STRUCTURAL ADJUSTMENT AS A POLICY PROCESS: THE CASE OF GHANA

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CERTIFICATE

This is to certify that the dissertation entitled "**STRUCTURAL ADJUSTMENT AS A POLICY PROCESS: THE CASE OF GHANA**" Submitted by **Sandipani Dash**, in fulfillment of six credits out of total requirement of twenty-four credits for the award of the Degree of **Master of Philosophy** (M. Phil) of this University, is his original work according to the best of knowledge and maybe placed before the examiners for evaluation.

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PREFACE

Structural Adjustment Program (SAP) is a central issue in the debate today. Most of the third world countries have experienced SAP in accordance with the level of its applicability. To understand SAP, the genesis of SAP is deeply rooted in the exercise of International Monetary Fund (IMF) and World Bank to reorient the development pattern of the world by integrating developing countries into the world trading system under the overarching influence of neo-liberal paradigm.

My dissertation has critically analyzed the SAP as a policy process especially in the context of Africa with special attention on Ghana, as sofar thirty-six Sub-Saharan countries have been subjected to the SAP and, among them, Ghana has come up as a show-piece for IMF (International Monetary Fund) / WB (World Bank), which in their view has successfully implemented and benefited out of the program. The dissertation has consisted of five chapters. The first chapter has introduced SAP as a model of development applied under the prescription of IMF/WB to the third world including African countries with a brief overview on Ghana. The second chapter has looked into the dynamics of external (I.M.F./W.B.) and internal (ruling *establishment) driving forces behind the adoption of SAP and has related its relative success in the initial phase as a policy process in Ghana to the authoritarian character of its regime. The third chapter has given the other side of the story i.e. the failure of SAP to take off the Ghanaian economy at a very crucial phase when the country has been moving away from a military regime towards a democratic one and has consequently tried and seen the corresponding gap between a structured economy and a democratic polity in case of Ghana. The fourth chapter has examined the overall impact of SAP on Ghanaian society with special reference to its social cost reflected in terms of unemployment, hunger, poverty and other basic problems of the country. Finally the fifth chapter has found SAP as antithetical to the overall development of Ghana and has sent the negative message to the rest other African countries, having the similar socio-economic historicity, to continue with the program.*

This dissertation is the product of the support, cooperation and contribution of many individuals, institutions and libraries. In the completion of this work I am indebted to many. First and foremost I express my deep and profound sense of gratitude to my supervisor Dr. S. N. Malakar for seriously going though my draft and giving critical comments and suggestions. He *rendered all the possible intellectual supports at every critical stage of my work.*

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I am responsible for the views expressed and whatever shortcomings in the present work.

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Chapter-1

INTRODUCTION

Structural Adjustment Program (SAP) has occupied the centre-stage of today's development debate, whose origin lies in the neo-liberal thought process to restructure the development pattern of world. In this process, most of the third world countries have gone for SAP with its different levels of implementation under the overarching supervisions of IMF/World Bank. For that matter, "Structural Adjustment" - a term coined by the then World Bank President Robert McNamara in 1979 - refers to a policy package of economic and social reforms designed jointly by the World Bank and IMF with a view to integrating developing countries into the world trading system in order to help accelerate their growth and development efforts, but which has resulted in making the rich richer, and the poor poorer. Structural adjustment embodies the goals of neoclassical theory which places the market at centre-stage, assigns the state a secondary role in development, and puts its faith in the potential of unfettered individual initiative, creativity, and ingenuity. Here, the WB and the IMF take a market oriented approach to economic management, which assumes "economic rationality" to be constantly applicable to all societies regardless of the level of development reached by any particular economy. At the heart of this model of development, a liberalized foreign exchange regime by means of controlling budget deficit and money supply has been envisaged, which ensures the market a free hand to allocate resources within the economy and rectifies the distortions made by the undue and inefficient state interventions in economic management. The Structural Adjustment Programs (SAPs) applied in third World countries since the beginning of the 1980s have endeavored to structure the economy so that the debt problem is prioritized and monies lent are repaid. To achieve this SAPs are designed to:

- Improve a country's foreign investment climate by reducing trade and investment regulations
- Boost foreign exchange earnings by promoting exports and
- Reduce government deficits by cutting public expenditure.

In this regard, some of the WB/IMF prescriptions include: deregulating the economy, downsizing government bureaucracies, removing government involvement in economic activities, cutting-back government's social spending and subsidies, introducing user fees in education and health care, raising food prices, squeezing wages, privatizing state-owned enterprises, devaluating the currencies, eliminating protection for the domestic market, allowing the operations of foreign investors, and so on.

SAP in the Developing World

However, after two decades of structural adjustment, which was introduced to address the debt problem in the early eighties, debt has continued to spiral in the developing world. Structural adjustment has accentuated poverty in most countries where it has been applied, contributing to the suffering of millions and causing widespread environmental degradation. And since the 1980s, adjustment has helped create a net outflow of wealth from the developing world to the countries of North through repayment of loans. The primary impulse for structural adjustment was to insulate the economies of the West from the destabilizing consequences of the debt crisis of the early 1980s. It was when Mexico declared a moratorium on debt repayments in 1982 that the whole Western banking system seemed to be at risk. And then through the World Bank and the International Monetary Fund, the Western governments made a planned move to ensure that debt repayments to the West became the top priority for Third World governments. Further more, the demise of USSR, as an alternative to the Bretton-Wood system, limited the choice factor to exercise by the weak third World economies in rejecting a painful program like "Structural Adjustment", and consequently there is a significant net transfer of wealth from the majority of Third World countries to their Western creditors.

SAP in Africa

Coming to Africa, sofar thirty-six Sub-Saharan countries have been subjected to the Structural Adjustment Program certainly not out of conviction but compulsion i.e. the threat of a cut off of external funds needed to service the mounting debts. But at the end of the day, the prescriptions have brought neither growth nor debt relief, instead have got massive poverty and misery. In fact, the total external debt of the African continent is now 110% of its gross national product. The aggregate evidence shows that during the 1980s, the decade of structural adjustment in much of the continent, growth slowed down and agricultural output failed to keep pace with population growth, leading in turn to increased food imports. Manufacturing did not increase its share of total output, investment dropped, consumption plummeted, percapita incomes declined, and unemployment rose. Further more, cuts in government spending are hindering the formation of human-capital, the development of the pool of skilled labour, managerial talent, and engineering capacity.

SAP in Ghana

Viewed as one of Africa's top reformers, Ghana went for structural adjustment program in 1983, while under military rule, in response to a chronic economic crisis leading to the general impoverishment of the nation as a whole. Its per capita GDP, at constant 1975 prices, dropped from 634 Cedis (¢) in 1974 to ¢ 395 in 1983. Most people by then could not afford such basic necessities as food and shelter. The near-famine situation caused many people to have 'Rawlings' chain, a slang term for the protruding clavicles caused by hunger. *Kalabule* (a system wherein the 'haves' took advantage of scarcities and exploited the 'have-nots,') became the order of the day. Food production per capita fell to about 72 percent of the 1971 level. While the health standards had improved markedly in the preceding two decades, there was a severe deterioration in the early 1980s. Life expectancy at birth had increased from 46 years in 1970 to about 55 years in 1979, but then fell to 53 years. Daily caloric intake as percentage of requirement fell from 88 percent in 1979 to 68 percent in 1983.[1]

The crisis also sharply affected personnel development and labour. High inflation rates were not matched by increases in the nominal wage, and

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[1] Sowa, N. K. 'Ghana', in: A. Adepoju (ed.), *The Impact of Structural Adjustment on the population of Africa,* (New Hampshire, UNFPA,1993),p-10.

real incomes eroded. Many took on second or third jobs, the most common of which was trading. Skilled personnel such as doctors, engineers, and teachers who could not engage in Kalabule took flight to other African countries or to Asia. By the beginning of the 1980s Ghanaians of every class and skill were leaving in droves for Nigeria, which in turn led to their expulsion in 1983 after declining oil revenues brought on economic crisis in that country.[2]

In order to take off the economy from such steady decline, Ghana adopted Economic Recovery Program (ERP) as part of SAP; and accordingly removed all forms of market control and exchange regulation, sold state enterprises, and scrapped subsidies. As a result, the cost of food and services rose beyond the reach of poorer Ghanaians. According to the World Bank's 1996 World Development Report, the amounts Ghana spent for servicing its foreign debt went from 13.2 percent of its exports in 1980 to 24.8 percent in 1994. In the same period, the debt increased from just fewer than 1.4 billion dollars to close to 5.4 billion dollars. Every year since 1983 has been one of biting austerity, as the consequence of the standard structural adjustment prescriptions like public spending cuts and

[2] Ibid, p.10.

devaluation, which are designed to open up the economy for foreign investment? Adjustment measures put low-income groups at risk, particularly public sector workers and resource-poor subsistence-oriented farmers. The problem of unemployment is rampant, which government sources put at about 20 percent of the active population, while the opposition claims that it is as high as 35 percent. The rate of price rises is awfully high, though it has reduced from 71 percent in January 1996 to 32 percent by yearend, but still remains short of the government's 1996 target of 20-25 percent. Ghana is pushing ahead with structural adjustment policies that are not laying the foundations for sustainable growth and development. The country remains locked in the tight embrace of the IMF and World Bank. By the end of March 1997, Bank loans to Ghana totaled $3.5 billion (more than half the country's foreign debt), making it the biggest portfolio in the World Bank's Africa region. The institution therefore has some interest in Ghana's progress, but not as big, and not the same, as that of Ghana's people. Ghanaians now pay for everything - clean water, primary education, basic health provision, whose almost all aspects of survival have become infused with the insidious World Bank philosophy of privatization. Rawlings, who was instrumental in initiating Ghana into SAPs in his capacity as the head of the state, said that

Ghana, like some other SAP-applying developing countries, now faced a dilemma: how to meet the rising expectations of its people and, at the same time, the objectives of the adjustment program. The evidence shows that the overall growth in GDP declined by half a percentage point in 990-95 from the preceding five-year period i.e. 1985-1990, and in only two years since 1990 growth exceeded the nearly 5% standard of 1984-89. Agriculture appears to have been left to the vagaries of the weather and the cyclical decline in world cocoa prices, so that in the absence of market and non-market incentives to increase productivity, it has performed poorly. Industry, having responded to the initial impetus generated by the improved availability of imported inputs, is now hampered by the tight credit squeeze, restricting finance for working and replacement capital. Moreover, trade liberalization has exposed industrial sector to increased competition from abroad. The service sector has consistently outperformed the other main sectors, but cannot alone provide sufficient impetus to sustain economic growth. While private saving has improved over the years, government saving has become negative, reflecting the poor fiscal position. In toto, domestic saving is too low to generate substantial local investment. Reorganization of the public sector, as part of institutional reforms, especially in terms of retrenchment and redeployment of labors and divestiture of some state-owned enterprises, has severely reduced the employment generating capacity of the industrial sector. Decades of inadequate maintenance and under investment in infrastructure have hindered capital formation. With momentary spurt in cocoa earnings in the initial years of the program, which has been attributed by many to cessation of the smuggling of cocoa to neighboring Côte d'Ivoire rather than to production increase and price reform, cocoa export volumes have later on stagnated, and Ghana's current world market share is the smallest ever before. At the same time, the food sector has been terribly weakened by the switch over to price incentives for cash crops and by the increased cost of inputs, particularly fertilizer and labor. In short, the aura of success surrounding Ghana's adjustment efforts has been fading. Economic growth has slowed down; inflation has become a major concern; the cedi (currency of Ghana) has been depreciating, further fuelling inflation but without maintaining incentives to export; unemployment is increasing, and there appears to have been little reduction in poverty. Since the advent of the Fourth Republic in 992, (converted from military rule to a constitutional parliamentary system of government), the poorer performance of the economy suggests that there is an incompatibility between the successful implementation of structural adjustment and democratic government; and that an authoritarian government will be in a better position to push through the program; thereby confirming its lack of popular acceptability and legitimacy, apart from its inefficiency and ineffectiveness, as a model of development to be pursued in the country.

