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REPORT TO THE CONGRESS

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United States Programs In Ghana B-179421

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

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FEB. 12, 1974



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-179421

To the President of the Senate and the
Speaker of the House of Representatives

This is our report on U.S. programs in Ghana.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of State; the Secretary of Commerce; and the Administrator, Agency for International Development.

A handwritten signature in cursive script, reading "James B. Stacks".

Comptroller General
of the United States

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ABBREVIATIONS

AA/AFR	Assistant Administrator, Bureau for Africa
AID	Agency for International Development
AG	Auditor General
CCP	Country Commercial Program
EEC	European Economic Community
GAO	General Accounting Office
GOG	Government of Ghana
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
LDCs	less developed countries
OPIC	Overseas Private Investment Corporation
USAID	U.S. AID Mission in Ghana
USG	U.S. Government

Commerce objected to AID's providing financial assistance to the textile manufacturer.

The Department of State, which has a central role in the determination of U.S. interests in foreign countries, said that determining relative priorities in conflict situations, such as in the case GAO is reporting on, was difficult.

GAO discussed with a Department of State official whether criteria should be developed to specifically identify issues involving U.S. interests for consideration in the approval process. This official said that such criteria would be difficult to develop and that he doubted the practicality of developing criteria for all aspects of the developmental and U.S. interests issues involved.

GAO believes that definitive criteria can be developed covering issues involving U.S. interests, such as

--the percentage of production that could be exported to the United States,

--how much U.S. trade would be displaced,

--the benefits, if any, that could flow to third-country interests.

GAO believes that this approach by the concerned agencies would result in more consistent and uniform recognition of U.S. interests.

There are problems involving the priorities of such Public Law 480 program objectives as

--developing and expanding Ghanaian markets for U.S. agricultural commodities and

--encouraging economic development in Ghana. (See pp. 32 to 54.)

RECOMMENDATION

GAO recommends that the Secretary of State, in cooperation with the Department of Commerce and AID, consider developing more definitive criteria to help resolve conflicting U.S. interests such as those identified in providing assistance to a Ghanaian textile firm. 32, 74, 67

Criteria for determining eligibility for a loan should specify such matters as the permissible percentage of the production that could be exported to the United States; how much displacement of U.S. trade should be permitted; and the benefits, if any, that could flow to third-country interests.

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Department of State's comments recognized the importance of considering net-aid flows to countries, such as Ghana, that have significant debt problems. The Department reiterated its efforts to persuade creditor-donors to reschedule debts on terms which would reduce the drain on the resources available to Ghana from the United States and the other major sources of net foreign assistance; i.e., the World Bank, West Germany, and Canada.

Both the Department of State and AID expressed concern that GAO's report on this matter inferred that the United States had shouldered a

disproportionate burden in assisting Ghana. The amount of assistance given to any developing country apparently relates to U.S. interests in that country and to its potential for economic development. Policy considerations involved in determining the amount of such assistance for a particular country should be resolved by the agencies with the Congress through the appropriation process.

MATTER FOR CONSIDERATION BY THE
CONGRESS

Because of the seriousness of Ghana's debt problem, the Congress may wish to review with the Department of State and AID the role that foreign donors, including the United States, play in providing a net-aid flow to support Ghana's economic development.

CHAPTER 1

GHANAIAAN POLITICAL AND ECONOMIC DEVELOPMENTS

POLITICAL DEVELOPMENTS

The Republic of Ghana, formerly the Gold Coast, became an independent nation within the British Commonwealth in 1957. Ghana was the first nation in tropical Africa to obtain independence from European colonial rule. Almost all of Ghana's 9.3 million people are Sudanese Negroes, including a variety of ethnic groups speaking different West African languages. English is the official national language.

From 1957 to 1966 Ghana was dominated by one man, Kwame Nkrumah. As the head of Ghana's Government and founder and leader of its only legal political party, Nkrumah sought to make Ghana the standard bearer for his concept of pan-Africanism and a model based on his ideals of African socialism.

In February 1966, while Nkrumah was in Asia on a visit, the Ghanaian army and police services deposed him in a brief, but successful, coup d'etat. Nkrumah took refuge for several years in Guinea; he died in Romania in April 1972. The leaders of the revolt quickly established the National Liberation Council and governed the country by decree. From 1966 to 1968 Ghana, with International Monetary Fund guidance and support, pursued a stabilization policy which reduced the disproportionately high levels and poor quality of Ghanaian investment, enforced economies on imports, and lessened inflationary pressures. The stabilization measures, however, brought no improvement in export performance and allowed a rapid growth in both private and public consumption.

In 1968 a constituent assembly was established in Ghana, and in 1969 the assembly approved and promulgated a new constitution. In elections held in August 1969, the leader of the Progress Party, K.A. Busia, became Prime Minister, bringing to an end more than 3 years of military rule.

From late 1969 through 1971, the Busia government tried to move the Ghanaian economy from stabilization to development while promoting necessary structural changes. Although the

policies of the Government were considered generally appropriate, the tightness of the balance-of-payments situation had left little flexibility for their adoption and implementation. Although the gross domestic product grew about 4 percent annually, as planned, export receipts declined, imports grew rapidly, and foreign exchange reserves remained very low. Short-term debt and Government expenditures also grew rapidly, and the burden of debt service on medium- and long-term debts rose.

In January 1972, while Prime Minister Busia was in England, army officers seized power in Ghana, citing economic problems, Government mismanagement, and Government-imposed austerity measures as the reasons for their action. The National Redemption Council, composed almost exclusively of military officers, was established. The Ghanaian Parliament and all political parties were dissolved, the Constitution was suspended, and the Council ruled by decree.

ECONOMIC DEVELOPMENTS

Most of the economic wealth and population of Ghana, which occupies an area about the size of Oregon on the coast of West Africa, are concentrated in the south where the staple food crops are produced and where the major urban centers are located. This southern area also has a rain forest which produces valuable timber and minerals and which is the source of Ghana's main cash crop, cocoa. The northern two-thirds of the country is hot, dry, and economically poor; its chief occupations are subsistence farming and cattle raising. Ghana has been a traditional importer of foodstuffs, and between 1960 and 1971 the per capita agricultural production index actually declined.

The principal current problems are: (1) achieving a better balance in external trade and payments, (2) obtaining substantial progress in import substitution and export promotion policies to insure a better longrun trade balance, (3) continuing emphasis on agricultural development strategy, particularly cocoa rehabilitation, and (4) for industrial development, reducing the high level of dependency on imported raw materials and revising the overemphasis on domestic consumption goods.

Ghana is the world's largest producer of cocoa; the cocoa crop, which is very vulnerable to world price fluctuations, accounts for about 55 percent of Ghana's export earnings. Tropical wood, gold, aluminum, diamonds, bauxite, and manganese are its other leading exports.

Ghanaians have desired an international cocoa agreement to provide a degree of stabilization within the cocoa industry and have encouraged U.S. support for such an agreement. The United States favors an economically viable cocoa agreement that will benefit both producers and consumers.

The United States did not sign the International Cocoa Agreement negotiated in 1972 and has no intention of adhering to the agreement. The 3-year agreement was signed by 90 percent of the producing countries and 70 percent of the importing countries. The United States agreed to furnish trade information.

In June 1973 the Department of Commerce clarified the U.S. position relating to the International Cocoa Agreement. Commerce said that the United States disagreed with the price range, quota system, and voting system and objected to the ambiguity in and lack of precision of certain articles of the agreement.

Since 1966 Ghana has had very limited development. Recent balance-of-payments developments have retarded the adjustments needed to insure reasonable economic development. Ghanaian balance-of-payments prospects were affected by deteriorating world market conditions for cocoa and by the limited possibilities for expanding other Ghanaian exports. However, recent price increases for cocoa, gold, and timber have improved Ghana's balance of trade. A March 1972 analysis of the imports required for the modest economic growth of the early 1970s suggested that such imports would be considerably more than the foreign exchange available to finance them. It is generally concluded that Ghana must secure considerable external assistance to achieve even moderate economic development. This assistance could come only from debt relief and an increased aid flow combined with a realistic and detailed development plan.

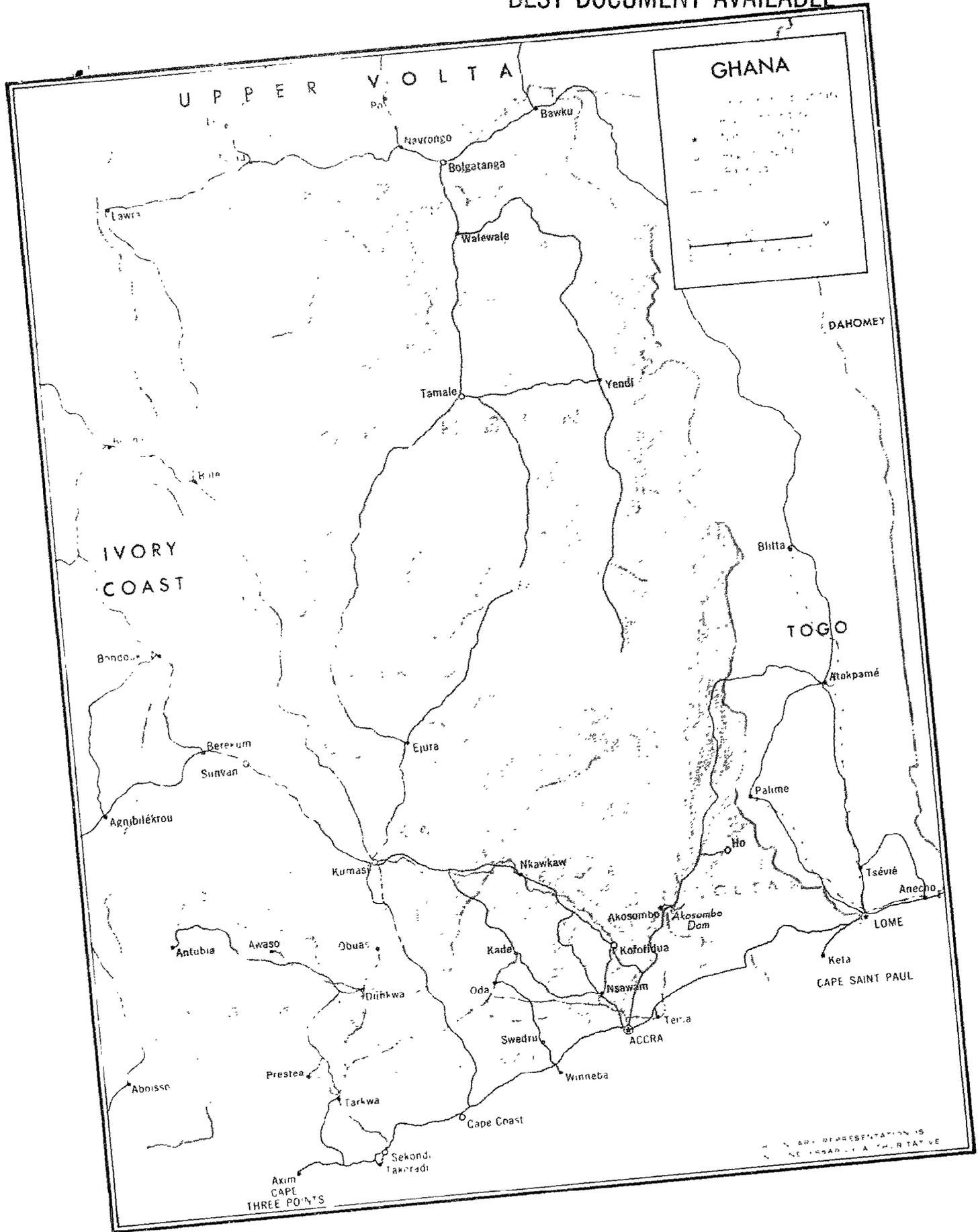
Ghana's longrun investment potential is good because of inexpensive electric power, trainable manpower, and low

labor costs. However, the Ghanaian political climate became less favorable to foreign investment during the latter part of 1972. Ghana's current economic policy was reported in an American Embassy telegram on January 12, 1973, to be as follows:

"Ghanaians should have effective control over significant areas of the economy * * * [and] as far as possible, rely on [their] own human and material resources for economic development * * *."

In keeping with this policy, the Government of Ghana plans to require increased Ghanaian participation in most business activity in the country. However, Ghana recognizes the need for continued foreign assistance and foreign investment and will encourage those foreign investments which involve complicated technology, require foreign exchange, and are export oriented. For example, the Government of Ghana will require a Government equity of 100 percent in utilities but only 20 percent in oil production.

U.S. private investment, including United States Government participation in Ghana, currently totals about \$189 million: \$152 million for an aluminum smelter; about \$15 million for a battery plant, plastics plant, tire factory, and rubber plantation; \$7 million for gasoline distribution systems; and \$15 million for expenses incurred by oil companies for exploratory drilling off Ghana's coast. About \$167 million of this U.S. private investment is attributable to loans and guarantees from the Agency for International Development (AID) and the Export-Import Bank. The Overseas Private Investment Corporation has insured part of the U.S. investors' investments against risks of expropriation, war, and the investors' inability to convert into dollars the local currency they received as profits or earnings or as returns on their original investments.



Source: Department of State

CHAPTER 2

GHANA'S EXTERNAL DEBT BURDEN

AND THE U.S. ROLE

Ghana's external public debts totaled almost \$1 billion early in 1972. Interest and principal payments on these debts, together with Ghana's trade deficit problems in the early years, resulted in a shortage of foreign exchange, which has hampered Ghana's economic development and threatens future progress.

Ghana has three types of external public debts: (1) medium-term debts from suppliers' credits, most received before February 24, 1966, (2) long-term debts, mostly from the loans received after the overthrow of the Nkrumah government, and (3) short-term debts arising in recent years from 180-day import credits and from arrears on these credits and on service payments. An example of a medium-term loan would be one having an 8-year maturity period and a 1-year grace period and bearing 5-percent interest. The relative amounts of these debts, according to AID records, follow.

Ghanaian External Debts

<u>Type of debt</u>	<u>Amount</u>
	(000,000 omitted)
Medium term	^a \$325
Long term	^a 323
Short term	^b <u>300</u>
	<u>\$948</u>

^aBalance as of December 31, 1971.

