been an industry in decline since 1999, despite Ghana's comparative advantage in cotton production (like its Francophone neighbours, which have grown economically partly as a result of increased cotton production and processing). This is due to a 'co-ordination failure': in a word, purchasing companies were not able to recovery loans given to farmers in a situation where multiple companies could compete for business in a given village. A zoning system was introduced in 2001 to create local monopolies, as a response to this problem, but concessions were too open ended and unconditional on performance evaluation, and there was little trust between companies. As we will see, however, the industry is poised to grow again now, as these problems have largely been solved.

A brief conclusion from this analysis would be that the 'traditional' cereals are unlikely to be sources of income growth; rootcrops and oilseeds may be; horticulture also may be.

**Table A3.1: Percentage of farming households producing main crops, 1998/99**

| Region | cotton | maize | millet/ sorghum | rice | groundnuts | Yam | pepper | leafy veg | okro | tomatoes |
|---|---|---|---|---|---|---|---|---|---|---|
| Brong Ahafo | 0.0% | 83.7% | 1.7% | 2.7% | 17.2% | 38.2% | 44.0% | 11.1% | 37.3% | 36.8% |
| Northern | 7.9% | 86.6% | 66.9% | 18.9% | 57.1% | 36.3% | 41.3% | 10.5% | 50.3% | 24.3% |
| Upper East | 5.7% | 52.8% | 84.4% | 53.4% | 77.8% | 40.6% | 38.9% | 8.3% | 40.4% | 15.4% |
| Upper West | 1.0% | 30.4% | 88.2% | 69.5% | 72.2% | 0.0% | 33.2% | 49.3% | 59.8% | 10.1% |
| All Ghana | 3.9% | 72.0% | 51.4% | 26.3% | 49.1% | 31.3% | 40.5% | 17.0% | 46.5% | 24.9% |

*Source: computations from GLSS4 survey.*

## Table A3.2: Percentage of all households producing and selling main crops

| Region | Locality | Maize | | Millet or sorghum | | Rice | | Groundnuts | |
|---|---|---|---|---|---|---|---|---|---|
| | | % producing | % selling | % producing | % selling | % producing | % selling | % producing | % selling |
| Brong Ahafo | Urban | 63.6% | 39.6% | 4.1% | 0.1% | 4.5% | 1.2% | 8.9% | 1.2% |
| | Rural | 85.9% | 69.1% | 9.8% | 2.3% | 6.4% | 4.4% | 32.6% | 27.7% |
| | Total | 78.9% | 59.8% | 8.0% | 1.6% | 5.8% | 3.4% | 25.2% | 19.4% |
| Northern | Urban | 66.9% | 6.7% | 20.1% | 3.6% | 3.3% | 2.6% | 24.1% | 12.8% |
| | Rural | 91.9% | 27.2% | 80.0% | 18.0% | 24.7% | 13.9% | 61.2% | 43.6% |
| | Total | 83.5% | 20.3% | 59.9% | 13.1% | 17.5% | 10.1% | 48.8% | 33.2% |
| Upper East | Urban | 97.6% | 0.0% | 90.5% | 0.0% | 7.1% | 7.1% | 97.6% | 57.1% |
| | Rural | 76.2% | 4.0% | 90.1% | 8.7% | 38.8% | 8.6% | 78.7% | 43.1% |
| | Total | 77.6% | 3.8% | 90.1% | 8.2% | 36.7% | 8.5% | 79.9% | 44.0% |
| Upper West | Urban | .. | .. | .. | .. | .. | .. | .. | .. |
| | Rural | 28.0% | 4.3% | 99.5% | 7.5% | 62.1% | 25.4% | 83.9% | 42.3% |
| | Total | 28.0% | 4.3% | 99.5% | 7.5% | 62.1% | 25.4% | 83.9% | 42.3% |
| All Ghana | Urban | 66.0% | 23.7% | 13.8% | 1.7% | 4.0% | 2.0% | 18.3% | 8.0% |
| | Rural | 72.2% | 33.5% | 61.1% | 8.7% | 29.1% | 12.6% | 58.8% | 37.6% |
| | Total | 70.8% | 31.2% | 50.0% | 7.0% | 23.2% | 10.1% | 49.3% | 30.6% |

