IMF AND GHANA:
ITS POLITICAL AND ECONOMIC IMPACT

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CERTIFICATE

Certified that the dissertation entitiled IMF AND GHANA: ITS POLITICAL AND ECONOMIC IMPACT submitted by AMALJI SAHAY for the award of the Degree of MASTER OF PHILOSOPHY is an original work and has not been submitted so far, in part or full, for any other degree or diploma of any university.

This may be placed before the examiners for evaluation for the award of degree of MASTER OF PHILOSOPHY.

(PROF. MOHAMMAD SADIQ)
CHAIRPERSON

(PROF. ANIRUDHA GUPTA)
SUPERVISOR

It is important to pause and reflect: to make an inventory of what we know, of what we think we do not know! This type of analysis, although humbling, should be of great help for policy evaluation and design.

- Sebastian Edwards

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Few human efforts succeed without the cooperation of fellow human beings. So is the case with me. And in completion of the present work the author is indebted to many. I feel, it is high time to appreciate and acknowledge them.

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Inspite of the fact that I have taken advantage from different streams of intellectual ideas, the views presented in the present work are entirely my own and I am solely responsible for errors, if any.

Amalji Sahay

New Delhi (AMALJI SAHAY)

July 1993

C O N T E N T S

PREFACE

In early 1983 Ghana was standing on the verge of economic disaster. It is in April the same year that the General Rawlings' regime turned to the IMF for the economic recovery. More than a policy decision it was a question of survival for Ghana. Over the years the IMF funding programme in this country has become a model of development in the Third World. IMF calls it a 'success story' and takes pride in it. Undoubtedly Ghana has survived economically. But then there are certain points of disagreements which raise certain questions: what has been the political and the economic impact of the IMF funding in Ghana? Has the funding reduced the role of the state? How funding has affected the relationship between the ruler and the ruled? How the economy is developing? Is the direction of development intended? This dissertation is an attempt to analyse and answer these questions.

The dissertation has three chapters and the Introduction and Conclusion. The Introduction deals with a general character of the IMF as a funding agency and its operational requirements in Africa.

The Chapter I makes a survey of the background of the economic problems in Ghana. This chapter also tries to investigate and discover the critical factors which led to complete financial breakdown in 1983 in this country.

The Chapter II describes the funding and the strategies adopted by the IMF. While describing funding and the strategies some positive achievements have also been mentioned.

The Chapter III tries to bring a critical evaluation of the impact of the funding on the Ghanaian polity and the economy. Sufficient data and facts have been attempted to be provided to bring out the true nature of the economic changes.

The Conclusion recapitulates some of the important factors working in Ghana since 1983. Besides, it also briefly analyses the latest political developments in the country and that what could be their repercussions.

One thing I must mention here, which confronts almost all studies related to impact, is that sometimes it becomes difficult to isolate the impact of individual measures in a programme since most of these produce a combined effect on the polity and the economy. Then there is the problem of separating short term from medium and long-term effects. In the present study sometimes it also became difficult to separate the effects of the IMF and the World Bank programmes. In Ghana they have worked in close association with one another. However, the impact of the IMF in certain sectors has been quite distinct.

ABBREVIATIONS USED

ASRP	-	Agricultural Services Rehabilitation Project
CDR	-	Committee for the Defence of the Revolution
DSR	-	Debt Service Ratio
EEC	-	European Economic Community
EFF	-	Extended Fund Facility
ERP	-	Economic Recovery Programme.
IMF	-	International Monetary Fund
MNC	-	Multinational Corporation
MOA	-	Ministry of Agriculture
NDC	-	National Democratic Congress
NDM	-	National Democratic Movement
NUGS	-	National Union of Ghanaian Students
PDC	-	People's Defence Committees
PIP	-	Public Investment Programme
PNDC	-	Provisional National Defence Council
SAP	-	Structural Adjustment Programme
SDR	-	Special Drawing Right
SOE	-	State owned Enterprises
TUC	-	Trade Union Congress
WDC	-	Workers' Defence Committees


1: 40 000 000
200 0 200 400 600 800 1000 miles
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ATLANTIC OCEAN
Bay of Biscay
FRANCE
UNITED KINGDOM
GERMANY
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Paris
AUSTRIA
HUNGARY
RUMANIA
Warszawa
Volgograd
U. S. S. R.
Aral Sea
Caspian Sea
Black Sea
Odessa
BULGARIA
Istanbul
Madrid
Lisboa
Corse
Mediterranean Sea
Sicilia
MALTA
Kríti
CYPRUS
SYRIA
Dimashq
Tel Aviv
Al Başrah
Persian Gulf
BAHRAIN
QATAR
Madeira (Port)
Islas Canarias
Casablanca
Tanger
Alger
Tunis
ALGERIA
Banghāzī
Tarābulus
Ghadāmes
El Aaiún
Dakhla
LIBYA
Sahara
EGYPT
Aswān
Al Jawf
Wadi Halfa
Es Sahra en Nubiya
Red Sea
SAUDI ARABIA
Al Madīnah
Tropic of Cancer
Makkah
MAURITANIA
Nouakchott
Tombouctou
Gao
St. Louis
SENEGAL
Kayes
MALI
NIGER
Agadez
CHAD
Abéché
Lac Tchad
Ndjamena (Ft.-Lamy)
Niamey
Sokoto
Kano
Maiduguri
Kaduna
Bauchi
NIGERIA
UPPER VOLTA
GUINEA
SIERRA LEONE
LIBERIA
Monrovia
IVORY COAST
Abidjan
GHANA
Accra
Lagos
Porto Novo
Bight of Benin
Sekondi Takoradi
Gulf of Guinea
Macías Nguema Biyoga
Rey Malabo
Principe
São Tomé
C. Lopez
Pagalu
EQUATORIAL GUINEA
Yaoundé
CAMEROON
CENTRAL AFRICAN REPUBLIC
Bangui
SUDAN
Omdurmân
El Khartûm
Kassala
Atbara
Dongola
Esh Shimâliya
Kordofan
El Fasher
Dârfûr
El Obeid
White Nile
Malakal
Wau
Mongalla
YEMEN
SOUTH YEMEN
Gulf of Aden
Socotra
ETHIOPIA
Addis Abeba
Djibouti
Berbera
SOMALI REP.
Muqdisho
KENYA
Kisumu
Nairobi
Mombasa
Pemba
Zanzibar
Dar-es-Salaam
TANZANIA
Tanganyika
INDIAN OCEAN
ZAIRE
Kinshasa
Brazzaville
Pointe-Noire
Kananga
Mbuji-Mayi
Mbandaka
Kisangani
Boma
Luanda
ANGOLA
Benguela
Moçâmedes
Lobito
ZAMBIA
Lusaka
Aldabra Is.
COMOROS
Antsiranana
Mahajanga
Mozambique Channel
MADAGASCAR
Toamasina
Antananarivo
Toliary
MAURITIUS
Réunion
St Helena (Br)
ATLANTIC OCEAN
NAMIBIA (SOUTH WEST AFRICA)
Swakopmund
Walvis Bay
Lüderitz
BOTSWANA
Kalahari
Gaborone
Tropic of Capricorn
Maputo (Lourenço Marques)
SOUTH AFRICA
Cape Town
Port Elizabeth
East London
Durban
West from Greenwich
East from Greenwich
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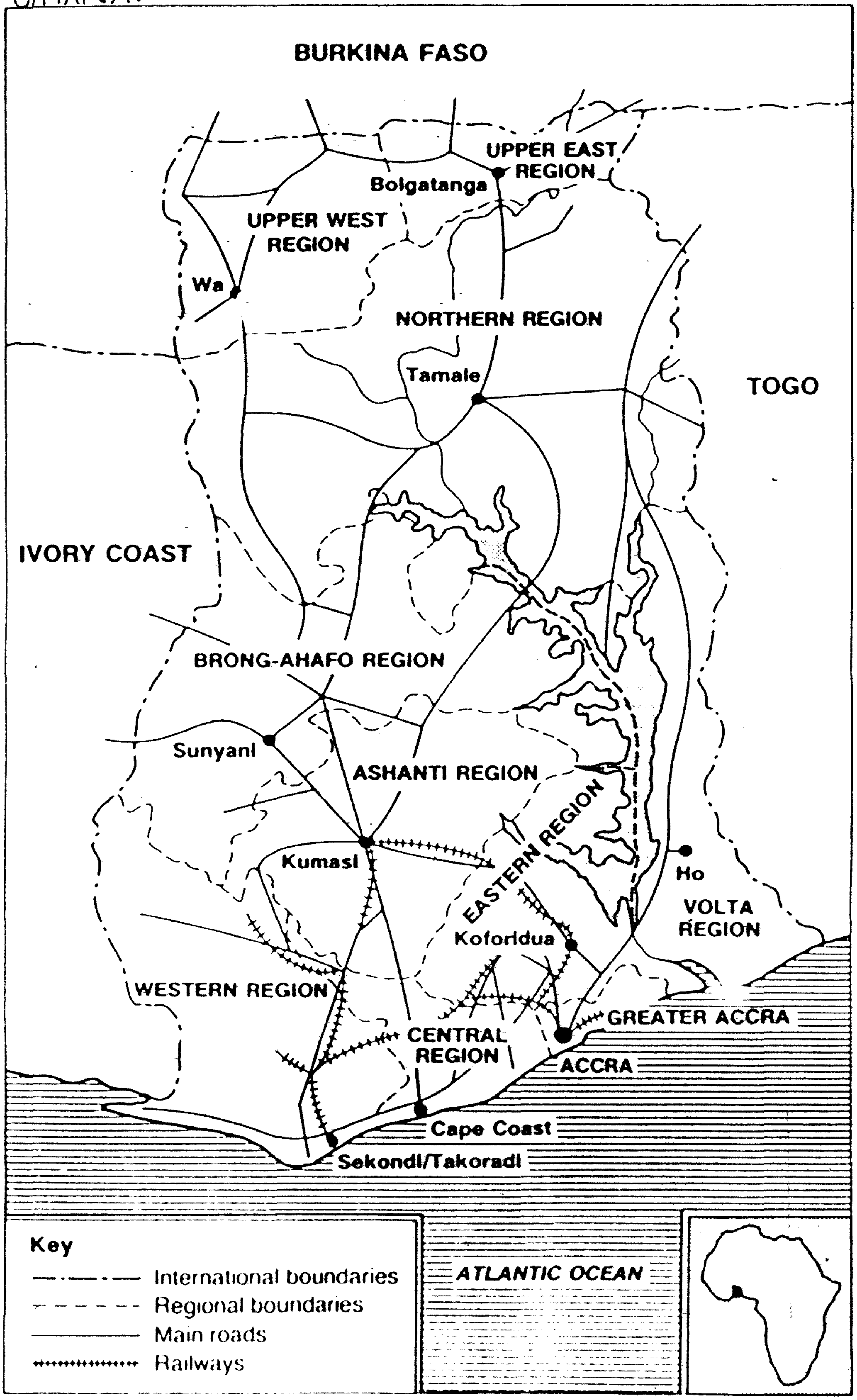
GHANA:


BURKINA FASO
UPPER EAST REGION
Bolgatanga
UPPER WEST REGION
Wa
NORTHERN REGION
Tamale
TOGO
IVORY COAST
BRONG-AHAFO REGION
Sunyani
ASHANTI REGION
EASTERN REGION
Kumasi
Ho
VOLTA REGION
Koforidua
WESTERN REGION
GREATER ACCRA
CENTRAL REGION
ACCRA
Cape Coast
Sekondi/Takoradi
Key
International boundaries
Regional boundaries
Main roads
Railways
ATLANTIC OCEAN

INTRODUCTION

When the United Nations Monetary and Financial Conference which established the International Monetary Fund (IMF) was convened at Bretton Woods (New Hampshire, USA) in July 1944, most of Africa was still under the colonial rule. Today, the African bloc of countries in the Fund is numerically the largest. But unfortunately, this numerical superiority has done little to increase Africa's influence in the IMF's decision making process. Sub-Saharan Africa accounts for just under 5 per cent of total votes within the IMF. If North African group of countries are also taken together, the entire continent can muster only 7.54 per cent of votes in the fund. By contrast, five industrial countries UK, Germany, France, Japan, led by the United States, account for about 41 per cent.

The growing involvement of the IMF in Africa, is a story of gradual process. Principally, the IMF was designed to regulate the financial relations between the advanced capitalist countries. Bretton Woods instituted a system of fixed, stable exchange rates between the currencies of major powers. The aim was to enable governments to maintain stable rates. The IMF was to provide short term loans of foreign exchange. In the immediate post-second world war phase i.e. in 1950s and 60s, (though IMF was involved with the third world countries even at that time) its major attention was on the pound, the franc and the currencies of the other industrialised capitalist countries. In fact, to build the post-war world-order it was necessary to create such conditions where governments could dismantle all exchange controls and permit free trade for smooth capital movements. Soon the IMF fulfilled its intended role to a great extent. The economies of the capitalist industrialised countries were in good health once again.

From the late 1970's IMF's second phase starts. In this later phase the IMF has become almost exclusively concerned with balance of payments credit to the Third World Countries. The most important feature of such credit is the 'conditionalities' put by IMF. Such conditionalities often leads to re-orientation of the economies of the borrowing countries in the developing world. Conditionalities have become a major instrument in the hands of developed countries to manipulate socio-economic priorities in the Third World[1].

IMF's development philosophy is devoted to arguing that poor countries' progress depends upon the ability to trade relatively freely with the rest of the world. In this sense the main role of the agency is the construction, regulation and support of a world system where multinational corporations trade and move capital without restrictions from national states. Conditionalities are considered to be necessary evil; it leads to adjustment with growth. Though such a policy is often painful for the people of receiving countries, there is hardly any option. Pain is to be borne before recovery is made, such are the arguments of the IMF.

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1. It was 1979 when the IMF conditionalities were formally codified.

There are two major IMF programmes in Afria. The first is the `balance of payments stabilisation programme' and the second is the `structural adjustment programme'. The stabilisation of balance of payments is the primary function of the IMF. This is done either through countries drawing from their own contribution to the fund (this is the First Tranche) or through the Extended Fund Facility [EEF] (the Second Tranche). While withdrawing money from the First Tranche does not invite tough pre-conditions, withdrawl from the Second Tranche does so. It is important to mention here that almost all the Third World borrowings cross the First Tranche and are from the Extended Fund Facility[2].

In the 1980s, the IMF has become more visible in Africa. African countries account for about half of the total Standby Arrangements among the member countries. It reflects upon the fact that how much the situation is grim in this particular continent. A Fund supported programme has

2. The Fund's programmes in Africa are shaped by its general tranche policies which consist of the Extended Fund Facility (EFF), established in 1974, and the Standby Arrangement. The EFF enables a member country to obtain credit or Special Drawing Rights (SDR) from the Fund beyond its quota contribution for up to two or three years. Such credits are subject to satisfying certain preconditions and performance criteria which together form part of IMF conditionality such as devaluation, subsidy withdrawl, trade liberalisation, budget cuts, credit squeezes, privatisation of public enterprises etc. A standby arrangement, on the other hand, usually runs for a year. It allows a member to draw beyond the first two of the five tranches. Of course, this is also subject to the member undertaking a stabilisation programme for its balance of payments. Here it is important to mention that each tranche consists of 25 per cent of the quota.

become indispensable not only for debt rescheduling but also for the release of resources from other international institutions, commercial banks and donor countries. The IMF starts funding with the impression that its strategies will necessarily produce the desired result. A viable balance of payments position, stable prices and sustained economic growth are presented as natural consequences of the IMF led programmes.

Most of the African countries go to the IMF in the absence of any other option. Saddled with a heavy debt service burden these countries are left with little choice but to turn to the IMF. It should be noted that though the problem came to surface in the 1980s, it was brewing since the first oil price shock in the 1973. Within a period of nine years, the price of a barrel of crude oil rose from about \$ 3 to over \$ 36 at the beginning of 1982. As a result balance of payment position in almost all the developing countries became quite strained. These governments were required to borrow to finance the increased cost of petroleum as well as their investment projects. Because of the ease with which investors could secure petrodollar loans, in the beginning a large number of investment projects financed were of doubtful viability. In fact, in the long run they further compounded the debt problem.

The situation did not immediately develop into a crisis. Till 1976-77 there was considerable improvement in the developing countries' terms of trade. At that time, their primary commodities saw rise in prices. This commodity boom, however, proved only to be temporary. The second oil price shock in 1979 was followed quickly by high interest rates which in turn had resulted from undue reliance on restrictive, deflationary monetary policies adopted in a number of industrial countries. Soon the world was passing through the most severe global recession since the Second World War. The prices of commodities produced by developing countries tumbled. Even those countries which exported manufactured goods found their foreign exchange reserves virtually wiped out. By mid-1982, the debt service problem had reached crisis proportions. It was estimated that by 1984 the per capita GDP had dropped by more than ten percentage points since 1980. The concessional element of African countries' debt was also reduced. On the other hand, while variable interest rate loans, which accounted for 8.8 per cent of the total disbursed debt in 1973, increased to 21.4 per cent in 1982 in Africa.