^bEstimated as of May and June 1972.

By January 1972 Ghana's financial condition had become critical. Arrears on suppliers' credits and service payments amounted to \$147 million, \$60 million more than existing Ghanaian international reserves (foreign exchange, gold, and special drawing rights). These arrears did not include an

additional obligation of over \$57 million for repurchase obligations to the International Monetary Fund of 15.6 million Ghanaian cedis in 1972 (over \$12 million at the current exchange rate) and about \$45 million of payments on medium- and long-term debts due in 1972.

Despite the debt relief which Ghana received on its medium-term debts in 1966, 1968, and 1970, repayment of these debts has continued to be a major problem. In February 1972 the new military government announced a number of measures which sharply reduced payments on Ghana's medium-term debts. A Department of State official said that the United States was the only creditor country known to have received payment after February 5, 1972, on Nkrumah-era medium-term loans.

Because U.S. holdings of pre-1966 suppliers' credits were very small and because of the softer terms of past loans by the United States, Ghana's debt payments to the United States have been small compared with payments to other creditors. The United States, therefore, has not had a strong financial interest in past-debt reschedulings. The United States, however, has played a significant role in supporting Ghana's balance of payments through long-term lending and Public Law 480 commodity programs.

ORIGINS OF THE PROBLEM

Ghana's external-debt problem began with the economic policies and performance of the early 1960s. The Nkrumah government's program of heavy capital investment was financed by depleting foreign exchange reserves and by hard-term foreign borrowing (suppliers' credits). This investment policy of rapid industrialization and mechanization was ill conceived, considering Ghana's resources, domestic demand potential, and foreign trade possibilities. Furthermore, investments were poorly executed and generally were not productive. According to a 1972 Ghanaian study, about 8.6 percent (by value) of the projects financed under these suppliers' credits could have paid for themselves during the original repayment periods.

In 1966, when the Nkrumah government was toppled, Ghana was near economic collapse. Between 1957 and 1965, under the added pressures of poor cocoa prices, foreign exchange reserves fell from about \$480 million to about \$50 million

and medium- and long-term external public debts soared from negligible levels to almost \$500 million. Four-fifths of this debt was suppliers' credits, which required payments of about \$56.5 million in 1967 and \$62.4 million in 1968. The new Ghanaian Government, unable to meet these obligations, sought debt relief from its creditors and financial assistance from the World Bank group and Western countries to help stabilize the economy.

Since 1966 there have been three major attempts to solve Ghana's economic problems: (1) the 1966, 1968, and 1970 rearrangements of payments due on pre-1966 suppliers' credits, (2) increases in long-term development lending to Ghana, and (3) self-help and economic reform measures negotiated between Ghana and the International Monetary Fund and Western creditors as conditions for debt relief and other economic support.

DEBT RELIEF

To date debt relief has been concerned solely with the pre-1966 suppliers' credits--about three-fourths from Western European sources. Relief was given primarily by rescheduling interest and amortization payments on these suppliers' credits. The U.S. share of these credits is very small, and most of its loans are long-term loans at concessional interest rates.

The essential features of these debt reschedulings were that, although they provided substantial amounts of balance-of-payments relief, each rescheduling limited the period of debt relief to 2 to 4 years, which ultimately created a bulge in Ghana's debt service schedule for the mid-1970s. The moratorium interest rates charged by creditors also significantly increased Ghana's future debt burden. The moratorium interest rates added about 28 percent to Ghana's total debt service.

The appropriate moratorium interest rate to be charged on deferred payments was a major issue between Ghana and the creditor countries during the debt relief meetings. Although the participants to the 1966 debt relief meetings hoped that the moratorium interest rate would be as low as possible, they agreed that the rate would be determined by bilateral agreement and related to the cost of borrowing in the creditor countries. The average moratorium interest rate charged by

Western creditors in bilateral negotiations following the 1966 rescheduling was about 6 percent.

During the 1968 debt relief meetings, Ghana asked for a 3-percent rate and pointed out that, even if this rate were agreed upon, the total moratorium interest payments on the first and proposed second reschedulings would add nearly 25 percent to the original debt. The Western creditors, however, continued to insist that the moratorium interest rate should be related to their borrowing costs. The creditor countries further suggested that the rate be between 5.5 and 6 percent.

As of March 1972, only four (United Kingdom, Germany, the Netherlands, and France) of the six major creditors who participated in the 1968 meetings had concluded agreements with Ghana at moratorium interest rates ranging from 4.25 to 6 percent. The other two major creditors (Italy and Japan) and Ghana were deadlocked over the moratorium interest rates. Agreement with the United States and other small creditors on these rates was also difficult. The United States signed bilateral agreements calling for a moratorium interest rate of 4.75 percent, but not until May 4, 1971, almost 3 years after the 1968 meetings. Some of the other small creditor countries, however, had not concluded agreements by September 1972.

Although they had not signed all the bilateral agreements implementing the 1968 debt rearrangement plan, Ghana and its Western creditors met again in 1970 to discuss additional debt relief. The Ghanaian delegation requested that the 1968 debt rearrangement be replaced by a long-term settlement. The Ghanaians requested refinancing loans from the creditors with repayment to be made over 50 years, including 10 years' grace at an interest rate not exceeding 2 percent.

Ghana's creditors declined these terms, but they did note the importance attached by the Ghanaian Government to the question of moratorium interest. The creditors therefore agreed to extend debt relief in one or more of the following ways.

1. Refinancing certain existing loans.
2. Partially and temporarily deferring installments of interest and/or principal due between July 1, 1970,

and June 30, 1972, for a period of 10 years without interest.

3. Giving additional program aid.

The shift in creditors' attitudes between 1966 and 1970 appears to have been in line with the U.S. position at debt relief and aid meetings that Ghana's debt problem should be viewed in the context of total resource needs and flows.

U.S. participation in debt-rescheduling exercises for Ghana has been based more on its role as a major aid donor than as a creditor. The Ghanaian Government's medium-term debts owed to the United States from the Nkrumah period have never totaled more than \$0.8 million, and the United States, as a very small creditor, has sought unsuccessfully to be excluded from rescheduling exercises. Between January 1969 and May 4, 1971, Ghana made no payments to the United States on the Export-Import Bank credits which were involved in the 1968 rearrangement. In accordance with the 1970 rearrangement, the United States provided debt relief by adding \$40,348 to an existing \$15 million program loan. The entire program loan was restricted to the purchase of U.S. commodities. On May 4, 1971, the Ghanaian Minister of Finance signed both the 1968 rescheduling agreement and the amendment increasing the program loan and gave a check to the Export-Import Bank for \$36,158 to cover past-due payments. It appears that the program loan add-on was to compensate the Ghanaians for paying the Export-Import Bank.

In summary, the debt relief on the pre-1966 medium-term debts from Western creditors was generally in the form of rescheduling interest and principal payments for only a few years and the moratorium interest charged by creditors significantly added to Ghana's debt burden. Agreement on the terms of debt relief was difficult to reach both among creditors and between individual creditors and Ghana. Since Ghanaian export earnings have not expanded as anticipated, the reschedulings have not provided any lasting relief of the debt service burden. The pre-1966 suppliers' credits continue to dominate the debt service picture with a bunching of payments due in the 1972-78 period.

DEBT REPUDIATION

On February 5, 1972, less than 1 month after it seized power, the National Redemption Council unilaterally announced, with respect to Ghana's external debts, that Ghana:

1. Would not repay to British creditors pre-1966 suppliers' credits amounting to 21 million English pounds because the credits were fraudulent and would repudiate other pre-1966 suppliers' credits if, in its judgment, they were illegal. Ghana would negotiate these findings, but the creditors would have the burden of proving the legality of the credits (e.g., medium-term debts); all legal credits would be repaid according to International Development Association terms.¹
2. Would reject agreements resulting from the 1966, 1968, and 1970 debt conferences and would not participate in any future multilateral debt conferences.
3. Would make payments on short-term debts (180-day import credits and arrears on those credits and on service payments) as conditions allowed.
4. Would repay long-term debts under their existing terms.

The Council contended that these actions were necessary to prevent the decline in living standards and economic growth which would result from austerity measures necessary to meet the scheduled debt repayments.

Following the February 1972 Ghanaian action relating to its external debts, Ghana's major creditors formulated another debt rearrangement plan. The proposal, which included alternatives to the Council's measures relating to Ghana's

¹Maturity of 50 years, including 10 years' grace with repayment of 10 percent of the principal during the second 10 years and the remaining 90 percent over the following 30 years. The Council's announcement was silent as to the acceptable rate of interest on these debts; however, it rejected liability for accrued moratorium interest amounting to \$72 million arising from prior debt rearrangement plans.

medium-term debts incurred before February 24, 1966, and to its existing short-term debts, was thought to be responsive to the Council's concerns. The proposed plan was submitted by the World Bank, as intermediary, to the Ghanaian Government for its consideration in November 1972. The Ghanaian Government did not accept the plan; however, apparently only part of the plan was unacceptable, which left room for optimism that further progress would be made.

The Government of Ghana has continued to meet its repayment obligations on U.S. medium-term loans which are held by the Export-Import Bank.

LONG-TERM LENDING

Since 1966 Ghana's debt structure has changed, primarily because of the three debt reschedulings and the increased availability of long-term loans. This change is shown in the following analysis of Ghana's medium- and long-term external debts.

Ghana's Medium- and Long-Term External Debts

<u>Type of debt</u>	Outstanding, including undisbursed, debts at Feb. 24, 1966	Net change from Feb. 24, 1966, to Dec. 31, 1970 (note a)	Outstanding debts at December 31, 1970	
			As in agreed schedules	Adjusted (note b)
(millions)				
Medium term	\$397.7	\$-19.3	\$378.4	\$308.2
Pre-February 24, 1966, suppliers' credits	(397.7)	(-37.9)	^c (359.8)	(289.6)
Post-February 24, 1966, suppliers' credits	-	(+18.6)	(18.6)	(18.6)
Long term	<u>101.6</u>	<u>162.6</u>	<u>264.2</u>	<u>264.2</u>
Total	<u>\$499.3</u>	<u>\$143.3</u>	<u>\$642.6</u>	<u>\$572.4</u>

^aThe net-change analysis covers from the February 1966 coup through the 1966, 1968, and 1970 debt reschedulings.

^bExcludes disputed debts (\$71.2 million) owed to certain German creditors by a group of private companies. Since the German Government is not insisting on repayment of these debts, settlement in favor of the creditors is doubtful. The adjusted balances include estimated capitalized interest (\$1 million) on debts eligible for rescheduling but not rescheduled as of December 31, 1970.

^cIncludes arrears of principal and interest.

Of the total known grants and medium- and long-term capital to Ghana between its independence in 1957 and its change of government on February 24, 1966, approximately 80 percent were suppliers' credits. The only long-term loans to Ghana during this period were for the Volta River Project.

Since 1966 long-term loans to Ghana have increased. Long-term loans, excluding those for debt relief, have been as follows:

Long-Term Loans to Ghana

<u>Source</u>	<u>Pre-1966</u>	<u>1966-71</u>	<u>Total</u>	<u>Percent of total loans by creditors</u>
	(millions)			
Canada	\$ -	\$ 10.7	\$ 10.7	3.1
Denmark	-	6.1	6.1	1.8
Germany	5.0	36.3	41.3	11.8
United Kingdom	14.0	47.9	61.9	17.7
United States	a,b 37.0	a 107.1	144.1	41.3
World Bank group	47.0	37.9	84.9	24.3
IBRD	(47.0)	(6.0)	(53.0)	(15.2)
IDA	(-)	(31.9)	(31.9)	(9.1)
Total	<u>\$103.0</u>	<u>\$246.0</u>	<u>\$349.0</u>	<u>100</u>
Percent of total loans	30	70		

^aExcludes Public Law 480, Title I, local currency sales.

^bExcludes Export-Import Bank loans to the private sector.

The United States, which has made the major long-term loans to Ghana, hoped that each of Ghana's creditors would at least offset debt repayments with new loans for a neutral net-aid position and would, preferably, lend higher amounts to create a positive net-aid flow. Some creditors have not done so. A number of creditors, including France, Japan, Italy, Yugoslavia, and the Soviet bloc, have not made any long-term loans to Ghana since 1966. Even with the large amounts of debt relief which Ghana received, its debt payments from 1967-71 amounted to about \$150 million, or about

58 percent of the total gross assistance it received during that period. The following table, based on information provided by the AID Mission in Ghana, shows that the United States gave about 94 percent of the net assistance to Ghana from 1967-71.

Gross and Net Financial Assistance to Ghana
from Governments and Multilateral Agencies

	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>Total</u>
Gross assistance (note a)	\$ 23.2	\$ 49.6	\$68.4	^b \$54.9	^b \$63.3	^c \$259.4
Debt payments	<u>-20.1</u>	<u>-44.7</u>	^b <u>-26.4</u>	^b <u>-22.7</u>	^b <u>-35.8</u>	<u>-149.7</u>
Net assistance	<u>\$ 3.1</u>	<u>\$ 4.9</u>	<u>\$42.0</u>	<u>\$32.2</u>	<u>\$27.5</u>	<u>\$109.7</u>
Assistance from United States	\$ 13.1	\$ 21.7	\$33.9	\$25.5	\$19.1	^c \$113.3
Debt payments to United States	<u>-1.1</u>	<u>-1.8</u>	<u>-1.8</u>	<u>-2.6</u>	<u>-2.9</u>	^d <u>-10.2</u>
Net assistance from United States	<u>\$ 12.0</u>	<u>\$ 19.9</u>	<u>\$32.1</u>	<u>\$22.9</u>	<u>\$16.2</u>	<u>\$103.1</u>
U.S. share:						
Percent of gross assistance	56.5	43.8	49.6	46.4	30.2	43.7
Percent of net assistance	387.1	406.1	76.4	71.1	58.9	94.0

^aDisbursements of all loans and grants to Ghana. Does not include debt relief, since these amounts are included in the lower debt payments made during 1967-71. Including debt relief amounts would result in double counting new assistance.

^bEstimated.

^cAmounts of assistance differ from amounts in chapter 3, because this table is based on disbursements and the chart in chapter 3 (see p. 23) is based on commitments.