Debate on SAP's Viability in overall Africa with a Micro View on Ghana

A critical debate has come up in the 1980s among those concerned with the development and debt crises regarding the nature, value, and impact of the stabilization and structural adjustment programs negotiated by African countries with the IMF, World Bank and the major capitalist aid donor countries. The extensive conditions required by the IMF, World Bank, and aid donors have involved pervasive efforts to restructure African economies and dictate the key macroeconomic and sectoral policies. Many African and other developing countries were compelled to adopt these conditionalities, with compliance tightly monitored, in exchange for obtaining debt relief and foreign aid.[3] Infact, there are two competitive perspectives like Old and New Institutional Economists (OIEs and NIEs) engaged in the polemic over the relevance of the model of structural adjustment to Africa with special reference to its neoclassical underpinnings.

[3] Sidney Dell, "Stabilization:the Political Economy of Overkill", in Charles Wilber (ed.), *The Political Economy of Development and Under Development*, 3d ed. (New York: Random House, 1984), pp. 146-168.

According to Howard Stein, "in the strict neoclassical model, there are no reasons for the existence of institutions. In the relaxed version there is some need for a central authority to guarantee property rights and the stability of the money supply. Following the neoclassical model, structural adjustment focuses on removing state-sponsored impediments to the private sector-driven market economy. State institutions should also be limited to guarantors of the rights of private property and the money supply."[4] The new institutionalists, who use the same theoretical percepts as the neoclassical, see institutions reducing transaction and information costs. The old institutionalists define institutions more broadly as "settled habits of thought common to the generality of man" and generally reject the neoclassical emphasis on maximizing atomic individuals.[5] NIE sees legally guaranteed property rights as vital to reduce transaction cost. OIE interprets property rights in broader terms as a mode of thinking which is historically specific and not guaranteed merely though shifts in legally defined terms. This is particularly the case in the African countryside where there are a variety of coincidental and competitive claims to land based on clientage and kinship.[6]

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[4] Howard Stein, "Theories of Institutions and Economic Reform in Africa", *World Development*, Vol.22, No.12, p.1845.
[5] Ibid, p.1845.
[6] Ibid, p.1845.

Dependency theorists have objected to the underlying assumption of the SAP's that the path to economic and political success for underdeveloped countries is the same as that followed by rich and industrialized countries whose economic prosperity is based on the exploitation of the underdeveloped regions, and more so of the African countries. In their view, if at all African countries are to follow the pattern of development of the North they have to look for colonies to exploit.

African feminists have observed that the SAPs as macro-economic policies are gender biased. To them, the promotion of export crops has adverse implications for women farmers, most of whom have to work harder on export crop farm they do not own. Similarly, the promotion of mining has reduced the access to agricultural land, and therefore negatively affecting the food security of women. And, the promotion of private capital and the relaxation of labor regulations has harmful ramification on the job security and working conditions of workers, and more so of women. More over the wage differential between men and women is growing.

Environmentalists have seen SAPs as antithetical to the principles of sustainable development. To them, export promotion has increased extractive activities, such as logging and mining, leading to deforestation and mining pollution and degradation of the land, which can be used for the livelihood of the ordinary people.

Here a pertinent mention may be made of a debate between the WB and the UN Economic Commission for Africa (ECA) over SAP's relevance to Africa. Using the same data, as well as different statistical methods, and different measures of economic performance including welfare, both has arrived at contrary conclusions. The bank argued that reforming states performed significantly better than weak-reforming and non-reforming ones. The ECA, on the other hand, using the same database argued that non-reforming states actually did better than the strong adjusters in terms of overall growth rates between 1980 and 1987, and that SAP has led to worsened economic performance and social welfare. There is now an increasing realization on the part of most of the policy analysts of Africa that their countries are unlikely to realize substantial benefits from Saps that do not emphasize social investment in education and health care, poverty reduction, food production, debt eradication, and broad-based economic growth, and fair employment opportunities. To them, market liberalization alone does not necessarily ensure long-term growth of the economy. Structural constraints like the lack of infrastructure and poor education are also key elements of long-term growth. Likewise, market liberalization does not necessarily reduce poverty, nor promotes development of local industries, nor stops capital flight. Many African countries do not have the capacity to exploit new markets. They do not have the required international connections, expertise, and financial resources to fully exploit these new opportunities. In fact, African economies do not yet have developed industries that can take advantage of the opportunities. Besides, the arrival of cheap imported goods discourages local entrepreneurs from moving into industry.

According to John Toye, who claims to have made a holistic review of the SAPs in Ghana, as reforms have continued Ghana has become something of a showcase for the success of WB adjustment lending.[7] On the contrary, MP Ben Turok, an African National Congress MP, in one of his reports of the United Nations Conference on Trade and Development NCTAD), noted that Ghana, which 10 years ago was the darling of the IMF for having vigorously implemented its structural adjustment program, became one of the most highly indebted poor countries in the world.

All said and done, SAP, as a policy having theoretical underpinning of neoliberal paradigm, became unable to take into consideration the socio-economic specificity of the developing world, more so of the African

[7] John Toye, " World Bank Policy-Conditioned Loans: How Did They Work in Ghana in the 1980s?", in: C. Milner, and A. J. Rayner (eds), *Policy Adjustment in Africa*, (Macmillan, ------), p. 89.

countries, which would need a radical transformation of the existing lopsided socio-economic structure inherited from their colonial past. And here, Ghana would represent a typical case of African society, where SAP had further reinforced the undesirable reality of poverty, disparity, dependency and so on, so forth under the vicious nexus between the global forces represented by IMF and World Bank on the one hand and the domestic political elite on the other hand, which would be reflected in the next chapter.

Chapter-2

SAP UNDER MILITARY REGIME AND ITS RESPONSE

In response to the economic crisis in Ghana, the military government led by Jerry John Rawlings in the early 1980s, accepted structural adjustment program formulated by the World Bank and the IMF. These programs, as mentioned in the previous chapter, emphasized the elimination of price controls, privatization of state industries, removal of subsidies, free trade, and other orthodox liberal economic measures. Since 1983 the Ghanaian Government started implementing these economic policies more consistently than any other African Government.[1]

Towards the end of the period of ERP (a component program of SAP implemented in Ghana), a number of initiatives for promoting the private sector were undertaken including corporate income tax reforms in1991. During this phase, macroeconomic performance continued to improve, GDP growth was sustained in the range of 5 percent a year, and exports continued to record strong growth, despite a cumulative decline of 35 percent in the terms of trade. The overall balance of payments and the fiscal

[1] Ho-Won Jeong, "Politics of the Free Market Economic Reform in Ghana, 1983-1992", *International Studies*, Vol. 33, No. 1, 1996, p. 35.

balance recorded surpluses throughout this period, and foreign reserves reached the equivalent of 4.1 months of imports in 1991. External arrears were eliminated as Ghana normalized its relations with creditors. The inflation rate, which remained in excess of 30 percent during 1986-90, was reduced significantly in 1991. From the perspective of saving investment balances, the turnaround during the ERP period was quite high. Between 1970 and 1983, saving and investment declined sharply, while during the ERP there was a reversal of these trends.[2]

However, the commitment of the regime in Accra, under the leadership of President Rawlings, to this much hyped economic reform, had most distinctively changed its relationship with different interest groups. The regime's earlier radical economic redistribution policies had the popular support of the low income classes. The shift to a free market economic approach, under the Economic Recovery Program (ERP), had made the Government less popular with its previous allies such as labor and student groups. Nonetheless the Government, formally named as the Provisional National Defense Council (PNDC), could successfully manage to sustain neo-liberal economic policies in the face of such popular opposition, due

[2] M. Nowak, R. Basanti, B. Horvarth, K. Kochar, and R. Prem, " Ghana, 1983-91", in: M. T. Hadjimichael and others, (eds), Adjustment *for Growth: The African Experience* (IMF, Washington DC, 1996), P. 25.

to a number of factors, the most important being the regime's willingness and capability to insulate itself from powerful social groups and deal with social opposition with coercion, apart from some other factors like thin institutional structure in society and heavy financial assistance from international donors.[3]

Winners and Losers of Structural Adjustment

Macro economic policies in Ghana prescribed by the World Bank and the IMF led to retrenched state sectors and a shift of resources towards rural areas. Key urban groups had taken much of the cost of the reform program whereas a substantial reversal of trade terms between rural and urban areas favored rural producers. Devaluation helped export crop farmers but did hurt urban wage earners. The wage increase was normally slow to offset the rise in prices of imported goods. On the other hand, the increase in producer prices for cocoa and other cash crop commodities, and major infrastructure rehabilitation efforts in rural areas produced higher incomes for farmers. The ratio of the price of a metric of cocoa to the urban minimum wage, for instance, rose dramatically. This increase in the relative income of

[3] Ibid, p. 35.

Ghana's rural producers compared with that of urban workers was a reversal of the decline of the late 1960s and 1970s.[4]

Not everyone in rural areas, however, did benefit. The economic condition of food crop farmers did not improve noticeably. Even among producers of export crops, economic liberalization favored large landowners and commercial farmers who employed share croppers or wage workers to maintain and harvest export crop trees. They benefited doubly, from higher producer prices and from the low wage policy. Some small farmers engaged in cocoa production might also benefit if they produced enough for the market. But the benefits did not percolate down to the smaller farmers, often women operating at mere subsistence level, and to landless wage farmers. On the other hand, there might be some employment opportunities for agricultural wage laborers. Price liberalization measures helped small producers, shopkeepers, traders, and craftsmen by lifting State controls on producer prices. They provided an incentive to produce for the market, but underdeveloped marketing structures limited increased market production. In addition, the rising costs of imported primary products, shrinking domestic

[4] T. M. Callaghy, "Lost Between State and Market: The Politics of Economic Adjustment in Ghana, Zambia, and Nigeria", in J. M. Nelson, (ed), *Economic Crisis and Policy Choice: The Politics of Adjustment in the Third World* (Princeton, NJ, 1990), p. 278.

demand, and restrictions on domestic credit remained obstacles to increased production, which could benefit small producers.[5]

Cuts in food subsidies, devaluation, and massive dismissals of factory workers threatened the economic survival of the majority of urban populations. Higher prices *via* devaluations, an end to key subsidies, and the introduction of user fees for medical services and education aggravated the problem. Reduction in civil service employment did mostly hurt the lower strata of civil servants, including laborers, charwomen, cooks, drivers, porters, stewards, sweepers, messengers as well as store officers, and secretariat personnel.

The adjustment program brought the highest rewards to the comprador class, which embraced a wide variety of occupations i.e. from local agents of foreign businesses, partners, and consultants to such businesses as hotel accommodation. The emphasis on technocratic solution to economic problems increased the influence of people in the higher echelons of the public service. Trade liberalization generated more profit for import and export merchants and higher salaries for top executives in private business, especially businesses dealing with foreign capital. Privatization

[5] T. Killick, *The Adaptive Economy: Adjustment Policies in Small, Low-Income Countries* (Washington, DC, 1993); and P. Korner, G. Masscs, T. Siebord and R. Tetzlaff. *The IMF and the Debt Crisis: A Guide to the Third World's Dilemma* (London, 1986), p. 137.

measures benefited those who were able to buy up or buy into State owned enterprises, usually at concessional prices. Devaluation mainly helped big local and foreign capitalists who invested in such export oriented sectors as gold mining, timber industry, and other capital-intensive primary raw material producing industries.[6] Ghana's external creditors and foreign companies, which were previously not able to repatriate profits and dividends, also benefited. The IMF programs obliged the Government to keep up with payments of dividends and other commitments even in the face of enormous difficulties.[7]

Overall, Ghana's structural adjustment program attracted support from cash crop farmers and entrepreneurial classes. The policy became more popular in rural areas, where both devaluations and producer price increases began to stimulate higher production. For the majority of urban population, however, there was a decline in living standards. Workers better at articulating their interests than rural producers, were hard hit by IMF stabilization measures.

