

# **Macroeconomic Stability, Growth and Poverty Reduction in Ghana**

## **Second Workshop: The Research Agenda**

October 26/27, 2001  
Cornell University

In January of 2001, a new government took over in Ghana for the first time since the transition to democracy almost a decade earlier. The government launched a national dialogue on economic policy to assess the economic situation and to develop a national consensus on the way forward. The need for fresh dialogue, and the urgency of action, was highlighted by the fact that Ghana was going to join the process of debt relief under the HIPC (Heavily Indebted Poor Countries) Program of the IMF and the World Bank.

As an important milestone in this process of dialogue, the government called for a National Economic Forum in May, 2001, to consider the analysis and views of a range of Ghanaian opinion. In this context, a group of Ghanaian social scientists came together under the auspices of the Institute for Statistical, Social and Economic Research (ISSER) at the University of Ghana, Legon, and the Center for Economic Policy Analysis (CEPA), Accra, in early May to formulate input to this national occasion. A series of papers were presented, and a joint memorandum (“[The Noguchi Statement](#)”, named after the Noguchi Center at the University, where the participants met) was prepared. This was presented to the Forum and led to considerable debate and discussion.

The object of the Accra workshop was to have an immediate impact on policy dialogue by using the unique window of opportunity that became available through the National Economic Forum in May. The researchers who assembled asked the question: What does existing research have to say to the pressing policy problems of the day? But there is a second, longer term question: What new research questions are raised by the current policy questions, and Ghana’s renewed quest for Macroeconomic Stability, Growth and Poverty Reduction? It was to address this question that Cornell researchers who were present at the Accra meeting proposed a second workshop, to be held at Cornell University.

## **PROGRAM**

### **October 26**

6.00pm--Conference Reception to welcome participants, Art Gallery,  
Willard Straight Hall

### **October 27**

#### **401, Warren Hall**

*9.00—9.30 Welcome*

David Lewis, Director, Cornell Institute of Public Affairs

*9.30—11.00 Session I*

*The Key Policy Issues Facing Ghana*

Chair: Ravi Kanbur, Cornell University

Panel: Ernest Aryeetey, University of Ghana and Swarthmore College;  
Ernest Ako-Adjei, Adviser, World Bank Board of Executive Directors,  
Dotsevi Sogah, Cornell University

11—11.30 Break

*11.30—1.00 Session II*

*Agenda for Research: Macroeconomic Policy*

Chair: Steve Kyle, Cornell University

Panel: Mahamudu Bawumia, Bank of Ghana; Steve Younger, Cornell  
University; Elizabeth Asiedu, University of Kansas

1.00—2.30 Lunch

*2.30—4.00 Session III*

*Agenda for Research: Social Policy*

Chair: Chris Udry, Yale University

Abena Oduro, Center for Economic Policy Analysis, Accra; Ellen Bortei  
Doku, University of Ghana; Norman Uphoff, Cornell University

*4.00—4.30 Concluding Remarks*

Muna Ndulo, Director, Institute of African Development, Cornell University

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# GHANA: KEY POLICY ISSUES

*Ernest Aryeetey*

1. Introduction: The Nature of Ghana's Economic Problems
  - Long-Term: High levels of poverty;  
Income distribution worsening;  
No structural transformation;  
Growth pattern is inconsistent.
  
  - Short-Term: Absorption remains high;  
Largely a consequence of the unbridled expansion of public spending on social services and other economic services;  
Inflation in the 30%-50% range is becoming 'normal';  
Rapid nominal depreciation of cedi, but considerable real appreciation for long periods;  
Debt situation has become unsustainable, hence HIPC;  
External finance is increasingly difficult;  
Urban unemployment is worsening.
  
2. There has been a tension in policy orientation and resource allocation between long-term growth and poverty-reduction on the one hand and macroeconomic stabilization on the other.
  - There has been a tendency to view them as separate issues and best dealt with by different groups of people and organizations in an uncoordinated manner;
  - The result is that recent programs for poverty-reduction have paid little attention to macro stabilization and those negotiating support for stabilization have shown very little understanding for the requirements for future growth and poverty-reduction, despite PRSP.
  
3. The most significant policy issue has thus become how to achieve macroeconomic stabilization in the shortest possible time without compromising steady long-term growth, structural transformation and significantly reduced poverty.
  - To what extent will reduced growth in public spending affect private production? [Everyone agrees (at the national forum) that it depends on where the cuts occur]; No systematic study of public expenditures.
  - Following from above, we have not focused adequately on how best to prioritize public spending with both short and long-term goals in mind (both policy and institutional constraints);
  - Also, while we 'agree' periodically on where to place cuts, albeit arbitrarily, there is hardly ever a strong commitment to this in the budget process, MTEF notwithstanding; (institutional problem?)
  - Hardly any attention is paid to essential expenditure-switches for both consumers and producers in relation to tradables and non-tradables with a view to reduced absorption; (thus not clear what the goal of the exchange rate policy is).