Financial developments had become even more problematic for Africa's many low income countries. Of the 30 countries so classified by the World Bank in its 1983 'World Development Report', almost two thirds were African. In 1982 disbursements to these countries fell to two-thirds of 1980's level. The expansion projected in 1983 was not sufficient to keep pace with external debt service requirements. All these show that while no single African country's debt is large enough to send shock waves through the international financial system, the problem for Africa is no less serious than it is in other regions. Indeed, because of the low income levels of most African debtor countries, the servicing and amortization of the debt have a more painful and destablising impact on the social and political fabric. Prescribing too much austerity is like halving the diet of an already underfed child.[3]

There appears to be very little disagreement in Africa that the adjustment programmes do not have any merit. The measures like assuring financial discipline, trimming demands in line with limited resources and increasing production with the help of various incentives have a great deal of merit. It is also not disputed that indefinite subsidies for consumer goods strain economy and diverts money that should have gone into the productive sector. Thus, many countries agree with the Fund's general perception on this point and have taken measures in this direction.

However, there is less agreement on whether the IMF's policy prescriptions give sufficient consideration to some of the unique characteristics of African economies. "The main concern is that Fund programmes tend to concentrate on short-term movements in macroeconomic variables, whereas African economies suffer from deeper structural problems such as high commodity concentration of exports, which leaves them vulnerable to external market conditions; low income levels,

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3. E.I.M. Mtei, An Evolving Relationship, <u>African Report</u> September-October, 1984, vol.29, no.5, p.20.

which lead to low domestic savings; a high rate of population growth; and the lack of sufficient skilled manpower in the critical areas of technical, economic and financial management".[4]

Africa's economic problems like weak external payments position, the low level of economic growth and declining per capita income and also dependence on external capital inflows are reflections of certain deep rooted constraints. There is no ad hoc solution to African problems. That is why, most of the short-cut methods have proved to be inoperative.

Many intellectuals and policy makers who criticise the IMF prescriptions, see the structural adjustment or economic recovery programme as a strategy. It is a strategy to assure that African countries pay their debts. They also consider it a means in the hands of developed countries for gaining effective leverage over the industrial policy of the poor countries. Trade liberalisation, tariff restructuring and related policies are seen as being designed to dump manufactured imports and wreck the industrialisation of these countries. The focus of conditionality on market forces, privatisation of state enterprises, deregulation, open door policy to multinational corporations and so on, has also led logically to the view that the IMF and the World Bank are trying to impose a capitalist model of development on the poor countries.

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4. <u>Ibid</u>., p.20.

It is a matter of debate whether multilateral agencies have bad intentions towards the Third World or they have been merely inoperative. Some countries, for example like Ghana and Mauritius, are presented before us as `Success Stories'. However, the IMF `Success Stories' are only a few. A recent study of IMF supported adjustment programmes in Africa shows that the economic growth target was reached in only 20 per cent of the cases. The same study also reveals that IMF supported programmes have also not been successful in reducing inflation (measured by the rise in the consumer price index). Comparing the performance of countries relative to previous years, the study notes that there was a decline in economic growth in most countries. Inflation further worsened in over half the countries and neither the current account position nor the overall balance of payments appears to have improved rather worsened significantly in most countries[5].

African governments complain for the IMF's exclusive focus on the borrower's behaviour, while ignoring developed countries share of responsibility. Their point is that it was the industrialised countries which raised the prices of their manufactured goods and cut back purchases of Africa's exports. They consider it as the main reason for Africa's balance of payment crisis. It was again the developed countries which raised the interest rates too high further

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5. Based on World Bank, Report on World Development, 1990, 1991.

complicating the problem for the developing countries. The IMF in its turn argues that it monitors the economic policies of the developed countries as well. Its argument is that it urges them also to avoid measures which are inflationary or protectionist in nature. But the Africans are probably justified in characterising these as mere 'rhetoric'. IMF does not pass strictures on developed countries whereas non-compliance by Third World countries invites penalties. Many a times, in such areas, even the loans have been suspended or cancelled to a developing country.

Although the entire range of criticisms are not valid since it compares borrowers with non-borrowers, it definitely reflects upon some prejudices that are in-built in the IMF.

The reality, however, is that the poor countries have virtually nowhere else to go for help once their economies have deteriorated to a certain level. Thus, while poor countries may temporarily reject IMF loans, ultimately, they have to accept them with conditionalities attached to them. Sometimes, very cunningly, IMF replaces the list of its conditionalities without changing its basic character. In fact, both the IMF and the borrowers know who is in the driver's seat.

The IMF is also able to overwhelm an African country through its highly trained team of experts. Number of such skilled people is very low in Africa. Very often, the local policy makers are made to concede before the IMF officials.

The IMF strategies are presented in such a way as if these policies hardly have any substitute.

Forced application of Fund prescription has resulted in violent reactions in many a places in Africa. The riots and social upheavals which occured in Sudan is one example. When subsidies were removed and prices were raised on staple food items people there reacted in violent manner. Very often the IMF austerity prescriptions prove to be unbearable for the population.

As mentioned earlier, the IMF was created to deal with transitory imbalances in developed nation's balance of payments. It is, therefore, ill equipped to deal with the logn-term structural imbalances which is major characteristic of Africa's economic crisis. A major criticism of the IMF's role in Africa is its overemphais on restraining demand (by the restriction of monetary and credit expansion), while paying inadequate attention to supply side factors, such as increasing production and exports. That it does so is not surprising. Supply side changes are long-term in nature and generally require considerable long-term financing, preferably at low interest rates. The IMF has very little money available for it. The IMF is not a development bank, therefore, its function is limited to the provision of balance of payments support during temporary periods of adjustment.[6]

6. Robert S. Browne, Conditionality: A New Form of Colonialism? Africa Report, September-October, 1984, vol.29, no.5, pp.17-18.

During the late 80's, the IMF has shown better response to the special needs of Africa. The Joint Programme of Action was launched in the September 1984 World Bank. The IMF annual meetings sought to correct the causes of Africa's economic decline. This was tried to be done through improved formulation and implementation of rehabilitation and development programmes together with more closely co-ordinated donor assistance to support national priorities and programmes. The need to provide concessional assistance to poor countries suffering from chronic balance of payments difficulties has been recognised. Unlike short term, the medium term policy reform has also been accepted. Structural Adjustment Facility (SAF) was set up in the IMF in 1986 with these very purposes. The greater concessionality and longer maturity of SAF Programmes (0.5 per cent interest, and repayment periods of five and half to ten years) are intended to secure a viable economy. This relaxation has also allowed to give greater attention to growth issues and chronic structural problems. Such a shift would not have been possible under the standby arrangement.

Still in 1993, there is no comprehensive agreement over the impact of adjustment programmes in Africa. There are, however, a number of lessons that can be drawn from the experience of the 1980s. For example, today the Fund makes greater note of the fact whether a particular country is committed to the reform package or not. It also takes into account its absolute capability to handle reform programmes.

"Now-a-days the Fund acknowledges that earlier it was overly optimistic. It also accepts that the early programmes were too complex and the conditions too wide-ranging for successful implementation".[7]

Quite fortunately, there is now broad agreement on the main elements of reform that are needed. It has been agreed that the focus should be on the supply side and aimed at increasing efficient export production. Import substitution has also to be fully encouraged. Supply-side measures has to be supported by responsible monetary and fiscal policy. It would also expand savings and investment. All these efforts in totality can give a positive thrust to sluggish African economy.

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7. Bade Onimode (Ed.), The IMF, The World Bank and The African Debt vol.1, (Zed Books Ltd., London, 1989), p.58.

CHAPTER – I

BACKGROUND TO THE PROBLEM.

(EVENTS LEADING TO THE BREAKDOWN IN 1983)

At independence, in the year 1957, Ghana with comparatively high per capita income and low inflation rate seemed well set to surge ahead. Agriculture in 1955 contributed about half of the GDP and supported a much larger proportion of the population. A single crop, cocoa, provided about three-fifths of total export earnings. Cocoa, infact, played the major role in the economy of Ghana. "If Nkrumah had not chosen the name 'Ghana' to replace the colonial 'Gold Coast' he could just as easily have chosen 'cocoa coast' to mark the importance of cocoa in terms of generating the foreign exchange with which much of Ghana's infrastructure was built in the 1950s and the 1960s".[1]

After independence, in the first few initial years, the foreign reserve situation in Ghana remained very healthy. It was the result of booming cocoa exports and an abundant supply of labour. Labourers migrated even from the neighbouring countries into this country. During 1950-60, GDP grew annually at the rate of 4.1 per cent and agricultural output by 4.3 per cent. During the period 1955-60, the economy in general, and agriculture in particular enjoyed even higher annual growth rates i.e. the GDP grew by 5.1 per cent, agricultural output by 5.7 per cent and cocoa output by 9 per cent. High growth in the output of the major export crop, cocoa, provided the basis for rising investment through increased foreign exchange availability. With export

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1. Donald I Ray, Ghana Politics, Economics and Society (London: Frances Pinter Publishers, 1986), p. 119.

earnings rising at 3.2 per cent per annum during the nineteen-fifties, both imports and gross domestic investment grew at 8.9 per cent per annum during the decade.

There was no reason to doubt the prosperity of the Ghanaian economy. But the time had a different story to tell. The economy of this country had to suffer a lot. Certain warning signs had emerged in the ninteen-sixties itself. Even though industrial output rose at 6.7 per cent per annum during the decade, cocoa output declined at an average annual rate of 0.2 per cent. In this way the growth rate of exports fell to 0.1 per cent per annum leading to a decline in gross domestic investment of 3.2 per cent per annum. Imports also fell by 1.6 per cent per annum.

The breakdown of the Ghanaian economy by the year 1983 was in total contrast to the calculations made in 1957. Both civil and military regimes came and went but the downward trend of the economy could not be reversed. Actually what went wrong? Critics argue that the "Constitutional independence in 1957 was not matched by a fully integrated economy. Ghana had been engulfed by the world economy, but not really transformed by it."[2] Since the beginning the export of primary products such as cocoa, gold and timber dominated Ghana's economic activity. Nkrumah encouraged the growth of manufacturing sector. But unfortunately this growth was not sufficient to restructure the economy. The

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2. Ibid.

dependence on imported capital equipment and consumer goods, including food, showed the weak links within the economy. When the world price of cocoa declined, undoubtedly it hindered Nkrumah's industrialisation strategy.

"Nkrumah had intended to reduce Ghana's dependence on cocoa by industrialisation but ironically he increased this dependence by using exports to finance the expansion of industry."[3] Incompetent management further hindered Nkrumah's efforts at an economic transformation. Moreover, agricultural production, the economic mainstay, was not significantly increased. In fact, the increasing sums of money were spent on much needed services such as education and health. Nkrumah tried to break out of underdevelopment by using a 'big push' of industrialisation to achieve a critical minimum of self-sustaining growth. And for this he considered central planning necessary. Nkrumah's vision of socialism in Ghana focussed on the growing control of the economy by the state through state enterprises.

By the late 1950s and early 1960s, the economic infrastructure and production capacity were consuming 80 per cent of planned government investment. In search of economic take-off enormous amounts of foreign exchange was used by Nkrumah for establishing a significant base for Ghana's economy. For example, the Akosombo hydroelectric dam complex (with all the costs of resettling the thousands of displaced

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3. Ibid.

people involved), the Tema port, the Black Star Shipping line, international airports at Accra and Tamale, roads, bridges, state farms, public housing, health facilities, free schools and universities. All these heavily consumed the state's finances. By 1965, 53 per cent of all companies were either public or joint public-private operations. Nkrumah's vision was undoubtedly an optimistic one. But unfortunately much of this optimism could not be realised on account of poor management and implementation of the policies. The private sector was not of central concern to these policies. Funding was put into private farming co-operatives, but as in other parts of Africa, for example Zambia, they did not succeed. As urbanisation pulled people out of agricultural production and as foreign exchange earnings from cocoa declined, Ghana's ability to either produce or buy the necessary food also declined.

Nkrumah's search for foreign exchange to finance his policies ran into problems. While he sought to build state control of the economy, in the process, he also irritated those who controlled large amount of foreign capital. IMF and World Bank grew reluctant to Ghana. Nkrumah was accordingly forced to seek the necessary foreign exchange from cocoa exports. Later he also used the method of deficit financing. However, the foreign exchange reserves were virtually exhausted by the time Nkrumah was overthrown by the National Liberation Council (NLC) junta.

The NLC (1966-69) dissociated itself with socialist countries and allied with Western countries. The NLC's attempts at cutting public expenditure and privatising state corporations were unsuccessful in promoting widespread economic growth.

The Busia regime (1969-72) was also unable to stem the economic decline. As economic situation deteriorated in 1971 Busia regime came under different types of pressures. At one hand it was to pay Ghana's foreign debts and on other significant expenditure was to be maintained in social services like health and education. Imported urban food was also to be subsidised. Ultimately the currency was devalued. Exactly three weeks after the Busia's government devalued the Cedi (Ghanaian currency by 48.6 per cent) it was overthrown by a military coup.

The two military juntas lasted from 1972 to 1979. In the beginning General Acheampong controlled the National Redemption Council (1972-75) and then the Supreme Military Council (1975-78). After this, the General Akuffo's Supreme Military Council 'Mark II' (1978-79) replaced General Acheampong in 1978. Acheampong's regime was marked by the revaluation of the Cedi and price controls. "There was relative economic stability during Acheampong's first two years. Thereafter, his economic policies degenerated in practice into a virtually unbridled orgy of looting of the national treasury and the economy generally."[4]

4. Ibid., p. 121.

Concerned at the balance of payments problem, Achempong imposed import controls. But import controls gave incentive to another venue of corruption. In order to pay for the escalating price of oil after 1973 and to keep the trade unions as allies by providing jobs, Acheampong printed money and borrowed even more. Government revenue from cocoa also decreased as cocoa farmers resorted to smuggling their cocoa out of the country in order to stabilise or increase their real income.

Following Acheampong's handling of the `Unigov' attempt to hand over power to a mixed civilian/military/police regime, Akuffo took over in 1978. Akuffo's devaluation of the Cedi by 58 per cent resulted in labour unrest. He had to declare a state of emergency. Under this regime Ghana went for a $100 million standby facility from the IMF. But this sum was not adequate to take care of the economy. More loans from the IMF, the World Bank and the EEC were to be conditional upon General Akuffo's further devaluing the Cedi. The official value of the Cedi was one-quarter of the black market rate. The budget deficit grew from $800 million to $900 million. Akuffo was unable to control the rampant corruption. The situation became grim.

On the 4th June 1979, the junior rank of the armed forces freed Flight-Lieutenant J.J.Rawlings from prision, making him the Chairman of the Armed Forces Revolutionary Council (AFRC, 4th June-24 September, 1979). The AFRC executed a number of Generals for corruption. It included former military junta heads, Afrifa, Acheampong and Akuffo. Many other officers, civil servants and business people were tried before new Public Tribunals and were given rigorous imprisionment. "The main thrust of the first Rawlings government was to attempt a moral purge of the country's chief economic actors. The country's economic problems were seen to be mainly the result of the immoral actions of those in power. Once morality, and the honour of the armed forces, were restored by the necessary moral puragatives, then the economy should recover. Rawlings at this point was something of a `Robin Hood' nationalist."[5]

In September 1979 General Rawlings handed over power to the constitutionally elected government of the Peoples' National Party headed by Dr. Hilla Limann (1979-81). Limann was unable to halt the economic rot. While gross domestic investment had decreased by an average of 3.2 per cent per year for the years 1960-70, from 1970 to 1980 the average decrease in gross domestic investment was nearly double (6.2 per cent). During the period 1970-80 the GDP fell by 0.1 per cent per year, the GNP fell by 1 per cent per year and industrial and agricultural production fell by 1.2 per cent per year. The wholesale price index climbed from 100 in 1975, to 555.9 in 1979 and to 796.4 in 1980. The consumer price index rocketed from 100 in 1975 to 903 at the end of 1979 to 1,335.4 in 1980 and more than doubled to

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5. <u>Ibid</u>., p. 122.

2,934.3 by the time of Limann's overthorw on the 31st December, 1981. Important consumer goods and medicines were usually available only in the black market and that too at very high prices. The foreign exchange shortage was so accute that many capital projects were stopped and thus the infrastructure development suffered a lot.

To get out of this economic crunch the Limann government wanted to attract foreign capital. It established a new foreign investment code. This new code opened up Ghana's economy to foreign profit-making.The government entered into negotiations with the IMF also in order to obtain the large amounts of foreign public capital. The IMF did offer a loan of US $130 million for the first year, together with US $900-950 million over the next three years. But in return the Limann government was required to fulfill certain conditionalities. Important among them were:

* devaluation of the Cedi by 50 to 80 per cent.

* increase in the government's payment to farmers for cocoa by 300 percent in order to stimulate the production of foreign-exchange generating cocoa.

* to increase interest rates.

* remove controls on the importation and price of the goods.

* reschedule and then repay foreign debts.