*Source: computations from GLSS4 survey.*

## Annex 4 Agricultural sub-sectors

### A4.1 Cotton

The decline of cotton production, despite being a crop with clear comparative advantage in northern Ghana, with good potential for both backward and forward linkages, holds several lessons for the development of other sub-sectors. The institutional arrangements within the sub-sector need to be capable of sustaining the interest of farmers, buyers and processors. There has to be a 'win-win' situation in which the interests of all three parties are met. This has been recognised by government and MoFA recently commissioned a review of the performance of companies in the sub-sector. In the future development of agriculture and agri-business with the outgrower schemes which will spread the benefits of investment, regulation will become the predominant function of government. Skills in regulation are scarce and need to be built.

The decline of the cotton industry was hastened (caused? – the cotton industry attributes the decline to world prices, affected by US and other cotton subsidies) by an excess of competition for limited supply of seed cotton, in a situation where world prices had slumped. The number of competitors has now been reduced by the inability of most of the companies to acquire credit from the ADB, and this creates a basis on which the sub-sector can begin to grow again, though it will have to regain producers' trust in order to do so. Companies have started to devise clever schemes to tie outgrowers in effectively to their operations, enabling higher levels of productivity and loan recovery. In future, excess competition should not be left to ADB to regulate.

Northern Ghana's small farmers have effectively relied on one major cash crop. This has not benefited areas where cotton companies did not operate; and the dependence has been a cause of distress as the market has collapsed. In future it will be advantageous to diversify the range of commodities and outgrower schemes. The strategy below is designed to do just that.

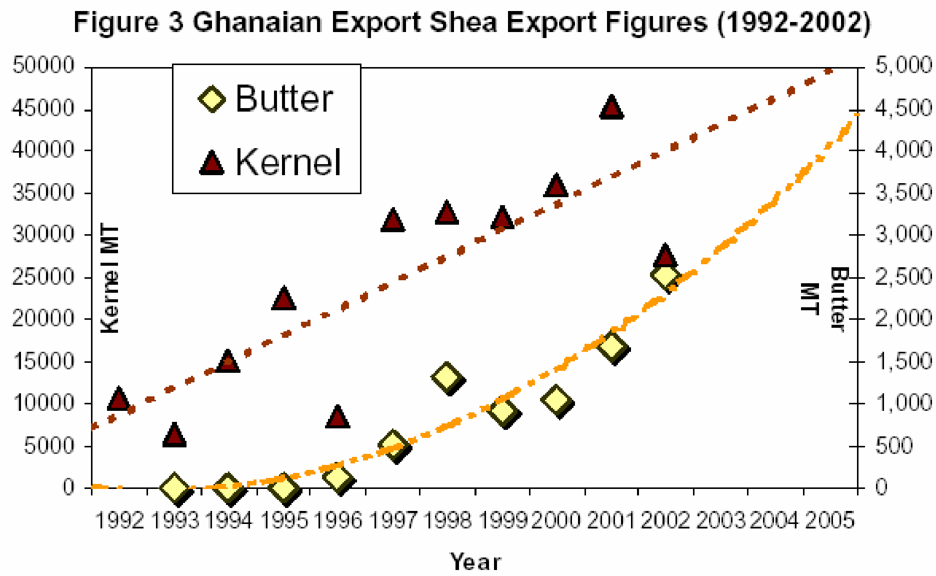
### A4.2 Sheanuts and sheabutter: awaking the sleeping giant

A major multi-national company (Loders Croklaan) has established a processing facility at Savelugu, which purchases sheanuts from around northern Ghana and further afield, for processing into raw butter for export into the food industry (largely chocolate) and cosmetics, for both of which the market is growing. Northern Ghana (and Burkina Faso) produces the best quality sheabutter, especially for the cosmetic industry. Establishing medium scale processing in West Africa will enable capture of increased international market share, but the investment also represents an exercise in corporate social responsibility by a company which has traded on Ghanaian sheanuts for 40 years.

A key question is whether or at what stage it would be advisable to attract further similar investments: is there room for competition? For various reasons, it is unlikely that any of the other major world players will establish processing units; it may be more sensible to encourage the development of value added enterprises in the north –

currently there are three enterprises producing sheabutter soap and cosmetic products in or near Accra.