[6] T. Killic, *Country Experience with IMF Programs in the 1980s* (London, 1991), p. 31.
[7] K. Jonah, "The Social Impact of Ghana's Adjustment Program, 1983-1986", in: B. Onimode, (ed.), *The IMF, the World Bank and the African Debt* (London, 1989), p. 149.

Responses of Cross-Section Interest Groups

Workers and students, hurt most severely by the austerity policy measures of structural adjustment, had vehemently opposed the PNDC, the World Bank, and the IMF. Before structural adjustment, these two groups formed the support base of the Rawlings regime. The indigenous business class had always a hostile relationship with the Rawlings regime. The Government's disinclination to protect indigenous business interests against foreign economic interest led to a cautious response that class, though such policies as privatization and wage controls were to their advantage. Farmers were not well organized and did not seem too important politically, but cocoa-producing regions could be a new support base for the regime.

Labor Opposition

The Government's pursuit of economic adjustment meant the end of its alliance relationship with the working class and beginning of confrontation. When the Economic Recovery Program was implemented by the 1983 budget, workers even defended the regime against massive criticism and opposition, in the expectation that the Government still remained pro-labor. They believed that ultimately the Government was committed to defending and enhancing their interest. By the middle of

1984, however, the Government's subsequent antilabor wage, price, and employment policies completely alienated labor groups. In its statement on 24 October 1984, the executive board of the Trade Union Congress (TUC) lamented "the grave and critical economic and social situation in the country" and warned against "the continued implementation of the IMF and World Bank-inspired SAP [Structural Adjustment Program] which was having deleterious effects on workers' incomes and living conditions".[8]

In the view of the unions, structural adjustment policies caused workers to pay an unnecessarily high price for the economic mismanagement of past Governments and managers. The TUC argued that real wages had dropped by about 50 per cent in the 1980s. Labor unions insisted that privatization of state enterprises and devaluation would not solve Ghana's economic structural problems. At the 1985 May Day rally, workers expressed their displeasure with Government policies by carrying placards, some of which read, "PNDC We are Hungry". Recurrent conflicts between the TUC and the PNDC resulted from the Government's need to contain its public expenditure, which was required by an IMF loan condition. External pressure also forced the Government to lay off work

[8] K. A. Ninsin, "State, Capital and Labor Relations, 1967-1987", in: E. Hansen and K. A. Ninsin, (eds), The *State, Development and Politics in Ghana* (Daker, 1989), p. 37.

forces in inefficient State enterprises. All these policies made the most formidable enemy of structural adjustment.

Labor leaders were also unhappy with the Government's failure to consult unions when formulating structural adjustment policy. Labor was especially bitter with the PNDC's neglect of existing mechanisms of policy dialogue with labor. The Secretary–General of the TUC, A. K. Yankey, complained about the Government's reluctance to consult employers and workers about the assumptions underlying structural adjustment programs. In the May Day address in 1988, he criticized the country's over dependence on cocoa, the prices of which are outside Ghanaian control. Labor was also suspicious of the Government's relations with the IMF and the World Bank. The Industrial and Commercial Workers Union, the biggest union in Ghana, had blamed PNDC for not publishing its agreements with the IMF and the World Bank and accused it of concealing the cost of maintaining foreign advisers. It had also demanded restricting debt service to 10 percent of foreign exchange earnings.

Privatization of public sector enterprises and civil service cuts remained major concerns for labor. The unions, however, showed greater vehemence in opposing Government attempts to intervene in the collective bargaining with employees. Government involvement in the bargaining on wage restraints, suspension of benefits and widespread retrenchment had significantly weakened the power of trade unions. Indeed, labor believed that under the cover of economic crisis the Government was trying to eliminate the trade union movement and its class representation. In 1986, when the Government decided to eliminate leave allowances, which employers used to pay, widespread protests and strike threats followed, resulting in the Government's withdrawal of this proposal.[9]

In general, labor expressed anxiety about the present direction of national policy, especially threats of mass retrenchment of workers, cutbacks in subsidies of social services and basic commodities. In addition, they were frustrated with the "non–recognition of the crucial role of the masses in revolutionary social transformation and therefore the absence of any proper and consistent channels of participation in decision making by the mass of the people through their organizations".[10] They were bitter about human rights abuses such as harassment and detention, and were demanding national elections. Workers were also critical of the revolutionary ideas, which brought the PNDC to power.

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[9] J. Kaus, "Ghana's Shift from Radical Populism", *Current History,* Vol. 86, No. 520, 1987, p. 227.

[10] Y. Graham, "From GTP to Assene: Aspects of Industrial Working Class Struggles in Ghana 1982-1986", in Ninsin and Hansen, n. 8, p. 62.

Traders Voice

Structural adjustment had been enthusiastically embraced by the private sector, which suffered from State intervention and antibusiness sentiments during the early PNDC period. On the other hand, the Ghanaian business community was concerned about the Government's inability to manage industrial–labor relations. At the 28th annual general meeting of the Ghana Employers' Association (GEA), the business class complained that steep price increases and other social costs had driven trade unions to exert pressure on our members to pay much wage and salaries which were bound to fuel the inflationary spiral and undermine the national wages and income policy... We would like an assurance that we should not be left alone to face the brunt of the workers' wrath.[11]

Also, trade liberalization measures had not been welcomed by business circles.[12] The owners of business enterprises wanted protection from import competition, which the World Bank opposed. According to a survey report, nearly all garment factories in the country - including Utams, Intra, Ghanari, Universal, Novelty, and Loyalty - closed down in the face of competition from foreign arms. The President of the Association

[11] Economic Intelligence Unit, *Ghana Country Report* (London; hereafter cited as EIU Report), No. 3, p. 15. This is a weekly report on Ghana's economic, political and social report.
[12] Callaghy, n. 4. p. 282.

of Ghana Industries wanted some form of protection to Ghanaian business groups to redress "the near collapse of local industries". The Ghana Employers' Association (GEA) also wanted the government to impose import quotas on foreign goods to save local industries from extinction. The PNDC's response, however, was that the adjustment generated favorable business environment, that would help competitiveness of indigenous business. Another major complain pertained to the lack of input of key social groups in economic policymaking. The GEA had to the absence of a forum for employers, trade unions, universities and other groups to exchange views on the economy. Other complaints of the business circle included severe liquidity problems, rising interest rates, and high import costs caused by continued depreciation of the cedi and tight monetary and fiscal policy. Devaluation had raised the prices of imported machinery and raw material. Government's austerity program also adversely affected business.

Students Protest

Students protested against education user fees and low food allowances. In particular, they opposed decisions to remove boarding and food subsidies, which, they said, would bring extreme hardship to most students. Students argued that education reform programs sponsored by the World Bank would make education available only for children of the rich.[13] In 1987, students at three major universities protested against the national education reform program. The protests started at the University of Ghana's Logon campus on 6 March, but were later on joined by the University of Cape Coast and the University of Science and Technology (UST) at Kumasi. During the Logon demonstration students burned a coffin, which symbolized the mortal remains of the PNDC regime and its reform program. That event led to the closure of college and arrest student leaders.[14]During the 23rd annual congress of the National Union of Ghana Students (NUSG) held in April 1987, student delegates complained to the government that aspects of planned changes in the education system would force students in boarding schools to pay a fee as well as other charges. They argued that these additional charges in some cases would make the boarding fee three times the minimum civil service wages. Expressing public support to the students' demand, the TUC said in its message to the NUGS Congress: "As parents, we are opposed to the proposed increase in school fees and the threat to remove feeding subsidies..."[15]

[13] EIU Report, No. 2, 1987, p.9.
[14] Jeong, n. 1, p. 43.
[15] EIU Report, No. 3, 1988, pp. 9-10.

Concerns of the Middle Class

Led by professional organizations, the middle class had traditionally backed conservative governments, distrusted populist governments and had sought to organize opposition to oppressive ones. Proponents of the ERP believed that, due to its resources and ability to understand positive changes to be brought by economic liberalization, the middle class could take advantage of the ERP and easily engage in investment activities. But the Ghanaian urban middle class, considered to be the oldest and most sophisticated in Africa, was still ambivalent about the economic policies of PNDC. Because of lack of direct democratic rule and Rawlings' pre–PNDC policies that antagonized them, the middle class was hesitant about expressing support to the regime.[16] It still had a vivid memory of the Rawlings regime's attack on the wealthy to be enthusiastic about investing scarce capital for the uncertain economic future. Also, many professionals in exile were still reluctant to return.

And, the ERP had belied the expectations that it would strengthen those sections of society, which would benefit most from the development of capitalist relations.[17] The indigenous private sector, which once used to

[16] Callaghy, n. 4, pp. 281-2.
[17] N. K. Bentsi-Enchill, "Year Six of the PNDC and National Policies", *West Africa*, Vol.--, No.--, 1988, p. 17.

be really vibrant, became moribund. Both external donors and the PNDC were concerned about the lack of a strong private sector response to the free market economic reforms. The ERP had mostly benefited foreign resident businesses. The resident foreign business groups such as Indians, Lebanese, Syrians, Taiwanese, and some Europeans aggressively responded to the liberalization measures. They had good management skills, resources to invest, understanding of the free market system, access to technology and information, but they had become visible targets of resentment.

Overall, the middle class was somewhat fragmented but the ERP had appealed especially to those with professional skills.[18] The pursuit of IMF–ordained policies, which required the curbing of radical social and political forces for capital accumulation, might generate economic and political power for the social and political forces favoring capitalist development. But that came at the expense of wage salary workers and workers in small service sectors.[19]

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[18] R. H. Green, *Stabilization and Adjustment Policies and Programs: Country Study 1-Ghana* (Helsinki, 1987), p. 20.
[19] Jeong, n. 1, p. 46.

Stance Reversal of PNDC

Originally, the PNDC began with a heavy representation of the radical left, such as the militant sections of the student leadership, workers, and soldiers as well as Left movements such as the June Fourth Movement, the New Democratic Movement, the Kwame Nkrumah Revolutionary Guards, and the African Youth Command.[20] The PNDC's link with the Left and its views on the private sector were major obstacles to its espousal of IMF / World Bank program: the World Bank emphasizes that a favorable general political and social milieu is a precondition to the success of the economic adjustment policy. Until the end of 1984 foreign donor countries expressed doubt about the Government's capacity to control the Left effectively.[21]

The general principle of agreement with the IMF was supported by the traditionally pro-IMF financial bureaucracy. The bureaucracy had been alarmed by the "anarchy" in state owned factories, "people's power", and by the attempts of grassroots political organizations to undermine State structures. Those forces were unpredictable and not easily subject to central control. The state and parastatal bureaucracy looked for allies who could reintroduce "discipline" and help arrest anarchistic

[20] D. Rimmer, *Staying Power: Ghana's Political Economy, 1950-1990* (Oxford, 1992), p. 180.
[21] Jeong, n. 1, p. 46.

developments.[22] They hoped to use the agreement with international financial institutions to control workers' movements. In this context, a minority on the Left identified itself with the New Democratic Movement (NDM) and principally its leading member, the PNDC Secretary for Finance, Botchway.They considered it expedient to have temporary collaboration, or at least a normalization of relations with "imperialism" to consolidate the socialist revolution.[23]

Major opposition to any collaboration with international financial institutions came from the Leftist faction supported by nationalist intellectuals and workers' organization. They advocated self reliance based on popular mobilization. Their position was, however, weakened by the failure to obtain from alternative sources. The implementation of the ERP, following the defeat of the Left by the end of 1984 and political pressure from the donor community, resulted in discrediting the Left and disorganization of progressive groups. The PNDC systematically closed its line of communication with the Left, in complete disregard of loud protest from leftist leaders. Subsequently progressive organizations that had

[22] E. Hutchful, "From 'Revolution' to Monetarism: The Economics and Politics of the Adjustment Program in Ghana", in: B. K. Campbell and J. Loxley, (eds), *Structural Adjustment in Africa* (New York, 1989), p. 103.
[23] Jeong, n. 1, p. 47.

rallied to the support of the regime at its dawn were either driven to the immediate periphery of state power, or disintegrated.

