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THE IMPACT OF DEBT CRISIS ON GHANA'S FOREIGN POLICY

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P R E F A C E

One of the most fundamental and yet, the most intractable problem currently facing Ghana is the increasing debt burden. This problem has persisted in spite of the IMF/World Bank Economic Recovery Programme.

The crucial questions which this study has attempted to answer are: First, why has the IMF/World Bank, Economic Recovery Programme not been able to improve Ghana's economy; secondly, has the worsening debt crisis any positive relations to Ghana's favourable foreign policy towards the West; and finally, what factors forced Ghana into the 'debt trap' of the West?

The study has been partitioned into five chapters. Chapter One covers the Introductory phase of the inquiry; its focus include general, the statement of problem, significance of the studies, literature review and stating of research hypothesis.

Chapter Two deals with the historical background to the origin of Ghana's debt crisis and IMF/World Bank involvement in the economy.

Chapter Three is specially concerned with the impact of the IMF/World Bank Economic Recovery Programme on the standard of living of the people and the general recovery of the economy.

Chapter Four examined the magnitude and direction of Ghana's foreign policy especially now that the country is having economic crisis.

Chapter Five deals with summary and conclusion.

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ABSTRACT

Since the mid 1980s, Ghana's economy has witnessed the worst debt crisis in its history. This crisis has manifested in the form of increasing unemployment, double digit inflation, virtual halt in domestic capital accumulation, breakdown in the productive apparatus and increasing income inequality.

The central aim of this study is to find out the impact of this debt crisis on Ghana's foreign policy. More specifically, we are also interested in finding out whether any relationship exists between the World Bank/IMF Economic Recovery Programme and the worsening Economic crisis in Ghana.

Theoretically, we foundationed this study on the Dependency Theory. This theoretical perspective helped us to understand the fact that Ghana's incorporation into the world capitalist system and its exploitation and subjugation within the system is the major cause of the country's economic crisis.

Methodologically, we relied on the use of recent documents, relevant books, data from Government files, federal office of statistics and the multilateral Institutions. To ensure the reliability and validity of the study, we relied on the use of content Analysis.

The study revealed that there is a direct relationship between Ghana's reliance on IMF/World Bank Loans and her favourable Foreign Policy initiatives and options towards the West. The implication is that the world Bank now determines who gets what, how and when in Ghana.

CHAPTER ONE

1.1 GENERAL INTRODUCTION

Ghana has suffered more than its own share as a developing country in the hands of multilateral institutions like the IMF and the World Bank. A country which used to champion the affairs of Pan-Africanism and African independence under Nkrumah, has now been forced to take the back seat in the international system.

It is on record that Ghana used to be the world's largest exporter of cocoa, gold and other minerals in the 1960s. Ghana also used to sponsor liberation movements and challenge the domineering role of the West during this same period. But today, the country cannot afford to feed its citizens, not to talk of sponsoring a pragmatic and dynamic foreign policy.

The paradox this study wants to ravel is that in spite of the numerous investments the multilateral agencies like IMF and World Bank have invested, the country is yet to recover from her endemic debt crisis.

The World Bank for instance, has invested a total of $572,874 million between 1966 - 1980.[1] Yet there appears to be relationship between these massive investments and the worsening debt crisis in Ghana. The index of these crises are clear, for example, the per capita GDP fell from -8.1% in 1981 to 3.3% in 1986 and the GDP at market price rose from -5.7% in 1981 to 6% in 1986. Inflation rose from 32.5% in January 1983 to 174% in June the same year. The price index of consumer goods which stood at 29.6% in 1975 reacher 868.7% in 1981[2] and foreign debt profile increased from $1.5 billion in 1983 to $3.3 billion in 1984.[3]

All these have combined to force many Ghanaians to become refugees in many West African countries in search for survival. We are aware that in the 1980s, Ghanaians were declared as illegal aliens by Nigeria even though they came under the auspices of ECOWAS free movement of persons within the community.

More fundamentally, Ghana's foreign policy is now seriously tilted towards the West to the extent that IMF , World Bank and the West determine what happens in Ghana in terms of what is to be produced by who and for who.

This study has been initiated to find out first, how Ghana got trapped into the 'debt trap' of the West.

Secondly, the magnitude of the investment which the IMF, World Bank, and other multilateral institutions have invested in Ghana and the impact of these on the average Ghanaian.

Finally, the study will examine critically, the impact of increasing debt crisis on her foreign policy towards the West especially the United States. Our index for this measurement will be the amount of financial help either loan or in aid form, the direction and nature of policy among others.

1.2 STATEMENT OF PROBLEM

Ghana has recently emerged as one of the classical laboratory for IMF's test-case experiment. The Provisional National Defence Council (PNDC) has even received wide acclaim in international financial circles for its 'outstanding and courageous' economic measures. Cited as one of the countries that have initiated major policy reforms, Ghana became one of the beneficiaries of the $1,000 million fund raised by the World Bank to prevent economic decline in the continent and towards the end of 1986, its resident representative in Accra announced that the International Development Association (I.D.A.) credits would be increased by 36.6% that is from $110 to $150 million.

Also, at the all important meeting of the Paris Consultative Group in 1987, Ghana was almost 'showered' with funds. Over $818 million was pledged by donor nations and agencies, thereby exceeding the requested total of $575 million - by 42%. Certainly a most determined international effort has been made for Ghana to become an exemplary model for Sub-Sahara Africa.[4]

In spite of this massive investment by International Organisations and agencies, Ghana's economy witnessed the worst crisis in its history. This situation forced many Ghanaians to leave the country enmass in search of survival.

Recent study has revealed that during the 1983 expulsion of illegal aliens resident in Nigeria, who numbered about 2 million people, Ghanaians represented about half of the number. Also, in 1985, about the 700,000 illegal aliens affected by the Federal Military Government of Nigeria expulsion order, 300,000 were Ghanaians.[5]

Ironically, it was the same period that Ghana was seen as doing well due to the IMF and World Bank loans. For example, in 1983, IMF gave Ghana a loan of U.S. $359 million, 'special drawing rights' worth U.S. $377 million. The World Bank also gave out $450 million and made a promise of increasing their lending by 13 per cent. The country also received pledges amounting to over $600 million from bilateral and multilateral sources.[6] The same period witnessed the escalation of price index for consumer items from 29.6 in 1975 to 46.2 in 1976. Between 1978 - 81, the figures were 173.3, 267.3, 401.2, and 868.7 respectively.

The monthly rate of inflation which had stood at 32.5 per cent in January 1983, rose to 174 per cent in June of the same year, whereas money supply rose rapidly from ₵13,787.9 million in May to ₵17,117.8 million in September. Although there was an increase in the basic wage from ₵12.00 to ₵21.19 a day,[7] this could not meet up the rate of inflation.

The IMF/World Bank loans were aimed supposed at enhancing the economic recovery of the country, that means alleviating the suffering of the people, but contrary to policy proclamation, the 'recovery' was staged on the backs of the working classes and the poor. It also led to extensive concessions to foreign capital, large scale retrenchment and the swelling of the ranks of the unemployed, etc.[8] In reality, Ghana became worse off.

The consequence of this massive investment of resources in Ghana by the multilateral agencies and institutions has been a re-direction of Ghana's foreign policy towards the West. In fact, prior to this period of investment, Ghana's foreign policy used to be Africa-centered. Ghana was known for its dynamic foreign policy which emphasized African Unity, Non-alignment, decolonisation and Pan-Africanism.

Today, however, Ghana has been dragged into the "debt trap" of the West and its foreign policy is now anchored on fragile political economy. The country now echoes what the West want it to say and do and her credibility in the International system has greatly reduced.

The central questions this study will attempt to answer include:

1) Is there any relationship between the World Bank/IMF Economic Recovery Programme and the worsening economic crisis in Ghana? In other words, what has been the impact of the IMF/World Bank loans to Ghana on the country's political economy. More specifically, what has been the impact of these massive investments on the living standard of the average Ghanaian?

2) Is there any relationship between the worsening debt crisis and Ghana's foreign policy towards the West?

3) What factors forced Ghana into the debt trap of the West?

1.3 SIGNIFICANCE OF THE STUDY

Over the last two decades, Ghana has been receiving loans from IMF/World Bank and other international financial institutions. As these loans are being pumped into the economy from all directions, there has been no real improvement in Ghana's economy. In fact, the economic situation could be said to have worsened.

The situation was compounded by a period of famine and by the expulsion of over half a million Ghanaians from Nigeria. Inflation during this period ran in 3 digits, industrial production recorded negative growth, food shortages were widespread and the cocoa industry, the backbone of the economy, was in abeyance as several bags of cocoa were locked up in the hinterlands due to poor transportation.[9]

Yet, with all these pitiable conditions, the IMF/World Bank and other international bodies have continued to give a pat on Ghana's back for a job well done.

The significance of this study therefore lies in its intention to explore and analyse the strategies and tactics employed by these institutions especially IMF/World Bank to penetrate, and the mechanisms it has used to dominate Ghana's economy since independence. By using the Dependency Theory, the study will investigate the issues involved in holistic terms and analyse the facts concretely rather than abstractly.

This study also has the potentials of extending the frontiers of research work and knowledge in the area of International Economic Relations and Debt Crisis in particular. It certainly has the potentials of changing the focus of research in general from much emphasis on the issue of "War and Peace" to the vital area of Economy.

More specifically, the study will be useful to International organisations and institutions especially those concerned with human welfare and socio-economic development like the Economic Commission for Africa (ECA), Organisation of African Unity (O.A.U.), the IMF and World Bank, among others.

Both Ghanaian leaders and the average Ghanaian will derive a lot from this study. Ghanaian leaders, especially those currently in power will get more information on how the IMF and World Bank are creating hunger in the country; while preaching the ideology of economic recovery. The average Ghanaian, especially those who constitute the victims of the IMF/World Bank loans will now find out how their problem started and the direction it is likely to take.

Finally, the significance of this study rests on the expectation that a purposive pursuit of the strategy of self-reliance devoids of the manipulations of foreign capital which consequently affects Ghana's foreign policy will provide a lasting solution to Ghana's endemic debit crisis.

1.4 OBJECTIVE OF THE STUDY

1) To find out the magnitude and direction of Ghana's debt crisis and the impact of the debt crisis on the country's foreign policy.
2) To find out the impact of debt crisis on the life of the average Ghanaian.
3) To find out the factors that forced Ghana to the Western "debt trap".

1.5 LITERATURE REVIEW

The mounting external debt of Africa and other Third World Countries has become prominent within the agenda of United Nations Conference on Trade and Development (UNCTAD). This is inseparable from the broader problem of what to do about the structure and performance of the global economy which based on an international division of labour, puts numerous African countries in a situation where they experience acute and chronic deficits and unfavourable terms of trade.

It has been noted that the total external public debt of 75 non-oil exporting Third World Countries rose from $66.8 billion in 1973 to $122.8 billion by 1977. If undisbursed, contracted debt is included, the increase was by another $22.1 billion or from $43.0 to $171.1 billion. From 1973 to 1977, the key indicators of national capacity to service disbursed debt worsened for the 75 countries collectively. Outstanding debt increased from 11.9% to 15% as a proportion of gross national product, and from 76.5% to 88.9% in relation to export receipts, while debt service payments rose marginally from 10.1% to 10.2% of export receipts.[10]

For African countries within this larger grouping, their outstanding debt went up at a rate similar to other regions of the Third World. From $6.8 billion in 1973 to $12.7 billion (disbursed) as of 1977, and from $9.6 to approximately $21 billion (including undisbursed). The outstanding disbursed debt to gross continental product by 1977 and climbed from 72.5 to 95.8% in relation to export receipts, each proportion being relatively high, contrasted to elsewhere in the Third World. However, debt service payments to export receipts remained a constant 10% in part due to the relatively higher grant component in official development assistance to Africa.[11]

As a result of the sustained economic crisis facing most of these developing countries, especially in Sub-Sahara Africa, the vast majority of nations in these countries have turned to the International Monetary Fund (IMF) and World Bank for balance of payment.[12] Because of the conditionality, attached to these loans by the IMF/World Bank, developing countries have become victims of debt crisis.

In spite of the debt burden of the developing countries, the IMF/World Bank who are the major donors of loans to these countries argue that they are the best option the Third World Countries should turn to if these countries have to come out of their situation. They further argued that those countries that have sort the help of IMF/World Bank are doing well. According to an official of IMF, "there are optimistic signs emerging out of Sub-Sahara Africa . . . that its economic performance is improving and that the prospects for its future may be brighter and more manageable . . ., these improvements are greatest where Sub-Sahara governments have adopted policy reforms and Africa's donors and creditors have increased their support".[13]

The Baker Plan of 1985 went ahead to propose that debtors grow their way out of debt through a combination of structural adjustment and new loans which were conditional on adherence to structural adjustment.[14] They therefore claim that their aim of giving loans is to fight anti-poverty programmes including infrastructural development, balance of payment stabilization programmes and structural adjustment programmes (SAP) or economic recovery programmes (ERP).[15]

The IMF/World Bank annual reports and publications of their role in Africa show that they have positive intention which should be appreciated, as is evident in the 1981 Berg Report entitled "Towards Accelerated Development in Sub-Sahara Africa". This implies that all attention was focussed on development of Africa, therefore,while IMF has focussed on the external sector, the World Bank has been pre-occupied with the agricultural sector or rural economy in the overall interest of advancing the economic growth of Africa. The Fund and the Bank see themselves as playing the "Good Samaritan" role of acting at the invitation of African countries and in supportive assistance to them.[16]

This same school holds that the Third World lack capital accumulation because the peoples of these areas have poor saving habits encouraged by their anachronistic traditions, institutions, extended family and value system.[17]

The World Bank sees the predicament of the Third World as not their making but the Third World's own making. The Bank identified that on the average, per capita income in Africa declined by 0.4% per year in the 1970s. That the volume of agricultural exports fell over the decade by 20% and estimated food production per capita also fell. They said that this weak performance was the result of varied influences including governmental inefficiency, pervasive mismanagement, and difficult external circumstances.[18]

These multilateral institutions argued that in all their dealings, their policy conditionality does not encroach on the national sovereignty of countries borrowing from them because in the final analysis, members are not compelled to draw on the IMF/World Bank funds, nor to accept conditionality. They do so willingly in exercise of their sovereignty.[19]

It is this conceive conviction of IMF/World Bank that Hyde, in his article "The Poor Becomes Poorer, admits IMF", argues that money and credit policies which aim at limiting domestic credit expansion are favourable to the poor as they help reduce inflation and increase the supply of loanable funds available to the poor.[20]

However, with the initial optimistic notion of the Fund and the Bank on Africa's economic recovery, it has been noted that Africa has incurred more debt than before it entered into agreement with the Fund and the Bank.

