

# Development policy in Ghana

A political, economic and social history of a country in transition since independence

Nienke Vernhout

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Globalization

# Table of contents

Introduction	3
Development theory	5
History of Ghana	10
Factor endowments and comparative advantage	13
Development policy since independence	16
Conclusion	25
Appendixes	27
Bibliography	35

# Introduction

In 2007, Ghana started a new chapter with the strike of oil. John Kufuor, the president at the time, saw Ghana change into an 'African tiger. He told the BBC: 'Even without oil, we are doing so well... With oil as a shot in the arm, we're going to fly'.<sup>1</sup> Ghanaian's growth rates are expected to double as a consequence of the new oil industry.<sup>2</sup> The management of such a rich natural resource is a great challenge for the government. The big question is what the consequences will be on the long term. Will the transport industry improve because of the workers who need to be transported to the new industry? Will the agriculture grow because of the workers who need to eat? Will market women profit because of the new flows of money? Or will the consequences be more negative? Traffic jams are already growing, houses are more expensive and only the young educated people get jobs in the oil industry. The coming years will have to tell whether Ghana will be able to deal with the richness of oil, or whether it will fall into the resource curse.

The questions above are all closely related to the development of Ghana and globalization. Different parties are involved, such as the local people living in harbor cities, the regional governments and international companies. All these forces have their own interests and need to be organized in a sustainable way. In order to do this, political, economic and social-cultural issues need to be addressed. Good governance is needed to unite the different interests and to assure that the local people profit from the oil revenue's. The oil industry is likely to become an important part of the GDP, which will probably take off pressure from other industries. The local people are in a dualistic position where on the one hand they can profit from the growing economic activity, but on the other hand they can become victim of increased prices and environmental damage. Again, the government has the important task to make sure that the whole country profits from the industry. The local people should be reached in order to prevent extreme inequality. This can be done through social projects such as schools, health clinics and hospitals and a better infrastructure.

Not only the present policies are of great influence, the historical development is equally important. If the oil was found soon after independence the expectations would presumably have been far more pessimistic. In the unstable political situation of the 1960s and 1970s the resource curse would have been almost inevitable. This paper will further assess the historical development of Ghana since independence. This will be done by means of the main question:

*To what extent can Ghana's development process be placed in the theoretical framework of development studies?*

This question will be answered through four chapters. The first chapter will address the different development theories. Within development thinking there are four main models which determine the debate about policy-making. The first of these models is the classical-traditional approach which is mainly based on a top-down structure in which developing countries can make up arrears by imitating developed countries. The second model is the historical approach, it focusses on the mercantile model which goes back to the period of colonialism. The third model is the

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<sup>1</sup> BBC, 'Ghana 'will be an African tiger' (2007) <http://news.bbc.co.uk/2/hi/africa/6766527.stm>, consulted on June 5, 2013.

<sup>2</sup> BBC, 'What happens when your town strikes oil?' (2011) <http://www.bbc.co.uk/news/world-africa-12646359>, consulted on June 5, 2013.

dependency approach, which puts an emphasis on the gap between developed and developing countries and on how developing countries should not just copy the developed-countries-model. The last model, the alternative approach, examines a variety of approaches which are relatively new and focus on bottom-up development and participation of the local people.<sup>3</sup>

The second chapter will examine the history of Ghana. A combination of political and economic issues have caused some crisis, but Ghana has developed into a stable democratic country. This chapter will look more closely to the elements which have made Ghana the country it is present day. The third chapter will treat the factor endowments and comparative advantage of Ghana. The factor endowments, capital, labor and land, play an important role in the actual development process since they determine the strengths of the country. The presence of capital to invest, educated people to work, and natural resources to export, determine to a great extend the possibilities of the country to develop. The comparative advantage of Ghana will further help the country to focus on its strengths in order to achieve economic growth. The final chapter will discuss the development policies that have been followed, the ideas behind those policies, how these policies have been executed and the results of these policies.

All these different components of Ghana's development will lead to a better understanding of Ghana's development process and how this process can be fitted in the theoretical framework.

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<sup>3</sup> R.B. Potter, et al, *Geographies of Development: an Introduction to Development Studies* (Harlow: 2008) 82-121.

# Development theory

In the field of development studies there are a lot of different ideas about how countries can and should develop. These ideas are dependent on a lot of different factors such as the history, geography, culture, politics and economics of a country. Potter, Binns, Elliott and Smith organized these different ideas in four big theories, namely the classical-traditional approach, the historical approach, the radical dependency approach and the alternative approach. Below, all four of these approaches will be discussed.

## **Classical-traditional approach**

The classical-traditional approach has its basis in the neoclassical economic way of thinking and has had (and still has) a big influence on the worldwide development policies. This view looks at the development which developed countries have been going through and tries to imitate this path. Developed countries once were at the same place as the developing countries are now and they managed to get out of it. Developed countries are the example, they have the knowledge and capital to help developing countries to make the transition to the modern age of capitalism and democracy. The neoclassical way of thinking which is promoted by most of the developed countries is based on the belief that free world trade will lead to growth and development. These ideas are strongly based on the theories of Smith and Ricardo about the growth of world trade and the law of comparative advantage.<sup>4</sup>

Hirschman, a development economist, has set forth a theory of development in his book *The strategy of economic development* (1988) which can be seen as the basis for the classical-traditional approach. He argues that in the beginning of development there is always a phase of unbalanced economic development. During this phase, only the main sectors of the economy should be invested in. The growth in these sectors will eventually lead to growth in other sectors, there will be a domino effect which is called the *trickling down* effect. In the end the whole economy will grow and develop. According to Hirschman, this *trickling down* effect is inevitable and spontaneous. The government should not try to decrease inequality because it is a part of development. By giving the market free space the inequality will automatically decrease. This idea fits to the liberal model in which the markets should be free and the governments should not take regulation measures.<sup>5</sup>

The ideas within the classical-traditional approach can be reduced to the top-down paradigm. There is the need of a strong basis in order to spread development through the *trickling down* effect. This can be seen geographically, from cities to rural areas, but also as political or economic, from developed (Western) countries to developing countries. This top-down thinking is Western-oriented and shows a faith in Western rationality, science and technology. Hirschmans ideas also fit to the modernization theory which states that developing countries can gradually develop through the imitation of developed countries.<sup>6</sup> This way developing countries will become like Western nations which means that modernization practically resembles Westernization.<sup>7</sup>

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<sup>4</sup> Potter, et al, *Geographies of Development*, 83.

<sup>5</sup> Ibidem, 84.

<sup>6</sup> Ibidem, 84, 89.

<sup>7</sup> B. Hettne, *Development Theory and the Three Worlds* (Harlow 1995) 52.

An American economic historian who worked out these thoughts about the Western model is Walt Whitman Rostow. He wrote the famous book *The Stages of Economic Growth: a Non-Communist Manifesto* (1960) which gave a set of 5 stages, based on capitalism, which developing societies have to pass in order to develop. These five stages are:

1. The traditional society
2. The pre-take-off society
3. Take-off
4. The road to maturity
5. The mass consumption society<sup>8</sup>

The significance of this model lies in the fact that all the countries have the same chance to develop, as long as they take the right steps and go through all the phases. These steps were based on industrialization through measures like Import Substitution Industrialization (ISI), Industrialization by Invitation (I by I) en big-push industrial programs. The focus on industrialization is based on England as the first country to develop through industrialization. It is then not surprising that these modernist theories are mainly thought of and promoted by Anglo-European men. Development was seen as a strengthening of the material basis through industrialization as a linear and rational path.<sup>9</sup>

One of the main models within the classical-traditional approach is the liberal model. It is based on the idea of the free market. In the '80s and '90s, the liberal ideas revived and were called neoliberalism. This neoliberalism was a reaction against the welfare state, the idea was that state should withdraw itself from the market which would make it possible for a country to move towards the global market.<sup>10</sup> International development organizations such as the World Bank and the IMF adopted the neoliberal approach in the '80s and '90s and pleaded for economic liberalization, market-inhibiting social institutions and the elimination of market imperfections. They introduced Structural Adjustment Programs (SAPs) which would help countries to restructure their economies. These SAPs were later replaced by Poverty Reduction Strategies (PRSs) because of the bad name of SAPs.<sup>11</sup>

Part of this neoliberal thinking is the idea of export-led growth. According to this idea developing countries should be open and focus on the external markets through encouraging best practice adoption. The four East Asian Tigers (South Korea, Hong Kong, Singapore and Taiwan) are often called as a successful example in the export-led growth context. Large corporations supported this idea since it helped them to expand. The plan was also promoted by the IMF and World Bank which had a great influence on the scale to which this idea was implemented in developing countries. The export-led growth policy led to the expansion of the GATT (General Agreements on Tariffs and Trade) and the later establishment of the WHO (World Health Organization).<sup>12</sup>

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<sup>8</sup> W.W. Rostow, *The Stages of Economic Growth: a Non-Communist Manifesto* (Cambridge 1990) 4.

<sup>9</sup> Potter, et al, *Geographies of Development*, 90-92.

<sup>10</sup> Hettne, *Development Theory and the Three Worlds*, 112-114.

<sup>11</sup> Potter, et al, *Geographies of Development*, 89, 93-94.

<sup>12</sup> T.I. Palley, 'The Rise and Fall of Export-led Growth' (Levy Institute 2011) 1-5.