Government officials were apprehensive that political instability following resistance from key opposition groups could undermine the remarkably sustained efforts of the ERP.[24] Workers were one such group. Since the initiation of the ERP, the government consistently attempted to reduce their economic and political power, often criticizing TUC demands for wage increases,[25] and emphasizing discipline and productivity. In the government media, workers were often described as unproductive.[26] The press, under the influence of the government, praised farmers for their contribution to the nation, while urging workers to restrain their demands.

In one of his speeches, Rawlings criticized the "militant minority" and warned that the regime would not tolerate "a situation where petty powerbrokers exercise authority without responsibility".[27] The trade union movement, he said, was dominated by a few who did not always express the real interests of their constituency; some of them did not always see

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[24] Callaghy, n. 4, p. 281.
[25] J. Kraus, " Ghana's Radical Populist Regime", *Current History*, Vol. 84, No. 501, 1985, p. 167.
[26] Graham, n. 10, p. 61.
[27] Ibid, p. 61.

beyond the short term, and would not analyze the implications of purely wage claims within an economy in which production was declining.[28]

Workers' agitations were often met with severe repression. Military and police forces were used against workers in disputes at Assene Household Enamelware Limited in Accra, and striking workers of the State Gold Mining Corporation's Dunkwa mines.[29] The growing gap between the PNDC regime and laborers was more dramatically represented in the battle, which erupted in April 1984 around the Pioneer Food Company (PFC) in Tema and the regime's brutal repression of labor over four months.[30] Efforts to weaken the political strength of labor followed the regime's antilabor wage, price, and employment policies. By the end of 1984, greater executive control imposed on bodies like Committees for the Defense of the Revolution (CDR) through the supervision by respective District and Regional Secretaries of the PNDC Government. They effectively brought the CDRs under the control of the PNDC and changed their orientation from political agitation and mobilization to essentially non-political tasks. The bureaucratization of CDRs was designed to minimize the possibility of their becoming an alternative source of legitimacy and power in the

[28] EIU Report, no. 2, 1987, p. 12.
[29] Ninsin, n. 8, p. 37.
[30] Graham, n. 10, p. 62.

political process.[31] On 3rd December 1984, the PNDC abolished the Interim Management Committees in public enterprises and corporations, which allowed the workers' participation in key management decision-making. Newly established Joint Consultative Committees had only advisory functions and did not have any meaningful influence on management. These organizational changes helped reduce the input from grass root groups and, on the contrary, to educate factory workers to increase productivity. The government used the CDRs as a tool for dividing the ranks of workers and making collective labor action against the government ineffective.[32]

The PNDC, which survived numerous attempted counter-coups in the wake of launching the ERP, still faced organized opposition from such leftist groups as the New Democratic Movement and the Kwame Nkrumah Revolutionary Guards. These opposition groups then came together under a new umbrella organization called the Movement for Freedom and Justice (MFJ). In its forefront were nationalist intellectuals and politicians, including Adu Boahen, a well-known retired historian, Johny Hansen, ex-PNDC/Secretary for the Interior, Ray Kakraba-Quarshie, a lawyer based in

[31] EIU Report, No. 1, 1988, p. 10.
[32] Jeong, n. 1, p. 48.

Accra, and Ndebugre, ex-PNDC Secretary for Agriculture.[33] The PNDC's response to opposition had been to discourage public discussion of structural adjustment measures and criticism of the Government, outlaw, or restrict strikes and crush mass demonstrations. In early 1987, the government was taken by surprise at the vehemence of student and public response to an open discussion of World Bank-supported educational reforms.[34]

The instability within the military and the TUC's resistance to retrenchment and criticism about the government's lack of a comprehensive redeployment program prompted a more conciliatory stance by the PNDC since 1987. Especially in anticipation of the local district elections to be held in 1988, the Government announced its decision to increase official spending, particularly to benefit the disadvantaged.[35]

The Program of Action to Mitigate the Social Costs of Adjustment (PAMSCAD) was finally introduced to address the social costs of the ERP. This was designed to ease the criticism of workers, who believed that a disproportionate share of the costs of adjustment was borne by them. Building the PAMSCAD was related to efforts of external donors and the

[33] EIU Report, No. 4, 1990, p. 11.
[34] Callaghy, n. 4, p. 11.
[35] Jeong, n. 1, p. 50.

PNDC to gain support in the 1988 local elections.[36] The program attempted to alleviate worsening economic conditions of retrenched workers and urban and rural poor, as a result of the monetary and institutional reforms of 1987.

In the face of mounting internal opposition to the ERP, external funding was more forthcoming, in the hope that it would strengthen the Government's hands to continue and broaden its structural adjustment programs. The dramatic collapse of Zambia's economic program in early 1987 was another factor that helped the Rawlings Government get broader Western support at a Consultative Group meeting in Paris in May 1987, Ghana being seen as one of the last remaining "success stories" in Africa.[37]

UNICEF initially developed the World Bank support to PAMSCAD in collaboration with the Ghanaian Health and Education Ministries. The World Bank organized a special donor meeting in February 1988 to discuss support for a comprehensive social sector rehabilitation program in Ghana. Donors recognized the need to ease tension resulting from the social consequences of structural adjustment, and $ 85 million were raised

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36 Callaghy, n. 4, p. 284.
37 Ibid, p. 284

for PAMSCAD at the meeting.[38] It was no coincidence that Ghana, the only African country to follow the Bank-Fund programs to the letter without interruption, should be the first to receive such aid. In fact, the PAMSCAD had made the political prospects for the future a little smoother.[39]

The Ghanaian Government adopted stabilization measures under external pressure. The ERP divided the political coalition of the PNDC that the regime had cobbled together in 1982, when it came to power. The most visible opposition came from workers and students, who had enthusiastically supported the socialist economic policies of Rawlings' first year at the helm of affairs. While business groups and the middle class could potentially benefit from the ERP, they openly expressed reservations about the import liberalization and credit difficulties. The Rawlings regime had difficulty in mobilizing of the beneficiary of the ERP, namely cocoa farmers and foreign business groups. The farmers were poorly organized politically, and foreign businesses were often the object of people's mistrust.[40]

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[38] EIU Report, No. 4, 1987, p. 10.
[39] Ibid, p. 15.
[40] Jeong, n. 1, p. 52.

The absence of reliable popular support for liberal economic policies weakened the Government's position. To implement it in the face of popular resistance, the Government resorted to a coercive authoritarian political strategy. The Rawlings regime had survived, propped up by strong financial support from external agencies for the economic program, coupled with the relatively ineffective opposition to his regime cowed down under his authoritarian rule. Through coercive measures the PNDC regime was able to depoliticize Ghana's public environment and reduce political opposition of all kinds, particularly of the Left. To be able to pursue Fund-Bank structural adjustment programs, which might help balance-of-payments problems, Ghana's political leaders had to carefully weigh the possibility of an intensified protest, which often followed various austerity measures.[41] The PNDC Government's alienation from key political and social groups in the course of obtaining financial aid from the World Bank and the IMF led to that eventuality i.e. popular outcry.

Ghana, which had been often trumpeted as a success case of having practiced SAP by IMF and World Bank to further sell their neo-liberal economic package to the rest of the world, had shown that behind its success story lied the self-defeating character of the approach adopted by the global

[41] Ibid, p. 52.

forces, that while talking of political democracy at one level, they were maneuvering the military regime at the other level to successfully implement the anti-people structural measures thereby legitimizing its anti-democratic credential. But the program came to confront the acid test, when attempt was made in direction of bringing together the popular response trough democratization of polity on the hand and structural measures though stabilization of economy on the other hand, the consequence of which would be the main focus of the next chapter.

Chapter-3

SAP UNDER THE POST ELECTION REGIME

In1992, a year of watershed in the political and constitutional history of Ghana, it held its first elections in over a decade, taking a decisive step in the return to democratic rule.[1] A new constitution was adopted, and presidential and parliamentary elections were held.[2] Although many countries in Africa moved to democracy in the 1990s, Ghana had reached that point only after a virtual meltdown in the early 1980s. In 1992, the PNDC regime gave in to domestic and international pressures, and converted from military rule to a constitutional parliamentary system of government. The resulting elections confirmed Rawlings as President. The opposition parties boycotted the parliamentary elections, arguing that the prior presidential election had been rigged.[3]

Macroeconomic Scenario of Democratic Ghana

Ghana's economic strategy since 1992 focused on macroeconomic stabilization and structural reform in a democratic environment. But a

[1] S. P. Leita, A. Pellecho, L. Zanforlin, G. Begashaw, S. Fabrizio, and J. Harnack, " *Ghana: Economic Development in a Democratic Environment*" (IMF, Washington DC, 2000), p. 1
[2] M. Nowak, R. Basanti, B. Horvath, K. Kochchar, and R. Prem, " Ghana, 1983-1991", in: M. T. Hadjimichael, M. Nowak, R. Sharer, A. Tahari, (eds), *Adjustment for Growth: The African Experience* (IMF, Washinrton DC, 1996), p. 25.
[3] Adjustment in Africa: Lessons From Ghana, *Overseas Development* Institute-*Briefing Paper,* 1996 (3) July, p. 5.9. (Hereafter this will be cited as ODI- Briefing Paper 3/96)

democratic and participatory approach proved antithetical to structural economic reforms in Ghana. Consultation and consensus building delayed policy implementation. Protection of minority rights and interests were overlooked under the guise of majority rule.[4] Since the advent of the Fourth Republic in 1992, the poorer performance of the economy gave the impression that there was an incompatibility between the successful implementation of structural adjustment and democratic government. It, therefore, indicated that a strong authoritarian rather than a democratic government would be in a better position to push through unpopular measures and to suppress opposition to them.

From an economic perspective, however, 1992 was a crucial year, as in March of that year, private traders were allowed for the first time to purchase cocoa crop in competition with the state owned produce-buying company. Domestic and export trade in coffee, shea nuts, cocoa products had been privatized in early 1991. In early 1992 the Bank of Ghana, the country's central bank, began using indirect instruments as the primary instruments of monetary policy, replacing a system of credit ceilings on commercial banks with weekly auctions of government and central bank securities. A floating exchange rate system based on an interbank market

[4] Leita and *et. al.*, n. 1, p. 1.

was introduced to replace the weekly exchange rate auctions. A new pay and grade structure for the civil service was also introduced.[5]

Adjustment Measures vis-à-vis Successive Elections

Unfortunately, the period since 1992 was not one of clear-cut success and economic development. The same elections that restored representative democracy also encouraged the government to spend excessively, in part because the government faced a series of strikes. Doctors, nurses, workers of the Coca Board, railway employees and civil servants went on strike. Pressed for time and concerned about the elections, the government granted large salary increase, which worsened macroeconomic imbalances and rekindled inflation. The fiscal balance turned from a surplus of 1.8 percent of GDP in 1991 to a deficit of 4.9 percent in 1992, financed by the banking system.[6]

The government implemented policies in 1993-94 with the object of regaining control over the budget deficit but had only limited success. Instead of taking large structural measures that would address the weaknesses in the public sector, the government used large receipts from the divestiture of state enterprises to finance the fiscal deficit in 1994. Growth in the money

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[5] Ibid, p. 4
[6] Ibid, p. 4

supply accelerated that year, however, mainly because of an increase in borrowing by the National Petroleum Corporation from the central bank, and this further intensified inflationary pressures. Similar events in 1996, when new elections were held, highlighted the difficulties that Ghana had confronted in carrying out economic adjustment and structural reforms in a democratic environment.[7]

After a decade of improvement under the ERP, which was rooted in firm control of the budget, fiscal discipline deteriorated significantly in 1992. In the transition to the multiparty democracy, the government, concerned about securing the support of public service labor unions, granted substantial wage increases, amounting to 80 percent of the total nominal payroll. Tax administration was particularly lax, resulting in a decline in tax revenue from 12.4 percent of GDP in 1991 to less than 11 percent. The overall fiscal deficit widened by 8 percentage points of GDP. The domestic primary balance shifted from a surplus of almost 5 percent. A nearly identical shift was seen in net domestic financing: repayment of domestic debt equivalent to 2 percent of GDP in 1991 switched to net financing of 5 percent of GDP in 1992. The stock of domestic debt, which had declined steadily since the ERP was implemented, jumped substantially from 4 percent of

[7] Ibid, p. 4.