Table 1.1 below explains more how Third World Countries especially Sub-Sahara Africa's debt have been growing in the 1980s when most African countries entered into agreement for financial help with multilateral institutions.

Table 1.1: External Debt and Debt Service Ratios For Sub-Saharan Africa (in million of US $ dollars)

	Total External Debt			Debt Service Schedule	
	1970	1980	1985	1985	% of Export
Benin	41	400	776	109	-
Botswana	15	156	339	52	5.8
Burkina Faso	21	334	539	52	-
Burundi	7	165	446	28	-
Cameroon	141	2,511	2,871	333	11.7
Cape Verde	-	20	92	6	-
Central Afr. Rep.	24	181	341	24	8.01
Chad	33	204	161	10	6.9
Comoros	1	44	133	4	19.5
Congo	140	1,366	2,420	409	20.51
Coted'Ivoire	268	5,922	8,446	1,141	34.3
Djibouti	-	32	146	5	-
Equatorial Guinea	5	75	133	9	-
Ethiopia	109	803	1,869	129	-

	1970	1980	1985	1985	% of Export
Gabon	91	1,565	1,134	302	-
Gambia	5	130	234	17	-
Ghana	-	-	-	109	16.2
Guinea	313	1,088	1,381	142	-
Guinea-Bissau	-	130	255	14	106.9
Kenya	421	3,510	4,219	421	28.5
Losotho	8	71	176	17	5.2
Liberia	158	701	1,155	100	8.61
Madagascar	90	1,251	2,587	321	-
Malawi	125	818	988	88	-
Mali	241	728	1,469	96	44.5
Mauritania	27	820	1,477	120	10.01
Mauritius	33	457	629	68	11.8
Niger	-	863	1,154	74	29.5
Nigeria	572	8,888	18,348	4,383	33.7
Rwanda	2	190	351	16	3.31
Sao Tome & Pr.	-	13	72	6	63.8
Senegal	132	1,287	2,454	194	-
Seychelles	-	84	73	8	-
Sierra Leone	60	425	527	43	7.21
Somalia	77	757	1,486	128	100.3

	1970	1980	1985	1985	% of Export
Sudan	308	4,680	6,332	874	104.8
Swaziland	37	181	2,077	28	10.2
Tanzania	272	2,544	3,609	312	-
Togo	40	1,034	923	122	37.5
Uganda	142	708	1,030	108	-
Zaire	-	-	-	820	-
Zambia	657	3,242	4,482	528	62.3
Zimbabwe	-	-	2,143	377	-

SOURCE: World Debt Tables 1986 - 87, World Bank.

The IMF loans were borrowed by African countries with the view of adopting policies that would bring the balance of payments back into equilibrium. Equilibrium was, however, interpreted as a condition whereby the value of imports of goods and services, including interest and dividend payments, is balanced by the value of exports, receipts of official loans and grants less repayments and net private investment by foreigners.[21] However, due to the nature of trade relations between the developed and the developing states, it is difficult for developing countries to balance their import/ export receipts as indicated in Table 1.2 below.

Table 1.2: North-South Dependency Equation (Value in Billion of Dollars).

I	World Production	1970		1982	
		Total	Percent	Total	Percent
i)	World	3,032.4	100	11,015.2	100
ii)	Developed Market Economy	2,125.3	70.1	7,691.1	69.8
iii)	Developing Countries and Territories	390.6	12.8	2,077.2	18.8
a.	Major Petroleum Exporters	102.2	3.3	846.0	7.6
b.	Other Developing countries	288.4	9.5	1,231.2	11.1
iv)	Others	516.5	17	1,246.9	11.3

II Trade (Value)

	1970 Total	1970 Percent	1982 Total	1982 Percent
i) World	312	100	1,933.2	100
ii) Developed Market Economy Countries	224	72	1,274	66
iii) All Developing Countries	54	17	456	24
a) Major Petroleum Exporters	18	5.4	157	8
b) Other Developing Countries	36	11.5	300	16
iv) Others	33	10.57	201	10

III Trade Flows

	North 1970	North 1985	South 1970	South 1985	Total 1970	Total 1985
North	68	61	15	16	83	77
South	13	17	4	6	17	23
	81	78	19	22	100	100

IV Developing Countries Outstanding Debt	1970	1985
i) Total Public Debt Outstanding and Disbursed (DOD) - all low income countries (in billions of US Dollars)	50.77	11.2
ii) Debt as a percentage of GNP	12.9	33.0
iii) Debt as a percentage of Exports	99.41	35.7

V Current Account Balances (excluding Exceptional Financing) (in billions of U.S. Dollars)	1970	1985
i) All countries	-4.3	- 80.5

	1970	1985
ii) Industrial countries	-6.3	- 53.3
iii) Developing countries	--10.7	- 27.1
a) Oil Exporting countries	- 2.9	- 5.5

SOURCE: Africa Quarterly, Vol. XXVIII, No. 3 - 4, 1987-88, p. 14.

It has also been noted that the Fund insists on policies with much broader objectives; policies that in its opinion, would make better use of the land, manpower and capital resources at the borrowing country's disposal. The measures also include the ending of the monopoly position or privatisation of parastatal marketing and manufacturing enterprises; reduction of credit from the public to the private sectors; the ending of price controls and subsidies; the raising of commercial levels; the removal of exchange and import controls and the lowering of tariffs.[22]

Despite these measures, by 1987, African debt stood at US $200 billion mark. Relative to the income level of its peoples, Africa's debt is highest in the world and Africa's debt ratio has risen from around 15 per cent in 1980 to more than 33 per cent in 1987. As a result of these developments, the economic recovery programme for Africa as designed under OAU and UN providing financial package for tackling the crisis situation was not able to help matters because the package was to provide short-term solutions. However, the debt crisis of Third World is said to be a symptom of the deeper malady traceable to critical economic dependence.[23]

Thus, the IMF approach to balance of payment problems has been heavily criticized by Killick who argued that the over-riding concern with correcting deficits had led to insistence upon expenditure reduction which has been costly in terms of output lost and unemployment.[24] Consequently, Africa's debt rose by 22% per annum between 1973 - 1974 and 1982 - 1983 and by 1986, the total outstanding debt as a percentage of GDP amounted to some 54 per cent with percentage of export of goods averaging 44 per cent.[25]

This has resulted in the crisis of the developing countries' external debt which has become a real drag on their economic development. Thus, from 1980 to 1983, the influx of funds from the Western countries to Latin American countries shrank from $30,200 million to $3,200 million, i.e. to nearly a tenth, while interest payments on loans and profit transfers by foreign monopolies, mainly to the United States nearly doubled, so that the net outflow of funds from Latin America to the developed capitalist countries in 1983 totalled nearly $30,000 million or 4 per cent of the Latin American countries GNP. From 1981 to 1983, Latin America's GNP shrank by 2.8 per cent, 5.8 per cent in Brazil, 15.7 per cent in Bolivia, 9 per cent in Argentina, 9.9 per cent in Chile, and 13.9 per cent in Uruguay. In that period, Latin America's GNP per head dropped by 9.5 per cent.

From 1981 to 1983, GNP per head fell by 12 per cent in African countries south of Sahara with an important factor in the process, being the economic blood-letting as the African countries transferred to the Western countries more and more billions of dollars every year to pay off their external debt and interest on it. From 1970 to 1982, these payments went up from a total of $499 million to nearly $5,500 million, i.e. a more than 12-fold increase.[26]

Table 3 below shows the influx of capital and external debt service payments of developing countries.

Table 1.3: Developing Countries' External Debt: Influx of Capital and External Debt Service Payments (in $'000 million)

	1973	1980	1981	1982	1983	1984	1985
Total Debt at year-end	-	610	702	775	843	895	970
Medium and Long Term Debt - including:	140.9	471	528	582	658	717	774
Government Sources	115.4	177	192	240	229	245	266
Private Sources	25.5	294	336	372	429	472	508
Short Term Debt	-	130	160	171	154	142	196
Use of IMF Credits	-	9	14	22	31	36	-

	1973	1980	1981	1982	1983	1984	1985
Payments on Credits	16.0	11.1	86.4	97.6	115.2	126.6	-
Debt Amortisation	11.2	40.5	45.6	53.9	58.2	63.7	-
Interest Payments	4.8	30.5	40.8	43.7	57.0	62.9	-
Transfer of Profits	-	-	14.0	14.0	14.0	14.5	-
Ratio of Debt Service Payments to Exports (%)	-	-	99.1	122.8	129.8	127.6	-

SOURCE: World Debt Tables, The World Bank, 1984 - 1985, p. IX.

Thus, African countries have lost over $100,000 million yearly from the transfer of profits by foreign monopolies, the manipulation of purchase price and sales in the Western monopolies; intra-corporate trade, the excessive payments for licenses and freight charges, the "brain drain", the depreciation of hard-currency earnings in consequence of the galloping inflation in the West.[27] As a result, about 43 per cent have adopted stabilisation programme, 70 per cent structural adjustment programme (SAP), 50 per cent maintained National Preparedness Machanism, 50 per cent established National Food Security Systems and 87 per cent adopted price incentives for agricultural products.[28]

Ghana on her part, adopted the Stabilisation Programme in 1966 after the overthrow of Nkrumah's regime. The official rationale for the stabilisation was to arrest inflation, the stimulation of domestic and export production and the improvement of balance of payments and debt service capacity. However, the stabilisation plunged the economy into deep recession and stagnation and intensified social and structural contradictions in Ghana. By August 1968, over 66,000 workers - some 10% of the total wage labour force in Ghana has been dismissed from their employment. The devaluation failed to stem imports and stimulate exports; in spite of the devaluation, the quantum of export, instead of increasing rather decreased. . . for all commodities except timber and dimonds.[29]

As a result of the forcibly depressing the standard of living of the mass of the people, stabilisation was able to repress the signs of inflation, but without removing its fundamental causes. It was also discovered that in Ghana, more attention was paid to effecting public savings than stimulating production while the IMF expenditure ceilings and guidelines were rigidly enforced, the Bank's development package was never implemented. This goes to buttress Harrington's view that IMF stabilisation programmes are conceived to satisfy the needs of the lenders rather than those of the debtor country.[30]

However, Ghana was able to make sizeable drawings under the stand-by arrangements indicating the extent to which the country met the performance criteria. The criteria already stated is the thrust of stabilisation which is to stimulate aggregate domestic supply by realigning relative prices in favour of production and export sectors, reduce the government budget deficit and thereby the underlying inflation pressures. The rehabilitation phase emphasis was placed on improved capacity utilization of existing capital assets. These are the roads, railways and ports and providing essential raw materials and imported inputs to the productive sectors particularly the export sector. Also in the liberalisation and growth phase, the economy was liberalised by way of relaxing the striction on trade and payments control, reducing the extent and coverage of domestic price controls, and removing other rigidities, barriers and distortions in the economy.[31]

It is also noted that with the IMF inspired devaluations, countries affected often end up with the same structural balance-of-payments deficits as before the devaluations except at a much higher rate of inflation and attendant economic and political strife.[32]

Ninsin has also noted that in 1967 when Ghana implemented the IMF conditionality by devaluating the cedi and the liberalisation of trade, salaries were increased to mitigate the effects of the devaluation but this did not help the worker because the continued inflation caused by the devaluation had wiped out the gains such that by the close of 1968, the real minimum wage for the worker was 38.1% less than its 1960 level.[33]

Agyeman-Duah has also added that with the help of IMF and World Bank guidelines and conditions, and with massive infusions of international capital, the P. N. D. C. appears to have halted the progressive decline in the economy. The recovery programme, however, has created unusual hardship, notably because the unprecedented devaluations have rendered the cedi almost worthless. As the prices of goods have sky-rocketed, and as subsidies have been withdrawn on imported commodities and social services, the cost of living has become outrageously prohibitive for the vast majority of Ghanaian.[34]

Omaboe who was the chairman of the NLC's Economic Committee and also the Commissioner for Economic Affairs, however, conceded that the government's policy of substantially increasing the scope of import and exchange liberalisation meant, among others, putting a number of items on Open General Licence, and allowing foreign companies operating in the country to repatriate their profits and dividends without restraint. This, the Commissioner explained, was necessary to re-establish our reputation among international capital markets so as to attract foreign investments. In brief, the policy of promoting private enterprise at home would proceed under the protection of foreign capitalist interest.[35]

However, Ninsin has a different explanation on the economic policy of the government. According to him, it could be explained only in terms of the material interest of the fraction of the Ghanaian petty-bourgeois class that had taken control over the State apparatus.[36]

In as much as we may agree with Ninsin and his colleagues in this school of thought, it is clear from the literature review that we must go beyond this view. Thus, Boafo-Arthur in his article, argued that the National Liberation Council (N.L.C.) and the Busia regime forged close relationship with Western governments and financial institutions as a result of Ghana's inability to repay her debt. Also, there was an urgent need to attract external investment and financial help for development. This resulted in the invitation of the IMF/World Bank advisers who took over the control of planning and economic policy-making departments of the country.[37]

As a result of the urgent need due to Ghana's debt position, the country's foreign policy options were affected. Example is the restoring of friendly relations with Britain which had been broken by Nkrumah in repraisal for the British government's stand on the Ian Smith's Unilateral Declaration of Independence (UDI) in Rhodesia (Zimbabwe) in 1965.

Almost immediately after this change of policy, he further argued that various forms of aid which had been frozen during the Nkrumah government's latter days began pouring into the country. One of such aid is the United States Agency for International Development (USAID) which announced a $680,000 Food for Peace corn allocation in 1966 and the United Nations Development Project approving $356,000 loan to ease the country's balance of payments difficulties. Other forms of aid came from Britain, Canada and West Germany. However, whilst relations with the capitalist West were strengthened by the NLC regime, those with China and Soviet Union were frozen.[38]

Busia's regime also followed the NLC policy with regards to the West. He did not hesitate to defend the Western powers on international issues such as Britain's arms to South Africa which rendered his policy of dialogue with South Africa very unpopular among African States.[39] Thus, Jonah has argued that the deteriorating economy of Ghana provides an excellent example of how powerful multilateral institutions like IMF and the World Bank can take over the bureaucracy of a weak Third World Country like Ghana and reorganise it as well as create within it, what they consider to be appropriate structural network for implementing their foreign policy.[40]

Thus, our point of departure becomes very clear when it is realised that this study aims fundamentally to evaluate the political economy of Ghana especially its impact on foreign policy towards the developed countries.

1.6 HYPOTHESES I: DEBT CRISIS

i) There is a positive relationship between the Economic Recovery Programme of the IMF/World Bank and the worsening crisis in Ghana.

ii) There is a direct relationship between Ghana's reliance on IMF/World Bank loan and her favourable foreign policy initiatives and options towards the West.

1.7 THEORETICAL FRAMEWORK

Our theoretical framework for the analysis of this study will be based on the Dependency Theory.