### **Historical approach**

The historical approach is more straightforward than the tradition-classical approach. It simply observes experiences from the past. The historical reality of the development of nations is analyzed and used as a basis for development ideas. Myrdal, a Swedish economic, works from this history-oriented basis. In contrast with Hirschman, he primarily sees the negative results of capitalist development. It leads to further inequalities in personal and regional welfare and income. Once differential growth has started, it will only be maintained by internal and external economies of scale. This pattern of differentiation is what Myrdal calls cumulative causation. There is some degree of growth distribution, but it stands in sharp contrast with the growing inequalities. Migration, trade and capital are only centered on the growing points of the economy, there is thus a strong government needed who can tackle inequality and spread development.<sup>13</sup>

The American geographer Vance also used the historical perspective and found that colonialism was an important factor in the development of African nations. During the colonial period a geographical structure developed in which cities and harbors became of major importance. Through these junctions the colonial powers had access to the interior lands where they could collect resources for economic growth. According to Vance, this system has been of major importance for the development of African nations. During the fifties and sixties most formerly colonial territories associated development with industrialization.<sup>14</sup> England was the first country to industrialize and was thus the example for all other countries who wanted to develop, first in Europe and North America, and later for independent developing countries. The Western industrialization model of the late 18th and early 19th century was imitated by the 'new nations'.<sup>15</sup> A lot of these nations translated the industrialization model to ISI which meant a focus on self-sufficiency.<sup>16</sup> Domestic industrial production was supported through tariff protection at the expense of industrial imports.<sup>17</sup> Great government intervention and companies were needed to manage this kind of economy. This model of ISI however requires certain levels of population and effective demand which are generally not available in developing countries.<sup>18</sup>

### **Radical dependency approach**

During the '60s, academics from development studies showed a renewed interest in marxism. Events which contributed to this interest were America's military presence in Vietnam, the civil rights movement, and the weakening Academic Social Science. The Eurocentric ideas of marxism and the Latin American and Caribbean ideas about underdevelopment came together in the dependency school, which became a global force in the '70s. An important thinker for the dependency theory is Andre Frank, a sociologist and economist. According to Frank development and underdevelopment are opposite sides of the same coin. An inevitable consequence of the capitalist system is the division into core and periphery. The development of countries is not dependent on luck, chances or the climate, it is a consequence of the capitalist system. Development on one side of the world, causes underdevelopment on the other side. The only way

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<sup>13</sup> Potter, et al, *Geographies of Development*, 96-97.

<sup>14</sup> Ibidem, 101, 145.

<sup>15</sup> Hettne, *Development Theory and the three worlds*, 25.

<sup>16</sup> Potter, et al, *Geographies of Development*, 146.

<sup>17</sup> Desai & R. B. Potter (ed), *The Companion to Development Studies* (London, 2008) 93.

<sup>18</sup> Potter, et al, *Geographies of Development*, 146.

to stop the influence of the world system is to weaken its grip through trade barriers, controls on transnational corporations and the formation of regional trading areas. A focus on local production and development is the only way to avoid the grip of the negative consequences of capitalism. The dependency theory as described above, shows similarities with marxism in the way that it renounces capitalism and in the idea that underdeveloped nations are exploited by the developed nations.<sup>19</sup>

### **Alternative approach**

In the 1970s a set of new ideas came up which are put together in the alternative approach. Self-reliance became a central ideal, internal factors were considered more important than external factors. The alternative approach is a reaction against the top-down thinking of the traditional approach which focusses too much on only one sector and location. More flexibility and connection with the reality was needed to adjust to changes and development. The liberal thought that development corresponds with economic growth was seriously doubted and challenged. According to the alternative approach economic growth is possible without development and with growing poverty.<sup>20</sup>

One of the main ideas of the alternative approach is the basic needs thinking. The concept was introduced in the 1970s by Latin-American theoreticians and later adopted by international agencies such as the International Labour Organization (ILO), the United Nations Environmental Programme (UNEP) and the World Bank. Experience showed that economic growth did not necessarily improve the living conditions of the poor and weak. Wealth needed to be more equally distributed and employment had to be prioritized. For international organizations it was easy to join the basic needs approach since the programs were relatively inexpensive compared with programs for greater state commitment and poverty alleviation. The basic needs programs were based on the idea that food, shelter and clothes should have top priority in development. This can be achieved through measures such as the use of local resources, communalization of productive wealth and closing up to outside forces of change.<sup>21</sup>

In line with the basic needs approach are the ideas of development from below or bottom-up development. The idea is that the local community should be strengthened against the rise of the industrial system.<sup>22</sup> A country should develop from its own power through self-sufficiency and self-reliance. In the beginning of this development great emphasis is placed on agriculture and the rural areas. Later on, the economy can diversify and set up non-agricultural activities. These ideas are inspired by socialist principles. Countries which adopted this strategy are China, Cuba, Grenada, Jamaica and Tanzania. Development from below has no clear road that should be followed, on the contrary, specific social-cultural, historical and institutional conditions are of great importance in policy-making. Every country and situation needs its own policy which makes use of the natural and human resources of that specific country. To make bottom-up development possible, strong controls from the government are necessary.<sup>23</sup>

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<sup>19</sup> Potter, et al., *Geographies of Development*, 107-108, 110, 112.

<sup>20</sup> Ibidem, 115.

<sup>21</sup> Ibidem, 115.

<sup>22</sup> Hettne, *Development Theory and the Three Worlds*, 117.

<sup>23</sup> Potter, et al, *Geographies of Development*, 115-117.

A recent important development is the focus on environment. There is a growing realization of the influence of development on the environment. Since the '90s, sustainable development (or ecodevelopment) is a leading paradigm in development policy. In 1987, The Brundtland Report of the WCED gave the following definition of sustainable development: 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs'.<sup>24</sup> Great importance is attached to the idea of countries looking to their own culture and ecology to come to sustainable development. This is contrary to the traditional approach of the '60s and '70s which took the industrialized countries as an example.<sup>25</sup>

With the rise of neoliberalism, a third sector has originated besides the market and the state, namely the civil society. Exactly this sector is now promoting the ideas of the alternative approach. Organizations such as non-profit organizations (NGOs) have filled up the space between the state and families and local groups. These organizations mostly work on local levels and use the local resources and technologies. They know the local conditions and are very involved in the work they do. Their main fields of work are education, health, employment and poverty reduction. Two other aspects of the alternative approach are the emphasis for good governance and the idea of empowerment. Good governance means that all involved parties should have a say in development policy, the government has to listen to what the inhabitants say. Western 'experts' no longer determine the policies, but the local people take part in deciding what is best. Closely related to this is the concept of empowerment where new groups, such as women, are heard. The local knowledge is needed to make a solid policy which will help the nation develop.<sup>26</sup>

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<sup>24</sup> WCED, 'Our Common Future. Brundtland Report' (1987), <http://www.un-documents.net/ocf-02.htm#1>, consulted on June 4, 2013.

<sup>25</sup> Potter, et al, *Geographies of Development*, 118.

<sup>26</sup> *Ibidem*, 119-120.

# History of Ghana

Ghana became independent on March 6, 1957. It was the first African nation south of the Sahara to gain independence.<sup>27</sup> The country is situated in Western Africa and has its southern border facing the Gulf of Guinea. It is surrounded by Burkina Faso, Cote d'Ivoire and Togo (appendix 1) and counts 25.199.609 residents (appendix 2).<sup>28</sup> It became a unitary republic, with first five and later eight regions. The goal was to build a national unity which Kwame Nkruma, the first president, tried to achieve through centralized power. This policy was persevered until the 1980s. The central government was present at every level, nationwide, but also at the local level. It was a strong and powerful institution. The local authorities, on the other hand, had no democratic legitimacy and financial and human resources.<sup>29</sup> After independence Ghana quickly joined the United Nations, Commonwealth and played an important role in the establishment of the Organization of African Unity (OAU).<sup>30</sup>

In 1966, the government of Nkruma was overthrown by a military coup and the National Liberation Council (NLC) took office. After elections in 1969, the second republic of Ghana was established under the leadership of Kofi Busia. Only three years later his government was again overthrown by a military coup. This time the National Redemption Council (NRC), which later changed its name to Supreme Military Council (SMC), took the power. In 1979 after a period of mutiny, Hilla Limann won the elections and established the third republic of Ghana. He again was overthrown by a coup which led to Rawlings becoming the leader of Ghana from 1981 to 1993.<sup>31</sup>

From the 1960s until the 1980s the politics thus had a cyclical nature of civilian regimes and coups. This period of political unrest and chaos did, however, not lead to ideological unrest, the policies resembled each other more than the protagonists wanted to admit.<sup>32</sup> During the '60s the main economic focus was on industry and trade development. African countries wanted to achieve the same position as Europe through growth-oriented development approaches and strategies and rapid industrialization was seen as the key to growth. During the '70s this policy of industrialization was continued, with a more direct focus on the reduction of poverty. This was however typified by a lax government.<sup>33</sup>

During the rule of Rawlings in the 1980s, human rights were abused and political opponents were locked up and even killed.<sup>34</sup> Pressure from internal and international factors led to

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<sup>27</sup> Government of Ghana (2013) 'Summary of Ghana at a glance' (2013), <http://www.ghana.gov.gh/index.php/about-ghana/ghana-at-a-glance/1237-know-more-about-ghana>, consulted on May 31, 2013.

<sup>28</sup> World Databank, 'World Development Indicators of Ghana' (2013), <http://databank.worldbank.org/data/views/reports/tableview.aspx>, consulted on May 30, 2013.

<sup>29</sup> G. Gilbert, R. Hugounenq & F. Vaillancourt, 'Local public finances in Ghana', in: B. Dafflon & T. Madiès, *Political economy of decentralization in Sub-Saharan Africa* (Washington, 2013) 107-108.

<sup>30</sup> A. Sithole, 'Ghana a Beacon of Hope in Africa', *ACCORD Policy and Practice Briefs* 18 (2012) 2.

<sup>31</sup> Government of Ghana, 'Summary of Ghana at a glance' (2013), <http://www.ghana.gov.gh/index.php/about-ghana/ghana-at-a-glance/1237-know-more-about-ghana>, consulted on May 31, 2013.

<sup>32</sup> P. Nugent, *Big Men, Small Boys and Politics in Ghana* (London 1995) 6-8.

<sup>33</sup> E. Aryeetey, J. Harrigan & M. Nissanke (ed), *Economic Reforms in Ghana: the Miracle and the Mirage* (Oxford 2000) 5-7.

<sup>34</sup> Sithole, 'Ghana a Beacon of Hope in Africa', 2.

an end of the military dictatorship<sup>35</sup> and the Fourth Republic was inaugurated in 1993. Rawlings was elected as president and a period of good government, democracy and sustainable peace arrived. The Fourth Republic constitution included the protection of human rights, such as civil, political, social, economic and cultural rights. Furthermore, it included protection against torture and other cruel, inhuman or degrading treatment. The constitution was actively implemented which was a welcome change compared with other African countries.<sup>36</sup> In 1996 Rawlings was re-elected for a second four-year term.

