Aid as a Catalyst to Development?

The Case of Ghana's Political and Economic Transformation (1957-2013)

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Hulp als katalysator voor ontwikkeling?

Ghana's politieke en economische transformatie (1957-2013) als casestudy

Thesis

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I dedicate this thesis to my Princess, Jonicle Awortwi.
(You are the broken road that led to this.)
With special mention for my beloved soulmate,
Dr Nicholas Awortwi, Winston (Kobby) and Jaden Awortwi.

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Acronyms

AFRC	Armed Forces Revolutionary Council
AGI	African Governance Indicators
AGOA	Africa Growth and Opportunity Act
APRM	African Peer Review Mechanism Indicators
ATR	African Transformation Report
BC	Catholic Bishops' Conference
BoP	Balance Of Payments
CCG	Christian Council of Ghana
CDR	Committee for the Defence of the Revolution
CGD	Commission for Growth and Development
CHRAJ	Commission on Human Rights and Administrative Justice
CPI	Corruption Perception Index
CPP	Convention Peoples Party
CSO	Civil Society Organisations
DA	District Assemblies
DAC	Development Assistance Committee
DACF	District Assemblies Common Fund
DCE	District Chief Executives
DFID	Department for International Development
EC	Electoral Commission
EDA	Effective Development Aid
ERP	Economic Recovery Programmes
FDI	Foreign Direct Investment
FHI	Freedom House Index
GBA	Ghana Bar Association

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GNPC	Ghana National Petroleum Corporation
GoG	Government of Ghana
GPRS	Ghana Poverty Reduction Strategy
GPRTU	Ghana Private Road Transport Union
GDP	Gross Domestic Product
GNP	Gross National Product
GPRS	Growth and Poverty Reduction Strategy
HIPC	Highly Indebted Poor Countries
IDEP	Institute for Planning and Development
IFI	International Financial Institutions
IIAG	Ibrahim Index of African Governance
IMF	International Monetary Fund
IPAC	Inter Party Advisory Committee
ISI	Import Substitution Industries
LG	Local Government
MCA	Millennium Challenge Account
MDBS	Multi-Donor Budget Support
MDG	Millennium Development Goals
MFJ	Movement for Freedom and Justice
MP	Member of Parliament
NDC	National Democratic Congress
NEC	National Electoral Commission
NGO	Non Governmental Organisation
NLC	National Liberation Council
NPP	New Patriotic Party
NRC	National Redemption Council
NUGS	National Union of Ghana Students
ODA O	fficial Development Assistance
OECD	Organisation for Economic Co-operation and Development
PAMSCAD	Programme of Actions to Mitigate the Social Costs of Adjustment
PDC	People's Defence Committees
PNDC	Provisional National Defense Council

PNP	People's National Party
PP	Progress Party
PPP	Purchasing Power Parity
SAP	Structural Adjustment Programme
SMC	Supreme Military Council
SWAp	Sector Wide Approach
SSA	Sub-Saharan Africa
TUC	Trades Union Congress
UNCTAD	United Nations Conference on Trade and Development
UP	United Party
WB	World Bank
WTO	World Trade Organisation
WGI	Worldwide Governance Indicators

Acknowledgements

Finally, today is the day: writing this note of thanks puts the finishing touch to my dissertation. It has been a period of intense learning for me, not only in the scientific arena, but also on a personal level. All glory be to God, whose mighty hand has sustained and completed this. Writing this dissertation has had a big impact on me. I would like to reflect on the process and put on record the many people who have supported and helped me so much throughout this period.

Foremost, I would like to express my sincere gratitude to my promotor and supervisor, Professor Wil Hout, for his continuous support during my PhD studies, for his patience, motivation, enthusiasm, immense knowledge and the detailing of the thesis when I least expected it! I acknowledge the opportunity and honour of writing and presenting the conference paper with him ('Unintended Effects of International Cooperation' – an academic & policy cross-over conference at the Netherlands Ministry of Foreign Affairs, The Hague, on 16th and 17th of January 2017). Professor Hout, you have been a tremendous mentor for me, especially during the difficult periods with my daughter's surgery and the many times you had to ask for extensions because of these. I would also like to thank Dr Arjaan de Haan, my second supervisor, who had to make his substantial inputs from afar. Even though we communicated from a distance and the time difference, you were always available and even had to plan a trip to be available for the FDS. We rarely communicated, but when we did you asked the most important questions and pointed out the weaknesses of the thesis. Your advice has been priceless. In addition, I wish to acknowledge my field supervisor, Professor Peter Quartey, Head of the Department of Economics at the University of Ghana and a senior economist at ISSER, for his great support and efforts to arrange interviews and provide crucial data, as well as for his encouragement and advice on my career path. Through you I had the privilege of meeting and enjoying great support from many high profile people including a former head of state, past and present government officials, donors, academicians, social commentators and civil society organisations. I acknowledge your availability and the many interviews you granted me. Besides this team, I would like to thank the doctoral committee for their insightful comments, and especially members of it who were present at all the seminars even though that involved difficulties. Some of your hard but brilliant questions, comments and suggestions gave me the incentive to widen the research from various perspectives. I also wish to thank the PhD secretariat at the International Institute of Social Studies–Erasmus University (ISS), for their hard work, understanding, dedication and timely information. I thank the ISS, which kindly gave me the opportunity to undertake my PhD studies. My editor, Amin Kassam, and formatter, Joy Misa, have made this thesis more readable, for which I am grateful.

Writing my PhD has been rewarding. It offered distraction from the joys and challenges of full-time motherhood, giving me the opportunity to think scientifically instead of the usual mummy/children domestic chores. It offered me rich knowledge of economics, dimensions of development assistance, governance, and of course industrial chemistry. Having said this, my PhD trajectory was not easy. It does not help if you are a full-time mum with active schoolchildren who love to engage in extracurricular activities, and who have to be provided with special help as well, when you are married to an international career husband whose absence is irreplaceable, particularly when you experience some personal turmoil. Through it all, one scriptural passage from the holy book was paramount:

> *And the LORD answered me, and said, Write the vision, and make it plain upon tables, that he may run that readeth it. For the vision is yet for an appointed time, but at the end it shall speak, and not lie: though it tarry, wait for it; because it will surely come, it will not tarry (Habakkuk 2:2&3, King James Version).*

And now I can say: at the appointed time, the vision came to pass!

I still have many to thank for their diverse support: a special thanks to my nuclear family. Words cannot express how grateful I am to my soulmate, Dr Nicholas Awortwi, whose dream has given birth to this reality! I met you when I was about to finish my Bachelor's degree whilst you were halfway through your PhD studies. You fought and pushed me to study for a Master's degree, but even after that still did not rest until today. It was not by coincidence that I occupied the very office you used years back at the ISS! Honey, you have been there from the very beginning and have always provided me with a shoulder to cry on, a listening ear, and above all considerable tolerance and absorption during my bad moments and behaviour. You made many surprise visits and embarked on trips that enabled you to make a stop at our home. Honey, you gave what was bigger than yourself. Despite the many time differences (depending on your location), you were always accessible. Many times, you had to excuse yourself from several meetings to return a missed call or listen to me cry over little-to-major issues, and your instant solutions worked better than magic. Emotionally, you made me strong, you gave every bit of yourself to make sure I climbed up the ladder, even at the expense of your health! Financially, you were in partnership with ISS, sponsoring me throughout. You took time off from your busy schedule to be with the children and ran errands so that I could have flexibility to work. You provided more than enough resources in kind and cash for us to see this day. I can write volumes, but let me put on record that I really appreciate every single one of your efforts. God bless and reward you.

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Abstract

Ghana's economic and political past and present show that foreign aid has provided support for infrastructural development, budget financing, macroeconomic policy reforms, institutional restructuring and political reforms. Existing literature and pronouncements by leading aid advocates and development practitioners also indicate that aid is a potential catalyst to development. Using the case of Ghana's trajectory of economic and political transformation from 1957 to 2013 (categorised into three phases), the thesis postulates that aid can be a catalyst to development in so far as endogenous drivers in the recipient country are predisposed to react positively to it; otherwise there are little returns to development.

The study metaphorically applies five attributes of a catalyst from industrial chemistry, and three analytical approaches, including process-tracing, to construct a chain of causal mechanisms and effects between foreign aid and Ghana's endogenous resources, institutions, structures and actors. Inferring from the outcomes of Ghana's transformation, the thesis shows that foreign aid was least catalytic to economic and political transformation in phase I (1957–82); most catalytic in phase II (1983–92) and largely ineffectual in phase III (1993–2013) especially the later part of that period.

Reflecting on the findings of the case study to draw larger theoretical and policy implications, the thesis suggests that aid can be a catalyst to development when (i) a substantial part of it is invested in the recipient's economically productive sectors with the objective of promoting structural transformation; (ii) the recipient country's political settlement is led by a dominant political party with visionary and disciplinary leadership; (iii) the recipient country has exportable value-added products; and (iv) a professional and technocratic bureaucracy. The findings imply that long-term economic transformation and a best-fit political system should become an important goal to be facilitated through aid in developing countries.

Hulp als katalysator voor ontwikkeling? Ghana's politieke en economische transformatie (1957-2013) als casestudy

Samenvatting

In Ghana's economische en politieke heden en verleden heeft buitenlandse hulp steeds bijgedragen aan infrastructurele ontwikkeling, financiering van de begroting, macro-economische beleidshervormingen, institutionele herstructurering en politieke hervormingen. De bestaande literatuur en uitspraken van ontwikkelingswerkers en vooraanstaande pleitbezorgers van ontwikkelingshulp geven ook aan dat hulp een potentiële katalysator voor ontwikkeling is. Op basis van onderzoek naar de economische en politieke transformatie in Ghana van 1957 tot 2013 (onderverdeeld in drie fases), wordt in dit proefschrift betoogd dat hulp kan fungeren als katalysator voor ontwikkeling mits endogene krachten in het ontvangende land er positief tegenover staan; anders levert de hulp weinig op voor de ontwikkeling.

Vijf eigenschappen van een katalysator uit de chemische technologie worden in het onderzoek als metafoor gebruikt, en er worden drie analytische benaderingen waaronder process-tracing toegepast om een keten van causale verbanden te leggen tussen buitenlandse hulp en Ghana's endogene hulpbronnen, instellingen, structuren en actoren. Op basis van de resultaten van de transformatie in Ghana laat het proefschrift zien dat buitenlandse hulp het minst van invloed was op de economische en politieke transformatie in fase I (1957-82); het meest in fase II (1983-92) en nauwelijks in fase III (1993-2013), vooral niet in het laatste deel van die periode.

De resultaten van de casestudy hebben bredere implicaties voor theorie en beleid, die in dit proefschrift worden geschetst. De resultaten wijzen erop dat hulp kan fungeren als katalysator voor ontwikkeling wanneer (i) een substantieel deel wordt geïnvesteerd in economisch productieve sectoren van de ontvanger met als doel het bevorderen van structurele transformatie; (ii) het ontvangende land wordt geleid door een dominante politieke partij met visionair en strak leiderschap; (iii) het ontvangende land beschikt over exportproducten met toegevoegde waarde en (iv) een professionele en technocratische bureaucratie. De resultaten impliceren dat economische transfor-

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matie op de lange termijn in combinatie met een politiek stelsel dat het meest passend is een belangrijk doel moet worden dat te faciliteren is door hulp aan ontwikkelingslanden.

1 Research Setting: Misunderstanding and Misinterpreting the Role of Foreign Aid in Development

1.1 Introduction

This thesis investigates the catalytic effect of foreign aid on three phases of Ghana's economic and political transformation and development from 1957 to 2013. The starting point of the study is the existing literature, which suggests that foreign aid can be a catalyst to development in developing countries (Rosenstein-Rodan, 1961; McKinnon, 1964; Chenery and Strout, 1966; Pronk, 2001, 2003). In addition to the literature, there have been a number of pronouncements by leading aid advocates on the relationship between aid and development. In 1949, Paul Hoffman, head of the Economic Cooperation Administration, told the US Congress that the Marshall Plan[1] had provided the 'critical margin' on which other investments needed for European recovery depended (quoted in Hogan, 1987:189). In recent times, the longest serving Dutch Minister of Development Co-operation, Jan Pronk, has pronounced aid as a catalyst to transformation of the policies and institutions necessary for development in developing countries (see Pronk, 2001 series in *Development and Change)*. Andrews supported the pronouncement and indicated that "since the time of the Marshall Plan to present, and due to its success, aid has been seen by many as a catalyst to economic growth, and has thus been applied in many countries all over the world" (Andrews, 2010:95).

Beyond foreign aid as capital flows to developing countries, the word "catalyst" is also used in some of the literature to describe the roles played by aid actors such as the International Monetary Fund (IMF) and the World Bank in the economies of developing countries (Bird and Rowland, 2004; Bird et al., 2000). This is because the decisions these organisations make regarding the financial health of a country influence other private capital flows into a recipient country. A former Minister of Finance in Ghana reminded the author of this study "the IMF in particular serves as a 'senior prefect' to ministries of finance and central banks in aid recipient countries that have signed policy and programme agreements with them to improve fiscal and monetary discipline. With IMF and the World Bank's seal of approval, bilateral donors have confidence in your economy" (Interview, July, 2013). This makes the Bretton Woods institutions a different form of catalyst in the aid discussions. Their presence and monetary/fiscal policy engagement with a recipient country can provide assurance to market investors and bilateral donors for new/additional aid to the country.

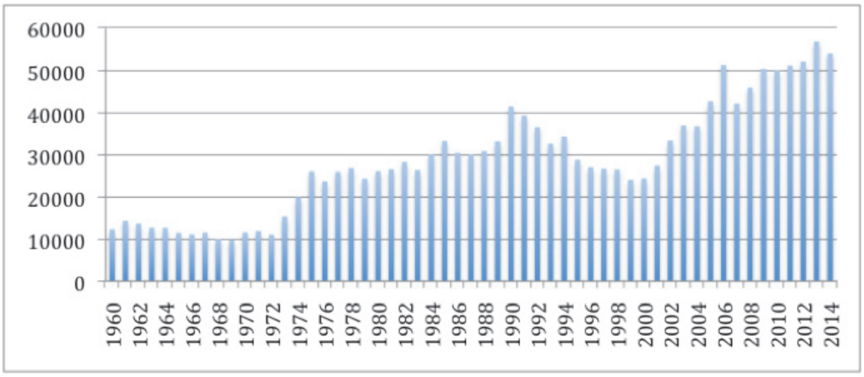
Foreign aid[2] was introduced into the system of international relations as a short–term measure to save lives during emergencies and to contribute to economic growth and development as a long-term objective (Cassen, 1994; Edgren, 2002; Emmerij, 2002). In the development discourse, the giving of aid was premised on the assumption that, since the Marshall Plan helped Europe to rebuild its infrastructure, political and social institutions after the Second World War, attention could be shifted to the developing world to achieve the same objectives.

Moreover, right from the 1960s there was a theoretical economic argument that supported the giving of foreign aid.[3] Neo-classical growth theory predicts that there is a minimum threshold of capital that is needed before self-enforcing growth can be realised in a country. The implication is that in poor countries a massive injection of exogenous capital in the form of foreign aid is needed to enable these countries take off in development (McKinnon, 1964). This was the justification for the big push for aid in the 1960s. According to McKinnon, a low-income country requires substantial investment, which cannot be financed through low savings. Foreign aid, therefore, provides the additional financing that countries with low savings and investment need to propel economic growth. By supplementing domestic resources, foreign aid facilitates the growth of gross national product (GNP) and ultimately development—that is, improvement in the standard of living of the citizens in the recipient country. In the long run, the need for foreign aid disappears as recipient countries transform the economic and socio-political institutions that are necessary to sustain growth and development. In the end, as domestic savings, exports and tax revenue rise with GNP per capita, there is no more need for foreign aid.[4]

Consequently, the last five decades have witnessed a steady and global expansion of aid flows from rich countries to the developing world. During the 1950s and 60s, aid amounted to 10% of gross domestic product (GDP) or more in about 30 countries with populations of over one million people (Brautigam, 2000). It is now estimated that total global aid flows transferred from the developed world to developing countries have reached US$ 2 trillion over the past 50 years, out of which transfers to Africa amounted to over US$1 trillion (Moyo, 2009:35). Africa contains more countries that depend on foreign aid for a significant share of central government income than any continent. Although ODA to Africa as a share of Gross National Income (GNI) declined from 6.2% to 4.9% between 1990 and 2009, it still remains four times higher than the next most aid-dependent region -the Middle East.

Figure 1.1 shows annual disbursed aid flows from all donors (OECD-DAC and multilateral institutions) to Africa since 1960 in US 2014 constant prices, rising from an average of US$ 11.8bn a year in the 1960s to US$19.3bn a year in the 1970s. By 1990 ODA to Africa had reached a peak at US$ 41.6bn a year as successful developing states in Latin America and Asia 'graduated', freeing more resources for Africa. Japanese and European aid also increased, surpassing US contributions.

Figure 1.1
Annual ODA to Africa in constant 2014 US$ prices, 1960-2014 (billions)



Source: Calculated from OECD-QWIDS database (2016) https://stats.oecd.org/qwids/.

However, it fell to its lowest (US$ 26.6bn) by the end of the decade, following the end of the Cold War, with the collapse of the Soviet Union in 1991. At the beginning of the millennium (2000) ODA began to rise again, attaining an average of about US$ 44.2bn a year between 2001 and 2013. By 2013, ODA to Africa had risen to US$ 55.9bn a year (OECD-QWIDS, 2015).

As the quantum of aid increases, so does polarisation of arguments for and against its effectiveness as a catalyst to transformation and development in poor countries. Those who support it increasingly show that "aid matters" and that most of the aid succeeds in its developmental objectives, such as a drop in child mortality, improved access to clean water, control over diseases like smallpox and polio, expansion of universal primary and girls' education, and so on (Cassen, 1994; Sachs, 2005).

Foreign aid has provided support for large infrastructure projects (roads, energy and airports) that domestic revenue could not have financed. Apart from hard infrastructure projects, supporters of aid have also argued that it has helped to develop and advance institutions such as pluralistic form of politics. For example foreign aid has been used to support the transition from political conflict and instability to the organisation of credible elections. For many protagonist of aid, the economic turnaround of many Asian countries since 1960s is a testimony that "development aid works". According to Rahman (2008:150) and Lieshout et al. (2010:20) Botswana and the Republic of Korea achieved success through aid in the 1960s, Indonesia and Taiwan in the 1970s, Bolivia and Ghana in the 1980s, and Uganda and Vietnam in the 1990s. Botswana transitioned with foreign aid in the 1960s and 1970s and was no longer reliant on external finance by the 1980s. This group of countries have gone through crisis to rapid development as a result of aid, although it must be said that some of them have slid back after initial success.

At the other end of the spectrum are economists who believe that aid has not been effective in helping poor countries to transform their economies, but has instead led to dependency of the recipients on donors (Knack, 2000; Brautigam, 2000; Brautigam and Knack, 2004; Killick, 2005; Easterly, 2006; Moyo, 2009). They argue that, as the proportion of aid increases in the budget of governments in the developing world, so does corruption among the ruling elites. According to Moyo (2009), even with more than US$1 trillion of foreign aid to Africa, the money has failed to deliver sustainable economic growth and poverty reduction. Moyo and others with the same point of view often cite the case of the Democratic Republic of Congo (formerly Zaire) where decades of large-scale foreign assistance have left no trace of progress in that country. They contend that foreign aid has instead retarded Africa's development by substituting for, instead of supplementing, domestic savings, taxable income and investment, and further worsening the balance of payments deficit (Moore, 1998; Moyo, 2009). These arguments have gained much ground, and in combination with other factors like global economic recession and growing opposition to aid in donor countries, led to its reduction from the mid 1990s to early 2000. In most of their conclusions, critics like Easterly (2006) and Moyo (2009) suggest that development can only be achieved if it is home-grown.

The critiques about how effective aid is have been fuelled by analyses that appear to overemphasise the impact of external aid on a recipient country's development. The aid industry has perhaps made too many unsubstantiated claims about the effects of external finance, thereby leaving it open to criticism; aid can only serve as a catalyst when it is in addition to a developing country's own efforts to transform its society, improve government and policies, establish meaningful democracy, strengthen economic institutions, and so on (Pronk, 2001, 2003). Pronk contends that if aid were not considered to be "a direct cause of development, or its origin, its source or its prime mover, but were only perceived as a catalyst, many studies on its impact could have been left undone or replaced by less abstract analyses. Also, expectations concerning the results of aid could have been toned down and made more realistic" (Pronk, 2001:620). The ultimate aim of foreign aid is therefore to facilitate the role that endogenous drivers play to promote transformation of local structures, institutions and systems in the recipient country until there is no longer the need for a catalyst. Such a transformation process takes time and does not follow a single path. It involves different trajectories and different paces of change, driven by different kinds of agents that deploy different institutional arrangements (Polanyi, 1944:57).

Ghana has received foreign aid in its various forms since 1960 to supplement endogenous resources. External capital has financed major infrastructure projects and influenced macro-economic policies and institutional reforms. Generally, aid is said to have contributed to Ghana's current state of political and economic transformation and development.

On the other hand, it has also provided perverse incentives for endogenous agencies, institutions and actors to react in ways that work against the catalytic objectives of aid. This research examines the extent to which aid has had a catalytic effect on the Ghanaian political and economic transformation.

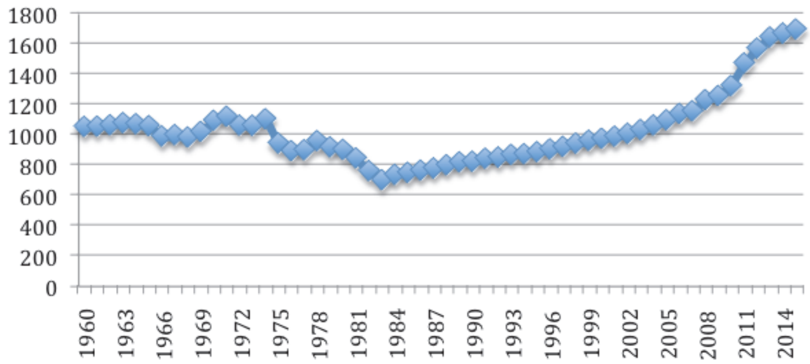
1.2 Background to Ghana's Development Trajectory (1957-2013)

1.2.1 Economic and political trajectory

Ghana's current economic and political path cannot be separated from its colonial past, policies and attempts to achieve self-development. Ghana was colonised for over a century by the British, a period during which mining, timber and cocoa were developed as the country's major drivers of economic growth. At independence in 1957, the country enjoyed a high economic and political head start unrivalled elsewhere in sub-Saharan Africa, with relatively high per capita income of US$ 390,[5] the same as South Korea and higher than Malaysia (US$ 270) and foreign exchange reserves of US$ 484m (Leith, 1996, 2003; Uphoff, 1972:222). With per capita income of US$ 490, Ghana was considered a middle-income country in the mid-1960s. In addition to its income, Ghana's parliamentary system of government was also considered complementary to the country's quest to achieve higher development. However, by 1966 Ghana had a negative balance of -US$ 391m in its foreign reserves, and by 1970 the country had slipped to low-income status (Berry, 1994).

By 1983, the economy of Ghana was at its lowest level, with Ghanaians suffering the lowest standard of living in the nation's history. Under the military leadership of Flt Lt Jerry John Rawlings, the country negotiated a structural adjustment and economic reform programme[6] with the World Bank and IMF (Berry, 1994; Aryeetey et al., 2000). Ghana's structural adjustment programme succeeded in reversing the downward spiral in production and exports. The economy recovered from large fluctuations in annual growth rates (and decline in GDP) to a hefty positive rate of 8% in 1984 (see Figure 1.2).

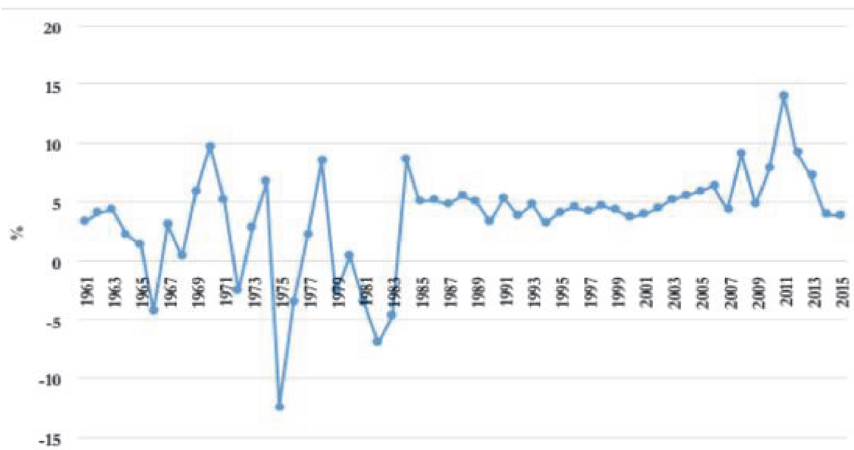
Figure 1.2
Ghana's annual GDP growth, 1961-2015



Source: Extracted from World Bank Database, 2016.

With annual GDP growth reaching 7.7% in 2010 and 13.6% in 2011 (propelled by oil revenue), GDP per capita in constant 2010 USD prices more than doubled between 1984 and 2013 (see Figure 1.3).

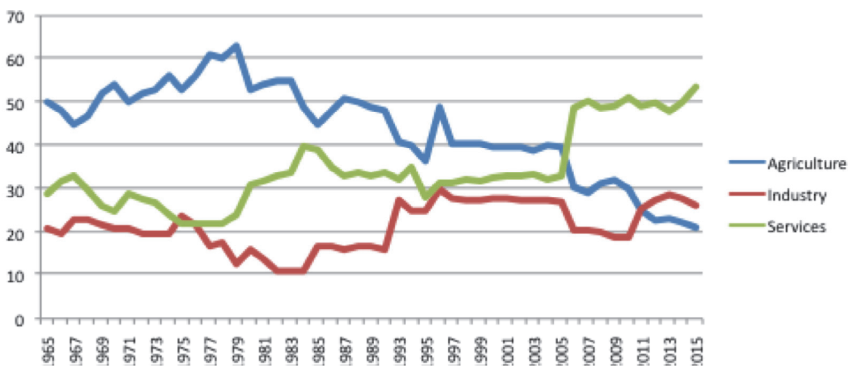
Figure 1.3
Ghana's GDP per capita in constant 2010 US$ prices, 1960-2014



Source: Computed from World Bank Database, 2015.

Again, with increasing GDP, the per capita purchasing power of Ghanaians started to rise. It more than doubled, from US$ 1,225 to US$ 2,755 between 1990 and 2008, and the World Bank estimated it to be US$ 3,974 in 2013 (World Bank, 2014). Ghana's level of development is further visible through the lens of its achievement of the millennium development goals (MDGs). Ghana was the first country in sub-Saharan Africa (SSA) to achieve the halving of the proportion of population in extreme poverty ahead of the UN target year of 2015. The overall poverty rate[7] declined substantially, from 51.7% in 1991/92 to 28.5% in 2005/2006 and 24.2% in 2013 (Ghana Statistical Service, 2007; *Ghana Report*, 2010, 2014) due to significant improvements in economic growth, accompanied by social and economic policies on poverty reduction.

Figure 1.4
Contribution of agriculture, industry and services to GDP in Ghana, 1965-2015 (%)



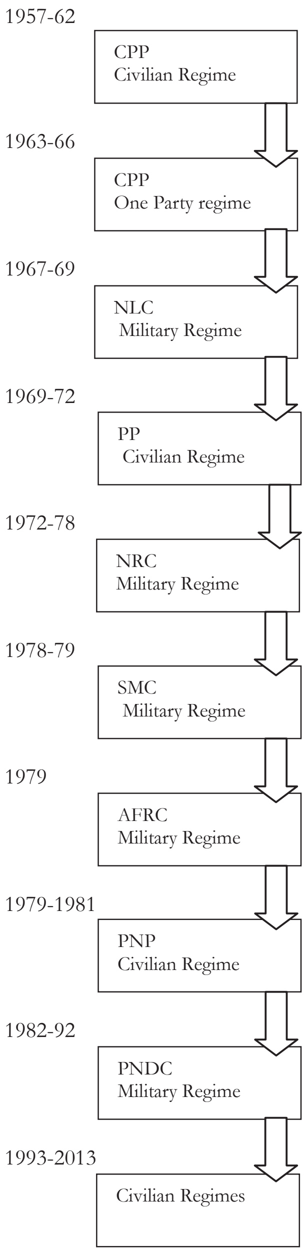
Sources: Data from various sources and World Bank Database, 2016.

However, despite the consistently high economic growth, the configuration of the economy has not been transformed. Primary commodities (cocoa beans and gold) and, recently, crude oil, continue to be the dominant exports. There has been no improvement in the productivity of the agricultural sector, its contribution to GDP falling below 30% after 2009, and services is now the leading sector (see Figure 1.4), growing very fast in response to the needs of a growing middle class while industry lags behind. Government policies that support transformation of the agriculture sector and also support agro-industries have been inconsistent (Amoako, 2011; ECA and AU, 2011; Lin, 2012; Noman and Stiglitz, 2012). As a result, there are serious doubts about the sustainability of the current economic growth; to borrow Tony Killick's phrase, Ghana's economy is "fragile still" (Killick, 2000).

Ghana's current level of economic transformation cannot be separated from its past political development (Berry, 1994; Osei, 1995; Aryeetey, et al., 2001; Dzorgbo, 2001; Leith, 1996 and 2003; Meng, 2004; Agyeman-Duah, 2008; Ackah and Kutsoati, 2008; Fosu, 2009). The nature of Ghana's politics provides an explanation for the economic decline by 1966 and a worsened standard of living by 1983. Ghana inherited multiparty democracy at independence, but by 1964 it had changed into a single-party state. The slide from political pluralism to dictatorial regimes continued until 1992, although there were experiments with multi-party politics in 1969-71 and 1981-2 (see Figure 1.5).

Since 1993 Ghana has witnessed a very stable democratic regime, with six successful presidential and parliamentary elections in 1992, 1996, 2000, 2004, 2008 and 2012. This successful political transformation is rare among new African democracies. In 2010 Ghana was rated fifth in Africa, with a score of 6.02 out of 10, by the Economic Intelligence Unit's Democracy Index. The Freedom House Index, 2010, also classified Ghana as "free", along with only five other countries in Africa (South Africa, Botswana, Mali, Namibia and Benin). In the Democracy Index sub-section on electoral process and pluralism, Ghana scored 8.33 out of 10, which was the highest in Africa and better than the USA (8.18), Spain and the UK (8.16), Italy (7.83), France (7.77) and Japan (8.08). The 2013 Mo Ibrahim Index of African Government (IIAG) ranked Ghana as seventh in Africa, with a score of 66.8%, which was above the continental average of 51.6%. Mauritius, Botswana, Cape Verde, Seychelles, South Africa and Namibia ranked higher than Ghana in good governance (see tables 1.1 and 1.2).

Figure 1.5
Political trajectory of Ghana, 1957-2013



Source: Author's construct

Notes:
CPP=Convention People's Party
NLC= National Liberation Council
PP= Progress Party
NRC National Redemption Council
SMC= Supreme Military Council
AFRC= Armed Forces Revolutionary Council
PNP= People's National Party
PNDC=Provisional National Defence Council

Table 1.1
Good governance scores and rankings in selected African countries, 2006-12

Good Governance	Annual Score (Out of 100)							Rank
	2006	2007	2008	2009	2010	2011	2012	2012
Ghana	64	64	64	66	66	66	67	7th
Mauritius	79	79	83	83	83	82	83	1st
Botswana	76	76	76	76	76	76	78	2nd
South Africa	71	71	70	70	71	71	71	5th
Kenya	54	54	53	51	53	54	54	21st
Mali	54	53	54	54	54	56	51	27th
Cote D'Ivoire	36	36	35	37	36	39	41	44th
Somalia	9	10	7	8	8	7	8	52nd
African Average	50.0	50.4	50.2	50.3	51.2	50.2	51.6	

Source: Extracted from Mo Ibrahim Index of African Governance 2013 Report.

Table 1.2
Ghana's average good governance score compared with Africa average

Good Governance Indicators	Score (%)		Rank out of 52 countries
	Ghana	Africa Average	
Safety	70.8	52.7	6th
Rule of Law	81.0	47.6	6th
Accountability	60.3	41.5	8th
Personal Safety	52.5	43.1	16th
National Security	89.5	78.4	16th
Overall Governance	66.8	51.6	7th

Source: Mo Ibrahim Governance Index 2013 Report.

In 2014, the Bertelsmann Stiftung's Transformation Index (BTI), which examines and evaluates the quality of democracy, market economy and political management in 129 developing and transition countries, ranked Ghana 23rd out of 129 countries in the world. Table 1.3 shows Ghana's scores and rankings in three BTI assessments.

Table 1.3
Bertelsmann Stiftung's Transformation Index (BTI), 2010-14

Year	Overall		Political Transformation		Economic Transformation	
	Score/10	Rank/129	Score/10	Rank/129	Score/10	Rank/129
2014	7.36	23	8.30	17	6.43	39th
2012	7.40	22	8.30	19	6.50	22nd
2010	7.33	26	8.15	22	6.50	40th

Source: BTI biannual assessment reports.

For a country that was classified as authoritarian three decades ago, with rampant military coups and some occurrences of human rights abuses, this has been a major political transformation. Of the approximately 30 countries in Africa that attempted democratic transitions in the early 1990s, Carothers cites "Ghana as the only African country that has made significant democratic progress and remains positively engaged in democratization" (Carothers, 2002:9). Ghana now has relatively high levels of political freedom. There is high citizen participation in political processes while governments have become more tolerant of civil society organisations (CSOs) to the extent of facilitating their engagement in the public policymaking process (Crawford, 2004; Darkwa et al., 2006; Kpessa, 2011). The efforts of Ghanaian civil society are bolstered by support from international donors (Gyimah-Boadi, 2009). The country has a competitive political party system, a vibrant opposition political party, and free media. These are strong credentials denoting a country that has consolidated its multi-party democracy.

Today, donors, academics and investors frequently cite Ghana as an example of political and economic transformation worthy of emulation (Aryeetey et al., 2001; Gyimah-Boadi, 2008; Breisinger et al., 2011; BTI 2003; Fosu, 2009; Whitfield, 2009; Gyimah-Boadi, 2009a; Abdulai and Crawford, 2010). In 2008 Ghana attained lower middle-income status.[8] Table 1.4 shows progress that the country has made in other aspects of human development since 1970.

Table 1.4
Selected national development indicators (standard of living) for Ghana

HDI	1970 -74	1975 -79	1980-84	1985 -89	1990 -94	1995-99	2000 -04	2005-09	2010-13	2015
Access to clean water (%)	NA	NA	42.9		56.5	60.0	70	78.8	86	89
Under 5 MR (/1000 births	201.1	185.5	167.70	155.3	128.2	114.0	101.3	88.3	83.2	NA
Literacy rate (%)	NA	NA	NA	NA	NA	64.5	58	NA	71.5	76.6
Life expectancy	49.33	50.81	53.1	54.11	57	58	58.4	61	63.8	65.7
Poverty level (%)	NA	NA	NA	NA	51.7	43.0	39.5	28.3	24.2	NA

Sources: UNICEF Database, 2014; GLSS (VI), 2016.
Note: NA = Not available.

Table 1.5
Ghana's scores and global rankings in the Corruption Perception Index (CPI), 2000-2014

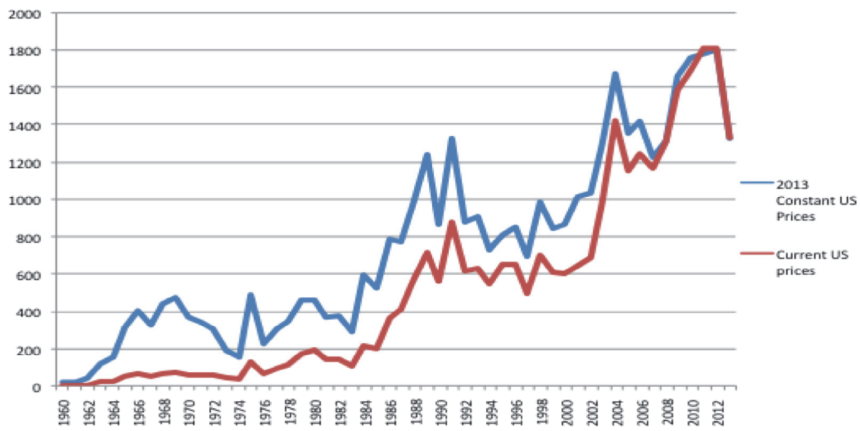
Year	CPI/10	Rank	
2000	3.5	52	90
2001	3.4	59	91
2002	3.9	50	102
2003	3.3	70	133
2004	3.6	64	145
2005	3.5	65	158
2006	3.3	70	163
2007	3.7	69	179
2008	3.9	67	180
2009	3.9	69	180
2010	4.1	62	178
2011	3.9	69	182
2012	4.5	64	174
2013	4.6	63	177
2014	4.8	61	175
2015	4.7	56	167

Source: Compiled from Transparency International Database, 2014.

Despite the above economic and governance progress, political patronage remains endemic and perceived public corruption remains high. Table 1.5 shows increasing trends of public perception about corruption in the country. (The closer the CPI scores are to zero, the higher is the degree of corruption as perceived by the citizens.)

In addition to corruption, there are other challenges that hinder the country's progress. These include inefficient public sector administration, inadequate domestic revenue mobilisation, and over-reliance on revenue from the export of primary commodities (cocoa beans, gold and oil).

Figure 1.6
ODA received by Ghana, 1960-2012,
in current and constant 2013 US$ prices (millions)



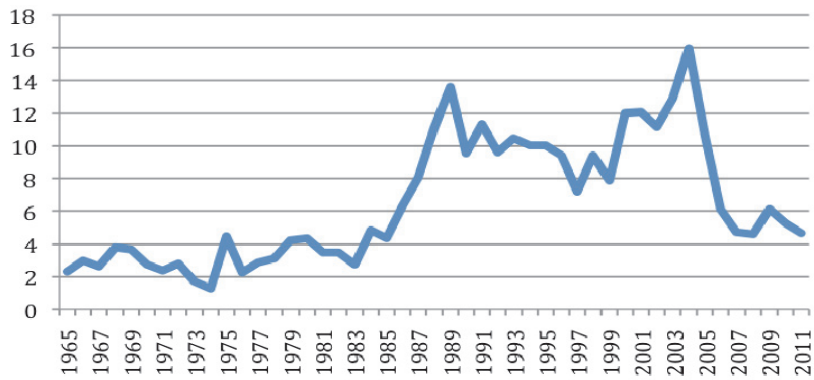
Source: Extracted from OECD QWIDS Data Base, 2016.

1.2.2 Foreign aid to Ghana

In the early years of Ghana's independence, the quantum of foreign aid received was very small. Significant foreign reserves and the importance of cocoa revenue gave the Ghanaian government a sense of economic security, which also meant that the regime was not very eager to receive aid. However, by the mid 1960s, Ghana's foreign reserves had dried up and the country needed external financial support. ODA was very low

(US$ 2.94m, US$ 18m and US$ 62.19m in 1960, 1963 and 1966 respectively, all in current prices; see Figure 1.6). From 1960 to 1970, ODA averaged about US$ 36m a year and from 1971 to 1982 it was US$ 101m. However, in 2013 constant US prices instead of current prices[9] (see Figure 1.6) ODA received went up to about US$200m by 1980.

Figure 1.7
Net ODA to Ghana as % of GDP, 1965-2011



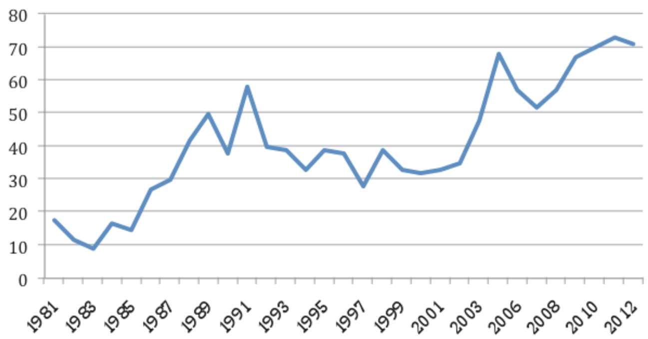
Source: World Bank Database, 2014.

When Ghana embarked on Economic Recovery and Structural Adjustment Programmes (ERP and SAP) in 1983, the magnitude of aid, its composition and origin all began to show greater improvement. In the initial stages of the reform programme (1983–1986), total aid inflows averaged about US$ 518m a year in 2013 constant prices. The level of inflows then rose rapidly to reach about US$ 623m per year in 2013 constant prices during the 1987–1991 period. The bulk of the inflows were programme aid/balance of payments support provided by multilateral institutions led by the IMF and the World Bank. In 2002, Ghana opted for inclusion in the Highly Indebted Poor Countries (HIPC) initiative, leading to about 50% of the country's foreign debt being written off by the donor community (IMF, 2004). From 2005 to 2008, foreign aid maintained an appreciable level, averaging about US$ 1.3bn annually. In 2010, 2011, 2012 and 2013, ODA was US$ 1.76bn, US$ 1.78bn, US$1.80bn and US$1.33bn respectively, all in 2013 US constant prices.

In terms of the Net ODA contribution to Ghana's GDP, while from the 1960s to 1983 it amounted to a few percentage points, by 1989 it had increased to 13.62% and maintained an average of about 10% in the 1990s. By 2000, Ghana's dependence on ODA had gone up to 12% of GDP, 20% of imports, 50% of gross capital formation and 64% of government expenditure. Net ODA contribution to GDP reached an all-time high of 16% in 2004 and then started falling, reaching its lowest level in two decades in 2012 (see Figure 1.7).

In a five-year average (2005-2010) the leading bilateral donors were the United Kingdom (US$ 150m), the USA (US$ 120m), the Netherlands (US$ 100m) and Denmark (US$ 80m). Others were Canada (US$ 80m), France (US$ 80m), Germany (US$ 60m) and Japan (US$ 60m)(OECD/DAC, 2010). One of the reasons for the increasing proportion of bilateral aid was the desire of donor countries to be part of Ghana's economic success (Geddes et al., 2009; Meng 2004; Andrews 2010:98). In 2000, the Government of Ghana (GoG) and donors developed a multi-donor budget support mechanism. The donors were aware of the risks associated with direct transfers of resources to support budget implementation,[10] but given Ghana's improvement in democratic governance, they were ready to work with the government (ODI, 2007). In 2013, multi-donor budget support included 10 donor partners and represented around 30% of the overall aid inflow to Ghana. The total amount of the budget support was US$ 404m in 2010 and US$ 484m in 2011 (GoG, 2012 budget).

Figure 1.8
Ghana's ODA per capita in US$, 1981-2012



Source: World Bank Database, 2014.

According to 2013 OECD/DAC statistics, Ghana ranks as the eighth-largest ODA recipient in Africa. The ODA per capita of US$9 in 1983 increased substantially to US$ 50 before the end of that decade, and by 2012 it had reached US$ 71 (see Figure 1.8 in current US$).

1.2.3 Three phases of Ghana's economic and political trajectory

On the basis of the historical experiences of politics, aid and economic policies, this study divides Ghana's transformation and development trajectory into three phases: 1957-82, 1983-92 and 1993-2013. Phase I is from Ghana's independence from British rule until it descended into a period of political instability. During those 25years, the military and civilians took turns to rule the country; thus, politically, the phase was one of the unstable periods in Ghana's history. Using a broad brush, it was characterised by socialist economic policies, with the country embarking on state-led development in production and distribution of goods and services. In addition to controlling production and distribution, the state was also involved in fixing commodity prices and the exchange rate of the local currency, restricting imports, creating employment, and so on. With the exception of intermittent attempts to change course, both military and civilian governments pursued similar socialist policies. While the standard of living was very high at the beginning of Phase I, the economy deteriorated and the last part of that phase was the worst period in the nation's history (Berry, 1994; Dzorgbo, 2001). The economic challenges became excuses for frequent military takeovers. As noted earlier, foreign aid in terms of quantitative flow was relatively minimal, apparently being influenced by the ideological rivalry of the Cold War.

Phase II (1983-92) began the transition to major structural political and economic transformation as Ghana started shedding many of its post-independence economic policies and political disorder, with foreign aid being a major factor in the drive towards that change. Multilateral donors provided substantial financial and technical support to influence the country's transition from socialist economic policies. During that period, the World Bank and the IMF portrayed Ghana as an African success story. Politically, the country was stable — though undemocratic -under the military regime. The end of the period marked Ghana's transition to a democratically elected government. During Phase III (1993-2013), Ghana became "one of the most stable countries" in Africa. It witnessed successful democratic change from one elected government to another. The country pursued mixed economic policies with substantial elements of neo-liberalism and donor-supported social development programmes. The period also saw substantial donor inflows, although the contribution of aid to the country's GDP began to fall.

1.3 Problem Statement

The background information on Ghana's economic and political past and present shows that foreign aid has provided support for budget financing, macro-economic policy reforms, institutional restructuring and political reforms. For more than three decades since 1983, Ghana has seen steady and significant macro-economic growth and democratic political stability, all of which foreign aid is claimed to have impacted (Ackah and Kutsoati, 2008). However, has a similar amount (or even more) not been given to countries like Mozambique, Tanzania, Mali, or Nigeria without achieving the necessary political and economic transformation? And have many countries (Malaysia, South Korea, and Botswana among them) not performed better than Ghana although given similar support? And have many countries not slipped back after initial success (for example, Bolivia and Côte d'Ivoire)? These questions point to the fact that foreign aid on its own could not have achieved the transformation in these countries without some endogenous factors or drivers that worked with aid. Yet, critics and many studies have tended to make foreign aid the prime mover of a country's quest for development instead of viewing it as a catalyst to local processes of transformation. For instance, the MDGs and advocacy projects like "make poverty history" have put forward foreign aid as the key input to solving developmental problems in poor countries.

For instance, in the year 2000, UNCTAD called for a doubling of aid to African countries in order to kick-start their economies. The "High-level Panel" on Financing for Development, the Monterrey Consensus, the Practical Plan to Achieve the Millennium Development Goals (the "Sachs Report"), the Commission on Africa, and the World Summit all echoed the need for developed countries to increase aid in order to facilitate development in Africa. The Commission on Africa, which the former British Prime Minister Tony Blair established, sought to raise $50 billion a year from the international capital markets to help stimulate economic growth in Africa (Booth, 2005). The governments of Brazil, Chile, France, Norway and the United Kingdom proposed an international tax on financial transactions or items such as plane tickets to finance development (UNDP, 2012:10). The UN called on rich countries to increase their foreign aid to 0.7% of GNI by 2015 (UNDP, 2012:23). Governments and activists from the economically developed world still gather now and then to agitate for more aid to pull Africa out of its economic doldrums.

By calling for doubling of aid in order to make poverty history, protagonists such as the UN (2006) and Sachs (2005) have put foreign aid in the front seat of a country's development process. Similarly, critics like Moyo (2009) and Easterly (2006) have over-emphasised the role of foreign aid. Both protagonists and critics have forgotten that aid is supposed to be a catalyst that works with endogenous drivers[11] to transform economic and political structures that are necessary for growth and development but is not itself the transformer. In other words, foreign aid works to quicken the efforts of endogenous drivers only when these factors are predisposed to react with aid. This suggests that even if aid to Africa were to be doubled, there is no guarantee that the needed transformation and development would be achieved if existing endogenous factors did not react positively to it. This raises a vital question to begin with: in Ghana's case, what endogenous drivers were present during the three phases of the drive to economic and political transformation, and to what extent were they predisposed to react with each other and with foreign aid? In other words, did foreign aid have anything to accelerate?

Second, to understand how a catalyst works, one needs to know what happens in a chemical reaction without the presence of a catalyst. This means that if aid is to play a catalytic role, there must be indications that endogenous drivers are already responding to relevant challenges and need a catalyst to accelerate the process. In Ghana's case, what were the relevant economic and political challenges that prevailed in different time periods, how did endogenous drivers respond to the challenges, and why was aid needed to speed up the process? As indicated earlier, Ghana was at par with South Korea during the early years of its transformation, but today South Korea is far more advanced than Ghana, thanks partly to the role that aid and endogenous drivers played (Kim, 2013). It may be that a Korean route to economic development was never exactly what Ghana could have followed because of its particular challenges and the extent to which endogenous drivers were available at that time to respond; but then what could have been both desirable and feasible for Ghana? What endogenous drivers (actors, institutions and ideas) could have responded to Ghana's challenges and why did they fail to do so?

Third, if aid is a catalyst that hastens the reaction of endogenous substances on the path to transformation, how does one characterise or recognise a developmental trajectory? After all, not all transformation is positive. How does one attribute developmental transformation to the catalytic role of aid? What is the nature of Ghana's structural and institutional transformation that can be classified as developmental? How did aid influence any of the structures and institutions during Ghana's post-independence history of economic and political transformation? Transformation processes, whether fast or slow, usually involve political settlements and fundamental changes in existing institutions, policies, ideas and structures that control power and resource distribution. Only by linking the influencing role of aid to endogenous drivers, including historical setting, can one clearly get the picture of how aid influences transformation and development in a country. Thus, in a structural context in which transformation has occurred in a country, the vital 'triggers' that have initiated the processes, the agents that have contributed to shaping the paths, the resources (natural and human factors) and the institutions (rules of the game) that have supported (or inhibited) the transformation require deeper analysis of their interrelationships.

Fourth, contrary to expectations in chemistry that an ideal catalyst would not change while undergoing chemical processes with an object, the literature provides a plethora of information showing that aid has undergone several changes (forms, motives and character) in its interaction with recipient countries' endogenous drivers. For instance, during the Cold War era, aid was given on the basis of loyalty though its intention was development (UN, 2006:9; Lancaster, 1999; 2008). There was no strict accountability as long as recipients remained politically loyal to the donor government. This is no longer so. In Ghana and elsewhere, aid has moved from predominantly funding projects to financing programmes, providing support to policies and institutional development, and most recently to a focus on poverty alleviation, governance, MDGs and anti-terrorism actions. A corollary question is, how did the motive for ODA change in Ghana? What role did endogenous substances play to influence the change? And, when aid loses its catalytic effect, how does it regenerate itself in a country?

In summary, current research on the effectiveness of aid has overemphasised the leading role of foreign aid, and by so doing misunderstood and misinterpreted aid in terms of what it is and what it is not. Current studies have also understated the importance of endogenous drivers and how they relate to, or interact with, foreign aid to determine a development outcome. This study hypothesises that "foreign aid", or ODA as financial and technical assistance, can be a catalyst to development in so far as endogenous drivers in the country are predisposed to react positively with aid. If aid is a catalyst to development, as claimed by Pronk and others, what catalytic role did it play during its five-and-a half decades association with Ghana? What sorts of catalysis took place during that period? What endogenous drivers were present during that period, and to what extent were they predisposed to react with foreign aid? What is the nature of Ghana's structural and institutional transformation and how can we attribute the degree of transformation to any role that foreign aid may have played?

1.4 Research Objectives

The general objective of the study is to expand the frontiers of the concept of a 'catalyst' as it is borrowed from chemistry and applied in the social sciences, and, using Ghana as a case study, to further explore the conditions under which foreign aid plays a catalytic role in transforming and developing a country. Specifically, the study aims to:

i. Analyse the extent to which foreign aid has been a catalyst to political and economic transformation in Ghana since independence in 1957;
ii. Analyse how endogenous substances (structures, institutions and actors) that existed in Ghana's three periods (1957-1982, 1983-1992 and 1993-2013) were predisposed to working with aid;
iii. Use the evidence arising from the Ghanaian case to build a model on "aid as a catalyst" and to indicate at what point a catalyst may no longer be needed in a country.

1.5 Research Questions

i. What relevant challenges characterised Ghana's three periods of economic and political transformation and to what extent have these challenges been addressed?
ii. How did endogenous drivers (political and economic structures, institutions, agents, and ideas) respond to the country's economic and political challenges?
iii. How did foreign aid interact with endogenous drivers and to what extent did it possibly play a catalytic role in the country's economic and political transformation?
iv. Based on Ghana's experiences with aid, generally under what conditions can aid be a catalyst?

1.6. Scope and Limitations of the Study

In its broadest context, "foreign aid consists of all resources—physical goods, skills and technical know-how, financial grants (gifts), and loans (at concessional rates)—transferred by donors to recipients" (Riddell, 2007:17). This broad definition would include resources to address humanitarian, developmental and poverty needs in a country. This research focuses only on *development aid*, defined as aid given by a government and multilateral agencies to support the economic, social and political development of a developing country (OECD, 2008). Like the OECD definition, this analysis excludes grants or loans for military purposes and transfer payments to private individuals. In other words, foreign aid is used in this thesis to refer to official development assistance (ODA) to low-income countries to promote economic development and the welfare of the people. Usually such a financial assistance has a grant element of not less than of 25% of the total amount (OECD definition of ODA).

Transformation in this study is conceived in terms of economic and political institutional and structural changes. Socio-cultural change is addressed in the analysis in so far as it provides explanations for political and economic transformation in the country. In other words, the study does not delve into wholesale analysis of socio-cultural changes that are taking place. There are two reasons for not including an all out, in-depth socio-cultural analysis: (i): to keep the research manageable within the time frame, and (ii) the transformation of socio-cultural traits takes a considerable amount of time.

This study has several limitations. First, it focuses more on macro issues and less on microanalysis of particular sectors. Because of this focus, there are no details or in-depth analysis of the impact or contribution of a particular aid project to a sector; for example, aid for improving water supply and sanitation in a community. Second, "catalyst" is not just a concept; it is also a real product that is used in industrial sciences. As this study tries to apply an industrial science concept to the social sciences, there is a high probability that it will be criticised as lacking conceptual depth. Third, the author is not an economist, but the issues being analysed have economic relevance. In what can be seen as political economy analysis, the author set out to examine the dynamics and interrelation of institutions, power, interests, and so on, as they relate to economics (Hudson and Leftwich, 2014).

Fourth, the study relies on extensive literature and expert interviews. The interviewees reflected on the past and made sense of the current reality. Some tried to rewrite history or were biased because of what they know today, and sometimes because of past associations with a particular regime. Although interviewees' responses were examined carefully and triangulated with each other, and checked against archival materials (especially publications from the early 1980s) and statistical data to avoid blatant biases, it is possible that a few biases slipped through.

Fifth, the study considered, attempted but dropped the use of counterfactuals as one of the instruments in the analysis. Counterfactual analysis is often raised when analysts are dissatisfied with the historical outcome and argue that a country could have achieved a better outcome if any of the causal factors had been different. Counterfactual analysis could have enabled the research to reconstruct a plausible account of what could have happened if aid or Ghana's endogenous drivers had been different. For instance, what would have happened to Ghana's development trajectory by now had the government not accepted IMF/WB structural adjustment policies? A robust counterfactual analysis would have been to compare Ghana's transformation with some selected countries like Malaysia, Mexico and South Korea that were at similar levels of political and economic development as Ghana at independence but took a different approach that resulted in results that are dissimilar to Ghana's. The author discontinued the counterfactual analysis because of inadequate data to make comparative analysis and the need to trim the scope of the study to make it manageable. Nevertheless, where counterfactual information was available the study makes reference to it.

1.7 Organisation of the Thesis

The thesis is divided into seven chapters. After this introductory one, which set the context of the study, Chapter 2 reviews the concepts of 'catalyst' and 'transformation'. It defines and explains the two concepts, their attributes and how they are used as analytical lenses for examining Ghana's case study. Chapter 3 presents the methodological approaches that were used for the analysis. It sets the research hypothesis and describes the dependent and independent variables in it, the four key analytical approaches, the sort of data collected, and the sources. Chapters 4 to 6 examine the interactions or catalyses between foreign aid and endogenous drivers of transformation and development that took place in the three phases. Specifically, Chapter 4 examines Phase I (1957-82); Chapter 5, Phase II (1983-92) and Chapter 6 Phase III (1993-2013). Chapter 7 summarises the study findings and draws conclusions. It also reflects on the concept of catalysis as applied to aid in the image of Ghana's experience, develops a model for aid as a catalyst and draws some policy implications for Africa.

Notes

[1] The Marshall Plan expended about U.S. $12.5 billion by 1951 on rebuilding physical and social infrastructure in Europe (Andrews, 2010: 94).

[2] Defined by OECD as official development assistance (ODA) capital flows provided by Development Assistance Committee (DAC) and multilateral institutions to developing countries, aimed at promoting economic development and the welfare of the people, often concessional in nature and containing a grant element, usually 25% minimum.

[3] See, for instance, Harrod-Domar Model (1939); Solow-Swan Model (1956) and Post-Keynesian Model.

[4] According to Azam et al. (1999) Botswana and the Republic of Korea are typical examples of countries where this argument has a resonance. Both countries transitioned from aid dependency to rapid growth and development, to the extent where they no longer needed aid..

[5] With per capita income being regarded as a reliable indicator of development, Ghana was regarded as a middle-income country. Using measuring worth indicator (time traveller's investment calculator), Ghana's 1957 per capita income of US$390 in current terms (October 2011) will be US$3020 (CPI), US$2444 (GDP deflator), US$6790 (nominal GDP) and US$12,300 (relative share of GDP).

[6] SAP had many features: devaluation of the currency to abolish price control and import quotas, diversification, reduced role of the state, and private-sector-led development, among others.

[7] That is, the population that earns less than a dollar a day by 2015. The measure of poverty in 2013 counted individuals living on less than GHC 3.60 (US$2.34 or EUR 2.21) a day whilst the UN figure is less than US$1.25 a day.

[8] Lower-middle-income countries are those with per capita Gross National Income of between $1,006 and $3,975 per year.

[9] The difference between current and constant prices is inflation. However, ODA was actually low from 1960 to 1982 when compared with 1983 to 1992 and subsequent years.

[10] The risks include the commitment of the government to budget implementation, how broad-based the budget is, the technical capacity to implement the budget, the soundness of public finance management, the transparency of government systems and the feasibility of harmonisation among donors themselves, and the fungibility of the funds made available to the government.

[11] Endogenous "drivers", "elements", "substances", "chemical factors" and "reactants" are used interchangeably in this thesis.

2 Aid as a Catalyst to Economic and Political Transformation and Development: A Conceptual Framework

2.1 Introduction

A substantial body of literature on aid has evolved over the seven decades during which foreign aid has been delivered as a concerted approach to the socio-economic and political challenges of the developing world. While some of the literature portrays aid as an 'impediment in the development trajectory of low-income countries (Easterly, 2002, 2006; Calderisi, 2006; Moyo, 2009; Hubbard and Duggan, 2009), other sections of it view aid as a catalyst that has enormous potential to influence economic and political transformation, and development in recipient countries (Pronk, 2001; Sachs, 2005; Collier, 2007; Banerjee, 2007). This conceptual framework tries to unpack both views to understand the conditions under which aid catalyses transformation and eventually national development.

The chapter is divided into seven sections. Section 2 briefly defines development as the ultimate outcome of positive transformation. Section 3 reviews the literature on the concept of transformation. The section argues that economic and political transformation is needed in a country for it to achieve development. Section 4, borrowing ideas from industrial chemistry, introduces the concept of a 'catalyst' and explains the process through which catalysis works. Section 5 applies the concept metaphorically to foreign aid; it explains how a catalyst works to promote transformation, and points to the weaknesses in applying of the concept in the social sciences. Section 6 summarises the literature and uses that to develop an analytical framework for the study. Section 7 presents concluding remarks.

2.2 Development as a National and/or International Agenda to Pursue

The term 'development' when defined in any standard measurement is subject to criticism because it is viewed as connoting a "Western Script" or modernisation ideology of the West where some countries are described as 'developed' or 'rich' and others 'undeveloped', 'developing' or 'poor'. It is not the intention of this study to enter into that debate about what is 'development' and what is not. In international development studies, development usually connotes improvement in the living conditions of people. The living conditions may include better health care, high adult literacy, access to shelter and nutritious food, high per capita income, high life expectancy, decent employment, peace and stability, and other normative indicators of standard of living (see earlier work on development by Frank, 1967; Seers, 1979; Myrdal, 1989; Sen, 1999).

Analysis of factors that promote development shows that some countries have achieved high growth through foreign assistance. Some have become victims of others' development processes. Some are neither victims nor beneficiaries of external support; instead, the citizens design and implement their own processes. Whatever the historical antecedents, there are many theories and perspectives that explain factors of development and underdevelopment (Frank, 1967; Passe Smit and Seligson, 2008); divergence in paths to development (Barendsen et al., 2013); geographical location as the cause of development or underdevelopment (Diamond, 1997, 2012; Sachs and Warner, 1997; Krugman, 1998; Gallup et al., 1999 Collier, 2007); legacy of colonisation as a key variable in underdevelopment (Fieldhouse, 1981; Cypher and Dietz, 2008); cultural differences and values that promote development (Fukuyama, 1996); and aid as a catalyst to development (Pronk, 2003).

The pursuit of economic and political transformation and national development has never been unidirectional and peaceful throughout history. Some transformation has been violent, involving the struggle between the proletariat and bourgeoisie. The revolution from above, as discussed by Trimberger (1978) was conditioned by the presence of a small and weak 'bourgeois' class and large coalitions of bureaucrats, modernising militaries and intellectual reformers. That process of development came from above. The classic model is that of Japan, Taiwan and South Korea (Woo-Cumings, 1999). As argued by Leftwich (2006) external threat or the thought of it happening and the determination to catch up with the rest of the developed world were key factors that motivated the development of the Asia model. On the other hand, Moore (1966) argues that the developmental approach of Russia and China were based on "revolution from below". This came about because peasants led the reforms under the aegis of vanguardist parties. The elites mainly the military and bureaucrats were reluctant to spearhead the path towards modernisation.

Where do some of the successful contemporary performers fit in? What explains their paths? Leftwich suggests that the agency of *politically and nationalistically driven elites* who built and commanded developmental or quasi-developmental states of varying strength, capacity and endurance, are critical factors explaining the success of contemporary performers. He cites the example of Turkey in 1923 and Thailand in 1932, and, later, Singapore, Malaysia and even Botswana and Mauritius as examples of countries where Moore's (1966) agencies were not in evidence. But even in those cases -with politically and nationalistically driven elites-some serious external or internal threat or anticipated threat had always been a major factor triggering and galvanising transformation. Recent studies point to some states that have become economically successful through regimes that developed specific economic policies and programmes (for example industrial policies) that were more in tune with their context (Chang, 2003; Whitfield, 2012; Noman and Stiglitz, 2012). For instance, one of the major conclusions of the studies that compared the development performance of Southeast Asia and Africa indicated that "timing and sequencing of the adoption of three policy features: macro-economic stability; pro-poor, pro-rural public spending; and economic freedom for peasants and small entrepreneurs" explain much of the divergence in their development progress (Booth, 2013:491). See also Barendsen et al. (2013), Vlasblom (2013) and van Donge et al. (2012).

2.3 Economic and Political Transformation as a Prelude to Development

The term 'transformation' means an ongoing process of change in political and economic structures and institutions of a country that represents a sharp break with the past. This break is a major difference between transformation and simple reform. Garfield argues, "While reform is an attempt to go down the same path more efficiently, transformation involves the development or discovery of entirely new paths" (Garfield, 1991:50). The critical issue here is that development is a transformational process involving economic and political changes. As indicated earlier, these metamorphoses have often been turbulent throughout history, involving radical changes in the structure of economy and politics.

2.3.1 Stylised facts about economic structural transformation

One stylised fact in the development literature is that economies that have successfully transitioned from low-income to high-income status experienced significant structural transformation (Chenery, 1986; Breisinger and Diao, 2008; Losch et al., 2012; Dorosh and Mellor, 2013). Economic transformation involves "changes in the structure of the economy (that is, sectoral composition of output and employment), its organisation, technology, management and institutions, to achieve high, inclusive and sustainable growth and development" (Ackah and Kutsoati, 2008:22). The stylised textbook analysis shows at least three features of economic transformation: (i) when there is economic transformation, the share of manufacturing sector to GDP increases while the share of agriculture declines; (ii) the share of agriculture in employment falls while the share of manufacturing and other sectors of the economy increases; and (iii) economic activities shift from rural areas to urban, leading to urbanisation. Therefore, economic transformation signifies sectoral changes not only in production and technological innovation, but also in society and institutions. This stylised transformation process is not linear as there are iterations and retreat as countries experience boom and bust cycles over a period of time and the three sectors that constitute the economy of a country (agriculture, industry and services) undergo major changes.

Historically, in the traditional structure of most economies, agriculture has been the primary sector providing employment and has serves as a major source of foreign exchange. Production has been basically carried out with local technology, hence it has been subsistence-oriented. When economic transformation takes place, there is a shift in labour from agriculture to industry as a result of application of technology in agriculture, which displaces labour. Later, a similar transformation process occurs in industry, with labour moving into services. This process of change is referred to as economic transformation.

This stylised definition and processes of structural transformation is widely acknowledged in economic literature. The 2013 African Transformation Report (ATR) defines economic transformation as Growth + DEPTH[1] (ACET, 2013). The outcomes of such transformation include diversification from agriculture to manufacturing; export competitiveness of a country's products; productivity increase through efficient use of labour and high yielding crops; and application of technology.

Since economic organisations are the centre of transformation, growth and changes in the structure of production could happen through expansion in technological capabilities of the people and institutions. Concomitant government policies also play important roles in this transformation.

> A transforming economy—more than just a growing economy—can weather the ups and downs of global product and service markets, the alternating liquidity and illiquidity of local and global financial markets, and the vicissitudes of commodity and construction booms. Thus, it is that a Ghana can become a South Korea, a Senegal a Thailand, and a Kenya a Malaysia (ACET, 2013:1).

It is widely recognised that poverty reduction cannot be sustained for a long period in a country without economic transformation and sectoral productivity change. Experiences of developing countries that have successfully gone through economic transformation show that there was remarkable diversification of agricultural exports (Breisinger and Diao, 2008). This was the experience of South Korea in the 1950s and early 1960s, and China in the late 1970s. Along the trajectory of economic transformation, labour becomes more productive in the agriculture sector. Southeast Asia's experience shows that the state facilitated the transformation process by encouraging rural-urban migration to nascent manufacturing industries. Smallholder farmers were supported in adopting new technologies (Henley, 2010).

Historically, economic growth in low-income countries has been agriculture-led (Johnston and Mellor, 1961; Mellor, 1995). Current research also finds agricultural transformation relevant as prelude to industrial growth and development in low-income countries (Breisinger and Diao, 2008; Losch et al., 2012; Dorosh and Mellor, 2013). Per capita income growth at early stages of development is associated with rapid increase in the share of the manufacturing sector (Dinh et al., 2013). Page (2013) argues that Africa's share of global manufacturing in GDP is less than one half of the average for all developing countries, explaining why Africa needs to put much more effort into industrialisation if it is to catch up with the rest of the developing world. Industrialisation has been the anchor of structural transformation since it is a high-value sector.

The past two decades have seen substantial economic growth in Africa but little economic structural transformation (ACET, 2013; 2014). For many years, the challenge that confronted African development was economic stagnation, but since the late 1990s Africa's economy has seen consistent growth of about 5% annually. Out of the 10 fastest-growing world economies in the 2000s, six were in Africa. This includes Angola that experienced an annual growth of 11.1%; Niger (8.9%), Ethiopia (8.4%), Chad (7.9%), Mozambique (7.9%) and Rwanda (7.6%) (ACET, 2014:2). This turnaround from previous decades prompted three major publications in 2010 (McKinseny Institute, 2010; *Economist*, 2010; and *Radelet's*, 2010) but many analysts argued that Africa needed to work towards achieving economic transformation (ECA and AU, 2011; Amoako, 2011; Lin, 2011; 2012; Noman and Stiglitz, 2012) as a prelude to sustained growth and improvement in the welfare of the citizens. Booth (2012) argues that a shift in emphasis away from mere growth to transformation is needed. He identifies four transformation perspectives that are generally missing in the current economic growth in sub-Saharan Africa:

> changes in the structure of the economy (a diversification of production and exports) resulting from widely spread improvements in productivity; productivity breakthroughs in smallholder agriculture in particular; accelerated formation and expansion of capitalist firms, with the acquisition of new skills and technological capabilities; and public and private strategies to anticipate countries' future comparative advantages in international trade (Booth, 2012:19).

According to the 2013 *African Transformation Report*, with the exception of South Africa and Mauritius in all of Africa, agriculture and extractives are still the leading sectors (ACET, 2013). There is no country with a strong manufacturing sector that can compete internationally. Agriculture can be the source of economic transformation if there are productivity gains from expansion of non-traditional agricultural products, but in Africa agricultural production is characterised by low productivity with little upgrade in the application of science and technology. Exports are also dominated by primary commodities, incorporating little application of science and technology, while the bulk of manufacturing and knowledge-based services are imported.