GDP in 1991 to almost 16 percent of GDP in 1993, just about equal to its level at the end of 1983, the first year of the ERP. This jump was reflected in steep increases in domestic interest payments in subsequent years. Inflation increased sharply to 74 percent at the end of 1993. The Treasury bill rate, after declining by 10 percentage points in 1992, rose by 12 percentage points in 1993.[8]

In addition to the substantial domestic financing and monetary expansion, the government undertook considerable new medium-term nonconcessional external borrowing in late 1992, causing external debt ceiling to be exceeded by wide margins. Although the authorities recognized the risks of heavy commercial borrowing, they believed it was necessary to help bridge the shortfall in external assistance that had emerged because of the policy slippages. In addition, a shortfall in cocoa production and a sharp decline in world cocoa prices adversely affected external and fiscal performance. Weak tax administration and tax reforms resulted in company tax collections declining to 1.2 percent of GDP in 1992 from 1.5 percent in 1991. Indirect taxes decreased from 6.7 percent of GDP in 1991 to 5.9 percent in 1992. Collections of excises and sales tax on both domestically produced goods and imports, despite larger import volume, all declined, by the

[8] Ibid, pp. 30-32.

cumulative amount of 0.5 percent of GDP, as a consequence of weak administration. Rate of reductions also contributed to the decline in sales tax collections on imports. The largest part of the decline in indirect taxes, however, came from a reduction in petroleum taxes. This reflected the government's unwillingness in an election year to increase administered prices of domestic petroleum products in response to the depreciation of he cedi, and its willingness to subsidize the operations of the Ghana National Petroleum Corporation (GNPC) by writing off ¢ 14 billion due as revenue from the petroleum tax. While revenue dropped, noninterest recurrent and domestically financed capital expenditure increased, by 40 percent of GDP. The overall pace of structural reform slowed during 1992, giving the government's concern about its support in the country's first democratic elections. The state enterprise divestiture program and civil service reform were especially affected.[9]

In 1992 and 1993, private investment slumped in the wake of slippages in the implementation of financial policies. The level of foreign direct investment (except in the gold sector) also remained very low throughout. In 1992-1993, fiscal policy provided a strong expansionary stimulus that fueled inflationary pressures. The expansionary stance of

[9] Ibid, p. 36.

fiscal policy shifted the primary balance to an unsustainable position in the sense that it implied continued increases in the debt-to-GDP ratio. In 1992-1993, the large increase in the fiscal deficit fueled resurgence in monetary expansion. The external debt-to-GDP rose rapidly from 9 percent in the preadjustment period to 77 percent in 1993, while the net value of debt relative to exports at the end of 1993 was 225 percent. A stock exchange was started in 1990, but by 1994 shares of only 17 companies were traded.[10] The competitiveness and profitability of private sector actor activity tended to suffer as a result of the cost-push impact of generous pay awards in the public sector, while 80 percent wage award was made in the run-up to multiparty elections in 1992. Efforts to link wage increases to productivity and allow differentials to widen across grade levels and occupations were interrupted in 1992 by the large wage increase.

In 1993 the overall budget deficit increased by ½ percent of GDP, as higher expenditure, mainly recurrent, exceeded a rebound in revenue collections. Cocoa export receipts suffered as a result of unanticipated outlays related to staff retrenchments by the Cocoa Board. Value Added Tax (VAT) that was introduced in 1995 replaced the sales tax and extended its coverage to include retail sails and a range of services. In that year itself, civil

[10] Nowak and et. al., n. 2, pp. 32-39.

disturbance broke out over the introduction of the VAT, which forced the government to rescind the tax and return to the previous sales tax at a rate of 15 percent. The civil unrest over the VAT was the result of several problems associated with its introduction. First, a low threshold for taxpayer registration forced small businesses to register and apply the tax, even though aggregate revenue from these businesses was very low. Second, inflation was high, and many small business operators used the introduction of the tax as a scapegoat for higher prices. Finally, the government did not pursue an adequate public information program in advance of the VAT's introduction so that the public would recognize its objectives and impact.[11]

Large fiscal slippages occurred during the second half of 1996 in the run-up to the elections. These slippages were part of the government's effort to increase its support among the electorate. For example, the mechanism introduced for automatically adjusting retail petroleum prices for changes in the price of imported of oil and the exchange rate was suspended when its application called for an increase in prices. This caused a shortfall in petroleum tax collections. Import duty and sales tax collections were also abysmally low due to large-scale exemptions. Serious slippages occurred on the expenditure side because of overruns in capital spending in rural areas,

[11] Leita and *et. al.*, n. 1, pp. 36-38.

where the government sought to maintain the support it had received in the 1992 elections. Also, domestic debt did rise rapidly at the end of the year of 1996, with the domestic financing requirement of the government running high near the elections in December. The overall deficit of 9.5 percent of GDP was virtually the same in both election years (1992 and 1996). Though in the short run liberalization did not have any significant effect on the composition of imports because of the structure and nature of industry in Ghana, in all cases liberalization led to an increase in import volumes and real import values. The World Bank became the largest donor, offering assistance at an annual level of approximately $300 million in the form of sectoral and structural adjustment credits. Infact, Ghana received pledges amounting to $ 2.1 billion from the donor community for the two-year period beginning January 1, 1994; and remained dependent on donor assistance.[12]

A major goal of the SAP was to reduce the size of the public sector and to promote private sector activity. President Rawlings' government appeared to have done little to encourage private sector involvement, however, and there was limited trust between them. Most big businessmen suffered as a result of the PNDC revolution and might still resent Rawlings and his colleagues. At the same time, because of its avowed fears of

[12] Country Reports on Economic Practice and Trade Reports: GHANA, 1993, pp. 8-9.

exploitation of consumers and workers, the government had appeared ambivalent in its attitude towards the private sector. This was illustrated when President Rawlings cautioned his party supporters not to buy the products of certain businessmen associated with the political opposition. The government had also been slow to implement the privatization program. Only a few of the several state owned enterprises selected for divestiture had been sold, and opposition parties had claimed that some of the sales that had occurred had lacked transparency. A further example of the government's commitment to the SAP weakening in a more democratic environment came during budget hearings for 1996, concerning 'petrol politics'. Under pressure from a parliament dominated by the ruling party's own members, the government announced a price increase of 19%, which was insufficient even to compensate for exchange rate depreciation. This had weakened the state petroleum company's financial position and put pressure on the 1996 budget through lost revenue and the implicit subsidy, which was being provided.[13]

In short, as mentioned earlier, the aura of success surrounding Ghana's adjustment efforts started fading in the democratic phase. Economic growth slowed down, inflation became a major concern, the cedi depreciated, further fuelling inflation but without maintaining incentives to

[13] ODI-Briefing Paper 3/96, p. 5.

export, unemployment increased; and there appeared to have been little reduction in poverty. Thus the claim for major successes in reversing economic decline and establishing a more democratic government, especially in relation to development elsewhere in the region, was disproved by the continuing difficulties facing the economy. The Rawlings government deserved the considerable credit it was given for the economic stabilization of the 1980s, especially through its moves to reduce budgetary deficits. But a deterioration since then could be attributed to weaknesses in macro economic policy, exacerbated by the slow response of the private sector to the earlier improvements. Faltering economic performance was related to the slackening of fiscal control, which started in 1990. Unbudgeted outlays for a Ministerial Conference of the Non-Aligned Movement; peacekeeping operations in Liberia in 1990; and later the direct and indirect costs of local government elections, placed a great strain on a still fragile economy. The fiscal pressures of unanticipated expenditures were aggravated by a decline in aid inflows.

In 1991 the government added to its fiscal problems by insisting on a national referendum on a new Constitution, even though there was no serious opposition to its proposals. That was followed in 1992 by residential and parliamentary elections. The associated increase in public spending contributed to a large budget deficit financed by borrowing from the banking system, and as a result money supply expanded by over 50%. In 1994, the proceeds of a sale of part of the government's holding in Ashanti Goldfields obscured the budgetary problem, but the underlying economic tensions remained: a reported surplus on the budget was only achieved through unexplained 'special receipts'of around 189 billion cedis. The budgetary weaknesses and the credit demands of the rest of the public sector led again to a large increase in money supply. After some time, this inevitably sent inflation back to high levels over 70% per annum by December 1995. An important achievement of the stabilization process of the 1980s had been the rationalization of the country's exchange rates. However, since 1992 the authorities started intervening in the market to limit the rate of depreciation. Such intervention resulted in a rise in the real exchange rate, reducing the profitability of exports, without preventing a large nominal depreciation of the cedi. This policy protected urban and middle class consumers at the expense of mainly rural exporters.

These actions contributed to a derailing of the adjustment program. But some of the difficulty could have been due to a preoccupation with macroeconomic management to the neglect of complementary measures to stimulate production. There had been decline in overall growth of GDP by half a percentage point in 1990-95 from the preceding five-year period, and in only two years since 1990 growth exceeded the nearly 5% average of 1984-89. Performance varied in the main sectors of the economy since 1988. Agriculture appeared to have been left to the vagaries of the weather, and the cyclical decline in world cocoa prices, so that in the absence of market and non-market incentives to increase productivity, it performed poorly. The tight credit squeeze, restricting finance for working and replacement capital, hampered industry, having responded to the initial impetus generated by the improved availability of imported inputs. Moreover, trade liberalization exposed it to increased competition from abroad. The service sector did consistently outstrip the other main sectors, but could not alone provide sufficient impetus to sustain economic growth. Structural adjustment policies appeared to have been implemented without sufficient attention to ensuring that the private sector was responding to the program. Thus when industrial capacity utilization increased in the initial years of the program, it was on the basis of an old and obsolete capital stock. Domestic saving (about 12% of GDP in 1995) remained still too low to generate substantial local investment. While private saving improved over the years, government saving became negative, reflecting the poor fiscal position. At about 16% of

GDP in 1995, investment increased dramatically from its low of less than 3% at the beginning of the adjustment period.

However, much of this recovery had been concentrated in the extractive sector, particularly gold mining, which performed well under adjustment. Helped by considerable foreign investment, gold overtook cocoa as the largest single export earner. There had been revisions of the Investment Code to provide tax and other incentives but these had not generated the expected growth in capital formation. Factors contributing to this failure were the inadequate infrastructure reflecting decades of under investment and inadequate maintenance, the unstable macroeconomic environment, and continuing doubts about the attitude of the government towards private investors. Supply responses to adjustment policies were particularly weak in agriculture. In the initial years of the program, exchange rate reforms and increases in the producer price helped to improve earnings from cocoa. Later on, however, the performance of the cocoa sector seemed to have confirmed the widely held view that much of its initial recovery was due to a cessation, perhaps reversal, of the smuggling of cocoa to neighboring Côte d'Ivoire, rather than to increases in production. After rising from 159,000 tonnes in 1983 to 247,000 in 1990, cocoa export volumes stagnated and Ghana's world market share became even smaller than it was in 1981.

Also government policies, disease problems and climate change in the old cocoa growing areas (now the transitional forest zone) had caused the cocoa frontier to move to less optimal conditions in the Western Region. At the same time, the food sector had been weakened by the switch over to price incentives for cash crops and by the increased cost of inputs, particularly fertilizer and labor.

