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Growth without Economic Transformation: Economic Impacts of Ghana's Political Settlement

Lindsay Whitfield

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CONTENTS

ABSTRACT

Since the Fourth Republic was inaugurated in 1993, politics in Ghana has been increasingly characterized by competitive clientelism. Ruling coalitions are characterized by a high degree of vulnerability in power due to a strong opposition party, by strong lower-level factions within the ruling coalition due to their importance in winning elections, and by a high degree of fragmentation among the ruling elite. These characteristics, combined with a weak domestic capitalist class and high inflows of foreign aid, have led the ruling elites across political parties to pursue and implement policies that have a short time horizon, that do not significantly shift the allocation of resources towards building productive sectors, and which are often plagued by problems of enforcement. The results have led to growth without economic transformation. In particular, the country has witnessed recurrent macroeconomic instability, a haphazard process of privatization of state-owned enterprises, and no serious attempt to build up productive sectors outside of cocoa and gold.

1. INTRODUCTION

This paper is the second in a four part series examining why Ghanaian politicians, across different governments, talk about economic transformation but seemingly do little to achieve it. It provides detailed evidence to support the argument advanced in the first paper regarding how the characteristics of the ruling coalitions in Ghana affected economic policymaking and implementation in particular, and the limited achievements in transforming the economy in general (see Whitfield 2011a). The paper gives an overview of the kinds of economic policies that the ruling elites pursued, or negotiated with donors, and their implementation under the three governments discussed in the first paper. These governments include the Provisional National Defence Council (PNDC) under the leadership of J.J. Rawlings from 1982 to 1992, the National Democratic Congress (NDC) government under President J.J. Rawlings from 1993 to 2000, and the New Patriotic Party (NPP) government under President J.A. Kufuor from 2001 to 2008.

In sum, after implementing major reforms in the 1980s to halt economic decline and rehabilitate the traditionally dominant productive sectors of the economy (cocoa and gold), the PNDC ruling coalition agreed to return to multiparty democratic rule. The Fourth Republic was inaugurated in January 1993. Since then, politics in Ghana has been increasingly characterized by competitive clientelism. Ruling coalitions are characterized by a high degree of vulnerability in power due to a strong opposition party, by strong lower-level factions within the ruling coalition due to their importance in winning elections, and by a high degree of fragmentation among the ruling elite. These characteristics, combined with a weak domestic capitalist class which is not well networked into the ruling coalitions, has led the ruling elites across political parties to pursue and implement policies that have a short time horizon, that do not significantly shift the allocation of resources towards building productive sectors, and which are often plagued by problems of enforcement.

The results have led to growth without economic transformation. In particular, the country has witnessed recurrent macroeconomic instability due to the use of 'side payments' to lower-level factions of the ruling coalition and to woo 'swing voters', as well as to rent-seeking by high-level factions of the ruling coalition. In both processes, resources generally were not put to productive uses or their productive impact was minimal. Ruling elites presided over a haphazard process of privatization of state-owned enterprises, focusing more on bridging fiscal deficits and financing their ruling coalition and neglected the potential to use the process to rehabilitate old or build new productive sectors. Outside of cocoa and gold sectors, the ruling elite across political parties did not seriously attempt to build up productive sectors, especially in terms of increasing agricultural productivity or facilitating the creation of competitive industries in agro-processing or manufacturing. Gold and cocoa were already economically important, and just supporting them allowed the ruling elite to sustain economic growth, in combination with large foreign aid inflows.

The paper begins by giving an overview of the country's economic performance during this period, showing that while Ghana experienced increasingly good growth rates, this growth has been accompanied by little economic transformation. Economic outcomes are affected by many factors, but the policies and their implementation are a crucial one. The core of the paper is divided into the three sections corresponding to the three governments. In each section, it describes the policies and practices of the government, and explains how the characteristics of the ruling coalition affected them and thus economic outcomes and trends. It focuses on the three areas of particular importance to achieving economic transformation –macroeconomic stability, manufacturing and agriculture, but also looks at policies and performance in the two main economic pillars in Ghana: cocoa and gold.

2. GROWTH WITHOUT TRANSFORMATION: AN OVERVIEW

Ghana experienced unstable growth almost since the beginning of independence, with a constant economic decline from the late 1970s to the early 1980s, as indicated in Figure 1 below. This economic decline was not reversed until the start of the Economic Recovery Programme in 1983. Since 1985, Ghana has experienced sustained growth of a moderate level, with higher growth rates in the 2000s.[1] Although Ghana achieved lower middle income status in 2010, it has not significantly transformed its economy away from a predominantly agrarian one with low-productivity agriculture and an export structure dependent on the same primary commodities that have dominated the economy since the colonial period: gold and cocoa.

Growth between 1985 and 2000 was the result of policy changes, a relatively stable political environment, the rehabilitation of the country's traditional exports, gold and cocoa, investment in human capital and infrastructure and increased aid inflows (Aryeetey & McKay 2007). Private sector investment remained minimal, and little formal sector employment was created. Increased growth rates in the second half of the 2000s were driven by performance of gold and cocoa exports, which was in turn driven by increases in international prices and increases in production of these commodities. Ghana is the world's second largest producer of cocoa after the Ivory Coast.[2]

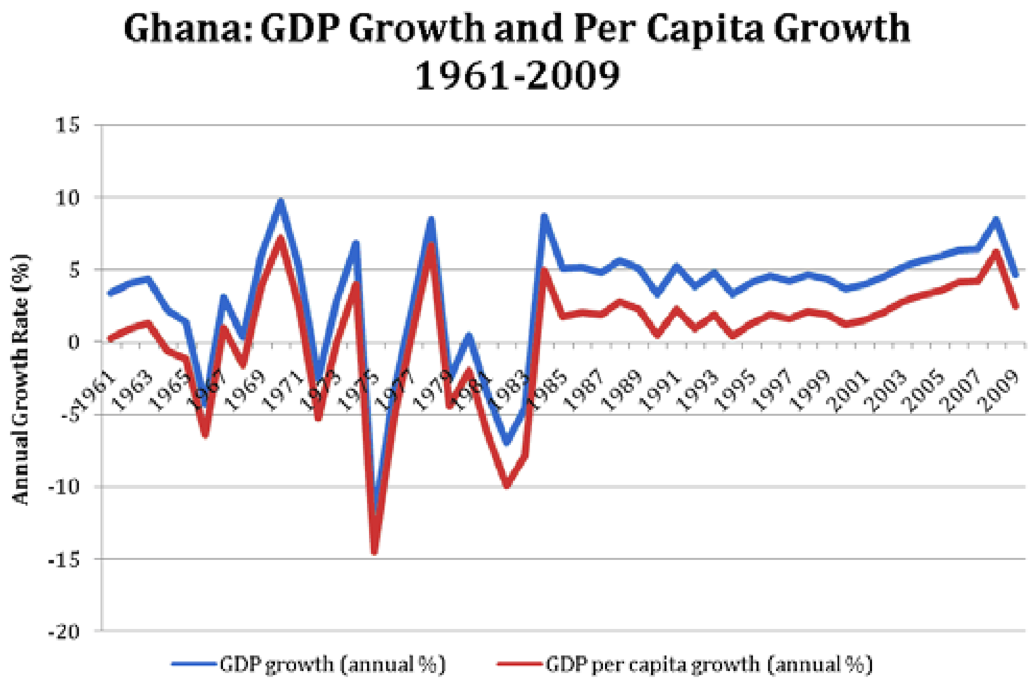
There has been little structural change in the economy. Despite increased growth in all sectors of the economy since 1983, industry and agriculture growth rates tailed off in the 1990s. In agriculture, there were significant differences between growth rates in staple crops (which contribute more than 50 percent of total agricultural GDP growth) and export crops such as cocoa and timber which have been the drivers of agricultural growth. Outside of cocoa, the agriculture sector has performed poorly. Low agricultural productivity in Ghana is attributed to the limited use of new technologies in production, limited access to inputs, credit and land, reliance on rainfall, and poor marketing and distribution networks . This explains why food crop farming has the highest incidence of poverty in terms of occupation. Ghana does not have much large-scale farming, but rather is based predominantly on smallholder farms with an average size of 4.3 hectares and with yields for most crops 20-60 percent below their achievable level with available technologies (Kolavalli et al. 2011: 4-5).

The share of industry in GDP has remained almost constant, but within the industry sector

1 The government's rebasing exercise revised the growth figures for 2008 and 2009, which may make the figures here using World Development Indicators for per capita growth slightly slower. On the rebasing, see Whitfield (2011a).

2 Ironically, Ghana benefited from the Ivory Coast's misfortune. Civil war in the Ivory Coast, which broke out in 2002, resulted in cocoa being sold through Ghana. Furthermore, by 2002 it was clear that cocoa production in the Ivory Coast was also in trouble due to reduced yields and quality as the result of old trees and lack of investments in productivity (*Financial Times* 24-25 July 2010, p. 7; *Financial Times Magazine* 29-30 May 2010, 'A bitter harvest', by Javier Blas, p. 16-23). Concern over the civil war and the future volume of cocoa supply has driven up cocoa prices.

Figure 1



Source: World Development Indicators, March 2011

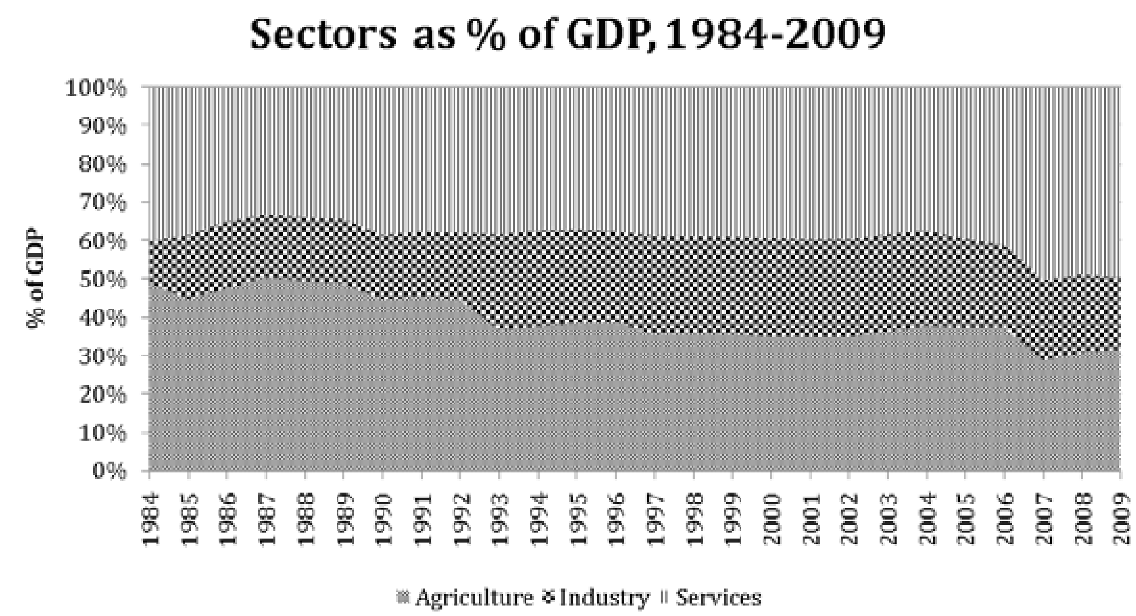
manufacturing has declined, construction has increased, and mining and electricity/water have remained about the same (Kolavalli et al. 2011).[3] The manufacturing sector declined after 1987 as a result of rapid liberalization of imports and exposure to international competition (Lall & Stewart 1996). The manufacturing sub-sector is dominated by agriculture-related manufacturing, and most of Ghana's manufacturing firms are small and informal. After liberalization, the informal sector increased and the average size of industrial firms gradually declined (Kolavalli et al. 2011: 6). Manufacturing firms are small and weak and generally do not export.