^dDoes not include repayments on loans repayable in local currency and on loans to the private sector.

In June 1973 the Department of State said that:

"Comparing the net position of one creditor/donor with the total net foreign assistance figure for Ghana exaggerates the contribution of that creditor, because the outflows to net creditors offset the inflows of other net donors."

We agree that the analysis shows a larger U.S. share of net assistance by including all the donors rather than only the positive donors. The major positive donors, in addition to the United States, include the World Bank, Canada, and West Germany.

Only limited information is available regarding assistance and related repayments for the negative donors. AID estimates show that the repayments in excess of new loans and grants by such negative donors amounted to about \$3.5 million and \$7.6 million for 1969 and 1970, respectively. If these figures are representative of our 1967-71 analysis period, the U.S. share of net assistance by positive donors would be about 75 percent.

We conclude that when external debts are a problem, the net assistance basis is the most realistic basis for analyzing the potential benefits of economic assistance inputs. The Department of State's comments of June 28 on this matter follow.

"* * * some creditor/donors received much more in debt repayment than they provided in foreign assistance. One thrust of U.S. debt rescheduling policy has been to persuade these creditor/donors to reschedule on terms which will reduce this drain on the resources available to Ghana from the United States and the other major sources of net foreign assistance, i.e. the IBRD West Germany, and Canada."

U.S. and other positive-donor assistance is, in effect, helping to repay Ghana's debts to those countries which are extracting more resources than they are providing. An AID official, on the other hand, stated that, assuming that debt repayments during 1967-71 would have continued even without

development assistance, U.S. assistance allowed a greater degree of development effort than would otherwise have been possible.

If the United States continues its past role, it will be the major source of net assistance to Ghana, unless:

- Major creditors give larger amounts of debt relief for longer periods.
- Other donors increase their lendings.
- Additional countries lend to Ghana.

A Department of State official advised us in January 1973 that these conditions were expected to be satisfied.

CONCLUSIONS

Long-term lending to Ghana has increased since 1966. Debt relief, on the other hand, has been for limited times and has been costly to Ghana because of moratorium interest charges. The United States has provided a comparatively large share of the total net flow of new assistance.

The Department of State's comments recognized the importance of considering net-aid flows to countries, such as Ghana, that have significant debt problems. The Department reiterated its efforts to persuade creditor-donors to re-schedule debts on terms which would reduce the drain on the resources available to Ghana from the United States and the other major sources of net foreign assistance; i.e., the World Bank, West Germany, and Canada.

Both the Department of State and AID expressed concern that our report inferred that the United States had shouldered a disproportionate burden in assisting Ghana. The amount of assistance given to any developing country apparently relates to U.S. interests in that country and to its potential for economic development. Policy considerations involved in determining the amount of such assistance for a particular country should be resolved by the various agencies with the Congress through the appropriation process.

In a recent report to the Congress on developing countries' external debts and U.S. foreign assistance (B-177988, May 11, 1973), we recommended that, because of the growing importance of the developing countries' debt burdens and the increasing frequency of debt relief exercises, the executive agencies insure that they keep the Congress informed of the relationship of debt-servicing problems, debt relief, and economic assistance.

MATTER FOR CONSIDERATION BY THE CONGRESS

Because of the seriousness of Ghana's debt problem, the Congress may wish to review with the Department of State and AID the role that foreign donors, including the United States, play in providing a net-aid flow to support Ghana's economic development.

CHAPTER 3

U.S. ROLE IN MULTIDONOR ASSISTANCE

The United States has been the major foreign assistance donor to Ghana since 1966. Other principal donors are the United Kingdom, the World Bank group, West Germany, and Canada. There are many other donors providing various amounts of capital, program, and technical assistance. The chart on page 23 shows the levels of assistance, by donor, from 1962-66 and 1967-71.

LEADERSHIP ROLE OF INTERNATIONAL MONETARY FUND AND WORLD BANK

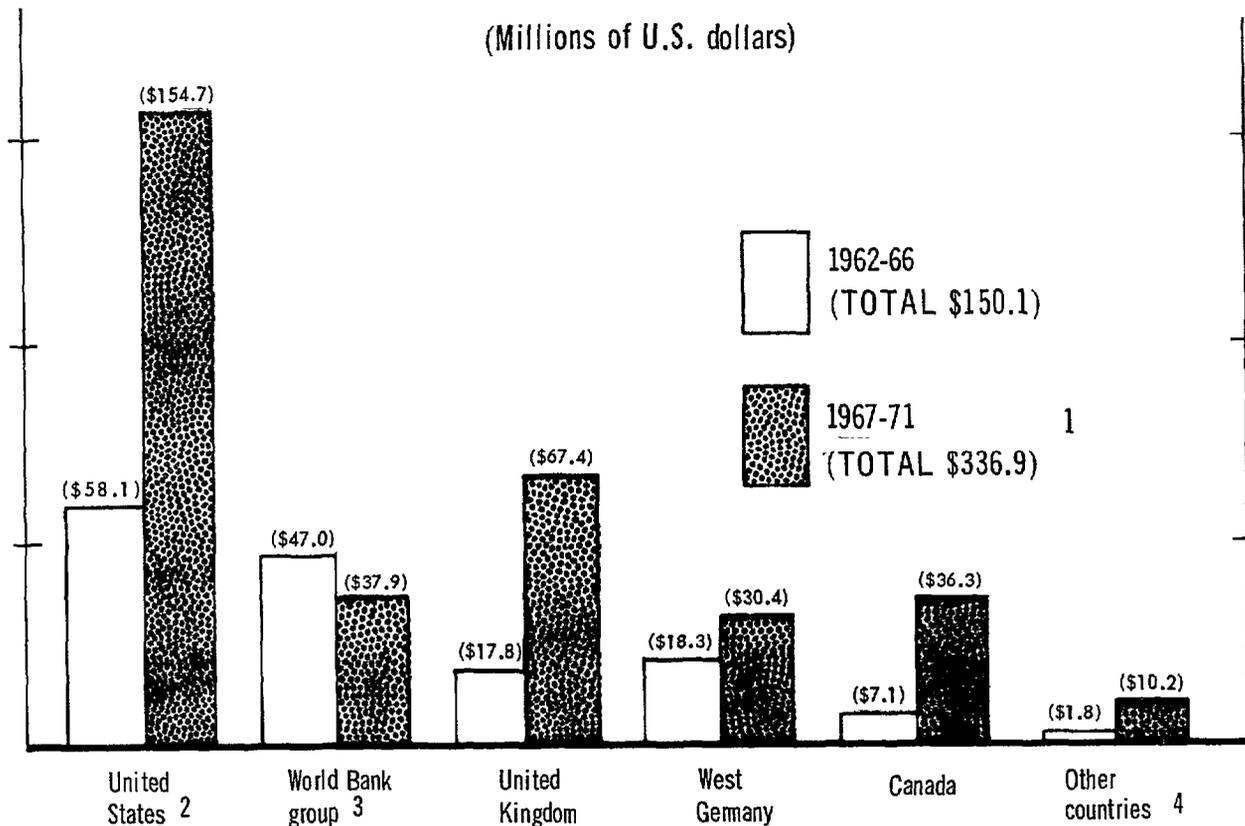
The International Monetary Fund and the World Bank have chaired annual donor meetings on assistance to Ghana. Participants at all or most of the Ghana aid donors meetings held since 1967 have been Canada, Denmark, France, West Germany, Ghana, Italy, Japan, the Netherlands, the United Kingdom, the United States, the Development Assistance Committee (of the Organization for Economic Cooperation and Development), the World Bank, the International Monetary Fund, and the United Nations Development Program; Switzerland was an observer. At these meetings the donors review reports on Ghana prepared by the Fund, the World Bank, or by Ghana. Each donor usually makes a presentation but does not make a firm commitment of aid.

Since June 1968 donor meetings generally have been held monthly. Initial participants were the United States, the United Kingdom, Canada, West Germany, the Netherlands, Australia, and the United Nations Development Program. The AID Mission Director represents the United States; either ambassadors or commercial-economic officers represent other nations. Hosting of the meetings is rotated among the members. At the March 1969 meeting, a proposal was made to expand the membership to include Italy, France, Denmark, Japan, Switzerland, and the International Monetary Fund. AID Mission officials did not know the reason for not including them--particularly the Fund, since it had chaired the Ghana aid donors group.

In March 1971 Ghana chaired the first of four meetings dealing with priority sectors (agriculture, education, transportation and communications, and rural development) in the

ASSISTANCE TO GOVERNMENT OF GHANA FROM GOVERNMENTS
AND MULTILATERAL AGENCIES 1962-71

(Millions of U.S. dollars)



- 1 Excludes \$10 million of technical assistance grants for 1970 and 1971 by the United Kingdom, West Germany, and certain other countries. Data for 1970 and 1971, which is not available by country, includes some small estimates.
- 2 Amounts of U.S. assistance differ from amounts in chapter 2 because this chart is based on commitments and the table in chapter 2 (see p.18) is based on disbursements.
- 3 The United States is the largest contributor to the World Bank group; it contributes about 27 percent to the World Bank and about 37 percent to IDA.
- 4 Other countries include Denmark, France, Japan, and the Netherlands.

Source: Records available at AID headquarters, Washington, D.C.

Ghanaian economy. At each of these meetings, the U.S. representative presented a paper describing the U.S. activity in the subject sector. The Ghanaian Government's intention was to hold additional donor group meetings after work on the new budget and development plan was completed. In November 1971, after a gap of 4 to 5 months, the donors resumed meeting under the same format, but Ghanaian Government representatives have not attended any of the meetings; the World Bank Resident Representative has attended.

The International Monetary Fund and the World Bank advise Ghana on economic self-help measures and on its external public debt problem. According to AID Mission officials, an International Monetary Fund resident representative was assigned to Ghana from 1967 to December 1969. A July 1969 AID document indicated the desirability of having stationed in Ghana a World Bank resident representative who was familiar with the donor government and with agency policies and who could help the Ghanaian Government by having continuing consultations on planning and policy matters and by serving as an informal communications link between the Ghanaian Government and the donors. A World Bank representative did not arrive in Ghana until October 1971. During this almost 2-year period, the United Nations Development Program Resident Representative represented the donors in matters of joint concern with the Government of Ghana.

The World Bank Resident Representative is the only World Bank employee permanently assigned in Ghana. As of January 1, 1972, the United Nations and its specialized agencies had assigned 107 professional employees, 33 of whom had regional responsibilities.

The World Bank Resident Representative's role in Ghana is (1) to act as the World Bank's in-country representative and look after the Bank's interests, (2) to be a link between bilateral donors and the Ghanaian Government and coordinate efforts to minimize duplicate efforts, and (3) to assist the Ghanaian Government in economic policy planning and project development. He does not have authority to approve in-country projects nor does he have a direct relationship with the consultative group. From his arrival in October 1971 to the completion of our fieldwork in May 1972, he never served as a link between the bilateral donors and the Ghanaian Government. A Department of State official advised us in January 1973 that the World Bank Resident Representative now serves in this capacity.

U.S. COORDINATION WITH OTHER DONORS

The AID Mission's Program Office is the focal point for contacting international organizations' representatives. The Assistant Director for Programs deals with the resident representatives of the World Bank and the United Nations Development Program. Other Mission officials deal with their counterparts. For example, the representative of the Mission's agriculture office deals with the Food and Agriculture Organization's representative. Although much of this contact is informal, Mission officials have good working relationships with most international organizations' representatives.

An international organization representative and an AID Mission official stated that there was no duplicate effort in agriculture, despite the large number of donors and projects. They did indicate that there was a problem with the World Bank because the Bank, in planning its projects, did not give sufficient attention to institution building and counterpart training. In March 1972 a World Bank regional team visiting Ghana stated that it recognized this past fault and that future projects would take this fault into account.

In February 1973 we noted that the cooperation between the Peace Corps and United Nations representatives in Ghana was increasing. An example of this was the proposed joint rural health project to start in the fall of 1973. The project, approved on May 30, 1973, will include participation by the Peace Corps, German Volunteer Services, Canadian University Services Overseas, and British Voluntary Services Overseas and will provide health services in isolated communities in the northern part of Ghana.

Because of the positive response by the Government of Ghana to the joint health project, Peace Corps officials in Ghana believe that there will be other joint efforts in various developmental areas. In May 1973 the Deputy Director, ACTION, said that his agency intended to increase contact with United Nations agencies to develop further assistance areas of mutual interest in Ghana.

Another example of joint participation involves a project in which the Peace Corps and the United Nations are supporting the Management Development and Productivity Institute in Ghana. The Institute receives funds from the United Nations and about one-half of its senior staff from the Peace

Corps. In addition, the Peace Corps and Ghana have worked with volunteer agencies of other countries in operating a Joint Volunteer Committee in northern Ghana.

The Deputy Director, ACTION, also said that extended discussions between the Peace Corps Program Officer and the United Nations Assistant Resident Representative during 1972 had produced an understanding of areas where a future working relationship would benefit both the Peace Corps and Ghana.

CONCLUSIONS

The U.S. assistance program in Ghana operates within a multilateral group led by the World Bank. This approach has improved the coordination of aid to Ghana.

Efforts are being made to further relate U.S. assistance with projects of other donors. We believe that these efforts can be productive and should be encouraged.