In the 1980's during his military government, Rawlings started with the decentralization of the governance. The main reason to do this was to participate in Economic Recovery Programs (ERPs). These ERPs, which were imposed by donors, aimed at economic liberalization and the reduction of government involvement in the economy. New small districts were created with District Assemblies (DAs) which existed for a part of appointed officials, but also of members chosen through elections. In the beginning of the 1990's, with the end of the military regime, these DAs were further strengthened by new legislations.<sup>37</sup>

The economic situation worsened in the first part of the 1980s, because of large fiscal deficits, the government had loaned money from the domestic banking system, which led to inflation and an overvalued currency. This led to a decrease in trade, export earnings took a dive and a shortage of imported goods arose. On top of that, the government had intervened too much in the economy which resulted in a lack of private investments and a massive public sector. As a reaction to the economic problems, with support of the IMF, the World Bank and other multilateral and bilateral donors, Ghana implemented the ERPs as already mentioned above. These ERPs were focussed on stabilizing the economy, and laying the foundation for sustainable growth rates. Furthermore, the public resources needed better management and the exchange and trade system had to be stabilized through becoming more flexible.<sup>38</sup> During the 1990s, the economic reforms were persisted which included deregulation, trade liberalization, privatization and a stable macroeconomic management.<sup>39</sup>

In the year 2000, the New Patriotic Party (NPP) won and Kofuor became president, with the elections in 2004 he extended his presidency.<sup>40</sup> In 2008 Mills came to power after a tense political battle for power. He initiated a renewal of the constitution since new issues like homosexuality needed to be addressed. This shows the involvement of the government in peoples daily lives, the government is responsive to the people's needs. In 2012 Mills died and was succeeded by Mahama. The changes of power since the establishment of the Fourth Republic experienced some challenges in the form of violence. Nevertheless, Ghana knows relative peaceful and safe transitions of power compared with other African nations. Especially the elections of 2000 where Kofuor, the opponent of Rawlings and his party the National Democratic Congress (NDC), won was landmark in the history. The NDC, against the expectations, respected the outcome of the election which made a peaceful transition possible. The democratic success of

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<sup>35</sup> Government of Ghana, 'Summary of Ghana at a Glance' (2013) consulted on May 31, 2013.

<sup>36</sup> Sithole, 'Ghana a Beacon of Hope in Africa', 2.

<sup>37</sup> Gilbert e.a., 'Local public finances in Ghana' 109-111.

<sup>38</sup> Aryeetey e.a., *Economic reforms in Ghana*, 5-7.

<sup>39</sup> C. K. Dordunoo & G.Y. Dogbey, 'Globalization and Economic Reforms in Ghana', in: D. Bigman, *Globalization and the Developing Countries: emerging Strategies for Rural Development and Poverty Alleviation* (Wallingford 2004) 125.

<sup>40</sup> Government of Ghana, 'Summary of Ghana at a Glance' (2013) consulted on June 1, 2013.

Ghana was recognized by the Institute for Justice and Development and the World Bank Governance Indicators, moreover, Ban Ki-Moon, the United Nations Secretary-General, praised Ghana as a democracy.<sup>41</sup> According to the Ibrahim Index of African Government, Ghana achieved the 7th place out of 52 African countries (appendix 3).<sup>42</sup> The corruption perceptions index 2012 gives the same view of relative trustworthy government. With its 64th place of 147 countries world wide Ghana is one of the better performing African countries (appendix 4).

Ghana can be divided into eight major ethnic groups which are: the Akan, Ewe, Ga-Dangme, Mole-Dagbani, Gurma, Grusi, Mande-Busanga and Guan.<sup>43</sup> The peace and cooperation between these different ethnic groups is a successful component of Ghanaian society. There was some friction, but it never really threatened the peace and security of the involved parties or of the nation itself. The ideal of 'one nation, one people, and one common destiny',<sup>44</sup> is the bigger plan to achieve development. On top of that, with the intense competition during elections, the ethnic groups realized they needed to cooperate to be able to make their voices heard.<sup>45</sup> Political parties can not win the elections with one ethnical group voting for them, so they always have to make their policy attractive for different ethnic groups.<sup>46</sup>

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<sup>41</sup> Sithole, 'Ghana a Beacon of Hope in Africa' 3-4.

<sup>42</sup> Mo Ibrahim Foundation, '2012 Ibrahim Index of African Governance (IIAG) (2013) <http://www.moibrahimfoundation.org/interact/>, consulted on June 5, 2013.

<sup>43</sup> S. Tonah, 'Democratization and the Resurgence of Ethnic Politics in Ghana', in: G. Rosenthal & A. Bogner, *Ethnicity, Belonging and Biography: Ethnographical and Biographical Perspectives* (Berlin 2009) 65.

<sup>44</sup> Sithole, 'Ghana a Beacon of Hope in Africa', 6.

<sup>45</sup> Ibidem, 6.

<sup>46</sup> Tonah, 'Democratization and the Resurgence of Ethnic Politics in Ghana', 66.

# Factor endowments and comparative advantage

Ghana knows a relatively stable history. There have been coups and economic crises, but compared with other Sub-Saharan nations Ghana has had a decent development so far. Nevertheless, besides the history, there are some more factors that influence the success of development. Three of such factors will be addressed below, namely capital, labour and land, the so-called factor endowments. These factor endowments are of major importance for income growth in open economies.<sup>47</sup>

## Capital

Soon after independence the Nkrumah government started policies of import substitution and semi-industrialization.<sup>48</sup> It did, however, not manage to soar the production of relatively simple consumer goods. Most of those goods, like food, flour, textiles, rubber and chemicals were still produced locally and in the private sector. In the 1960s the available capital in the country was not effectively used, the industries which did not need the capital and which could not make the capital manifold received the capital, while the industries that did need the capital and could make it effective, did not. The combination of lost capital with slow reactions from the government, the random character of controls and the diversion of entrepreneurial energy made it even worse.<sup>49</sup> On top of that the prices of Ghana's most important export product, cocoa, started to fall.<sup>50</sup> During the 1970s the supply of agricultural goods per head went down, but the manufacturing output grew. This was not a sustainable growth since it was during the early years of industrial expansion. Total productivity from the 1960s to the early 1980s decreased and efficiency dropped.<sup>51</sup>

In the early 1980s the economy was put back on its feet. The cedi, the currency of Ghana, was devalued, tax was collected more efficiently, the cocoa industry was boosted and management was improved.<sup>52</sup> Where the ratio of gross capital formation to GDP in 1982 was only 3.4 percent, a few years later in 1987 it had already topped the 10 percent. The last two decades have shown further growth, but in a fluctuating manner (appendix 5). Nowadays, the cocoa and gold industry of Ghana make up for the majority of export revenues and are thus an important part of the country's capital acquisition.<sup>53</sup> Furthermore, remittances, tourism and Official

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<sup>47</sup> K. Ash, 'Foreword', in: OECD, *Globalization, Comparative Advantage and the Changing Dynamics of Trade* (2011) 3.

<sup>48</sup> P. Beaudry & N.K. Sowa, 'Ghana', in: S. Horton, R. Kanbur & D. Mazumdar, *Labor Markets in an Era of Adjustment* (Washington 1994) 358.

<sup>49</sup> J. Pickett & E. Shaeeldin, *Comparative Advantage in Agriculture in Ghana* (1990) 24-26.

<sup>50</sup> Beaudry & Sowa, 'Ghana', 358.

<sup>51</sup> Pickett & Shaeeldin, *Comparative Advantage in Agriculture in Ghana*, 26-29.

<sup>52</sup> *Ibidem*, 31-33.

<sup>53</sup> UN Data, 'Trade Profile Ghana' (2013) <http://data.un.org/CountryProfile.aspx?crName=Ghana>, consulted on June 3, 2013.

Development Assistance (ODA) are major sources for foreign exchange and capital accumulation.<sup>54</sup>

### **Labour**

The problem of child labour has decreased since the '90s when strategies were employed to improve the access to education. With Millennium Development Goal 2 (MDG2) stating to achieve universal primary education, the subject has received further attention in the beginning of this century. The school enrollment to primary education has already grown to 86,3 percent of the children in 2009.<sup>55</sup> This means that the new generation of labour force will at least be able to read and write. Of the Ghanaian population of 15 years and older, 71,5 percent is economically active, which means that these people are employed or unemployed and looking for a job. Of this group, 6,2 percent was unemployed in 2012.<sup>56</sup> The great majority of the working people (8.364.649) work in the private informal sector. This sector existed for a great part of self-employed people. The informal sector did not ask for entry qualifications in terms of skills and capital base which made it accessible for the great majority of the people. Especially the vulnerable people of society, such as women, could create their own work within the informal sector. Characteristics of the informal sector are the labor intensity, its use of simple technology and operations on a small scale.<sup>57</sup>

The second largest employment sector is the private formal sector with only 708.043 people. The public (government) sector comes close after the second with 641.633 employees.<sup>58</sup> There is thus a great gap between the private informal sector and the other sectors. There is one industry which accounts for more than half of the jobs (55.8%), which is the agriculture industry. This follows logically from the importance and dimension of the cocoa industry. The trade industry, the second largest industry, accounts for 15.2 percent of the jobs and on the third place is the manufacturing industry with only 10.9 percent. Men and women are almost equally active in economic activities, but men are more likable to participate in wage employment compared with women.<sup>59</sup>

### **Land**

Ghana has a tropical climate and an abundance of natural resources, which include gold, cocoa, timber, diamond, bauxite, manganese and oil.<sup>60</sup> Since 50 percent of Ghana's GDP is derived from renewable natural resources like agriculture, fisheries and forestry, they are of major importance for Ghana's economy. The management of these sources is, however, failing. Since Ghana needed more capital for growth, they started to drive up the use of natural resources in an unsustainable manner.<sup>61</sup> This mismanagement of their natural resources costs Ghana

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<sup>54</sup> World Bank, Country Assistance Strategy for Ghana, (2007) 7.

<sup>55</sup> UNDP, Ghana & NDPC/GOG, 2012 Ghana Millennium Development Goals Report (2012) 25.

<sup>56</sup> Ghana Statistical Service, Employment Status of Persons 15-64 Years by Region, District and Sex, 2010 (2012).

<sup>57</sup> F. Obeng Odoom, 'The Informal Sector in Ghana under Siege', *Journal of Developing Studies*, 27 (2011) 359.