Economic transformation through diversification of production structure and systems reduces economic volatility. It provides greater scope for a country to respond to economic challenges and global market opportunities. Through exposure to greater international competitiveness, the quality of a country's export commodities improves, which has a positive effect on employment and incomes, enabling the spreading of growth to many people. A diverse export base also has multiplying effect on reduction of a country's foreign exchange volatility, which is important for importing intermediate inputs and technology. Economic transformation cannot take place when a country continues to export the same primary commodities for years without adding any value to the products (ACET, 2013).

Growth accompanied by these structural changes is referred to as "economic transformation" (ACET, 2013:4). Comparing the structure of the economy of today's developed countries with the structure at the beginning of the eighteenth century, we find that all those countries were poor and underdeveloped. Their economies were dependent on agriculture. According to Lin (2012:1) growth of GDP per capita hovered around 0.05% a year for millennia. It was only after the Industrial Revolution that per capita income grew, accelerating to around 1% a year in the nineteenth century and 2% in the twentieth century (Maddison 1995).[2]

At the end of World War II, a few countries in the developing world experienced consistent growth that enabled them to narrow the gap between themselves and the developed world. Japan was one of these countries. In 1950, Japan's per capita income was 20% of that of USA. However with consistent high economic growth of 9.6% from 1950 to the 1960s, Japan reached 63% of U.S. income by 1970. According to Lin, that prolong growth-facilitated Japan's rise to occupy the second position in the ranking of world largest economies that year (Lin, 2012:2). Japan achieved economic transformation through continuous upgrading of key manufacturing sectors. Not only Japan, but also the Asian Tigers—Hong Kong, China, the Republic of Korea; Singapore and Taiwan—all showed that it was possible for a developing country to close the gap with developed countries through economic transformation (Whitfield, 2012; Noman and Stiglitz, 2012; van Donge et al., 2012; Barendsen et al., 2013; Vlasblom, 2013). Most recently, Brazil and India have seen a steady march in the direction of developed countries by transforming their economies (World Bank, 2011). These transformed economies have substantially reduced poverty. Recent empirical work confirms that the key difference between Asia and Africa is the structural change that has taken place in the former and is absent in the latter (McMillan and Rodrik, 2011).

What brings about successful structural transformation in a country? Is it endogenously generated or exogenously introduced where aid may play a role? Or is it a combination of endogenous and exogenous factors? While historical antecedents show that economic transformation is a prelude to development, the extent to which foreign aid has supported or hindered a poor country's path to economic structural transformation is the subject of this conceptual review. Dirk Willem te Velde (2013:1) argues that "only productivity change and structural transformation and innovation can secure development in the long-run". Low-income countries may well fail to make the transformation to middle-income status if there is no productivity change. He contends that one of the critical constraints to development in Africa is inadequate investment financing in agriculture and manufacturing, which keeps productivity low in these sectors. If aid is a catalyst to development, it should facilitate the process of economic transformation, and this requires investment of aid money to improve productivity, enhance technological growth in agriculture, and ultimately focus on an industrialisation drive.

As will be argued later in this thesis, economic structural change does not occur automatically. It is organised through politics, political organisation and elite consensus or political settlement. Booth observes that low-income and aid-recipient countries need forms of politics that enable design of development policies that are in sync with their societies and not necessarily following a particular political doctrine. A number of studies gravitate towards this argument and show that policies for economic transformation require active role of the state (Stiglitz, 2002; Booth, 2012; Rodrik, 2015).

> In terms of economic policy, the concern with Africa's transformation represents a belated recognition of a point that has long been established in theory. Since markets in the real world are very far from being 'perfect', even in highly developed economies—and more so in very poor ones—there is no robust general case for a neoliberal stance of minimising the role of the state in the economy (Booth, 2012:19).

Booth's argument seems to contradict what has now come to be known as neo-liberal policies or Washington Consensus about the role of the state in development (Williamson, 1994, 2000). "Neo-liberal policies" and "neo-liberalism", as used often in this thesis, refer to an economic ideology that is based on the promotion of "free market" principles or private sector supremacy as the best mechanism for allocation of resources when compared with the state or the public sector. With specific reference to the role of multilateral donors like the IMF and the World Bank, neo-liberal policies and strategies are conditionalities that these donors often attach to the aid money they provide to developing countries. Neo-liberal policies include privatisation of government services and the productive sector, fiscal austerity and reduction in government spending, removal of democratic controls over central banks and monetary policy, and facilitation of private sector development.

2.3.2 Political transformation

Any group of people, whether at family, society, state or federation level, uses *politics* as a means of making binding and collective decisions in order to survive and achieve progress (Leftwich, 2006:9). Politics is the process through which individuals, people, and societies negotiate their collective goals and the means to those goals. According to Leftwich, politics is best understood or conceptualised as "consisting of all the activities of cooperation, conflict, and negotiation involved in decisions about the use, production and distribution of resources" (2006:10). Politics is regarded as a distinctive "form of *rule* whereby people act together through institutionalised procedures to resolve differences, to conciliate diverse interests and values and to make public policies in the pursuit of common purposes*"* (Crick, 2004:67).

At the beginning of the path to development, politics does not presuppose consensus about the type of political system that is suitable for governing a society. Where development progress has occurred, reaching consensus on the organisation of politics has not been smooth (Brautigam, 1997). From the Industrial Revolution of the late eighteenth and early nineteenth centuries, countries have achieved high levels of development through a variety of political systems and governments.[3] Political systems are based on an understanding of who holds power in relations between the government and the people and how the government uses power. In this regard, political systems could be authoritarian, monarchical, democratic or oligarchic. Political systems evolve, grow, break down or adapt under the influence of a number of factors—wars, colonisation, industrialisation, population growth, emergence of new political issues, extension of the scope of government activities, and many social, economic and technical factors. Those who believe in the Aristotelian position on the causes of stability and instability argue that the breakdown of political systems arises from an unequal match between distribution of wealth and power, while Marxist theorists consider changes in the mode of production to be the determinants of stability and instability (Miliband, 1977; Callinicos, 1987). Many other factors, such as disintegration of authority, quality of political leadership, economic scarcity and deprivation, a sense of insecurity about the future, have also been identified as leading to political instability and radical change in political systems.

Political transformation is defined as a radical change in the political systems, structure, institutions and processes of governing a country. It involves change in political structures; pattern of resource flows, distribution of power between members and groups in a country and peaceful resolution of conflicts. Politics is an important factor in the transformation process of a country. According to Leftwich (2006), both conceptually and practically, the influence of politics can be understood in two ways. The first concerns the "rules of the game" through which politics is organised. Both formal and informal rules complement each other. While formal institutions specify the rules, for instance the way elections may be organised and how power may be shared, these rules can be made operational through the support of informal institutions. Leftwich explains this:

> For example, a cardinal informal rule is that where power is determined through elections, *winners* do not use their power to undermine or threaten the interests of the losers so much that either the losers do not abide by the result or withdraw from the underlying electoral contract. Equally, the *losers* must accept the outcome, knowing they can try again later. Without consensus about such rules, formal and informal, politics is prone to instability, conflict and violence and, as a result, developmental processes are compromised, to say the least (Leftwich, 2006:4).

The second level of politics relates to the "games within the rules", that is, how political parties organise their internal structures and programmes within the established rules of the game to compete for power. In the early years of development, sets of agreed and legitimate institutional rules may be in short supply and many competing and inconsistent sets of rules may exist instead. Some of these may be formal and informal and work to influence any attempt to change and transform political systems.

There is no consensus on the types of political systems and regimes that promote development. It is all about what fits, based on a country's context and social and economic culture. After independence, the political regime that takes over the reins inherits a form of political system that is aligned to the former colonial master and sometimes is disconnected with their society (*Encyclopedia Britannica*, 2015)**.** An important part of a political system is how it establishes channels of political action and agreed procedures for resolving conflicts peacefully. Throughout history, political transformation has been achieved either through violent revolution or peaceful elite bargain, or a combination of both. According to the OECD, any society that is not experiencing widespread conflict has arrived at a form of political settlement: "Generally speaking, every political regime that is not in the midst of an all-out civil war over its basic parameters is based on some kind of settlement" (OECD, 2011:9).

A particular political system is not inherently efficient for all societies. For instance, while liberal democracies and decentralised economic structures and institutions were conducive to growth in North America and England in the nineteenth century (North, 1990), late developers like South Korea and Taiwan achieved their own development through developmental centralised authoritarian regimes that coordinated investment (Amsden, 1989; Wade, 1990). This suggests that endogenising politics in a way that would promote national development is necessary and may not conform to a particular type of politics. The various kinds of political settlement, whether democratic capitalist societies of the West (Hall and Soskice, 2001) or developmental state models of Southeast Asia (Haggard, 2004a, 2004b) may have positive or negative effects on development.

Political transformation involves changes quite akin to those of economic transformation. Just as the process of economic transformation involves corresponding changes from small-scale to large-scale agriculture, so does political transformation involve changes from small-scale local politics to large-scale politics (Uphoff, 1972:233). In a developing polity, there are numerous small-scale local centres of politics where a greater part of the resources are exchanged between political authorities and clients. Persons outside the community hardly receive part of the resource exchange. When there is transformation, the scope of the political market is expanded to enable equitable distribution of the power and resources that come with it. New political and administrative infrastructure is created. This includes political parties, elections, constitutions, legal structures, and communications media. In other words, when political transformation takes place, the capacity of the political and administrative infrastructure is improved.

Another important element of political transformation concerns factor endowments. In an underdeveloped polity, there is unequal factor endowment among participants in the political process. Fewer participants possess greater status, income, and authority and exercise more power than the majority. The few rich and powerful people accumulate a substantial amount of the factors of political production. According to Uphoff (1972:233), raising the "aggregate productivity of the political process" entails increasing factor endowments to the majority of the population. This can be done through improvement of the economic, social and educational status of the majority of the people and giving them equal citizenship rights. For example, supporting organisation of free and fair elections can disperse authority. If such improvements are not made, then one other political resource that the majority in number, but minority in power and resources, can resort to is social and political action, including violence. As Uphoff puts it, "violence is the only political resource left to any group, which is poor, ignoble, illiterate and disenfranchised" (1972:234). Whilst the raison d'être of the UN and many civil society organisations is to promote peace and avert violence in society, the majority of people that have been denied resources and power to improve their wellbeing, and whose peaceful attempts to change their situation have been ignored or crushed, view "violence" as the only option left to them for demanding a fair share of national resources. They see little justification for being denied the use of that option. This proposition leads us to an important analytical concept that is relevant to this study—political settlement.

Political settlement analysis provides deeper insights into how different forms of politics and power relations underpin national development. Di John and Putzel define political settlements as "the balance or distribution of power between contending social groups and social classes, on which any state is based" (2009:4). As noted earlier, policies are critical in shaping the transformation and development trajectory of a country; thus, it is important to know the characteristics of the government that shapes national policies. Political settlement indicates the nature of the ruling government that presides over economic and political resources of the country and its institutional capacity to effectively use the resources well for general development of the country. Political settlement is a tacit agreement arrived at through struggle and negotiation between elite groups in society about the conditions under which peaceful competition for power is preferable to violent seizure of power. This tacit agreement is needed because in most cases in Africa, politics is fragmented along ethnic, regional and other fault lines. When there is political settlement, the relative power of the ruling government over other excluded groups is critical. The ruling government must have power over other political groups that are not part of the ruling coalition and at the same time have influence over lower-level factions that support the ruling government. The power of the ruling government over other groups vertically and horizontally determines its capacity to plan long-term development. In addition, given that aid-recipient countries have an inadequate capitalist sector and the state has a narrow tax base, political settlements invariably involve tacit agreements regarding generation and distribution of economic rents (Booth, 2015:2).

Distribution of state resources and economic rents among elites vis-à-vis the general population is a key component in understanding varieties of political settlements and their influence on development. In Africa, patronage and patron-client relations have long been key features of politics between rulers and the ruled (Chabal and Daloz, 1999; Leonard and Straus, 2003). The politics is characterised by reciprocal relationships between "patrons", usually politicians that distribute state resources to favoured recipients, and "clients" (individuals, business organisations, ethnic groups, and so on) who provide continuous support as a quid pro quo (Kelsall, 2011; 2013; Booth and Golooba-Mutebi, 2012). The political system allows the patron to allocate and use state resources to build and hold together political coalitions. The African Power and Politics Programme (APPP) research identified variations of neo-patrimonial regimes in terms of how economic rents are centralised and managed in support of national development. One such regime is developmental neo-patrimonialism (Booth and Golooba, 2012), which is of particular interest to this study. We will return to the discussion on the nature of political settlements that promote effective use of aid later in this chapter.

The character of developmental neo-patrimonialism involves the ruling elite having the desire and capacity to promote national development through effective use of resources for public good instead of private interests. The elites do so by forgoing their own personal interests or by expanding the national cake instead of their own accumulation. Under this regime type, the state bureaucracy operates in a well-disciplined manner. The leadership of such a regime has a vision that inspires the creation of rents and it disciplines rent seeking in order to expand income through productive investment over the long term. The APPP analysis shows that such a regime always involves some combination of the following: a strong, visionary leader (often an independence or wartime hero); a single or dominant party system; a competent and confident economic technocracy; a strategy to include, at least partially, the most important political groups in some of the benefits of growth, and a sound policy framework, meaning a broadly pro-capitalist, pro-rural bias (Booth, 2012:26).

By centralising economic rent and limiting rent seeking, the leaders of such regimes have been able to steer rent creation into high productive economic areas involving increases in value-added, or transformations in productive capacities over time, instead of the simple quick wins that could be gained from embezzling money. Booth found that, over time, there are noticeable development results not only in terms of growth rates above average, but also visible signs of important economic diversification, with both improvements in rural incomes and expansion of non-agricultural activities for domestic and export markets (Booth 2012:26).

In much of Africa, those in control of formal power and authority have used their positions to amass and expand their wealth and that of their cronies through a patron-client relationship. If aid is to become an effective catalyst to development, donors may have to be selective in targeting structure and institutions or at least making them developmental in a dynamic way. In adapting the framework developed by Leftwich (2006:17-21) to this study, we see that aid must be able to facilitate transformation of political and economic structures and institutions that promote development.

According to Leftwich political and economic institutions and activities overlap and interlock in two ways:

> When people change the way they use, produce and distribute resources, they also change their (social and political) relations of power with each other.
>
> When people change their political and social (power) relations with each other, they usually change the way they use, produce and distribute resources (2006:13).

Since the 1980s, when the World Bank and Western donors embarked on neo-liberal policy prescriptions for Africa, an important policy concern for donors has been the need for governments to tackle the causes of corruption and inefficiencies associated with state intervention. Neo-liberal economic policies have restricted the role of the state in economic transformation, emphasising provision of an enabling environment—infrastructure provision, rule of law and security, and social protection. The notion that good governance is needed before economic transformation can be achieved is not supported by historical evidence associated with Western countries or the Southeast Asian experience. On the basis of studies that have compared Africa and Asia, it is safe to conclude that some aspects of political transformation are needed to promote economic transformation, but they may not necessarily be defined by the Western notion of good governance or politics. While neo-patrimonial regimes have presided over rapid economic growth and poverty reduction in Malaysia, Indonesia and South Korea, in the case of Africa, donors and many researchers have argued against the practice and have sought to make combating neo-patrimonialism a condition for receiving foreign aid.

Many donor preferences on political transformation have focused on multi-party democracy without clear evidence that it promotes higher economic growth and better development than democracy in all societies. Looking for guidance as to whether a particular governance system promotes better development than others, Kelsall found:

> You turn to the academic literature. Frustratingly, there is little convincing evidence in the large-n, cross-national statistical literature for the developmental superiority of either authoritarianism or democracy. Although some authors purport to find a positive relationship between democracy and development, the effects are small, while others find the reverse (Kelsall, 2014:3).

Western liberal democratic practices seem to be the preference of many OECD countries, irrespective of the socio-cultural context in the recipient country. From their perspective, political transformation also means a transition from a single or military regime to a multi-party regime, as well as sustaining and consolidating the long-run viability of that process (Resnick, 2013). In this case, ODA to promote political transformation involves technical and financial assistance for the electoral process, support for anti-corruption activities, decentralisation, democratic participation, legislation and political parties, media, and building of civil society organisations. The 2011 Fourth High-Level Forum of Aid Effectiveness (UN, 2011) pinpointed "promoting human rights, democracy, and good governance" as integral objectives of the international community. As political transformation takes place in a country with ODA playing a positive role, there is expected to be a shift to increasingly consensual politics. There is a symbiotic change in the institutions that characterise relations between politics and economics. New institutions are developed that modify how power and resources are distributed between people and interest groups (Leftwich, 2006). Where there are disagreements on how these rules are organised, open conflict arises. This can take place between ethnic groups and between religious groups. Where there are sharp and deep cleavages of ethnicity, culture or religion, conflict may escalate and become violent. It is not unusual for new interest groups to emerge, whose collective loyalties are narrower than national interest. When political transformation occurs among the population, the citizens do not put their ethnic or religious identity above the national interest.

Liberal democracy enables interaction of *groups* and group interests to be represented in formal political institutions.[4] In democratic politics groups are able to mobilise and represent their interests through formal institutions (Smith, 1995; Held, 1996). This view of politics is associated with policy communities or networks. Here, interest groups, both public and private, including research organisations, form communities of practice in which policy issues are discussed beyond and outside the formally constituted bodies like Parliament or political parties. When based on liberal democratic assumptions, political transformation makes the return of military or single-party rule unlikely because of the existence of democratic and accountable institutions and competitive party systems. It is not just about conducting successive rounds of multi-party elections, but of sustaining that process and deepening its structures to the extent where a return to military rule or dictatorial rule is unimaginable. For instance, in 1990s many African countries transitioned to multi-party democracy but by 2010 Burundi, the Central African Republic, Côte d'Ivoire, Sierra Leone, Guinea Bissau and Gambia had experienced the breakdown of democracy.

In Malaysia, Indonesia and Vietnam, different types of political regimes have delivered policies that actually promote economic transformation. According to Henley and van Donge (2012) none of the regimes in these countries conformed to the notion of good governance as defined by the World Bank or the West. Moore and Schmitz (2008) and Steer and Sen (2010) argue that personal, informal relationships between investors and public officials may be more important than rules-based governance during the early stages of development. In fact, if one examines developed countries during their period of rapid development, it is difficult to find the kind of politics, rule of law and arm's length relations between business and the state that are characterised as today's good governance.

The discussion so far on political transformation shows that there is no particular form of politics that is best for delivering development in all countries. Context matters and political transformation requires continuous change to the organisation of politics in a way that complements the economic and social development of a country. Relating this proposition to the "aid as a catalyst to development" thesis, one can argue that foreign aid is more effective when it supports a recipient country in developing its political institutions, instead of prescribing or imposing a particular form of politics on that country.

2.4 Catalyst Defined and Explained

In chemistry and applied sciences, a catalyst is a substance or an agent (it can be liquid, solid or gas) that accelerates the chemical reaction in other substances or reactants but itself remains chemically unchanged at the end of the reaction process. In the catalysis process, a relatively small amount of the catalyst is added to the mix of pre-existing substances to augment the speed of reaction. It does this by reducing the barriers that would normally prevent a reaction. Some catalysts enable reaction in substances more efficiently and often with less waste than others, meaning that catalysts can operate selectively depending on the mass composition of the reactants. The presence of inhibitors or poisons in the reactants can reduce catalytic activity, while promoters (their opposites) speed up the reaction process (Hagen, 2006; Suarez, 2007). The brief explanation above highlights five key attributes of catalysis:

1. A catalyst is a facilitator that speeds up the reaction of endogenous substances. The initiation of a reaction requires a *minimum* energy called 'activation energy'. Higher activation energy is a barrier to reaction, so a catalyst decreases the activation energy among participating substances and thus accelerates the reaction process. For example, hydrogen (H_2) and Oxygen (O_2) can be stored together to produce water (H_2O). However, the moment platinum (which is a catalyst) is added, water generation occurs with explosive speed.
2. A catalyst works with other substances by providing a convenient surface for these substances to react. The reacting substances or particles gather around the catalyst surface and collide more frequently with one another. The more the reactants or particles collide with each other, the faster they break. A catalyst does not replace existing substances; it works with them, meaning that the quality and quantity of endogenous substances are important to produce the needed outcome. If aid is assumed to be a catalyst, , then the substances it works

with to produce development are a country's own resources, institutions and agencies.

3. The mass composition of the participating substances (reactants) must be predisposed to react with a catalyst. A catalyst attracts the molecule of the primary particles to its surface so that they are closer together and can react more easily. This means that the primary substances must be predisposed to chemical reaction when they come into contact with a catalyst, or otherwise nothing happens. When the mass composition of the participating substances contains more inhibitors, catalytic processes are reduced (negative activation energy is released) but when the particles contain promoters, catalytic processes speed up (positive activation energy is released). This means that the composition of the participating substances affects the rate or speed of reaction. An illustration of catalytic leadership is provided by Liedtka, Rosen and Wiltbank (2009:7):

   > Try putting a lit match to a pile of sugar. Nothing happens because igniting sugar requires more heat than a single match or even a lighter can provide. So it stays just sugar. Nothing changes. But put just a little ash on top of the sugar pile and see what happens when you strike that match.

4. In addition to accelerating reactions, another important property of a catalyst is its ability to direct reaction of a desirable product from a completely different starting material. This means that, to be able to direct a reaction to yield a preferred a new product, the catalyst has to be suited to a particular reactor. In other words, one cannot select a wrong catalyst and expect to yield the preferred new product.
5. In theory, a catalyst does not change or would not be consumed at the end of the reaction process. This means that there is just as much catalyst at the end of a reaction as there was at the beginning. Nevertheless, some catalysts may be deactivated because of negative or poisonous substances in the participating substances, which lowers the effectiveness of those catalysts. Thus, they need to be regenerated or replaced in the long run. In other words, as a catalyst is involved in chemical bonding with the reactants during a catalytic process, its capacity to accelerate reaction wears down over time, making replacement or regeneration necessary.

These five characteristics will be the subject of conceptual analysis as we apply them to foreign aid. The concept is being applied metaphorically and therefore the reader is reminded not to take the meaning literally in its relation to aid.

2.5 Application of Catalytic Attributes to Foreign Aid

The claim that foreign aid can be a catalyst is based on existing literature and pronouncements by leading aid advocates after the Second World War. Since the success of the Marshall Plan, many development analysts have considered aid to be a catalyst to economic growth and have pushed for its application in developing countries to achieve the same success (Rosenstein-Rodan, 1961). In recent times Jan Pronk, the longest-serving Dutch Minister of Development Co-operation, has been a major advocate of the concept (see Pronk, 2001 series in *Development and Change)*.

When applied metaphorically to international development, aid as a catalyst represents external inputs (the catalysts) added to a country's internal resources and institutions (economic, political, social and cultural) to speed up development. Aid as a catalyst accelerates the process in which a country's economic resources are combined effectively with political and social institutions and ideas to respond to development challenges—economic growth, employment creation, poverty reduction, social justice, improved health care, and so on. That is to say, aid as a catalyst overcomes constraints to economic growth, transformation and development. The catalyst cracks the growth code by recognising that internal resources of a country are inadequate to bring faster transformation.

We shall now systematically explore the conceptual ideas underlying the five attributes of a catalyst described above, with the aim of developing a model with which we can empirically analyse the case of aid as a catalyst to a country's development.

2.5.1 Aid as a facilitator of endogenous resource mobilisation and investment drive

In 2001, Jan Pronk made a strong argument in *Development and Change* that aid must be seen as a catalyst instead of being regarded a prime mover of development (Pronk, 2001). His argument followed a similar one developed by Rosenstein-Rodan in the late 1960s that "aid should be allocated where it will have the maximum catalytic effect in mobilising additional resources and effort" (Rosenstein-Rodan, 1969:1). Rosenstein-Rodan's arguments were partly based on the "two-gap" model developed by Chenery and Strout (1966) and the Harrod–Domar growth model.[5]

The two-gap model was based on the premise that the engine of economic growth is revenue mobilisation and investment. At the beginning of a country's path to development, the rates of local savings tend to be too low to meet the needed levels of revenue mobilisation and investment (the savings–investment gap). Export earnings are also not sufficient to provide the capital required to import the needed materials. This leads to a foreign exchange gap. Foreign exchange shortages can constrain the investment drive needed for economic growth, as low-income countries are unable to import the needed equipment and intermediate materials for production. Given that the accessibility of low-income countries to international private capital is limited, foreign aid provides the foreign exchange that these countries need for capital investment.

> A country needs to save at least 15-20% of its GDP to invest and grow. If you fail to do so, you have two options: FDI or aid. African countries find it difficult to attract sufficient FDI. A country may not be generating sufficient revenue to undertake all the infrastructure projects it needs in order to promote specific sectors of the economy. Foreign aid is therefore needed to supplement that. For instance, you can build 100 kilometres of roads with endogenous revenue but you need 300 kilometres. When you restrict road construction to 100 kilometres, you may not need aid, but if you look at where you want to go, then you need financial support to provide 300 kilometres of roads. This is where a catalyst in the form of aid is needed to provide that extra push (Interview with former Finance Minister of Ghana, 15 August 2015).

So the role of external aid is to fill foreign exchange and resource mobilisation gaps as a short-term measure to stimulate higher levels of investment. The basic rationale is that capital formation and investment will take a longer time to materialise in low-income economies if the only sources of finance are own savings and foreign exchange earning capacity. Foreign aid therefore augments the rate of capital investment in a recipient economy just as a catalyst stimulates faster reaction in substances. As capital is formed through provision of aid, a cycle of investment culture is developed in the recipient country, providing opportunities for higher savings, capital formation and further investment. The catalysis that is stimulated by foreign aid leads to economic transformation as the initial investment gridlock of foreign exchange or "missing money" is alleviated. In fact, development researchers and aid activists had believed in the "missing money" argument. Given that governments in developing countries have few sources of revenue, aid is expected to bridge the gap between the government's revenue potential and what is needed to promote investment—the missing money. But how safe is this proposition in reality?

A number of studies on the aid-investment-economic growth nexus have come to the conclusion that there is little or no positive correlation among the three variables in the developing world (Boone, 1994; Gwin and Nelson, 1997; Tsikata, 1998). Using empirical data from about 100 countries, Boone showed that a recipient country is unlikely to invest any of the aid money if the total amount to GDP is less than 15%.. Boone's findings were corroborated by Burnside and Dollar (1997), who found little correlation between foreign aid and economic growth from 1973 to 1993. One important reason for this lack of catalysis is that a substantial part of bilateral aid to Africa is not allocated to or invested in productive sectors to generate capital-savings and investment drive. For instance, in 1995–96 about 30% of bilateral aid was allocated to economic infrastructure, industry and production. A further 30% was for social and administrative infrastructure; 10% was for commodity aid, programme assistance and emergency aid (Development Assistance Committee, 1999:A43–4). In 2008, about 47% of ODA flows to African countries were allocated to the social sector and only 18% went to economic activity (Gyimah-Brempong, Shaw and Samonis, 2012:2). Morrissey (2001:38) calculates that, on average, only about one-third of all bilateral aid is specifically intended for investment purposes

Second, aid may have simply become a substitute for domestic savings, leading to increased consumption with negative effect on investment and subsequent growth (Griffin, 1970; Hansen and Tarp, 2000). A third reason for the lack of correlation is the fact that recipient governments tend to divert own resources to other 'unproductive expenditure' when aid money is used to finance investments. Lensink's (1993) study in a number of sub- Saharan Africa economies in the 1980s drew a similar conclusion. Lensink showed that governments' behaviour impeded the potential positive contribution of aid to economic growth. This was

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because governments either failed to increase their effort on domestic savings or rather expanded their unproductive consumption expenditure. Fourth, even if a substantial part of aid is invested in productive sectors, the outcome of that investment depends on the quality of the overall policy environment of the recipient country and not on how much of the aid is invested.

The above findings on the correlation between aid, investment and growth in a recipient country appear to run through the contemporary literature, overly emphasising the driving force of aid but with little consideration to other key attributes of catalysis; that is, the participating substances or drivers that foreign aid is supposed to accelerate. Studies on the relationship between aid inflow and a recipient country's development sometimes fail to acknowledge the contribution of different endogenous inputs/drivers. Using the concept of 'mass composition', endogenous drivers may include economic policies, institutions, structures, key actors and ideology. The features coalesce to influence the marginal propensity to invest aid money in productive ventures. As indicated earlier, if aid money just becomes a substitute for, instead of stimulating, domestic savings in the recipient's context, there can hardly be sufficient capital formation and investment necessary for economic growth. What if there were no adequate supporting investment opportunities in the recipient country? What if agricultural land, water resources, entrepreneurship, rainfall pattern, and so on, and not foreign exchange, were the critical investment or the "missing object"? This possibility makes it necessary to analyse the mass composition of the recipient country's endogenous resources or drivers of growth and transformation.

2.5.2 Mass composition of the recipient country's drivers of growth and transformation

As a catalyst gathers all participating substances to itself to ensure faster reaction, so is aid supposed to provide a convenient platform for a country's prevailing political and economic institutions to gather so they can interact or work together to provide faster development. What factors constitute a country's growth engines that aid can work with to promote transformation and development? The Commission for Growth and Development (CGD) 2008 Report lists 13 high-growth economies whose development was highly facilitated by foreign aid at the beginning of their transformation process. The economies include China, Indonesia, Singapore, Malaysia, Japan, South Korea, Taiwan, Botswana, and Mauritius. The report shows that while there is remarkable diversity in the list—in size, governing structures, endowments, location, and economic challenges—these economies had many things in common in their development process. They (i) adopted good policies; (ii) exploited and managed endogenous natural resources very well; (iii) possessed strong institutions; and (iv) had committed, credible, and capable state leadership (Ackah and Kutsoati, 2008; CGD, 2008). These can be considered to be growth and transformation engines on which aid can have a positive effect. Let us now discuss the composition of the growth engines.

i. Existing economic policies that aid works with to stimulate development

A country's economic policies are important determinants of the overall orientation of the government towards economic transformation and subsequent development. Government economic policies affect systems for setting money supply, ownership of national resources, taxation, trade policy, redistribution of income, and the role of the state vis-à-vis the private sector. The literature on aid and growth seems to support the argument that aid can be an effective catalyst if appropriate economic policies are in place (Burnside and Dollar, 1997). Economic policies are broadly divided into two schools of thought—focusing, respectively, on market-led or state-led development. Economic liberalisation policies support the giving of greater economic freedom to the market instead of relying on government interventions. Socialism and communism, in contrast, are characterised by collective ownership of the means of production and substantial involvement of the state in production. In between the two poles are variants of the two approaches.

Aid becomes a catalyst to development when it facilitates better macro-economic policymaking in the recipient country. As Pronk asserts, foreign aid must augment a recipient country's efforts to seek, find, choose and follow the right development policies. Burnside and Dollar (1997) warned that if donors want to experience economic improvement in aid-recipient countries, they have to place emphasis on good macroeconomic policies by these countries. Pronk supports this view and suggests "more emphasis on better policies in order to achieve higher impact" (Pronk, 2001:626). Foreign aid may catalyse a country's policy-making by providing technical advice and ensuring that aid is provided on the condition that changes are made to prevailing policies to make them better. In other words, donors offer financial or technical assistance as an inducement to recipients to adopt policies that they think are needed for development.

Aid proponents believe in conditionality, that when aid money is invested in a bad policy environment, its catalytic role will be constrained. Aid conditionality is not new; the Marshall Plan recipients also had to adhere to a strict set of conditions imposed by the USA. In the 1980s and 1990s, conditionality was an important instrument for compelling aid recipient countries to undertake policy reform. However, many donors from the OECD countries prescribed economic policies based on ideologies that resembled theirs instead of the recipients'. The assumption was that the recipient country was poor because its economic policies were weak. From the late 1980s onwards, the OECD's economic policy prescription was market liberalisation (financial liberalisation, exchange rate flexibility, fiscal discipline, tax reforms, privatisation, and so forth, generally referred to as the Washington Consensus) (Williamson, 1994:26-8). While bilateral aid agencies might pick and choose from any of the above market-based instruments as one of the conditions for providing aid, the IMF in particular has been keen on fiscal discipline while the World Bank has insisted on trade liberalisation, privatisation and public sector reforms (Koeberle et al., 2005; World Bank, 2007).

It is assumed that, without conditionality, an important growth engine like macroeconomic policy would not be a priority for the recipient country. However, critics of conditionality have argued that selectivity principles should be used instead. Just as a catalyst is selective about the particles it attracts, so should aid donors. The selectivity principle involves aid being channelled to countries that have already demonstrated their commitment to policies that are needed for it to work (Collier, 1997; Kaufmann et al., 1999; Hout, 2002;). Aid selectivity assumes that if a country already has policies that support development in place – for example, investment in education and health, exchange rates that provide incentives for exports, trade policies that encourage competition, prices and interest rates that encourage investment, fiscal and monetary policies that check inflation, and so on – then aid will be effective in promoting economic growth and development (Amprou, et al., 2007).

Lancaster observes that, on the basis of the selectivity principle, Scandinavian countries, for example, favoured African countries like Tanzania that had a social-democratic orientation similar to their own. The USA and Germany, at least on the level of rhetoric, favoured countries with policies that supported expansion of the private sector (Lancaster, 2008:52).

A country's own policies drive development. Collier (1997) criticises the use of conditionality because it undermines the choices that an aid-recipient country would have made had aid not come in between. The presence of aid has the potential to compromise reform ownership because aid simply buys the decision and efforts to reform bad policies in recipient countries. He argues that aid allocated on the "basis of selectivity" is better than "conditionality" because the aid-recipient country would have already made the choice to reform the policy environment, hence ownership would not have been undermined by the presence of aid. The World Bank's study (Collier, 1997) found aid to be more effective in countries with already supportive economic policies. The study's findings gave the principle of selectivity a boost in aid discussions and development policy analysis (World Bank, 2007). The principle of selectivity was expanded beyond economic policies to include the quality of governance—for example, political openness and degree of corruption. For instance, the US government used the selectivity principle to design its new aid agency—the Millennium Challenge Corporation, which was to disburse aid to countries only on the basis of 16 criteria such as good governance, free markets and investment in human capital.[6]

The selectivity principle is consistent with how catalysts work in industrial chemistry. As indicated earlier, catalysts operate selectively depending on first, the mass composition of the prevailing reactants, and second, the choice of the catalyst added. If the existing reactants do not contain the chemicals that are predisposed to react with a catalyst, nothing happens. The catalyst becomes ineffective. So, for aid to be an effective catalyst, the mass composition of the prevailing policies must be compatible with aid principles; otherwise, aid becomes an expensive input with no returns. The potency of a catalyst is reduced if it has to expend on building new substances instead of accelerating existing ones. In fact, the work of a catalyst is not to rebuild or replace the mass composition of existing substances. Aid does not have to develop new policies but, if it would act as a catalyst, it transforms existing policies to make them potent to development. And, as history shows, this depends neither on market or state, but on a combination of state and market in a way that is appropriate to a country's context. Boyce and others have criticised the selectivity principle and caution that if donors decide simply to wait until 'bad performers' change their behaviour before providing aid, they may wait for a very long time for many 'failing states' to shape up (Pronk, 2001; Boyce, 2002).

Countries that need aid the most are the ones with institutional and political challenges that aid must help to meet. Pronk (2001) reflected on selectivity policy prescriptions of foreign aid and came to the conclusion that aid should help turn around structures that are not conducive to development. It means a change in prevailing political settlement that is not conducive to development. Aid should help recipients to stabilise and reform their economies in order to achieve growth and development, instead of donors expecting low-income countries to achieve all the better policies alone. Aid should be used as a catalyst to get policies reformed or improved. Pronk (2001) and Boyce (2002) point out that many of the countries that Burnside and Dollar identify as ones in which aid is working because of a good policy environment are among those that need less foreign assistance. In contrast, countries that do not have good policies in place may need help to bring them on track. Though the selectivity and conditionality arguments differ in their perspective on what comes first (reform before aid or aid for reforms) analogous to the chicken-and-egg problem—both acknowledge that good internal policies are needed if aid is to catalyse development.

ii. Recipient countries' participating institutions in the catalysis

In addition to focusing on macroeconomic policies, several authors have also emphasised the importance of prevailing institutions in the recipient countries (North, 1990, 1994; World Bank, 1998; Ostrom et al., 2002). Their position is that in analysing how and whether aid effectively catalyses development, one needs to understand the nature of the prevailing institutions that distribute resources and power in the recipient country. One particular institutional element is the nature of the ruling political regime that creates institutions, its sources of power and its capacity to act effectively in formulating and implementing programmes that are supported by aid. When the nation-state is unbundled as a unit, one is able to identify different economic, political and social interest groups that work individually or collectively either to catalyse or to work against aid effectiveness.

After decades of trying to understand the challenges of replicating the Marshall Plan in developing countries, it is now widely accepted that one of the key constraints to development in poor countries is 'missing institutions' or 'perverse institutions' (North, 1990, 1994; World Bank, 1998; Ostrom et al., 2002). Rather than pointing a finger at "missing money", which foreign aid tries to provide, analysts now pick out the ways in which prevailing institutions in aid-recipient countries create constraints to aid effectiveness (Bates, 1998; Killick, Gunatilaka and Mar, 1998; Catterson and Lindahl, 1999).

Institutions are defined as "formal and informal rules of the game that coordinate human interaction, and structure incentives in human exchange, whether political, social, or economic" (North, 1990:3). Institutions are formal if they are enforced by the state, and informal if they are self-enforced or enforced partly or entirely by non-state actors or agencies (Khan, 2012). A catalytic aid process involves many agents, including donor governments, donor agencies, the recipient government and bureaucratic agencies, contractors, interest groups in the donor and recipient country polities, and the citizens of the recipient countries that interact in a continuous complex tangle of relations. Each of these actors functions within systems of institutions and structures that promote or inhibit the objectives of aid and individual actors' interest. Perverse incentives may arise from unfavourable institutional circumstances in the recipient country, but they may also arise from the manner in which aid is delivered (Ostrom et al., 2002).

The adoption and adaptation of policies that result in structural transformation in society involve bargains among interest groups. A review of existing literature that puts institutions at the core of development analysis yields three types of institutions that are relevant to this study: political, economic and bureaucratic (Khan, 1999, 2000; DFID, 2003; Kelsall, 2013; Booth, 2014; Hickey et al., 2015). These institutions provide the lens for analysing elite consensus or political settlements in a country. This thesis argues in subsequent sections that the nature of political settlements in an aid recipient country may promote or inhibit that country's transformation and development.

Political institutions

Political institutions define the rules of the game regarding politics, political systems, the distribution of power, political regimes, and policy space and contestation. Once a regime type is established, it begins to set, maintain and enforce political systems, institutions and standard procedures for conducting politics. In addition, political institutions also set socio-economic goals, standards, and actions, which facilitate growth and development. The relative power of a ruling government, compared with the opposition or those outside power corridors, can affect the nature and growth of political institutions in a country. When a country gains independence from a colonial ruler or discovers natural resources, the nature of the ruling coalition is also critical in ensuring successful transition to a new development path. This is because prevailing political institutions dictate the direction of development and use of resources in what can be described as path dependency. This is why tracing the nature of the political settlement at the time of independence is necessary for understanding how it will set in motion the subsequent development paths available to a new nation. We will revisit this line of argument in later discussions on developmental regimes.

Bureaucratic institutions

The institutional structure of the state is anchored in bureaucratic systems. This administrative structure of the state provides policy advice as well as financial and organisational capabilities to implement programmes of the state, including those related to foreign aid. The ability of a recipient country to negotiate aid conditions and to utilise aid money effectively depends on the capacity of the state bureaucracy. Promoting the effective use of aid money demands targeted investments, policies and programmes. The capacity of the state bureaucracy to coordinate the implementation and monitoring of aid-supported programmes is necessary to ensure efficiency. The state institutions responsible for coordination have to play an active role in facilitating structural change (Breisinger and Diao, 2008; Barendsen et al., 2013; Dorosh and Mellor, 2013). Bureaucratic organisations bargain for power and resources to deliver and enforce state policies and programmes. Therefore, the degree to which power is distributed horizontally and vertically within the bureaucracy has implications on how aid programmes can be coordinated between central and local bureaucracies. Vertically, central bureaucracy may share power with local bureaucracy; and horizontally, a central or sectoral agency may be created to coordinate decisions and programmes of other sectors. For example, a Ministry of Economic Planning is created to coordinate implementation and monitoring of aid projects across sectoral ministries. If there are multiple and powerful ministries in the country, central coordination of aid projects will be difficult.

As central and local bureaucratic organisations interact continuously, if the local organisations act in concert with the central bureaucratic organisation, the latter will likely use its authority to centralise bureaucratic power in order to effectively implement rent-creation and rent-management strategies that best serve its interest. However, if local bureaucratic organisations are strong enough to resist central domination, because decentralisation policies have given them power and resources or because donors are implementing direct decentralised cooperation projects, then they will implement programmes suitable for local development. A country where bureaucracy is weak at the central agency level is also likely to have weaker capability at the lower level. A weak state bureaucracy in terms of technical capacity and power is likely to have constraints in its bargaining with political organisations. The mode of aid delivery itself can also negatively affect the capacity of the state bureaucracy to learn, if aid externalises policymaking and implementation to consultants instead of government departments and agencies. For example, in the 1990s, donor policies and aid conditionalities shrank state bureaucracy and replaced it with private sector managerialism and quasi-market structures. As a result, the ability of government bureaucrats to plan and independently develop state policies and programmes was weakened (Lancaster, 1999).

Economic institutions

Economic institutions comprise all collective productive actors, ranging from informal peasant farms or craft-based manufacturing to formally organise large firms (Khan, 2013:20). Economic organisations are influenced by activities of formal and informal political and bureaucratic institutions. The bargaining power of economic institutions is a critical determinant of the likely use of state resources, including foreign aid, in supporting capital accumulation, competitiveness and acquisition of technology. Where traditional small economic organisations with low productive capabilities dominate, there is a significant constraint to economic transformation. Where economic organisations face severe bargaining power challenges or are incapable of becoming competitive, they may work towards capturing rents. Based on the extent to which the most important economic organisations have productive capabilities and bargaining power relative to political and bureaucratic institutions, different forms of political settlements may result that have effects on how state resources are allocated, used for national development or appropriated by elites.

If the majority of economic organisations in an aid recipient country have high capability and political power/support, there is great potential for these organisations to become competitive by taking advantage of short-term capital that aid injects into the economy. They are also able to influence the direction of the use of aid money to expand their competitiveness in the international market, thereby expanding production, productivity and employment creation. Such economic organisations become positive endogenous drivers that are able to work with aid provided it is selectively focused on improving the global economic competitiveness of these firms. Mauritius is a classic case where foreign aid provided by the USA through the African Growth and Opportunity Act (AGOA) facilitated the business competitiveness of local manufacturing companies to export abroad (Teal, F. 1999; Chernoff and Warner, 2002; ACET, 2013).

According to Khan (2013:21), in a country where economic organisations have 'moderate to low capability but powerful bargaining power' there will be weak incentives to focus on achieving competitiveness unless the political and bureaucratic environment creates the conditions for them. Because firms are already powerful, they may be able to appropriate aid money from the ruling party and waste it since they have low capacity. Given their strong connection with the ruling regime, they will be unwilling to accept strong disciplining and monitoring. In the end, these organisations will use their superior political power to capture rents and resources, including aid money, from the state, but are unable to deliver (Khan, 1999, 2000).

The nature of political settlements that promote effective use of aid

Given that aid works within the prevailing political settlement, it is expected that a configuration of economic, political and bureaucratic institutions that provides a coalition for aid to work effectively will be the ideal type for development. Hickey et al. (2015: 4) find that "this form of analysis is helpful for generating insights into the ways in which configuration of power shapes the national-level incentives to which political elites respond when it comes to governing resources." The type of political settlement could explain why ambitious development strategies of the East Asians may not have been successful in Africa. As Khan indicates, the East Asian political settlement had weak political organisations, which was a result of the strategies adopted by Japan during colonial rule, while typical British and French colonial strategies involved local people in colonial administration and divide-and-rule practices. Hence, political organisations that evolved out of Africa were stronger than those in Asia (Khan, 1999, 2000). Khan (2010, 2012), Kelsall (2013), North (1990) and Whitfield and Therkildsen (2011) inform the analysis in this thesis of how different configurations of institutions (political, economic and bureaucratic) influence aid effectiveness in a country.

The bargaining between political, economic and bureaucratic institutions and agents results in a social order or political settlement that enables distribution of resources and power in society (Khan, 2010; 2012).[7] Political settlement is anchored in the proposition that institutions are a key influence on other, non-institutional, means that lead to social order in a country (North et al., 2009). Political organisations mobilise their members and constituencies to win power. Economic organisations engage in organising production. Typically, both seek to change institutions and resource distribution in ways that favour their interests. If enforcement of institutions works against the interest of organisations, they will use their relative power to contest or obstruct this enforcement. Many analysts of political settlements, like Whitfield (2011a), Khan (2013) and Booth (2014), argue that elite bargaining in political, economic and bureaucratic institutions shapes a country's developmental path by influencing developmental possibilities.

Since much of ODA is anchored in the state, it is important to understand the actors that form the political settlement in a country and how that settlement facilitates or inhibits effective use of aid money. As Di John and Putzel (2009:18) state, "Not only does the political settlement set the constraints for what can and cannot be accomplished with foreign assistance, but foreign assistance itself can have an impact on the type of political settlement." The quadrant in Table 2.1 that depicts actors/institutions that form political settlements and further influence transformation or lack of it in a country. This study contends that for aid to facilitate transformation and development in a country, the powers and incentives that these actors have in any political settlement is critical.

Table 2.1
Actors/institutions that determine the nature of political settlement in a country

	High Power		
Strong Incentives	Political elites State bureaucrats Military Police Business associations Managers of public corporations Employers' association	Donors Traditional council Faith-based organisations Leaders of labour unions Transnational corporations	Weak Incentives
	Small enterprises Commercial banks Local politicians Party foot-soldiers Commercial farmers Civil society organisations Think tanks	Women's groups Youth associations Peasant farmers Informal sector workers The poor	
	Low Power		

Source: Adapted from Oduro et al. (2014:12).

The top left cell of the quadrant shows actors with significant power and incentives to either keep or change the status quo political settlement. They are the key actors that drive development or block it since they possess high power and strong incentives to either effectively direct the use of aid or misappropriate it. They are the key drivers of development in a country.

Actors in the bottom left cell have little power but strong incentives to change or keep the status quo. Given their strong incentives, if such actors are able to form a coalition or are supported with foreign aid, they become a countervailing force to those in the top left cell.

The actors in the top right cell have strong power but weak incentive to change prevailing political settlement. These groups could be part of the elites or former ruling elites. When they have access to aid money, they are likely to use it for their own interest instead of for the provision of collective goods.

Those in the bottom right cell have little power and weak incentives to change the present political settlement. These actors are likely to be the working class, the bottom of the pyramid, and peasants. The ability of a ruling government to survive politically depends on how much it is able to finance a coalition among the actors. Given that most countries in the developing world are unable to adequately finance political order through formal budgets on the basis of tax payments, rents from natural resources, import tax, VAT and so on, foreign aid, rent creation and rent seeking are alternative sources that ruling elites use to pay for the cost of forming and maintaining a large coalition.

The literature identifies different types of political settlements that may be arrived at during the struggle and negotiation between the actors to build a coalition to rule a country (Lewis, 2007; Khan, 2010; Kelsall, 2013; Levy; 2014; Booth, 2015). Khan 2012 identifies four types of political settlement that are applicable to the Ghanaian context. They are: potential developmental coalition, authoritarian coalition, dominant party, and competitive clientelism. It is postulated that some types of political settlements are amenable to aid effectiveness whilst others are not. Political settlements analysis helps to understand why some regimes are able to pursue a successful long-term developmental path while others are not.

Developmental coalition regime

In this type of political settlement, the ruling coalition has substantial power over excluded groups. In addition, within the ruling coalition, lower-level members of the regime have less power. This prevailing power condition is likely to give ruling governments long-term security to implement plans. Given that lower-level supporters have less power to challenge national politicians, the ruling government has high capacity to enforce programme implementation. If the aid recipient country has many economic organisations with 'high capability' but weak bargaining power in relations with politicians and bureaucrats, there may be strong incentives for political organisations to extract rents from these highly competitive economic organisations.[8] If the ruling political organisation and state bureaucracy have long-term vision, strong leadership, and capacity to plan and manage rents, there may be strong incentives and opportunities for such states to pursue a developmental agenda. When foreign aid is provided to such regimes, it has the potential to catalyse development. Singapore, under Lee Kuan Yew, and Malaysia, under Mahathir Mohamad, are examples of such a setup. The literature also mentions South Korea and Taiwan from the 1960s to 1980s, and Botswana in the 1970s (Khan, 2012; Booth and Golooba-Mutebi, 2012). Rwanda, under Paul Kagame, and Ethiopia during Meles Zenawi's rule, are two of the developmental states that are gradually developing in Africa.

Authoritarian regime

In this political settlement, the power of excluded groups is strong, but the ruling government uses force and restrictions (formal and informal) to control them. Because of the vulnerability of such a government to be overthrown violently by excluded groups, long-term planning and use of aid are restricted to the short term unless the ruling regime has strong support from the military. Ghana in the 1980s, under Jerry Rawlings, could be described as such. Khan points out that it is easier for an authoritarian regime to be sustained longer when there are supportive factors, such as natural resources, rents and military, that bolster the capability of the ruling coalition to exclude other members of society. He cites the military government in Pakistan in the 1960s and Bangladesh in the 1980s and 1990s as examples of authoritarian coalition government (Khan, 2010:65). Like the developmental state, authoritarian regimes with capacity and strong military support can use aid to undertake radical structural reforms that are needed for development. Chapter 5 uses the Ghana case study to show that Rawling's regime was of this type, using aid money to undertake better policy reforms unlike many democratic regimes. Elsewhere in Africa, authoritarian regimes, too, have used resources for their own survival instead of development (Ayittey, 1998; Clark, 2002).

Dominant political party regimes

Under this type of regime, the ruling government has substantial power because excluded political groups are few and weak. It can also mean that almost all or the majority of the powerful groups may be involved in the dominant party. A dominant regime could also emerge because excluded factions are too fragmented to pose any effective threat to the dominant party. Unlike an authoritarian government, the dominant party is able to win contested elections without the use of the military to exclude others. . Khan cites Thailand, under Thaksin, in 2001; and Tanzania, under the ruling party Chama Cha Mapinduzi (CCM) in 1992. A single dominant party (Botswana Democratic Party) has ruled Botswana since independence in 1966. Where the ruling government faces little opposition or threat from excluded political organisations, the ruling coalition has strong incentives to implement its policies and intervention programmes without fear of losing power. If economic and bureaucratic organisations are strong, they can be used to transform the country because aid is able to catalyse what is already fit for transformation and will be operating in a good institutional environment. The ruling coalition is able to use aid money and the conditionality involved to pursue tough developmental policies without fear of losing power. The ruling government therefore has a long-term horizon to its plans. However, if both economic and bureaucratic institutions have low capacity, and because there is little possibility of political competition, much of the developmental trajectories will depend on the dominant party. With no threat of losing power, a dominant party with good visionary leadership is likely to promote long-term developmental ambitions. However, if the leadership of the ruling dominant party has little capacity to extract rent and manage properly, such a dominant party could be less developmental.

Democratic competitive clientelism

Under a democratic competitive regime, excluded political groups are as strong as the ruling government. On the basis of this, there is a high tendency for excluded groups, too, to win power and take over from a ruling government. Ruling coalitions often try to retain power by ensuring that they are able to win support from outside the coalition or retain existing members of the coalition through extension of state patronage and clientelist relations. Given the vulnerability of ruling governments, short-term planning to win votes and stay in power is preferred to long-term planning. According to Whitfield (2011) this type of political settlement has the potential to prevent a country from turning growth into structural transformation. A competitive clientelist political settlement has the potential to undermine the functioning of bureaucratic institutions, which will lead to inefficiency in institutions that provide public goods.

According to Levy (2014) a competitive clientelist political system is likely to be characterised by electoral competition that distributes resources to citizens with an expectation of votes rather than focusing on policies and intervention programmes.

Such political settlements provide opportunities for the ruling coalition not to implement tough economic policies. To sustain its rule, the ruling coalition would have to spend more state resources to buy the support of opposition groups or to keep its slim majority in power. Substantial state resources, including aid money, if not ring-fenced, could be wasted in such a political settlement. In addition, the government would not be able to implement fiscal discipline measures like increasing national taxation or cutting unneeded subsidies. All these could lead to donors having to include tough conditionality and credible threat of withdrawal of aid.

The above premises show that a political settlement or social order in a country is driven by a complex relationship between political, economic and bureaucratic organisations and institutions that may have significant consequences for the effective use of a country's resources and foreign aid. There are strengths and weaknesses in each of the political settlements, but the bottom line is how they enable consensus on expansion of the national cake for the public in general instead of sharing it among the few. While the four typologies on political settlements may not be mutually exclusive, as sometimes a developmental state could also be dictatorial and could be led by a dominant political party (for instance, Singapore, under Lee Kuan Yew, was seen as dictator supported by a dominant party —the People's Action Party—and so is Rwanda under Paul Kagame). The key factor of political settlement is elite consensus on how power and resources are distributed among actors and institutions outside or inside the ruling coalition.

Booth (2015) argues that developmental and structural transformative outcomes come about from governments that adopt an iterative and adaptive policymaking process supported by a stable political settlement that is insulated from short-term clientelist imperatives of ruling elites to stay in power. In recent times, the Ethiopian government under the leadership of Melese Zenawe has vocally pursued an activist developmental coalition approach to economic transformation and development. According to Meles (2012), the neo-liberal paradigm is a "dead-end" incapable of bringing about structural transformation that is highly needed to extricate poor countries from the shackles of underdevelopment. He points out that the history of Africa is replete with negative outcomes brought about by the workings of predatory regimes. Looking for a third way, Meles suggests that poor countries in Africa have to draw historical lessons from East Asia that adequately address development through an activist state approach (Meles, n.d). He labels such a developmental state as an actor that strives to eliminate market failures and uses a carrot and stick approach in dealing with the private sector so as to promote growth-enhancing behaviour instead of rent-seeking dispositions and practices (Meles, 2012).

In most of the East Asian countries, a relatively stable political settlement, facilitated by a dominant party regime, was conducive to efforts aimed at realising long-term developmental goals. An activist developmentalist policy has been successful in Rwanda and Ethiopia to unlock prospects for sustained growth in a manner unprecedented in the history of the two countries. Behind this developmental success lies a relatively stable political settlement centred on the programmatic drives of the ruling party. Successful state intervention, rent management and centralisation required strong political leadership committed to achieving the set objectives and spearheaded by a ruling party with ideological coherence in steering ongoing developmental efforts.

iii. Availability of endogenous resource endowments

The availability of natural resources can help to stimulate development or lay the foundation that aid can build on to promote productive growth. The literature is replete with analyses of the paradox of 'natural resources curse' where countries that are generously endowed with natural resources (such as minerals and oil) tend to promote bad institutions, and suffer from corruption, civil wars, Dutch disease, and neglect of education and economic diversification (Collier and Hoeffler, 1998; Wantchekon, 1999; Ross, 2000; Clark, 2002). For example, the diamond boom in Sierra Leone contributed to that nation's impoverishment because of weak institutions and poor leadership (Davies, 2000, 2006). Poverty in Nigeria and the Democratic Republic of Congo is also a perverse consequence of their wealth in oil and minerals, respectively. In all three countries, the political settlement provided poor leadership and selfish elites who mismanaged the proceeds from natural resources for their own benefit instead of the good of the nation. The natural resource curse literature shows that abundant natural resources inhibit transformation of the type experienced by China and Malaysia (Sachs and Warner, 1995, 2001).

Nevertheless, natural resources, if available, can provide the fulcrum around which aid can catalyse development. Botswana avoided the natural resource curse by investing the proceeds from diamond exploitation in productive economic development and education (Acemoglu et al., 2003). As a result, it is now among the most successful countries in Africa. The existence of natural resources provides potential for a country to use aid to harness them and, over time, wean itself from aid. Limited resources pose a constraint to economic development as a country may become aid-dependent forever.

As Zimmermann observes, "Resources are not, they become" (1951:814–5). The resource endowments of a country are changeable over time. A country's ability to shift from the production of primary commodities to industrial production is partly determined by its resource endowments. Economic diversification involves a switch from exploitation of resource endowment that uses high labour inputs to the one that uses capital and technology to achieve higher returns (Lin, 2012). Lin argues that "the best way to upgrade a country's endowment structure is to develop its industries at any specific time according to the comparative advantages determined by its given endowment structure at that time" (2012:5). Introduction of new technologies through technical assistance can help turn a comparative resource endowment to an economic advantage. This also means that foreign aid can facilitate the transformation of a country by providing technical and financial support to effectively exploit the natural resources of an aid recipient country. Such efforts enhance the growth of a country that would not have been possible if no natural resources were available.

iv. Importance of geography

Endogenous resources must be reactive to catalytic aid, but to what extent can foreign aid facilitate development in a country whose geographical location makes it so handicapped, for instance, that it cannot be competitive in international trade or transformative development? Delivering a speech at the United Nations Conference on Women and Development on 13 June 2000, Haussmann (2009:3) quoted U.S. Treasury Secretary Lawrence Summers as decrying "the tyranny of geography".

Summers was quoted as warning against the conclusion that "the economic failures of isolated, tropical nations with poor soil, an erratic climate and vulnerability to infectious disease can be traced simply to the failure of governments to put in place the right enabling environment." Using geographical location as an explanation for development failure may be perceived in some quarters as being offensive, but the reality is that tropical countries face many geographical constraints to development. With about 75% of Africa lying between the tropics, these constraints handicap many small and large countries in the continent. Two major factors contribute to the high incidence of poverty in tropical countries in comparison with temperate countries: diseases and low agricultural productivity (Acemoglu and Robinson, 2012).

Tropical diseases are notoriously difficult to eradicate. For years now, the only success achieved has been yellow fever vaccine . Despite billions in aid money having been invested in combating malaria, there is as yet no vaccine against it. Malaria poses a threat to productivity, and hence to transformation, since unhealthy farmers may produce mostly for own consumption and sell just a little to buy fish. Gallup et al. (1999) estimate that reducing severe malaria in a country increases its per capita economic growth by 1%, compared with a country where the disease is prevalent. Reducing the incidence of malaria by 10% will increase economic growth by 0.3%.

Another important geographical factor is accessibility; that is, whether a country has a seacoast or is land-locked. Without a coast, a country will struggle to transport bulky materials to and from other countries. Hence, industries that require bulky machinery and raw materials are unlikely to be established in these countries. Access to navigable rivers or the sea, on the other hand, will lower the transport costs of exports and facilitate access to markets; hence, industries that are unviable where the transport costs are high can become viable. Access to the sea is a major explanation for the success of economies like those of Hong Kong, Taiwan and Singapore, while many inland areas in Africa, China, and India find it difficult to develop economically because of their distance from markets and maritime trade.

In 'Prisoners of geography: landlocked countries and economics', Hausmann (2001) argues that a good mix of excellent policies will not be enough to get poor countries onto a developmental path and transform them. He highlights the influence of geographical location, acting independently of institutions, as a major debilitating factor in a country's development. If a country is poor because its geography, then there are serious limitations to how much foreign aid can foster growth there. This implies that there is always the possibility that aid will fail to achieve its full potential in a negative geographical environment, especially if it is conceived as a short-term intervention.

2.5.3 Disposition of a Recipient Country's Actors and Leadership to React to Aid

The availability of endogenous factors such as natural resources, institutions, policies and geography alone may not be enough to trigger transformation and development when a catalyst is added. The recipient country's leadership must react in a way that would be in consonance with the objectives of aid. The way leaders choose to respond to incentives provided by foreign aid and its delivery processes influence how effectual aid is in stimulating political and economic transformation.

The aid industry provides perverse incentives for state leadership to engage in actions that do not promote the goals of national development. A recent study by Booth and Golooba-Mutebi (2014) draws attention to the many international incentives that encourage elite behaviour that is harmful to national development processes. Contemporary studies on governance in Africa have focused on institutions and structure and less on the agency of the actors that animate these institutions; yet the economic history of Southeast Asia shows how leadership makes a difference irrespective of institutions. A comparative study of African and Southeast Asian developmental strategies demonstrates that "leaders and technocrats in Southeast Asia were interested in improving the economic and social lot of the mass of the population as quickly and effectively as possible, and they were pragmatic in choosing how they did that" (Booth and Golooba-Mutebi, 2014:4). Three factors guided the leaders' resolve to improve the economic and social lot of the masses: "principles of urgency", "outreach" and "expediency". According to Booth and Golooba-Mutebi, these three principles were absent in the governance of the African countries (Van Donge et al., 2012; Henley, 2015).

Aid recipient countries need leaders who understand effective use of aid. If such leaders react positively to aid, moral hazard is less likely to arise. For instance, aid money will be used as a supplement to local tax efforts instead of as a substitution – a kind of fungibility associated with development aid provided through budget support. The importance of suitable leadership is brought out statistically by Brautigam and Knack (2004:263) "while middle-income countries have increased tax revenue as a percentage of GDP from an average 16.5% (1972–76) to an average 21.1% (1995–99)", low-income countries (which receive more aid on average) have seen their tax revenue fall from an average 17% to an average 14.3% over the same period. Moreover, 71% of countries in Africa that received more than "10% of GDP in aid in 1995 were also in the group of countries judged in an IMF study to have lower than expected tax effort" (Brautigam and Knack, 2004:263). Another area in aid provision that requires positive attitudes from endogenous actors, for example the leadership, is accountability in the use of aid money. In this area, again, Brautigam and Knack (2004) show that in these countries, there is a systematic pattern of behaviour where government leadership leaves much of the initiative for accountability in the use of aid money to the donor. The leadership make no plans to gradually replace aid with domestic financing. In fact, government officials are glad to see more aid money being pumped into the economy even if it does not generate the right returns. Hanlon's analysis of aid effectiveness in Mozambique illustrates this perverse aid enterprise. Government officials, consultants, local aid agency staff and workers in NGOs have become well off through the administration of aid in that country (Harlon, 2004a, 2004b).

Foreign aid may have little success in catalysing transformation in low-income countries unless the political regime leaders that interact with donors find it in their self-interest to act positively.[9] But under what circumstances will the ruling elites react positively or alter their self-interested behaviour so that the potentially catalytic effect of aid is not deactivated? Perhaps this can be done if aid donors selectively identify endogenous drivers of change and work with them to develop new institutions and policies in the recipient country (DFID, 2003). Protagonists of new institutionalism argue that prevailing institutions determine individual pursuit of self-interest. By changing institutions or aligning the interests of actors to coincide with the prevailing institutional structure, a society can arrive at political equilibrium (North, 1990; Bates et al., 2014).

Donors of catalytic aid would aim at influencing the perverse incentive system that works against its effectiveness. This means that aid cannot continue to be apolitical. It also explains why a catalyst may change. We will discuss this attribute in the next two sections. Changing the 'rules of the game' can be essential for making productive use of aid, but it requires the active will and ideas of the ruling elite to do so; strong civil society organisations that react against the selfish pursuit of their interest by ruling elites instead of 'being in bed' with them; and credible or existential threat of losing power.

Changing the rules that affect the existing distribution of benefits of national resources requires state leadership that is able to take decisions and enforce them despite the potential consequences to the ruling coalition. It is here that the leadership of the ruling elite matters. Lee Kuan Yew in Singapore Deng Xiaoping in China and Seretse Kharma in Botswana were leaders fully committed to changing resource allocation to promote economic transformation and inclusive growth. They were interested in spreading the wealth or economic rent of their nations across society. The reason why these leaders were committed to developmental ideals was that they had long-term vision and were committed to bringing the majority of citizens out of poverty. In addition, the visionary leaders had a strong dominant political party supported by the military, so they did not face an existential threat to their regimes. With such a long-term horizon guaranteed, there was no incentive for the leaders to extract short-term rents for their personal gain and they could focus on transformation and long-term development (Kelsall, 2014; Booth et al., 2015).

In almost all the 13 high-growth economies that the Commission for Growth and Development (CGD) report of 2008 listed, the leaders were less corrupt. They were committed to ruling within the law and exuded public confidence in their leadership. They considered expansion of public goods more than their own resource accumulation. Take for instance, Botswana's first President,Seretse Kharma of Botswana who transferred ownership of the country's diamond mining rights from his own tribe to the state. That single act enabled every citizen of the country to benefit from the diamond revenues (Acemoglu et al., 2003; Ackah and Kutsoati, 2008; CGD, 2008; Henley, 2010).

2.5.4 Selecting an Appropriate Catalyst to Yield Preferential Transformation

The selection of a catalyst is important for delivering the right new product. Just as a natural science catalyst has different attributes, so does foreign aid come in different forms (that is, project aid, commodity aid, Balance of Payment support, technical assistance, grants, loans, and so on). Each of these has specific qualities and targets. Much of the literature indicates that "aid works" but with caveats of "ifs"; for example, "if the quality of aid is good" and "if the interests of the provider and recipients coincide", and so on.

Whenever there is a bilateral agreement between two parties, there is an interest. The recipient country has to negotiate in such a way that its development interest is not compromised. For instance, IMF conditionalities include macroeconomic stability (sustainable debt level, lower interest rate and associated inflation control). In such a case, recipient countries need to negotiate a deal with the donor to ensure that such an imposition is development oriented rather than impeding the country's progress. So the ability of the recipient to select or negotiate for the type of aid that is appropriate to its peculiar circumstances matters for the effectiveness of aid. States with weak institutions and policies do not readily use aid to change their polities and economy, hence they require a different type of foreign aid that strengthens their institutions and state building (Hopkins, 2000; Hansen and Tarp, 2001).

As discussed earlier, having the right properties is one of the attributes needed in a catalyst to bring about rapid reaction. The choice of a catalyst must be suitable to the mass composition of the endogenous substances; otherwise a non-preferable new product will result. This means that, in an aid recipient country, the effectiveness of a catalyst depends not only on the mass composition of the endogenous substances, but also on the choice of the particular catalyst, including the type of aid, the prescription it provides, and the objectives it seeks. For instance, since the adoption of MDGs, the aid objectives pursued by the international community have changed from growth orientation to poverty reduction.

Donors who provide the catalyst also want a bundle of outcomes in the recipient's country in return for their money. Donor aid is therefore not benign, it is also provided to advance donor interest, either in diplo-

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macy, commercial or cultural outcomes or a combination of these. So there is no neutrality in a catalyst. This means that recipient countries have to balance a number of choices and decide what is to their benefit as compared with what they give away. If the recipient country has a choice, it will select aid that responds to its needs and priorities (for instance, with a high proportion of grants and less in loans with conditionality) instead of the donor's interest. In other words, a recipient will select aid without conditionality. So, aid negotiation is a matter of strategic choices.

According to the literature, a major weakness of aid is donors' failure to reconcile the needs, priorities and preferences of the receiving country instead of their own needs (Emmerij, 2002; UN, 2006; de Haan, 2009). If the recipient country needs aid to improve its productive sectors, but donors insist on spending on social sectors, to what extent can that help the needs of the recipient? In that case, a wrong catalyst is applied to a recipient country's substances. As a consequence, there will be no reaction or there could be even a negative reaction. Since 2000, the catalytic potential of foreign aid has diminished because much of it has been allocated to social expenditure instead of its original tenet of economic development and infrastructure. This is an issue that African finance ministers have raised on several occasions (UN, 2006:3), expressing concern over whether such expenditure could catalyse investment and economic growth.

To perform a catalytic role, aid would need to be selective, to balance both growth-enhancing and social-development-oriented goals. Furthermore, inside donor countries, there are firms, individuals and sectors that benefit from aid money meant for poor countries. Such groups may have interests that may not necessarily be incompatible with aid but whose interaction with the recipient endogenous factors could work against achieving the intended objectives of aid. Such groups may have direct contact with the foreign policy wing of bilateral aid agencies. Multilateral agencies such as the World Bank and UN agencies that pursue aid promotion also have their interests. Their employees are among the highest paid public servants in the world working with the poor. With these groups, managing aid is a business and it is their interest to keep aid flowing even if it does not achieve the set objectives.