This theory is traced to Andre Gunder Frank, Samir Amin, Celso Futado and others. The theory shows the relationship between developed and underdeveloped nations. It argued that the metropoles exert their power via a chain of monopolistic and extractive exchanges. The consequence of these relations for the developing countries is that certain problems, such as poverty and distorted development are exacerbated and the developing countries are further disadvantaged.[41]

The central thesis of this theory is that the structures of dependency cause underdevelopment. Thus, the Western Imperialist conquest and the incorporation of the political economies of the Third World Countries into the World Capitalist system placed them in a position of subjugation and dependence.[42]

The theory will help us to analyse how Ghana was dragged into the debt crisis through its corporation into Western capitalist system. Secondly, how this incorporation into the capitalist system has distorted and worsened Ghana's economy.

Finally, the theory will help us to understand how the incorporation of Ghana into the capitalist system and its exploitation and subjugation within the system has influenced its foreign policy towards the West especially United States.

1.8 DATA GATHERING METHODS

One of the main problems facing research programme in developing countries, is lack of reliable statistical data. However, in the area of debt, there is considerable data available even though they are scattered here and there.

The use of documents will therefore form our main source of data. According to Kenneth Baily, documents could be classified into two namely, Primary and Secondary documents. Primary documents or eye-witness accounts are documents written by people who experienced particular events, while secondary documents are accounts written by people who were present on the scene, but who received the information necessary to compile the document by interviewing eye-witnesses or by reading primary documents.[43]

Our use of this method of data gathering is justified due to the fact that it allows research on issues and subjects which the researcher cannot have physical access to the respondents, and thus, cannot study by any other method. Since our study is concerned with negotiations and agreements among government officials to get them and find out their views on this issue under study. This goes to rule out the possibility of using survey methods like questionnaire, interview or observation methods.

Furthermore, expressive documents are capable of bringing the significant information which cannot be gotten through another method. The issue is that where reliable documents exist, generalisations based on them do sometimes appear more reliable than those emanating from the limited data from the primary sources.

Another justification is that this method will help us to gather data stored in libraries, bookshops, files, government archives and IMF/World Bank offices. We also know that document study is specially suited for studies that span over three decades and is concerned with the trend of our foreign policy in relations to debt crisis. This method seems to be the best for gathering the necessary data.

To ensure the reliability and validity of our data, we shall use the content analysis of documents as propounded by Berelson.[44] According to Festinger and Katz, content analysis is a research technique for the objective systematic and quantitative description of the manifest content of communications.[45] The objective of content analysis is to convert recorded raw phenomena into data which can be treated in essentially scientific manner so that a body of knowledge may be built up. There are four characteristics which a scientific data must display, namely, objectivity, replicability, quantification and generalisability and these could be attained through careful use of the content analysis strategy.

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CHAPTER TWO

2.1 THE HISTORICAL BACKGROUND OF GHANA'S ECONOMIC CRISIS AND DEBT PROFILE

Ghana has emerged as one of the worst victims of the IMF/World Bank experiments in Africa, thus, the central aim of this chapter is to trace the origin of Ghana's economic crisis and the factors that necessitated the intervention of the World Bank and the IMF.

When Nkrumah and his government took over power, their first problem was that the economy was under the complete control of expatriate firms and companies. That is the economy was a typical colonial economy, where the natural resources of the country were being exploited to the disadvantages of Ghanaians. However, Ghana at this period had a foreign reserves amounting to £200 million and a debt of £20 million.[1]

The government of Nkrumah during independence, decided that the economy of Ghana should be under the control of Ghanaians. In order to achieve its aim, the government took to the socialist programme of work and happiness which leads to a self-sustaining economy based on socialist production and distribution. An economy balanced between industry and agriculture, providing sufficient food for the people, and supporting secondary industries based on the products of the country's agriculture. This programme was also to make sure the national wealth was built up and used in such a way that economic power was not allowed to exploit the worker but used for the supreme welfare and happiness of the people.

However, the strategy used to achieve the programme of work and happiness was a gradualist approach. Here, the economy remained a mixed economy where the public and co-operative sector was to operate along with the private sector until the public sector gradually overtake and entirely eliminate the private sector. Nkrumah's government therefore declared that the economy will, for some time, remain a mixed economy, and his government will make sure the operation of the mixed economy leads to the socialist transformation envisaged. Thus, the government's socialist objective was that the public and co-operative sector of the productive economy expand at the maximum possible rate.

It was this strategy adopted by Nkrumah and his government that Boahen argued that even during Nkruma's regime, the economy was still being controlled by expatriate firms and companies contrary to his socialist belief. He pointed out that over 90 per cent of the country's import trade was in the hands of overseas firms; 96 per cent of the timber concessions were held by expatriate timber companies. All the seven gold mines and half of the diamond concessions in the country were owned by foreign companies. The banks and insurance companies were nearly all owned by expatriates and the two British owned banks controlled 90 per cent of all the banking business in the country. Nearly all the industries and construction enterprises were owned by foreign firms while even in retail business, Ghanaians were facing very stiff competition from Lebanese, Syrians, Indians, British and European firms and trading companies.

No efforts were made to control retail prices while almost all the imports of the country were on open general licence. There was no control whatsoever over the transfer of profits abroad. Boahen, however, stated that it was only agriculture and especially the production of cocoa that were in the hands of Ghanaians. But even here, the marketing of agricultural products including cocoa was dominated by expatriate firms such as UAC, CFAO, Cadbury and Fry, SCOA and UTC.[2]

Though Boahen has argued that most of the projects were still in the hands of foreign firms during Nkrumah's regime, it is necessary to point out that Nkrumah's government was aware of the situation. Thus, the government pointed out that in the interim, it was considered necessary by his government at the time to undertake joint projects with already operating capitalist ones. He further explained that it was better that way, than the alternative of economic blockade by the West, and consequent lack of development, until the assistance of socialist states could be procured.[3]

However, in the field of agriculture, the government placed greater emphasis on cocoa. Knowing cocoa was the backbone of the economy, efforts were made to increase production and improve the quality. Thus, under this regime, cocoa production increased from 264,000 tons in 1956 - 57 to 590,000 tons in 1963 - 64. In addition, a huge silos was built which was able to store half the cocoa crop to enable the government restrict exports and ensure fair price in the world market. Attention was also given to other crops as part of the policy of diversifying the economy.[4] The achievements made in the area of agriculture as a result of this effort, were remarkable. It would be recalled that during this period, the Ghana Farmers' Marketing Co-operative Association by 1960, purchased about 50 per cent of the total crop through licenced Ghanaian buying agents. By the end of the period under review, most of the expatriate firms had voluntarily withdrawn from that field. The period between 1963 - 1965 was marked by extremely rapid growth of the country's primary export, with cocoa production rising by more than 100%. This brought Ghana's share of total world output from 28.4 per cent to 37.9 per cent.[5]

In the industrial shpere, Nkrumah's government saw the building of the Volta Project as a major step to the development of the industrial potential of Ghana. The government was fully convinced that the Volta River Project could never be implemented without massive foreign capital. The government therefore relaxed its economic measures with the sole reason of encouraging foreign capital and foreign investors. Among these measures was the reduction of company tax rate from 45 per cent to 40 per cent, the granting of tax reliefs to industries, etc.[6] The government again, pointed out the degree to which the Volta scheme fits into the chosen combination of a mixed economy with socialist and co-operative goals. Thus, the government financed half of the cost of the project which was £35 million. The other half of £35 million was jointly financed by America and British governments, together with the World Bank and other international institutions.[7]

The laissez faire policy which the government adopted did attract some foreign capital. Therefore between 1960 and 1961, a number of new industries were built. When the Volta River Project was completed in 1965, the government embarked on the construction of many new industrial projects. A steel work with capacity of 30,000 tons was constructed, two cocoa processing plants, two sugar refineries, a textile printing plant, a glass factory, a chocolate factory among others. However, Boahen in his own view, saw the government's open door policy not as road to industrialization, but because the government believed it could afford it considering its huge foreign reserves.[8]

Another area that Ghana exercised monopoly under Nkrumah was in the area of banking. In 1958, foreign banks held one-third of Ghana's foreign currency reserves but in 1965, they held none.

To assess Nkrumah and his government efforts on the socio-economic development of Ghana, it is necessary to take a look at the orientation of Ghana's investment policy from 1951 - 1965. An amount of £127.8 million which is about 90 per cent of government expenditure, was allocated between 1951 to 1959, for social services and the creation of infrastructure for economic growth. £13.4 million which is about 10 per cent, went to the productive sector. Additional £15.5 million was allocated yearly to the public sector in the First Development Plan. Under the Second Development Plan, an average of £68 million was for the public sector with an addition of £34 million for the Volta complex. In all, the government's expenditure in the public sector between 1951 to 1964 was £476 million.[9]

Thus, in drawing conclusions from the above policy, it is important also to match assets acquired during the period under review and the debt incurred as a result of the development that was undertaken by the government. The government borrowed considerable sums of money on the basis of building capital assets such as the Volta dam, and over hundred industries that were established since independence. And so, during his overthrow, Nkrumah's government was accused of leaving an external debt of about £250 million. Nkrumah, however, pointed out that the debt of £250 million should be seen in the context of the overall economic situation of Ghana. According to him, to implement the various development plans, it was necessary to borrow money. He went on to say that it was not a mean achievement for Ghana by 1965, to have 63 state enterprises and budget of £200 million for its 8 million population. He compared it with Nigeria during this same period, with a population of 55 million and a budget of £78 million.[10]

It could therefore be said that Nkrumah's government preoccupation was for Ghana to achieve a genuine economic independence. For this reason, he established infrastructure for industrial development, among them is the Volta River Project. Even though they cost a lot of money, they were for the long term economic benefit of the country. Thus when the National Liberation Council (NLC) tookover, the realistic thing was to continue with the Seven-Year Development Plan initiated by Nkrumah's government. Rather than continue, the NLC abandoned the Seven Year Development Plan and replaced it with a two-year 'review period'. During this period, the government dismantled the socialized industries, and an unrestricted open door policy for 'private enterprise' was adopted.

It was this new development that the World Bank, in its assessment of the military regime that tookover power observed thus:

> the new military government that replaced Kwame Nkrumah in February 1966, found itself confronted with a major economic and financial crisis. The solution of which has since predominantly concerned the new regime. Given the dimensions of the crisis, the need for important structural adjustments on almost all fronts will continue to dominate economic policy for a long time to come.[11]

Thus, the first adjustment the government undertook was to launch attack on Soviet and Eastern projects. This attack was in the form of sending experts of these countries back to their individual countries. A memorandum by the Secretary to Committee for Economic Co-operation with Eastern Countries (CECEC), stated that "Members are aware by now that according to an order from the National Liberation Council, through the Ministry of Foreign Affairs, all Chinese and Soviet Experts have had to leave Ghana".[12]

It is shown here that in as much as the Ministry of Foreign Affairs may have good reasons for this action, the action was not in the interest of the country. This was because the Chinese Government signed in 1962 and 1964, two Economic and Technical Aid agreements. In the agreements, Ghana was offered an interest free suppliers' credit of £15 million. The agreement also included the utilization of the credit from 1961 - 71 and repayments starting from 1971 - 81. In a subsequent protocol, the Chinese government agreed to pre-finance the Civil Works Projects, by converting part of the loan as counterpart funds. This meaning that part of the loan would be converted into consumer goods and the proceeds of which when sold, be used in meeting local expenses.

The Protocal covering this counterpart fund made provision for a yearly ceiling of up to £2 million. Under this Economic Agreement, the Chinese offered also to build a Textile Factory and a Pencil Factory. Civil Works of both projects started and both projects would have been completed before the year was out. The total cost of the two projects was ¢5.6 million and since more than 50% of this was in the form of structures or materials and equipment, it was uneconomical to be abandoned.

The Soviet Union, like the Chinese, offered Ghana in two Economic Agreements signed in 1960 and 1961, a total suppliers' credit of ₵10,476, 190.00. Out of this, an amount of ₵19,064,400 was converted into counterpart funds.[13]

With the above evidence, we see that the NLC government in the bid to save the economy from further collapse rather worsened the already battered economy. This is why it has been noted that despite the achievement of the NLC government during its term of office, left a lot to be desired. Boahen has argued that due to the negative outcome of some of the economic policies of the NLC government, unemployment situation grew much worse and this was because of the policy of retrenchment of labour in the corporations and ministries and slowing down development. The devaluation of the Cedi also led to a great increase in the cost of imported goods and this made the NLC quite unpopular. Furthermore, there was no perceptible change in the cost of even locally produced goods and food stuffs.

Even though the NLC believed that the economic policies they pursued will help offset some of the balance of payment problems and the national debt, the ordinary man in the street could not appreciate them. The NLC government had then handed over the national assets to foreign interests. Almost a hundred state corporations were sold out. The government also invited a team of economists from Harvard to advise Ghana on her development plan.

The United States government and IMF had earlier on provided $70 million dollars credit to bolster up the regime.[14] This was the position that Ghana was subjected to which made Nkrumah lament thus:

> Our economic problems are not being treated as Ghanaian problems, but as the problems of the United States, Britain, West Germany and other countries which have substantial economic interests in Ghana.
>
> The solutions being dictated by advisers from these countries are not intended to strengthen the economy in the interests of the people of Ghana, but in the interests of the foreign companies and governments, which today dominate and exploit the treachery and ignorance of the NLC. Ghana has become a neo-colony.[15]

Thus, the selling out of Ghana's assets and investments to foreign capitalists sent Ghana into economic crisis. This was because Nkrumah borrowed money for these various projects he undertook. The projects were to be paid through their functioning. Therefore, the NLC government, after selling these assets, still had to go borrowing to pay for the debt as a result of the assets acquired by Nkrumah.

Therefore, when the NLC finally handed over power to Busia and his government, they were faced with a precarious situation.

This made the government concentrate on short term stabilisation policies. The government in addition, initiated liberal economic policies. As a result, Western capitals were visited with cap in hand for technical assistance, grants, and loans. Thus, by the time Busia's government was overthrown in 1972, £100 million had been added to the national debt.[16] According to Aluko, Busia's unwise massive devaluation of the Cedi by about 48.5 per cent in 1971 threw the economy and the finances out of gear.[17]

By the time Acheampong and his National Redemption Council (NRC) took over power from Dr. Busia, Ghana's debt was as follows:

Long term debts	$230 million
Medium term debts	$370 million
Short term debts	$286 million
Unmatured 180 day Credits ...	$139 million
Arrears on Service Payments...	$ 80 million
Arrears on Import Payments ...	$ 67 million.

