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ADJUSTMENT IN AFRICA: LESSONS FROM GHANA

Structural adjustment in Africa has generated controversy and some pessimism. As one of Africa's first and most consistently pursued, Ghana's structural adjustment programme (SAP) has attracted particular attention, for several reasons. The programme was initiated with considerable local involvement and implemented by a socialist-inclined military government professing a non-party 'grassroots' form of democracy: following parliamentary elections in 1992 the country has now become a democracy with competing political parties. Adjustment policies have run for more than a decade, with considerable initial success. Ghana's SAP was the first in Africa to formally integrate a 'Programme of Actions to Mitigate the Social Costs of Adjustment' (PAMSCAD). Recently, however, the strategy has shown signs of faltering and imbalances are re-emerging. This paper attempts to identify and explain the weaknesses in the country's recovery effort, and the lessons they offer for other countries in Africa.

Economic decline, 1957–83

Under Kwame Nkrumah, its first President, Ghana was once considered to be the 'black star' of Africa. As the first country in sub-Saharan Africa to gain political independence, in 1957, it was seen as one of the stronger economies in the developing world. Per capita income was high by African standards (its average income was then about the same as that of Mexico or South Korea) and the country enjoyed a 'medium income' international classification. As world leader in the production of cocoa, the economy appeared buoyant, with growing output, inflation of under 1%, and large accumulated external reserves.

By the mid-1960s, however, the economy was stagnant and living standards were falling. By the time Nkrumah was overthrown by a coup in 1966, public investment in import-substituting industries and in infrastructure was yielding poor returns. The National Liberation Council, which took over, adopted an IMF-backed stabilisation programme in 1967, but growth rates did not increase notably and per capita income ended the decade lower than at the beginning. When, in 1969, Dr K. A. Busia became President in the Second Republic, his free-market approach, together with high world prices cocoa, produced some recovery. This was short-lived, however, and by 1971, economic strains caused Busia to devalue the *cedi*. This precipitated his overthrow by the military led by Colonel Acheampong, whose increasingly corrupt administration pursued policies that caused a severe degradation of the economy. This resulted in a further coup, in June 1979, led by Flight Lieutenant Jerry Rawlings who after relinquishing power to civilian rule for a brief period, headed a second coup in December 1981.

Table 1: Ghana – Basic Indicators of Economic Performance (Annual Average Growth Rates %)

	1960–9	1970–83	1984–9	1990–5
Real GDP	2.2	–0.8	4.8	4.3
Agriculture	2.6	–0.5	3.6	2.0
Gross Domestic Investment	–3.1	–5.9	16.5	21.8*
Exports	0.1	–4.4	11.7	10.1
Imports	–1.5	–7.2	13.5	8.6
Terms of Trade	1.1	–1.3	1.4	1.0
Population	2.3	2.4	3.5	3.0
Labour Force	1.6	2.3	4.7	2.7

Note: * 1990–3 average. The increase was due to a large investment in gold mining.

Source: World Bank and Ghana Statistical Service.

Throughout this period the economy deteriorated (see Table 1 for indicators of economic performance). In the troubled 1970s, per capita income declined further and by the end of the decade the 'black star' had lost its lustre, with falling output, three-digit inflation, widespread import shortages and high unemployment. A scarcity of foreign exchange resulted in shortages of imports of producer goods. The 1970s also saw a decline in exports. The country lost its place as the largest producer of cocoa, with its recorded share of world cocoa exports declining from 35% in 1961–5 to only 15% by 1981. The important mining sector also suffered from shortages of imported inputs and lack of new investment. In 1982/3, the situation was made worse by a severe drought and by the expulsion of about a million Ghanaians from Nigeria. By this time Ghana was facing a grave economic crisis.

Economic recovery, 1983–9

In April 1983, Rawlings' Provisional National Defence Council (PNDC) despite its initial populist stance, embarked on a programme for economic austerity and structural adjustment supported by the International Monetary Fund and the World Bank. This aimed to remove market distortions which were preventing the price mechanism from allocating resources efficiently, and to revitalise the country's productive structure through improved price incentives.

