

ANALYSIS OF THE ROLE OF FOREIGN DONOR AID IN GHANA'S ECONOMIC  
DEVELOPMENT AND POVERTY ALLEVIATION

BY

ALEX YAW ADOM

Submitted in accordance with the requirements

For the degree of

DOCTOR OF LITERATURE AND PHILOSOPHY

In the subject

DEVELOPMENT STUDIES

At the

UNIVERSITY OF SOUTH AFRICA SUPERVISOR: DR D.A. KOTZE JANUARY

2015

**DECLARATION**

I, ALEX YAW ADOM, do hereby declare that this doctorate thesis titled: “ANALYSIS OF THE ROLE OF FOREIGN DONOR AID IN GHANA’S ECONOMIC DEVELOPMENT AND POVERTY ALLEVIATION” is my own work except where reference is made to published literature. I also certify that the work embodied in this thesis has not been submitted, either in whole or in part for any other degree in any institution of higher learning.



.....

**DATE**.....

**ALEX YAW ADOM**

**SUPERVISOR**

.....

**DATE**.....

**DR D.A. KOTZE**

## **ACKNOWLEDGEMENTS**

I wish to express my sincere gratitude to the following people who have contributed in diverse ways to the completion of this work:

My first gratitude is to my Heavenly Father for the strength, protection and inspiration he granted me throughout the research period.

I am heavily indebted to my supervisor, Dr D.A. Kotze, whose guidance, directions and constructive criticism made this study possible.

I also express my sincere thanks to the Post-Graduate Research Fund of UNISA for funding this project. Without their financial assistance, this thesis would not have been possible.

I also want to acknowledge the efforts of my lovely wife, Lydia, and children for their support and patience during my period of study.

My sincere thanks go to my beloved parents, Mr. and Mrs. Adom, and my siblings for their support and inspiration throughout my study.

Finally, I want to thank the Hon. Mayor of Inkwanca Municipality, Cllr. Qamngwana and all the employees of the municipality, especially the Local Economic Development (LED) Unit for the love and support they gave me during my stay in the municipality as the Integrated Development Planner.

## **ABSTRACT**

This study sought to analyse the role of foreign aid in poverty alleviation and economic development of Ghana from 1957 to 2008. Literature related to the study on foreign aid and economic development was reviewed to get an insight into the views of other writers on the topic under study. The study adopted both primary and secondary sources of data to examine the concept of foreign aid, poverty reduction and economic development in Ghana. The study collected data using qualitative interviews consisting of open- and close-ended questions from the field. Content analysis involving the use of existing materials by researchers and the analyses of data originally collected by others was also relied on as a complement to the primary sources in the study. The study found that donor aid is not well coordinated in Ghana because of the proliferation of donor agencies in the country. Though aid is provided to the Ghanaian economy to address poverty and economic development challenges, the study found that foreign aid did not achieve the set objectives because of poor management of donor resources. This study, therefore, recommends that the informal economy should be promoted with funding from microfinance as an alternative to donor-driven development to effectively harness the natural resources in the country for development.

## **KEY TERMS**

Economic development; foreign aid; Ghana; informal economy; microfinance; poverty alleviation.

## LIST OF ACRONYMS

AAA	Accra Agenda for Action
ADB	African Development Bank
AFRC	Armed Forces Revolutionary Council
AGOA	African Growth and Opportunity Act
AIDS	Acquired Immune Deficiency Syndrome
AsDB	Asian Development Bank
AU	Africa Union
BNA	Basic Needs Approach
BNS	Basic Needs Strategy
BoG	Bank of Ghana
BOP	Balance of Payments
BRAC	Bangladesh Rural Advancement Committee
BRICS	Brazil, Russia, India, China and South Africa
CDD	Centre for Democratic Development
CEC	Commission of the European Communities
CIPE	Centre for International Private Enterprise
CPP	Convention Peoples Party
ERP	Economic Recovery Programme
EU	European Union
GDP	Gross Domestic Product
GNI	Gross National Income
GoG	Government of Ghana
GPRS	Ghana Poverty Reduction Strategy

GSD	Ghana Statistic Department
GSP	Generalised System of Preference
HD	Harrod-Doman
HIPC	Heavily Indebted Poor Country
HIV	Human Immunodeficiency Virus
IBRD	International Bank for Reconstruction and Development
ICPD	International Conference on Population and Development
ICSF	International Christian Support Fund
IDA	International Development Association
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
IFC	International Financial Corporation
IFI	International Financial Institute
ILO	International Labour Organisation
IMF	International Monetary Fund
IRD	Integrated Rural Development
LDC	Less Developed Countries
MCA	Millennium Challenge Account
MDBS	Multi-Donor Budgetary Support
MDGs	Millennium Development Goals
MFI	Micro finance Institution
MOFEP	Ministry of Finance and Economic Planning
MP	Marshal Plan
NBER	National Bureau of Educational Research

NDC	National Democratic Congress
NDI	National Democratic Institute
NGO	Non-Governmental Organisation
NIE	Newly Industrialised Economies
NIMD	Netherlands Institute for Multiparty Democracy
NPP	New Patriotic Party
NRC	National Redemption Council
ODA	Official Development Assistance
ODF	Official Development Finance
OECD	Organisation for Economic Corporation and Development
OPEC	Organisation of Petroleum Exporting Countries
PD	Paris Declaration
PEPFAR	President's Emergency Plan for Aids Relief
PNDC	Provisional National Defence Council
PP	Progress Party
PPP	Progressive People's Party
PRSP	Poverty Reduction Strategy Paper
SAP	Structural Adjustment Programme
SIGA	Special Initiative on Governance in Africa
SMC	Supreme Military Council
SOE	State-Owned Enterprise
SSA	Sub-Saharan Africa
TNDP	Transitional National Development Plan
UNA	United Nations Agencies



UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNEP	United Nations Environmental Programme
UNESCO	United Nations Educational, Science and Cultural Organisation
UNHDR	United Nations Human Development Report
WTO	World Trade Organisation

## TABLE OF CONTENTS

DECLARATION.....	ii
ACKNOWLEDGEMENTS.....	iii
ABSTRACT.....	iv
KEY TERMS.....	v
LIST OF ACRONYMS.....	vi
TABLE OF CONTENTS.....	x
LIST OF TABLES.....	xiv
LIST OF FIGURES.....	xv
CHAPTER ONE.....	1
INTRODUCTION AND BACKGROUND TO THE STUDY.....	1
1.1 Introduction.....	1
1.1.1 Research Background.....	1
1.2 Statement of the problem.....	5
1.3 Objective of the Study.....	6
1.4 Foreign Aid Defined.....	7
1.5 Sources of foreign donor aid.....	7
1.5.1 Bilateral aid.....	8
1.5.2 Multilateral aid.....	9
1.5.3 The International Monetary Fund (IMF).....	10
1.5.4 The World Bank.....	11
1.5.5 African Development Bank (ADB).....	11
1.5.6 UN Agencies.....	12
1.5.7 OPEC aid.....	13
1.5.8 Council for Mutual Economic Assistance (CMEA).....	13
1.6 Origin of aid.....	13
1.7 Brief summary of research methodology.....	18
1.8 Ethical consideration.....	20
1.9 Importance of the study.....	20
1.10 Chapter outline.....	21
1.11 Conclusion.....	23

CHAPTER TWO.....	24
ECONOMIC DEVELOPMENT AND FOREIGN AID .....	24
2.1 Introduction.....	24
2.2 Modernization theory.....	25
2.2.1 The linear-stages theory .....	25
2.2.2 The Structural-Change Theory.....	27
2.2.3 Modernization theory and foreign aid in the 1950s and the 1960s .....	29
2.3 The dependency theory .....	31
2.3.1 The role of foreign aid in the 1970s .....	33
2.4 The Free Market Approach.....	34
2.4.1 The Washington Consensus .....	35
2.4.2 The role of foreign aid in the 1980s .....	36
2.4.3 Post-Washington Consensus .....	38
2.4.4 The new millennium.....	40
2.5 Contemporary debate on foreign aid.....	48
2.5.1 The pro-aid argument .....	49
2.5.2 The anti-aid literature .....	55
2.6 Conclusion .....	63
CHAPTER THREE.....	66
OVERVIEW OF POLITICAL AND ECONOMIC DEVELOPMENT IN GHANA .....	66
3.1 Introduction.....	66
3.1.1 Phase I: The Black Star Era (1957-1966).....	66
3.1.2 The Dark Days (1966-1981) .....	72
3.1.3 The Reform Era (1983-1991).....	83
3.1.4 The Era of Hope (1992-2008).....	92
3.1.5 Kuffour and the Ghanaian Economy (2001-2008).....	94
CHAPTER FOUR .....	103
RESEARCH METHODOLOGY .....	103
4.1 Introduction.....	103
4.2 The Research Paradigm .....	103
4.2.1 The Functionalist Paradigm .....	104
4.3 Research design .....	105

4.4 Study population .....	106
4.5 Sampling Techniques.....	106
4.6. Respondents .....	107
4.7 Data collection techniques .....	109
4.8 Data Analysis .....	113
4.9 Validity and Reliability.....	113
4.10 Limitations and challenges of the study.....	115
4.11 Conclusion .....	117
CHAPTER FIVE .....	118
DATA PRESENTATION AND ANALYSIS .....	118
5.1 Introduction.....	118
5.2 Analysis of Ghanaian Respondents .....	118
5.2.1 Demographic Characteristics of Ghanaian Respondents .....	118
5.2.2 Respondents' Understanding and Perception of Foreign Donor Aid.....	121
5.2.3 Why Ghana receives aid.....	122
5.2.4 Is Ghana aid dependent? .....	128
5.2.5 Aid and the sovereignty of Ghana.....	130
5.2.6 Are donor activities properly monitored in Ghana?.....	131
5.2.7 Alternative method of managing foreign donor aid in Ghana .....	134
5.2.8 Can aid help promote economic development and alleviate poverty in Ghana? .....	135
5.2.9 Can Ghana achieve sustainable economic development and poverty alleviation without foreign donor aid? .....	138
5.2.10 Donor resources and standard of living in Ghana .....	141
5.3 Analysis of aid by foreign donors/NGOS in Ghana .....	142
5.3.1 Characteristics of the Aid institution.....	142
5.3.2 Donor aid and its relevance and challenges in Ghana.....	146
5.4 Conclusion .....	157
CHAPTER SIX.....	160
ALTERNATIVE DEVELOPMENT APPROACH.....	160
6.1 Introduction.....	160
6.2 The informal economy .....	161
6.3 Brief history of microfinance.....	163

6.4 Importance of microfinance .....	165
6.5 Microfinance and the attainment of the Millennium Development Goals (MDGs).....	167
6.6 The role of microfinance in poverty reduction and the development of the informal sector in Ghana .....	175
6.6.1 Microfinance in Ghana.....	176
6.6.2 Leveraging on microfinance to develop the informal economy in Ghana.....	179
6.7 Conclusion .....	181
CHAPTER SEVEN .....	183
SUMMARY, CONCLUSION AND RECOMMENDATION.....	183
7.1 Introduction.....	183
7.2 Summary.....	184
7.2.1 Economic Development and Foreign Aid.....	184
7.2.2 Overview of Political and Economic Development in Ghana .....	187
7.2.3 Research Methodology.....	190
7.2.4 Data Presentation and Analysis.....	191
7.2.5 Alternative Development Approach.....	193
7.4 Recommendation .....	195
BIBLIOGRAPHY .....	197
APPENDICES INTERVIEW GUIDE .....	219

## LIST OF TABLES

Table 1.1: Major economic indicator in Ghana (1961-2000).....	3
Table 2.1: The MDGs and the Targets .....	42
Table 2.2: Net ODA disbursement to developing countries (2000-2008).....	44
Table 3.1: Political history of Ghana (1957-2008).....	72
Table 3.2: Macroeconomic indicators in Ghana (1970-1982).....	84
Table 3.3: IMF & World Bank policy-based loans to Ghana (1983-1996).....	87
Table 3.4: Donors Contribution to Ghana’s educational reform .....	88
Table 3.5: Poverty distribution according to regions in Ghana.....	89
Table 3.6: Donor Aid to Ghana -1960-2008 (US\$ Millions) .....	100
Table 3.7: Ghana’s Macroeconomic Indicators (2000-2008).....	101
Table 4.1: List of respondents .....	109
Table 4.2: Secondary sources of data for the study .....	112
Table 5.1: Investment in Ghana’s roads 2002-2005 (US\$ Million).....	126
Table 5.2: Selection of aid recipients .....	145
Table 5.3 Challenges faced by donors in Ghana .....	157

## LIST OF FIGURES

Figure 1.1: Map of Ghana showing the ten regions and their respective capitals .....	2
Figure 2.1: Lewis' structural change model .....	29
Figure 5.1: Gender .....	119
Figure 5.2: Age distribution of respondents .....	120
Figure 5.3 Educational level .....	121
Figure 5.4 Definition of Foreign Donor Aid .....	122
Figure 5.5: Why Ghana receives aid .....	122
Figure 5. 6: Donor funded boreholes in Ghana .....	125
Figure 5.7: George Bush Motor Way .....	127
Figure 5.8: Is Ghana donor aid dependent or not? .....	129
Figure 5.9: Aid has compromised our sovereignty as Ghanaians .....	130
Figure 5.10 Are donor activities properly monitored in Ghana .....	131
Figure 5.11 Alternative method of managing foreign donor aid in Ghana .....	135
Figure 5.12: Can foreign donor aid help alleviate poverty and promote economic development in Ghana.....	135
Figure 5.13: Street hawking in Ghana .....	136
Figure 5.14 Can Ghana achieve sustainable economic development and poverty alleviation without foreign donor aid?.....	138
Figure 5.15 Donor resources have improved standard of living Ghanaians .....	142
Figure 5.16 Description of the Aid Institution .....	143
Figure 5.17 Origin of aid Institution.....	143
Figure 5.18 Core functions of donor Institutions .....	144
Figure 5.19 Reasons why donors provide aid to the Ghanaian economy.....	146

Figure 5.20 Ghana is donor aid dependent ..... 148

Figure 5.21 Role of foreign aid in the economy of Ghana from donor perspective..... 149

Figure 5.22 Foreign aid well managed in Ghana..... 150

Figure 5.23 Foreign donor aid can help alleviate poverty in Ghana ..... 151

Figure 5.24 Ghana and middle income status..... 152

Figure 5.25 Ghana and the Millennium Development Goals ..... 153

Figure 5.26 Future of aid in Ghana..... 154

Figure 5.27 Alternative sources of replacing donor aid in Ghana ..... 155

Figure 5.28 Should Ghana continue to receive Donor Aid?..... 156

Figure 6.1: Beneficiaries of microloan ..... 166

Figure 6.2: Microfinance and the lower income groups..... 167

Figure 6.3: Multi-dimensional effects of poverty..... 169



## **CHAPTER ONE**

### **INTRODUCTION AND BACKGROUND TO THE STUDY**

#### **1.1 Introduction**

This study focuses on the analysis of the role of foreign donor aid in Ghana's economic development and poverty alleviation from 1957 to 2008, a period characterized by economic boom and contraction as well as alternating political, donor and economic development policies in the country. This chapter provides the background to the research problem and the problem statement; introduces the research area and gives a brief justification and rationale for this study in the context of donor aid and sustainable economic development. It also presents the primary and secondary research objectives that constitute the basis for analyzing the role of donor aid in promoting economic development and poverty alleviation in Ghana. Furthermore, it also gives a snapshot of the methodology employed in this study.

##### **1.1.1 Research Background**

Ghana, formerly known as the Gold Coast, is a country located in West Africa and bordered in the North by Burkina Faso, in the West by La Cote d' Ivoire, in the East by Togo and in the South by the Gulf of Guinea. Ghana, the first country in Sub Saharan Africa (SSA) to attain independence, was formed as a consequence of the integration of two British colonies- the Gold Coast and the Togoland Trust Territory (Nyumuyo, 2009: 15). The country is divided into 10 regions which comprise the Ashanti Region, Brong - Ahafo Region, Central Region, Eastern Region, Greater Accra Region, Northern Region, Upper East Region, Upper West Region, Volta Region and the Western Region as indicated in figure 1.1 below.

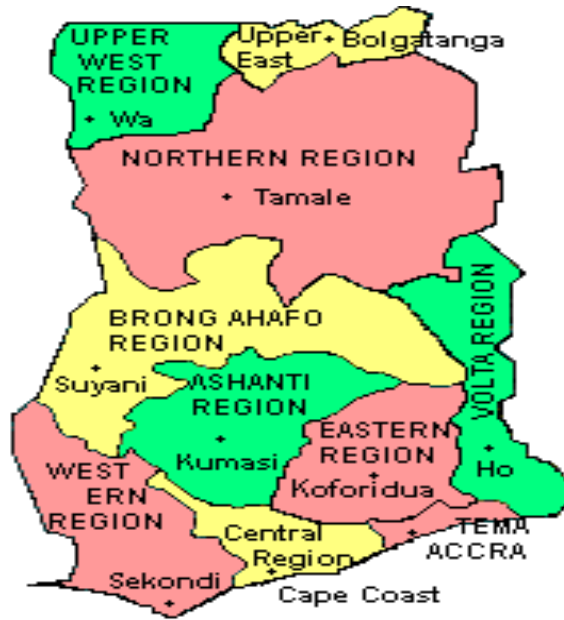


Figure 1.1: Map of Ghana showing the ten regions and their respective capitals  
 Source: [www.postcolonialweb.org](http://www.postcolonialweb.org).

Ghana took off as a vibrant middle-income country with a sound economic and infrastructural base right from independence in 1957. Ghana, a country considered as a model for Africa's development since independence, needed no foreign donor aid and no debt obligation because revenue from the country's resources such as cocoa, gold, timber and diamond were in excess of the country's expenditure, because Ghana had almost the same GDP with countries such as South Korea, Malaysia and Singapore (Killick, 2010). The leverage of the country's revenue in excess of expenditure enabled the first president of the country, Dr. Kwame Nkrumah, to embark on major infrastructural development projects such as the construction of the hydroelectric project on the Volta River at Akosombo, the establishment of the Tema Industrial Township, the construction of the Accra-Tema Motorway and the construction of the Tema Harbour amongst others (Woode, 2012; See also section 3.2.1).

However, the success of post-colonial Ghana was short-lived because the substantial increase in government expenditure to transform the country from an agrarian based into an industrial hub in

Africa led to the depletion of the country's foreign reserves. By 1961, Ghana began experienced a decline in economic growth and development because the Gross Domestic Product (GDP) per income decreased from \$ 300 to \$282.716 as indicated in table 1.1 below. The decline in economic growth development aggravated when the president of Ghana at that time, Dr. Nkrumah, the charismatic leader who led the country into independence from the British colonial administration, was forcefully removed from office in a coup d'état in 1966.