The NRC after one month in office, repudiated $90 million in medium-term debts owed to British companies.[18]

As Aluko has noted, that at the time when the Acheampong government took over power, the economic position of the country in early 1972 was worse than in early 1966. Acheampong and his NRC government succeeded to a considerable extent in restoring Ghana's economy through the rise of world price of cocoa, combined with import restrictions and drastic reductions in government expenditure and the Operation Feed Yourself Programme introduced.[19] In December 1972, the balance of payments recorded a surplus of over ¢133 million. Despite significant improvement, the economy continued to be plagued with a number of problems. External debt still amounted to over $885 million in 1972. The reason for this was because of the excess liquidity which reflected a high level of budgetary deficits and the increased reliance on the banking system, particularly the Central Bank to finance these deficits. Also the reversal of the 1971 devaluation and the strict adherence to a fixed exchange rate left the country with an over-valued cedi which discouraged exports. Again, the increase in the price of crude oil in 1973 and after, affected the balance of payments adversely.[20]

By the mid-1970s, conditions in the country had worsened under General Acheampong and the crisis became intensed that Acheampong was forced out of office by his second-in-command, Akuffo. Unfortunately, Akuffo also was overthrown in a coup led by Rawlings. After three months of "house-cleaning exercise", he handed over power to a popularly elected Limann government.[21] The government, however, was inadequate in dealing with the economic problems. There was mismanagement, corruption and abuse of office. Inflation was still rampant but goods were flooding the market.

This made things worse and Rawlings and his Provincial National Defence Council (P.N.D.C.), struck again in 1981.

During the period P.N.D.C. intervened, the country was tottering on the brink of complete economic collapse. Inflation was so high, higher than ever experienced before. Inflation stood at 174 per cent in June 1983 as opposed to 32.5 per cent in January the same year.[22] Unfortunately, the world price of cocoa had dropped from £3000 per tonne in 1977 to only £800 in 1982. Thus, local price offered for cocoa was so low and unrealistic that many farmers abandoned its cultivation in favour of food stuff.[23]

The growing shortage of foreign exchange caused major problems as explained by Rawlings in his address to comemorate Ghana's 25 years of independence. Rawlings explained that "as of January 1982, the Bank of Ghana had outstanding foreign exchange obligations of about $300 million, while in our commercial banks, outstanding applications for foreign exchange to pay for goods we are already consuming come to about $214 million".[24]

For an immediate resuscitation of the economy, the P.N.D.C. leaders took some short-term measures to arrest the situation. Firstly, they established mandatory "revolutionary task forces", to assist with the urgent movement to the ports, of an estimated 82,400 tonnes of cocoa that were 'locked up' in rural areas.

Secondly, in a dubious measure, the P.N.D.C. stopped the printing of new currency for circulation.[25] With these and other measures initiated, the economy did not show any sign of improvement. Price index for consumer items moved from 29.6% in 1975 to 46.2% in 1976, until it reached 868.7% in 1981.

Consequently, the inability of the various governments to tackle the economic problems of the country, resulted in piles of debt accumulation by each individual regime after 1966. Thus, financial help was sort for and Ghana fell into the hand of IMF and World Bank which had led to the consequent debt trap she has found herself in.

2.2 THE ORIGIN AND DYNAMICS OF IMF/WORLD BANK IN GHANA

To show how IMF/World Bank became involved in the political economy of Ghana, some knowledge of the background of the two institutions is essential.

The IMF and the World Bank were originally created to take care of the monetary and financial problems of the industrialised capitalist countries. The Great Depression led to the final abandonment of the gold standard and to recover their share of export trade, the leading trading nations resorted to competitive devaluations designed to lower the prices of their exports on the world market while the poorer restriction against imports or created bilateral trading blocs.

These and other developments, posed a fundamental threat to the investment and trading interests of the United States, which had now grown powerful enough to challenge Britain as the leading power in world trade. It was thus to reconstruct the international monetary system, and evolve new ground rules for competition between the main capitalist power, that the 1944 Conference at Bretton Woods was called. It was this conference which gave rise to the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (World Bank). The objectives of the Fund were, among other things, "to promote exchange stability, to maintain orderly exchange arrangements among members and to avoid competitive exchange depreciation", and "to assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade".[26]

As Ismail-Sabri Abdalla puts it, the IMF was not conceived to deal with the specific financial problems of Third World Countries. The Fund was born with an 'original sin' which continues to afflict it. The Fund's financial mechanisms were designed to cope with a typical problem of industrialised economies; to provide short-term breathing space to enable countries to work their way out of payments deficits and thus avoid unwarranted devaluation which would threaten the system of relatively stable exchange parities. As such, the coercive powers of the IMF were aimed at safeguarding exchange stability and ensuring promptness in the correction of payments imbalances which were considered to be transient phenomena. As the industrialised countries were on the whole capital exporters, there was no need to envisage mechanisms for medium and long term financing. Banks, the International Capital Market and if necessary, interstate agreements were available for meeting financial needs of the nature.

Thus, when most Third World Countries joined the IMF after independence, these Third World countries acceded to an agreement which they had not negotiated. Therefore, when the group of 77 asked the IMF to participate in development financing, the Fund replied that its vocation is only to provide short-term support.[27] The World Bank on its own part was established to "promote private foreign investment by means of guarantee or participation in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing . . . finance for production purposes out of its own capital, funds raised by it and its other resources".[28] The World Bank thus act as a stabilizer and guarantor of loans and make for movement of investment capital throughout the world. World Bank also was to act as a lender of last resort, and its investments would be planned in a manner likely to expand the sphere of activity of private capital.

It should therefore be noted that the means of intervention at the disposal of these two institutions were devised to deal with situations that arise in industrialised countries and are based on the expected response of those economies - occasional deficit or deeper disequilibrium. However, unlike the Third World Countries, a deficit in the balance of payments of an industrialised country normally implies the existence of stocks of unsold goods and services, or of idle production capacities. An occasional deficit is considered a simple 'maladjustment'. In other words, the country concerned in its desire to boost growth would have allowed the money supply to increase to such a degree that the resulting inflation makes its export prices less competitive, while more imports were attracted by the domestic market.[29] The IMF therefore extends credit to such a country in the legitimate expectation that deflation would make its export prices more competitive and thus would enable the economy to respond almost immediately.

On the other hand, if disequilibrium is deeper, then there is the need to devalue the national currency. Devaluation makes imports more expensive and export more competitive. But given the already high standard of living, a decrease in imports would hardly hurt the

the population seriously. Also, labour is well organised in these societies; people in low income groups can express their grievances through their political representatives and thus fight against the threat of having to bear the entire burden of these adjustments alone.[30]

But in Third World countries, deficits are of the structural character hence, the application of the same treatment as that of the industrialized countries makes it meaningless. The demand for devaluation, under the pretext that the rate of exchange for the national currency is not realistic and this is a typical example of the medicine prescribed by the IMF. This is not the case with industrial countries where devaluation becomes effective; the effects expected from devaluation in Third World economies is the contrary due to lack of export and import flexibility in the medium-term. In the case of imports, devaluation raises the price of equipment and intermediate products; this in turn, is reflected in the final production costs, thereby putting a brake on exports instead of stimulating them. In cases where most Third World countries import a substantial proportion of its foodstuffs, devaluation raises the prices of these items. On the other side of the balance, the decrease in export boom, since most Third World countries lack significant exportable surpluses.

According to Ismail-Sabri Abdalla, another wrong medicine IMF gives to Third World Countries is the demand for internal suspension of all subsidies. He argues that in Third World countries, trade union movements are still weak and only rally a small part of the labour force. Consequently, wages do not keep pace with abrupt price rises. And so what happens in such cases is that the misery of the less organised and most deprived masses increases with all that means in terms of social and political unrest. Since the IMF funds are to be utilized strictly for meeting short-term disequilibria, and are explicitly prevented from being used to finance persistent deficits, their ability to solve the financial problems of Third World countries become doubtful. This is because most of the Third World countries have a consistent and persistent balance of payment deficits.[31]

It is therefore against this view that we are going to find out how IMF and World Bank got involved in Ghana's debt problem and how these institutions handled Ghana's persistent balance of payment deficits.

A year before Nkrumah was overthrown, Ghana experienced the sharpest fall in the world price of cocoa and this led to the decline of the country's foreign reserves. As a result of this development, the government was not able to offset the balance of payment deficits, so it reached an agreement at the end of 1965 with the Western creditors for rescheduling of the creditors and extension of new loans. The Western creditors on their own part, demanded that Ghana must first reach agreement with IMF before rescheduling or further loans could be considered.

Thus, Ghana for the first time, entered into agreement with IMF in May 1965 and IMF demanded the imposition of a stabilisation programme among others. The main reason for taking the IMF loan was aptly described by the Minister of Finance on 10th September, 1965 as follows:

> We have now reached a stage where our reserves cannot be run down any further without endangering the stability of the Cedi. It was for this and other reasons, particularly the catastrophic drop in the price of cocoa, that the government decided recently to invite a mission from the Imternational Monetary Fund, of which Ghana is a member, to come to this country and assist us to prepare a programme which would enable us to re-negotiate some of the suppliers' credits which we have contracted.

He went on to say that the object of the exercise was to re-negotiate with the foreign suppliers, through their governments for an extension of the period of repayment of these credits and reduce the burden of debt servicing.[32] The World Bank was equally invited and the mission was said to be impressed by the development effort in Ghana with such achievements as the construction of Tema Township and Harbour, the Akosombo Dam, the University of Ghana and the overall transportation system. We should, however, bear in mind that Nkruma's government had to enter into agreement with IMF and World Bank to enable his government continue with the industrialisation programme already initiated; a condition given by her Western creditors. As noted, before this new condition given by the Western creditors, Ghana was in bilateral relationship with individual countries like America, Britain, West Germany, etc.

As a result of the negotiation, Ghana received IMF loan of N¢16.5 million in 1966. This was to be used for the payment of arrears of short-term trade bills accumulated by the Nkrumah's regime. In December, the IMF again approved a currency credit to the tune of N¢12 million for Ghana. The NLC also concluded negotiations with fourteen Western creditor nations about the rescheduling of medium term loans and in 1967, similar agreements were also signed with Eastern creditor countries.[33]

Thus, between 1969 and 1972, the World Bank, the International Monetary Fund, and other creditor countries came in full force to Ghana. These inter-governmental organisations and the creditor countries according to Libby, structured the context in which their client, Ghana, formulated its economic policy without taking into account Ghana's domestic political situation. For example, in 1971 - 72, these organisations asked Ghana for devaluation, cut in the recurrent and capital expenditures, increased taxes, restrictive credit policies and reductions in subsidies to parastatal bodies. These policies which the government ultimately adopted were viable and acceptable to the Intergovernmental organisations. However, in Ghana's domestic political context, they were suicidal. No government can continue if it formulates policy primarily to satisfy foreign organisations. Thus, there was internal crisis which sent the Busia government out of office in 1972.[34]

Before the government of Busia was overthrown, Busia consulted with Prime Minister Heath of Britain and with the Ministry of Overseas Development over loan negotiation. After acceding to the British demand that Ghana pay its outstanding debts with interest according to the agreement of 1966 and 1968, the Prime Minister of Ghana triumphantly announced that "the way was now clear for resumption of bilateral negotiations with Britain on Ghana's external debts". A debt refinancing loan of £3.5 million at 2 per cent interest per year, payable in 25 years with a 7-year grace period, was signed in July 1971.[35]

Following the government's success on the negotiations, the Prime Minister undertook a second mission to the United Kingdom to settle Ghana's growing short-term debt problem. At the meeting with officials of the Treasury and the Bank of England, the Ghana government was informed that Britain was indeed prepared to help Ghana out of its difficulties but on the following conditions:

1) Ghana was to try to draw as much as possible from the Fund.

2) After a program had been agreed upon with the IMF, and the Fund had extended financial assistance, Britain would organise other creditor countries to provide debt relief and aid so that Ghana could continue its development efforts at a high growth rate, i.e. 4.5 per cent or higher.

Britain made the agreement with IMF a precondition for their assistance because they felt that they could not keep Ghana under control without the cooperation of the Intergovernmental organisations and other creditors. Agreement with the IMF/World Bank therefore became a sine qua non for aid and for resolution of Ghana's debt problem.[36]

Under this condition, Ghana had no other choice but to go to IMF and World Bank. As pointed out earlier, the break down of Ghana's total estimated debt was as follows: Britain 31%, West Germany 24%, Soviet Union 9%, the Netherlands 8%, Czechoslovakia 5%, France 4%, Yugoslavia 4%, Japan 3%, Poland 2%. In fact Britain alone

alone contributed 44% of the private suppliers' credits by value. Since Britain was the major creditor, Ghana adhered to the conditions. The officials of the World Bank took the position that since Ghana needed emergency assistance, it would have to rely primarily upon the Fund. The Bank indicated that an early agreement with the Fund on a comprehensive program acceptable to creditors will settle Ghana's debt problem faster.[37] Thus, the next chapter will find out whether IMF and World Bank have been able to bring Ghana out of her economic crisis or whether they have operated to the detriment of the country.

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CHAPTER THREE

3.1 THE IMF/WORLD BANK AND GHANA'S ECONOMY

The central aim of this chapter is to verify if there is any relationship between the Economic Recovery Programme of the IMF/World Bank and the worsening debt crisis in Ghana.

The management of Ghana's foreign debts and the effect on the economy has been growing from bad to worse since the overthrow of Nkrumah. Tension already existed between Nkrumah's regime and IMF due to the government's resistance to IMF/World Bank recommendations on the issue of economic recovery of the country.

However, the tension and resistance with the IMF/World Bank gave way to amicable collaboration when the National Liberation Council (NLC) took over power in 1966. Within two weeks after the coup, a standby arrangement equivalent to $36.4 million was approved for the country. This increased the country's quota from $55 million to $69 million.[1]

The country was however to take some austerity measures as a condition for these loans. Thus, the following adjustment programmes were adopted:

- a reduction in overall government expenditures (affecting mainly the capital budget and in the size of the deficit, and recourse to: non-inflationary sources of borrowing to cover the remaining deficit);
- reduction in bank credits to both the public and private sectors;
- wage and salary controls;
- large-scale retrenchments in the public and private sectors (over 10% of the total wage labour);
- devaluation of the Cedi (by 30% against the U.S. dollar);
- gradual liberalisation of import and exchange controls and removal of price controls and subsidies;
- short-term rescheduling of the external debt and restrictions on fresh short-and-medium-term borrowing.[2]

Consequently, these measures were taken as IMF/World Bank "corrective" measures but rather than improve the economy, the country still faced balance of payments problem, economic growth was marginal, the rate of inflation did not abate to the expected level and the production of all major exports apart from timber declined.[3]

By the time the Progress Party government came to power in 1969, the basic source of instability and the crisis of the country's economy was intact. The failure of the economy to improve was adduced not to the measure itself, but to the conflict between the political committee and the Economic Committee of the policy making organ of the NLC government. Thus when the government of the Progress Party was ushered in, a re-organisation of the economic ministries and the cabinet secretariat was carried out. The new government led by Dr. Busia employed IMF/World Bank sponsored experts or advisers to handle the economic decision-making machinery.[4] Consequently, these advisers in their bid to help in the successful implementation of the IMF/World Bank programme, also took over the decision of shaping and directing the economic policy of the country until the government of Colonel Acheampong took over power in 1972.