The services sector grew at faster rates than agriculture and industry. Much of the increase in services was derived from wholesale and retail trade, and restaurants and hotels (Aryeetey & Fosu 2008). Notably, the service sector in general and the distributive trade in particular are activities with relatively lower sunk costs and shorter turnover periods (see Aryeetey 1994).[4] Figure 2 indicates changes in sectors as a percentage of GDP from 1984 to 2009.

3 The terminology of 'industry sector' and the four sub-sectors mentioned here are the categories used by the Ghanaian government statistical service.

4 Sunk costs refer to retrospective (or past) costs that have been incurred and cannot be recovered..

Figure 2



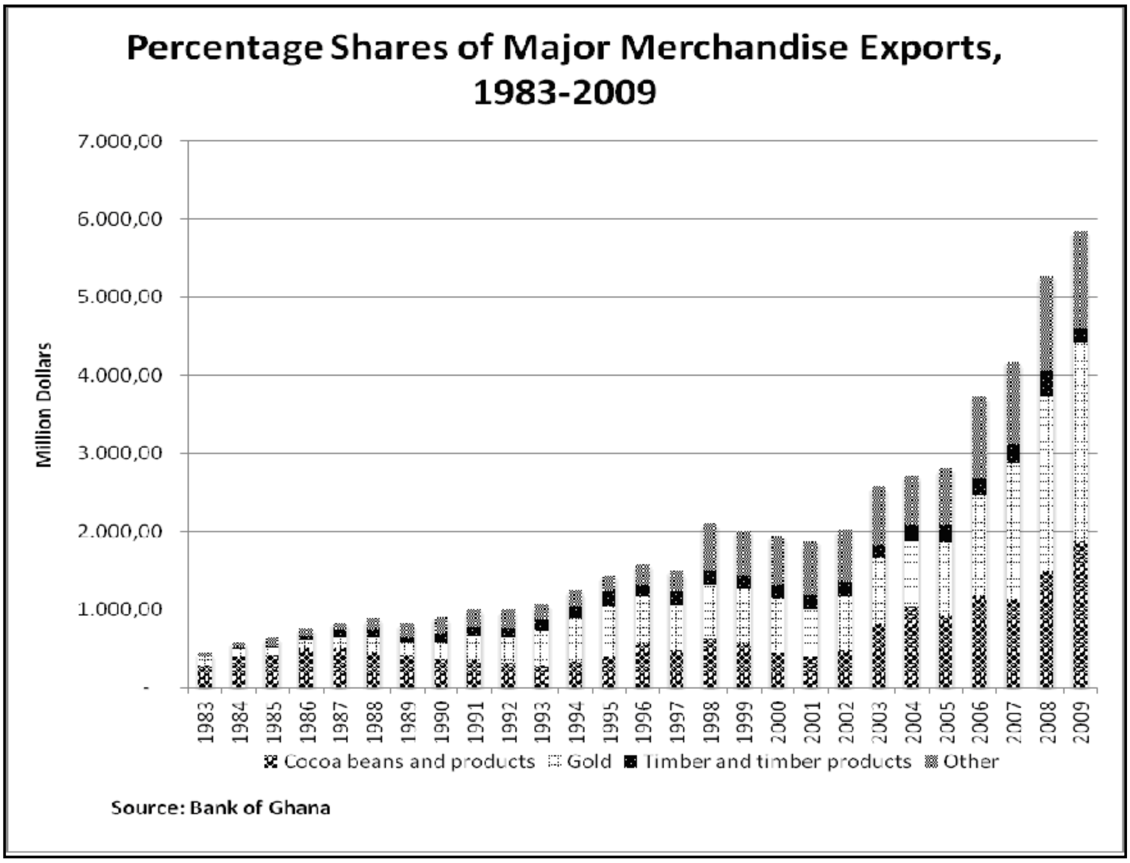
Source: World Bank, World Development Indicators, 2011

Mining and cocoa were and are the leading exports. Mining is dominated by gold production and driven by foreign direct investment. The rehabilitation of the gold industry in the mid-1980s led to increased gold exports by the mid-1990s and a reduction in the extreme dependence on cocoa exports. Figure 3 shows the major export earners from 1983 to 2009, and the percentage of total export revenue for which they account. Production of cocoa and gold increased during the 1980s and 1990s, but world market commodity prices fluctuated and generally were not favourable. Thus, although export volumes more than doubled between 1984 and 1988, the growth in export values was much less (Oduro 2000: 178). The value of non-traditional exports expanded in the 1990s, and continued to grow in the 2000s, reaching USD 1 billion in 2008. Non-traditional exports include mostly agricultural and processed agricultural produces, including pineapples, yams, wood products, cocoa products, canned tuna and oil palm products (Aryeetey & Kanbur 2008). But cocoa and gold export earnings also expanded in the 2000s, leaving the country still overwhelmingly dependent on these two traditional exports.

With the discovery of oil and natural gas, the economy looks as if it will be further dominated by natural resources, although the current NDC government has ambitions to develop industries based on the downstream applications of gas.[5] Since the oil and gas economy is only just beginning to bear fruit, it was not included in this study of the political economy of development in Ghana. Whether the oil and gas economy will change the analysis presented

5 Oil was discovered in 2007, and the first barrels of oil were lifted in March 2011. Production in June 2011 was about 80,000 barrels per day, but should reach 250,000 b/d by 2012-13. The oil revenues are being held in an escrow account until they are disbursed into new funds established to handle the oil wealth. Source: 'Ghana's fiscal position will improve despite politics', Oxford Analytica Ghana report, 13 June 2011.

Figure 3



in the EPP series of working papers on Ghana is an empirical question. We must first wait and see if greater progress towards economic transformation actually occurs before we can begin to discuss why.

3. ECONOMIC REFORM UNDER THE PNDC RULING COALITION[6]

The PNDC government was able to implement economic reforms that previous governments were unwilling, or unable, to do, as a result of the structure of the ruling coalition. Within the PNDC, authority was centralized and concentrated around Rawlings. The lower-

6 The literature on economic reforms in the PNDC period is extensive, so it is not necessary to go into details. Rather this section highlights key points related to the argument. Sections on the NDC and NPP periods give greater detail because the existing literature on the second NDC government and the NPP government is slim. Key works analyzing economic policies and their impacts in the PNDC period include Hutchful (2002) and Aryeetey et al. (2000).

level factions of the PNDC ruling coalition were weak, and the PNDC ruling elites were small in number and weak because they did not have a political base of their own. As a result, the resistance within the ruling coalition to the economic reforms had little bite, and the excluded political factions were temporarily weakened (see Whitfield 2011a).

The Economic Recovery Programme, with financing from the Bretton Woods institutions, involved fundamental economic changes: exchange rate liberalization and currency devaluation, ending price controls and liberalizing marketing systems, reducing budget deficits and increasing government revenue, rehabilitating infrastructure, and eliminating smuggling and black market activities. Tight controls on the economy were only gradually reduced through the 1980s as the massive structural imbalances in imports/exports and production/consumption were rectified.

Policy measures that resulted in fiscal gains for the state were prioritized, and rents from foreign aid in return for enacting certain policy measures became increasingly important (Hutchful 2002). Fiscal gains included reviving cocoa and gold industries, and divestiture of state-owned enterprises. Economic policy focused heavily on macroeconomic stability, and the ruling elites were largely insulated from redistributive demands due to structure of the ruling coalition. However, policies targeting productive sectors, other than cocoa and gold, were limited. This was partly due to the deep problems in the macroeconomy that needed to be addressed. But it was also due to the political strategy of the PNDC which undermined and ostracized most existing capitalists and which had not yet allowed for extensive primitive accumulation by a new class, due to the moral tone of the regime regarding corruption in this early period. Furthermore, the policy prescriptions from the Bretton Woods institutions focused on rapid liberalization and privatization; the way to support production was simply to get the state out of the economy and production would happen.

The interests of the Bretton Woods institutions and the PNDC political elite dovetailed on the cocoa and mining industries. The World Bank and IMF were interested in the country's existing export industries as a way to increase foreign exchange and address the balance of payments problem. The political elite were interested in these industries due to their potential for securing the financial basis of the state in the context of economic crisis and state bankruptcy. The cocoa industry was the central pillar in the Economic Recovery Programme, since it had been the central pillar of the economy in the post-independence period. Productive sector policies implemented by the PNDC ruling coalition struck a balance between revitalizing the state, static efficiency in productive activities, and satisfying the Bretton Woods institutions.[7] They did not focus on building productive capabilities and upgrading productive activities.

Eboe Hutchful (2002: 165) shows that the initial phases of macroeconomic reform and liberalization achieved more in terms of fiscal gains for the state than productivity gains in the real economy. Privatization also primarily benefited the state, in that it retained bloc shares in many profitable enterprises which were revived with new partnership with foreign capital. Hutchful argues that the intention was a revived private sector, but one subordinated to a recharged state apparatus, and that this motivation was in line with past ideas of modernization in Ghana as a top-down transformation with a directive role for the state-based techno-

7 Static efficiency is concerned with the most efficient combination of resources at a given point in time. It is about making the best use of given resources, as opposed to the need to develop greater use of resources over time.

crats. However, it is important also to stress the political strategy, which was to create business allied with the PNDC political elite, or run by them, and undermine the financial base of the political opposition by marginalizing businesses associated with excluded factions.

Sector-specific programs in cocoa and mining were implemented vigorously, and state institutions in charge of these sectors were revived and improved. The mining sector reform program was initiated in 1986, and included policies to revise mining legislation and the fiscal regime in order to attract foreign investment, to reform state organizations supporting the mining sector, and to reduce state ownership in the industry (Twerefou et al. 2007). In the first five year period (1986-1991), the PNDC government focused on rehabilitating the mines in order to increase their worth. The government facilitated and guaranteed loans from bilateral and multilateral donors for some mines, such as Ashanti Goldfields. For other mines, the government gave management contracts to foreign companies to improve their efficiency. A new agency was established, the Mineral Commission, and the capacities of other government institutions dealing with the sector were increased. Lastly, new laws were promulgated that provided generous tax cuts and allowed the retention of a minimum of 25 percent of foreign exchange offshore.

Reforms aimed at revitalizing the cocoa industry in the 1980s included increasing the price paid to cocoa producers by reducing the operating costs of the state-run cocoa marketing board (Williams 2009; Laven 2005). The staff and operating costs of the Cocoa Board were drastically reduced, partly through the divestment of non-essential activities, such as running plantations and building roads, but also through retrenchments and eliminating 'ghost' workers. A collaborative price-setting process was established, whereby the Producer Price Review Committee became responsible for determining the division of cocoa revenues between the various parties involved in the industry.[8] As part of the reforms, farmers were compensated for replanting trees infected with disease, and encouraged to replant with high-yielding cocoa tree varieties developed by the Cocoa Research Institute of Ghana (Kolavalli & Vigneri 2011). By the mid-1990s, cocoa production rebounded, productivity increased, and the Cocoa Board became profitable.