2.5.5 Ideal catalyst would not change

One of the key attributes of a catalyst is that it does not change its chemical composition, both in quality and quantity, after catalysis has occurred. How relevant is this attribute to aid? Established shortly after the Second World War, foreign aid has changed in several ways. In the early 1950s, it was to be delivered by the International Bank for Reconstruction and Development (now World Bank) in the form of debt relief and economic development packages. The main purpose was to enable countries in Western Europe to reconstruct their infrastructure and economies and to become prosperous again. In the 1960s, the success of industrialisation objectives of aid in Western Europe triggered the desire to replicate the prescription, with similar objectives in developing countries. Towards the later part of the 1970s, aid shifted towards stopping the spread of poverty. The use of aid as a tool for stabilisation and structural adjustment took place during the 1980s, while aid was used as a buttress of democracy and governance during the 1990s. At the turn of the millennium, aid was used to help meet the MDGs (Cassen, 1994; Emmerij, 2002). The chronological change of motives, aims and character of international development appears to be inconsistent with the attributes of a catalyst in a science laboratory. As economic and political conditions change in the world, so does aid in terms of its size, structure, motives and outcomes. As argued by Hopkins (2000:4) "there has never been a pure economic development assistance regime. Rather, foreign policy has created and sustained various aid regimes among donors" (see also Grant and Nijman, 1998).

Contrary to what has been indicated earlier, that an ideal chemical catalyst would not change as it is being applied, discussions on foreign aid so far show that it has undergone several changes in its interaction with recipient countries' drivers of development. Aid changes within the context of international geopolitics, security issues, and ideological orthodoxies. For instance, during the Cold War era and the ideological scramble for Africa, aid was given on the basis of loyalty though it was intended for development purposes (UN, 2006:9-12). The March 2005 *Report of the Commission for Africa* observed that much of the evidence on aid reflected not necessarily the need for growth but rather geopolitical considerations (Commission for Africa, 2005). Even in the minds of many politicians and much of the public opinion in donor countries, aid was perceived as a humanitarian gesture to less-fortunate people. There was no need for accountability as long as recipients remained faithful. However, it is different today. The Paris Declaration on effectiveness of aid, which was adopted in March 2005 by the DAC of the OECD, aims, among other things, to achieve mutual accountability, which implies that donors and recipients must account more transparently to each other for their use of aid funds, and to their citizens and parliaments for the impact of their aid (Moon and Mills, 2010). In addition, geopolitical and ideological factors influence the IMF/World Bank conditionalities and bilateral donor preferences (Lancaster, 1999, 2008).

The changing nature of aid and the need to promote stricter accountability means that donors demand more than a single objective or conditionality from an aid recipient country. For instance, during the Cold War, support for international positions was enough for an African country to receive aid, but that is no longer the case (Lancaster, 1999; Moon and Mills, 2010). Donors can now insist on multiple objectives that include policy reforms, ending corruption, and even regime change in return for aid. With aid being tied to donor preferences and agendas, the challenge for recipient countries is to develop and express their vision, policy preferences and direction, and to ensure that aid catalyses those choices instead of removing them from their national development agenda. As Whitfield and Frazer put it, "donors typically find it hard to challenge a recipient's priorities that are constructed within a coherent framework, particularly one that draws strength from links to a wider international discourse that might contradict donor preferences" (2010:348). In the social life environments where foreign aid operates, a catalyst like foreign aid will change as a result of years of experience between donors and recipients (a kind of a repeated game theory) with each actor studying and understanding the behaviour and strategic moves of the other, looking for an opportunity to neutralise the other's strategies and "unneeded" influence.

In this respect, social sciences are different from the natural sciences. Whilst in the natural sciences a catalyst is not expected to change during the catalytic process, the changes that have occurred in foreign aid have been a switch from one model of a catalyst to another. That is, a change from one delivery modality to another in search of an appropriate modality for each country. For instance, in many aid recipient countries, donors have switched from project support to sector-wide and budget support and a combination of modalities depending on the prevailing national and international context. Hence, this analysis will focus on different aid models that have been used in Ghana, and not on the natural sciences metaphor of changes within the aid modality.

Table 2.2
Summary of literature review and study arguments

Description	Key definition of issues/variables	Line of argument	Critique
Development	Improvement in the standard of living of the citizens.	The ultimate aim of aid is to promote development in the recipient country. Development refers to transformation of the economy and politics as they affect the well-being of the citizens. Indicators of development are experienced in the form of increased economic growth, income per capita, life expectancy, access to education, healthcare, clean water, political participation, etc.	One of the key critiques of development is its measurement. For example, there is no consensus on indicators that must be included or excluded in the calculation of a country's GDP.
Transformation	Economic: change in structure, employment diversification and productivity growth.	Stylised facts about sequential economic structural change (agric-industry-service) is prerequisite for sustained growth.	The pursuit of political and economic transformation may not be unidirectional and always peaceful. For instance, economic transformation in a country may not follow familiar pattern of agricultural transformation to industrial revolution and, later, services.
	Political: change in systems and organisation of politics, government, distribution of power and resources.	Organisation of politics is key to economic growth. There is no consensus on the type of political system and regimes that promote economic growth and development. It is all about what is fit for a country based on context.	
Factors that promote transformation and development in developing countries.	1. Foreign aid: quantity and quality of ODA provided to a country to facilitate economic and political transformation.	▪ Literature and statements of aid activists portray ODA as a catalyst. ▪ This study questions whether ODA fulfils the features of a catalyst. ▪ Five features of a catalyst reviewed:	Catalyst in natural sciences is used metaphorically in this study.
	2. Endogenous drivers of economic and political transformation.	i. Existing economic policies that foreign aid works with to stimulate development. ii. Existing political, economic and bureaucratic institutions that define the nature of political settlement in the country. iii. Availability of resource endowment. iv. Geographical location of the aid recipient country. v. Disposition of the leadership and actors to react positively to aid.	The resource curse thesis; limitations of economic planning, engrained systems of patronage on which leadership positions are built (so that not all leaders could adopt developmental programmes), etc.

On the basis of the discussions so far, the main arguments of this chapter are summarised in Table 2.2.

2.6 Catalysis of Foreign Aid and Endogenous Drivers of Political and Economic Transformation

On the basis of the literature review and discussion so far, catalysis for development will be defined as the continuous interaction between the quality and quantity of foreign aid and endogenous drivers (policies; economic, political and bureaucratic institutions that coalesce to form political settlements; resource endowment; geography of the country; and leadership). The interaction between aid and these endogenous derivers produces different opportunities for and constraints on the effectiveness of a catalyst, hence affecting progress on national development. While this study works on the assumption that the outcomes of these interactions are political and economic transformation and subsequent development in the recipient country, the donors may view the outcome as multi-faceted because aid may be given for different reasons, of which transformation and development could only be a tangential outcome.

It is important to reiterate that the outcomes of economic and political transformation may be positive or negative and that they will ultimately affect the nature of national development. Historically, transformation has not followed a single path. Different countries and their political regimes have deployed different processes and strategies to promote or undermine development. The kind of interactions that take place between endogenous factors and ODA propels the transformation and development. So, for example, one does not expect the interactions that took place in South Korea or Europe (with the Marshall Plan) to be the same as Ghana's transformative process, because of the differences in both endogenous and exogenous drivers and the political settlement that ensued in these countries. This is also why the choice of a catalyst and its application cannot be "one size fits all" (Acemoglu, et al., 2003; Ackah and Kutsoati, 2008).

2.7 Concluding Remarks

In this chapter, we have discussed two concepts that form the analytical framework of the thesis. We have defined and elaborated the concept "catalyst" and applied its attributes from natural sciences to development assistance discourse and shown how it is supposed to work. In applying the concept to development aid, we have systematically reviewed five attributes of a catalyst and explained how they are supposed to function. We have argued that if the essence of foreign aid were to help countries to facilitate national development then one would need to witness transformation in the country's economy and polity. We have seen that the process of achieving economic and political transformation requires more than just pouring more aid into a country. Conceptually, this requires endogenous drivers that interact with aid in a positive way. Those domestic substances must be predisposed to working with aid, otherwise nothing happens and catalytic outcomes become a pale shadow of the developmental intentions. The conceptual review clearly postulates that there are conditions under which foreign aid becomes either a positive or negative catalyst to a country's economic and political transformation. These conditions include resource endowment; the geography of the country; the political settlement or elite consensus arising from political, economic and bureaucratic institutions and agents that make use of foreign aid; the prevailing policies and ideology of the ruling regimes; and the leadership. As a catalyst, foreign aid can be effective in the transformation process insofar as endogenous substances are available and able to react to the intentions of aid.

Notes

[1] DEPTH: diversification, export competitiveness, productivity, technology and human well-being.

[2] Growth accelerated mainly in the United Kingdom, Australia, Canada, New Zealand and the United States, countries where industrial revolution started (Maddison, 1982).

[3] The government is the means by which state policy is enforced, as well as the mechanism for determining state policy.

[4] Liberal democracy is a form of government in which elected representatives exercise decision-making power over the people, but these decisions are subject to the rule of law, usually moderated by a Constitution that emphasises protection of the rights and freedoms of individuals (Wikipedia.org., <https://en.wikipedia.org/wiki/Liberal_democracy>).

[5] The Harrod-Domar growth model (Harrod, 1939; Domar, 1946) is a post-Keynesian one that calculates the rate of economic growth from the amount of savings and the productivity of capital. It is the pioneer of exogenous growth models.

[6] The US government launched the US$5 billion Millennium Challenge Corporation in 2004. Democracy was targeted because it was thought that only in such an environment could economic growth be jump-started (Chhotray and Hulme, 2009). The Dutch government also used selectivity to choose six countries in Africa (Benin, Ethiopia, Ghana, Mozambique, Rwanda and Uganda) for development aid.

[7] Agents may be public or private actors that pursue individual or group interest. This includes politicians, bureaucrats, the military, faith groups, trade unions, civil society groups; the media; the private sector and academics.

[8] This seems to be similar to what is referred to as 'booty capitalism'. See, for instance *The Politics of Banking in the in Philippines* (Hutchcroft, 1998), which uses this classification.

[9] While Gordon Tullock believes that "the average human being is about 95% selfish in the narrow sense of the term," it must be stated that individuals often need social and cultural norms to set aside self-interest in the name of some societal good.

3 Analysing Ghana's Case of Aid: Methodological Approach and Data Needs

3.1 Introduction

An increasing number of studies now utilise econometric data to back arguments on the impact of aid on developing countries (Mosley, 1980; Boone, 1994; Burnside and Dollar, 1997; Bowen, 1998; Hansen and Tarp, 1999). Such analyses, though influential in policy prescriptions, fall short when it comes to providing insights into specific country phenomena. The developing world is so diverse that large N cross-country case analyses inadvertently leave out insightful details that single case studies could have revealed. Secondly, doing a case study gives a researcher the opportunity to zoom into causal processes in ways that larger N studies cannot. It is on this basis that this study chose a single case for analysing aid and development.

Ghana was chosen as a case study because, as shown in section 1.2, there is anecdotal evidence that the country has passed through three phases of political and economic transformation, a period during which the country was also associated with foreign aid. Ghana's case could provide powerful and compelling evidence to draw wider conclusions for other African countries because of the country's historical pacesetter role in political and economic transformation. As discussed in Chapter 2, there are theoretical arguments for expecting that under certain political settlements or conditions aid can be a catalyst to a country's transformation and development.

This chapter discusses the approach chosen to systematically analyse Ghana's "foreign aid", political and economic transformation, and development. The chapter is divided into six sections. After this introduction, section two explains the meaning of and approach to the case study, and the justification for its adoption. Section three develops the rationale for choosing Ghana and explains the composition of the Ghana case. It sets out the economic and political arguments for selecting the country. Section four discusses the study model and variables, while section five explains the three analytical approaches adopted in the study. Section six describes the type of data needed and collected for the study, the methods applied in data collection, the ontology of the evidence collected, and sources of the data.

3.2 Case Study: Meaning, Conceptual Approach and Justification for Adoption

A case study is a piece of research work in which one gathers data to provide a depth of analysis for understanding specific circumstances in detail, richness and completeness, rather than circumstances in general and with limited regard for comparison with other cases (Gerring, 2007). It strives to explain specific features of events that led to an outcome, why they occurred, when they did and how they occurred. In other words, a case study enables a focus on tracing the process dynamics that led to a specific outcome. Gerring (2007) lists a number of characteristics of a case study, while admitting that these features could also cause confusion. It is important to list some of the features that are applicable to the approach of this study. A case study:

- has affinity to qualitative technique and focuses on small number of units (small N);
- comprehensively examines a phenomenon in detail;
- utilises a kind of evidence that is akin to ethnographic, non-experimental, historical, contextual, field research, participant observational and process-tracing;
- employs triangulation or multiple sources of evidence (Gerring, 2007:17).

Conceptually, a case study is used to shed light on a larger class of cases, but the case that is studied may not necessarily be a perfect representation of the larger population. The process of selecting a case includes consideration of the cross-case characteristics of the larger population or potential cases (for example, extreme, deviant, and so on). Therefore, to conduct a case study the researcher would have to understand the characteristics of the phenomenon in the broader population. The researcher needs to explain, "what is this a case of" as Gerring puts it (2007:13).

3.2.1 Justifying the choice of a case study approach

A case study approach is appropriate for this research because it can help to build or generate hypotheses concerning the potential effect of foreign aid on a country's development by tracing the process dynamics involved in the relationship between the two variables without measuring in any quantitative estimate the causal effect or making any strong attribution. As argued by George and Bennett (2005) and Gerring (2007), causal arguments depend not only on the measuring of causal effect, but also on the identification of causal mechanisms. A causal mechanism is that a variable X must be connected with a variable Y in a plausible fashion. In this study, it is argued that foreign aid may have a catalytic effect on a country's development provided there are sufficient endogenous conditions to make it work. In qualitative social science, the causal effect of X (foreign aid) on Y (development) may not be direct as events may be inter-related. However, adequate causal explanation requires that an empirical analysis be conducted to substantiate the assertions about both, the causal mechanisms and causal effects. A case study approach therefore gives the researcher the possibility of peeping into the box of causality to locate the intermediate factors that lie between X and Y.

The covariation model in which one can make causal inferences to explain a pattern of behaviour (Kelley, 1973) is adapted to also explain our expectation of the model (A, B, C) =Y; meaning the combined effect of A, B, C, may potentially cause Y. Covariation refers to an observation of how two or more variables change in relation to each other. With covariation analysis, the researcher collects information or evidence from multiple experiences (at different places and times) and determines which variables have changed or remained the same, as well as the total effect on the dependent variable. The researcher is able to observe the pattern of behaviour of 'A', 'B', and 'C' over different time periods. That is, there are causal effects or connecting threads between 'A', 'B', and 'C', on the one hand, and 'Y', on the other. In this case, causes of an outcome 'Y' can be attributed to the combined effect of critical historical challenges (circumstances), endogenous factors (internal) and catalytic aid (external). However, it must also be stated that the researcher is unable to explicitly quantify with any numerical accuracy the precise effect of the independent variables on 'Y'. A case study approach using causal mechanisms or process tracing can only show that the cause occurred before the effect but cannot explicitly establish with certainty the full causal-effect on Y. Here, Bunge's argument that productivity effect cannot be fully established is valid. It only provides a social scientist with the possibility of formulating outcomes or productivity effects in causality without explicitly stating their full effect (Bunge, 1979).

In summary, the four objectives in choosing the case study approach are: (i) the complex and dynamic nature of analysing aid interaction with endogenous drivers in a country without quantitatively measuring the necessary and sufficient conditions or making any strong attribution; (ii) the orientation of the study towards generating hypotheses instead of testing them; (iii) to enable tracing of the process dynamics of aid, transformation and development using historical and current information so as to provide insightful information that is usually hidden behind aggregate data in large N cross country analyses; and (iv) to use evidence drawn from Ghana to illuminate the role of aid in Africa's development. These objectives, according to Gerring (2007) and George and Bennett (2005), justify adopting a case study approach.

In recent times, academic disciplines like economics and political economy, which were not receptive to case study designs, have begun to use the approach. For instance, recent studies of the economic growth of countries such as Botswana, Korea and Mauritius have turned to the case study approach (Chernoff and Warner, 2002; Acemoglu et al., 2003). Gerring (2007) observes that there is a gradual shift in social science research away from a variable-centred approach towards a case-based approach. Key factors influencing this shift are heightened scepticism towards cross-case econometrics (Winters et al., 2004:78; Achen, 2002; 2005) and the development of qualitative comparative analysis (Drass and Ragin, 1992; Hicks et al., 1995) and counterfactual thought experiments in the analysis of individual case histories (Fearon, 1991; Lebow, 2000).

3.3 Selection of Ghana as a Case Study of Catalytic Aid Analysis

A single case study can have powerful and compelling evidence that may be relevant to other countries. This presents the researcher with a formidable challenge of case selection that will represent the larger population. In large N sample research, case selection is usually handled by some version of randomisation. However, Ghana's case was not selected randomly but purposively based on deductive approach and pragmatic consideration. In terms of deductive approach, Ghana was selected on the basis of its typicality as well as variation from other developing countries on whose development trajectories foreign aid has had differential effects.

With a per capita income of US$ 490 in the early years of independence, Ghana was considered a middle-income country comparable with South Korea, Mexico and Malaysia. Endowed with natural resources and well-trained state bureaucrats, Ghana had a distinctive potential to accelerate development with little international assistance (Uphoff, 1972:221). The country was a pacesetter in political transition from colonisation to independence and led the fight for liberation of other African countries. Considering the country's current level of development, Ghana is a typical developing country in Africa that has not achieved a significant degree of transformation and development relative to its peers like South Korea and Malaysia, and thus it continues to receive ODA. Three decades (1957-84) of involvement with ODA did not lead to the transition that its founding fathers envisioned. Compared to some of Ghana's peer countries in the developing world like South Korea, Malaysia and Mexico during that period, Ghana's case is a deviant one. It represents the development paths of the many countries in the developing world where aid did not help to transform the economy and politics after years of interaction.

In fact, Ghana moved from a middle-income to low-income country during that period. However, the second period (1983-92) showed Ghana beginning to lay a strong foundation for economic and political transformation with aid. It was the period when foreign aid was said to be effective in the developing world when the fundamentals were right. Ghana's case during that period represents countries in the developing world where aid was said to have worked because the endogenous conditions were good. As it will be shown in Chapter 5, it is during that period that Ghana radically changed the economic institutions and policies that had bedevilled the country's development during the previous three decades. The 1983-92 period is when Ghana became an example of a developing country making a successful transformation with the support of foreign aid and serving as a model for replication by other countries. This is the variation that Ghana's case presents from the typicality described earlier. According to Kolavalli et al. (2012:1), in several ways "Ghana can be considered a benchmark for other African countries that are seeking transformation".

The third phase of Ghana's development trajectory (1993-2013) was marked by consistent positive rates of GDP growth of more than 5%, though it was less than in the early years (1960-80) of transition countries such as Botswana (12%), Thailand (8.4%) and South Korea (7.8%) (Fosu, 2009; Weisbrot and Ray, 2011, Kim, 2013;). In 2011, Ghana transitioned from low-income to lower middle-income status, but the standards of living of its population were far lower than those in the comparable countries that also received aid during the early years of their transition.

In political terms, the case of Ghana represents much of what happened in many African countries during the early post-independence years. Historically, this period is significant to the developing world, and especially Africa, in two areas. First it was the period during which the Cold War dominated the provision of foreign aid. Ghana and many developing countries were affected either negatively or positively, depending on the perception of the major power blocks—the USA and United Kingdom represented the West, whilst the Soviet Union represented the East. Second, the early years of independence saw the growing popularity of a number of African leaders voicing Pan African ideology, and Ghana provided leadership for that movement. These two historical events culminated in internal political rancour, to the extent that by the time the Cold War ended, political structures and democratic systems had collapsed and been replaced by military and dictatorial rule. This was the political story of many African countries in the first two decades after independence.

In the early 1990s, aid came in the form of assistance for good governance and political transformation involving multi-party democracy. Ghana was an example of countries that transitioned successfully into a democratic regime and has since made remarkable progress. Ghana's case is rare because most in African countries underwent a long period of political fragility after support was given to the development of political pluralism. It is the rarity of democratic transformation in the region that makes Ghana a valuable case for studying the role that foreign aid may have played in its development.

The pragmatic consideration for selecting Ghana is the researcher's familiarity with the country, having lived through two of the phases and witnessed at first hand the challenges and successes of Ghana's transformation trajectories.

3.4 Building a Model of the Relationship Between Development and Foreign Aid and Economic and Political Transformation

This study explores the causal relations between foreign aid and Ghana's political and economic transformation since 1957 to date, using a simple exploratory model:

Y= f(A, B, C)

Where:

Y = Ghana's three phases (1957-82; 1983-92; and 1993-2013) of economic and political transformation and development

A = Historical events or critical economic and political challenges in the three epochs [1]

B = Aid, defined as the quantity and quality of technical and financial assistance, and mode of delivery (ODA flows)

C= Endogenous factors (policies, economic, political and bureaucratic institutions, natural resources, leadership, etc.)

f: The function of A, B, C

The model has three independent variables[2] (A, B, C) that can be observed and compared over three different time periods (1957-82, 1983-92, and 1993-2013). These independent variables were chosen on the basis of the literature review in Chapter 2. They relate to one another to some extent and so may be considered to be covariates (Kelley, 1973).

The principle of covariation states that, "an effect is attributed to one of its possible causes with which, over time, it covaries" (Kelley, 1973:108). That is, certain outcomes are attributed to potential causes that appear at the same time. The causes can be attributed to the internal traits of the individual variable being examined, the stimulus (external), the circumstance, or some combination of these factors (Hewstone and Jasper, 1973). According to Kelley, in the covariation principle, attributions are made on the basis of three criteria: consensus, distinctiveness and consistency (Kelley, 1973). Consensus is the opinion on the specific variable shared by different people. For example, if many researchers share the opinion that the atom bomb ended the Second World War, then the consensus is high. Distinctiveness refers to how unique the behaviour of the variable is to the particular situation. There is a low distinctiveness if the variable behaves similarly in all situations or contexts, and there exists a high distinctiveness when the variable only shows effect in a specific context. If the distinctiveness is high, the researcher can attribute the specific outcome more to the context than to the variable (Gilovich et al., 2005). Consistency is when the variable shows the same effect across time and context.

Covariation variables A, B and C continuously interact with each other. The interaction may cause and affect the other. It is hard, however, to determine or establish a causal relationship between each of the variables and Y. Covariation establishes that there is a cause and effect relationship between the variables A, B and C on one hand, and with Y on the other. Covariation establishes that A, B and C had some measurable effect on Y, whatever that may be.

3.5 Analytical Approaches

The thesis employs three analytical approaches. The first is historical analysis, which involves: (i) identifying the relevant political and economic challenges and opportunities that defined the three phases; (ii) identifying attempts made to meet these challenges, in which foreign aid played a catalytic role (iii) identifying endogenous factors that constituted the country's political settlement with which aid worked; and (iv) examining whether the covariates were predisposed to work with each other. The study did not assume that the three variables were passive during catalysis, but rather tried to establish how the existing structures, institutions and actors reacted after interaction with aid (in the form of activation or deactivation). In this approach, the study extensively reviewed the available literature and solicited experts' views. The experts' views were triangulated with secondary literature and historical archival materials.

The second approach involved analysing pre- and post- A, B, C intervention effects on Y. Here, data/information was collected for each of the covariates before and after interactions took place, which was compared with any changes in the dependent variable Y in different time periods. Aid agencies and international financial institutions (IFIs) influence local policymaking by providing financial resources, technical assistance and sometimes platforms for policy debate through organisation of conferences and seminars. They also try to impose policies through aid conditionality. A methodology for analysing the effect of aid on domestic issues is to find out if policies that were introduced through aid were better or worse in terms of facilitating quantitative and qualitative improvement in macroeconomic and political indicators and standard of living of the population. This approach is supported by Bourguignon and Sundberg (2007), who propose that the links along this chain (A, B, C) be traced and monitored to help clarify the contribution of aid to transformation outcomes (Y). This includes: evaluating the quantity and quality of aid, governance characteristics of the country before and after aid interventions, the quality of domestic policies before and after provision of foreign aid, and tracking development outcomes. In this case, the 'control' variable is the pre- and post-intervention state of Y. The term "intervention" is used in the broadest sense to indicate any sort of change in trend in the key covariables A, B and C. Given that three different phases were analysed in this study, the pre- and post-analyses employed longitudinal time series comparison.

In qualitative case study research, evidence pertains that the effects of covariates (A, B, C) on Y are often opaque for two main reasons: there are too many confounding causal factors and the latter cannot usually be eliminated through quantitative techniques. Therefore, a third analytical tool that has come to be known as process tracing was employed.[3] This method helps the researcher to infer and construct a causal chain account of how various conditions and variables interact with or are connected to each other, and produce historical outcomes over time. "Process tracing is a methodology well suited to building or testing theories in a world marked by multiple interaction effects, where it is difficult to explain outcomes in terms of two or three "independent" variables or covariates" (George and Bennett; 2005:172-85). The method relies heavily on contextual evidence and deductive logic to establish causality between covariables and their combined effect on the dependent variable Y. The procedure involves identifying the sequence of events to depict how each of the independent variables sets into motion a complex causal chain. It involves multiple types of evidence that are employed for the verification of a single inference. The method is akin to detective work—bits or pieces of evidence that are relevant to building of a model. The combined behaviour of A, B and C in each of the three phases is narrated diagrammatically to demonstrate the flow of sequences, effects and outcomes (see Figure 3.1, an example of process tracing using Skocpol's explanation of the breakdown of the French state in 1789). According to Gerring (2007), although the procedure seems messy, we are often convinced by its conclusions.

Process tracing helps to identify a sequence of events that foreclose certain transformational paths. During the three periods under review, Ghana experienced different patterns of political and economic transformation and development. On the basis of the literature review in Chapter 2 and taking a cue from Skocpol's application of process tracing to explain the breakdown of the French state, our model: Y= f(A, B, C) can be represented in a framework shown in Figure 3.2. Note that the variable 'C' comprises of two components (C_1 - C_2).

Figure 3.1
Skocpol's explanation of the breakdown of the French state in 1789

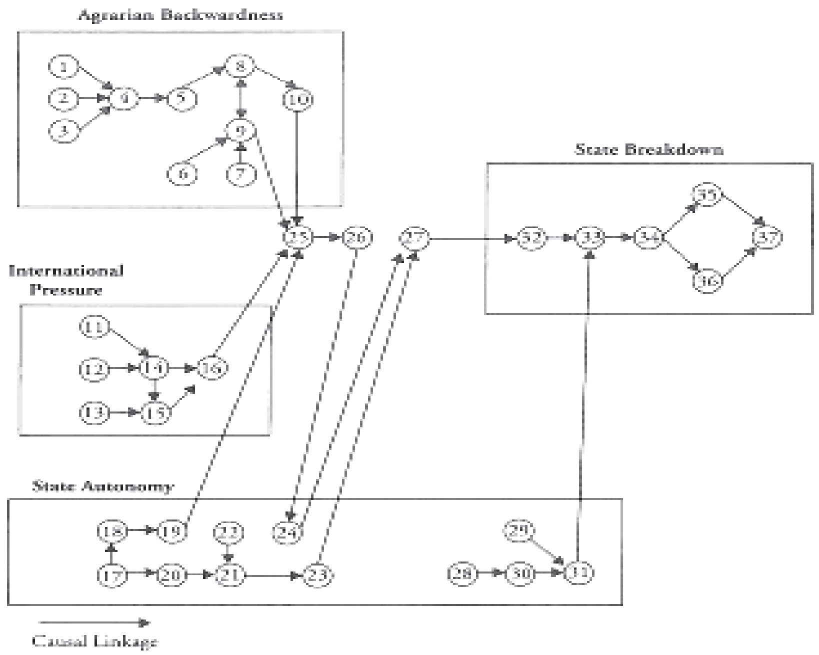
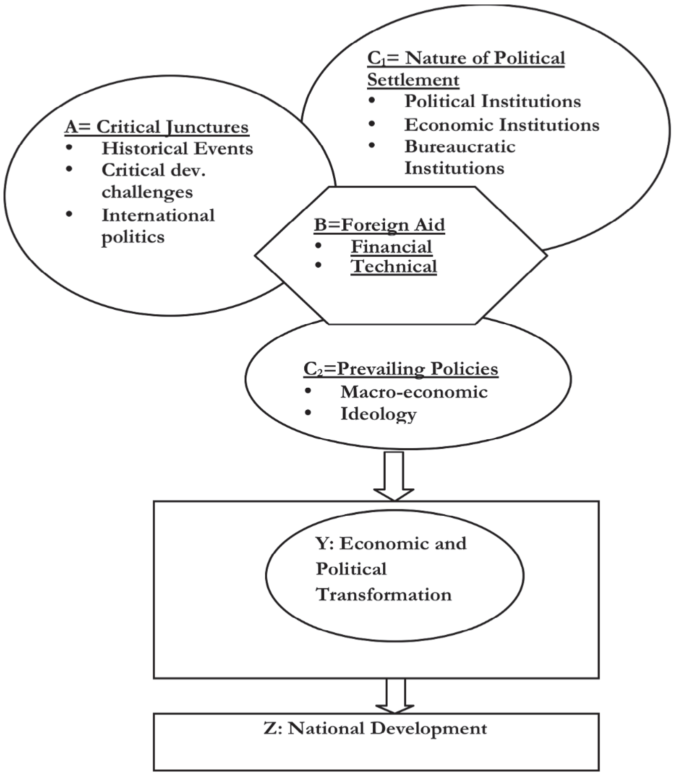


FIGURE 7.1. Skocpol's explanation of the breakdown of the French state (1789). 1. Property relations prevent introduction of new agricultural techniques. 2. Tax system discourages agricultural innovation. 3. Sustained growth discourages agricultural innovation. 4. Backwardness of French agriculture. 5. Weak domestic market for industrial goods. 6. Internal transportation problems. 7. Population growth. 8. Failure to achieve industrial breakthrough. 9. Failure to sustain economic growth. 10. Inability to successfully compete with England. 11. Initial military successes under Louis XIV. 12. Expansionist ambitions of state. 13. French geographical location vis-à-vis England. 14. Sustained warfare. 15. State needs to devote resources to both army and navy. 16. Repeated defeats in war. 17. Creation of absolutist monarchy; decentralized medieval institutions persist. 18. Dominant class often exempted from taxes. 19. State faces obstacles generating loans. 20. Socially cohesive dominant class based on proprietary wealth. 21. Dominant class possesses legal right to delay royal legislation. 22. Dominant class exercises firm control over offices. 23. Dominant class is capable of blocking state reforms. 24. Dominant class resists financial reforms. 25. Major financial problems of state. 26. State attempts tax/financial reforms. 27. Financial reforms fail. 28. Recruitment of military officers from privileged classes. 29. Military officers hold grievances against the crown. 30. Military officers identify with the dominant class. 31. Military is unwilling to repress dominant class resistance. 32. Financial crisis deepens. 33. Pressures for creation of the Estates-General. 34. King summons the Estates-General. 35. Popular protests spread. 36. Conflict among dominant class members in the Estates-General; paralysis of old regime. 37. Municipal revolution; the old state collapses. Adapted from Mahoney (1999: 1166) after Skocpol (1979).

Figure 3.2
Interaction between foreign aid and endogenous drivers (catalysis of development cooperation)



The figure summarises the interactions that take place in the three co-variates: A (historical/development challenges), B (foreign aid) and C (endogenous factors) and their outcomes captured in Y (political and economic transformation). We have to accept that the transformation and development trajectory of a country is difficult to predict in real time; hence, in this study, the analysis covers three crucial phases in the past to establish the changes that have taken place in the structure and institutions of the country's economy and polity during those periods.

For example, it asks: Are the later structures better for delivering high economic growth, lower inflation or reduction in the incidence of corruption than what existed before then? One of the ways in which the political transformation can be measured is in terms of showing that in the first two phases of Ghana's development trajectory, there were frequent military coups, political violence, uncertainties in leadership, and so on, while during phase III Ghana achieved a stable democratic political system with clear and acceptable institutions for choosing and changing leadership, with high rankings in good governance. That is a transformation, a sharp break from the past. What might have influenced the changes? The research hypothesis is that the three independent variables A, B and C contributed to this transformation. The covariates are all necessary conditions for transformation, but none of them by itself could have been sufficient to cause Y. To a large extent, the INUS conditions apply here (Sosa and Tooley, 1993).[4] It is also important to note that in this thesis transformation does not only connote a positive outcome of the interaction between aid and endogenous drivers; the outcome of transformation can also be negative.

3.6 Data Needs, Sources and Collection Methods

This section describes the type of data needed, collected and their sources for the study, the methods applied and the ontology of the evidence collected.

3.6.1 Data Needs

To analyse the catalytic causes and effect of aid on economic and political transformation, the study needed two types of data: the first type of data was to enable the study to analyse the degree of political and economic transformation, and development that had taken place over the three periods as described in section 2.3. The second type of data was on the three covariates (A, B, C). In both cases, primary and secondary data were needed. Based on the literature review and the analytical framework presented in fig. 3.2 the study derived a number of factors in the cause-and-effect model Y=f(a, b, C). For instance the literature review shows that one needs to collect data on the structure of the economy over the study period, the changes to the key sectors of the economy, GDP growth and inflation trends, employment growth and patterns, etc. to determine the nature of economic transformation that has taken place. In terms of political transformation, the review also suggested data on the following: mode of government, the nature of political institutions, citizens' participation in governance and other good governance indicators. Collecting data on these factors were needed in order to assess the dependent variable 'Y' which is economic and political transformation and development. The same procedure (literature review) was used to derive the factors in the independent variables 'A', 'B' and 'C'. For instance the independent variable 'B' needed information on quantity and quality of ODA received over the study period, the conditions based on which ODA was provided, sectors that ODA was disbursed, etc. Table 3.1 shows the study variables, data needed and collected, and their sources.

Table 3.1
Study variables, data needs and sources

Variables	Data Needs (1960-2013)	Sources of Data
Dependent		
Economic transformation and development	Structure of the economy; trends in macro-economic growth; human development indicators	World Bank Data base; Bank of Ghana bulletins; Government of Ghana budget statement; Factfish World statistics and data research; Human Development Report; Expert interviews
Political transformation	Mode of government; Political institutions; Citizens perception; Corruption index; Good governance indicators	Polity IV; Mo Ibrahim Index of African Governance; Transparency International; Afro barometer; The Bertelsmann Stiftung's Transformation Index (BTI); Expert interviews
'Independent Covariates		
A= Historical	Path breaking events that occurred (critical junctures)	secondary literature, grey literature and expert interviews
B= Foreign aid	Quantitative and qualitative ODA disbursed; aid conditionality; key donor countries, etc.	World Bank database; http://databank.worldbank.org/data/home.aspx; World statistics and data research http://www.factfish.com OECD International Development Statistics https://stats.oecd.org/qwids/ Semi structured interviews with representatives of donor agencies
C= Endogenous factors	Development policies & programmes; economic, political, and bureaucratic institutions; government revenue and expenditure, etc.	Semi structured interviews with experts and review of existing literature (published and unpublished materials).

Based on information derived from the literature review the study developed semi-structured questionnaire that links the dependent and independent variables together and sought the expert opinions of the interviewees regarding those factors, their causal relationships and outcomes (see annex 1). Some of the responses from the interviewees also provided additional factors in the dependent and independent variables that the literature review did not pick. The use of process tracing was very help in this regard, helping to construct a pattern of relationships (cause-effect) between all the factors in the dependent and independent variables.

3.6.2 Primary Data and Collection Methods

The research undertook in-depth interviews with identified individuals and institutions that have information on the study variables. A systematic stratified sampling method was adopted to select the interviewees with the objectives of: (i) obtaining historical information about the co-variables; (ii) triangulating information obtained from other interviewees and the literature; and (iii) connecting one event/information with others in the form of process tracing. Selection of interviewees was based on prior knowledge of their work on the subject and/or introduction by their peers as having deeper or alternative views (a kind of snowball approach to rope in others for interviews). The list of interviewees includes five senior government officials, in the Ministry of Finance, Office of the Head of the Civil Service, and the National Development Planning Commission; officials from nine donor agencies; seven think-tanks and civil society organisations, two former Finance Ministers, one former President of the Republic of Ghana and two private sector entrepreneurs. The field interviews were divided into two stages. The first was conducted in the summer of 2013, and the second in the summer of 2015. The second field interview was necessitated by inadequate data, especially from the donors, during the first interview. Table 3.2 shows the breakdown of the categories of institutions while Annex 2 shows their positions.

Table 3.2
List of Institutions/key actors covered in primary data collection

Institutions/Key actors	Number of interviewees
Central government	5
Donors	9
Think-tanks and advocacy organisations	7
Social commentators	2
Former finance ministers	2
Former President	1
Academic and research organisations	4
Private sector	2
Total	32

Many of the interviewees were directly involved in different phases of Ghana's political and economic transformation and ODA engagement. The author administered the semi-structured questionnaire interviews personally, face-to-face, by telephone and through email exchanges. A deliberate decision was made to get respondents who were very active during each phase to obtain their thoughts on the incentives and constraints placed on political actors by the structural and institutional context of their era, how they executed their policies, their approach to aid and strategies for negotiating with donors, and what they consider to be the key drivers of Ghana's transformation and development.

The responses from the interviewees were carefully examined; triangulated and connected to each other, then supported by literature (archives of development policies, statistical data, published and grey materials) in order to distinguish perceptions from evidence of facts.

On the donor side, field data collection targeted multilateral and bilateral donor agencies in Ghana. The multilateral agencies included IMF and the World Bank while bilateral donors included DFID, USAID, European Union; and Development Cooperation agencies at the Embassies of Netherlands, Denmark and Norway. The research sought the views of these donors on the three phases of Ghana's political and economic transformation: what in their view were the key drivers of each of these phases, their perceptions about different regimes and their predisposal to working with aid. It must be stated that it was a challenge for most of the interviewees from the donor side to recount events in Phase I as they did not have much information.

3.6.3 Secondary Data Collection

A lot has been written on Ghana's economic and political past especially during the second phase where ERP and SAP were implemented, leading to harsh economic realities of transition. It is during this period that foreign aid and endogenous factors punctuated the established structure and institution to create a new path towards economic and political transformation. In recent times a few researchers have begun to write on Ghana's drive to transformation. The research systematically followed the literature on the three phases. Data on both independent and dependent variables were collected from published and unpublished sources including journal articles and books, working papers and other online materials. Ivor Agyeman-Duah's (2008) edited book *An Economic History of Ghana: Reflections on a half-century of challenges and progress* provides the opinions of 20 distinguished Ghanaians and non-Ghanaians on Ghana's economic trajectory, the causes and effects of institutions and public policies. This book proved to be a good source of secondary information.

Notes

[1] Critical decisions that established a particular development path for Ghana, upon which subsequent policies, institutions and structures were built, resulting in increasing returns and locked-in outcomes.

[2] The independent variable refers to the explanatory (causal) factors on which the outcome is supposedly dependent. The dependent variable refers to the outcome of an investigation.

[3] Process tracing is also referred to as causal-process, genetic explanation, interpretive method, narrative explanation, and sequential explanation (see Brady and Collier, 2004; George and Bennett, 2005; Goldstone, 1991)

[4] INUS is an acronym for 'Insufficient, Necessary, Unnecessary and Sufficient conditions. INUS states that effects have typically a plurality of causes; that is; a certain condition can be brought about by a number of factors working together. While each of the variables may be needed to cause an effect, a singular variable is insufficient but necessary part of a condition, which is itself unnecessary but sufficient for the effects (Mackie, 1965).

4 Ghana's Early Years of Economic and Political Transformation (1957-82): The Period of Endogenous Drive with Little Foreign Aid

4.1 Introduction

This chapter examines the effects of foreign aid in the early years of Ghana's quest for economic and political transformation and development. As conceptualised in Chapter Two the interaction between historical events, endogenous resources, political settlements arising from political, economic and bureaucratic institutions and actors, prevailing policies and ideologies, and foreign aid may result in positive or negative transformation and development. This chapter traces such interactions immediately after independence in 1957 where there was so much hope for the newly independent country, through the difficult years of the late 1970s, and mid 1980s, where all hopes for an economic breakthrough and political stability disappeared and in place hopelessness became the aura of the country. Using historical facts as they were and an application of process tracing, this chapter connects the three covariables and shows how they collectively contributed (cause and effect) towards the country's economic and political transformation and development during that period.

The chapter is divided into six sections after this introduction. Section two summarises the political and economic conditions at the beginning and at the end of the period. It identifies all the elements or attributes of the three covariables that caused and affected economic and political transformation. The subsequent sections then provide the narratives on how specific attributes of the covariables (history, aid and endogenous drivers) interacted. Section three begins the narrative with analyses of five historical events (critical junctures) that set into motion and subsequently influenced the catalysis between endogenous drivers and foreign aid. Section four analyses the interaction between foreign aid and endogenous factors while section five then links the interaction back to the degree of economic and political transformation and development. Section six concludes by revisiting the five attributes of a catalyst and answers the basic question of whether aid was a catalyst in Ghana, based on the evidence deducted from the analyses.

4.2 Ghana's Political and Economic Transformation Before, During and After Interaction between Foreign Aid and Endogenous Drivers

Ghana's economy in the early years of independence was solid on the production and export of primary commodities. The country was the world's leading producer of cocoa beans, minerals, particularly gold, and timber. Through the exploitation of mineral deposits and export of cocoa beans and timber, Ghana became a middle-income country whose per capita income of US$ 490 in the mid 1960s matched that of Mexico, South Korea and Malaysia. The country's economy was doing better than those of all the sub-Saharan countries by a significant amount (Uphoff, 1972; Herbst, 1993). Ghana could produce enough food to feed its population, which was about 6.5 million in 1957. Agriculture absorbed about 80% of the labour and constituted about 50% of the GDP. Manufacturing industries were non-existen,t so Ghana was importing almost all its processed commodities (Kolavalli et al., 2012).

Politically, Ghana was founded on the basis of multi-party democracy, but that changed within seven years and the country experienced political instability from 1966 to 1982 (Austin, 1964; Apter, 1972). Democracy, defined as "government of the people by the people and for the people," seldom became a feature of national governance for 16 years and military coups became an acceptable part of the polity. The people in general blamed the political regimes for their economic hardships and applauded the coups (Boafo-Arthur, 1999; Gyimah-Boadi, 2008). Having taken power in pursuit of their narrow interests, various military regimes pursued short-term economic policies that did not lead to major economic transformation.

The economy continued its protracted decline for three decades. The annual GDP growth rate of 2.2% between 1960 and 1970 was small.

Growth even dropped further by 0.5% annually in the subsequent years (Aryeetey et al., 2000; Aryeetey, 2008). The initial push for industrialisation started to weaken by early 1970. That also happened to the manufacturing sector. During the mid 1970s (1975-79) the sector declined annually by 2.5%, reaching a growth rate of 12.3% between 1980 and 1982. At that point, population growth and the worsening economy combined to make Ghana lose its medium-income status. By 1982, living standards had deteriorated so badly that Ghanaians would do anything to survive. At that time, by today's standards, Ghana would have been classified as a failed state given the chaotic situation in the country. The Ghanaian head of state, Flight Lt. Rawlings, described hospitals as "graveyards" (Boafo-Arthur, 1999; Aryeetey and Tarp, 2000; Adedeji, 2001).

On the basis of interviews and secondary data, this study identified the 17 causal factors that explain Ghana's poor economic and political structural transformation from 1957 to 1982. Through application of the process tracing method, which connects the 17 factors in the covariates A, B and C together, we can provide plausible answers to the key research questions in this thesis. Figure 4.1 summarises the process tracing causal-effect linkages of Phase I. The reader's attention is drawn to the labelling of the factors as they correspond to the respective dependent and independent variables.

A: Critical Historical Junctures

A1: Cold war ideology dominated foreign policy of both donors and aid recipient countries.

A2: Ghana's substantial foreign exchange reserves and high economic rent from gold and cocoa beans led to leaders' disinterest in foreign aid.

A3: The decolonisation period and Ghana's role in the Pan African movement.

A4: Absence of large endogenous businesses/entrepreneurs in industrial or modern sector of the economy.

A5: Unequal terms of trade and desire to industrialise.

B: Aid

B1: Little/insignificant foreign aid received.

B2: Poor quality of ODA with high percentage of loans and fewer grants.

B3: Low disbursement of ODA.

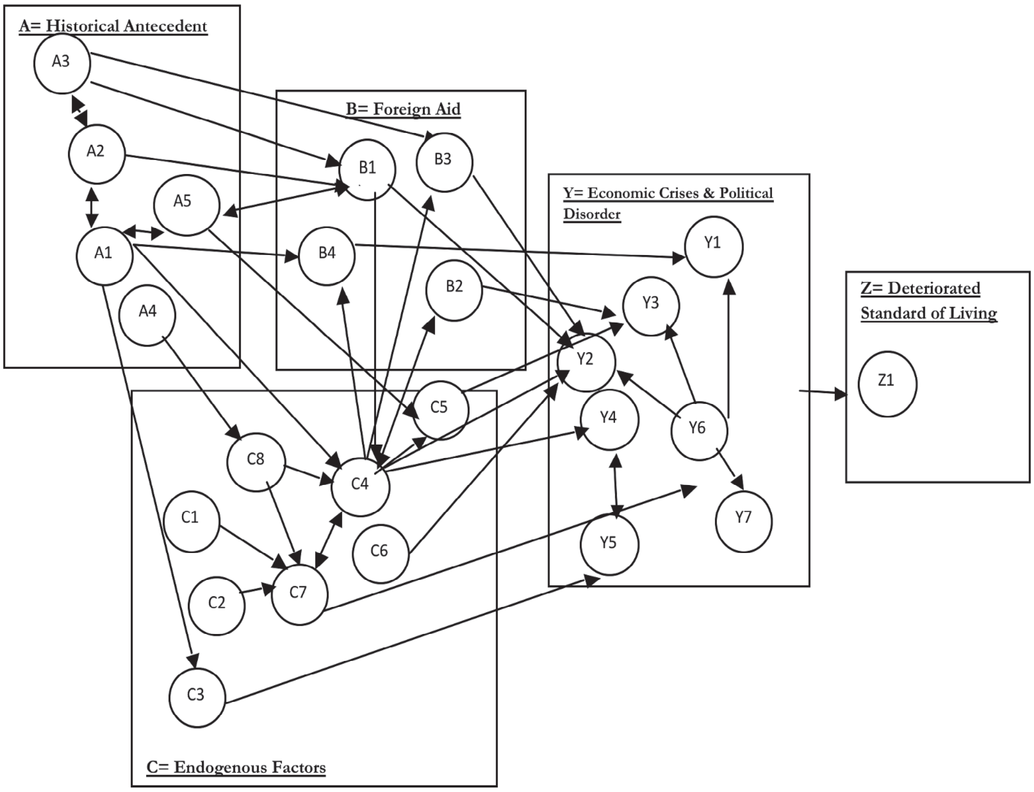
B4: ODA unfocused on productive sectors (importation of goods and services).

C: Endogenous Drivers
C1: Abundance of natural resources
C2: Reliance on the production and export of two primary commodities (cocoa beans and gold).
C3: Politics of intimidation, divisiveness and exclusion.
C4: Socialistic economic policies that antagonised the West, discouraged large private sector, encouraged large public sector and promoted state inefficiency.
C5: Import substitution industries.
C6: Inadequate investment in raising productivity of cocoa and gold.
C7: State inefficiency in planning and management.
C8: Role of the state in direct production of goods and services.

Y: Economic and Political Transformation
Y1: Constant price fluctuation of Ghana's major exports (cocoa beans and gold).
Y2: Inadequate foreign exchange and unstable currency.
Y3: Foreign debt burden.
Y4: Widespread corruption.
Y5: Frequent military coups, political instability and violation of human rights.
Y6: Failure of industrialisation programme.
Y7: Unchanged economic structure or little transformation.

Z: Deterioration in Standard of Living

Figure 4.1
Tracing Ghana's developmental trajectory from 1957 to 1982 (Phase I)



4.3. Historical Antecedents that Shaped the Interaction Between Foreign Aid and Endogenous Factors

From the historical accounts provided by experts and the literature (Uphoff, 1972; Leith and Soldering, 2000; Agyeman-Duah, 2008; Rooney, 2015) we can identify five historical events that played important roles in shaping the interaction between aid and endogenous drivers, causing cascading effects on the structure and transformation of Ghana's economy, politics and development. The five historical events were:

a. Cold War ideology that dominated the international foreign policy of both, major donors and Ghana's political regimes;
b. Ghana's substantial foreign exchange reserves at the time of independence, which shaped the leadership's disinterest in foreign aid;
c. The decolonisation period and Ghana's leading role in the liberation of other Africa countries (Pan Africanism);
d. The absence of significant numbers of domestic business people in the modern sector and the disinterest of the state in promoting private capitalism;
e. Unequal terms of trade and the founding fathers' desire to industrialise.

4.3.1 Domination of Cold War ideology in foreign policy of donors and aid recipients (A1)

At the time of Ghana's independence, there were political and military tensions as well as ideological differences between the Western bloc, led by the USA and Britain and its allies, and the Eastern bloc, led by the Soviet Union and its allies. During the early years of the Cold War, the USA and Britain, and to some extent the Soviet Union, were the major providers of aid to the developing world. The apex of the Cold War in the late 1950s and early 1960s coincided with the period when movements sprang up to liberate African countries from colonialism by Western countries. As France and Britain began losing their colonies, Washington, Moscow and to a large extent Beijing, were eager to replace them.

It was President John Kennedy's plan to use foreign aid and propaganda to keep as many African countries as possible out of the Soviet/Communist camp. The implication of the Cold War was that the dominant interests in the provision of foreign aid were either those of the West or those of the East. There was little discussion about the economic and political interests of aid recipients as distinct from those of the donor. To quote Hopkins (2000:4), "development was a secondary concern; rentier elites were not obliged to account to donors for aid effectiveness in terms of economic or political improvements." It must be stated, however, that non-aligned states such as Finland and Switzerland did not provide aid for Cold War purposes.

4.3.2 Ghana’s substantial foreign reserves at the time of independence (A2)

At the time of independence, Ghana had foreign exchange reserves of US$ 500m and no debt (Uphoff, 1972:222; Leith and Soldering, 2000:25;). Significant foreign exchange reserves and the importance of revenue from cocoa beans gave Nkrumah and the CPP government a sense of economic security, which also meant that the regime was not eager to receive foreign aid. It was Nkrumah’s intention to use rents from cocoa beans and the accumulated foreign exchange reserves to transform and build a prosperous Ghana. Aid was seen as an extension of imperialism and Nkrumah vehemently opposed its domineering influence on foreign policies. He argued that Africans were capable of handling their own affairs.

4.3.3 The decolonisation period and Ghana’s leading role in the Pan African movement (A3)

After Ghana became the first black colony in Africa to gain independence, Nkrumah extended the liberation movement to other African countries. That also meant supporting those countries with Ghana’s foreign exchange reserves and other resources. Nkrumah wanted to lead the future “United States of Africa”. Hence, he financed many Africa liberation struggles and opposed apartheid, which was supported by the UK. During the celebration of Ghana’s independence, Nkrumah declared:

> We are going to see that we create our own African personality and identity…. We again rededicate ourselves in the struggle to emancipate other countries in Africa; for our independence is meaningless unless it is linked up with the total liberation of the African continent (BBC, 11-4-1997).

Ghana’s leading role in the Pan African movement and the Cold War ideological divisions pulled the country apart in two different directions and on a collision course with some of the Western powers, which wanted Ghana to align with capitalism. They were concerned that Ghana’s socialistic approach to development might make it lean towards China and Soviet Union, and then, given Ghana’s pan-African agenda, sway other African countries to the East. The Cold War also divided Africa, and Nkrumah’s ambition of African unity against the imperialism of the West was not achieved. The US used other African leaders, like President William Tubman of Liberia, who did not like Nkrumah's claim of leading Africa's liberation movement in the 1950s when Liberia had been independent since 1847, and Emperor Haile Selassie of Ethiopia, who had emerged from the Second World War as an African hero for leading the allied forces in defeating the Italian military in Africa. During the first international meeting of non-aligned countries, which declared neutrality in the Cold War, Nkrumah was elected deputy to President Josip Tito of Yugoslavia and he persuaded some of the African leaders to join the non-allied movement. This angered the West, especially the USA, which at that time was the dominant provider of international aid to developing countries. In addition, it created a basis for animosity between the USA and Ghana, which further shaped their foreign policies.

4.3.4 Absence of large-scale endogenous businesses (A4)

While it was Nkrumah's intention to pursue an industrialisation programme in the early years of Ghana's independence, there were few local business people in the manufacturing sector. This was in contrast to agriculture, where many Ghanaians had been successful in cultivating cocoa. There were also many and small-scale traders. The size of cocoa farms had become the measure of wealth in Ghana and private individuals were interested in its cultivation, but Kwame Nkrumah was uncomfortable with private capitalism. Moreover, cocoa was grown in southern Ghana, especially in the Ashanti region, where his strongest opposition had come from, so he was reluctant to facilitate its development. Nkrumah was afraid that supporting the private sector could give his political rivals state resources to turn against his long-term political ambition and ideology of socialism.

Inadequate local enterprises with experience in large-scale manufacturing enabled Nkrumah to argue that there was no bourgeois class among Ghanaians to undertake large-scale investments, so the state would have to step in. He established numerous state enterprises and economic institutions that supported the development of state capitalism as opposed to independent private sector development (Leith and Soderling, 2000; Aryeetey and Tarp, 2000; Rooney, 2015). However, a Ghanaian industrialist, a banker and a retired politician disputed Nkrumah's contention that there were few Ghanaian private sector entrepreneurs to lead industrialisation.

> Look, Tetteh Quarshie, who introduced cocoa to Ghana, was a private man. The government didn't do any plantation. From the eastern region to western and to Ashanti, private individuals grew cocoa. By the time we realised it, Ghana had become the number one cocoa producer in the world, but the government didn't have a single tree. Nkrumah was wrong to say there was no private capitalist to lead (Interview with a retired industrialist in Accra, 5 August 2015).

4.3.5 Unequal terms of trade and Ghana's desire to industrialise (A5)

One of the rationales for Britain's colonisation of Ghana was to facilitate exploitation of the country's rich natural resources for UK's industrialisation. As part of the colonial relationship, Ghana was to produce primary commodities like cocoa beans, gold, timber and bauxite and export them to Britain and other industrialised countries, while importing industrialised commodities with the foreign exchange obtained from exporting primary commodities. So, at independence, the terms of trade favoured industrialised countries, as they do today. Two interviewees (a former Economic Minister and an activist in Kwame Nkrumah's political party) provided several examples of the regime's explanations for wanting to change Ghana's economic structure to obtain better terms of trade. One of them is reproduced below.

In 1962/63 a ton of cocoa beans was sold in the international market for £208, but the price dropped to £191 per ton in 1963/64 and £90 in 1964/65 (Gill and Duffus, 1967) while the price of a Volkswagen Beetle car in 1963 was £1200. Thus, to purchase one Volkswagen Beetle in 1963 required more than 13 tons of cocoa beans. While it took less than a few labour hours to produce that one car, it took Ghana several years of labour to produce 13 tons of cocoa beans with. Whilst critics may argue that the analogy does not take into consideration the role of capital, to Nkrumah and the regime, the prevailing terms of trade where primary commodities were viewed as being less valuable than industrial commodities needed to change. And the only way to change the terms of trade was for Ghana to shift towards production of industrial goods.

4.4 Interaction Between Foreign Aid and Endogenous Factors

The Ghana case confirms that prevailing conditions in the international arena determine who gets aid, how much of it, its predictive influence, and resulting development in the recipient country (Austin, 1964; Amin, 1972; Apter, 1972; Asad, 2002; BBC, 1997; Agyeman-Duah, 2008; Rooney, 2015). In Ghana, the conditions trigger the behaviour and strategies adopted by donors and different political regimes in aid negotiations, the amounts committed and disbursed, accountability or absence of it, the sources of leverage that both exerted during negotiations, and the environment on the basis of which economic policies and political systems were designed and implemented. The sub-sections below we trace and link how these factors played out in Ghana.

4.4.1 Founding political regime and state-led economic development (C3+C4+C5+C7)

After gaining independence in 1957, the political regime led by Dr. Kwame Nkrumah attempted to change the economy, which was predominantly based on agriculture, to to give a greater role to the manufacturing industry. The aim was to rapidly stimulate social and economic transformation and development (Agyeman-Duah, 2008; Rooney, 2015). Nkrumah conceived a policy of self-financing public infrastructure, with the hope that it would motivate investment by the international private sector in Ghana's enormous natural resources and thus promote industrialisation and economic transformation. As noted earlier, Nkrumah felt there were no endogenous large-scale private enterprises with the capital and technology necessary to lead the kind of industrialisation he envisioned. However, by 1960 there was no foreign direct investment involving international private capital and Nkrumah felt frustrated.

He then decided on a state-led industrialisation programme. It was the desire to hasten industrialisation and the availability of substantial foreign exchange reserves to facilitate change that resulted in a development policy based on a substantial state role in economic activities. The regime embarked on a number of policies that 'closed' the economy. These included import-substitution industries and tight regulation of foreign exchange and interest rates (Meng, 2004; Ackah and Kutsoati, 2008;). Among the state-led industries that were established were an aluminium smelter, timber-processing plants, cocoa-processing plants, breweries; cement manufacturing, oil refining, tomato paste, textile manufacturing, and vehicle assembly plants. In agriculture, he established oil palm plantations not only to diversify revenue earnings but also to rival cocoa, which was grown by private individuals. Nkrumah wanted to industrialise in order to counter the unequal terms of trade. He believed that accepting foreign aid to invest in primary commodities would perpetuate Ghana's dependence on the industrialised countries and further worsen the terms of trade (Meng, 2004; Ackah and Kutsoati, 2008; Rooney, 2015).

To facilitate his industrialisation programme, Nkrumah needed cheap energy. A study to construct a dam and hydroelectric power station on the Volta River had been conducted by the British colonial government but had not been financed because Nkrumah had started negotiations for political independence from Britain. The project was estimated to cost £130 million, which could not be met from internal resources, so Nkrumah looked for foreign aid. The Cold War played a significant role in the subsequent negotiations. A US private investor, Edgar Keizer, was persuaded to invest in Nkrumah's plan to convert a large bauxite deposit in Ghana into aluminium. The viability of the aluminium plant depended on cheap power, so Nkrumah requested financial support from the USA to undertake the hydroelectricity project that Britain had abandoned. However, given Nkrumah's position in the non-aligned movement, the US Congress voted against financing the project. Nkrumah then threatened to approach the Soviet Union or look elsewhere for the money, and President Kennedy's security advisors recommended financing the power project (Rooney, 2015). The UK and US governments provided 25% of the cost of the project and persuaded the World Bank to provide 34%. The government of Ghana provided the remaining 41%. The World Bank's contribution was to be disbursed to the government in instalments. Nkrumah was noted for undertaking discretionary actions in the use of national budget, so the Bank was to monitor the use of the project money. Furthermore, it was to provide a business case for the project (Killick, 1978:249; Leith and Soldering, 2000:20), which enabled the two donor countries to justify their involvement on economic, not political, grounds. The expectation was that, with American government aid supporting the construction of the dam, and the Volta Aluminium Company (VALCO) having American private sector investment, private

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capital would flow into the country from the USA as had happened in South Korea with American private investors running the factories.

> When Keizer invested in VALCO, if other American private investors had followed up to establish aluminium chain industries, exploiting our bauxite and producing the aluminium in Ghana, that would have been the essence of American capital and catalytic aid. We needed private capital, technology and market and those were associated with the West, not the East—Russia and China. Give me an example of a country that benefited from Chinese and Russian assistance, and managed to turn around. From nowhere into the limelight, South Korea turned around with America aid and private investment (Interview with a former Finance Minister of Ghana, 15 August 2015).

With no more private sector investors, the financing needs of industries were addressed by the state through establishment of national development banks, the National Investment Bank (1963), and the Agricultural Development Bank (1965). The state provided credit support to its preferred sectors and directly intervened in the financial market (Aryeetey, et al., 2001).[1] The government also began numerous infrastructure projects (roads, railway systems, hospitals, and so on.).

Consequently, the manufacturing sector expanded, with a rise in GDP growth from 2% to 9% between 1957 and 1969. The sector also improved its contribution to exports with a 14% share, whilst employment grew at 8% per annum (Osei, 1995). From 1957 to the end of 1966, public corporations that were in manufacturing propelled employment creation from 11,052 to 115,826 (Adda, n.d.:2). Economic growth was respectable, averaging 4% during the 1960s (World Bank, 1994). The push for industrialisation as a strategy for structural transformation reduced the focus on agricultural production and productivity. Import substitution industries (ISIs) made the economy heavily dependent on foreign exchange, and simultaneously the neglect of the cocoa sector resulted in a shortage of foreign currency to import intermediate inputs for the industries (Steel, 1972; Dinye and Nyaba, 2001; Ackah and Kutsoati, 2008).

In addition to the industrialisation programme, Nkrumah spent foreign exchange reserves on showpiece projects, public buildings and other costly endeavours, particularly in large towns; by 1966 Ghana's foreign exchange reserves had dried up (Apter, 1975). In 1965 Nkrumah criticised the West for meddling in Ghana's and Africa's affairs. He used the word 'neo-colonialism' to represent the conditions where African states were theoretically independent but in reality were controlled by the colonial powers because their economies and politics were linked to the West. Nkrumah's foreign policy was heavily influenced by Cold War ideology, socialism and decolonisation. His constant speeches against the West were not received well by the USA in particular. After publication of his book *Neo-colonialism: the Last Stage of Imperialism,* the US government voiced displeasure over Nkrumah's ideology and immediately cancelled US$ 35m in aid to Ghana (Asad, 2002).

With cocoa prices falling in the international market and accumulated foreign reserves completely used up, in 1965 Nkrumah asked the IMF and World Bank to provide substantial foreign aid, but it did not materialise because he refused to accept their conditions of non-inflationary borrowing, reduced government spending and structural adjustment (Government of Ghana, 1965, quoted in Boafo-Arthur, 1999:77; BBC, 1997). With no foreign exchange reserves left, the government resorted to supplier credits to finance many projects and importation of essential commodities. Taking advantage of the Cold War, the regime received a small amount of aid from China and the Soviet Union. By 1966, Ghana's economy had experienced serious deterioration. This was reflected in the balance of payments deficit and poor credit rating. Although in general the amount of foreign aid was remarkably small in any of the economic sectors or in terms of its contribution to the country's GDP, by 1966 the government had accumulated US$790m in foreign debts of (Uphoff, 1972:222; Leith, 1974:29;). According to Uphoff, "nearly three-quarters of this debt was in the form of medium-term supplier credits with interest of 6%. Technical assistance amounted to about US$ 50m, grants US$ 25m, training US$ 8m, and long-term projects like the Akosombo Dam US$ 108m" (ibid.).

4.4.2 Cold War effect on politics of divisiveness, intimidation and exclusion (A1+C3)

The Cold War had effects on Ghana's domestic politics. Ghana adopted the British parliamentary system of government, with a vibrant multiparty political system and a strong opposition. Nkrumah's Convention People's Party (CPP drew populist support from rural and working-class Ghanaians while the opposition United Party (UP) drew more elitist, urbanised professionals and small businessmen and women. The CPP ruling coalition comprised labour unions, rural workers and the working class, but it excluded institutions like traditional authorities, religious and professional bodies, and academic institutions that opposed his socialist ideology. Institutions that could promote anti-government pluralistic politics were crushed in order to promote one large political coalition.

The legal system was particularly weakened through enactment of controversial laws such as the Preventive Detention Act. Civil disobedience in the form of protests and workers' demonstrations was curtailed (Rathbone, 1978). Nkrumah legalised imprisonment without trial for people that he considered to be security risks and in 1964 declared himself President of Ghana for life. He organised a referendum, which he won by 99.9%, and declared Ghana a single party state with the CPP as the only party (BBC, 1997; Yergin and Stanislaw, 1998; Leith and Soldering, 2000:5).

The social and political tension between Nkrumah's ruling coalition and excluded institutions led to the demise of democratic structures. The CPP changed its constitution and rebranded Ghana a socialist state. Nkrumah replaced political pluralism with a single-party system, with him as the linchpin making all major decisions and providing inspiration and direction for the country. That system also ensured gradual development of patronage. With the challenge of transforming the nation becoming daunting, and wanting to retain power any means, Nkrumah took out his frustration on the opposition parties and groups that did not share his single-minded views. He oppressed political parties and weakened the civil service through intimidation. Organised labour was coerced to become a subsidiary of Nkrumah's ruling party (Janda, 1980).

The politics of divisiveness, intimidation and exclusion together with unfavourable donor response to Nkrumah's socio-economic approach to development kindled much rancour in Ghana. For the first time in the history of the country, people had to queue for essential commodities. The US government further weakened Nkrumah's economic programmes by refusing requests for financial assistance and clandestinely supporting his overthrow.

> Kwame Nkrumah was very much involved in the activities of the East, to the annoyance of the West, and given Ghana's colonial relationship with UK, it was obvious the West conspired to get rid of him (Interview in Ac-

cra on 7-8-15 with a senior citizen who witnessed the overthrow of Nkrumah).

A CIA memo quoted on the website of HistoryCommons seems to corroborate the suspicions that many Ghanaian experts have about how Nkrumah was overthrown:

> In Washington, D.C., US Ambassador to Ghana William P. Mahoney met with CIA Director John A. McCone and the Deputy Chief of the CIA's Africa division to discuss a "Coup d'etat Plot" in Ghana. According to a CIA document summarising the meeting, Mahoney said that he is uncertain whether the coup, being planned by Acting Police Commissioner will ever come to pass. Notwithstanding, he adds that he is confident that President Kwame Nkrumah will not make it another year, given his waning popularity and Ghana's deteriorating economy. "In the interests of further weakening Nkrumah," Mahoney recommends that the US deny Nkrumah's forthcoming request for financial assistance. He adds that by refusing the request it would make a "desirable impression on other countries in Africa. In the event of a coup, Mahoney says a military junta would likely come to power (CIA memo of 3-11-1965, quoted on HistoryCommons.org).

On 27 March 1965, Robert W. Komer, a national security staffer stated in a memo to President Lyndon Johnson's Special Assistant for National Security Affairs:

> … plans to overthrow the Ghanaian government are looking good. We may have a pro-western coup in Ghana soon. Certain key military and police figures here have been planning one for some time and Ghana's deteriorating economic conditions may provide the spark. The plotters are keeping us briefed, and State thinks we're more on the inside than the British. While we're not directly involved (I'm told), we and other Western countries (including France) have been helping to set up the situation by ignoring Nkrumah's pleas for economic aid. The new OCAM (Francophone) group's refusal to attend any OAU meeting in Accra (because of Nkrumah's plotting) will further isolate him. All in all, looks good (National Security Council memo of 27/3/65, quoted on HistoryCommons.org; Lee, 2002).

The political tension was the pretext on which a small group of senior army and police officers led by Colonel E.K. Kotoka, who was then commander of the Second Army Brigade in Kumasi, the capital of

Ashanti Region, overthrew Nkrumah's regime. The military regime justified its action by citing Nkrumah's abuse of power, political repression, economic decline and corruption, among other things. From the above memo it became known that the CIA had instigated the overthrow of Nkrumah because of his socialist ideology. The military regime—the National Liberation Council (N.L.C.) led by General J.A. Ankrah, was formed in February 1966. In a letter to President Lyndon Johnson of the USA, the leader of the military regime justified their actions and pledged to improve relations with the West:

> … The Army and the Police Services were compelled to intervene to stem the tide of a growing communist menace in Ghana and the catastrophic deterioration of our economy…. We became convinced that the ex-President and his communist friends … were determined to use Ghana as a bridgehead for the dissemination of communism and subversion in Africa… Nkrumah leaned heavily towards the East and brought into the country hundreds of so-called Chinese, Russian and East German technicians and experts. We knew, however, that some Chinese experts were in fact training saboteurs in special camps to subvert other independent African States. The Russians were also using East German nationals to train the ex-President's guard and security men. What is more, by their reckless political adventures and spurious economic theories, the deposed President and his Party drove Ghana to the brink of economic disaster and alienated the sympathy and support of our traditional friends in the West with whom we had enjoyed years of friendship and economic co-operation. We are determined to remove all traces of alien ideological influence from our country and improve relations with our traditional Western friends, among whom we count the people of the United States. Ghana's balance of payments is in serious deficit … we appealed to your great country, Mr. President, for aid and food, and I do earnestly hope that your response will be swift and substantial. (J.A. Ankrah, Accra, March 24, 1966 culled from the Office of the Historian).[2]

So while Nkrumah wanted an inward looking approach to development—a path that he considered suitable for Ghana—the new regime wanted a strong relationship with the West and to orientate or integrate Ghana into the world of the colonial metropolis. That was the essence of the regime's letter to President Johnson. It was also to confirm that Nkrumah had been working against the interests of the West.