CHAPTER 4

U.S. ASSISTANCE PROGRAMS

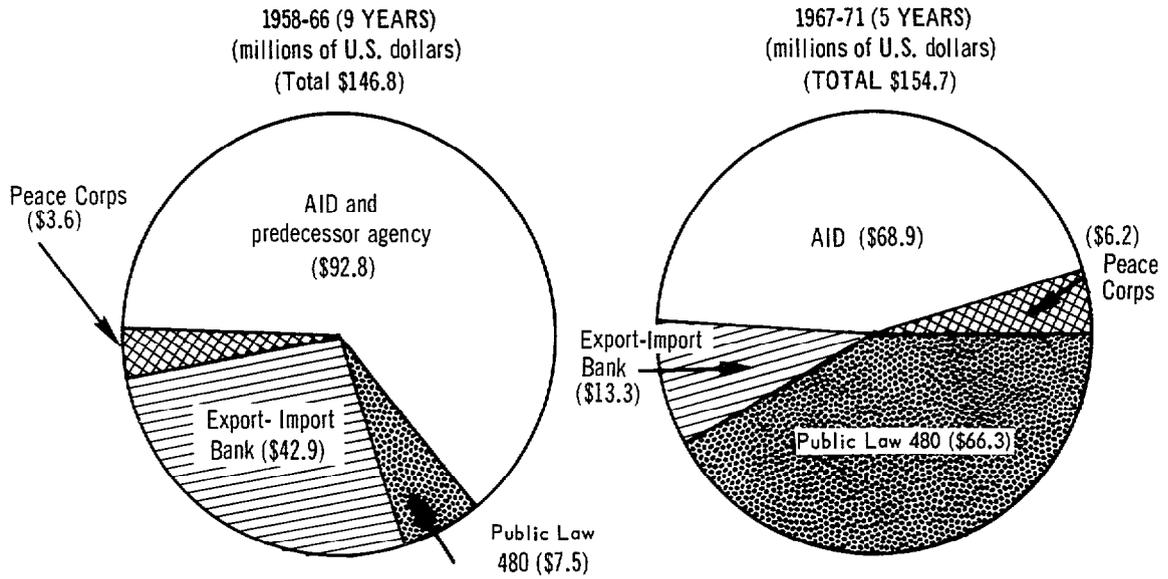
For a 5-year period through fiscal year 1971, the United States provided about \$155 million, or an average \$31 million a year, in bilateral economic assistance to Ghana. This assistance has been primarily directed to balance-of-payments support through loans to finance Ghana's import of commodities and Public Law 480 sales of agricultural commodities. Before 1966 the total economic assistance by the United States to Ghana was about \$147 million, of which about \$125 million was for loans for the Volta River Project.

The United States Information Service program in Ghana seeks to promote greater understanding of the United States and its foreign policy role and overseas programs. The program in Ghana has two main components: culture, particularly the cultural exchange program, and information, including press and publication activities.

The Department of Commerce's efforts are directed toward improving U.S. trade and investment activities in Ghana. The Overseas Private Investment Corporation (OPIC) is involved in a U.S. loan to the Ejura Farms project, a project to introduce mechanized commercial farming to Ghana. OPIC encourages investment in Ghana through a program insuring U.S. private investment in Ghana against losses from currency convertibility, expropriation, and war risk. Export-Import Bank programs, which finance exports, have assisted in financing the Volta River Project.

Pre-1966 and post-1966 U.S. aid is shown below.

**U.S. BILATERAL ECONOMIC ASSISTANCE TO GHANA
1958-66 AND 1967-71 (NOTE a)**



^a U.S. assistance as a portion of total economic assistance to Ghana is shown on page 23.

Source: Mission records made available for our review.

On February 5, 1972, Ghana issued a statement repudiating part of its debt and abrogating existing rescheduling agreements. The United States notified Ghana that it would not provide any new development loans or Public Law 480 assistance loans until progress was made toward settling Ghana's debt problem. Existing loans were not affected, and Ghana continued to service its debts to the United States. U.S. assistance provided to Ghana in fiscal years 1972-73 included:

	<u>1972</u>	<u>1973</u>
	(millions)	
AID:		
Loans	\$ -	^a \$19.0
Technical assistance grants	2.6	3.0
Public Law 480:		
Loans	^b 9.5	-
Grants	1.2	1.2
Other:		
Peace Corps program	1.8	1.5
OPIC loan	<u>-</u>	<u>.6</u>
Total	<u>\$15.1</u>	<u>\$25.3</u>

^aReserved. To be loaned to Ghana as soon as Ghana and its creditors agree on Ghana's debt resolution.

^bApproved before the January 1971 change of government in Ghana.

Early in 1972 the Export-Import Bank stopped considering any new transactions for Ghana pending clarification of Ghana's policy on paying its foreign obligations. By May 1972, after the situation became clearer and after payments on Ghanaian obligations were received, the Bank resumed its cover for selected transactions. No medium-term or long-term transactions, however, were approved during that period. By mid-1972, as guarantee and insurance claims on past Export-Import Bank transactions began appearing, with only slow recovery, the Bank limited its activities to insurance for short-term transactions. Between the end of February 1972 and May 31, 1973, the Bank authorized insurance amounting to about \$240,000 for shipments to Ghana.

The United States, in its assistance agreements with Ghana, encourages Ghanaian self-help measures and economic policy reforms. The agreements for the first two loans to finance Ghanaian imports in 1967 and 1968 included the performance clauses of the International Monetary Fund standby agreement as the Ghanaian Government's self-help measures. The 1970 agreement for the third loan contained its own measures, and the agreement for the most recent 1971 loan contained measures based on the World Bank-led consultative group's objectives. Since 1967 Public Law 480 self-help measures have been written into each agreement, and these measures have been modified or changed each year.

The self-help measures for both the Public Law 480 and program loan agreements are similar in many respects, but they differ in that, historically, Public Law 480 agreements have been directed toward agricultural objectives. For example, the self-help measures for both 1971 agreements are the same, except that the Public Law 480 agreement also includes specific measures directed toward agriculture and feeder-road projects. In 1970 recommendations to integrate the measures of the two programs were made, but as of January 1973 these recommendations had not been implemented. The latest program loan and Public Law 480 agreements, however, both relied heavily on the World Bank-led consultative group's objectives as the basis for the self-help measures.

STUDIES LOAN

In 1967 AID and the Ghanaian Government signed a loan agreement for \$2 million to finance the U.S. dollar costs of a study of agriculture, telecommunications, transportation, and water resources in Ghana. The study, which was to be an important element of the Mission's developmental assistance strategy, has become a complementary phase of the program for assisting Ghana in preparing investment programs for its long-term development plans. The first two phases of the study were to cost \$1.5 million; the third phase, a study of individual projects, was to cost \$500,000. The third phase, however, was not carried out, and the related funds were de-obligated in June 1973.

The telecommunications section of the study, which was completed in December 1969 and accepted by the Ghanaian Government in January 1971, has been used as a basis for a 5-year telecommunications plan for Ghana. The other three sections of

the study were made under one contract, the final disbursement date of which was extended four times. There were many misunderstandings and disagreements concerning the objectives of the study, the scope of the work, and the support to be provided by the Government of Ghana. Many of the objectives of the study were not clear nor fully agreed upon by either the contractor or the Government of Ghana.

The Ghanaian Government, the Mission, AID/Washington, an AID consultant, and the Inspector General of Foreign Assistance criticized the work under this contract. Their criticisms concerned the capability of the persons making the studies and the conclusions they reached, the lack of scope definition, the inadequate counterpart personnel, and the lack of supporting data for recommendations in the initial stages of the study.

In April 1971, despite the criticisms and indicated poor quality of the agriculture, telecommunications, and transportation sections of the study, the Ghanaian Government accepted the results and is using them for specific projects and for further studies.

In May 1973 the Assistant Administrator for Africa, AID, said that the quality of some sections of the study was not as good as AID had anticipated. He further said that AID exercised its authority to review the reports on the study before they were published and had made appropriate comments but that these comments were advisory in nature. AID concluded that Ghana was not in a position to provide the required logistic support and data collection. AID now believes that it would probably have been helpful if the AID-financed study had been funded in segments, with each release of funds made conditional upon the prior development of an agreement upon a definitive scope of work for each of the various sectors studied. AID plans to use this experience as a guide when future analogous situations arise.

AID AND PEACE CORPS COORDINATION

The Peace Corps program in Ghana--one of the largest in Africa--is currently engaged in an effort at program diversification and is moving from the past dominant emphasis on teaching in Ghanaian schools into noneducation technical assistance areas to further Ghanaian economic and social development.

This shift of emphasis would reduce its education program workers from 90 percent to about 50 percent of its 275 volunteers in Ghana by the latter part of 1973. Peace Corps officials believe that recent efforts in trades training and business counseling have been successful and that agricultural and rural development activities are expanding. The Peace Corps officials believe that the growing number of Peace Corps volunteers having professional training and experience will facilitate this shift.

The AID Mission in Ghana has refocused its technical assistance efforts in recent years. The Mission has been moving from a widely diversified technical assistance program, particularly in agriculture, to a reduced program concentrating on the bottleneck areas of Ghanaian economic policy formulation and economic management, in support of AID program assistance objectives. A majority of recent AID projects have been phased out or are being completed, and those AID advisors who were previously at project field sites throughout Ghana are being phased out or relocated in Accra.

We identified five AID-Peace Corps cooperative efforts in Ghana in recent years. These efforts included cooperating on a literacy program for trade unions, jointly working on the Peace Corps business counseling project as a follow-on to an AID project, and using Peace Corps volunteers in an AID regional health project. In addition, during 1967-70, AID gave small amounts of commodities for local self-help construction projects sponsored and coordinated by Peace Corps volunteers. Also, an AID Mission agricultural advisor helped the Peace Corps develop a livestock project. This advisor helped in planning and establishing the project and attended Peace Corps meetings with Ghanaian Government officials on the project. Both Peace Corps/Ghana and Mission officials felt that this cooperative effort was beneficial and successful.

Peace Corps officials said that the complexity of current problems in agriculture, community development, water resources development, and forestry resources development made coordinated action necessary. The officials felt that such efforts required material and technical support beyond the Peace Corps' means and mandate. The officials also felt that the AID Mission in Ghana was open and supportive and that cooperation could be achieved in designing and implementing developmental projects.

In May 1973 the Deputy Director, ACTION, cited as further examples of Peace Corps-AID cooperative efforts (1) using AID feasibility studies in developing Peace Corps projects in Ghana, (2) transmitting to AID feasibility reports the Peace Corps prepared, and (3) cooperating with AID and the Ghanaian Ministry of Health in implementing an epidemiological survey program.

In May 1973 the Assistant Administrator for Africa, AID, said that, although AID was inclined to feel that the ad hoc coordination which had existed quite well served the purposes for which it was intended, the reduced size of the AID Mission, the increased concentration of AID personnel in the Accra area, and the program diversification efforts of the Peace Corps argue for more continuous interchange. The Assistant Administrator, however, did not think that such interchange should be formal but, instead, should be left to the discretion of the AID Mission and Peace Corps directors in Ghana who would be advised accordingly.

Conclusions

The AID and Peace Corps programs are independent, each with its own responsibilities, areas of interest, and programming and implementation structures. The programs and orientations of both agencies have been changed many times over the last few years. Joint AID-Peace Corps activities in Ghana have been limited until recently.

The Peace Corps is currently attempting to move into noneducation technical assistance areas, focusing on assistance to Ghanaians in rural and agricultural areas. Concurrently, the AID Mission is redirecting its technical assistance activities to Ghanaian economic policy planning and management and is phasing out its field projects in favor of a centralized group of experienced technical assistance advisors. We believe that cooperation:

- Facilitates conducting AID and Peace Corps programs in Ghana, since both are directed toward furthering Ghanaian economic and social development within the total U.S. assistance program.
- Allows Peace Corps/Ghana, in developing and implementing its technical assistance projects, to benefit

substantially from the expertise and detailed knowledge which Mission officials have gained concerning Ghanaian economic and social development. A Peace Corps/Ghana official believes that Peace Corps noneducation assistance activities in Ghana could be more effective if there were more consultations with Mission officials. Similarly, the Peace Corps is increasingly requiring volunteers to have specialized skills which could fill some of AID's needs.

- Furthers developing AID-Peace Corps complementary efforts, especially regarding supplying resources because the Peace Corps cannot provide much material or financial assistance.
- Helps in coordinating and facilitating AID and Peace Corps contacts and relationships with Ghanaian ministry officials during the development and implementation of project activities.

Although there is no formal requirement for AID and the Peace Corps to work together, we believe it only reasonable that they do so when their programs are related. We agree that mechanisms for such coordination and cooperation by these two agencies need not be formal to insure that their respective programs complement each other while serving their own goals and objectives. For the aforementioned reasons, the Directors of the AID Mission and the Peace Corps in Ghana should continue to actively seek opportunities to increase their program cooperation when both agencies have related or complementary programs.

FAMILY PLANNING PROGRAM

AID analysis of Ghanaian demographic data indicates that Ghana's birth rate is currently about 50 per 1,000 and that its death rate declined from 23 to 15 per 1,000 in less than a decade. As a result, Ghana's annual rate of population growth may have accelerated from 2.7 percent to almost 3.5 percent during the decade ended with 1970. Ghanaian demographers have concluded that the recent pace of decline in the death rate cannot be sustained but that Ghana's population growth rate may continue accelerating because of the continuing high fertility rates and the increasing proportion of fertile women in the Ghanaian population.

In May 1970 the Ghanaian Government launched a National Family Planning Program which was established in accordance with plans developed with the assistance of the Ford Foundation. The program's target is to stabilize and eventually reduce Ghana's high rate of population growth by promoting voluntary family planning.

The program seeks to (1) provide family planning activities in Government health facilities, (2) include family planning activities in the fieldwork of Ghanaian ministries, (3) mount a mass media campaign to familiarize the Ghanaian public with the population problem and the opportunities for solving it, and (4) conduct research on the program's impact, including experiments with trial techniques.

AID provided about \$1.7 million and 458,000 Ghanaian cedis for the Ghanaian family planning program through fiscal year 1971 and budgeted about \$650,000 and 500,000 cedis for fiscal year 1972. U.S. projects have provided for a demographic survey, participant training activities, contract services, commodities, and supplies. The following picture shows a lecture at an AID-supported family planning clinic in Ghana.



Source: AID Mission files, Accra, Ghana.

The success of a family planning program is measured by the number of acceptors of contraceptive devices, the number of acceptors who continue family planning for a long period, the availability of family planning services, a reduction in the birth rate, the effective operation of the local program, and the commercial sales of contraceptives.

The Ghanaian family planning program has been recording the number of acceptors in Ghana since the program began in 1970. Ghanaian reports show that acceptance rose steadily late in 1970, fluctuated early in 1971, reached a peak in June during a Ghanaian family planning week, dropped in August, and fluctuated during the remainder of 1971. The reports noted that, although the number of family planning clinics in Ghana had more than tripled from September 1970 through 1971, the number of new acceptors had not increased proportionately. Although the original Ghanaian target for acceptors in 1971 was 78,000, the clinics had recorded about 22,700 acceptors during 1971.