Alongside this major investment there are women's groups processing sheanuts into butter for export. However, the key problems these groups confront are (i) getting a regular and remunerative outlet for their butter, and (ii) to develop the quality specifications required for export. The Body Shop's scheme is a model in both respects – it has paid 12 women's groups for about 10-12 tons of butter per month since 2000. With the devaluation of the cedi against the pound a constant UK price has translated into increased prices for producers. Demand from this source is not increasing rapidly, however. The women's groups have been able to produce the quality required by the Body Shop – this largely involves screening out low quality nuts. The success of this scheme suggests that there should be an urgent investigation into the possibility of replicating it many times over, especially given the rapidly expanding number of US cosmetics firms using shea butter as a basic ingredient. This could be undertaken by Mapronet, an NGO established in northern Ghana precisely to make such market links, with assistance from the West Africa Trade Hub, which holds a database of relevant firms. The Body Shop could assist the process.




Source: GEPC (2003)

*Awaking Ghana's 'Sleeping Giant'*

Northern Ghana, along with Burkina Faso, produces the best stearin-rich sheanuts in demand for the cosmetics industry, where the possibilities of consumption growth and value addition are greatest. The challenges of turning this comparative advantage into a competitive advantage are significant but not insuperable:

- The need to address post-harvest quality issues in producing crude shea butter. The key issue is kernel quality. This has apparently been successfully addressed in the small Body Shop purchasing scheme which provides a premium. Other buyers need to be persuaded to pay a quality premium.
- Institutionally, the key long term issue is the absence of an intermediary institution: 'The biggest constraints to increasing kernel exports are,

therefore, the lack of close links to buyers, institutions or associations who are able to influence the pricing of shea kernel and/or those able to offer advice or information on what the market wants and the technology or methods able to deliver this. These constraints could be as simple as lack of knowledge on how to access donkey carts, as opposed to head-panning the harvest, or, in association with the quality issues below, recognising the preference for boiled, sun-dried kernels that are bought in preference to wood-roasted kernel, due to fears about PAHs.'[19] This is partly solved by the location of crude shea butter manufacturing in northern Ghana.

- 'Difficulties result from fluctuations in supply and demand, inconsistent pricing through the supply chain, absence of trust in contractual agreements and lack of access to credit. These, amongst other things, may demonstrate a need for shea kernel to be traded in a manner more consistent with cocoa or other agricultural commodities, in order to bring shea into the 21st century.' (Ibid: 14). Ghana's cocoa export arrangements are a potential model.
- Burkina Faso has become the 'model' sheanut producing country, partly because producer associations have filled some of these gaps. They assist buyers to access locally produced shea butter, and feed back to producers the requirements of the market. There is a growing network of NGOs and other organisations that have joined with rural producer groups, particularly through "The Shea Network" supported under the FAO/CFC funded Pro Karité project. This group of organisations currently supports pilot activities in Senegal, Burkina Faso, Mali and Niger. These initiatives aim to develop appropriate criteria for quality standards, provenance definitions, processing procedures and agricultural practice, so that through the flow of information, shea kernels or butter can be more easily commoditized and internationally traded with confidence. By working at a level with strong links to both national institutions (e.g. IER in Mali, ITA/PROMER in Senegal, etc.)22 and grass-root stakeholders (shea-focused projects supported by CECI, SNV, AFE, etc.), these players find themselves in an ideal situation to offer a framework of support to the shea producers, while at the same time providing a mechanism for quality assurance, training and traceability. At a recent regional and consultative workshop in Bamako, sixteen of the shea producing African countries agreed on a number of resolutions, including one to form an international (African-wide) shea association that will link up national institutions and form a platform for further developments and discussions.' (Ibid: 17)
- Access to trade finance is a problem for small sheanut processors, especially in view of the high degree of seasonal price variation of shea kernels. Women's groups have to buy their kernels during the harvest season, to store for later production. Direct links with a purchaser able to advance credit is one possibility.
- Transport costs are raised by border taxes and informal checkpoint tolls.