<sup>58</sup> Ghana Statistical Service, Employment Sector of Employed Persons 15-46 years by Region and District, 2010 (2012).

<sup>59</sup> Ghana Statistical Service, Ghana Living Standards Survey: Report of the Fifth Round (GLSS 5) (2008), 36.

<sup>60</sup> The Institute of Economic Affairs [IEA], *Ghana's Middle-income Reality Check Part II* (Accra, 2012) 13.

<sup>61</sup> World Bank, Ghana Country Environmental Analysis (2007) 15.

approximately 10 percent of its GDP. In the future it will negatively effect development and economic growth since there is no effective regulatory institution and a lack of decisive leadership on the topic of the protection of natural resources.<sup>62</sup>

A relatively new natural resource for Ghana is oil, it is expected that oil will make a significant contribution to the growth of Ghana's economy. With the discovery of new oil fields, questions about the resource curse have arisen.<sup>63</sup> Ghana will have to learn how to manage their natural resources, especially their oil. According to Stiglitz, an economist who has written the book *Making globalization work*, it is necessary for resource rich countries to get full value for their resources and to ensure that the revenues are well spent.<sup>64</sup> This is an important task which the government has to tackle.

### **Comparative advantage**

The factor endowments determine what the comparative advantage of a country is. The concept of comparative advantage was introduced by Ricardo in 1815 and it implies that countries should produce the goods in which they are relatively most productive. This will lead to an effective use of resources and the highest gain from trade. Goods that are less profitable and productive should be imported.<sup>65</sup> Ghana's comparative advantage lays in its crops, especially in cocoa. The Organization for Economic Co-operation and Development (OECD) does however warn not to rely on monoculture. If Ghana manages to diversify its economic activities, it will be able to make better and more productive use of its advantage in cocoa.<sup>66</sup> However, Ghana has to treat the cocoa industry carefully since experience has learned that policy measures such as cocoa export tax can have negative influence on Ghana's comparative advantage.<sup>67</sup> It is not surprising then that the World Bank has put its energy into improving the position of the cocoa industry. The rehabilitation of the cocoa sector was an important objective in the structural adjustment programs of the IMF and the World Bank.<sup>68</sup>

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<sup>62</sup> World Bank, Country Assistance Strategy for Ghana, (2007) 9.

<sup>63</sup> F. Obeng-Odoom, 'Natural Resource Abundance and Eminent Domain: a Case Study from Africa', *Local Economy* 27 (2012) 320.

<sup>64</sup> J. Stiglitz, *Making Globalization Work* (London 2006) 135.

<sup>65</sup> P. Kowalski & S.F. Stone, 'Breaking Through on Trade: How a Changing World Dynamic affects Policy' in: OECD, *Globalisation, Comparative Advantage and the Changing Dynamics of Trade* (2011) 11.

<sup>66</sup> J. Pickett & E. Shaeeldin, *Comparative Advantage in Agriculture in Ghana* (1990) 34-35.

<sup>67</sup> Dordunoo & Dogbey, 'Globalization and Economic Reforms in Ghana', 133.

<sup>68</sup> D. Woods, 'Predatory Elites, Rents and Cocoa' *Commonwealth & Comparative Politics* 42 (2004) 235.

# Development policy since independence

## The 1960s and 1970s

After independence Nkrumah introduced a policy of industrialization which was believed to be a key factor in development and modernization during those years. This industrialization had the following objectives: 'to exploit domestic natural resources, to form a base for developing other economic sectors, to satisfy the basic needs of the population, to create jobs, and to assimilate and promote technological progress and modernize society.'<sup>69</sup> The policy which made these objectives possible was characterized by import substitution, administrative controls and public sector investment. The ISI was supported by 'a restrictive foreign exchange regime and an overvalued cedi (the domestic currency), general price controls and quantitative restrictions on imports, with the state as the major producer'.<sup>70</sup> This ISI policy was driven by an post-independence feeling of self-reliance, Ghana wanted to reduce its economic dependence on other countries. Furthermore, the balance of payments was negative due to stagnant exports and rising imports, by reducing the imports the balance of payments would be less negative.<sup>71</sup>

In the late 1960s the ISI policy got a bad reputation. The Latin American economies had negative experiences with it, while Asian countries had positive experiences with the opposite policy of export-oriented industrialization (EOI). Ghana had the same negative experiences with ISI. The industry could not decrease the demand for export products and growth in GNP was not supported. The industry was not efficient and capacity was underutilized. Furthermore, the expected economic growth was overrated, the protectionist policy was arbitrary, bad investments were made and state enterprises performed badly.<sup>72</sup> In the cases where there was actual development, it was only in a few economic sectors and a few cities, which led to high levels of inequality. Since the trickling down effect did not seem to work, in the 1970s more emphasis was placed on direct tackling of poverty. New policies were based on basic needs and direct redistribution.<sup>73</sup>

Despite the changes in political regimes, during the 1970s the policy of basic needs was consistently carried out. Rural development programs were introduced and slogans such as 'Operation Feed Yourself' and 'Operation Feed Your Nation' which were introduced into daily life (image 1)<sup>74</sup>. Since food was a basic need, it became more of a key point. The macroeconomic policies were nevertheless characterized by lax management which led to economic deterioration.<sup>75</sup> This decline started already in the early 1960s and continued into the early 1980s. Together with the political unrest during these two decades, Ghana's per capita income showed

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<sup>69</sup> Aryeetey e.a., *Economic Reforms in Ghana*, 246.

<sup>70</sup> Fosu, *Country Role Models for Development Success*, 4-5.

<sup>71</sup> *Ibidem*, 246-247.

<sup>72</sup> Aryeetey e.a., *Economic Reforms in Ghana*, 347.

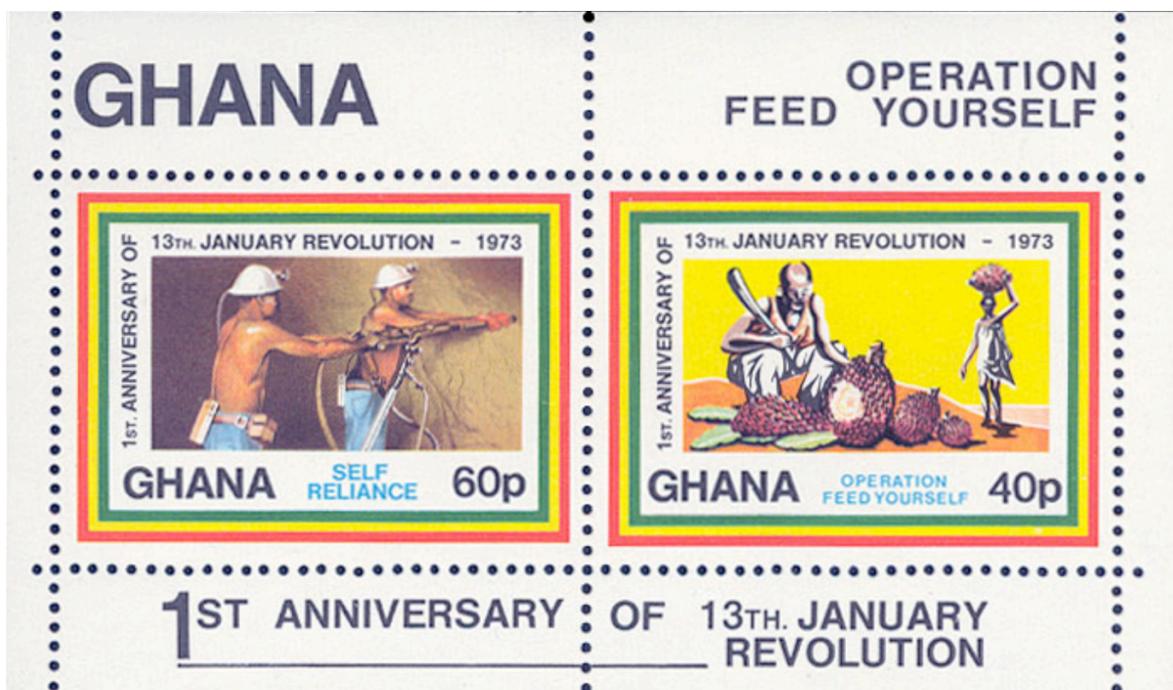
<sup>73</sup> *Ibidem*, 6.

<sup>74</sup> <http://www.stampsongemsandjewelry.com/StampDetails.aspx?stampType=V&variationStampID=9495&stampID=9740>

<sup>75</sup> *Ibidem*, 6-7.

an unstable pattern (appendix 6).<sup>76</sup> Besides the bad policies during those years, there were some external events which caused the economic difficulties. In the 1970s the prices of imported petroleum rose, there was a severe drought in the early 1980s and more than 2 million people, of which most from the rural sector, emigrated to oil-rich Nigeria.<sup>77</sup>

Image 1 - Stamps promoting 'Operation Feed Yourself'



Source: Dr. Shah's Gem & Jewelry Stamp Museum

### 1980s

In the early 1980s a new development policy was adopted, based on the Washington Consensus. Ghana had little choice but to accept the help of the capitalist West since the Soviet Union did not give the needed help.<sup>78</sup> The only alternative then was to accept the reforms of the Bretton Woods institutions (BWIs)<sup>79</sup>. The IMF and the World Bank drew up policies to maximize the freedom of the market and to minimize the role of the government. This fitted in with the neoliberal thinking of the '80s with the optimistic view of market efficacy and its promotion of development. The state was seen as part of the problem in stead of the solution.<sup>80</sup> In april 1983 this policy was instituted under the name of *economic recovery program* (ERP).<sup>81</sup>

As follows logically, the program was focussed on a new balance between the role of the state and the market. Improving the balance of payments, laying the foundation for sustained

<sup>76</sup> A. K. Fosu, Country Role Models for Development Success (UNU-WIDER 2009) 1-2.

<sup>77</sup> Ibidem, 6.

<sup>78</sup> E. Aryeetey & A. Cox, 'Aid Effectiveness in Ghana', in: J. Carlsson, G. Somolekæ & N. van de Walle, *Foreign Aid in the Africa: Learning from Country Experiences* (Uppsala 1997) 65.

<sup>79</sup> The IMF and the present World Bank.

<sup>80</sup> Aryeetey e.a., *Economic Reforms in Ghana*, 346-348.