Mission and AID regional family planning officials have considered several ways of assisting in improving the overall family planning program in Ghana, such as funding public administration activities to overcome Ghanaian program management problems; involving more contraceptive device users as workers to help other Ghanaians accept family planning; and informing and educating Ghanaians about family planning, to encourage their acceptance. A new family planning advertising campaign was initiated in Ghana in May 1972.

The Ghanaian family planning program did not meet the 1971 acceptor targets that the Ghanaians established for it very early in the program when little reliable data existed. Research projects, as well as evaluations of actual operating conditions, should help AID to better understand the cause and effect relationships of the program. Because of African sensitivity about foreign involvement in family planning, the Mission believes it imperative that U.S. assistance support Ghanaian initiatives and program efforts.

EJURA FARMS' COOLEY LOAN

AID has helped to finance Ejura Farms, a project having a potential impact on mechanized farming in tropical areas.

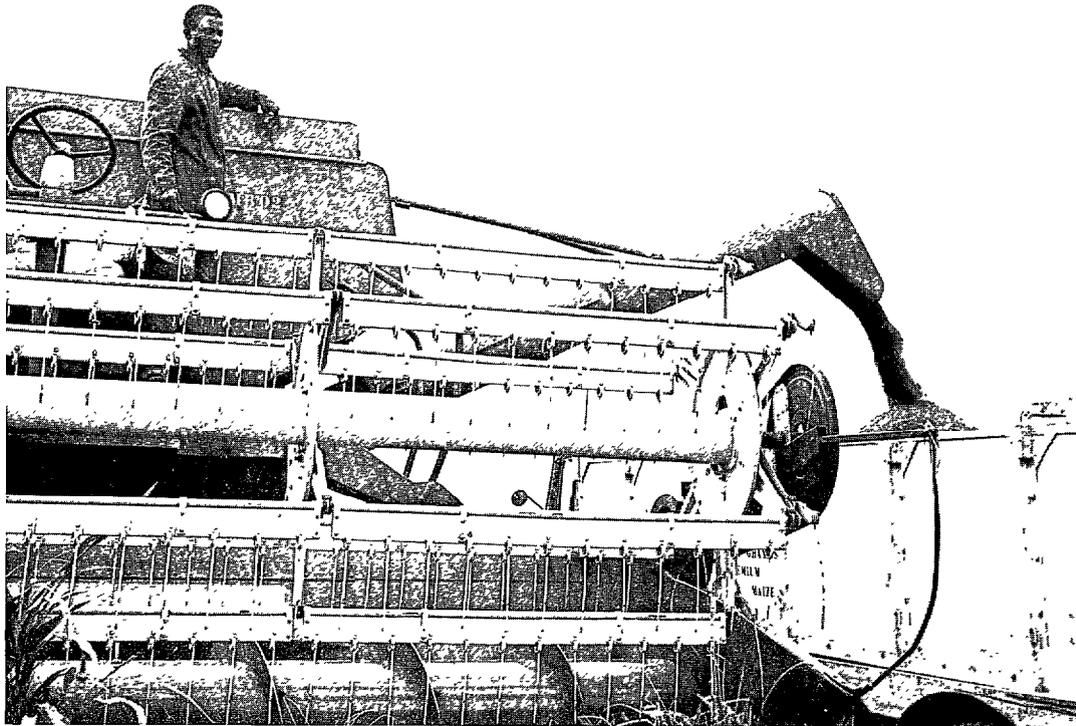
(See photograph on p. 38.) Financing for this project as of April 1973 was as follows:

	<u>Amount</u>
	(millions)
Feasibility study:	
Private and National Investment Bank of Ghana	\$0.1
AID grant	<u>.1</u>
Total	<u>.2</u>
Capital contribution by stockholders:	
Private	.3
National Investment Bank of Ghana	.1
Government of Ghana	<u>.1</u>
Total	<u>.5</u>
Loans:	
Public Law 480 Cooley funds (note a)	2.1
National Investment Bank of Ghana	1.0
Standard Bank of Ghana	<u>.9</u>
Total	<u>4.0</u>
Total cost of project	<u>\$4.7</u>

^aThe Cooley loan program uses local currencies generated by U.S. assistance programs for loans to U.S. businesses for developing and expanding trade in foreign countries. Although AID made this loan, OPIC has administered it since January 1971.

The above financing does not include a Government of Ghana standby credit of 1 million cedis which will become available to Ejura Farms when natural disasters, such as drought or other conditions which might cause substantial crop failure (more than 50 percent of calculated production), occur. However, United States, Ejura Farms, and Ghanaian Government officials have a tacit understanding that this standby credit will not be used until after other funds, particularly the Cooley loan, have been used.

The harvester in the following photograph (shown reaping sorghum on Ejura Farms and transferring it to a truck for delivery to a drying shed) is part of AID's overall effort to introduce mechanized farming to Ghana.



Source: United States Information Agency files, Washington, D. C.

Ejura Farms is a corporation having five directors. Three directors represent two U.S. private investors owning 51 percent and 9 percent, respectively, of the corporation's stock. The two other directors represent the National Investment Bank and the Government of Ghana, respectively, each of which owns 20 percent of the stock. The board of directors employs the 9-percent stockholder, the main promoter of the project, to manage, supervise, and administer all farming and related activities of Ejura Farms. His contract fee is \$35,000 a year plus a percentage of the net profits.

Ejura Farms' crop yields in 1969 and 1970 were disappointing because of weeds, unusual rainfall variations, and a maize virus. Similarly, marketing operations during this period were not successful because (1) storage facilities were not available in August and September 1969 when maize prices were low,

and Ejura Farms was forced to delay a large purchase of maize for resale until December 1969 and January 1970 after prices rose and (2) a Ghanaian firm broke its contract with Ejura Farms to purchase its maize in 1970. In October 1969 AID agreed to Ejura Farms' request to increase farm acreage through land clearance and waived the requirement for primary emphasis on marketing operations.

In March 1971 OPIC justifiably withheld disbursing from Cooley loan funds the 175,000 cedis requested for the project. An OPIC official visited the farms in April 1971, and OPIC released 100,000 cedis in July 1971. In November 1971, after AID audited the project, OPIC released 250,000 additional cedis on the conditions that Ejura Farms prepare a new forecast of its operations and that all interested parties would meet in January 1972, to decide investor, AID, and OPIC participation in the farms' future. Because of the Ghanaian coup, this meeting was delayed until July 1972. Although the loan initially was defaulted, it was rescheduled; in July 1972 OPIC agreed to release 400,000 additional cedis.

In April 1973 the president of OPIC advised us that OPIC delayed disbursing loan funds in March 1971 because Ejura Farms had not furnished the requested financial information needed to show that Ejura Farms had done the forward planning required for the project's success. Although we are not suggesting that the OPIC disbursement delay of several months contributed to Ejura Farms' need for additional long-term operating funds, it appears probable that such a delay would have impaired the continuity of farm operations.

AID has recognized from its inception that the project would be both expensive and risky, but AID believes that the project should be continued because of its potential impact on African agriculture, particularly by learning about mechanized farming in tropical areas and by encouraging commercial farming in preference to state farming.

Ejura Farms has not met its goals due to shifts in operating emphasis, unforeseen adverse farming conditions which reduced crop yields, insufficient initial investment to cover adverse situations, and stoppages of funds at critical times. As a result, Ejura Farms' Cooley loan was defaulted. The farms' financial problems were restructured by rescheduling

the loan, after which the National Investment Bank agreed to loan the farms 1 million additional cedis.

Although some of Ejura Farms' production and marketing problems have been corrected and additional financing for it has been obtained, it remains uncertain whether Ejura Farms can become viable.

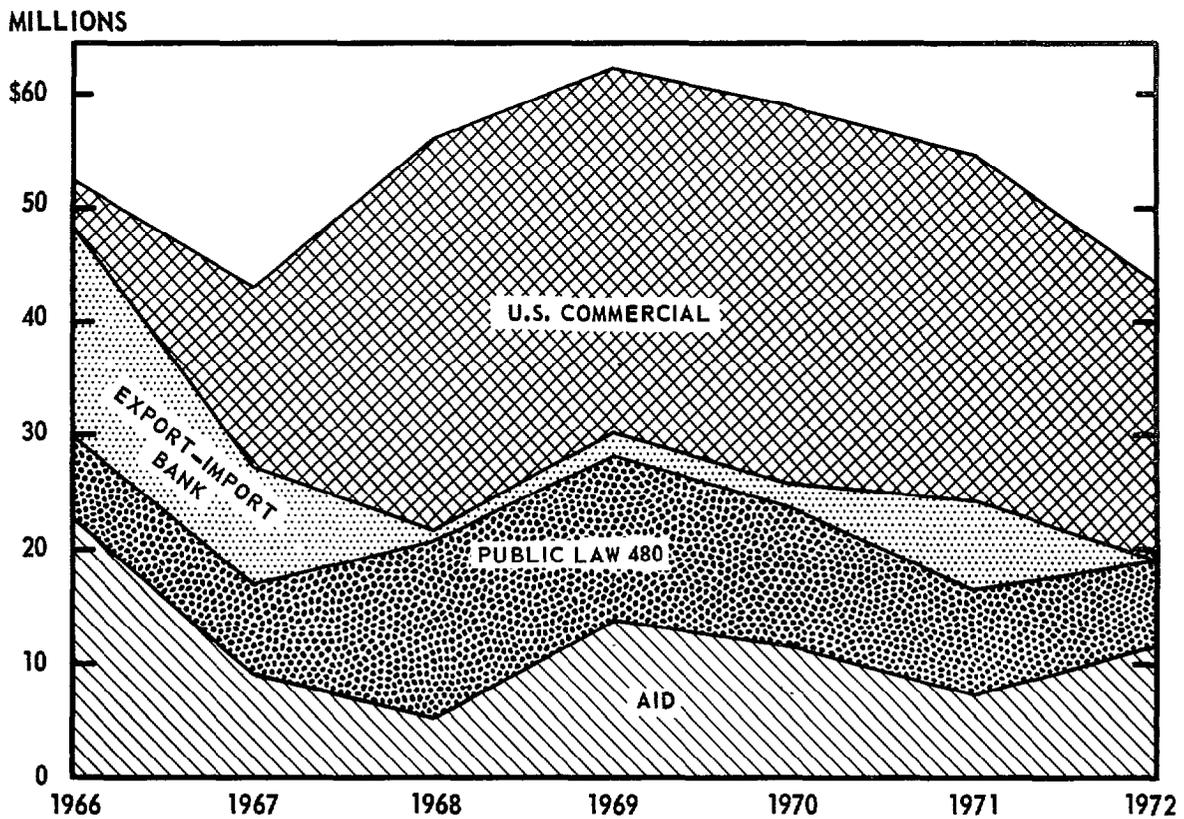
CHAPTER 5

ASSISTANCE VERSUS TRADE PRIORITIES

U.S. TRADE RELATIONS AND INVESTMENTS IN GHANA

U.S. exports to Ghana during 1966-72 totaled about \$371 million and consisted primarily of wheat and wheat products, animal fats and oils, cotton, rice, petroleum and coal products, chemicals, and machinery and equipment. About 50 percent of these exports were attributable to U.S. Government programs, as shown in the following chart.

U.S.-FINANCED AND COMMERCIAL EXPORTS TO GHANA (NOTE a)



^a INCLUDES ESTIMATES

SOURCE: DATA AVAILABLE AT AID HEADQUARTERS, WASHINGTON, D.C.

Ghana's exports to the United States during 1966-72 totaled about \$527 million and consisted primarily of cocoa, aluminum, manganese ores, and wood products. The United States experienced a negative trade balance with Ghana each of those years.

In June 1973 the Department of Commerce said that economic conditions in Ghana and severe import restrictions did not warrant scheduling any trade promotion activities in Ghana during fiscal year 1973. No trade promotion events have been scheduled in fiscal year 1974 for the same reason. Prospects for fiscal year 1975 appear modestly brighter, and Commerce will seek the American Embassy's views on mounting a few promotional activities in Ghana in that year.

Another factor affecting United States-Ghanaian trade relations was Ghana's possible involvement in the European Economic Community, which might result in trade practices discriminatory against the United States. In June 1973 the Department of State said that the United States did not oppose trade association in principle but had sought to discourage any form of association which would entail Ghana's extension of reverse preferences to European Economic Community countries. Commerce said that, should Ghana enter into a preferential agreement with the European Economic Community, which includes reverse preferences, the agreement would have a negative, but presently unmeasurable, effect on U.S. exports to that country. U.S. firms having substantial interests in European Economic Community countries would have access to the Community-associated Ghanaian market, but substituting sales by these firms for exports to Ghana by U.S.-based firms is not consistent with the aims of Commerce's export expansion program. Any efforts to promote U.S.-based trade and investment possibilities in Ghana might be impeded if Ghana were to adopt discriminatory preferential trade practices.

AID-FUNDED TEXTILE LOAN

In May 1967 AID signed loan agreements with the Development Corporation of West Africa (hereinafter referred to as the Development Corporation) for \$1.5 million and with its East African sister corporation for \$0.5 million. Both organizations are wholly owned and fully staffed by the British Commonwealth Development Corporation.

In April 1968 British Commonwealth Development Corporation officials determined that, although there were no immediate prospects for using the AID funds, the best possibility would be a loan for purchasing U.S. textile machinery by the Ghana Textile Manufacturing Company. In May 1968 the AID Mission in Ghana requested AID's approval, in principle, of a loan of about \$1 million by the Development Corporation to Ghana Textile. The loan would help finance expanding Ghana Textile's annual production from about 27 million to 45 million yards.

In October 1969 AID approved the Development Corporation's subloan to Ghana Textile for \$1.3 million. AID funds financed about 11 percent of Ghana Textile's expansion. This loan was to be repaid over a 10-year period, which included a 3-year grace period. After extensive negotiations, a 6.5-percent interest rate was established and the Development Corporation was given the option to purchase 5 percent of Ghana Textile's stock. The option's value was believed to be equivalent to a 2-percent interest rate. This combination, according to AID, met requirements that the interest rate bear a reasonable relationship to the local interest rate.