The National Redemption Council (NRC) led by Acheampong took a different approach towards the recovery of the economy. The regime pursued an active interventionist policy. During the early phase of its rule, the NRC acquired majority shares in foreign companies engaged in the mining and timber industries.

It also repudiated some of the country's debts which according to the government, were contracted under dubious conditions and unilaterally rescheduled the rest.[5] Due to the bold measures taken by the government on the debt issue, the Western creditor countries were compelled to reach an agreement in 1974 that they would allow a grace and repayment periods of five years and fifteen years respectively for short term loans.[6] The payment was to begin from 1982 after a grace period of ten years with two and a half per cent interest per annum. It was the determination of Acheampong government to capture the commanding heights of the economy and this was to be achieved by adopting the policy of economic nationalism. The government therefore got involved in the economy to the exclusion of IMF/World Bank intervention. As a result of this policy taken by Acheampong, coupled with other factors, the economy of Ghana began to show signs of improvement. For instance, the price of cocoa which stood at £260 per ton in 1972 rose to £900 per ton in 1973 which greatly improved Ghana's foreign reserves.[7]

Unfortunately, Acheampong was removed in a palace coup and replaced by his second-in-command General Akuffo. With the new development, IMF once again returned with their short-term stabilisation programme which was launched with SDR. 53 million as stand-by credit spread over twelves months.[8] Thus, in 1978, Ghana introduced adjustment programme again backed by IMF/World Bank. The Cedi was again devalued by 58% against the U.S. dollar (from \$1 = ¢1.15 to \$1 = ¢2.75). The overall planned deficit in the budget was reduced to ¢500 million of which only 22% was covered by drawing on the central bank. In 1979, these measures were followed with a demonetisation exercise to reduce liquidity in the economy.[9] These measures however, did not improve the economy of Ghana for the measures were equal to the situation where one robs Peter to pay Paul.

Thus, at the end of the seventies, the economic crisis of the country which had not improved despite IMF/World Bank adjustment programmes may be summarised as follows:

- decline in both total volumes and earnings of major exports except for cocoa in the periods from 1959 to 1966 when export volumes (but not earnings) rose by 100%;
- a sharply deteriorating balance of payments situation, with growing deficits on both current and capital accounts, countered with import licencing and exchange controls;
- an increasing debt service burden (repayment of 75% of principal and interest on total debt due between 1966 and 1970);
- low capacity utilisation in import-substituting industries owing to shortages of imported inputs;
- slow growth in domestic agricultural production and strong price increases in local foods;

- supply shortages in both imported and domestic consumer goods;

- rapid growth in government recurrent and capital expenditure combined with sluggish growth in revenues. Unchecked expansion in budgetary deficits financed largely by drawing on the central bank;

- strong inflationary developments in the economy, (countered with ineffective price controls) and development of black market in currency and consumer staples.[10]

The adjustment programme under this period failed because the programme did not address the problem of external environment or dependency structures, which were reflected in the terms of exchange in Ghana's international trade. Attention was not given to domestic resource base industry, capital goods sector and no effort was made to articulate any policies for domestic agriculture which resulted in declined productivity. The 'recovery' programme was predicted heavily on bilateral/multilateral grants, concessional lending, and subsidised emergency commodity imports, rather laying the domestic basis for sustained growth.[11] This is in line with the Paris club which is known to follow a certain pattern of a consolidation period of 2 to 3 years involving the deferment of 50% - 70% of the debt service payments due; a 2 to 3 year period of grace and the addition of 5 extra years to the original repayment schedule. The short-term nature of the relief was concieved specifically to facilitate control over the policies of the debtor country and to give the creditors maximum leverage over the economic and political direction of the borrower. As one of the chief U. S. negotiators has explained, creditor countries have an interest in going one year at a time because circumstances can change. 'You want to be sure you have the most up-to-date information on a country's policies and prospects before you reschedule'.[12] We shall therefore examine more of this issue in our next sub-section which will critically analyse how Rawlings implemented the Economic Recovery Programme.

3.2 JERRY RAWLINGS AND THE IMPLEMENTATION OF THE ECONOMIC RECOVERY PROGRAMME (ERP)

When the Provisional National Defence Council (PNDC) led by Flt. Lt. Jerry Rawlings took over power in 1981, the government was not able to take a decision in favour of IMF/World Bank economic measures until 1984. Consequently, the IMF/World Bank economic policies which included a major devaluation of the Cedi; a widening of the tax net; reduction of government expenditure; restricting bank credit; and removal of subsidies on utility services was implemented between 1984 - 1986. With these steps taken, Ghana embraced IMF/World Bank policies and collaborated fully with the Fund on almost every aspect of the economic policy.[13]

With IMF/World Bank now managing the economy of Ghana, it is important to remind ourselves that IMF approach to the balance-of-payment problems of developing countries stands on three basic assumptions:

1) That there is sufficient flexibility in the economies of these countries to permit them respond to standard adjustment formulae without undue cost.
2) That by and large, the problems are of a short-term character that can and should be handled within a relatively short time frame.
3) That within the framework of appropriate government policies, it is generally best to rely on market forces to bring about the requisite adjustment.[14]

As a result of the above assumptions, the stabilisation 'package' supervised directly by IMF is usually a pre-condition for any debt settlement. The package is a combination of deflationary monetary and fiscal policies, that is cutback in government expenditure, credit and wage freeze, higher taxes and interest rates, abolition of consumer subsidies, price control and devaluation.[15] In this respect, the Economic Recovery Programme (ERP) was launched by the PNDC government in 1984. The programme was established to boost production targets and investment priorities for rejuvenating the economy. The programme also aimed at realigning relative prices in favour of productive sectors and improve the financial position of the country.

The Economic Recovery Programme is the first serious attempt in addressing issues relating to the proper management of macro-economic and structural adjustment policies which IMF/World Bank proposed to redeem Ghana from her economic woes. The ERP had the following objectives:

i) GDP growth of about 5 per cent per annum implying an increase of at least 1.5 per cent per annum in per capita incomes;

ii) the inflation rate declining from about 20 to below 15 per cent by 1988;

iii) revenue growth base upon a reformed tax structure and significant administrative changes that will increase the revenue to GDP ratio from 10 per cent in 1985 to about 14 per cent in 1988;

iv) total expenditures are expected to increase from 15 to about 22 per cent of GDP by 1988; entailing a recurrent expenditure share of about 11 per cent throughout and an increase in the share of development expenditure from about 5 per cent to about 11 per cent by 1988, with the distribution of these expenditures being based on a recently completed assessment of public expenditure priorities in the recurrent areas, and to a 'core' three-year public investment programme;

iv) the investment ratio increases from 10 to about 17 per cent of GDP, with the share of domestic savings rising from about 5 to about 10 per cent of GDP by 1988, and foreign savings averaging about 7 per cent over the period;

v) significant export growth aimed at increasing the export/GDP ratio from about 10 to about 19 per cent of GDP, while the import/GDP ratio increases from about 15 to about 25 per cent of GDP;

vi) the overall deficit/GDP ratio rises from 5 per cent to about 8 per cent in 1986, through the period, with foreign financing rising from about 4 to about 7 per cent, while the domestic financing remains at 1 per cent throughout the period;

vii) an increase in the M2/GDP ratio, through a deepening of the financial sector, from about 12 per cent to about 20 per cent in 1988.[16]

According to the report, one of the fundamental objectives of the ERP is to continue to reinforce incentives for efficient production. Of particular concern, the report continues, is the export sector, and the incentives needed to increase the growth of exports. On their trade policy, the government stated that it will continue to show a high degree of openness, with exports, imports, capital inflows and outflows accounting for a high share of total transactions. The government argued that it is critically important that trade policy be consciously fashioned to be consistent with the macro-economic objectives of the ERP.[17]

Thus, in 1985, fiscal measures were taken which included the objective of aligning budgetary measures with the policies and programmes of the recovery programme and mobilization of domestic resources. According to government report, planned revenues increased by more than 75 per cent and taxes on domestic goods and services and selected incomes were lowered. Capital expenditures were increased sharply and 25 per cent of the total expenditure was earmarked for development in 1985 compared to 17 per cent in 1984.[18]

In spite of all these measures, the economy of the country has not improved; there is still unemployment, high cost of living, etc. The reason is that the stabilisation measure which is supposed to stimulate recovery rather generated savings for debt-servicing and foreign transfers and restrictions hampering the free movement of goods and capital.[19] It is for this reason that Adedeji argued that an important measure of a country's ability to meet its debt-service obligations is the ratio of these payments to total exports.

The higher the ratio, the larger the proportion of export earnings used for servicing debts at the expense of development programmes. He further pointed out that debt-service problems always manifest themselves through a liquidity crisis.[20] And as Hodd has pointed, the ERP was predicted upon export-led structural adjustment, dependent on aid flows from the West and 'realistic government policies to keep public expenditures as low as possible to maintain growth'.[21]

Consequontly, as far as export earnings were concerned, Ghana had been led to believe by the World Bank that it would increase its foreign exchange earnings by expanding output. Yet, increased quantities of goods failed to yield increased revenues. Arrears of short-term debt payments are to be settled at the rate of $60 million per annum. Servicing of debts came to $72 million in 1986, $187 million in 1987 and a huge sum of $246 million in 1988 with over half of export earnings to be spent in this way between 1986 and 1988.[22]

It can then be argued, according to the above facts that IMF/World Bank recovery programme, the ERP is formulated towards increase export production. This gives the general impression as confirmed by statistics that the economy is improving. With Ghana's real gross domestic product growing to an annual average of more than

5 per cent for the past 5 years, and according to the report, the best sustained growth in Sub-Saharan Africa,[23] there is no doubt that the economy is improving. In 1988 alone, Ghana earned more than $868 million from its exports, a 5 per cent increase more than 1978 and nearly twice as much as in 1983.[24] This is what some commentators called "deindustrialisation" for, according to them, a country cannot build an integrated national economy if the economy revolve around the export of a few raw materials.[25]

However, the World Bank and the International Monetary Fund, two key funders of the recovery programme do not see the export oriented policies in the same light. They have been fulsome in their praise of Ghana's performance and in their negotiations with other African countries, frequently point to Ghana as an example of what IMF and World Bank funding and advice can bring. "Ghana is now a World Bank showcase for free-market policies" was how one London Times headline captured the prevalent image.[26] This, we may agree, because of the improvement the implementation of the ERP has brought into the economy. For instance, the budget deficit reduced from 4.4 per cent of GDP in 1982 to 2.6 per cent in 1983, and 2.2 per cent in 1984. The GDP growth also moved from 3.3 per cent to 6. 5 per cent between 1983 to 1985.[27]

Perhaps, the improvement in the economy was not physically visible in the living standard of the people. Therefore, the Structural Adjustment Programme (SAP) was launched in 1986 which was described as the core of phase two of the Economic Recovery Programme. The next sub-section will therefore look at the Structural Adjustment Programme (SAP) and its impact on the economy.

3.3 STRUCTURAL ADJUSTMENT PROGRAMME: PHASE II OF THE ERP

The Structural Adjustment Programme (SAP) launched in 1985 was designed to support the macro-economic objectives of the ERP and also remove the constraints that were still impairing the efficiency and growth of some segments of the economy. Its main objectives were:

i) to ensure substantial economic growth at around 5% per annum mainly through further improvements in incentives accompanied by sector rehabilitation;

ii) to stimulate substantial increase in the levels of savings and investment in the economy through appropriate monetary instruments, including interest rates, and steps to further improve confidence in the financial system and in the banking institutions;

iii) place the balance of payments on a sounder footing through appropriate exchange and trade policies;

iv) improve public sector management through specific initiatives. These initiatives include rationalising State owned enterprises through appropriate liquidations, mergers, divestitures, etc. and place them on a firmer financial footing through better corporate planning, adequate capitalisation and improved management.[28]

The above objectives of SAP launched in support of the ERP could not boost the economy enough to liquidate the country's foreign debt. The Finance Minister, Botchwey stated that Ghana's total foreign debt doubled over the course of the ERP. The amount rose from $1.5 billion in 1983 to $3.3 billion in 1984. He further stated that around two-thirds of annual export earnings were required to keep up repayments of principal and interest and concluded that Ghana has fallen into a "debt trap".[29]

The instruments designed under the Structural Adjustment Programme were:

i) Trade Policy Reform: Under this policy, foreign exchange rate was to be determined through the weekly auctions. In addition, there was to be a liberalisation policy, the abolition of export permits, the removal of tax elements from exports' costs, etc.

ii) Cocoa Sector: Here, SAP relied heavily on the cocoa sector to meet its growth objectives. As a result, farmers' incentives were further improved. Provision of adequate incentives for rehabilitation, replanting and new planting were initiated.

iii) Public Expenditure Policy: Public expenditure policies focussed on a restructuring of current expenditures aimed at increasing provision for operation and maintenance of existing investments and the strengthening of domestic resource mobilisation and cost recovery for public services.

iv) State Enterprise Sector: State owned enterprises in Ghana play a major role in several sectors of the economy. However, their performance has generally been characterised by large deficits and low productivity with the result that they have become a heavy financial and managerial burden on the government. The government under SAP, introduced the labour rationalisation programme which included gradual reduction in redundant labour. A comprehensive programme of management training and development was also initiated among other reforms.

v) Public Sector Management: In undertaking public sector management reform, government's objectives were to improve coordination of economic policy measures under the SAP, to strengthen economic management functions and to raise the productivity of the civil service.

vi) Social Aspects of the Structural Adjustment Programme:

The Economic Recovery Programme and the Structural Adjustment Programme designed to improve the standard of living of the citizens, did not achieve the desired result. There was substantial reductions in per capita income of the people and food production was also low. The government therefore addressed itself in issues of water supply and sanitation, schools, clinics and feeder roads and small-scale projects to help alleviate the immediate suffering of the masses.[30]

Under the social aspect of the structural adjustment programme, the government launched the Programme of Actions to mitigate the Social Costs of Actions (PAMSCAD). Pamscad was aimed to reduce the 'adjustment fatigue' of the people. This programme attracted pledges totalling $85 million from international donors with the World Bank pledging $10 million. It then seemed almost as if the multilateral and bilateral donors were adjusting their own social consciences. They were keen to demonstrate their recognition of the social consequences of the economic reform programmes they have urged upon Ghana and the need to take special measures to protect the vulnerable. Before the Economic Recovery Programme (ERP) was launched in 1983, the GNP per capita fell by 37.8 per cent. By 1983, the ratio of government revenue to GDP had fallen to 5.9 per cent from 17.2 per cent in 1974.[31]