[19] P. Lovett (2004) *The Shea Butter Value Chain: Production, Transformation and Marketing in West Africa*, West Africa Trade Hub/USAID, Technical Report No 2, p13

## A4.3 Horticulture

The major investment has been in production of organic fresh mango for export. This is benefiting small farmers who have become outgrowers near the nucleus plantation at Diare. This investment is another example of a combination of international commercial and technical expertise with a desire to benefit an under-developed area with which the lead investor has had commercial dealings for decades.

There is potential for mango production elsewhere, and for supplying the less sophisticated markets in Ghana and the sub-region for both fruit and mango juice. Dried mango has also found a significant export market from Burkina Faso. It is unlikely that ITFC will be able to expand its mango purchasing to other outgrower schemes in other areas at least in the short term. It would therefore be beneficial if other investors or intermediaries could be identified to invest in areas with the requisite pre-conditions – water for plantation establishment, land available for outgrower schemes.

However, mangoes are increasingly a traded commodity on world markets, and the long term price trend is down. Any additional investments need to be able to cope in what will become a tighter market.

Land for tree crops raises an interesting potential constraint, since the land tenure systems of the north are designed to return unused land to community use. Tree crops require long term security of tenure, effectively taking such land out of the traditional system. To date acquiring 99 year leases has not proved impossible, though in the case of ITFC's nucleus plantation it was complex, and involved the paramount chief, as well as lots of explaining the benefits to the local community.

There is considerable and growing potential for other fruit and vegetable production and processing enterprises, whether for export or the national or sub-regional market. Export would be particularly possible if Tamale airport became an effective international airport. Demand in the national market is strong and satisfied partly by imports of high quality vegetables from the sub-region. Current irrigation investments are small-medium, and these will generate some potential; but there is also a substantial untapped resource: the Volta river system and its tributaries. This should be attractive to private investors. The quickest way of developing this resource is through private investment, and a major effort could be mounted by the Export Promotion Council. It currently does not promote northern Ghana for horticultural exports:

'The major fruit and vegetable growing areas in Ghana, presently concentrated within southern Ghana, are endowed with very favourable climate, deep rich soils and a remarkably knowledgeable rural agricultural labour force. This excellent combination of essential factors make the growing areas ideal for the production of top quality tropical fruits and vegetables.'[20]

[20] http://www.ghanatrade.org/agric.htm

The seed industry, however, is a major constraint in this sub-sector. No vegetable seeds are produced in Ghana, and reliance on imported seed is an issue which worries scientists, and often means that the right seed varieties for the environment are not available. This would be a priority for investment, which could be in the form of public-private partnerships, with the research institutions collaborating with market intermediaries to identify research priorities. Both Kenya and Cote d'Ivoire invested heavily in research.

### A4.4 Oilseeds, rice and yams

While export led growth clearly represents the best opportunity for growth as northern and sub-regional markets are relatively poor and most neighbouring countries produce a similar range of agricultural products, there are also promising import substitutes. Urbanisation in Ghana (and potentially in the sub-region) has led to increased demand for a number of crops for which northern Ghana has some comparative advantage: yams, cassava, rice, oilseeds.

Soybean is currently purchased by two firms in the north; the critical constraint in this sub-sector, as elsewhere, is getting regular supplies. A switch from groundnuts, largely consumed at home, to soybean promotion took place to ease this constraint. A growing number of farmer groups have been organised, and supply has begun to increase. The economics of soybean production are currently good, and it fits well within the farming system. This would appear to be capable of steady expansion.

Rice is the most difficult crop to assess. It was widely grown as an import substitute in the 1970s, a rice processing industry grew up, and rice was even exported within the sub-region. Since then liberalisation and food aid resulted in the development of consumer taste for American, Thai and Vietnamese rice, in what has become a sophisticated consumer market. Rice produced in the wide valley bottoms of northern Ghana cannot easily compete with imported rice in terms of quality, though in price terms it is sometimes cheaper, sometimes more expensive than comparable (eg Vietnamese) imports. Effectively, Ghanaian rice competes behind a 20% tariff barrier,[21] and some level of tariff which would need to remain until Ghanaian rice has re-established a market niche.[22]

Rainfed production is also volatile, leading to swings in price which are difficult for producers to manage. The Lowland Rice Project has spent several years developing a technical package which reduces the variability of production, largely through in-field bunding. Other projects have developed rice brands from the north, 'Wa', 'Navrongo' which have gained a significant market. What is needed now is a major effort to promote Ghanaian rice among consumers, so that it can compete with heavily promoted imported rice.