* Cut government expenditure, especially in services such as education, by various means, including firing 30,000 people from the civil service.[6]

Limann government feared the steps required to be taken to fulfill above conditions. IMF proposals would have aroused political opposition from many sections of the population who saw their jobs or other interests threatened. The proposal to devalue the Cedi was especially explosive since the previous civilian government of Busia had been overthrown when it attempted to devalue. Thus, the IMF offer could not be realised out of fear by the existing government.

The economic deterioration continued throughout Limann's final year in power. Food reserves were low. To be precise, there was only three months of rice reserve and only ten days of corn reserve. Most of the factories were operating merely at 20 per cent capacity. They lacked foreign exchange to buy replacement parts and raw materials. As a matter of fact, US $400 million in loans or investment was required to double this capacity of the factories. Ironically, petroleum imports consumed US $100 million, which formed 80 per cent of total imports, or 40 percent of exchange earnings. Ultimately, Limann and other members of his government were thrown out of power in the early hours of the December 31st revolution. At that time the coup hero

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6. Robert S. Browne, "Conditionality: A New Form of Colonialism"? <u>Africa Report</u>, vol 29 no.5, September-October 1984.

Rawlings faced a great challenge and that was that of 'economic recovery'.

When Rawlings seized power in late 1981 on a platform of ending corruption, restoring accountability, and indistribution the nation's economic and political power, Ghana's economic profile was among the bleakest in all of Africa, all the more tragic because of its abundant natural wealth-gold, diamond, timber, cocoa, bauxite, manganese, offshore oil and rich agricultural land.[7]

As with his three-month intervention in 1979, Rawlings' 1981 revolution was an angry reaction against the failure of Ghana's post-independence leadership to address the problems of underdevelopment. The situation was quite grim when Rawlings took the charge. "Elite squandered foreign exchange on unnecessary imports and grew wealthy off of institutionalised corruption."[8] Throughout the 1970s, Ghana's import-dependent economy was grossly mismanaged. Not well planned monetary, fiscal, foreign exchange and pricing policies discouraged local production in agriculture and manufacturing. The export sector also did badly and, thus the foreign exchange earning was affected. The econommy was plagned by high rates of inflation caused by mounting budget deficits. Generally speaking the Ghanaian economy was in

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7. Margaret A. Novicki, "The Economics of the Rawlings Revolution", Africa Report, vol.29, no.5, September-October 1984, p. 43.

8. Ibid.

state of decay internally became of ills of corruption, black marketing and tax evasion and externally by world recession and deteriorating terms of trade.

Thus, the civilian Limann government was overthrown when economic woes were reaching its climax. Production of the main foreign currency earner, cocoa, was roughly half the level a decade earlier. Not only this the price that it was fetching was only one-third of 1975's world market price. Lorry loads were smuggled across the border to exchange for convertible CFA francs. Foreign exchange earnings had the capacity to finance only a week's worth of imports. Mismanagement and years of political instability-partly cause and partly effect of the economic crisis-cut donor assistance to a mere trickle. The road and transport system, deteriorating from lack of spare parts and inputs, was in so advanced a state of disrepair that exports could not be evacuated to the ports and cocoa was just left to rot. Seventy-four per cent of the non-agricultural workforce was employed in the non-profit making public sector. They were being paid by printing more and more money. Printing money also increased the rate of inflation. Skilled professionals fled Ghana to take up more remunerative posts in neighbouring countries and other places abroad. Overvaluation of Cedi gave incentive to thriving black market. Sales and distribution of scarce goods became more profitable than their production.

To quote Rawlings: "At the end of 1981, Ghana was like a runway train, rushing downhill toward a broken bridge. The economy and the moral fiber of the people appeared to have reached a point of no return."[9] To initiate the process of socio-economic transformation, as per promises of the révolution, new structures were formed:Public tribunals heard cases of economic crimes against the state; citizens' vetting committees and the National Investigations Committee examined allegations of tax evasion and criminal conduct on the part of officials of previous regimes. A network of defense committees, in work places and rural and urban communities sprung up to promote grassroots development initiatives, defend worker's rights, and provide vigilance against the attacks on the revolutionary process.

But the destiny also did not seem to favour the Ghanaian's effort to recover their economy. Natural disaster magnified the crisis. In 1982, Ghana was hit by the worst drought in its post-independence history. It led the country to an unprecedented food shortages and bushfires. Bushfires cost the country one-third of its aging cocoa trees and acres of timber forests. The hydroelectricity shortage left industry operating at only ten-fifteen per cent capacity. And in the year 1983 over one million Ghanaians (1/10 of the population) were expelled from Nigeria. They arrived in their homeland in the midst of total crisis. Although they provided an extra supply of labour to an agriculture with

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9. Ibid., p.44.

labour shortages, in the short run they just added to the demand for food and consumption imports.

By 1982 per capita income had fallen by 30 per cent. Export earnings were almost half and import volumes fell to one-third of their 1970 levels. By this time the production base of the economy had considerably eroded. The main reason behind it was the emigration of skilled labour. Due to lack of saving private capital formation also could not take shape. All this led to further deterioration of the national infrastructure. Consequently, production, savings and investment declined. In the middle of these circumstances of bottleneck and shortages "Kalabuleism" or underground production and marketing activities flourished. External factors worsened the economic situation. The collapse of primary commodity prices for cocoa, coffee and timber in particular almost dried Ghana's foreign exchange earnings. The 1979 oil price shock, also played important role in the nation's economic decline. The external debt, at the end of 1982, stood at 105.7 percent of GDP (translated to US dollars at parallel market rates). By 1983 Ghana's disaster was complete. It became prime example of acute African economic crisis. "Here the crisis was so severe that it might be precisely termed as a crisis more of economic survival than that of political."[10]

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10. Robert Price, Neo-Colonialism and Ghana's Economic Decline: A Critical Assessment, Canadian Journal of African Studies, 18(1) 1984, p.163.

Broadly speaking, Ghana as a case and African problems in general, are attributed to factors external to the continent. The popular argument is that the metropolis centres of power (Washington, London, Paris, Lisbon etc.) have worked in symbiotic relationship with the ruling group within African states leading to Africa's disaster. This pattern of thinking was prevalent in 1960s. In 1970s, as a reaction to their understanding of neo-colonial designs, most of the African countries tried for an `insulated' development, i.e. a development without interacting much with the west. Nkrumah in Ghana tried to do this. In the beginning even Jerry Rawlings and his political supporters worked within this very framework. For him "imperialism and its domestic agents-the middle class-are the culprits in Ghana's relentless economic slide".[11] Neo colonialism is a fact in Africa but how far it could provide explanation for Ghana's economic dislocation should be examined.

In 1957, at the time of Ghana's Independence the economic indicators were showing positive trends. Experts saw all those potentials in economy and society of this country which are considered to be advantageous for modern economic development. At that time, as we have seen Ghana enjoyed one of the highest per capita incomes in Africa south of Sahara. Most important of all, Ghana was the world's largest producer of cocoa beans. It also enjoyed substantial number of mineral resources including gold, diamonds,

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11. Ibid., p.164.

manganese and bauxite. Ghana's potential for the generation of hydroelectricity was also quite high. And above all its transport network was remarkably good. All commercial and administrative centres and hinterlands were well connected. By comparative African standards the situation in the human resource sector was also bright. At the time of independence Ghana did enjoy a good number of Western-educated professional middle class people. The Ghanaian state was considered to be blessed with an efficient and professional public service bureaucracy as well.

However, when Ghana celebrated its Silver Jubilee (25 years of Independence) in 1982 it represented a contrast situation to the optimism of 1957. "Production in all sectors were remarkably low. Food production had not kept up with population growth. Cocoa production was almost half of what it had been two decades earlier. Mining sector was also doing bad. Production in most industries represented only a marginal utilisation of capacity. By 1982-83 thus, the economic deterioration had eroded Ghana's once impressive economic and social infrastructure. The systems of health care, education, transportation and communication were in State of total disarray. Unable to obtain paper, books and food to feed its boarding students, the educational system was showing signs of disintegration. Likewise, the system of health care delivery was in chaos. Hospitals could not function for lack of basic medicines and essential supplies.

In view of shrinking opportunities professionals, like doctors even left Ghana."[12]

As a result of this much of economic erosion the standard of living and quality of life of the Ghanaian people had declined below pre-independence levels. World Bank statistics do substantiate this fact. Between 1960 and 1977 per capita consumption declined from an index number of 94 (1970=100) to one of 89. During the same period the per capita caloric intake per day declined from 2,086 to 1,983.[13]

Ghana, no doubt, represents before us an interesting case study of economic decline in Africa. Comparing Ghana with her neighbours one finds that even though they remained more exposed to 'neo-colonialism', it is the Ghanaian economy that eroded the most. Ghana's neighbours are each members of the Franc Zone and, thus, they lack that much of autonomy in respect to monetary and even fiscal policy as that of Ghana. Ghana enjoyed an extensive apparatus of state control over international economic transactions. But this was not so with the Franc Zone countries. In fact, foreign capital played a larger role in those countries. But Ivory Coast, Togo and even Burkina Faso (all Franc-zone countries) are

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12. Africa Confidential, 8 April, 1981, pp.2-3 (Of the approximately 1,500 doctors trained in Ghana since independence, barely 350 were on Govt. pay roll in 1982)

13. World Bank, 1980, p.420

hardly suffering economically to the same extent as is Ghana. "They have not experienced the same economic chaos like triple digit inflation, huge shortfalls in foreign exchange and attendant shortages of practically every essential import, smuggling on a massive scale and a thriving parallel market in which local currency is exchanged at well over ten times the official rate."[14] In 1970s Ghana's these neighbouring countries have not registered the same declines in production and in the public services sector[15].

We may see the decline of the Ghanaian economy right from its Independence to the total collapse in 1983 from two levels. One level involves the international dimension. This international dimension can be further divided into two sub-headings. The first is the adverse effect of worsening terms of trade on the economy of Ghana. And the second is the role of the multinational corporation. As mentioned earlier, besides international dimension the other level involves internal political processes; the role and interests of the governing class.

Terms of Trade

Ghana is often seen as a typical victim of worsening terms of trade. She is believed to have been adversely affected by decline in the international price for her

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14. "Robert Price, Neo-Colonialism and Ghana's Economic Decline: A Critical Assessment," Canadian Journal of African Studies, 18(1) 1984, p.167.

15. See Appendix Table No.1

exports, especially cocoa. No doubt Ghana's economy was heavily dependent upon export earnings from a few commodities. Cocoa alone accounted around 60 per cent of Ghana's annual foreign exchange inflows. Sharp fall in the price of this commodity led to accute foreign exchange shortage. It in turn led to the shortage of imported machinery, spare parts and raw materials. The international prices for cocoa has fluctuated widely over the years. Interestingly, coinciding with the major declines in the price in 1965, 1971 and 1981 is the military coups against the existing regimes of Nkrumah, Busia and Limann. The OPEC 'oil-shocks' of 1972-73 and 1979-80 also badly affected Ghana.

Undoubtedly, unfavourable fluctuations in the price of cocoa have affected the economy but this cannot be accepted as sole explanation of disaster in Ghana[16]. The given data is on Ghana's terms of trade and on trends in the price of other major trade items-gold and timber. The date levels that between 1960 and 1980 the long term trend has not been altogether adverse to Ghana's export earnings. In fact, the terms of trade have been either neutral or mildly in Ghana's favour. This is against the general thinking about the Ghanaian terms of trade. But then facts and figures are there to support it. During the 1970s price performance of Ghana's exports was especially strong. It was enough to

16. See Appendix Table No.2

offset the effects of the 1973 rise in oil prices on its terms of trade and more than keeping pace with international inflation. Between 1972 and 1977 the international price of Ghana's cocoa (discounting for inflation) more than tripled. It moved from a constant dollar price of $201/kg. to $641/kg. This put cocoa's real price in 1977 at a level of 150 per cent higher than the average price for 1965, the year of cocoa's post 1960 low point.[17]

The international market prices for other Ghanaian exports were also buyont. Gold soared from approximately $35.00 per tory ounce in 1970 to $161.00 in 1974. After a slight decline (average price of $148.00) in 1976, the market price climbed steadily in successive years, reaching an annual average of $613.oo per troy ounce in 1980. Discounting for inflation this represented a jump in real value of four hundred per cent, with the average real price for the entire decade being approximately double gold's pre 1970 value. West African timber did well on international markets during the 1970s as well. After dipping twenty per cent between 1970 and 1972, the timber price doubled in 1973. Though it slipped in 1974, real prices for the remainder of the decade were on the average approximately thirty per cent above their 1970 level. For the entire decade of the 1970s, the real price for Ghana's timber exports averaged

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17. "Robert Price, Neo-Colonialism and Ghana's Economic Decline: A Critical Assessment," Canadian Journal of African Studies, 18(1) 1984, p.173.

approximately 50 per cent above the average real price during the previous decade."[18]

In this way we see that the decline in cocoa prices and other trade imbalances are not sufficient explanations. While rising cocoa prices seem to have a positive effect on the GNP between 1970-73, between 1973-79 though prices were strong for both cocoa and gold and even timber, Ghana faced accute foreign exchange shortage. In fact, by 1982-83 Ghanaian economy collapsed. To a great extent, fall in prices and adverse terms of trade made recovery impossible for Ghana. But the major factors that led that country into such a chaos will have to be analysed further in more details. Ghana's economic stagnation and decline has been associated with periods when the international prices for her exports have been favourable as well as unfavourable[19]. The given graphs reflect upon the real reason for Ghana's shortage of foreign exchange. It was not adverse terms of trade but falling production. Interestingly, Ghana could not utilise high prices for cocoa and gold in mid 1970s because of falling production. Why production declined? The factors behind it have to be seen and analysed.

The Role of Multinational Corporations (MNCs)

Very often the role of Multinational Corporations (MNCs) is considered to be quite negative leading to the

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18. Ibid.

19. See Appendix Figure no. 1 and 2.

throttling of the Ghanaian economy. it is argued that MNCs involved in manufacturing and mining, being integrated on a worldwide basis, seek to maximise their returns globally. In this way they are antithetical to Ghana's development. "The academic critique of MNCs get their echo in successive Ghanaian governments. Both the governments of President Hilla Limann and that of his successor led by Ft.Lt.Rawlings have pointed at the large MNCs as a major cause of Ghana's problems, describing their operations as naked conscienceless exploitation and referring to them as plunderers of Ghana's wealth."[20]

But the facts and figures do not completely go in line with the argument that it is MNC's who are responsible for Ghana's economic decay. What is striking in case of Ghana is the limited role of such firms. MNCs have not been all that keen for investment in Ghana. They have faced problems there and their participation, in fact, has decreased since 1950s. However, during '50s when the share of manufacturing output controlled by foreign owned firms exceeded sixty percent, Ghana's GDP grew at well over five per cent a year. During the 1960s when Nkrumah's policies of economic nationalism reduced the foreign sector contribution to forty per cent of manufacturing output the most outstanding feature of the Ghanaian economy was its failure to grow. In the 1970s when the size of the foreign sector was further reduced by the

20. African Business, August 1980, p. 54.

Acheampong regime's policies of nationalisation in the mining sector and indigenisation in manufacturing, the economy moved from stagnation to continuous decline. Consequently, in terms of the co-relation between the size of the foreign sector and the pattern of economic growths, or decline, it would seem difficult to sustain a logic in which the MNCs are viewed as the main culprit of Ghana's economic decline.

It was also not true that MNCs were transferring their profits on any large scale out of Ghana. If there was any such trend it was blocked by the system of exchange control. The table given below covering the last half of 1970s proves this point.

Blocked Remittances to Foreign Firms.[21]

	1976	1977	1978	1979
Profits and Dividend	$58.0	$57.2	$58.9	$55.6
Payments Under Investments Policy decree of 1975 (Nationalisation)	40.0	39.7	42.2	40.9

As an illustration of how serious the situation has been in 1977 the Bank of Ghana announced a five-year programme allowing foreign firms to gradually repatriate profits and dividends that had accrued prior to 1968. For global enterprises whose operational logic required a worldwide redeployment of capital this could hardly be considred a desirable situation. And they accordingly

21. Financial Times, 13 May 1981, p. 17.

withdrew. Since the late 1960s there has been no major new private direct investment in Ghana. Even when the Limann government went out of its way to attract new foreign investors with a set of very lucrative incentives, there were no takers in any significant number. Had there been scope in any large manner to exploit Ghanaian resources there would have been heavy influx of MNCs. But this simply did not happen. The following table shows that how there has been decline in the foreign direct investment over the period 1965-79.

	1965-69	1970-74	1975-79
FOUR YEAR TOTAL[22]	153.9	80.8	65.6
Average Annual investment	30.8	16.2	13.1

Far from waiting for the chance to pounce upon and exploit Ghana's resources, foreign investors have shown limited interest in Ghana during the last thirty years.

In sum, the international factor, although cannot be by- passed it also cannot be accepted. It does not give us the decisive analysis of why Ghana's economy declined leading to the 1983 situation. As we have seen this country has performed poorly during the periods of both high and low world prices. And the role of MNCs in the economic decline is also not a plausible argument. Thus, one is required to look elsewhere for an explanation.