While recognising that the Economic Recovery Programme (ERP) had "managed to reserve the downward trend" of the previous decade and "placed the economy once again on the growth path", the PAMSCAD programme shows that the economy is still characterised by widespread poverty and economic hardship. This means that the ERP has not been able to alleviate the plight of many of the poor in the short run.[32]

As pointed earlier that some components of the ERP excerbate the economic problems of certain vulnerable groups in the short run, which has impeded the sustainability of the recovery programme itself. The stabilisation 'package' supervised directly by the IMF, is usually a precondition for any debt settlement. This package is a combination of deflationary monetary and fiscal policies, (cut back in government expenditure, credit and wage freeze, higher taxes and interest rates, abolition of consumer subsidies and price control, etc.) with devaluation. According to IMF, inflation is caused essentially by the injection of excess money into the economy, usually through excessive government spending and deficit financing. Inflation in turn, throws domestic price out of line with international prices, discourage exports and encouraging imports, with adverse effects on the balance of payments and debt-service capacity. Although the stabilisation measures are supposed to stimulate recovery, their real purpose is, firstly, to generate savings for debt-service and foreign transfer (by reducing demand that is depressing still further the living standard of the debtor-nation. Secondly, to facilitate the elimination of restrictive trade and payments practices which hamper the free movement of goods and capital - an objective enjoined specifically by the Article of the IMF.[33]

The utilisation of suppliers' credits also provides one of the best examples of the difficulties faced by Ghana. IMF/World Bank policy on suppliers' credit has been designed in such a manner that 15 per cent go into manufacturing, 16 per cent into agriculture and fisheries, while almost 70 per cent go into infrastructure, transport, communications and other non-directly productive areas. In all these projects, only 9 per cent are expected to generate income in less than 6 years. Of the remainder, 34 per cent are expected to generate income between 6 and 12 years and 46 per cent required over 12 years to generate any income. It is therefore easy to see the 'trap' inherent in this type of policy.[34] With this trap, Ghana fell a victim to the IMF/World Bank policy of joint ventures which led to the control of some of the largest State industries enterprises being transferred to Western multinationals. On the other hand, many small indigenous companies were driven to the verge of bankruptcy by the credit squeeze and devaluation as well as the re-organisation of the import licence system to favour large expatriate companies.

With the stabilisation policies, it was believed that inflation will be arrested, stimulate domestic and export production and improve the balance of payments and debt-service capacity. However, few of these objectives were in fact achieved. As stated earlier, stabilisation plunged the economy into deep recession and stagnation and intensified social and structural contradictions in the country. Thus, while the poorer sections of the working class bore the brunt of stabilisation, significant concessions were extended to large companies and investors (mostly foreign), in the form of lower taxes, liberalisation of exchange and import controls and investment privileges, and the scaling down of the operations of the State financial and economic organisations.[35]

As a result of these policies, the economy looked buoyant on the superficial level and favourable more for IMF/World Bank than for Ghana. Thus, the PAMSCAD redressed the Structural Adjustment Programme by focusing on community initiative, employment and redeployment, and the enhancement of the poor's access to basic services. Employment projects worth 7.6 billion Cedis commanded the largest slice of resources which aimed at creating 40,000 jobs for 2 years.

A food-for-work project also provided enployment for 4,000 workers for six months; all aimed at alleviating the plight of many of the poor in the short run.[36] It is then noted that the government under PAMSCAD introduced the social adjustment programme in order to give the Structural Adjustment Programme a 'human face'.

However, the social adjustment programme of PAMSCAD is not without cost. Financing of PAMSCAD amounted at the end to 17.1 billion cedis or $100.7 million dollars which is given as loan to the government.[37] Fundamentally, the reasons for the failure of the IMF policies was that they ignored the basic causes of Ghana's difficulties. That is the stagnation of domestic agriculture and decline of export earnings due to the organisation of external capitalist markets was completely ignored. By forcibly depressing the standard of living of the mass of the people, stabilisation was able to repress the signs of inflation but without removing its fundamental causes. A second and more immediate reason was that even within the constraints of Fund/Bank prescriptions, more attention was paid to effecting public savings than stimulating production. While IMF expenditure ceilings and guidelines were rigidly enforced, the World Bank's development package was never really impleted. It is therefore argued that IMF/World Bank stabilisation programmes are conceived to satisfy the needs of the lenders rather than those of the debtor country.[38]

The Table below shows government external capital flows from 1985 - 1989.

Table 3.1

GOVERNMENT EXTERNAL CAPITAL FLOWS, 1985-89 IN MILLION U$

	1985	1986	1987	1988	1989
1 CAPITAL RECEIPTS					
ODA (Gross)	224	357	428	469	487
Medium-Term	153	115	151	112	103
IMF (Net)	122	17	-23	-88	-30
Total	499	489	556	493	560
2 PAYMENTS					
Amortization	225	259	167	188	181
Long-term	25	30	40	45	45
Medium-term	223	218	117	133	126
Of Which Oil	(146)	(171)	(75)	(68)	(50)
Trust Fund	7	11	10	10	10
Interest Payments (Net)	103	99	105	108	104
Of which IMF Charges	(44)	(55)	(52)	(50)	(45)
Payment Arrears	57	4	26	66	76
Total	415	362	298	362	361
3 NET INFLOW (I-II)					
Net Inflows a per cent of gros Inflows	16.9	26.0	46.4	26.6	35.5

SOURCE: Government Report on Structural Adjustment Programme, 1987.

Accordingly, the required level of imports in 1987 to support the recovery programme and to meet other national needs was reckoned at \$891 million. Amortisation payments for 1987 on long and medium-term debts was estimated at \$167 inclusive of Trust Funds, and net interest payments at \$105 million, about one-half of which are to the IMF. Arrears are being reduced every year since 1985 and the ODA disbursements has been rising from \$224 million in 1985 to \$487 in 1989 as shown in Table 3.1 above.

Also, net inflows in 1987 was one-half of the total inflows because of the sizeable structural adjustment credit from the World Bank and purchases under a current standby arrangement with the IMF.[39]

Thus, it is certain that the IMF/World Bank economic reforms - the ERP is financed more by IMF/World Bank and as foreign capital has become central to the 'recovery' strategy of the PNDC, so less and less has been heard of the people and of the mass mobilization in the sense that the recovery is not internally generated but initiated and financed from outside. One will therefore not be surprised if the programme has been praised lavishly by IMF/World Bank and the OECD countries on Ghana's economic miracle.[40] For instance, between 1984 to 1985, Ghana received ₵156 million and ₵248 million respectively for the support of the programme. Other credits extended during this same period were the IMF standby credit of $240 million and compensatory financing facility of $125 million. An IDA credit of $40 million, $30 million and $100 million for the programme.[41]

However, most of the country's earnings is also used in servicing debt and over 50 per cent of the total earnings is used in back paying the loans received in support of the programme. The remaining earnings is consumed with investment and savings taking a small fraction as in the table below.

Table 3.2

MAJOR ECONOMIC AND FINANCIAL INDICATORS, 1984-89

	PROVISIONAL					
	Actual 1984	Actual 1985	Actual 1986	Estimate 1987	Projections 1988	1989
NATIONAL ACCOUNTS						
Consumptions	95.1	95.6	90.8	89.4	87.2	84.1
Investment	7.6	7.4	11.9	17.4	20.1	21.0
National Savings	4.7	3.2	8 .1	9.0	11.7	13.8
Foreign Savings	2.8	4.2	3.7	8.4	8.4	7.2
CENTRAL GOVERNMENT						
Total Revenue	8.0	10.4	13.6	15.9	17.2	18.2
Total Expenditure	11.0	13.6	18.4	23.6	24.4	25.3
Recurrent	8.4	10.3	11.9	13.1	13.3	13.3
Capital	1.8	3.3	6.6	9.7	10.3	11.2

SOURCE: Op. cit., p. 6.

From Table 3.2 above, it is clear that investment and savings both national and foreign are very low. This, as a result, has negative effect on the economy. Consequently, government expenditure become greater than the revenue which makes the generation of capital low. This explains why Ghana's imports always exceeds exports as evident in Table 3.3 below.

Table 3.3: BALANCE OF PAYMENTS, 1985 - 1989 (US $ MILLION)

	1985	1986	1987	1988	1989
Exports of which Cocoa	632 (412)	773 (519)	777 (475)	845 (498)	928 (524)
Imports of which Oil	-726 (-199)	-780 (-125)	-891 (-148)	-985 (-153)	-1873 (-158)
Trade Balance	- 94	- 7	-144	-140	-153
Non-Factor Services (Net)	-110	-131	-154	-172	-182
Resource Balance	-204	-138	-268	-312	-335
Net Private Transfer	-111	-105	-113	-125	-125
Current Account Balance	32	49	50	80	120
Financed By Grants	283	-194	-331	-357	-340
Official Medium and Long term loans (Net)	39	111	264	247	222
Disbursements	(287)	(358)	(418)	(424)	(396)
Amortisation	(-248)	(-248)	(-254)	(-178)	(-173)
Other Capital	19	- 70	13	74	29
Errors and Omissions	16	- 18	-	-	-

Table 3.3 (Cont'd)

Capital Accounts (Net)	167	138	439	478	445
Overall Balance	-117	-56	108	121	106
Monetary Movements	117	56	-108	-175	-123
Of which Net IMF	122	17	- 23	- 88	- 30
Arrears Reduction	- 57	- 4	- 26	- 72	- 73
Financing Gap.	-	-	0	54	17

SOURCE: Ibid., p. 34.

As Table 3.3 indicates, exports are less than imports which put the country in a situation where the only way to make up for the balance is to resort to borrowing. So Ghana is put in a position where IMF/World Bank economic policies do not favour the country but to the IMF/World Bank themselves as stated earlier.

The case of Ghana demonstrates debt settlement policies forced on Third World debtor-nations involve a complex economic and political exactions and real suffering on the part of the debtor-nation, particularly of its working classes. IMF-type stabilisation policies, while increasing foreign penetration of the economy and external cooperation of policy-making, tends to intensify the social, political and economic contradictions of underdevelopment thus making them poorer.[42]

Ghana's problem, according to Card, are the result of her external dependence rather than domestic incompetence. (See appendix I). He stated that in these circumstances, it is unlikely that the new military leaders can effectively alter Ghana's position unless they are willing to strike out in radically different directions. And as long as this alternative appears unlikely, Ghana's position will continue to remain a dependent one. While change in the form of her government will matter little until the structure of the economy is significantly altered.[43]

Consequently, IMF and the World Bank devaluation policy as a condition for granting loan is evident in the case of Ghana. The Cedi was therefore devalued by 30% in 1967, 58% in 1978 and by 1987 it has been devalued by 5,780%. The foreign exchange auction rate stood at 175 Cedis to one U.S. dollar during the same period.[44]

The Economic Recovery Programme of IMF/World Bank seem not to, and has really, not improved the economy of the country. In 1984, the total public debt owed to creditors was US $471.6 million with an overall total foreign debt standing at $3.3 billion during the same year.[45]

The next chapter will, therefore, examine the consequence of the debt crisis on Ghana's foreign policy.

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CHAPTER FOUR

FOREIGN DEBT AND GHANA'S FOREIGN POLICY

This chapter will examine whether there is really any relationship between Ghana's foreign debt and her favourable foreign policy towards the West.

4.1 The Nature of Ghana's Foreign Policy Prior To IMF/World Bank Loan

Ghana's foreign policy during independence in 1960 was one characterised by a dynamic positive policy of non-alignment in relations with the major powers. Like other components of her foreign policy, her policy of non-alignment has undergone some dramatic changes after the overthrow of Nkrumah's government. Nkrumah was said to have justified the adoption of non-alignment by the argument that his country's affiliation with either of the two politico-military blocs would make no appreciable difference to the balance between them, while it could threaten the country's vital interests.[1]

Ghana's policy towards Africa during the early 1960 was the Pan-Africanism - the promotion of unity among Independent African States and the acceleration of the process of decolonisation of areas still under colonial rule. Nkrumah's aim was, as he put it, on the eve of Ghana's Independence, to turn the new Ghana to the centre of African unity. To back words with deeds, Ghana provided financial support to nationalist organisations in different parts of Africa. For example, Ghana gave Guinea a loan of £10 million to help fight for the cause of freedom, £10,000 was given to Dr. Kamuzu Banda's political movement and the government in 1973, announced an additional grant of $380,000 to the OAU Liberation Fund.[2]

Consequently, Ghana under Nkrumah's leadership, accomplished a great deal in international affairs but ever since the ousting of Nkrumah, Ghana's external influence has waned and her foreign policy has in some cases, been marked by incoherence, ambiguities and confusion, especially on cardinal issues like the African Liberation Struggle and non-alignment. Worse still, the traditional militancy of the country's foreign policy has been lost; and policies have clearly lost the clarity they used to have to the extent that at times, Ghanaians find it difficult to know where their country stands on matters of international concern.

The question is then asked why Ghana has lost its frontline role in Africa as well as its dynamism and militancy in international affairs? According to Boafo-Arthur, the formulation of foreign policy is influenced by several variables. It is stated that a nation's attributes, however, exert a preponderant influence on its international behaviour. These attributes include anything that describes the make-up of a nation, differentiating one state from another in terms of political, social, economic, etc.[3]

Some scholars have pointed out various domestic variables that tend to influence foreign policy decision-making. According to the group, the size of the nation, level of economic or political development, type of governmental system, type of leadership structure, political or social unrest or strain, are common examples.

However, the economic wealth of a nation tends to exert the greatest influence on its level of participation in, and impact on international affairs than most other variables. A nation with great economic resources like the United States invariably has greater flexibility and influence in international affairs. It also enjoys greater security against external pressures than a nation with very meagre economic resources. On the other hand, a nation lacking economic resources or is faced with grave economic problems, like Ghana, is more vulnerable to external pressures and more likely to comply with the dictates of external powers.[4]

Thus, in 1966 after Nkrumah's regime was overthrown, IMF/ World Bank gave Ghana a loan of $73 million. Table 4.1 below shows Ghana's debt between 1966 - 1968.

Table 4.1: EFFECTS OF 1966 AND 1968 DEBT AGREEMENT ON GHANA'S OVERALL DEBT BURDEN (₵ MILLION)

	Original Principal And Interest (1)	Moratorium Interest (2)	Total (3)	(2) as % of (1) (4)
A. IMF Member Countries				
1966 Agreement	137.3	56.9	194.2	41.4
1968 Agreement	75.3	26.8	102.1	55.6
Total	212.6	83.7	296.3	39.4
B. Non-IMF Member				
1966 Agreement	36.2	5.8	42.0	16.0
1968 Agreement	1.2	0.2	1.4	16.7
Total	37.4	6.0	43.4	32.7
C. IMF and Non-IMF Countries				
1966 Agreement	173.5	62.7	136.2	36.1
1968 Agreement	76.5	27.0	103.5	35.5
Total	250.0	89.7	339.7	71.6

SOURCE: Government of Ghana, Developments in the Ghana Economy Between 1960 and 1968; 1969, p. 9.