<sup>81</sup> Fosu, Country Role Models for Development Success, 4.

growth and stabilizing the economy were other important focal points. More specific goals of the ERP policy were as follows:

- A flexible market-based policy for exchange rates
- Internal economic stability through the halt of inflation and government deficit financing
- The improvement of resource allocation and elimination of price distortions through liberalization, privatization and institutional changes
- The promotion of domestic savings and investments
- A focus on foreign countries through external trade liberalizations and reduced protection of domestic producers

All these goals were implemented gradually, not in the form of a 'big bang'. The distorted economy would not be able to handle a sudden change and on top of that, from a practical point of view, time was needed. The Ghanaian government did not have the technical and institutional capacities to facilitate 'big bang' policy changes.<sup>82</sup>

The implementation of the ERP was executed in three phases. The first was based on stabilization, the second on the rehabilitation of the economy and the third on economic liberalization and development. The idea was that through these phases the public sector would be renewed which would automatically cause changes in the private sector. Although this was the basic idea behind the program, little energy was put into this process. On top of that, little attention was given to the fact that the profits of liberalization and privatization were actually meant to lead to the prosperity of the whole country.<sup>83</sup>

During the first phase, from the introduction of the ERP in 1983 until 1986-7, the basic goal was stabilization of the economy and the reorganization of the productive capacities. The idea was that this would lead to greater efficacy and growth. Domestic production of import substitutes and exports was promoted. Furthermore, an import liberalization program was started to acquire the necessary goods. During this period, the government expenditures were stabilized through the reduction of inflation and prudent fiscal policy. In the agriculture, price stability and food security were the main goals. Ghana had to be self-sufficient in the production of cereals, especially maize and rice. With cocoa being the most important crop of Ghana, money was put in the cocoa sector to earn more money with the export of this crop. Institutional changes also took place, the capacity of the ministry of agriculture was enhanced. It had the new task of planning and following the projects, therefore the Policy Planning, Monitoring and Evaluation Department (PPMED) was established. Other projects to support the government with their agriculture policy were the National Agricultural Research Program (NARP) and the Agricultural Productivity Promotion Program (APPP) of USAID.<sup>84</sup>

The first phase was based on the trickling down effect. Stability was expected to reduce inflation and support better prices for farmers which would automatically lead to economic growth which would eventually lead to poverty alleviation. Without specific attention, stability would lead to prosperity for the whole country. This idea was not simply accepted by everybody. Unicef, for example, criticized the policy in 1987. They argued that adjustment with a human face was needed. Development should be based on humans and the wellbeing of these people should not just be an side-effect, it should be the core of development. In 1988 the Programme of Actions to

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<sup>82</sup> Aryeetey e.a., *Economic Reforms in Ghana*, 136, 346-348.

<sup>83</sup> Ibidem, 349

<sup>84</sup> Ibidem, 349, 270-271.

Mitigate the Social Costs of Adjustment (PAMSCAD) was initiated but it was badly integrated in the overall policy of the ERP. Nothing really changed.<sup>85</sup>

The second phase was from 1986 until 1988 and was based on sectoral reforms and the rehabilitation of the economy. The Structural Adjustment Program (SAP) was started which strove for growth by removing structural barriers. The program contained measurable goals such as an annual growth rate of 5% of the GDP, the decrease of inflation from 24,6% in 1986 to 8% in 1990 and a healthy balance of payments with an annual surplus of 110 m. US dollars. Corporate and income taxes were reduced which would in the third sector be followed by capital gains taxes. Price stability and food security were still the main factors in the agriculture policy. The production of cereals was promoted with guaranteed minimum prices for maize and rice and the farmers received subsidies for fertilizers, machinery and other agricultural chemicals. This did however decline. The cocoa sector was further strengthened, the World Bank started the Cocoa Sector Rehabilitation Project which aimed at more efficiency. The producers earned more money and all the institutions which had something to do with agriculture had to be united.<sup>86</sup>

The third phases goal was liberalization and growth. It started in 1989 and was characterized by deregulation of commodity and service markets and liberalization of export and import markets. In the agriculture sector this program of liberalization was clearly recognizable, the guaranteed minimum prices for maize and rice were dropped and subsidies were abolished. Because of the process of privatization the ministry of agriculture and the Ghana Cocoa Board had less and less to say. This gave more space for competition and efficacy in the agricultural input marketing.<sup>87</sup>

During the different phases legislative changes were introduced to promote private investment. In 1985 an amended investment code was enacted, in 1986 the mining law was revised and in 1994 the Ghana Investments Promotion Centre Act made investments easier and more unambiguous. The amount of private investments grew by means of the ERP, but the results were modest. During the ERP the level of private investment was 4,8 % of the GDP which was only slightly more than the level before the ERP was implemented. The absolute amount of private investment did however grow since the economy was growing. The sector which profited most of the private investment growth was the gold mining industry. The cocoa industry profited to some extend of the private investments, while private investment in the manufacturing sector was not stimulated by the ERP.<sup>88</sup>

The reforms were not accepted without any protest, there was for example the ideological argument against the Washington Consensus. Furthermore, there were groups who profited from the old situation and benefited from the overvalued cedi. Rawlings had the difficult task to stay in power, implement the program and keep the country stable. He did this by limiting the authority of the People's Defence Committees and Workers' Defence Committees to minimize opposition. He palliated this with his charismatic leadership. Other measures to ease the pain of the reforms were a program to mitigate social costs of the adjustments and making the IMF and

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<sup>85</sup> Aryeetey e.a., *Economic Reforms in Ghana*, 349

<sup>86</sup> Ibidem, 136, 270, 349.

<sup>87</sup> Ibidem, 270-271.

<sup>88</sup> Ibidem, 136-138.

the World Bank the black goats. The government was depicted as innocent since it had no choice but to agree to the reforms.<sup>89</sup>

As we can find in appendix 7, since the 1980s, the four major sectors of Ghana have grown towards each other. The contribution of the agricultural sector to the GDP has clearly decreased while the other three have grown. Since 2005 the services sector is emerging which includes mining (of gold) and oil. The exports sector is the least stable of the four, nevertheless it has shown remarkable growth from 3.3 percent in 1982 to a peak of 48.8 percent in 2000 and a recent percentage of 38 percent in 2011. It is noticeable that the manufacturing sector has remained stable since the 1980s, it has not grown. Kwasi Fosu, economist and Deputy Director of UNU-WIDER, sees this as a suggestion that the shift towards industry is mainly related to the mining sector in stead of the manufacturing sector. We can thus not speak of a 'real durable structural change' since the mining sector has little structural linkages with the economy.<sup>90</sup> With the exception of the mining sector, the ERP did not succeed in its goal to attract flows of private investment.<sup>91</sup>

### 1990s

Economic stabilization, rehabilitation and liberalization helped the economy, but development problems had to be addressed too. There was a clear need for better education and health service accessibility. In 1992 the government of Ghana was bound to set up a long-term plan for social and economic development. This plan was called the National Co-ordinated Programme for Social and Economic Development (Vision 2020). It became the development guide for all the major sectors and the basis for donors who were interested in poverty reduction. It was based on the goal to reach the status of middle-income country by 2020. The plan is divided in two pieces, the medium term plan (1996-2000) and the long term plan (1996-2020). The aim of the medium term plan was 'to consolidate the gains so far secured over the past decade and to lay strong foundations for accelerated growth and development in the subsequent two decades'.<sup>92</sup> This approach was new in its focus on the people, its comprehensiveness and the cooperation between government agencies and the private sector including NGOs. The long term objective of becoming a middle-income country was divided in five basic development themes: human development, economic growth, rural development, urban development and an enabling environment. The program focussed on the standard of living and it was assumed that it would naturally flow out of human development, rural development and urban development policies.<sup>93</sup>

Vision 2020 was not a great success. Many agencies do not regard Vision 2020 as an official document, or do not even know of its existence, and it thus has little authority.<sup>94</sup> The limited success was mainly due to bad coordination between the National Development Planning Commission (NDPC) and the Ministry of Finance (MOF). The plan itself was badly connected to the reality of economic management and budget allocations. The government expenditures on

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<sup>89</sup> Fosu, Country Role Models for Development Success, 7.

<sup>90</sup> Ibidem, 8.

<sup>91</sup> Aryeetey e.a., *Economic Reforms in Ghana*, 137.

<sup>92</sup> Government of Ghana, 'Presidential Report on Co-ordinated programme of economic and social development policies' (1995), iv.

<sup>93</sup> Government of Ghana, 'Presidential Report on Co-ordinated programme of economic and social development policies', iv.

<sup>94</sup> Aryeetey e.a., *Economic Reforms in Ghana*, 294.

poverty reduction and growth programs was low during the 1990s. Only 2.0% and 2.8% of the GDP was spend on education and health which accounted for 90% of the social sector budget. These low budgets were supplemented with aid from multilateral and bilateral donors. Nevertheless, this was not a healthy situation which would lead to sustainable growth.<sup>95</sup> In appendix 8 an overview is given of the main poverty dimensions. Between 1991/2 and 1998/9 the upper poverty line has diminished from 50% to 40.0% and extreme poverty from 37% to 27.0%. These are great results, but they do not show the uneven decline in poverty and growing inequality. In addition, it is questionable how truthful these statistics are since large groups of youth moved to cities where they were difficult to trace. The results are thus likely to project a too positive situation.<sup>96</sup> The budget balance of Ghana has since the start of the '90s shown a varying negative growth. Exports grew, but with an even bigger growth of imports the final result was still negative. Nevertheless, a little light in the darkness was the growth of foreign direct investment (FDI).<sup>97</sup>

### **The new millennium**

In 2002 Ghana joined the debt relief initiative of the IMF and the World Bank for Heavily Indebted Poor Countries (HIPC). As a condition they had to prepare the Ghana Poverty Reduction Strategy (GPRS) which was implemented over the period of 2003-2005. The basic themes of this strategy were infrastructure, modernized agriculture based on rural development, enhanced social services, good governance and private sector development. Through better infrastructure such as new roads, development of ports, new telecommunications agreements, and an increased availability of energy Ghana would be able to profit from trade with neighbor countries. With the modernization of the agriculture, such as efficient land ownership, food security, cash crops and added value by the private sector, the Government of Ghana wanted to achieve its goal to become an agro-industrial economy. The social services theme mainly focussed on the accessibility of education and health services. Through rule of law, respect for human rights and the attainment of social justice and equity good governance was ensured. Key words for this achievement are efficiency, strengthening of capacity, accountability and transparency. The last theme of private sector development was based on the goal to strengthen the private sector to be 'the engine of growth and poverty reduction'.<sup>98</sup>

Overall, GPRS I made a great step towards reaching its objectives. There was relative economic stability and the targeted macroeconomic indicators registered positive trends. GDP grew with an average rate of 5% which was mainly owed to the cocoa industry which innovated with high-productivity technologies. The agricultural sector grew with an average rate of 6%, the industry sector with 5% and the services sector with 4.7%. Another improvement was the growing attention for the vulnerable and excluded, such as street children, people with disabilities and women. The results of GSPR I also have limitations such as service delivery constraints, insufficient progress in primary school enrollment and gender disparities in all sectors. Criticism on GPRS I is based on the argument that the focus lied too much on macroeconomic stability and

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<sup>95</sup> IMF, Ghana Poverty Reduction Strategy 2003-2005 (2003) 1-2.

