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Ghana, Factor 19: Foreign Aid

Ghana: Analysing Alternative Financial Aid to Rural Farmers

Introduction

The West African nation of Ghana is a vibrant nation that serves as a model country for the West African region and the entire continent. A former British colony, Ghana has had a relatively peaceful history, gaining independence in 1947. The economy of Ghana is based on natural resources and agriculture. In fact, Ghana has one of the most stable economies in the developing world. The minerals and forestry industries are big in Ghana, but crop and livestock farming are significant industries in the country (“Ghana”). However, one way Ghana got this way was through foreign economic development aid. Ghana is one of many countries in the developing world that has been the target of funds flowing from western countries, either directly, such as through the United States Agency for International Development (USAID), or indirectly, through institutions such as the World Bank, the International Monetary Fund, or the United Nations. Non-governmental organizations, such as the Bill and Melinda Gates Foundation, are substantial donors of foreign aid as well. Much of this aid has a specific target, be it global health problems like malnutrition or HIV/AIDS, wildlife or the environment, infrastructure development, education, economic development, and, what this paper will be focusing on, food and agriculture.

The purpose of food and agricultural development assistance is to improve local food production, combat food insecurity and malnutrition, provide improved income sources for rural families, fight diseases that attack crops and livestock, and reduce the effects of droughts and famine. Ghana has a diverse agricultural sector, ranging from sustenance crops to export crops. Commercial and cash crops like cocoa, sugar, tobacco, palm oil, and cotton drive exports to consumer markets in developed countries, while food crops like corn, cassava, and yams sustain the population of Ghana. Food crop production declined in the 1980’s. The government attempted interventions to save production, focusing on infrastructure and general rehabilitation of the industry. In general these interventions focused on cash crops such as cocoa (“Ghana Economy: Agriculture). Ghana has received a lot of international aid, and much of this aid has been used effectively in the country; however, problems abound as production increases stall, environmental concerns threaten food security, and development stagnates (“Ghana Foreign Assistance”). The solution for this is looking into reforming foreign aid by exploring different techniques and strategies, specifically the financial structure of assistance.

Agriculture in Ghana

Ghana has a relatively young population, which is consistent with developing countries, with a median age of 21. Family units are generally made up of two parents and approximately four children. Fifty-four percent of the population live in urban areas (“Ghana”). Rural farmers can be divided into one of three geographic groups; coastal: primarily populated by fisherman and small sustenance farms; forest: farmers who grow primarily cocoa beans, as well as rubber, palm oil, sugar cane; and sustenance crops, and northern savannah: consisting primarily of rice, yams, and millet farmers. Livestock is also common in the north (“Ghana: Climate and Agriculture”).

The Ghanaian diet consists primarily of cereal grains such as corn and rice, starches such as cassava and yams, and fruits such as plantains. The food supply meets population needs; however, with increasing urbanization trends, imports are becoming more common. Undernourishment has decreased, but domestic food supplies remain unstable and vulnerable. A lack of access to protein is the primary nutrition issue in Ghana ("Nutrition Country Profiles: Ghana").

Social indicators for Ghana are relatively good for a developing country. Expenditures for education are 6.0% of GDP, and the literacy rate is 76.6%. Secondary school enrollment is approximately 67% and tertiary enrollment is approximately 15.5%. Agriculture is the largest industry in Ghana, employing 44.7% of the population. As of 2014, the national unemployment rate was 5.9% (*UN CountryStats*). Healthcare expenditures are 3.6% of GDP. There are 0.1 physicians per 1,000 persons. Only 14.9% of the population has access to improved sanitary facilities; however, 88.7% of the population has access to improved drinking water sources ("Ghana").

The main barrier to the improvement of agricultural productivity in Ghana and elsewhere is underinvestment. Ghana ranked 143rd on the Agriculture Production Index in 2014 (*UN CountryStats*). Farmers in Ghana have the ability to purchase products that would improve yields, such as fertilizer or irrigation, or expand production into unused land. However, they choose not to because the investment does not guarantee that their crop will succeed. The possibility of crop failure pushes farmers to use other strategies, such as crop diversification. Since farmers have no guarantee that they will still have a crop to make a profit from, they are reluctant to invest in agriculture. The risk is too high to justify the investment. Additionally, access to credit and other financing is a factor in limiting improvements to agricultural productivity (Dawson).

In 2017, the United States government plans to spend $146.5 million on foreign aid in Ghana, with $38 million planned to be spent on agricultural development ("Ghana Foreign Assistance"). Foreign aid to developing countries has been a staple of western foreign policy since the Marshall Plan which helped rebuild Europe after World War II. Foreign aid in the modern era focuses on global health, the environment, and economic development. Modern foreign aid also has the reputation of being ineffective, enabling corruption, and doing everything except stimulating economic development. This is not entirely wrong, and it's not entirely right either. Foreign aid has had both successes and failures (Dawson). As a country, Ghana has had more success than failure. It is relatively safe, economically stable, and has low rates of corruption for a developing country (Mulholland). However, things are not perfect. In Ghana and across the developing world, foreign assistance fails in economic development and raising agricultural productivity (Harvey). The issue is to improve the efficiency of every dollar spent, seek out new techniques to use and distribute aid, and to improve transparency and accountability.