The period between 1966 and 1983, when Nkrumah was marred by political instability and policy variation, the country witnessed seven changes in the political leadership, and out of the seven five were military (see Table 3.1) (Killick, 2010: 398). These political developments further stifled economic growth and development resulting in GDP per annum depleting from 3.43% in 1961 to 0.47% in 1980, therefore, the per capita growth of the country decreased from 0.22% in 1961 to -1.90% over the same period as illustrated in Table 1.1.

Year	GDP (Constant 2000 million (US\$))	GDP Growth (Annual %)	GDP per capita (Constant 2000 US \$)	GDP per capita growth %
1961	1,967.24	3.43	282.716	0.22
1970	2,55.423	9.72	293.996	7.23
1980	2,642.708	0.47	241.946	-1.90

Table 1.1: Major economic indicator in Ghana (1961-2000)

Source: Kim 2013

The poor economic performance of the Ghanaian economy attracted donor assistance to fill the development gap and to salvage the economy from total collapse. Concessional aid flow to Ghana commenced in the early half of the 1960s when the government was granted £47 million by the US government, £17 million by the World Bank, and the £5 million by the UK government

in aid of the construction of the Akosombo Hydroelectric Dam (Anin, 2003). By the beginning of the 1970s, the total aid commitment to Ghana accounted for 19% of imports, 20% of government revenue and 27% of gross investment. On per capita basis, aid contributed about \$7.1 to the Ghanaian economy. This figure was higher than the average contribution to all Least Developed Countries (LDCs) of \$3.9 (Killick, 2010: 120). From late 1970s, aid to Ghana rose from US\$40.9 million in 1973 to US\$ 190.81 million in 1980, and further rose to US\$598.17 million at the beginning of the new millennium before reaching US\$ 1306.93 million in 2008, hence, making Ghana one of the largest recipients of aid on earth (OECD/DAC, 2008). In the midst of these donor resources, Ghana remained a poor country with its poverty levels hovering around 39.5% and managing an annual GDP growth of less than 4.5% (Government of Ghana, 2006:1).

As a result, the provision of foreign donor aid as a conduit for economic development and poverty alleviation in Ghana has attracted scholarly debates among development experts. Proponents of donor aid such as Sachs (2005) and Bono (2005) argue in support of more donor aid to promote economic development and poverty alleviation while Easterly (2006) and Moyo (2009) argue against donor assistance on the basis that aid has rather facilitated poverty, human suffering and indebtedness in developing countries especially in Africa where the continent has received more than US\$ 1 billion wealth of aid but is still rated as the most deprived and underdeveloped region in the world

The discrepancy between aid provision and development stems from the argument that promoting economic development is a multidimensional phenomenon which transcends the provision and acceptance of foreign donor aid because development involves “major changes in social structures, popular attitudes, and national institutions as well as the acceleration of economic growth, the reduction of inequality, and the eradication of poverty” (Todaro & Smith, 2009: 16).

Development, from this perspective involves a complete transformation of the social system of a society or a country to meet the needs and aspirations of the citizens (ibid). Sen (1999:14) for instance perceives economic growth of a nation to be more “concerned with enhancing the lives we lead and the freedoms we enjoy.” Sen implies that poverty and development cannot adequately be measured by income, rather, by what the citizens of a country are and can do which according to the United Nations (2010) incorporates all aspects of human well-being; health status, economic status and political freedom.

## **1.2 Statement of the problem**

Since the early part of the 1960s, Ghana has attracted donor resources in the form of financial, material and technical assistance from developed countries, so that the economic growth and development can be strengthened in the country. Though dependence on donor assistance for development in Ghana constituted only 0.002% of the country’s GDP when it commenced in 1960, the flow of aid into the Ghanaian economy peaked at US\$ 1306.93 million in 2008 making Ghana one of the largest recipients of aid globally (OECD/DAC, 2008). The trend in economic performance in Ghana in the midst of avalanche of donor resources in the country has polarised the debate on the effectiveness of foreign donor aid in promoting sustainable economic development and helping reduce poverty in the country. While some scholars and policy makers firmly support the notion that donor aid is a panacea to the development crises confronting Ghana and therefore, have called for more aid to salvage the economy of Ghana, opposing development economists and scholars such as Moyo (2009) and Hansson (2007) are of the view that foreign donor aid to Ghana and the developing world has no development orientation, hence should not be embraced in the pursuit of sustainable economic development. The opponents argue that in the midst of plentiful donor assistance, Ghana remained a poor country with poverty levels hovering around 39.5%. The incidence of poverty in Ghana is even more prevalent in the rural communities of

the country especially in the Central Region and the three Northern regions

– Upper East region, Upper West region and the Northern region. This among others culminated in the World Bank for instance ranking Ghana among the Heavily Indebted and Poor Countries (HIPC) countries in the world.

In the light of the discrepancy surrounding donor aid and economic development in Ghana, it becomes crucial to carefully look at the impact of donor resources in promoting economic development and alleviating poverty in Ghana. Even though aid and economic development have attracted significant research on the global stage, very few studies have considered the impact of foreign aid on the Ghanaian economy. The focus of this study is to fill this scholarship vacuum and also assist in suggesting alternative guidelines for the socio-economic advancement of Ghana. The main problem of concern in this study is to analyse the role of foreign aid on the economic development and poverty alleviation in Ghana.

### **1.3 Objective of the Study**

The primary objective of this research was first to analyse the role of foreign aid in poverty alleviation and economic development in Ghana from 1957 to 2008. In order to achieve the above, the following secondary objectives were set:

1. to present the theories on aid and economic development;
2. to give an overview of political and economic development in Ghana from 1957-2008;
3. to investigate donor aid flow, aid coordination and impact of aid on economic indicators and poverty in Ghana; and
4. to recommend possible alternatives and guidelines for promoting economic development and poverty alleviation in Ghana.

#### **1.4 Foreign Aid Defined**

Foreign donor aid can be defined as both grants and concessional loans that have at least a 25% grant component. Foreign aid is usually associated with official development assistance and normally targeted to poor countries in the world (World Bank, 1998: 6). Ekiring (2000) also defines foreign aid as an international transfer of capital, goods, or services for the benefits of other nations. This assistance comes in the following ways: (1) capital transfers, in cash or kind, either as grants or loans; (2) technical assistance and training, usually as grants in the form of human resources and technical equipment; and (3) military assistance in the form of either equipment or training advisors.

There are three types of foreign aid: humanitarian or emergency aid, charity-based aid and systematic aid. Humanitarian aid is the type of aid which is mobilized and distributed in times of distress, for example aid disbursed to the 2012 victims of earthquake in Japan; while charity-based aid is mobilized and distributed by charities to communities, people and institutions in need; for example the activities of the South African based charity organization, Gift of the Givers. Systematic aid is aid payments made directly by the donor community to governments of recipient nations either as bilateral aid (government-to-government) or multilateral aid (transfer of aid through institutions such as the International Monetary Fund (IMF) or through the World Bank (WB) (Moyo, 2009: 7). The primary focus of this study was the systematic aid (see section 1.5) because apart from this type of assistance coming to developing countries as concessionary loans, it is often perceived as futile in the search for the much needed economic growth development in developing countries.

#### **1.5 Sources of foreign donor aid**

Foreign aid emanates from various sources. However, aid can be identified as “private” and “official” (Moss, 2011: 123). Private aid is aid given by societies such as faith based organizations, individuals, and NGOs while “official aid” is given by governments using taxpayer money. The official aid

can also be subdivided into bilateral and multilateral. Details of types of aid are discussed below.

### **1.5.1 Bilateral aid**

Bilateral aid is foreign donor aid received from a single government, such as UK, US or Australia. Members of the Organization for Economic Corporation and Development (OECD) which is made up of the following countries: Australia, Austria, Belgium, Canada, Denmark, France, Finland, Germany, Greece, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Sweden, Switzerland, the United Kingdom, and the United States (US) are the major bilateral foreign aid donors to Africa. These donor countries have designated agents or agencies that manage the assistance transferred to developing parts of the world.

The US for example uses different US government agencies in managing its Official Development Assistance (ODA). The US Congress sees to the appropriation of all budgets, restrictions on how foreign aid money is spent and also decides on the purpose for which aid funds are channeled. Prominent among the agencies used by the US is the USAID. The USAID is part of the US State Department's apparatus but has no representation at the cabinet level. However, the administrator of USAID reports to the US Secretary of State (Moss, 2011:124). Apart from the USAID the US military has also become an important agent in delivering foreign assistance from the US. As a result of the global war on terror, the Pentagon has channeled development aid to developing countries amounting to 15% of the US share on aid (Patrick, 2006).

The British also manage the transfer of their aid resources through the Department for International Development (DFID), an approach different from the US aid disbursement approach. The UK Parliament helps to shape aid policies in UK but does not have the same powers that the US Congress has over aid management and policies. The DFID manages and coordinates aid as well as



set strategies for non-aid policies that might influence development (Moss, 2011:125). China, a newcomer in the aid industry, however, has become a major donor in most developing economies especially in Africa. Between 2002 and 2005, for instance, China donated more than \$1.8 billion in aid of poverty alleviation through economic development to Africa. The Chinese government announced a development package of \$13 billion in infrastructure projects in Ghana and \$9 billion in DR Congo. The Chinese government, a leading member of BRICS (Brazil, Russia, India, China and South Africa grouping), has granted Africa enormous assistance in aid. The EXIM Bank of China, one of the banks responsible for granting concessional loans from China, has for instance financed over 300 projects in Africa (Davies; Edinger; Tay; & Naidu, 2008). With regards to human resource development, the Chinese government has significantly aided the African continent by providing the opportunity for African scholars and bureaucrats to be trained in China. By 2006, more than 1500 African students had been given scholarships to enable them gain skills and knowledge from Chinese universities. China disburses its foreign aid to developing countries through infrastructure projects which are managed by Chinese companies and workers. The World Bank for instance estimates that aid from China to Africa is about \$2 billion a year. According to Riddell (207:9) the World Bank could only guess what the Chinese government gives as aid because aid from China as indicated earlier is shrouded in secrecy.

### **1.5.2 Multilateral aid**

Multilateral aid is the foreign assistance received from institutions owned by many governments, such as the World Bank, International Monetary Fund (IMF), the International Development Association (IDA), Organisation of Petroleum Exporting Countries (OPEC), International Finance Corporation (IFC), the International Development Association (IDA), the African Development Bank (ADB), the Asian Development Bank (AsDB.) the Commission of the European Communities (CEC), the Inter-American Development Bank (IDB), and all the assistance from the United Nations Agencies

(UNA). Multilateral aid like bilateral aid also comes in the form of loans and grants to LDCs to assist in poverty alleviation through economic development in these countries (Moss, 2011:123).

### **1.5.3 The International Monetary Fund (IMF)**

The IMF was formed to ensure global currency stability after WW II, and currently its primary purpose is to ensure stability in the international monetary system. In developing countries that face development problems, the IMF also provides resources and guidance to mitigate the situation. In 1970s for instance, when developing countries were locked up in the spiral of debt and economic crises, the IMF intervened and provided medium term-loans. Again, in the 1980s when the Structural Adjustment Programs (SAPs) could not influence the economies of developing countries positively, the IMF again intervened to launch the Enhanced Structural Adjustment Facility (ESAF) to provide a leverage to low income countries which were negatively affected by the SAP. In the 1990s however, the ESAF was renamed the Poverty Reduction and Growth Facility (PRGF). Again, in 2010, the PRGF was renamed the Extended Credit Facility (ECF). Even though the operations of the PRGF and the ECF were similar, their purposes were slightly different (IMF, 2010). According to Moss (2011:133), while the PRGF signaled a change from “strict macroeconomic” target to poverty focus, the ECF is designed to respond to crises in developing countries.

The IMF programmes and policies geared towards developing countries are meant to influence policy change in developing countries. The ESAF, PRGF and the ECF in Africa for instance, were to monitor economic activities and determine whether it was expedient to continue assisting or discontinue the provision of assistance to countries contradicting the policy target of the organisation (Taylor, 2007:454).

#### **1.5.4 The World Bank**

The World Bank, originally called the International Bank for Reconstruction and Development (IBRD), was set up to reconstruct Western European countries devastated by the WW II. However, after the war, the World Bank Group (IBRD) and International Development Association (IDA) and their affiliate components [(International Finance Corporation (IFC), Multilateral Investment Guarantee Agencies (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID)] changed their mandate to reduce poverty and increase living standards in the world especially in developing countries (Stiglitz, 2002:16). Between 1960s and the 2000s, the activities of the World Bank in developing countries especially in Africa changed significantly. In the 1960s, the World Bank's activities were centred on building large infrastructure projects under guardianship of recipient nation-state governments.

The construction of the Akosombo Dam in Ghana is an example of the infrastructure construction agenda of the World Bank in the 1960s. The failure of the massive infrastructure policy in the 1960s led to a drastic shift in policy in the 1970s. The Bank's policy in the 1970s was directed towards "basic needs" approach while in the 1980s, the Bank once more changed its development approach to emphasis on policies and management. In the 1990s, the Bank's agenda again shifted to guiding developing countries on managing their budget, promotion of civil societies and cultural and social issues. The World Bank consequently introduced technical reforms, country-ownership, participation and transparency (Eldis 2011:1).

#### **1.5.5 African Development Bank (ADB)**

The ADB was established in 1964 as a bank for African governments. The ADB is to serve as "regional player" with emphasis on local control. The headquarters of the ADB was originally in La Cote d'Ivoire but relocated in Tunisia when the former was plunged into civil war (ADB,

2005). The ADB is made up of 77 member nations of which 53 are African states and 24 are non-regional members. Due to the large number of the membership of African states, African nations wield considerable voting power (Moss, 2011:133). The ADB is involved in lending monies to middle and low-income countries. The bank is also involved in rendering development assistance in the form of infrastructure development and business development. Even though the bank is plagued by several problems, it has become a strong advocate for Africa in international economic gatherings.

### **1.5.6 UN Agencies**

The UN agencies, which comprise the United Nations Development Program (UNDP), United Nations Population Fund (UNFPA), the UN Economic Commission for Africa (UNECA), the United Nations High Commission for refugees (UNHCR), the World Food Program (WFP), the United Nations Children's Fund (UNICEF), the Food and Agriculture Organisation (FAO), and the World Health Organisation (WHO), are involved in promoting economic development and security in developing countries, especially in Africa. However, the execution of programmes and projects by the UN is done through its various specialised agencies. For example, the UNDP is tasked to manage and shape the development agenda of the UN. The UNECA is mandated to do analytical and advocacy work on behalf of the African continent, while the UNHCR is involved in providing for refugees and also facilitates the return of refugees to their place of origin. The WFP is designated for delivering emergency food aid in developing countries struggling with food shortages. The UNICEF on the other hand has been very instrumental in raising awareness of issues affecting children like education, childhood diseases and child immunization programmes. The FAO, an arm of the UN, is concerned with providing agriculture policies in the world. The UNFPA provides information and advice on world population data and management issues. The WHO is also involved in helping countries improve their health policies, for example, it is involved in policies on HIV/Aids, malaria and tuberculosis (United Nations, 2010).

### **1.5.7 OPEC aid**

This is aid provided by oil producing countries. OPEC is currently an organization comprised of 11 member countries: Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela. The objectives of OPEC are to co-ordinate and unify petroleum policies among member countries in order to secure fair and stable prices for petroleum producers. The OPEC assistance was first introduced as a bilateral aid to poor countries by Saudi Arabia, Kuwait and United Arab Emirates in the 1970s when oil prices were raised. However, the revenues amassed by OPEC from oil proceeds provided the platform for OPEC countries to become major foreign aid providers to developing countries. From the 1970s, donor assistance from OPEC member countries to LDCs has consistently been higher than the U.N. target of 0.7% (World Bank, 2010).

### **1.5.8 Council for Mutual Economic Assistance (CMEA)**

Aid flow from this community was delivered to very few countries that belonged to the communist fraternity. Even though the amount which was distributed by the CMEA was modest in nature, countries such as Cuba, Vietnam and Mongolia benefited from this aid. The objective of this aid was to assist in developing countries which subscribe to the ideals of the USSR and also prevent influence from the United States (Szirmai 2005:15).

### **1.6 Origin of aid**

The genesis of aid can be traced to the 18<sup>th</sup> century when Prussia subsidized some of her allies to strengthen their military support and effectiveness (Ekiring 2000). This was followed in the nineteenth century when the United States of America provided aid relief to the citizens of Venezuela under the 1812 Act for the Relief of the Citizens of Venezuela. In 1896, America Department of Agriculture provided food aid to needy countries in an attempt to develop commercial and political affiliations

abroad. The British followed suit by providing grants for infrastructure projects in her less developed colonies under the Colonial Development Act of 1929 (Moyo 2009:10). However, full blown foreign aid scheme started after World War II when secretary of State, George Marshall proposed a plan to aid European states devastated by the war. The World War II plunged Western Europe into chaos. Factories were closed, and unemployment and poverty rose to alarming proportions. This state of economic performance in Europe was aggravated by a severe winter which damaged crops between 1946 and 1947, cut off water transportation and caused huge food shortages. In an attempt to salvage these countries in distress in Western Europe, the Marshall Plan injected \$13 billion into 14 countries over a period of five years - 1947 to 1952 – to rebuild the war devastated region. Britain, France, Germany and Italy were the major beneficiaries of the plan while Greece, Austria and the Netherlands became the least beneficiaries (Moyo 2009).

The Marshall Plan was as a success in rebuilding Western Europe and today, the plan is credited as showcase of successful US aid abroad. The success of the plan in Europe has given hope to the Western world that the same or similar policies could help develop the southern hemisphere and assist in bringing problems such as famine, diseases, poverty and human suffering confronting LDCs to an end through the transfer of resources such as finance, technology and technocrats from the Northern Hemisphere to the Southern Hemisphere (Kendall et al 2004; Sachs 2005).

### **1.6.1 Categories of foreign aid**

There are four main categories of foreign aid. These include – programme aid; food aid; project aid and technical co-operation (Dijkstra & White 2003).