Decisive macroeconomic action was taken. On the fiscal side, there were budgetary cut-backs, removal of subsidies, introduction of cost-saving and cost-recovery measures, improved control over capital expenditures through the institution of three-year public investment programmes, and enhanced tax-collection. Monetary policy became very tight, involving large interest-rate rises to control domestic credit expansion. An incomes policy was introduced to limit the public wage bill. Balance-of-payments measures included a series of devaluations which culminated in the flotation of the currency and unification of the exchange rate. Import restrictions were reduced to allow the import of much needed inputs, spare parts, etc.

There were also institutional reforms: the public sector was reorganised through retrenchment and redeployment of labour and, more recently, through divestiture of some state-owned enterprises. Moreover, there were financial sector reforms, involving the take-over by the state of commercial banks' bad loans through a donor-supported Non-Performing Assets Recovery Trust, and new laws to strengthen bank supervision.

These initial years of adjustment mainly involved macroeconomic stabilisation to reduce inflation and strengthen the balance of payments. Output began to increase again, with an annual growth rate of about 5% between 1984 and 1989 (Table 1). From 1986 the budget started showing surpluses, although these were misleading since they included increased foreign aid (Table 2). Inflation was brought down from three-digits to an annual average rate of about 25% with the help of favourable harvests. (Since the share of food in the consumer price index is about 50%, good harvests can have a considerable impact on inflation.) Although the trade balance did not improve significantly, the severe foreign-exchange constraints were eased by largescale foreign aid, permitting increased imports.

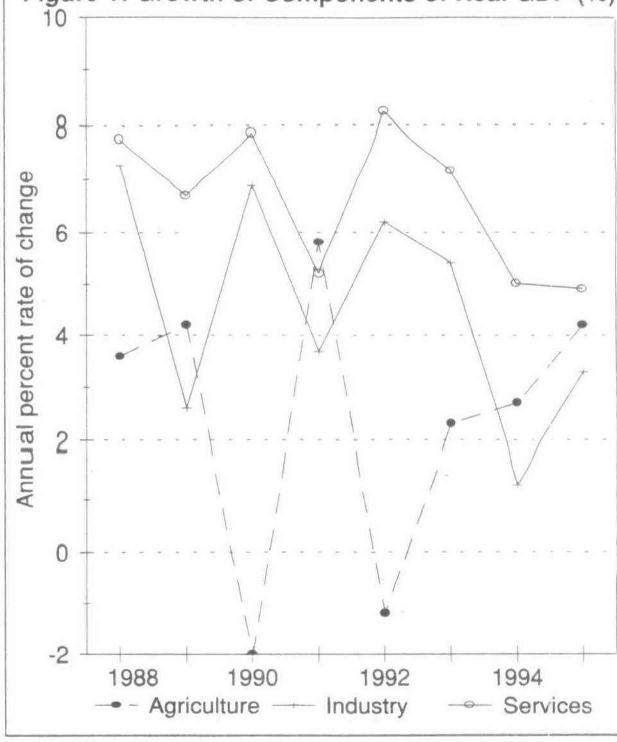
External support for the balance of payments and the budget, combined with improved expenditure controls, made rationalisation of the exchange rate a success. From a heavily overvalued fixed rate, Ghana moved to a liberalised system in which the rate of exchange was determined by supply and demand. By 1989, the authorities had achieved a full unification of the parallel and official markets, and year-on-year depreciations were within 'normal' limits. But while there is little doubt that the restoration of a realistic exchange rate, in combination with greater budgetary and monetary restraint, contributed substantially to the stabilisation, it is difficult in this period to separate the effects of improved policies from those of the increased aid inflows.

An important ingredient in the success of the early years of the SAP was the commitment of the government to the programme, with officials involved in extensive discussions with the IMF and World Bank about the actions that should be taken. Agreed policies were diligently implemented and this commitment, together with the initial successes, restored external credibility to the extent that the government regularly received higher donor commitments than the aid it requested at donor meetings.