Loan agreements were signed in January 1970. In February 1970 AID issued a loan commitment for a \$1.3 million subloan to Ghana Textile for the purchase of U.S. textile-manufacturing machinery.

AID guidance on loans to development banks states that AID should not normally approve a subloan of more than \$1 million nor have disproportionate amounts of loan funds outstanding to any one borrower at any one time. In this case the subloan represented 87 percent of AID's loan to the Development Corporation.

Ghana Textile used part of the AID-financed subloan to purchase 8,000 spindles and 2 twisting machines, which were installed in its existing mill in the fall of 1971. Another 8,800 spindles financed by AID were to be installed in a separate facility which would produce synthetic and cotton fabrics. These types of fabrics are similar to U.S. dacron and cotton fabrics that are competitive on the world market.

The Mission said that Ghana Textile's expansion gave U.S. suppliers the opportunity to develop markets and sell

commodities, particularly equipment, in sectors where U.S. industry had previously not participated. The Mission believed that, once U.S. machines became a part of the Ghanaian textile industry, U.S. suppliers could expect to have a continuing long-term market for new and replacement machines and spare parts.

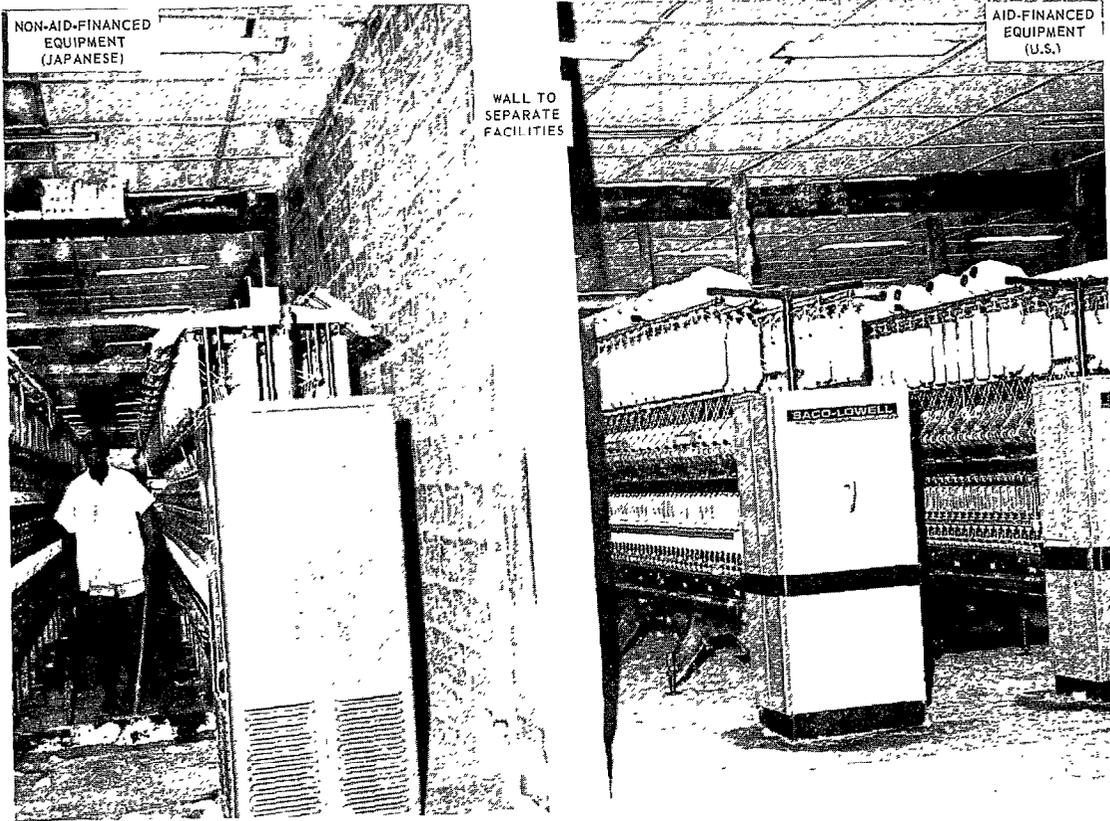
The Mission noted that Ghana Textile would accept a loan condition that its products would not be exported to the United States during the life of the loan or interfere with U.S. textile exports. The Mission felt that Ghana Textile would accept this condition because it would be a simple matter for Ghana textile to preclude sales of its products in the United States and because U.S. products comparable to Ghana Textile's products were not competitive in Ghana or on the world market. The Mission also said that most of Ghana Textile's production would be for domestic consumption, although eventually Ghana would seek to export its textiles, particularly in the West African area. An AID/Washington official said that, prior to making the loan to Ghana Textile, AID had determined that the loan would not increase competition with U.S. textiles because history showed that Ghana was a textile-deficit country. We found these assumptions were not entirely valid.

In view of Commerce's interest in AID activity involving textiles, AID discussed the proposed subloan to Ghana Textile extensively with Commerce. Commerce concurred in the loan, subject to the inclusion of certain special conditions in the loan agreement. These conditions, which were a modification of an earlier, more stringent, Commerce proposal, stated, in part, that:

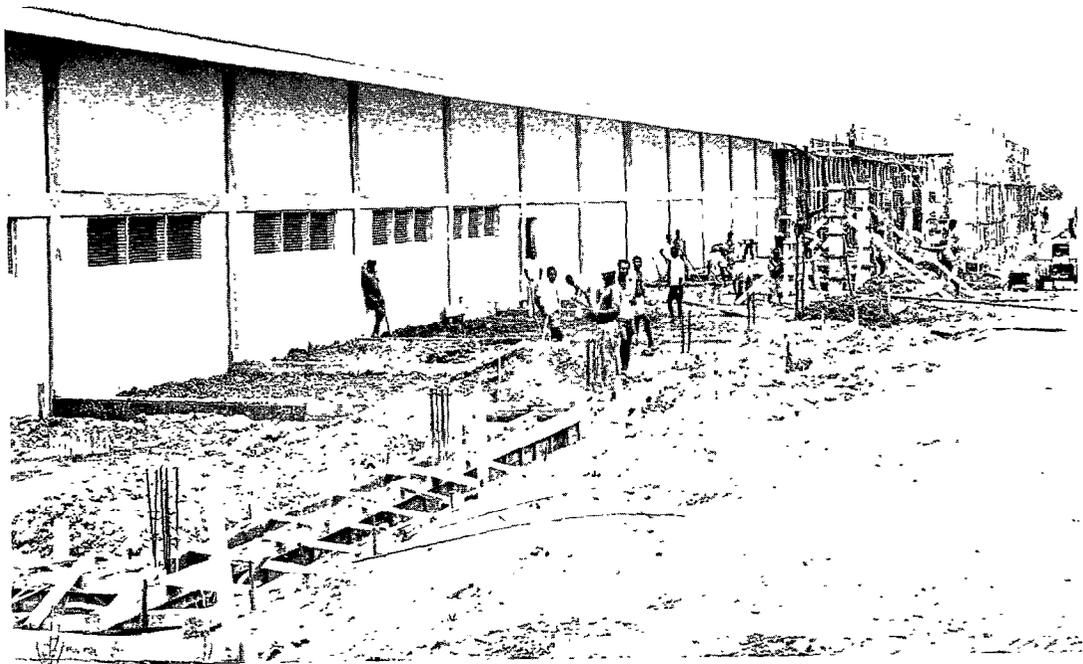
"The sub-borrower hereby agrees that he will not export to the United States of America any of the textiles produced on equipment purchased with funds of this sub-loan and will use his best efforts to assure that textiles so produced are not indirectly exported to the United States."

We believe that this condition may not protect U.S. interests. It appears permissible that AID-financed equipment be used for domestic production and that production from the other equipment be exported to the United States. Enforcement of this provision appears to be impracticable.

The following picture shows the AID-financed textile machinery and expanded facilities at Ghana Textile.



**TEXTILE MACHINERY IN SEPARATED FACILITIES
AT THE GHANA TEXTILE MANUFACTURING COMPANY**



**NEW ADDITION UNDER CONSTRUCTION AT THE
GHANA TEXTILE MANUFACTURING COMPANY TO
HOUSE ADDITIONAL AID-FINANCED MACHINERY**

Source: AID Mission files, Accra, Ghana

Third-country interests

In April 1969 Commerce learned that Ghana Textile was owned by Hong Kong interests and subsequently withdrew its approval of the subloan in fear of possible attempts by those interests to circumvent U.S. import quotas on cotton textiles.

Commerce officials told us in February 1972 that, had they examined the proposed loan more carefully when AID first presented it to them, they would have learned of the Hong Kong interests and never would have approved AID's making the loan.

On August 19, 1969, AID told the British Commonwealth Development Corporation that it would be difficult to approve the loan for a textile project because the loan would have the effect of making the corporation a conduit for loaning AID funds directly to a textile manufacturer. AID told the corporation that generally there were problems with such loans because other U.S. Government agencies might respond to pressures from U.S. textile manufacturers rather than share AID's interest in Ghanaian development.

On August 20, 1969, AID told Commerce that the subloan would not be canceled but would be judged on its merits. AID believed that critics would not legitimately argue that the sale of U.S. equipment to Ghana Textile would expose the U.S. textile industry to trade competition. AID said that there was every reason to expect Ghana to be a net importer of textiles with little opportunity to significantly affect the world textile trade. In September 1969 Commerce again notified AID that it was opposed to the subloan's being made to Ghana Textile.

Use of AID commodity loan to expand Ghana Textile production

About the time that the Ghana Textile subloan was being considered, the Mission and AID/Washington corresponded about the possibility of financing textile machinery from AID loans to finance commodity imports. Previously, the Mission had tried to dampen interest in this area. This was apparently due to AID's long-term commitment to avoid funding any significant increase in the existing worldwide

overcapacity in textile manufacturing, especially when such increased capacity might interfere with U.S. textile markets.

AID policy, however, provides that when the desired equipment will result in new or expanded capacity and when there appears to be good reason for AID to finance U.S. equipment, AID will seek concurrence from the Department of Commerce. This policy applies to program loans, as well as to subloans of the type made to Ghana Textile. Commerce's concurrence is generally conditional upon the buyer's agreement not to export resulting textiles to the United States.

In September 1969 Commerce requested that AID not approve the proposed purchase of textile machinery for Ghana Textile (\$260,000) and for one of its Ghanaian affiliates (\$120,000). Commerce considered such a purchase to be counter to U.S. Government efforts to negotiate international agreements to moderate textile imports into the United States. Commerce also felt that such a purchase would increase the capacity of the Hong Kong textile industry.

In September 1973 AID advised us that, in line with the 1969 criteria not to finance textile equipment for expansion purposes, it had decided not to finance the above textile equipment. Only one major item of textile equipment, costing about \$40,000, was approved for Ghana Textile because the equipment was for replacement purposes and therefore eligible for financing.

Ghana Textile exports to the United States

In December 1971 a Mission official visited Ghana Textile to discuss a sales contract between Ghana Textile and a U.S. importer for 5 million yards of gray cloth. Ghana Textile stated that this was its first export activity and that it would supply only 1 million yards. A Mission official reminded Ghana Textile of the special conditions of the subloan regarding exporting textiles to the United States. These conditions require that quarterly reports of such exports be provided to the Development Corporation. Mission officials concluded that Ghana Textile would be able to insure that no yarn from U.S.-financed spindles would be used to weave gray cloth for export to the United States.

Ghana Textile was responsible for most of the 2.5 million yards of gray cloth exported to the United States from Ghana during 1972 or about equal to the amount of the expanded capacity provided by the AID-financed Development Corporation subloan to the company. Ghana Textile has used Public Law 480 cotton as a raw material for its operations in the past, but there has been no Public Law 480 loan to Ghana since November 1971. Problems with restrictive clauses governing Ghanaian exports of products, including textiles, processed from Public Law 480 commodities are discussed in the following section.

Mission officials said that Ghana Textile had told them that Ghana Textile, once the machinery was installed, planned to produce dacron and cotton textiles. These officials did not know whether this planned production would compete with U.S. dacron and cotton textile exports to Ghana.

Commerce officials said that, although exporting gray cloth to the United States did not violate the technical restrictions of the special conditions, they felt that it clearly violated the intent of the conditions, since this was the type of situation that the special conditions were to prevent.

AID officials said that they felt that the loan was proper and that they were trying to keep U.S. textile machinery manufacturers from going out of business as the result of Commerce's objection to export sales of textile machinery. AID felt that a loan of this size would result in many jobs in the U.S. textile machinery industry.

AID's West Africa Regional Capital Development Office officials, who were responsible for the subloan, told us that they had not known that Ghana Textile was exporting gray cloth to the United States. These officials also felt that the exporting did not break the letter of the special conditions but did definitely violate their spirit. An AID/Washington official disagreed that the export of gray cloth by Ghana Textile violated the intent or the spirit of the agreement. AID's view was that the precise language of the conditions described the intent of the agreement.

An AID Auditor General's report, dated June 14, 1972, relating to the Ghana Textile subloan concluded that the

objectives of the subloan were being met but acknowledged the reasonableness of the Department of Commerce's concerns and further concluded that:

"* * * loans of this nature could give rise to those circumstances of concern to the U.S. Department of Commerce. Too, it is common knowledge that devious and sundry methods are often resorted to in foreign commerce transactions to circumvent the most carefully designed controls. Consequently the auditors believe AID officials would be well advised to recognize and accept such risks before agreeing to finance activities with similar overtones in other less developed countries."

In April 1972 an AID auditor told us that he doubted the capability of Ghana Textile to distinguish between textiles produced on U.S.-funded machines and those produced on other machines when both were in the same plant. The auditor therefore doubted the effectiveness of the compliance-reporting clauses of the special conditions.

Agency comments and GAO analysis

AID, in commenting on this report in May 1973, noted that, when the subloan was approved, U.S. efforts supporting Ghanaian economic development, buttressed by considerations of advantages gained by U.S. cotton growers and textile machinery manufacturers, outweighed the possible adverse effects to the U.S. textile industry of AID-financed sales of textile equipment.