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22. IMF, Balance of Payments Yearbook (various issues).

Internal Factors:

Economic development in latter half of the 20th century occurs under the lead of an economically interventionist state. Particularly all the Newly Industrialised Countries (NICs) have pursued state directed and state centric development. Ghana also tried to develop its economy on the same line. But while many succeeded, Ghana failed. The secret to the successes of NICs lie in a particular character of the state. It is that which provides the capability for successful inplementation of development policy and strategy.

What emerges from the examination of the NIC experience is that, while the particular political systems and governmental structures that constitute their states might differ, all these states exhibit the quality of strength in relation to their domestic societies. Rather than being permeated by societal interest groups that are able to capture the state's economic decision making and bureaucratic apparatus, the NIC states provide their economic agencies with relative insulation from societal demands for the distribution of valued resources. The autonomy of the NIC state vis-a-vis its society, which this insulation provides, allows key state actors and bureaucracies to perform as economic entrepreneurs-setting production goals, designing economic strategies, accumulating surplus, redirecting capital and labour from low to high growth sectors and choosing technologies based upon economic decision criteria. The chief lesson of the NIC experience for the political scientist appears to be that when the state economic decision makers are allowed freedom and flexibility and are insulated from the pressures of the political process generally they succeed in securing economic goals[23].

These NIC experiences can be usefully contrasted to that of Ghana. The Ghanaian state's relative weakness in respect to economic development goals can be understood as a consequence of the conditions under which it was formed. Like many other African states, Ghana emerged from the colonial era as a multi-national state. Its constituent ethno-nations were not really part of a single national political community. Thus, in this situation the hold of the state over regional periphery was loose. Indeed, at the very moment of independence two regions were in virtual revolt against the authority. To this volatile mixture was added the social and economic demands placed upon the new government by Ghana's growing urban strata, In comparision to the African standards this urban strata was relatively large, well organised and politicised. It had provided strong support to the anti-colonial movement and freedom to them meant rapid improvement in material living standards and social amenities.

Faced with this situation of high expectations and strong centrifugal forces, the officials of the new Ghanaian

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23. Robert Price, "Neo-Colonialism and Ghana's Economic Decline: A Critical Assessment", Canadian Journal of African Studies, vol.18, no.1, 1984

state had very few means available to consolidate state power. Coercive state apparatus like army was not reliable. In fact, for a long time it was commanded by British officers. Army rank and file also reflected ethno-national divisions of the society at large. In this circumstance the new state commanded only one thing. The new state was the sole gatekeeper between the international system and the economic resources available within it (investments, loans, aid and proceeds from primary product exports) on the one hand and the domestic society/economy on the other. This gatekeeper position provided an instrumental basis for the consolidation of state power.

Thus, the marked tendency for the Ghanaian economy to become increasingly state centric during the 1960s and the 1970s can be essentially seen as the product of the dynamics of the Ghanaian political process. Without the required autonomy the interventionist Ghanaian state, thus, failed to play the role of economic entrepreneur. By 1983, in this way, the economy of Ghana was in the state of disaster.

CHAPTER – II

THE IMF FUNDING, ITS STRATEGIES AND ACHIEVEMENTS

When Flt.Lt.J.J.Rawlings stormed into power for the second time on the 31st December, 1981, Ghana was struggling to save its economy. The major task to be undertaken was that of the economic recovery. But the important point was how to do that? Right from the days of the first seizure of power by Rawlings there had been a division over political and economic strategies. The June Fourth Movement (1979) wanted a quick transition to a socialist society. Others on the left such as the New Demoratic Movement (NDM) also wanted this but doubted that the transition would be anything but a gradual move through the national democratic phase of the revolution. Others did not wish to proceed beyond that stage. As far as Provisional National Defence Council (PNDC) was concerned its economic policy comprised general statements denouncing poverty, corruption and imperialism. A series of laws was framed and initiatives taken designed to attack the wealthy (who were considered corrupt) and defend the poor.

The PNDC's May 1982 'Preamble to Policy Guidelines' reflected its early orientation of the policies. In the beginning the PNDC too seemed to be well inspired by the dependency theory.

"Ghana is not a poor country.... The wealth of this country has been produced by the peasant farmers, fisherman and other working people, but broad majority of the people have been denied the opportunity of using this wealth for the satisfaction of their requirements.... The [deposed] oligarchy lacked direction and the economy became uncontrollable under the weight of neo-colonialism which promotes local mismanagement, corruption and exploitation."[1]

The revolution was to break the monotony of under development. It was to launch a fresh start in the task of national reconstruction, dismantle neo-colonial economic and political arrangements. But though these statements were valid expressions of policy intent, neither they nor the unpublished analysis and recommendations on the various sectors of economic and political life were linked to a detailed set of policy implementation steps. In short, there was an initial macro-policy orientation but not a coherent economic policy. A series of micro-level economic laws was framed but these lacked also coherence, integration and follow up. Some black marketeers were attacked in the markets. But such attempts were hardly effective to bring down the prices of goods which were usually only available on the black market. Sometimes the houses and cars of those suspected of having obtained their wealth by corruption were seized. The halls of wealthy were attacked, confiscated and handed over to political movements, defence committees and revolutionary youth groups. But quite often through bribery and other means, the wealthy managed to repossess them.

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1. Donald I Ray, Ghana, Politics, Economics and Society (London: Frances Pinter Publishers, 1986), pp. 124-25.

"The main objective of these was to limit the economic power of one class alliance, enhance the power of the poor and the workers, and alleviate some of the suffering. However, in the form that they were formulated and implemented, they represented no more than pinpricks to the boils of the bourgeoise-messy, some pain but not a fundamental threat to their economic power."[2]

Economic problems continued to mount. The PNDC's first secretary for Finance was not appointed until some months after they seized power. It can be seen as a sign of policy drift and disagreement within the PNDC. Soon rawlings became impatient with a situation that seemed to produce words but little economic improvement. The revolutionary government realised that if economic recovery was to take place then production had to be increased. Now the key questions were: who was to produce it and how was increased production to be achieved? Whoever increased production needed foreign exchange to purchase from abroad a variety of equipments, spare parts and raw materials. Ghana's lack of integrated economy had meant that its infrastructure and productive capacity depended for its maintenance on foreign items. To undertake this rehabilitation, the PNDC needed massive amounts of capital.

A PNDC member Chris Atim led a delegation to Eastern Europe in search of the necessary capital. While some

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2. Ibid., p. 126.

economic assistance was forthcoming from the Soviet Union, their limited foreign capital resources were already strained by prior commitments. They were in no mood to help Ghana in any big way. In fact, the Soviet Union at that time was more obliged to close allies such as Cuba, Afganistan and Vietnam. The Ghanaian revolution was very much an unknown quantity to them. Besides the Eastern bloc countries, Libya was another non-Western source of aid for Ghana. She even did provide food and oil at the beginning of the revolution. However, later on she withdrew. It is said that Rawlings' refusal to accept the stationing of Libyan troops in Ghana led to that country's refusal to provide more aid. But this is not confirmed. However, the fact was that Libya did not give more aid to Ghana. Libya's involvement in Chad civil war and decline in the price of oil had also badly affected the Libyan Capital strength.

Moreover, it was not just a question of access to capital but one of expertise and control which had to be considered. Libya did not have the technical expertise. The Soviet Union and its allies had the expertise but wanted guarantees that their projects would not be handed over to the Western powers. After the fall of Nkrumah one such situation was created much to the displeasure of the Soviet Union. Largescale economic aid from the earstwhile Soviet Union would have meant an adoption of the Soviet model of Socialism that the PNDC could not have sustained. Since the PNDC did not fully control the civil service, the army, the peasantry or the trade unions, a contentious move of this kind would have been extremely difficult to implement.[3]

After having calculated what it could get from the socialist and radical countries, the revolution had to turn elsewhere. Under the direction of Dr.K. Botchwey, Secretary for Finance and Dr.J.S. Abbey of the National Economic Recovery Commission, a four-year (1983-87) Economic Recovery Programme was planned in 1982. The programme was designed to lay the economic basis of the national democratic revolution. The PNDC's expectations were:

- to restore incentives for production of food, industrial raw materials and export commodities and thereby increase their output to modest but realistic levels;

- to increase the availability of essential consumer goods and improve the distribution system;

- to increase the overall availability of foreign exchange in the country, improve its allocation mechanism and channel it into selected high priority activities;

- to lower the rate of inflation by pursuing prudent fiscal, monetary and trade policies;

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3. Hansen, Emanuel and Paul Collins, "The Army, the State and the `Rawlings Revolution' in Ghana", African Affairs, vol.79, no.314, 1980, p. 17.

- to rehabilitate the physical infrastructure of the country in support of directly productive activities;

- to undertake systematic analyses and studies leading towards a major restructuring of the economic institutions in the country[4].

By mid-1982, the PNDC had started to approach the Western powers and the IMF. In fact, there was hardly any option left to undertake the gigantic task of reviving the economy of Ghana. On the 20th October 1982 Dr. Botchwey declared that Ghana was opening discussions with the IMF in order to secure credit to start implementing the economic recovery programme. In response, some elements of the June Fourth Movement and the People's Revolutionary League of Ghana staged a peaceful attempted coup on 29th October. Its failure resulted in the withdrawal of the most organised opposition within the PNDC to the IMF loans.

After prolonged negotiations with the IMF and the World Bank, the PNDC was successful in negotiating a credit package of over $300 million. Having received the IMF's `seal of approval', a number of bilateral and multilateral credit agreements with the West were also concluded. The PNDC began to administer its part of the IMF agreement.

To what extent Ghana under the PNDC was forced or was not forced to accept IMF measures has been a matter of

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4. PNDC, <u>Two Years</u>, 1984, pp. 24-5.

debate. To quote Dr. Botchwey: "Ghana decided on a type of financial pre-emptive strike by putting together a recovery package that did indeed contain elements of the standard IMF austerity packages, but which were designed and integrated into the Ghanaian reality by Ghanaians under the direction of the PNDC".[5]

Previously skeptical western observers credited the government for its courageous identification of the country's economic problems. More so, PNDC's willingness to take harsh corrective measures were greatly applauded. One western diplomat said : "The programme the Ghana government has undertaken is a very, very difficult one. Would that some of these steps had been taken before so that the measures now being followed would not be so severe".[6]

But the austerity programmes did drew harsh criticisms: from domestic detractors on the left and the right. The regime's leftist ideologues saw the IMF backed programme for the ailing economy with suspicion. They feared repercussions on the working classes particularly and a sell-out of the revolution's egalitarian goals. On the other hand rightists criticised the government for having turned to those institutions which it characterised as part of the neo-colonial system which had caused Ghana's ruin.

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5. Donald I Ray, Ghana, Politics, Economics and Society (London: Frances Pinter Publishers, 1986), p. 130.

6. Margaret A. Novicki, "The Economics of the Rawlings Revolution", Africa Report, September-October 1984, p.44.

But Botchwey, the then Ghanaian Finance Secretary projected Economic Recovery Programme as a pragmatic stand. For him, it was born out of the Ghanaian expediency. To quote him in one of the Articles: "We see no contradiction between criticising the weaknesses in the system as we see them on the basis of empirical data as opposed to blind ideology, and the pursuit of policies that will enable us to get access to the resources of the World Bank and IMF, both of which we are members and to which we make contributions in foreign exchange. The important thing for us is to ensure that the conditions for access to the use of these resources are consistent with our own aspirations and are tempered by our efforts at mobilising our people in production. It is not our intention to simply implement an orthodox fund programme which is not supported by adequate concessional longterm resources, and which would really just result in our paying our debts on time and not registering any growth. Our intention has always been to combine a set of sound macro-economic measures and a sound programme of restructuring industry and other sectors of the economy with our own mobilisation efforts so that we can be self-reliant. But this will take time. The textiles here can be fed by local cotton, but it takes time and money to growth the cotton".[7]

The Economic Recovery Programme

The Economic Recovery Programme (ERP) started in April 1983 with the first Cedi (Ghanaian Currency) devaluation.

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7. Ibid., p.44.

Thereafter, a progressive movement towards a realistic and flexible exchange rate was sought. The periodic adjustment of the exchange rate made it possible to improve price incentives in economy. The policy package under the programme sought to:

- realign the exchange rates;
- arrest hyper-inflation;
- realign interest rates;
- reform prices and restore production incentives;

i.e. restore relative price increases for key exports crops such as cocoa, timber and minerals to favour production;

- reduce the cumulative budget deficit;
- rehabilitate the country's economic and social infrastructure;
- encourage private savings and investments;
- restore fiscal and monetary discipline; and
- establish workable priorities for the allocation of scarce foreign exchange resources[8].

With an austerity programme in place, the government worked out a one-year stabilisation programme with the IMF. In return Ghana received $377 million in stand by and compensatory financing facilities for 1983-4. Here it is important to point out that in 1984 after one year of ERP,

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8. Alexander Sarris and Hadi Shams, Ghana Under Structural Adjustment: The Impact on Agriculture and the Rural Poor (New York: New York University Press, 1991), p.5.

though economic indicators were positive, there was hardly much relief for the masses. The PNDC admitted that it had not been able to protect the average Ghanaian from the aberrations of the adjustment programme. Although the macro-economic performance had drastically improved by 1989, the masses continued to suffer as the economy recovered. As a result the PNDC often found itself in conflict over wage demands with the labour movement. Infact labourers were supposed to be part of the revolution's political base.[9] The important question had become one of whether available capital resources should be directed towards production or consumption. This reflected the dilemma of the revolution.

Now coming once again to the IMF funding and ERP. The IMF supported ERP with three successive standby arrangements totalling SDR 611 million or 229 percent of quota. Total assistance from members and observers of the `Consultative Group for Ghana' rose sharply with commitments rising from the 1980-83 low of US$198 million to US$430 million during 1984-86. (including two World Bank Reconstruction Import Credits amounting to US$127 million).

In November 1985 the Government of Ghana presented to the Third Meeting of the Consultative Group for Ghana in Paris the policy framework for 1986-88. It consisted of the second phase of the ERP. The funding for the second phase included the World Bank's US$ 130 million Structural

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9. Interview with Mr. Botchwey, the Finance Secretary of Ghana, 24 March 1984, in West Africa, 8 August 1984.

Adjustment Programme (SAP) for 1987-89 and the IMF's US$ 245.4 million Extended Fund Facility for 1987-90. The main objectives of this programme were, on the one hand, to consolidate gains throughout the first three years of the ERP and, on the other, to institute a gradual process of structural adjustment aimed at accelerating growth and improving incentives. The second phase also aimed at strengthening the capabilities of the ministries in policy planning and implementing, monitoring and evaluation programmes so as to remove the remaining barriers to efficiency and growth. Meanwhile, the Extended Fund Facility set annual macro-economic targets as additional conditionalities. The targets included the growth rates in real GDP, domestic inflation, rate of velocity and growth of broad money supply.

The main policies, instruments and strategies under the two phases of the ERP, including the (SAP) Structural Adjustment Programme and the Extended Fund Facility, were as following.

<u>Trade and exchange rate policy reform</u>: Between April 1983 and October 1985, the Cedi was officially devalued from C 42.75 = US $1.00 (a rate that had been kept constant for four years prior to that, despite cumulative inflation of more than C 400 per cent) to C 460 = US $1.00. In January 1986 the rate was further adjusted to C 490 = US $1.00. In September 1986, the Government established a second window foreign exchange auction, covering most transactions but

excluding cocoa, petroleum, debt service for official debts contracted before the beginning of 1986, and some essential drugs. Consumer goods continued to be imported under Special Import Licences. However, by February 1987, about 50 per cent (In value terms) of goods and services imported under Special Import Licences became eligible for funding through the auction for foreign exchange. This allowed more goods, especially spare parts, to be imported. Such imports alleviated some of the supply constraints responsible for obstructing developments in the industrial and agricultural sectors. In February 1987, the Government unified the official and the auction foreign exchange markets. In October 1987 the rate was around C 175 = US $1.00. By the end of November 1989 the Cedi was valued at C 280 = US $ 1.00. However, the Bureaux de Change had priced transactions between C 330 and C 360[10].

Administered price reform: The main reform has been the adjustment of the price paid to cocoa farmers by the Ghana Cocoa Marketing Board. Prices rose from C 12000/Mt in 1982/83 to C 30,000/mt (metric tonne) in 1984/85. In May 1985 the price rose to C 56600/mt ard to C 85,500/mt. for the 1985/86 season. In 1989, the price was raised even further to C 165000/mt. The prices of cotton, tobacco and coffee were also raised substantially. Other administered prices such as petroleum products also saw increases

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10. Figures based on IMF Report, Exchange Arrangements and Exchange Restrictions. Annual Report (From 1983-1989).

following exchange rate devaluations. In mid-1986 fertiliser prices were also raised by about 80 percent on average and continued to be raised furhter since then to reflect the declining value of the Cedi. By the end of 1986, however, a subsidy element remained to cover handling and distribution costs. Tariffs and utility charges had increased substantially. Price controls had also been dismantled for most essential goods. Only a handful of goods remained under price controls to fulfil the conditionality requirements of the World Bank's Reconstruction Import Credit (II) facility.