The country's mounting debt affected her foreign policy. As stated earlier, the economy during independence enabled the Nkrumah government to pursue a vigorous policy in the international arena. With the worsening of the economic position of the country, the government from 1966 and 1972, adopted a policy of retreat in world affairs.[5]

The next sub-section is going to examine why Ghana's foreign policy took that direction.

4.2 <u>The Impact of IMF/World Bank Loan And Ghana's Foreign Policy</u>

The economic situation of Ghana after the over-throw of Nkruma regime took a negative turn. Thus, when the National Liberation Council (NLC) came to power in 1966, they reversed most of the foreign policy in order to get financial help from the West. This is shown in the way the government was given aid of $680,000 for the purchase of grain by the United States Agency For International Development (USAID) in 1966. In addition, the United Nations Development Project approved a $356,000 loan to help ease the country's balance of payment difficulties.

The 'kind' gesture was extended to Ghana as a result of renewal of her diplomatic relations with Britain. The relations had been broken by Nkrumah in repraisal for the British government's stand on Ian Smith's unilateral declaration of independence in Rhodesia (Zimbabwe) in 1965.[6]

The Progress Party of Busia which came to office in 1969, pursued the quiet diplomacy of the NLC government and continued the policy of normalizing relations with the country's neighbours. However, this policy did not achieve much in the West African Sub-region due to the passing and implementation of the Aliens Compliance Order in 1969/70.[7] The Order was carried out to relieve pressure on the economy and to create employment and opportunities for Ghanaians.[8]

It is also on record that Ghana's foreign policy towards South Africa under Nkrumah was characterised by opposition to racism and white minority rule. The government also supported liberation movements. But Busia's foreign policy toward South Africa was one of dialogue with the racist government as against arms struggle.[9]

Some scholars have attributed Busia's departure from the policy of Nkrumah on issue of apartheid, on personality differences. However, the fundamental reason for the departure can be attributed to the deteriorating economic condition of the country. It can be recalled that in 1966 when the National Liberation Council took over power, the economy had started showing signs of decline. This was evidenced by the shortage in foreign exchange, the down trend of the economic growth which was almost zero; inflation was high and the Cedi had lost its value by over 30%. Foreign investors had lost confidence in the economy, and the world market price of cocoa had virtually collapsed. It therefore became necessary for the government to take urgent measures to revitalize the economy.[10]

This made the government to forge a relationship with the IMF/World Bank in order to obtain loans for development. More importantly, a 'certificate of credit worthiness' from the IMF was necessary to assure Western creditors that the government was committed to the implementation of sound monetary and fiscal policies.[11]

Thus, the government of Busia found itself in a hopeless situation when they came to power in 1969. The government therefore maintained that same close relationship with IMF, World Bank and the Western powers. As a result, a team from Harvard Development Advisory Service (DAS) were invited by the Ghana government on the advice of IMF and World Bank. These economic advisers were to take control of the planning and policy-making departments of the country. Consequently, major policy decisions with far-reaching socio-economic and political implications were taken with, or on the recommendation of the advisers.[12]

Such decisions were reflected in the country's weak and sometimes her apologetic foreign policy options. Example was the unpopular policy of dialogue with South Africa instead of the arms struggle agreed upon by African States. The government took this position because of her reliance on the Western countries for financial aid, more especially from the IMF and World Bank. As Aluko has explained, Ghana under General Ankrah and Busia refused to allow their relations with the Western countries be adversely affected by colonial issues.[13]

This could be explained as resulting from the heavy dependence of the country on the Western powers, notably the United States, the World Bank and other Western countries for its economic salvation. (See Table 4.2).

Table 4.2: CONTRACTOR-FINANCE PROJECTS (N¢ MILLION)

Sectors	Expected to Generate Income in: Less than 6 Years (1)	6 - 12 Years (2)	More than 12 Years (3)	Others (4)	Total (5)
IMF Member Countries					
1. Agriculture	30.1	32.7	-	-	62.8
2. Mining	-	-	-	-	-
3. Manufacturing	-	58.4	-	-	58.4
4. Construction	0.5	0.3	64.6	-	65.4
5. Transport and Communication	3.1	40.1	46.9	4.7	94.8
6. Electricity, gas, water	-	-	66.2	-	66.2
7. Unallocated	-	-	-	43.0	43.0
Total	33.7	131.5	177.7	47.7	390.6
As a percentage of Total	8.6	33.7	45.5	12.2	100.0

SOURCE: Ghana's External Debt Problem, Accra, 1970.

Again, this dependence also resulted in a loan of $130 million between 1969 and 1970.[14] (See also appendix 1).

Following the growing importance of the EEC market for Ghana's exports and export products, the government further strengthened its policy towards the West. Thus, the trade agreement which the NLC government signed in order to study how best the country can maintain this relations with the European community, was continued by Busia's government. (See Table 4.3)

Table 4.3: GHANA'S TRADE WITH THE MAJOR POWERS IN 1961, 1966 AND 1970 (IN US $1000)

	EXPORTS			IMPORTS		
Year & % of	Western Powers Including Japan butexclusing UK	United Kingdom	Eastern Europe& China	Western Powers Including Japan but excluding UK	United Kingdom	Eastern Europe &China
1961	186,282	91,893	10,466	158,081	145,084	21,052
%	43.89	29.00	3.30	39.53	36.28	5.26
1966	114,450	63,979	48,372	154,448	101,150	47,584
%	43.89	24.53	18.55	42.58	27.89	13.12
1970	225,293	104,209	45,996	193,673	97,089	30,377
%	49.95	23.11	10.20	47.16	23.64	7.40

SOURCE: UNECA - Foreign Trade Statistics for Africa, Series A, 1964, No. 4, No. 14, 1969, 1971.

It is therefore argued that the NLC and Busia governments gave too much room to foreign economic advisors, to the extent that local alternatives to economic problem like the police of 'self-reliance was completely ignored:[15] Consequently, the inter-governmental organisations co-ordinated all actions by imposing a requirement of a development programme and policies as a sine qua non for aid from donor countries. The World Bank would not recommend an aid programme for Ghana until the government had produced a plan and a set of policies that were acceptable to it.[16]

Consequently, Ghana's debt grew with the new loans and made her position very vulnerable in respect to policy formulation towards the donor-countries. However, the government that came to power in 1972 came near to reversing the Busia type of non-alignment which Colonel Acheampong, the Head of the Government dubbed as 'sycophantic fraternization policy with the West.[17] The economy at this period showed signs of improvement due to the up-swing in price of cocoa, timber and food production and as a result, the government revalued the currency which had been davalued by the Busia government. For example, the unprecedented high world price of cocoa jumped from a disastrously low level of £260 per ton in early 1972 to £900 per ton in 1973. Thus, Gaana recorded a trade surplus of ₵173.9 million which was the first for a decade.[18]

The improvement in the economy also affected the country's foreign policy. Ghána was able to repudiate some of her foreign debt which resulted in strained economic relations with the Western countries. She also maintained a remarkably active foreign policy as a result of the then improved economy and so did not need to rely so much on external handout.[19]

In addition, diplomatic relations broken in 1966 with some Communist countries such as China, North Vietnam, Cuba and East Germany were restored. The Soviet Union and China were specifically invited to come and complete the projects which they had already started before the 1966 coup. Since early 1972, a number of economic and technical cooperation agreements were signed with almost all the communist countries.

The government's tough policy towards the Western powers included the unilateral decision that it would not pay back the sum of about £35 million owed to four British firms because the agreements covering them were vitiated by malpractices. It further rescheduled her short and medium-terms debts owed to the Western Powers. Unlike the Busia government, the Acheampong government adopted a more critical attitude to the policy of the West in different parts of the world, especially in Southern Africa. For instance, in 1972, Colonel Acheampong threatened that Ghana would withdraw from the Commonwealth if the United Kingdom's policy towards Rhodesia (Zimbabwe) amounted to a 'sell-out' of the African majority.[20] The positive changes of the economy made the Acheampong government to pursue a foreign policy goals characterised by dynamism and independence.

Therefore when the PNDC government led by Flt. Lt. Jerry Rawlings took over power in 1981, their immediate concern was also how to bring about populist structural reforms of the economic and social systems. Accordingly, the regime initiated a series of reforms which in some instances, brought it in direct confrontation with the international capital, represented by the multinational corporations operating in the country.[21]

Attempts were made in some instances, to place the management of companies and corporations in the hands of committees for the Defence of the Revolution (CDRs). Foreign investors were also stigmatised as exploiters who always siphoned off the country's hard earned foreign currency. Threats of nationalisation were rife and the government stoutly defended the State's sovereignty by re-negotiating the Valco arrangement with Kaiser International.[22]

Efforts were also made by the government to exclude foreign capital from a wide variety of economic areas because of the realisation that the externally imposed structure of trade and production which has engendered dependence on the world capitalist system constituted the greatest bases of the country's economic vulnerability and backwardness. The PNDC initially sought to terminate such dependence. Consequently, diplomatic and commercial relations already established with the Soviet Union, the Peoples Republic of China, Cuba and North Korea in various forms by previous regimes were strengthened.[23]

With such initial realignment in the country's external political relations, the government of the PNDC adopted a radical foreign policy whose dominant chord was the incessant attacks on Western and especially American imperialism. The policies which were adopted, however, failed to improve the economy because they severely reduced the incentives for production, savings, investment and increased productivity.[24] The production of cocoa, timber, gold and other raw materials was reduced. This resulted in a huge external debt of US $1,723 million by the end of 1982. In addition, industrial production capacity had fallen drastically, factories utilized about twenty per cent of their installed capacity. Coupled with drought and bush fires, the economy in 1982 -83 was in a disastrous condition.[25]

As a result of the dismal state of the economy and the failure of initial government policies to arrest the situation, the need was felt for policy changes. Thus, Ghana's foreign policy once again, turned favourably towards the West. The government in consultation with the IMF and World Bank drew up the Economic Recovery Programme (ERP) which they launched in April 1983. The launching of the ERP meant a change in the government's foreign political and economic relations since foreign capital, mostly from the West, was needed to ensure the success of the programme.[26]

With the background of initial anti-western propaganda by the government, political leaders in their speeches had to emphasise the importance of Western aid to resuscitate the economy. Thus, contrary to the previous assertions about the injurious nature of relations with Western capital, and multinational corporations, the government made it quite clear that 'without wider and adequate international support in the form of long term concessional loans and credits, the broad aims of the programme will be difficult to achieve'.[27]

Table 4.4, therefore, shows loans donated by countries and organisations within 1984 - 1986 period.

Table 4.4: SIGNED AID COMMITMENTS BY DONORS, 1984-86
(U.S $ MILLION)

Members of the CG* for Ghana	1984	1985	1986
BILATERAL			
Canada	45	33	23
France	1	12	25
Germany	18	13	24
Italy	1	16	1
Japan	4	36	14
Switzerland	6	9	6
United Kingdom	18	11	26
U. S. A.	21	17	11
Sub-Total	185	147	130
MULTILATERAL			
African Development Bank	31	79	29
Arab Bank for Economic Development in Africa	8	9	0
EEC	57	26	31
European Investment Bank	10	0	37
FAO	0	0	0
IFAD	0	0	0
UNDP	4	4	4
WFP	79	8	9
World Bank	125	187	93
Sub-Total	306	313	203

Observers at the CG for Ghana	1984	1985	1986
Australia	1	0	0
Brazil	0	0	0
CDC	0	1	24
China	0	0	0
Denmark	0	5	0
India	0	0	0
Korea	0	0	0
Kuwait Fund	0	0	0
Netherlands	13	6	18
Norway	0	0	0
Spain	0	0	0
OPEC Fund	0	6	0
Saudi Fund for Development	0	9	13
NGOs	0	0	3
Sub-Total	14	27	58
Grand Total	425	487	391.

*Consultative Group

SOURCE: Government Report on Structural Adjustment Programme, 1987, p. 36.

Thus, with the above aids and other developments organised for foreign oil companies, such as the selling of geological data on Ghana's oil deposits is an indication of the spirit of the change. This also goes to prove the new form of international economic relations the PNDC government was pursuing.[28] This new direction was made explicit in 1984 by the Secretary for Finance and Economic Planning, Dr. Kwesi Botchwey. According to him, 'Ghana will actively encourage direct foreign investment and ensure that while safeguarding the interest of the economy and honour of the people, investors will not be frustrated when the time comes to transfer their profits and dividends to their shareholders overseas'.[29]

The PNDC's change of policy orientation is due to the difficult economic conditions and this is very clear from the foregoing that the State's weak economic base has undermined attempts at pursuing independent foreign policy. In the process therefore, governments have either been coerced or persuaded to change the country's development priorities to suit donor countries.

As Maurice East put it, the government of a poor State 'because of the relative lack of resources available for foreign affairs will seek methods and strategies of international interactions that are more economical'.[30] This is exactly the position Ghana finds herself and this Rawlings made clear by declaring that "we can no longer postpone the time for halting the populist nonesense. . . ". We must not get into the way of thinking that revolutionary activities are substitutes for productive work".[31]

Following this statement, the Deputy Chairman of the PNDC also declared that the flirtation with Marxism in the early months of the revolution "did us a certain amount of harm, in that it sought a short cut to modern government on the basis of the experience of Europe which was not quite germane".[32]

We see from this chapter that the nature of Ghana's economy really affected her foreign policy initiatives. Thus, her favourable foreign policy towards the West was as a result of the loans the Western countries were giving Ghana.

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7. Ibid., p. 143.

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9. Aluko, Op. cit.

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CHAPTER FIVE

SUMMARY AND CONCLUSION

We hypothesized in this study that there is a positive relationship between the Economic Recovery Programme of the IMF/World Bank and the worsening debt crisis in Ghana. This has resulted in a direct relationship between Ghana's reliance on IMF/World Bank loan and her favourable foreign policy initiatives and options towards the West.

We showed in Chapter Two how Ghana's debt which stood at £20 million at independence with a reserve of £200 million, incurred a debt of $1,172 million by 1972. We further argued that this debt was as a result of the IMF/World Bank's involvement in the economic policy of the country. For instance, during Busia's regime in 1969, IMF and World Bank advisors were invited - the (DAS) economists to control and manage the economic policy-making department.

We also argued in Chapter Three that as a result of the IMF/World Bank "corrective" measure, Ghana's debt not only increased but even worsened the standard of living of the people. We showed how these institutions gave Ghana some period of grace to pay off her debt and in return increased the interest rate on the loans. Therefore, rather than helping Ghana, it worsened her debt position.