Budgetary cut-backs involved some severe hardships (see Box on page3) particularly for ordinary Ghanaians, the PNDC's main constituency. Despite this, adjustment policies did not meet with much organised opposition. In the initial years, radicals opposed the programme but they became discredited through association with unsuccessful coup attempts. The PNDC had already silenced the beneficiaries of the 'control economy' – the former government's inner elite, big businessmen and civil servants. Furthermore, because by 1981 the economy had sunk to such a low level, most Ghanaians were willing to try anything which might reverse this situation.

Just as drought exacerbated Ghana's economic crisis in the early 1980s, so the recovery was aided by a reversal of fortunes. Favourable rains and a good harvest in 1984 accounted for much of the reduction in the inflation rate – from 123% to 40% in 1984 and 10% in 1985. Low inflation in 1992 – see Table 2 – was again partly the result of good harvests in 1991, although tight fiscal and monetary policies were also important contributory factors.

Figure 1: Growth of Components of Real GDP (%)



Improved macroeconomic management that commanded wide external support and good fortune had contributed to success in overcoming the worst imbalances between demand and supply. By 1989, the economy appeared poised for a period of sustained growth. The contrast between Ghana's rapid economic recovery and the alternative path of economic decline and political corruption which eventually lead to anarchy in regional neighbours such as Liberia and Sierra Leone could not be more evident.

Re-emerging weaknesses since 1990

The Rawlings government deserved the considerable credit it was given for the economic stabilisation of the 1980s, especially through its moves to reduce budgetary deficits. But a deterioration since then can be attributed to weaknesses in macro-economic policy, exacerbated by the slow response of the private sector to the earlier improvements. Faltering economic performance is related to the slackening of fiscal control which started in 1990. Unbudgeted outlays for a Ministerial Conference of the Non-

Table 2: Ghana – Indicators of Macroeconomic Performance in the 1990s

	1990	1991	1992	1993	1994	1995
Budget Deficit (billion ¢)	3.2	43.9	–144.6	–97.3	111.7	52.6
excluding Divestiture Receipts	3.2	39.1	–150.6	–184.2	–161.6	–59.2
also excluding Official Grants	–24.6	2.8	–183.3	–250.8	–201.1	–153.0
Growth in Money, M2 (%)	13.3	27.4	51.9	26.4	45.8	37.5
Average Annual Inflation (%)	37.2	18.0	10.1	25.0	24.9	58.5
Average Exchange Rate (¢/US$)	326.3	367.8	500.2	750.9	956.7	1200.4
Real Exchange Rate Index*	100.0	95.7	103.9	125.4	149.9	97.2

Note: * a rise indicates a depreciation.

Sources: Government of Ghana Budget Statements and computations from IMF International Financial Statistics.

Aligned Movement; peace-keeping operations in Liberia in 1990; and later the direct and indirect costs of local government elections, placed a great a strain on a still fragile economy (see Table 2). The fiscal pressures of these unanticipated expenditures were aggravated by a decline in aid inflows.

In 1991 the government added to its fiscal problems by insisting on a national referendum on a new Constitution, even though there was no serious opposition to its proposals. This was followed in 1992 by presidential and parliamentary elections. The associated increase in public spending contributed to a large budget deficit financed by borrowing from the banking system, and as a result money supply expanded by over 50%. In 1994, the proceeds of a sale of part of the government's holding in Ashanti Goldfields obscured the budgetary problem, but the underlying economic tensions remained: a reported surplus on the budget was only achieved through unexplained 'special receipts' of around 189 billion *cedis*. The budgetary weaknesses and the credit demands of the rest of the public sector led again to a large increase in money supply. After some time, this inevitably sent inflation back to high levels – over 70% per annum by December 1995.

An important achievement of the stabilisation process of the 1980s had been the rationalisation of the country's exchange rates. However, since 1992 the authorities have intervened in the market to limit the rate of depreciation. Such interventions have resulted in a rise in the *real* exchange-rate, reducing the profitability of exports, without preventing a large *nominal* depreciation of the *cedi*. This policy has protected urban and middle class consumers at the expense of (mainly rural) exporters.