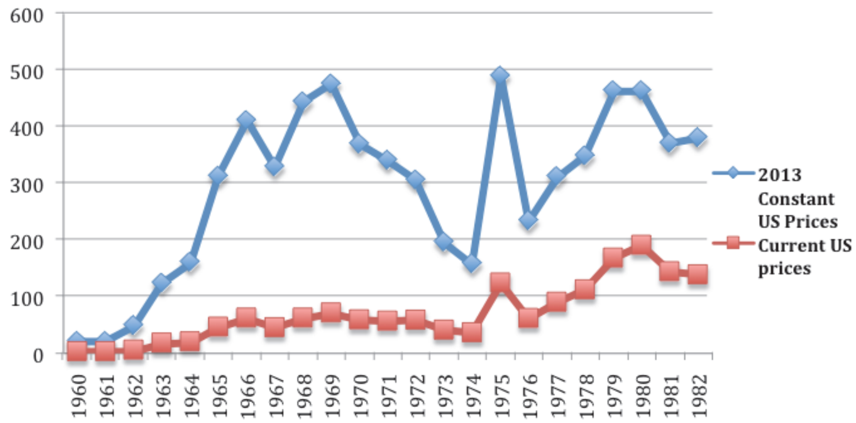
Reporting on 12 March 1966 on the successful military takeover in Ghana, in which the West was complicit, Robert W. Komer informed President Johnson in a memo that the overthrow of the Nkrumah government was "another example of a fortuitous windfall", that "Nkrumah was doing more to undermine our interests than any other black African" and that the "new military regime is almost pathetically pro-Western." He advised that the US should "follow through skilfully and consolidate such successes." He recommended, "A few thousand tons of surplus wheat or rice, given now when the new regimes are quite uncertain as to their future relations with us, could have a psychological significance out of all proportion to the cost of the gesture. I am not arguing for lavish gifts to these regimes—indeed, giving them a little only whets their appetites, and enables us to use the prospect of more as leverage" (National Security Council, 1966; Lee, 2002).

Again, on the basis of the above quotes, the USA's interest in giving aid was basically to ensure that it got countries such as Ghana on its side, as part of its Cold War strategy. Some of the experts interviewed even suggested that the USA and other major Western countries manipulated cocoa bean prices downwards to strangle Ghana's economy and make Nkrumah unpopular. They suggested that it was not coincidence that the prices of cocoa beans dropped substantially during Nkrumah's time but remarkably rose by 38% after his overthrow and a further 15%, 19% and 22% in each of the subsequent years that the military government was in power (Leith and Soldering, 2000:25). With the overthrow of Nkrumah, all Russian and Chinese technicians that were supporting Nkrumah's industrial and infrastructure projects were expelled from the country by the new regime.

4.4.3 Quantity and quality of ODA provided (B1+B2)

The IMF, World Bank and Western donors returned to Ghana after Nkrumah was overthrown, and foreign aid to Ghana began to increase. The Bretton Woods Institutions provided Ghana with standby credit while Western donors agreed to postpone the country's debt requirements until the IMF-sponsored meeting at the end of the year. During the meeting, the Paris Club agreed to postpone Ghana's debt repayment from 1966-68 for another 10years. From 1968-69, aid accounted for 19% of Ghana's imports, 20% of the government's revenue and 27% of gross investment (Killick, 2010:120). As can be seen in Figure 4.2, the amount of aid was small from 1960 to 1965 though it rose in absolute terms in 2013 constant prices.

Figure 4.2
ODA to Ghana, 1960-82 in constant and current US$ prices (millions)



Source: Extracted from OECD QWIDS Database, 2015.

Whilst aid flows increased during the period, Western donors and multilateral institutions also had a strong influence on the economic policy direction of the military government. Under Western influence, the NLC government reversed Nkrumah's socialist policy by denationalising some of the state-owned enterprises, devalued the Ghanaian currency from Nkrumah's fixed exchange rate of ¢0.71 to one US$, to ¢1.02 to one US$ (Leith and Soderling, 2000; Aryeetey and Tarp, 2000). The NLC also reduced total government expenditure. Monetary discipline was introduced, cutting the government deficit from 4% of GDP to 3.3% in 1969. By 1970, the total debt of US$ 1bn was about 25% of Ghana's GDP. With implementation of liberal economic policies, the NLC incurred the displeasure of some of the military elites, resulting in several attempts to overthrow the government. From 1966, when Nkrumah was overthrown, to 1969, there were three military coup attempts and numerous rumours of counter insurgency (Sangaparee, 2010, GoG, 2014).

Foreign aid coming on the back of all this had the effects of reversing Nkrumah's policies. It also prepared the ground for an election that brought in Ghana's second democratic government. In October 1969, the NLC handed over power to Dr K.A. Busia, leader of the Progress Party (PP) that had been carved out of the UP—the party that had opposed Kwame Nkrumah's CPP. After experiencing the military regime and comparing it with Nkrumah's regime, the Ghanaian preference switched towards a leader who would not be too interested in leading Africa but who would be interested in solving Ghana's internal problems. They found that in Dr Busia, who was then a sociology professor with an interest in social cohesion within the country and liberal democracy. Donors had confidence in the PP government because of its free market economic. The PP government built a strong relationship with the Bretton Woods institutions and introduced IMF-sponsored monetary reforms. In December 1971, the government devalued the currency from ¢1.02 to ¢1.82 to the US dollar and liberalised the external sector (Frimpong-Ansah 1991; Leith and Soderling, 2000:30). Busia also focused on support to private sector capitalism.

While the regime's anti-public sector business was apparent, the PP government could not reduce public expenditures substantially and the state mismanagement of enterprises was still a drain on the national economy. Interviews with a number of informants who witnessed economic policies during that time confirmed Busia's difficulties:

> The irony is that if you look at that period carefully, you will find that when Busia's government took over, they didn't abolish price controls and all state control policies immediately. They continued some aspects of statism that were prevalent in Nkrumah's time even though they preached liberalisation. I guess it was a pragmatic approach because they could not easily switch to free market mechanisms. Foreign aid from the West and World Bank had some influence, much bigger influence, in pushing the country in the direction of the market (Interview with a former government official, 18 August 2013).

The pursuance of a free market economy led to Busia's downfall. The stabilisation approach, particularly the devaluation of the Cedi was deemed to be harsh. It provided one of the excuses by a section of the military to end Ghana's attempt to steer clear of socialist economic policies. The military overthrew the democratic regime on 13 January 1972; 27 months after Busia had taken power. Colonel I.K. Acheampong became the head of state and formed the National Redemption Council (NRC). The head of state also doubled as the Minister of Finance.

Under Acheampong, the NRC government unilaterally rescheduled some debt repayments and abrogated others. That got Ghana blacklisted in the donor community and international financial circles. It affected Ghana's ability to obtain financial support from multilateral as well as bilateral agencies. Foreign aid in the 1970s was a little over 2% of GDP. Acheampong appointed Dr Kwame Donkor Fourdjuor as a special assistant to the ministry of finance. Dr. Fourjour had been employed by the previous regime and had worked at the International Finance Corporation (IFC), part of the World Bank Group. He advised the regime to negotiate for debt relief and Ghana negotiated to get its debt repayments rescheduled.

Coincidentally and paradoxically, the NRC regime witnessed a substantial increase in commodity prices. With a bumper harvest of cocoa beans and rise in gold production, Ghana's economy improved slightly. The regime resumed Nkrumah's socialist policies. The gradual devaluation of the currency, which the two previous regimes had introduced, was reversed. The cedi was revalued to ¢1.28 to the US dollar and import controls were tightened (Leith and Soderling, 2000). The NRC government revived some of the old state-owned enterprises and acquired additional ones by taking a 55% equity share in foreign-owned mining and timber companies, nationalised Ashanti Goldfields and Volta Aluminium Company, and took a majority share-holding in commercial banks through an indigenisation decree in 1976 (Chazan, 1983). In effect, the government moved away from the right-of-centre economic policies that Busia had started. This was because Acheampong was Nkrumah's protégé and seized the opportunity to reverse the capitalist interventions that opponents of Nkrumah had introduced. He was able to get away with it because commodity prices were high and so the government did not need foreign aid. There was significant growth in foreign exchange reserves on the back of fairly buoyant commodity prices over that period. It is also noteworthy that the regime unilaterally abrogated all foreign debts; thus, there was no possibility of receiving foreign aid. The quotations below by two economists suggest that with good leadership and prudent public investment, a country like Ghana does not need foreign aid:

> Foreign aid wasn't that significant, so donors didn't have that kind of leverage on Acheampong's regime. The wholesale conditionality that said, "adjust the exchange rate, remove price controls and abolish state enterprises" didn't happen at all because there was little aid from donors. Acheampong maintained course, he kept the state enterprises, he didn't listen to anybody at all and he didn't need their money and there wasn't that much aid. He didn't want to service debts to the disadvantage of public investment. (Interview with a Ghanaian economist and former government advisor, 30 July 2013)

> If Acheampong had maintained course and used the resources sensibly, the country would have been much better off actually, but a significant amount of corruption set in during that period. The gains from high commodity prices were largely lost just through profligacy, ineptitude in fiscal policy, corruption and public investment programmes that were not entirely informed by value for money considerations. Again, donors did not play any role in this economic policy direction. (Interview with a Ghanaian economist, 30 July, 2013)

Acheampong's regime continued with its left-wing economic policies for almost eight years; a period marked by growth retardation and corruption. The harmful economic policies and blatant rent-seeking behaviour of the military regime and its cronies had effects on all facets of Ghana's economy and population (Berry, 1994; Leith and Soldering, 2000; Dzorgbo, 2001). Many Ghanaians with marketable skills voted with their feet and left the country to seek greener pastures abroad. The widespread corruption of the NRC military led to development of various pressure groups (Association of Professional Bodies, People's Movement for Freedom and Justice, Front for the Prevention of Dictatorship) to call for a change of government. Acheampong attempted unsuccessfully to form a union government (UNIGOV) made up of a coalition of civilians, the military and police. With increasing pressure from junior army officers as well as civil society, Acheampong's fellow officers forced him to resign in yet another palace coup on 5 July 1978. General F.W.K Akuffo led the new regime and formed the Supreme Military Council (SMC). General Akuffo sought to reinstate the market led economy policies that Busia had started. The Ghanaian currency was devalued from ₵1.28 to ₵2.75 to one US$, resulting in major strikes in the urban areas and political unrest. On 1 January 1979 Akuffo lifted the ban on political parties following widespread public demonstrations in almost every sector of the economy.

Remnants of Nkrumah and Busia's political regimes regrouped and formed political parties. The supporters of Nkrumah and his ideology (Nkrumahism) formed the People's National Party (PNP) while the followers of Busia formed the Popular Front Party (PFP). Other splinter groups also entered the political fray. Elections were set for 18 June and Ghana seemed set once again to resume the path to democratic rule. However, the lower ranks of the armed forces were apparently unhappy with members of the previous regime not being prosecuted even after there was evidence of corruption. On 15 May 1979, Flight Lt. Jerry Rawlings and a small group of soldiers attempted unsuccessfully to overthrow the military government. They were arrested and tried publicly. During the trial they won more support among the rank and file of the army. On 4 June, a group of soldiers released Rawlings, overthrew the government and formed the Armed Forces Revolutionary Council (AFRC). The AFRC proceeded to conduct the elections that had been planned for 18 June and the PNP, led by Dr. Hilla Limann, won them. Before handing over power, the AFRC undertook what it called a "house cleaning exercise" during which three former heads of state (Col I.K. Acheampong, Lt. General A.A. Africa and General F.W.K. Akufo) and other senior officers were publicly executed without trial.

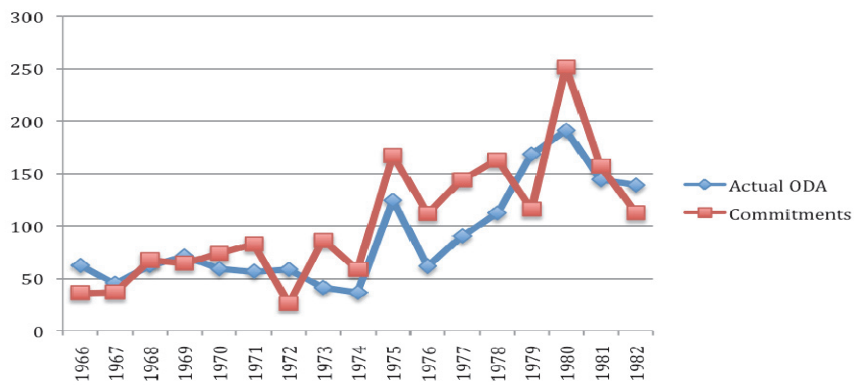
ODA increased slightly in 1980, following the return of the country to democracy after seven years of military rule. However, after 31 December 1981, when Rawlings staged another coup, citing mismanagement by the government, ODA fell again. By 1982, political instability in Ghana reduced donor interest in the country. Aid per capita was US$ 14, or 3.4% of GNP. The country went into a serious liquidity crisis, with foreign exchange reserves, trade credit and medium-term financing all drying up.

The PNP government, during its short stint in power, was reluctant to go to the IMF and World Bank for loans because of the conditionality involved. At the heart of Ghana's challenges were poor economic policies at a time of excess demand over supply. Inflation had reached over 100% in 1981; government revenue, amounting to 10% of GDP in 1976, had dropped to 5% by 1981. Limits on government expenditure were often ignored and revenue-raising measures were announced but never followed through. With little ODA available, the government resorted to printing money to finance its budget, which created high inflation. Despite the inflation, interest and foreign exchange rates were normally fixed at levels far below the prevailing ones. Roads deteriorated, schools and clinics were left without personnel because their staff had not been paid for months. It was not surprising that the population welcomed Rawlings' second coup.

4.4.4 Low disbursement of committed ODA (B3)

In the 1970s, while bilateral donors pledged to provide aid to various Ghana governments, disbursement remained smaller than the commitments because of mistrust between donors and various regimes. Commitments averaged US$ 60-70m annually during the early years of the 1970s and increased to about $120m during the later years of the decade. However, actual disbursements fell below these levels (see Figure 4.3).

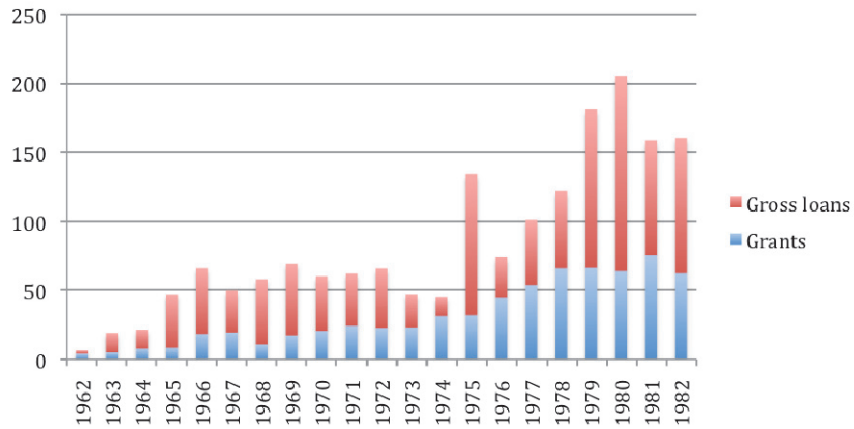
Figure 4.3
Reliability of foreign aid: the gap between commitment and disbursement, 1966-82 (US$ millions)



Source: Extracted from OECD-DAC-QWIDS Database, 2014.

During this phase of Ghana's history, foreign aid was characterised by a high percentage of concessional loans with interest and few grants. From 1963 to 1970, the grant equivalent of net ODA averaged about 35% while loans with interest constituted 65% (see Figure 4.4).[3]

Figure 4.4
Composition of ODA (loans and grants), 1962-82 (US$ million)



Source: OECD QWIDS Database, 2014.

From 1970 to 1982 there were six different political regimes, but the composition of aid did not change significantly irrespective of the regime. About 60% of the ODA was provided as loans to be repaid with interest. It was no wonder that Ghana accumulated substantial foreign debts by the end of the period, in addition to the ones that the previous regime had accumulated. In fact, two-thirds of the total debt had been accumulated during Nkrumah's regime in the form of supplier credit used to finance infrastructure projects and recurrent purchases after donors had denied Ghana grants (Leith and Soldering, 2000:20). Hardy (1982) attributed much of the huge debt to credit pushing by export-promoting agencies of the creditor countries and poor use of the foreign capital. In 1974, instead of cancelling Ghana's debts, the Paris Club only provided a substantial grant element of the debt and compelled Ghana to repay its total debt over a 28-year period. Continuous implementation of state-led economic development programmes without an eye on management efficiency increased the debt. By the end of 1979, Ghana's debt had doubled it to US$ 1.3bn, about 47.5% of the country's GDP (Leith and Soldering, 2000:5).

On the basis of the differences between grant elements of total ODA, Tsikata (1999:43) calculated effective development assistance and showed that, from 1970-82, on average only about 57% of ODA was effective.[4] Even where there were grants, they were invested in less economically productive sectors. Bilateral and multilateral aid was delivered in the form of projects and commodity aid. From 1970 to 1982, much of ODA was spent on importing goods and services from donor countries (tied aid), social sectors and technical assistance. From 1970 to 1972, no ODA was spent on manufacturing, and from 1972 to 1982, on average only 11.7% of total aid went to productive sectors (see Table 4.1).

Table 4.1
Sectoral distribution of grant equivalent of bilateral and multilateral aid, 1970-82 (US$ millions)

Expenditure items of ODA	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
BoP support	0.00	0.00	0.00	0.00	0.00	1.46	3.01	6.88	0.63	0.28	2.20	0.00	0.00
Social services	0.40	5.47	4.40	4.90	1.19	1.55	1.84	0.21	2.17	3.78	2.80	5.75	2.17
Current imports	1.30	6.12	8.27	7.65	0.90	1.18	2.79	2.95	1.24	17.51	26.26	20.36	1.85
Electricity, gas and water	0.00	1.11	4.69	1.61	0.86	4.69	1.09	9.44	19.35	15.68	24.62	12.33	24.64
Manufacturing	0.00	0.00	0.00	0.18	4.10	2.36	2.29	2.96	3.09	6.04	13.27	4.58	2.80
Transport and communication	0.00	0.00	0.00	0.00	0.00	0.05	7.12	7.65	9.25	4.03	0.03	10.04	7.61
Others	0.00	0.00	0.00	0.00	0.00	0.00	0.03	0.00	-0.02	0.07	0.04	1.12	3.94
Grant Equivalent of ODA loan	1.70	12.70	17.60	14.70	7.90	19.80	20.40	34.10	30.50	51.80	75.30	55.40	46.20

Source: Tsikata, 1999:44.

Technical assistance, which was basically foreign experts and technology, constituted on average more than 50% from 1970 to 1975 and 40% from 1976 to 1982.

4.4.5 Inefficient state bureaucracy (C7)

The Ghanaian civil service, while relatively educated, was not modern by Weberian standards, and not equipped to implement the kind of economic transformation that Nkrumah envisaged (Kelsell, 2013:75). For example, Japan implemented a series of modernisation projects aimed at building a little Tokyo in Seoul, but aid projects in Ghana immediately after independence did not have those modernisation intentions (Kim, 2013). While a modern state with an effective bureaucracy was introduced by Japan to Korea, Ghana's bureaucracy was not modernised in the Weberian sense by the British, so civil servants looked up to the political figurehead of Nkrumah for direction and favour. For instance, Kelsell observes that because of inadequate technical competence, the seven-year development plan was technically flawed and had inadequate data to ensure realistic implementation (Kelsell, 2013:75). Import substitution Industrialisation encountered numerous challenges. According to Killick, it included "unselective and arbitrary protection, unwise preference for capital-intensive instead of labour-intensive production processes, poor agricultural backward and forward linkages with other sectors of the economy, a deteriorating quality of investment decisions and substandard performance by state enterprises" (Killick, 1978:204-5). Throughout the period, not much support was provided to modernise the civil service, either through foreign assistance or internal resources. The Ghana Institute of Management and Public Administration and other government training institutions were established to enhance the capability of civil servants, but the training did not do much to changing the culture in the civil service.

4.4.6 Ghana's political settlement and aid influence (C1-C8 + B1-B4)

During the political trajectory of Phase I (1957-82), a period of 25 years saw only three democratic regimes that lasted a total of 12.5 years and six military regimes that also lasted 12.5 years. There was no consensus on the type of politics that would suit Ghana as the military and politicians jostled with each other and took turns to rule the country. The political settlement of that period was characterised by zero-sum games of power relations between ruling coalitions and those outside the coalitions. State resources and power were distributed among actors/institutions that were members of the ruling coalitions. Table 4.2 shows institutions/agents that comprised Ghana's political settlement during the period.

Table 4.2
Institutions and actors that constituted Ghana's political settlement, 1957-82

	High Power		
Strong Incentives	Political parties Military and police State enterprises Media (radio, television, newspapers) Senior bureaucrats	Donors Traditional authorities Ghana Bar Association	**Weak Incentives**
	Cocoa farmers Local political elites and foot soldiers of political parties Labour unions Employees of state enterprises University students	Crop and peasant farm-ers Ordinary citizens	
	Low Power		

Source: Adapted from Oduro et al., 2014:12

Note: During the period, the actors moved from one quadrant to the other hence their positions were not been fixed. The current table is used to reflect the general trend.

The top left of the quadrant shows the ruling elites during the larger part of Phase I. From the beginning of independence, the ruling coalition of Ghana constantly consisted of leaders of political parties, the military, senior civil servants and managers of state enterprises. Traditional authorities like the Ashanti kings, chiefs, queen mothers, village elders, and so forth that commanded power at the local level cycled in and out of the ruling coalition. Both the civilian and military regimes co-opted and sidelined traditional authorities at different time periods, depending on what served their interest.

Nkrumah's political coalition had to rebuild itself so it could continue to dominate all aspects of Ghana's social, economic and political institutions. According to Apter (1975), in doing that Nkrumah drove away any independent-minded individuals from his inner circle and coalition. Having succeeded in doing that, Nkrumah set the stage for state-led economic policies and production. . By the mid 1960s, state-owned enterprises were involved in production and distribution of a wide range of products. These activities included production of basic goods and services, among them liquor and biscuits. The state was also involved in construction, mining, management of hotels and retail trade. The path that Nkrumah created reinforced itself in all aspects of national institutions. Members of the ruling coalition that benefited from Nkrumah's state-led approach and largesse ensured continuity of his policies. Patronage, not efficiency, became the mode of management of state corporations (Apter, 1975; Killick, 1978; Aryeetey, 2008). A former government official witnessed mismanagement of state enterprises during that era:

> In the management of state laundries, family members and friends of managers took their clothes there and would not pay for the cost of services. The state enterprises were making losses, but the private sector laundries were making a profit. There was no need to create state enterprises; instead, he could have promoted Ghanaian entrepreneurs to go into the laundry business as was done in the late 1980s. Whereas Nkrumah wanted the state to own everything, including farms, it didn't go down well with Ghanaian natural philosophy because farmers had owned their farms years before he became President. The country had become the number one producer of cocoa without the government owning a single tree, so why state farms? Kwame Nkrumah established state enterprises because he wanted to create opportunities for employment for people who, after completion of school, wanted to receive a monthly salary (Interview with a former government official, 13 August 2015).

The Ghanaian version of socialism developed into a culture of patronage and state institutions became instruments for catalysing its implementation. Ghana's political economy developed in such a way that politicians were viewed as providers of everything, which is similar to the role of a "chief" who must cater to his "subjects". This expectation was increasingly reflected in the role of the state—provision of jobs and social services—while in the family, those that had money were also expected to help the have-nots with part of their resources. In all these patron-client relationships, the same was expected of politicians in order to guarantee votes from the citizens. This meant handing out import licences, coupons for collecting rations from state supermarkets and even cars to those in administrative positions and positions of privilege. Those included executives of state-owned enterprises and senior civil servants. Given their positions, managers of state enterprises, for instance, were expected to share the largesse they received from politicians with their employees, who after receiving free goods would sell them in private shops. The institutionalisation of official import licences and controls over foreign exchange provided enormous windfall profits to agents and institutions that could gain access to the licences and foreign exchange and sell them in parallel markets. As on the years passed, provision of and demand for kickbacks became the norm. All ruling coalitions, whether military or civilian found it difficult to change those institutions or found the system beneficial to their members and therefore maintained the status quo (Apter, 1972; Killick, 1978; Chazan, 1983; Mikell, 1989; Leith and Lofchie, 1993). The inefficiency and waste associated with the management of state enterprises explains the low productivity of the Ghanaian economy.

During that period, donors had some power and strong incentives to influence the country's economic policy direction, but their power was limited because of the Cold War and Nkrumah's socialistic ideology. That changed after Nkrumah was overthrown, and over the long period of military regimes, donors had less incentive to influence the country's policy direction as long as Ghana was not receiving aid from the Soviet Union (Fitch and Oppenheimer, 1966; Leith, 1974; Aryeetey and Cox, 1997; Aryeetey, 2008).

From Nkrumah's period onwards, civilian governments distributed state resources and enterprises to political cronies and the prevailing political and social norm was "the winner takes all government". In that environment, political winners were also economic winners and political losers were also economic losers. The short-term horizon of civilian regimes meant that they needed to expand patronage in order to have a large coalition. Rent seeking became a lucrative business. Military coup leaders accused previous regimes of corruption and ineffectual economic policies, but they failed to fundamentally change course and retained the institutions that had given rise to mismanagement. Southeast Asia also had neo-patrimonialism, but governments did ensure state efficiency in the management of enterprises; in the Ghanaian case, however, achievement of productivity and efficiency did not feature in the organisation of state enterprises (Fosu and O'Connell, 2006; van Donge et al., 2012; Barendsen et al., 2013).

All the regimes suppressed political freedom and human rights abuses were common phenomena. As shown earlier, in the 15 years from 1967 to 1982, Ghana had five military and two civilian regimes. The civilian government that succeeded Nkrumah was the Progress Party (PP), with the majority of its followers belonging to the Akan-speaking ethnic group. The PP proceeded to dismiss 568 public officials suspected of being members of the CPP, but none of them was an Akan speaker. The party also used the legal process to prevent the opposition leader from taking his seat in parliament (Austin, 1964, 1976). The instigation of several military coups as a result of the Cold War set a precedent that state power could be usurped by a disgruntled few who possessed arms. During the military and civilian regimes, the attitude of prominent donors, mainly the UK and USA, depended on how the government reacted to debt repayment and conditionality regarding economic policies. Though there was little foreign aid, it was still used covertly to influence domestic politics.

Out of dominant socialistic economic policies and brief neoliberal economic policies emerged widespread corruption and moral decadence. Corruption was mainly attributed to economic policies involving a system of import licences and high taxes on imported goods (Jebuni and Oduro, 1998). Ghanaians described this widespread culture of state patronage and corruption as *kalabule*, meaning "keep it quiet" or "hide it" (Frimpong-Ansah, 1992). The corruption weakened state institutions to the extent that civil servants hardly delivered any substantial service to the population. Moonlighting became pervasive in the civil service while many educated Ghanaians sought jobs abroad.

In the 24 years from 1957 to 1981, Ghana saw eight political leaderships and governments, but almost all of them (the exceptions were the NLC and PP governments, which were short-lived) pursued similar state-led and state-controlled economic policies. Every regime started opening discussions with the IMF to negotiate reforms of the economy and policies, but they all failed to agree on a comprehensive way forward (Tsikata, 1999).

By 1981, Ghana's sources of external finance had whittled down to a handful of donors (Harrigan and Younger, 2000: 193). Bilateral donors had left the country and those who stayed had only desk officers. The PNDC policies at the beginning were also designed to be state-interventionist as it was hostile towards the prescriptions of the IMF and World Bank. During Rawlings' first year, the economy came to a virtual halt. Industry ran at 10% capacity due to the chronic shortage of foreign exchange for importing raw and intermediate materials, and spare parts (Tsikata, 1999; Aryeetey et al., 2000; Aryeetey, 2008). The regime managed to bring together a coalition of young radical ideologues that abhorred corruption, inequality and private sector wealth creation. They believed in the Marxist vision of a classless society and, through a series of populist programmes like arresting and flogging traders for selling above the control prices, pursued economic purity. The PNDC regime believed from the beginning that the poor economic conditions were a result of corruption and that the situation would improve if it could find an antidote to corruption by punishing people for wrongdoing. Aid would flow in from sympathetic governments. However, there was a rude awakening; donors stayed away and even sympathetic foreign leaders such as Fidel Castro of Cuba, Muammar Gaddafi of Libya and Shagu Shagari of Nigeria were unable to bail out their colleague military head of state and ideological brother.

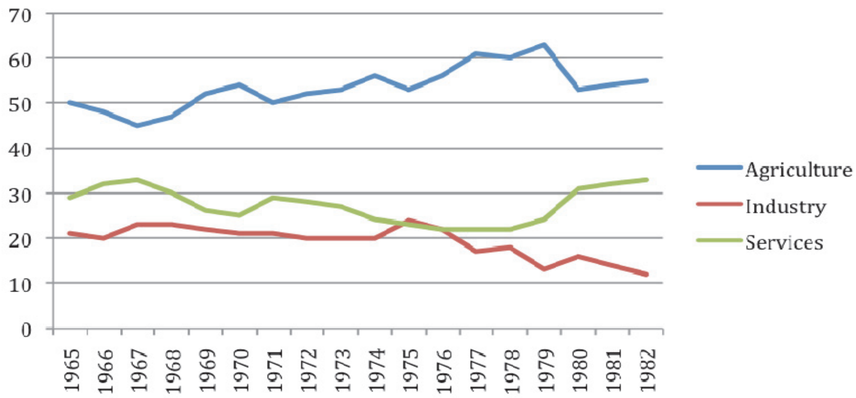
4.5 State of Ghana's Political and Economic Transformation at the End of Phase I (Y1-Y7)

With the interplay of aid and endogenous political settlements amidst a deteriorating economy, Ghana's two decades attempt to change the structure of the economy by emphasising industrialisation was a complete failure. Manufacturing output could not expand to stimulate growth of GNP and bring in the needed foreign exchange, and with a gradual fall in cocoa bean exports Ghana began to experience financial difficulties (Asanti, 2000). By 1983, government revenues had fallen to less than 5% of GDP from 21% in 1970 (Tabatabai, 1986). With this decline, the government relied on the banking system to finance its expenditures. Loss of monetary control accelerated inflation. By 1982, the promise of "paradise on earth" by Nkrumah had become a fantasy and Ghana was a pale shadow of its post-independence middle-income status. Countries that were at par with Ghana in the mid 1960s multiplied their per capita income ten-fold by 1982, while Ghana retrogressed.

The AFRC and PNDC governments, which inherited deleterious economic policies in 1981/82, pursued policies that criminalised some economic activities that were perceived as rent seeking; goods and properties alleged to have been obtained through rent seeking were confiscated and offenders beaten and shot. Former heads of state were killed and market structures regarded as the causes of high prices of goods were burnt. A parallel judicial system in the form of public tribunals was established to prosecute "wrongdoing", bank deposits of more than ¢50, 000 (exchange rate ¢ 2.75 to one US$) that could not be justified were confiscated. Producers and market women were forced to sell their goods at state-controlled prices. Supreme Court judges were abducted and killed. State bureaucrats deserted their work in public offices.

By 1982, structural transformation of the economy had not occurred. The share of the agricultural sector in GDP increased because manufacturing output had declined substantially. Industry's share of GDP fell by an annual average rate of about 2%. Import substitution industries that had been established in the 1960s were either producing at 10% capacity level or had collapsed. By 1982, industry was contributing only 12% to GDP, a fall from 24% in 1975; the service sector’s contribution had gone up, from 23% in 1975 to 33% in 1982 (see Figure 4.5).

Figure 4.5
Contribution of agriculture, industry and services to GDP, 1965-82 (%)

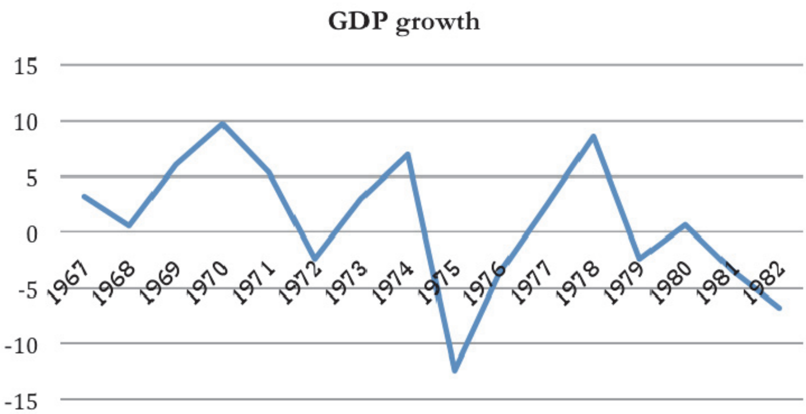


Source: Extracted from various sources, including World Bank Database, 2014.

Ghana’s economic structure did not change. Agriculture continued to be the leading sector in employment, foreign exchange, domestic income and GDP growth. In fact, its contribution expanded in these areas, instead of decreasing, as one would expect in a stylised structural transformation model. No new agricultural export product was added to cocoa and productivity was at its lowest for 17 years. Cocoa production fell from over 557,000 tonnes in 1965 to about 158,000 tonnes by 1983. No new technology was used to increase agricultural production and productivity remained at the 1957 level. Crop production was basically at subsistence level, using the traditional slash-and-burn method. The farms were mostly small land holdings. By 1982, more than 60% of the population were working in agriculture and the share of the sector in GDP had returned to 55%; yet the nation was not producing enough to feed itself and needed food aid (Aryeetey and Tarp, 2000; Aryeetey, 2008; Ackah and Kutsoati, 2008).

There was no structural transformation towards the end of phase I, so Ghana's economic growth reversed in several macro-indicators. Annual GDP recorded negative growths in much of the 1970s (1972, 1975, 1976, 1979) and early 1980s (see Fig. 4.6).

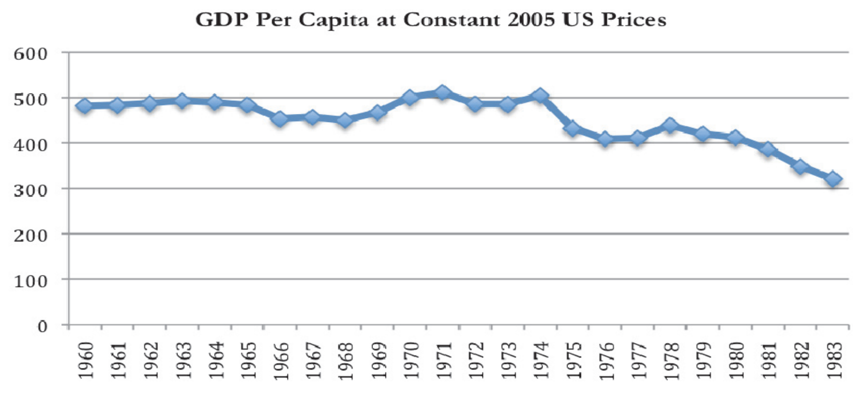
Figure 4.6
Changes in GDP, 1967-82 (%)



Source: Drawn from World Bank Database, 2014.

Total GDP was US$ 4.4bn in 1980, but it dropped to US$ 4bn in 1983. Per capita GDP growth stagnated and in the early 1980s started falling from US$ 412 in 1980 to US$ 341 by 1983 (see Figure 4.7).

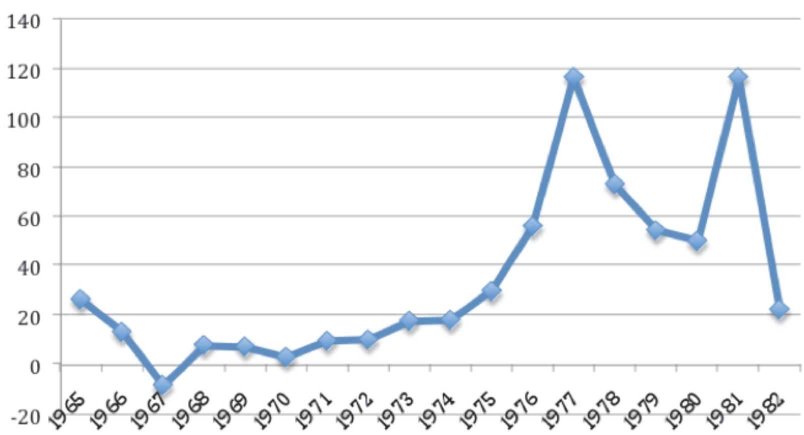
Figure 4.7
Per capita GDP, 1960-83 (US$ millions)



Source: Extracted from World Bank Database, 2016.

Inflation also started to rise gradually, hitting triple digits in 1977 (116.5%) and 116.5% in 1981 (see Figure 4.8).

Figure 4.8
Inflation, 1965-82 (%)



Source: Extracted from World Bank Database; World Factfish database.

By 1982, for most Ghanaians, the state had lost its relevance as an important institution in their daily lives. Its welfare role in terms of economic benefits or opportunities for meaningful political participation was unobservable (Berry, 1994; Dzorgbo, 2001).

Summary of the major political and economic challenges during the period

The major challenge of Ghana's economy during phase I was the overextended state. Politics had been a major determinant in Ghana's economic policies. After independence, the lack of large-scale indigenous enterprises and the regime's reluctance to encourage private capital led the state to lead in economic production. A second challenge was the deleterious economic policies that led to excess demand. From Nkrumah's regime to 1982, fiscal and monetary policies failed to control excess demand. The government budget was the key source of excess demand because of over-supply of money. Prior to independence, government expenditure was steady at 10% of GDP. After independence, the government's expenditure control was weak and revenue generation was inefficient. According to Leith and Soldering, "National economic management was reduced to government spending on non-profitable state enterprises and little attention was paid to expanding national revenue mobilisation, attracting investments, mobilising savings, macro-economic stability, and so forth" (Leith and Soldering, 2000:100). Over-valuation of the local currency affected both, the volume of international trade and government revenue.

A third economic challenge was how to diversify or expand the export sector beyond cocoa beans and gold. In 1920, the colonial governor, Sir Guggisberg, had cautioned, "We should not keep all our eggs in one basket," referring to the total dependence of Ghana on gold and cocoa bean exports. However, his words had not been heeded, and by 1982 the same structural challenge faced the independent country. Ghana's economy was so vulnerable to international price volatility that revenue forecasting and economic planning was impossible. Over-reliance on cocoa and gold meant that there was little focus on non-traditional exports. Given the volatility of cocoa bean prices, there was insufficient foreign exchange to finance the Nkrumah government's industrialisation programme or import processed goods for the urban population.

A fourth challenge to Ghana's economy was deterioration of infrastructure in rural areas that made agriculture production and transportation inefficient. In addition to that, the government's pricing policies were a disincentive to cocoa farmers; the producer price of cocoa was below the world market price and the fixed exchange rates against foreign currencies meant that cocoa farmers were overtaxed. This led to a downward trend in cocoa production. Cocoa and gold production declined heavily in 1976-79 when the world prices were still favourable. Furthermore, rural roads had deteriorated so badly that cocoa beans could not be transported easily to the ports for export (Tsikata, 1998; 1999).

Corruption became pervasive in Ghana as people tried to make a living in the face of failing economic policies (Fitch and Oppenheimer, 1966; Gyimah-Boadi and Jeffries, 2000). During the 1967-82 period, high-level corruption provided an excuse for the military to stage coups.[5] However, even under military rule, lack of accountability to the public made it easy for bureaucrats and politicians to misuse their access to state resources for corrupt practices. The banks were used as instruments for channelling funds to corrupt members of the military regimes. During Acheampong's regime, the state had substantial shareholdings in commercial banks; many of the bank loans were given to state enterprises, a large number of which were bankrupt. According to Sheng and Tannor (1996), quoted in Leith and Solderling, "In 1982, 92% of the outstanding bank credit was owed by the public sector" (Leith and Solderling, 2000:52). By extension, the loans had been granted on political, rather than commercial, grounds.

Did foreign aid donors attempt to solve some of the challenges Ghana was facing? If this phase is divided into two periods (1957-69) and (1970-83), we find two different interactions between foreign aid and Ghana's domestic factors. From 1957 to 1969, when aid was viewed through the prism of the Cold War, the catalytic role of aid was negative. Nkrumah's regime was not given much aid because of his initial antagonism to it, his penchant for criticising the West, the Cold War, and his Pan African movement ideology and state-led economic policies, all of which that were not in the interest of the major aid providers. The little project aid, technical assistance and credit facilities that Nkrumah contracted accumulated to become a substantial foreign debt for the country. By the end of 1960, foreign debt was US$ 1.3bn. Repayment of the debt created economic problems and state instability for subsequent Ghanaian governments. From 1970 to 1983, there was no major policy change or developmental agenda that could affect the role of aid in the economy. Much of the challenge during that period was not so much the quantity or quality of aid, but endogenous factors—the quality of state machinery and governance. The state was ineffective in managing both aid and rule of law. The various military regimes failed to act in the collective long-term interest of the country, but pursued economic policies that were deleterious to economic stability and growth. The foreign aid that was provided failed to change those deleterious policies because the regimes were not ready to pursue reforms. The policies served their interests and those of their cronies. In addition, previous attempts to switch policies had resulted in military takeovers. Why did donors not put more pressure on the military leaders to reform the mode of economic and political governance? A few of the interviewees indicated that interactions during that period had Cold War undertones and pressure could have been seen as intrusion or recolonisation. The US Assistant Secretary for African Affairs, Herman Cohen, is quoted as saying:

> The Africans claimed they had their own form of African democracy. It was only toward the end of the 1970's we saw the one-party states were fraudulent. But we didn't want to tell the Africans the truth: democracy and human rights were not on anyone's agenda (Perlez, 1992).

4.6 Conclusion: Foreign Aid Was Not a Catalyst to Economic and Political Transformation During the Period

This chapter has discussed the interaction between foreign aid and Ghana's endogenous elements of political, economic and bureaucratic institutions; and the quantity and quality of aid provided. It has further analysed the economic policies pursued by various governments. Using process tracing based on historical events and interactions of aid and endogenous actors and institutions, it has shown how each of the three covariates connected to each other, resulting in a chain reaction in terms of economic and political transformation and development. This final section summarises the conclusions by reflecting on the attributes of catalysis and answers the basic question: was foreign aid a catalyst to Ghana's economic and political transformation and development during Phase I?

The first phase (1957-83) was one in which the state sought to replace the economic structure dominated by primary commodities to one based on manufacturing. The analysis shows that although the contribution of manufacturing to GDP increased a little in the beginning, the growth was short-lived. The manufacturing industry was not able to replace agriculture as the biggest employer or become a major contributor to GDP. The structure of Ghana's economy did not experience a major change during the period.

To play the role of a catalyst, aid should have enhanced the industrialisation agenda that the country had laid down. Foreign aid played an important role in Nkrumah's development plan (for instance the building of the Akosombo Dam), but none of the subsequent plans had substantial aid input. The little foreign aid that came in was invested in discreet projects that involved importing goods, services and technical assistance from the donor country (tied aid) by Ghana. To a large extent, foreign aid provided less benefit to Ghana.

A catalyst requires the right amount and chemical composition to be effective in speeding up reaction in endogenous objects. The analysis of both the quality and quantity of aid received during phase I clearly shows that the aid was too insignificant to catalyse any improvement in public finances and investment in the country. In other words, aid did not enable Ghana to meet its foreign exchange needs and so could not be claimed to have catalystic enough to stimulate growth. This confirms the finding of Boon's 1994 empirical analysis covering 100 countries, including Ghana. Aid flows were determined very much by the political regime that donors wanted to support and less by a specific course of development. Bilateral aid, for instance, was given for strategic political reasons and was less concerned with efficiency and effectiveness, let alone economic structural transformation. On sectoral composition of aid, the analysis shows that during the period, foreign aid was less in the form of grants and more as loans to be repaid with interest. Given that the developmental objectives of the loans were dubious, the result was that Ghana was saddled with long-term debt.

Another important feature of a chemical catalyst is that it works with endogenous substances by providing a convenient surface for these substances to react. A catalyst attracts the molecule of the primary particles (reactants) to its surface so that they are closer together and can react more easily. In other words, the reacting particles gather around the catalyst's surface and collide more frequently with one another. Did aid provide a convenient platform for endogenous institutions and resources to converge around it to promote transformation and development? Did donors help to convene meaningful discussions on changing economic policies that were failing in Ghana?

In terms of stimulating right economic policies, aid did influence two short-lived political regimes (NLC in 1967-69 and PP in 1969-72) but in general was not influential enough to transform them. While it is arguable whether socialistic or market-oriented policies were the right ones for that time, aid could not help Ghana to determine the appropriate economic policies suitable for its conditions. The socialist policies that Nkrumah introduced obviously had many structural problems. It resulted in state patronage, which became endemic in Ghanaian society. Whilst counterfactual evidence from early peer countries like Malaysia and South Korea shows that initial state-led policies gave way to private sector-led growth, in the Ghanaian case those policies continued for two and half decades after independence. In other words, while there was path departure in the peer countries, Ghana continued along the same path that was failing its development agenda.

There is no doubt that Ghana would have been better off had it managed to switch economic policies. Attempts by the IMF and World Bank to influence such a change in economic policies in 1967 after the overthrow of Nkrumah and during the period of Progress Party rule in 1971, were not sustained as many of the political regimes at that time were afraid of the domestic political consequences of undertaking austerity measures. Denationalisation of state enterprises and devaluation of the local currency led to several military coups in Africa, heightening such fears. In conclusion, Ghanaian regimes were not predisposed to change. After years of implementing socialistic policies, many were not convinced that market-oriented policies would be a better alternative. The Bretton Woods institutions backed off from Ghana after several lukewarm attempts to switch policies, while bilateral donors maintained an ambivalent approach to those deleterious economic policies. So, the little aid that was given was delivered amidst an unsound economic policy environment.

Chapter 2 made the point that for catalysis to occur, participating substances must be predisposed to reaction. This means that the composition of the participating substances matters to the rate or speed of reaction when a catalyst is added. When participating substances contain more inhibitors, the catalytic process slows down, but when endogenous particles contain promoters, the catalytic process speeds up (positive activation energy is released). How did endogenous institutions react to aid? A combination of perverse incentives arising from aid money and perpetuation of socialistic ideology instead of economic efficiency principles contributed to ineffective use of national resources and aid. Economic policies such as the decision to have a state farm in every parliamentary constituency, or to situate different components of a footwear industry in different corners of the country, were purely for political reasons devoid of economics (Killick, 2010). So even if there had been substantial aid, it could not have contributed to economic efficiency since those endogenous decisions were purely political. This was an important difference between statism or patronage policies in Southeast Asian countries like Singapore, Malaysia, and South Korea and those in Ghana, because in Ghana the state patronage in economic policies was not backed by efforts to achieve economic efficiency.

A catalyst reduces the activation energy of prevailing endogenous substances and thus helps to stimulate reaction. This was the expectation in Ghana, that foreign aid would reduce the perverse incentives or negative influence of endogenous actors, institutions and structures. However, that did not happen. From 1967 to 1982, the political settlement in the country did not have a developmental focus. The elite consensus of winner takes all focused mainly on sharing rent between members of the ruling coalitions more than expanding rent and spreading it over the larger population outside the coalition.

Notes

[1] State intervention in the financial market began before independence. Under "self-rule" in 1953, the state established Ghana Commercial Bank for both political and economic objectives.

[2] Foreign Relations of the United States (1964-1968). https://history.state.gov/

[3] Disaggregated data on specific interest rates for each bilateral and multilateral loan was not available; hence, the study used OECD data that categorises ODA into grants and loans.

[4] Effective development assistance was defined as an aggregate measure of aid flows combining total grants and the grant equivalent of all official loans.

[5] During this period, there was no worldwide corruption index. The first Corruption Perception Index (CPI) started in 1995, to be followed by Worldwide Governance Indicators in 1996, so it is difficult to measure people's perception of the degree of corruption at that time.

5 Foreign Aid As Catalyst for Economic and Political Reforms (1983-92)

5.1 Introduction

This chapter analyses the interaction that took place between foreign aid and endogenous factors during Phase II (1983-92). This is the phase when Ghana began to shed many of its post-independence economic and political problems, with foreign aid being a major factor in the drive towards that change. The chapter is divided into seven sections. After this introduction, section two provides a snapshot of the endogenous and exogenous factors that catalysed to rescue the Ghanaian economy. The section further lists all the covariables and shows the outcome of the process tracing that links the causes and effects of Ghana's transformation. Section three analyses the antecedents or events that led to the challenges at the beginning of the period, based on which a rescue plan was inevitable. Section four summarises discussions on ways to rescue the economy, the negotiations that took place between members of the ruling coalition and the final decision to seek financial and policy assistance from the World Bank and IMF. Section five traces the various interactions that took place between foreign aid and endogenous factors, while sections six and seven trace how the interaction contributed to economic and political reforms and answer the question of whether aid was a catalyst to economic and political transformation during the period. The last section draws conclusions.

5.2 Tracing How Foreign Aid Rescued a Failing State

At the beginning of 1983, the economy was on its knees and in political chaos. GDP was 4.6% below zero and inflation was 122.8%. The production of the country's two major commodities that earned foreign exchange (gold and cocoa beans) had declined steeply to their lowest levels in decades. The literature review and accounts of many of the expert interviewees show that three endogenous factors and four exogenous shocks were the main causes of Ghana's economic paralysis (Tsikata, 1998; Leith and Soldering, 2000; Aryeetey and Cox, 2002). The process tracing analysis also shows that the IMF and the World Bank injected substantial foreign aid into the Ghanaian economy. That, coupled with endogenous factors that were predisposed to making aid work, enabled the economy to recover from its downward trend and start to grow.

On the basis of process tracing analysis, which links history, policies, aid, and endogenous factors, this study identified the 22 factors below that interacted to change Ghana's economic and political situation. The factors are listed below in three covariables and Figure 5.1 connects the cause and effect in the form of process tracing.

A : Historical Factors

A1: Deportation of 1m Ghanaians from Nigeria.

A2: Severe drought and bushfires, which caused temporary famine compelling Ghana to seek food aid.

A3: Departure of bilateral and multilateral donors and refusal by friendly nations to provide temporary relief (bailout).

A4: Poor economic policies over three decades.

A5: Endemic corruption as part of the Ghanaian fabric.

A6: Existential threat of military coups if there was no solution to economic hardships.

A7: Desperate economic situation with no credible endogenous and preferred external solution.

B: Aid

B1: Substantial amount of aid made available by IMF and World Bank to fill financing gap.

B2: Improved quality of aid (more grants and fewer loans, while substantial part was directed towards production, and high disbursement rate.

B3: Aid conditionality.

B4: Return of bilateral donors.

C: Endogenous factors

C1: Strong and committed political leadership that was ready to accept aid. conditionality and implement economic reforms.

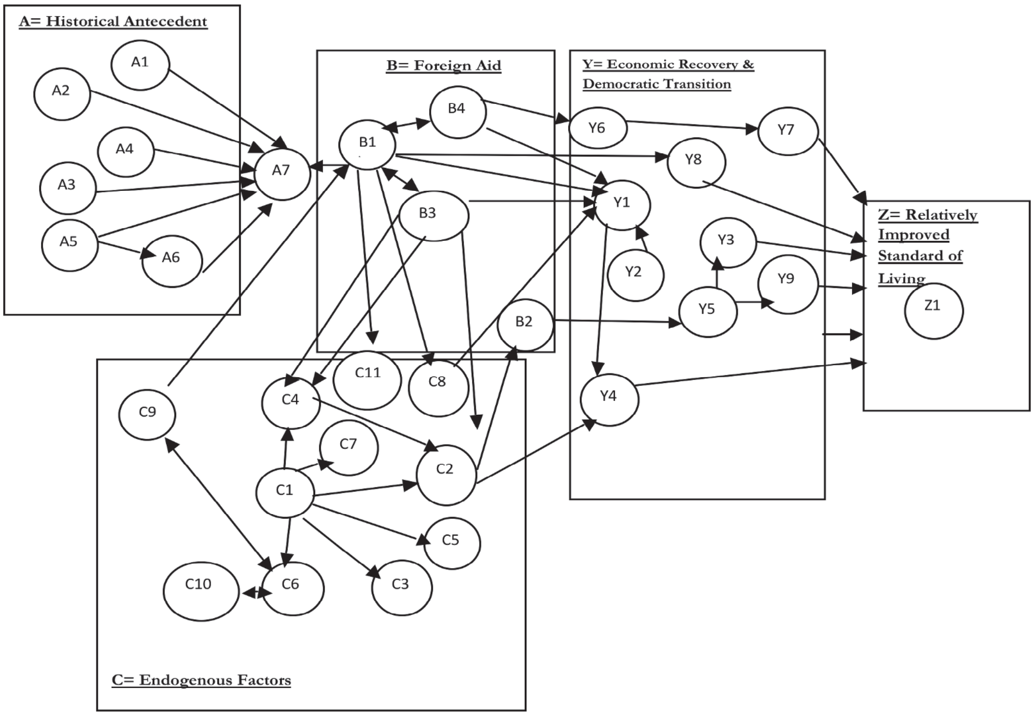
C2: Change of economic policies (from socialism to neoliberalism).

C3: Corruption/rent seeking become high risk activities (Economic and moral reforms pursued jointly).
C4: Authoritarianism as political settlement needed for the pursuance of radical economic reforms.
C5: High sense of collective responsibility among the citizens.
C6: Centralisation of economic management.
C7: Decrease in the role of interest groups.
C8: Cocoa and gold provide fulcrum of economic recovery.
C9: Skilful economic management and negotiation team.
C10: Deterioration in civil service.
C11: Rehabilitation of existing industrial plants and equipment.

Y: Economic and Political Transformation
Y1: Availability of foreign exchange.
Y2: Increase in production of traditional exports (cocoa beans and gold).
Y3: Economic stability and recovery.
Y4: Availability of essential goods and services.
Y5: Increase in export of non-traditional products.
Y6: Development of pro-democracy forces.
Y7: Political stability and transition to liberal democracy.
Y8: Increasing debt burden.
Y9: Moderate economic structural transformation.

Z: Outcome: relatively improved standard of living

Figure 5.1
Tracing Ghana's developmental trajectory, 1983-92 (Phase II)



5.3 Antecedents of Ghana's Economic Atrophy and Political Disorder

As shown in Figure 5.1, at the beginning of 1983 Ghana was confronted with three endogenous challenges and four exogenous shocks. These critical junctures that worked together to cause economic atrophy and political chaos at the beginning of the period are discussed below.

5.3.1 Poor macro-economic policies over three decades (A4)

The first endogenous factor that led to economic paralysis at the beginning of 1983 was Ghana's brand of socialistic economic policies implemented over three decades since independence. The policy provided many disincentives to production and incentives for rent seeking. The policies included inflexible exchange rate controls, currency over-valuation, state control of market prices of commodities, over-taxation of agricultural exports to subsidise goods and services for urban consumption, and non-performance of over 300 state-owned enterprises. The government held majority shares in 200 of the 317 state-owned enterprises; minority shares in 29, and equity shares through state-owned banks in 88. The government acquired its equity interest in 62 of the enterprises through confiscation of private properties. The state enterprises operated as a bureaucracy without an eye to profit or even to break even (Tsikata, 1999; Aryeetey et al.; 2000; Aryeetey, 2008).

By 1982, cocoa production had become so unprofitable that farmers preferred to leave the crop to rot in the bushes. The fixed exchange rate policy made the price that farmers obtained for their cocoa beans far lower than their actual value in the parallel market. As a result, production of cocoa beans and gold dropped to less than 50% of the levels that pertained in the 1970s; cocoa bean production fell from about half a million tons to 150,000 tons, and gold production from almost 800, 000 ounces to less than half of that quantity. The value of exports amounted to only 5% of GDP (Leith and Soldering, 2000:45). The reduced production of the two commodities coincided with worsening terms of trade due to a drop in cocoa prices in the international market and a rise in oil prices (Leechor, 1994; Fosu, 2009:6). Many Ghanaians resorted to smuggling goods across the borders and trading in the black market. Because of the exchange rate differences, it was profitable to smuggle. As a result government revenue fell to less than 5% from about 20% in 1970s, making it impossible for the state to offer any meaningful public services. This parallel market also deprived the state of foreign exchange to import essential goods. The macro-economic situation was therefore begging for some remedy at the beginning of 1983.

5.3.2 Endemic corruption as part of the Ghanaian fabric (A5)

The second endogenous factor that had become part of the Ghanaian fabric by 1983 was corruption, which was perceived as an outcome of failed economic policies. Rent seeking had made productive ventures unprofitable, and hence people resorted to short-term means of getting money. Access to state resources, including goods and services provided by state enterprises guaranteed easy profits for public officers and their families. In the harsh economic conditions, government workers pretended to work but moonlighted in the informal sector. Various political regimes, both democratic and military, saw corruption destroying the economy but attempts to reduce it through radical and extra-judicial measures, including summary killing of three former Presidents, failed to eradicate it.

5.3.3 Existential threat of military coups because of poor economic policies and deteriorating living conditions (A6)

As economic conditions deteriorated, Ghanaians became impatient and those who had access to guns threatened to overthrow the government. There were several attempted military coups between 1982 and 1983, involving the regime's own ranks, supported by powerful international forces, including the CIA. Two former members of the PNDC, Chris Atim and Alolga Akatapore, staged an abortive coup in 1982 and it was alleged that the American embassies in Ghana and Togo had funded the uprising. According to Martinson (2000:144), a female African-American CIA agent who served in Accra until 1985 divulged CIA intelligence to her boyfriend, who happened to be Rawlings' cousin. She was later convicted in the United States of having divulged CIA secrets. The constant threats of military takeovers increased the political pressure on the PNDC to hasten efforts to find solutions to the country's economic problems (Ninsin, 1991).

The above endogenous factors that caused deteriorating living conditions in Ghana were worsened by three exogenous events: prolonged bushfires, deportation of Ghanaians living abroad, and departure of bilateral and multilateral donors from Ghana.

5.3.4 Prolonged drought and bushfires (A2)

While Ghana's economy was paralysed by 1982, a prolonged drought accompanied by strong harmattan winds resulted in widespread, uncontrollable bushfires that destroyed approximately 154,000 tonnes of cereals, about 35% of the crop, (USAID, 1985:31; Arthur and Arthur, 2010). Large areas of cultivated tubers (yams, cocoyams, and cassava) used to compensate shortfalls of cereals were also destroyed. Cash crops such as cocoa and timber also suffered, resulting in extensive loss of foreign exchange to the Ghanaian economy. The effect was substantial and food shortages compelled Ghana to request temporary food aid (USAID, 1983).

5.3.5 Deportation of an estimated 1m Ghanaians (A1)

Ghana's food shortages in 1983 were worsened by an influx of about 1m Ghanaians expelled from Nigeria. Over a two-week period, Ghana's population swelled by 10%, significantly increasing the demand for food. In response to the government's request for food aid, the USA provided emergency assistance totalling US$ 21m, and Australia, Canada, Germany, the UK, Japan, the Netherlands and Spain also provided food reliefs (USAID, 1983).

5.3.6 Departure of bilateral and multilateral donors from Ghana (A3)

By 1983, many bilateral donors had left the country and the few that remained had only desk officers. The multilateral donors, especially the IMF and World Bank, did not have any offices in the country. Rawlings sent a delegation to the Soviet Union, Cuba and Libya for aid, but they returned empty handed.

The above endogenous and exogenous factors (A1+A2+A3+A4+A5+A6) coalesced to make living conditions unbearable for many Ghanaians -(A7). There appeared to be no viable endogenous solution. The following quotation from the Minister of Finance during that period summarise the conditions in which Ghanaians found themselves:

> Frankly, the country was on the brink of social and economic disintegration. There was almost a state of breakdown. Our debt stock had gone up significantly; nobody would lend us any money. There were shortages of everything; people would queue for uncooked *kenkey* (corn dough); people would travel to Ouagadougou [in Burkina Faso] and Lome [in Togo] to buy common soap. It was a period of great hardship. The country was flat on its back, and at the same time the government was ideologically Left oriented. I was the Minister of Finance in the government and a Marxist intellectual; we were not World Bank and IMF lovers initially, but we looked at the situation the country was facing at that time. On the one hand we had price control, significant state enterprises that were all unprofitable. Our national reserves had sunk to less than a month's imports, our debt stock was high, we owed about US$ 600m to Nigeria just for the

supply of oil alone. As a result of our arrears, Nigeria had cut us off supply of oil. Bushfires raged throughout the country and at the same time the country suffered a sudden 10% increase in population—because during that period of hardship two million people had fled to Nigeria and Côte D'Ivoire, and just when we were on our knees, Nigeria sent back a million people. Those were the circumstances in which we had to decide how we were going to revive the economy. (Interview with the Finance Minister who initiated Ghana's structural adjustment programme, 13 July 2013).

According to the Finance Minister, the PNDC developed a National Reconstruction and Development Plan, which sought to combine socialistic and market-oriented policies. A Ghanaian World Bank official who witnessed the economic crisis at that time said:

The economy was completely collapsed…. maybe you were one of those who ran away and left us here *[referring to the author]*. We queued for everything…. walked long distances to get to school because there was no fuel for vehicles to run. When you saw people gathered in one place you joined them, hoping that they would be selling something you could buy (Interview with a World Bank official, 20 August 2015).

5.4 Desperate Economic Conditions with Unviable Endogenous Solutions (A7)

The living conditions at that time meant that Ghana needed not only economic remedies but also the right political institutions for state stability. The PNDC government knew where it wanted to go with the Ghanaian economy, but the endogenous financial resources were inadequate to carry them out their plans. In December 1982, the Finance Minister announced a 'home-grown' Reconstruction and Development Plan, which was aimed at achieving stabilisation and transformation of the economy. The plan was based on what the PNDC identified as the challenges of the Ghanaian economy. A former member of the PNDC, who and currently heads a major policy think-tank, summarised the intentions of the plan:

If you have a classical colonial economy, which is dependent on a few baskets of exports, and yet you import everything, your economy suffers every day because there will not be adequate foreign exchange to import what your people demand. So, what we were looking at was how to get money to feed our people today, knowing we wanted to get out of de-

> pendency tomorrow. This was what we wanted to do with our Stabilisation and Reconstruction Plan. The tension was between stabilisation versus transformative requirements, because we wanted to get out of our dependency on a few commodities and transform the economy (Interview with a former member of the PNDC, 9 July 2013).

The Reconstruction and Development Plan contained ideas on what the nation ought to be doing to plug the structural deficiency that had bedevilled the economy, but there was no costing and timeline on many of the items in it. The plan envisioned structural change of the economy over the long term, but in the short term the key challenge was obtaining foreign exchange to import intermediary materials so that the manufacturing industries could run at full capacity. As noted earlier, by 1982, most of the state industries were running at 10% of their capacity. In addition, there was a need to rehabilitate the transport infrastructure to enable cocoa beans that were rotting in the rural areas to be conveyed to the country's ports for export.

To the regime and many analysts, there was no endogenous remedy to Ghana's economic malady. Corruption had become endemic in Ghanaian society and Rawlings had failed to eradicate it through brutal measures. Government expenditure had been reduced to only 11% of GDP and the government was unable to carry out its basic responsibilities, such as payment of salaries to public sector employees, and inflation was above 100%. The PNDC sought a catalyst and the only options were the IMF and World Bank. Various studies on the political economy of Ghana (Rothchild, 1991; Leith and Lofehie, 1993; Gyimah-Boadi and Jeffries, 2001) suggest that by the time the PNDC made the decision to go to the IMF and the World Bank, Ghana's economy was such in bad shape that there was no argument left against reform.

Nevertheless, the decision to finally go to the IMF and the World Bank was not made without acrimony. There were disagreements among the members of the regime on how to proceed with economic reforms. Adoption of Economic Recovery Programmes (ERP) and Structural Adjustment Programmes (SAP) had to be negotiated at both, domestic and international levels. The domestic negotiation was within the regime, with the inclusion of civil servants, while external negotiation was between a small team of the regime and the IMF and World Bank. The civil servants were being blamed of contributing to the collapse of the economy, so they did not have the same influence as PNDC members.

Moreover, the reform was fundamentally meant to change the structure and incentives of the public sector, so although civil servants had a lot at stake in the negotiation, they could not oppose the ideas of the PNDC members. Fear of Rawlings, the founder and leader of the PNDC government, also prevented them from opposing the reforms openly.

The PNDC itself was a coalition of people with different ideological persuasions, mostly Left-wing radicals, pragmatics and academics (Chazan, 1983; Ninsin, 1991). Together they constituted the June 4th Movement—a revolutionist group that had forcibly taken power in 1979 and 1981. Thus, the members of the PNDC clearly understood the root causes of Ghana's economic challenges but were divided on the ideological approach to solving the problems. The Left-wing members of the inner core of the regime, who were critics of the IMF and the World Bank, included Zaya Yeebo, Chris Bukari Atim, Sgt. Alolga Akatapore, Brig. Mensah-Nunoo, Yao Graham and Taata Ofosu. Zaya Yeebo and Tata Ofosu were journalists and former student leaders; Akatapore and Mensah-Nunoo were retired military officers, while Yao Graham was a young Ph.D. student in England.[1] The six Left-wing members believed in workers' rights and social justice and made that clear in their arguments to Ghanaians.

In summary, the Left wing members were young Marxists who believed that imbalance of power between the marginalised and elite in all societies needed to be changed fundamentally. They were involved in the ERP discussions because they were Secretaries of various ministries, members and advisors of the PNDC. Throughout the discussions, they argued against adopting IMF and World Bank policies, as they would be a contradiction of the ideals of the 1981 revolution. They argued for economic policies that would improve the lot of rural farmers, who had been ignored by previous regimes (Boafo-Arthur, 1999; Hutchful, 2002). These neo-Marxists believed that the IMF was only interested in a short-term structural fix and not long-term diversification of the economy, which was what Ghana needed.

The other, pragmatic group of the PNDC was made up of Dr Kwesi Botchwey, Dr Joe Abbey, Amissah-Arthur and Flight Lt. Jerry John Rawlings. With the exception of Rawlings, the group consisted of highly experienced economists who had served in various professional positions such as Ministry of Finance economists, senior officials of the Central Bank, and university professors. These individuals, though originally also Marxists, reconsidered their positions and reconciled the pressures of pragmatism and revolutionary idealism. They discredited their colleague Leftist ideologists in a series of public broadcasts accusing them of stalling any rescue plan for the economy. They argued that any delay in rescuing the economy was tantamount to the party's political suicide (Ahiakpor, 1991; Shillington, 1992; Tsikata, 1999).

In the run-up to the August 1982 meeting with the IMF to take the final decision to shift to market reforms, a committee made up of Leftist ideologists was established under the leadership of Chris Atim and Yao Graham to reconcile their differences and to provide an alternative to ERP and SAP. The committee provided an economic policy trajectory, Alternative Economic Programme, which many analysts characterised as forwarding policies that were more Leftist than Nkrumah's. From the perspective of the Leftists, Ghana's problems at that time required a complete change of direction without the encumbrances of the Western countries, which were described as imperialists. They considered it illogical for Ghana to go to the West for rescue, when it was Western countries, which had manipulated the country's drive to development to fit their own interests. They argued that Ghana was better-off pursuing programmes that had support from socialist countries, or finding its own resources than running to the West. They seemed to have forgotten that Ghana's socialist allies such as Libya, Cuba, Eastern Europe and the Soviet Union had already shown themselves to be unwilling to bail out Ghana.

The Left-wing ideologists managed to fly in fellow Leftist intellectual such as Samir Amin of the Dakar-based Institute for Economic Development and Planning (IDEP) to support their stand. According to Deverajan et al., (2001) Samir Amin arrived at the same conclusion, that Ghana has no choice but to negotiate with the international financial institutions for a bailout (Deverajan et al., 2001:65). By January 1983, Dr. Botchwey, a staunch critic of the IMF, had had a change of mind and accepted neoliberal ideas. He announced that implementing structural adjustment was necessary to promote social justice, which was central to the PNDC's goals (Bawumia, 1998). For a Marxist to accept liberal policies shows how dire the state of the economy was at that time. To some extent it also gave them a degree of legitimacy because they understood the current predicament and were not tied to a single ideology, moreover one that had been found to be wanting (Ninsin, 1991). However, the discussion within the PNDC over adopting ERP and SAP was so acrimonious that the Leftist members of the party attempted a series of unsuccessful military coups in late 1982 and early 1983. Atim, Graham and Yeebo resigned. Atim and Yeebo went into exile. Eventually, the pragmatists led by Rawlings and Dr. Botchwey triumphed and the neoliberal economic prescriptions of the IMF and World Bank were adopted. How did the PNDC negotiate with donors to ensure that aid actually met the country's policy and development needs while at the same time maintaining the political coalition or warding off any political backlash? The next section discusses the negotiation strategies adopted by the Ghanaian authorities and donors.