<sup>96</sup> IMF, Ghana Poverty Reduction Strategy 2003-2005, 13-14.

<sup>97</sup> Fosu, Country Role Models for Development Success, 10-12.

<sup>98</sup> IMF, Ghana Poverty Reduction Strategy 2003-2005, 143-145.

not enough on a stable macroeconomic environment. Furthermore, the participatory process was still ineffective and gender focus specification was insufficient.<sup>99</sup>

In 2005 a second GPRS was drawn up which was implemented over the period of 2006-2009. While GPRS I mainly focussed on anti-poverty and the MDGs, GPRS II was based on the goal to become a middle-income country through economic growth. Because of Ghana's economic fortunes, it could set new goals and priorities. Strategic objectives came to the foreground in stead of the goals of poverty reduction. Faster growth and structural diversification, such as implemented by GPRS II, was believed to further help the anti-poverty objectives of GPRS I. There was the general belief that economic growth should be reached through diversification away from the cocoa-gold-timber industry and by adding industrialization, technology and high productivity.<sup>100</sup>

The four priorities of GPRS II were continued macroeconomic stability, accelerated private sector-led growth, vigorous human resource development and good governance and civic responsibility.<sup>101</sup> Macroeconomy stability is closely linked to the goal to reach the middle-income level in 2015. Ghana wanted to reach this goal through measures such as the prevention of high inflation rates, containment of fiscal deficits and the promotion of investment in private sector-led growth. Private sector-led growth was expected to further strengthen this process by simplifying policies and institutions. In order not to stem economic development, the population simultaneously needs to be developed into a knowledgeable, well-trained and disciplined labour force, which was Ghana's objective under human resource development. According to GPRS II this healthy labour force should be created through good education, adequate health services, safe water and sanitation, decent houses and population management. Through good governance and social responsibility, development policies could be jointly executed by the government and non-state entities. The government should be effective, responsible and accountable, while the people themselves are also expected to take their responsibility in the developing process.<sup>102</sup>

GPRS I and II have played an important role in the allocation of resources and in the mainstreaming of the Millennium Development Goals (MDGs) and other international commitments into the national development agenda. Strategies were able to connect development plans with reality which was a great gain compared with Vision 2002. Furthermore, the objectives of macroeconomic stability and the achievement of poverty reduction goals were within reach. Nevertheless, large fiscal and balance of payment deficits were still existent, remittances declined and private external financing became more difficult as a result of the global financial crisis.<sup>103</sup>

GPRS II was followed by a new medium-term development policy framework called the Ghana Shared Growth and Development Agenda (GSGDA) which was implemented in the period from 2010 until 2013. The framework addresses structural problems which had not yet been solved by the earlier programs such as large fiscal and balance of payment deficits. Again, like the other programs, some essential points were set up as the basis for policies. The first point is to ensure and sustain macroeconomic stability, a consistent growth was expected towards per

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<sup>99</sup> IMF, Growth and Poverty Reduction Strategy (GPRS II) (2005) 2-3.

<sup>100</sup> IMF, Growth and Poverty Reduction Strategy (GPRS II) i-iii.

<sup>101</sup> Ibidem, xxi

<sup>102</sup> Ibidem, xxi-xxviii

<sup>103</sup> IMF, Ghana Shared Growth and Development Agenda (GSGDA), 2010-2013 (2010) 2-3.

capita income of at least 3,000 US \$ by the year 2020. This growth was mainly based on the export of cocoa and gold. The second is to enhance competitiveness of Ghana's private sector through measures like good corporate governance, accelerated industrial development and the development of the tourism industry. The third point is accelerating agricultural modernization and sustainable natural resource management with specific programs such as the Food and Agriculture Sector Development Policy (FASDEP II) in the Medium-Term Agricultural Sector Investment Plan (METASIP). The fourth is oil and gas development. The recently found gas and oil in Ghana can have a positive effect on the economic growth, but on the condition that the industry is integrated in other sectors and the local economy. Dealing with oil and gas resources will be a challenge on a new level. In addition the environment is an important agenda item in the new oil industry. The fifth is infrastructure and human settlements which focusses on a proper infrastructure to ensure that services are reliable, affordable and efficient. There will also be put energy into the expansion of the railway network to support the oil industry. On top of that human settlement has to be controlled in order to make socio-economic development work. The sixth point is human development, productivity and employment through education, health care and employment opportunities. The last point is transparent and accountable governance which has to do with empowerment of state and non-state entities. Even though Ghana is an democratic example for most other countries in Africa, there is still corruption in the public sector and low participation of civil society organizations in government.<sup>104</sup>

The programs of the new millennium are closely related to the MDGs which were introduced with the turn of the century. The eight goals of the MDGs (image 2)<sup>105</sup> are integrated in GPRS I, GPRS II and GSGDA which enhances the chance of actually reaching the goals. The progress of Ghana in relation with the MDGs has so far been mixed. MDG 1a, to halve extreme poverty and MDG 7b, to half the proportion of people without access to safe drinking water have already been achieved. Then quite some goals such as 1c, 2, 4, 6 and 8 are likely to be achieved by 2015 with the finalization of the MDG-project. Goals 1b, 3, 5 and 7 are unlikely to be achieved if the current trends continue. To increase development and the chance to reach all the goals Ghana should start working closer together with development partners and Civil Society Organizations (CSOs).<sup>106</sup>

Image 2 - 8 MDGs



Source: UN

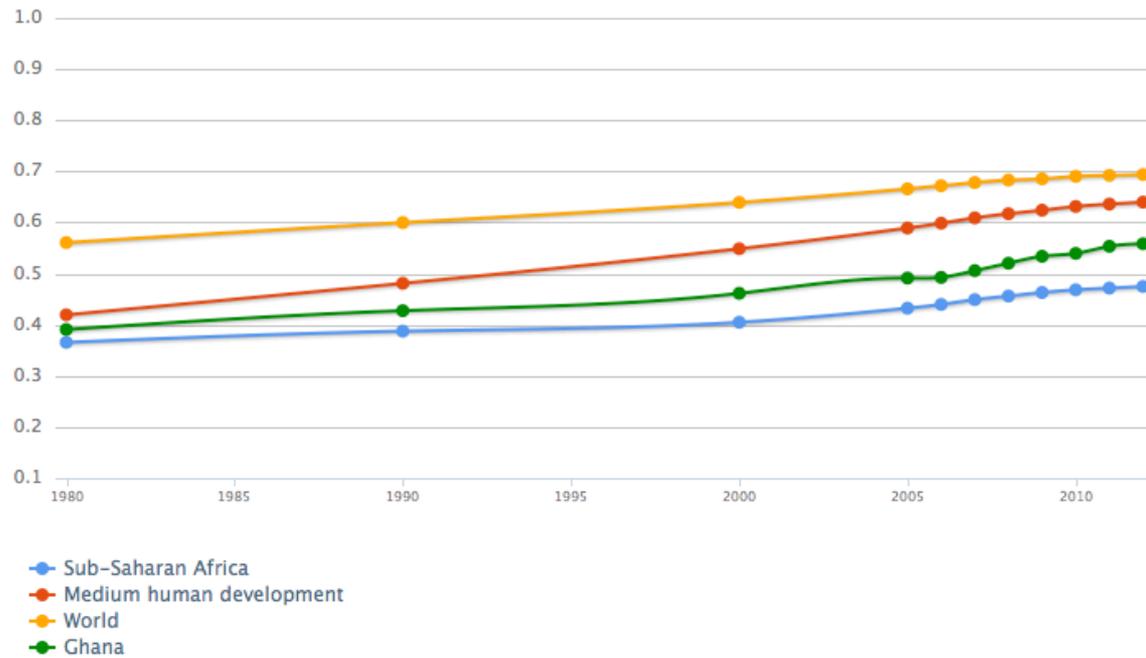
<sup>104</sup> IMF, Ghana Shared Growth and Development Agenda (GSGDA), 2010-2013 (2010) xii-xviii

<sup>105</sup> United Nations [UN] (2013) <http://www.un.org/millenniumgoals/>, consulted on June 20, 2013.

<sup>106</sup> UNDP, 2010 Ghana Millennium Development Goals Report (2012) 6, 70-71.

In 1990 the United Nations Development Program (UNDP) introduced a new measure of development, the Human Development Index (HDI). This index distinguished itself from conventional measurements since it did not only focus on economic growth and income. The HDI gives a more complete image, it is composed of three components: health, education and income. Ghana is placed 135th out of 187 countries. In comparison with the average of Sub-Saharan Africa, Ghana performs good (image 3). The health component of Ghana scores the best while the income component lacks behind.<sup>107</sup>

Image 3 - Human Development Index development since 1980



Source: UNDP, HDI Ghana

<sup>107</sup> UNDP, Country Profile: Human Development Indicators, (2013) <http://hdrstats.undp.org/en/countries/profiles/GHA.html>, consulted on June 21, 2013.

# Conclusion

Ghana knows a rich history of development policy. From independence until the present different approaches have been followed which improved its predecessors weaknesses. This did not mean that there was a linear path of development, every new approach had its own weaknesses which keeps the search for optimal development alive.