These actions contributed to a derailing of the adjustment programme. But some of the difficulty may have been due to a preoccupation with macroeconomic management to the neglect of complementary measures to stimulate production. Table 1 shows that the overall growth in GDP declined by half a percentage point in 1990–5 from the preceding five-year period, and in only two years since 1990 has growth exceeded the nearly 5% average of 1984–9. Figure 1 illustrates the variable performance of the main sectors since 1988. Agriculture appears to have been left to the vagaries of the weather, and the cyclical decline in world cocoa prices, so that in the absence of market and non-market incentives to increase productivity, it has performed poorly. Industry, having responded to the initial impetus generated by the improved availability of imported inputs, is now hampered by the tight credit squeeze, restricting finance for working and replacement capital. Moreover, trade liberalisation has exposed it to increased competition from abroad. The service sector has consistently outstripped the other main sectors, but cannot alone provide sufficient impetus to sustain economic growth.

Structural adjustment policies appear to have been implemented without sufficient attention to ensuring that the private sector was responding to the programme. Thus when industrial capacity utilisation increased in the initial years of the programme, it was on the basis of an old and obsolete capital stock. Domestic saving (about 12% of GDP in 1995) still too low to generate substantial local investment has remained. While private saving has improved over the years, government saving has become negative, reflecting the poor fiscal position.

At about 16% of GDP in 1995, investment has increased dramatically from its low of less than 3% at the beginning of the adjustment period. However, much of this recovery has been concentrated in the extractive sector, particularly gold mining, which has performed well under adjustment. Helped by considerable foreign investment, gold has now overtaken cocoa as the largest single export earner.

There have been revisions of the Investment Code to provide tax and other incentives but these have not generated the expected growth in capital formation. Factors contributing to this failure have been the inadequate infrastructure reflecting decades of under investment and inadequate maintenance; the unstable macroeconomic environment; and continuing doubts about the attitude of the government towards private investors.

Supply responses to adjustment policies have been particularly weak in agriculture. In the initial years of the programme, exchange rate reforms and increases in the producer price helped to improve earnings from cocoa. Latterly, however, the performance of the cocoa sector seems to have confirmed the widely held view that much of its initial recovery was due to a cessation, perhaps reversal, of the smuggling of cocoa to neighbouring Côte d'Ivoire, rather than to increases in production. After rising from 159,000 tonnes in 1983 to 247,000 in 1990, cocoa export volumes have stagnated and Ghana's current world market share is even smaller than it was in 1981. Also government policies, disease problems and climate change in the old cocoa growing areas (now the transitional forest zone) have caused the cocoa frontier to move to less optimal conditions in the Western Region. At the same time, the food sector has been weakened by the switch to price incentives for cash crops and by the increased cost of inputs, particularly fertiliser and labour.

Adjustment, Poverty and PAMSCAD

It is now well recognised that in the short-run adjustment imposes hardships on certain vulnerable groups. In Ghana, fiscal rationalisation, involving the removal of subsidies as well as cost-saving and cost-recovery measures, affected health and education services. Parents were required to increase their contribution to their children's education. Fees were introduced into the health service with resulting falls in hospital attendance. A substantial number of public sector workers were retrenched. Food producers were also affected, with the withdrawal of subsidies on certain agricultural inputs, particularly fertilizer.

Ghana was one of the first countries where a conscious 'Programme of Action to Mitigate the Social Costs of Adjustment' (PAMSCAD) was introduced, as a joint initiative of the Government, UNICEF and the World Bank. A total of US$83 million was programmed, to be spent over two years on 23 projects in five main areas: community initiatives, employment generation, actions to help retrenched workers, basic needs of vulnerable groups, and education. As of 1990, however, an evaluation report graded only eight of the projects as having made 'good progress'. The report claimed that PAMSCAD faced inadequate recurrent funding, political interference, and too much bureaucracy. Another major weakness was that although the international agencies accepted the idea that adjustment should be given a 'human face', PAMSCAD was never properly integrated into the SAP. In practice it brought little support to those facing hardships induced by the SAP but addressed pre-existing social problems.