Improving agricultural development aid

The issue is how? How should international assistance to developing countries be improved to truly help those countries? One of the major issues with foreign agricultural development is it does not target rural women. The primary beneficiaries of international aid are the owners of the farm, i.e. mostly men. However, women make up a significant portion of the workforce in the agricultural sectors, and in many subsectors, such as flower cutting, make up the majority of the workforce (*The Role of Women in Agriculture*). One way to implement aid that rural women would have access to, and would be benefited by, is microcredit. Microcredit is basically small sized loans. The appeal of microcredit is it allows for targeted development, focusing on those who are ignored by the financial system. Since rural women are primarily that, ignored, microcredit can be a great way to help improve the incomes of and empower women (Kobby).

The major issue discussed in this essay is underinvestment in rural farms in developing countries. Many rural farmers want to invest in their crops. They want to purchase fertilizers and pesticides, spend their time developing unused land for crops. The fact they cannot invest in their crops is due to the lack of credit. The financing, as well as the financial infrastructure, is simply not available to the average rural farmer (Udry).

Another concern, eclipsing the credit issue, is the issue of risk. Even if the credit was available, the farmer may not want to invest his time in developing a new field, or risk the debt of a loan, simply because of the risk of a drought. No matter how much money you pump into an agricultural system, if you have no rain, you have no harvest. Because of this risk, farmers play it safe by avoiding a possible improvement in productivity to mitigate the possibility of a loss. A solution to this would be to implement a crop insurance scheme based on rainfall.

A project, led by economist Chris Udry, has had significant success in northern Ghana. The study provided rural Ghanaian farmers with crop insurance. The experiment was launched to see if credit constraints were the main issue in rural development. What they did was they gave a group of farmers a cash grant, another group of farmers a rainfall insurance policy, and a third group that served as a control. What they found was large increases in agricultural productivity among the group that received the insurance policy, compared with moderate improvements to the cash grant group (Udry, Chris et al. *Agricultural Decisions After Relaxing Credit and Risk Restraints*). With the risk burden largely removed, the farmers were able to make the investments they wanted. They could buy fertilizers, develop unused land, and many other improvements to their agricultural productivity. It is clear that what's first needed it to mitigate the risk, then provide the funds to invest in productivity.

In addition to the study performed by Chris Udry, there have been several other studies testing the idea of comparing cash grants and insurance programs to rural farmers in emerging agricultural economies. A plethora of studies conducted by the International Food Policy Research Institute, each one taking a different perspective on the issue, as a whole had positive results. In Ethiopia, researchers tracking the demand for insurance products found demand rising. In Uruguay researchers found the implementation of an insurance program had a positive effect on financial education. And farmers in Bangladesh had great success with an insurance program there, which, like Ghana, showed improvements in agricultural productivity (La Paz).

The question must be asked: What is the effect of one of these programs on the local economy. One of the effects on agriculture in particular is for farmers to increase production of cash crops. This is good for local economies as cash crops bring in more money. Agricultural insurance programs also lead to increased investments of inputs and technology. More capital flowing through a region produces greater economic benefits. Finally wide adoption of an insurance program would improve productivity, making food products more affordable and available to non agricultural workers (Ripoll).

A major question in this is: what should non-governmental organizations do with this information? Organizations such as the United Nations, the World Bank, and the International Monetary Fund. As well as private non-profits like the Bill and Melinda Gates Foundation provide a lot of support to developing countries that is in effect foreign aid. I propose that these, and similar entities, conduct a top-down review of their agricultural development assistance programs and find where they could implement techniques, strategies, and programs that use the model outlined above. These organizations should also explore other alternative financial strategies.

One strategy international organizations should employ is to work with local organizations in developing countries to design and implement these financial schemes. In Ghana one such organization is the Ghana Agricultural Insurance Programme. This consortium of Ghanaian insurance companies was set up after the Udry study and fashioned along the same lines, as a drought insurance program. Since then the GAIP has been developing and expanding their insurance offerings by designing new products, drawing up policies for different crops, and widening the geographic scope of their policies ("Ghana Agricultural

Insurance Programme"). Programs like GAIP, which are locally run and financed, could provide international development organizations with a potential partner with distributing aid and providing a model for locally controlled development that can be replicated in other developing countries similar to Ghana (i.e. politically and economically stable).

Many strategies are undertaken to encourage agricultural development using foreign aid. From large infrastructure projects to expanding access to machinery. However, one of the most common forms of agricultural development aid is direct grants to farmers ("Unit One: The Current Aid Framework: Agriculture and Rural Development Investments"). This type of aid, as shown above, is not particularly effective. Governments that implement this type of aid should be encouraged to change to the insurance model to implement aid. This should be relatively easy, since the insurance model is both more cost effective and better at increasing agricultural productivity.

Conclusion

The financial structure of foreign aid is extremely flawed. Simply pumping cash into an agricultural system will not yield improved productivity. What is needed is a system that first relaxes risk restraints then provides credit to rural communities that allows farmers to actually invest in things that will improve productivity. These are improvements that can and should be made to government and private aid to developing countries. These reforms are needed to improve the development of countries like Ghana, where agricultural productivity could explode if certain constraints are removed. Countries that have experienced moderate gains in agricultural productivity, yet where growth has stalled, may be countries where this model could be implemented. Increased agricultural productivity would improve economic conditions and incomes, improve issues related to food security, and open developing countries up to the outside world and the global trade system. Doing these things would greatly increase these countries usage of agrochemicals like fertilizers and herbicides, which are commonly manufactured in the developed world and exported to these countries, which provides a selfish reason for those in the developed world to support these types of projects.This model has been proven to work in Ghana, and that indicates that it could work in other, similarly stable yet developing countries. International aid needs fixing, and implementing programs that alleviate risk and provide lines of credit would do that. These types of programs provide the spark needed to help developing economies grow and enter the developed world.

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