- The growing financing of public spending from both domestic and external sources is acknowledged to be problematic, particularly since it deprives the private sector of finance in addition to worsening the macroeconomic imbalance;
  - In the long term, there are no strong indications that the private sector is adequately prepared to make the commitments that will facilitate long term growth (significant structural problems).
4. Solving the macro imbalance problem obviously requires reduced absorption as well as exchange rate re-alignment to facilitate expenditure switching (not guaranteed!). Recent experience shows that this will achieve stable conditions in the short term. In the long term, removing structural problems will require increased investment spending and institution-building. It is not clear how this can be done except if there is a major overhaul of external financing arrangements that will include a change in the composition of external support, moving increasingly towards a greater role for FDI.
- The Noguchi Statement has several suggestions for achieving macroeconomic stabilization including the setting of inflation targets as well as targets for annual nominal depreciations of the Cedi. Emphasis is on removing waste in the public sector and strengthening Bank of Ghana.
  - Strengthening institutions that will facilitate direct investments is crucial. It will have to go beyond simply erecting new public offices to re-orienting the rules, regulations and norms that govern economic endeavor. In addition to those institutions essential for attracting foreign investment, such as the restructuring of the legal system and the existence of rule of law, it is most important that institutions governing access to domestic resources are rationalized. Examples are the inadequacies of the land tenure system and the non-existence of agricultural land markets, the dysfunctional credit market and the rigidities of the labor market due to poor human capital.

# THE KEY POLICY ISSUES FACING GHANA

*Ernest Ako-Adjei,*  
Advisor to the Executive Director,  
World Bank

The IMF Article 4 consultations concluded at the end of June 2001, list the following policy measures as necessary for establishing macroeconomic stability in the medium term, and a way forward to jump start the economy.

- Reduce inflation to 25% by end 2001 mainly by reducing government's recourse to bank financing. Reduce the domestic government debt stock as a ratio to GDP by more than half over the next three years. An upfront measure would be to cut domestic borrowing requirement of the budget from 8.8% to GDP in 2000 to 1.8% in 2001.
- Recognize that there is the need to monitor and control public expenditure while effectively tracking poverty related expenditures.
- Implement vigorously the developed program for addressing the problems of the energy sector and the public utilities.

These are the TOR (Terms of Refinery) VRA (Volta River Authority) ECG (Electricity Company of Ghana) and GWCL (Ghana Water Company Limited).

- Reinvigorate the structural Reform by relaunching the Divestiture program and putting the privatization exercise on a fast track.
- Tracking in a more serious and organized fashion poverty and social issues.

My question is, are these sufficient for growth and the restructuring of the economy? My answer is no.

There are other intangibles, not mentioned here which are central and critical.

What is needed is a complete new strategic thinking, which takes Ghana away from business as usual.

What is involved in this new Thinking and Direction?

1. Leadership- Both political and non-political  
That is able to mobilize the whole population with a focused vision, clearly defined.

What it takes to reach this vision and long-term plans and monitorable indicators put in place.

A disciplined Mind Set- Poverty will be overcome not by hand out from government or donor institutions, but by providing access and incentives for the poor to grow themselves out of poverty.

Diversification- No concrete long-term national program on Agriculture and Rural Development.

2. Domestic Mobilization

-Need to instill in the population a sense of our own salvation.

-Not to play politics with Economic Decisions

- Examples (i) Response to external shocks- Need to respond quickly to these shocks with policy packages. Accurately assess the structural weaknesses and identify new opportunities to be explored. Korean example to oil shocks in late 70s.  
(ii) Export market penetration- Export oriented economy.  
(iii) Ability of country to enter successfully into fast-paced process of structural economic change. (Economic growth is not linear)
3. Education: To underpin the Development effort. A literate population is the greatest asset.
  4. Absorptive capacity
    - (i) Implementation Capacity  
Civil and public service institutions  
Regional/District Assemblies.  
The poor and demoralized nature of these institutions
    - (ii) Merit underpinned by training as the only operating code to promotion and position.  
An incomes policy- with incentives and living wage (National Overview Committee)  
Demand Accountability- Ministers to messenger involving open sanctions and rewards.
  5. Role of government  
Arbiter in a level playing field with the rules and regulations known and operated in a transparent way.  
Independent Judiciary.
  6. The private sector-  
Assisted not shackled  
Strong financial Institutions and intermediation
  7. Political Commitment and Discipline  
In talking about economic growth, we hear words such as “difficult”, “Challenging”. I do agree with the level of technical difficulties of what to do and how to do it effectively. But I am convinced that beyond these technical issues lies a less concrete but vital second consideration- **POLITICAL COMMITMENT AND DISCIPLINE.**  
Without serious government commitment to a growth program, any amount of external good will or effort is likely to fail.