Public sector reforms: At the end of 1984 public sector wages and salaries were raised by an average of 89 per cent. In January 1986 the Government began implementing management reform programmes in the public sector. Its objective was to raise public service productivity through redeployment, salary rationalisation and improvement in civil service management. Public sector wages and salary were raised by another 29 per cent in January 1986. Salary scales were also restructured to increase the differential between the highest and the lowest paid civil servants from 2:1 to 6:1. In February 1987, the minimum wage was raised by 25 per cent for all workers. Reorganisation of several ministries was also undertaken. It led to retrenchment of several thousand employees. The minimum wage was equal to US $180 per month by October 1989.

Interest rates: Interest rates were gradually raised so that by 1985 they were positive in real terms. The nominal deposit and lending rates have more than doubled since 1982. On the 18th September 1987, a liberalised system to determine borrowing and lending interest rates for all commercial and secondary banks was introduced by the Central Bank. This was followed in November 1987 by the introduction of a new treasury bill discounting scheme by the Bank of Ghana.

Fiscal policy: Reforms were introduced centred on the elimination of various subsidies and mobilisation of new resources through improved tax collection. Key public sector budgets (such as agriculture) was restructured. The objective was to increase capital as well as operations and maintenance expenditures. In order to promote economic development and production capacity without setting off inflationary trends, a rolling three-year Public Investment Programme (PIP) was launched in 1986[11]. Careful budgeting procedures and the use of proper guidelines provided by the Ministry of Finance and Economic Planning tried to ensure that growth targets are reached.

State enterprises reform: The Government's programme to restructure the public sector aimed at allowing state-owned enterprises (SOEs) to stand on their own feet and operate as commercial units. In 1986/87 a review of all State owned enterprises (SOEs) took place. Under the restructuring programme some of the SOEs were to be either

11. The PIP was the centre piece of the government's effort to plan and organise investment priorities.

privatised, merged, diversified, turned into joint ventures or liquidated. Although substantial employment cuts took place in some of the SOEs like the Ghana Cocoa Marketing Board, the State Fishing Corporation, the State Farms Corporation and the Food Production Corporation, little progress was made by the high powered National Implementation Committee in implementing the programme. Meanwhile, guidelines for the use of budgetary funds by SOEs were put in place to restore financial discipline. Substantial progress was made to providing the country a team of skilled SOE managers through a comprehensive management training programme.

<u>Sector rehabilitation and social sector management</u>: Programmes were undertaken in several areas such as roads, railways, health and education to improve the infrastructure of the country. The Public Investment Programme played a key role in these programmes. In the Social Sector Management the government sought to address the plight of groups severely hit by the economic decline of the previous 20 years. Assistance to these groups, mostly women, rural youngsters and urban poor was in the form of programmes designed to increase employment and raise incomes. Components of this programme were nutritional support projects and 'food for work' schemes for selected target groups in Northern Ghana. Improved water supplies, sanitation, schools, clinics, feeder roads and rural electrification were other programmes undertaken to enhance

living standards of the rural poor. Health and educational services were to be made more accessible to the general people. Income-generating activities for small-scale farmers including women were the other things comprising the programme.

Macro-economic performance under the ERP: Macro-economic performance during the period of the ERP was quite satisfactory. After a disastrous drought in 1983 that cut food production by about 50 percent and ensuring bush fires that destroyed tree crop plantations as well as food in the fields and in storage, GDP and per capita GDP grew at a quite healthy rate. Investments and savings as proportions of GDP both improved. Money supply as a proportion of GDP increased considerably and financing of the public sector declined in favour of cocoa and the private sector. This was an important policy change. After this, inflation declined drastically and the balance of trade improved.

In 1987, agriculture contributed about 75 percent of total foreign exchange earnings, derived mainly from cocoa and timber. With increased output, cocoa foreign exchange earning capacity increased from US $269 million in 1983 to US $465 million in 1987. With this corresponding index numbers of unit of value of cocoa exports increased from 280 (1980 = 100) and 390 (1980 = 100) to 3676 and 2616 for cocoa beans and cocoa products respectively. The income from non-cocoa items (gold, diamonds, manganese, bauxite, timber) also went up from US $ 171 million in 1973 to US $322 million in

1987. On the other hand total imports in value terms increased from US $ 535 million in 1983 to US $827 million in 1987. Analysis of trade balances, long-term loans, medium term loans and net private capital transfers and grants shows that the balance of payments position improved steadily. In 1983 it was in deficit of 3.3 per cent of GDP and in 1987 the situation improved to 3.3 per cent surplus of GDP. While the current account deficit does not occupy an alarming proportion of GDP (at either official or parallel exchange rates), the major burden on economy remains external debt. In 1986 principal obligation was US $ 248 million, interest payments were US $ 99 million (US $55 million constituting IMF charges) and IMF repurchases, trust fund repayments and arrears payments amounted to US $37 million. Thus, in 1986, the total outflow was US $384 million or 50.3 per cent of export earnings. This figure rose to US $568 million or 70.7 per cent of export earnings of goods and services in 1987.

The objective of increasing net export earnings from agriculture to alleviate the foreign exchange situation is closely linked to the issues of agricultural export diversification, import substitution and export promotion in general. The pressure to generate more export earnings from agriculture to lessen the debt burden has been anti-climaxed by the trend of declining international cocoa prices. It led to the subsequent strain on the balance of payments. Despite the modest increase in foreign exchange earnings from non-traditional exports of US $ 27.07 million in 1988, the total agricultural exports declined in value to US $ 264.62 million. Cocoa contributed US $233.05 million. It was substantially less than the low figure of US $269 million in 1983. The world price index for cocoa (1979-81 = 100) has shown consistent decline since 1986. This trend is likely to put a severe strain on the balance of payments and the capacity of Ghana to meet external debt obligations.

Production in several key sectors has recovered substantially since 1983[12]. However, there appears to be substantial variation in growth rates. The macro-economic indicators highlight a significant instability that starts to thin down in 1986. From the examination of the annual growth rates from 1983 to 1986 it is apparent that output in almost all sectors has fluctuated greatly. It is not clear whether this instability is due to the ERP or is connected with the aftermath of the massive repatriation of about 1.2 million Ghanaian workers from Nigeria in 1983 and another 1,50000 in 1985. Disastrous drought of 1983 may also be called to have a negative impact on growth.

The government budget has continued to serve as an instrument not only for rehabilitating run-down infrastructure but also for financing high priority investments. The public finances have shown substantial improvement since 1983. Due to strict fiscal policy adherence like more revenue collection and the sales tax

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12. See Appendix Table no.3 and 4.

reform, total revenue increased by 153 per cent. Grants also increased by 125 per cent during the 1983-87 period. Revenue percentage grew from 5.5 per cent in 1983 to 13.9 per cent in 1987. The money was used to rehabilitate social and economic infrastructure such as clinics, hospitals, roads and school buildings and abondoned public buildings. Recurrent expenditures increased from 7.3 per cent of GDP in 1983 to 10.7 per cent in 1987, after reaching a high of 11.2 per cent in 1985. Development expenditures also increased from a level of 0.7 per cent of GDP in 1983 to 2.5 per cent of GDP in 1987. Deficit financing of development expenditure was given positive direction by having close monitoring of government expenditure and by practising monetary and fiscal stringency. It excluded development expenditure financed through external project aid. While in 1983 the deficit was about 2.7 per cent of GDP in 1987 a surplus equivalent to 0.6 per cent was registered. Thus, in 1987 the budget surplus, together with high domestic non-bank borrowing, enabled the government to return as much as 7.4 billion of debt owed to the banking system.

Under the ERP, the Government committed itself to cutting down civil service employment, which had grown by 14 per cent per annum between 1972 and 1982. During 1986-88 a retrenchment of the Civil Service by 5 per cent per annum (about 15,000) was done. A tough measure indeed.

The Public Investment Programme[13]

The Public Investment Programme (PIP) was the Centrepiece of the Government's efforts to plan and organise investment priorities. It was also aimed towards seeking donor assistance effectively. The PIP for 1986-88 consisted of 201 projects of which 78 were in the productive sectors (50 in agriculture), 96 dealt with economic infrastructure such as roads and highways, communications, energy and water supply. Other 27 were in the health and education sectors.

The total PIP cost for the three year period was estimated at C 184.9 billion of which C 139.0 billion (75 per cent) was the foreign exchange component. The total public cost was 337.7 billion. This constituted 81 per cent of the total calculated cost of the projects. Investment in agriculture accounted for 13.6 per cent of the total. The selection of projects for the PIP was based on the economic rate of return and the cost effectiveness criterion. A relatively low share of investment went to education and health (less than 6 per cent in total). This is one important point to note.

Large projects, namely those costing more than US $5.0 million, were required to have a minimum economic rate of return of 15 per cent to qualify for inclusion in the "core" PIP. The core consisted of 155 projects of which 43 were in

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13. Alexander Sorris and Hadi Shams, Ghana Under Structural Adjustment: The Impact on Agriculture and the Rural Poor (New York: New York University Press, 1991), pp.11-12.

agriculture, with three cocoa projects accounting for a quarter of their total value.

Agricultural Policy

Over the 15 years period-1966-1982, all governments in Ghana tended to favour large scale capital intensive modes of agricultural production over small-scale farm units. All regimes during this period tended to give higher priority to industrialisation.

In the newly adopted strategy though the emphasis on industry continued, the emphasis within agriculture has recently shifted. The period 1983-85 initiated a number of ad hoc programmes designed to overcome the neglect of agriculture and the food shortage caused by the 1982/83 drought and the exodus of over one million Ghanaians from Nigeria. The principal objectives were to mobilise all available human resources and material resources to increase the production of the major staples (maize, cassava, cocoyam, rice). To reclaim abondoned cocoa farms and to replant cocoa farms devastated by the 1983 bushfires were also planned. At the same time Ministry of Agriculture (MOA) organised a national debate on agricultural policy from 1984-1986. The debate resulted in the publication of a policy document emphasising food crops. Maize, rice and cassava were selected for production through support of farm inputs and services. The farmers selected for `support' were expected to sell 30 per cent of their harvest to the Food Distribution

Corporation. While in 1984 production figures were well above those planned, in the next two years actual production fell well short of expectations. For example, maize production which fell to an all-time low of 1,41,000 mt. in 1983 incrased to 5,74,000 in 1984 but again dropped to 4,11,000 mt. in 1985. The decline was due to the adverse effect of the 1984 low prices. Prices had fallen from an average of C 10000/100 kg. to C 6000 in 1984.

By 1985 the absence of a national agricultural policy to increase agricultural productivity on a sustained basis was clearly evident. The bumper harvest of 1984 led to a sharp decline in output prices due to the absence of viable post-harvest handling facilities. Farmers responded to the low output prices by reducing their production in 1985. In January 1986, a new agricultural policy document, "Ghana Agricultural Policy: Action Plans and Strategies, 1986-88 was approved. Its objectives were:

- Self-sufficiency in production of cereals, starchy staples and animal protein foods, with priority for maize, rice and cassava in the crop sub sector in the short term;

- maintenance of adequate buffer stocks for price stabilisation and food security during periods of seasonal shortfalls and major crop failures;

- Self sufficiency in production of industrial raw materials - cotton, oil, palm, tobacco, groundnut, etc., for agro-based industries;

- increased production of explorable crops - cocoa, pineapple, coffee, shea-nuts, ginger and kola;
- improvement in storage, processing and distribution systems to minimise post harvest losses;
- strengthening MOA, including the decentralisation of its activities by shifting operational responsibility from headquarters to the regions;
- Improving existing institutions and facilities, such as the agricultural research centres, credit facilities, marketing facilities etc. and
- ensuring adequate returns to farmers, fisherman, distributors and processors in order to promote efficient production, processing and distribution of agricultural and other food items. Incomes must be high enough to raise productivity in Ghanaian agriculture to levels comparable to those prevailing internationally[14].

While many of the above objectives were not new, greater emphasis was placed on small-scale farmers for the desired increases in production.

During the implementation of the first phase of the ERP, it was realised that MOA and its supporting institutions

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14. Ibid., pp. 13-15.

were ineffective because of the neglect of past governments. A programme to tackle short-term adjustment issues was put in place, and was to be supported by a Structural Adjustment Loan. As part of the programme, the World Bank undertook an Agriculture Sector Review. It identified the main elements of a strategy to promote agricultural development on a sustainable basis. This led to the launching of a US $53.5 million Agricultural Services Rehabilitation Project (ASRP) in 1987. The aim now became to strengthen the capacity of the public sector to support research and extension services, irrigation and policy planning and monitoring, evaluation and coordination and to make the investment necessary to expand agricultural production. The basic objective of the project was to initiate a self-sustaining process of rehabilitation so that MOA could give more effective support to agriculture through an improved implementation capacity. Specifically, it had three inter-linked objectives:

- to strengthen the institutional framework for the formulation and implementation of agricultural policies and programmes;

- to improve the delivery of public sector services to agriculture, i.e. extension, research, irrigation and veterinary services; and

- to improve the procurement and distribution of agricultural inputs by privatising them.

As we have seen, PNDC had been able to mobilise the enormous sources of the foreign capital needed to get the economy going again. In many cases the economic indicators showed the positive growth. But then there are both ways fluctuation (positive and negative). What has been the political and social impact of these fundings is the theme of the next chapter. Meanwhile, it should be mentioned that IMF projects Ghana as a modest but real economic success story.

CHAPTER III

IMPACT OF THE IMF FUNDING ON THE GHANAIAN POLITY AND ECONOMY: A CRITICAL EVALUATION

As per developing countries praxis the state is required to play a crucial role in the process of development. The logic is that the 'state' is best placed to make optimum use of available resources. And more important of all, in a developing country, only state is expected to function in an unprejudiced manner for an even development and for an equal distribution of the fruits of this development. Like most of the developing countries Ghana too was characterised by the extensive intrusion of the state. However, since the 1983 when the stabilisation and adjustment programmes were launched in this country, the role of the state saw drastic changes. In fact, there has been a criticism that the fund/bank prescriptions have reduced the Ghanaian state to a virtual non-entity. Fund/Bank prescribed adjustment programmes put greater reliance on market mechanisms, especially in the areas of exchange rate adjustment, trade liberalisation and the use of subsidy. Prescriptions, in the area of expenditures and ownership of productive enterprises (privatisation) also entails reduced role of the state. Now the question arises whether the IMF strategy in Ghana has really reduced state only to a factor in market management?

Since the introduction of the Economic Recovery Programme, later part of the Structural Adjustment Programme (SAP), Ghana has seen a series of money devaluations. A major devaluation involves direct intervention by the state, and the establishment of mechanisms to maintain a realistic exchange rate could involve new institution building by the state, such as the establishment of currency auctions or the creation of a crawling peg system. Efforts to restrain the rate of growth of the money supply also entail a direct intervention by the state.[1] Some efforts at fiscal adjustments also invite states role in Ghana under SAP. Thus, on balance and stabilisation the Ghanaian state at least maintain a degree of state intervention to influence the macro economy.

Again stabilisation and adjustment programmes in Ghana is not supposed to reduce state efforts to mediate conflicts among capital and labour. State, in fact, has continued to play an active role in securing greater cooperation. The government in Ghana has always intervened in the activities of `Ghana Employers' Association', `Contractors' Association' and `Chamber of Commerce'. Managing demand by imposing wage restraints or like things entails a redirection of state mediation and regulation instead of reduction of its role.

Still, the role of the state in Ghana has been greatly reduced in the private sector investment. Efforts to privatise the economy have the most immediate effect on state regulatory functions, since they often entail the dismantling of restrictive legislation, such as direct and indirect

1. Thomas J. Biersteker, Reducing the Role of the State in the Economy: A Conceptual Exploration of IMF and World Bank Prescriptions, International Studies Quarterly, (1990), 34, pp.486-7.

taxation or mandatory joint venture programmes.[2] In lieu of market oriented economy there has been a reduction in the government spending. Such a reduction has led to the curtailment in the state's capacity to implement remaining regulations. Likewise, liberalisation of trade and foreign exchange controls have also subdued active state regulation. Now it is the market that has replaced elaborate state licensing and incentive schemes. The elimination of subsidies, the phasing out of price controls and the increase of interest rates all reduce the state's distributive intervention in the economy. Similarly, increasing the efficiency of public sector activity often means changing the criteria used to determine the location of new enterprises away from social needs or distribution.

The policy reforms recommended by the Fund/Bank prescriptions have led to a reduction in the state's efforts to produce goods and services directly. This is what privatisation is all about. The general reduction in government spending has also mitigated any extension of State productive activity. As noted, the production sectors where State role cannot be avoided, the IMF has put constraints on the State investment priorities by intensely emphasing on the economic efficiency.

Privatisation and greater reliance on market mechanisms reduce the amount both of direct State monitoring and of

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2. Ibid., p.487.

information about the production process.[3] In Ghana, now under SAP, the amount of agricultural production or production in the mining sector are being determined by market supply and demand factors. State's role here also has been reduced to minimum.