5.5 Interaction of Aid with Endogenous Institutions and Actors

5.5.1 Negotiating with IMF and World Bank on economic policy change (B1+B3+C9)

Ghana went to the IMF and World Bank fairly well prepared. The Finance Minister led the negotiation with a few staff from his ministry and Bank of Ghana. Highly influential Ghanaians working in the international community also provided advice. For instance, Tsikata cites key Ghanaians working at the World Bank and IDEP in Dakar as influential in helping Ghana to formulate ideas and negotiation strategies. She notes, "Ghanaian academics did not influence the reform process very much because they seemed to have had a healthy dose of skepticism about how long the regime would last" (Tsikata, 1999:39). The Reconstruction and Development Programme was the starting document that the team used to negotiate with the Bank.

> We knew what we wanted to achieve and we also knew something had to give. You can't go to the Fund and the Bank or any lender and say I want US$ 200m, give it to me and I won't abide by any conditions. It doesn't happen, but we sought to ensure that the conditions attached to the aid made some sense, something we could live with. We didn't really succeed in avoiding all conditions that we found unpalatable. In negotiations you don't win everything so there were certain areas in which we agreed to the conditionality that made the most sense, others slowed us down. For instance, the pace at which we were forced to de-nationalise certain enter-

prises was troublesome (Interview with the former Finance Minister who led the team to negotiate with IMF/WB, 11 July 2013).

So, there were conditionalities for getting financial and technical support from the World Bank. The Ghanaian negotiators found some of the conditionalities unfavourable and wanted them removed. This included the speed of the privatisation programme that the World Bank wanted Ghana to pursue urgently and devaluation of the currency, but overall the Ghanaian team felt they had negotiated a fair deal. The political divisions within the country and within the regime itself seem to have won sympathy for Ghana. The internal disagreements or the resistance from the Leftist members of the PNDC also led the IMF and WB to re-examine some of their stringent SAP economic prescriptions. For instance, the IMF restricted trade liberalisation only to tariffs and import licensing, while the controversial privatisation of state enterprises was carefully prescribed to cover only non-performing state enterprises and non-strategic sectors. The IMF and the World Bank accepted multiple stage-wise or piecemeal rate as a transition to full devaluation of the Ghanaian currency. According to Tsikata, a straightforward devaluation was perceived to be politically damaging, so the IMF and the World Bank accepted the Ghanaian team's proposal involving "bonuses" and "surcharges".[2] The compromise was seen as de facto devaluation but avoided use of the dreaded "D" word (Tsikata, 1999:26). In this way, the doomsday predictions about a potential revolt by the military if Ghana failed to get a fair deal from the Bretton Woods institutions did not materialise (Martin, 1991; Tsikata, 2001).

The decision to adopt IMF and World Bank policies was therefore not a straitjacket as critics argue. It was an outcome of negotiations, between the endogenous actors and interest groups within the country on one front and between the PNDC and the Bretton Woods institutions on another front.

> Some of the conditionalities, we thought, made no sense, but overall, I cannot say that everything was imposed on us and we had no say in the policymaking. Frankly, we knew that the exchange rate should be devalued because it was killing the economy; it was not providing any incentive for anybody to export anything. It had killed the gold mining sector and it had virtually distorted the cocoa sector. If you use 10 cedis to produce a dollar of cocoa exports and bring the dollar back to the bank and get 2.75 cedis

for your dollar, how is the farmer supposed to survive in business? So we knew that the exchange rate needed to be devalued. There was no economist in the world that could have looked at Ghana's economy and said there was no need for devaluation. So we had to devalue and we did that gradually. Of course, we didn't succeed with the gradualism approach, as there was some prodding from the Bank and the Fund to speed up the process. A lot of haggling went on between the IMF and my team. Frankly, in the area of fiscal policy we would have liked a slightly more expansionary policy, a larger deficit financing with the flows from the Bank and the Fund but that was not acceptable to them (Interview with the former Minister of Finance and head of the negotiation team, 11 July 2013).

The Finance Minister said that some of the IMF and World Bank conditions were consistent with the PNDC Reconstruction and Development programme. In April 1983, the exchange rate of ₵2.75 to one US$ was changed to ₵25, a devaluation of the Ghanaian currency. By December of the same year, the rate changed to ₵30 per dollar. Periodic devaluation led to a dollar exchanging for ₵50 in 1985 and ₵90 in 1986. The flexible exchange rate system reduced the black market that had existed since Nkrumah's regime. In keeping with the agreement with the IMF, the black market was legalised, allowing private forex bureaus to sell and buy foreign exchange in parallel with the central bank (Leith and Soldering, 2000:49). The abolition of price and exchange rate controls increased the price of imported commodities.

We were doing exchange and price controls claiming that by doing so we were helping the poor, but everybody knew that the goods whose prices were controlled ended up mostly with the rich. The poor ended up buying commodities at very high market prices. So the price control didn't benefit the poor, nobody could demonstrate that at all. So, if anybody says you were forced by the Bank and the Fund to abolish or remove price controls I will say, yes, it made a lot of sense because they were not helping the poor in any way. In no time at all, the Forex Bureaus were accounting for a significant portion of our import needs. Today, people have forgotten all those things. The Forex bureaus are everywhere, even in the smallest town; people no longer queue at the central bank to get foreign currencies (Interview with the former Minister of Finance, 13 July 2013).

Over nine years (1983-91), with support from the IMF and the World Bank, Ghana's policies of a state-led and state-controlled economy were dismantled and the foundations were laid for a liberal economy. It was the period that saw the most significant surge of foreign aid flows into Ghana.

> The bulk of the prescriptions were policies that we knew we had to implement. When your foreign exchange rate is over-valued nobody needs to tell you that you need to adjust. We needed money, so we went to the Paris Club, had donors' meeting and we got the money. Did they dictate what we did? No. I won't say yes. We acceded to the pace of reforms that we would have preferred not to. We acceded to a certain measure of fiscal constraint, for instance, lowering the deficit financing. If someone had given us more money, a little more liberally, we would have preferred not to, but in principle the idea of fiscal discipline was something that we welcomed (Interview with the former Minister of Finance, 11 July 2013).

Aryeetey and Cox interviewed government officials involved in implementing the reforms and found:

> The government took full responsibility for the preparation of the ERP and only received the endorsement of the World Bank and IMF when a finished document was already in place, in spite of the usual consultations along the process. A member of the Government's Economic Management Team is reported to have stated, "to those who claim that adjustment was imposed on us, we can show them the home-grown document that we took to the World Bank". There was no reason why Ghanaians should not be capable of producing the necessary documentation for negotiations since "the chief Ghanaian negotiators were trained in the same universities as their colleagues from the Bretton Woods institutions. The government negotiators found nothing mysterious about a local "capacity to develop rational economic responses" to changes in the economic situation (Aryeetey and Cox, 1995:71).

During field interviews for this current study, similar statements were made. For example:

> Yes, there were conditionalities, but the idea that everything was rammed down our throats is completely nonsense. I was a lead player and I can assure you that both the IMF and the World Bank had some respect for our negotiating capacity. We won some battles, we lost others; we didn't have all the money, nobody gives you money with you dictating all the terms. Overall, it was a fair deal. The aid we got went largely into rehabilitation of our infrastructure, no white elephants were built and gradually, we worked

our way into exercising more and more national ownership long even before it became fashionable (Interview with the Former Minister of Finance, 11 July 2013).

Given the strict implementation of the agreed programmes, many critics suggest that the government could not have owned the programmes.

Remember, this was a Marxist-inclined government; how could they have owned neoliberal policies? These were IMF and WB programmes pushed through our throats. The government was compelled to swallow the bitter pills, otherwise they were not going to get the much-needed foreign aid (Interview with a social commentator and head of a policy think-tank, 16 August 2013).

According to Aryeetey et al. (2001) a World Bank official countered any suggestions that it owned Ghana's reform process with the point that "there had been much intellectual laziness, both within the government and outside, as evidenced in the frequent use of the expression IMF intervention". Conceding criticisms, the Bank official argued that the critics had no constructive alternative remedy to offer. The Bank maintained that the government of Ghana was very much in the front seat of the reform process. Officials at the Finance Ministry who were interviewed for this study also confirmed that in many instances it was the government that brought ideas and was able to convince the IMF and the Bank. The Bank bought their ideas because they knew that Ghanaian officials were committed to self-discipline. When asked during the fieldwork for this study to respond to the World Bank official's comment regarding the critics' failure to provide a constructive alternative, a former PNDC member said that the assertion was not be true because the Left-wing ideologists of the PNDC had proposed an economic programme, but the Bank had refused to finance it because it was more of the same socialist policies.

While, arguably, the legitimacy of Ghana's ownership of the reforms persisted, one thing was clear: the Ghana government was not "pushed around" by donors;. on the contrary, the Ghanaian officials gained recognition internationally by being able to negotiate some of the difficult issues that other African governments had previously acquiesced to or rejected. For instance, the Ghana team was able to negotiate a two-tier exchange rate instead of the three-tier one that the IMF had put forward

(Martin, 1991; Tsikata, 1999, 2001). An archival document, *Ghana Country Assistance Review Report*, provides evidence that the Ghanaian negotiators were tough:

> The government had a high degree of ownership of its program…. were responsible and accountable for the "bitter medicine" that had to be swallowed, and that the World Bank and IMF were our supporters, not scapegoats…. the Ghanaian officials knew their own minds and were tough negotiators, able to define the limits of which issues they were or were not prepared to take on, and to determine how far they could go. And when the government delivered on most of what it had agreed to do, this performance built confidence in the Bank and donor community that led to the gradual build-up of assistance pipelines (World Bank, 1995; Armstrong, 1996:54).

5.5.2 Authoritarianism as political settlement needed for Pursuing Radical economic reforms (C1+C3+C4+C6+B3)

It is important to understand the prevailing political settlement in the country during the period of the radical economic reforms. During the early years of the PNDC, the Trade Union Congress (TUC) and the National Union of Ghana Students (NUGS) were important allies because of the regime's socialistic approach that these associations subscribed to. However, with the switch to neoliberal ideas, the regime broke ranks with these organised interest groups. The TUC, which also represented the business community and had 17 affiliated unions, among them, the Ghana Private Road Transport Union (GPRTU), Ghana Mine Workers' Union and the Railway Workers' Union, was embroiled in a multifaceted association with the regime. The TUC was divided within itself, with some affiliated unions supporting the regime and some opposing it (Tsikata, 1999). For instance, the GPRTU strongly supported the PNDC.

The regime also broke ranks with urban dwellers and sided with the rural population. This was in contrast to previous regimes, which had maintained a cosy relationship with urban dwellers through consultation and subsidisation of urban services and consumption. Rural dwellers benefited from the regime's radical economic policies, such as devaluation and abolition of marketing boards, which had imposed artificially low prices on rural products. Rawlings established People's Defence Committees (PDCs) and Workers' Defence Committees (WDCs) in every Ghanaian community to be the PNDC's revolutionary foot soldiers.

The Ghana Bar Association, the Catholic Bishops' Conference and the Christian Council of Ghana refrained from joining the coalition because of the regime's human rights record. The regime banned political parties and broke ranks with Ghanaian business elites who had dominated the political economy scene since independence. Given that the authoritarian regime had made economic reforms a moral issue by persecuting private businesses either for not paying taxes or as rent seekers, branding them economic saboteurs and "anti-revolutionary elements", the business community wanted nothing to do with the regime. The relationship between the regime and the Ghanaian business community was a cat-and-mouse one (Shillington, 1992). The traditional authorities had always remained powerful institutions in Ghana, but because of the authoritarian nature of the regime, and because the regime had not interfered with the powers of the chiefs, there was no interest on their part to lock horns with the government.

Table 5.1
Status of actors/institutions that formed the political settlement during the economic reforms in Ghana

	High Power		
Strong Incentives	PNDC Revolutionary organisations of the PNDC (PDC and CDR) Ghana Private Roads Transport Union (GPRTU of TUC) Ministry of Finance and Economic Management Team	Donors Religious and traditional authorities	**Weak Incentives**
	Ghana Bar Association and academia National Union of Ghana Students Business enterprises Political groups Urban dwellers	Small-scale farmers and rural dwellers Civil society organisations Local business elites Civil servants	
	Low Power		

Adapted from Oduro et al., 2014:12.

If we depict the positions of the actors and institutions in a quadrant, the authoritarian regime and its members of the coalition and donors occupy the top two cells, while at the lower end of the power hierarchy are civil society organisations, civil servants, small farmers' labour unions and professional associations (see Table 5.1).

Over the period of economic reform, foreign aid became a powerful political institution in itself, playing critical and influential roles in the decision-making process in Ghana (Konadu-Agyemang, 2001; Akonor 2006). The donors were key to policy development and resource allocation.

At the time of the ERP/SAP, the quality of the civil service had deteriorated because many of the senior staff had moved abroad. There was also a rumour that many of the remaining staff were going to lose their jobs as part of civil service retrenchment, so there was low motivation among the civil servants and not much support for the PNDC. When the PNDC began the economic reforms, there were few bilateral donors, so the centralised Economic Management Team could manage with the few multilateral aid projects. The PNDC did not allow key policy decisions to pass through the official state bureaucracy. The state officials that negotiated with the World Bank and IMF were undefined and nebulous. They comprised carefully selected economists who supposedly operated from the Ministry of Finance but actually drew their powers from outside the hierarchy of that institution. It involved a relatively small group of people from the Ministry of Finance, Bank of Ghana and the National Development Planning Commission. Because of inadequate state capacity, the IMF and the World Bank did not discourage the bypassing of central government institutions. The PNDC and the World Bank wanted to show results quickly, so there was no nudge from either to broaden the consultations to institutions like the academia and the private sector, which was sceptical about the regime.

The PNDC and donors were aware that the difficult economic policies it had embarked on had the potential to weaken support for the regime as many military takeovers in the country, including that of Rawlings, had attributed their actions to difficult economic policies. So, implementing SAP needed an authoritarian regime that could use fear to avoid any labour or interest group confrontation. As long as the leadership knew where it wanted to go and had the support of a few technocrats and the World Bank, there was no point in considering dissenting views. A political system based on democratic principles was to be avoided and was to be replaced by populist support from those that had always been excluded by previous regimes. This included "ordinary men and women", the poor, and less-educated people. A new model, which could be described as "non-elite consensus", became the backbone of the regime. Consequently, Rawlings began a new political system based on what Adedeji describes as a model of "revolutionary socialism", which would ensure active participation of the "people" in the decision-making process as long as they subscribed to the tenets of the revolution (Adedeji, 2001). In a series of speeches, Rawlings entrenched his leadership role as a "watchdog" for ordinary people, purporting to address the problems of injustice and corruption.

> I ask for nothing less than a REVOLUTION—something that will transform the social and economic order of this country….
>
> To many of us, democracy does not just mean paper guarantees of abstract liberties. It involves, above all, food, clothing, and shelter in the absence of which life is not worth living….
>
> Fellow Ghanaians, the time has come for us to restructure this society in a real and meaningful democratic manner so as to ensure the involvement and active participation of the people in the decision-making process…, the people, the farmers, the police, the soldiers, the workers, you—the guardians—rich or poor, should be part of the decision-making process of this country. (Ministry of Information, 1990:2-49)

As part of the process to court support, the PNDC established grassroots political institutions and organisations called People's Defence Committees (PDCs) later changed to Committee for Defence of the Revolution (CDR) in every community and workplace.

> We are setting up PDCs in the workplaces and every district and village, so that the decision-making in Ghana would not continue to be the preserve of politicians, who had previously ruled Ghana under the most corrupt regime. (Ministry of information, 1990:9)

Changes in economic policy and improvement of the economy were Rawlings' priority and he was less interested in political reforms. Rawlings loathed Western democracy and was not shy about making that known to the world, and to donors in particular. He contended that, since multi-party democracy had failed Ghana in the past, there was no need for anybody, including donors, to consider its reintroduction in the country, although he was inclined to grassroots participatory politics that was devoid of partisanship. During the ERP and SAP period, foreign aid provided by the Bretton Woods institutions helped to preserve the authoritarian nature of the ruling government. The IMF and World Bank did not involve broader Ghanaian society in the discussion of the economic package and frequently relied on the authoritarianism of the government to suppress dissenting views. Economic management was centralised to a few decision-makers outside the state bureaucracy and outside any political structure of the people. In fact, there was no accountability structure and the PNDC was not accountable to anyone except the donors. The reliance on foreign aid for implementing economic policies and programmes further strengthened the political apparatus and confidence of the regime against any legitimate demand of the people for democratic governance.

Throughout the implementation of the economic reforms, the Ghanaian civil society and its leadership were harassed into submission, while a few of the political leadership went into exile (Gyimah-Boadi, 1994). The regime developed repressive strategies to limit the voices of the media and civil society organizations. The national newspapers (*The Daily Graphic* and *Ghanaian Times*) reported only the official line, as press freedom was curtailed through legislative measures such as licensing requirements. A typical example of the coercion of the press occurred when human excreta was dumped in the offices of an independent newspaper, *Free Press*, for criticising the PNDC. Since parliament had been dissolved and the judiciary was dormant on political issues, Rawlings effectively had no political competition. The donors allowed considerable leeway to the PNDC regime and gave Rawlings some breathing space. Though democracy was important to Western government, they did not make political reform a requirement for financial support. Thus, authoritarianism, or the delay in transition to democracy, was a pragmatic response that the international donor community tacitly endorsed. As far as the World Bank was concerned, its stated policy on politics is to maintain neutrality, as it does not want to interfere in the politics of the states to which it gives financial support.

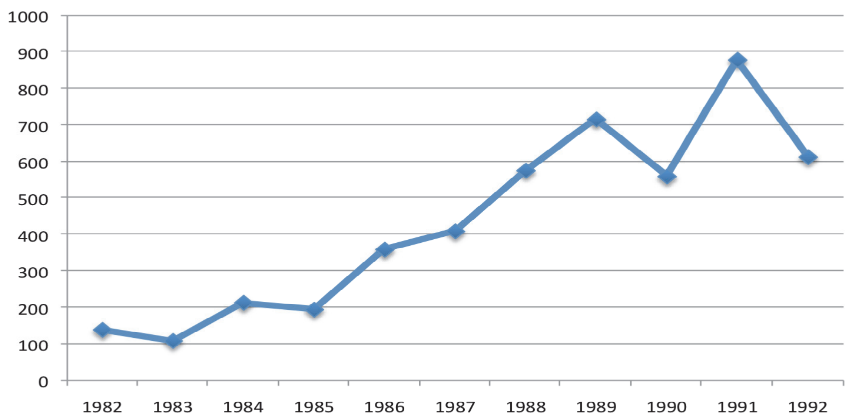
Five years after establishing PDCs all over the country and ensuring that his ideology of grassroots political institutions had been entrenched, Rawlings began the long and winding process of returning to democracy. By that time, the country had become stable and radical economic reforms had begun to bear fruit. The authoritarian regime had succeeded in turning Ghana away from socialistic economic policies to capitalism without being overthrown.

5.5.3 Substantial amount of foreign aid made available to fill domestic financing gap (B1+B2+C11)

When Ghana embarked on ERP in 1983, the magnitude of aid, its composition and origin, all began to change. The World Bank and IMF were instrumental in providing financial, technical and policy support to Ghana. According to the former Minister of Finance during that period:

> The catalytic role of foreign aid in the economic and political transformation of any country's development is not a matter of conjecture, but it must be a judgement you make on the basis of facts based on flows of aid, the magnitude and the uses to which it was put. (Interview, 11 July 2013)

Figure 5.2
ODA flow to Ghana, 1983-92 (current US$ millions)



Source: OECD QWIDS Database, 2014.

During the initial stages of the reform (1983-84) total aid inflows averaged about US$ 160m a year, representing about 4% of GDP. During the implementation of the reforms, Ghana became one of the aid community's favourite countries in the region because the leadership was predisposed to pursuing macro-economic adjustment policies that were the key conditionality to receiving aid. Starting in 1985, there was a clear and sustained increase in foreign aid flows. The level of inflows then rose rapidly to reach about US$ 876.6m (9% of GDP) in 1991 (see Figure 5.2).

From 1983 to 1992, ODA in the form of soft loans provided by the IMF and World Bank to Ghana amounted to US$ 2.4bn. However, in 1992 total aid fell by 30.25% as donors appeared to be concerned about possible diversion of aid money to politics or a tendency to create fungibility during multi-party elections.

During the reform period, multilateral aid as a share of effective development assistance rose dramatically. This was in contrast to previous decades when the IMF and World Bank had denied support Ghana. Between 1983 and 1984, multilateral aid as a share of total foreign aid doubled to 79.1%. There was little bilateral assistance, but as the reforms began to bear positive results other donors came on board. Japan became the biggest bilateral donor in the mid 1980s, displacing the USA to number two for about a decade (Osei, 2003:4; Geddes et al., 2009). The rationale underlying the rise in Japanese aid was Ghana's importance in the region and good economic record. Germany, the United Kingdom, Denmark, Spain, France, Canada and the Netherlands all joined in and became important donors in terms of volume of aid provided. Several bilateral donors provided co-financing for Ghana's policy adjustment programmes by tying their support to either the World Bank or IMF conditions, in addition to negotiating their own conditionalities with the government of Ghana.

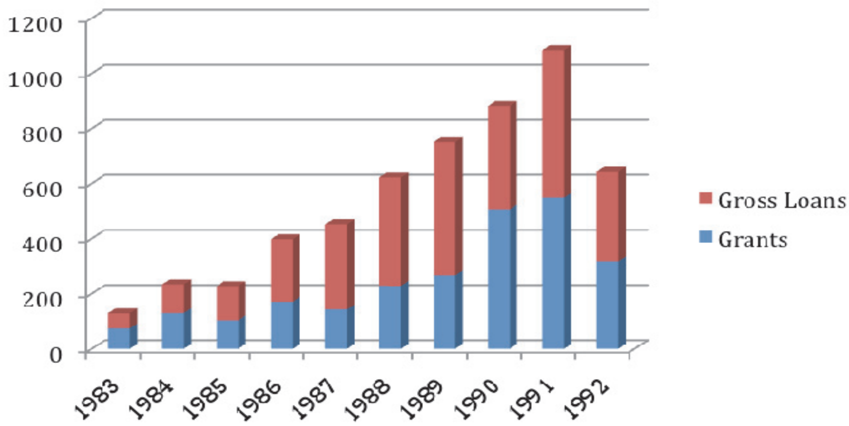
The reason for the USA's low-level aid programme during phase II was that Ghana was regarded as an undemocratic state. In addition, there was also political tension between the two countries after the Ghana government accused the USA of trying to overthrow it. According to Tsikata (1999) subsequent events lent some truth to the accusation. In 1985, eight Ghanaians spying for the CIA were arrested and exchanged for a Ghanaian intelligence agent who had been arrested in the USA. In March 1986, American mercenaries aboard a ship heading towards Ghana in what was alleged to be a subversive operation were also arrested off the coast of Brazil (Tsikata, 1999:7).

As noted above, by 1986, when the ERP started to show good results, many bilateral donors joined in and began to offer financial support (Tsikata, 1999). As many donors jumped on board to add to Ghana's 'success', the ability of the centralised management team to administer aid flows and different donor requirements was impeded. In many instances, the sheer number of donors needing attention overwhelmed the team leaving them little time to strategise. Furthermore, by ignoring the civil service, the aid system created many anti-reform forces within the bureaucracy who, though could not complain because of fear of victimisation, increasingly disowned aid-funded programmes. Donors subsequently bypassed the government bureaucracy by developing parallel project offices to implement discrete projects. In summary, weak institutional structures for managing aid led to selection problems, as donors could not work with civil servants to identify the most critical needs of the country. While the capacity of the civil service to manage aid overflows was weak, the government also failed to clearly earmark its priorities in a situation where there was limited state capacity to plan, provide oversight, evaluate and learn lessons. Implementing many donor programmes also meant that normal tasks of the state bureaucracy had to be set aside.

5.5.4 Improved quality of aid flows (B2)

This study analysed the quality of aid flows to Ghana during the period on the basis of the ratio of grant and loan composition to the total aid received and the sectors receiving that aid. At the beginning of 1983, the grants component of total aid was 57.5%, as the World Bank and IMF felt that was necessary, but it dropped substantially to 31.6% in 1987 as the country's reforms started to bear fruit and there was conviction among the Bretton Woods institutions that Ghana could comply with the conditionalities. With foreign aid gradually shifting from grants to loans carrying interest rate of 2-5%, Ghana's debt burden became a major concern. Ghana's foreign debt increased very sharply, rising from US$ 2bn in 1983 to US$ 3.5bn at the end of 1990 (Osei, 1995). It was only at the beginning of the 1990s, as Ghana began moving towards multi-party democracy that the grant component of aid started to rise again, to 50.6% in 1991 (see Figure. 5.3). However, generally, with a substantial part of aid money being given as loans, the quality of the aid was not good for Ghana's accumulating foreign debt.

Figure 5.3
Composition of ODA (grants and loans), 1983-92 (US$ millions)



Source: OECD QWIDS Database, 2014.

If the quality of aid is assessed in terms of the sectors to which money was allocated, during the first two years of the ERP (1998-84) Ghana needed immediate supply of basic goods and services, so aid was used to finance imports of goods and services from abroad (Tsikata, 1999:43). In subsequent years, much aid was used to support balance of payment and the transport sector. "Between 1986 and 1989, balance of payments support averaged just over 50% of total aid" (Tsikata, 1999:43). Throughout the period, there was no donor support for the manufacturing industry. Ghana's sector development policy was designed to emphasise improving business competitiveness, with the hope that private business would automatically be drawn into investing in manufacturing. But that did not happen.

With foreign aid flows amounting to about US$ 1.3bn in 1991, the PNDC government was able to increase spending on social development in rural areas and Northern Ghanaian the form of entitlements; these areas had been ignored by previous regimes. The government also focused on rural electricity and roads, an investment that increased Rawlings' popularity in these areas and later enabled him to win the 1992 elections. While electricity and roads are usually an investment to promote the productive sector, in Ghana's case they were more a social investment as the electricity extension to Northern Ghana had little linkage with industries or any export commodity (Whitfield, 2011a).

5.5.5 Reliability of aid flows (B2)

During implementation of the economic reforms, more aid was pledged or committed and delivered. On average, donors were generous in disbursing the funds that they had committed themselves to provide. The initial low disbursement of only 37% in 1983 rose to almost 100% in 1986, and by the end of the transition was 76% (see Table 5.2).

Table 5.2
ODA commitment and disbursement, 1983-92 (US$ millions)

Year	Actual ODA	Commitments	% Disbursed
1983	108.39	291.73	37.1
1984	213.12	287.21	72.2
1985	194.33	419.55	43.1
1986	358.88	361.59	99.2
1987	409.02	726.50	56.3
1988	575.59	702.19	82.0
1989	715.53	781.66	91.5
1990	559.72	790.01	70.8
1991	878.63	1103.50	79.6
1992	612.78	805.51	76.0

Source: OECD QWIDS Database, 2014.

5.5.6 Aid conditionalities and change of economic policy (B3+C2)

With financial support from the IMF and the World Bank, Ghana's socialist economic policies began to change. The Bretton Woods institutions and the government of Ghana negotiated an ERP that had a dose of prescribed policies to stabilise the economy and further stimulate growth and exports, stabilise prices, maintain favourable balance of payments, and enhance private initiative and investment (Berry, 1994; Aryeetey et al., 2008). A follow-up structural adjustment programme required the state to reduce its involvement in certain activities considered to be the role of the private sector. This led to implementation of privatisation, trade and financial liberalisation programmes. The major donors at that time, USA, and the UK - were championing neoliberal economic policies that involved reduction of state spending on citizens' entitlements, promoting market forces as the most efficient economic arbiter, and insisting on the supremacy of the private sector—Reaganomics and Thatchernomics. Downsizing the government through public expenditure cuts was the mantra and raison d'état of economic reform. Policy-based loans by the World Bank and IMF from 1983 to 1994 amounted to US$ 2.4bn, of which US$ 1bn, or about 40%, was meant for policy adjustment (Armstrong, 1996; Tsikata, 1999:5). If sectoral adjustment lending is included, the share of adjustment lending increased to 42%. During the ERP, the IMF and World Bank supported monetary policy kept growth of credit to the private sector and state corporations in check.

5.5.7 Other catalytic role of aid (B2+B4)

The IMF/WB catalytic role did not end after providing financial assistance; they also organised Donor Consultative Group meetings annually to help raise additional external assistance for Ghana. UNICEF, one of the consulting group members, was particularly concerned about the adjustment programme having no human face (UNICEF, 1987). UNICEF's annual report, which focused on adjustment with a human face, might have influenced the Bank to reconsider its policies. The World Bank organised a social sector donors' meeting in Vienna and a subsequent one in Geneva in 1988, leading to other social catalytic roles by the multilateral institutions.

An ambitious Programme of Actions to Mitigate the Social Costs of Adjustment (PAMSCAD) was introduced to provide support to people whose living conditions had seriously deteriorated as a result of the adjustment policies. It became the first programme in Ghana that was explicitly designed to protect the poor from the adverse consequences of the ERP/SAP. A total of US$ 85m, excluding contributions from local cost recovery, was to be spent over a two-year period 1988-89 (Graham, 1994:282; Sowa, 1996). PAMSCAD amounted to about 6-8% of the estimated annual cost of donor support for Ghana's SAP. The programme covered about 23 projects in five main areas: (i) community initiatives,

(ii) employment generation, (iii) actions to help the redeployed, (iv) basic needs of vulnerable groups, and (v) education (Sowa, 1996). In terms of job creation, PAMSCAD was supposed to create 40,000 jobs through projects that included public works, credit schemes for small enterprises, farmers and small-scale miners, and labour-intensive projects to rehabilitate school infrastructure.

Most of the social adjustment programmes were in rural areas, where the government had support but little administrative capacity; there was a semblance of capacity in the urban areas, but the government was not on good terms with urban dwellers. According to Graham, PAMSCAD may have temporary relieved opposition to the adjustment programme among civil servants, but in general it was less successful (1994:284). The biannual Special Programme of Assistance for Africa (SPA) meetings that the World Bank and IMF held were used to mobilise aid and coordinate donor activities. The Bank also took the lead in fostering communication and coordination among donors to Ghana until the early 1990s when that role was taken over by the Ghana government (Tsikata, 1999:7). These were additional catalytic roles that the Bank provided to the Ghana government, roles that were not always within the tradition of the Bank.

5.5.8 Cocoa and gold as endogenous resources to complement foreign aid (C8)

The initial effort by the World Bank and IMF to resurrect Ghana's economy was targeted at increasing production of existing exportable goods so as to obtain much-needed foreign exchange and to turn the balance of payments deficit into a surplus. That meant a focus on cocoa beans and gold, which became the centre around which ERP revolved. The Bank and the PNDC government invested much of the aid money to rehabilitate the cocoa industry and to pre-finance and pay cocoa farmers (Laven, 2005; Williams, 2009). Cocoa trees were replanted and a high-yielding variety was introduced. The Cocoa Research Institute of Ghana was supported to undertake crop research (Kolavalli and Vigneri 2011). Adequate rainfall in 1984 played a major part in restoring agricultural production. There was a bumper harvest of food crops, turning the severe food shortages of the pre-ERP era into surpluses. As a result of all the investments with aid money, cocoa production recovered and rural roads and bridges were rehabilitated to enable transportation of cocoa beans to the ports for export. As a result, the contribution of cocoa to Ghana's export revenue shot up to about 50-60% by 1990, which was of nearly 20% of government revenue and 7% of GNP (Jacobeit, 1991:222). From 1983 to 1991, foreign aid was also used to rehabilitate the mining sector. The PNDC government facilitated and guaranteed loans from the World Bank for Ashanti Goldfields.

The argument that aid needs endogenous resources to be effective is amplified here. If cocoa had not been available, aid could not have easily provided the kind of immediate economic growth needed to convince the donors, including the World Bank and IMF, that recovery was possible. The donors knew that if they could get cocoa beans from the villages to the ports and increase gold production, more foreign exchange would flow into the economy. With increases in cocoa bean and gold production, aid money, including the soft loans, would be repaid. The Bank also knew that if Ghana defaulted in on repayments, they could compel the government to privatise the state gold mining company (Ashanti Goldfields). Discussions with Dr. Kwesi Botchwey provided an illustration on how useful the presence of Ghana's two major resources was:

> Foreign aid alone could not have achieved early recovery of the Ghanaian economy. Our domestic resources responded very well to the stimulus provided by aid. You know what, foreign aid and external forces influenced some of the policy changes, but it was the internal resources that determined most of the initial success of the programme. I am fond of giving this example; when you put an egg and a stone in the same temperature, just like when the hen broods over the eggs, after a while a little chick will break out of the egg but never out of the stone even though they are subjected to the same external temperature and conditions. This is because the internal conditions of the egg are different from the internal conditions of the stone. So, although they are both subjected to the same external conditions, what comes out is different. So, in Ghana, what determined the changes and successes that took place were the internal conditions, our own resolve, our own appreciation of our problems and the support that people had. If there had been an implosion in the country and people had kicked against all these, and there had been civil war, no amount of aid could have solved the problem. Aid of course helped to supplement our import capacity and also sped the process of rehabilitation of our infra-

> structure, but I won't say it was the silver bullet (Interview with the former Minister of Finance that presided over Ghana's SAP, 11 July 2013).

With aid money having improved the infrastructure of the country, the industrial sector began to recover. The sector's contribution to GDP increased from 7% in 1983 to 17% by 1985.and similar levels in much of the early 1990s. One can partly attribute the growth to rehabilitation of plants and equipment, and availability of imported raw materials made possible by substantial external capital inflows that had supported the programme, easing foreign exchange constraints. The rehabilitation of existing manufacturing plants resulted in short-term growth as many of the firms eventually closed down because they could not compete with imported foreign goods brought into the country by economic liberalisation policies (Aryeetey and Tarp, 2000). The economic policies, especially devaluation of the currency, benefitted firms that could produce for export and those in trading, but negatively affected domestic manufacturing firms. In spite of the fact that ERP helped to improve some of the macro-economic indicators such as inflation, domestic savings remained low. Gross domestic savings to GDP averaged about 6% between 1983 and 1990. This was about 30% of the 1970 level. With such a poor level of domestic investment, not only households but also the state itself could not replace depreciated capital (Osei, 1995:20).

5.5.9 Strong and self-disciplined political leadership able to negotiate with interest groups (C1+C7)

An important endogenous resource that was instrumental in ensuring the catalytic role of aid was the national leadership. While there was no doubt that the economic conditions in 1982 made it imperative for the IMF and World Bank to influence Ghana's economic policies, the decision to embrace liberal economic reforms was taken at that time because the leadership of the PNDC came to appreciate the reality. Rawlings was a big factor. He was pragmatic and convinced that the Left-wing members of his government had no credible remedy for the economic woes. Rawlings invested his political capital in the reform process. He agreed to implement SAP simply because it was in his best interest to do so, and because at that time there was no endogenous remedy and he wanted to turn around the economy in the shortest possible time in order to sustain his political career. He was engrossed with showing results, and disinterested in being tied to an ideological argument.

Rawlings became impatient to fix the economic malaise after he realised that the Leftists were not yielding to pragmatic reasoning (Bawumia, 1998). He argued that higher productivity was the only way for workers to get pay rises, a posture that was anathema to his previous stance, and it resonated with the IMF/WB ideology. While this posture surprised some of his supporters, Rawlings was not worried about being branded a betrayer of the people's trust. He was very receptive to pragmatism and less to ideology, hence he reposed considerable confidence in his Finance Minister.

Rawlings knew that, by joining the pragmatists he was side-lining the neo-Marxists, which could have serious political consequences, but he was ready to face up to his fears (Shillington, 1992). It therefore came as no surprise to him when elements of the neo-Marxists attempted to overthrow him in a series of unsuccessful coups in October and November 1982, and June 1983. The coups forced Rawlings to "cleanse" the institutional governing structures, making them weaker against his authority. The regime played the World Bank and IMF against the Ghanaian population when it needed to insulate itself from difficult policies. For instance, the regime used conditionality as a tool for gaining leverage in negotiations with local groups, including workers. It was easy to blame the World Bank for positions that the regime wished to take, since it knew that the Bank would not deny them publicly (Tsikata, 1999, 2001).

Being the leader of the PNDC, Rawlings was first among equals (*primus inter pares*). He reorganised the PNDC in a manner that gave him total control and influence over the negotiation and policy-making process. There is no doubt that he was the kingpin in the whole process. Hutchful observes "the PNDC meetings were not held to carefully deliberate over policies, but rather to ratify Rawlings' decisions. His perspectives influenced the weight attached to specific issues by the economic team" (Hutchful, 2002:146). Aware of his influence, "the dominant view among the IMF and World Bank staffs was that all that was needed was Rawlings' personal commitment to ensure that a policy would be carried" (ibid.). He relied on his charisma, popularity among the citizens and also the fear that he created in people. In the absence of a functioning state bureaucracy, he virtually controlled the individuals in the management team. He made key policy decisions after privately consulting some of his closest advisers. Rawlings used a combination of intimidation and cunning to get all groups (for and against) the reforms to accept to his position.

In addition, Rawlings was able to convince the populace that the structural reforms were short-term to medium-term measures to promote efficiency in the public sector. His public speeches increasingly emphasised Ghana's need to promote efficiency and productivity in order to reduce dependency on foreign support. Another reason underlying the regime's ability to survive the ERP and labour unrest was simply fear of the government. Rawlings used support of the military to shape up any opponents, even on policy matters that he had little intellectual insights into (Aryeetey and Cox, 1995).

While foreign aid was changing economic policies, the PNDC leadership also implemented its own programmes aimed at sanitising moral behaviour. This involved an anti-corruption drive that included vetting of people's socio-economic lifestyles that might be at variance from such people's income levels, indicating that those people might have questions to answer. The regime also established extra-judicial bodies, such as Public Tribunals, Citizens Vetting Committees and the National Investigations Committee to investigate and try people perceived to have lived beyond their means. Direct state involvement in economic activities that provided opportunities for government officers and their associates to indulge in corruption was banned during the reform. The Rawlings regime made state patronage and other forms of *kalabule*[3] its target. Clearly, all the rent-seekers and others who had benefited from the system were a ready-made anti-PNDC group. According to Gyimah-Boadi and Jeffries, there was a general consensus among Ghanaians afterwards that corruption among policymakers and senior government officials had been reduced considerably. There was also a perception among Ghanaians that the government under the leadership of Jerry Rawlings was not corrupt. Gyimah-Boadi and Jeffries found that during that period one could hardly point to any allegations that government officials either demanded or took bribes for awarding government contracts (Gyimah-Boadi and Jeffries, 2000).

Generally, during the period of reforms, the leadership and Ghanaian institutions were predisposed to change. They were ready to accept that reform was a consequence of domestic mismanagement of the Ghanaian economy. That explains why, despite some hardships resulting from the policies, Ghana did not descend into chaos. There were only isolated cases of minor demonstrations. According to Tsikata, "the reasons for the success of the early adjustment credits seem to be the high commitment on all sides and the administratively simple steps required in the reforms" (1999:5).

5.6 Foreign aid, Economic Recovery and a New Policy Direction

5.6.1 Effect of foreign aid on macro-economic stability and recovery (Y3)

From 1983 to 1986, an annual average of US$ 218m of foreign aid was injected into Ghana's economy annually. This increased to an annual average of US$ 625m from 1987 to 1990. This foreign capital propped up the Ghanaian economy. The contribution of aid as a percentage of GDP rose from 4% in 1983-86 to 9% by the end of 1992. Aid was also a massive contributor to Ghana's imports and current account (see Table 5.3).

Table 5.3
Aid Disbursement in Ghana since the beginning of ERP

Annual Contribution	1983-86	1987-90
Total disbursed aid in US$ millions	218	625
Aid as % of GDP	4	9
Aid as % of imports	30	39
Aid as % of current account	113	184

World Bank Database, 2014

With massive injection of foreign aid, Ghana's economy recovered from its negative growth rate of about 5% in 1983 to a hefty positive rate of 8.6% in 1984. This positive growth continued throughout the period, though it dipped in 1990 and 1992. The positive macro-economic growth throughout the period compared well with the abysmal GDP performance in SSA (see Table 5.4). Ghana's GDP per capita rose from US$ 341 at the beginning of the reforms to US$ 415 in 1992.

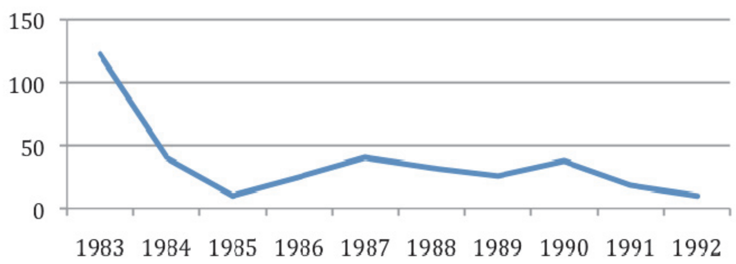
Table 5.4
Ghana's Macro-economic indicators compared with SSA, 1983-92

Year	GDP PC (current US$)	Annual GDP growth	SSA GDP Growth (%)
1983	341	-4.6	-1.46
1984	358	8.6	2.13
1985	354	5.1	2.19
1986	437	5.2	-0.42
1987	376	4.8	0.06
1988	375	5.6	4.41
1989	369	5.1	3.27
1990	403	3.3	2.41
1991	439	5.3	0.03
1992	415	3.9	-1.41

Source: World Bank, 2014.

The ERP improved Ghana's balance of payments (BOP) position through increased export earnings, which had been among its key targets. From a US$ 30.6m deficit in 1980, the BoP attained a surplus of US$ 1.4bn in 1990. Contribution of export earnings to GDP went up by about 50-60%, accounting for nearly 20% of government revenue and 7% of GNP (Jacobeit, 1991: 222). By 1985, inflation had fallen from 122.8% in 1983 to 10.3%, and it dropped further to its lowest level of 10% in 1992 (See Figure 5.4).

Figure 5.4
Inflation pattern, 1983-92 (%)



Source: World Bank Database, 2014.

Ghana's economic recovery and structural adjustment worked to a very large extent in terms of turning macro-economic indicators around. Annual GDP growth, inflation, balance of payments, per capita income, all began to see appreciable and continuous growth over a decade.

In Ghana's case, the ERP/SAP worked because we appreciated the need for reforms. We wanted to do the reforms ourselves. But in many African countries, the reforms didn't work because donors forced governments to pursue them against their will. So as soon as IMF and World Bank officials returned to Washington, government officials would backtrack. So, by the end of 1990s, donors and gradually the Bank and the Fund began to move away slowly from old-style conditionality and appreciated that reforms don't work if they are forced from outside (Interview with the Former Minister of Finance, 11 July 2013).

Some indicators of standard of living also improved slightly. Life expectancy increased from 52 years in 1980 to 57years by 1992, and poverty fell from 56.1% in 1986 to 51% in 1990 (Ghana Statistical Service, 1992)

5.6.2 Effect of foreign aid on economic policy change (B1+B3+C2)

In terms of economic policy, by the end of the phase Ghana had a new direction. By 1986, the country was classified in the Sachs-Warner Index of Openness as an "open" economy, in contrast to the previous years when it was classified as "closed". Market liberalisation opened Ghana's economy to the international market, but it was implemented under an authoritarian regime. The PNDC leadership's agreement to implement conditionality attached to foreign aid facilitated the switch in economic policies. Foreign aid catalysed the regime's resolve to be fiscally disciplined.

Public sector reforms and implementation of new managerialism that was introduced by the neo-liberal policy regime compelled the government to sever the Internal Revenue Service (IRS) and Customs from the civil service. This approach enabled rationalisation of the incentives system of IRS and Customs staff, who received higher salaries and bonuses that were not accorded to other civil service employees. They were also given the power to recruit professionals without having to go through the civil service structure. Government revenue as a percentage of GDP increased from 5% in 1981 to 13.6% in 1986. With increased revenue, government expenditure increased to 13% of GDP in 1986.

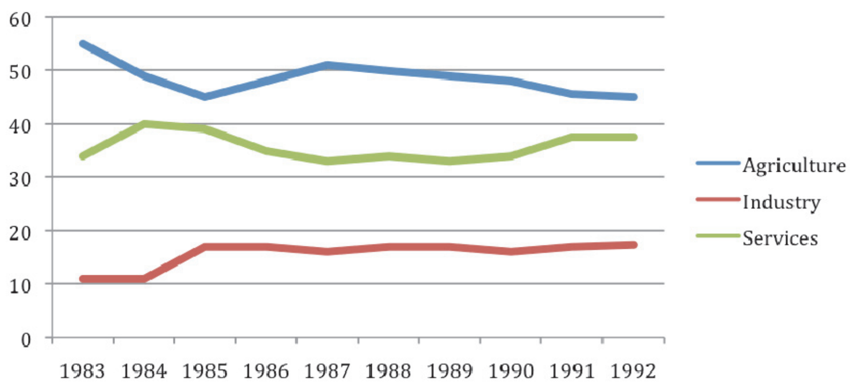
Neo-liberalisation became the mantra of economic policy. The implementation of the neoliberal economic policies in the 1980s built a strong mindset among many policymakers and ordinary Ghanaians that everything public sector was "not good". It was, therefore, not surprising that during the transition to multi-party democracy all the political parties were preaching neo-liberalism and touting their private sector credentials. The neo-liberal economic manifestos of the PNDC/NDC became very similar to that of the leading opposition party, the NPP, expressing pride over the open market-based economy. The three other presidential candidates did not have any disagreement with the fact that state-led development had failed. All the candidates touted their private sector credentials; for example, one was a wealthy entrepreneur, another an economic adviser and Central Bank governor during the second Republic. The third candidate openly acknowledged that Nkrumahism was bound to collapse (Nugent, 1996). The Structural Adjustment Programme that the PNDC implemented was never an issue in the presidential election campaign, reflecting how Ghanaian political parties had converged in policy direction.

Internationally during the period, Reaganomics and Thatchernomics policy prescription became fashionable to the extent that the most unlikely countries, such as the Soviet Union, began to adopt similar policies. By the end of the period, there was widespread belief in the government and the Ghanaian populace accepted neo-liberalism as the solution to economic problems, though many African academics derided it (Olokoshi Adebajo, 1993; 1998). As some experts pointed out during the interviews, at the time the neo-liberal economic policies were accepted by Ghana, there was evidence from countries such as Taiwan, South Korea, Singapore, Brazil, and Mexico that international trade and neo-liberal policies were not that bad after all. These countries' meteoric rise in the global economy was achieved through open-market economies and not autarchy, so there was no point in being negative about neo-liberalism. Even some donor countries, such as France and the Nordic states that had in the past supported developmental socialist state models reduced the role of the state in their economies. Foreign aid provided by bilateral donors reinforced this policy change. There was a concern that the return to multi-party democracy would reverse the economic policy direction, but that did not happen as Ghanaians by that time had become accustomed to neo-liberalism.

5.6.3 Effect of foreign aid on economic structural transformation (B1–B4 effect on Y9)

By concentrating investment on traditional export sectors (cocoa beans and gold) and not on expansion or diversification, the reforms seem to have had less impact on promoting an "ideal" structural transformation in the mid 1980s. The share of industry in GDP maintained an annual average of 16% throughout the period, rising from 11% in 1983 to 17% in 1985. The service sector, which had maintained a constant contribution of an average of 23% to the GDP throughout the 1970s, started to rise, attaining a constant average of 36% in the reform period (see Figure 5.5).

Figure 5.5
Contribution of agriculture, industry and services to GDP, 1983-92 (%)



Source: World Bank Database, 2014.

The ERP succeeded in reversing the downward trend in production and exports of cocoa beans, gold, and timber, but little support was provided to process the primary products. The multilateral agencies were concerned with increasing production of the existing primary products for export so as to obtain much-needed foreign exchange, to turn the balance of payments deficit into a surplus, and to pay off accumulated debt. In other words, foreign aid was not geared towards fixing structural problems of the economy. No investment was made towards diversifying the Ghanaian economy, which was the concern expressed by some of the Left-wing members of the regime.

In the early 1990s, the world market prices for cocoa dropped, which meant that increased cocoa production was not bringing in the much-needed foreign exchange that Ghana needed to repay foreign debt and further expand infrastructure. The price drop once again showed Ghana's vulnerability in relying substantially on cocoa for development. In 1991, the government's economic management and negotiating team wanted the IMF and World Bank to shift their attention from short-term economic stabilisation measures to long-term structural issues relating to production. The PNDC negotiated a project loan of US$ 16.5m from the World Bank to work on non-traditional agricultural exports, with the hope of diversifying the economy. The loan supported four agro-industries; coffee, rubber, oil palm, and horticulture, but the support was extremely tiny in comparison with the scale that was needed to develop the sectors (Anyemedu, 1991; Whitfield, 2011b:15). Even compared with the project loan of US$ 128m that had been given to rehabilitate cocoa in 1988, the amount given for agro-industries was too inadequate to make any impact. To diversify the economy to non-traditional exports like flowers, tropical fruits and fresh vegetables required reliable infrastructure and communication networks, but these were in short supply in Ghana. Thus, there was no short-run alternative to cocoa and, furthermore, no appetite among the multilateral donor agencies to invest in long-term economic development.

According to the 1984 national census, Ghana's population was about 12m people, with a labour force of 5.58m. Of these, 240,000 people were employed in public enterprises and nearly 60,000 were employed in the Cocoa Board and its subsidiaries alone (Aryeetey and Baah-Boateng, 2007; Adda n.d.: 2). When structural transformation is considered in terms of employment, during the early years of the reform, the labour market was greatly influenced by the IMF/WB-inspired government retrenchment and redeployment policy. The public sector was downsized and large numbers of government workers lost their jobs. For example, the size of the Cocoa Board's payroll, which previous regimes had used to promote patronage jobs, was reduced by 50%. The civil service lost

36,000 jobs. In general, public sector employment began to fall, reaching, and 186,300 in 1991 under the liberal regime. So, while the ERP and SAP did not change the structure of the economy in terms of sectoral composition of GDP, it reduced employment in the public sector. Given that the manufacturing sector did not expand to absorb the labour force that had been made redundant in the public sector, the majority of the newly jobless ended up in the informal sector, mainly as petty traders (Leith, 1996; Leith and Soderling, 2000; Dzorgbo, 2001; Aryeetey and Baah-Boateng, 2007).

In terms of production function (inputs of capital and labour) as a function of GDP, Leith and Soderling (2000) examined the aggregate growth during the period to explain why Ghana's modest GDP recovery could not raise income levels to those in the 1970s despite increasing foreign aid. Their study concluded that SAP and ERP focused on easy candidates for reforms (mainly supply and demand for money) but the difficult ones like factor productivity and investment to sustain future growth were more difficult to achieve (Leith and Soderling, 2000:72-75). The regime although authoritarian and having the power to undertake reforms at will, failed to reform some of the key areas of the economy that needed reform. Those included the cocoa sector, state-owned enterprises, land ownership, and tax collection. The inability of the PNDC to complete these reforms before returning the country to multi-party democracy in 1992 left the Ghanaian economy vulnerable to electoral shenanigans. Fiscal discipline started to wane with the introduction of multi-party competitive elections. The government budget declined from a surplus of 1.6% of GDP in 1991 to a deficit of over 5% of GDP in 1992. This was a result of increased government expenditure during the election period by nearly 4% of GDP and a reduction of government revenue mobilisation.

5.6.4 Foreign aid and increased debt burden (B1 Effect on Y8)

Despite rescuing Ghana's economy from death, the massive financial support provided by multilateral agencies exacerbated Ghana's external debt and aid dependency. The external debt rose sharply after the introduction of SAPs, jumping from US$ 1bn in 1977 to US$ 3.3bn in 1987 and reaching US$ 4.5bn in 1992, while the debt service to export ratio of 30.4% in 1983 jumped to 56.6% in 1988 before falling to 28% in 1992 (see Table 5.5 and also Konadu-Agyemang and Takyi, 2001:29). In 1987, Ghana's debt to IMF alone was 31% of the total external debt. Also, because there was little structural change and Ghana continued to export primary commodities, the debt burden became one of the challenges of the aid-induced economic growth.

Table 5.5
Debt statistics, 1983-92

Description	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Total debt stocks (US$ millions)	1666	1963	2257	2767	3313	3128	3397	3873	4371	4499
Arrears, total (US$ millions)	18	30	44	54	76	78	112	133	113	122
Concessional/ Total debt (%)	49.5	41.8	41.1	44.5	49.0	52.0	53.8	54.5	54.8	57.2
Multilateral/ Total debt (%)	22.5	20.2	23.3	28.3	34.4	42.1	43.5	47.5	47.6	48.9
Debt service/ Exports (%)	30.4	21.6	23.6	28.3	45.8	56.6	50.4	37.0	27.1	28.4
Total debt/ Exports (%)	348.6	318.6	333.6	343.6	365.3	324.2	377.4	388.8	392.3	400.8
Total debt/ GNP (%)	41.4	45.0	51.0	49.4	67.1	61.8	66.2	67.1	67.5	71.3

Source: Leith and Soderling, 2000:59.

5.7 Influence of Foreign Aid on Political Stability (B1-B4 effect on Y7)

During phase II, with the tacit approval of donors, an authoritarian regime ruled Ghana with an iron fist from 1983 to 1988. There was a culture of silence in the country, as the regime regularly reminded Ghanaians about the execution of the three former heads of state and other senior public officers to evoke fear and awareness that it would not tolerate any opposition. Political parties were banned, as Rawlings did not want any political opposition to the regime's quest to implement the most radical economic reforms.

In July 1987, with his popularity falling, Flt Lt Rawlings established the National Commission on Democracy to develop the modalities for organising participatory governance. The Commission recommended decentralisation of government functions from the centre to the grassroots. With pockets of opposition groups beginning to emerge from former political parties, the regime organised local-level elections in 1988. No political parties were allowed to participate in the election. Traditional chiefs were also barred from participation. Individuals were to contest on the basis of personal merit and not on the basis of any political party. According to Awortwi (2011) although the regime wanted to insulate chiefs from the 'dirty' politics or chicanery associated with politics, the real reason for banning chiefs from standing in local government elections was actually to prevent local coalitions from becoming strong enough to negotiate power sharing with the regime.

In 1989-90 donors, including the US government and the World Bank began to emphasise good governance as a condition for receiving aid. As one of the cardinal features of good governance, democratic reform was to become a conditionality for economic aid, although the Bank did not explicitly state that in its operational policy guidelines. The Bank issued an adjustment report on Africa that signalled the onset of political conditionality (World Bank, 1989). The report provided a litany of governance challenges in Africa and what needed to be done. That was a shift in emphasis from strengthening purely economic institutions to also acting to remove political barriers to economic development. Subsequent World Bank reports emphasised "good governance" indicators, but without specifically mentioning democracy. At the country level, programme managers began to think about operationalisation of the additional approach. In a subsequent country strategy report, the World Bank advocated broader political participation in Ghana.

In December 1989, Rawlings instructed the National Commission on Democracy (NCD) to investigate what type of democracy would be appropriate for the country. Donors facilitated the work of the NCD through financial support for organising nationwide consultations. In August 1990, a pro-democracy organisation the Movement for Freedom and Justice (MFJ), was formed to begin to challenge the PNDC's unbridled political domination. The MFJ included the National Union of Ghana Students NUGS, the TUC, the Kwame Nkrumah Revolutionary Guard (KNRG), the Ghana Bar Association (GBA), the Christian Council of Ghana and the Catholic Bishops' Conference (CBC). These organisations were outside the PNDC coalition. There was also a new wave of democracy blowing around the continent in the early 1990s that inspired opposition groups in Ghana to organise to agitate for political reforms.

The MFJ proposed that the PNDC establish a constituent assembly where all political parties would submit proposals on the type of Constitution needed to guide the country's return to democracy. However, the PNDC regime harassed the MFJ by arresting four of its leading members a day before the movement's inauguration. The BBC, USIS, British High Commission and German embassy helped secure their release (Handley, 2008). The transition to multi-party democracy saw pro-democracy activists and remnants of opposition political parties getting their voices back. According to Handley (2008:16), "the MFJ received very little international funding, if any at all, although they did set up committees among their supporters in London and in the USA."

In terms of bilateral donors, the UK and US governments exerted political pressure on the regime to transition to democracy. It was reported that in 1991 Baroness Lynda Chalker, Director of the Overseas Development Administration, visited Ghana a couple of times and on each visit talked to Rawlings about democracy (Maame Gyekye-Jandoh, 2006). The Netherlands and Japan also became important trading partners and overtly encouraged the regime to consider multi-party democracy. China, on the other hand, was not a fan of Western type of democracy and did not promote it. Denmark focused its bilateral assistance to Ghana on decentralisation and local democracy (Crawford, 2003).

The debate on the type of democracy that Ghanaians wanted dominated discussions in the country through 1991. In March, the NCD submitted its consultation report, 'True Democracy", to the PNDC. The regime made it clear that it did not favour multi-party democracy but accepted the NCD report and said it would initiate the process to return the country to multi-party politics. On New Year's Day 1991, with political pressure continuing to grow, Rawlings announced a timetable to return Ghana to multi-party democracy. He subsequently granted amnesty to all political exiles so that they could return home. He made the decision once he was confident of his popularity in the country.

It must also be pointed out that Rawlings was fearful of being harassed in the post-military era, so he inserted immunity from prosecution for himself and those of his PNDC colleagues who had staged the coup, in the Constitution that reintroduced democracy. The Constitution was approved in April 1992 through a national referendum organised with logistical support from the donors, and was followed by presidential and parliamentary elections in November and December respectively. The

Constitution separated the powers of government among three branches: The Executive, headed by the President; the Judiciary, headed by the Chief Justice of the Supreme Court; and the Legislature, headed by the Speaker of the national parliament. The Constitution introduced a two-term limit on presidential tenure, each of four years, and a 200-member unicameral legislature.

Foreign aid supported democratic reforms, but compared with the cost of economic reforms, the overall donor support to the transition or political reform was very little by international standards. During the election itself, donors provided financial support to the Electoral Commission. The EU, CIDA, DFID, DANIDA, USAID and IFES supported the Inter-party Advisory Committee (IPAC), attended IPAC meetings, and gave money to support voter education programmes as well as the work of Ghana's National Commission for Civic Education.

Much of the external financial support to Ghana's democratisation began after Rawlings accepted transition to democracy and immediately after the 1992 elections. Nevertheless, it must be stated that the PNDC got the message tacitly that continued donor support to its economic recovery programme, and particularly support from IMF/WB, would depend on progress on political reforms. The PNDC was vulnerable without IMF/WB financial support. The promise of neo-liberalism leading to an upsurge of private sector capital had not been realised, so the PNDC was relying on aid to promote public sector expenditure on infrastructure. So influential was aid that Rawlings could not afford any disagreement with the donors.

The PNDC regime was transformed into a political party called National Democratic Congress (NDC) to contest the election. Remnants of the Nkrumah and Busua regimes also formed separate political parties and ran in the election. Rawlings won the presidential election with 58.4% of the votes, but the opposition disputed the results and boycotted the subsequent parliamentary elections. Therefore, the first Legislative Assembly of 200 seats was virtually a single-party institution, with NDC having 189 seats and other members of the coalition 11 seats. Immediately after the elections, donors demonstrated their support for democratisation by pledging US$ 2.1bn to Ghana's development programmes (Boafo-Arthur, 1999). There was no doubt that the donors appreciated the regime's transition to democracy.

Some members of the PNDC said during interviews that there was implicit indication that the World Bank made democratisation a condition for sustained financial support. However, the key evidence that the World Bank perhaps put pressure on the regime to democratise comes from Jerry Rawlings himself, during an interview with Handley in 2008.

> Rawlings directly attributed (or blamed, in his view) the move to multiparty democracy on the need to secure the next tranche of funding from the Bank, and threats from donors (the US in particular) that this would not be forthcoming if suitable political progress was not made (Handley, 2008:42).

Since the US government indirectly influences the World Bank's granting decisions, and without foreign aid Rawlings' government could not survive, in effect Rawlings agreed to transition to multi-party democracy even though he did not believe in it. As Handley alludes, "if a country does not have good relations with the USA, it does not get financial support from the IMF and the World Bank" (Handley, 2008:43). Given that bilateral donors were following the Bretton Woods institutions' policy directions, the Bank gained unusual policy leverage over the country's economic and political programmes.

Rawlings later confirmed the suspicion that he was not enthused about returning the country to multi-party democracy:

> I have to state here that during the period when the 1992 Constitution was being formulated, I voiced some misgivings about the party political system. I was accused of not believing in democracy. I believe passionately in meaningful participatory democracy, but time has vindicated my misgivings as party politics has grown increasingly antagonistic, wasteful of money and resources, and causes governments to plan towards the next election rather than plan for the nation's long-term development (Former President Rawlings' response to questionnaire for this study, 2 October 2015).

According to Haynes (1999) the Bretton Woods institutions and the bilateral donors, mostly Britain and the USA, clearly indicated that aid and loan flows could be suspended unless there was a shift towards democracy. The general belief in Ghana was that both the World Bank and domestic pro-democracy groups compelled the PNDC to loosen its stranglehold on the political space.

In the run-up to elections, despite his dislike for the old political elites, Rawlings formed alliances with them so that he could win the elections. As a result, anti-democratic elements that were embedded in Ghana's political structures and institutions, such as patronage, clientelism and corruption, resurfaced (Haynes, 1999). Foreign aid facilitated the Rawlings regime to extend infrastructure services such as roads and electricity to rural areas; it was a subtle form of state patronage to bolster support for his political party, -the NDC. The regime raised the salaries of civil servants by 80% (Reno, 1997:142; Tsikata, 1999; Aryeetey and Baah-Boateng, 2007:10). Thus, foreign aid further strengthened Rawlings' hold on power by enabling him to win the presidential election by a sizeable margin of 58.4%.

5.8 Conclusion: Aid Was a Direct Catalyst to Economic Transformation and Indirect Catalyst to Political Transformation

This chapter has discussed the interaction between foreign aid and Ghana's endogenous political, economic and bureaucratic institutions; the political settlement that was needed to enable the regime to implement radical economic reforms; and the quantity and quality of aid provided. Using process tracing, it has tried to connect the catalysis of aid-endogenous relationships and outcomes in terms of economic and political transformation. This final section reflects on the attributes of catalysis to answer the basic question: was foreign aid a catalyst to Ghana's economic and political transformation during phase II?

As a catalyst, aid facilitates what endogenous actors want to do to transform policies and structures that do not promote development. The discussions in this chapter clearly show that foreign aid was an important factor in the decision by the PNDC to undertake policy reform as the government anticipated that it would help solve its fiscal challenges. The Ghanaian authorities were ready to embark on reforms but needed financial support. The leadership role that Rawlings and a few committed officials played showed that endogenous elements were ready to react positively to donor demands. Foreign aid was an important catalyst in sustaining the difficult reforms as it counterbalanced economic shocks, generated demonstration effects and reduced political pressure. The massive inflows of foreign aid catalysed the growth of the Ghanaian economy and further enabled policy changes to be made.

However, the instances of policy slippages in the early 1990s suggest that aid alone could not have sustained the reforms without the commitment and support of endogenous actors, including leadership and the role that cocoa and gold played. The ERP and the SAP were implemented in conditions marked by extremely weak state institutions inherited from previous regimes. Yet, the ERP was judged to have been successfully implemented, introducing a wide range of economic policies. The reason for this success was the high calibre group (though small in numbers) of policymakers who were committed to changing policies.

A major endogenous factor that made aid a catalyst to resuscitating Ghana's economy was the enthusiastic involvement of the general populace. From the outset, the PNDC encouraged the formation of local committees in neighbourhoods and workplaces to become involved in aid-induced development projects. By 1988, a law was passed and elections held to establish district assemblies, unleashing local initiative in planning and monitoring development relevant to their needs. The people became participants in national development rather than passive recipients of government largesse. As Rawlings indicated in his response to the study questionnaire, a key endogenous fact that enabled the country to use aid effectively was the absence of party politics, and therefore a sense of unity of purpose.

There is no doubt that the World Bank provided a catalytic role to Ghana, not only in terms of directly providing financial resources to the cash-strapped economy but also through its prompting of bilateral donors to return to Ghana as the country began to implement economic reforms that provided some guarantee to donors that their financial support would be put to good use. In the early years of the reforms, many bilateral donors had a wait-and-see attitude, but subsequently they followed the lead of the IMF and World Bank. When the Bretton Woods institutions decided that Ghana had complied with its conditionality requirements, bilateral donors followed and offered assistance. The financial aid to Ghana, therefore, not only had consequences for itself, but it was also directly linked to larger aid flows to Ghana. Nevertheless, the involvement of donors, especially the World Bank and IMF, delayed any discussion on Ghana's transition to a developmental state. Though the state was seen as inefficient in many of the things it was doing, the policy drive that the IMF and World Bank supported in Ghana was aimed at replacing the state with the market. The Bank always touted the supremacy of the private sector instead of ensuring that the state became better at doing some of the things that were part of the role of the state. With the connivance of endogenous leadership, the role of the state and its capacity were dismantled.

A catalyst requires minimum activation energy among participating substances to enable faster reaction, and that is how aid performed during the second half of the reform period. During the first half, Ghana was ruled by the military. Donor support was hugely in favour of economic recovery and far from directly supporting democracy. The massive injection of aid money sustained the military leadership's capacity to implement the radical economic policies. At the initial stages of the reforms, neither the Bretton Woods institutions nor the bilateral donors considered it to be in their interest to put pressure on a government that was in the forefront of implementing harsh economic policies, so the issue of political reforms was not raised. It gave breathing space to Rawlings, enabling him to suppress dissenting voices within his own political regime as well as outside it so that he could implement the radical policies.

On the basis of the interviews with experts, review of relevant literature and data analysis, we can reasonably conclude that Ghana's economy would have headed for total collapse had the PNDC not opted for economic reforms. The party could not have resuscitated Ghana's economy because at that time few endogenous financial resources were available. A number of analysts provided scenarios of what could have happened to Ghana had the government hesitated to go to the IMF and World Bank. They pointed to Ghana's neighbouring West African countries, like Gambia, Sierra Leone, Senegal, and Niger, which procrastinated and adopted IMF and World Bank prescriptions a couple of years after Ghana did. Their economies deteriorated so badly that even when they adopted the IMF and World Bank prescriptions they eventually experienced political instability. In all likelihood, had Rawlings and the PNDC not agreed to implement the IMF and World Bank structural adjustment policies, Ghana would have been classified as a failed state by now. It would probably have been caught in a vicious circle of dismal economic performance and political instability, and possibly even internal conflicts.

However, were the IMF and World Bank roles good enough for catalysis? To answer this, it is useful to look at South Korea's experience, as described in the comparative analysis of Ghana and Korea by Kim (2013). The South Korean government was not burdened with debt arising from US and Japanese aid during the 1960s, because much of that aid was in the form of grants. In contrast, in Ghana a substantial part of the aid for economic and structural reform was not in the form of grants but had to be repaid with interest, resulting in an unsustainable debt trap for the government and Ghanaian taxpayers. The support provided by the multilaterals could have been more catalytic had grant elements been higher than loans.

By the late 1960s, with the increasing availability of other external resources, such as commercial loans, financial institution loans, bank loans, foreign and private bonds, and foreign direct investment, foreign aid was no longer central as an investment source in Korea (Kim, 2013). This was the surest indication that investors considered the country to be ready for business. In addition, the Korea's export drive enabled the country to repay loans. In contrast, in Ghana, while the IMF and World Bank supported the introduction of neo-liberal policies, there was little conviction among international investors that the country was ready for business. This shows that the success of foreign aid in opening up a recipient country's economy depends on that economy's potential for foreign direct investment. FDI did not emerge as a by-product of economic reforms and thus did not play a catalytic role in Ghana. Apparently, there was a lack of trust that Rawlings was serious about supporting private sector development.