The PNDC government was willing and able to implement these reforms in the cocoa industry because the cocoa export sector was key revitalizing the economy and the rebuilding the finances of the state, and because it was largely organized by the state. Around 1990, cocoa contributed 50-60 percent of export revenue, nearly 20 percent of government revenue, and about 7 percent of GNP (Jacobeit 1991: 222). And this was during the period of very low world cocoa prices. There was also little opposition from the main losers within the Cocoa Board, because retrenched workers were given severance packages from the government, which were financed by foreign aid (Williams 2009: 29). Severance packages were expensive and became a major reason why divestiture of state-owned enterprises was slow to start in the late 1980s and early 1990s. It cost the government more to pay retrenched workers than they might receive from the divestiture, but without generous severance packages there would be labour unrest (Tangri 1999: 52).

The World Bank and IMF pressured the PNDC government to liberalize the internal and external marketing of cocoa. The PNDC technopols held out for many years, but in the

8 On the state's role in organizing the sector, especially setting the producer price of cocoa and how cocoa revenue is distributed, see Williams (2009).

run up to negotiating a World Bank agricultural sector credit in 1990, the technopols gave a concession and agreed to liberalize the internal marketing and allow competition of private buyers to compete with the state-owned Produce Buying Company (Hutchful 2002: 69). [9] Licensed buying companies were registered in 1991 and began operating in the 1992-93 cocoa season. To 'level the playing field' for private buyers, the number of buying centres of the Cocoa Board were reduced by one-third and extension centres by two-thirds, and all remaining subsidies on cocoa inputs were eliminated, beginning with the 1991 season. Nevertheless, the Produce Buying Company continued to dominate internal purchasing of cocoa beans, due to its size, expertise, ability to access credit, and presence throughout the country. Notably, the PNDC technopols held out on privatizing the Produce Buying Company and liberalizing export marketing. The technopols negotiated hard on the cocoa industry because they wanted to retain state control, and technocrats in the Cocoa Board believed that centralized authority and coordination were necessary to achieve high quality and high volume of cocoa exports (Williams 2009).

The PNDC government's position on cocoa industry reforms stand in contrast to its actions regarding agricultural policy more generally. The general agricultural framework in the 1980s and the early 1990s focused on eliminating direct state support, such as farm input subsidies and guaranteed minimum prices for foodstuff and industrial crops, and removing the state's role from several direct agricultural activities. It involved liberalizing input supply and domestic marketing, phasing out state-owned enterprises, and liberalizing prices for outputs (Nyanteng & Seini 2000). From around 1986, the PNDC government produced agricultural policies that aimed to strengthen the capacity of the state to support agricultural development and to increase agricultural productivity, but how to achieve these objectives was determined through negotiations on projects with the World Bank and a few other donors. Financing agricultural development became heavily dependent on the World Bank. However, whereas the PNDC negotiators made a strident effort to get their way in the cocoa sector, despite being dependent on World Bank loans, this was not the case in agriculture generally. While the cocoa industry continued to be structured by state involvement, albeit in a more efficient and effective manner, the state was rapidly withdrawing from the rest of the agricultural sector.

This is not to say that the PNDC government's position was one of state intervention in cocoa and complete liberalization in other areas, but rather to show how hard the PNDC economic team negotiated reforms in the cocoa sector, so that reforms were gradual, adapted and pragmatic: focusing on the performance of the industry and the country's experience. This was not the case in agriculture generally (including agribusiness and agroprocessing), or in manufacturing, where rapid liberalization or privatization was pursued without much strategic thinking on the part of the government.

Outside of the traditional exports, there were only general measures to support export diversification (Anyemedu 1991). For example, non-traditional exporters were allowed to keep 35 percent of their foreign exchange

9 Williamson (1993) uses the term technopol to refer to economists who accepted political appointments and thus political responsibilities, and who had the potential to become successful applied economists and successful politicians. I use the term more widely to refer to politicians who also had technical training, even if not in economics, but who also combined within their person the political imperatives of remaining in power with the economic imperatives of managing state resources to achieve economic development.

earnings. Most of these measures were linked to macroeconomic reforms. When foreign exchange restrictions were no longer necessary, they were removed altogether in 1992.

Low world cocoa prices in the 1980s and early 1990s meant that reliance on cocoa was a vulnerable strategy. Nevertheless, there were no substantial targeted reforms to build up non-traditional exports or import-substituting industries to relieve the pressure on imports. Ideology plays a role in explaining why. Eboe Hutchful (2002: 154) argues that the strong ideological position of the Bretton Woods institutions on economic liberalization during this time period meant that the Bank and Fund vigorously resisted the idea of directly assisting producers and argued that getting the prices right was enough incentive for private sector investment. The IMF and World Bank focused on reducing the public sector's commercial undertaking, scope of government functions and public sector employment, and less on assisting production.

There were disagreements within the Ghana economic team and between the Ghana team and Bank and Fund staff. Some of the PNDC technopols challenged the short-term orientation towards macroeconomic stabilization measures of the Bretton Woods institutions and the neglect of longer-term structural issues related to production that ultimately caused the balance of payments problems (Hutchful 2002: 154). It seems that the technopols who wanted to help production lost out in these negotiations, but also that the Ghanaian side did not have new ideas about how to promote production, and there does not seem to have been an inflow of foreign ideas or models to pit against the Bank and Fund technocrats (Herbst 1992).

After initial economic recovery through increasing capacity utilization of existing factories, manufacturing growth slowed and many firms closed as a result of their inability to compete with foreign imports after rapid trade liberalization (Aryeetey & Tarp 2000). Other aspects of structural adjustment policies also had negative effects on firms producing for the domestic market, in particular the sharp currency devaluation and tight credit which led to high interest rates (Kraus 2002). Devaluation benefited exporting firms and domestic trade, but not domestic manufacturing firms.

The PNDC political elites' and the World Bank's emphasis on cocoa as a means to revive the economy was adopted by other observers and experts, who focused on traditional exports due to their obvious potential and existing expertise in the country. The following comment by Cord Jacobeit is instructive in this respect:

> While in the long run there appears to be a need to diversify into other nontraditional exports, a short run alternative to cocoa is not available. Every attempt to start anything else in the immediate future would be met by almost equal uncertainties and would also require substantial initial funding to get started. Flowers, tropical fruits, and fresh vegetables for the markets in the European Community, for example, require an infrastructure – reliable communication networks, cold storage depots, constant airlinks, etc…. (Jacobeit 1991: 229).

One can find little support or advice within the PNDC ruling coalition or among its coterie of foreign advisors for focusing resources and effort on developing non-traditional exports, or import-substituting agroprocessing for that matter. The World Bank Agricultural Diversification project loan, which began in 1991, was the only government-implemented initiative in agricultural diversification in the 1990s. It targeted four agroindustries – coffee, rubber, oil palm, horticulture export – but the activities it supported were small and piecemeal. Contrast the amount of the agricultural diversification project loan of only USD 16.5 million supporting four agroindustries to the Cocoa Rehabilitation Project loan of USD 128 million that was started in 1988 to fund a second phase of reforms in the cocoa industry. A few officials in the PNDC government channelled some resources to tropical fruit exports, but their actions were isolated and did not receive political support from within the PNDC or financial support from the Ministry of Finance (see Whitfield 2011b). Notably, it was the success of that isolated initiative that led the World Bank to include horticulture in its agricultural diversification project, alongside more traditional products.

Increased government revenue and foreign aid allowed the state to increase 'development' spending, but with a different social and geographic distribution of entitlements than in the past. Government spending moved away from the parastatal and urban sectors of the economy and focused on roads, power and communications in the rural areas and northern part of the country (Hutchful 2002). This shift in entitlements would form the basis of Rawlings' popularity in these parts of the country, which was transformed into votes in the 1992 elections. However, this distribution was not directly linked to a government strategy to develop productive sectors.

4. NDC RULING COALITION AND THE (RE)TURN TO COMPETITIVE CLIENTELISM

Macroeconomic instability returned in the 1990s. The main cause was government overspending, which was exacerbated by fluctuations in international commodity prices and by several suspensions by the IMF in concessional credit flows under its lending agreements with the country as sanctions for the government's loss of fiscal discipline (Leite et al. 2000: 30-36; Youngblood & Franklin 2008). The stability achieved in the 1980s was always fragile because it relied on foreign aid inflows to remove import constraints and close fiscal deficits, rather than changing the productive structures of the economy (Killick 2000). Government spending in excess of revenues resulted from the debts of state-owned enterprises, shortfalls in anticipated revenue due to policy reversals mentioned earlier, and unbudgeted government outlays in the run up to the 1992 and 1996 elections on rural infrastructure and development projects and public sector wages. The same thing happened in 2000, this time exacerbated by major terms of trade shocks, as the oil price rose and world prices for cocoa and gold fell drastically.[10] The state-owned Tema Oil Refinery accumulated USD 250 million in debt resulting from the government's subsidy of fuel prices in the run up to the 2000 elections.[11]

When the NDC and Rawlings left power in 2001, macroeconomic indicators were dire and the treasury was burdened with large domestic and foreign debt. Macroeconomic instability had negative effects on the productive sectors through inflation, high interest rates and depreciation of the currency. The government financed its deficits through domestic debt. With banks holding large amounts of government debt, private sector lending was crowded out. The economic effects of macroeconomic instability also jeopardized the ability of firms

10 The prices for cocoa fell by 40 percent in 1999 and gold fell by 13 percent but then rebounded. Due to forward contracts, these changes were felt at the end of 1999 and in 2000. The local currency depreciated by 50 percent against the US dollar (Leite et al. 2000: 41).

11 *Africa Confidential* 2001 Vol 42 No 11, p. 4.

to meet debt repayment obligations and to develop and expand their businesses.[12]

4.1. Cyclical macroeconomic problems and short-term solutions

The need to address large fiscal deficits also had implications for the divestiture process. The NDC government decided to tackle the fiscal deficit after the 1992 elections through increasing revenue rather than decreasing spending. One avenue for increasing revenue was divesting government shares in some of the most profitable state-owned enterprises (Leite et al. 2000: 49). Between 1994 and 1996, the sale of profitable enterprises amounted to USD 569 million, most of which was accounted for with the sale of government's shares in Ashanti Goldfields in 1994/95 that brought in USD 454 million. The revenues from divesting Ashanti Goldfields were not used strategically, but rather helped offset the impact of major shortfalls in long-term concessional assistance as the result of failing to meet macroeconomic conditions for disbursement.[13] The government ran fiscal deficits every year between 1992 and 2000, except for 1994 and 1995 as direct result of revenue earned for divesting shares in Ashanti Goldfields.

The divestiture process generally increased pace in the 1990s, though not necessarily to increase revenue. Accelerated divestiture was a key condition for Bank and Fund balance of payment lending, and the divestiture process was supported by two World Bank credits. Between 1989 and 2000, 304 state-owned enterprises were divested either through sales of assets, sale of government shares (including only partial sale of shares), joint venture, lease and liquidation. The large and profitable enterprises were typically divested through the partial selling of government shares or through joint ventures with foreign capital, while the smaller enterprises were bought by Ghanaians. The number of divested enterprises is deceptive, as many of these were housing units or stores owned by large parastatals, which were broken down into segments and sold separately.[14] The net revenue from divestiture was not as significant as one might think (Appiah-Kubi 2001). By 1999, Ashanti Goldfields accounted for 47.75 percent of the total divestiture proceeds. Of the other 50 percent, net government revenue from proceeds was substantially reduced as a result of three factors. First, government liabilities to settle employment entitlements and company debts constituted about 88.7 percent of the total purchase price. Second, foreign loans were contracted to finance the divestiture process. Third, Kojo Appiah-Kubi finds that 31 percent of the value of divestiture proceeds was outstanding in 2000, due to payments for the divested assets not being paid or paid fully. An IMF report in 2000 noted that the high percentage of outstanding divestiture proceeds was the result of Ghanaians typically buying enterprises on credit and later defaulting or requesting delays in payment (Leite et

12 Implementation Completion Report, Private Enterprise and Export Development Project, Report No. 18520, World Bank, 29 October 1998, pp. 5-8.