#### *Programme Aid*

This type of aid is said to occur when grants or concessional loans are transferred from donors to

governments of LDCs to support development programmes. This assistance comes in the form of balance-of-payments (BoP) support, budget support or debt relief (Szirmai 2005). Programme aid is usually directed towards specific sectors of the economy such as education, agriculture, health or sports. This aid could also be directed towards programmes that benefits the entire economy. As part of its aid programs the United Nations for example, through the initiative of the Millennium Development Goals (MDGs) has given prominence to issues such as combating poverty, hunger, disease, illiteracy and discrimination against women as well as for promoting environmental sustainability (United Nations 2005:3).

□ *Project aid/Technical cooperation*

Project aid enables donors to provide an aid recipient nation with a project for a specific purpose. This type of aid comes in the form of infrastructure works such as roads, dams, energy projects, and harbours. The Chinese government for instance has sponsored a lot of projects in Africa through her aid initiatives. In Ghana for instance, the construction of the Bui-Dam has helped end the problem of power rationing. The EXIM Bank of China has also embarked upon more than 37 projects in Africa (Davies et al, 2008). Technical cooperation on the other hand is given aid to enhance the level of skills, knowledge, and education in LDCs. This involves providing training and advice, teaching, and providing technical support and advice.

□ *Food aid*

Food aid involves the provision of aid in the form of food by developed nations. This assistance is either in the form of free food or subsidized food. Food aid is usually provided in response to disaster or in situations where there is failure in food production. In 2011 for instance, the US provided tons of food to the victims of drought in Somalia (United Nations, 2011).

At the end of the 1990s, the pledges by the international community to promote sustainable economic development and end poverty in developing countries were not accomplished. Instead, the world entered the New Millennium with challenges that seemed to be defeating all development agendas postulated by the world community. The world was ushered into the millennium with high poverty levels, HIV/Aids, Tuberculosis (TB) and high levels of malaria related deaths with billions of the world's population without access to basic health services. Sachs (2005:1) in his book "The End of Poverty" gives a good breakdown of the severity of poverty and human suffering in the developing world. According to Sachs, the daily struggle of the poor is not brought to the attention of the world because if it should, the records would have read as follows "eight thousand (8,000) children dead of malaria, five thousand (5,000) mothers and fathers dead of tuberculosis, seven thousand five hundred (7 500) young adults dead of AIDS and thousand more dead of diarrhea, respiratory infection and other killer diseases that prey on bodies weakened by chronic hunger". The dire situation in the poorer nations makes it a moral obligation for the rich to help the poor escape from extreme poverty. According to Martinussen and Pedersen (2003:10), giving foreign aid is based on the assumption that rich countries have a moral obligation to aid poorer countries to advance their economic development, support social justice and respond to extreme poverty and inequality. The moralists are of the opinion that the widespread of poverty and human suffering in most developing countries has compelled the North to respond to the human catastrophe in the South where "more than eight million people around the world die each year because they are too poor to stay alive" (Sachs 2005: 1) by providing relief through foreign aid. In 2005, Gordon Brown called on Britain to "awaken our conscience to the needs of not just neighbours but strangers ... to see every death from hunger and disease as if it were a death in the family" (Brown 2005:15).

Egalitarians on the other hand perceive the vast gap between rich countries and poor countries in the world as morally wrong. The West, therefore, has a moral obligation to aid the South through



transfer of resources and creating the opportunity to bridge the gap between the developed and developing nations (Szirmai, 2005). Lumsdaine (1993: 2) argues that “foreign aid cannot be explained on the basis of the economic and political interest of the donor countries alone, and any satisfactory explanation must give a central place to the influence of humanitarian and egalitarian convictions upon aid donors”.

Yet at the same time, the commitment made by the world’s rich nations to the target of 0.7% of their GDP devoted to Official Development Assistance (ODA) through direct financial aid to poor countries had declined from 0.3% in the 1990s to 0.2% in the year 2000 (Sachs, 2005: 213). It was in the midst of these global conditions that the United Nations (UN) spearheaded a development paradigm aimed at ending underdevelopment, poverty and human suffering in the world. This development agenda was captured in the Millennium Declaration which was illustrated in the eight Millennium Development Goals (MDGs). The MDGs sought to promote global peace, ensure access to good health facilities, end poverty through wealth creation and promote human development especially in Low-Income-Countries.

The MDGs perceive development and poverty as multi-dimensional. Apart from low income, extreme poverty could also mean vulnerability to disease, hunger, and exemption from access to education, lack of access to basic needs of life, malnutrition and environmental degradation. A collaborative effort between the rich nations and poorer nations, therefore, is required to mitigate the problem of development challenges facing developing nations (Sachs, 2005: 213).

The objective of the MDGs is to make available achievable targets and goals in the quest to attain a global universal and even development in the 21<sup>st</sup> century because the MDGs give a clear direction to the donor community to benchmark and assess foreign aid (Sachs 2005). Millennium Villages (MV)

were established as pilot projects to the full implementation of MDGs. The MV projects selected specific villages and provided specific programmes in health, education, agriculture and others. The idea behind the MV project was to demonstrate how coordinated and well-designed development interventions at the micro-level (village) can help end poverty and human suffering at the national level (Moss, 2011: 142).

After the terrorist attack on the World Trade Centre, it became apparent that if the conditions of poor people in the world are not improved, the developed society was not going to see peace. Tony Blair, the ex-British Prime Minister for instance in February 2002 warned that the West was exposed to new threats of terrorism unless measures are put in place to address poverty in Africa (BBC, 2002). Blair was concerned about the threat to peace by terrorists because terrorists lurk among poor and desperate people (Sachs, 2005: 215). The threat to global peace has led to a growing attention of world leaders to the problem of global poverty. This has culminated in aid being given prominence with pledges being made to increase aid flows to the rest of the world's poor. In June 2005 for instance, leaders of the developed world met in Scotland and made pledges to "Make Poverty History" through aid (Riddell, 2007: 2). Chapter 2 deals in more detail with foreign donor aid. The next section briefly describes the research methodology.

### **1.7 Brief summary of research methodology**

Research methodology is the "systematic and logical study of the principles guiding the investigation, and is concerned with the questions of how the researcher establishes social knowledge and how he/she can convince others that his/her knowledge is correct" (Bulmer,

1984:4). Babbie (2010:4) also defines methodology as "the science of finding out". According to Babbie, methodology is a subfield of epistemology - the science of knowing, therefore, like all social sciences, "each research method has its strengths and weaknesses, and certain concepts are more

appropriately studied through some methods than through others” (Babbie, 2010:115).

This study made use of different research methodologies and techniques. Both secondary and primary research methods were employed to examine the concept of foreign aid, poverty reduction and economic development in Ghana. The secondary research method included a literature review and content analysis. Content analysis involved “the study of recorded human communication such as books, websites, paintings and laws” (Babbie, 2010: 333). The documents consulted included official documents on aid from the government of Ghana; aid related documents from bilateral and multilateral institutions; literature on foreign aid and development; text books, articles and reports on foreign aid and development. Web documents relating to the research topic also served as an integral component of data for this study since it was essential to select a sample that was appropriate for the research question (Babbie, 2010: 334). The UNISA libraries in South Africa, the libraries of the University of Cape Coast in Ghana, the British Council library in Ghana and the libraries of the University of Ghana as well as the websites of multilateral and bilateral institutions were employed in securing data for this research. The secondary research method like all other research methodologies had its own limitations as alluded to in chapter five.

The primary research methods on the other hand, which was complementary to content analysis, included personal interviews which were conducted with the help of unstructured interview guides. Details of this can be found in section five of this study.

To address some of the limitations that characterised the primary research method and also ensured reliability and validity, the findings were triangulated (Stake, 2000: 769-802). The primary method was also employed to ensure that quantitative data in the content analysis is supported by qualitative understanding of the data. Details of the research methodology and the reasons that necessitated the

choice of this research method are comprehensively discussed in chapter five of this study.

### **1.8 Ethical consideration**

The nature of this research requires that ethical consideration plays an important role in an attempt to reach an objective in the study. The ethical aspects of the study were addressed by implementing the following measures: Firstly, the consent of the various respondents was sought before involving them in the study. This was done to ensure that respondents fully understand what they are being asked to do. As a result, respondents were told about the general nature of the study and the purpose there of. The participants were officially served letters of invitation that indicated that they were under no obligation to participate in the study. In addition, participants were assured of confidentiality that is their identity will not be revealed in any way in the study. Above all, the researcher is of high conviction that the final outcome of this study is devoid of plagiarism, academic fraud and misinterpretation of results.

### **1.9 Importance of the study**

Ghana has been one of the largest beneficiaries of donor assistance in Sub-Saharan Africa since the country became independent in 1957. Notwithstanding the high levels of donor assistance that flow into the country annually, literature on the role of donor aid in the development of Ghana is scarce. On the contrary, there has been a lot of debates and research on the role of donor assistance in developing countries in general since the 1950s. The dawn of the new millennium ushered in fierce contention on the issue of donor assistance which has polarised the debate on the topic. While scholars and politicians such as Sachs (2005) and former British Prime Minister, Tony Blair and the former President of the United States, George Bush call for more aid to lift the poor from their current situation, scholars such as Easterly (2006) and Moyo (2009) counter the call for more aid and instead blame the challenges facing the developing world on the donor aid scheme. In the face of these

contestations, very limited literature comes from scholars and development experts on aid in Ghana even though the country is one of the principal recipients of these resources in Africa. This study, therefore, seeks to bridge the vacuum and ignite the debate on the role of donor aid in the development of Ghana from a Ghanaian perspective.

### **1.10 Chapter outline**

This study comprises seven chapters. Details of the chapters outline are as follows:

#### **Chapter one: Introduction and Background to the Study**

This chapter introduces the study and provides the outline of the study which is the role of foreign donor aid in economic development and poverty alleviation in Ghana. It also captures the background information, statement of the problem, objective of the study, and the snapshot of the research methodology used in the study as well as the limitation of the study.

#### **Chapter two: Economic Development and Foreign Aid**

This chapter deals with the development theories which have informed the donor aid scheme from its inception after World War II through to the present. The chapter demonstrates how the development theories from the linear stages theory through to the post-Washington Consensus have influenced the allocation of donor aid in developing countries. It also discusses the war on terrorism and how the search for allegiance in the developing world to combat terrorism has influenced aid allocation.

#### **Chapter three: Overview of Political and Economic Development in Ghana**

This chapter examines the phases of Ghana's economic and political development from 1957 to the year 2008. It began by looking at Nkrumah and his economic policies in Ghana. The chapter further scrutinized the era after Nkrumah from 1966 up to 2008. Details of the leadership, the economic

policies of both the civilian and military governments' post-Nkrumah, the flow of foreign donor aid and its role on development were also carefully considered.

#### **Chapter four: Research Methodology**

This chapter explains the empirical research methodology employed to analyse the impact of foreign aid on the development of Ghana. The chapter deals with the research paradigm relevant to the study before proposing the best paradigm for the study. The chapter also looks at the research design suitable for the study, the population and the sampling population as well as the data analysis and the limitation of the study.

#### **Chapter five: Data Analysis, Findings and Presentation**

This chapter captures the interpretation of all the interview responses and content analysis of the data collected on the field of study. The chapter deals with issues such as the response on the reasons why Ghana receives donor aid and whether donor aid promotes economic development in Ghana or not. The data analysis was done using the Statistical Package for the Social Science. The interpretations are presented in the form of graphs and pie charts. Explanations to the data analysis were done by the researcher using some of the responses collected during the field study and the available secondary data.

#### **Chapter six: Alternative Development Approach**

This chapter suggests an alternative development approach which could help ensure sustainable development and poverty alleviation in Ghana. The chapter argues that instead of donor aid funding development, Ghana should rely on the informal sector which currently employs about 89% of the labour force in the country to initiate and promote economic development in the country. However, since funding has become a major obstacle in the sector, microfinance institutions should complement

donor resources in providing the necessary funding to the sector.

### **Chapter seven: Summary, recommendation and conclusion**

This chapter provides a summary of all the chapters in the study. In addition, the chapter also made few recommendations on alternative development approach before drawing a conclusion on the study.

#### **1.11 Conclusion**

This chapter provided an outline of the study on the role of donor aid in the promotion of economic development and poverty alleviation in Ghana. The chapter captured issues such as the introduction to the study, background to the study, statement of the research problem, and objectives of the study before diving into the sources of donor assistance, origin of aid, and categories of aid. A brief overview of the research methodology used in the study was given followed by the ethical consideration and importance of the study. The next chapter provides the theoretical framework for the study. Again, the chapter focuses on economic development and foreign donor aid.

## CHAPTER TWO

### ECONOMIC DEVELOPMENT AND FOREIGN AID

#### 2.1 Introduction

The provision of donor assistance to newly created states in the 1950s and the 1960s was based on the assumption that the success of the Marshall Plan could be replicated in those countries to bridge the infrastructure, human resource and savings gaps in these newly independent states. The inception of the donor scheme was based on the modernization theory which sought to change traditional societies into modern ones through the provision of foreign donor aid. The modernists argue that poor nations do not have adequate investment which could aid mega infrastructure projects necessary for economic take off because the citizens are too poor to accumulate the savings for investments. Hence, donor assistance became the catalyst for economic growth and development in those poor nations. In Ghana for instance, the economy was still characterized by poor infrastructure, low savings and no industrial base to support economic take off at independence. In an attempt to modernize the country, the American and the British governments assisted the government of Ghana to construct the Akosombo Hydro- Electric Dam immediately after independence to serve as a reliable source of electricity supply to both industries and homes in the country. The Canadian government, the British government, the American government and the German government also brought teachers and technical instructors to Ghana to help develop the capacity of the human capital in Ghana after independence. In an attempt to derive a better understanding of the foreign aid program in Ghana, this chapter briefly discusses the economic theories and models which have influenced the foreign donor scheme from its inception after WWII to the dawn of the new millennium. These theories and models include the modernization theory; the dependency theory, market fundamentalism and the millennium development goals (MDGs).



## **2.2 Modernization theory**

Modernization theory emerged in the seventeenth century as a mode of social life in Europe but assumed a “more or less worldwide” appeal in their influence (Giddens, 1991). In the 1950s and the 1960s, freshly decolonized or newly created states perceived modernization as catching up with the western world and the only way to succeed in that direction was through industrialization. Hence, frantic efforts were put in place to establish import substitution industries and repackaging of indigenous products for export. Modernization in the 1950s and the 1960s was characterized by theories such as the linear-stages theory and the structural change model.

### **2.2.1 The linear-stages theory**

The development theorists of the 1950s and early 1960s view the process of development as a series of successive stages through which all economies pass. According to the linear-stages theorists, all advanced nations in the world today had passed all the stages of development; therefore, developing nations must be prepared to travel the same path in order to attain developed status. Accordingly, the historical experience in transforming developed economies such as the USA, UK, Germany and France from poor agricultural subsistence economies into modern industrial giants has important lessons for backward countries in Asia, Africa and Latin

America. This theory, therefore, emphasizes the need for the “right” combination of resources such as savings, investment and foreign aid to put developing economies on the path of sustainable economic development. The most prominent advocate of the linear-stages theory was the American economic historian Walt W. Rostow who indicates that all advanced economies had passed through the five stages of development-traditional; pre-condition for take-off; take-off; drive to maturity and age of high mass consumption as the prerequisite for development (Mitchell & Passe-Smith, 2003: 123; Todaro & Smith, 2009: 110).

The first stage is the *Traditional Stage* which is characterized by subsistence economic activities and “fatalistic value system” (Kendall, et al, 2004: 297). With the fatalistic ideology, the poor become content with their situation, therefore, at the first stage of the development ladder, societies are always poor because production is low and savings are also very low. The second stage is the achievement of the *Pre-Condition to Take-Off* into civilization through the removal of the development obstacles that characterize the traditional society. The third stage is the *Take- Off* to self-sustained growth. At this stage, net investment and savings increase substantially which eventually result in economic growth. The critical strategy for take-off to occur is through the mobilization of domestic and foreign savings as well as through donor assistance in order to generate the necessary investment which can initiate and sustain economic growth and development. The fourth stage is characterized by the drive towards maturity and economic diversification. At this stage, there is an increase in investment opportunities and international trade which leads to increasing prosperity for citizens of the country and consequently leading to the fifth and the final stage. The final stage of development is the stage for high mass consumption of services and durable goods (Seyoum, 2001: 107-108). Another linear-stages theory of economic growth and development is the Harrod-Domar (HD) growth model which posits that more investment in an economy leads to more growth. That is, investment and savings within a country determine the level of gross domestic product (GDP) in the country. This implies that an economy with high levels of savings and investment is bound to experience high economic growth while a country with low savings and investment ratio will experience low economic growth and development. This principle goes to explain why developing nations remain poor and underdeveloped. Lack of savings resulting from the high ratio of poverty in developing countries makes it very difficult and sometimes impossible for developing economies to raise the requisite capital which could be invested in economic take-off in these poor nations.

According to Sachs (2005: 56-57), when people are very poor, they always need their entire income to survive with no margin of savings for future. Therefore, in an effort to promote economic development in less developed countries (LDCs), donor assistance becomes an integral source of revenue (Todaro, et al, 2009: 111-112). As indicated in section 2.1, Ghana for instance, at independence did not have the capacity to power the emerging industries in the country. Hence, Kwame Nkrumah, the first president of Ghana had to rely on the donor community to construct the Akosombo Hydroelectric Dam which has become the major source of power supply in the country (Buah, 1998).

### **2.2.2 The Structural-Change Theory**

The Structural-Change Theory which is also known as the two-sector model was formulated by Arthur Lewis in 1955 but gained prominence as a development model in the 1960s. This development theory is based on the principle that in order for developing countries to transform their economies from underdeveloped to developed status, developing nations must move away from depending on traditional subsistence agriculture into a more modernized industrialized and service economy. By so doing, labour is moved away from low productivity to higher productivity (Todaro & Smith, 2009: 115). In the 1960s, when most economies which were previously under colonial administration had attained independence, it became apparent that the economies of these new states were dualistic in nature and constituted two contradicting economies—the rural underdeveloped and the industrialized urban economies. These contrasting economies which characterized the newly created economies became the basis for the two-sector model. Ricardo (1951) and Nurkse (1953) were the pioneers of the two-sector model who pointed out the existence of surplus labour in the agricultural sector which could be allocated to the non-agricultural sector as a potential source of sustainable economic development in developing countries. However, it was Lewis (1954) who built on the tradition of the classical scholars.