In fact, the structural adjustment and stabilisation programmes have an in-built bias against the more extensive forms of State intervention. "The objetives of `multilateralism' and `free-trade' which are so deeply and fundamentally rooted in the structure of the Bretton Woods institutions' are integral to their key role; the institutions first priority is their commitment to creating and maintaining a World System of trade and financial markets free from impediments imposed by national politicians... their policies for individual boorrowers are wholly subordinate to their prior responsibility for constructing a world on these lines"[4].

Besides reducing the role of the State in the Ghanaian economy to a large extent, there have been some other important political impacts of the stabilisation and Structural Adjustment Programmes (SAP). There had been shifts in the Provisional National Defence Council's (PNDC's) coalition of support. Funding also puts impacts on the

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3. Ibid., p.488.

4. Bade Onimode (Ed.), The IMF, The World Bank And The African Debt. (Zed Book Ltd., London, 1989), pp.21-22, vol.1.

patterns of rule and decision-making. The new situation gave birth to the new sectors of resistance to the regime. The capabilities and autonomy of state institutions also have been affected.

Before the funding started in Ghana, the early radical populism of the PNDC drew to it as core-supporters non-commissioned officers and other rank in the military, the radical intelligentsia sectors of labour and University students. Urban artisans and self-employed also gave their political support to the PNDC. Within this adhoc, multiclass coalition, there was some sort of uneasiness and struggle in 1982. The struggle was over various issues, including the regime's use of coercion and the role of grassroots `radical' Peoples' Defence Committees (PDCs). Some of the PDCs were acting autonomously to radicalise change and to bring feasible strategies for change. The debate over economic policy and SAP only accelerated cleavages well under way, which led to two tentative coup attempts in late 1982.

In 1983, when the Economic Recovery Programme (ERP) was actually launched under the IMF pescriptions there were wide ranging protests demanding an immediate return to Civilian rule. It was a reaction to the budget and reform measures which had ended the subsidies and had risen the prices of the food stuffs. At this juncture General Rawlings (the Chairman of PNDC) sought new supporters from which to recruit competent cabinet and administrative leaders to implement reform policies. He looked to the "merchant-professionalbureancratic bourageoise", especially its technocratic and managerial wing, the military officer corps, young dynamic bureaucrats and a group of politicos who remained loyal to him including many activists who had been leaders of the 'National Union of Ghanaian Student' (NUGS) in the 1970s.[5] In fact, many cabinet Secretaries and the PNDC members were drawn from these groups. Crucial to the success of this coalition was the implicit inclusion of the IMF and World Bank, which became core regime supporters.[6] Rawlings tried to provide support to this coalition through retention of the populist organisations though now with a broader appeal. The June Fourth Movement, composed of core activists continued. The once assertive Peoples' Defence Committees (PDCs) and Worker's Defence Committees (WDCs) were renamed as the 'Committee for the Defence of the Revolution (CDRs). CDRs continued to be manned by same radical people, however, at this stage it lost its autonomy to function. Now it did not attack or intimidate regime opponents. The 31st December Womens' Movement, organised by Rawlings' wife, Nana Agyeman Rawlings, was also retained. Now it simply participated in some of the government development schemes, related to women.

The dynamics of attempting to implement a stabilisation and structural adjustment programme in the midst of populist upheavel, a collapsing economy with many aggrieved groups,

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5. Jon Krans, Struggle Over Structural Adjustment in Ghana, Africa Today, 38(4); 1991, p.34.

6. Ibid., p.34.

and ideological resistance to a semi-military regime led Rawlings to take the following steps to mute the level of social class conflict and populist pressures; deemphasis of populist institutions (PDCs) especially reducing their interventions in management; solicitation of support among conservative and liberal social groups and those benefitting from SAP reform policies; the creation and protection from external pressures of a small administrative group of trusted technocrats (economists, managers) to make and implement key policies.[7] Rawlings further tried to widen his support base. He appealed to traditional leaders, cocoa and other farmers. The educated people like teachers and professionals were brought within the support fold by offering roles in the regime. Commercial industrial bourgeoise automatically supported Rawlings as funding revived their factories and business. Since, the regime was authoritarian many opposition groups were co-opted by the regime. This method was important in terms of deflecting opposition and mobilising support for SAP policies.

There has been one argument that Structural Adjustment Policies (SAP) accelarated the PNDC's movement toward autocracy and concentration of power.[8] The other cause for the regime becoming more autocratic is its consolidation in

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7. Ibid., p.35.

8. Will Moore and James Scaritt, IMF Conditionality and Polity Characteristics in Black Africa, Africa Today, vol.37, no.4, 1990, pp.39-60; test the hypothesis that IMF prescriptions tend to increase autocracy.

the face of hostile challenges from within and outside the PNDC. In fact, because of known and anticipated oppostion from differenct social groups to the SAP policies (like devaluation, ending subsidies, privatisation and increased taxes) a tendency developed to make all macro-economic policies within a small group of PNDC leaders. Even concerned instituions or groups were not consulted. Policy was amounced as a `fait accompli'. The Trade Union Congress (TUC), Ghana Employers' Association, Contractors' Association and Chamber of Commerce have all openly complained about the regime's failure to consult on policies. Sometimes, TUC and NUGs have even forced policy reversals, e.g., TUC's opposition to government attempts to take back wage increases in 1986 and later, to suspend leave allowances and end of service benefits.

The strongest challenges to the regime's absolute policy domination came from the TUC and some of its unions, NUGs and Kwame Nkrumah Revolutionary Guards. The leaders of the National Democratic Movement (NDM)[9] confronted the regime publicly. They were detained many-a-times without any charges. "Indeed, there is little doubt that Rawlings' powerful resistance to democratisation in Ghana was his strong belief that giving Ghanaian groups and politicians an opportunity to participate in the policy processd would

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9. NDM was linked to the leadership of Industrial and Commercial Workers' Union (ICU).

endanger the SAP".[10]

As per another argument one of the most significant impacts of SAP policies in Ghana has been the rebuilding of State Capabalities. The inflow of external resources and authoritarian rule has given the regime some relative autonomy from the pressures of the Ghanaian social forces. "Earlier state institutional capacities had collapsed with the lack of resources, skilled personnel and accountability measures for maintaining performance. The PNDC government, as a matter of fact, has demonstrated far more capability for extracting resources (tax revenue) and implementing policies than any previous government since the '60s"[11]. It has re-developed procedures and norms governing the budgetary process, making ministries and State Corporations. These have once again become accountable to the executive. But still communication linkages remain so poor and information so secretive that monitoring is working poorly. State press just cannot print what could forcefully draw the state's attention to the problems.

The inflow of aid and imports has given the State resources to sufficiently staff themselves and implement the programmes. For example, the appointment of Extension Workers in the field with farmers has proved to be guite beneficial. The input in infrastructure like road has also

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10. Jon Krans, Struggle Over Structural Adjustment in Ghana, Africa Today, 38(4); 1991, p.36.

11. Ibid.

brought more effectiveness in the functioning of the government.

However, the dependency theorists argue that the Ghanaian state has surrendered before the multi-lateral agencies, particularly before the IMF conditionalities. It is true that Ghana has been able to negotiate some of its own policy preferences and resist some IMF policy proposals. However, it is somewhat of a false autonomy when regimes opt for state industries and can not get them to produce, for price controls which are unadministered while goods are available only on the black market or for free schools when there are no books.[12] It is an irony that Ghana has been compelled to privatise even those state industries which were working effectively and producing profits.

Economic Impacts

Following the stabilisation and structural adjustment policies during 1983-90 the Ghanaian economy has recovered. The vital economic indicators show signs of improvement. During the period 1984-89 the real growth in GDP was 5.7 percent or 2.7 per cent per capita. In 1990, however, the GDP growth slowed down to 2.7 percent.[13] Although this growth was built on the base of a severely depressed economy,

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12. Jon Krans, Struggle Over Structural Adjustment in Ghana, Africa Today, 38(4); 1991, p.39.

13. Ghana PNDC Budget Statement and Economic Policy for 1991, January 9, 1991, p.4.

it is the longest - and only - period of sustained economic growth since independence in 1957. Still, a great many Ghanaians oppose the government's stabilisation and structural adjustment programmes (SAP). This opposition is not only coming from the intellectuals, students and workers but also from trade unionists, civil servants and many businessmen. Students hate the rising school fees and the University costs while peasants suffer from the new borehold and well fees. Consumers undoubtedly suffer from the end of subsidised goods and the rising prices. Businessmen protest restraints on credit and 30 per cent interest rates. Industrial managers do not like the libiralisation of trade which cuts down the sale of Ghanaian goods. State corporations fear their sale to private interests or liquidation.[14]

These protests raise a debate; whether the IMF funding benefitted Ghana in any real sense? Critics believe that IMF policies have been extreemely harsh and painful. And also that these economic reforms have not brought adequate economic recovery or a significant rise in living standards. They argue that conditions are worse than before. For example, they cite very low real wages, much higher charges for poor public services and massive lay offs in the public and private sectors.

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14. In 1985 the acting Managing Director of the State Hotels Corporation said that it would resist any attempt to take over state hotels through participation by private firms or local capital as the govt. was discussing, West Africa, September, 16, 1985, p.1938.

Evaluation of Exports and Devaluation, Imports and Growth

The major focus of the IMF stabilisation programme (initially called the Economic Recovery Programme, later part of the SAP) was on the need to restore an external equilibrium in balance of trade and current accounts. The thinking behind this policy was that the external balances could only be recreated through economic rehabilitation of Ghana's exports and not by contracting imports. And for providing incentives for exports devaluation of currency had become necessary. Devaluation in 1983 (990%) was imperative to stop destroying export capacity, but the constant pressures for futher devaluations must be weighed for their impact on growth and development, and their political effects. "The Cedi fell from $1 = ₵ 2.75 in March 1983 to ₵ 25 in April, ₵ 30 in October, ₵ 50 in December 1984, ₵ 60 in 1985, C 90 in January, 1986, ₵ 153 in February, 1987, ₵ 280 by September, 1989, ₵ 315-345 in March 1990, and ₵ 337 - ₵ 355 by September.[15]

A direct benefit of devaluation was that the exporters could be paid much more cedis for exports. The price increases to cocoa producers tripled real producer prices between 1983 and 1987[16]. But these price increases have failed to produce sharp increases in cocoa production.

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15. Jon Krans, The Struggle Over Structural Adjustment in Ghana, Africa Today, 38(4); 1991, p.24.

16. See Appendix Table no. 5.

With far better weather and transport since 1984, production should have increased significantly even with modest real price increases. But production remains well under 300,000 m tons.

In other sectors export production has risen more dramaically. Gold production has attracted significant new foreign private capital. As a result its production doubled between 1983 and 1990. Diamond production though remained stagnant has not declined. Manganese and bauxite have expanded output greatly and surpassed 1970 levels. Production of logs and sawn timber also increased by 50-60 per cent and 170 per cent respectively by 1990. These figures are however still short of the 1970s levels. Waste and corruption marks this sector. Export totals have expanded every year since 1983 except for 1989 when cocoa prices declined. Imports have also increased very substantially. These are essential inputs for helping the economic recovery. Imports rose less than exports in 1984-86 but more rapidly during 1987-90 as aid rose. But the IMF goal of trade balance and current accounts balance has not been met. Indeed, the trade and current account deficits have been high and have widened annually since 1986.[17]

These deficits have been covered by the rapidly rising level of net foreign aid disbursements which increased from $171 million in 1984 to $345 million (m) in 1986, $390 m in

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17. Various issues of <u>Economic Intelligence Service</u>, Centre for Monitoring Indian Economy, Bombay (India).

1987, $451 m in 1988 and $485 m - 488 m in 1989-90.[18] While current aid disbursements (before repayment of principal) are estimated to exceed $600 m during the years 1991-93, such aid levels will not continue foreover. Exports will have to grow to pay for current import levels, which remain below those of the early 1970s. The debt service ratio (DSR), while high in the late 1980s, has declined as some repayments of IMF debt have been made and others have been extended over a large numbers of years. (DSR was 28-31% of exports in 1987-89, excluding IMF debt, 53-62% including IMF and arrears). But debt repayment and trade imbalances can only be sustained as long as aid continues. Any drastic positive change in the prices of Ghana's exports is not expected which could have compensated. Since, Ghana's most of debt is long-term and on concessional terms, its higher debt levels do not pose a burden.

But devaluations and too much emphasis on exports have caused some serious negative consequences for economic growth, development and equity. These policies have remained major cause of opposition to the IMF conditioned policies. First, "the demand that Ghana move toward a market-determined rate of foreign exchange is animated by a doctrine belief which ignores the imperfect quality of all other markets in Ghana".[19] The level to which Cedi has been devalued seems to

18. Data drawn from World Bank Ghana Progress on Adjustment (Washington D.C., 1991), Statistical Appendices.

19. Jon Krans, The Struggle Over Structural Adjustment in Ghana, Africa Today, 38(4); 1991, p.26.

be more than necessary to offset inflation. If the 1983 devaluation (990%) was necessary to change relative prices, it is not clear why it was thought efficient to have devaluations from 1984 to 1987 triple the level of inflation (487% Vs. 160%). Second, the IMF emphasises on the reduction of inflation but in contrast the frequent devaluations of Cedi has infact, contributed to the fuelling of inflation. During 1984-87 non-food items, with higher import components, increased three times more rapidly than food on the consumer price index. This inflation has depressed living standards for wage/salary workers in urban Ghana. While the government minimum wage doubled between 1985-86 from the previous level of 1983, in 1988 it remained as much as 73 per cent below the 1975 level. And since then it has not shown rise. (Calculated from Table no.5:) Now this has become one of the fundamental conflicts between trade union and the government. Third, inspite of the fact that the government had balanced the budget by 1987, the IMF has continued to insist upon strict `ceilings' on domestic credits. They justify it in the name of combating inflation. In effect however, this has slowed down the rate of investment and hence, the growth. There has been a severe liquidity crisis in terms of access of Ghanaian capitalists to credit. This has contrained investment. More directly the constant devaluations have made Ghanaian entrepreneurs more reluctant to seek foreign exchange for imports because of the risk of loss from new devaluations.[20] Fourth, whatever the need to promote export, the devaluations have shifted relative prices further than was probably necessary to elicit increased output and has rewarded relatively small sector of the population-cocoa farmers, gold mine companies, timber producers and small-scale gold and diamond miners - at the expense of wage workers. The huge gains from cocoa output tend to go to a very small sector of cocoa farmers. Older studies suggested 20-25 percent of farmers received 50-55 per cent of income. A 1987 study of four Ashanti villages found that 32 per cent of the farmers received 94 per cent of gross cocoa income.[21] In equity terms, given the extreme income inequality in Ghana, rationing scarce foreign exchange through the market simply makes it disproportionately available to the rich. According to 1988 estimates, the top 20 per cent in household consumption spent 42.3 per cent of all consumption expenditures.

Funding and Growth: Agriculture, Industry and Commerce

Non-food agriculture is the most important single sector in the Ghanaian economy. Roughly it owed 33-34 percent of GDP in 1988-89. In comparison cocoa owed 7-9 per cent in the same period. Low growth in the Ghanaian non-cocoa agriculture has been a major source of low growth

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20. West Africa, January, 11, 1988, pp.23-24; June 6, 1988, p.1012.

21. Paul Glewwe and Kwaku Twum-Baah., "The Distribution of Welfare in Ghana, 1987-88", World Bank, Ghana Living Standard Survey, Mimeo, December, 1989.

generally, of high inflation, and of rural and urban poverty. In 1982-83, when Rawlings stormed into power, food scarcity was the major problem before the PNDC. The funding strategy has ignored the non-cocoa agriculture as potential motor of growth. This has been admitted by the World Bank representative in Ghana.[22] "The PNDC has had no coherent programme in agriculture".[23] The proportion of agriculture expenditure in budget fell from 10 per cent in 1981-82 to only 3.0-3.8 per cent in 1988-90. Even in the late 1980s cocoa received 9 per cent of capital expenditures in agriculture, about 67 per cent of recurrent expenditures.[24] It seems that the development strategies obsession with the export sectors and with "getting the prices right" has led to a belief that the problems could be solved by getting the government out of the agriculture. Keeping this in mind efforts have been made to drastically reduce the Cocoa Board activities. Attempts have been to close state forms and privatise the Ghana Seed Company (now collapsed) and fertiliser distribution. In the adsence of any valuable government efforts, a wide variety of non-governmental organisations have become active. They are working particularly with small peasant farmers.

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22. West Africa, January 9, 1989, p.19.

23. Cf. John Loxley, Ghana: Economic Crisis and the Long Road to Recovery (Ottawa: North South Institute, February, 1988), pp.28-29.