13 The IMF program was suspended in 1992, and a new one was not put in place until 1995 (Leite et al. 2000: 37).

14 Divestiture Implementation Committee, financial reports, available at www.dic.com.gh. World Bank conditionality focused on the number of state-owned enterprises divested, which led the Committee to break up enterprises so as to increase the number. Implementation Completion Report, Private Sector Adjustment Credit, Report No. 18638, World Bank, 30 November 1998.

al. 2000: 51).[15] As already mentioned, divestiture of the smaller enterprises was a means of rewarding NDC political elite or their allies, which might account for the high percentage of outstanding payments. Financial reports of the Divestiture Implementation Committee for the years 1989 to 2003 indicate some outstanding payments, but not to the extent suggested above.[16] Payments may have been secured under the Kufuor government, and been affected by Darko Opoku's finding that members of the Divestiture Implementation Committee acquired some public assets and that payment for these were defrayed by their end-of-service benefits (Opoku 2010: 155). In sum, the NDC government did not receive that much revenue from divesting state-owned enterprises, except from large enterprises and especially its share in Ashanti Goldfields.

4.2. Continued focus on the mining and cocoa sectors

The government's mining sector strategy focused on reducing state ownership in the sector through selling government shares in companies or awarding management contracts to foreign companies with the option to buy the company at the end of the contract (Twerefou et al. 2007). Strong growth in the sector in the 1990s was largely due to the doubling of gold production associated with Ashanti Goldfields and strong investment in the company after the government sold most of its shares in 1994-95 (Leite et al. 2000: 16).[17] Production of other minerals also increased after privatization. Mining companies were granted further tax cuts, but royalties were increased. Royalties from the mining sector were important in offsetting fiscal deficits. In 1999 and 2000, the government implemented some changes to the mining fiscal regime through increased taxes and negotiations with companies to keep more foreign exchange earnings in the country, probably in response to the deteriorating macroeconomic situation.

Reforms in the cocoa sector continued, but more in response to securing cocoa export taxes and negotiating with the World Bank and IMF. The Cocoa Board closely followed cocoa marketing in neighbouring Ivory Coast and set a similar cocoa producer price, in order to minimize the incentive for smuggling cocoa. The World Bank continued to push for full liberalization of cocoa export marketing. The NDC government agreed to have a foreign consultant assess the operations of the Cocoa Board's Cocoa Marketing Company. The consultant's report concluded that cocoa export marketing should not be liberalized and that the Cocoa Marketing Company was functioning well and making improvements on efficiency (Williams 2009). This report, plus evidence that the fully liberalized cocoa sectors in neighbouring West African countries were not doing as well as Ghana, allowed the Cocoa Board to win the argument against the World Bank staff (Fold 2002).

The World Bank continued to push for the privatization of the Produce Buying Company. The NDC government postponed any decision until a medium-term cocoa strategy was for-

15 The Divestiture Implementation Committee did not have a mechanism to ensure timely payments and follow up in case of default, and it only hired a lawyer at the end of 1997 to enforce compliance. See World Bank Private Sector Adjustment Credit Implementation Completion Report, Report No. 18638, 30 November 1998.

16 The financial reports were accessed from the website on 18 March 2011.

17 When the Ghana government was no longer the majority shareholder, Ashanti Goldfields was able to raise capital on the London Stock Exchange in April 1994 (See Taylor 2006: 132-33).

mulated. The process of formulating the strategy was open, with cocoa farmers, licensed buying companies, donors, international traders, and chocolate manufacturers discussing issues alongside NDC officials and Cocoa Board staff (Leite et al. 2000: 24-26). The NDC political elite and Cocoa Board technocrats formed an alliance with the international traders and chocolate manufacturers to fend off the pressure from the Bretton Woods institutions for full liberalization (Williams 2009). The leaders of the global cocoa industry saw Ghana as a producer of good quality cocoa in a manner which did not involve much effort on the part of international buyers, due to the role played by the Cocoa Board.

However, the NDC government could not hold out entirely from the pressure of the World Bank. The medium-term cocoa development strategy, approved by the NDC Cabinet in April 1999, included many measures in the direction supported by the World Bank and IMF, including privatization of the Produce Buying Company, a gradual move towards liberalizing cocoa marketing, measures to reduce the advantage of the Produce Buying Company over other private buyers, and removing cocoa extension services from the Cocoa Board and merging them with general agricultural extension services provided by the Ministry of Food and Agriculture. The NDC government had agreed already in 1998 to privatize the Produce Buying Company as a condition in return for access to balance of payment support through an IMF Enhanced Structural Adjustment Facility (Hutchful 2002: 70). As already shown, the economy was struggling, and the government was in dire need of lines of liquidity in foreign exchange.

But the 1999 cocoa sector development strategy also states that the government will design its own external marketing liberalization option which will be characterized by 'limited liberalization', and this has held true. The NDC government only partially divested the Produce Buying Company through floating shares on the Ghana stock exchange in December 1999. This had the effect of allowing the IMF to say it was privatized, while allowing the government to keep management control over the company. The government is the company's major shareholder with approximately 40 percent (Laven 2007). The government blocked a proposal to sell the company to a 'strategic' investor, because it did not want to give up control of the company, and definitely not to a foreign investor, which it would in all likelihood have been (Leite et al. 2000: 55). The government conceded to open up cocoa exports to qualified licensed buying agents starting in the 2000/01 season, but with several restrictions. Buying agents are allowed to export a maximum of 30 percent of their domestic purchases. The high minimum tonnage requirements for making direct export profitable meant that only nine companies were registered to export, but none had become operational as of 2010.[18]

4.3. Failure to assert control over other productive sector policies

In an attempt to reassert control over the direction of economic development, the National Development Planning Commission produced a medium-term development plan in 1995 which it intended to be used as a basis from which to negotiate donor-funded projects (Whitfield & Jones 2009). The plan was written by civil servants in the Planning Commission and Ghanaian experts outside the government, but had the support of some important political leaders. However, the development

18 A-G. Abdulai, PhD thesis draft chapter, University of Manchester. Mimeo June 2011.

plan had little influence on government policy actions and did not become a platform for negotiating with donors. As could be expected from the Planning Commission's marginal position, politically and organizationally within the bureaucracy, it did not have the authority to ensure that ministries and agencies formulated policies and programs to implement its objectives or to secure financing from the Ministry of Finance. Donors did not support it and criticized it for lacking a clear strategy to deliver on the aspirations embodied in it, which was true.

The NDC government relied on donor resources for the investment portion of government expenditure and allowed donor-funded projects to determine to a significant extent what ministries implemented. This situation resulted from a combination of factors: (1) ruling elite dependence on policy rents; (2) weak state organizational capacity and civil servants who wanted the perks that came with donor projects; and (3) weak organization of producers who were also politically weak (low holding power within the ruling coalition). The NDC government continued to negotiate hard with donors on cocoa sector reforms and pursued a coherent approach to the cocoa export industry. Elsewhere, productive sector policies were *ad hoc* and fragmented, in contrast to the coherent industry approach in cocoa exports, and they were not driven by strong political interests. Politicians and civil servants tried to negotiate for support to productive businesses and exporters within the context of World Bank projects. However, even the politicians negotiating the projects did not completely agree with the project content or approach, they signed off on the credits anyway.

The size of the manufacturing sector contracted in the 1990s. A World Bank evaluation of assistance to Ghana noted that the poor design and sequencing of trade liberalization and the failure to direct credit to assist manufacturing firms had resulted in a decline in manufacturing (Armstrong 1996: 49-50). A World Bank financial sector reform program recapitalized domestic banks strapped with bad debt, but left many private firms indebted and unable to access credit (Kraus 2002). Assistance through the World Bank for restructuring these firms was slow, so the NDC government on its own initiative established a Business Assistance Fund in 1994, financed by divestiture receipts. However, it had little effect. Academic observers note that the amount of money in the Fund was quite small compared to firms' needs; there were no clear criteria for selecting firms; and the repayment rate was pitiful even though the peak business associations had representatives on the board of the Fund (Aryeetey et al. 2000: 28; Handley 2008: 185; Hutchful 2002: 82.).[19]

A crucial factor behind the generally low private investment and supply side response of the private sector was the inability of firms to access credit, and not simply the political environment. Productive businesses found it difficult to access credit, primarily due to government borrowing to cover fiscal deficits. The recapitalized banks focused over 70 percent of their operations in the 1990s on bonds issued by the government, the Bank of Ghana, and the Cocoa Board. Banks were unwilling to take risks on indebted old manufacturing firms or smaller and newer firms and non-traditional exporters.

The government did not assert its own strategy for supporting industrial development and non-traditional exports, but rather signed on to various donor projects aimed at 'private sector development'. The overall effect of these projects was disappointing. The World Bank's Private Enterprise and Export Development project (1994-1998) focused on expanding non-tra-

19 Handley notes that there may have been collusion between the business associations and state officials where 'irregular' practices were tolerated.

ditional exports, but it largely provided short-term credit to cover shipments and neglected medium-term credit to cover working capital.[20] It underestimated the weak production base in Ghana. The government argued for medium-term financing during project negotiations, but did not win the argument. Later, the World Bank recognized the need for it, but thought it too risky due to the deteriorating macroeconomic environment. The World Bank Private Sector Development Project (1995-2000) focused on shaping public institutions that were supposed to provide commercial services (e.g. research and development) to be demand-driven; providing business services to small enterprises; and improving legal services for the commercial sector. The Bank's internal evaluation rated the project unsatisfactory, and admitted that the project focused too much on the supply of services by the government without a clear link with the local market and industries – for which the Bank and the government were both to blame.[21] And the business service component implemented by a private firm was ineffective given that banks were not responding, even with improved business proposals. Other World Bank projects related to the private sector focused on divestiture of state-owned enterprises and the creation of an export-processing zone, which only began in 1999 and had no results by the time the NDC left office. Additionally, the United States Agency for International Development had a Trade and Investment Program (1993-1998), which had two components: one aimed at policy reforms and one supporting non-traditional exporters. An evaluation of the second component emphasized its very broad and unfocused nature, with many different types of industries included and the process of selecting firms was *ad hoc*.[22]

The government was heavily reliant on donors, especially the World Bank, for financing agricultural development. At the same time, there was an overall underinvestment by the government in the agricultural sector, and donor projects in the sector were relatively small. The World Bank created an agricultural sector adjustment program that included an agricultural sector adjustment credit providing balance of payments support in return for policy reforms as well as many individual projects tackling different issues. The projects included the agricultural diversification project (1990), national agricultural research project (1991), national agricultural extension project (1992), national feeder roads project (1992), national livestock services project (1993), coastal wetlands management project (1993), environmental resource management project (1993), agricultural sector investment project (1994), which provided rural, village-level infrastructure), and fisheries capacity building project (1995). Their impact on any particular agricultural product or agroindustry was not significant. The World Bank's performance audit report gave five of these project loans a poor rating on outcomes and noted that all the projects were unlikely to be sustainable.[23] Given that these projects involved loans, this observation supports arguments about the questionable productivity to which aid money was put to use, which in turn undermined the government's ability to pay back loans and led

20 World Bank Private Enterprise and Export Development Project (CR.2502-GH), Implementation Completion Report, Report No: 18520, 29 October 1998.