According to Lewis (1954), the two-sector model is based on the premises that the underdeveloped economy is made up of two sectors: a traditional, underdeveloped, and overpopulated rural subsistence sector which is marked by surplus labour with the assumption that labour can be withdrawn from the traditional sector without any loss of output; and a modernized urban industrial sector into which the surplus labour from the subsistence economy is transferred. Lewis reiterates that the expansion of the non-agricultural sector has the potential of expanding and being fed by savings from the agricultural sector until all the surplus labour in the agricultural sector had moved out of agriculture into commercialized non-agriculture and the economy is transformed into a modernized society. After this stage, surplus labour in the subsistence sector would have been exhausted and the structural transformation of the economy would have taken place with the “balance of economic activity shifting from traditional rural agriculture to modern urban industry” (Todaro & Smith, 2009: 118). Figure 2.1 below illustrates Lewis’ structural change model. The implication of Lewis’ structural change model is based on the mechanism that, increased domestic demand would lead to an increase in profits and savings which would culminate in an increase in investment in the modern sector of the economy. Since increased investment leads to growth in GDP, the modern sector is better positioned to employ more workers from the rural sector of the economy. For Lewis, growth in capital accumulation in the modern sector is the best method of developing economies without causing damage to the traditional sector. The structural change model suggests that in order for poor nations to develop, the subsistence sector needs to be modernized through industrialization and injection of additional capital (aid). Based on the Lewis model, the donor community increased donor aid inflows in the 1960s and the 1970s to developing countries in an attempt to fill the “financing gap” that served as conduit between the two sectors of these economies. The financing gap is caused by the inability of developing countries to create the desired economic growth because of low savings and investment which characterize developing countries (Stolyarov, 2007).

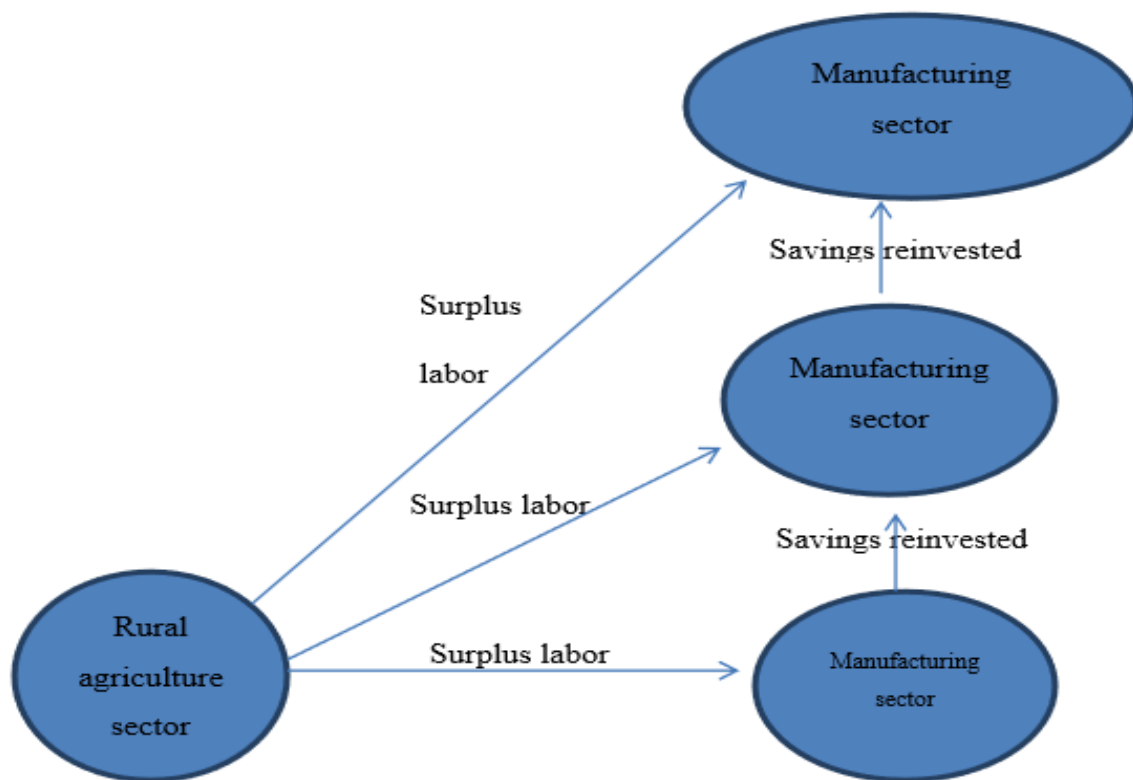


Figure 2.1: Lewis' structural change model  
 Source: Inferred from Lewis (1954)

### 2.2.3 Modernization theory and foreign aid in the 1950s and the 1960s

The provision of foreign aid in the 1950s and the 1960s was to provide the needed capital to stimulate economic growth and development in developing economies which had emerged from colonial rule. In catching up with the West as postulated by the modernists, industrialization which emphasized a complete shift from rural agricultural economy to an industrialized high productive economy was perceived as one of the fastest paths. In addition, transformation in infrastructure such as roads, railways, dams and electricity supply had to be modernized while the existing social structures and institutions such as religion and cultural practices, which are perceived backward and primitive, also had to be polished or discarded through western education. Effective and transparent political systems had to be established to preside over the freshly decolonized nations. These perceived pillars of modernization required high levels of savings and investments. However, since the newly

independent states lacked the savings and investment which could aid the modernization agenda in these countries, donor aid became the source of capital in funding growth and development in these newly decolonized economies.

The donor efforts in the 1950s and the 1960s were based on linear-stages model, and the structural change model which argue that more investment in an economy could lead to more growth and development and consequently lead to the modernization of the entire economy. However, these modernization theories came under sharp criticism. The linear-stages model for instance failed to promote the desired economic growth and development in LDCs for several reasons. Firstly, even though savings and investments (aid) are very important components of economic growth and development, these alone do not meet all the conditions. Developing economies need to have the attitudinal, structural and the institutional conditions such as well- established government systems, existing commodity and money markets as well as a capacitated labour force which is underpinned by a grounded infrastructure. According to Tejvan (2011:1-2), even though aid could serve as a catalyst in promoting economic growth in developing countries, this does not take away the contributions of both endogenous and exogenous factors such as government bureaucracy, human capital, level of technology, interest rate and international trade. Hence, Moyo (2009) argues that to assume that replicating the Marshall style of aid is the best way to develop the underdeveloped world is simplistic because the assumption takes away the prevailing endogenous factors in the recipient countries which constitute an integral part of development. Above all, the European countries which received aid under the Marshall Plan already possessed the necessary endogenous facilities such as developed transport facilities, qualified labour force, good governance, and well-integrated markets to turn the injection (aid) into the desired output (development). These facilities are absent in most developing countries receiving aid today. Hence, to assume that the same facilities prevail in developing countries to assimilate and administer aid is too ambitious.

The structural-change model was also strongly criticized for its shortcomings. According to Easterly (2002), the model has failed dismally because of the following reasons. Firstly, the assertion that labour supply is in surplus in the rural areas in LDCs is misleading. The truth is that productivity is seasonal in the agricultural sector in the developing world; therefore, there could be times in the year that labour could be available. However, the availability of labour during the off season does not mean that there is excess of labour because the supposed “surplus labour” is critically needed during planting and harvesting in the villages (Todaro & Smith, 2009:118). Lastly, Lewis’s model did not address the institutional challenges in developing countries that prevent sustainable growth and development. According to Bauer (1991), the economic problems facing poor countries are not natural to them but are caused by institutional flaws such as unnecessary bureaucracy, state interventions in the economy and colonial legacy. The shortcomings of the linear-stages theory resulted in the evolution of the dependency theory which is discussed in section 2.3 below.

### **2.3 The dependency theory**

The 1970s witnessed a sharp decline in economic performance in most developing countries. Developing countries, especially, in Latin America and in Africa were faced with economic challenges such as unemployment, underdevelopment, poverty, balance of trade deficits, indebtedness and aid dependency (Hewitt, 2000: 294). This led to an upsurge in criticism against the role of foreign donor aid in developing economies because the aid programs were dismally failing to deliver the anticipated economic growth and development which could propel economic take-off in developing countries. The controversy which surrounded the aid scheme led to the evolution of the dependency theory.

The dependency theory which originated from Latin America as a reaction to the failure of the modernization theory is founded on the philosophy that poor nations are constrained by political,

institutional and economic bottlenecks both at the local and international levels which have resulted in the establishment of a “periphery” and “core” relationship with the developed world (Stewart 2005:51; Dos Santos 1971: 226). The periphery comprises the South or developing countries in the world while the core refers to the North or developed nations in the world. Since the North wittingly exploits or “unintentionally” neglects the South, mutual existence of these separate worlds in an internal system makes it difficult and sometimes impossible for LDCs to be self-reliant. In other words, the high level of poverty and underdevelopment in the developing world can be attributed to the inequality in the global economic system which is perpetuated by the most powerful nations at the core of the world economy extracting resources from weaker nations in the periphery to develop the developed world (Todaro & Smith 2003: 123; Stewart, 2005:51). This inequality is entrenched with the aid of instruments such as international trade and well-established global financial institutions such as the IMF and the World Bank (Seligson & Passé-Smith 2003:279). Hence, it is inappropriate to conclude that the challenges of development and poverty confronting developing nations is not because of lack of capital and institutional constraints as indicated by the modernist but it is as a result of the injustices in the world economic system. In the 1970s, it became apparent that economic growth and poverty reduction in the developing world go beyond capital formation, infrastructural development and the establishment of import substitution industries. Hence, according to Thorbecke (2000: 29), the development approach of the decade shifted from the modernization models to promoting self-reliance, nationalization of private assets and adopting indigenous technology in production in developing economies. The shift in development over the period gave birth to new development approaches: the integrated rural development (IRD) and the basic needs approach (BNA). The IRD advocated a paradigm shift from capital-intensive projects to rural development oriented activities such as small-scale income-generating activities and agriculture development in an attempt to promote economic development from microeconomic up to the macroeconomic level.



The IRD also encouraged development through indigenization (locally initiated development) and improved access to market for locally produced commodities through incorporated intervention programs such as micro-credit, capacity building and small-scale rural industrialization with the intention to support the rural communities. The objective of the IRD was to ensure that rural communities are capacitated to become self-reliant by meeting their basic needs such as food, shelter and infrastructure (De Beer, du Plessis, Liebenberg & Moloi, 2001: 96). The BNA on the other hand dwells on raising the standard of living of the poor through the provision of basic necessities of life such as shelter, food, sanitation and health services. Just like the IRD, the BNA also encouraged development through indigenization and self-help (Rondinelli, 1993: 65).

### **2.3.1 The role of foreign aid in the 1970s**

Even though the dependency theory encouraged a statist growth model, foreign donor aid still played an integral role in the development process in the 1970s. Foreign aid in the 1970s was directed towards supporting redistribution of growth, fulfilment of basic needs, poverty alleviation and promoting integrated rural development by encouraging smallholdings in agricultural sector especially in rural communities (Jomo & Fine, 2006: 23). Thorbecke (2000) indicated that the provision of aid in the 1970s was moved from capital investment to sector-based aid and rural development aid. The sector based lending focused on supporting major sectors such as agricultural, education, governance and health in developing economies. As a result, aid delivered to developing nations was delivered in the form of “project package” meant to support IRD, BNA and technical support.

By the end of the 1970s, the percentage of loans directed towards poverty reduction in developing countries from the World Bank increased to from 5% to 30%. Within the “poverty lending portfolio,” rural farm projects amounted to about 55%; water and sewage rose to 25% while urban poverty loans had also increased to 10% (Jomo & Fine, 2006: 24). The UK and the US governments,

the major donors to developing countries, also supported the IRD and the BNA development approaching the 1970s. Consequently, the UK government passed a White Paper calling for more donor aid to meet basic needs in developing countries. Over the same period, the US government also passed the International Development and Food Assistance Act, which made it possible to transfer 75% of food aid to impoverished regions in the world in the 1970s (Moyo, 2009: 17).

However, the basic need approach did not bring the desired level of poverty alleviation in poor countries. Instead, the decade was characterized by the worst inequality in history. The statist approach which encouraged inward strategies and discouraged integration with the global economy hurt the economic growth and development of developing countries. This was compounded by the oil shocks and inflation which led to economic stagnation and insurmountable debts problems in most developing economies (Oatley, 2005: 48). These disappointing economic performances in the 1970s resulted in most developing economies embracing new development strategies in the 1980s and these are discussed in the subsequent section.

## **2.4 The Free Market Approach**

By the 1980s, the global economy came close to the verge of collapsing as a result of happenings on the global economic front. Firstly, the global economy was subjected to a severe recession as a result of the consequences of the oil embargo which was placed by Arab states in retaliation to US support for Israel during the Yom Kippur War. This action led to sharp rise in global oil prices which negatively affected the global economy. This was compounded by accumulated debt from receiving donor aid over a period of three decades (1950s, 1960s and the 1970s). It is important to note that aid does not come cheap. Apart from aid which is given out as grants, which are usually in small quantities, all other forms of aid are in the form of conditional aid which had to be paid back with interests.

In an attempt to salvage the developing economies and ensure that the accumulated debt over the period is not repudiated, the IMF and the World Bank introduced the free market development approach to replace the statist development model of the 1970s which had no positive consequence on economic growth and development (Todaro & Smith, 2009: 126). The free market approach is dominated by the Washington Consensus and the Post-Washington Consensus which are discussed in sections 2.4.1 and 2.4.2 respectively.

#### **2.4.1 The Washington Consensus**

The Washington Consensus (WC) which is also referred to as neoliberalism is a policy reform which was introduced by the Washington, D.C.-based institutions, the World Bank and the IMF (CIPE, 2012: 1). Neoliberalism, a development ideology emerged in the mid-1970s in the midst of the global oil crisis (see section 2.4) as a “theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets and free trade” (Harvey, 2005: 2). This development approach marked the end of the state led development model of the 1970s in favour of a free market or the neoliberal approach. The neoliberals perceive the involvement of the state in the affairs of the economy of developing nations as “part of the problem, not part of the solution; they were inefficient and often corrupt, hence, parasitic, not stimulators of growth” (Leys 2005: 113). Therefore, the state must operate independently of the market but the state must provide the necessary atmosphere for the market to effectively distribute resources in an economy because the market, if left alone without state interference, is able to determine the needs of people and is able to meet them through the market mechanism called demand and supply. The market system can only operate effectively when the state privatizes state properties and also promotes market liberalization policies through the promotion of investment-oriented policies, abolishing trade tariffs and reduction in government planning and control of the economy. In other words, neoliberal policies

focused on privatization of state enterprises, market liberalization and the minimization of the role of the state (Stiglitz, 2002: 16; Stallings, 1995:16).

The free market development approach gained prominence in the 1980s due to the following reasons. Firstly, the model succeeded in reducing poverty and also promoting the expected growth and development in the Newly Industrialized Economies (NIE) in Asia through the free-market approach. The NIE which popularly became known as the “Asian Tigers” succeeded in promoting growth and drastically reduced poverty levels through free-market policies and trade liberalization. Apart from the experience of the market oriented policies in Asia, the concept was also strongly backed by Reagan and Thatcher, President of the USA and the Prime Minister of UK respectively at the time hence, the free-market policies became an economic revolution which was packaged and sold as the new development agenda to developing countries (Moyo, 2009: 20; Harvey, 2005: 3).

#### **2.4.2 The role of foreign aid in the 1980s**

The 1980s witnessed a shift in the mode of delivering donor aid to developing nations. Aid was provided to save the global economy from collapsing and strengthening heavily indebted developing nations from defaulting. This was because by the beginning of the 1980s, countries such as Mexico; Angola; Congo; Nigeria; Niger; Tanzania; Zambia; Cameroon; Ivory Coast; Gabon and Gambia had defaulted on their debt obligations (Moyo, 2009: 18). The fear of a global economic meltdown as a consequence of developing nations defaulting led to the introduction of the stabilization and the structural adjustment programs (SAPs) by the World Bank and the IMF.

According to Moyo (2009), stabilization is a policy directed towards the reduction of imbalances in an economy to an appreciable level while the SAP was meant to encourage trade liberalization by supporting measures which could facilitate the removal of excessive government control of the market in LDCs. Stiglitz (2002: 21) indicates that Low-Income Countries (LICs) were compelled to

accept the SAPs as a precondition for foreign aid because both multilateral and bilateral institutions in the 1980s insisted that poorer nations abide by the policies of neoliberalism as recommended by the Washington based institutions (IMF and the World Bank) before they could qualify for aid. Easterly (2006) also noted that foreign aid with inescapable conditions was forced on developing countries by the donor community to ensure the implementation of the free-market system. As a result, aid in the 1980s was provided in the form of budget support to assist with the implementation of economic reforms (Ayttey, 2005:154). Some of the conditions which were attached to the reform aid included the devaluation of the currencies of developing economies and the adoption of the floating exchange rate among others (Hewitt, 2000). The privatization of state properties and curtailing the role of the state in the affairs of the economy were other conditions which were attached to donor assistance in the 1980s as part of the reform effort (Taylor, 2007:84) indicated that between 1986 and 1996, countries such as the Central African Republic, Benin, Guinea, Ghana, Mali, Uganda and Madagascar shed more than 10% of the labour force in their civil service while the stake of government in property ownership in these countries fell from 90% to almost 10% over the same period of time. Notwithstanding the decline in the role of the state over the decade, there was substantial increase in reform related aid programs. By 1983, aid programs from IMF alone to developing countries rose to US\$ 12 billion (Moyo, 2009: 21).

However, since aid policies in the 1980s were directed towards the implementation of the neoliberal policies at the expense of growth and poverty reduction, most developing countries relapsed into recession, destitution and economic stagnation by the close of the decade (Hewitt, 2000: 302). Apart from that, since almost all the aid programs in the 1980s were “tied” to conditions which favoured mostly the policies of the donor community, there was no or very little support which came from the donors . Consequently, the effectiveness and the objective of aid in the decade were compromised because both the donor community and the recipients did not agree on the conditions attached to aid

programs as a result of their vested interests. In most cases, while donors were using aid programs to perpetuate political and economic ambitions, recipients became hostile against the conditions which they considered as an infringement on their sovereignty. According to Osei (2003: 14), aid conditions often force recipient nations to purchase goods and services from the donor country or from markets which are determined by the donor usually at very high cost when the same item could have been bought at a lower cost in another market. The discrepancy over the conditionalities made the SAPs concept ineffective in promoting sustainable economic growth and development in the developing world (Sogge, 2002: 127). The failure of the Washington Consensus policies to promote economic growth and development in most developing countries led to the introduction of the Post-Washington Consensus (Edelman & Haugerud, 2005: 7).