What would help significantly with this is the re-activation of the Nasia Rice Mill which produces quality, clean parboiled rice. However, this should perhaps not occur too far in advance of adequate market demand. There may be a conflict of interest here, as one of the three major shareholders, Barclays Bank, is also the major

[21] But is protected overall to the tune of 37.5%...
[22] Under UMOA rules this should be limited to 25%.

financier of lucrative rice imports. It could be time for government to press the bank to sell its shares.

The story of yams deserves to be fully researched, as it is a case where production has expanded significantly in response to urban demand without any state or large scale private investment. Yams are marketed directly from the production are to major urban yam markets (eg the Konkomba market in Accra), with producers having a considerable investment in the marketing. Incomes from yam sales are reputed to be substantial, and to have led to significant investments in yam producing areas.

Underlying these trends is an environmental worry: yam cultivation requires fallow ground, which has to be partially cleared of trees – leading to deforestation. Charcoal sales are certainly very prominent in the yam producing areas. Sheanut/sheabutter development could be specifically targeted to these areas in order to give greater value to the shea tree, which covers the area and makes very good charcoal. Cotton might also be a useful new crop to introduce as an alternative to yams.

### A4.5 Livestock

Five categories of livestock keepers have been identified (Ministry of Food and Agriculture, 2004a). The dominant category among these is the multiple roles poor livestock keepers. These keepers tend to own fewer of the smaller species of livestock, i.e. poultry, sheep, goats, and pigs. The livestock is kept as a risk coping strategy during times of need, and the strategy is to invest income in livestock and to protect the livestock from loss. The livestock assets can then be used to finance crop production activities. Livestock farmers in Northern Ghana fall into this category. The numbers of livestock species kept are small (Table … ) and cattle are clearly not owned by the poor.

The poor livestock keepers have limited capacity to invest in the productivity of their livestock. The animals are not housed, except during the farming season when the sheep and goats are tethered; feeding is on free range and health care is minimal. Mortality of livestock is therefore high. Also because sales are usually made during the lean season, when purchasing power is low, livestock keepers derive rather low values from their animals (MoFA, 2004).

Table A4.1 Livestock species and numbers kept by multiple roles poor keepers in Northern region

| Livestock species | Numbers kept (range) |
|---|---|
| Poultry | 4-22 |
| Pigs | 1-9 |
| Goats | 4-13 |
| Sheep | 4-15 |

Source: Ministry of Food and Agriculture (2004). Needs Assessment of Private Stakeholders in the Livestock sub-sector in Ghana

The GLSS data show about 54-67% of households in the Guinea Savanna zone (represented by East Gonja and Wa districts) owned cattle, compared to 73-92% who owned goats (GSS, 2000). The three northern regions have persistently accounted for over 70% of the cattle population, with the Northern region holding the highest cattle population. The proportions of cattle, sheep and goats from the Upper East and Northern regions declined between 1986 and 1996. However the Upper West share in sheep and goat population increased over the period.

Any strategy to improve livestock production by the poor will require building their capacity to invest in improved methods, with health improvement as the priority. Consumption credit can also help farmers to time sales properly.

### A4.6 Poultry: guineafowl

The greatest potential lies in developing the guineafowl value chain. There is substantial demand for this high value product which is produced in most northern households on a backyard basis. Northern households sell birds when they need to buy food – so it contributes hugely to food security.

The big production constraint is high chick mortality, which can be greatly reduced by simple housing, clean water and better nutrition, all of which can be relatively easily promoted by extension services and NGOs. Vaccination (more complex to achieve) will also contribute. But then if more is to be produced a secure market will be needed. Once again, there is a role for an investor-intermediary here.

The potential of this sub-sector is so vast that a PSI would be completely appropriate.

# Annex 5 Economic Management in Burkina Faso: What lessons for Northern Ghana?

**By Ramatu M. Al-Hassan and Charles Jebuni**

## Introduction

Burkina has similar climatic and environmental conditions; yet ‘Southern Burkina’ probably rest of the country seem to be more successful in managing their economy than northern Ghana. The study team tried to find answers to Burkina Faso’s relative success as a way of finding leads to appropriate policy strategies for Northern Ghana.