An exposure to international competition resulting from market liberalization led to a consistent deceleration of industrial growth. As a reflection of this, employment in the manufacturing sector fell from a peak of 78,700 in 1987 to 28,000 in 1993. There had been a gradual collapse of the industrial sector in the country, confirming the long-held suspicion that the program would lead to de-industrialization. Large-scale devaluation made it extremely difficult for indigenous manufacturers to required foreign exchange to replace machine parts, and keep production in process. Since the 1990s, the country had faced a bleak economic future, as the prices of cocoa (its main foreign exchange earner) started to fall persistently; and as it faced stiff competition from Malaysian and Brazilian producers.[14]

In Ghana, which had been being presented as one of the success stories of the adjustment policy, the capital city of Accra did stay without

[14] I. C. Ezeonu, " Ghana and Uganda: A Reappraisal of the 'success story' of market-led development strategy", *African Quarterly,* Vol. 40, No. 4, 2000, p. 93.

electricity in some cases for three out of the five working days; industrial productivity remained at its lowest ebb, and the agricultural sector became unproductive.[15] In fact, Ghana's much-trumpeted economic miracle had been shown to be nothing but the fictious creation of the IMF and the World Bank.[16] Taylor and Pieper rightly contested the so-called economic 'miracle' engendered by structural adjustment in Ghana, by saying that African success cases such as Ghana were typically being held afloat for demonstration purposes by continuing aid flows, and the incoming loans were piling up substantial interest obligations for the future.[17]

Thus, the success or otherwise of the SAP would depend on, more than anything else the nature of the regime, that would implement the program. In Ghana's case, the switch over to a civilian government accompanied by an under performing economy after an initial better response to SAP in an authoritarian regime, had suggested that a democratic polity and a structured economy could not go together. And to this very syndrome of incompatibility between the two levels of social structure, how the welfare of the people-of Ghana did remain hostage would be comprehensively explained in the next chapter.

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[15] C. Abugre, " Do not Pass Go!" *(http: //www.vso.org.uk/pubs/orbit/68/Ghana.html),* 16 May 2000.
[16] Ezeonu, n. 14, p. 93.
[17] L. Taylor and U. Pieper, *Reconciling Economic Reform and Sustainable Development* (New York, UNDP, 1996), p. 25.

Chapter–4

SAP AND ITS POLICY IMPLICATIONS ON GHANAIAN SOCIETY

The real success or failure of an economic program would depend on its impact on social sector, more so in a country like Ghana, which went for Structural Adjustment Program (SAP) in 1980s; that was a time when it was, like many other sub-Saharan African countries, going through a severe economic depression. Economic Recovery Program (ERP) had got severe negative ramification on employment, health care, education and environment of the Ghanaian society.

Employment

Adjustment policies had increased unemployment in Ghana, at least in its urban areas. Retrenchment and redeployment measures in the public sector were intended to prune the government payroll by some 60,000 by the end of 1989. The Ghana Cocoa Marketing Board (COCOBOD) and the Ghana Education Service had been the units most affected. The COCOBOD laid off 20,000 workers in 1985 and, more than 6000 were laid off by the education service in 1988. Other civil service sectors had similarly been shorn. These lay-offs affected urban areas the most and caused hardships in many households.[1]

Though government had counted on the retrenched workers being absorbed into the private workforce, as occurred after the 1983 repatriation from Nigeria, and that most would move into agriculture; but unfortunately, with the exception of coca, hardly any incentive had been provided to encourage such employment. Moreover private manufacturing in Ghana was not developed enough to absorb those retrenched form the public sector.[2]

Adjustment also brought about vertical and horizontal shifts in the labor market. It had been observed that 'the ERP's reliance on market signals as means of achieving structural adjustment had been probably helped by a labor market sensitive to profitable opportunities'.[3] Ghana Living Standard Survey (GLSS) suggested that people had indeed moved into agriculture since adjustment began.[4] That might be a direct result of incentives provided to the cocoa sector through increases in product prices, or a consequence of public-sector retrenchment, or both.

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[1] N. K. Sowa, " Ghana", in: A. Adepoju (ed.), *The Impact of Structural Adjustment on the Population of Africa* (United Nations Population Fund, New Hampshire, 1993), p. 15.
[2] Ibid, pp. 15-16.
[3] P. Beaudy and N. K. Sowa, *Labour Markets in an Era of Adjustment: A Case Study of Ghana* (Washington, DC: World Bank), p. 42.
[4] Ibid, p. 44.

Prior to adjustment, migration was directed towards the urban areas, and especially towards Accra. After adjustment, the pattern reversed itself and Accra became a net source of out-migrants. Using GLSS data, Beaudry and Sowa observed that 'between 1982 and 1987, net migration out of Accra accounted for almost 60 percent of net outward migration in Ghana. The main destination of migrants had become the Western Region, which corresponded to the expanding cocoa production in that region'.[5]

Shifts in household earnings owing to adjustment measures had also affected employment. While living costs increased, the nominal wage had remained abysmally low. The minimum nominal wage rate was doubled in 1985 from ¢ 35 per day to ¢ 70 per day, and there had been occasional further increases since then, but those had failed to maintain real wages at realistic levels. Indeed, estimates showed that the average low-income family in Accra spent the equivalent of more than eight times the minimum age. As a consequence, most salary earners resorted to second or third jobs to supplement earnings. Low real wages also drove people to illicit activities such as theft, black-marketing, and prostitution.[6]

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[5] Ibid, 46.
[6] Sowa, n. 1, p. 16.

Poverty Profile

It had been observed that the adjustment process by its very nature inflicted short-run hardships on certain vulnerable groups.[7] Ghana's experience has been no exception. Despite impressive macro-level growth statistics, both the absolute and relative levels of poverty increased among both urban and rural populations during the adjustment period.

An Institute for African Development (IAD) special mission report estimated that the proportion of rural poor increased from 43 percent in 1970 to 54 percent in 1986. Other rough estimates showed that the number of urban dwellers below the poverty line increased from an average of 30–35 percent in the late 1970s to between 45 and 50 percent in the mid-1980s. The same study showed rural poverty to have increased from 60–65 percent in the late 1970s to 67–72 percent in the mid-1980s.[8] Thirty percent and ten percent of the population, respectively, fell below the lines set by the World Bank of ₵ 31,552 percapita per year for 'poor' and ₵ 18,562 percapita per year for 'very poor'. The latter group had been termed the 'hard core poor'.[9] GLSS indicated that about 19.2 percent of the latter lived in urban areas while 65.8

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[7] S. M. R. Kanbur, " Measurement of Alleviation of Poverty: With an Application to the Impact of Macroeconomic Adjustment", *Staff Papers* (IMF, Washington DC, 1987), p68.
[8] R. H. Green, *The Human Dimension as the Test of and a Means of Achieving Africa's Economic Recovery and Development, Paper* presented at Conference on Human Dimensions of Africa's Economic Recovery and Development (Khartoum, Sudan, 3-8 March, 1988) p. 79.
[9] E. O. Boateng et al, *A Poverty Profile for Ghana, 1987-88, SDA* Working Paper No.5 (World Bank, Washington DC, 1990)p. 140.

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[9] E. O. Boateng et al, *A Poverty Profile for Ghana, 1987-88, SDA* Working Paper No.5 (World Bank, Washington DC, 1990)p. 140.

percent live in rural areas, and the ratio was essentially the same for the ordinary poor. Taking into consideration that rural dwellers might rely more on subsistence than on monetary income, the situation might well be grimmer for the urban poor. Those who had fallen into the 'hard core' group in cities were the ones working in the so-called informal sector. Those persons had been marginalized by adjustment policies that resulted in high living costs relative to incomes. The majority of those in the 'hard core' poverty class were non-cocoa farmers; no 'white collar' workers fell into this category.[10]

PAMSCAD: Mitigating the Social Costs

In order to address the plight of those adversely affected by the adjustment program, the government instituted a Program of Actions to Mitigate the Social Costs of Adjustment (PAMSCAD). Those targeted included rural households, low-income underemployed and unemployed urban households, and retrenched workers who lacked productive employment.

Some of the interventions suggested under the program included income and nutrition supplements. Projects chosen were selected on the basis of having a strong poverty focus and high social and economic rates

[10] World Bank/UNDP (1989), p.102.

of return. These included 'community initiative projects' as well as 'employment generation projects'. In addition there were projects designed to meet basic needs (water and sanitation, health care, nutrition, and shelter) for vulnerable groups. PAMSCAD was also intended to minimize the increased costs to parents due to the removal of subsidies in secondary school. Implementation of projects under PAMSCAD was, infact, slow owing to delays by donors in disbursing the US $ 84 million pledged in 1988 to initiate the program.[11]

Health and Education

Education and health care would constitute the vital indicators of the social achievements of a nation. Overall, Ghana's situation during the adjustment period had improved only slightly, and in some instances had become worse. The social infrastructure had run down over the years, and the quality of coverage and services provided in both education and health had deteriorated. The SAP thus targeted both these areas for 'adjustment'. But the principal change involved the institution of full cost-recovery procedures for those and other public utilities, something that had a negative impact on access, particularly in the rural areas.[12]

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[11] Sowa, n. 1, pp. 17-18.
[12] Ibid, p. 18.

Improved sanitation and an increase in the number of medical facilities raised life expectancy at birth from 44.8 years in 1960 to 54 years in 1987. This came despite an increase in the patient: physician ratio owing to emigration of skilled personnel. This ratio increased from 13,740: 1 in 1965 to 14,890: 1 in 1984.[13]

In education, the situation clearly worsened since independence. The percentage of the primary school age population enrolled declined from 69 per cent in 1965 to 63 percent in 1986. In secondary and tertiary education there was a slight improvement.[14]

Health care

Prior to the adjustment measures, the health sector was financed mainly out of the national budget. Expenditures dropped sharply in the early 1980s, from 6.43 percent of budget and 0.95 percent of GDP in 1980 to 4.38 percent and 0.35 percent respectively in 1983. The government introduced hospital fees in July 1985 in an effort to recover part of the costs. By 1987, such fees constituted 13 percent of the recurrent budget of the Ministry of Health. Service charges per outpatient varied regionally

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[13] Ibid, p. 18.
[14] Ibid, p. 18.

from ₵ 56 to ₵ 293. Cost recovery form drugs reaped about 34 percent of the value of items dispensed.[15]

Introduction of fees proved disincentive to the health services. Declining hospital attendance before 1984 could be attributed to the overall crisis of the economy, but the continued drop through 1986 was due to the introduction of fees. In some rural areas, outpatient attendance dropped by nearly 50 percent. On average, 48 percent of all sick Ghanaians did not consult a health provider of any kind, according to the 1987–8 GLSS.[16]

In 1988, a policy was instituted whereby drugs deemed 'essential' were exempt from import duties. Yet such drugs did cost so much in the first place that many outpatients could not afford them. Others simply visited dispensaries and pharmacy shops in order to avoid consultation fees.[17]

There had been discussions about promoting primary health care, but very little had been done. Traditional birth attendants (TBA) were being trained in basic hygiene and first aid to enable them to offer improved services in the rural areas.[18]

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[15] Ibid, p. 18.
[16] Ibid, p. 18.
[17] Ibid, pp. 18-19.
[18] Ibid, p. 19.

Education

Drastic reforms had been made in education in Ghana since the adjustment began. While these were first announced in 1986 they were based on 1974 commission report on 'The Structure and Content of Education'. The aims stated were the following:

- To reduce the length of pre-university education from seventeen to twelve year;
- To improve the quality of educational standards;
- To contain and partially recover educational costs; and
- To enhance sector management and budgeting procedures.