# ROLE OF SCIENCE AND TECHNOLOGY IN GHANA'S RENEWED QUEST FOR MACROECONOMIC STABILITY, GROWTH AND POVERTY REDUCTION

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Progress in development has been measured mostly by GDP per capita. This is understandable since quality of life is tied to wealth. But true progress in development must go beyond improvement in per capita income. It must, besides higher incomes, lead to *enhancement in quality of life*, that is, reduction of poverty, greater equity, better education, higher standards of living, protection of the environment, and a richer cultural life. A persuasive argument can be made that science and technology have an important role to play in this most important challenge facing Ghana: *Macroeconomic stability, growth and poverty reduction*. However, for science and technology to play an effective role they must operate within a national framework and policy, be coordinated with other sectors of the economy, and remain an integral part of all development efforts.

What then must Ghana do to bring about her quest for poverty reduction, enhancement of the well being of Ghanaians, and facilitating rapid growth of productivity? What national science and technology policy will permit the potential created by technological growth to be fully exploited? Part of the answers to the above will lie in how well science and technology are nurtured and exploited. Because of the limited time, I will outline some of the key policy issues very briefly so that we can have time for vigorous discussion and debate.

Suggested strategy for achieving the stated objective:

- *The attainment of self-sufficiency in food:* The first and foremost objective should be self-sufficiency in food. Certainly, science and technology can play a key role in efforts to become self-sufficient.
- *Establishment of sound industrial base:* Viable manufacturing sector development must be an integral part of the development strategy, with science and technology driving productivity.
- *Establishment of sovereignty over Ghana's natural resources:* The government must develop policies that will enable establishment of sovereignty over Ghana's natural resources. This will entail having the laws of intellectual property protection that enables Ghanaian inventors to protect their inventions.
- *Establishment of national (and regional) engineering, science and technology centers:* These must be directed to interdisciplinary research that can positively impact core and critical technologies and foster sharing of facilities.

- *Develop human recourses for science and technology and train personnel in fields of critical manpower shortage:* Here emphasis must be on early education in physical, mathematical, and biological sciences. The appropriate incentives must be provided for entry into these areas at all levels, including tertiary education. The goal is to achieve some minimum scientific literacy.
- *Technology transfer and commercialization:* Develop policies that will facilitate transfer and commercialization of research findings and locally developed packages of technology.
- *Funding of research and development: Consideration should be given to setting up “National Science and Technology Development Fund”.* The government must identify or establish a mission-oriented agency to be responsible for the administering the fund, which in turn must set objectives and guidelines for proposal submission and approval, and define the deliverables. Both basic but interdisciplinary research and development-relevant applied research may be targeted.
- *Government-Industry-University partnerships:* Develop policies that will encourage collaboration between government, industry and academe. The partners may include well-defined consortia, the academies, and the current CSIR, tertiary institutions, and national research institutes. Here the role of government will that of a facilitator and a catalyst and not necessarily controlling. It will provide finance, build infrastructure, establish facilities, provide some personnel, and oversight. The role of industry includes providing finance, help build first class facilities, and participate directly in the research effort. Private sector involvement is key. The role of university will include providing personnel, responsibility for basic research, training, and human resource development. The academies can constitute ad hoc briefing panels that identify and prioritize critical and core technologies, and advise the government.
- *Retention of trained personnel.* The “brain drain” is a serious issue. Policy is needed here provided care is taken not to take away the inalienable rights that we all have for choosing where to live.
- *Integration of culture, history, education and policy:* One can argue that technological progress will be influenced by culture, history, education, and types of policies. How well these are integrated will be crucial in taking advantage of technological advances that are being made in the developed world.

# INSTITUTIONAL SETUP AND ECONOMIC POLICY: A RESEARCH AGENDA FOR GHANA

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A large body of evidence suggests that good institutions — defined by judicial independence, well defined property rights and enforcement of contracts contribute significantly to economic growth.<sup>1</sup> There is also ample evidence that economic policy does not operate in a vacuum, and that institutional setup affects policy outcomes. Indeed, recent failed reform experiences in a number of countries indicate that market-oriented policies produce perverse results in the absence of adequate institutions.<sup>2</sup> As a consequence multilateral organizations such as the World Bank have of late emphasized institutional reform in developing countries.<sup>3</sup> For example, the 2002 issue of *World Development Report*, published by the World Bank, focuses on how countries can acquire effective institutions. Several countries have followed the advice of the Bank and have embarked on institutional reform, and such countries need to be commended. However, it is important to note that it takes time for institutions to evolve, and therefore the fruits of the “good works” of policy makers and advisors will not be realized in the short-term.