Commerce initially agreed with AID but subsequently objected when it discovered that the AID-financed equipment would benefit the Hong Kong interests. AID rejected this concern because:

1. The benefits of concessional financing were to go to Ghana, irrespective of the machinery's being needed by an enterprise owned by expatriates.
2. The subloan to Ghana Textile was to be made on strictly commercial terms and as such would not give the Hong Kong interests an advantage vis-a-vis U.S. competitors.

Commerce responded that it did not oppose all financing of textile machinery exports but did oppose U.S. Government concessional financing of textile machinery exports to countries which had not entered into bilateral textile and apparel agreements with the United States. Commerce did not object to Export-Import Bank or commercial financing of textile machinery exports. None of these general criteria are applicable to this decision. As AID contends, and as our information shows, Commerce objected only when it discovered that the AID-financed equipment would benefit the Hong Kong owners.

The Department of State, which has a central role in the determination of U.S. interests in foreign countries, said that determining relative priorities in conflict situations, such as in the case we are reporting on, was difficult. State recognized its leadership function in these matters and said that it had exercised this responsibility in similar instances.

A Department of State official with whom we discussed this matter in October 1973 emphasized that general criteria existed for resolving conflicts and that existing procedures provided for interagency coordination. Although he said that more specific criteria would provide officials with more comprehensive information on which to base their decisions, he noted that such criteria were difficult to develop. Also he doubted the practicality of developing criteria for all aspects of the developmental and U.S. interests issues involved.

We recognize that it may not be practicable to develop definitive criteria for all circumstances; however, we believe that it would be practicable to specifically identify issues involved that merit consideration in the approval process. Such issues should include the percentage of production that would be exported to the United States; how much U.S. trade would be displaced; and the benefits, if any, that might flow to third-country interests. We believe that this approach by the concerned agencies would result in more consistent and uniform recognition of U.S. interests.

We note that OPIC has tried to develop definitive criteria to protect U.S. interests in its program to encourage and stimulate development in foreign countries. Particularly applicable to this case is OPIC's policy that projects

involving exporting textile products to the United States in amounts greater than 5 percent of production are ineligible for insurance coverage. If AID had applied this criterion, even without considering the problem of the Hong Kong interests, it might not have made the loan. We recognize that at this point in time AID might have made a different determination because in recent years the U.S. balance-of-payments problems have been emphasized. We question, however, whether it is desirable for U.S. assistance to benefit interests in developed countries. We note, for example, that OPIC policies tend to discourage approving projects requiring substantial procurements from developed countries.

Recommendation

We recommend that the Secretary of State, in cooperation with the Department of Commerce and AID, consider developing more definitive criteria to help resolve conflicting U.S. interests, such as those identified in providing assistance to a Ghanaian textile firm. Criteria for determining eligibility for a loan should specify such matters as the percentage of production that could be exported to the United States; how much displacement of U.S. trade should be permitted; and the benefits, if any, that could flow to third-country interests.

PUBLIC LAW 480 PROGRAM AND GHANAIAN EXPORT EXPANSION

There are problems involving the priorities of such Public Law 480 program objectives as (1) developing and expanding Ghanaian export markets for U.S. agricultural commodities and (2) encouraging economic development in Ghana. Under Public Law 480 agreements, Ghana receives cotton, wheat, and vegetable oil.

The Public Law 480 agreements with Ghana provide that commodities purchased under title I of the act not be resold or transshipped to other countries. These agreements also require that Ghana take all possible measures to prevent the export of any commodity of either domestic or foreign origin which is the same or like the commodities financed under the agreements. This export limitation may inhibit the economic growth of Ghana by preventing the use of these commodities in products for export.

This problem has been of particular concern to the Ghanaian textile industry, and since January 1968 Ghana has sought to remove the export limitation on cotton textiles. Several modifications were considered, and in the November 12, 1971, Public Law 480 agreement the following limitation clause was added as a compromise.

"If the Government of Ghana should export cotton textiles and products, it must be offset by commercial purchases of cotton from the United States on a cotton content basis."

An additional limitation was added when, on September 14, 1972, Ghana was notified that the United States was placing a quota on the export of Ghanaian textiles to the United States. The quota became effective November 13. Ghana exported about 2.5 million yards of cloth to the United States during 1972.

As to Public Law 480 restrictions on processing wheat and exporting the resulting flour, the November 12, 1971, Public Law 480 agreement included the following clause.

"If the Government of Ghana should export wheat flour and products, it must be offset by commercial purchases of wheat and/or wheat flour from the United States on a ton-for-ton wheat equivalent basis."

Mission officials were pleased with this change in the mechanism established for export limitations but stated that procedures prescribed by the Department of Agriculture to enable the Government of Ghana to export flour milled from Public Law 480 wheat were cumbersome and would be difficult to administer.

Because vegetable oil was included in the June 1970 Public Law 480 agreement with Ghana, the export of shea nuts from Ghana was limited. The limitation was below Ghanaian average export levels for the previous 8 years. Since shea nuts are produced in Ghana's poorest area, Ghana was greatly concerned about losing the market for one of that area's few moneymakers. In addition, the shea nuts which were being

exported were being used not to produce vegetable oil but for industrial purposes.

Vegetable oil was not included in the fiscal year 1972 Public Law 480 agreement, so the problem will not arise again unless vegetable oil is included in future agreements.

CHAPTER 6

SCOPE OF REVIEW

We made our review to (1) get information on U.S. programs, in Ghana, (2) observe the relation of U.S. assistance programs to other donors, and (3) evaluate the relation of assistance from all donors to Ghana's significant external debt problem.

We reviewed policy papers, program documents, reports, research studies, and other pertinent records available at the Departments of State and Commerce, AID, the Peace Corps, and the United States Information Agency in Washington, D.C., and at the U.S. Embassy, AID Mission, Peace Corps, and United States Information Service in Ghana. We discussed relevant matters with U.S. Government officials in Washington, D.C., and in Ghana; American business representatives; and representatives of the World Bank, United Nations Development Program, the Food and Agriculture Organization and other United Nations organizations in Ghana. We did our fieldwork in Ghana during a 6-week period ended in May 1972. We did additional work at AID headquarters in Washington, D.C.



DEPARTMENT OF STATE

Washington, D.C. 20520

June 26, 1973

Mr. Oye V. Stovall, Director
International Division
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Stovall:

I have been requested to reply to your letter of April 6, 1973, enclosing the General Accounting Office's report of its review of U.S. programs in Ghana.

I understand there have been frequent consultations between the authors of the report and those Department officials responsible for our relations with Ghana. The following comments on the report are expressed within the context of these informal consultations, during which several suggestions intended to update the report, reclassify portions of the report, and correct misunderstandings were made to the authors.

Before undertaking a systematic response to the recommendations contained in the report, I wish to comment on several of its assumptions and conclusions.

[See GAO note, p. 61.]

[See GAO note, p. 61.]

The report contends that the United States has provided 94% of the total net assistance received by Ghana during 1967-71, and the authors conclude that this share is inappropriate. The Department believes this calculation is misleading and that the conclusion is unjustified.

During 1967-71, the United States provided \$113.3 million in foreign assistance, less than 44% of the total \$259.4 million received by Ghana in the post-Nkrumah era. Ghana's substantial debt payments to foreign governments reduced the total net foreign assistance figure to \$109.7 million. The relationship between this figure and the \$103.1 million net inflow from the United States, which was a minor creditor, has been used to suggest that the United States was shouldering a disproportionate burden.

Comparing the net position of one creditor/donor with the total net foreign assistance figure for Ghana exaggerates the contribution of that creditor, because the outflows to net creditors offset the inflows of other net donors. Using the same mathematics and offsetting inflows from the U.S., it could be demonstrated as easily that individual net inflows from several other creditor/donors represent impressive fractions of the total \$109.7 million net assistance received by Ghana. The problem is not, as the 94% figure suggests, that the United States was almost the sole country to provide more to Ghana than it received, but that some creditor/donors received much more in debt repayment than they provided in foreign assistance. One thrust of U.S. debt rescheduling policy has been to persuade these creditor/donors to reschedule on terms which will reduce this drain on the resources available to Ghana from the United States and the other major sources of net foreign assistance, i.e. the IBRD, West Germany, and Canada.

Although this has been mentioned informally, I consider it important to call your attention to the fact that the United States did not sign the International Cocoa Agreement within the period specified in the Agreement and has no present

intention to adhere to the Agreement, if and when it comes into force. Although the Department continues to support the concept of a commodity agreement for cocoa, we believe the present Agreement is so flawed as to be inoperable. However, should the Agreement come into force, the United States has pledged to cooperate with the administrative authority by providing U.S. import data which will be useful in the operation of the Agreement.

In discussing U.S. commercial policy, the report states that the United States opposes Ghana's association with the European Economic Community and has sought to discourage such association. What the United States opposes and has sought to discourage is not association per se but any form of association which would entail the extension by Ghana of reverse preferences to EEC countries.

[See GAO note, p. 61.]

[See GAO note, p. 61.]

The creation of the Senior Interdepartmental Group in 1966 gives the Secretary of State and his designated representatives a central role in the determination of United States interests in foreign countries. These interests are defined in the Policy Analysis and Resource Allocation papers which are drafted within the Department and ultimately approved by the regional Interdepartmental Groups. The determination of relative priorities in conflict situations such as those described in the report is less tidy. But the Department has and continues to assert its leadership in this process. Earlier this year the Department exercised this responsibility in a situation directly related to the conflict described.

[See GAO note, p. 61.]

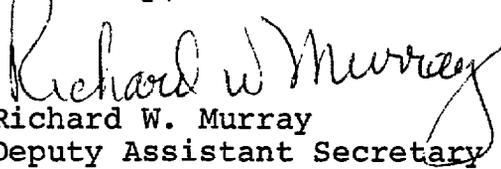
[See GAO note.]

It is the Department's opinion that these existing mechanisms provide feedback on the effectiveness of the exchange visitor program adequate to assess its effectiveness and to improve its management. (UNCLASSIFIED)

With respect to classification, the present draft retains in its classified paragraphs only the information that we believe needs this protection. [See GAO note.]

In conclusion I wish to express the Department's appreciation for the attention given by the General Accounting Office to United States activities in Ghana. We believe this review has focused helpful attention on policy and administrative problems, and that the constructive advice of the report's authors may assist in the resolution of some of these issues. (UNCLASSIFIED)

Sincerely,


Richard W. Murray
Deputy Assistant Secretary
for Budget and Finance

GAO note: Deleted comments relate to classified or other matters in the draft report which are omitted from, or modified in, this final report which, because of such changes, became unclassified.

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

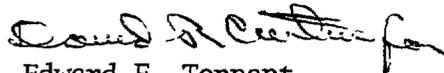
May 24 1973

Mr. Oye V. Stovall
Director
International Division
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Stovall:

I am forwarding herewith a memorandum dated May 23, 1973 from Dr. Samuel C. Adams, Jr., Assistant Administrator for the Bureau for Africa, which constitutes the comments of AID on the General Accounting Office's draft report titled, "United States Programs in Ghana"

Sincerely yours,


Edward F. Tennant
Auditor General

Enclosure: a/s

OPTIONAL FORM NO. 10
MAY 1962 EDITION
GSA FPMR (41 CFR) 101-11.6

UNITED STATES GOVERNMENT

Memorandum

TO : AG: Mr. Edward F. Tennant

DATE: May 23 1973

FROM : AA/AFR: Samuel C. Adams, Jr. *SA*SUBJECT: AID's Response to General Accounting Office (GAO) Draft Report
Entitled: United States Programs in Ghana

Comments on those GAO findings and recommendations which are pertinent to AID are discussed below:

1) Liaison with the Peace Corps in Ghana:

Like the GAO, AID and the Peace Corps believe that interchange among agencies pursuing similar purposes can be highly useful. References in the GAO report to instances where such coordination has borne fruit are much appreciated. [See GAO note, p. 68.]

While we are inclined to feel that the ad hoc coordination which has existed heretofore served the purposes for which it was intended quite well, we agree that the reduced size of the AID Mission, increased concentration of AID personnel in the Accra area, and the program diversification efforts of the Peace Corps argue for more continuous interchange. Mechanisms for such interchange need not be formalized--the USAID and Peace Corps Ghana staffs are not large enough to warrant it--but instead can be left to the USAID and Peace Corps directors in Ghana to work out. We will advise them of these views.

[See GAO note, p. 68.]



CLASSIFIED BY: ~~SA~~ Samuel C. Adams, Jr. *per [Signature]*
Asst. Admin. for Africa

AUTOMATICALLY DECLASSIFIED ON MAY 21, 1978

[See GAO note, p. 68.]

Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

5010-108

APPENDIX II

[See GAO note, p. 68.]

b) Role of the World Bank's Resident Representative in Ghana:

It is AID's view that the External Aid Division of the Ghanaian Ministry of Finance and Economic Planning has an important role to play in assuring the requisite level, composition and coordination of external assistance. The World Bank, as Chairman of the Ghana Consultative Group, can be of considerable assistance by facilitating interchange between the GOG and donor community and helping the former to carry out necessary analytical work. The Bank's Resident Representative must be a key figure in these processes, and we would, therefore, fully subscribe to a strengthening of his role.

[See GAO note, p. 68.]

[See GAO note, p. 68.]

3) Sector Studies Loan:

The quality of some of the studies was not all that we would have wished it to be.

[See GAO note, p. 68.]

A.I.D. had the authority to review all reports prior to publication (Section 5.05b of the loan agreement) and, in all instances, did so, sometimes making comments which were highly critical. But in keeping with our policy of reducing direct involvement by relying increasingly on LDC's and intermediaries--a policy sanctioned by the President in his message to Congress of September 15, 1970--we did not insist on their acceptance.

There is another important reason for keeping direct A.I.D. involvement in projects of this sort to a minimum. This was clearly spelled out in a memorandum to the Acting Inspector General of Foreign Assistance, Department of State, dated January 6, 1972, from which we quote:

APPENDIX II

...our experience strongly suggests that to the degree A.I.D. assumes direct responsibility for carrying out functions which are properly the concern of the host country, the interest of the latter wanes. With the full involvement of A.I.D. professional staff, we could perhaps expect a more professionally sound effort from contractors, but one which would be closely identified by the host country as an A.I.D. document, not its own. In such instances, the probability of enthusiastic consideration and utilization by the host country diminishes considerably.