Under the recovery program, the reforms had come in two phases and had been supported with funds from an Education Sector Adjustment Credit (EdSAC). The first phase (1987–90) concentrated on 'basic education' during the first nine years of schooling. Phase Two (1991–3) was to focus on senior secondary education. The following steps had been taken, mainly with an eye to finances:

Redeployment: Non-teaching and unqualified teaching staff were redeployed from the education service and replaced almost one-for-one with qualified teachers, mainly returnees from Nigeria;

Fee Increases: All pupils from grades three to nine were being charged book-user fees of ¢ 120 per pupil per year. In the secondary schools the book-user fees had been increased from ¢ 24 to ¢ 1500. When Phase Two of the program was implemented, it was expected that new senior secondary students would pay the full costs of book use, at 1989 prices, between ¢ 2500 and ¢ 3000 per student per year. Besides these fee increases, exercise books that were once provided as grant were being sold to students. All kinds of additional levies and charges were being demanded of parents, even for the construction of classrooms and workshops.[19]

At the tertiary level, a new loan scheme was introduced in 1989 whereby ¢ 50,000 per annum was provided in lieu of 'allowances' for food, books, and miscellaneous expenses. But this sum could hardly provide for a university student's needs, though students in particular disciplines such as medicine and agriculture, as well as deserving students in other fields, still enjoyed government bursaries and scholarships.[20]

Subsidies on student meals at the boarding secondary schools had been withdrawn. A moratorium had been declared on the establishment of

[19] Ibid, pp. 20-21.
[20] Ibid, p. 21.

new boarding schools, and the government had further required that thirty percent of all intake in existing schools be day students.[21]

The overall effect of the fee increases on the welfare of students and their families was not difficult to imagine. Incomes were already inadequate for family support. Where education subsidies had once made it possible for poor students to attend university that was later on largely precluded. Giving more people literacy and numeric by stressing basic education would make sense, but it should not be done at the expense of higher education.[22]

Further rationalization in the tertiary institutions was expected before release of the second tranche under the EdSAC agreement. A University Rationalization Committee had recommended removal of subsidies, retrenchment and redeployment of staff, a freeze on the hiring of new lecturers, and an increase in student/ lecturer ratios. Many of these steps had already been implemented.[23]

Removal of subsidies at the tertiary level was supposed to make more resources available for basic education. And indeed, prior to the reforms, allocations were skewed toward higher education, with nearly sixty times as

[21] Ibid, p. 21.
[22] Ibid, p. 21.
[23] Ibid, p. 21.

much being spent on university student as on a primary student. Since reforms got under way, primary enrolment had begun to grow. [24]

Not surprisingly, education levels appeared to be important factors in Ghana's poverty profile. GLSS data showed that more than 80 percent of the poor, and more than 70 percent of the extremely poor, lived in households in which the head had no education. Among the extremely poor, school enrolment was about 45 percent for children aged six to fifteen. The figure was 60 percent for the less poor, but both these figures were lower than for the population as a whole. The policy implication was that raising the level of education could help lower the proportion of Ghanaians beneath the poverty line.[25]

Environment

Historical development experience, social structure, environment productivity and enhancement, questions of distribution, informal activity at the subsistence sector and cultural acceptance of the new strategies did not factor into the development blueprint of SAP as implemented in Ghana. The Government of Ghana's interest was not with new development paradigms, such as sustainable development, which would alter economic

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[24] World Bank, 1988, p. 90.
[25] Sowa, n. 1, p. 22.

policies and integrate environmental issues into development planning. The ERP had caused severe environmental damages in the areas of agriculture, forestry and mining in Ghana. As a result of the revitalization of agricultural production during the implementation of SAP, agricultural output increased at the annual rate of 3 percent between 1986 and 1988.[26] The environmental degradation, which accompanied the exploitation of agriculture and other natural key sources, imposed considerable cost to the economy of Ghana. The total estimated annual cost of environmental degradation in Ghana was US $ 128.3 million (4 percent of GDP) in 1988. This cost was expected to grow at an annual rate of 2 percent, so that by 1996 the estimated environmental cost would have been US $ 2 billion. Agriculture imposed the greatest environmental degradation cost of US$ 88.5 million that was 69 percent of the total cost of environmental degradation.[27]

Like agriculture, the implementation of SAP induced strong recovery in the exploitation of forest resources especially for timber. Consequently, production of logs increased from 560,000 cubic meters in 1983 to 890,000 cubic meters in 1986. An initial drop from 40,000 cubic meters in 1988 to about 200,000 cubic meters appeared to be a response to Environmental

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[26] International Fund for Agricultural Development (IFAD), *Report of Special Mission to Ghana* (July, 1988), p. 102.
[27] Convery and Tutu, " Evaluating the Cost of Environmental Degradation in Ghana", *A Report Prepared for the Environmental Protection Council* (Accra, 1990), p 111.

Action Plan that the government initiated in 1988. Thereafter, the volume of logging remained steady until 1992 when it rose sharply from about 180,000 cubic meters to about 450,000 cubic meters in 1994. The export of logs had since continued on an upward trend. Interestingly, the sharp increase from 1992 coincided with the transition to democratic government in Ghana the same year. Arguably, the government became more constrained in its capacity to implement environmental action policy in a liberal democracy than in the authoritarian era of the PNDC regime. Timber exports in 1986 were worth US$56 million as against US $ 13 million in 1982.[28] The opportunity cost of this remarkable progress in the exploitation of the forest resource during the implementation of Structural Adjustment Policies was quite high with respect to the environment. The exploitation of the forest resources during the SAP process imposed an estimated environmental degradation cost of US$ 33.4 million on the economy. The continued and intensified cash cropping in Ghana as the central component of the ERP contributed to the gradual degradation of the ecology, including the forest environment. The external forces of deforestation persisted through the activities of largely multinational corporations (MNCs) as Ghana failed to restructure its dependent relations with the world commodity markets. The steady trends in deforestation

[28] Ghana Government, *National Program for Economic Development*, (Accra, 1987).

could partly be attributed to the expansion of industry geared to exports as Ghana would seek to restore its industries (mainly logging and mining). The development policies adopted had exacerbated conditions of resource exploitation and misuse. Government rhetoric in Ghana frequently targeted rural poverty as a primary development goal, yet continued to promote policies that were contradictory to such aims. There had been no direct recognition of the multiple uses forests represented to rural dwellers (fuel wood, emergency food supplies, building materials, medicine, as habitat for bush meat etc.). Rather, the forest policy appeared to lean towards preservation and enhancement of trees as export and industrial commodities. Enhancing the productivity of forest resources for purposes of basic survival and economic empowerment among rural populations was not priority in the national forest policy, or the ERP. Clearly, there had been a blatant contradiction between "rural development" rhetoric and real development action within the Government of Ghana. The industrial forest development was not in the survival interest of rural people as " trickle down" strategies proved ineffective in alleviating inequitable distribution of wealth and resources in the areas of deepest rural poverty.

The ERP had also enhanced mining and its impact on the environment. The mining sector would constitute the largest foreign exchange earner after cocoa in Ghana. In 1986, for instance, export of minerals amounted to US$126 million or approximately 17 percent of total foreign exchange earnings. By the 1990 the share of minerals in the total export earnings increased to 36.2 percent from 16.6 percent in 1986. The gold constituted the major mineral export, which accounted for about 85 percent of the value of total mineral exports.[29] In 1991, Ghana's gold production surged to 844,000 ounces – a 200 percent increase since 1983. This figure had only increased slightly by 1996. The government continued to encourage surface mining that was particularly destructive to the forests. Licenses were being granted freely to mining companies with regard to the effects that their operations would have on the environment. Small - scale miners were also illegally, without licenses, conducting surface operations with similar devastating effect on forests as they were indiscriminately cleared in search of deposits. The rehabilitation of the gold industry in the absence of associated environmental controls or regulations was further evidence of the government's disregard for ecological protection or enhancement. There was no connection in Ghana's development strategy (based on export rehabilitation of primary commodities)

[29] Ghana Government, Public *Investment Program, 1990-1992,* Vol. 1 (April, 1990), p. 21.

between structural mechanisms enhancing environmental exploitation and the development initiatives taken. Not enough attention was also being paid to the impact of policies and projects by multilateral institutions on the state of the environment in Sub – Saharan Africa although economic development and the well-being of millions of Ghanaians directly depended on the conservation of the country's natural resources. The IMF and its sister organization, the World Bank, did wield more influences over economic development and environmental quality than any other single institution on earth. The IMF policy prescriptions and the conditionality accompanying these programs aimed at assisting a country in balancing its internal budget and in reducing its balance of payments deficits – that was an impossible task as long as massive debt relief was not forthcoming. Instead, nothing short of a drastic slashing of domestic expenditures and the relentless pursuit of exports was what was demanded of Ghana by IMF policies, with little regard for the social and environmental consequences. Evidently, the IMF and the World Bank were peopled with neoclassical economists of strict observance, and it was not surprising that their loans and adjustment programs paid scant attention to ecological costs.[30]

[30] Susan George, *A Faith Worse Than Debt* (New York: Grove Press, 1988), p. 155.

Thus, the economic policy of the IMF was linked to the environment in clear and simple terms. Besides the pressure to earn foreign exchange through ever increasing exports of natural resources and agricultural products at an ecologically unsustainable pace, there was also increased economic pressure on the poor who were mostly pushed into ecologically fragile areas and unsustainable activities. Evidently, ERP had prioritized the rapid exploitation of Ghana's natural resource base and contributed immensely to continuing ecological degradation.

Before transition to partisan politics (democratic system) in 1992, there was a sharp decline in volume of timber logging between 1988 and 1991 from about 350,000 cubic meters to about 150,000 cubic meters. Thereafter, the volume increased drastically to about 520,000 cubic meters in 1994.[31] The EAP, as mentioned earlier, was initially adopted and implemented by the then Provisional National Defense Council (PNDC). At that time the bureaucratic did not face the threat of losing power since there was no party politics. They could therefore enforce environmental rules and regulations without fear of being run out of office by the influence of self-interested business through party politics. At that time, political power was not dependent on pleasing large mining and logging firms but on the preponderance of an authoritarian

[31] Bank of Ghana, *Annual Report* (Accra: Bank of Ghana, 1988), p. 15.

regime. Indeed, the protection of the environment had never been a campaign issue in Ghanaian party politics. The political parties competing for control of political power in Ghana did not see any need to make it a political issue either. Arguably therefore, the introduction and practice of partisan politics in Ghana had diminished the government's willingness to vigorously pursue its apparent commitment to sustainable development.

Among other things, SAP exacerbated rural poverty, Ghana's external debt situation and foreign dependence, domestic inequality, marginal role of women in the formal economy and the control by the Macs of the nation's natural resources. The most serious resource and environmental problems could be motivated by political and economic circumstances than by naiveté. For example, the poor, especially the rural poor, had to suffer great costs, while those with political power might actually gain from a strategy of environmental exploitation. At the same time, there was a tendency to overemphasize the extent to which the poverty – population conundrum was the reason for environmental abuse in the poorest countries.

The realization that poverty was often responsible for environmental depredation had already started growing in recent past years.[32] Poverty could be linked to the environment in complex ways, particularly in African

[32] E. P. Eckholm, Down *to Earth: Environmental and Human Needs* (London: Pluto Press, 1982), p. 67.

economies, which were based on natural resources. Degradation of those resources reduced the productivity of the poor – who had to rely on them - and made the poor even more susceptible to extreme events (meteorological, economic, and civil unrest). Poverty made recovery from such events even more difficult and contributed to lowering social and ecological resista0nce. Poverty also constituted as a factor in accelerating environmental degradation, since the poor, with shorter time horizons and usually less secure access to natural resources, became unable and often unwilling to invest in natural resource management (for example, soil conservation and fertilizers). In addition, poor people became exposed to environmental damage the most, because they could not afford, for example, to purchase safe water or to live in a neighborhood that was less polluted. Reducing poverty would often lead to improved environmental quality and vice versa.[33] In Ghana, it was noted that, all of the waste disposal sites were located in the poor neighborhoods such as in Mina and Zongo.[34]

Poverty became quite endemic in Ghana. The World Bank had classified the poor in Ghana by degree of urbanization and ecological zones.[35]

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[33] World Bank, *Poverty Reduction Handbook* (Washington DC: World Bank, 1992), p. 18.
[34] K. Domfeh, " The Deterioration of Ghana's Urban Environment", *The Journal of Management Studies*, Vol. 11, No. 3, 1994, p. 66.
[35] World Bank, *Sub-Saharan Africa: From Crisis to Sustainable Growth* (Washington DC: IBRD, 1989), p--

By that classification, 65.8 percent of the poorest 10 percent and 63.0 percent of the poorest 30 percent of Ghanaians were living in the rural areas. By ecological zones, 60.3 percent of the poorest 10 percent were living in the savannah regions of the country. Thus, the development process, which evolved at the expense of the environment, intensified the already poor living conditions of Ghanaians especially in the rural areas of the country. From an environmental perspective, the majority of rural poor in Ghana who were engaged in agriculture caused considerable damage to the environment, as they had to exploit more resources to obtain enough money to attend to their basic needs. Furthermore, those rural farmers produced the traditional export crops from which the country earned its needed foreign exchange for essential services. If the developed countries could pay the actual prices for these produce, lesser resources could be exploited for the same volume of exports, hence less degradation of the environment.