21 World Bank Private Sector Development Project, Implementation Completion Report, Report No. 21547, 21 December 2000.

22 'Ghana Trade and Investment Reform Program USAID/Ghana , Project Final Evaluation, March 2003, submitted by Management Systems International Component, external evaluation.

23 World Bank, Performance Audit Reports and Sectoral Overview Ghana, 22 June 2001, Report No. 22439, p. iii.

to unmanageable external debt. Other donors operating in the agricultural sector did not 'support' the government's agricultural strategy and thus did not participate in co-financing any of the World Bank projects, but rather continued with their individual projects addressing issues of interest to them.[24]

In the late 1990s, the Ministry of Food and Agriculture attempted to coordinate donor initiatives in agriculture with the Ministry's new Accelerated Agricultural Growth and Development Strategy. The strategy had four objectives: (1) promotion of selected commodities through improved market access; (2) development and improved access to technology; (3) improved access to agriculture financial services; and (4) enhanced human resources and capacity building. A national task force including civil servants and participants from outside government prepared an agricultural investment program. The program prepared by the task force documented the constraints hindering agricultural productivity, constraints which still held in the late 2000s, and proposed strategies for overcoming them.[25] It was to be financed through a sector-wide approach where government and a consortium of donors pooled their resources. This approach was intended to overcome the numerous discrete projects supported by different donors and focusing on specific sub-sectors with little coordination, which led to low impact, weak prioritization by the government, inflexibility of resource allocation, and donor-driven agendas.

Implementation of the government's agricultural program required World Bank support, since it was the main donor.[26] At headquarters level in Washington DC, the World Bank designed a new program, supporting a watered-down version of the government's proposal. It took out components related to infrastructure and credit, which it said duplicated other World Bank and donor projects, existing or in the pipeline.[27] Bank staff also inserted Bank priorities at the time, which emphasized reforming research and extension.[28] The program proposed by the World Bank said it would address the first two objectives of the government's strategy. However, it did not include any discussion of specific commodities and how to address the specific constraints around the production and marketing of those commodities. Furthermore, its approach to technology generation and dissemination were markedly different from what the national task force had envisioned.[29]

At the same time, other donors rejected the Bank's version. Some observers say that

24 World Bank, Agricultural Sector Performance Review and Accountability Implementation Completion Reports, 30 June 2000, Report No. 20686-GH, p. 7.

25 Agricultural Services Sector Investment Programme, Volume 1 Main Report, Ministry of Food and Agriculture, April 1999.

26 Interview with a retired Ministry of Food and Agriculture official, who was Coordinator of AgSSIP, 24 July 2009, Accra.

27 Project Appraisal Document, Agricultural Services Subsector Investment Project, Report No: 20366-GH, 8 June 2000, p. 3.

28 The World Bank's proposal focused on institutional reforms within the Ministry aimed at further decentralization of agricultural services, private participation in the provision of agricultural services, development of farmer based organizations, and competition and beneficiary participation in agricultural research.

29 For example, the task force's approach emphasized ameliorating problems with availability and farmer access to privately provided agricultural inputs, machinery, and technology, as well as to enhance public research and extension services. To take another example, the government version also proposed shifting agricultural college education and practical experience in agribusiness, rather than training to be extension workers, so that graduates could start their own businesses. The Bank's proposal also wanted to shift agricultural education away from producing public sector extension workers, but its focus was on producing private extension workers rather than people educated to start up agribusinesses.

other donors were upset at the Bank's audacity to change the program that resulted from two years of consultative processes, but other observers note that some donors were never comfortable with the government's focus on agricultural growth and wanted more direct poverty reduction (Foster et al. 2000: 15). Therefore, the government and the national task force were squeezed on all sides by diverging and conflicting interests among donors and between donors and themselves.

The sector-wide approach fell through in the end, and the Ministry of Food and Agriculture's effort to produce an agriculture investment program over the course of three years were in vain. The NDC Cabinet rejected the World Bank agricultural subsector services investment program, on the grounds that there was too much capacity building and consultancy.[30] It was just before a national election, and NDC politicians probably wanted something more tangible to hold up to voters.

In sum, the 1990s were characterized by deindustrialization, little export diversification, and low private sector investment, while the modest 5 percent growth was driven by cocoa, gold and aid-funded public investments (which relieved constraints on imports). Political uncertainty, lack of credit, and low technological capabilities among Ghanaian entrepreneurs led to short-term speculative behaviour in sectors where turnover time of capital was short and profitability was high, such as in trading activities (Aryeetey & Tarp 2000: 358). Pineapple export production in the 1980s and 1990s also had these characteristics, which partly account for the emergence of the pineapple export industry (see Whitfield 2012 forthcoming).

30 Interviews with Ministry of Food and Agriculture staff, 27 April 2009 and 24 July 2009.

5. NPP RULING COALITION FACING COMPETITIVE CLIENTELISM

The NPP's development vision in its 2000 election manifesto stemmed from its critique of the economic policies of the previous governments. The NPP political leadership criticized the passive role of the government, particularly on industrial policy since much of Ghana's nascent industrial capacity crumbled under import liberalization. The NPP's development vision focused on macroeconomic stability, partnership with the private sector, and an active state role in fostering the development of the domestic private sector. It claimed that the focus of both of the PRSPs, the national policy frameworks during its rule, was private sector-led growth through modernizing agriculture and expanding agribusiness. The NPP proclaimed its period of rule as the Golden Age of Business, but it did not live up to these expectations. What did the NPP government do during its tenure in office?

The Kufuor-led NPP government inherited an economy that had been, as one local commentator put it, 'on a World Bank and IMF drip-feed' for much of the previous two decades and yet still showed no signs of self-sustaining growth. Not only was the economy ailing, it was in deep crisis by the close of 2000 with rising inflation, currency depreciation, a huge domestic debt, shortfalls in aid flows and massive external debt servicing. Upon assuming power, the NPP government's immediate task was to solve the macroeconomic problems. The NPP government could not balance the 2001 budget despite cuts in public expenditure and faced the proposition of either cutting public expenditure massively or asking the international community for more aid. President Kufuor chose the latter, and since Ghana's major official donors were pushing it to sign up the Heavily Indebted Poor Country Initiative as a prerequisite for more aid, Kufuor decided 'to go HIPC' (Osei 2008: 125).

Accessing debt relief required meeting a series of conditions specified in the HIPC agreement and Bank and Fund agreements.[31] President Kufuor's first term was overshadowed by meeting these conditions. All increased investment expenditure came from aid flows, while government revenue went toward payments on domestic and external debt, public sector salaries, administration, statutory payments and counterpart funding for donor projects. This left little room for the government to change investments or focus them in a landscape dominated by multiple donor projects.

Kufuor's government was successful in meeting the debt relief conditionality, and in 2004 the country began benefiting from debt relief. The Minister of Finance successfully negotiated with the Bretton Woods institutions that 20 percent of HIPC savings were used to pay off interest on domestic debt, and the rest was spread thinly across Ministries, which decided how to use the funds as long as they were used for project aimed poverty reduction and growth , as well as across District Assemblies, which decided the micro-projects on which the money would be spent. The micro-projects in rural areas, such as a school block or a public toilet, were given big signs with the words 'HIPC Benefits' printed on them, and became an important electioneering tool for the NPP government.

During Kufuor's second presidential term, new external sources of financing the state emerged. These sources included the international capital market and Chinese investment and official concessionary credit. Having achieved debt relief and macroeconomic stability, the second Kufuor administration had more freedom. With its sovereign credit rating improved, the government issued a Eurobond (10 year with 8.5 percent) in September 2007 to raise money on international capital markets. It generated USD 750 million, which the government said would be used to co-finance profitable power and transport projects, because infrastructure bottlenecks were slowing growth. Chinese investment and grants began to increase, providing the government with alternative funding sources; however, Chinese involvement was largely confined to infrastructure projects, such as the building of a new hydroelectric dam. Parts of concessional loans and grants from the Chinese and Indian governments were used to finance distinctly unproductive investments, such as the building of a new presidential palace, the construction of a new Ministry of Defence, and the rehabilitation of the Peduase Presidential Lodge.[32]

Macroeconomic stability was achieved in Kufuor's first term, but the gains were squandered in his second term as deficit spending ran out of control. Fiscal deficits grew under the second Kufuor administration from 2006 onwards due to government overspending. Some of the main drivers of fiscal expansion were necessary to support production, such as investments in energy (given major electricity shortages in 2006 and 2007) and in infrastructure. Other drivers included higher wages and salaries, and social transfers to finance progress towards the Millennium Development Goals. Other drivers of fiscal expansion were clearly unproductive. The NPP government continued the previous government's bad strategy of utility subsidies, overriding the independent

31 For more detail, see Whitfield and Jones (2009) and Whitfield (2010).

32 On the Indian loan/grant for the presidential palace, see *Democracy Watch* Vol 6, No 3&4, p. 4, CDD-Ghana. On Chinese aid, see Tsikata et al. (2008: 25).

utility regulatory agency that was supposed to set water and electricity tariffs. Tariff levels were very political in Ghana, used by the political opposition to mobilize support. Considerable government outlays in 2007 and 2008 were spent on unproductive prestige projects: Ghana@50 to celebrate 50 years of independence (USD 100 million), building three new football stadia for the African Cup of Nations (USD 77 million), building a new presidential palace (about USD 80 million).[33] In 2008, the government initiated several measures intended to mitigate the global food and oil price rises. The policy measures included reduced taxes and levies on petrol products, abolishing import duties on staple foods, a fertilizer subsidy program, and continued energy sector subsidies.

To finance the growing fiscal deficit, the NPP government tried the strategy of issuing bonds and using divestiture proceeds (from the resale of Ghana Telecom), as well as using proceeds from the Eurobond, which was a dangerous strategy.[34] Nevertheless, the budget deficit surged to 14.5 percent of GDP in 2008 and the trade deficit ballooned as a result of rapid growth in non-oil imports and increases in the oil bill (despite good export performance). The currency depreciated, inflation soared, and by January 2009 the country was in a financial crisis of its own making that had little to do with the global financial crisis. The 7 percent growth in GDP charted in 2008 was largely due to the construction industry and retail sales.

Understandably, the NPP government had to deal with oil prices that steadily increased throughout its tenure in office, but this gradual crisis did not prompt a change in the economic policy regarding subsidizing the cost of petrol, nor did it lead to the creation of new sources of foreign exchange (or ways to save foreign exchange). When Kufuor left office in 2009, the economy was a little more developed, but equally as bankrupt as when he took over.

5.1. Supporting domestic capitalists: Lots of talk but little action

President Kufuor created the Ministry for Private Sector Development (which reported to the President's Office) to ensure that the various institutions of government supported the development and growth of the private sector. The flagship initiative of the Ministry was the private sector development strategy, launched in 2004. However, the Ministry for Private Sector Development was integrated into the Ministry of Trade and Industry during a ministerial reshuffle in 2006, indicating its loss of importance, and the private sector development strategy failed to achieve much for domestic capitalists.