Thus, to the extent that institutions affect policy outcomes, the critical question now facing policymakers in developing countries is not “whether institutions matter” or “how does one acquire good institutions” but “what is the optimal economic policy, given the institutional set up in the country?”<sup>4</sup> Here, the country’s institutional setting may be viewed as part of a constraint set, where the government chooses its optimal policy subject to these constraints — i.e., the government solves for the constrained optimal solution.<sup>5</sup> Of course the constrained solution, although optimal, is inferior to the unconstrained solution (i.e., the solution that will prevail in the presence of adequate institutions). The question that arises is this: *what is the most effective and less costly ways that the government can achieve its objectives given the institutional framework in which it operates?* Clearly, the quality of institutions varies widely across

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<sup>1</sup> See Lin and Nungent (1995) for an excellent review of the literature on institutions and economic development.

<sup>2</sup> For example the failure of price reform and privatization in Russia can be partly attributed to a lack of a well-developed legal and regulatory framework.

<sup>3</sup> Institutional reform now constitutes a central part of IMF and World Bank conditionalities.

<sup>4</sup> See Rodrik (2000) for a discussion on how countries can acquire effective institutions.

<sup>5</sup> See Asiedu and Villamil (2000) for a model where the amount of private foreign investment in a country is constrained by the country’s inability to enforce private investment contracts.

country.<sup>6</sup> As a consequence, policies that have been successful in one country may not work in other countries. There is therefore a need for a country specific analysis, but this type of analysis is currently lacking in the literature.

The above discussion is both timely and pertinent to Ghana, as its new administration struggles to redefine the country's development strategy. One of the goals of the administration is to establish institutions (e.g., judicial independence, enforcement of contracts, etc) that support market-oriented policies. However, as pointed out previously, this laudable goal would not be achieved in the short or medium term. This is a long-term pursuit so in the interim, an important question facing the administration is: *which economic policies will be effective in the current institutional environment in Ghana — i.e., what is the optimal policy in the short-term?* This question bears researching into. I'll use examples to illustrate my point.

The objectives of the current administration include increasing tax revenue (and thereby reduce government deficits) and attracting more Foreign Direct Investment (cf., Ghana, 2000). Taxes take two forms: direct taxation (which includes taxes on income, profits and capital gains) and indirect taxation (which includes trade related taxes). The administration intends to increase direct tax revenue and reduce trade related taxes. This policy is good in principle, because indirect taxes are distortionary. However, indirect taxes are relatively easier to collect. It is difficult to raise a significant amount of revenue by direct taxation when the government does not have the administrative capability to effectively monitor and enforce tax laws. The situation is exacerbated when the country has a large informal sector, as in Ghana. Furthermore, incomes are low hence not much revenue can be generated by taxing income. The question here is: *is it possible for the government to achieve its objective (i.e., increase tax revenues and at the same time reduce trade related taxes) given its weak administrative capabilities?*

The second example relates to Foreign Direct Investment (FDI) policy. By taxing Transnational Enterprises (TNEs), FDI generates revenue for the government. As discussed above, Ghana, like most developing countries, do not have the administrative capabilities to effectively monitor the activities of multinational corporations. This includes curbing tax-motivated transfer pricing which results in a loss of tax revenue to the host country. One way to control transfer pricing and thereby increase government revenue is by imposing equity restrictions — i.e., mandating TNEs to form a joint venture with a domestic firm.<sup>7</sup> The problem is that equity restrictions deter FDI. Another important benefit of FDI is the transfer of

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<sup>6</sup> Asiedu and Esfahani (2001) find evidence that differences in institutional setup account for a bulk of the cross-country variation in FDI regulatory framework.

<sup>7</sup> Several studies have found that the host country's *optimal* response to transfer pricing is to impose equity restrictions [c.f., Falvey and Fried (1986); Stoughton and Talmor (1994); Dasgupta and Sengupta (1995)]. Conklin and Lecraw (1997) interviewed policymakers from 10 developing countries (including Ghana) about their motivation for imposing equity restrictions. The reasons cited by the respondents included: (i) domestic citizens are subject to other forms of taxation that is not applicable to foreigners since foreigners are more likely to repatriate their profits; (ii) domestic partners have an incentive to prevent tax-motivated transfer pricing since transfer pricing reduces the subsidiary's profits; (iii) domestic partners act as a window on the inner workings of the firm — this allows the government to obtain more information about the operations of the firm; (iv) in instances where the domestic partner is the government (which is the case

technology from the multinational corporation to the affiliate in the host country. Research indicates that the host country benefits from such transfers since technology spills over from the foreign affiliate to domestic firms. However, TNEs are reluctant to transfer technology to affiliates in countries that have weak intellectual property protection (IPP) since it puts the TNE's firm specific technology at risk of appropriation (Lee and Mansfield (1996); Smarzynska (2000)). As a consequence, countries with weak IPP, like Ghana, tend to mandate technology transfers. This policy, however, deters FDI. Again the question that arises is this: *how can the country reap the benefits of FDI (i.e., increased tax revenue and technology transfer) without imposing equity restrictions or mandating the transfer of technology?* These are tough but important questions that need to be answered!