Ironically, poverty increased in the course of the ERP. According to Ewes, in his study of the *Rural Dimensions of Poverty in Ghana, the* "trickle-down" strategy advocated by SAP exacerbated the plight of the masses of the poor in the rural sector of the economy...which over the past three decades, had not only stagnated, but had also been bedeviled by run-away inflation, chronic budget payments difficulties, and acute shortages of consumer durables and non- durable goods as well as industrial and agricultural raw materials.[36] Redcliffe noted that the "misuse" of the environment could be directly linked to poverty.[37] Evidently, because of the emphasis put on increased production of cash crops, more rural lands had been devoted to that endeavor. Poor rural farmers lost their lands to wealthy commercial farmers who wielded a powerful political clout. Hence, peasant farmers received a smaller share of natural resources and made excessive demands of the share they received. That was evident, for example, in indiscrimate tree cutting and farming systems that proved disastrous to the environment.

In relation to poverty, the status woman in the society was of primary significance. Although men were also affected by poverty, the effect on women was greater and had more wide-ranging ramifications. That partly explained why more often the feminization of poverty, and never of the masculinization of poverty, was spoken. For example, enhanced cash-crop production exacerbated the poor welfare of women in Ghana. The displacement of women from their former farmlands often resulted in the clearing of new forest lands for agriculture, and, ultimately, environmental degradation ensued. Further, because of their worsened economic status,

[36] K. Ewusi, " The Dimensions Characteristics of Rural Poverty in Ghana", *Institute of Statistical, Social and Economic Research Publication, No.* 43, 1984, p. 36.
[37] M. Redcliff, *Sustainable Development, Exploring the Contradictions* (London: Meuthen, 1987), pp. 45-55.

women had to develop survival strategies that included the pursuit of alternative sources of income. In Ghana, women had resorted to the cutting of live woods and gathered products from other plants that they sold for income. Many more women, several thousands of them, cut wood illegally in order to ensure the survival of their families. Thus, many tribal women who had traditionally learnt to live in harmony with their environment later on started collecting as much as possible from the forest before that was sold to logging contractors. In Tamale, Ghana, about 10,000 used to earn their livelihood by collecting and selling fuel wood in the city. They used to collect the wood illegally from protected forests. In that way women were forced into damaging the environment through their own desperate circumstances and need for survival. Thus, human poverty, structurally induced through colonialism and the forces of capitalism and unequal exchange, and then perpetuated through the Economic Recovery and Structural Adjustment Programs, made physical environment poorer.

Ghana's external debt situation affected the government's efforts to deal with the problems of the environment. The massive foreign debts of developing countries literally forced them to commit ecocide as they mortgaged their environments to finance the interests on such loans.[38] The

[38] G. S. Dei, " A Forest Beyond the Trees: Tree Cutting in Rural Ghana", *Human Ecology*, Vol. 20, No. 1, 1992, p. 60.

dependency syndrome did constrain the capacity of developing countries to extricate them from a condition of perpetual debt. Ghana, like other developing countries became confined to a system of 'unequal exchange' whereby they exported cheap primary commodities to the developed world and in turn imported more expensive manufactured goods. This situation worsened the debt condition and thus, condemned these countries to the cycle of poverty and continuing dependence. The IMF and the World Bank credits, which were subject to policy conditionality, had to a very large extent financed the Economy Recovery Program in Ghana. These conditionalities established conditions of dependence and subsequent degradation of the environment.

At the end of 1982, Ghana's long-term outstanding and disbursed loans stood at US$1.1 billion, IMF debt totaled US$ 21.4 million and short-term debt US$195.0 million. By the end of 1987, long-term debt outstanding and disbursed was US$2.2 billion; IMF debt amounted to US$ 778 million, and in the short-term, US$ 108 million. Also at the end of 1994, the total Ghana's external public debt stood at US$4,851.00 million. Most of the loans were used to support the Structural Adjustment Program (SAP) implemented in the country. The debt service to these loans constituted certainly a drain on the financial resources of the economy which otherwise could be used to support programs of sustainable development. Since 1990 did not have any payment arrears. The total payments for Ghana in 1994 amounted to US $ 409.40 million out of which US$297.60 and US $ 111.80 were principal and interest payments respectively.

The added pressure to service external debt forced the government to incentivize the more rapid exploitation of the nation's natural resources. Debt-induced poverty caused a country such as Ghana to exploit natural resources in the most profitable and least sustainable way, which caused an increase in global warming and a depletion of genetic bio-diversity. Thus, the development approach promoted in Ghana through the Structural Adjustment Programs (SAPs) of the World Bank and the International Monetary Fund (IMF) became incompatible with sustainable development. In order to pay their debts, many developing countries did exploit their natural resources, such as tropical hardwoods, to export to industrialized countries for needed foreign exchange. Trade in tropical hardwoods became one of the major causes of deforestation. Ghana did constitute an example of a country where the government, backed by the donor institutions, exploited its timber reserve as one way out of the debt crisis. The political will to pursue sustainable development was constrained by the country's external debt situation. There had been something wrong with neo-classical development initiatives when the growth resulting it was oriented towards the benefit of the external economy to the detriment of domestic environmental sustainability. Thus, SAP, by design, encouraged the more rapid exploitation of the naturalz environment, and the Economic Recovery Program of Ghana, as a strategy of economic development, became grossly inimical to the goals of sustainable development.[39]

Whenever the efficacy of the economic, policy of a country would be debated, the issue of growth vs. development would always occupy the canter stage of the debate. As far as SAP as practiced in Ghana would be concerned, it was an utter failure in both fronts. In other words structural measures had neither improved the macro level scenario of the economy nor had brought distributive justice to the society, instead had added in many ways to the misery of the people of Ghana.

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[39] A. N. Issahaku, " The Political Economy of Economic Reforms in Ghana: Implications for Sustainable Development" *(http://publicpolicy.subr.edu/ ISDA).*

Chapter-5

CONCLUSION

In general, IMF stabilization policies tended to weaken support for the government of both authoritarian and democratic regime. IMF stabilization sometimes meant political and social destabilization. Structural adjustment in the economy needed careful political management, considering that it would involve economic costs for certain groups. Identifying social groups whose interests would be hurt or promoted by liberal economic policy changes would become important in the calculation of political risks.

Business groups benefited from price liberalization since it generated higher profit margins. Bureaucrats, manual workers, and low-income consumers opposed structural adjustment. Urban consumers suffered from reduced purchasing power and elimination of government subsidies. The elimination of government regulation jeopardized the careers of civil servants while giving more autonomy to producers. Economic liberalization increased the influence of external interest groups, including donor agencies and multinational corporations, on key economic sectors. They were often viewed as representing foreign interests, and their objective was to maintain their monopolistic positions in African economy.

Politically, major aspects of a stabilization program, particularly budget and wage restraints, were considered highly risky. They usually imposed immediate and dramatic economic losses on urban consumers, who were vocal. IMF standby lending had every likelihood to provoke street riots. On the other hand, many policy measures based on World Bank loans entailed long term alignments of institutions, incentives, and relationships that included shifts of power and privilege. Medium and short-term adjustment was more difficult to achieve without the sustained commitment of governments, which might be weakened by resistance form social groups and bureaucracy.

Where the level of economic development was low and there was a dearth of indigenous capitalist groups, finding viable domestic coalition partners was not easy. At the same time, it was politically difficult to mobilize the support of resident foreign businessmen and multinational corporations, who were major beneficiaries of economic liberalization in many African countries. Farmers, who could benefit from liberal economic reform, were disorganized and hard to mobilize. Given the negative impact of structural adjustment programs on urban population, a major difficulty for liberal economic reform was that the government could anticipate little viable support.

Since in most African countries it was rare to find a strong coalition in support of a structural adjustment program, external financial support was important to maintain Government commitment to implementing unpopular austerity measures. The role of international financial institutions was critical, especially when the government faced domestic backlash to devaluation and price liberalization. Foreign assistance was needed to ease import credits, control inflation, and rebuild infrastructure to improve productivity. International financial institutions use their financial assistance as political leverage to support pro-structural adjustment reform groups within the government and / or to help the government go through the initial difficult period of stabilization and structural adjustment.

Implementing liberal economic measures would also require the effective management of relationships with key social groups. It might be necessary to insulate powerful social groups form policymaking. Domestic coalition building could be significantly influenced by the statecraft skill of rulers. Authoritarian regimes, whether their power was based on the military or a single party, could handle opposition to unpopular liberal economic policies better than democratically elected governments. Elite consensus, considerable statecraft skills of repression, and significantly centralized power could be more easily maintained in authoritarian regimes. The influence of interest groups would become weaker in countries without a free legislature, a free press, and normal liberal civil rights. Representative political institutions constituted fora where competitive demands could be made, and various interests could be bargained. The only political response to authoritarian regimes, which pursued structural adjustment, might be sporadic acts of popular resistance. Since political institution did not allow meaningful roles of interest groups and were perceived to lack legitimacy, "patterns of resource allocation and distribution of output, determined by existing power relationships, might not conform to e0pectations" of the population.

Proponents of structural adjustment considered that interest groups in developing countries, especially Africa, with the single exception of rural interest groups, were divisive, parasitic, and destructive of economic growth. They argued that the competitive process within the political arena might lead to irresponsible economic demands and consequently could compromise that might undermine liberal economic policies.

Advocates of adjustment policy also justified their support of authoritarian regimes in terms of distributive justice. They assumed that price incentives for agricultural products would bring about income redistribution between the rural poor and the urban rich. Higher prices of food and commercial crops could benefit the poor in rural areas against the rich in urban areas, thus promoting economic interests of many. The authoritarian regime was more effective in confronting urban interest groups. One influential figure in the Research Department of the World Bank had even argued that a "courageous, ruthless and perhaps undemocratic Government" was required to override special interest groups. The support of authoritarian regimes by international financial institutions with concessional loans was often justified on the presumption that authoritarian regimes were better managers of internationally sponsored adjustment programs.

It became overwhelmingly evident that the IMF and World Bank constituted themselves as the most important architects of Ghana's economic policies and strategies. They became especially important in insisting upon expenditure and credit controls and the scheduled implementation of difficult policies, starting from higher interest rates to civil service retrenchments to "cost recovery" user fees. The IMF and World Bank had massive leverage but neither responsibility nor accountability. Their leverage rested with their large financial resources, their gate keeping role in disallowing or organizing other aid and debt renegotiations, and their corps of economists, who did undertake most of the project analyses and proposals in Ghana.

Many IMF stabilization programs and World Bank SAPs were unsuccessful in ending external payments problems and were highly, and perversely, reversionary. These failures reflected not only developing countries' incapacities but also IMF and World Bank definitions of problems and misassumptions. The IMF and World Bank manifested a missionary devotion to dismantling state production and marketing firms, while ignoring their structural importance, and to facilitating large capital investment to the detriment of small capital and peasants. The IMF and World Bank concentrated investment on export sectors and ignored those more important in raising living standards, e.g., food crops. And they exhibited spectacular indifference to the income redistribution effects and some of the growth impending consequences of their policies.

From its inception the ERP, like SAP in general, had an inherent bias towards the reinforcement of colonial features of the economy rather than fashioning structures for self-sustaining, self-reliant national economic development. Hence it consolidated Ghana's peripheral status, reinforced structures of rural poverty, and marginalized the lot of the population. This development was tied to the fact that SAP, as development measures, were rooted in the existence of "world system of relations" dominated by private interests which intrinsically opposed by all means, any effort at local integration, consequently blocking all initiatives in legitimate national development. In the case of Ghana this hindered all-round development from taking place on a steady and sustainable basis in every sense and, thereby sent the negative message for the rest of the developing counties, more so of the African countries, having similar socio-economic and political historicity to go for the same structured and stabilized pattern of economy as envisaged under SAP.

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