Much progress was observed regarding government support for the private sector, but little of it could be attributed to the strategy.[35]

33 The Ghana@50 committee spent five times the amount of money approved by Parliament, and an enquiry into the expenditures carried out by the Atta Mills NDC government in 2009 showed that larges amounts of money had been lost in bad decisions and negligence, partly as a result of people trying to make money out of the opportunities it afforded. *Democracy Watch* 2010 Vol 8 No 4, p. 8-9; Report of the Commission. On the football stadia, built by the Chinese, see *Africa Confidential* 2005 Vol 46 No 25, p. 3. The presidential palace was to be funded using a USD 60 million loan/grant from the Export and Import Bank of India. It was supposed to cost USD 36.9 million, but the final cost was much higher. *Democracy Watch* 2005 Vol 6 No 3&4, p. 4; www.ghanaweb.com, 'Presidential Palace is Ready', 7 November 2008, and 'Mills works from Jubilee House for first time', 10 November 2009.

34 *Africa Confidential* 2008 Vol 49 No 17, p. 9 and 2009 Vol 50 No 2, p. 2.

35 External Evaluation of the Private Sector Development Strategy.

Ghana's ranking in the World Bank's Doing Business index increased and the country was ranked as a top reformer. There were improvements on the key issues raised by businesses in Ghanaian surveys, including reliable electricity and access to finance as well as the cost of finance, but the improvements were not enough to make a significant impact. Electricity supply increased, but not enough to keep pace with demand, and a severe energy crisis in 2006-07 spurred the NPP ruling elite to invest heavily in short-term and long-term measures to increase energy supply. Less progress was made on other infrastructure bottlenecks, such as roads and railway rehabilitation. Lending to the private sector increased, but the cost of loans was unsuitable for long-term investment. The largest use of bank credit remained working capital for wholesale and retail trade.

What happened with the Ministry and the private sector development strategy? Initially, the Minister for private sector development appointed a team of Ghanaians with a strong record in the private and public sectors to draft a strategy to flesh out the objectives and role of the new Ministry.[36] Donors already had a thematic group on the private sector, and focused attention on the new Ministry as an anchor for coordinating their existing private sector projects. A small group of donors argued that the Ministry's strategy was insufficient, and offered to finance the development of a more comprehensive strategy. The Minister agreed, largely as a means to secure donor funding, because his Ministry received very small budgeted resources from the Ministry of Finance, because it was supposed to play a coordinating role. The NPP politician in charge of the Ministry was more interested in lining his pockets (and his family's pockets), than with supporting Ghanaian capitalists.[37] Bilateral official aid agencies rushed in to provide financial support, but in the process they dominated the strategy formulation. Aid agencies funded consultants to work in the Ministry, and funded the formulation of a Private Sector Development Strategy by local and foreign consultants. The Strategy reflected the 'enabling environment' and 'investment climate' paradigms of international donor thinking at the time, and rejected industrial policy. The President and some top political leaders inserted the President's Special Initiatives (PSIs) into the strategy, but these Initiatives were not supported by donor financing. Ironically, the views of donors sometimes conflicted with the views of Ghanaian businesses, who called for a more active government than donors thought wise.

The private sector development strategy became a program for public sector reforms to create a better business environment. Objects of increasing the competence and competitiveness at firm level were left to other projects of the donors participating in funding the strategy. These included the World Bank's Micro, Small and Medium Enterprise (MSME) project and bilateral donors' projects focused on providing business development services to small and medium enterprises. Notably, an external evaluation of the private sector development strategy noted that these projects had little impact on increasing the competitiveness of Ghanaian

36 This paragraph draws on Whitfield and Jones (2009: 201-02).

37 'Kwamena Bartels Exposed Again', www.ghanaweb.com, 11 October 2007; 'How Bartels sprinkled 4 billion cedis...' www.ghanaweb.com, 8 October 2007. Additionally, as discussed in the forthcoming paper on the oil palm industry (Whitfield 2011c), this politician also sought to benefit directly from the President's Special Initiative in Oil Palm by being an owner of one of the nurseries in the project and starting his own oil palm plantation.

firms.[38] Political backing for the private sector development strategy eroded as NPP ruling elites turned their attention to programs aimed at addressing poverty more directly.[39] The strategy was not seen to address 'bread and butter' issues of creating jobs and incomes. The implementation of the strategy was overseen by donors, bureaucrats and a private sector-led board, but these actors had little political authority.

Most of the NPP government's own initiatives to support industrial development were driven by Alan Kyerematen, a senior member in the NPP. He held the position of Ambassador to the United States and in 2003 became Cabinet Minister with the trade and industry portfolio. He had been part of the brains behind the NPP 2000 election manifesto and the design of the President's Special Initiatives, and had an unusually strong vision for the Ministry.

When Kyerematen became Minister of Trade and Industry, he set out his vision in the Industrial Reform and Accelerated Growth Programme. It was probably the first time, since the 1980s, that the Minister of Trade and Industry had a vision for what the Ministry should do, perhaps as a result of his presidential ambitions. The program supported a two-pronged strategy: export-led industrialization strategy focused on agroprocessing and other manufacturing and involving mass mobilization of rural communities, and import competing strategy aimed at stimulating the competitive production of import substitutes, especially processed foods and agricultural products. He had ideas for several projects to put the strategies into practice, including the PSIs and the District Industrialization Program. The approach toward both the PSIs and the District Industrialization Program was generally state-led and not carried out in collaboration with domestic capitalists, nor did they provide the kind of incentives and support that domestic capitalists would need to set up new industries in rural areas.[40] In general, these programs represent a relatively unsuccessful attempt at industrial policy.[41]

As Minister, Kyerematen negotiated the restructuring of the World Bank Gateway project, which was constructing an export processing zone in Tema, the port city next to the capital city Accra. The export processing zone was not working, and in 2005 the objective was changed to create a multipurpose industrial park that would provide off-site and on-site infrastructure, allow domestic firms to operate there, and allow a percentage of goods produced to be sold on the domestic market. [42] The Gateway project was completed in December 2009. It used a domestic company to develop the infrastructure, where 24 companies were operating in 2010, with another 40 companies in the process of setting up. It is estimated that 8,000 jobs were directly created and 30,000 jobs indirectly. However, there were still challenges with water and electricity supply.

Kyerematen also had ideas for the creation of sector-specific clusters at the industrial park in Tema through government provision of customized facilities and services. These ideas were negotiated into the World Bank's

38 External Evaluation of the Private Sector Development Strategy.

39 External Evaluation of the Private Sector Development Strategy.

40 See the fourth paper in this series of EPP working papers on Ghana for more on the PSIs, and the Oil Palm PSI in particular (Whitfield 2011c).

41 The term industrial policy refers in general to government policies aimed at stimulating specific activities and promoting structural change.

42 World Bank Ghana Trade and Investment Gateway Project, Implementation Completion and Results Report, Report No ICR00001460, 30 June 2010. Interviews with the Coordinator of Gateway Secretariat, March 2007 and May 2009.

MSME project which Bank staff spearheaded as a follow up to the Gateway project. It took two and half years to negotiate, because Kyerematen insisted on sticking in his priorities that the loan directly benefit the domestic private sector. However, Kyerematen resigned from his position in order to contest for the party's presidential nomination in the 2008 elections, and was not there to oversee and push implementation of his ideas. The MSME project was packed with different components, as World Bank projects tend to be, and very complex to implement, given the large number of government agencies involved. After the mid-term review, several components of the project were discontinued or changed, loosing the focus of sector-specific support and building technological capabilities that were originally envisioned. At the end of 2010, the access to credit component had achieved little, as the structure imposed by the World Bank had not enticed banks to participate.[43] In short, this project had few results to show before the NPP left office. As is generally the case, donor projects take a long time to implement, because their structures are complex, including a large number of small projects that often lack coherence or synergy. Their implementation strains the few ministry personnel coordinating them, and they involve the procurement of domestic and foreign consultants to undertake most of the tasks.

Kyerematen resigned as Minister of Trade and Industry in order to contest for the NPP's presidential nomination in the 2008 national election at the NPP party congress in December 2007. Long before he resigned, the Minister's attention was on running his presidential bid campaign. After he left office, none of the NPP members who followed him as Minister of Trade and Industry (and there were several) had a strong vision for the Ministry or followed up on what Kyerematen had started.

Despite President Kufuor's pronouncements in support of the private sector and creation of the PSIs, the industrial initiatives of Kyerematen seemed to stand alone, without unified, strong support from the ruling elite. Fragmentation within the higher levels of the ruling coalition seemed to undermine attempts at industrial policy. The PSIs, as well as other projects initiated by Kyerematen, were seen by many within the higher-level factions of the NPP as a patronage resource for Kyerematen to build a personal political base ahead of his bid for the party's presidential nomination for the 2008 elections.[44] The politicization of these industrial initiatives, combined with the limited involvement of domestic capitalists, resulted in weak implementation or their discontinuation after Kyerematen left the Ministry, especially in light of challenges and alternative ideas from donors.[45] Furthermore, Kyerematen had initiated too many projects, which spread his attention and efforts thinly.

43 Micro, Small and Medium Enterprise Project, Half Year Report, July-December 2010, MSME Project Secretariat. See also Whitfield and Jones (2009).

44 This issue will be discussed in the fourth paper in the papers on Ghana in the EPP working paper series (Whitfield 2011c).

45 For example, the World Bank's MSME project was supposed to include support for implementing the PSIs, but during implementation the World Bank argued that first it needed to do value chain studies of potential productive sectors before it could rationalize 'catalytic' interventions. The Ghanaian technocrat heading the MSME project implementation unit protested, but had no political authority to back him up. Interviews with staff in the MSME unit, Accra, July 2011.

5.2. The Holy Cow of Cocoa

The NPP ruling elite continued the previous government's active support for the industry and did not pursue liberalization of external marketing, but also initiated several new projects to support cocoa. The NPP had the added incentive that the cocoa-producing belt stretches across the NPP's electoral strongholds in the Ashanti and Eastern regions, but this point should not be exaggerated. It is also true that cocoa is produced in six out of the seven regions in the southern half of Ghana, with Greater Accra being the only exception. Thus, the cocoa export industry affects a large number of people's livelihoods.

Cocoa production and productivity increased after 2001, driven by a combination of unprecedented world prices and a set of interventions by the Cocoa Board to improve farmer practices. In an effort to curb smuggling and encourage production, the Cocoa Board raised the percentage of the producer price paid to farmers to around 70 percent.[46] Under the Cocoa Roads Improvement Programme, the Cocoa Board took responsibility for construction and maintenance of rural roads that lead to cocoa-producing villages and buying centres. The Cocoa Board also instituted a Disease and Pest Control program, which provided free mass spraying of cocoa farms to reduce losses, and a Cocoa Hi Tech program that involved the application of fertilizers, improved planting material and application of insecticides.

In 2001, the Cocoa Board initiated a mass spraying program to control diseases and pests on cocoa trees. The Board did not undertake the spraying itself. Rather communities formed farm-spraying groups, accessed chemicals from the Cocoa Board, and arranged to spray the farms in their communities. In return, the Cocoa Board paid the spraying groups. The program promised six sprayings every year and that every farmer would receive two sprayings. Evaluations of the exercise are generally good. Two surveys indicated that many farmers linked their yield improvements to the effects of the free mass spraying received.[47] Another survey found that the scheme was generally praised by farmers, but that some farmers complained of not receiving the sprayings or having to pay the gangs.[48] The authors argue that the Cocoa Board needed to monitor the scheme closely to make self-spraying feasible. But one survey found that only 6 percent of respondents claimed to have benefited fully from the program and that location of the farm and farmers' social networks mattered (Laven 2007).