#### **2.4.3 Post-Washington Consensus**

The end of the 1980s witnessed the modification of the neoliberal policies. The Washington Consensus (WC) was given a “human face” in the 1990s because the market-oriented policies it had postulated failed to yield reasonable results. Developing economies became burdened with insurmountable debts which were accumulated as part of funding the structural adjustment programs. Moyo (2009) indicated that by the end of the 1980s, emerging economies had attracted debt amounting to US\$1 trillion which had become almost impossible to service. Even though Latin American countries experienced growth after difficult adjustment process, growth and poverty alleviation in Sub-Saharan Africa (SSA) were still far from reach.

The economic stagnation in SSA can be attributed to weak governance as a result of the effects of the Cold War. The Cold War was an ideological war which was fought between the West and the East through the use of propaganda, political and economic actions between the allies of both sides (Stewart, 2005: 93). Since the war was determined to turn the African continent into western or eastern

allies, attention was not given to the type of leadership prevailing on the continent. Dictators such as Mobutu SeseSeko of Zaire, Idi Amin of Uganda and Samuel Doe of Liberia received maximum support from either the west or the east to entrench their hold on power and to suppress the citizenry at the expense of development. Hence, by the beginning of the 1990s when the Cold War had ended, Africa was awash with corrupt leadership and development vacuum. The West intervened and supplemented the Washington Consensus with additional policies known as the Washington Consensus Plus (Serra & Stiglitz, 2008: 49). The Washington Plus which was also known as the Post-Washington Consensus (PWC), sought to provide remedies for all identified loopholes and criticisms levelled against the Consensus. The failure of the neoliberal policies led to the introduction of the Post-Washington Consensus (PWC) in the 1990s. The PWC is an integration of both market and the state without significantly departing from the policies of stabilization and adjustment programmes postulated by the Washington Consensus (Hewitt, 2000: 305; Jomo & Fine, 2006: 16). The state was considered by the PWC as an important stakeholder for promoting sustainable economic development by “generating hot-house conditions for a new and relatively inexperienced entrepreneurial class” (Ranis 2004: 16). The state became a vanguard in ensuring that market imperfection is guarded against by providing the enabling environment for economic growth. The state was also needed to provide basic services such as health, education, and infrastructure development necessary for economic growth and development (Davoodi & Lee cited in Thorbecke, 2000: 40).

#### **2.4.3.1 The role of foreign aid in the 1990s**

The dawn of the PWC ushered in a new approach in the aid dynamics which was based on the assumption that aid can work better in a sound political environment (Burnside & Dollar, 2000: 845). According to Burnside and Dollar(2000), countries with sound governance tend to perform better with donor aid inflows than countries with bad leadership. This is because good leaderships ensure transparency and accountability and the rule of law in their operation. As a result,

in the 1990s, attention of the donor community was shifted from provision of aid to turn the developing countries into either western or eastern allies to promoting good governance through aid because it became obvious that good governance is the pillar of sustainable economic growth and development. Hence, the idea of promoting liberal democracy based on western style democracy in order to ensure political stability and sustainable economic growth (Degnbol-Martinussen & Pedersen, 2003: 49). Foreign donors made democracy, multi-party elections and the involvement of civil society organizations in political decision making process the precondition for foreign aid. Donor resources, therefore, were used to strengthen civil societies and democratic institutions in developing countries to align with the approach of the PWC. In the 1990s, African nations such as Ghana, Nigeria, Benin, and Mozambique which were previously under military dictatorship were compelled to embrace democratic governance as part of the PWC arrangement.

By 1999, donor assistance to Africa was pegging at US\$12 billion. The bulk of these resources, however, were directed towards promoting good governance on the continent. Notwithstanding the efforts put in place to steer the continent on the path of sustainable economic growth and poverty reduction, the continent still remained poor with very limited economic growth. It is as a result of the failure of the donor aid program to deliver the expected result that led to the introduction of a new development and aid approach at the beginning of the new millennium.

#### **2.4.4 The new millennium**

The beginning of the new millennium saw a new approach and new actors in the search for development and poverty alleviation among the world's poor especially in Africa. The world saw high ranked individuals from diverse backgrounds such as Kofi Annan, the former UN Secretary General, George Bush, former US President, Tony Blair, former British Prime Minister, Jeffery Sachs, a renowned economist and Bono, the Irish musician leading the call for an end to poverty. The clarion call became



imperative because of the interdependence between rich and poor countries such that an occurrence in poorer countries has a consequence on the economy of the rich countries and vice versa. (Szirmai 2005: 20). In a foreword in Jeffrey Sach's book "The End of Poverty: How we can make it Happen in our Lifetime", Bono (2005) indicates that "the destinies of the haves are intrinsically linked to the fates of the have-nothing-at-all."

Global peace, therefore, would only be achieved when economic development was promoted in the south. Bono further explains by citing the words of US Secretary of State "The war against terror is bound up in the war against poverty" because hunger breeds discontent, and discontent breeds instability. Sachs (2005) sums up this assumption by mirroring it to the threat to global peace by indicating that "to fight terrorism, we need to fight poverty and deprivation as well" because terrorism lurks in conditions such as "extreme poverty; mass unmet needs for jobs, incomes and dignity; and the political and economic instability that results from degrading human conditions" (2005: 215). Therefore, since distance no longer determines who your neighbours are, it is incumbent upon the wealthy nations to promote economic development in poor nations.

In an attempt to make poverty history in the new millennium, world leaders at the Millennium Summit of the United Nations in the year 2000 adopted the United Nations Millennium Declaration which captured the aspirations of the international community for the new century. It focuses on a world united by common values and the passion to achieve peace and decent standard of living for the human race without reservations. These views gave birth to the eight Millennium Development Goals (MDGs), directed explicitly at poverty reduction and addressing basic human needs such as access to education, health and water (Moss, 2011: 141). The Millennium Declaration set quantified time-bound goals to end "abject poverty and dehumanizing conditions of extreme poverty" in the world and make available "the right to development a reality for everyone" (Sachs 2005 27). Table 2.1 below captures the eight MDGs and eighteen targets.

<b>MDGs</b>	<b>Targets</b>
1. Eradicate extreme poverty and hunger	<ul style="list-style-type: none"> <li>▪ Halve poverty before 2015</li> <li>▪ Halve the proportion of people who suffer from hunger by 2015</li> </ul>
2. Achieve universal primary education	<ul style="list-style-type: none"> <li>▪ Ensure Universal Basic Education for all children of school age by 2015</li> </ul>
3. Promote gender equality and	<ul style="list-style-type: none"> <li>▪ Eliminate gender inequality at all levels of education by 2015</li> </ul>
4. Reduce child mortality	<ul style="list-style-type: none"> <li>▪ Reduce under-five mortality at the rate of two-thirds by 2015</li> </ul>
5. Improve maternal health	<ul style="list-style-type: none"> <li>▪ Reduce maternal mortality to quarter by 2015</li> </ul>
6. Combat HIV/AIDS, malaria and other diseases	<ul style="list-style-type: none"> <li>▪ Reduce the spread of HIV/AIDS by 2015</li> <li>▪ Reverse the incidence of malaria and other major diseases by 2015</li> </ul>
7. Ensure environmental sustainability	<ul style="list-style-type: none"> <li>▪ Integrate the sustainable development into country policies and policies and also safeguard environmental resources</li> <li>▪ Ensure access to portable drinking water by 2015</li> <li>▪ Improve the lives of 100 million slum dwellers by 2020</li> </ul>
8. Develop a global partnership for development	<ul style="list-style-type: none"> <li>▪ Promote global liberal markets through good governance, development and poverty reduction</li> <li>▪ Meet the special needs of developing countries through opening up of the markets of the developed world and also through initiatives such as debt relief for HIPC and increased in donor aid to developing countries.</li> <li>▪ Boosting the private sector through new technology such as the information and communication technology (ICT)</li> </ul>

Table 2.1: The MDGs and the Targets  
Source: Adapted from Sachs (2005)

The MDGs became the benchmark with which the attainment of economic growth and poverty reduction was pegged. In an attempt to fast pace the process, the Highly Indebted and Poor Countries (HIPC) initiative which sought to reduce the debt burden on poor countries was introduced. Though the HIPC initiative was launched in 1996 by the World Bank and IMF, it was in 1999 when the initiative was revised to have bearing on poverty reduction, debt relief and development programs (IMF, 2013). A country qualifies for the HIPC benefits by meeting two very critical conditions - the decision and the completion point. At the decision point, a nation must meet the following conditions: eligible to borrow from the World Bank's International Development Agency and the IMF's Poverty Reduction and Growth Trust; be faced with unsustainable debt burden; have a track record of reform and sound policies from the IMF and the World Bank supported programs and finally have developed a Poverty Reduction Strategy (PRS) with stakeholders' inputs. At the completion stage which allows a country to enjoy the full benefits of the HIPC initiatives, a country must demonstrate the following: a further track record of good performance with programs supported by both the IMF and the World Bank loans; satisfactorily implement key reforms agreed upon with the World Bank and the IMF at the decision point and also adopt and implement the PRS for at least one year (IMF, 2014).

#### **2.4.4.1 Foreign aid in the new millennium**

After September 11 2001, when the World Trade Centre in the USA was attacked by terrorists, foreign aid for development became a national security strategy because it became obvious that the "root of the national security threat to the United States and the broader international community is the lack of development, which cannot be addressed by military and diplomatic means alone" (USAID, 2005: V). Consequently, the aftermath of the September 11 saw massive transfer of foreign aid to countries perceived as "critical to US geopolitical interests" (Riddell, 2007: 95). The US has also initiated other aid programmes like the Millennium Challenge Account (MCA), and the President's Emergency Plan

for AIDS Relief (PEPFAR) to assist “fragile” states fight AIDS, tuberculosis, and malaria. Between 1993 and 2004, it became obvious that the US aid allocation reflected a strategic priority of promoting national security. Countries such as Iraq, Egypt, Jordan, Afghanistan, Pakistan and Colombia accounted for a third of US aid (Riddell, 2007). It was based on this interconnectivity that a consensus emerged among governments of developed countries that a renewed approach to development assistance, which avoided the mistakes of the past, was warranted. This stemmed from recognition of the growing magnitude of global interdependencies (globalization) which meant that poverty and conflict in one corner of the globe could have implications for all (Tarp, 2009: 7).

The quest to aid the poor also resulted in the establishment of the HIPC initiative which was discussed in section 2.4.4. Out of the thirty six countries which benefited from the HIPC initiative, thirty came from Africa. The initiative saw close to US\$ 75 billion debt relief services provided by the World Bank and the IMF (IMF, 2013). To fast pace the attainment of the MDGs, the period also witnessed an upsurge in donor aid to developing countries in an attempt to finance poverty reduction and development programs. According to Moss (2010), since the year 2000, bilateral and multilateral aid has gone up in absolute terms as illustrated in table 2.2.

	<b>2000</b>	<b>2008</b>
<b>Net ODA excluding debt relief (US\$M)</b>		
1. Bilateral aid	46,454	74,120
2. Multilateral aid	25,429	33,190
<b>Net bilateral ODA (% of OECD-DAC donor’s GNI)</b>		
1. Bilateral	0.14	0.20
2. Multilateral	0.07	0.09

Table 2.2: Net ODA disbursement to developing countries (2000-2008)  
Source: McKinley (2010).

Notwithstanding the seemingly attainable goals and the high inflow of donor resources to make this agenda possible, the MDGs have been met with sharp criticism like all other development policies, strategies and actions which have evolved in human history. Prominent among the criticisms levelled against the MDGs are the following. Firstly, the strategy is considered by critics as being a “one-size-fits-all” approach which does not represent the development needs of individual developing countries. Since there is no universally accepted definition for “development” there cannot be general prescribed remedies for underdevelopment. To assume that the same MDGs could help mitigate poverty and underdevelopment facing poor nations is a hasty conclusion (Kinniburgh, 2005: 5). Hence, global efforts to bring relief to the less privileged must be formulated around the cultural and socio-economic conditions prevailing in the country or countries concerned. Although developing countries such as Ghana and South Africa might have similar development challenges, vast differences exist in terms of social, economic, cultural and political environment. No blue-print exists that will be applicable to all countries.

The goal of eradicating extreme poverty and hunger by 2015 is an illusion because most developing countries have surged into poverty since the MDGs came into operation. According to the UN (2005: 8), the number of hungry people in the developing world sadly stood at 815 million in 2002 and the worse affected regions are Sub-Saharan Africa and Southern Asia. The situation in these regions has contributed significantly to high child mortality and malnutrition among children. The UN in 2005 again established that over 150 million children under the age of 5 in developing countries are underweight. The situation in Sub-Sahara Africa was even more frightening because the number of underweight children under the age of 5 has increased from 29 million in 1999 to 37 million in 2003. Apart from meeting the nutritional needs of the impoverished population in LDCs, the challenge of reproductive health care has also posed a danger to meeting the MDGs by 2015. This challenge was identified by the former UN Secretary General, Kofi Annan when he indicated that “the Millennium

Development Goals, particularly the eradication of extreme poverty and hunger, cannot be achieved if questions of population and reproductive health are not squarely addressed” (Annan, 2002). Unfortunately, attaining universal reproductive health was not explicitly adopted as a goal in the MDG (UNFPA 2006).

Critics argue that the MDGs are limited in scope since development challenges facing the developing world go beyond the eight (8) goals captured in the MDGs. The 8 goals did not make room for topical development challenges such as inequality and social justice such as equity and vulnerability, effect of globalization especially on less developed countries (Manning, 2009).

Nevertheless, in the face of fierce criticisms and shortcomings, the MDGs have gained widespread support globally for some of the successes achieved with the strategy ahead of 2015. In the first place, the MDGs have become the development framework for most development initiatives worldwide. In most developing nations, the MDGs have facilitated the formulation of development strategies such as the Poverty Reduction Strategies (PRS). In Zambia for instance, the MDGs have significantly influenced the government to develop a PRS in 2002 which became the basis for the formulation of the Transitional National Development Plan (TNDP) between 2002 and 2004. Between 2006 and 2010, the Fifth National Development Plan (FNDP) which replaced the TNDP was also developed with the goals posited by the MDGs (African Forum and Network on Debt and Development, 2006: 3).

Ghana is no exception. The country has mainstreamed the MDGs into the country’s national development policy framework, the Ghana Poverty Reduction Strategies (GPRS I) which span between 2003 and 2005 and Ghana Poverty Reduction Strategy (GPRS II) 2006-2009. The GPRS I focused on the macroeconomic stability of the Ghanaian economy, economic growth and employment, human resource development, provision of basic services to all Ghanaians, inclusivity and good governance.

The GPRS II looked at issues such as continuing macroeconomic stability, ensuring private sector competitiveness, human resource development and good governance (UNDP, 2010: 3). Details of the MDGs and the GPRS I & II are discussed in chapter three of this study. The time-bound and the quantification of the MDGs have provided the monitoring mechanisms to track and report on global, regional and national development progress ((Kinniburg, 2005: 8). Since the establishment of the MDGs, there had been an avalanche of reports on policies and steps which have to be taken by the international community to achieve them. In 2003 and 2005 for instance, the UNDP's Human Development Reports focused on the actions necessary for the achievement of the MDGs. In the same vein, the World Bank and the IMF annual Global Monitoring Report which is jointly published by these two institutions gave direction on how to achieve the MDGs. The United Nations Specialized Agencies have also published arrays of documents on how to achieve the MDGs. The most comprehensive reports and direction from the United Nations (UN) was titled the "Millennium Project" which gives a detailed report on national strategies required to achieve the MDGs (UN, 2004).

Whether the MDGs could be met by 2015 or not, has generated debates in the development circles even though maximum restraint is being exercised in discussing the post-2015 in an attempt to maintain the momentum towards the attainment of the goals enshrined in the MDGs (Sumner & Tiwari, 2010: 10). However, with 2015 approaching the UN, civil societies, and academia and research institutions are beginning to develop the shape of the post-2015 development agenda. In 2010 for instance, the UN set up a High-Level Plenary meeting to look into the progress made on the MDGs and development agenda in post-2015 development agenda. In the same spirit, a post-2015 consultative meeting was organized by Global Development Network (GDN) in Delhi, India in 2013 under the auspices of the UN to provide direction on post-2015 development agenda. In all these consultations and engagements, it became obvious that some of the MDGs are not attainable by 2015 and therefore should be integrated into the post-2015 global development agenda. The MDG

on health is one of the goals far from reach. In the UN General Assembly held in 2013, President Mahama of Ghana and all leaders from developing countries who addressed the Assembly indicated to the world there is still a lot to be done in order to achieve the goal on health. The GDN consultative meeting held in Delhi also concluded that the MDG on health has to be repeated in the post-2015 development agenda with more emphasis on sanitation and preventive measures. Also, the need for separate MDGs for individual countries is necessary. This is because resources and capacity of nations vary. Hence growth and development targets among nations have to be contextualized to make room for the capacity of individual nations. Therefore, to assume that their performance and for that matter the attainment of the eight MDGs could be quantified and achieved over the same period of time proof to be too simplistic.

## **2.5 Contemporary debate on foreign aid**

The contemporary aid debate reflect mainly two opposing views namely those of the pro-aid scholars versus the anti-aid proponents. The pro-aid scholars are of the view that aid could help initiate and promote sustainable economic growth by bridging the savings' gap that has characterized the countries since independence and helped reform and built institutions which could underpin lasting economic growth and poverty alleviation. On the contrary, the anti-aid scholars perceive donor aid as the main obstacle to sustainable growth and development in LDCs. The anti-aid scholars further indicate that aid has created a dependency syndrome and exposed the countries to all forms of external shocks. The section that follows discusses in details the contemporary debate that has characterized the donor concept (Moyo 2009). These polarized views are discussed below beginning with the arguments of the proponents of foreign aid before the arguments of the opposing arguments on aid.



### **2.5.1 The pro-aid argument**

#### ***Aid can help the poor escape poverty***

In his groundbreaking studies titled *The End of Poverty*, Sachs (2005) argued that wealthy nations could help end poverty if aid to developing countries was doubled. The poor, according to Sachs (2005: 244) are faced with the challenge of inadequate human capital, business capital in the form of machinery, poor infrastructure such as roads, ill established public institutions and poor scientific knowledge. In order to escape from the “poverty trap”, developing countries need a seed capital through foreign donor aid intervention to enable them escape from poverty.

Sachs illustrated the extent of poverty in the world using the ladder as a scenario of path to economic development. According to him, more than one billion of the world’s population (one sixth) live in abject poverty (poorest of the poor). This group of the world’s population is too poor, therefore, caught in the “poverty trap” unable on their own to “even to get a foot on the first rung of the economic development ladder” (Sachs, 2005: 18-19). The poor especially, those in Africa are too poor to be able to accumulate the initial capital needed to escape from the vicious cycle of poverty because of limitations such as lack of collateral security, civil conflicts, bad governance, low productivity, diseases, and inadequate infrastructure. It is, therefore, incumbent upon rich nations of the world such as Canada, USA, Japan, and the European Union to aid the poor by donating 0.7% of their GDP to the bottom billion in Africa to provide the much needed conduit to escape the poverty trap (Thomas, 2013).