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for most developing countries), local ownership gives the government some “control” over the firms operations.

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# AGENDA FOR RESEARCH - MACROECONOMIC POLICY OBSERVATIONS FOR THE MACROECONOMIC STABILITY, GROWTH AND POVERTY REDUCTION IN GHANA

*Steve Younger*

Ravi has asked us to present comments and observations that will spark a discussion. One of the surest ways I know of to do that these days is to defend the “Washington consensus,” so that is where I will start. I believe that the need for further research on macroeconomic policy, by which I mean exchange rate, monetary, and broad fiscal policy, is much less pressing than the need for research in other areas because, basically, we know how to get macro policy right: follow the Washington consensus. For those who have lost site of that consensus in the tear gas, it says:

- exchange rates should be market-determined and “realistic;”
- the money supply should expand at a rate about equal to the growth of real gdp;
- the public sector should be lean, concentrating on areas where there are clear public goods rationales for its activities;
- the public sector should finance itself with taxes, not borrowing, and those taxes should distort relative prices as little as possible; and
- (since 1998) the banking system should be forced to meet capital adequacy requirements, with strict provision for non-performing loans.

While economists can argue at length about the particulars of any one of these points, mostly, I think, they agree that they are correct. That, after all, is why it is (was?) a consensus. While research into the particulars is fun for economists, I don’t think that it’s all that pressing for Ghana. Even confining myself to the areas that are related to macro policy, there are more urgent questions.

First among these is, despite its status as erstwhile poster country for the Washington consensus, why has Ghana done so poorly at achieving most of these five goals, and can or should it do any better? I will resist the temptation to show how poorly Ghana has done, because that would rapidly consume my two-page limit. I will say that reforms to the foreign exchange markets have been successful and durable, as have most of the reforms to price controls. But on most other accounts, the results have been decidedly mixed.

It is possible to address Ghana’s policy problems in a strictly technical way, discussing budget overruns, terms of trade shocks, etc. But I think that the political economy behind them is more interesting, and probably more important to understand for the present government. I do not pretend to have explanations for Ghana’s policymaking choices, but I do think that it’s clear that most Ghanaians, including most of the PNDC, have never been enthusiastic about the Washington consensus. In that sense, the lack of program on Washington-style reforms can be seen as a (Pyrrhic?) victory for democracy. In an interesting paper, Pereira, et.al. (2000) note that Ghana’s most successful macroeconomic policy reforms (from the point of view of the Washington consensus) came at a time when a few skilled technocrats made economic policy, in the mid-1980s. This team was able to persuade the government to make difficult policy changes using, as I understand it, the argument that Ghana had to do such-and-so to get its aid money. While the undemocratic nature of these decisions may make some of us uneasy, most technocrats were happy with the results. Indeed, I think that a solid case can be made that the ERP’s reforms were quite successful in those days.

But Ghana is no longer a dictatorship. The technocrats have been exiled to think tanks. Most of us understand that Ghana will get its aid money almost regardless of the policies that it chooses. And public

policies now must command broader (if not broad) support. I believe that at least some of the ERP's reforms – to the foreign exchange market and import controls, for example – have a measure of popular support. Anyone old enough to remember 1981 does not want to return to those days. So far, though, the economic policies that the democratic process has chosen are not encouraging. The public sector's deficit, which the ERP brought under control, widened significantly with the first elections and, despite efforts in fits and starts, has never recovered. This has brought with it monetization and inflation; heavy public sector borrowing, high interest rates, and crowding out; "creative public finance" via borrowing through State enterprises or refusal to pay suppliers, etc. – in short, most of the problems that concerned participants at the Noguchi seminar. Thus, even though everyone, including the technocrats, tires of hearing the same old refrain to keep your fiscal house in order, it is important to insist, and Ghana has not done so.

Of course, all governments have difficulty balancing their budgets. Unfortunately, signs of stagnation on the policy front are broader. Pereira, et.al, point to worrying signs that the financial sector is once again in trouble with bad credits, despite the huge financial sector adjustment credits of 10-15 years ago. In the Bank's recent Country Assistance Evaluation (2000), the main issues cited are the fiscal deficit, burgeoning public sector employment, privatization or liquidation of public enterprises, including the Cocoa Board, and decentralization. Of these, only the latter was not at the top of the agenda fifteen years ago. In fact, the deficit has worsened, and the problem of excess public sector employment may have as well, despite a huge donor-financed retrenchment program.<sup>8</sup> In short, on the macroeconomic front, most of the steam was let out of Ghana's reform effort many years ago, and it has never been recovered.