There are limited data for a 'before and after' comparison, suggesting that most retrenched workers faced substantial income losses. More widely there is evidence that adjustment was associated with a slight reduction in poverty in Ghana between 1988 and 1992, although about a third of the population still belonged to the 'severe poverty' class. Over a longer period, life expectancy at birth rose from 52 in 1980 to 55 in 1990, while in the same period infant mortality fell from 100 per 1000 births to 84.

Politics and adjustment

There is continued debate about the impact on adjustment programmes of the introduction of democratic political institutions. On the one hand, it is suggested that a strong authoritarian government would be in a better position to push through unpopular measures and to suppress opposition to them. Against this, it is held that in a pluralistic system the programme may have greater legitimacy and support from the general public.

In 1992, the PNDC regime gave in to domestic and international pressures, and converted from military rule to a constitutional parliamentary system of government. The resulting elections confirmed Rawlings as President. The opposition parties boycotted the parliamentary elections, arguing that the prior presidential election had been rigged. Notably, economic policy was not a major issue in the political campaign, with the main opposition party supporting the thrust of the SAP.

Since the advent of the Fourth Republic in 1992, the poorer performance of the economy has given the impression that there is an incompatibility between the successful implementation of structural adjustment and democratic government. However, it can be argued that recent economic performance has had less to do with the current political situation and more to do with a declining commitment to fiscal control in the last years of military rule. Political factors already present, but which find more open expression under the new democratic constitution, have now adversely affected economic performance.

A major goal of the SAP was to reduce the size of the public sector and to promote private sector activity. President Rawlings' government appears to have done little to encourage private sector involvement, however, and there is limited trust between them. Most big businessmen suffered as a result of the PNDC revolution and may still resent Rawlings and his colleagues. At the same time, because of its avowed fears of exploitation of consumers and workers, the government has appeared ambivalent in its attitude towards the private sector. This was illustrated when President Rawlings cautioned his party supporters not to buy the products of certain businessmen associated with the political opposition.

The government has also been slow to implement the privatisation programme. Only a few of the several state-owned enterprises selected for divestiture have been sold, and opposition parties have claimed that some of the sales that have occurred have lacked transparency.

A further example of the government's commitment to the SAP weakening in a more democratic environment came during budget hearings for 1996, concerning 'petrol politics'. Under pressure from a parliament dominated by the ruling party's own members, the government announced a price increase of 19%, which was insufficient even to compensate for exchange-rate depreciation. This has weakened the state petroleum company's financial position and will put pressure on the 1996 budget through lost revenue and the implicit subsidy which is being provided.

In short, the aura of success surrounding Ghana's adjustment efforts has been fading. Economic growth has slowed down; inflation has become a major concern; the *cedi* has been depreciating, further fuelling inflation but without maintaining incentives to export; unemployment is increasing; and there appears to have been little reduction in poverty. Thus the claims for major successes in reversing economic decline and establishing a more democratic goverment, especially in relation to development elsewhere in the region, now have be tempered by the continuing difficulties facing the economy.

Conclusion: lessons for Africa

Bearing in mind the dangers of generalising from a single case, this analysis suggests some important, if familiar, lessons for other African countries.

- Macroeconomic stabilisation, through improved control of government spending and of credit creation, is essential but insufficient. Strengthening the supply capacity of the productive system is also essential, including measures to induce private sector participation and to stimulate investment.

- There are important and fairly quick output gains to be had from relieving supply bottlenecks through greater imports. Aid can play a crucial role in facilitating this. But sustained growth cannot be based only on a strategy of raising capacity utilisation.

- Persistence and consistency are important – but politically difficult. Adjustment is a long-term process when economies are inflexible, as is the case in most African countries. This is particularly so with major institutional changes, such as privatisation and the strengthening of markets.

- Adjustment measures put low-income groups at risk, particularly public sector workers and resource-poor subsistence-oriented farmers. It requires a substantial effort and planning from the outset if these groups are to be cushioned.

- With shrinking aid budgets and growing debt burdens, the generation of domestic saving is essential. This reinforces the necessity for measures to reduce budget deficits.

- The limited domestic savings capacity implies measures to attract substantial net foreign direct investment.

- Moves to political pluralism are apt to complicate the political management of necessary economic changes; there may be economic costs to set against the benefits of democratisation.

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