Ghana going to the IMF and World Bank was not enough. It enabled us to create the environment of confidence to attract private capital, technical know-how and market because you need all three to transform your economy and develop. Believe me, in terms of trust and confidence. The West didn't have enough confidence in Rawlings and his administration. They were doing what I call maintenance support, but they didn't really trust Rawlings. Even Ghanaians didn't trust him. Rawlings gave the impression of being more towards socialism from the beginning, so when he gave the impression of having converted, people didn't believe him when he had impoverished Apenteng, Appiah Menkah and B.A Mensah, the three most prominent private sector industrialists in our history (Interview with the former Finance Minister of Ghana during the NPP administration, 15 August 2015).

There was some hesitation in the privatisation programme, and many critics argue that even when Rawlings was talking about private sector participation, he remained suspicious of the private sector. Globally, as governments became less trusted to allocate and distribute resources, and market solutions were celebrated, private sector capital flows and foreign investment rose. Unfortunately, most of the private sector capital went to Asia and not Africa, so Ghana did not benefit from the global capital flow even as it reformed its economic policies. Hopkins (2000) argues that aspirations about aid launching rapid growth, as in South Korea, Indonesia and Taiwan, were not realised in Ghana. So, by the end of the phase, there was no alternative but to continue with the IMF and World Bank programme.

The second attribute of a catalyst is that it provides a convenient surface for endogenous elements to coalesce and react. This was also manifested during the transition to democracy. When the IMF and World Bank began to pressure the PNDC regime to return the country to multi-party democracy, they found endogenous pro-democracy groups that were also pressuring the PNDC for political space. The endogenous pressure groups that pushed for plurality of the political landscape included NUGS, TUC and remnants of former political parties. Pro-democracy forces in Ghana and international donors catalysed the political landscape, shaping the contours and pace of Ghana's transition to democracy. Their actions reinforced each other in important ways. The multilateral financial institutions and bilateral donors were effective in using aid to pressure the Rawlings regime to consider liberalisation of the political space and a return to constitutionalism. It was rather the leverage associated with donor financial support than the aid itself that was decisive in swaying the PNDC to embark on political reform. Without the donors' use of their financial leverage, the Ghanaian pro-democracy groups would perhaps have had to struggle much more to persuade Rawlings to consider a return to multi-party democracy.

Notes

[1] He completed his studies and co-founded Third World Network-Africa (TWN-Africa).

[2] "Bonuses" enable a customer who sells USD to get more Ghanaian cedis than at the current exchange rate, while "surcharges" mean a customer has to pay extra for buying foreign currency.

[3] A word that was frequently used to describe illegal trading in controlled goods at higher prices than those set by the government.

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6 Foreign Aid in the Consolidation of Democratic Governance and Economic Takeoff (1993-2013)

6.1 Introduction

Chapter six has a similar structure to that of the previous two chapters. It discusses how foreign aid and endogenous drivers interacted to consolidate the democratic transition that Ghana had embarked on at the end of phase II, and the prospects for economic takeoff after nine years of structural adjustment. The analysis period is 1993-2013, but given that the study ended in 2016, the thesis occasionally uses data and material references from subsequent years (2014-16). The chapter is divided into seven sections. After this introduction, section 6.2 presents the process tracing analysis that links the three causal covariables to the economic and political transformation and development outcome. The subsequent sections provide in-depth analysis of the causal-effect analyses. Section 6.3 identifies the critical junctures or historical events before 1993 that contributed in shaping the subsequent flow of aid and mode of interactions between aid and endogenous drivers of development. Section 6.4 analyses the interactions between aid and economic and social policies during the period. Section 6.5 examines both quantitative and qualitative flows of foreign aid and further assesses the reliability of aid by comparing what donors committed to the country and how much was actually disbursed. Section 6.6 discusses the interaction between foreign aid and the types of political settlements that were developed and sustained in the country. The section also discusses the extent to which foreign aid and domestic funds were used to support productive sectors. Section 6.7 recaps the economic and political transformation that took place during phase III and tries to answer the question of whether aid had anything to do with the degree of the country's transformation and development. Section 6.8 draws conclusions from the analysis in the chapter.

6.2 Tracing a New Dawn of Political Transformation and Economic Takeoff with Foreign Aid

Ghana began phase III as a newly democratic state after many years of authoritarian rule. The country's development partners pledged substantial aid to help consolidate the democratic regime. From 1993 to 2013, Ghana became one of the most touted democracies in Africa. The structure of Ghana's economy experienced marginal change but was not transformed. By 2013, Ghana had become a lower middle-income country and no longer had the characteristics of low-income countries. Access to electricity had increased from 30.6% in 1990 to 64.1% in 2012 and water from 65% to 88% in the same period (World Bank, 2016). Poverty was reduced from 51.7% in 1991/92, to 24.2% in 2013 though there are spatial inequalities. Ghana thus became the first country in SSA to achieve the MDG1 indicator of halving poverty; it achieved this two years ahead of the MDG target year 2015. Despite these achievements, in 2014, 24.2% of the population (about 6.4 million people) lived on less than the international poverty level of US$ 2 a day, of whom about 8.4% lived on less than US$ 1.10 a day, the level of extreme poverty (Ghana Statistical Service, 2014). As shown in Table 6.1, poverty has consistently remained high in the three northern regions—Northern, Upper West and Upper East.

After years of support with aid projects, the three northern regions are still the poorest in Ghana. This supports the argument of this study that aid can only be a facilitator and not a prime mover of development. The three regions are arid, isolated and not linked to the south of the country, where conditions are better. These are among the factors that have contributed to the impoverishment of the north.

On the basis of in-depth interviews with experts and the literature review, this study identified the 24 causal variables below, which interacted and led to the kind of political and economic transformation and development that occurred in Ghana by 2013. The linkages between these variables are presented in Figure 6.1.

Table 6.1
Regional disparities in depth and severity of poverty, 2006 and 2013

Regions	Depth		Severity		Difference (%points)	
	2006	2013	2006	2013	Depth	Severity
Western	5.4	5.7	1.9	2.4	0.34	0.41
Central	5.6	5.6	1.8	2.5	0.05	0.65
Greater Accra	3.7	1.6	1.4	0.6	-2.07	-0.76
Volta	9.2	9.8	3.2	4.0	0.66	0.75
Eastern	4.2	5.8	1.6	2.4	1.59	0.82
Ashanti	6.4	3.5	2.4	1.3	-2.86	-1.18
Brong Ahafo	9.5	7.4	3.7	2.9	-2.13	-0.86
Northern	23.0	19.3	12.0	9.8	-3.71	-2.22
Upper East	35.3	17.2	20.4	9.0	-18.17	-11.42
Upper West	50.7	33.2	32.8	18.8	-17.54	-14.01

Source: Ghana Poverty and Inequality Report (6th GLSS), 2016.

A: Historical Antecedents

A1: End of Cold War, fall of the Berlin Wall, and collapse of the Soviet Union.
A2: Donors' appetite for multi-party democracy.
A3: Ghana's transition to multi-party democracy after 11years.

B: Aid

B1: Increase in the number of bilateral donors.
B2: Changes in quantity and quality of aid flows as well as rate of disbursement.
B3: ODA focused on strengthening democratic institutions and addressing ecological policies.
B4: Availability of alternative funding mechanisms (Chinese assistance and commercial loans).
B5: Debt relief.

C: Endogenous Factors

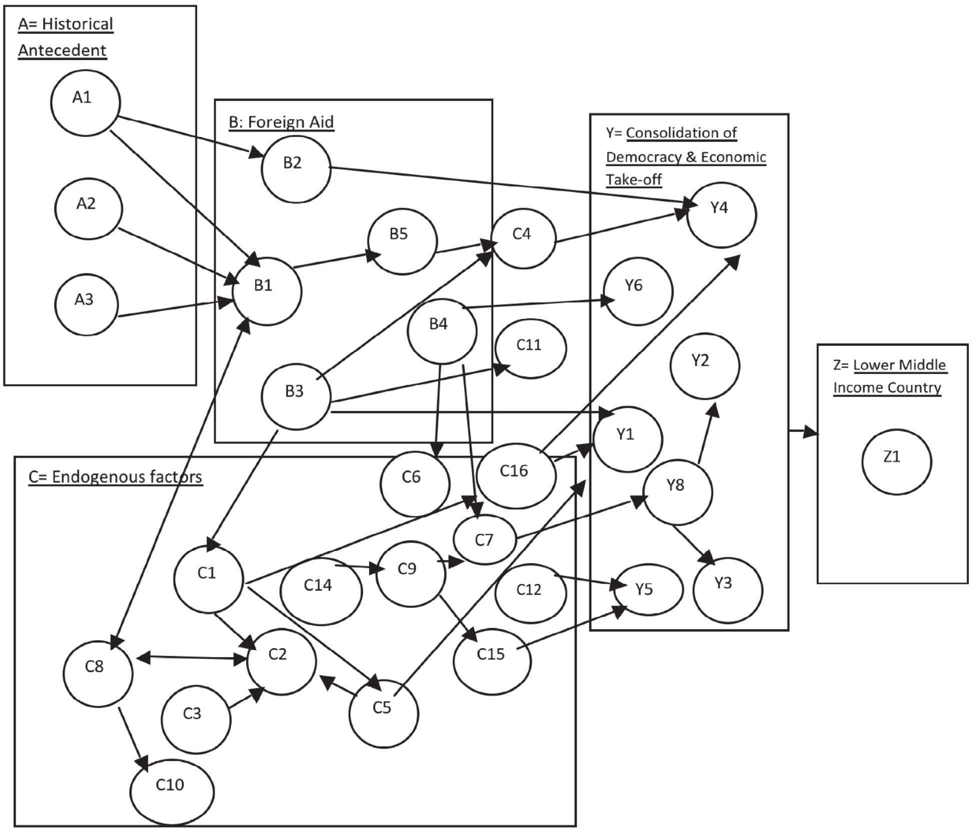
C1: Pursuit of unbridled neo-liberal economic policies.
C2: Home-grown economic takeoff policies.
C3: Establishment of National Development Planning Commission.
C4: Implementation of international social development programmes (MDGs, GPRSPs).
C5: Weak support to productive sector (agriculture and industry).

C6: Investment in infrastructure as state priority, as part of the development of enabling environment for private sector development.
C7: Fiscal indiscipline.
C8: Weak state bureaucracy unable to manage substantial donor inflows and provide clear policy direction.
C9: Competitive clientelistic political settlement as mode of governance.
C10: Poor coordination of donor projects.
C11: Strengthening of democratic institutions and civil society organisations.
C12: Commercial oil discovery and export.
C13: Pursuit of short-term projects.
C14 Duo-political parties.
C15: Lack of selfless political leadership.
C16: Government of Ghana and Development Partners Compact.

Y: Degree of Political and Economic Transformation
Y1: Failed industrial policy and golden age of business.
Y2: High and unsustainable debt.
Y3: Macro-economic instability.
Y4: Reduction in poverty but increasing inequality.
Y5: Expansion of the economy.
Y6: Weak and unconventional economic transformation.
Y7: Democratic consolidation and growth.
Y8: Unprecedented level of corruption.

Z: Standard of living: Lower middle income country.

Figure 6.1
Tracing Ghana's developmental trajectory from 1993 to 2013 (phase III)



6.3 Historical Antecedents that Influenced Aid and Endogenous Institutions

Three historical events that preceded the beginning of Phase III had effects on subsequent interactions between aid and endogenous factors. They were: (i) the end of the cold war, fall of the Berlin Wall, and collapse of the Soviet Union; (ii) Donors' appetite for multi-party democracy as a condition for support, even though not explicitly stated; and (iii) Ghana's transition to multi-party democracy after 12 years of military rule.

6.3.1 End of Cold War, fall of the Berlin Wall, and collapse of the Soviet Union (A1)

As the 1980s came to an end, much of the Eastern bloc that constituted the Soviet Union and the 'Iron Curtain' between the West and East started to unravel. The Berlin Wall came down in November 1989, and by 1990, leaders of Eastern Europe had been dethroned by popular uprisings. By 1993, many of the republics that constituted the Union of Soviet Socialist Republics had declared independence from the USSR. The collapse of the Soviet Union and the end of the Cold War had economic and political ramifications for Africa, eliminating one of the strategic determinants of the provision of foreign aid, especially by the USA and its allied OECD countries. As Hopkins points out:

Until 1990, cold war concerns provided a core motivation for aid. Development was a secondary concern; rentier elites were not obliged to account to donors for aid effectiveness in terms of economic or political improvements. Now that the cold war is over, foreign policy is more geared towards international public goods, including containing internal 'bads' (2000:425).

With this historical event, the international environment within which Ghana was operating changed. At the beginning of the period also came the recognition that aid for development was effective when channelled through multilateral agencies like the World Bank and UNDP. According to Lancaster, aid for development came to the fore and donors considered expansion of the proportion of aid money to multilateral agencies such as the World Bank and United Nations development agencies; aid through those agencies was then seen widely as having greater impact on economic and social progress in poor countries than aid through bilateral channels (Lancaster, 2008:42).

With the end of the Cold War and collapse of the state-controlled economy espoused by the Soviet Union, the only financial source left for international development was Western donors, their ideology and policy preferences. African governments' use of Cold War rivalries to negotiate aid was no longer viable. In addition, with the collapse of the Eastern bloc, Western Europe and bilateral donors were expected to turn their attention to the economic and political needs of Eastern Europe; hence, there was an expectation that aid to Africa would be reduced (Grant and Nijman, 1998).

6.3.2 Donors' appetite for multi-party democracy (A2)

In 1989, only five countries (Botswana, Senegal, Mauritius, The Gambia and Zimbabwe) had multi-party political systems in Africa. The rest were 11 military governments and 29 one-party states (Carbone, 2007:4). By 1991, the international context had changed and donors openly declared their preference for multi-party democracy in aid recipient countries. The US State Department announced that foreign aid to its partners in Africa would be dependent on progress towards democracy. That was a change from the previous decade, when donors had not explicitly voiced dislike for military regimes or made democracy a condition for financial support. There was an expectation that substantial foreign aid would follow with the transition to multi-party democracy, and that was strengthened when the Paris Club pledged US$ 2.1bn in financial support to Ghana immediately after the 1992 elections (Boafo-Arthur, 1999).

6.3.3 Ghana's transition to multi-party democracy (A3)

Ghana began 1993 as a new democratic nation, having successfully transitioned from a military regime to an elected government. While the transition brought new hope to many citizens and political observers because Ghana's political direction was in line with donors' requirements, there was apprehension among some donors about Ghana's ability to consolidate economic reforms in an era of multi-party democracy. Centralised decision-making had served the PNDC well during the early period of economic reform, but now decisions had to be made on the basis of consensus among multiple stakeholders. However, since the major opposition party, the NPP, had boycotted the parliamentary elections, citing widespread irregularity in the earlier presidential election, the National Assembly was virtually a one-party parliament dominated by the NDC and its coalition of political parties. The promise of more aid by the Paris Club was viewed as a demonstration of donors' commitment to facilitating the country's fragile transition to democratic governance (Boafo-Arthur, 1999).

6.4 Interaction of Foreign Aid and Endogenous Drivers (B1-5 + C1-16)

The above three historical events coalesced in shaping interactions between foreign aid, the conditions and mode of its delivery, and endogenous institutions, actors and political and economic structures. This section analyses some of the interactions.

6.4.1 Implementation of Economic and Social Development Policies (B3+C1+C2+C3+C5)

During Phase III, Ghana implemented a number of economic and social policies that received mixed support from donors. The first was aggressive implementation of privatisation policies.[1] Ghana began 1993 with a fiscal deficit arising from government overspending in the run-up to the November 1992general elections. As a result, donors, mostly the IMF and World Bank, nudged the government to aggressively pursue the privatisation policy that the PNDC had implemented half-heartedly during the ERP/SAP era in Phase II. The reason for this was to enable the government to regain control of the fiscal deficit and to regain confidence among bilateral donors that had expressed concern about Ghana's commitment to pursuing fiscal discipline during multi-party elections. The government earmarked 221 state enterprises to be sold in 1993. The first to be put on the market was the government's share of the Ashanti Goldfields Corporation (AGC). By then, AGC had begun to make profit on the back of the substantial investment that the World Bank had made in it. Privatisation of AGC fetched about US$ 245m in 1995, while other sales added up to US$ 300m (Marr, 1997; Adda, n.d.:6). Other major state enterprises sold included the Golden Tulip Hotel, West African Mills Company, Tema Steel Company, Ghana Agro-Food Company, Coca-Cola Bottling Company of Ghana Limited, Suhuma Company Limited (formerly Glistken West Africa Company), a couple of mining companies and Ghana Oil Palm Development Company Limited (DIC, 2003; Adda, n.d.: 7). Table 6.2 shows the privatisation transactions before and after the elections, and during the 10years of multi-party democracy.

Table 6.2
Privatisation transactions, 1990-2002

Year	Mode of privatisation					Total
	Sale of assets	Sale of shares	Joint ventures	Leases	Liquid-ation	
1990	3	8	0	2	21	34
1991	8	3	1	0	3	12
1992	3	6	2	0	2	13
1993	4	3	0	0	3	10
1994	25	8	7	2	7	44
1995	19	1	1	0	0	21
1996	66	1	3	0	1	71
1997	34	5	1	1	0	41
1998	15	3	0	0	2	21
1999	12	3	0	1	2	18
2000	11	1	0	0	0	12
2001	3	0	0	0	0	3
2002	7	1	0	0	0	8

Source: Divestiture Implementation Committee, 2003; Adda, n.d.:7.

The second development policy direction can be termed "home-grown" although the term was never used in official policy documents. The genesis of this policy direction lay in criticisms that the ERP and SAP lacked focus on long-term development and only concentrated on short-term fiscal stability. So, the NDC government designed a long-term economic policy direction devoid of IMF/WB short-term solutions. The national mantra at that time was "Ghana is ready to take off economically", –which was very encouraging to the populace after years of structural reforms. The functions of the Ministry of Finance and Economic Planning were split into two to strategize "home-grown" development policies. The role of economic planning was given to the National Development Planning Commission (NDPC) while the Ministry of Finance had responsibility for fiscal policy and monetary regulation. However, the work of the NDPC did not attract sufficient budget and human resources, either through deliberate manoeuvring by the Ministry of Finance to undermine the NDPC, or because of external pressure (some analysts interviewed during the study mentioned underhand arm-twisting by the World Bank). The NDPC became a dumping ground for senior public servants that the government regarded as leaning towards opposition political parties but could not dismiss because of legal ramifications. Despite the problems, in 1995 the NDPC developed a "home grown" long-term national development plan, *Ghana Vision 2020*.

The vision was that by the year 2020 Ghana would have achieved a balanced economy and a middle-income country status and standard of living, with a level of development close to the present level in Singapore (Government of Ghana, 1995:1).

> This vision of Ghana attaining middle-income status was to be achieved by "creating an open and liberal market economy established on competition, initiative and creativity; application of science and technology in deriving maximum productivity from the use of human and natural resources; and optimising the rate of economic and social development with due regard to the protection of the environment, and equity in the distribution of the benefits of development" (1995:1).

The NDPC was tasked with ensuring that sectoral and district five-year development plans were coordinated, rationalised and harmonised so that all development programmes and projects were mutually supportive and compatible with the long-term plans of the country. The national development plan was to become the reference document that informed the entire country as well as the international community, private sector investors, and non-governmental organisations (NGOs) about the social and economic priorities of the state. From the long-term plan, a medium-term five-year development plan, *Vision 2020: The First Step and Action Plan*, was developed and used for negotiating for support from donor agencies. However, within the government, each ministry pursued donor-funded projects without reference to the NDPC document. In the end, the Ministry of Finance did not secure financing of the plan because, donors said, it lacked a clear strategy to deliver.

For instance, in the implementation of the productive sector component of the plan, the government relied on donor support, especially from the World Bank, to finance agricultural development (Whitfield, 2011a; Buur and Whitfield, 2011). The Ministry of Food and Agriculture initiated a strategy called Accelerated Agricultural Growth and Development Strategy, with the expectation that the World Bank and other donors would finance it through a sector-wide approach. The World Bank designed a new programme that was too rudimentary compared with what the government wanted. Foster et al. found that "some donors were never comfortable with the government's focus on the agricultural sector and wanted more direct poverty reduction" (Foster et al., 2000:15). Eventually, the ministry's effort to promote development of the agricultural sector turned into a fiasco. Instead, the World Bank, on its own initiative, began giving agricultural sector adjustment credit that supported many small agricultural projects.[2] The NDC government rejected the new proposal by the Bank, finding its focus to be too much on capacity building and too little on direct investment in production. Other bilateral donors did not support the World Bank's agricultural projects and pursued their own interest.

From 1992 to 2000, little foreign aid was used to support productive sectors in the plan, and there was insignificant investment by the state itself to support industrialisation and other productive sectors. One can, therefore, characterise the period as devoid of aid to support the productive sectors. Without adequate state or donor support, local production in agriculture and industry slumped, and with unbridled implementation of trade liberalisation policies, foreign goods outcompeted local goods in the Ghanaian market. By the time the NDC was voted out in 2000, implementation of Vision 2020 was already dead because neither donors nor the new government were ready to support its implementation. The NPP declared its intention to abandon *Vision 2020*, out of fear that when the new government's economic programmes were successful, the NDC would take credit for them because it had developed the vision document (Whitfield and Jones, 2009).

The third major development policy was a focus on poverty reduction. The NPP came to power in 2001, intending to resuscitate Ghana's industrial policy, to spearhead job creation and reduce poverty. The party envisioned strong state-domestic private sector partnership and macroeconomic stability and declared its period in power "the Golden Age of Business". The NPP government created the Ministry of Private Sector Development, which was given direct access to the Office of the President to ensure political support. However, the NPP's "golden age of business" stumbled from the beginning when the new government was confronted with an economy that was almost bankrupt. Ghana had depended on World Bank and IMF assistance for two decades without any signs of self-sustaining growth, and the NPP administration inherited rising inflation, currency depreciation, a huge domestic debt, shortfalls in aid flows and massive external debt servicing. It faced the challenge of either cutting public expenditure drastically or asking the international community for more aid and chose the latter. Ghana declared itself insolvent and signed up to the Highly Indebted Poor Country (HIPC) initiative, which was a prerequisite for receiving debt relief. During that period, donors' attention had shifted to poverty alleviation as part of the MDGs, and, with the support of the IMF and World Bank, Ghana developed the 'Growth and Poverty Reduction Strategy Paper' (GPRSP). From 2001 to 2004, the NPP economic direction was heavily dictated to by the conditions of the HIPC programme—use of the HIPC funds to implement poverty alleviation programmes. The GPRSP I (2003-2005) became the only coherent set of policy objectives that guided economic policy-making with its core objective being to alleviate poverty (Government of Ghana, 2003).

The government negotiated successfully with the IMF and World Bank to use 20% of the HIPC relief to pay off interest on domestic debt while the rest of the money was used to support small projects in the ministries and local governments (IMF, 2004:9). In 2006, the government developed the GPRS-II, which emphasised growth as the basis for sustained poverty reduction with the aim of Ghana regaining middle-income status. The GPRS II focused implementation on macroeconomic stability, promotion of private sector competitiveness, and good governance, among other things. One of the key priorities was to increase local agricultural production, including rice and poultry, which had declined significantly in the 1990s and 2000s, following a steep rise in imports facilitated by the country's trade liberalisation policy. The NPP revisited the Agricultural Services Sub-Sector Investment Project that the World Bank had designed, renegotiated with the Bank and modified the project after a year's delay (Voisard and Jaeger, 2003).

Alongside implementation of the GPRSP II, the government also sought to put into operation the state-private sector development policy through creation of the Ministry of Private Sector Development (MoPSD) with direct access to the Office of the President. This was to ensure political support. The donors were happy with the direction of the new government and they began to anchor a donor thematic group on the private sector in the new ministry. The donors offered to finance the development of a more comprehensive strategy for the MoPSD. To secure donor funding for its activities, the ministry obliged and went on to develop Ghana's first private sector development strategy (PSD), which was launched in 2004 (Government of Ghana, 2004). However, the MoPSD had the smallest budget of all government ministries in 2004.

While providing money for the ministry, bilateral aid donors also dominated the direction of the strategy. The government and Ghanaian entrepreneurs wanted direct support of the state in production, but the donors did not. At that time, many of the donors' ideas about promoting PSD in the south revolved around creating an "enabling environment" and a good "investment climate", so the PSD strategy in Ghana became a "state enabling strategy", to please the donors. The President and some top political leaders inserted the President's Special Initiatives (PSI) into the strategy. These PSI included garments and textiles, salt mining, cotton production, oil palm production, and cassava starch production, to create growth-oriented international competitive firms. According to the Ghana Investment Promotion Council, the combined export of PSI products was to bring in US$ 6-10bn a year and create 70,000 jobs (GIPC, n.d). However, the PSI did not receive donor funding; eventually, it became part of the public sector reforms that donors wanted, on the understanding that an efficient state bureaucracy would help to develop the private sector (Whitfield and Jones, 2009; Whitfield and Frazer, 2010; Whitfield and Therkildsen, 2011.) Programmes to improve competitiveness at the firm level were left to the World Bank and other bilateral donors. Thus, not much of what the government wanted was achieved.

With no donor funding for the government's preferred direct support to business, political backing for the PSD strategy began to erode and the NPP political elite turned to poverty alleviation programmes that donors were interested in supporting. In 2006, the MoPSD was subsumed into the Ministry of Trade and Industry. The notable result from the World Bank's PSD strategy was Ghana's rise in the World Bank's Doing Business Index as a top reformer. Despite this, there was no appreciable change in the country's foreign direct investment (Whitfield, 2011a).

In 2006, the NPP decided to fund the government's own initiatives to support industrial development and that responsibility was given to a senior NPP politician, Allan Kyeremateng, who also had presidential ambitions. He was appointed Minister of Trade and Industry and subsequently developed the Industrial Reform and Accelerated Growth Programme, which focused on agro-processing and other manufacturing industries. The strategy also involved mass mobilisation of rural communities, stimulation of competitive import substitutes, especially in processed foods and agricultural products, and a district industrialisation programme. The industrialisation approach was conceived to be state led initially, and then, over time, to be developed into public-private partnerships with domestic entrepreneurs as the main partners. A number of industrial projects were implemented during this phase, including construction of an export-processing zone in Tema, which was later transformed into a multipurpose industrial park (see Whitfield, 2011a and c). Kyeremateng resigned from the position of Minister of Trade and Industry in order to contest the presidency. As there was little support from the party and the state bureaucracy to implement the Industrial Reform and Accelerated Growth Programme, The projects began to crumble. For instance, one of Kyeremateng's flagship projects, the Ayensu starch factory, which started production in 2002, closed down in 2006. In short, the PSIs had few results to show before the NPP left office.

Thus, despite the many pronouncements by the NPP and President Kufuor to give direct aid to productive sectors, there was little support for industrial initiatives from the political elite, with the exception of Alan Kyeremateng. According to Whitfield (2011a) and confirmed by some of the experts interviewed during the field research. Other people with presidential ambitions within the NPP seem to have undermined Kyeremateng's industrial policy because it would have built a personal political base for the Minister in the run-up to the 2008 elections.

The NPP government was bold to develop several productive sector initiatives outside the remit of donor funding. However, in contrast to the political leadership's support to cocoa, it did not provide much support to other promising products. The case is cited of large-scale "smooth cavenn" pineapple production, which was started by a few businessmen. Export of pineapples increased from 650 tons in 1984 to over 70,000 tons in 2004. By the late 1980s, Ghanaian pineapples had captured 60% of the market in air-freighted pineapples to Europe (Whitfield, 2011b). However, lack of political support for providing working capital to the private sector led to the collapse of the business as a new variety of higher-yielding and pest-resistant pineapple from Costa Rica entered the market. The government of Costa Rica launched an aggressive marketing campaign for producers of the MD2 pineapple and it displaced Ghana's smooth cayenne (Whitfield, 2011b; Kelsell, 2013). Whitfield (2011b) attributes Ghana's loss of the pineapple market to lack of government support for the horticulture sector.

Having achieved macro-economic stability on the back of HIPC from 2004 to 2008, the NPP regime explored new sources of external money for public investment. These included the private capital market[3] (which is not part of this study) and Chinese official concessionary credit. Chinese concessionary loans and grants began to increase, but, again, much of the money was invested in areas that were not directly linked to productive sectors. Loans and grants from the governments of China and India financed the construction of the new presidential palace, the Ministry of Defence, and rehabilitation of the Peduase Presidential Lodge (Whitfield, 2011d).

The fourth major development policy was the 'Ghana Shared Growth and Development Agenda' (GSGDA) of 2011-2015. The GSGDA was developed by the NDPC within the context of a political manifesto, 'Better Ghana Agenda', of the NDC government that won the elections in 2009. The GSGDA encompassed, among other social and economic goals:

- providing citizens with secure and sustainable jobs
- rehabilitating and expanding infrastructural facilities
- accelerating the economic growth rate to at least 8% per annum
- pursuing an employment-led economic growth strategy that would appropriately link agriculture to industry, particularly manufacturing. (Government of Ghana, 2010:1)

Two important policy documents on development aid were produced in addition to the GSGDA (2011-2015): (i) 'Ghana's Aid Policy and Strategy' (2011-2015) and (ii) 'GoG and Development Partners Compact (2012-2022)'. These three documents were considered to be the basis for development cooperation between Ghana and development partners, and to affirm Ghana's commitment to the Paris Declaration (2005), Accra Agenda for Action (2008) and Busan Partnership for Effective Development Cooperation. Although the compact is not legally binding, it synthesised some of the key government policies and strategies that development partners were committed to, and aligned their support to

Ghana's growth and poverty reduction objectives. In the compact, the Government of Ghana estimated that about US$ 23.9bn of services and investments expenditure would be needed to implement the GSGDA from 2010 to 2013. Of this, 39% would be needed for infrastructure, 25% for human resources, 15.1% for oil and gas development and 4.1% for agriculture (Government of Ghana, 2012:6). The government expressed doubt that it would be able to raise all the funds, estimating a gap of US$ 12.5bn (52.3%) to be financed through other means including ODA.

The aid compact that the government and donors signed was against the background of dwindling ODA to Ghana and the country's transition to lower-middle income status. Both the GSGDA and the compact acknowledged that modernisation of the agriculture sector was to underpin transformation of the economy through job creation, increased export earnings, food security and supply of raw materials for industry. Despite this commitment to make agriculture the leading sector in transforming the economy, only 4% investment was allocated to the sector. The period from 1992 to 2013 witnessed four major development policies that could be described as home-grown perhaps with the exception of the GPRSP, but their implementation was inconsistent as far as support to productive sectors was concerned.

6.4.2 Effect of international development agenda on home-grown policies (B3+C2+C4)

Needless to say, throughout the period, neo-liberalism became the overarching ideology underlying the economic policies of the two political parties that took turns to rule Ghana. This seemed to have come from the overdose of economic prescriptions by the IMF and World Bank. The policy was a major constraint to productive sector development as trade liberalisation and elimination of import quotas led to a surge in imports of agricultural and poultry products against which the local producers were unable to compete. The government's attempts to revive local industries did not fit in with the IMF policy prescriptions. This manifested in 2002, when the government wanted to regenerate local tomato industries and stop the importation of tomato paste (Robinson and Kolavalli, 2010a).

Rice and poultry were other products that the government wanted to be increasingly produced locally. In 2003, Ghana imported 58% of the rice consumed in the country, so to reduce the use of foreign exchange for rice importation, the NPP government announced a 5% increase in tariffs on rice and a 20% tariff increase on poultry imports in the 2003 budget. However, just as the announcement was made the IMF opposed it and the government had to suspend the tariff increases (Whitfield, 2011d: 33). The Ghana National Association of Poultry Farmers sought the intervention of the High Court of Ghana to compel the government to implement the new tariff that was approved by Parliament. The court ruled that suspension of the implementation of the poultry tariff was unconstitutional, but within a week, the NPP-dominated parliament had repealed the tariff.

The increase in tariffs was within the WTO tariff rates that Ghana was permitted to impose (about 99%) but in 2003 the government had signed a loan agreement with the IMF, which committed it to not imposing tariffs and import duties on poultry and agricultural products to protect local industries. Given that, at that time, the NPP had accepted HIPC conditions from the IMF, it was not in a position to defy the IMF. This shows the influence that the IMF had over sovereign governments in policy-making. In 2006, the government repaid the IMF loan, pulled Ghana out of HIPC and decided not to sign any more loan agreements with the IMF during the rest of the NPP's tenure in office.

If IMF policy support were a catalyst, one would expect that institution to encourage and provide financial support for rice and poultry production. As one of the people interviewed for this study put it:

> Why do we continue to grow cocoa if less than 10% of the population consume it and we export 90%, only to import rice? Why don't our so-called catalysts help us with the technology to cultivate the rice that we import? (Interview with a social commentator, 19 August 2016)

In 2010, the new NDC government reinstated the rice tariff, and raised it to 35% in 2011 despite a massive outcry in the media from rice importers. The NDC was able to do that because by that time, the previous NPP government had repaid the IMF loan carrying a conditionality that Ghana would not impose tariffs on agricultural imports, not signed any more loan agreements with the IMF, and pulled Ghana out of HIPC, which left the IMF with no leverage on the country. In addition, unlike the NPP, the NDC was not dependent on urban votes and so did not have to worry about the electoral effects of raising the tariff on a product that was mostly consumed in urban areas. Unfortunately, mismanagement of Ghana's economy arising from fiscal indiscipline during the 2012 elections resulted in serious macro-economic instability, and, in 2014, Ghana had no option but to negotiate another loan with the IMF.

In 2011, the NDC government launched a US$ 346m industrial policy and support programme, including a US$ 296m Industrial Development Fund to be accessed by the private sector (Government of Ghana, 2011). The objective of this policy was to capture rents from oil and gas to develop the industrial sector. However, by 2013 not a single project was in the process of being developed into a productive export sector. The problem was that Ghanaian politicians were focused on short-term projects that would enable them to win elections, while productive sector projects have a long-term horizon. Thus, the resources allocated by the government were insufficient for those projects (Oduro et al., 2014).

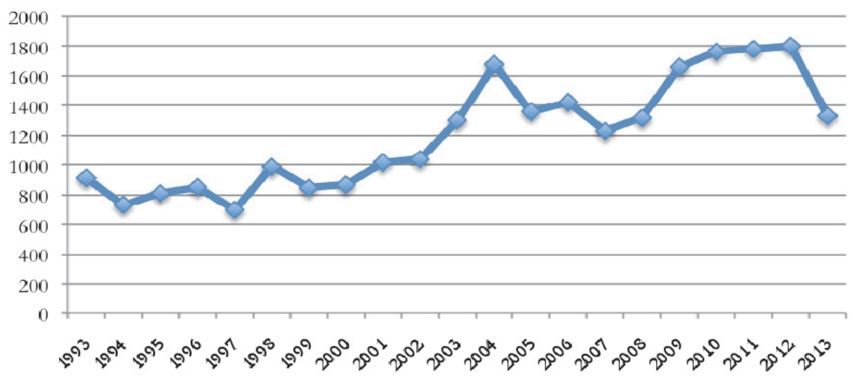
6.4.3 Quantitative and qualitative flow of aid (B1-B5)

Total aid to Ghana fell following the general elections in 1992, but it remained higher than the pre-election levels. The reduction in aid flows was a result of government over-expenditure, compelling the IMF and World Bank to suspend disbursement. Total ODA decreased by 12.7%, from US$ 625m in 1993 to US$ 546m in 1994. However, that reduction was due to a temporary sanction, and by the end of 1993 the World Bank and IMF were disbursing funds once again and programmes were back on track. ODA increased to US$ 649m in 1996 but fell by 24% in 1997, again for the same reasons—electoral-overspending and post-election sanctions (IMF, 1999).[4]

The degree to which a recipient country depends on foreign aid is a function of the availability of alternative sources of funding, such as domestic tax revenue, foreign direct investment and private lending. Availability of alternative funding sources enables recipient to negotiate for terms and conditions that are favourable. In the early years of Phase III, the IMF and World Bank had incentives to apply sanctions, involving refusal to disburse aid, because increasingly there were no alternative funding sources that the government could use. There was no FDI despite economic reforms. The Cold War had ended and funding possibilities from bilateral donors no longer depended on Cold War ideology. Western donors also began to coordinate their aid programmes and policies (Lancaster, 1999: 2008).

By 1994, the government budget deficit had surpassed Nkrumah's lavish years (25.8% of GDP in 1965). It was financed through borrowing from the Central Bank, which involved money supply, and borrowing from the public through treasury bills. During the period of multi-party elections, donors, like a catalyst that has lost its potency to act, began to lose control over instilling of fiscal discipline in Ghana's economic management (Tsikata, 1998, 1999). Ghana survived temporary IMF/WB sanctions because bilateral donors had convinced the Bank and the IMF of their support for Ghana's developmental path.. The country had been touted as a success story of structural adjustment and then had become the ultimate test of the efficacy of structural adjustment, so donors were unwilling to see it fail (Dzorgbo, 2001; Fosu, 2009). Canada, Japan and the U.K in particular, exerted pressure on the IMF and World Bank to resume support (Geddes et al., 2009). ODA flows increased by 65%, from US$ 1.015bn in 2001 to US$ 1.676bn in 2004, during the first term of the NPP government (see Figure 6.2). The increase in aid was as a result of global commitment to "make poverty history" and support for implementing the MDGs and PRSP.

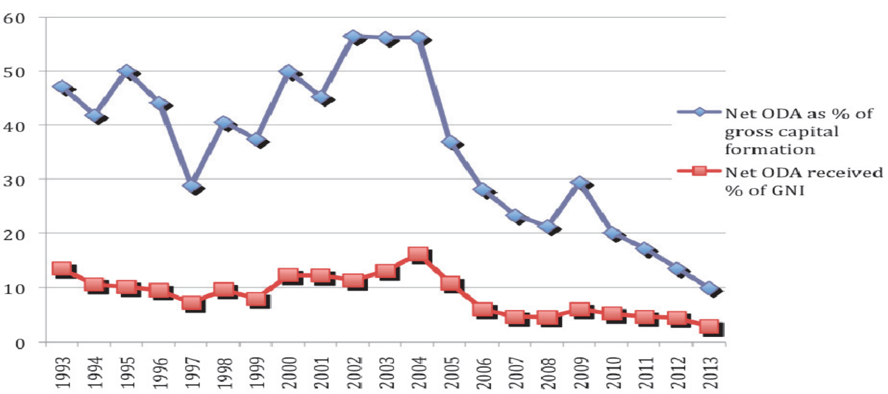
Figure 6.2
ODA to Ghana, 1993-2013 (US$ millions)



Source: OECD QWIDS Database, 2014.

Foreign aid maintained an appreciable level, averaging about US$ 1.33bn annually from 2005 to 2008, during the second term of the NPP government. From 2000 to 2008, total external aid disbursements to Ghana (excluding HIPC and other debt relief) amounted to approximately US$ 9.6bn (Government of Ghana, 2010:10). In 2008, the NPP lost power to the NDC and, for the first time in the history of the Fourth Republic, foreign aid to Ghana did not fall the following year but rather increased remarkably to US$ 1.65bn in 2009, from US$ 1.31bn in 2008, and to an all-time high of US$ 1.8bnon in 2011. There could be many reasons for the increase in aid, but from interviews with bilateral donors, it appears that aid poured in because there was a clear sense that Ghana would maintain political stability after elections, which the NDC won by the slimmest of margins (50. 23%).

Figure 6.3
Net ODA received as % of GNI and gross capital formation, 1993-2013



Extracted from World Bank Database, 2014.

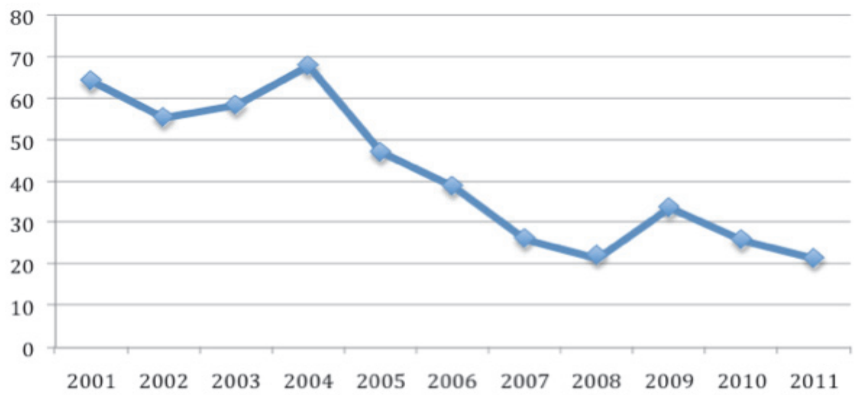
Declining significance of ODA contribution to Ghana's economy (C12)

In 2010, Ghana became an oil-producing country and its economy expanded. The contribution of aid to GDP declined significantly, from 12% in 2000 to 4.6% in 2012 (World Bank, 2014). In terms of contribution to Ghana's economy, from 1993 to 1999, net ODA share of GNI ranged between 13.6% and 8% but fell to an all-time low of 2.9% in

2013 (see Figure 6.3). The ODA contribution to gross capital formation, averaging about 40% in the 1990s and 50% in early 2000s, also decreased to an average of 22% in the late 2000s.

As Ghana's economy began to expand, Net ODA received as percentage of government expenditure also reduced remarkably, from 64.4% in 2001 to 21.6% in 2011 (see Figure 6.4).

Figure 6.4
Net ODA received as % of central government expenditure, 2001-2011



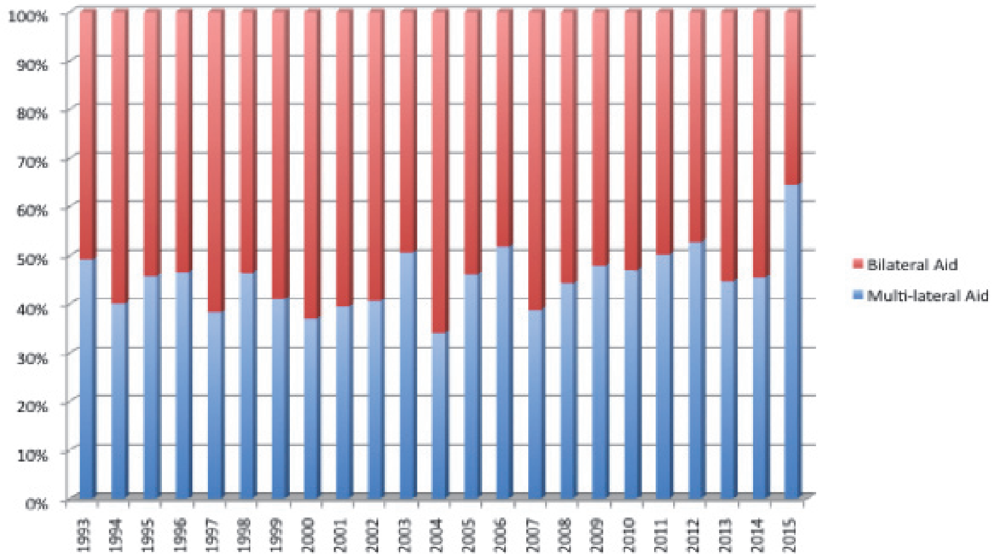
Source: Extracted from World Bank Database, 2014.

It was against this background of the declining significance of ODA to Ghana's economy that the government and donors signed the 'Development Aid Compact' to guide strategic choices from 2012 to 2022.

Increase of bilateral aid (B1)

In terms of quantity of aid, multilateral aid from the IMF and World Bank was significantly higher than bilateral aid. As shown in Chapter 5, when Ghana embarked on ERP and SAP in the 1980s, multilateral aid soared above 70% of total ODA. However, when Ghana transitioned to democratic rule, ODA from the Bretton Woods institutions fell to an average of 47.3% from 1993 to 2015. Bilateral aid, on the other hand, increased substantially to above 50%, except in 2015 (see Fig. 6.5).

Figure 6.5
Composition of multilateral and bilateral ODA, 1993-2015



Source: OECD QWIDS Database, 2017.

The exception in 2015 was a result of Ghana's IMF financial bailout of US$ 918m over three years. In comparison with multilateral aid, bilateral aid provided more favourable terms to Ghana because of its high percentage of grants. It is also argued that bilateral donors are slow to evoke sanctions, and when they are imposed, governments are able to negotiate an end to them through diplomacy.

Compared with Phase II, during which multilateral aid was above bilateral, the fluctuation in multilateral aid was not because there was a decrease in actual aid from the World Bank, but because of the rise in bilateral aid as foreign governments wanted to be part of Ghana's "economic and political success". The transition to multi-party democracy brought in a considerable amount of bilateral assistance from traditional donors as well as new ones. Ghanaian authorities seem to like bilateral aid:

> No doubt, bilateral aid is preferred to multilateral aid because it is easier to negotiate with bilaterals than with Bretton Woods institutions (Interview with a senior civil servant in the Ministry of Finance, 13 August 2015).

Rise of Chinese bilateral assistance (B4)

China was one of Ghana's additional bilateral donors. Beginning in 2001, the NPP government rekindled Ghana's bilateral relationship with China, resulting in a US$ 2.2m grant to renovate the National Theatre. The Chinese government had built the theatre in 1990 as a reward for the country's support during the Tiananmen Square protests in 1989. Since 2001, China has been a major bilateral donor to Ghana, but the quality of Chinese aid leaves much to be desired. It is purely commercial or business-like with much of the aid being in the form of loans (ACET, 2009) (see Table 6.3).

Table 6.3
Chinese economic and technical cooperation aid to Ghana, 2001-11

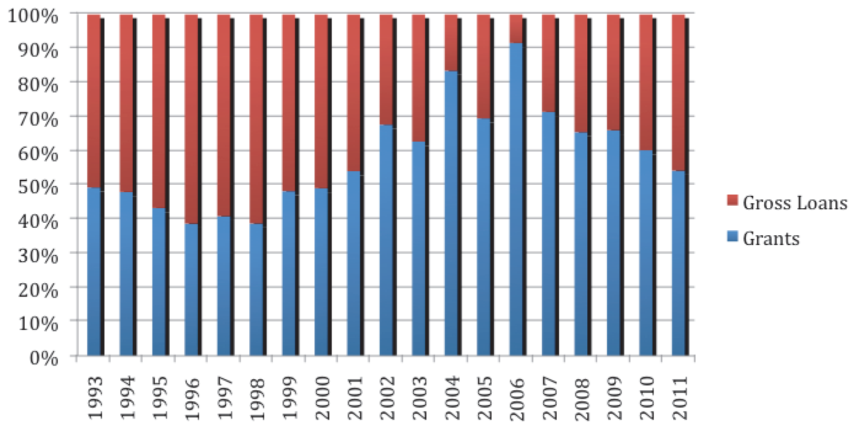
Year	Type of aid	Amount (US$ millions)	Purpose
2001	Grant	2.2	Renovation of National Theatre
2005	Loan	562[5]	Construction of Bui Hydro-electricity Dam
2007	Loan	66	Upgrade of telecom networks
2012	Concessional loan	30	Construction of Ghana Ministry of Defence offices and provision of security communication gadgets
2009	Interest-free loan	28	Construction of Ofankor-Nsawam Road
2009	Interest-free loan	99	Construction of landing sites for fishing communities and Afife rice irrigation system
2011	Concessional loan	3,000	Infrastructure projects

Sources: Chinese embassy in Ghana, 2013; Ministry of Foreign Affairs of the People's Republic of China; Wikipedia.org; China.aiddata.org; ACET, 2009.

Composition and quality of ODA (B2)

The quality of ODA flows in terms of grant/loans composition also changed during the second half of this phase. From 1993 to 1998, loans took a higher proportion of aid flows, averaging more than 60%, but from 2000, grants took a higher proportion, rising to 83.3% in 2004, and have since maintained a very high level throughout the period (see Figure 6.6). The increase in the proportion of grants was a result of increased bilateral assistance as compared with multilateral assistance.

Figure 6.6
Proportion of grants and gross loans to total ODA, 1993-2004



Source: Extracted from OECD-DAC database (QWIDS).

The two extremes in 2004 and 2006 are the result of debt relief (HIPC), which enabled the country to spend money on poverty-related projects that otherwise would have been used to service debt. Balance of payments (BoP) support continued to be important during the 1990s, but aid increasingly went to community and social services. In the 1993-96 period, BoP support took an average of 37.1% of total ODA. Much of the money was spent on commodity aid, technical assistance and project and programme aid. Project aid was concentrated on the three northern regions, where poverty is extremely high. It included basic infrastructure in education, health, water, sanitation, and energy. In the case of project aid, donors selected their preferred projects and the sector or geographical area. During Phase III, the increase in the number of projects aid and the transaction costs involved in managing different aid portfolios made it difficult for the country to strategise to achieve optimum benefits.

In 2000, the government and the leading donors in the country—the African Development Bank, Canada, Denmark, Germany, European Commission, Netherlands, Switzerland, United Kingdom and World Bank—developed the multi-donor budget support (MDBS) mechanism (ODI, 2007). Budget support gave the government flexibility to decide how to use the money, but it had to account for it in terms of specific policy implementation outcomes before it could trigger release of subsequent tranches. The donors knew the potential minefield in putting aid money into the government budget but given the gradual improvement of Ghana's political and financial management institutions, they were ready to work with the government. In 2003, the group agreed with the government to use the MDBS mechanism to support the newly adopted Ghana Poverty Reduction Strategy (GPRS).

The MDBS objective was "to harmonise donors' policies and procedures in order to reduce the transaction costs for the Government and further create a structure for biannual dialogue between donors and Government" (ODI, 2007). At the macro-economic level, MDBS resources facilitated reduction of the country's fiscal deficit and debt stock. It also expanded public spending. Domestic interest payments and debt decreased as a consequence. The World Bank provided a maximum of US$ 250m support to the MDBS, which was tied to certain triggers, government actions and economic conditions. In 2013, the development partners withheld their contribution to the MDBS because of an excessive government deficit arising from off-budget expenditure.

> We were seriously concerned about the poor fiscal management, the poor macro-economic management for the past two to three years and the excessive spending in the 2012 election. There were also allegations of systemic frauds in payroll management, resulting in the wage bill going up to 70% of tax reviews (Interview with an EU official, 19 August 2015).

A World Bank official interviewed during the fieldwork said they had suspended their contribution to the budget because the government was not ready to act in a fiscally disciplined manner.

> The World Bank pulled out because the government was not prepared to do anything to comply with the agreements we had reached and discussions we had held. There was little commitment on the part of the government to be disciplined. They promised but never delivered. Too many leakages in the economy, and the government was not prepared to plug those leakages, and we were not ready to put our money in that. It got to a point where the economy was going to crash until they went to the IMF (Interview with a World Bank official, 20 August 2015).

The government organised a national forum with participants drawn from organised labour, the private sector, political parties, think-tanks, financial institutions, and so on, in a town called Senchi. The forum drew up 22 resolutions for the government to implement but did not ask donors to release the budgetary support money. Consequently, the government approached the IMF. Ghana signed a loan agreement with the IMF, which persuaded donors that the government would be fiscally disciplined. If the government had not gone to the IMF, the donors would not have released their support. Although most of the conditions in the IMF programme were part of the Senchi Declaration, the donors did not trust the government to stick to its commitments until the IMF gave its seal of approval. That is the catalytic role played by the IMF in the government's negotiations with donors.

The EU, the largest contributor to the budget support, released about EUR 160 million after the government signed the IMF programme to undertake reforms, including proper control and management of the government payroll.

> We also released the money for other reasons […] Basically, OECD countries have given special commitments to the UN […] to pay around 0.7% of our GDP as development aid, and so we have to spend. This is something, which this government knows pretty well, and it is playing that game. That is why we can't continue to withhold our support for a long period. Sometimes the pressure on us to spend the money is quite huge. After this round of budget support, I don't think EU will continue the programme [….] The experience of the past two to three years of mismanagement has been troubling. We may go back to project support or a sector-wide approach (Interview with two EU officials, 19 August 2015).

> Corruption is not only in the government but also within the donor community.[6] [….] Some donors don't want to dig too deep into this scandal, maybe because they are actively benefitting from the mismanagement of the funds. For example, the GIFMIS programme is deeply mismanaged,[7] and we have information that a major donor is involved. The effectiveness of that project is low. We suspect [… collusion] with programme officers at the Ministry of Finance to mismanage our contribution (Interview with two EU officials, 19 August 2015).

Views expressed by donor agencies show that they are extremely concerned about the level of corruption in Ghana but are hesitant to talk openly about it because they want to continue showcasing the country as an example of successful democratic development.

> The need for donors to make democracy thrive seems to be crowding out their courage to speak openly. When democracy is defined purely as the election of a government or change of a government, then perhaps it appears that donors are comfortable with the cycle of elections that take place in Ghana. And so it is a better trade-off… to continue to support Ghana as long as the country is able to maintain a democratic system that is seen as credible. I don't think they really care too much about the country's success on economic transformation. It's a kind of trade-off that they are ready to make (Interview with Action Aid official, 22 July 2015).

The addition of Chinese external assistance to Ghana's aid mix has also influenced the quality of aid to Ghana in terms of conditionality and mode of delivery. China refused to be part of MDBS and used project approach to aid delivery. The conditionality attached to Chinese loans includes the use of Chinese contractors and goods, thereby reducing the potential for promoting local capacity and other multipliers. For instance, the US$ 3bn Chinese loan agreement that the government signed in 2011 requires Ghana to provide 750m barrels of crude oil for 15years (13,000 barrels per day) or end up paying US$ 6.4bn, more than twice the initial amount (Aiddata, 2010; Adam, 2014:9). The loan agreement also requires that 60% of all contracts for loan-related projects go to Chinese companies.

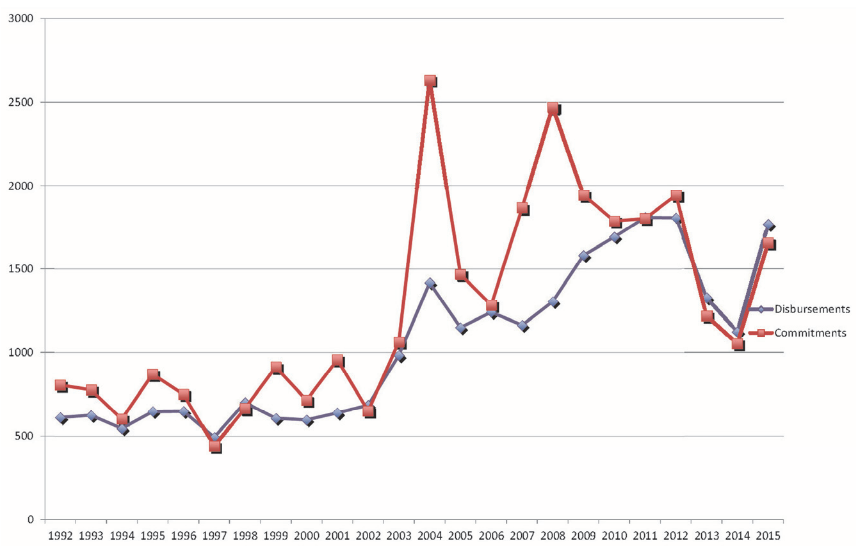
Much of Chinese assistance finances social and capital investment and there is less focus on production for export. Since 1972, only US$ 20.2m of Chinese economic and technical assistance has gone to support for Ghana's industrial sector. This includes US$ 1.5m to the Juapong cotton and textile factory in 1972, US$ 11.1m to a cocoa processing project, and US$ 9.1m to fishing lines and net-processing projects, both in 1998 (ACET, 2009). Furthermore, disbursement of Chinese assistance is irregular and often shrouded in secrecy.

> Chinese loans are often shielded from public scrutiny [….] the loans are often written in their language, […] demanding translation in the first place. It also involves a lot of back and forth negotiations because it involves the use of all sort of Chinese labour [….] if you're not careful, they'll bring prisoners to work for you as part of the technical assistance (Interview with a social commentator and policy analyst, 13 August, 2013).

Quality of ODA disbursement

During the period, there was high disbursement of ODA. From 1993 to 2012, average disbursement of committed ODA was higher than in the 1980s. However, a consistent pattern that has emerged is that aid disbursement reduces substantially during election years (or the year before an election) for fear of misapplication of funds for electoral patronage (see Figures 6.7a and 6.7b).

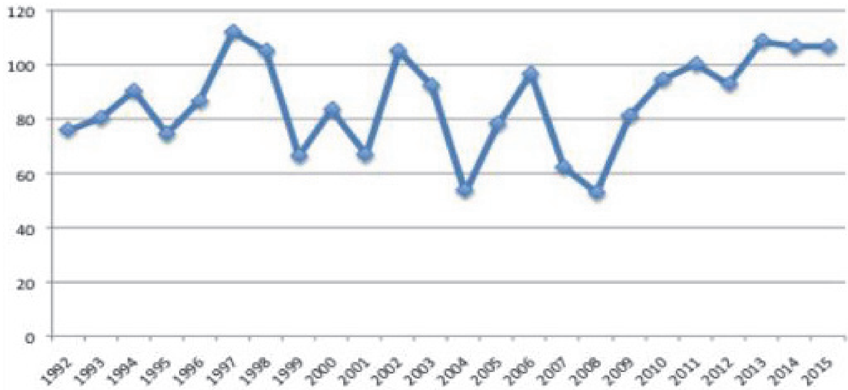
Figure 6.7a
Foreign aid committed and disbursement in current US$, 1992-2015 (millions)



Source: Extracted from OECD-DAC-QWIDS Database.

In the election years 1992, 1996, 2000, 2004, 2008 and 2012, a lower percentage of committed ODA was disbursed in comparison with other years (see Figure 6.7b).

Figure 6.7b
Percentage of committed ODA disbursed, 1992-2015



Source: Extracted from OECD-DAC-QWIDS Database.

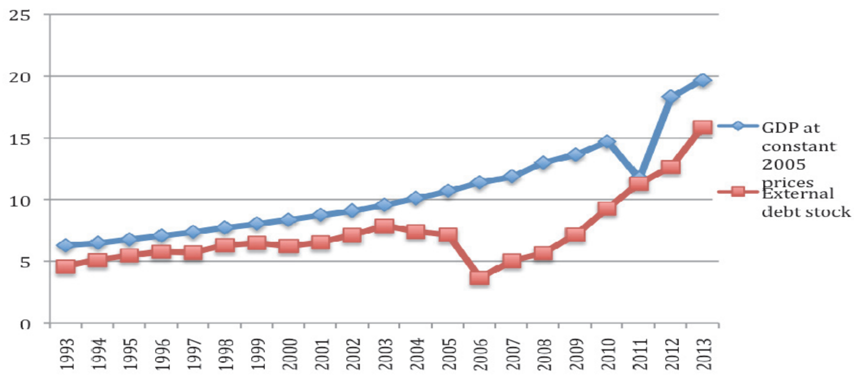
There were two low points; 2004, which was a result of high commitment to debt relief arising from HIPC funds; and 2008, when donors refused to release budget support money because of misapplication of state resources during the last year of the Kufuor government.

ODA debt burden and relief (B1+B2+B3)

At the beginning of 1993, Ghana's external debt was US$ 4.5bn but it rose to US$ 6.5bn by the end of the decade. By 2000, total external debt was US$ 6.2bn. Ghana's external debt was equivalent to 254.9% of exports of goods and services and 129.6% of GNI. The enormous flow of loans and excessive borrowing by the PNDC/NDC government led to the country being in an unsustainable debt repayment situation. In 2001, an opposition political party, the NPP, won the general elections, declared Ghana insolvent and applied for HIPC debt relief.

From 2002 to 2004, Ghana's debt was substantially reduced by more than 50% as a result of HIPC. About US$ 3.5bn of Ghana's debt was written off. However, Ghana replaced the cancelled debts with new loans, which was not the way to sustainably manage its foreign debt. Within six years after the debt cancellation, the country was back to the same debt level as in 2002 when a considerable amount of money was spent on celebrating the 50th anniversary of the country's independence and other unproductive activities. By 2011, Ghana's external debt stock[8] was equivalent to the total GDP of the country (see Figure 6.8).

Figure 6.8
Total External Debt Stock and GDP compared, 1993-2013
(US$ billions at constant prices, 2015)



Source: Extracted from World Bank Database, 2015.

By 2013, Ghana's debt had gone up to US$ 15.8b. The increasing debt stock was a result of over-borrowing and much of the external inflows not spent on direct productive sectors (see Table 6.4). For example, in January 2014 the Bank of Ghana injected US$ 20m into the economy to shore up Ghana's currency and prevent depreciation (*Daily Graphic*, 2014) and in July 2015, the Finance Minister announced that US$ 20m would be pumped into the economy every day to prevent depreciation of the currency (Bank of Ghana, 2015) a few months after Ghana received budget support credit of over US$ 800m from the IMF.

Another assessment of the quality of aid provided during the period was how much of it went into direct productive sectors compared with social sectors. Table 6.4 and Figure 6.9 show allocation of ODA between the broad sectors in Ghana (2002-13).

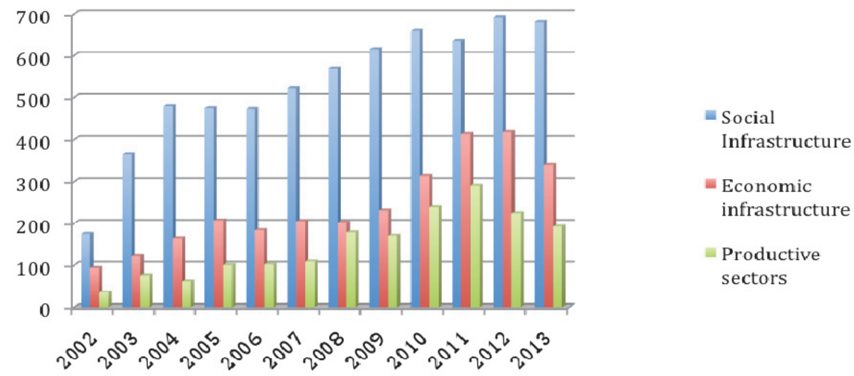
Table 6.4
Sectoral Allocation of ODA in Ghana, 2002-13 (US$ millions)

ODA	Social Infra-struc-ture	Eco. infra-struc-ture	Produc-tive sectors	Budget support	Debt Relief	Others	All sectors
2002	175	93,9	35,8	134,4	161,7	79,8	680,6
2003	365,5	123,8	76	200,4	137	95	997,4
2004	479,9	164,2	62,3	177,8	1364	98	2346
2005	475,3	207,4	100,4	145,3	456,7	194	1579
2006	473,5	183,8	101,8	289	4809,6	46	1110
2007	521,4	205,5	108,5	181,5	192	74,6	1292
2008	569,2	202,2	178,6	249,3	9,1	84	1650
2009	615,6	231,2	170,4	391	99,9	172	1712
2010	659,4	313,7	238,9	367,7	3,38	86	1860
2011	635,5	413,6	290,9	411,1	0,6	93	1860
2012	692,5	417,9	224,4	432,4	0	500	1900
2013	679,6	339,4	192,6	71,5	9,28	150	1401

Source: Extracted from OECD-DAC QWIDS.

While a 12-year average allocation of ODA to social infrastructure services (education, health, water, sanitation, and so on) was 35% of total aid, allocation to productive sectors was a paltry 9.5%. In 2002, social infrastructure allocation was 25.7% (US$ 175m) but increased to 42.7% (US$ 473.5m) in 2006. In 2013 it took almost 50% (US$ 679,6m) of ODA allocation while productive sectors received 5.3% (US$ 35.8m), 8.4% (US$ 101.8m) and 13.7% (US$ 192.6m) in 2002, 2006 and 2013 respectively. Productive sector support includes GIZ facilitation with the Ministry of Trade and with technical advisors on creating a business-enabling environment. DANIDA is also implementing a programme called Business to Business through which Danish companies partner Ghanaian businesses, while the Italian embassy has a business support unit. However, the budget for all these private sector activities is minuscule. Productive sectors include agriculture, agro-industry, fishing, mining, construction, and so on; the economic infrastructure sector includes energy, transport, banking, communication, and so on.

Figure 6.9
Allocation of ODA to productive and social infrastructure projects, 2002-13 (US$ millions)



Source: Extracted from OECD-DAC QWIDS, 2016.

Whitfield and Jones (2009) and Whitfield and Therkildsen (2011) seem to suggest that productive sector policies by various government ministries are "written largely with an eye to appeasing donor interests" and to entice them to invest aid money in the sector. Analyses of economic policies over the years show that Ghanaian governments have committed very little of state resources to investment in agriculture, except in cocoa. For instance, despite the government's policy of support to diversify the economy from cocoa to horticulture, the largest amount of aid to horticulture came from the US government funding of the Millennium Challenge Account. In 2004, over 90% of the Ministry of Agriculture's budget was financed by donors (Sarpong, 2007). Analyses of the productive sector in Ghana from the early 1990s to the late 2000s show that there is very little government support to the export industry outside the donor-negotiated projects (Whitfield and Jones, 2009; Whitfield and Therkildsen, 2011).

The EU claims that it has allocated almost 50% of its aid budget between 2014 and 2020 to productive investment in the agriculture sector. To the EU, investment in productive sectors means supporting an enabling environment for the private sector to go into, for example in agriculture.

> We want to support especially the Northern Region of Ghana by building roads, irrigation, and solar systems so that small farmers in those areas can increase their crop yields (Interview with an EU official, 19 August 2015).

The EU claims that this is not a change in direction because it has always supported productive sectors in the tune of about EUR 15 million a year.

> Yes, it could be true that in the past 15 years we have supported the MDGs and that perhaps has shifted our focus a bit from productive sectors to social sectors, but we have always had a component of aid supporting business environment [….] Without a clear regulatory environment, the productive sectors will not thrive. But you cannot blame donors too much for not supporting the productive sectors because we are partnering with a government that also wants the money for its own programmes and it appears supporting productive sectors has not been really pushed by the government. We are also not convinced that the government is the best actor to manage productive sector money (Interview with an EU official, 19 August, 2015).

Many experts in Ghana also shared their experiences with regard to aid to productive sectors.

> If you look at the budget that goes into the Ministry of Agriculture, it is quite substantial, but the problem is that the money goes into areas that do not increase productivity. Look, the years that agriculture recorded a negative growth rate are also the years with the largest agriculture budget support. You sent fertiliser to Northern Ghana but they smuggled it to Burkina Faso. We give tractors to MPs who have no farms. Sometimes you wonder about the sense behind these […] and there are several of them (Interview with an economics professor at the University of Ghana, 16 August 2015).

> The reason why donors do not support agriculture and other productive sectors is that if a farmer has a farm in a remote village donors cannot come and put their signboards there. Nobody sees and acknowledges the donor's contribution. It is roads and electricity where you see the big signs, and those are the things that donors put their money into, but not into agriculture (Interview with an industrialist and commercial farmer, 14 June 2016).

Many experts interviewed for this study shared the above view of the industrialist. They pointed out that investment in the manufacturing sector would generate jobs and sustain economic growth, but donors do not support that sector. Not only do the donors avoid that sector, they also discourage the government from providing direct support to it.

> How can aid be a catalyst to development when it does not invest in the sectors that promote economic growth? And why is the government not vigorously pursuing promotion of agriculture productivity and agro-processing industries through deliberate industrial policy like it happened in Southeast Asia? The issue is that our history of import substitution industrialisation has not been anything to write home about. If a government tries, […] donors say, given your history of industrialisation and the kind of political patronage system the country has, the solution is not state involvement but rather providing the enabling environment and let the private sector take the lead (Interview with an economics professor at the University of Ghana, 16 August 2015).

The findings of this study resonate with the earlier analysis by Page and Shimeles (2013) on how donors have supported aid with their money the last 20 years. Their research shows that "there has been a clear shift away from "productive" sectors to financing "social or non-productive sectors". According to Page and Shimeles, about 25% of all ODA in Africa (some US$ 21 billion per year) is used to finance creation of an investment-climate. This has done more harm than good (2014:11). While creation of an investment-climate may be useful, it hardly removes constraints to structural transformation and, importantly, constraints to industrial development. Numerous studies in Africa shows that it is lack of infrastructure and skills that makes the difference in raising Africa's competitiveness compared with other regions (Dinh et al., 2013) but very little aid money goes to support infrastructure development in Africa.

6.4.4 Negotiation, implementation and management of foreign aid (B1+C8+C10)

In Phase II, the IMF and World Bank took turns to convene donor-coordinating meetings on behalf of the Ghana government. However, by the mid 1990s the government, through the International Economic Relations Division (IERD) of the Ministry of Finance, had taken over that leadership role in setting the agenda for aid and donor coordination meetings (Tsikata, 1998). The Bank of Ghana and the Controller and Accountant-General's office also played important roles in monitoring aid flows. Given the country's successful transition to democracy, many bilateral donors jumped on the bandwagon and there was a proliferation of aid and donors. This created serious aid-management problems as state bureaucracies could not manage and coordinate aid programmes (Brautigam and Botchwey, 1998).