I should hasten to add that this is not entirely bad. Ghana is still growing steadily, albeit slowly, and it is also showing slow progress on other fronts, like infant mortality and school enrolment ratios. Things could be worse, and they are in many African economies. But the heady talk of Ghana becoming an East-Asian style tiger that we indulged in in the late 1980s is gone, with good reason. From a technocratic perspective, I believe that the answer to this malaise is to take up the Washington consensus with enthusiasm. The more interesting questions are: (1) is any part of that consensus acceptable politically? And (2) if not, is there any other strategy out there that dominates the muddling through that has dominated Ghanaian macro policy for the past 15 years?

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<sup>8</sup> The Country Assistance Evaluation reports public sector employment of 600,000 in 2000. My own work on retrenchment in the late 1980s found that civil service employment fell from 317,000 in 1986 to 260,000 in 1992. Even if the CAE includes parastatal employment, which seems likely, civil service employment may well have increased substantially.

**MACROECONOMIC STABILITY, GROWTH AND POVERTY  
REDUCTION IN GHANA: SECOND WORKSHOP-THE  
RESEARCH AGENDA  
SOME THOUGHTS ON THE RESEARCH AGENDA FOR  
SOCIAL POLICY**

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**Introduction**

There are now more incidents of armed robbery, child abuse and other forms of social disorders. Some of these cases are reported in the press and others are not. Many of the reported cases of armed robbery involve young people between the ages of 18 and 30. In my village in the Eastern Region, it is claimed (yet to be confirmed) that many children do not go to school because their parents cannot pay the school fees. Yet there is a free compulsory universal basic education programme (fCube) currently being implemented. The relatively lower enrolment rates in the Northern, Upper East and Upper West regions suggest that the programme is still to make major inroads in enrolment rates.

Unless the issues of unemployment, inequality of income and inequality in access to quality education, health services, safe drinking water, roads that are motorable all year and access to markets are seen to be addressed immediately, social unrest could become more widespread leading to a sense of insecurity. The insecurity could undermine whatever actions are taken on the macroeconomic front to achieve economic growth.

I shall in this short memorandum focus on three areas of research interest. These are:

- ✓ The design of well-targeted programmes to achieve an improvement in social indicators especially in those regions that have tended to be left behind in whatever economic progress has been made in Ghana so far, i.e. the three northern regions.
- ✓ The development of effective monitoring mechanisms at the district level.
- ✓ The development of effective linkages between the District Assemblies and the district level units of the various ministries, departments and agencies.

**The Design of Well-Targeted Programmes**

A major constraint facing Ghanaian policy makers in the area of poverty reduction is the lack of adequate information to design a well-targeted programme. The District

Assembles Common Fund has a formula for the allocation of the Common Fund to the various Assemblies. The formula is the weighted sum of the value of different indicators. The indicators used in the formula are health facilities, availability of doctors, educational facilities, number of trained teachers and number of pupils enrolled. Other indicators used in the formula are the per capita revenue collected, improvement in revenue collection and population density.

An important research issue is whether the formula used by the DACF is the most appropriate for the purpose of allocating resources for the development of the various districts? Or is it just the best available given the data constraint?<sup>9</sup> For the purposes of implementing the PRSP it is of critical importance that appropriate criteria be developed to ensure that projects go to poor localities and will lift the people out of poverty. Should the targeting criteria or mechanisms be developed at the centre or at the level of the districts? Is earmarking of district level spending by ministries at the Centre justified for poverty reduction purposes?

**Basic Education** The *f*Cube has as its target universal basic education by 2005. The programme provides tuition-free education. Textbooks are supposed to be supplied free to public primary schools. Equipment and tools are to be provided free to all basic schools<sup>10</sup> in the public school system. Enrolment rates have hardly increased in the last decade. There is growing evidence in some districts that enrolment of boys is slowing down. There was a decline in the number of boys that sat for the Basic Education Certificate Examination in 2000. This evidence raises a number of questions. Is the *f*Cube programme being implemented as planned? Second, is the design of the programme appropriate to ensure that the targeted increases in enrolment rates will be achieved? Following on from this question is the issue of how well the design of the *f*Cube addresses or reduces the cost of accessing free education. What are the impacts of local economic opportunities and the structure of economic activities in a community on the demand for basic education? How can the desired quality of education be achieved in most if not all of the public schools?

### **The Development of Effective Monitoring Mechanisms at the District Level**

The experience of Uganda provides an example of how monitoring of poverty reduction projects can take place at the district level<sup>11</sup>. To what extent can the Uganda case be replicated in Ghana? What are the conditions necessary for effective participation of the community in monitoring district projects and for that matter other projects that may be implemented not necessarily using district generated funds? Does community participation necessarily mean that the poor will take part in the monitoring process? What channels exist and how can they be improved upon to ensure a feedback of district level information to the eventual decision-makers. Answers to these questions need to be

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<sup>9</sup> Recently when personnel from the DACF presented their formula before Parliament the statistics that was used to feed into the formula was questioned by MPs from some districts. Thus there is not only the problem of whether the requisite data exists but also the accuracy of the data that is available.