We showed also, how IMF/World Bank Economic Recovery Programme (ERP) increased export production thus increasing the real gross domestic product which reached a 5 per cent target. In 1988 alone, Ghana earned more than $868 million from her exports. This seemingly go to show how the ERP has worked. We however, argued that this improvement in the economy was not physically visible in the standard of living of the people as a result, the Structural Adjustment Programme (SAP) was launched and one of its objectives was to look at the social aspects of the SAP. This was aimed at improving the condition of the people.

We also showed that IMF/World Bank 'corrective' measures taken to improve the economy and this we argued, that the measures have worsened the conditions of Ghana. We proved this by showing that the devaluation of the Cedi by 30% in 1967 and 58% in 1978 was again devalued at an alarming rate of 5,780% in 1987 all at IMF/World Bank's condition for granting loan.

In Chapter Four, we examined how Ghana's foreign policy under Nkrumah was militant and dynamic in respect to the Western Powers. We explained that Ghana was able to initiate such a policy because of her then buoyant economy. For instance, when Nkrumah came to power, the country had a foreign reserve of £200 million and only £20 million outstanding debt. Thus Ghana was able to give assistance amounting to £10 million to Guinea, £10,000 to Banda to aid his political movement in 1959 among others.

The NRC government headed by Acheampong was able to also implement aggressive foreign policy towards the West because of the sudden recovery of the economy. Consequently, the government unilaterally repudiated some of the country's foreign debt.

However, other regimes like the National Liberation Council (NLC) and Busia's governments took the opposite stand. These regimes were pro-West, which was due to the poor state of the economy at that time. These two regimes went to the West with cap in hand to beg for financial help. The policy of restoring diplomatic relations with Britain which was broken during Nkrumah regime stand as example.

Rawlings regime during this latter years, has fallen prey to Western manoeuvring. This is also as a result of the poor nature of the economy.

In our study, we also found out that Ghana was forced into the Western "debt trap" especially IMF and World Bank. This happened in 1971 during Busia's regime. Busia's government during this period, requested Britain to help Ghana solve her financial problems. Britain agreed to help Ghana on the following conditions:

1) Ghana was to prepare an agreed programme with the IMF for the restoration of basic preconditions for stable growth of the economy, with particular concern for avoiding inflation.

2) Ghana was to try to draw as much as possible for the Fund.

3) After a programme had been agreed upon with the IMF and the Fund had extended financial assistance, Britain would organize other creditor countries to provide debt relief and aid so that Ghana could continue its development efforts at a high growth rate that is 4.5 per cent or higher.

The British therefore made the agreement with the IMF a precondition for the assistance because they felt that they could not keep Ghana under control without the cooperation of IMF, World Bank and other creditors. Agreement with IMF/World Bank became a sine qua non for aid and for a resolution of Ghana's debt problem.

In conclusion, Ghana's relationship with IMF and World Bank has compounded her debt position. For instance, by 1983, Ghana's external debt was $1.5 billion and more than doubled to $3.3 billion in 1984. However, since the economy is dependent on the West, Ghana's foreign policy will always favour the West until the country is able to liberate herself from the West as this study has shown.

It is therefore argued that while the short-term solutions to Africa's debt problem could perhaps be tackled through various "adjustment" programmes, reducing debt service ratios and larger financial inflows, the long-term solution should be sought by adhering to and reverting back to the broad framework of development strategy laid down in the Lagos Plan of Action. Thus, Ghana has to take a serious look again at the Lagos Plan of Action if she wants to be liberated from her debt burden.

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APPENDIX I

Debt Repayable in Foreign Currency
(In thousands of U.S. dollar equivalents)

Year	Debt Outst. (Begin of Period) Including Undisbursed	Payments During Period Amortization	Interest	Total
Grand Total				
1966	490,742	51,281[a*]	12,148[b]	63,361
1967	439,511	67,820	15,539	83,359
1968	371,711	70,390	15,557	85,947
1969	301,321	59,294	12,578	71,872
1970	242,027	52,370	10,487	62,857
1971	189,657	42,002	8,347	50,349
1972	147,655	25,094	6,621	31,715
1973	122,561	18,544	5,570	24,114
1974	104,017	14,235	4,768	19,003
1975	89,782	9,807	4,159	13,966
1976	79,975	8,330	3,757	12,087
1977	71,645	7,362	3,403	10,765
1978	64,283	6,611	3,097	9,708
1979	57,672	5,793	2.805	8,598
1980	51,879	5,975	2.530	8,505

* Notes appear at the end of the Table

APPENDIX I (Cont'd)

Year	(Debt Outst. (Begin of Period) Including Undisbursed	Payments During Period Amortization	Interest	Total
Privately-placed Debt - Suppliers' Credits				
1966	307,390	45,300	10,220	55,520
1967	262,090	56,935	11,018	67,253
1968	205,155	55,901	9,043	64,944
1969	149,354	45,877	6,492	52,369
1970	103,377	39,790	4,737	44,527
1971	63,587	29,969	2,993	32,962
1972	33,618	13,877	1,633	15,510
1973	19,741	9,167	958	10,125
1974	10,574	6,846	482	7,328
1975	3,723	2,484	163	2,647
1976	1,244	1,010	53	1,068
1977	234	234	7	241
IBRD Loans				
1966	47,000	-	-	-
1967	47,00	-	1,351	1,351
1968	47,000	1,357	2,683	4,040
1969	45,645	1,436	2,604	4,040
1970	44,209	1,519	2,520	4,039
1971	42,690	1,609	2,432	4,041
1972	41,081	1,702	2,338	4,040
1973	39,379	1,801	2.239	4,040
1974	37,573	1,907	2,133	4,041
1975	35,671	1,018	2.023	4,040
1976	33,653	2,136	1,905	4,040
1977	31,517	2,260	1,780	4,039
1978	29,257	2.392	1,648	4,040
1979	26,865	2.531	1,508	4,040
1980	24,334	2,678	1,362	4,040

APPENDIX I (Cont'd)

Year	Debt Outst. (Begin of Period) Including Undisbursed	Payments During Period Amortization	Interest	Total
Loans from US Government[c] - Total				
1966	36,900	50	1,035	1,085
1967	36,850	313	1,117	1,430
1968	36,537	576	1,184	1,760
1969	35,961	911	1,236	2,147
1970	35,050	1,265	1,269	2,534
1971	33,785	1,291	1,296	2,587
1972	32,494	1,318	1,302	2,620
1973	31,176	1,346	1,244	2,590
1974	29,830	1,375	1,184	2,559
1975	28,455	1,405	1,124	2,529
1976	27.050	1,436	1,063	2,499
1977	25,614	1,468	1,001	2,469
1978	24,146	1,501	937	2,438
1979	22,645	1,536	373	2,409
1980	21,109	1,571	807	2,378
Loans from Western [European] Governments[d] - Total				
1966	19,000	-	-	-
1967	19,000	368	508	876
1968	18,632	1,072	1,123	2,195
1969	17,560	1,072	1,059	2,131
1970	16,488	1,072	995	2,067
1971	15,416	1,072	932	2,004
1972	14,344	1,072	868	1,940
1973	13,272	1,072	805	1,877
1974	12,200	1,072	741	1,813
1975	11,128	1,072	678	1,750
1976	10,056	1,072	615	1,687
1977	8,984	1,072	551	1,623
1978	7,917	1,067	488	1,555
1979	6,850	1,067	424	1,491
1980	5,783	1,067	361	1,428

APPENDIX I (Cont'd)

Year	Debt Outst. (Begin of Period) Including Undisbursed	Payments During Period		
		Amortization	Interest	Total
Loans from 'Eastern' Countries[e] - Total				
1966	80,452	5,863	893	6,756
1967	74,590	10,204	1,545	11,749
1968	64,386	11,484	1,524	13,008
1969	52,902	9,398	1,187	11,185
1970	42,904	8,724	966	9,690
1971	34,180	8,061	694	8,755
1972	26,119	7,125	480	7,605
1973	18,994	5,158	324	5,482
1974	13,836	3,035	228	3,263
1975	10,801	2,828	171	2,999
1976	7,973	2,676	116	2,792
1977	5,297	2,328	64	2,392
1978	2,969	1,651	24	1,675
1979	1,318	659	-	659
1980	659	659	-	659
Loans from USSR[f]				
1966	39,559	1,815	332	2,147
1967	37,744	4,920	983	5,903
1968	32,824	4,864	822	5,686
1969	27,960	4,696	689	5,385
1970	23,264	3,853	577	4,440
1971	19,411	3,685	477	4,162
1972	15,726	3.491	383	3,874
1973	12,235	3.466	296	3,762
1974	8,769	2,076	218	2,294
1975	6,693	2,017	168	2,185
1976	4,676	2,017	116	2,133
1977	2,659	1,669	64	1,733
1978	992	992	24	1,016

a. Of which $13,664,000 were in arrears as of 31 December 1965.
b. Of which $3,537,000 were in arrears as of 31 May 1966.
c. USAID and Export-Import Bank
d. Britain and Federal Republic of Germany
e. The major Eastern creditors are the Soviet Union, The GDR, Poland, Czechoslovakia, Hungary and China.
f. USSR portion of total 'Eastern' loans

SOURCE: World Bank, Statistical Services Division, 9 March 1967.

APPENDIX II

ANNEX TABLE 1: GDP BY INDUSTRIAL ORIGIN AT CONSTANT 1975 PRICES MILLION CEDIS, 1980 - 86

	1980	1983	1984	1985	1986[a]
Agriculture	2957	2534	2780	2802	2951
Agric & Livestock	2016	1763	2039	2001	2102
Cocoa	545	370	339	384	427
Forestry & Logging	303	308	313	313	315
Fishing	92	92	93	109	107
Industry	805	549	599	707	752
Mining & Quarrying	71	52	59	66	80
Manufacturing	575	328	370	451	483
Electricity and Water	43	41	39	47	51
Construction	206	129	132	142	152
Services	1765	1798	1917	2064	2154
Transport & Communications	166	192	216	238	249
Trade and Hotels	556	463	510	556	591
Banking, Insurance and Real Estate	372	415	453	495	514
Government Services	609	660	663	690	704
Other Services	62	68	74	84	96
Inputed Service Charges	160	177	191	216	323
Import Duties	81	44	54	63	71
GDP at Market Prices	5537	4747	5157	5419	5705
Per Capita GDP (Cedis)	449	399	419	430	439
Meno Items:					
Population (Million)	11.1	11.9	12.3	12.6	13
GDP in Current Prices (Billion Cedis)	43	184	272	373	491

Note: Totals may not add up due to rounding.

a/ Estimated.

SOURCE: A Programme of Structural Adjustment, The Government of Ghana, 1987.

APPENDIX III

ANNEX TABLE 2: GDP BY INDUSTRIAL ORIGIN AT CONSTANT 1975 PRICES GROWTH RATES, 1980 - 86

	1980	1983	1984	1985	1986[a]
Agriculture	2.2	- 70	9.7	0.8	5.3
Agric & Livestock	0.1	-8.0	15.5	-1.7	5.1
Cocoa	9.5	-14.2	-8.4	13.2	11.2
Forestry and Logging	2	7.4	1.4	0.2	0.7
Fishing	9.1	3.1	0.7	12	3.2
Industry	0.3	-12.0	9.1	17.9	6.4
Mining and Quarrying	-3.1	-14.4	13.5	12.7	-1.1
Manufacturing	-1.4	-11.2	12.9	22	7
Electricity and Water	12.9	- 7.0	-6.1	20.7	9.9
Construction	4.3	-14.3	2.3	8	7
Services	-2.3	2.3	6.6	7.7	4.4
Transport and Communications	-13.2	7.3	12.8	10	4.5
Trade and Hotels	- 0.6	- 5.3	10.1	3.1	6.2
Banking, Insurance Real Estate	3.9	3.3	9.3	9.3	3.8
Government Services	1.8	5.9	0.4	4.1	2.1
Other Services	23.9	3.7	9.4	13	13.8
Inputed Service Charges	-5.3	6.7	7.9	13.1	3.1
Import Duties	-9.1	27.7	20.5	19.9	12
GDP at Market Prices	0.5	- 4.6	8.6	5.1	5.3
Per Capita GDP (Cedis)	-2.1	- 7.2	5.0	2.6	2.1
Population	2.6	2.6	2.5	2.6	2.6

a/ Estimated

SOURCE: Ibid.

APPENDIX IV

ANNEX 3: GDP BY EXPENDITURE AT CONSTANT 1975 PRICES
Million Cedis, 1980 - 86

	1980	1983	1984	1985	1986[a]
Private Consumption	4,252	3,396	3,917	4,157	4,157
Government Final Consumption Expenditure	981	990	862	1,111	1,111
Gross Domestic Investment	491	343	393	490	515
Gross Fixed Capital Formation	516	344	392	489	514
Change in Stocks	-25	- 1	1	1	1
Exports of Goods and NFS	654	486	409	435	457
Imports of Goods and NFS	842	469	423	522	563
Gross Domestic Product	5,537	4,747	4,103	5,365	5,633
Net Factor Income from Abroad	54	30	54	55	58
Gross National Product	5,485	4,717	4,193	5,365	5,633
Less Consumption of Fixed Capital	312	329	261	260	273
National Income	5,171	4,389	4,841	5,104	5,360
Other Current Transfers Received from Abroad	55	54	108	705	74
National Disposable Income	5,225	4,442	4,950	5,175	5,434

Note: Totals may not add up due to rounding.

a/ Estimated.

SOURCE: Ibid.

APPENDIX V

ANNEX TABLE 4: GDP BY EXPENDITURE AT CONSTANT 1975 PRICES, PERCENTAGE SHARES, 1980 - 86

(National Disposable Income = 100)

	1980	1983	1984	1985	1986 a/
Private Consumption	81.4	76.5	79.1	76.5	76.5
Govt. Final Consumption Expenditure	18.8	22.3	17.4	20.4	20.4
Gross Domestic Investment	9.4	7.7	7.9	9.5	9.5
Gross Fixed Capital Formation	9.9	7.8	7.9	9.5	9.5
Increase in Stocks	-0.5	0	0	0	0
Net Exports	-3.6	0.4	-0.3	-1.7	-1.7
Exports of Goods and NFS	12.5	10.9	8.3	8.4	8.4
Imports of Goods and NFS	-16.1	-10.6	-8.5	-10.1	-10.1
Gross Domestic Product	106	106.9	104.2	104.7	104.7
Net Factor Income from Abroad	-1	-0.7	-1.1	-1.1	-1.1
Gross National Product	104.9	106.2	103.1	103.7	103.7
Less Consumption of Fixed Capital	-6	-7.4	-5.3	-5	-5
National Income	99	98.8	97.8	98.6	98.6
Other Current Transfers Received Abroad	1	1.2	2.2	1.4	1.4
National Disposable Income	100	100	100	100	100

a/ Estimated

SOURCE: Ibid.