After independence during the 1960s Nkrumah adopted the policy of industrialization with a focus on ISI. The domestic market was protected while exports were avoided as much as possible. Ghana wanted to be independent, not only politically, but also economically. This focus on industrialization can also be found in the historical approach. England was able to develop through industrialization and became an example for other countries. Ghana also took the Western way of development as an example and put its cards on industrialization. They studied the history of other countries and imitated their development process. The '60 were however also characterized by a hint of the classical-traditional approach since it followed the idea of trickling down. This idea was a main point for neoliberal development thinking.

As this approach turned out not to work, the focus shifted to basic needs. If industrialization could not bring development to the people, the problems and needs of the people needed to be addressed more directly. The peoples need of food which meant that a greater emphasis on agriculture was necessary. This new approach of the '70s with its focus on basic needs shows great resemblance with the alternative approach. It was thought that the basic needs are the key to further development. If people do not have a shelter, food and clothes, they can not help to build up the country. And it was realized that only economic development would not bring development to the people.

In the 1980s a new approach was adopted under the influence of the World Bank and the IMF, called the ERP. Free markets were promoted and the government had to reduce its influence. Through liberalization and privatization the economy would develop which would lead to development of the whole country. Here we find the trickling down effect again of Hirschman. Inflation was lowered, food security was seen as important and sectors were reformed. These ideas are typical for the classical-traditional approach. The neoliberal thinking was promoted by the World Bank and the IMF in the '80s and Ghana had little choice but to adopt this way of thinking. Export and import markets were liberalized and sectors were deregulated. The cocoa sector was strengthened so that its export could stimulate economic growth. This has a direct link with the export-led growth policies. Ghana has a comparative advantage in the cocoa industry and logically uses this advantage in their export-policy.

Since private investment did not live up to the neoliberal promises and the ERP did not put emphasis on social development, once again a new approach was adopted. Vision 2020 was adopted with the aim of becoming a middle income country. However, it was not solely an economic plan, it also put great emphasis on social development. Education and health services got their share of attention and the focus shifted again to the people. Again, the theories of the alternative approach were carried out. There was again more attention for the people and social factors. Economic development did not just bring development to all the people.

In the new millennium, this alternative approach continued with the introduction of GPRS I, GPRS II and GSGDA. These programs concentrated on social services, good governance, anti-poverty, human resource development, empowerment, accountability, transparency, civic responsibility, infrastructure and the environment. All issues which are addressed within the alternative approach. There is a wide variety of factors which all have their influence on the

success of development and which are dependent on the characteristics of a specific country. The alternative approach endorses these factors. Nevertheless, private sector development, macroeconomic stability, economic growth, fiscal and balance of payments deficits, oil and gas development and enhanced competitiveness are also issues which the programs deal with. They can thus also be placed in the classical-traditional approach with its emphasis on economic growth through privatization and open markets. This neoliberal thought is still the basement for development thinking. It is however, not any more the only way to development, it has become a part of the way to development.

Development policy in Ghana has thus gone through considerable changes. The policies were reactions to each other, but they were also subject to worldwide paradigm switches. The policies of Ghana show much similarity with the worldwide consensus. They fit nicely in the framework of development studies which makes Ghana a textbook case for the history of development thinking. If there was a worldwide switch in development thinking, it was sure that Ghana would immediately follow that switch. Since the '80s this relation is greatly strengthened by the World Bank and IMF which have a major influence through the ERP, GPRS I, GPRS II and GSGDA on the development policy. This answers the main question which was posed at the beginning of this paper:

*To what extent can Ghana's development process be placed in the theoretical framework of development studies?*

With the aim to become a middle-income country Ghana has made clear that it aims for sustainable development which will bring the whole country to a higher standard of living. Ghana is likely to achieve the MDGs, it has a good and democratic government, it has economic growth and is rich of natural resources. It thus has a fair chance, compared with other Sub-Saharan countries, to overcome poverty and maybe even develop into an important international authority. The oil and gas policy will be a important indicator for the maturity and development of Ghana and whether the country is ready to take the next step.

# Appendixes

Appendix 1 - Map of Ghana



Map No. 4186 Rev. 3 UNITED NATIONS  
February 2005

Department of Peacekeeping Operations  
Cartographic Section

Source: UNDP

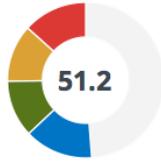
## Appendix 2 - General information

Population	25.199.609
Surface area	238.533 km <sup>2</sup>
Natural resources	gold, timber, industrial diamonds, bauxite, manganese, fish, rubber, hydropower, petroleum, silver, salt and limestone
Border countries	Burkina Faso, Cote d'Ivoire and Togo
Ethnic groups	Akan 47.5%, Mole-Dagbon 16.6%, Ewe 13.9%, Ga-Dangme 7.4%, Gurma 5.7%, Guan 3.7%, Grusi 2.5%, Mande-Busanga 1.1%, other 1.6%
Official language	English
Religions	Christian 17.2%, Muslim 17.6%, traditional 5.3%, other 0.8%, none 5.2%
Life expectancy	65.32 years
Government type	Constitutional democracy
Capital	Accra
Administrative regions	Ashanti, Brong-Ahafo, Central, Eastern, Greater Accra, Northern, Upper East, Upper West, Volta, Western
GDP real growth rate	7%
GDP purchasing power parity	\$ 83.74 billion
Labor force	11.67 million
Population below poverty line	28,5%
Agriculture	cocoa, rice, cassava, peanuts, corn, shea, nuts, bananas, timber
Industries	mining, lumbering, light manufacturing, aluminum smelting, food processing, cement, small commercial ship building
Export commodities	oil, gold, cocoa, timber, tuna, aluminum, manganese ore, diamonds, horticultural products
Main export partners	France, Netherlands, US, Italy, UK India

Source: CIA World Factbook

## Appendix 3 - 2012 Ibrahim Index of African Governance (IIAG)

AVERAGE SCORE /100

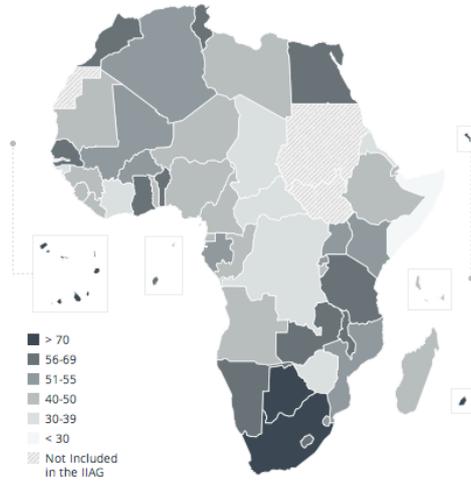


> Overall

- Safety & Rule of Law
- Participation & Human Rights
- Sustainable Economic Opportunity
- Human Development

Key findings

Nigeria, West Africa's powerhouse, has for the first time this year fallen into the bottom ten governance performers on the continent.



Regional Averages

Region	Average Score
Africa	51.2
Central Africa	40.3
East Africa	47.5
North Africa	53.7
Southern Africa	59.0
West Africa	51.9
Island countries	64.5
Landlocked countries	51.0
Coastal countries	48.8

Highest/lowest

Rank	Country	Score
1	Mauritius	82.8
52	Somalia	7.2

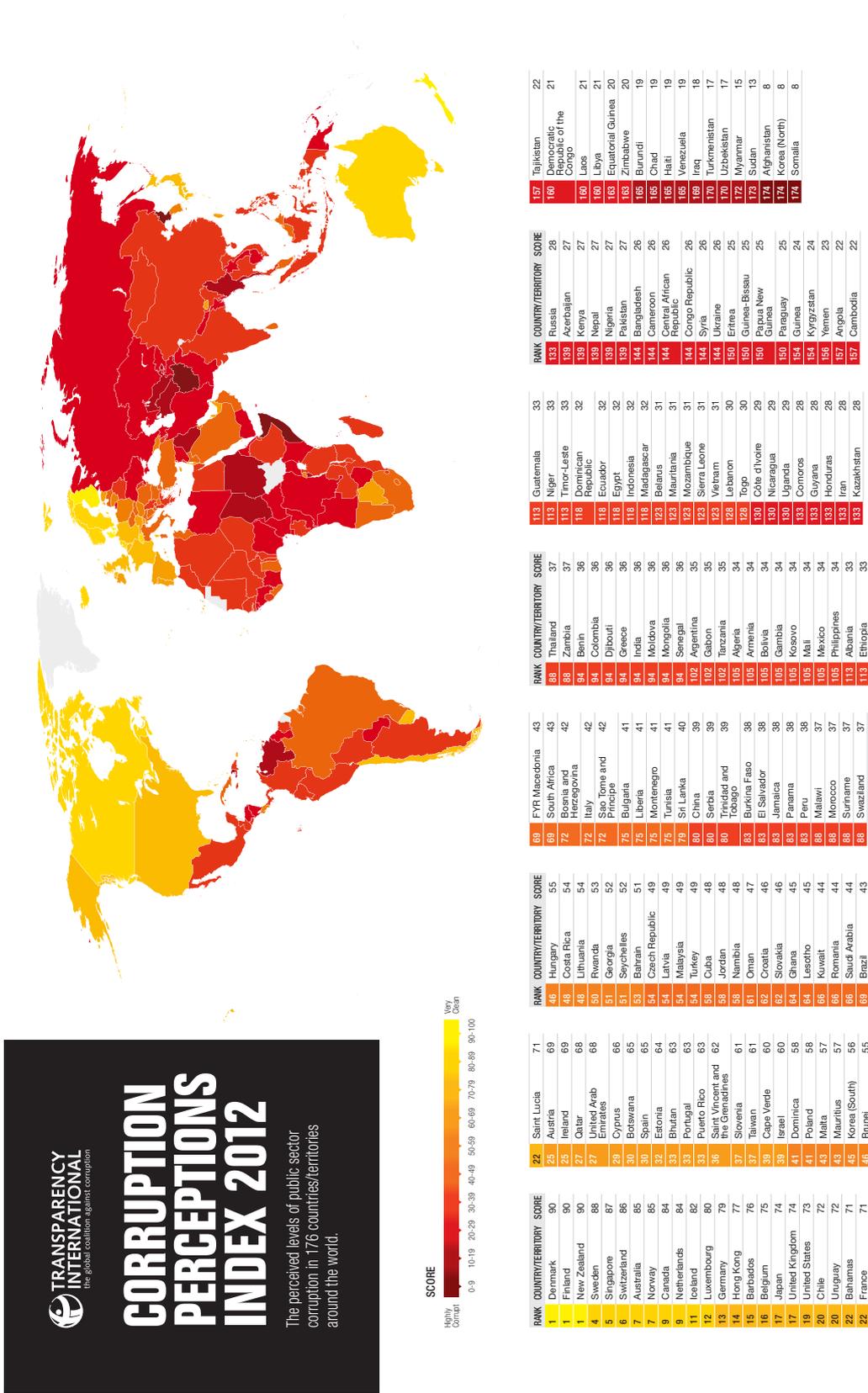
Significant Movers 06-11

Country	Score	Change
Liberia	12.0	▲
Angola	9.3	▲
Sierra Leone	8.9	▲
Madagascar	-12.8	▼