<sup>10</sup> Basic education in Ghana comprises of six years of primary education and three years of Junior Secondary School education.

<sup>11</sup> The Uganda “report card” system

found to ensure that the monitoring of the implementation of PRSP, i.e. the inputs and outputs, does occur and will benefit the poverty reduction programmes.

### **Strengthening the Decentralisation Process**

Implementation of the PRSP is going to take place at the districts. It is therefore critical that the links between the District Assemblies and the district units of the various ministries, departments and agencies be strengthened for effective utilisation of scarce resources. It is important to determine whether the present form of decentralisation is appropriate for the implementation a poverty reduction programme that is going to be implemented by the Districts?

# MACROECONOMIC STABILITY, GROWTH, AND POVERTY REDUCTION IN GHANA- CONTRIBUTIONS OF SOCIAL POLICY

*Norman Uphoff*  
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Implied connections: Macroeconomic/Other Stability → Economic Growth → Poverty Reduction

Converse causation: Poverty Reduction → Economic Growth → Macroeconomic/Other Stability  
Can take MS or PR as objective (dependent variable) -- leave this to others

Bring two perspectives to this discussion: (a) that of a political scientists (now working on SARD)

(b) 30-50 year historical view (based on PhD thesis research in Ghana in 1968)

Studied use of external assistance by Nkrumah's regime, in context of country's political economy;

The conclusion of the thesis could be summarized in one sentence:

*Unless and until a country uses its own resources well,  
it will get little benefit from other countries' resources.*

Two priority focuses for improvement: (a) good governance at center, and (b) local capabilities.

GOOD GOVERNANCE: more than a matter of honesty -- mostly of accountability.

One-party rule and coopting of all intermediary organizations -- eliminated accountability

Relevance of 'GG' for research agenda? -- not clear; cross-national research more relevant

LOCAL CAPABILITY: need mechanisms for accountability not just at national level;  
local institutions like *local government* and local organizations like *cooperatives, farmers' associations, women's organizations, trade unions, etc.*

- crucial for accountability, helping/making national institutions operate effectively,
- undertake self-help, mobilizing resources, meeting priority local needs

Loss of Local Governments, Trade Union Congress, and UGFCC under CPP

- Takeover of cocoa purchasing by CMB was major factor in economic decline
- Crushing of General Strike in 1961 coincided with decline in GDP growth
- General Selection in 1965 coincided with absolute GDP decline, not just p/c GDP
- 1957 real GDP p/c not reattained until about 1987 -- loss of 30 years of growth

Many factors: loss of local institutions and *kind of society they represent and create* was a major factor [note: Nyerere's acknowledgment that his 'biggest mistake' was the *dissolution of local government bodies and cooperatives* as 'colonial creations']

Regarding 'macroeconomic stability' and conventional economic explanations of growth: Gross Domestic Capital Formation (GDCF) in 1965 was 21% -- yet growth was negative, giving Incremental Capital:Output Ratio (ICOR) of more than infinity!

This makes nonsense of conventional model of capital-led economic growth --  
Prefer view of W. Arthur Lewis that capital formation is a *consequence* > *cause of growth*  
Social (societal) Agenda for Poverty Reduction, Economic Growth, and Macroecon. Stability

Focus on creating the *kind of society* that will mobilize resources for productive purposes, utilize them in enterprises that are socially beneficial (lots of positive externalities), and ensure access to opportunities for all to be productive and secure

Poverty Reduction is good for everyone, not just for 'the poor'

Three principles for a productive and equitable society:

- Participatory society -- ensuring 'voice' for all members
- Active society -- with much local initiative and assumption of local responsibility
- Self-reliant society -- expecting to *make* opportunities, not just *take* them

Four functions that are important for increasing productivity of all kinds:

- Decision-making -- need roles, procedures, etc.
- Resource mobilization and management
- Communication and coordination
- Conflict resolution -- whenever needed; also processes to avoid/minimize conflict

What research is relevant? Different kinds than for economic analysis and decision-making

- Documentation and case studies -- techniques evaluated, basis for confidence
- Action research -- PAR, and also PRA -- seek to empower as well as inform

Objective is *institutional and organizational change* for productive and equitable society -- need *knowledge* for this and also *human resource development*, plus *institutional support*

Two areas of special concern for Ghana:

- Land tenure -- protection of 'common property,' ensuring resource conservation
- Rural finance -- savings and inventory credit (CIIFAD experimentation)

Two programmatic approaches:

- Farmer-centered research and extension (FCRE)
- Community-based natural resource management (CBNRM)

Particular concerns:

- Strengthening and engagement of universities
- Linkages of NGOs with other kinds of institutions
- Government partnerships -- strategic partner > 'commanding heights'

- Encouragement of entrepreneurship
- Creation and maintenance of public goods -- often lost in enthusiasm for 'the market'