In the 2002-03 cocoa season, the Cocoa Board implemented the Hi Tech program, where it provided fertilizers on credit through licensed buying agents on a pilot basis. The program ran into problems with recovering the loans.[49] Some farmers did not apply fertilizer to the whole farm and did not realize the anticipated yield. Since the results were poor, many farmers did not repay the cost of the fer-

46 'Mapping sustainable production in Ghanaian cocoa', Report to Cadbury, Institute of Development Studies and the University of Ghana (undated). See also Kolavalli and Vigneri (2011). Cocoa prices in the Ivory Coast were determined on the spot and generally higher than in Ghana; whereas in Ghana, the Cocoa Board set the producer price of cocoa in advance to ensure money for the commodity on the commodity futures market.

47 Surveys cited in Kolavalli and Vigneri (2011: 10). These surveys were conducted in 2002, just after the exercise began, and again in 2004.

48 'Mapping sustainable production in Ghanaian cocoa', Cadbury Report (op cited), p. 56.

49 Cocoa Board presentation at the conference 'Production, markets and the future of smallholders: the role of cocoa in Ghana', 19 November 2007, Council of Scientific and Industrial Research, Ghana; 'Mapping sustainable production in Ghanaian cocoa', p. 56.

tilizer to the licensed buying companies. Even those who obtained good results considered the money as government largesse not requiring repayment. The scheme could not be sustained. However, a private fertilizer company, convinced of the need for such support, began providing technical support in 2006 through a scheme that initially included 1,500 farmers. It expanded rapidly and sustained relatively high repayment rates of about 90 percent each year.[50] In Ghana, there is generally a perception that anything which comes from the government is free – this is product of a history of the state delivering everything, but it was also perpetuated by recent governments who provided goods and services for free in hope of winning votes. This perception undermined many initiatives of recent governments to provide goods and services on credit, as people did not repay the loans and often the government did not enforce repayment.

In addition to these initiatives aimed at increasing production and productivity, the NPP government also funded several social incentive packages for cocoa farmers, including farmer bonuses, the Cocoa Farmers Pension and Housing Scheme, which provided decent housing for cocoa farmers, and the Cocoa Farmers' Scholarship Trust Fund, which provided scholarship awards to children of cocoa farmers.[51] Notably, these programs were continued by the NDC government under President Mills.

5.3. Little effort to modernize agriculture and support agribusiness outside of cocoa

Outside of the cocoa sector, agricultural expenditure was largely dependent on donor funding, and thus so was the Ministry of Food and Agriculture. There were over 10 donors with projects in agriculture. Donors continued into the 2000s to provide most of the financing for the Ministry's development programs, covering over 90 percent of the service and investment components of the Ministry's budget in 2004, leaving the government to pay personal emoluments and administration costs (Sarpong 2007). The Ministry's financial dependence on donors was partly due to the government's priorities. Budget allocations to the Ministry for agricultural initiatives not related to cocoa did not meet planned targets and declined over the period the NPP was in government.[52]

The World Bank was the largest source of finance, and the NPP Cabinet confronted the same Agricultural Services Sub-Sector Investment Project that the NDC Cabinet rejected. The NPP Cabinet also did not like the Project as it was designed and wanted to restructure it to include new activities such as support for agribusiness (Voisard & Jaeger 2003). After almost a year of delaying, the government signed the loan on the understanding that once signed it would be easier to make modifications, rather than insist on an immediate redesign of the project which would take a long time.[53] The restructuring took over a year, as the World Bank commissioned feasibility studies on the new activities proposed by the Ministry. In

50 The fertilizer company's scheme involved group contracts where all group members are affected if one member does not repay.

51 A-G. Abdulai, draft chapter of his PhD thesis, University of Manchester. Personal communication.

52 World Bank, Program Document for a proposed credit for a Ghana Agriculture SWAP (AGSSIP II), Report No. 43477-GH, p. 35.

53 World Bank Agricultural Services Subsector Investment project, Implementation Completion Report, Report No ICR0000589, 30 November 2007.

2004, the project was officially restructured to include four new initiatives that were production-oriented and reducing the institutional reform component. The new initiatives included the Horticulture Export Industry Initiative, Development of Oil Palm Industry (which involved support to the Oil Palm PSI), Rehabilitation of Irrigation Schemes, and Community Fisheries Infrastructure Development. Almost all activities under the first three initiatives were completed with positives results, but little progress was made on the last one because the feasibility studies were more expensive than budgeted for and could not be undertaken. The titles of the initiatives are more grandiose than the actual actions involved, which were rather small in scope.

In 2002, the Ministry produced a sector policy, largely synthesizing existing donor projects but also proposing new initiatives, but these initiatives went unfunded. The sector policy was updated in 2007, and was supposed to be the basis for sector budget support provided by a few donors. The policy was the outcome of joint donor-government planning, but remained at the level of broad objectives. Sector policies are written largely with an eye to appeasing donor interests but also trying to cajole them into supporting ministry officials' priorities and using ministry systems. Detailed implementation arrangements come later during negotiations on specific projects. While the NPP ruling elite exited office, the sector budget support with its matrix of actions that must be achieved was waiting for the next set of politicians.

The Government committed little of its own resources to investment in agriculture, outside of cocoa, and that which was committed was spread around (including government counterpart funding to donor projects) to a large number of uncoordinated projects. Most of the government's own revenue paid for 'recurrent expenditure' in the budget, which includes administration and personal emoluments (salaries).[54] There were several donor-funded projects that had components supporting the horticulture export industry (see Whitfield 2011b). The largest one was the US-funded Millennium Challenge Account grant, which was supposed to create a competitive horticulture industry, but in the end became a USD 547 million grant signed in 2006 that aimed broadly at commercializing agriculture. The program took a whole year to set up, as it involved the creation of a new government agency, and by the time of the December 2008 elections, it had achieved little on the ground – much to the disappointment of President Kufuor.

The NPP government had several initiatives outside the remit of donor funding, which indicate what kind of productive sector initiatives the NPP ruling elite wanted to support. Many political leaders stressed that mechanization was essential to modernizing agriculture (deGrassi 2007). In order to improve access to tractors, tractors were imported from India and the Czech Republic through trade and investment deals and then sold or leased to farmers. The NPP government also focused on large-scale agroprocessing through two strategies. The first was tax incentives, largely aimed at attracting foreign direct investment.[55] These incentives included a five year tax holiday for certain industries in agriculture and agroprocessing business and a 25-50 percent tax rebate for businesses located outside the Accra-

54 'Public Expenditure and Institutional Review: Ghana's Ministry of Food and Agriculture', Ghana Strategy Support Program, April 2009, International Food Policy Research Institute.

55 'Winning the Processing Game', Ghana horticulture, October 2008, a publication of the Federation of Associations of Ghanaian Exporters. See also Ghana Investment Promotion Centre website, http://investinghana.org.

Tema area. Free Zone status was available to agroprocessors meeting the 70 percent export threshold.

The second strategy was to rehabilitate old state-owned processing factories through public-private partnership and even creating new state-owned factories with foreign expertise.[56] Through the district industrialization program at the Ministry of Trade and Industry, the tomato processing factory in the Upper West region of northern Ghana was revived and entered an agreement with a foreign food company to distribute the products. Another former state-owned tomato processing factor in the Brong Ahafo region was revived through an interesting partnership of the Ministry of Food and Agriculture and the German aid agency (assisting tomato farmers in the production side), a domestic private company (owning and investing in the processing factory, albeit with some farmer ownership), and the foreign multinational Unilever (buying and distributing the products). Lastly, through the President's Special Initiatives, the government set up a new state-of-the art cassava starch processing factory in the Eastern Region, which bought cassava from local farmers in the surrounding area.

However, government leaders put little emphasis on improving production and productivity of raw materials, and thus there was no sustained effort to ensure viable and competitive production of raw materials required by these processors. Increasing agricultural production (volume), improving productivity (yields), and focusing on quality (appropriate varieties for processing) are required in order to making agroprocessing viable in Ghana. Ghanaian farmers were not able to produce raw materials at sufficiently high levels of output, at sufficiently low costs, and of sufficiently high quality to enable domestic processing to be competitive with imported products, especially in the case of tomato paste. All the factories also ran into the problem of side selling by contracted farmers, who sold their produce to the local market when domestic traders offered a higher price. Factories had to shut down in the face of insufficient supply. The private investor owning the tomato factory in Brong Ahafo created his own nucleus farm to supply raw materials. The northern tomato factory continued struggling to improve relations with local farmers. And the cassava starch factory tried to create a nucleus farm, while the Ministry of Food and Agriculture supported local farmers to grow a processing variety. In general, the publicly funded projects aimed at increasing production, productivity, and quality did not sufficiently expand the supply base of agricultural crops to a level that could meet the volume and price requirements of agroprocessing. The only sector where attempts at agroprocessing in the 2000s were successful was in fruit juice, salads and dried products, and this was because an adequate supply base already existed, especially in pineapple (see Whitfield 2011b). However, even in that sector there were problems, with one foreign-Ghanaian joint venture in an orange juice factory in the Central Region closing due to supply problems. The strategy of 'building it and they will come' (with 'they' referring to local farmers in the area) does not work, as the experience of the 2000s forcefully demonstrated.[57]

The other challenge that must be addressed in order to make agroprocessing and agricultural production in general profitable when

56 On the tomato production and tomato processing factories, see Robinson and Kolavalli (2010a, 2010b).

57 Personal observations. See also 'Winning the Processing Game' (op cited), pp. 9-11.

producing for the domestic market is competition from imports. Key products in Ghana's domestic market for which import competition is a problem include rice, poultry and tomato paste, and notably these imported products typically benefited from subsidies in the country of origin. Import quotas were abolished in 1992, and tariffs for imported agricultural produce were reduced to 20 percent by 2000. The ensuing competition from foreign tomato paste was part of the reason that the state-owned tomato processing factories closed down, while the surge in imported tomato paste in the 2000s added to the problems of the government's attempt at reviving tomato processing in Ghana (Robinson & Kolavalli 2010a).

Rice and poultry production declined significantly in the 2000s, which coincided with a steep rise in imports. Notably, the NPP government in its 2003 budget statement announced increases in the tariffs on these two commodities. The tariff on imported rice was to be raised from 20 percent to 25 percent, and the tariff on poultry was to be raised from 20 percent to 40 percent. However, the implementation of the tariff increases was suspended shortly after the increases were passed into law. In 2004, a Ghanaian advocacy NGO formed the Ghana Trade and Livelihood Coalition in order to lobby for the implementation of the law in particular, and more generally to campaign for policies to support rice, tomato and poultry production. Rice producers are typically smallholder farmers, so the NGO was campaigning on their behalf. Poultry farmers tend to be small to medium-sized commercial farmers, who had their own organization. The Ghana National Association of Poultry Farmers took the government to court over non-implementation of the law, with support from a public-interest law organization linked to the advocacy NGO. The High Court of Ghana ruled that the suspension of tariff increases was unconstitutional in March 2005, but a week later the NPP government had the law repealed through its majority in Parliament.[58]

Why were the tariff increases introduced in the first place? The Ghana National Association of Poultry Farmers had lobbied the NPP government to stop the massive rise in imported chicken that began in 2001.[59] Most of the imported chicken was from European countries and was sold at a price one-third cheaper than Ghanaian chicken.[60] The Association produced a strategy for government support to the poultry industry through graduated import tariffs, investment and use of chicken in schools. In the text of the 2003 budget, the NPP government explains the rationale for the tariff increases as a desire to save foreign exchange; in 2003, Ghana was importing 58 percent of the rice consumed domestically.