Africa			
RANK & COUNTRY	SCORE /100	6 YEAR CHANGE	
1 Mauritius	82.8	4.5 ▲	
2 Cape Verde	78.4	4.1 ▲	
3 Botswana	77.2	0.9 ▲	
4 Seychelles	73.4	-0.5 ▼	
5 South Africa	70.7	-1.1 ▼	
6 Namibia	69.8	0.2 ▲	
7 Ghana	66.3	2.0 ▲	
8 Tunisia	62.7	-2.0 ▼	
9 Lesotho	61.0	-0.2 ▼	
10 Tanzania	58.8	0.4 ▲	
11 São Tomé & Príncipe	58.5	1.9 ▲	
12 Zambia	58.5	2.1 ▲	
13 Benin	57.8	-1.1 ▼	
14 Egypt	57.7	0.2 ▲	
15 Morocco	57.0	-0.4 ▼	
16 Senegal	56.2	-3.0 ▼	

Source: Mo Ibrahim Foundation

# Appendix 4 - Corruption Perceptions Index 2012

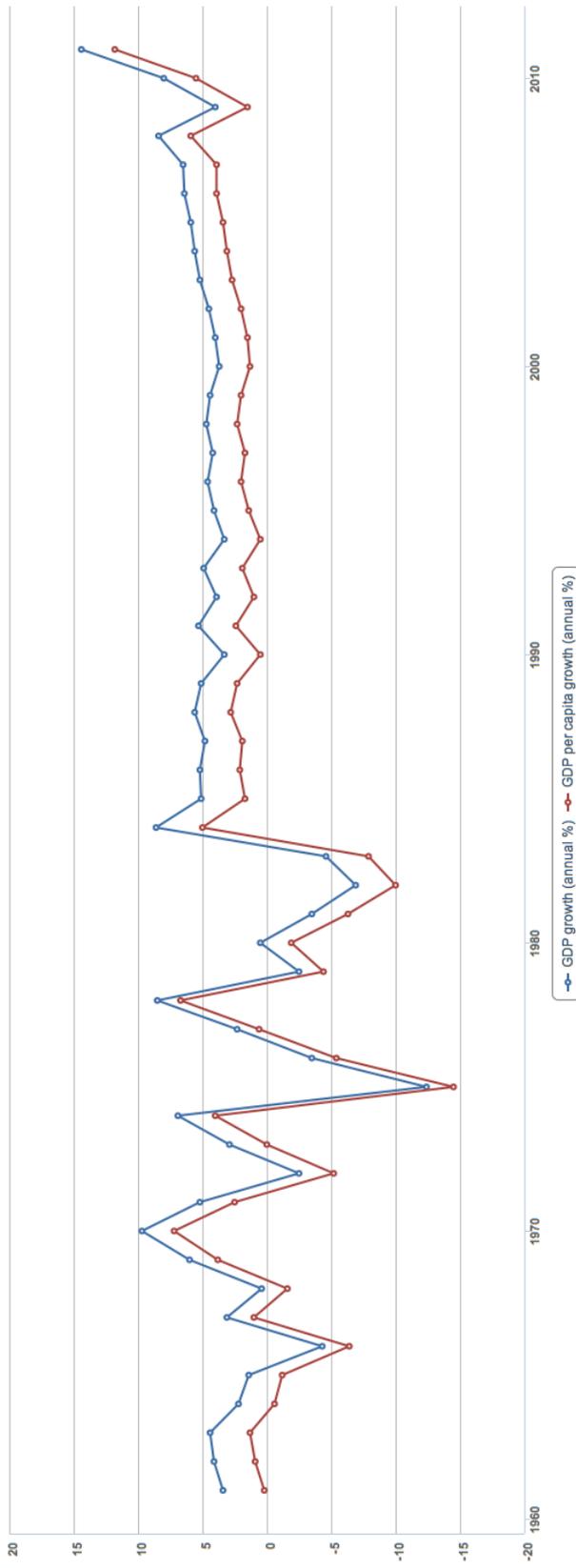


## Appendix 5 - Gross capital formation (% of GDP)



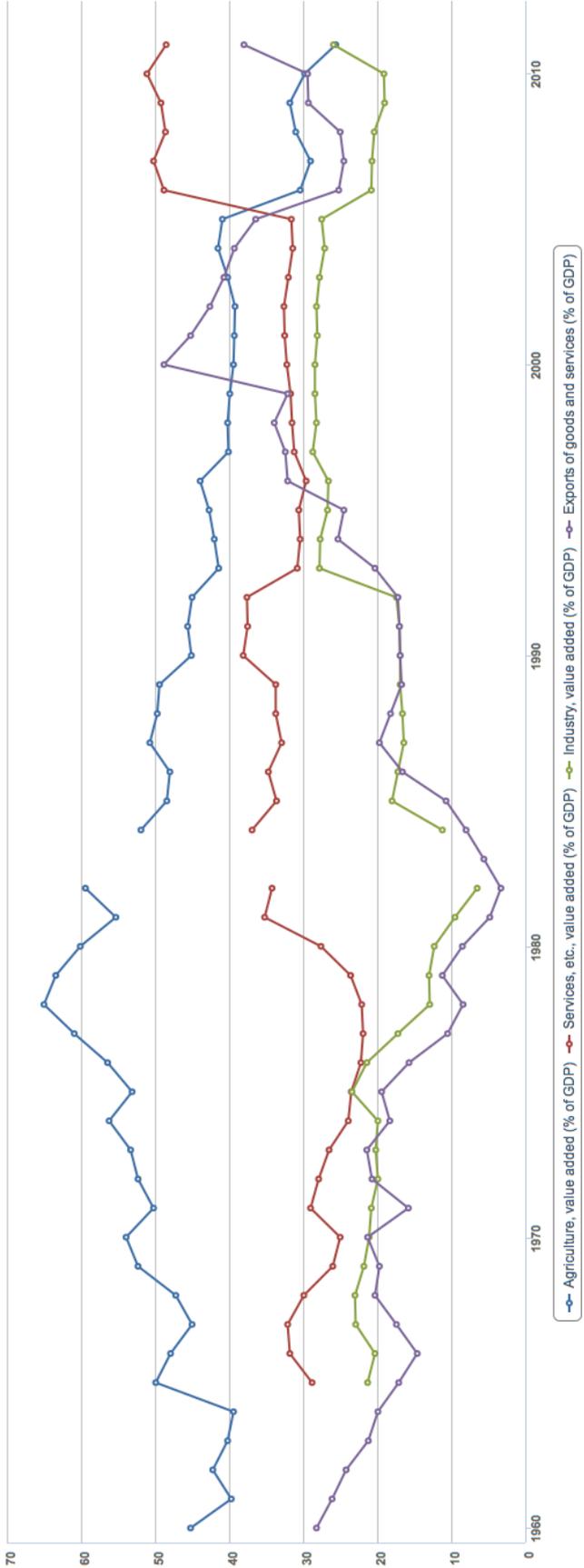
Source: World Development Indicators

## Appendix 6 - GDP per capita growth



Source: World Development Indicators

Appendix 7 - Agriculture, services, industry and export of goods sectors % of GDP



Source: World Development Indicators

Appendix 8 - Dimensions of poverty in the 1990s

<b>Dimensions of Poverty based on Ghana Living Standards Survey (April 1998 - March 1999) &amp; Core Welfare Indicators (1997)</b>			
Number of Households			4.2 million
Average household size			4.3 persons
Proportion of population rural			56.0%
Proportion of population female			50.5%
Intercensal population growth rate			2.6%
Average annual household exp.	¢4.244 million		(US\$1,1773)
Average per capita total (cash + imputed) household expenditure			US\$412
Average per capita annual cash exp			US\$336
Average per capita income			US\$220
Overall cash expenditure on food (% of total exp)			45.4%
Imputed value of own produced food (% of total exp)			10.3%
Proportion of households with someone holding a savings account			28%
<b>Population defined as poor (Welfare measure)</b>		<b>1991/92</b>	<b>1998/99</b>
Upper Poverty Line		50%	40.0%
Extreme Poverty		37%	27.0%
	Urban	18%	17.3%
	Rural	46%	36.0%
Food crop farmers		68%	59.0%
Males (Females) who never attended school			21% (41%)
Males (Female) literacy rate			62% (36%)
Literacy rate in urban (rural) areas			63% (40%)
Children aged 6-15 attending school			80%
Attendance rate rises with urbanization but proportion of females significantly lower.			
Nearest primary school is at least 30 minutes away	Urban		3%
	Rural		10%
Nearest health facility is at least 30 minutes away	Urban		20%
	Rural		61%
Lowest 2 poverty groups			70%
Population citing cost as key reason for non-use of medical services			70%
Children under 8 years never vaccinated against any of the childhood killer diseases (for Rural Savannah)			6.5% (12.4%)
Supervised delivery assistance (Doctor, Nurse, Midwife)	Urban		79%
	Rural		33%
Pipe-borne as a source of drinking water	Urban		80.3%
	Rural		18.8%
Prevalence rate of HIV/AIDS (1999)	National		3.6%
Households using electricity			41.4%
Population employed in agriculture			55.0%
Population employed in trading			18.3%
Population employed in manufacturing			11.7%
Women self-employment in agriculture			48.7%
Women self-employment in non-agriculture			45.1%
Men self-employment			77%

Source: IMF, GRSP I

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