In Phase II, Ghana's economic performance was strongly associated with the long-serving Finance Minister, Dr. Kwesi Botchwey, and a small team; with his resignation from the government in 1995, the reform lost some of its clout and attention. Donors needed time to build new relationships of trust with new personalities. This resulted in more donor-driven agendas, and with that, less ownership (Tsikata, 1999). In the late 1990s, instead of giving aid to individual projects, donors started adopting a sector-wide approach (SWAp) to aid delivery. The basic idea was that donors would work together with the government, agreeing on sectors to support and seeking ways to pool their assistance.

As indicated earlier, in Phase III the state developed several policies and strategies through which foreign aid was supposed to play a catalytic role. This study has sought to understand how civil servants interacted with programmes that foreign aid was supposed to assist and the perception that aid agencies have about the professionalism of Ghanaian civil servants. During interviews with donors, almost all of them admitted having implemented discrete projects with ministries and district assemblies (LGs). They said that institutional capacity and corruption were two of the reasons why they had established project offices within the ministries and embassies.

> Bureaucracy, or let me say civil service, in Ghana after years of donor support does not function as an instrument for achieving social and economic goals; nor does it complement the private sector to achieve set targets of the state. Some senior government officers don't even read aid documents before they come to the negotiation table. They only think about per diem and the opportunity to travel abroad (Interview with an EU official, 19 August 2015).

A Ghanaian senior World Bank official working in the Accra office voiced similar concern about the attitude of many public officers who came to discuss aid-funded projects.

> The problem with our people (now I am talking as a Ghanaian) is that we don't read, we don't analyse, we don't think through the projects. We just assume this is money coming, who will be the project coordinator, whom can we fix, who gets the project vehicle(s), who will drive what, and so on. I am in charge of the projects portfolio and sometimes you sit in negotiations and you just bite your lips and fingers, you just wish they would not say certain things […] but they are there and all that they are thinking about is "when is the money coming and who is going to get what" (Interview, 20 August 2015).

The above statements summarise the perception that many donors have about the Ghanaian public or civil servants with whom they interact during aid negotiations. Many donors believe that the challenges facing Ghanaian civil servants are less of capacity or competence, but rather attitudinal and of prioritising personal interest. From the top of the government to the lowest government officers, they have little passion for delivering public interest goods.

The World Bank has a portfolio of US$ 2bn to support discrete infrastructure projects such as roads, water, and energy in Ghana, but because project funds are strictly controlled to ensure that they are used only for earmarked activities, the money is not fully utilised. A World Bank project officer noted, "where a project is identified, procurement and contractual processes get mired in administrative delays". Implementation of aid-funded projects is frequently delayed because civil servants often want kickbacks from contractors or simply do not like the tender winner and look for an opportunity to change the contractual process. In other circumstances, if a project involves consultants from abroad, civil servants are reluctant to support it. In other instances, after a local counterpart's capacity to support implementation of aid-funded projects has been strengthened, that person is transferred from the project because a superior does not like that individual for other reasons.

> I have worked in the World Bank's offices in many countries. In Mongolia, by the time the project is completed institutional aspects would have been embedded in the sector ministry and they move on to other projects. In Ghana, one policy document or a law can take the life of the project and sometimes outlive it. There is no seriousness or commitment on the part of civil servants and this is connected to leadership (Interview with a World Bank official, 20 August 2015).

Many of the donors compared the Ghanaian civil servants with similar civil servants from the EU and Southeast Asia and said that the Ghanaians are less oriented to public interest. They focus very much on the small dot instead of the bigger picture. Their engagement with substantive issues is weak, but when it comes to securing a trip to Brussels or allowances to be paid, they are strong. . When such issues come to the negotiation table, as one donor described it "suddenly they wake up and that becomes a tough negotiation". Many of the donors also opined that the motivation to obtain additional funding opportunities often distracts the civil servants from focusing on implementation of priority projects.

> We have supported projects in the health sector and I can say that the moment there are additional donor funds in another sector, the civil servants stop everything they are doing, and submit new proposals [….] Whilst they are looking at the horizon for the next funding opportunity, they forget to implement. That is an obstacle I have found here in Ghana. Implementation in the country is so slow, and that is sad. There is so much potential in the country, but the leadership both at the political and bureaucratic levels have little sense of urgency to change and make things happen. Over the years, it is getting worse. I think the appetite for additional funds is getting bigger and bigger and it has to do with the fact that once you have seen what additional funds can do and the 'freedom' you get with spending donor money against the government's own funds, there is motivation to go for more (Interview with an EU official, 20 August 2015).

> The challenge with Ghana is that civil servants are not motivated to work on a national agenda for development. They are reluctant to sit in the driver's seat. They have a very passive attitude (Interview with a DANIDA senior programme officer, 16 August 2015).

A senior government officer in charge of the civil service confirmed that many aid projects have not been implemented or money disbursed because donors make the chief directors or the sectoral ministers the chairmen of project implementation. Nothing gets done because those people are busy.

> Yes, we have issues in terms of the quality of our leadership and their commitment to getting things done. Ghana's problem is not aid per se. It is the people who we choose to manage aid projects. It is a joke—donors think they can bring one consultant here and manage the project. It

> doesn't work. We had […] for almost 10 years. I can say his impact was very minimal. The only reason why we kept him here for that long was that when you wrote a proposal and he presented it to DFID, it would get funded because they trusted him. I have seen this happen all over the place. Donor technical assistance is useful initially, but once it is overextended it makes no sense (A senior civil servant working at the Office of the Head of the civil service, 13 August 2015).

> I have been to Rwanda twice and have met with senior civil servants and the leadership. Public servants in Rwanda are much more empowered; much stronger because the President is a strong leader. So, when aid is provided and the President says this is the way it should be utilised, that is it. Work will get done, and much quicker (Interview with a Senior Programme Officer, Action Aid in Accra on 13 August 2015).

Taking into account the perception that donor agencies have of Ghanaian civil servants, this study sought in interviews to link that with the concept of aid as a catalyst to development.

> I agree with your concept that aid is a facilitator of development. It is supposed to help the country do what it wants to achieve. If you say it is a prime mover, then you somehow put too much emphasis on what we donors provide. But currently in Ghana, it is development partners who are putting pressure on the government to take the right decisions on fiscal issues, and sometimes we feel it is not sustainable. We don't have to be in the driver's seat (Interview with an EU official, 20 August 2015).

> Aid is a catalyst. Much of its work depends on the commitment from local players. In my view, it can only finance, provide some impetus, some ideas, some technical support and knowledge. I think the government, the sector ministers and the civil servants should be in the driver's seat. In Ghana's case, for the past 15 years aid has made some achievements, but if you compare that to what some of the Asian countries have done within the same time then you wonder why Ghana is at this stage. That is why aid can only facilitate, but sometimes it can become an obstacle to development. Mind you, donors don't understand everything, so if local people do not direct aid then it may fail to serve the purpose. If they refuse to work on the project because there is an international consultant involved, then aid will fail to achieve its purpose in the country (Interview with an EU official, 20 August 2015).

> Aid is effective if government officials want it to work. In Ghana, our key challenge is functional leadership and not positional leadership. You need

> strong leaders to build strong institutions in this country. It is not academic qualifications but quality in terms of people to deliver. We have many civil servants with Masters and PhD degrees. What we lack is attitude to work, attitude to make things happen (Interview with a senior government official at the Office of the Head of the Civil Service, 13 August 2015).

> I am not sure aid works in Ghana, to be honest. The leadership in Ghana is very much characterised by promises; lots of talking, that these things would be done, we want this and we will do that, but they lack commitment to implementation and follow up [….] I think leadership and civil servants are very important. If institutions work, then a change of government should not make a big difference in terms of macro-economic management (Interview with a DFID official, 23 August 2015).

Many Ghanaian experts interviewed for this study admitted that leadership and civil servants are key if aid is to catalyse development. As a former Minister of Finance said about negotiations with donors, 'You must know what you want and why that is needed and be ready to tell donors to keep their aid if your demand is not what they would offer.' This suggests that the aid provided to the recipient country should be demand-driven and not supply-led. It should respond to the recipient's need.

> During my time, I could walk out of an IMF meeting, saying this I won't do. I "fought" with the World Bank over support to the education sector. The Bank didn't want aid money to go to tertiary education. All their emphases were on primary education, so I asked the World Bank a simple question: at which level is the know-how relevant in education? Certainly not primary education? [….] It is your MITs and universities that have done all the research and discovered innovations, so if we are going to convert our raw material into anything, the basic fundamental should be at the university. So, I told the Bank, as a Minister of Finance I want aid money to support science and technology so Ghana can develop the oil sector. I told them I was interested in basic education, but giving aid for it and excluding technical and tertiary levels that would not help Ghana, so we should thoroughly discuss the matter. It took me six months to convince them why we needed money to develop oil technology and develop our competitiveness in that sector. They were still talking about primary education. I wanted a split 50% for basic education and the other half for tertiary, but at the end we negotiated for one-third. That is what I mean by aid should be internally induced. Ideas on what we need aid money for

> should come from us, not donors (Interview with a former Minister of Finance and later Minister of Education, 15 August 2015).

Donors do not always give what the recipient wants because they also have specific interests for providing aid. This suggests that preparations by the recipient country prior to meeting the donor and ability to negotiate favourable terms are qualities that public officers or civil servants are expected to have.

6.5 Political Settlement: Competitive Clientelism as Mode of Governance (C7+C9+C15)

During Phase III, political parties became the medium through which elites served their interests. This led to an expansion of the key actors and institutions that constituted Ghana's political settlement. This did not happen in Phase II (1983-92), when the ruling coalition was small.[9] In Phase III, with the advent of multi-party democracy, the coalition expanded to include former elites: "professional politicians, traditional leaders, leaders of trade unions, senior journalists, and businessmen and women" that the previous regime had chastised, discredited and prosecuted for being corrupt and elitist (Oduro et al., 2014). With the political process being competitively contested, a ruling government needs a large coalition to to continue being in power. This involves formal and informal alliances with political parties and non-political institutions, using a patronage system. Rawlings needed to build a large coalition to enable him hold on to power (Akonor, 2006). However, by embracing the former elites, Rawlings compromised his revolutionary principles of 'power to the people', probity and accountability, hence the fight against corruption and rent seeking got lost during the return to competitive party politics.

Table 6.5 depicts key actors and institutions that were key to Ghana's political settlement and their level of influence on policies and the development trajectory.

Table 6.5
Actors that comprised the political settlement during Phase III

	Strong Incentives	Weak Incentives
High Power	Ruling political parties and coalition members Professional associations Business associations (contractors linked to politicians) Military and police Bureaucracy Party foot soldiers Media Ghana Bar Association	Faith-based organisations Donors Transnational actors Religious leaders Traditional authorities
Low Power	Local political elites Small traders Academia Think-tanks	Small farmers NGOs Small traders

Adapted from Oduro et al (2014:12)

The ruling coalition occupies the top left cell with high power and strong incentives either to keep the political and economic status quo or to change them if they do not serve their interest. Institutions and actors affiliated to the ruling coalition capitalise on their position for private benefit. For instance, pro-ruling government businesses are able to get easy concessions, donor projects and corrupt business deals. Even when they have not delivered their obligations in contracts, they can still be paid.

Leaders of religious organisations, traditional authorities, donors and transnational organisations also had considerable power to change the economic and political setup of the competitive patronage system of governance, but had little incentive to do so. The traditional chiefs were barred by the Constitution from engaging in active politics, but indirectly received favours in the form of pork-barrel projects, so it was not in their interest to support a change. Religious leaders were seen as being above the chicanery of politics and had no incentive to dabble in politics to change the status quo.

The media became very vocal during this phase. They kept governments on their toes, but some were also established to toe the line set by political parties. Donors continued to wield strong power in Ghana's political settlement, given the financial support they provided, but as Ghana's economy expands and dependency on aid gradually reduces, donors have had less leverage to change the nature of Ghana's competitive clientelistic political settlement. Occasionally, they threatened to withdraw pledged aid but that was not enough to change the status quo. In 2013, donors withheld support to Ghana, apparently for over-expenditure during the 2012 elections, but eventually released the money after the government entered into a new conditionality agreement with the IMF.

Ghana accepted the IMF programme to build up some level of donor confidence about financial management. In other words, the IMF programme was to provide supervision of Ghana's fiscal policy, government spending, payroll budget and public finance management. Although many senior government officers in the Ministry of Finance claim that the IMF package signed by the government was a 'home-grown' programme (the Senchi consensus), other development partners dispute that and argue that what IMF package brought was higher commitment and enforcement than what was arrived at in Senchi.

> The advantage of the IMF programme is that the Ghanaian government is compelled to give accurate information, more accurate than what they would give under normal circumstances. The IMF has competence in economic analysis and unfettered access to data, and since Ghana is a member, the Central Bank is mandated to provide access to information. Without the IMF, the Central Bank has no legal mandate to give us information (Interview with a senior EU official, 19 August 2015).

With the dawn of pluralistic politics, bilateral and multilateral donors began to emphasise aid that would facilitate strengthening of democratic institutions. The World Bank shifted its lending instruments towards non-lending services such as support for building CSOs, the media and parliament. Given that opposition political parties boycotted the parliamentary elections in 1992, citing electoral fraud in the presidential election, bilateral donors begun to provide financial and technical assistance to support organisation of elections. With the 1996 elections drawing near, an Inter Party Advisory Committee (IPAC) was established to promote consensus building in the electoral system. The donor community gave US$ 12.3 million to the National Electoral Commission (NEC) to "facilitate free and fair elections" (Tsikata, 1999:38). A wide range of bilateral donors—the USA, Canada, Germany, the EU, and the Netherlands—contributed towards organising Ghana's elections. Also during Phase III, the policy formulation process in Ghana shifted from a small, centralised team within the ruling government to broad-based consultation. This involved civil society groups, many of whom are funded by donors. Through various 'consultative meetings', donors became involved in the policy-making process. This did not mean that there was broad consensus over the policy direction of the country.

The results of general elections from 1992 to date show that the country has settled on a duopoly political party system where the NPP and NDC together command more than 95% of the electorate (Daddieh and Bob-Milliar, 2012). The competitive nature of politics also determines policy preferences of the ruling government. The 1993-2013 period witnessed four different ruling governments: (i) the National Democratic Congress (NDC) government under the presidency of J.J. Rawlings (1993-2000); (ii) the New Patriotic Party (NPP) government under the presidency of J.A. Kufuor (2001-2008); (iii) the NDC government under J.A. Mills (2009-2012) and John Mahama (2012-2016). After six electoral cycles, there has been little stability for the ruling elite in power. The intense competition for power between the two political parties and the Constitutional two terms limit, each term being four years, have contributed to vulnerability of ruling parties to electoral defeat to the extent that they pursue only short-term patronage programmes that enable them to win votes. This has resulted in economic instability—-high inflation, currency depreciation and high cost of living (Leith and Solderling, 2000; Whitfield, 2009, 2010; Oduro et al., 2014). With the exception of 2004, the election years were marked by huge off-budget payments that seriously affected the economy.

Ghana's institutional weakness is not limited to fiscal indiscipline but runs through a number of programmes. Many experts, both public and private, attribute that to the type of politics in the country.

> Take Ghana's decentralisation programme, for example. We got a lot more done under Rawlings' military regime than after 1992 when we transitioned into the multi-party era […] because people trusted the political leadership. The leaders, both at the national and local levels were not con-

> cerned about losing power. They were just concerned about getting the job done. In Ghana, politics and leadership are the bane of our development. Look at post-genocide Rwanda; the changes that have taken place can never take place in Ghana. Not that they are smarter than us, but the kind of leadership that Paul Kagami and the party provide is what is lacking in Ghana. A benevolent dictator is perhaps what Ghana needs, and not the type of leaders we have now who can't make decisive decisions because they think about the implications for winning votes (Interview with a senior officer at the Office of the Head of the Civil Service, 13 August 2015).

The two-party political process and highly polarised support base of the two parties have worked against building a broad coalition of consensus for national development. It is also manifests in how policy for productive sectors, including aid money, is perceived by the followers of the two political parties (Gyimah-Boadi and Prempeh, 2012). Policy-making in support of productive sectors is discussed purely as a partisan issue informed by short-term gain, like votes, more than national development.

> Political parties, especially the two leading ones, have not only become election-winning machines, but have also strived to become sources of economic empowerment machines for their followers (Oduro et al., 2014:8).

Competition for rent through corruption has become more pervasive. Divestiture of state enterprises is a means for rewarding the party faithful and other cronies. According to Appiah Kubi (2001), in many cases, beneficiaries of state divestiture did not have money to pay for the assets and relied on their membership of the ruling government to acquire them. For instance, by the time the NDC-Rawlings government left power, about one-third of the value of divestiture proceeds was outstanding. The cycle of macro-economic instability arising from patronage electioneering repeated itself in 2000. By the time the Rawlings regime was defeated, Ghana's economy had dropped sharply, with foreign reserves only sufficient to import essential goods for one-month, and with substantial local and foreign debt to pay. In business terms, the country could have been described as bankrupt. The NPP government that took over had no choice but to opt for the HIPC initiative.

Whenever there is a fiscal deficit, a short-term solution is found in the form of divestiture of state assets. After the 1992 fiscal deficit, the government had to sell profitable enterprises amounting to US$ 569m, with a substantial part of that revenue coming from the sale of the government's shares in Ashanti Goldfields (about US$ 454 million). The revenue from the sale was used to support the budget because the IMF suspended concessional assistance to Ghana for fiscal indiscipline (Whitfield, 2011d). The NPP government, which succeeded the NDC, achieved macro-economic stability as its economic policies yielded massive external inflows, but political patronage during the government's second term led to massive deficits by the time the government lost power in 2009. There was uncontrollable overspending in 2007 and 2008 on unproductive things like the 50th anniversary of Ghana's independence (US$ 100m); construction of three new football stadia for the African Cup of Nations (US$ 77 million); building a new presidential palace (about US$ 80million) (Government of Ghana, 2010).

According to The Commission of Enquiry established by the new government in 2009 and the White Paper on that report (GoG, 2010) the NPP government used the proceeds from the sale of Ghana Telecom as well as proceeds from the Eurobond to finance the budget deficit. By the end of 2008, the budget deficit arising from off-budget payments was 14.5% of GDP. The report noted that the NPP administration spent five times more money to celebrate Ghana's 50th independence anniversary than had been approved. The commission concluded that negligence and corruption led to the budget deficit. The discovery of oil appears to have worsened corruption because there was a false hope that even when the government mismanaged the economy with existing revenue, oil rent would defray it. Four years after Ghana began to sell oil in commercial quantities, there was no major investment in infrastructure that one could point at as resulting from the oil money[10]. The high expectations from the oil discovery seem to have quickly evaporated when Ghana's economy went into a serious crisis in 2014, forcing the government to negotiate with the IMF for a bailout. In 2014, the Ghanaian cedi was judged to be the worst currency in Africa by Bloomberg after its value depreciated by 23% in six months (Dzawu and Brand, 2014).

Two important institutions, the Ministry of Finance and the Central Bank, have the responsibility to ensure fiscal and monetary discipline in the country. The Finance Ministry ensures that the budget is implemented in accordance with the Appropriation Act, and the Bank of Ghana (BoG) honours government cheques and controls the money supply in the economy. The role of the IMF in Ghana is like that of an overseer, supervising fiscal and monetary policies and practices of the BoG and the Ministry of Finance. According to a former Minister of Finance, since 1992 Ghana's fiscal deficit after each election year has gone above the IMF-recommended rate of 5% of GDP, with the exception of 2004 when Ghana's fiscal deficit was only 3.5%. Various governments have been unable to sustain fiscal discipline because of politics. Frequent deficits do not provide the safeguards and protection that institutions need to work. The Bank of Ghana Act 2002 (Act 612) regulates government deficit spending. It specifies that under no terms should the Central Bank lend to the government more than 10% of the previous year's revenue. According to the former Minister, this law also exists in Brazil, Taiwan, and South Korea, where it is successful because the central bank governors there are empowered to ensure compliance.

> I managed to maintain a lower budget deficit in 2004 because I bounced a few government cheques, to the embarrassment of some sector ministers, and they did not dare to do it again. I did it to one minister and he has refused to date to talk to me. That is the discipline that we need. We have a budget that is supported by the Appropriation Act, which is a law but is not respected. That is part of the lawlessness in our fiscal and monetary practices (Interview with a former minister of Finance and later Education, 15 August 2015).

In 2012, the government had a budget deficit of 45% (Government of Ghana, 2013). If Bank of Ghana Act were enforced, any Finance Minister who overspent would be referred to the Attorney General for prosecution. However, Ghana's fiscal discipline depends on the personal discretion of the Finance Minister rather than institutional regulation. Moreover, the Governor of the Central Bank is appointed by the President and does not have independence. That explains why the government resorted to IMF supervision to maintain fiscal discipline. Without The BoG is required to submit data every month to the IMF, and given that financial support is provided in tranches and each tranche is linked to certain outputs, if the rules are not followed, the IMF does not release the next tranche. A World Bank official interviewed for this study labelled political patronage a major challenge to Ghana's fiscal management (Interview on 20 August 2015).

In a competitive multi-party political system like Ghana's, many different types of institutions—for example, the Peace Council, Commission for Human Rights and Administrative Justice, and the Electoral Commission—are created to promote democracy. This entails additional costs that may not necessarily lead to economic production but may be required because of a provision in the Constitution. However, this also has negative aspects:

> So many democratic institutions have been established and all of them want offices at the districts. If there are five people working in each of 216 districts in Ghana, just imagine the cost; and this has little to do with production of tangible goods, people's bread and butter. These institutions have nothing to do with manufacturing goods. But we have entered into democratic governance and that requires those institutions. And my question is, do we really need them? (Interview with a senior civil servant in the Ministry of Agriculture, 16 August 2015).

> During the military regime, so many things got done, but we rushed into multi-party democracy without figuring out what sort of political institutions Ghana really needs. The elites at that time were fixated on Western liberal democracy and managed to convince the populace that it was the only way of governing people when, at that time, benevolent dictators and dominant party systems were transforming economies in Southeast Asia. Why didn't Ghanaian elites think about other models? (Interview with the head of a think-tank, 13 August 2015)

> I am a believer in human rights, but I still don't understand why we are establishing institutions and organisations all the time. There is too much discussion on politics in Ghana but nothing gets done on production and diversification of the economy. The government is unable to take firm decisions on crucial policy issues because somebody will go to court to stop execution. Plastic wastes are making the cities untidy, private companies are unwilling to pay the appropriate tax to get them collected, but the government is afraid to ban its use. Look at the number of development projects for which we have contracted loans and grants from development partners but which have been derailed because of politics: "Sodom and Gomorrah"[11] Kejetia redevelopment[12], etc. There is need for a national agenda that will let Ghanaians see the bigger picture. I always say that I wish we could have a President who would say "I don't care even if it

> means I will be a one-term President." We need a President that will make decisive decisions and damn the consequences. How can we develop when you have multi-party elections where all that politicians care about is winning elections? What kind of foreign aid will help solve this problem? No, it has to be ours. (Interview with the head of a think-tank, 13 August 2015).

With an emphasis on poverty alleviation driven very much by the MDGs, the two main political parties increasingly focused on day-to-day bread and butter issues of the electorate and gradually moved away from implementation of the "home-grown" Vision 2020 development agenda and economic takeoff policies. During the era of competitive multi-party democracy, Ghana has experienced what many describe as unprecedented levels of corruption and mistrust of public institutions. In 1993, widespread allegations of corruption against government ministers compelled the Commission on Human Rights and Administrative Justice (CHRAJ) to investigate. While CHRAJ found some public officials culpable, others were exonerated. The NDC government did not bring charges against those cited for corruption (CDD, 2000). Table 6.6 outlines some cases of corruption involving politicians.

Afro-barometer studies over a decade show increasing public mistrust of government institutions that are responsible for promoting probity and accountability. The credibility of the presidency has declined the most (see Table 6.7). According to the 2015 Afro-barometer studies, the proportion of Ghanaians expressing little or no trust in public institutions increased significantly between 2002 and 2014. In terms of perception of corruption, the presidency is judged by a majority of Ghanaians to be the most corrupt, followed by members of parliament and the judiciary (see Table 6.8).

Table 6.6
Some cases of corruption involving politicians

Period	Amount	Cases/Narratives
1993-8	US$ 232,000	The former chief executive officer of the Ghana National Petroleum Corporation was found guilty of "wilfully causing financial loss". He was imprisoned for 5years on June 18th 2008 (GNA, 2008)
1999-2000	US$20 million	Two former ministers and two senior civil servants were sentenced on 29th April 2003 to various terms of imprisonment for misappropriation of public funds (GNA, 2003).
2006-2011	EUR47 million	Judgment: Debt was paid to Waterville Construction company without a contract. The Supreme Court ruled that money should be returned to the state but it had not been returned (myjoyonline, 2013)
2010	US$$38 million	Subah Info Solutions Ltd., was a subsidiary of Zoomlion Ghana Ltd., was contracted in 2010 by Ghana Revenue Authority to provide telecommunication traffic monitoring services. It was reported to have received a total sum of GH¢144 million, with no job done (Myjoyonline, 2014).
2012	US$8 million	Asongtaba Cottage Industries (ACI) and Savannah Accelerated Development Authority (SADA) were accused to have misappropriated and misapplied various state funds associated with Afforestation Projects in Northern Ghana (Cityfmonline, 2014)
2012	US$50 million	The Auditor-General's Report of 2011 uncovered enormous financial irregularities, which included "lack of documentation on loan agreements, misappropriation of funds, overestimation of funds needed, and failure to notify bankers to stop payment of unearned salaries, among others" (Auditor General Report, 2011).
2014	US$ 260,000	A total of GH¢7.9 million was paid to 22,612 non-existent national service persons; 163 staff members involved were dismissed (Cityfmonline, 2015).

Table 6.7

Ghanaians' lack of trust in public institutions or officials (%)

Public institutions	2002	2005	2008	2012	2014	2012-14	2002-14
The President	30	21	24	43	57	+14	+27
Parliament	43	25	34	50	61	+11	+18
Courts of law	49	30	38	42	54	+12	+5
Electoral Commission	41	21	29	40	59	+19	+18
Ruling party	42	28	31	52	61	+9	+19
Opposition parties	62	41	46	43	50	+7	-12
Tax department	--	--	--	58	62	+4	--
Local government	49	41	42	55	62	+7	+13
Police	46	32	51	58	62	+4	+16
Army	41	23	--	27	40	+13	-1
Traditional leaders	41	--	30	--	47	--	+6
Religious leaders	--	--	--	--	34	--	--

Source: Afro-barometer Studies, 2015.

Notes: The percentages represent people who said they had "no trust" or "little trust" while blanks represent no information.

Table 6.8

Changes in Ghanaians' perception of corruption over time (%)

Public Institutions	2002	2005	2008	2012	2014	2012-14	2002-14
President and officials in his Office	47	56	70	87	83	-4	+36
Members of parliament	--	59	74	90	85	-5	+26
Judges and magistrates	70	72	79	90	85	-5	+15
Officials of Electoral Commission	--	--	--	--	81	--	--
Tax officials of Ghana Revenue Authority	--	70	79	90	85	-5	+15
Police	79	81	86	94	89	-5	+10
National government officials	--	66	77	91	86	-5	+20
District chief executives	--	--	--	89	84	-5	--
Local government	--	60	71	86	83	-3	+23
Business executives	63	--	--	--	82	--	+19
Religious leaders	41	--	--	--	69	--	+28
Traditional leaders	--	--	68	--	78	--	+10

Source: Afro-barometer Studies, 2015.

Ghanaians consider corruption to be the major factor holding back the country's development (Gyimah Boadi, 2009). Several financial irregularities and embezzlements by public officials, as disclosed in the Auditor-General's reports, are estimated to have involved about 8% percent of GDP (Agyeman, 2015:13). This is more than twice the ODA received by Ghana in 2013. The actual amount that could not be accounted for by various ministries, departments and agencies was 476 million Ghana cedis, about US$ 206,521,739 (Auditor-General's Report, 2013; Brobbey, 2015). Although no systematic and rigorous estimate of the total cost of public corruption has been made, opinion articles in newspapers put it at about US$ 3bn a year (Kwarteng, 2016).

Political patronage remains endemic and perceptions of public corruption remain high. A survey of 1500 households in August 2000 found that 75% of Ghanaians perceive corruption as a major problem in the country. And 82% believed that corruption was more prevalent than three years earlier (CDD, 2000). The 2015 Afro-barometer report also showed that 75% of Ghanaians believed that corruption had increased during the previous year.

The competitive political party system is being used by business actors in concert with ruling parties to siphon state resources into unproductive sectors in return for votes. "Ghana's multi-party political system has become an important source of patronage, where it is expected to provide jobs, opportunities, and in some cases cash to its workers" (Oduro et al., 2014:8). Ghana's experience with multi-party politics and increasing trends in corruption are quite similar to what Hope and Chikulo (2000) identify in many emerging African democracies. Politicians "buy votes" from groups within the population with "development projects", which dramatically expands public expenditures and increases the fiscal deficit; the additional expenditure on unproductive sectors results in inflation and rapid depreciation of the country's currency. To narrow the deficit, loans are contracted from multilateral donors while bilateral donors provide grants. The government also contracts commercial loans if they are available. All these inflows are consolidated in the general budget, but very little is invested in the productive sectors seen as the key to sustainable long-term economic growth. Whitfield (2010) shows that Ghana's economic crisis at the end of 2008 was not caused by global financial markets, but was largely the government's own creation. The competitive clientelism mode of governance has been the main factor enabling the massive corruption in the country.

6.6 Catalytic Role of Foreign Aid in Political and Economic Transformation (Y1-Y8)

6.6.1 Endogenous drive towards democratic consolidation (1993-2013) Y7 + Y8

From 1993 to 2013, political leadership in Ghana was conducted through a democratic process and not through the barrel of a gun. Ghana has since conducted six democratic presidential and parliamentary elections, with power changing hands every two terms (see Tables 6.9 and 6.10 for presidential and parliamentary election results respectively).

Table 6.9
Presidential election results in Ghana, 1992-2012

Election Year	Votes won by			Voter turnout (%)
	NDC (%)	NPP (%)	other political parties (%)	
1992	58.4	30.4	11.2	50.2
1996	57.4	39.6	3	78.2
2000*	43.1	56.9		60.4
2004	44.64	52.45	2.92	81.5
2008*	50.23	49.77		69.52
2012	50.70	47.74	1.56	80.15

Source: National Electoral Commission.
* Presidential runoff elections.

In 2000, for the first time in the nation's history, an opposition political party defeated an incumbent government. In 2008, there was a second democratic change of government when the NDC party defeated the ruling NPP. The margin of victory was very slim, with the NDC receiving 50.23% of the vote and the NPP 49.77%, a difference of fewer than 30,000 votes. In policy terms, there is little ideological difference between the two parties, although the NDC tries to distinguish itself by referring to its policies as social democratic. Both lean towards the market or a greater role for the private sector, with the government acting as facilitator.

Table 6.10
Parliamentary election results in Ghana, 1992-2012

Election Year	No. of seats won by			Voter turnout %
	NDC	NPP	other political parties	
1992	189	Boycotted	11	28.1
1996	133	60	7	78
2000	92	103	9	62
2004	94	128	8	85.1
2008	114	107	7	69
2012	148	122	5	80

Source: National Electoral Commission.

Since 1992, Ghana has become one of the most competitive democracies in Africa. A country that was under military dictatorship for most of its post-independence history, where there was no transfer of power from one democratic government to the other, all of a sudden understood the meaning of democratic governance and stayed stable after every competitive election. This is a high mark of political transformation in an African context. Indeed, for an incumbent African government to peacefully accept defeat by a margin of 0.1%, as happened in the 2008 presidential election, is a clear testimony of democratic maturity. As the country successfully organised one election after another and was able to elect an opposition political party to replace an incumbent government, the country endeared itself to the donor community. Donors began to have confidence that any new government would be committed to the rule of law and democratic governance.

In 2010, Ghana was rated 5th in Africa by the Economic Intelligence Unit's Democracy Index, with a score of 6.02 out of a possible 10. In the same year, the Freedom House Index classified Ghana as "free", a label granted to only four other African countries: South Africa, Botswana, Mali, Namibia and Benin. The coups that characterised Ghana's post-independence era have given way to stable multi-party democracy. Since 1992, there has been no report of political uprising or rumour of an imminent military takeover. Once characterised by McGowan (2003) as among the most "elite-politically unstable countries" in Africa, the country has emerged as one of the mature liberal democratic countries in the world. As Table 1.3 showed, not only the political transformation, but also the economic transformation is drawing praise. In 2012, Ghana's political credibility and democratic resolve were put to test when the NPP challenged the legitimacy of the President-elect in court. By a 5-4 majority decision, the Supreme Court dismissed the NPP's petition and confirmed the NDC's election victory. The opposition accepted defeat, congratulated the President-elect and moved on to organise for the 2016 elections.

Ghana's political transformation also manifests in its performance on governance ranking in Africa. Since 2006 Ghana has consistently ranked 7^{th} out of 52 countries in Mo Ibrahim index of African governance. The highest ranked country is Mauritius and the lowest, Somalia (refer to table 1.1 presented earlier in chapter one). In terms of specific governance indicators, Ghana does far better in safety of residence, rule of law, accountability and national security. Ghana scores higher than SSA average score (see table 1.2 presented earlier in chapter one). According to Gyimah-Boadi (2009) these exceptional events have confirmed Ghana's role as a beacon of hope for democracy in Africa.

Ghana ranks among the first eight countries in Africa in any governance index. This includes the Mo Ibrahim Index of African Governance, Worldwide Governance Indicators, African Governance Indicators, African Peer Review Mechanism Indicators, and Freedom House Index. The role that foreign aid played in cajoling or persuading the PNDC and Rawlings to return to multi-party democracy was that of a catalyst. Though multilateral financial institutions like the World Bank and IMF did not provide financial resources to support capacity building of democratic institutions, the financial and technical assistance that the USA, UK, Germany, Canada and UNDP gave to the Electoral Commission, and further support to civil society organisations for democratic monitoring, were an important catalyst. The UNDP supports governance-related programmes such as capacity building for parliamentarians, the Electoral Commission and political parties.

A former member of parliament told the author how DANIDA helped to reduce tension in the run-up to the 2000 elections:

> At an Inter-Party Advisory Committee (IPAC) meeting, my party argued for transparent ballot boxes, but the chairman of the Electoral Commission looked right into our faces and said "No money". There were a number of donors at that meeting. One donor asked the Commissioner how much it would cost and he knew the answer by heart. He said, "We have 19,000 polling stations, so we need about 25,000 transparent boxes. It would cost so much and that was not budgeted for, so we can't afford them." There was total silence in the room. One donor representative raised a hand and said, "You need 35,000 boxes, we will give you the money. We will not bring in 25,000 boxes, we will bring in 40,000 boxes. Consider it paid." This was Denmark. It reduced the tension during that year's election. The government could afford the boxes, but it was unwilling so a donor helped and stopped any deception from the Electoral Commissioner. That was a catalyst.

While acknowledging the role of donors in catalysing Ghana's political transformation, many of the experts interviewed were quick to indicate that donor assistance in the political transformation was nowhere near what Ghanaians had contributed. It was not about money, but commitment and resolve to make multi-party democracy work.

> Ghana needed just a little aid and donor influence on Rawlings to have such rapid political transformation, because the citizens and local institutions committed themselves to a political discourse that they feel they own, and they were determined to make it work. Ghanaians committed to multi-party democracy because they were weary of authoritarian regimes. With a little financial support from donors, Ghana was ready to go (Interview with the head of a think-tank, 13 August 2015.

Afro-barometer studies consistently show that Ghanaians' appetite for multi-party democracy is high, but resentment is gradually building up over the failure of democratic governments to tackle the widespread corruption. While a few corrupt politicians have been imprisoned, others get away with siphoning money into their pockets. This is making Ghanaians disillusioned with multi-party democracy. The strong executive presidential system is reducing the benefit of democracy to just organisation of regular elections and less to accountability and inclusive development. The moment a regime comes to power, eyes and minds are fixated on winning the next election more than on making efforts to improve the living conditions of the people. With so much corruption in the country, Ghana's democracy is becoming irrelevant to the people because it is not able to provide effective accountability. The former President and founder of the NDC, Jerry Rawlings, castigated his party political leadership over corruption:

> It is time for President Mahama to deal with the opulence in his government. Our leaders must be able to play by the book […] the unprecedented levels of corruption, offensive show of power and opulence by some at a time when our country requires prudence and frugality […]we cannot fight corruption if we do not take on leaders and so-called untouchables who have sought to institutionalise corruption (Rawlings' speech when receiving an honorary doctorate at University of Education, Winneba, Ghana, on 14 August 2014).

In 2013, *Africawatch Magazine* branded Ghana the "Republic of Corruption" after a series of corrupt government contracts and payments had been made public. The Institute of Economic Affairs (IEA) Ghana, remarked in a report:

> It is a tragic paradox that a number of agencies set up to fight poverty and under development have themselves become channels of corruption by which state funds meant for development are siphoned. The case of the Ghana Youth Employment and Entrepreneurial Development Agency (GYEEDA), the Savannah Accelerated Development Authority (SADA) and the National Service Scheme (NSS) are ready examples (IEA, 2015).

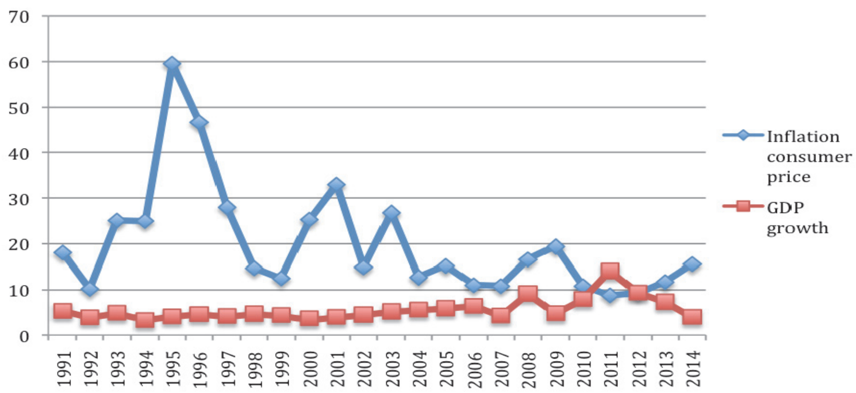
When Ghana discovered oil in commercial quantities, many Ghanaians were hopeful that it heralded a new economic beginning. However, those hopes were dashed as the hardships suffered by Ghanaians increased. Critical analysts compared Ghana's history of gold exploitation with the oil discovery and cautioned that the future would not be different. An influential Ghanaian, Rev. Dr Mensah Otabil, once told a congregation that it was his fervent prayer that Ghana would never found oil because it would deprive the country the work ethics required to develop a productive society. This resonates very well with the experience of Nigeria, Angola, Equatorial Guinea, and the Democratic Republic of the Congo. Recent cases of corruption in Ghana show that the country's democratic institutions are not strong enough to insulate it from mismanagement of oil money, from what has come to be known as "the oil curse" (Hickey et al., 2015). Ghana's judiciary, which once prided itself as "", has recently become embroiled in corruption scandals. In 2015, seven High Court judges and 23 junior judges were suspended after they were caught on video collecting bribes to influence the outcome of court cases (BBC, 2015).

Ghana was able to wean itself from the IMF in 2006 without oil money, so how was it that six years later, and with export of oil, the economy was in such dire straits that it had to return to the IMF for a bailout? Many of the experts interviewed by the author attributed Ghana's economic challenges to lack of exemplary political leadership. They also argued that the type of political practises that are predominant in Ghana do not produce the kind of leadership that can enable the country to achieve economic transformation.

6.6.2 Influence of foreign aid on economic transformation (Y1+Y2+Y3+Y4+Y5)

Before multi-party elections, GDP growth averaged 5% a year for a decade, but it fell to 3.9% during the 1992 general elections and did not recover to its pre-1992 level for seven years. From 1993, the growth rate averaged 4% until 2000. Inflation maintained double digits throughout the 1990s, rising to about 60% in 1995 before falling to 11% at the end of the decade. A pattern of rising inflation during and after election periods has been the hallmark of the competitive clientelistic party system of government, as money is distributed in exchange for votes (see Figure 6.10).

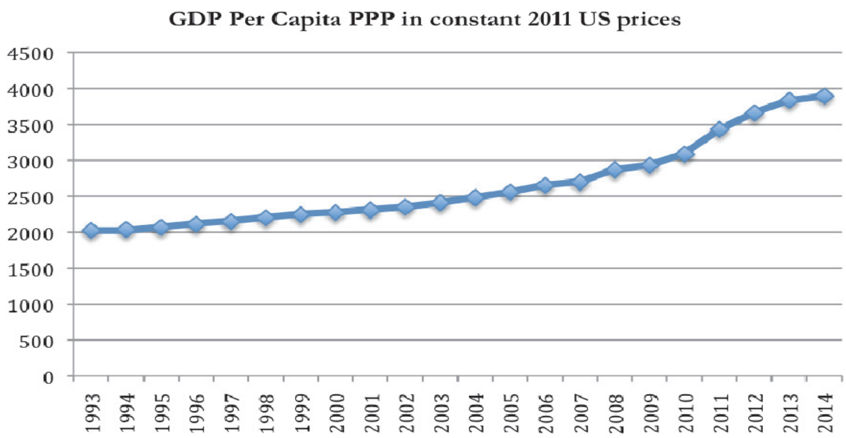
Figure 6.10
GDP and inflation growth, 1991-2014 (%)



Source: Extracted from World Bank Database, 2016

Ghana began the new millennium with poor macro-economic indicators. However, the economy regained some growth impetus beginning in 2001. This was largely on account of improved export earnings from high gold and cocoa prices, a focus on growth and poverty alleviation, noticeable improvement in fiscal discipline and monetary management, and availability of extensive development aid as a result of a change of government. In 2011, Ghana exported its first oil, pushing GDP growth to an unprecedented 15% before it fell to 7.1% in 2013. Inflation also fell throughout the period and became single digit. Consistent average annual growth of more than 4% during the 1990s and above 5% in the 2000s increased GDP per capita from US$ 2024 in 1993 to US$ 3894 in 2014 (see Figure 6.11).

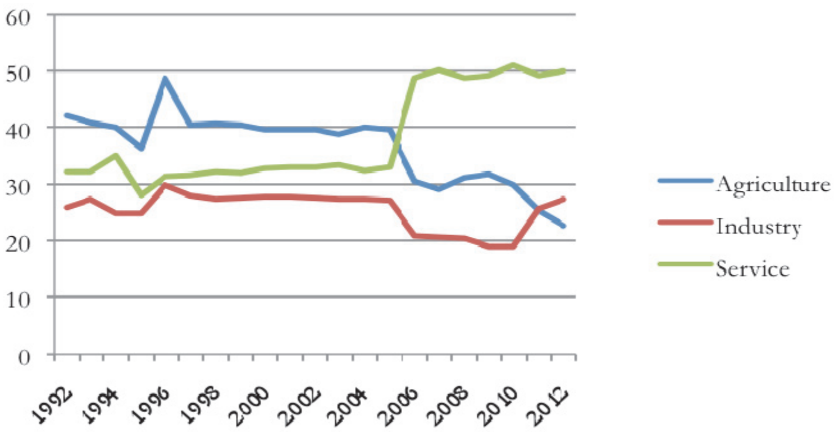
Figure 6.11
Growth of GDP per capita (PPP), 1993-2014



Source: Extracted from World Bank Database, 2016.

Ghana clearly improved its macro-economic performance with continuation of the economic reforms, but an important issue was whether continuous economic growth could be sustained and whether the structure of the economy, with its dependence on cocoa and gold, could be transformed. There are several possible barometers for assessing this. Traditionally, rapid economic growth is accompanied by expansion of industrial activities, measured by growth and structural change in the industrial sector (Rodrik, 2006) but this has not happened in Ghana although there was a slight change in the structure of the economy. Agriculture's contribution to GDP reduced, from 45% at the beginning of the 1990s to less than 40% at the end of the decade, while that of industry rose in the same period from 17% to just a little below 28%. The reason for the growth of industry was exploitation of oil, but mainly it was a statistical effect resulting from the reduction of agriculture's contribution to GDP. Also, services rose remarkably as more people found jobs in the informal sector, mainly in trading. This accounts for the changes in structural composition (see Figure 6.12).

Figure 6.12
Sectoral contribution to GDP, 1992-2012 (%)



Source: Extracted from World Bank Database

Ghana's structural transformation does not conform to the presumed sequence of changes in the structural composition of agriculture, manufacturing and services as an economy develops. Usually, there is a shift in GDP composition from agriculture to industry to services as an economy grows. Productivity in Ghana's agricultural sector has not changed. Agriculture is still characterised by high dependence on rainfall, low inputs and production by smallholder farmers (Asmah, 2011). Only 19%

of farmers use inorganic fertiliser and 7% rent equipment (Quinones and Diao, 2011). Production, except that of cocoa, is at subsistence level and families and traditional chiefs manage the landholding system. The cumbersome institutional channels prohibit large-scale land acquisition and investment. Transformation would require institutional changes in the land tenure system. Currently, obtaining land for commercial farming is cumbersome, to say the least, requiring different institutional channels and settlement of ownership disputes (Larbi, 2006).

Agriculture does not provide the needed inputs to the manufacturing sector (Delgado et al., 1998; Ramatu and Egyir, 2002). Currently, less than 10% of cocoa beans are being processed for domestic consumption and the Ghana Cocoa Board does not consider capital-intensive processing of cocoa for export a priority. Instead, it wants to be associated with the export of high-quality cocoa beans to the global market. The low linkage between agriculture and agro-processing is further undermined by foreign imports of cheap processed goods. Efforts to develop food industries in the country have not been successful. For example, promotion of tomato processing has been frustrated by importation of canned tomatoes (Ablorh-Odjidia, 2003; Robinson and Kolavalli 2010); yet various governments have been hesitant to ban importation of canned tomatoes because of demand for them in the urban market, where a ban could have electoral consequences, and fear of violating World Trade Organisation rules.

Ghana's industry is the least-transformed sector of the economy (Robinson and Kolavalli, 2010). The contribution of industry to Ghana's overall GDP has remained virtually 20-25% for over 15 years. The manufacturing sector, which has been a major source of structural transformation at the beginning of the development process of many transition and advanced countries, has been abysmally poor in terms of its contribution to GDP, employment and competitiveness in Ghana. Ghana's manufacturing sector is small even when compared with other African countries like Kenya and Côte d'Ivoire (Breisinger, Diao, Kolavalli et al., 2011). From 1994 to 2010, the average annual growth rate of manufacturing has been only 3.2%, the lowest among Ghana's industrial subsectors. High costs of electricity and imported raw materials, and obsolete machinery, have been the major cause of the manufacturing sector's poor growth (Yusof, 2010).

Trade and domestic consumption, instead of production, have driven Ghana's service-led transformation. The rebasing[13] of the economy shows that the share of the service sector in GDP reached 50% in 2006. From 1994 to 2010, the service sector grew at an annual growth rate of 5.9%, compared with 5% in industry and 4.4% in agriculture (GSS, 2011a). While India's experience of service-led transformation has been driven by export-oriented services, in the case of Ghana it is basically domestic consumption. It is worth noting that most FDI in Ghana is in natural-resource-based industries such as mining and oil, which have few linkages with other sectors of the economy. Also, they provide few jobs, because mining and oil are relatively capital-intensive activities.

In addition, Ghana's manufacturing sector has failed to tap international markets. Countries that have achieved middle-income status outside Africa have done so with changes in the export sector, with a decline in the share of agricultural exports and an increase in the share of manufacturing (Breisinger et al., 2007). Those fortunate enough to have a seacoast have developed clusters of export-oriented manufacturing companies. This has not happened in Ghana. With the exception of oil and a few non-traditional exports like pineapples, no new investments in product discovery have been made for many years. Some of the countries that have been successful in economic transformation, for example China and Malaysia, have benefited from policy changes that enable them to export more products to the international market (Haussman, Hwang and Rodrik, 2006). In contrast, Ghana's share of new products in global total products is said to have remained almost the same between 1962 and 2000 (Kolavalli, et al., 2012:10).

Many countries that have experienced rapid economic growth with structural transformation have also undergone changes in employment patterns, with labour being released from agriculture as productivity increases, and being pushed into non-agricultural economic activities (Headey et al., 2010). There has been movement of people and resources from agriculture and rural areas into services, which, on the surface, appears to show an element of economic transformation (Ellis and Freeman 2004; Lay and Schuler 2007).

As many African countries, employment data in Ghana is unreliable, but there appears to be a gradual but steady decline in agricultural employment and rise of employment in services. Employment in services rose from 22% in the 1960s to just over 30% percent between 2000 and

2006, while industry hovered around 10% between 1994 and 2000, less than the high of 17% in 1973. Employment in industries is currently around 14%. There are few wage employment opportunities in the formal sector, except in Accra and Kumasi, the two largest cities in Ghana.. In general, about 80% of Ghanaians work in the informal sector, with high job insecurity. Ghana's rapid race to informalisation occurred during the early years of ERP/SAP. In 1999, only 14% of the population were wage earners (Global Policy Net- work, 2004).

One other indicator for assessing the strength of Ghana's economic transformation is balance of payments. Ghana has continuously registered a deficit because of excess imports. The 2005 balance of payment deficit was US$ 1.11bn and by 2012 it had risen to US$ 4.71bn, which was about 11.2% of total GDP. The deficit is attributed to lack of economic diversification and high imports levels of goods and services from abroad. Because of its trade liberalisation policies, Ghana lost competitiveness in the productive sectors, even in the domestic market for many agricultural products like meat and rice. By early 2000, Ghana had become a net agricultural importer. Food importation amounted to about US$ 1bn in 2008 (Kolavalli, 2012:12). This constituted about 30% of Ghana's foreign exchange from export of cocoa. Urbanisation and the growing middle class in cities had led to increasing demand for imported agricultural products. Ghana currently imports around 60-90% of poultry meat consumed domestically because there is little competitive industry for production of poultry products and processed food products (Robinson and Kolavalli, 2010). Trade liberalisation policies pushed by IMF and the government's ideology of ceding direct involvement in productive sectors to the private sector appear not to have helped the industry to develop.

The structure of Ghana's economy has experienced only marginal change, it has not been transformed. Agriculture contributions to GDP and employment are steadily being reduced, while the service sector is gaining ground. Ghana's leading export, cocoa, is not being given added value through processing and has very few linkages with the local economy. The share of cocoa processed in Ghana is below the African average of 8-12% and particularly compares unfavourably with Côte D'Ivoire, which processes about 48% of its cocoa beans. After many years of being a leader in implementing neo-liberal policies of private-sector-led development, Ghanaian firms remain less competitive than those in other African countries such as Côte d'Ivoire, Cameroun, Ethiopia, Kenya, Senegal and Uganda (Global Competitive Index, 2016).

Lack of support to the manufacturing sector appears to have led to inadequate conversion of raw materials to secondary products. Between 1992 and 2013, Ghana has had four different governments but with the exception of the one led by Kufuor, none has implemented concerted programmes to support productive sectors, especially manufacturing. In the agricultural sector, the state has been hesitant to push for development of non-traditional exports. It has only supported productive sectors when donors have shown some interest in them, but donors have focused most of their aid on social sectors, so very little can be seen in terms of transformation of the productive sectors. However, some donors have realised that and intend to aid productive activities. In 2015, the author was told by and EU official:

> Actually we are moving into that direction. From 2014 to 2020 we are allocating about half of the aid envelope to productive investment in agriculture. We want to support especially Northern Ghana by building roads, irrigation systems, solar systems, etc., so that small farmers can increase their yields (Interview, 20 August 2015).

A DANIDA official said in 2016:

> Because of the MDGs, for the past 15 years we have focused a substantial part of our funds on social sectors, but we always have a component where we want to support creating an enabling environment, clear regulatory environment, etc. In the 90s, the extreme poverty and inequality was huge, so supporting the MDGs was the right thing. But now we have seen some improvement, so switching more to productive sectors makes sense (interview, 20 August 2016).

Ghana is currently flooded with manufactured goods from abroad. In 2005 alone, the country imported US$ 433.74m worth of cheap manufactured products from China, while it exported only US$ 31.26m to China. Cheap Chinese products undermine Ghana's local industries; for example, the textile factories are gradually closing down because of imported Chinese textiles. Like many African countries, Ghana has experienced consistently high economic growth for the past two decades, but the economy remains untransformed. It still has many of the features that the country inherited at independence. Improvement in smallholder agricultural productivity is notably absent. Agriculture still employs the greater majority of the working population, though service sector employment is rising and may overtake agriculture soon. While mining, construction and the service sector are booming, technological improvements and manufacturing are not part of the growth pattern. There are few state policies that support agricultural transformation or technology-based industries (see Amoako, 2011; ECA and AU, 2011; Lin, 2012; Norman and Stiglitz, 2012).

6.7 Conclusion: Aid Was a Catalyst to Endogenous Drivers of Political Transformation but Increasingly Lost Its Potency for Economic Transformation

To determine if aid catalysed Ghana's economic and political transformation in Phase III, let us return to the five attributes of a catalyst and assess how they worked out in promoting political and economic transformation from 1993 to 2013.

The first attribute is facilitation or speeding up of economic transformation and democratic consolidation. The analysis shows that during Phase III, foreign aid was used to support balance of payments as well as civil society organisations and other democratic institutions. The conclusion is that foreign aid facilitated endogenous drivers of democratic consolidation in a way that is enduring and sustainable. Ghana's political transformation will keep improving and it will take extraordinary and unimaginable catastrophes for that process to be derailed.

The reason for this is that the process has developed from below, with substantial inputs by endogenous actors and institutions that were determined to make it work. Foreign aid sped up that process through capacity development of democratic institutions. With endogenous actors being predisposed to let that political system work, foreign aid provided the space around which institutions and actors coalesced to promote liberal democracy. While Ghanaians acknowledge the failures of the current democratic structures and institutions to curb corruption and promote accountability, they are not ready to return to the past at any cost. Even with the rise of Chinese "aid" and other alternative means of funding, Ghanaians still believe in democracy as a better way to organise politics than autocracy (Afro-barometer, 2008).

In terms of the economic transformation, there has been little in terms of the stylised sequential approach, but foreign aid has facilitated a switch to liberal economic policies that would not have occurred without it. The policy switch from socialism to neo-liberalism has been accepted by Ghanaian elites and ruling governments. In fact, there appears to be a consensus between the two major political parties that neo-liberalism is to be used to pursue economic growth. The initial apprehension that a return to multi-party democracy would reverse that policy switch has not materialised, because by the time the country went into a multi-party system of government, Ghanaians had become used to viewing the market as the only source of production and distribution of goods and services. Throughout Ghana's two decades of multi-party democracy, there has been no attempt at policy reversal and Ghanaians have never asked for a return to state control of the economy. Nkrumah's political, which continues to campaign on socialist policies, has received no more than 1% of the electoral votes since Ghana returned to democratic rule in 1992 and has failed to win more than one seat in the National Assembly.

With regard to the key objective of economic transformation, foreign aid has not substantially been a catalyst, but how much of this weakness can be attributed to the catalytic role of aid? The third attribute provides a clue here. Is the Ghanaian political settlement predisposed to promoting economic transformation? As discussed in this chapter, , a number of "home-grown" policies and programmes were developed by different regimes during phase III, but they did not attract donor support. Where a government tried to promote industrial policies for economic transformation, foreign aid was not been provided to catalyse that endogenous driver. In fact, a wrong catalyst was added, explaining the failure to transform. This occurred during Kufuor's presidency (2001-08) when both bilateral and multilateral donors failed to provide direct financial support to the industrialisation programme and instead promoted public sector reform and "doing business environment". On the basis of this finding, one can conclude that the flow of aid has not provided the catalysis that endogenous actors needed to promote economic transformation. Unlike in political transformation, where just a little catalytic aid was needed to support endogenous efforts and commitment, in economic transformation catalytic aid was absent.

Generally, Ghana has not used much of its aid money to invest in productive sectors that would sustain growth. Ghana's political settlement among ruling elites is to pursue a democratic process on the basis that it will help maintain political stability and subsequently enable them maintain their private interests. With political stability, aid would also continue to flow to supplement, if not substitute for, mismanagement of local resources. Responses by EU and USAID officials seem to support this:

> There are some fundamental values that govern EU societies that are recognised by the UN. And that is human rights, rule of law and democracy. Through foreign aid we promote these values. These values are core or overarching in our development policy. So, countries or governments that do not observe these values receive less aid from us. Ghana, being a democratic state and respecting the rule of law, is attractive to our foreign policy and likely to receive extra foreign aid. Though, given that Ghana has developed economically and is now a lower middle-income country, aid will decline a bit in the future, but the motivations for giving aid is not only economic (Interview with an EU official, 19 August 2015).

While many donors acknowledged corruption and mismanagement as some of the challenges in the country, they also argued that democracy is not the cause of these challenges. They still believe that there is work to be done on building strong institutions in the country. This is also the rationale for giving aid, because many of the donors do not believe that Ghana needs a different type of politics than what pertains in their own countries.

> Yes, implicitly we support democratic regimes even if economic performance is poor. Democracy is also about rights of the people. With democracy, the voices of the people are represented and this is basically what you want to achieve at the end. Development is about what the people actually want (Interview with a USAID official, 17 August 2015).

> Ghana needs both institutions and leadership to work. What I have observed is that the Constitution does not facilitate proper balance of power and proper accountability of the President. I think there is too much power vested in the President. That is why you end up with the winner-takes-all government. That is why you invest so much in elections because once you are there you can take it all, which is poor institutionally. In addition, you also need a lot of qualified lawyers to fill the judiciary posts and prosecute corrupt cases. Those are the actors that let institutions work and reduce the culture of impunity. You need to have attorneys who are actually

lawyers and not police officers, many of whom have little training in law (Interview with an EU official, 19 August 2015).

The experiences of African countries that have transitioned from aid dependency show that the central plank of their strategies involved taking control of domestic policy, ideology on pursuit of development, and ensuring that donors worked within a national development plan or vision. For instance, in Botswana in the 1960s and 1970s, the ruling Botswana Democratic Party negotiated with donors to invest in projects that were within the national development plans and scrutinised and accepted only projects that were consistent with government priorities. It also resisted donor-led and managed project enclaves (Whitfield and Frazer, 2010:351).

Notes

[1] Although privatisation of state-owned enterprises (SoE) began in 1988 as a conditionality for aid, most of the actual sales took place after 1993. By 1992, only 73 of the 317 SoE earmarked for divestiture had been sold (Adda, n.d.: 5).

[2] This included agricultural diversification, national agricultural research, national agricultural extension services, national feeder roads, national livestock services, coastal wetlands management, environmental resource management, and agricultural sector investment projects.

[3] In September 2007, the government issued a 10-year Eurobond with 8.5% interest to raise US$ 750m from the international capital markets.

[4] In a press release, the IMF listed a number of challenges that Ghana's political economy was facing. These included fiscal discipline and limits on government borrowing.

[5] This loan was divided into two: a concessional loan of US$ 270m with a 2% interest rate and a US$ 292m commercial loan to be repaid over 20years.

[6] Corruption is discussed extensively in section 6.5.

[7] GIFMIS is an acronym for Ghana Integrated Financial Management Information Systems, which involves the use of various integrated electronic financial modules in the management of public funds. It was created in 2009 with the aim of promoting efficiency, transparency and accountability in public financial management through rationalisation and modernisation of budgeting and public expenditure management of the Government of Ghana (GoG). GIFMIS is jointly funded by GoG, DFID, EU and DANIDA.

[8] "Total external debt is defined by the World Bank as "the sum of public, publicly guaranteed, and private non-guaranteed long-term debt, use of IMF credit, and short-term debt. Short-term debt includes all debt having an original maturity of one year or less and interest in arrears on long-term debt. Data are in current US$" (World Bank Data Base, 2014).

[9] The coalition comprised ordinary workers, army officers, Left-wing intellectuals who later became capitalists, and donors (mainly IMF and World Bank). And given the authoritarian nature of the government, Ghanaian elites and previous power and resource holders accepted a "culture of silence" as the order of the day until the country transitioned to multi-party democracy in 1992.

[10] Many of the interviewees including officials from the Ministry of Finance indicated that the revenue from oil had been added to the general government budget hence difficult to pin-point one infrastructure project that was an investment solely from the oil revenue.

[11] A slum settlement in Accra that was earmarked for demolition by a Ghanaian Court but various governments have failed to enforce the court ruling because of potential lost of votes.

[12] A US$298 infrastructure project in Ghana's second largest city (Kumasi) to redevelop the central market and bus terminals.

[13] In July 2007, the Bank redenominated the Ghanaian cedi by eliminating four zeros from all nominal prices, putting the cedi a little higher than the US dollar at the rate of 1 cedi = $1.05. With over 60% of the economy being informal, the redenomination significantly reduced both transaction costs and the risk of carrying big amounts of cash around.

7 Conclusion and Reflections

7.1 Introduction

Ghana's economic and political progress is the subject of much debate among development analysts in and outside Africa. Whilst many tout the country's progress as a success story, critics are quick to point out that Ghana is not different from any other aid-dependent African country. A comparison of Ghana's level of development with that of some of its peers from the early 1960s to date gives weight to the critics' arguments. As indicated in Chapter 1, in the early 1960s Ghana was considered a middle-income country, with per capita income of US$ 490. That was comparable with Mexico and South Korea, and far higher than all the countries in sub-Saharan Africa. However, these non-African countries that were considered peers have since multiplied their GDP per capita several-fold while Ghana continues to wallow in the shadow of its 1960s status. For instance, South Korea has transformed from being aid-dependent and poor in the 1960s to a developed country that also provides development assistance to low-income countries. The South Korean economy is the thirteenth largest in the world (Kim, 2013). Kim's comparative analysis of why and how foreign assistance catalysed South Korea's economic transformation, but less so in Ghana, attributes the difference to a number of factors, among them policy choices, political leadership, types of foreign aid provided to the country, and the role of colonial powers.

The current in-depth study has followed up on some of these determining factors, using the concept of aid as a catalyst to development. The general objective was to push further the frontiers of that concept. To accomplish that overarching objective, the thesis used Ghana as a case study to explore the extent to which aid has been a catalyst to the country's political and economic transformation in three time periods (1957-82, 1983-92, and 1993-2013). The study asked four specific questions: (i) What relevant challenges characterised Ghana's three periods of economic and political transformation, and to what extent have these challenges been addressed? (ii) How did endogenous drivers (political and economic structures, institutions, agents, and ideas) respond to the country's economic and political challenges? (iii) How did foreign aid interact with endogenous drivers, and to what extent did it possibly play a catalytic role towards the country's economic and political transformation? (iv) On the basis of Ghana's experiences with aid, generally under what conditions can aid be a catalyst?

The thesis systematically followed the analytical framework developed in chapters 2 and 3 to answer the research questions. Using primary and secondary sources of information, and constructing a chain of causal mechanisms and effects (process tracing), the three analytical chapters provided answers to how foreign aid and endogenous factors interacted in each of the three phases to achieve the level of economic and political transformation and development that Ghana has today. This final chapter summarises the study's findings and conclusions, and further reflects on the concept of aid as a catalyst to draw some general policy implications for Africa.

7.2 Summary of Findings

7.2.1 Ghana's economic and political challenges from 1957 to 2013

The analysis found a number of intractable challenges bedevilling Ghana's economy and politics since 1957 to date, and hence holding back the country's development and transformation. The challenges are structural, institutional and policy related. If aid were, indeed, a catalyst to development, then it would attempt to facilitate the efforts of endogenous actors to address those challenges. The following is a summary of some of the challenges.

Weak economic structure, inadequate investment in transformation and consequent excessive demand for foreign exchange

Ghana's economy since independence has been led by agricultural and primary commodities. The mode of production has been a traditional smallholder or peasant farming system with little use of technology. Agrarian transformation has been weak. There are also weak forward and backward linkages between agriculture and agro-industry. The reliance of the economy on a few primary commodities like cocoa beans, gold, timber, and recently crude oil, means that the terms of trade have never favoured the country. An initial attempt to diversify the economy through import-substitution industries was a complete failure because of political patronage and inefficient management. Endogenous drives towards structural transformation have been weak and inconsistent for two reasons: First, various political regimes have failed to push for transformation from above. Neither the military regime nor the liberal democratic regimes have invested in agricultural transformation. Governments have looked at short-term gains and have not invested many resources in productive sectors like agriculture, which is the first step to economic transformation. They have invested in infrastructure, which is "eye-pleasing" to the electorate, in order to win votes. The second reason is the poor organisation of producer associations to push for transformation from below. With the exception of cocoa farmers, none of the associations of producers has a cohesive bargaining influence to compel ruling elites to support productive sectors. Many of the strong associations represent import and trading businesses and there are few in production. Business associations comprise contractors that have strong linkages with political parties, especially the ones in power, and have strong incentives to maintain the status quo that emphasises trading in imported goods (Oduro et al., 2014).

One of the consequences of Ghana's weak economic structure is inadequate inflow of foreign currency. This challenge is compounded by high demand for foreign exchange to import goods from abroad, thereby putting pressure on the local currency. In January 2014 alone, the Ghanaian cedi lost about 7% of its value against international currencies, especially the US dollar. The country's inability to earn sufficient foreign exchange through international trade was the main reason why Nkrumah's industrialisation programme failed. In 1983 and 2014, inadequate foreign exchange to maintain the value of the local currency from depreciation was also why Ghana had to go to the IMF for a financial bailout. If a country does not produce much of what it consumes then there is always demand for foreign currency to import goods from abroad.

Ghana currently spends US$ 1bn to import food. In 2014, rice importation alone amounted to about US$ 600m and sugar, tomatoes, vegetable cooking oil, frozen fish, poultry and wheat an additional US$ 400m (Government of Ghana, 2014). Thus, there is always pressure on available foreign exchange. This problem has been worsened by unbridled trade liberalisation that allows importation of everything into the country. Foreign aid, therefore, comes in handy to supplement the country's foreign exchange shortages; but, because much of the aid is not invested in productive economic sectors that can increase exports to earn more foreign exchange, or invested in areas that will produce much of what the country imports, foreign aid has not helped to meet Ghana's economic challenge.

While foreign aid has not provided the needed catalysis to productive sectors, the country's history of political patronage and inefficient management of import-substitution industries has also not helped to rekindle state support to productive sectors. With the exception of Phase I, and specifically during Nkrumah's regime, politicians and many senior economic advisors to various governments have become fixated on the ideology of state retreat and creation of an enabling environment for private sector development. Since 1986, Ghana has imbibed an overdose of neoliberal ideas that the state is not good at production; the state is only good at leading from behind. However, the so-called enabling environment over the years has not attracted private sector investment to the manufacturing sector that can create jobs for the growing urban population. Ghana's economy is suffering from the missing middle - manufacturing; in fact, broadly speaking, from a weak industrial sector. The state has retreated from production while the private sector, both foreign and domestic, has been hesitant to invest in manufacturing. Former President Rawlings recounted his experience in 1988 when his government requested support from a major donor to build modern grain storage facilities in a major cereal production area:

> I recall that once, in the mid-eighties, the PNDC approached a donor with a proposal to build modern grain storage facilities in areas of major cereal production so that we could buy from the farmers at harvest time, prevent post-harvest losses and release grain for sale during the lean season. To our utter surprise, the donor refused, saying that it would "interfere with market forces". Where are the market forces? Meanwhile, excess grain production was leading to falling prices and total waste. But the donor was

not interested (Interview with former President Rawlings, on 2 October 2015).

The Ghana government, apparently having realised the need to invest in the productive sector, in 2014 proposed to establish the EXIM Bank to provide direct funding to productive sectors that would focus on exports so that the country could earn more foreign exchange. In view of the government past failures with import-substitution industries, the state is hesitant to be a partner and hence the EXIM Bank will only offer loans to the private sector.

Finding the best-fit economic policy

Ghana has muddled through different economic policies, looking for the best fit for its socio-political context. As Chapter 4 showed, from 1957 to 1982, Ghana for the most part pursued socialistic policies making state institutions the engine of economic growth. Nkrumah argued against developing a capitalist society because that would be inconsistent with the country's context.[1] Little foreign aid was invested in the socialistic economic policies because the major aid providers of that time did not subscribe to them. Some of the experts interviewed for this argued that, had foreign aid supported Ghana's preferred economic policy (socialism or state-led development), the country would have probably built a strong developmental state such as Singapore or South Korea, which also began their transformation with a high level of state patronage.[2] The state enterprises could have built up their capacity. This was because the two countries They pointed out that South Korea had received substantial aid, mainly grants, from the United States and Japan, which it was able to build on and develop without being saddled with very high foreign.