24. Kojo Vieta, "The Food Horizon", West Africa, January 9, 1989, pp.20-21.

Comparing 1970s, agriculture has experienced fairly high growth from 1984 onwards. Only 1987 and 1990 have showed low or negative growth because of poor rainfall. Agricultural growth averaged 3.57 per cent per year during 1984-89. Non-cocoa agriculture rose by about 4.25 per cent per year during 1983-90. Significantly, in some major food staples (maize, millet, Cassava and Yams) production in past 3,5, or 6 of the seven years has exceeded the highest previous production levels. This is also true of groundnuts and rice. Other crops like plantain, most pulses, and nuts, fruits and vegetables have not reached their targetted prior levels. The point to note is that the low price increase in 1984 and actual price decline in 1985 after Ghana's bountiful 1984 harvest, local food inflation has remained very high, running at 20-40 per cent per year (See Table no;). Since Ghananian on average spend 69 per cent of their incomes on food, clearly high food prices are the single most important factor determining the standard of living.

Devoting more resources to domestic food production would have increased growth and development. Moreover, it would have had far more equitable consequences for producers than the too much focus on cocoa. Non-cocoa agriculture already enjoys a more equal pattern of income and land holding than cocoa. It would have also relieved consumers by reducing the constant food price increases. Besides, the relative neglect of food production and high food prices are undoubtedly the single largest source of popular opposition to the PNDC. On the other hand, however, food and cocoa farmers have both been major beneficiaries of PNDC policies because of improved farm to market road networks and flows of inputs and support for higher prices.

Impact On Industry

Industry, relatively favoured by adjustment policies, has shown significant growth, but the pattern is one of declining growth. Between 1984-86, the industry growth at an average was 11.4 per cent while in the period 1987-88 it reduced to only 9.4 percent. Between 1989-90 the average growth was only 4.2 per cent.[25] Mining, as noted, has recovered strongly, with consistent rates of growth after SAP generated new investments in 1984-96. In 1987-88 and 1989-90 the growth rate was respectively 12.9 and 10.3 percentages. Manufacturing and construction, both in deep recession in 1980-83, are areas where Ghananian capital is of some importance. Construction barely recovered in 1984-86, growing 0.8 per cent on average, grew rapidly in 1987-88 at 12.1 per cent. but only weakly in 1989-90 at 7 per cent. Foreign firms continue to dominate. Local firms are subcontracting and cutting labour costs. Manufacturing climbed 16.1 per cent in 1984-86, 7.6 per cent in 1987-88 and a mere 2.8 percent in 1989-90. This suggests that early growth involved recovery from profound lows, using existing

25. Data here is calculated on the basis of; Ghana: Progress on Adjustment, (Washington D.C., 1991), Statistical Appendices.

unused capacity, but is generally weak. Estimated capacity utilisation was below 40 per cent in 1990 but the index of production (1977=100) had risen to 63 in 1989.[26]

The Ghanaian manufacturers face severe problems. The IMF credit ceilings made great difficulty in obtaining credit for imports of various inputs and equipments. Devaluations made such imports further expensive. Elimination of price controls allowed firms to pass on the rising costs, making items more and more costly. Trade liberalisation has exposed many weak firms to heavy competition from imports. However, consumer has benefitted from such a competition. In 1988 most of the garment factories in Accra were closed due to cheap imports. Over 62 industrial-commercial firms had shut down in Greater Accra alone during 1987-91.[27] "The Vice-President of the Ghana Employers' Association in 1988 argued that severe liquidity problems, rapidly rising interest rates, sluggish sales, up front payments of 100 percent for imports...have created serious problems for Ghanaian business and "in some cases threatened the very existence of their business".[28] The National Chamber of Commerce has complained regularly of its members' problems. They complain the 30 percent interest rates and low liquidity. The Association of

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26. Ibid., Statistical Appendices.

27. West Africa, September 12, 1988, p.1684; data on shut-downs in 1987-91 from reports of the Accra Regional Secretaries, Industrial and Commercial Workers Union, to the National Secretariat, 1991 mimeo.

28. West Africa, June 6, 1988, pp.1012-13.

Ghanaian Industries has requested protection from threatening imports. However, the Finance Minister Botchwey was always reluctant to such demands. SAP policies required high interest rates (to increase savings), tight credit ceilings (to contain inflation), trade liberalisation (to compel greater local efficiencies), and energetic tax collection (to balance budgets). Some of these were pursued rigidly with remarkable insensitivity to the problems of Ghanaian industries suffering from long recessions, old and inefficient equipment, low demand and creditworthiness and depleted capital. In 1990 P.V. Obeng, head of the Cabinet, said that a major policy mistake was "the overliberalisation of certain economic activities" when industries where in poor shape.[29] This is an important set-back for a programme which counts on private capital as the major source of investment for future growth. In 1989 the IMF was worrying about the fall in private investment. In 1990-91 Ghanaian firms were laying off workers at a rapid rate.

Commerce, where Ghanaians dominate, has grown with an average of 11 per cent per year between 1984-90. 1991, however, has shown a downturn. But the number of registered traders in Accra is rising (15,000 in 1986 to 25,000 in 1987). It reflects the growing underemployment.

Funding and Government spending, Education and Labour

IMF policies require that governments sharply reduce budget deficits. This is considered to be necessary to lower

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29. West Africa, March 5, 1990, p.359.

inflation by curtailing costly state economic activities. The PNDC government rigorously adhered to these IMF guidelines and reduced real expenditures. As a consequence of it the revenue increased. The deficit was reduced from 4.7 per cent of GDP in 1982 to 0.7 per cent in 1986 and 0.3 per cent in 1987. The net effect was sharp reductions in government spending. This reduction was primarily in the areas of goods, services and equipment. Now many ministries and services were left without materials, e.g., Schools without teaching supplies. The PNDC also worked hard at revenue generation, monitoring the rice more closely, increasing the tax net among the self-employed and taking strict compliance measures. Revenues rose from 5.5 per cent of GDP in 1983 to 14.4 per cent in 1989. This growth permitted expenditures to rise in real terms from 8 per cent of GDP in 1983 to 13.3-13.8 in 1988-89.[30] It was an enormous increase in the state's capacity to allocate resources in society. However, scrupulous compliance with the IMF spending -limits caused continuing shortages at major government institutions like hospitals and universities. Development spending did increase from under 10 per cent of the budget in 1982-83 to 17-20 per cent after 1987. But this required containing recurrent expenditures, which has meant reduced subsidies to state corporations, sharp limits on wage increases, reduced benefits and dismissal of government

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30. Data based on Various Issues of IMF Report, Exchange Arrangements and Exchange Restrictions (Annual Report, 1983-1990).

workers in large numbers. All these are key conditions for continuing foreign aid.

Ghanaians have taken pride in the free primary, inexpensive secondary and free university education introduced by the Nkrumah regime (1957-66). But spending on education fell drastically, from 3.9 per cent of GDP in 1970 to 0.85 per cent in 1980-83. Spending on salaries, supplies and school maintenance also plunged. Though PNDC remained determined to reform education sector and make it available to the masses, the low budget always constrained its work. Here, as in health and elsewhere, the multilateral agency persuaded the government to introduce "user fees" to help cover costs. Health fees, costly for most of the Ghanaians, have led to reduced use of health facilities. The decision to charge book fees for primary school and more substantial fees for residential secondary schools and universities has raised major protests by students. They argue that the charges will reduce equality of access. The costs are substantial for Ghanaian incomes. Secondary costs were about C 12,000 per year ($46-$53 at 1988 or 1989 exchange rates). University costs would be about $161-$186, if all subsidies are removed. Though delayed due to students protests the PNDC ultimately "privatised" the universities in 1987.[31]

In contrast with the 1973-82 period (when primary and total enrollment rose faster, 3.9% and 3.6% than population),

31. Figures on the basis of Colleen L. Morna, An Exercise in Education Reform, Africa Report, November-December, 1989, pp.34-37.

between 1982-83 and 1988-89, primary enrollment grew by only 1.9 per cent. It was less than the 3 per cent population growth. Only by 1989-90 the primary level enrollment started to rise again faster than population. The junior secondary level enrollments also rose higher in 1988-1989 than in 1986-87. Still, because of limited facilities, many students are turned away from secondary schools.[32]

In 1982 the PNDC helped to overthrow the existing trade union leadership. But since 1983, as noted, the Trade Union Congress (TUC) and its member unions have opposed the PNDC on many economic issues. They have protested against devaluation, low wages, retrenchments and disinvestments of State Corporations. Rawlings and some of his lieutenants have always thought that trade unions were selfish and protected the privileged interests of costly workers who did little. Although, the PNDC gave much higher per cent increases to minimum wage than higher salaried works in 1982-83, real minimum wages have fallen sharply. It fell in 1982, dropped to their lowest level ever in 1983 and barely rose in 1984 when they were a mere 11 per cent of their 1963 worth. (See Table no:) There was a substantial increase in 1985. Real wages doubled this year. Since then the regime has tried to provide wage increases. Though it prevented a decline in real minimum wages, they did decline in 1987 and 1990. The differential between the lowest and highest paid

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32. Figures on the basis of Ghana, Quarterly Digest of Statistics, June, 1989, p.77 March, 1991, p.78.

workers had shrunk drastically to 1.8:1. Such a situation gave middle and senior civil servants much less pay and subdued incentive to work. The PNDC increased the differential to 4:1 in 1986. Urged by World Bank's more emphasis on incentives than equity, it widened pay ranges to 5.4:1 in 1988 and 10:1 in 1990. Thus, between 1986 and 1991, the minimum wage worker lost 15 per cent in pay, a medium level worker gained 9 per cent and a senior manager gained 33 per cent. What did a minimum wage mean? In 1987, a kilogram of rice cost of two-thirds of a minimum wage worker's pay. In 1989 a kilogram cost 125 percent of minimum wage. In 1987 a kilogram of bread cost a day's pay, in 1989 one and half days. However, in 1987 1 kilogram of fresh Cassava was one and a third days pay in 1989 one-fifth of a day's. Interestingly a bar of Guardian soap cost 22 per cent of a day's pay in 1987 and 1989.[33]

To contain wage pressures, the government has regularly obstructed collective bargaining by requiring the prices and Incomes Board to approve aggreements. Through this board the government is able to unilaterally alter the wages. Initially the government resisted the conditionalities demand to retrench. But between January 1987 to July 1991 the government retrenched 48,000 civil servants and non-techers from the Ghana Education Service. The Cocoa Board reduced its number of staff from 102,000 in 1983 to 43,000 by December 1990. Other State Corporations, especially those

33. Ibid.

preparing for privatisation, are laying off thousands. The State no longer vetoes private sector retrenchment. Tens of thousands are being laid off.[34] The Unions earlier resisted dismissals but PNDC called out armoured cars and the military to stifle protest in 1987.

The impact of these measures is severe. Some workers use their benefits to start small business. In this manner some are earning more than their wages. But this trend is not likely to continue as after retrenchments the number of unemployed is swelling and forcing down wage income in informal sector. A productive alternative to retrenchment would be a large public works programme, which the economy could use.

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34. West Africa, October 28, 1991, p.1819. World Bank Ghana: Progress Toward Adjustment, pp.21-29.

CONCLUSION

Ghana, once a show-piece of Africa, gradually deteriorated to a situation of economic disaster. When the country won independence in 1957 it was considered to be enjoying one of the strongest economies in West-Africa. Contrary to the initial expectations, in 1983, the Ghanaian economy was on the verge of collapse. The economic sector was not at all functioning properly. In brief the functioning of the economic sector at that time can be described as following:

First, there was the over-expanded public sector. The free or subsidised services they used to provide could have been desirable only if the economy had been free from the constraints of scarce resources. Gradually these public sectors collapsed. Profit was necessary for these units to survive but it required adherence to certain rules of economics. In fact, faulty management policies and heavy social responsibility had made them highly uneconomical.

Second, the export was also in ruins. It was heavily damaged by gross over taxation, particularly of cocoa. The nationalisation of gold, diamond, manganese mines and of the major timber processing firms had handed over these vital resources to the government management. The government management policies were not necessarily based on the commercial lines. Profit and optimum utilisation were not their prime-concern. The artificially overvalued Ghanaian currency further damaged the export sector, particularly by making Ghanaian exports costlier in world market.

Third, the industrial sector in Ghana was virtually starving for finances and vital components. With the collapse of foreign exchange earnings from imports and the cessation of private capital inflow, industry could no longer pay for the import of essential spare parts, raw materials or machinery. The same factors damaged the system of domestic transport. There was always shortage of petrol and spare parts.

Ultimately Ghana turned to the IMF in the 1983 to fund the Economic Recovery Programme (ERP). The first ERP ran from 1984 to 1986. Its purpose was to get the output rising and to export a higher percentage of that output. To control the high rate of inflation was another important objective. Rehabilitation of Ghana's infrastructure with the help of increased domestic and foreign finance was also aimed at. And most of all ERP-I wanted to improve the international credit worthiness of the Ghanaian economy. The second ERP (1987-89) aimed at continuing the emphasis on growth and balance of payments soundness. Saving and investments were to be raised. Quality of management in the public sector was especially emphasised. The finance role of the Fund for ERP-II has thus been to find effective mechanisms to reschedule Ghana's debts. From November 1987 this was done by allowing Ghana access to IMF's Extendend Fund Facility (ECF) and Structural Adjustment Facility (SAF). In late 1988, these arrangements were replaced by a more favourable one. Ghana gained access to the Extended Structural Adjustment Facility (ESAF).[1]

The Ghanaian economy responded favourably to the ERPs. The aggregate output recovery of the economy is indicated by GDP growth rates which were distinctly psositive with a rise of 8.6 per cent between 1983-84. Again the GDP growth rate remained 6 per cent between 1987–88. Growth rates though declined mainly (due to poor rainfall) from 6.17 per cent in 1989 to 2.7 per cent in 1990 again increased by 5 per cent in 1991[2].

The critics credit foreign aid for the growing GDP growth rates. There have been negative side of the recovery programmes also. For example, the overall current account deficit, excluding official transfers, increased from less than 1 per cent of GDP in 1983 to more than 8 per cent by 1990. The balance of payments current account deficit was recorded at $ 492 million in 1991 and has shown no signs of improvement. In 1992 Ghana's total external debt in 1992 had grown upto as much as $ 4,100 million[3].

The debate of the IMF funding however, is not only on the economic front but also on its social consequences.

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1. ESAF's loan term is (maximum) ten years, with a 5 + year grace period and substantially low interest rate.

2. World Bank Report (Annual Reports 1983-1991).

3. Ibid.

Workers, peasants and even business owners, each in various ways suffered from the worst consequnces of the adjustment. It appears that the ERP has affected the Ghanaian workers in their main ways: retrenchment of labour, distorted income distribution and reduced industrial democracy. Retrenchment in particular badly affected the poor. The Ghanaian urban worker have a social obligation to send remittances to members of the extended family. In this way termination of urban labours badly affected the rural poor. Peasants' also did not receive their due as they usually got less than what they deserved. Business owners hate growing competition from the multi-nationals. In fact, today the Ghanaian business has become obsolete before the modern multinational units. Further the IMF inspired policy decisions like elimination of price controls have made the items costly in the market. The Ghanaian are spending as much as 69 per cent of their incomes on food. Hardly people are left with any substantial amount to maintain a good living standard. The policy of privatisation has further narrowed down the masses' access to social facilities like health and education. These services have become beyond the reach of common people.

It is relatively easy to perceive Ghana's crisis as economic. The most visible symptoms relate to the economic system. The problem of GDP growth, high inflation, low manufacturing sector production, poor public services, all seem to be coming out of the failure of the economic management. But the Ghanaian economic crisis has to be solved within constraints that are as much political as they are economic. Right from the days of Ghana's first national leader Nkrumah, politics has tried to shape the economics. In the beginning it was the principles of socialist development that gave a framework to Ghanaian economic policies. Gradually the economy deteriorated. A crisis of legitimacy emerged which consumed one regime after another.

Probably Ghana needed as charismatic a leader as General Rawlings. Initially he got legitimacy to remain in power because he projected himself to be representing the poor masses. People were fed up of the declining economy and widespread corruption. Rawlings was the new hero and people expected drastic improvement in the situation from him. When he turned to the IMF in 1983 to pull Ghana out of the economic collapse, in this process, he narrowed down his support base. People blamed him for handling over the country to the neo-colonial forces. It is something of a miracle that the PNDC government survived. Many plots to kill Rawlings were organised but all were unsuccessful. Even more remarkable thing was that Rawlings survived the defection or expulsion of most of his erstwhile left-wing associates. In the attempt to keep strong hold over power Rawlings' regime became more autocratic. Rawlings knew that the process of stabilisation and structural adjustment would be a painful experience. Thus, he expected resentment.

In order to survive in power he depended more and more on the army. Army, in fact, was retained as a vital intrument of rule. Besides army, Rawlings enjoyed economically crucial and politically vital backing of the western donor community. Stabilisation and structural adjustments became a test case for the IMF and World Bank. Western countries did not want to see a disturbed Ghana and hence, gave a whole hearted support to the Ralings' regime so that the Ghanaian economy could recover.