Even though Sachs’ argument for more donor aid has come under criticism by scholars such as Easterly (2006) and Moyo (2009), who have advocated for the cessation of aid to developing countries because it has not served its purpose of reducing poverty and promoting sustainable economic development in poorer nations, Sachs remains adamant that foreign donor aid has improved the lives

of million people in the developing world especially in Africa and Asia. Botswana is one of the success stories of aid in Africa. Through donor assistance, millions of Botswana citizens have escaped the trap of poverty. At independence in 1966, Botswana was rated as one of the poorest countries in the world and had donor aid as the main source of revenue to the government (Leith, 2005). In the 1970s when diamonds were discovered in the country, the government of Botswana sought assistance from the donor community to fund major physical and social infrastructure projects, education and training which constituted the major source of growth and development which the country has witnessed since the 1970s. By the beginning of the 1990s, Botswana took off and spontaneously waned itself of aid (Maipose, Somolekae & Johnston, 1997: 19).

### ***Provision of infrastructure***

Foreign donor aid has contributed significantly in improving the infrastructure of developing countries in an effort to boost economic growth and development. Physical infrastructure in the form of roads, communication and power generation has been improved in most developing countries through donor assistance (Millennium Project, 2005). The genesis of this generosity can be traced to the 1950s and the 1960s when most developing countries were emerging from colonialism. After independence, developing nations were confronted with the challenge of providing adequate infrastructure services such as water supply, sanitation, energy, roads and railway networks were in very deplorable conditions. Investors who were deterred by the poor state of infrastructure in Africa for instance, diverted their resources to Asian nations like China and India which had relatively adequate infrastructure (Altman 2011: 15; Platteau 2000). In an effort to improve infrastructure in Africa, the donor community invested about US\$100 million in aid by the beginning of the 1960s to fund large-scale industrial projects (Moyo, 2009: 14).

### *Prevention and the eradication of diseases*

Foreign aid has assisted in improving global health care especially in developing nations. According to McMillan (2008), aid-financed campaign against river blindness (onchocerciasis) is one of the major achievements of donor aid in developing countries. Onchocerciasis is an endemic parasitic disease in West Africa that causes debilitating eye damage and blindness. The disease is caused by a parasitic worm and transmitted by the bite of a female blackfly, which breeds in flowing rivers (WHO, 2010). Through intervention programs which were sponsored by the World Health Organization (WHO), United Nations Development Programme, the World Bank, bilateral donors and the private sector, the disease has been brought under control and the parasite is dying out in the human population. The control of the Onchocerciasis in Africa has prevented 600, 000 cases of river blindness which has resulted in more than 12 million children born in the program area being free from contracting the disease. Again, more than 25 million hectares of arable land which could not be used because of the prevalence of this epidemic have been made safe and put into agricultural production and human settlement (World Bank, 2000).

Another major breakthrough that the aid scheme has chalked in developing countries is the reduction in the rate of polio cases. With continuous vaccination against polio in developing countries through the assistance of the donor community, an estimated two billion children have been vaccinated against polio since 1988. From 1988 when the campaign against polio was launched, reported cases of the disease declined from 350,000 to 19,000 in 2005 (UNICEF, 2005). Malaria is another disease that has received significant attention from donors. The World Bank (2002) noted that malaria alone is estimated to reduce GDP growth rate by 0.5 per year on average in sub-Saharan Africa. In an effort to reduce malaria cases in poor countries, the donor community has invested significant resources in preventing and treatment programs in the fight against malaria. The provision of insecticide treated mosquito nets at subsidized prices to poor citizens in tropical regions in the world and the

educational programs aimed at sensitizing citizens on preventing malaria are some of the preventive initiatives which are sponsored by the donor community. Donors also provide malaria medications and vaccinations across poor regions in the world.

Apart from malaria, HIV/AIDS has equally received serious attention from donors. In countries hardest hit by the HIV/AIDS epidemic such as South Africa, Botswana, Zimbabwe and Lesotho, assistance in the form of education, health reforms, provision of condoms and medications have been provided by the donor community such as the World Health Organization (WHO) and the USAID in an effort to control the epidemic (Sachs 2009: 25). According to UNAID (2014) nearly 90% of people who know their HIV- positive status have been saved through the provision of anti-retroviral treatment. The successes in providing better health care in the poor regions of the world are as a result of contributions from donor institutions such as the Global Polio Eradication Initiative, the Global Measles initiative, and the Global Fund for AIDS, TB and Malaria. Apart from these institutions, individual governments and non-governmental institutions have also contributed significantly in improving the health conditions among the world's poor through donations, research and educations (World Vision, 2013).

### ***Good governance***

Foreign donor aid has contributed significantly in promoting good governance and democracy in most developing countries including Ghana. Good governance encompasses “effective management of a country's resources in a manner that is open, transparent, accountable, equitable and responsive to people's needs, the rule of law, transparency, accountability and effectiveness of public sector management; and an active civil society” (Downer, 1997: 1). Donors support civil society organizations that are engaged in promoting good governance and democracy in the developing world. Through support in the form of grants and technical assistance, civil society organizations have been able to

widen the scope of the process of public debates and participation in governance. Through civil society organizations, the donor community has been able to promote democratic values such as open public debate, consensus building and political tolerance in addition to funding elections (Robinson, 1995).

According to Howell and Pearce (2001), in the 1980s and the 1990s, the activities of civil society organizations contributed significantly to changing the political landscape in the Eastern and Central Europe from authoritarian to democratic regimes through public debate, street demonstrations and campaigns. Prior to the 1990s, governance in Africa like her counterparts in Eastern and Central Europe was dominated by dictatorships under military rule which undermined the establishment of democracy and good governance. By the beginning of the 1990s, Africa was home to 38 military administrations and autocratic rule out of the 45 nations that constituted the nations on the continent (Ake, 1996: 135). Today, almost all these countries are ruled by civilian administrators. Since 1992, Ghana for instance changed from military leadership and embraced multiparty democracy under the Fourth Republic. Two decades down the line, Ghana is reckoned as one of the best democracies in the world. This was made possible through assistance from the donor community.

### ***Education and skills development***

Low levels of education and skills acquisition have undermined development in most developing countries. In an effort to promote sustainable development and also eradicate poverty in developing countries, the donor community has invested significant resources in promoting education and skills development among the world's poor over the past five decades. Donor assistance has helped increase access to free universal primary education in countries such as Ghana, Tanzania, Ethiopia, Uganda and South Africa. What is even more profound is the improvement in girl child enrolment through the African Girls Education Initiative which was established in 1994 to improve access to education

by the girl child (Goldin, Rogers & Stem, 2002). Assistance from the donor community has also greatly contributed to equipping citizens of the poor regions with skills and capacity in areas of science, technology, governance and institutional development. In Africa for instance, countries such as Ethiopia, Mali and Ghana have benefited greatly from the donor community in terms of institutional development and skills acquisition (Development Committee, 2004). The above mentioned successes which aid has brought to the poor has intensified the clarion call for more aid from individuals and institutions to the world's poor especially to Africa, which is considered the poorest region in the world. Tony Blair, the former Prime Minister of Britain, for instance, saw the call for more aid to Africa as integral part of his administration as the prime minister of Britain. In the quest to salvage Africa's economy, Blair established the Commission on Africa and sought to raise \$50 million a year on the international capital markets. Bush, the former president of America, also pledged to increase aid to Africa by \$4.3 billion when he assumed office in 2001. He also established the Millennium Challenge Account (MCA) which sought to increase grants to African countries which are upholding good governance. In the same vein, the United Nations (UN) also called on the developed world to increase aid to 0.7% of their GDP to the world's poor to promote economic growth and development (Ayodele, Cudjoe, Nolutshungu & Sunwab, 2005).

In the midst of the clarion call for more aid to avert the atrophy of the economy of LDCs, the aid enterprise came under sharp criticism from scholars who relentlessly called for an end to aid flow to the poor because it has promoted poverty, economic stagnation in poor countries, promoted corruption and rent seeking and also left in its wake the dependency syndrome - the so-called anti-aid school.

### **2.5.2 The anti-aid literature**

The anti-aid scholars espouse that donor aid has no effect on economic growth and development and should be avoided in the search for sustainable economic development and poverty alleviation in developing nations. Prominent voices among the sceptics of the donor aid school include Moyo (2009) and Easterly (2006) who argue that five decades of aid to the developing world especially in Africa has not been able to ‘buy’ the desired economic growth and development, therefore, they call for a complete cessation of donor aid to LDCs. The arguments posited by the anti-aid school are captured in this section as follows:

#### ***Aid breeds corrupt leadership***

Foreign donor aid has reinforced unprecedented levels of corruption in most aid recipient countries especially in Africa. During the Cold War era for instance, when aid was used as the tool to win membership into capitalism or socialism, little attention was given to good governance and transparency. Many leaders, especially in Africa, took advantage of the shortcomings of the aid concept of the time to become very corrupt since developed countries were ready to provide aid to even the most corrupt despots on the African continent. These corrupt leaders became spendthrift and unconcerned about the development needs of their citizens. They had access to the endless supply of donor money to meet their needs and even today when leaders such as Paul Bia of Cameroon and Museveni of Uganda have presided over stagnated economies for more than thirty years, the donor community still bankrolls these dictators. At the end of his reign in Zaire, Transparency International reported that Mobutu Seseseko had looted Zaire close to US\$5 billion and over a period of just four years in office. Sani Abacha had also looted Nigeria a sum of US\$5 billion, equivalent to what his colleague Mobutu had stolen (Moyo, 2009: 48). The blatant looting of donor aid resources compelled Sir Clay of the British envoy to Kenya in 2004 to remark that ministers in Kenya were “eating like gluttons and vomiting on the shoes of foreign donors” (BBC, 2005).

### *Aid breeds inflation and Dutch Disease*

Developing nations need donor resources to promote investment and also promote economic growth by filling the savings and the foreign exchange gaps that are frustrating development initiatives in LDCs. However, as much as donor aid is desperately needed to initiate development, large amounts of foreign aid can seriously disrupt the economy. Large aid inflows can result in two major macroeconomic challenges, namely: “inflation” and” “Dutch Disease”. Inflation is perceived as a persistent rise in the general levels of goods and services in a country over a period of time (Lynn, 2003: 461). High levels of aid flows may lead to inflation when the Central Bank of the recipient country is unable to regulate the inflows. The Central Bank could offset the impact of aid by reducing domestic money supply or possibly increase interest rates. Secondly, large sums of foreign donor aid could cause the recipient (impoverished) nation’s currency to appreciate. This rise in the value of the recipient’s currency concomitantly makes the recipient country unattractive destination for investment and also increases export prices of goods and services from the recipient country, hence, pushing trade balance to deficit.

Bulir and Lane (2002: 20) also explained the relationship between aid and Dutch disease by indicating that prices of domestic non-traded goods and services are likely to increase with the arrival of high levels of aid and this might flow into the prices of exports. The increase in prices will, in the short term, be reflected in a rise (appreciation) in the real exchange rate (RER). Even though the RER differs from the nominal exchange rate, it is a measure of trade competitiveness, which compares the price of a basket of domestic goods with the price of a basket of foreign goods. The increase in the price of domestic goods means that domestic consumers will want to shift from domestically produced to foreign goods whenever possible, reducing a country's foreign exchange reserves. Finally, Dutch disease concerns cannot be simply dismissed by observing that small manufacturing sectors and



commodity-dominated export sectors limit the scope for productivity gains in aid-receiving countries. Manufacturing sectors actually account for non-negligible shares of exports, making up, for example, 15% of exports in Tanzania and Kenya, 25% in Ghana, and 90% in Bangladesh. Moreover, manufacturing export shares in several countries that successfully developed over the past 40 years were initially small and comparable to those of today's aid-receiving countries. In the early sixties, manufacturing exports represented, respectively, two, five and twenty per cent of total exports in Thailand, Malaysia and the Republic of Korea (South Korea). At the end of the nineties, the same shares were 75% in Thailand and 90% in both Malaysia and South Korea (World Bank, 2002).

### *Aid is poorly coordinated*

It is important to properly coordinate donor aid in order to achieve the desired results. Even though efforts to coordinate aid dates back to the 1960s, not much has been achieved in this regard. According to Lawson (2013: 2), poorly coordinated aid has given rise to a number of undesirable outcomes such as duplication and administrative burden. In northern Ghana alone, there are more than 3,000 NGOs that claim to be providing development assistance. Improper coordination of this avalanche of philanthropies has aggravated the state of economic deprivation and stagnated development in the region because donor activities are concentrated on a narrow scope of water provision. For instance, in 2001 when Ghana had to subscribe to the HIPC initiative, it became obvious that there was no consensus among the development partners of the country, Hence, the country had to deal with oppositions from some sections of the donor community.

The Japanese government for instance threatened to suspend all assistance to the government of Ghana if the government should subscribe to the HIPC Initiative even though the US and the UK governments remained emphatic that the government of Ghana must go ahead to subscribe to the initiative (GoG, 2003). Improper aid coordination also leads to a situation where donors channel resources into low-

value projects which do not have significant impact on recipient communities. Lastly, poor coordination of aid also creates administrative burden on both donors and recipients. The large numbers of donors in a country divert funds meant for development to administrative cost. According to the Ghana Ministry of Manpower Development and Employment (2012), NGOs in Ghana spend approximately 80% of the money given to them by both government agencies and foreign donors on administrative expenditure. The proliferation of donors also means more administrative requirements from recipient countries in order to enable donors to meet their accounting and oversight requirements (Lawson, 2012: 3). In 2007, Vietnam reported hosting 782 visits from different donor officials and out of this number each mission required the attention of the recipient government. In the same vein, in 2008, Botswana had 27 official donors with the top 5 accounting for 97% of bilateral aid but all 27 required regular report meetings of different specifications (OECD-DAC, 2008 cited in Lawson 2012). However, with proper aid coordination, the administrative challenge facing the donor aid program could be eliminated.

***No country has been able to develop through aid***

The opponents of aid again argue against donor assistance to poor nations by indicating that no country has been able to develop riding on donor assistance, therefore, it does not sense that the trend can be changed in favour of the poor in our time. The assumption that aid helped to reconstruct European nations, devastated during WWII, therefore, the same principles can be duplicated in Africa to promote growth and development is an illusion because Western Europe before the war had all the necessary institutions in place for reconstruction and economic development (Moyo, 2009). The African story is different as the continent still lacks the necessary institutions and other resources which have to be developed internally to initiate development.

According to Moyo (2009) the former president of Senegal, no country in the world has succeeded in promoting sustainable growth and development through foreign aid. According to her, developed

countries in Europe, America, Japan and Asia such as Korea, Taiwan and Singapore have been able to promote development by relying on free markets and not on aid. The woes of Africa's development can be traced to its reliance on aid from the developed world. Moyo (2009), reiterated that the more aid is given to Africa the poorer the continent's outlook. She further reiterates that between 1970 and 1998, a period of three decades, when aid to Africa reached a record high, the poverty levels on the continent proportionally rose from 11% in 1970 to 66% in 1978. This defeats the assumption by pro-aid scholars that aid promotes economic growth and development in recipient countries. Ayodele et al (2005) demonstrate the negative correlation between aid and economic growth in recipient countries using the Tanzanian experience. Tanzania, under the Ujamaa development program received more than US\$10 million aid from the Western world between 1973 and 1988, a period when the GDP of Tanzania also contracted by 0.5% annually.

### ***Aid breeds trusteeship***

The assertion that aid breeds trusteeship cannot be underestimated. Trusteeship is the act of holding valuables like property on behalf of another person or group of persons who could only be competent to handle the property in the future (Simon 2007). The same philosophy underpins the aid-development theory. The west has cleverly and systematically used foreign aid to shape the destiny of the developing world since the 1960s. Even though developing nations are politically free, dependency on aid has made it impossible for aid receiving countries to claim self-determination. George Bush, the former president of America, for instance required that two-thirds of the US\$15bn the American government at the time was providing to the developing world in the fight against aids had to go to pro-abstinence programs and none could go to any establishment that provided abortions (Moyo 2009). In the same vein, when Ghana in 2011 denounced same sex marriages, the donor community especially America and Britain came out threatening to punish the country by cutting down foreign aid (BBC, 2014). Sachs, in an interview with *The African*

(2007: 24-31) also attest to the fact that because donors do not trust that Africans could initiate and sustain development, donors either impose foreign policies on the African continent or continually interfere in the domestic policies. He indicates that in Uganda for example, where 46% of the country's budget is aid financed, donor countries unnecessarily interfere in the social, political and economic affairs of Uganda. Sachs further pointed out that "When the Ugandan government restricted homosexual tourists from coming to Uganda; Sweden vehemently protested and threatened to withhold aid from Uganda."(Sachs, 2007). In 2011, the West, especially, Britain and USA also threatened to stop aiding Ghana if same-sex marriage is not legalized in the country (GoG, 2011).

### *Aid is too costly for the poor*

Moyo (2009: 38) presents the argument that the conditions usually attached to donor aid go a long way to benefit the donor community rather than the recipient nation. Donors normally tie aid to the procurement processes so that recipients of these aids are obliged to buy goods and services from the donors. In most cases, even though goods and services from the donor countries become more expensive than it would have been elsewhere, recipients have no choice than to buy from the donor as part of the conditions attached to the aid (Moyo, 2009: 38).

In order to ensure that aid disbursement processes are not violated, the USA for instance demands that at least 50% of commodities bought with US aid must be transported in US ships unless there is no US ship services available. In the same vein, other developed countries such as the UK, France and Portugal regulate aid disbursement through colonial ties and traditional trade ties to ward off alternative suppliers. The UK's foreign aid cooperation with former colonies for instance is about three times higher than the cooperation with other developing countries while the cooperation between France and the former colonies is eight times higher than the cooperation with other LDCs (Osei, 2004: 15). The colonial ties also impacts on aid tying because former colonies are

usually exploited through this type of relationship. Osei, (2004: 15) for instance, indicates that between 1962 and 1987, French colonies in Africa for instance paid a premium on average of 20% to 30% higher than the prices usually paid for iron and steel imported from France.