None of the above should be construed to imply that judgements made by A.I.D. were always the best. In retrospect, we now feel that we required of the GOG more than it could handle in terms of logistic support and data collection. Also, it would probably have been helpful if the loan had been "tranching", with release of funds for Phase II made conditional upon the prior development of an agreement upon definitive scopes of work for each of the various sectors studied. This experience will be borne in mind when analogous situations arise.

4) Conflicts in Objectives involving A.I.D. and the Department of Commerce:

As stated by the GAO in its recommendation, the conflict appears to have been one between A.I.D.'s role in support of Ghanaian development on the one hand, and the Department of Commerce's interest in protecting U.S. trade interests on the other. This seems to suggest that A.I.D. did not take into account the latter objective. However, from the discussion in the GAO report leading up to this recommendation, it will be observed that this is not the case. Instead, the issue at hand was whether or not USG efforts in support of Ghanaian economic development buttressed by considerations of advantages gained by U.S. cotton growers and textile machinery manufacturers outweighed the possible adverse effects to the U.S. textile industry of AID-financed sales of textile equipment. At the time the sub-loan was approved, it was our contention that they did. The bases for that contention are amply discussed in the report. It is noteworthy that Commerce initially concurred with our view, only subsequently raising objections when it was discovered that the equipment would go to Hong Kong interests. We did not feel that the grounds for objection were germane since

- a) the benefits of concessional financing were to go to Ghana, irrespective of the fact that the machinery was needed by an enterprise owned by expatriates; and
- b) the sub-loan to the Ghana Textile Manufacturing Company was to be made on strictly commercial terms, and, as such, would not give the Hong Kong owned concern an advantage vis-a-vis competitors, U.S. or otherwise.

5) U.S. Share of Assistance to Ghana:

Although no recommendations are made, there is a clear need to comment on the following two points raised in the report:

- a) Is U.S. assistance helping to repay other creditors? and
- b) Is the U.S. providing a disproportionate share of total assistance going to Ghana?

The first question cannot really be answered. On the one hand, there is no doubt but that the assistance we have provided has been used for the purposes for which it was intended, i.e. largely, the financing of necessary imports. On the other, it might be contended that the availability of assistance from the U.S. makes it possible for Ghana to divert other resources to debt service. Presumably, this is what the GAO had in mind in raising the matter. We don't propose to deny the point, but to observe that it could be said with equal validity that our assistance has made it possible for Ghana to expend funds on developmental projects which could not otherwise have been undertaken, or, for that matter, for any other purpose for which funds were in fact expended. Additionally, it might be noted that whether or not other countries maintain a positive net flow of resources to Ghana is irrelevant in terms of the question at hand. In these circumstances, we feel that it is incumbent upon us to consider the overall pattern of GOG expenditures before adding to the availability of funds through concessional lending. To the extent that we can satisfy ourselves, at least in a general sense, that resources are being expended in a manner consistent with achievement of sound development objectives, we think it fair to conclude that the resources we provide support those objectives.

We agree that the U.S. has provided a very large share of net resources transferred to Ghana since the 1966 coup d'état.

[See GAO note, p. 68.]

[18] as is evident from the table on page 40 of the draft report, there has been a significant downward trend in the proportion of assistance (gross and net) from the U.S. over the five-year period (1967-71) due largely to increased aid flows from other countries plus debt rescheduling. Third, the U.S. looms large in terms of net flows because we are such a small creditor with respect to Ghana's short and medium term debts. The USG could, presumably, condition assistance on increased efforts on the part of those countries which hold the bulk of Ghana's debt. Indeed, to some extent we have pressed on other countries the need to assist Ghana. However, there are limits to which this can

GAO note: Page number in brackets refers to pages of this final report.

APPENDIX II

be pushed, for it is not in our interests to establish the principle that aid be extended in proportion to debt held. In this regard, we cannot lose sight of the fact that the U.S. is the largest creditor of the less developed countries in the world. END UNCLASSIFIED.

Attachments: A/S [See GAO note.]

AFR/CWA:RMisoff:lg
5/21/73

Clearances:

AFR/CWA:HJohnson(draft)
AFR/CWA:AHellis(draft)
AFR/EMS:FWHahne(draft)
AFR/DP:EBHogan(draft)
AA/SER:JFCampbell(draft)
AA/PPC:CGulick(draft)
PC:JColbourn(draft)
AA/AFR:DSBrown

Classified Documents Center

(Subject/Chron Files)

GAO note: Deleted comments and omitted attachments relate to classified or other matters in the draft report which are omitted from, or modified in, this final report which, because of such changes, became unclassified.



UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Administration
Washington, D.C. 20230

July 26, 1973

BEST DOCUMENT AVAILABLE

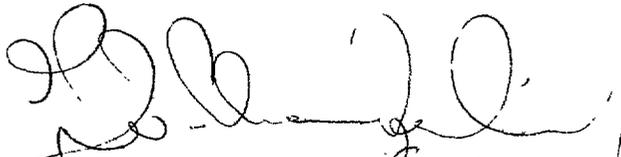
Mr. J. K. Fasick
Director
International Division
General Accounting Office
Washington, D. C. 20548

Dear Mr. Fasick:

This is in reply to Mr. Stovall's letter of April 6, 1973, requesting comments on a draft report entitled "U. S. Programs in Ghana."

We have reviewed the comments of the Domestic and International Business Administration and believe that they are appropriately responsive to the matter discussed in the report.

Sincerely yours,


Henry B. Turner
Assistant Secretary
for Administration

Attachment



THE ASSISTANT SECRETARY OF COMMERCE
Washington, D.C. 20230

JUN 15 1973

Mr. Oye V. Stovall
Director
International Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Stovall:

Secretary Dent has asked me to reply to your letter of April 6, in which you request the Department of Commerce's review and comments on the General Accounting Office's report concerning U. S. programs in Ghana.

We have carefully considered Chapter 6 of the report, which covers the subjects of U.S. trade with and investment in Ghana. The views presented therein appear generally consistent with Commerce's objectives and experience vis-a-vis Ghana, although we would like to make the following comments

[See GAO note, p. 73.]

[See GAO note, p. 73.]

In addition to the above comments which are directly related to the draft report's recommendations, some further general observations might be helpful to you in the preparation of your final report.

Following the merger of the Offices of International Commercial Relations (OICR) and of International Trade Promotion (OITP), the newly formed Office of International Marketing (OIM) has been developing, in cooperation with the Department of State, a more comprehensive manner of proposing and quantifying the U.S. commercial objectives within particular countries. The Country Commercial Program, as it is entitled, will include within it not only the entire scope of our promotional activities, but will give each post a clear directive in the priority of accomplishing the stated objectives and will provide adequate resources for the accomplishment of those objectives. Zaire was selected to be the subject of the pilot FY'74 CCP. Three additional countries--Algeria, Nigeria, and South Africa--have been selected for CCP's in FY 1975. These four initial CCP's will serve as models for expanding the CCP to cover an increasing number of markets in which the U.S. has significant commercial interests.

As a direct result of the creation of OIM, the information functions of the OICR desk officers and the promotional functions of OITP's promotional planning personnel were combined into the Country Marketing Manager (CMM). The CMM is the focal point in the Domestic and International Business Administration for the development of Country Commercial Programs and is the personal contact within Commerce for the Foreign Service concerning all matters related to international marketing. In this latter capacity, he is responsible for coordinating all significant workload assignments from Commerce placed upon the Foreign Service Posts.

APPENDIX III

Commerce's trade promotion programs for FY 1971 and FY 1972 included Ghana on the itinerary of one specialized trade mission in each fiscal year. In FY 1971, an Agricultural Development Mission visited the country, followed by a Textile Machinery Mission in FY 1972.

Commerce had initially proposed to the U.S. Embassy in Accra the inclusion of Ghana on three Missions projected for FY 1973. On the basis of the Embassy's response, Commerce concluded that economic conditions and severe import restrictions would not warrant the scheduling of any trade promotion activities in Ghana during FY 1973. No trade promotion events were scheduled in FY 1974 for the same reason. Prospects for FY 1975 appear modestly brighter and Commerce will seek the Embassy's views on mounting two promotional activities in Ghana at that time.

With regard to U.S. trade policy toward Ghana, we believe that, should Ghana enter into a preferential agreement with the EEC which includes reverse preferences, this action would have a negative, but presently unmeasurable, effect on U.S. sales to that country. U.S. firms located in EEC countries would have access to an EEC-associated Ghanaian market, but substituting sales by these firms for exports to Ghana by U.S. based firms is not consistent with the aims of our export expansion program. Furthermore, any efforts to attract more new-to-market or new-to-export firms to the trade and investment possibilities of Ghana could be impeded if that country adopted a discriminatory preferential system. Consequently, Commerce will continue to encourage Ghana to opt for a proposed U.S. system of generalized trade preferences instead of joining any trade bloc which would involve discriminatory reverse preferences.

Some observations concerning Commerce's position on the export financing of textile machinery might also be helpful. This Department does not oppose all financing of textile machinery exports. The Commerce Department opposes only U.S. Government concessional financing of textile machinery exports to countries which have not entered into bilateral textile and apparel agreements with the United States. Commerce does not object to any Eximbank or commercial financing of textile machinery exports.

Finally, I would like to review briefly the United States' position on the cocoa question. The United States rejected the International Cocoa Agreement because we disagreed with the price range, quota system, voting system, and the ambiguity and lack of precision in certain articles of the agreement. We have agreed, however, to cooperate with the contracting parties by furnishing trade information. Ninety percent of the producing and 70% of the importing countries signed this three-year agreement. The buffer stock envisaged by the agreement will be financed from a levy of \$0.01 per pound on cocoa exports.

I hope that the foregoing observations will be useful to your office in preparing the final report.

Sincerely,

Lawrence A. Fox

Lawrence A. Fox
Acting Assistant Secretary for
Domestic and International Business

GAO note: Deleted comments relate to matters in the draft report which are omitted from, or modified in, this report.

APPENDIX IV

PRINCIPAL OFFICIALS

RESPONSIBLE FOR THE ADMINISTRATION OF ACTIVITIES

DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
<u>DEPARTMENT OF STATE</u>		
SECRETARY OF STATE:		
Dean Rusk	Jan. 1961	Jan. 1969
William P. Rogers	Jan. 1969	Sept. 1973
Henry A. Kissinger	Sept. 1973	Present
UNITED STATES AMBASSADOR TO GHANA:		
Franklin Williams	Jan. 1966	May 1968
Thomas W. McElhiney	Sept. 1968	May 1971
Fred L. Hadsel	Sept. 1971	Present
<u>AGENCY FOR INTERNATIONAL DEVELOPMENT</u>		
ADMINISTRATOR:		
David E. Bell	Dec. 1962	July 1966
William S. Gaud	Aug. 1966	Jan. 1969
John A. Hannah	Mar. 1969	Oct. 1973
Daniel Parker	Oct. 1973	Present
DIRECTOR, AID MISSION TO GHANA:		
Frank Pinder	Sept. 1964	Jan. 1968
Richard M. Cashin	Jan. 1968	May 1970
Burton M. Gould (acting)	May 1970	Nov. 1970
W. Haven North	Nov. 1970	Present
<u>UNITED STATES INFORMATION AGENCY</u>		
DIRECTOR:		
Leonard H. Marks	Sept. 1965	Dec. 1968
Frank J. Shakespeare, Jr.	Feb. 1969	Jan. 1973
James Keogh	Feb. 1973	Present

Tenure of officeFrom ToUNITED STATES INFORMATION AGENCY (continued)PUBLIC AFFAIRS OFFICER, UNITED
STATES INFORMATION SERVICE,
GHANA:

Fletcher Martin	Jan. 1966	Oct. 1966
Gordon Winkler	Oct. 1966	May 1969
James N. Tull	July 1969	July 1971
Edwin C. Pancoast	Aug. 1971	Present

ACTION (PEACE CORPS) (note a)

DIRECTOR:

R. Sargent Shriver	Mar. 1961	Feb. 1966
Jack H. Vaughn	Mar. 1966	Apr. 1969
Joseph H. Blatchford	May 1969	Dec. 1972
Walter Howe, Jr. (acting)	Jan. 1973	Apr. 1973
Michael P. Balzano, Jr.	Apr. 1973	Present

DIRECTOR, PEACE CORPS, GHANA:

Francis Broderick	Jan. 1964	Jan. 1966
Robert Klein	Feb. 1966	Feb. 1967
James Kirk	Mar. 1967	Mar. 1969
Eugene V. Martin	Apr. 1969	June 1971
J. Dale Chastain	July 1971	May 1973
Howard L. Steverson	May 1973	Present

EXPORT-IMPORT BANK

PRESIDENT:

Harold F. Linder	Mar. 1961	July 1968
Walter C. Sauer (acting)	Aug. 1968	March 1969
Henry Kearns	Mar. 1969	Oct. 1973
Walter C. Sauer (acting)	Nov. 1973	Present

DEPARTMENT OF COMMERCE

SECRETARY OF COMMERCE:

Cyrus R. Smith	Mar. 1968	Jan. 1969
Maurice H. Stans	Jan. 1969	Feb. 1972
Peter G. Peterson	Feb. 1972	Jan. 1973
Frederick B. Dent	Feb. 1973	Present

Tenure of officeFrom ToDEPARTMENT OF COMMERCE (continued)DEPUTY ASSISTANT SECRETARY AND
DIRECTOR, BUREAU OF INTERNA-
TIONAL COMMERCE (note b):

Lawrence A. Fox	Sept. 1965	Apr. 1969
Harold B. Scott	May 1969	Aug. 1971
Robert P. Beshar	Oct. 1971	Apr. 1972
Marinus van Gessel	Apr. 1972	Present

OVERSEAS PRIVATE INVESTMENT CORPORATION

PRESIDENT:

Bradford Mills	Jan. 1971	Sept. 1973
Marshall T. Mays	Sept. 1973	Present

^aEffective July 1, 1971, the Peace Corps, along with other volunteer organizations, was merged into a new agency, ACTION. The Director of the Peace Corps was appointed Director of ACTION.

^bIn November 1972 the Bureau of International Commerce became part of the Domestic and International Business Administration.

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