All of these concerns, and both programmatic approaches, relate to poverty reduction  
Should underscore the importance of *natural resource conservation and management*  
for sustainable -- even attainable -- poverty reduction, growth and stability

# MCROECONOMIC STABILITY, GROWTH, AND POVERTY REDUCTION IN GHANA: A RESEARCH PERSPECTIVE

## OVERVIEW OF A WORKSHOP HELD AT CORNELL UNIVERSITY, OCTOBER 27, 2001

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1. Following the successful **Noguchi Workshop** to discuss key policy issues facing Ghanaian policy makers, held at the Noguchi Conference Center, University of Ghana in May 2001, it became evident that deeper and wider research was required for understanding the policy and institutional development implications of a number of issues discussed.
2. Thus, while the workshop at Noguchi considered both the requirements for **immediate stabilization of the economy** as well as measures to ensure that such stabilization benefited the **poor** in a re-distributional sense, it also recognized that essential ingredients for making the **re-distribution** sustainable over the long term were not to be taken for granted (see “The Noguchi Statement”, [http://www.arts.cornell.edu/poverty/kanbur/Noguchi Workshop.pdf](http://www.arts.cornell.edu/poverty/kanbur/Noguchi%20Workshop.pdf)). The Noguchi workshop participants, primarily Ghanaian social scientists and policy makers, argued for follow up activities to identify the key research avenues.
3. The second workshop in this sequence took place at Cornell University on October 27, 2001 and was organized by Cornell Institute for Public Affairs, Institute for African Development and the Poverty, Inequality and Development Initiative. It was intended to consider those immediate research questions that arose from the earlier discussion of policy and institutional development issues. It had participation from **Ghanaian researchers** and their **Cornell counterparts**.
4. The Cornell workshop observed that, while it is established that the current and recurring **macroeconomic instability** has its source in unrestrained expansion of the **fiscal deficit** and the finance mode through **large domestic borrowing**, there are in fact significant obstacles to the deficit reduction. Issues that need to be taken on board include the following:
  - Are the rising expenditures being **efficiently** applied in domestic investment, and indeed what are the **returns** on the public investment components of these growing expenditures?
  - How is public investment expenditure set up to attract complementary private investment?
  - In which areas can government **reduce wastage** in its recurrent budget in a manner that does not affect the **quality of public services** while checking domestic absorption?

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<sup>\*</sup> This synthesis has benefited from the notes prepared by the Rapporteur of the conference, Jacqueline Vanderpuye-Orgle of Cornell University,

- Having established what the ‘**optimal**’ **growth** and **composition** (prioritizing) of public expenditures should be, what **institutions** best ensure that public expenditure programs have broad support and are not threatened by **parochial political interests**?
  - What are the general opportunities and constraints to enhanced **domestic resource mobilization**, including taxation?
5. While the perception abounds that **poverty** in Ghana is worsening, survey data suggests that it may be on the decline. It is considered important that proper studies are carried into understanding the disconnect between perception and survey results. This would require more careful studies of **regional variations** of poverty and their causes and how these may be more accurately linked to public expenditure programs and private agents’ responses.
  6. The role of **credible institutions** in **governance** was highlighted as extremely important for **development**. This involves sound regular national economic management that takes **poverty reduction** as its main goal at the top of a number of compatible objectives. Noting that credible institutions evolve only over time, and encompass a broad range of factors, including **culture**, research has to be undertaken to ascertain the most appropriate ways, within a feasible time frame, of making Ghana’s institutions more responsive to its development needs, especially within the context of a rapidly **globalizing** world.
  7. From 6 above, it is established that development is the outcome of **institutional system changes** that respond to the demands of **private agents** through **innovation** and **technology** development. **Human capital** development is paramount to this process, as is the platform for the organizations of private agents to interact and be coordinated by **functioning markets** that work closely with **the state**. The state is the coordinator of the institutional environment. Research into **science and technology** and other relevant areas must assist the problem of enhancing the innovativeness of Ghanaian institutional organizations.
  8. While it is acknowledged that the **decentralization** of key governance structures is crucial for improving the effectiveness and efficiency of public services, it is important to study the strengths and limitations of such decentralization in order to develop the appropriate scope and structures.
  9. **Social policy** in Ghana is implicit and has only evolved as a spin-off from economic policy reform. It is important that relevant social policy studies are carried out to develop a proper orientation for social policy goals that complement economic policy goals in a more meaningful way, keeping in mind the overall goal of a stable economy and improving standards of living for a growing population.
  10. The Cornell Workshop acknowledged that Ghana will continue to require **external inflows** and assistance for its development program. It is important that studies are carried out into how to make such assistance more effective, focusing on the best mechanisms for attracting increasingly **FDI** in place of those inflows that tend to exacerbate domestic absorption (Dutch disease).