On the 7th January, 1993 Rawlings has been sworn in as the civilian President of the Fourth Republic. In 1992 November he was elected to the post in a multi- party election. He represents National Democratic Congress (NDC) which is supported by the National Convention Party and the Egle party. Now he no longer wears the army uniform. Is he really a changed man? Or has he simply tuned himself to the new wave of democracy in Africa? It will be too quick to judge Rawlings in his new role but it is being apprehended that his new regime would not provide full transperency in the governance. For example, it seems that the army would continue to play an important role in the civilian rule. While paying tribute to the Ghana Armed Force in his inaugural speech as the President, he emphasised on army's invaluable contribution" to the national efforts in the last 11 years. Not only this the president said that they would remain actively involved in all national endeavorurs' even in future.'[4]

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4. West Africa, 18-23 January 1993.

Economy was once again an important issue in the November elections but none of the four opposition parties could give any substantial alternative. They infact, themselves were ambiguous. For example, Prof. Albert Adu Boahen of the National Patriotic Party (NPP) had said that if his party was elected to power it would give a more human centred approach in the contracting of international loans. However, at the same time the NPP also talked of improving the climate for foreign investors.

Thus, one thing is quite clear that the Ghanaians do not see any alternative to foreign aid for a sustainable economic development. It is true that in March 1992 Ghana severed its financial dependence on the IMF but then it has requested the agency to continue its monitoring of the economic progress. Besides this the World Bank continues to play important role in the Ghanaian economy. As long as this country depends heavily on the aid its hold on settling socio-economic priorities would also be loose. In fact, the growth strategies of the multi-lateral agencies like that of the IMF, do not directly tackle the issues of institutional development. This requires long term and sustained commitments to fund and other resources. Long term solution to the problem does not lie simply in expanding the economic production and building the physical infrastructure.

Therefore, a meaningful development strategy for Ghana or any other country in Africa must include simultaneous strengthening of political, social and economic institutions. Democracy is the first step in this direction. The real initiative has to come from the people themselves.

APPENDICES

Table - 1

Basic Economic Indicators: Ghana, Ivory Coast, Togo, Upper Volta Average Annual Growth Rate (Percent)

	GNP/ capita 1970-79	Gross Domestic Invest- ment 1970-79	Export Volume 1970-79	Commercial Energy Consumption 1974-79	Inflation 1970 -79	Average Index of Food Producti- on per cap./ '77-'79 ('69-71= 100)
Ghana	-3.0	-7.9	-7.2	2.3	32.4	82
Ivory Coast	1.3*	13.8	5.2	5.5	13.5	102
Togo	1.2	14.5	-2.5	11.8	10.3	81
Upper Volta	-1.2	1.2	3.1	10.2	9.8	93

Sources: World Bank, 1981 World Bank Atlas: Gross National Product, Population, and Growth Rates, 12: World Bank, Accelerated Development in Sub-Saharan Africa, Statistical Annex.

* Figure based upon an extremely high estimate of population growth in the Ivory Coast (5.7 percent per annum).

Table 2

Ghana's Terms of Trade and Export Prices

	Terms of Trade				International Export Price (constant)					
	Index (1975=100)		Av. Annual Growth (%)		Average Annual Growth Rate			Index (1960=100)		
	barter	income	barter	income	Cocoa	Timber	Gold	Cocoa	Timber	Gold
1960	111	-	-	-	-	-	-	-	-	-
1970	121	125	-	-	-	-	-	-	-	-
1979	144	144	-	-	-	-	-	-	-	-
1961-70			2.3	1.5	3.5%[a]	4.2%[a]	-	-	-	-
1970-79			6.9	-0.8	7.5[a]	9.7[b]	20.6[b]	-	-	-
1960-65								80.3	109.1	100
1965-70								102.6	113.5	100
1970-75								116.8	150.1	166
1975-79								186.2	177.4	254.3[c]

a 1960-70

b 1970-80

c 1975-80

Sources : World Bank, Accelerated Development in Sub-Saharan Africa, Statistical Appendix, Tables 13 and 15 (terms of trade data); World Bank, Commodity Trade and Price Trends, August 1981 (cocoa and West African timber prices); Commodity Research Bureau, Commodity Year Book, 1981 (gold prices).

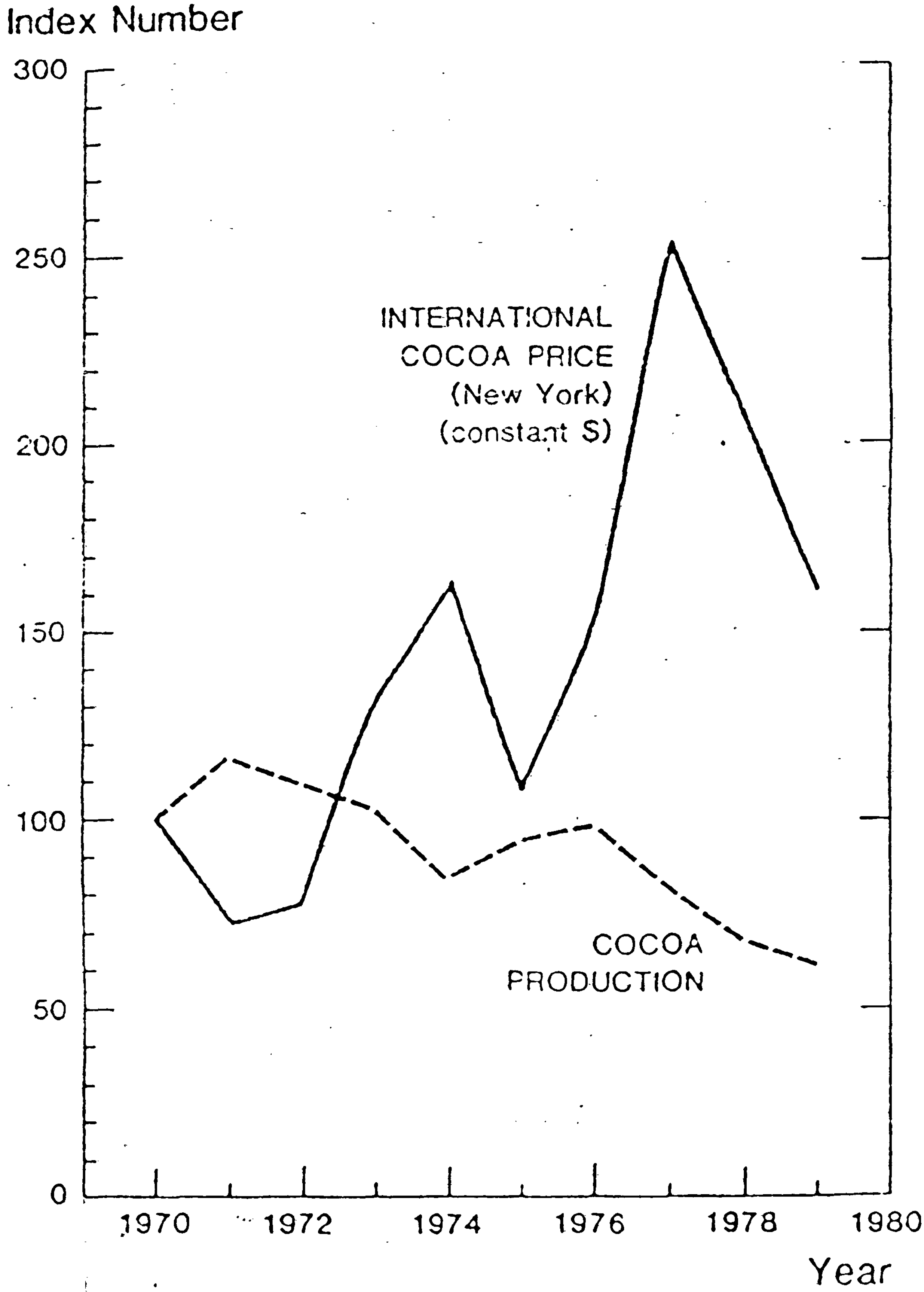
Index Number
300
250
200
150
100
50
0
INTERNATIONAL
COCOA PRICE
(New York)
(constant $)
COCOA
PRODUCTION
1970
1972
1974
1976
1978
1980
Year

Figure 1

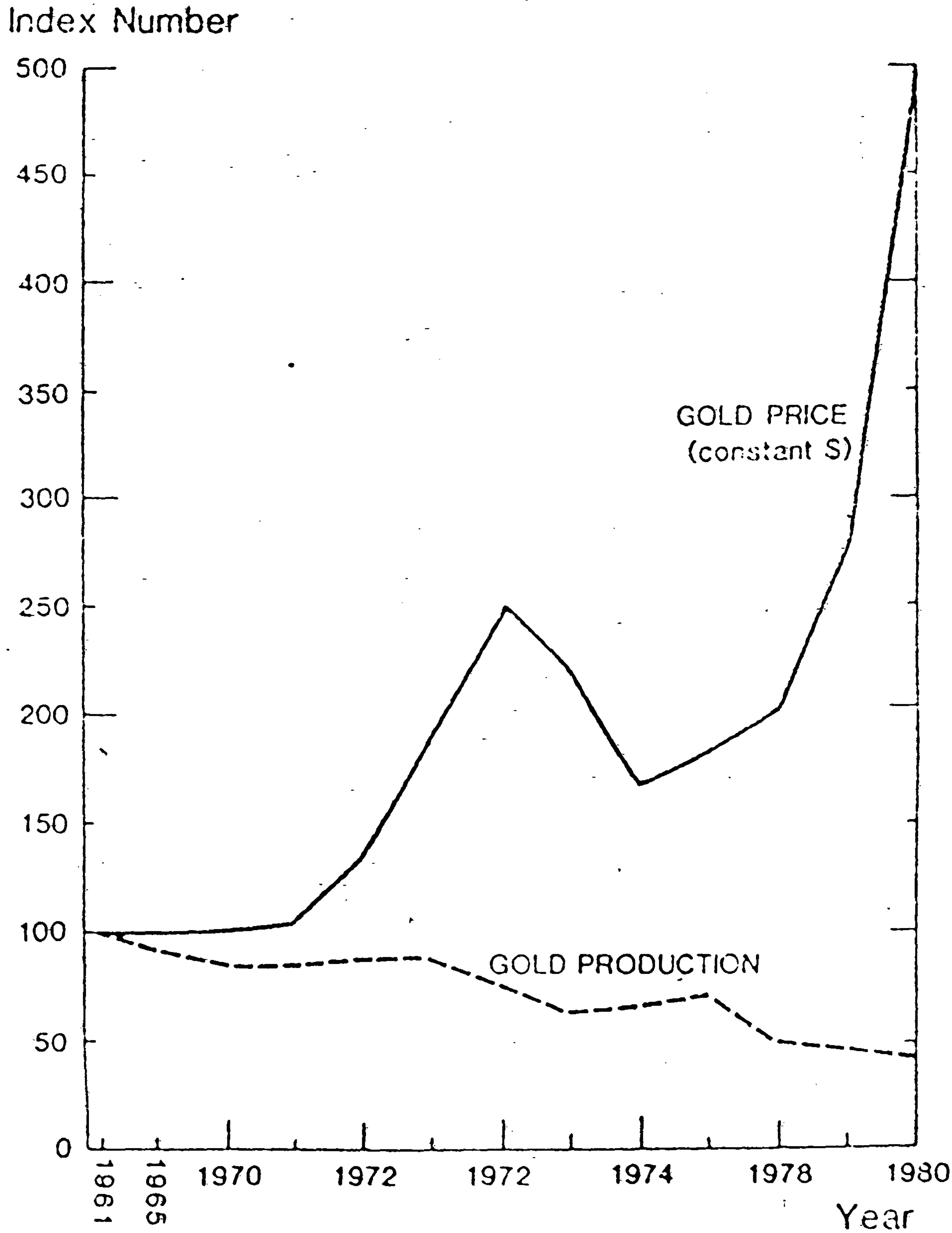
Index Number
500
450
400
350
300
250
200
150
100
50
0
GOLD PRICE
(constant $)
GOLD PRODUCTION
1961
1965
1970
1972
1972
1974
1978
1980
Year

Figure 2

Table - 3

Recent Performance of Selected Production Indicators, 1982-86
(thousand metric tons unless otherwise stated)

	1982	1983	1984	1985	1986[1]	Percentage Changes 1983/82	1984/83	1985/84	1986/85
Agriculture									
Cereals	543	308	965	780	905	-43.3	213.3	-19.2	16.0
Starchy Staples	2470	1729	4065	3075	3040	-30.0	135.1	-24.4	-1.1
Cocoa[2]	179	159	174	219	230	-1.2	9.4	25.9	5.0
Forestry									
Logs (thousand m^3)	410	560	578	620	890	36.6	3.2	7.3	43.5
Sawn timber (thousand m^3)	150	189	180	223	232	26.0	-4.8	23.9	4.0
Mining									
Index of mineral production (1977=100)	59.9	50.2	57.9	66.3	62.6[3]	-16.2	15.3	14.5	-5.6
Gold (thousand fine troy ounces)	331	277	287	299	288	-16.3	3.6	4.2	-3.7
Diamonds (thousand carats)	684	339	346	636	556	-50.4	2.1	83.8	-12.6
Manganese ore	160	175	267	357	333	9.4	52.6	33.7	-6.7
Bauxite	64	70	49	170	204	9.4	-30.0	246.9	20.0
Electricity Generation (million KWh)	4982	2575	1819	3020	3599[3]	-48.3	-29.4	66.0	19.2
Crude Oil Refinery Throughput	1040	481	747	958	985	-53.8	53.3	28.2	2.8

1 Estimated.

2 Ghana Cocoa Marketing Board purchases beginning in year stated.

3 January-October 1986.

Source: World Bank 1987b, and mission computations

Table - 4

Changing Sectoral Performance: Average Annual Growth Rates, 1970-88

	1970-80	1970-81	1970-82	1980-6	1980-86
Gross domestic product	0.4	-0.2	-0.5	0.7	2.1
Agricultural output	-1.2	0.0	-0.2	-0.2	0.5
Industrial output	-2.3	-2.2	-2.4	-2.4	1.9
Manufacturing output	-6.0	-1.0	-1.5	-1.9	3.1
Services	3.5	0.4	-7.5	3.3	4.9

Source: Data from World Bank, "World Development Report", Washington D.C. (Various issues).

Table -5

Coca Prices. Inflation Rates. Real Minimum Wages. and Terms of Trade

Crop Year	Cocoa Producer Price C/m ton	Real Producer Price Index (1963=100)	Total Cocoa Production 000 m tons	Year	Rate of inflation (%)	Local Food inflation (%)	Real Mini. wage Index 1963 = 100	Terms of trade	
				1954-56				107	
1960-61	220	130	432	1960				100	
1961-62	198	114	419	1961				87	
1962-63	198	104	422	1962				80	
1963-64	198	100	428	1963				81	
1964-65	198	83	538	1964				82	
1965-66	145	49	401	1965	26.2	37.0	66.4	68	
1966-67	198	58	368	1966	13.5	15.7	58.3	68	
1967-68	238	77	415	1967	-8.5	-14.8	68.6	81	
1968-69	256	76	323	1968	8.2	8.7	67.9	84	
1969-70	293	82	403	1969	7.1	8.6	63.5	100	
1970-71	293	79	413	1970	3.7	4.4	61.2	109	
1971-72	293	72	454	1971	9.3	12.4	56.0	82	
1972-73	366	82	407	1972	10.0	9.9	68.1	72	
1973-74	439	83	340	1973	17.5	20.8	57.1	78	
1974-75	549	88	376	1974	18.4	15.7	73.2	91	
1975-76	585	72	396	1975	29.7	30.6	75.2	95	
1976-77	732	58	320	1976	53.3	70.1	48.1	89	
1977-78	1.333	49	271	1977	116.3	152.5	33.4	142	
1978-79	2.667	56	265	1978	73.7	59.4	25.6	186	
1979-80	4.000	55	296	1979	53.9	61.7	16.7	136	
1980-81	4.000	37	258	1980	50.1	52.3	16.6	100	100
1981-82	12000	51	225	1981	116.5	111.2	15.4	68	73
1982-83	12000	41	178	1982	22.3	35.8	12.6	60	64
1983-84	20000	31	158	1983	122.8	144.8	10.2		63
1984-85	30000	38	175	1984	39.6	11.0	11.5		71
1985-86	56000	56	219	1985	10.4	11.1	21.4		59
1986-87	85000	68	228	1986	24.6	20.3	22.0		68
1987-88	140000	944	188	1987	39.8	38.5	19.7		
1988-89	165000		305	1988	26.6	26.5	20.5		
1989-90	174000		295	1989	25.0	25.1			
1990-91	224000		260	1990	37.2	40.1			

Source: Cocoa-World Bank data. Gill and Duffus. **Cocoa Market Report.** No.298 (Nov 1981). p.27. **Ghana.** Central Bureau of Statistics. **Statistical Newsletter.** monthly. 1976. 1989 Inflation - **Statistical Newsletter.** various issues. **West Africa.** various issues. Terms of trade - UNCTAD data except 2nd series 1980-86. UNCTAD. **Handbook for International Trade and Statistics. Supplement 1987** (1988). p.534.

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