Why were the tariff increases not implemented? The advocacy NGO, which had created the Coalition, investigated the issue along with Christian Aid UK (an international NGO) and interviewed many government officials in the Ministry of Finance and Ministry of Trade and Industry as well as IMF staff involved. These organizations argue that the IMF applied

58 Ghana: democracy under attack', in The Damage Done, a Christian Aid UK publication, 2005, accessed at www.christianaid.org.uk/indepth/505caweek/index.htm. See also the Ghana African Peer Review Mechanism report, p. 29; and 'The State of the Ghanaian Economy in 2003', Institute for Statistical, Social and Economic Research, 2004, p. 102

59 'Ghana: democracy under attack' (op cited).

60 The low price of European imported frozen chicken was shaped by two factors: subsidies paid to European grain farmers which affected chicken prices, and that European companies were sending low-grade meat for which they had no use and it was easier to send to West Africa than to dispose of in their country. See 'Devastating Floods – man made: European trade policy violates right to food in Ghana – chicken and tomatoes', Germanwatch, May 2008, accessed at www.germanwatch.org/handel/tomachi.htm.

serious pressure on the Ministry of Finance to reconsider the tariff increases. Their argument seems plausible, given the direct quotes they have from government officials and IMF representatives, as well as written communication from the IMF external relations office explaining why the IMF was opposed to the tariff increases.[61] It seems that Ministry of Finance leadership was unwilling to take on the IMF in this case, thinking it was not worth the battle. The IMF's arguments could have been refuted, and were by the Ghanaian NGO pointing to existing research on the poultry and rice sectors which contradicted IMF claims as well as the fact that there were no legally-binding agreements that the Ghanaian government was contravening. The increase in tariff rates was modest and well below what Ghana is allowed under WTO rules, which was 99 percent. In 2003, the NPP government had a lending agreement with the IMF, in which the government committed itself to avoiding the use of import tariffs to protect local industries and the elimination of import surcharges. Given that the NPP government needed to meet IMF conditionality in order to achieve debt relief, it is likely that the goal of debt relief overrode support to local industries.

The NPP government completed its lending agreement with the IMF in 2006 and did not enter into another IMF agreement during the rest of the party's tenure in power. Yet, the issue of raising tariffs never came up again, despite further lobbying by the Ghana Trade and Livelihood Coalition.[62] Importing rice and chicken became 'big business'. Rumors in Accra circles pointed to connections between importers and NPP government ministers, but there is no hard evidence of any such connections.[63] What is more certain is that the NPP ruling elite preferred to subsidize urban consumption through cheap imports, then to implement strategies to improve domestic agriculture and agroindustries.[64] In defence of repealing the tariff increases, government officials claimed that they were reluctant to impose higher tariffs because the local industries could not meet the demands of the domestic market. In light of rising global food prices in mid-2008, which was an election year, the NPP government completely removed the existing import tariff of 20 percent on rice. Notably, the new NDC government reinstated the rice tariff in 2010 and raised it to 35 percent in 2011, despite massive outcry in the media from rice importers.[65]

61 'Ghana: democracy under attack'; letter from Thomas Dawson, Director of External Relations Department sent to Christian Aid UK Director on 2 August 2005, and Christian Aid UK response to IMF dated 9 September 2005..

62 The Coalition produced a study on the rice sector with specific recommendations for increasing the tariff and provided economic analysis of the benefits, and the Coalition made a presentation to the relevant Parliamentary committee. Sources: Interview with the Coalition coordinator in June 2008, and documents including the research paper and presentation to Parliament.

63 There were five large importers which controlled 77 percent of rice imports, as of 2009. There is little background information readily available on these companies, although some of them are clearly multinational firms.

64 Rice is mostly consumed in urban areas, as Ghanaians' preference for rice over other sources of carbohydrates increases as their incomes rise. See 'Global Food Security Response, Ghana Rice Study', MicroReport No. 156, August 2009, USAID.

65 Research by A-G. Abdulai. Personal communication.

6. CONCLUSIONS

Recurrent macroeconomic instability in Ghana is a direct result of competitive clientelism. Ruling elites across governments met broad distributional pressures with side payments that 'broke the bank', as part of their strategies for maintaining their ruling coalition and winning elections.[66] These fiscal deficits largely financed consumption, which is different from increasing public debt in order to fund economic expansion that increases productivity and eventually government revenues.

The evidence presented above shows that macroeconomic instability had significant, negative economic effects in general, and in particular on investment in and the performance of productive sectors. However, Ghana's competitive clientelism politics cannot be the sole source of the country's recurrent macroeconomic instability and its lack of economic transformation, because competitive clientelism in other countries, such as Thailand and Bangladesh, has occurred alongside a better track record in economic transformation. The analytical framework presented in Whitfield and Therkildsen (2011) helps to pinpoint other factors at play. These factors can be illustrated through a comparison with Thailand, which also has competitive clientelism (Doner & Ramsay 1997). Thailand was able to maintain macroeconomic stability because the country had a 'bifurcated state', where the Central Bank and the Ministry of Finance were well insulated from political pressures (up to 2001) as result of a history of fiscal caution and institutional coherence in these state organizations, while other ministries were more politicized and fragmented. Thailand's better economic performance in agroindustries and manufacturing industries can be attributed to an existing group of Sino-Thai capitalists with core economic interests in export sectors, upon which ruling elites depended to finance their political activities, and who in return influenced economic policy. These countervailing forces explain why competitive clientelism in Thailand led to better economic outcomes than in Ghana.

The cocoa export industry seems to be the only productive sector success story within competitive clientelism in Ghana. The industry is successful on several levels. First, successive governments under both parties negotiated very strongly with the World Bank and other donors regarding government preferences, largely controlled the pace of reforms, and proposed their own solutions for reform. Ghana is the only country in West Africa that retained a state regulatory presence, including a quality control system. Part of the government's ability to negotiate strongly was that the government had an identified preference supported by technocrats in the Cocoa Board and political leaders, as well as the international cocoa buying companies. Limited liberalization of the cocoa sector, where the Cocoa Board retains entire control of exports and a large presence in the internal market, was declared the preferred government strategy in the 1999 Cocoa Sector Development Strategy, due to its strategic importance. The situation of limited liberalization seems to be the desired 'end-stage' of reforms by the Cocoa Board officials and supported by the political elite from both political parties.

Second, government organizations supporting and regulating the industry work, and government interventions are targeted and implemented fairly well. The Cocoa Board is a well-functioning and well-resourced government agency that has the ability to carry out research and development, external marketing

66 For a general discussion of ruling elites, coalitional pressures and economic development, see Doner et al. (2005).

and raising external financing, and quality control. However, we have seen that its strength was tested with the ability to implement the Hi Tech program. This was partly due to the dismantling of cocoa extension services under the Cocoa Board and integrating them into the general agricultural extensions service under the Ministry of Food and Agriculture – a reform pushed by donors. But it was partly due to the political settlement, where goods and services provided by the government are seen as government largesse, and the government's weak enforcement of the institution.

Third, there have been successes on the economic side, although these were less spectacular. Government interventions increased productivity among farmers in the 2000s, but yields are still far below the level in other countries (Breisinger et al. 2008; Vigneri 2007). Cocoa production was still characterized by low-technology cultivation, very small farms, and a high use of family labour due to inability to afford wage labour. Export earnings from processed cocoa products increased. The state-owned Cocoa Processing Company was rehabilitated and expanded during the 2000s, and by 2009 it had more than doubled its yearly processing capacity (Kolavalli & Vigneri 2011: 6). The Cocoa Board has invested jointly with a German company in a grinding factory (Fold 2002: 233). Two newer cocoa grinding and processing factories were set up by international chocolate manufacturing companies in the free zone/multipurpose industrial park in Tema during the 2000s.[67] This trend was due to the creation of the export free zone combined with Ghana's reputation for high-quality cocoa beans and increased global demand. The share of cocoa processed in Ghana remained small and below the African average of 8-12 percent and well below that of the Ivory Coast which ground 48 percent of its beans. Lastly, linkages between the cocoa sector and other sectors of the economy, such as food industries, are low.

It is very difficult for Ghana to access the existing opportunities in value-added. If Ghana produces cocoa butter, then buyers have to include an extra processing stage (of melting), resulting in a discount on the sales prices (Fold 2002: 234). In addition, the range of products that can be offered by processors in Ghana are limited as their products are based on only one type of bean (the locally grown variety), and end-market processors usually blend a range of beans. Thus, the premium on Ghanaian cocoa beans is lost if they are transformed to processed goods such as cocoa butter, which is more or less a standard product. Multinational companies have invested in cocoa-producing countries more out of the necessity to secure access to supply than for economic reasons. Furthermore, the cocoa industry is characterized by a small set of vertically integrated grinder-chocolate manufacturers and retail chocolate manufacturers. This structure presents serious challenges for prospective entrants. In sum, cocoa is a challenging crop from which to capture greater value through agro-processing because it is characterized by a highly consolidated and integrated global value chain in which the dominant companies located in the key consumption markets in the US and the UK have substantial assets and marketing power.[68] There are opportunities for a country like Ghana, but they will take serious political commitment from the ruling elites in order to materialize.

67 Barry Callebaut set up a cocoa processing factory in 2001 and expanded it in 2005 and again in 2007. Cargill built a cocoa processing factory in 2007, which started operating in 2008.

68 'The Cocoa Agri-Processing Opportunity in Africa', report produced by African Center for Economic Transformation and Dalberg Global Development Advisors. Draft. Not yet published.

Why have ruling elites across different governments in Ghana supported cocoa exports since the 1980s? In other words, why has the cocoa export bean industry received sustained political support? The obvious reason is its huge economic importance. At the beginning of the Economic Recovery Program, the economy was still geared towards this one export commodity, even though it had been strangled. During the 1990s, this situation changed as gold became equally important in terms of exports, but cocoa still brought in significant government revenue and had strong multiplier effects in the economy and affected the livelihoods of a large part of the population in the southern part of the country. But beyond the economics, there were other factors at play. Cocoa not only has a long history in the country, government technocrats also have a long history of working with the industry. Despite the decline of cocoa production in the 1970s, the Cocoa Board remained a depository of institutional memory and expertise. Cocoa Board technocrats played an important role in providing information to ruling political elites who were negotiating with the World Bank. Even though PNDC leaders sometimes sided with the World Bank against the suggestions of the Cocoa Board staff, the staff had the expertise and experience and were confident in formulating their own analyses and proposals (Hutchful 2002: 68-69). This continued in the 1990s, and the Cocoa Board seemed to grow more confident, especially after international consultants supported its position that full liberalization and privatization was not the best strategy. Lastly, the economic importance of the sector has meant that the ruling elite allocated the necessary resources to the Cocoa Board to allow it to function well. The Cocoa Board became independent from reliance on government and donor resources, as it secured financing through syndicated loans from a consortium of banks and international chocolate companies. Some observers suggest that the Board's independent financial base helped it to deflect donor pressure for full liberalization.[69]

The support to the cocoa sector by all Ghanaian governments in the period studied here is in stark contrast to these same governments' approach to the new horticulture export industry that emerged slowly in the 1980s. The third working paper describes the general lack of political support for the horticulture export industry and thus the inattention to the industry's needs, and explains why donor projects had a limited impact on the industry (Whitfield 2011b).[70] The fourth working paper looks at the NPP government's initiative in the oil palm industry and why it was largely unsuccessful, focusing on fragmentation among the NPP ruling elite and its effects on policymaking and implementation (Whitfield 2011c).

69 A-G. Abdulai, PhD thesis material, interviews with Cocobod staff, May 2011. Personal communication.

70 See Whitfield (2010) for a detailed study on how the industry emerged and the crisis it faced in the mid-2000s.

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