The assessment was made with a brief visit to Burkina Faso for consultations with government officials, donor agencies, civil society organizations, complemented with reviews of reports and official data. Findings of the review are as follows.

## Findings

### Similar Political Economy History

Both countries pursued a public sector led development strategy with import substitution; focus was on state monopolies, and there were high protective barriers. In Burkina Faso, the coup of 1983 added an element of social justice, with land reforms and building of producer organisations for empowerment of the marginalised. Obviously central planning and state control were deepened but this led to macroeconomic imbalances.

The populist policies were abandoned after the coup of 1987. Eventually the country went into economic reform and adopted Standard IMF & World Bank prescriptions of liberalization and privatization in 1991; Ghana’s economic reforms began in 1983. A high level of debt over-hang eventually led the country to go into the HIPC initiative in 2002, a year after Ghana had also gone HIPIC.

The other similarities between Burkina Faso and Northern Ghana relate to the productive sector. Agriculture dominant sector, and is dominated by smallholders producing cereals, cotton, fruits and vegetables and livestock. There is a need for irrigation and more generally, land and water conservation. As in most parts of Northern Ghana, migration to capital or outside Burkina is an important avenue for employment. Tourism is developing; the mining sector is small but there are plans for its expansion.

### Some key differences in Economic management

The major differences between Ghana and Burkina Faso are that first, the latter belongs to the CFA monetary zone therefore monetary and exchange rate policies are externally determined; second, reforms (structural adjustment) came later in Burkina Faso and were carried out at slower pace.

The major difference in the management of the economies of Burlina Faso and (northern) Ghana is how the principal productive sector, agriculture has been, or is being managed. Reaching large numbers of smallholders, scattered over wide geographical area, with poor infrastructure is the key challenge of developing agriculture. Producer organisations are being used effectively in this regard. Strategy is a network of associations, vertically linked from the village level through to the district and regional levels culminating in a national umbrella association. The producer groups provide services to members (marketing, credit assessments); they complement technical staff in service delivery, and are strong lobby groups who can be politically powerful.

In Ghana, there is a proliferation of small unconnected producer groups. They tend to be weak in accessing services and have no bargaining power.

Another important difference is the management of water resource for agriculture.
The country has realised that irrigation is critical for its agricultural production and has initiated a massive programme to expand irrigation through the use of available water resources. Even as plans are ongoing to provide facilities, farmers are being educated on irrigation farming – what to grow, environmental effects and so on. The need for irrigation has also been recognised for northern Ghana but interventions have been ad hoc, relying on development projects.

Persistent bush fires have contributed to the land degradation in northern Ghana, in pite of a Bush fire control law. In Burkina Faso, bush fires have been controlled effectively with the active community participation, in which local leaders, including traditional authorities are held responsible for breaches of the law. This is one area where effective implementation of the law has instilled the needed discipline among the people.

Micro-credit is recognised as essential for developing smallholder agriculture. In Burkina micro credit delivery is linked to producer organisations. Furthermore linkages are being established between formal financial institutions and microfinance institutions. The objective of this linkage is to enhance the ability of formal financial institutions to extend services to smaller customers, whiles helping microfinance institutions to operate more professionally. Each group benefits from the strengths of the other. This type of linkage is generally absent in micro-credit interventions in northern Ghana. At best, formal financial institutions are made to manage funds provided by special projects.

Lessons learned from Burkina's experiences

- Producer associations are essential for effective coordination of services to smallholders. However, village level associations work best where there is strong local power and the chief is interested. Also, single product associations tend to be more effective than village-wide associations involving several products or activities.
- Small dams at village level help to reduce poverty. However what =ever the size of irrigation, road infrastructure and markets are needed to enhance incomes.
- Technical agents need to demonstrate practical results to be effective. Theoretical lectures and instructions do not work.
- Public sector support in the initial development of product chain is crucial i.e. infrastructure, seed, organization of groups etc

- Slow rate of the structural adjustment process in Burkina Faso allowed that country to adjust more effectively. Example of the liberalization of the cotton sector in Ghana and Burkina Faso.
- Possibilities for cooperation between Burkina and NG e.g. cotton research, trade