Aid tying also resulted in donor governments using “credit guarantees” to ensure that recipients import from the donor countries. The credit guarantee is a private credit facility provided in the form of export credit by institutions in donor countries even though it is linked to official policy of the donor government. Some of the export credit guarantees who have been very active in providing aid to Ghana since the inception of the ERP in 1983 include among others the Export Credit Guarantee Department of the United Kingdom, the Banque Francais du Commerce Exterieur of France, Export-Import Banks of Japan and the USA as well as the Ausfuhrkredit and Kreiditanstalt fur Wiederaufhan of Germany (Osei, 2003: 6). The aid tying concept does not benefit recipient countries. Ghana for instance, has been paying more for tied aid imports than for non-aid imports. Between 1990 and 1997 alone, the unit value of tied aid imports substantially exceeded that of non-aid commodities at a ratio of 3:1 while price margins between tied aid imports and non-aid imports represents a ratio of 2:1 peaking the price differences between tied aid imports and non-aid imports at a cost of US\$ 350 million at an average of US\$40 per year between 1990 and 1997 (Osei, 2003: 9).

### *Aid dependency syndrome*

The magnitude of donor aid inflow into poor countries has rendered most of the recipient countries dependent on aid. Foreign aid dependency is said to occur when the recipient government is unable to meet the needs of the citizens without donor assistance (Actionaid, 2013: 17). Dependency on aid can make it very difficult for recipient countries to initiate and promote any form of economic growth and development. Between 2003 and 2012, when aid flow to Ghana was at its peak, the

country witnessed an unprecedented growth to the admiration of both donors and citizens of the recipient country. However, the growth could not be sustained beyond 2012. Between 2013 and 2014 when donor aid flows were reduced, all economic indicators (especially the value of the country's currency) pointed to the negative. However, if the high growth rate which characterized the country between 2008 and 2012 was internally generated, it would have been possible for the leaders to bring the country to sound footings (Bawumia, 2014).

The long term effects of aid dependency are that the recipient governments tend to be more accountable to the donor community instead of their own citizens. Aid dependency also compromises the autonomy of a country. This is because all strategic policies would have to be drafted with inputs from the donor community. On 15 May 2014, the British Broadcasting Corporation (BBC) announced that the relationship between the donor community and the Malawian government under President Joyce Banda has taken a knock because the Malawian government turned down the request by the donor community to legalize same sex marriage in the country. Consequently, donors threatened to withdraw assistance to Banda's government. This created panic and anxiety among Malawians who questioned whether the country can survive without donor assistance because 40% the county's budget is donor funded (BBC, 2014).

According to Moss (2007: 131) apart from compromising the sovereignty of a country when a country becomes aid dependent, the dependent countries become poorer and unable to harness resources on their own to promote meaningful development necessary to promote economic growth and development which could help curb poverty. In Ghana for instance, between 1983 and 1999 when the country became aid dependent as a result of the high inflows of donor assistance to finance the ERPs, the country became poor and indebted to such an extent that by the year 2000, the debt ratio of the country became higher than the average debt ratio in Sub-Saharan Africa (SSA) as detailed in

section 3.2.2 (IMF, 2007). Against the background that Ghana has witnessed significant inflow of donor aid since independence in 1957, the research problem of this study is to analyse the role of foreign donor aid in promoting sustainable economic growth and poverty alleviation in the country.

The arguments put forward by both the proponents and opponents of donor aid are inconclusive because promoting economic development is a multidimensional phenomenon which transcends the provision and acceptance of foreign donor aid because development involves “major changes in social structures, popular attitudes, and national institutions as well as the acceleration of economic growth, the reduction of inequality, and the eradication of poverty” (Todaro & Smith, 2009: 16). Development, from this perspective involves a complete transformation in the social system of a society or a country to meet the needs and aspirations of the citizens who deviates from the conventional way of regarding a life condition as better (ibid).

## **2.6 Conclusion**

The chapter first looked at development in the context of this study which focuses on foreign donor aid and economic development and poverty alleviation. In the 1950s and a in the 1960s, development theories were significantly based on the “two-gap”, “resource-gap”, “big-push” and the “trickle-down” theories. Foreign aid was provided during these decades to help fill the gaps and also serve as the catalyst for a “big push” into prosperity especially in the urban centres so that the effect could trickle-down to the rural sections of the society. However, before the end of the 1960s, the modernization development model had failed to promote prosperity in developing countries. The discontent against the modernisation theory ushered in a new development model in the 1970s — the dependency development model. The development model in the 1970s shifted from the macro-economic big-push approach to a rural-centred IRD and BNA. Foreign aid in the 1970s, therefore, was directed towards poverty alleviation in rural communities of developing countries.

The 1980s which became known as the “lost decade of development” witnessed the introduction of the Washington Consensus with its neoliberal concepts such as the SAPs. The neoliberal model saw the state being pushed back from the development agenda in developing countries and the market assuming the centre stage of development. The SAPs was introduced to assist developing countries manage their debts. Hence, SAP was considered as a “house cleaning” process in developing countries. Foreign aid in the 1980s was also aimed at the promotion of neoliberal programmes in Low-Income Countries. By the end of the 1980s, however, the neoliberal development programme had failed dismally to promote universal development in LDCs. The withdrawal of the state brought about huge suffering to the poor and marginalized in developing countries. Based on the suffering of the marginalized in developing countries, the donor community consequently called for a “human face” to the adjustment scheme. This led to the introduction of the Post-Washington Consensus in the 1990s to provide leverage for the down trodden in society to the reintroduction of the state in the development of LDCs. The state and the market were to prevail in promoting development in Low-Income Countries. Foreign aid resources were consequently directed towards the PWC development model. The New Millennium also ushered in a different development approach in LDCs. The development agenda of the millennium was peace, security and the promotion of the MDGs funded by aid. The attack on America on September 11, 2001 intensified the call for global peace and development, especially in developing countries in order to curtail the spread of terrorism among the poor. In an effort to ensure sustainable development in deprived regions in the world to ensure global peace, world leaders agreed on the MDGs as the medium.

Apart from the development theories that influence donor assistance, the chapter also considered some of the contemporary debates surrounding the donor scheme. The contemporary aid debate reflects mainly two opposing views namely those of the pro-aid scholars versus the anti-aid proponents. The



pro-aid scholars are of the view that aid could help initiate and promote sustainable economic growth by bridging the savings gap that has characterized the country since independence and also help reform and build institutions which could underpin lasting economic growth and poverty alleviation. On the contrary, the anti-aid scholars perceive donor aid as the main obstacle to sustainable growth and development in LDCs. The anti-aid scholars further indicate that aid has created a dependency syndrome which exposes the country to all forms of external shocks. The next chapter presents the case of Ghana with specific focus on the political arena and the economic theories that had prevailed in Ghana from 1957 to 2008 and the impact of foreign aid on the economic development of the country.

## CHAPTER THREE

### OVERVIEW OF POLITICAL AND ECONOMIC DEVELOPMENT IN GHANA

#### 3.1 Introduction

In 1957, when Ghana became the first country in Sub-Saharan African (SSA) to gain independence from colonial rule, the country became the beacon of hope for economic and political liberation for Africans on the continent and in the Diaspora. However, from 1966 to date, Ghana is classified by the World Bank as a poor and heavily indebted country with high dependency on donor assistance in addition to the inconsistent political and policy history the country is faced with. Some development experts such as Moyo (2009) and Easterly (2006) attribute the challenges facing Ghana to donor influence while scholars such as Sachs (2005) and Brown (2005) call for more aid to enable the country's take-off.

This chapter traces the political and development evolution in Ghana between 1957 and 2008. The description is done in phases. The first phase deals with the period from 1957 to 1965 and is referred to as the *Black Star Era* (1957-1965). The second phase deals with the period from 1966 to 1982 which the study refers to as the *Dark Days*. The period between 1982 and 1992 is referred to as the *Era of Reforms* while the period from 1992 to 2008 is called the *Era of Hope*. Particular attention is also paid to the trend of donor aid inflows and the influence of the donor resources on the development of the country.

##### 3.1.1 Phase I: The Black Star Era (1957-1966)

The period between 1957 and 1965 is referred to as the Era of Black Star, meaning the hope of Africa because on the 6th of March 1957, Ghana became independent, therefore, the hope for the entire liberation of the black race within the African continent and those in the Diaspora. This aspiration was

rekindled by Nkrumah in his famous speech in which he declared that “the independence of Ghana is meaningless, unless it’s linked to the entire liberation of the African continent” (Essuman, 2010: 1).

Nkrumah and the Convention Peoples’ Party (CPP) took over the leadership of the country from the colonial administration and sought to transform the structure of the Ghanaian economy from primary commodity producer, which the colonial administration presided over, to an industrial economy, capable of transforming the bountiful raw materials in the country into finished products based on the modernization theory (see section 2.2). With the assistance of the United Nations, Nkrumah secured the services of Arthur Lewis as the economic advisor on the Ghanaian economy. Lewis, an ardent modernist as indicated in section 2.2.2, acknowledged the idea of industrialization in Ghana as the best way of promoting development and raising the standard of living of Ghanaians. However, Lewis noted that industrialization in Ghana could only succeed if it was preceded by agricultural development so that the industry could have access to a regular supply of raw materials (Anin, 2003:20). With guidance from Lewis, Nkrumah embarked upon large scale commercial farming in Ghana. These farms among others included the 22,000 acre rubber plantation and a palm oil plantation in the Western Region of Ghana; sugar cane plantation at Asutuare in the Eastern Region; poultry farm at Odorkor in the Greater Accra Region; 1000 acres cotton farm at Zongo Macheri on the West Coast and Cattle farms in the Volta Region of Ghana (Woode, 2012: 13-14). These farms were managed by the State Farms Corporation which was established by Nkrumah to manage the state farms in the country. For consistency in the modernization drive in the country, Nkrumah’s development programs were comprehensively captured in strategic documents which he called development plans. The first development plan was known as the 10-Year Development Plan which commenced in 1951 and ended in 1961. The plan sought to modernize the country through the establishment of import substitution industries in Ghana. Under the 10-Year plan, the country spent about £37,900, 000<sup>6</sup> on a number of industrial projects with the Ghana Industrial Holding Corporation (GIHOC) to co-ordinate and

supervise activities relating to the industrial sector in the country. By end of 1959, the government had established twenty two (22) import substitution industries in major cities and towns in the country which sought to rely extensively on local raw materials in producing goods for the local market and markets abroad.

The second plan which was a 7-Year Development Plan came into effect in 1964 and was scheduled to end in 1970. The 7-Year plan also sought to promote sustainable development and to continue with the industrialization drive based on the socialist pattern of production and distribution of goods and services. Nkrumah subscribed to the socialist approach because according to him, “Capitalism is too complicated for a newly independent state; hence, the need for a socialist society” (Nkrumah, 1957: 9; Fosu & Aryeetey, 2008: 49). Moreover, as part of his quest to modernize the Ghanaian economy through industrialization, Nkrumah succeeded in establishing import substitution industries such as the vegetable oil industry mill, the chocolate manufacturing industry, textile and shoe manufacturing industries, tobacco manufacturing industry, beer brewery, fruit canning industry, and the cement manufacturing industry (Government of Ghana, 2012). In order to protect the infant industries in the country from unhealthy competition from abroad, the government granted the infant industries tax holidays and exemptions from paying tax on imported inputs. The government also introduced protectionist policies such as high protective tariffs, protective barriers in the form of import quotas or bans, exchange rate control, and subsidies on local products. As a result, between 1957 and 1966, the industrial sector contributed approximately 14% to the country’s share of export and also around 9% to the GDP of the country (Osei, 1995; Vordzorgbe & Caiquo, 2001:11; Fosu & Aryeetey, 2008: 49).

In an attempt to facilitate government industrialisation projects, Nkrumah embarked upon extensive infrastructure development in the country. The infrastructure development commenced with road construction which included the construction of the Accra-Tema motorway, Accra- Takoradi-Axim,

and Takoradi-Tarkwa roads. The Volta region was also linked to the rest of the country with the construction of the Adomi Bridge over the Volta Lake in 1956 at a cost of £690,000. By 1957, the government had constructed over 1600 kilometres of major roads in the country (Government of Ghana, 2013). The railway network also received a boost under Nkrumah's administration. A new railway line was constructed from Achiase on the Huni- Valley-Kade line to join the Accra-Kumasi rail line at Kotoku, near Nsawam in order to reduce the travelling distance between Sekondi-Takoradi to Accra. Another railway line was also built to link Achimota to Tema. In addition, the government also constructed the Volta Hydro-Electric Dam with the anticipation of providing a cheaper source of electricity power to the country's industries. The dam which was completed in 1966 was funded by the government of Ghana which contributed £35 million with support from the World Bank's contribution of £17 million and the US government contributed £47 million. VALCO contributed £12 million whilst the UK government contributed £5 million. Nkrumah also decongested the Takoradi harbor by constructing the Tema fishing harbor at a cost of £18 million. Air transport in Ghana was also given a facelift under Nkrumah when the Ghana Airways was established in 1958 and in the same year, Ghana Airway had its first international flight from Ghana to London via Barcelona in conjunction with the British Overseas Airline Corporation (BOAC). By 1961, the government had secured twenty aircrafts for the country. In 1963, an Act of Parliament (Act 181) bestowed on Ghana Airways a corporate identity, thereby, changing the name to Ghana Airways Corporation. In the same year, Ghana Airways introduced new runways in Accra Airport in addition to the introduction of jet aircraft services to improve the operation of the cooperation (Ministry of Local Government and Rural Development, 2006).

Nkrumah relied extensively on Internally Generated Funds (IGF) to carry out most of the industrialization projects immediately after independence. At independence, Ghana had over £500 million in foreign exchange reserves with a GDP per capita income of about \$300, equivalent to the

per capita income of South Korea and higher than Malaysia, with a per capita income of \$270 (Fosu & Aryeetey, 2008: 48). Besides the £200 million which the country inherited from the colonial masters, Ghana also derived substantial revenues from the agricultural sector especially from cocoa production which commanded favourable prices in the early part of the 1950s. Agriculture became the major contributor to about half of the country's GDP with cocoa alone contributing about 60 percent of total export earnings of the economy (Buah, 1998). Ghana became the leading producer and exporter of cocoa in the 1950s with total output estimated of 570 000 tons per annum. Foreign reserves at independence were very healthy as a result of booming cocoa exports and an abundant supply of labour, which included migrants from neighbouring countries. Apart from the contribution from the agricultural sector, the country also benefited from the revenue from the rich mineral depots such as gold, diamond and bauxite as well as from other natural resources such as timber, salt and the Atlantic sea (Buah, 1998: 168).

Foreign donor aid to Ghana between the second half of the 1950s and the first half of the 1960s was very minimal as compared to a country like South Korea which was at par with Ghana in terms of economic growth and development in the 1960s (Kim, 2013:2). The low inflows of aid into the country could be traced to two major reasons. Firstly, Nkrumah and his newly independent government inherited vast reserves from the departing colonial masters; and secondly, the CPP government was skeptical of the US government and the UK leadership, the major aid providers. However, by mid-1960s Ghana encountered major economic crises which disturbed economic growth and development in the country. Ghana's foreign reserve dried up making it difficult for the government to import essential goods and services into the country. The economic challenges stemmed from falling commodity prices on the world market and the mega industrialization programs which the government embraced at the time. As a result, the government had to turn to the West, especially the US and the UK governments for import loans to enable the government to continue with its industrialization

projects and also enable the importation of essential commodities into the country. This type of arrangement with the donor community enabled the CPP government to construct one of the biggest infrastructural projects in the country- the Akosombo Hydro-Electric Dam. Donor assistance to Ghana was short-lived when Nkrumah refused to accept the terms and conditions attached to a loan facility the country tried to secure from the World Bank and the IMF in 1965. As a result, the CPP government resorted to borrowing from abroad under “supplier’s credit” (Ayittey, 2009: 163-164). With the Supplier’s Credit (SC) approach, a service provider was supposed to obtain credit from private banks and have it guaranteed by his own country’s governmental export credit insurance organization. After this arrangement, any future dealings would be between Ghana and the export credit organization and not with the peddler again. The SC scheme left in its wake corruption, fraud and shady deals (Ministry of Local Government and Rural Development, 2006). Ghana bought in many cases obsolete equipment at very high prices which led to huge foreign debts of about \$391 million (Ayittey, 2009: 164). According to Ayittey, under the SC, the government for instance bought three Ilyushin jets from the Soviet Union which turned out to be old jets that had been repainted. In another incident, the Apaloo Commission (1967) reported that Parkinson-Howard, who built Accra-Tema Motorway, the Tema Harbour extension, and the dry docks and steelworks, paid a total of \$680, 000 bribes between 1958 and 1963 in three installments to certain ministers (Vondee, 2011: 6).

In an attempt to confront the economic challenges facing the country, the government actively generated employment by expanding the public sector, which resulted in a 250% increase of publicly paid employees between 1957 and 1966. However, the solution put up by Nkrumah was short-lived because world cocoa prices, the main source of revenue for the government, collapsed in the second half of 1964 and all attempts by Nkrumah to salvage the economy proved futile and this eventually undermined his support in the country and eventually led to his removal from office in a military coup in February 1966 (Ajei 2007:3).

### 3.1.2 The Dark Days (1966-1981)

The second phase which is referred to as the Dark Days in the economic history of Ghana, can be described as the most turbulent era in the development of the country. This phase was characterized by political instability, seven changes in the political leadership of which five were military leaderships and inconsistent policy choices (Kilick, 2010: 398; also see Table 3.1). The political instability significantly affected economic development and donor aid allocation to the country. This section, therefore, traces the political evolution in Ghana from 1966 to 1981 and emphasizes the development theories which prevailed over the period and the resultant responses from the donor community. This period will be divided into subsections for more clarity and precision.

Government	Type	Economic Orientation
Nkrumah K. (1957-1966)	Civilian	Protectionism
National Liberation Council (1966-1969)	Military	Market Oriented
Busia K.K (1969-1972)	Civilian	Market Oriented
National Redemption Council (1972-1977):	Military	Protectionism
Supreme Military Council I	Military	Protectionism
Supreme Military Council II	Military	Protectionism
Armed Forces Revolutionary Council (1979)	Military	Protectionism
Limann H. (1979-1981)	Civilian	Market Oriented
Provisional National Defense Council (1981-1992)	Military	Market Oriented
National Democratic Congress (1992-2000)	Civilian	Market Oriented
New Patriotic Party (2000-2008)	Civilian	Market Oriented

Table 3.1: Political history of Ghana (1957-2008)  
Source: Ayeetey and Kanbur (2008).