However, others labelled this argument as being counterfactual, that is, based on suppositions of what might have happened under different circumstances.[3] They contended that even if foreign aid had been substantially invested in socialist economic policy, there was no guarantee that Ghana's would have been transformed. For example, Tanzania had unsuccessfully experimented own version of African socialism, called Ujaama, even though it had received a considerable amount of donor aid, especially from the Scandinavian countries. It is estimated that about US$ 10bn of aid poured into Tanzania over 20 years (Ayadole et al., 2005:1). However, the economy contracted at an average rate of 0.5% a year from 1973 to 1988. In fact, there is no evidence of successful socialism from any African country. As shown in Chapter 4, Ghana almost became a failed state by 1983 due to many factors among them was socialist policies. One of the key outcomes of the socialist policies was disincentive to production and promotion of rent seeking, leading to endemic corruption in the country.

Many African leaders and analysts believe that had Ghana and many African countries not overextended the role of the state in development, the private sector could have triggered structural transformation as happened in Southeast Asia. Countries in SE Asia switched to capitalist policies and promoted exports and private sector growth instead of instead of import-substitution industries, which enabled them to develop faster than socialist African countries. President Aboulaye Wade of Senegal once said, "Countries that have developed—in Europe, America, Japan, Asian countries like Taiwan, Korea and Singapore—have all believed in free markets. There is no mystery there. Africa took the wrong road after independence." (Ayedole, et al., 2005:1). Although the literature shows that the transformation of countries in Southeast Asia -South Korea, Singapore, and Malaysia involved significant statist policies with state patronage, the difference was that they managed state enterprises better than Ghana and the rest of Africa did. Given Ghana's socio-cultural and political context of patronage, the adoption of control regimes hurt growth and also contributed to elite capture.

By 1983, many Ghanaians were convinced that the economic policies had failed, and the drive to an alternative economic policy like capitalism was welcomed even if they did not know the consequences. From 1983 to 1992, Ghana implemented economic neo-liberal policy reforms that received IMF and World Bank financial support. Foreign aid from the Bretton Woods institutions helped to shore up Ghana's fiscal needs (balance of payments and budget financing) while contributing to macroeconomic management and stability. The general assessment was that aid was successful in reversing the economic decline. GDP growth moved from negative to positive. Since then Ghana has seen economic growth averaging 5% over three decades (1983-2013). Throughout the 1980s, Ghana earned high marks for its policy reform.

However, in the Ghanaian political and economic history this period remains a contested one. While many analysts praise the new policy regime, others term the era as a lost decade and accuse the neo-liberal governments of squandering opportunities for achieving sustainable economic transformation and economic takeoff. Describing the neo-liberal policies as "Reaganomics gone berserk", the critics say that the policies damaged the economy in many ways, to such an extent that Ghana may not be able to recover from their effects for many years to come (Lewis, 2005). The analysis in this thesis showed that Ghana could not have dealt with the economic crisis amidst the three endogenous factors and four exogenous shocks that paralysed the economy in 1982/83. The IMF and World Bank grants and loans boosted government spending on basic necessities. If that flow of donor money had not come, the country would have been unstable, since coup leaders had always tried to justify their action by pointing to widespread economic hardship in the country. Thus, in the absence of development assistance by the IMF/WB, and later by bilateral donors, the economic hardships would have worsened, leading to violence. Ghana might have been counted as yet another failed state.

In the late 1990s, the World Bank issued a series of reports showing that countries like Ghana, Guinea, Kenya, Côte d'Ivoire and Mauritius, which had adopted strong structural adjustment policies, had performed better than weak and non-SAP countries like Angola, Cameroun, Mozambique, Chad, Rwanda and Uganda. However, UNECA (n.d) disputes the World Bank's assessment.

Towards the beginning of the new millennium, Ghana's economic policies, inspired by the international community, focused on poverty alleviation. Currently, the policies lean towards unbridled neo-liberalism and there is lukewarm government support for productive sectors. The role of the state in economic development has changed substantially since 1983. The post-independence state was inefficient, but no donor proposed help to improve the management capacity of the government. Instead, when a later government approached the IMF and World Bank for aid, the conditionality was replacement of the economic role of the state with the market-driven private sector. With the support of the endogenous leadership, the economic role of the state was dismantled.

Recent experiences in Southeast Asia, China, and Brazil show that it is rather involvement, not withdrawal of the state that promotes economic transformation. In Ghana, the rigid implementation of neo-liberalism has crowded out policy-making by Ghanaian governments to the extent where it is almost taboo for the state to contemplate direct support to productive sectors. The cocoa sector is the only one that almost all political regimes coalesce around to ensure continuous production. Politicians and civil servants in Ghana would like to pursue a policy that provides incentives to productive sectors of the economy in the context of donor projects, but as long as donors do not invest in productive sectors, very few of the state's resources are committed to those sectors.

Of course, politicians have their own reason for wanting to support productive sectors: job creation, which would strengthen them electorally. And if there were donor interest in and financial support to productive sectors, there would be project perks that would come to politicians and civil servants directly. These are an important factor in determining the level of their commitment after signing on the dotted line. The World Bank's support projects for non-traditional exports in the mid 1990s are an example of how lack of interest and unsuitable policies can combine to undermine projects. The government did not have its own strategy for supporting the industry, so it merely followed the World Bank's lead. The World Bank focused largely on providing short-term credit to cover shipments and neglected long-term credit for expanding the working capital of the small-scale private sector entrepreneurs (Whitfield, 2011d). In the end, the overall effect of the projects did not meet the World Bank's expectations.

Ghana's industrial sector as a whole has been affected by lack of support. Governments have not implemented any plans to support industry and donors have not been interested in putting money into the sector. Unsurprisingly, the size of the industrial sector shrank in the 1990s. The only time when there seems to have been direct support to manufacturing industries was in 2006 when the NPP government decided to fund industrial development. However, when the NDC came to power, not much of this state support was provided. The bottom line is that Ghana has not managed to chart out the best-fit economic policies that would suit the economic challenges facing the country. Inadequate foreign exchange, poor terms of trade and consequent BoP deficits, and economic fragility, exist today as they did many decades ago, and the country continues to receive donor assistance and IMF/World Bank policy prescriptions that so far have not led to economic transformation.

Finding a good-fit political system to complement economic policy

Ghana's pursuit of economic transformation also means that the country needs to find an appropriate political system that would not only complement economic policy but also be in sync with Ghanaian society. It requires a political system that would enable the design of development policies and allocation of resources, including aid money, to the right investment that would expand economic rent. Ghana began its developmental trajectory with a political system that was akin to that of its colonial government. The founding political party and government, CPP, soon found that the political system—the Westminster model—was difficult to work with and changed it to a one-party model. As the analytical chapters showed, from 1957 to 2013, Ghana shifted from one political system to another, searching for the best fit. Since 1992, Ghana appears to have settled on multi-party democracy characterised by a competitive clientelistic political party system. That political system has generated perverse incentives for governments to look for short-term projects that enable them to win elections, rather than long-term planning towards economic transformation and development.

Incumbent governments, whether NPP or NDC, engage in a widespread state patronage to remain in power. They hardly consider the long-term economic repercussions of their short-term political gains. The large fiscal deficits following every election year increase the public debt, and because these expenditures are not for productive activities but purely for consumption, there is no corresponding revenue generation. In 2012, the NDC government overspent the budget to the tune of 11.8% of GDP, while the approved target was 6.7% (MoF, 2013). Ghanaian governments have little inclination to exercise fiscal discipline while talking much about immediate "bread and butter" issues. Hence, there are doubts as to whether the use of ODA in budgetary support is the appropriate catalyst that the country needs. Research in Thailand and Bangladesh (Webster et al., 2009) shows that the negative effect of competitive clientelism politics can be neutralised if the country's economy has seen some degree of transformation. In Ghana's case, there has been little desired economic transformation, so a little wastage of resources translates into macro-economic instability because the absorptive capacity of the economy is small.

An efficient, committed and disciplined state bureaucracy

According to Leftwich (1995: 401) developmental states are those "whose politics have concentrated sufficient power, autonomy and capacity at the centre to shape, pursue and encourage the achievement of explicit developmental objectives." An efficient, committed and disciplined state bureaucracy is one of the major challenges to aid catalysis in Ghana (Andrews, 2010). After years of donor-supported reforms, bureaucracy in Ghana does not function as an instrument for achieving social and economic goals, nor does it effectively complement the private sector to achieve a set target of the state. State bureaucracy functions more as a patronage institution for the government, or for individual benefit. State bureaucrats and public officers consider the perks that come with donor projects more than how much they are contributing to any identifiable national development goals, policy or programme. The relationship between politicians and bureaucrats is a key determinant of the success of a developmental state model.

Democratic developmental leadership with the right attitude and vision

One of the key developmental blockages facing Ghana is the lack of leadership with the right attitude and vision. Since Kwame Nkrumah's overthrow, for more than four decades many Ghanaian leaders have had a similar orientation towards the development process, have been implementing similar neo-liberal policies, and have been engaging in patronage politics. An expert interviewee who has witnessed all the leaderships and regimes in Ghana observed:

> Ghanaians and our development partners are fixated with democracy that leads to a change of presidency, but not inspired by any positive change in ideology and policies. Our leaders do not have their own ideology. Since the overthrow of Nkrumah, those who believe that Ghana is capable of solving its problems have not led Ghana or have never come to power. The overthrow of Nkrumah brought an end to endogenous ideology and drive towards development. Under certificate of urgency, Parliament passed a law that prohibited the holding and circulation of photographs of Nkrumah in 1969. That is how far we went in destroying endogenous or alternative ideology to the Western narrative about development. So, if today we are not getting alternatives ideas and all our leaders behave in the

same way, it cannot be divorced from colonisation (Interview with a social commentator and journalist 07 August 2015).

Many of the experts interviewed find a resonance with the above viewpoint. As shown in the analysis, apart from Nkrumah and Rawlings when he was heading a military regime, no leader has emerged with a radical vision that offers a possible solution to the developmental challenges facing Ghana, and who has managed to carry the people along that visionary path. Countries that have successfully transformed their economies (Singapore, Taiwan, Malaysia, South Korea) had presidents who were transformational. They charted a developmental path and ensured that the processes were cascaded down to influence the work ethics of the public servants.

7.2.2 Transformed politics: from military dictatorship to fully-fledged democratic rule

Ghana has become one of the most politically transformed countries on the African continent. A country that in a period of 35 years (1957-1992) has had only 13 years of democratic rule and 22 years of military dictatorship; and in the 1980s was described as one of the most elite unstable countries in Africa, is now a model of democratic governance for the continent. Since 1992, Ghana has organised seven competitive democratic elections judged by local and international observers to be free and fair. Opposition political parties have defeated ruling parties in competitive elections that would have degenerated into chaos in many sub-Saharan countries. There are clear separations of powers between the Executive, Judiciary and Legislature. While there are weaknesses in the current structure—for example, too much power is bestowed on the Executive—; it is not comparable to the periods of military rule when all powers resided in the head of state. There is also a vibrant media that provides a lot of political discourse, helping to inform the public. The political instability associated with frequent military takeovers is a thing of the past and is highly unlikely to happen again in the near future.

Ghanaians have resolved to organise their politics through multi-party democracy and they believe that even imperfect democratic rule is better than military dictatorship. Afro-barometer studies (surveys 1-5) over the past years consistently show that 80% of Ghanaians prefer democracy to military rule (Afro-barometer, 2008). Since 1993 there has been no attempt by political groups or the military to overthrow the government. The country is highly stable; the occasional tensions during elections have not escalated to threaten state stability.

Nevertheless, one has to be careful not to be carried away by the substantial progress that Ghana has made in political transformation. There remain questions regarding the quality of democratic institutions that have been developed. For instance, the democratic system dominated by two parties has led to a competitive clientelism political settlement that is not promoting productive economic transformation in the country. To a large extent, Ghana's democratic institutions have generated more perverse actors who look out for their personal interests and use formal institutions and processes to protect their interests. A litany of corruption cases, instead of accountability, is what Ghanaians have become accustomed to as the by-product of the current political settlement. Though they detest its prevalence in the country, their strong resolve to continue having democracy has given ruling elites perverse incentives to pursue more short-term and club goods instead of long-term public goods. The current political settlement has had strongly negative influence on inclusive growth and development.

7.2.3 Ghana's economic growth without structural transformation

Ghana's economy has seen growth averaging about 5% over the last two decades. This has translated into 2.8% per capita growth per annum (Government of Ghana, 2010:4). However, there has been little economic structural transformation in the country. The stylised fact about economic transformation is that agriculture's contribution to GDP, agricultural employment and agricultural exports decrease, while those of industry increase, and later this transformation cascades to the value added service sector. According to the literature, this conventional path to economic transformation starts with productivity gain in the agricultural sector through science and technological innovation. From 1960 to 2013, Ghana's economy experienced unconventional structural changes (as shown in Figure 1.4). Agriculture's contribution to GDP has fallen from 50% in 1965 to 22.7% in 2012. Instead of this reduction benefiting industry in a stylised structural transformation sense, industrial growth has been abysmal. From 1957, when industry was virtually non-existent until Nkrumah's policy of import-substitution industrialisation, the contribution of industry to GDP growth rose to 23% in 1967. It has fluctuated since then, reaching its lowest level at 10% from 1982 to 1985. It rose in late 1990s to mid 2000s, but growth has never gone beyond 30% of GDP throughout the five decades of the country's quest to achieve economic transformation. It is the service sector that has seen massive growth; contributing more than 50% to GDP. As noted earlier, Ghana's industrial sector performance is far lower than that of many of its counterparts in the region.

Since 1985, Ghana's economy has seen consistent growth, though not comparable to the achievements of the Asian countries during their period of transition to economic development. The remarkable difference is that the Asians achieved their growth with economic structural transformation, not without it. There was productivity increase in smallholder agriculture, and industrial growth. Their economic transformation follows a similar pattern in the industrial world. Throughout history, no country has achieved sustained growth without transformation of the structures of the economy (Kuznets, 1966). Ghana's, and much of Africa's, structural transformation does not follow the normal pattern. Industrialisation, and particularly the manufacturing sector, was the key in the industrial revolutions of Western Countries as well as Southeast Asia. The service sector that is now leading in terms of employment and contribution to GDP has not propelled Ghana and many SSA countries to an economic breakthrough. Without proper structural transformation that links agricultural productivity with industrial policy, as happened in Southeast Asia, a country like Ghana can at best achieve economic stability if growth is fuelled by aid and natural resource expansion, but it may stumble several times on the path to sustainable economic growth. This is what has begun to happen to Ghana's economy.

Five decades of Ghana's association with foreign aid has done very little to improve industrial performance. The economic challenges of inadequate foreign exchange, poor terms of trade and consequent BoP deficits, and economic fragility, exist today as they did many decades ago, and the country continues to receive donor assistance and IMF/World Bank policy prescriptions. Ghana's exports composition has changed very little over decades in comparison with other high-growth nations. Exports still consist mainly of unprocessed agricultural commodities and extractive natural resources, and recently crude oil. Primary commodities account for about 50% of Ghana's GDP and 90% of exports. Though economic growth has continued over a long period, Ghana is unable to break into the ranks of sustainable high growth countries through exports of raw commodities. This does not mean that Ghana will have to cease exporting the products in which it has a comparative advantage; but unless there is value addition to the primary products, improved terms of trade and balance of payments will continue to elude the country. By adding value to primary products through processing, a link is established with structural transformation as labour can move from agriculture. The agricultural sector still absorbs about 42 % of the labour force, yet it contributes only 32% to GDP. There is no use of improved technology. Hence, the sector is devoid of the needed transformation. Manufacturing has been the weakest sector in terms of contribution to GDP, employment, and exports; the sector needs to grow to ensure sustainable and inclusive development.

Urban areas in Ghana have created a market for consumption of foreign goods and services in both formal and informal sectors. While cities generally present opportunities for manufacturing industries, in Ghana they are an opportunity for trading in cheap foreign-manufactured products rather than production of tradeable goods—the result of three decades of trade liberalisation policy supported by the IMF and World Bank. Ghana's service-sector-led economy is devoid of export-oriented high technology and information production that characterises, for example, India's. Ghana's is dominated by informal small and micro businesses that trade in imported goods and services. All countries that remain poor have failed to achieve structural transformation. The abnormality of Ghana's transformation is that the slight decline in the share of agriculture has not been replaced by manufacturing, but by growing informality in the service sector. Manufacturing has stagnated for a very long time because of the state's failure to transform agriculture and promote industrialisation. Application of technology and science to increase productivity in the agricultural sector, which could drive transformation and competitive agro-processing industries, is extremely slow. According to Kolavalli et al. (2012) high consumption of foreign goods by Ghanaian urban dwellers puts enormous pressure on the foreign exchange rate.

The economic policy orientation of foreign aid in the past two decades has been the neo-liberal approach of getting fundamentals right instead of promoting economic structural change, which is key to driving sustained economic growth. As pointed out by Rodrik (2006) there is a need to focus on both, getting the fundamentals right "improved governance, macro-economic management, openness, rule of law, property rights, better investment climate" right, and also promoting structural change "industrial policy, subsidies for specific sectors, infrastructure and technology investment, and transformation of the rural economy". Rodrik argues that a heavy focus on one and less on the other will lead to unsustainable growth and development. Promotion of economic transformation is one area where aid has failed to catalyse development in Ghana. The country's development partners have focused assistance on getting policy fundamentals right and less on supporting the structural transformation of productive sectors.

Going forward, there are a number of critical factors. There is a need for massive injection of science, technology and finance into the agricultural sector to promote economic transformation. It is impossible for Ghana to reduce poverty substantially if there is no agriculture transformation to propel competitive agro-processing industries for job creation and economic growth.

7.2.4 Catalysis of foreign aid and endogenous drivers of economic and political transformation and development (1957-2013)

Foreign aid as a catalyst to development was found to be key in four channels: providing needed foreign exchange; prodding other reluctant donors to provide additional and complementary support; directly influencing policy direction and political transition; and further nurturing democratic development. This study found that during Phase I, foreign aid was too little to have a significant impact on economic growth and policy direction. In-depth analysis shows that during the early part of Phase I, Ghana had endogenous drivers that could have substantially transformed the economy but very little aid was provided to support their efforts. Then, deterioration of the endogenous drivers led to the worst development outcomes in the history of the country.

If there was one period in Ghana's history when foreign aid was desperately needed (and was given) to catalyze endogenous efforts to change economic policy direction, it was 1983 to 1992. Total ODA injected into the economy jumped from US$ 1,281bn (1970-82) to US$ 4,626bn (1983-92), all in current US$ prices. Annual per capita ODA rose from US$ 9 in 1983 to US$ 50 in 1989. During that period, the IFI's catalytic role in Ghana did not end with directly providing financial resources to the cash-strapped economy, but it also prompted the return of many bilateral donors that had left the country during the turbulent political and economic period. In the early years of the intervention, many bilateral donors had a "wait and see" attitude, but subsequently followed the financial lead and granting decisions of the IMF and World Bank. If the Bretton Woods institutions decided that Ghana had complied with its conditionality, bilateral donors would follow and offer assistance as well. The IFI's aid to Ghana, therefore, not only became a consequence for itself but also was directly linked to larger aid flows to the country.

Foreign aid further provided the catalyst for endogenous efforts to pursue economic policy reforms that previous governments had avoided because of serious political ramifications associated with economic reforms. As foreign aid offset economic shocks and reduced political pressure, Ghanaian authorities became more confident about further pursuing changes. Over time, aid flows to Ghana multiplied seven-fold from 1983 to 1989, as many donors supported a country that was making difficult decisions in a precarious political context. Aid provided the foreign exchange to enable the government to import essential commodities needed by the populace. The inflows enabled the Ghanaian economy to "resurrect" in the crucial period when growth was needed most. In that sense, foreign aid enabled the government to buy support from the population as imports helped filled the empty shelves of supermarkets. It provided a breather for the government because the citizens immediately saw light shining at the end of the tunnel. Aid, in essence, allowed Ghana to escape the catastrophic possibility of being a tagged a failed state.

The country's macro-economic indicators, which had registered negative growth, all began to show positives. GDP growth rose from -4.6% in 1983 to 8.6% the following year and maintained a consistent rate of more than 5% throughout the decade. During the period of reforms (Phase II), endogenous elements were predisposed to making aid work. Whenever the World Bank and IMF considered endogenous resources around which to build growth of the economy, cocoa and gold provided the needed revenue to complement aid. Without the two resources, it would have been difficult for aid alone to resurrect the economy. Ghanaian technocrats also worked hard to make aid work during that period.

Aid conditionality compelled the Ghanaian government to be fiscally disciplined.

In 1992, foreign aid was used to cajole the PNDC regime to return to multi-party democracy. Rawlings was hesitant to turn a new leaf until foreign aid was used in a carrot and stick approach. He was made to understand the consequences of foreign aid being withheld for not pursuing democratic governance. The financial and technical assistance that donors provided for the transitional process and to the Electoral Commission was an important catalyst. Aid supported election monitoring and institution building. Much of the budget of civil society organisations that supported democratic governance in Ghana came from donors. While foreign aid has been a major catalyst to the transformation process, much of the credit must be given to Ghanaians for resolving to be ruled democratically. Compared with countries in the sub-region that also received substantial donor support to promote democratic reform, Ghana did not need much aid to bring about a rapid political transformation, because endogenous institutions and actors committed themselves to political discourse. They felt that they owned the process and were determined to make it work. With a little financial and technical support, in addition to moral pressure on the military regime, Ghana was ready to pursue political transformation that had failed to thrive in previous attempts.

After the 1992 democratic elections, foreign aid increased substantially, reaching an annual average of US$ 600,000m in current prices throughout the decade. By 2004, the contribution of ODA to GDP had reached US$ 1.4bn a year, more than the total sum received from 1970 to 1982, and by 2012 an all-time high of US$ 1.8bn. Though increased in absolute terms, the catalytic role of foreign aid to the economy began to experience diminishing returns by the late 1990s, as its continuous flow did not trigger much positive response from endogenous actors. The catalytic role of aid became less effective because the context within which it was provided changed substantially. During Phase III, Ghana became less desperately in need of the catalyst, as compared with Phase II. To quote Tsikata (2011), foreign aid had left Ghana in an "economic vegetative state" in which the economy did not respond to aid or become worse off with additional doses of it. Many endogenous elements began to react negatively, thereby deactivating the potency of aid as a catalyst to development. The subsequent decline of aid as a percentage of GDP and government expenditure gives the impression that aid could have been done without.

During the era of competitive politics, fiscal discipline, which was one of the major catalytic roles that IMF introduced in its relationship with Ghana, was largely ignored during election years. Whenever there was a general election, the government incurred large budget deficits. This happened during the 1992, 1996, 2000, 2008 and 2012 elections. The immediate outcomes of fiscal indiscipline have been macro-economic instability (high inflation and interest rates, and unstable foreign exchange rates). Also, as a result of competitive clientelistic policies, Ghana has witnessed unprecedented levels of corruption during multi-party democracy. With so much money not linked to productive sectors but rent seeking through political side payments, the challenges of fiscal indiscipline and macro-economic instability occur regularly in the management of Ghana's economy. Loans are contracted from bilateral and multilateral donors, and also from commercial private capital, but very little of the money is invested in productive sectors. This means that fiscal discipline is sustainable when endogenously generated, but it cannot be induced by foreign aid and enforced by conditionality. The instances of policy slippage every four years suggest that sustained commitment to fiscal discipline is needed to enable the economic policy that aid catalyses to work, but the Ghanaian politicians cannot be pinned down on that attribute because that would mean losing elections to their competitors. In the absence of that endogenous discipline, foreign aid just replaces wasted endogenous resources.

The findings of the study imply that foreign aid should have ended 10years ago in Ghana, when it lost its positive catalytic effect. By 2007, foreign aid's contribution to GDP had fallen substantially, and it continues to decline further. The continuous flow of aid into the country became distractive because it got the leadership used to not thinking about economic management without the presence of aid. At the backs of their minds, ruling elites believed that when the economy worsened after mismanagement of endogenous revenue, donor money would come to the rescue. So, they cared less about the amount of debt stock they incur. In 2005, Ghana's debt was substantially reduced by more than 50% as a result of HIPC. Cancelling debt and replacing it with new aid did not help the country; less than a decade later, after spending a considerable amount of endogenous revenue on unproductive activities, the country was back to the 2005 debt level.

Another area in which foreign aid became a negative catalyst to Ghana's development was its role in making the public sector less proactive in promotion of development. Under the guise of structural adjustment policies, and specifically civil service reforms, the World Bank and IMF instigated dismantling of development planning in Ghana. It prevented the establishment of planning departments (Whitfield and Frazer, 2010:356). However, studies of many successful developmental states show that state bureaucracy and planning were key to their success (Picard, 1987; Kim, 2013; Thovoethin, 2014).

In summary, during the past 56 years that Ghana has been associated with foreign aid, different forms of catalysis have taken place. Tables 7.1 and 7.2 summarise the study findings and conclusions for each of the three phases.

Table 7.1
Summary of Economic Catalysis in the Three Phases

Attribututes Of Catalytic Foreign Aid (ODA)	Period		
	Phase I (1957-82)	Phase II (1983-92)	Phase III (1993-2013)
ODA as accelerator of endogenous resources and investment drive	Very little of a catalyst was added to endogenous substances. Given the high activation energy of endogenous leadership, developmental state ideology, resource endowment and political institutions, if aid had been meant for economic transformation it would have been the best catalyst, but Cold War ideology and mode of aid at that time made its facilitation role less catalytic.	There was substantial provision of ODA that facilitated endogenous drive to economic policy change and growth.	ODA was substantial but gradually lost potency to influence change. Endogenous institutions and actors produced negative reactions to deactivate the potency of the catalyst to influence changes. Continuous flow of aid was unable to induce change; in fact, aid itself has become a negative catalyst.

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Attributes Of Catalytic Foreign Aid (ODA)	Period		
	Phase I (1957-82)	Phase II (1983-92)	Phase III (1993-2013)
ODA providing a convenient surface for endogenous drivers to react	Cold War ideology that dominated ODA at that time did not provide a convenient space for its effective use for development. The Cold War ideology deactivated the potency of ODA to catalyse endogenous resources. Subsequently, visionary leadership was replaced with poor leadership.	In addition to providing money, it also provided a convenient platform to rally other donors and fostered economic policy reforms. Aid was able to deactivate endogenous energy coming from institutions and actors, thereby enabling positive catalysis to take place.	Growing endogenous resources and institutions made ODA superfluous at some stage.
Disposition of a recipient country's drivers to react to catalytic aid	Endogenous drivers (leaderships in particular) were not predisposed to working with aid.	Endogenous drivers were highly disposed to working with aid. Depleted resources but committed leadership catalysed effectively with adequate amount of a catalyst. The overall condition was good for aid to work.	Endogenous actors were disposed to working with aid, but for perverse reasons (to replace wasted endogenous resources)
Selecting appropriate catalyst to yield preferential transformation	Aid was less as grants and more as loans. Also, a substantial part of the aid throughout the period was trade commodity and tied aid. With the exception of Akosombo Dam, not much of the aid was invested in productive sectors to promote economic transformation.	The quality of aid was good. The ratio of grants to loan was good. In addition, there was high disbursement; supported rehabilitation of defunct industries and further targeted economic institutions and policies. ODA helped knock Ghana off its deleterious economic path and enabled the country to achieve economic recovery.	Ghana needed aid that would focus on productive sectors, but aid was invested instead in social sectors. Aid as a catalyst was therefore not the ideal type for economic transformation.
Ideal catalyst would not change	Ideology of aid was heavily influenced by the Cold War. Aid was less developmental compared with its original aim.	The rationale of ODA changed from multi-development to a single ideology of neo-liberalism. Poverty reduction was not a major target of aid	Economic rationale appears not to be the driving force of aid. Ghana's democratic credentials make it attractive to foreign aid.

Table 7.2
Summary of political catalysis during the three phases

Attributute Of Catalytic Foreign Aid	**Period**		
	Phase I (1957-82)	**Phase II (1983-92)**	**Phase III (1993-2013)**
ODA as accelerator of endogenous resources and investment drive	Though quantitatively very little, it was a negative catalyst to political growth.	Very little ODA was devoted to political change. In fact, ODA throughout the period was not targeted at political transformation, but for a good reason.	Aid was a positive catalyst, substantially supporting democratic institutions.
Providing a convenient surface for endogenous drivers to react.	Because of Cold War ideology, aid fostered tension and divided political institutions in the country. ODA later became negative catalyst to state-building.	During the later period of Phase II, ODA was used to cajole endogenous leaders to transition to multi-party elections. ODA also supported local institutions to promote political pluralism.	ODA provided space for endogenous institutions to build up the confidence and capacity to organise credible elections.
Disposition of a recipient country's drivers to react to catalytic aid	Endogenous institutions and actors not predisposed to working with aid to change politics.	Endogenous institutions were predisposed to working with aid so catalysis took place at the appropriate time.	Civil society organisations, political parties and endogenous institutions agreed to organise politics through multi-party system.
Selecting appropriate catalyst to yield preferential transformation	Cold War ideology was the driver of ODA. The type of politics being practised in the country did not matter. ODA provided on the basis of Cold War was a negative catalyst.	Aid focused on economic policy and less on political reforms until 1991 when it influenced transition to democracy.	Ghana's current adversarial competitive clientelistic party system requires ODA that would support promotion of accountability, not budget support.
Ideal catalyst would not change	Compared with the Marshall Plan, the rationale for aid was very much changed by Cold War ideology. ODA to Ghana did not have much of a developmental objective.	Foreign aid focused more on catalysing economic reforms than on political reforms.	Multi-party elections and good governance became the key rationale for providing aid.

7.3 Hypothesising Foreign Aid as a Catalyst to Development: A New Model

Comparing what happened during the three phases of Ghana's development trajectory with what could have been possible if other choices had been made and other types of policies had been adopted, the argument is that such an alternative path was blocked by the current political settlement that is characterised by competitive clientelism. On the basis of lessons learned from the Ghana case study, we can postulate that aid is a catalyst to economic and political transformation and development in a recipient country under the following four conditions:

- A substantial part of the aid money is invested in the economically productive sectors with the objective of promoting structural transformation;
- prevalence of a political settlement based on a dominant political party led by visionary and disciplined leadership;
- availability of exportable value added products;
- availability of a professional technocratic bureaucracy.

7.3.1 Substantial part of ODA invested in the recipient's economically productive sectors

Aid is a catalyst to economic transformation when a substantial part of the money is invested in the productive sectors of the economy. This includes agriculture, industry, economic infrastructure and technology. On the basis of Ghana's experience, this could be about 60% of the total aid money for it to have any catalytic impact. In Ghana and many developing countries, ODA should aim at promoting productivity and structural transformation. Given that a catalyst loses its potency after a period of time, both the recipient country and donors would need to consider a period during which an alternative catalyst would propel growth. In this case, the recipient country would wean itself from ODA and switch to commercial private capital to finance development. If this is not done and aid continues, it becomes just another input that is added to economy without results. This has been the tragedy of Ghana and many other developing countries.

7.3.2 A political settlement based on dominant political party with strong and visionary leadership

Ghana needs a democratic developmental regime that can centralise and manage rent in productive sectors. For this to occur, the current competitive clientelism and adversarial politics has to change. Ghana needs a dominant developmental political settlement where the ruling government does not feel threatened with electoral defeat every four years. A political settlement that is consensus-based, inclusive and developmental in orientation, even if it is patrimonial, would have higher potential to catalyse development than competitive adversarial multi-party politics. This political path may not conform to the Western liberal democracy that Ghana has swallowed hook, line and sinker. The current political setup makes it difficult for ruling governments to plan long-term development. Experience from Southeast Asia and successful African models like Botswana, and recently Rwanda, shows that a dominant party system, a disciplined and technocratic bureaucracy, and a deliberately induced structural transformation policy that has backing from the highest political level, were instrumental in changing the economies of the countries (Booth and Golooba-Mutebi, 2012; Booth, 2014).

In addition, a political settlement based on a dominant party would need to be complemented by a well-disciplined state bureaucracy and a visionary, disciplined and benevolent leadership that would support productive investment over the long term; leadership that would empower institutions but would also be prepared to change institutions if they did not work to promote structural transformation and development. In recent times, the term "benevolent dictator" has been used to describe such a leadership (Hillman, 1992; Russell, 2012; Booth and Golooba-Mutebi, 2012; Matfess, 2015).[4] The unresolved question is: what needs to be done to ensure that such benevolent dictators do not become outright autocrats? Answers to this question are beyond the scope of this thesis.

7.3.3 Availability of exportable and value added products

If aid were to be invested in productive sectors, the recipient country would have exportable products with forward and backward linkages with the local economy. The exportable products would become the centres around which short-term catalysts work to promote productivity and structural transformation. Given a self-disciplined and visionary leadership supported by a dominant political party that is unlikely to lose power, the involvement of the state in productive sectors would not be inappropriate. In fact, most countries that have successfully transitioned into high-income countries have had state patronage towards industry in their developmental trajectory.

7.3.4 Professional technocratic bureaucracy

Development requires effective planning and implementation; a change of attitude from bureaucracy. Given their role in policy formulation and implementation, bureaucrats are in a position to design and implement economic policies and programmes, but as individuals they also have incentives to maintain the status quo if a dysfunctional set-up benefits them. A technocratic bureaucracy that is empowered, motivated and self-disciplined would be needed. Recent studies show that successful developmental states such as Japan, South Korea, Taiwan, Singapore and Botswana developed close political ties between politicians and bureaucrats on the basis of shared values and agreed policy goals (see Johnson, 1982; Evans, 1995; Amsden, 1989; Wade 1990; Charlton, 1991; Leftwich, 1995). Another important characteristic of such developmental states is the power and autonomy of their bureaucracies in the design and implementation of policies (Leftwich, 1995). Johnson sums up how that works in Taiwan: "the politicians reign and the state bureaucrats rule" (Johnson, 1981:12)

Dasandi's review of successful developmental states identifies the key features of the relationship between bureaucrats and politicians that were commonly associated with Botswana and Korea but are missing in Ghana:

> A core group of 'developmental' senior politicians and bureaucrats who work closely together; shared developmental values and vision; shared social class or educational background; senior bureaucrats who were allowed to have significant influence in policy design; bureaucracies that were both meritocratic and 'coherent'—having corporate objectives, values and norms that are widely observed; significant movement between senior political and bureaucratic positions; and bureaucracies that were often subsumed within the dominant political party (Dasandi, 2014:4).

These features, when they exist in a country, have a high probability of promoting the long-term structural transformation that is needed to sustain economic growth and development. For aid to be a catalyst in development, this study's model suggests a number of changes in the current aid design—it must aim at promoting structural transformation, a sure way to achieve sustained economic growth and development. This implies meaningful investments in agricultural productivity and an industrial policy supported by a high degree of political will.

7.4 Optimism of the Drive to a Future Without Aid in Ghana?

The finances of a typical developing country are generated through two streams of financial flows: (i) internally generated revenue through local taxes, foreign exchange derived from export of goods and services, remittances from citizens living abroad, and borrowing from citizens and commercial banks. (ii) External flows through foreign aid from bilateral and multilateral agencies, foreign direct investment and borrowing from the international private capital market. As a country develops economically, internally generated revenue increases to finance the country's budget, and dependence on external support reduces. Over time, a developing country makes a decision to wean itself from ODA though it may borrow or raise funds from the private market. Donors may also automatically cut off aid to a developing country because of the recipient country's new economic status, for instance attaining higher middle-income status, or for other, non-economic reasons. After all, the philosophy of aid is not to keep its role and influence rolling forever.

Policy actions and inactions pursued by recipient countries on both external and internal revenue streams are key contributing factors for ending the need for ODA. Two of Africa's touted countries to have succeeded in weaning themselves from aid, Botswana and Mauritius, received a very high ratio of ODA to GDP at independence. In the case of Botswana, ODA continued to rise through the 1980s, peaking at US$ 120 per capita in 1987, but dropped sharply to US$ 37 in 2012 as a result of a sustained period of economic growth. Through fiscal discipline, good leadership and sound economic management, Botswana has achieved per capita GDP of US$ 15,675 (PPP) in 2013 (World Bank, 2014). During an interview, a senior economic policy advisor in the Ministry of Finance indicated that the Ghana government intends to wean itself from aid.

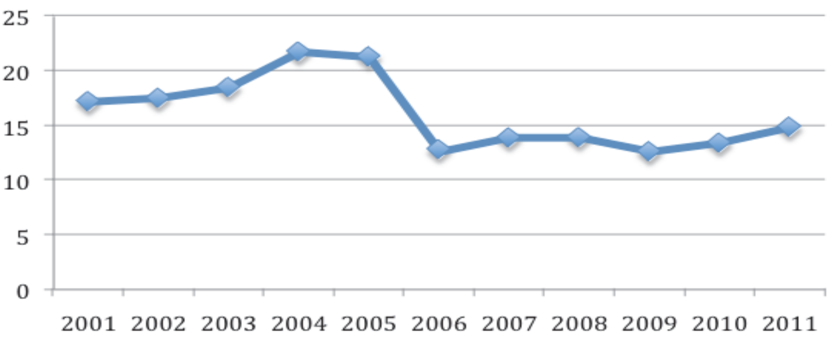
> Ghana's economic growth is sustainable without aid. Absolutely. The economy is run largely on our national resources. Aid currently represents less than 3% of Ghana's GDP, so it is not the determining factor of the economy. Ghana is not the kind of country that depends on aid for its budget. So, weaning is not only possible but also that is the way to go. It must be our national quest to ensure that we are not dependent on aid. We have got a bit of money from oil, it is not huge; we are producing more than a million ounce of gold a year; our cocoa production is expanding. Therefore, it must be our national policy to wean ourselves off aid. Already we are at the stage where we will not collapse if we don't get aid, but we must wean off totally (Interview, 29 July 2015).

However, what basis do we have to suggest that Ghana can wean itself from ODA? From the analysis of the three phases, how optimistic can one be that Ghana is on a trajectory where it may soon not need much foreign aid?

7.4.1 Expansion and growth of local tax revenue

Tax revenue in the form of compulsory transfers to the central government for public purposes is an indicator for assessing a country's level of liquidity to finance its budget. The majority of the labour force in Ghana is in the informal sector, where tax payments are irregular. Expansion of tax revenue would demand more collection effort. In 1990, tax revenue was 11.4% of GDP, but that reduced to 10.8% in 1992 because of the transition to multi-party democracy. Politicians contesting for elections do not like to collect taxes from citizens for fear of losing their support. Nevertheless, after consolidation of multi-party democracy, revenue collection increased from 2000 to 2005 (during President Kufuor's first year in office). Kufuor's government plugged tax loopholes, resulting in tax revenue being 21.8% of GDP in 2004, making it the fourth-highest in Africa, after South Africa, Namibia and Angola. However, it dipped by 2006 to 12.6%, its lowest in a decade, before it rose again to about 15% (see Figure 7.1).

Figure 7.1
Tax revenue as percentage of GDP, 2001-11

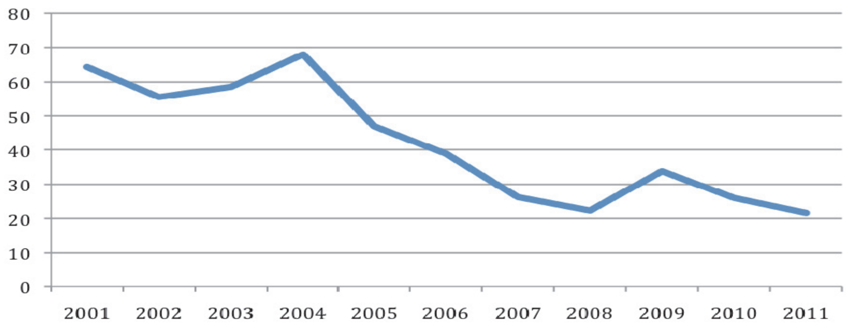


Source: World Bank (Data Base), 2014

For a very long time, Ghana's tax revenue has covered only 50-60% of the total budget. "Tax revenue since the mid 1990s hardly exceeded 80% of total budgetary revenue, 70% of total domestic expenditures, and 57% of total expenditures" (CEPA, 2005:2). Foreign aid and domestic loans account for the shortfall in tax revenue in order to fully accomplish government expenditure.

The study has shown that foreign aid works directly in shoring up Ghana's foreign exchange needs and indirectly influencing economic policy choices. Foreign aid was not significant in terms of volume and policy influence during Phase I. However, in Phase II the quantity of aid helped to fix Ghana's foreign exchange needs, stabilised the economy, and set macro-economic policy reforms rolling. The impact of the policy influence transited into phase III. From 1992 to 2012 ODA though has been increasing in absolute amount, as a percentage to GDP has been falling. If there is a fall in ODA receipt in a particular year it was because of reduction in disbursement arising from sanctions by the IMF/World Bank for fiscal indiscipline and not because the government preferred less of it. An analysis of Net ODA as a percentage of central government expenditure, tax revenue as percentage of GDP, and net ODA as percentage of GDP between 2006 and 2011 all indicate a country that is on a gradual path on weaning itself from aid. One can easily jump to that conclusion and optimism, as there is insignificant amount of reliance on aid. At the time of concluding the thesis in 2016, ODA to GNI had dropped to less than 3%. The optimism that Ghana may be able to wean from aid is gleaned from the country's falling ratio of net ODA received to central government expenditure (see figure 7.2). This has dropped from 68% in 2004 to 21.6% in 2011.

Figure 7.2
Net ODA as % of central government expenditure (2001-2011)



Source: World Bank (Data Base), 2014

In 2007 President Kufuor boldly declared Ghana's withdrawal from credit conditionality of the IMF. Looking at the trend of aid flows over five decades (1960-2012) there was no reason not to sound optimistic about the potentials of Ghana to wean from aid. Ghana has the resources to wean from aid but ruling elites don't have the commitment to do so. The ruling elite believes in aid even if there is no need for it. They want aid so they can expand their patronage to the people in order to win votes. The competitive clientelistic political settlement as described in Chapter six seems to have worsened the effect of patronage politics on Ghana's development.

Countries that have managed to wean themselves from aid used local resources effectively. One of the conditions for effective use of endogenous resources is the integrity of public officers and the prevalence of strong institutions. Unfortunately strong institutions are not in abundance in Ghana. Article 103(6) of Ghana's Constitution gives the Public Accounts Committee (PAC) of Parliament the responsibilities to scrutinise public accounts but less power to enforce its recommendations. It rather relies on the Attorney-General and Minister of Justice for prosecution of cases—the very arm of government that PAC had found culpable to sanctions itself. Several reports of the Parliamentary Committee on Public Finance that have found corruption and misuse of public funds have not gone up for prosecution. Ruling elites will run to the IMF and the World Bank for financial bailout while similar amount from internal revenue is 'stolen', misappropriated and/or mismanaged. Corruption and mismanagement of local resources combined with patronage-based competitive clientelistic political settlement are two key impediments to Ghana's quest to wean itself from aid. Both provides the need to always get extra money wherever it comes from to shore up potential shortfall arising from misuse of local resources. There is appetite for Ghanaian ruling elite to develop new institutions to check corruption at least gleaning from the number of such new organisations[5] that have been established since 1992 but the political will to provide such institutions the autonomy and power to effectively check corruption is weak. It appears that the current political settlement that enables the citizens to vote out a ruling political party and bring in an opposition appears inadequate to check corruption or promote accountability.

Apart from institutions, there are other key factors that inhibit Ghana's development — the lack of exemplary leadership. While the 'Western narrative' eulogises institutions as key ingredients to development (North, 1990), in Ghana and much of Africa, there appears to be over-exaggerations in the potential transformative power of institutions. This is because institutions do not function as 'invisible hand' as described in the free market economy. In Ghana and much of Africa, leadership makes institutions work. The potency of Parliament, the Police, Ombudsman, Human Rights Commission, Serious Fraud Office (SFO), Economic and Organised Crime Office (EOCO), etc. to check corruption relies on the leadership that is committed to letting these institutions work. Leadership has the capacity to suspend institutions including the Constitution. Perhaps Ghanaian institutions will need longer time to become independent of the leadership but for sometime to come, exemplary or developmental leadership[6] is what is needed to let institutions work. And as long as Ghanaian leaders have not been exemplary, there is always the lingering thought to request for foreign aid. According to many of the experts we interviewed a rude awakening that 'aid is dead' to borrow Moyo's terminology, is perhaps the surest way Ghana would wean itself from aid but not through voluntary action by governments or policy makers. This is not because the Ghanaian economy cannot survive without aid but because it is not in the interest of governments to voluntarily end aid as long as donors continue to provide.

> Ghana can easily wean from aid without encountering economic problems if manage own resources efficiently and effectively. Second, Ghana is now a middle-income country and as soon as we got to that level, the rules of the game changed. Access to certain types of grants begins to dry off. …… The idea now is to develop market-oriented tools that will make us go to the international market and raise external funds to support our development. That is the path Ghana is currently on. The second approach is expansion of domestic resource mobilisation through tax collection (Interviewed with Senior Policy Advisor at the Ministry of Finance, Accra on 29/7/15).

In an interview with President Rawlings to solicit his views about catalytic role of aid in Ghana development and at what point the country would find no need to ask for it, this was his response:

> Foreign aid must not be allowed to become a permanent answer to Ghana's economic or social shortfalls. Each loan should be regarded as a stepping-stone towards self-generated development. Sadly, many governments have failed to seize the opportunity to build upon loan-financed projects and have settled for the easier option of asking for more loans indefinitely (Response to a questionnaire by President Rawlings in Ghana on 2 Oct 2015).

While many policy analysts are optimistic about Ghana weaning itself from aid, the Government of Ghana and many development partners do not share that optimism anytime soon. As indicated in the Ghana-donors compact (2012-2022) document:

> Given the structural imbalances of the economy, an abrupt withdrawal of development assistance is likely to undercut the country's capacity for sustained economic growth and its ability to reduce extreme forms of poverty (GoG, 2012: 7).
>
> With the help of our Development Partners, we have come a long way. We will try to reduce our aid dependence over the next 10 years (President Mahama, Policy Statement Sept.4, 2012)

The President did not sound optimistic about weaning from ODA, rather reducing it. In May 2014, amid citizen protests of high cost of living and massive corruption in government the President indicated his willingness to implement a 'home-grown' stabilisation policy than going to the IMF for financial bail out. However, in a typical behaviour of an African politician, that pledge was not fulfilled and less than three months, the President announced going to the IMF. Ghana's fiscal deficit arose primarily because of expansion of the wage bill in the run up to 2012 election and rising public debt (IMF, 2015a-b; Institute of Fiscal Studies, 2015). In an opinion article 'Ghana's fiscal challenges and the IMF bailout', the Executive Director of the Institute of Fiscal Studies described Ghana's bailout with IMF as problematic and stressed that it is unrealistic for one to expect that donor funds will flow just because of the IMF programme. According to him, "donor partners think there is too much corruption and fiscal irresponsibility and until that is changed, very little donor funds will come in" (Institute of Fiscal Studies, 2015:2).

There was an expectation that about US$1.5billion financial bailout would flow into the country as a result of the IMF bailout (Quartey, 2014). But how was it that a country grows at 8% without oil and two years after exporting oil goes to the IMF for a bailout? The answer lies in corruption and mismanagement of local resources as both donors and Ghanaian experts interviewed mentioned several times as key challenges the country faces. As long as these two 'cancerous cells' are not rooted out in the country, there is always the desire of the politicians to need aid to replace misused local revenue. Although many of the bilateral and multi-lateral donors interviewed expressed concern about corruption in the country they seemed unperturbed as a sufficient reason to reduce aid. This is because foreign aid is provided for several reasons. Britain gives aid to maintain cultural links with Ghana as its former colony. Perhaps one of the flaws of the whole aid business is the failure of donors to explain other rationale for giving and sustaining aid beyond development objectives. This argument resonates with some of the experts that commented on the study hypothesis:

> The assumption that aid is only about development in poor countries is fundamentally flawed. Aid essentially is an instrument of foreign policy that seeks to control and dominate the recipient. (Interview with a social commentator and a journalist in Accra on 7/8/15).

Based on falling ODA share to Ghana's GDP and government expenditure, there is compelling reason that technically Ghana's economy can survive without ODA. Ghana has all the resources to wean itself from foreign aid. By 2013 ODA had fallen to 2.9% but given that it is not in the interest of ruling elite to decouple from it, perhaps donors should have taken that initiative unilaterally. As this was not done, foreign aid in Ghana has become an end in itself. When the author of this current study provided an analogy that 'A child will not wean itself from the mother's breast milk unless the mother takes the initiative to do so, hence it's time donors pull the plug of providing further aid to Ghana, the responses from some of the donors were a bit surprising and indifferent:

> Once Ghana reached the status of a lower-middle income country access to specific grants and credit is restricted and interest rate goes up from 0.75% to 1.25%. That should tell Ghana that it has reached adulthood. But am not sure Ghana can wean itself now. Even China still takes money from the Bank. Brazil, South Africa, Nigeria all takes money from the Bank (Response from a World Bank official during an in-depth interview in Accra on 20-08-15).

> Not only EU but also many donors are thinking about exit strategies and that is why we are encouraging the government to expand domestic revenue mobilisation. The idea is to empower middle-income countries to stand on their own feet and stop sucking the ODA 'breast milk'. EU has a programme to end aid to Ghana by 2020. We are doing this gradually and you can see that our support has reduced (Response from EU official during an in-depth interview in Accra on 19-08-15).

The presence of ODA has created the conditions where the politician always thinks about its necessity even if there is an indication that aid may not be needed. Ghanaian ruling elites are proud to tout how the IMF or the World Bank is in partnership with the government as a sign of approval instead of thinking about working without aid and using its endogenous resources effectively. Studies on South Korea, China, India, South Africa, Botswana, Taiwan and Singapore show that they began experiencing sustainable growth upon weaning themselves of aid (Easterly, 2002; Easterly, 2006; Moyo, 2009).

7.5 Conclusions on Ghana's Case Study and Policy Implication for Africa

Ghana represents an ideal country in the developing world and specifically in Africa to discover the signpost of economic and political transformation if indeed aid is a 'catalyst to development'. It is an ideal country because of the country's head start and vast endogenous resources that aid had to work with at the time of independence. As pointed out at the beginning of the study, Ghana's economy was in better shape than those of most of its peers. The country had huge foreign reserves, economic infrastructure and human resources, which were thought to be the best in Africa. Politically, the country had a vibrant multi-party democracy and a cadre of civil service thought to be the best in Africa. According to Harbison and Myers' (1964:45-6) calculation of a composite index of human resource development, Ghana was the only country in Africa to have attained partially, the status of a developed country.

The thesis has argued that for a long-term growth and development to take place in a country, there must first be political and economic structural transformation, of which the process can be facilitated by foreign aid. With Ghana's endogenous resources, a little catalyst or foreign support is what was needed to make the country a signpost of development. However, the analyses of interactions between foreign aid and endogenous elements of resources, institutions and actors over five decades in Ghana have revealed intriguing findings to draw the following conclusions about the question 'aid as a catalyst to development?'

Foreign aid was a positive catalyst to Ghana's economic growth and policy reforms from 1983 to 1992. Without aid Ghana might have been a failed state. Aid enabled the country's economy to resurrect again after it had been ran down by poor economic policies. From 2000 to 2004 when Ghana received debt relief (HIPC), aid was also a catalyst as it enabled substantial part of debt repayment to be used for supporting poverty alleviation programme and enabled the government to start bold economic programmes involving support to productive sectors. Politically, aid was also a catalyst as it influenced reforms in 1992 and sustained the transition to full-fledged and tested democracy in 2000s. Then after the positive catalysis of foreign aid began to diminish gradually. By 2006 foreign aid to economic transformation had lost its catalytic role both in relative economic impact and policy influence. This confirms the assertion that foreign aid can be a catalyst only as a short run measure. Given that a catalyst loses its potency if applied on endogenous resources over a long period of time unless it is regenerated or totally removed, in the case of Ghana; the continuous presence of the catalyst became ineffectual. In other words, there was no need to keep aid flowing into Ghana's economy when its contribution to GNI was less than 5%. Currently ODA is less than 3% but ruling elites do not have the courage to end its continuous flow because they use it to replace wasted internal revenue banking on the fact that aid monies are fungible.

Given Ghana's level of economic and political transformation, if foreign aid is needed at all, it has to be a different type of aid and not budgetary support as currently pertains. The preference for budget support among major donors (on the assumption that the modality strengthens the recipient country's ownership of aid) and the rise of competitive clientelism in Ghana combines to provide a potentially toxic cocktail for aid effectiveness. Ghana rather needs a technical assistance that will catalyse productivity of the agriculture sector. Nevertheless, solutions to Ghana's long-term structural challenges are internal. Foreign aid can help as long as endogenous elements react positively, a condition that can only be prompted by a change in the current political settlement in the country. Without a change in disposition of endogenous drivers, continuous flow of foreign aid becomes just another addition of exogenous inputs without substantive impact. In fact its continuous long-term flow in Ghana is distractive, as it does not compel ruling elites to think about how it can approach productive sectors in ways that would promote structural transformation. The findings arising from the analyses show that aid has not been a catalyst to investment in productive sectors of the country hence the kind of economic transformation led by services, contrary to the stylised sequence of agriculture transformation, industrial growth and later value added services. In Ghana just as in many African countries, the reverse transformation has had negative bearing on development.

The nature of Ghana's political settlement involving competitive clientelistic politics is a key constraint to the country's ability to further make economic leap expected beyond mere progress. Politics gets in the way of economic policy making so much that political expediency between the two major political parties is the overwhelming consideration instead of what may be considered the national interest. The highly competitive nature of the de-facto two party systems has generated an institutional culture where ruling elite pursue short-term policies and projects that keep them in power at the expense of pursuing long-term economic transformation. The current process has promoted an unprecedented level of corruption in the history of the nation. Substantial state resources are used to maintain the support of members of the ruling elite. The competitive nature of politics is further worsened by the winner takes all national Constitution. There is no incentive among the ruling elite to change the current political settlement to promote inclusiveness, and given that aid has lost it catalytic influence there is currently no exogenous actor with the capacity to promote an ideal framework for long-term development of the country.

Through various neo-liberal policies there is a false perception among ruling elites and policy actors in the country that the business of the state is not to engage in direct production of tradable goods but to leave that to the private sector. In the absence of the state in production and the private sector's inability to commandeer the necessary capacity to lead economic transformation, the Ghanaian economy has become more of consumptive than productive. This suggests that building a modern and effective developmental state devoid of adversarial competitive clientelistic politics as currently pertain in the country will be essential. To achieve that goal, a change in political settlement would be needed along the models presented earlier in section 7.3. That includes dominant political party and visionary and developmental leadership.

Aid has enabled Ghana to achieve short-term degree of economic recovery and stability even if there are occasional macro-economic instabilities. It has also supported political transformation. But one can conclude that both economic and political stability are taking place in a dysfunctional institutional and structural set-up (a political settlement) that would continue to constrain further progress. The findings of the study gravitate towards a conclusion that foreign aid works as a bandage that enables a short-term treatment of wounds but does not cure it. For a cure to occur it needs applications of medications that do not treat symptoms but tackles the bacterial in the wound. When a bandage is applied on a wound for a long time, it exacerbates the conditions that enable microorganisms to thrive and unlikely to heal. This is the situation with aid in Ghana. Its continuous flow has led to no positive reaction from endogenous institutions and actors. And there is limited extent to which foreign aid can induce development of new endogenous institutions. It is absolutely essential for donors to recognise that the development of a developmental political settlement like the one that is currently taking place in Rwanda can be achieved only through dynamic internal processes. The middle-income status that Ghana has achieved is a trigger for donors to begin to withdraw ODA. The Ghana-donors compact (2012-2022) does not suggest a specific year that ODA will cease but only indicated 'less aid'. With current decline of ODA, donors may follow through their promise of gradual withdrawal but that remains to be seen. If the motive of aid is more than just facilitating development, then there is always a factor that would compel donors to regenerate a catalyst even when it may not be needed.

Reflecting on the role that aid played in the economy of Ghana, one cannot ignore including economic transformation as an important goal that it must strive to catalyse if its developmental objectives in Africa is to make sense. Using aid to provide infrastructure is least complicated. But for aid to catalyse long-term structural transformation in Africa, donors must support both productivity increase in the agriculture sector and industrial policies. With majority of the population in the agriculture sector, this can trigger structural transformation. This is what Africa needs to propel it to inclusive growth beyond the current narrative of 'African Rising'. Ironically multi-lateral and bilateral donors are interested in making short-term interventions so they can claim credit for immediate success. As a former Minister of Finance rightly put it in an interview "donors can't put their signpost in a remote agriculture farm because nobody will see it. Investment in long-term productive sector is not their interest". But if productive sector investment proposition is not in the interest of donors or not the core objectives of development aid, then it is unlikely that it can be called a catalyst to development in Africa. The focus of ODA in the promotion of 'investment climate' (changes in trade, regulatory, and labour market policies) in the area of productive sector is perhaps not what Africa needs compared to direct investment in increasing productivity and job created sectors.

There is no doubt that Africa needs structural transformation to be able to make the developmental leap. But that will happen when endogenous actors especially ruling elites make vital decisions to invest national resources into productive sectors. Continuous prevalence of poverty, underemployment, and informalisation are symptoms of poor structural transformation that have taken place in Africa. Shimeles 2014 shows that in Africa close to 54% of poverty is in the agriculture sector. What has happened to Africa contrasts sharply with development in Asia and the developed world where rapid poverty reduction and job creation was preceded by economic structural transformation involving increased in the productivity of the agriculture sector and movement of labour to manufacturing industries and services (Henley, 2010; Breisinger and Diao, 2008; Dorosh and Mellor, 2013; Losch et al., 2012).

7.6 Future Research

The findings of this study call for a follow up research on two issues: First, the need to test the model presented earlier on the four conditions under which aid can be a catalyst. This study analysed interactions between foreign aid and a number of endogenous drivers to economic and political transformation in Ghana. Based on the findings of the Ghanaian study, we hypothesise that aid is a catalyst to development when (i) substantial part of it is invested in the respondent's economic productive sectors with the objective of promoting structural transformation; (ii) the recipient country has a visionary and disciplinary leadership that is supported by a dominant political party (c) the recipient country has exportable value added products and finally (d) there is a professional and technocratic bureaucracy in the recipient country. A future study to expand our understanding on the conditions under which aid is a catalyst will benefit from testing these variables in other countries in Africa.

Second, the catalytic effect of aid appears to be positive if considered as a short-run exogenous input. The study indicated that aid to Ghana should have been cut off when its contribution to GDP reached less than 5% and the catalytic effect began to wane. Based on Ghana's findings the study concludes that positive catalytic effect of aid is a short run phenomenon. Hence aid needs not be kept flowing into a recipient country for a long time. But how is short-run defined, ten, twenty or thirty years? Over what time period might catalysis occur, when does foreign aid reach optimum catalytic level in a country's economy beyond which further flows is detrimental? Can a large N study models the optimum level? Future research could undertake this study so it can provide countries and donors some time frame to consider weaning off.

Notes

[1] Ghana needed to build a cohesive nation-state at independence, with a strong central government, so socialism was necessary to some extent. This might have actually helped to avert civil war.

[2] State patronage refers to a government providing substantial financial support to private and pseudo-public corporations involved in economic activities.

[3] A number of experts interviewed opined that the counterfactual is always difficult to prove and that other factors had also been in play in successful economies. For instance, the physical proximity of Mexico to the USA had helped that country, and the location of Malaysia and South Korea had helped those two countries through the "flying geese" phenomenon.

[4] A benevolent dictator is a leader who uses his/her power for the benefit of a nation, and not self-aggrandisement or for the benefit of the few. He or she could allow for some democratic decisions, but ultimately the benevolent dictator prevails in determining the direction and governance of the country.

[5] Anti corruption institutions include the Serious Fraud Office (SFO), Economic and Organised Crime Office (EOCO), Commission for Human Right and Administrative Justice (CHRAJ)

[6] Note the thsis does not go into analysis of how developmental leadership may come about. For more discussion on leadership see Developmental Leadership Programme http://www.dlprog.org.

Annexes

Annex 1
Sample of Semi-Structured Questionnaire

My name is Joana Vondee, a Ghanaian PhD student at the international Institute of Social Studies of Erasmus University in the Netherlands. I'm currently collecting data & information on my research, which is about catalytic role of foreign aid to Ghana's economic and political transformation in three epochs (1957-82; 83-92; 93 to date). My research hypothesises that 'foreign aid' as financial and technical assistance to Ghana is a catalyst that works effectively through endogenous drivers (institutions, actors, structures). Without the needed endogenous drivers aid will be ineffective in its objectives of promoting development. While reviewing literature and also talking to people your name has been cited/mentioned as someone I need to talk to. I would appreciate very much if you could allow me to solicit your views on some of the aspects of my study.

Questionnaire for Researchers/Academics

1. What are your views on foreign aid as a catalyst to a country's development and not a prime mover of development?
2. Apart from the quantitative nature of foreign aid (external financial support) and policy influence, what other ways is foreign aid seen (or can be seen) as a catalyst in a country's economic and political transformation and development and how is that a catalyst?
3. In what ways do foreign aid systems (mode of delivery, actors involved, their power, negotiation and influence, conditionalities, etc.) become a negative/positive catalyst in a recipient country like Ghana?
4. A catalyst needs endogenous substances to work with (in this case the recipient country's institutions, available resources, political regimes, the people, leadership, etc.). With your experience in Ghana which en-

dogenous factors are key to making aid a positive catalyst in the country, how is that factor crucial?

5. How has the government and aid interacted to facilitate policies that aim at transforming Ghana's economy?
6. Can you share your experience generally on different time periods where you think aid was a positive and or negative catalyst to Ghana's political and economic transformation?
   a. Phase 1: 1957-1981
   b. Phase 2: 1982-1991
   c. Phase 3: 1992-2013
7. A catalyst does not change but aid has changed over the years. With reference to changes that have taken place in the world (end of colonisation; end of cold war; the campaign to make poverty history and MDGs; economic recession in OECD-DAC; the rise of China, etc. which of these factors made foreign aid more or less a catalyst to development in Ghana, and why?

Questionnaire for Civil Society (NGOs, Think tanks, opinion leaders and activists)

1. What are your views on foreign aid as a catalyst (positive/negative) to Ghana's development in these three time periods? (Choose the periods that you're familiar with)
   a. Phase 1: 1957-1981
   b. Phase 2: 1982-1991
   c. Phase 3: 1992-2013
2. A catalyst needs endogenous substances to work with (in this case the recipient country's institutions, political regimes, culture, leadership, private sector, civil society organisations, etc.). With your experience in Ghana which endogenous factors are key to making aid a positive/negative catalyst, how is that factor crucial?
3. Can you share your experience generally the roles that civil society has played on different time periods to make foreign aid a positive or negative catalyst to Ghana's political and economic transformation?
   a. Phase 1: 1957-1981
   b. Phase 2: 1982-1991
   c. Phase 3: 1992-2013

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4. With reference to changes that have taken place in the world (end of colonisation; end of cold war; the campaign to make poverty history and MDGs; economic recession in OECD-DAC; the rise of China, etc. which of these factors made foreign aid more or less a catalyst to development in Ghana, and why?
5. Can Ghana continue its economic and political transformation without aid?
6. What is your view that aid money must support productive sectors (agriculture and industry) more than social sector if aid is to promote economic transformation in Ghana?
7. Can you please share experience regarding civil society interactions with Ghanaian political regimes, state bureaucracy, and donors on specific foreign aid? How was the aid negotiation, what were the outcomes and how do you characterise the nature of that aid as a catalyst (positive/negative)?
8. With reference to changes that have taken place in the world (end of colonisation; end of cold war; the campaign to make poverty history and MDGs; economic recession in OECD-DAC; the rise of China, etc. which of these factors made foreign aid more or less a catalyst to development in Ghana, and why?

Questionnaire for Donors (multilateral and bilateral)

1. What are your views on foreign aid as a catalyst to a country's development and not a prime mover of development?
2. What role did foreign aid from your country/agency play in Ghana's three phases of economic development? (Choose the time period that you're familiar with)
   a. Phase 1: 1957-1981
   b. Phase 2: 1982-1991
   c. Phase 3: 1992-2013
3. What role did foreign aid from your country/agency play in Ghana's political transformation in these three phases?
   a. Phase 1: 1957-1981
   b. Phase 2: 1982-1991
   c. Phase 3: 1992-2013
4. A catalyst needs endogenous substances to work with (in this case Ghana's

a. Actors: state/government bureaucrats, leadership, media, entrepreneurs, civil societies and the private sector
b. Institutions: Politics and party system, Culture, rule of law
c. Structures: production system, geographical location, natural and human resources, economic and social structure

5. With your experience in Ghana which endogenous factors are key to making aid a positive catalyst (facilitator) in the country, how are those factors crucial, how have they reacted (positively or negatively)?
6. How has your aid delivery changed over the three phases/periods of Ghana's devt?
7. Comparing Ghana to other countries in Africa what factors have made aid effective/ineffective?
8. To what extent can Ghana continue its economic and political transformation without aid?
9. What is your view that aid money must support productive sectors (agriculture and industry) more than social sector if aid is to promote economic transformation in the recipient country like Ghana?
10. Apart from financial support and policy influence, what other way is foreign aid seen (or can be seen) as a catalyst in Ghana and how is that a catalyst?
11. Can you please share experience regarding aid processes interactions with Ghanaian political regimes, the private sector, civil society organisations, and state administration?
12. With reference to changes that have taken place in the world (end of colonisation; end of cold war; the campaign to make poverty history and MDGs; economic recession in OECD-DAC; the rise of China, etc. which of these factors made foreign aid more or less a catalyst to development in Ghana, and why?

Questionnaire for Government Officials

1. What are your views on foreign aid as a catalyst to Ghana's development and not a prime mover of development?
2. Can you share your experience generally on different time periods where you think aid was a positive and or negative catalyst to Ghana's political and economic transformation? (Choose the period that you're familiar with)

   a. Phase 1: 1957-1981
   b. Phase 2: 1982-1991
   c. Phase 3: 1992-2013
3. A catalyst needs endogenous substances to work with (in this case the country's institutions, available resources, political regimes, leadership, etc.). In Ghana which endogenous factors are key to making aid a positive catalyst, how is that factor crucial?
4. Which area of Ghana's economy has foreign aid played a catalytic role? (for example diversification, agriculture, manufacturing, etc.)
5. How has aid played a catalytic role to improve the opportunities for private investment in the country?
6. What are some of major projects in agriculture and industry has foreign aid supported? (funded by which financial institutions or agencies)?
7. How has aid influenced policies and governance of the present government?
8. To what extent can Ghana continue pursue her development path without foreign aid?
9. Can you share experiences where the government disagrees with donors and what were the final compromises?
10. With reference to changes that have taken place in the world (end of colonisation; end of cold war; the campaign to make poverty history and MDGs; economic recession in OECD-DAC; the rise of China, etc. which of these factors made foreign aid more or less a catalyst to development in Ghana, and why?

Annex 2
List of Institutions and Position of Interviewees

Actor/ Institutions	**Name of organisation**	**Position**
Government	Office of the Head of Civil Service	Head of Civil Service
	Ministry of Finance and Economic Planning	Director Economic Research and Forecasting Division
	Ministry of Finance and Economic Planning	Foreign Aid/loans officer
	Ministry Finance and Economic Planning	Head of Mobilisation Unit
	NDPC	Chairman
Donors	World Bank	Snr Country Operation officer
	World Bank	Communications Officer
	IMF	Technical Advisor and Consultant
	European Union (Ghana)	Head, Macro Econ and Trade Section Secretary Finance
	Danida	Aid and Development Snr Officer.
	DFID	Governance and Project Support Unit
	Norwegian	Senior Programme Manager
	USAID	Senior Programme Officer

Civil Society/ Academics/ Thinks Tanks	Institute of Economic Affairs (IEA)	
	Institute of Democratic Governance (IDEG)	1
	Africa Center for Economic Transition (ACET)	1
	Third World Network Africa (TWN)	1
	ActionAid	1
	ODI	1
	UN-WIDER	1
Academics	Univ. of Gh, ISSER	Head of Department
Individuals		Former Finance Minister (Phase III) Former Finance Minister (Phase II)
Former Regimes		President of Ghana from 1979- 2000 1st and 2nd Phase (Dual transition)

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