### **3.1.2.1 The NLC: 1966-1969**

On 24<sup>th</sup> February 1966 when Nkrumah was out of the country on a peace mission in Hanoi, the Far East, the Ghana armed forces, with the assistance of members of the Ghana police service, announced the overthrow of the government and a new regime, the National Liberation Council (NLC), was constituted under the chairmanship of Lt. General J.A. Ankrah, a retired head of the Ghana armed forces (Buah, 1998: 194). When in office, the NLC sought to continue with the modernization agenda of the predecessor, the CPP government, but based on the market approach because the socialist orientation of Nkrumah was criticized by the NLC leadership as anti-development and too slow for the needed take-off in Ghana. Hence, a two-year Development Plan (1968/69-1969/70) which was subtitled “From Stabilization to Development” was introduced with the anticipation of reversing the economic woes which were inherited from Nkrumah and his CPP administration (Killick, 2010: 156). The NLC overturned the socialist policies of Nkrumah and introduced neo-liberal policies such as trade liberalization, and the devaluation of the local currency, Cedi with the help of the IMF. In addition, the regime also sought to reschedule the country’s debts which were accumulated by its predecessor in response to the balance-of-payments crisis which confronted the country in 1965/66 financial year. In collaboration with the IMF, creditors of Ghana agreed to postpone 80% of the debt due in 1966 to 1970 (Quartey, 2005: 15; Fosu & Aryeetey, 2008: 49).

The NLC also attempted to reverse some of Nkrumah’s import substitution (ISI) policies and implement a more market-oriented and private sector driven approach. Government budgetary expenditures were drastically reduced and the Central Bank of Ghana’s lending to commercial banks and the private sector was also significantly curtailed. In addition, the economy of Ghana was opened to the rest of the world. Trade was liberalized and discriminatory import and export policies which the previous government professed were abolished. The NLC also abandoned most of the “unprofitable” projects which were initiated by Nkrumah to private investors (Hutchful, 1987:18-19).

The NLC reduced government's involvement in the management of the economy and instead made room for market intervention in the production of goods and services. In addition to the liberalization of the Ghanaian economy, the NLC government established the National Economic Committee (NEC) to ensure economic rehabilitation and also acknowledge the interdependence between industrial sector and rural agricultural sector. The NLC leadership reduced public capital expenditure by 50% and introduced a Three-Stage programme of action. The first stage was to alleviate the problem of foreign exchange shortage and the shortage of basic commodities like sugar and milk which had crippled the economy under the previous government. The second stage was tasked with the elimination of economic distortions which prevailed in the previous administration and put the economy on sound economic footings. The third and the final phase was devoted to effective implementation of the two stages of action (World Bank, 2008:24).

However, since the reserves of the Ghanaian economy was depleted by the CPP government, the NLC had to look up to the donor community for assistance to bridge the "savings and the reserve traps" (Killick, 2010). The period immediately after Nkrumah, however, witnessed a sharp increase in donor inflows into the economy of Ghana in an attempt to salvage the economy. The military junta, the National Liberation Council (NLC) which succeeded the CPP, attracted assistance in the form of loans and foreign donor aid totaling US\$90 million from Western countries and over \$20 million from the IMF and the World Bank to restructure the Ghanaian economy from pro-socialist to a liberal economy (Riddell, 2007:11; CIA World Fact book, 2011).

The NLC were only successful in the short-term because contingency fiscal and monetary policies which were carried out by the NLC resulted in high levels of inflation, economic deterioration and human suffering because by the end of 1967 about 70 000 people who were employed in the formal

sector had lost their jobs and economic growth and development plummeted in the midst of hyperinflation (Ayeetey, 2003). The NLC became very unpopular among both ordinary Ghanaians and the military. As a result, in April 1967, an unsuccessful insurrection within the army to overthrow the NLC leadership resulted in the death of Lt. General E.K. Kotoka, the leader of the 1966 coup d'état. This incident compelled the Chairman of the military junta, Lt. General Ankrah to resign from the leadership of the government in 1969 and was subsequently replaced by Brigadier A.A Afrifa, the supposed "architect" of the 1966 coup d'état (GoG, 2000). Consequently, the NLC was advised by the Breton Wood institutions to hand over the leadership of the country to a democratically elected administration. In 1968, the NLC relinquished power and permitted a civilian government to take over the leadership of the country (World Bank 2005:5). The next section discusses the transfer of power from the NLC to the Progress Party under the leadership of Kofi Busia.

### **3.1.2.2 Progress Party: 1969 to 1972**

After almost three years in office, the NLC handed over power to Busia and his Progress Party (PP) through a democratic election process in August 1969 (McLaughlin & Owusu-Ansah, 1994:5). The Progress Party (PP)<sup>1</sup> under the leadership of Kofi A. Busia came to power when the Ghanaian economy was on the brink of collapse. The PP government inherited a total debt of US\$580 million from the previous government, an amount equivalent to 25 percent of the Gross Domestic Product (GDP) of the country in 1969. By 1971, the US\$580 million had been further inflated by US\$72 million in accrued interest payments and US\$296 million in short-term commercial credits (McLaughlin & Owusu-Ansa, 1994: 3). The indebtedness which characterized the 1970s can be traced to the loans which were

---

<sup>1</sup> The Progress Party (PP) won the 1969 election and Busia who was the PP leader became the Prime Minister of Ghana while Chief Justice Edward Akufo Addo was chosen as the president of the country by the Electoral College in 1970. After the election in 1969, an interim presidential commission comprising Major Afrifa, General Harlley, the Police Inspector of the NLC and Major General A.K. Ocran served as the elected president from 1969 up to 1970 (McLaughlin and Owusu-Ansa, 1994:2).

contracted in the 1960s for the industrialization drive in the country. This economic challenge resulted in high levels of poverty, with inflation reaching 30% and GDP growth of 12% (Moyo, 2009).

The extent of indebtedness and balance of trade challenges which confronted the country at the time made it almost impossible for the government to function; hence, the PP government engaged the country's creditors in order to reschedule the country's debt so as to prevent default (Killick, 2010: 119). Busia also adopted a number of austerity measures to guard against further economic collapse and that placed the country on a sound financial footing. As part of the austerity plans, Busia expelled large numbers of undocumented foreigners, especially Nigerians from Ghana. This was followed by a measure to limit foreign involvement in small businesses in the country in order to give Ghanaian entrepreneurs the leverage in that sector devoid of unhealthy competition from foreigners. The moves were aimed at relieving the burden of unemployment in the country by creating jobs for Ghanaian entrepreneurs in the retail sector of the economy which was previously monopolized by Lebanese, Asians, and Nigerians. Busia also devalued the national currency (the Cedi) and encouraged foreign investment in the industrial sector of the economy against the will of most Ghanaians who perceived these policies as conservative that could undermine the country's sovereignty (McLaughlin and Owusu-Ansa, 1994: 3; Government of Ghana, 2008:13). By the 1970s, the modernization theory had failed to promote the needed economic growth and development longed for by a developing nation but rather left in its wake, economic challenges such as unemployment, underdevelopment, poverty, balance of trade deficits, indebtedness and aid dependency (Hewitt, 2000: 294) as indicated in section 2.3. The failure of the modernization theory saw the evolution of new development approaches: Integrated Rural Development (IRD) and the basic needs approach (BNA). IRD advocated rural development through small-scale income-generating activities and agriculture development in an attempt to promote economic development from microeconomic up to the macroeconomic level while the BNA encouraged development through indigenization and improved

access to market for locally produced commodities through incorporated intervention programs such as micro-credit, capacity building and small-scale rural industrialization with the intention to support the rural communities (see section 2.3).

Busia embraced this development approach and extended electricity to almost all rural areas in the country to encourage small scale industries in local communities. He also constructed feeder roads to link farming communities to major market centres in the country in addition to the dams which were built in farming communities to encourage farming throughout the year. Clinics, pipe bore water and schools were also built in rural communities. The aim was to reduce the growing trend of inequality and increasing poverty in Ghana to ensure that rural communities are capacitated to become self-reliant by meeting their basic needs such as food, shelter and infrastructure (De Beer, du Plessis, Liebenberg & Moloi, 2001: 96). The change in development focus also altered the approach of administering foreign aid in the country. The focus of aid providers shifted from large-scale capital projects to funding a multitude of smaller, more specific rural development and poverty reduction projects. Foreign aid in Ghana was directed towards supporting redistribution of growth, fulfilment of basic needs, poverty alleviation and promoting integrated rural development by encouraging smallholdings in agricultural sector especially in rural communities (Jomo & Fine, 2006: 23). Consequently, Busia's economic policies were informed by the idea of an efficient food production and distribution system. As a result, the government under Busia instituted measures for increasing agricultural production and emphasized the expansion of production of food crops such as rice, maize and sugar-cane; an initiative which was encouraged by both the CPP government and the NLC government. Livestock production also saw a major boost under the government's initiative to promote economic growth through agriculture.

This economic policy led to the government embarking upon extensive national infrastructure development especially in the rural communities of the country contrary to the two-sector model which

emphasized the development of selected cities in the country (Okoampa-Ahoofe, Jr, 2005: 3). The basic needs paradigm necessitated an upsurge of stakeholders in the aid industry.

Multilateral institutions such as the World Bank and the IMF, the European Development Bank, the OPEC Special Fund, the International Fund for Agricultural Development, the UNDP, and the Arab Bank for Economic Development in Africa, the African Development Bank and the Commonwealth Development Corporation became very involved in the economic affairs of Ghana through the aid scheme (Ayittey, 2005: 152). The donor community also provided long-term development aid to Busia's government in the form of program support without conditions. Hence, by the beginning of 1970, total aid commitment to Ghana became equivalent to 19% of imports, 20% of government revenue and 27% of gross investment. On per capital basis, aid contributed \$7.1 to the Ghanaian economy, a figure which is higher than the average contribution to all LDCs (Killick, 2010: 120).

Even though the austerity programs were recommended by the International Monetary Fund (IMF), the recovery measures severely affected the middle class and the salaried work force, both of which faced wage freezes, tax increases, currency devaluations, and rising import prices. By the end of 1971, the economy found itself in the same position as it was in 1965 with increasing fiscal and current account deficits. The government responded with a devaluation of the Cedi at the end of that year. Despite broad popular support garnered at its inception and strong foreign connections, the Busia government was overthrown by the military within twenty- seven months of taking over the reins of Ghana (Government of Ghana, 2008:14).

### **3.1.2.3 National Redemption Council (1972-1978)**

The National Redemption Council (NRC) under the leadership of Lieutenant Colonel Ignatius Kutu Acheampong overthrew Busia's administration on January 13, 1972 in a military coup d'état. Unlike the coup leaders of the NLC, members of the NRC did not outline any plan for the return of the nation to democratic rule. The NRC sought to create a truly military government; hence, in October 1975, the ruling council was reorganized into the Supreme Military Council (SMC), and its membership was restricted to a few senior military officers. The intent was to consolidate the military's hold over government administration and to address occasional disagreements, conflicts, and suspicions within the armed forces. Little input from the civilian sector was allowed, and no offers were made to return any part of the government to civilian control during the SMC's first five years in power. SMC members believed that the country's problems were caused by a lack of organization, which could be solved by applying military organization and thinking. Officers were put in charge of all ministries and state enterprises; junior officers and sergeants were assigned leadership roles down to the local level in every government department (McLaughlin & Owusu-Ansah, 1994:16).

The NRC took over the reins of the country with the expectation of reversing the unpopular economic policies of the PP administration. However, the NRC also continued with the integrated rural development (IRD) and the basic needs approach (BNA) under state control. The government assumed full responsibility for all economic policies and decisions under the NRC regime contrary to what prevailed under the NLC and the PP governments. In an attempt to mitigate the debt burden and the poverty of the Ghanaian economy, Acheampong embarked upon an austerity program which emphasized food production and self-reliance through the Operation Feed Yourself Program (OFYP). Under the OFYP, Ghanaians were encouraged to undertake some form of food production, with the goal of eventual food self-sufficiency for the country (Killick, 2010: 399).

According to Frimpong-Mensah (1991: 109), this was the only period in the history of Ghana when public policy was actively in favour of promoting food security in Ghana. The policy was state-driven; therefore, the NRC government provided price supports for basic food imports (Fosu & Aryeetey, 2008: 42). As part of the economic austerity measure, the military junta also repudiated US\$90 million of the country's debts to British companies, and the unilateral rescheduling of the rest of the country's debts for payment over fifty years. The NRC also nationalized all large foreign-owned companies in the country (Killick, 2010).

The arbitrary economic policies which were carried out by the NRC strained the relationship between Ghana and the development partners from abroad. Major donor countries such as the USA and the UK stopped delivering aid to Ghana while foreign direct investment (FDI) also decreased significantly. McLaughlin and Owusu-Ansah (1994:10) indicated that foreign direct investment in the country fell from 14% in 1972 to a dismal 7% in 1975. The sharp decline in investment culminated in a sharp fall in export earnings, shortage of foreign exchange, imported goods and an increase in poverty levels in the country.

These imbalances negatively affected real economic growth, real per capita income and the standard of living of the people in the country to the extent that a large proportion of the labour force in the country was compelled to relocate abroad for greener pastures (Anarfi, Kwankye, Ababio & Tiemoko, 2003:6). The migration significantly affected production in Ghana especially in the agriculture sector. Ghana has the highest rate of skilled emigrants of which about 38% of these emigrants who live in Organization for Economic Cooperation and Development (OECD) possess medium skills while 27.6% are highly skilled (Anarfi, et al. 2003). The government therefore had to rely on food imports with its meager foreign reserves. Apart from the agricultural sector, the revenue from taxation was also severely affected since the sectors that provided the tax base



diminished as a result of the migration. By 1975, Ghana was recording the lowest growth of -12% (Fosu & Aryeetey, 2008: 38).

The economic hardship that characterized the Acheampong's leadership saw frequent demonstration from the public sector. In an attempt to contain the situation, Acheampong appointed a Constitutional Commission which comprised Ghanaians from different backgrounds with the task of drawing up a proposal for a new constitution which was supposed to usher the country into a new political dispensation called the "national government" which was to comprise the civilian population, some members of the armed forces and the police as well as members of all the political parties in the country. The commission could not accomplish its mandate before the army removed General Acheampong from office in 1978 (Buah, 1998: 203).

#### **3.1.2.4 Supreme Military Council II (1978-1979)**

In an attempt to salvage the image of the army among Ghanaians, the military removed Acheampong from office as the head of state, forced him to resign from the army and kept him under house arrest. Consequently, Lt. General F.W.K. Akuffo who was the head of the Command of the Ghana Armed Forces was appointed as the leader of the SMC I. Akuffo also reconstituted the SMC I and renamed it the Supreme Military Council II (SMC II). The head of the SMC II sought to find permanent solutions to Ghana's ailing economy by instituting austerity economic measures just like his predecessors. The first step was to devalue the cedi and reduce government spending which had blown out of proportion in relation to the revenue which the government was able to collect at the time. The SMC II administration was short-lived because on June 4, 1979, a coupe d'état removed the government from office (CIA, 2011).

### **3.1.2.5 Rawlings and the Limann Dance (1979-1981)**

On 4th June 1979, the Armed Forces Revolution Council (AFRC), under the leadership of Jerry John Rawlings and some junior ranked army officers, toppled the SMC II government. The AFRC carried out a “house cleaning” operation in which Gen. Acheampong, Gen. Akuffo, and Lt-Gen. Afrifa, the leaders of the ousted SMC I and II and other high ranked officers were executed by firing squad (Arnold, 2005: 672). The “house cleaning” operations were extended to every part of Ghana. Tribunals were established and citizens who had benefited from the previous administration through corruption, hoarding and profiteering were brought to justice. In the midst of this shake up, elections were held and the People’s National Party (PNP) under the leadership of Hilla Limann won the election. The AFRC handed over power to Limann on 24 September 1979 which ushered in the Third Republic in Ghana.

Limann assumed office at a time when the Ghanaian economy was near collapse. By 1979, Ghana was registering a budget deficit of 40% and inflation figures recorded 54% in the same period. This was compounded by high levels of unemployment, poverty, deteriorated public infrastructure and depleted foreign reserves (Agyeman-Duah, 2008). On taking office, Limann’s administration sought to correct these economic imbalances in order to bring relief to the Ghanaian population. The PNP government continued with the Integrated Rural Development (IRD) and the Basic Needs Approach (BNA) which sought to promote self-reliance, nationalization of private assets and the adoption of indigenous technology in production at the community level. Unlike the prior government, the PNP government enjoyed good relationships with the donor community because it was democratically elected.

As a result, donor aid inflows to fund basic needs, poverty alleviation and promoting integrated rural development by encouraging smallholdings in agricultural sector especially in rural communities

gained momentum (Jomo & Fine, 2006: 23). The Limann administration, therefore, introduced a Two-year Reconstruction Program which focused on food production, increasing exports and the reconstruction of the country's infrastructure especially roads to open up markets for food production communities in the country. This policy direction saw the construction of a modern bridge over Ankobra River to link the Western Region to other parts of the country (CIA, 2011). The country's economic situation, however, did not see any improvement under Limann's administration. Rather, within this period, the country's external debt mounted since most of the aid given to the country came in the form of multilateral loans instead of grants. Ghana's foreign debt increased substantially to US\$1407 million in 1980 (Harrigan & Younger 2000). The PNP lasted for barely more than two years when Rawlings seized power again and established the Provisional National Defence Council (PNDC) on 31 December 1981 (Arnold, 2005: 673).

### **3.1.3 The Reform Era (1983-1991)**

On 31 December 1981, Rawlings and his colleagues overthrew Limann's administration and established the Provisional National Defence Council (PNDC) with Rawlings as the chairperson. By the time the PNDC took over the leadership of the country, Ghana had reached a stage of near collapse as captured in table 3.2 (Dzorgbo, 2001). Per capita income values in 1982 for instance, had fallen by 30%, while export earnings were halved, and import volumes fell to one-third of their 1970 levels (World Bank, 1985:25; Aryeetey, 2005:6). The production base of the economy was generally eroded as a result of emigration of skilled labour for greener pastures as mentioned in section 3.2.2.3 above; lack of private capital formation as a result of widespread non-saving culture; and deterioration of the national infrastructure. At the same time, import volumes and retailing activities increased substantially, leading to widespread 'Kalabuleism'<sup>2</sup> (Agyeman-Duah, 2010).

---

<sup>2</sup> "Kalabulesem" is the vernacular translation of imperfect market where there is misallocation of resources and extortions.

<b>Macroeconomic</b>	<b>1970</b>	<b>1975</b>	<b>1980</b>	<b>1981</b>	<b>1982</b>
Annual GDP growth	2.2	-12.4	0.5	-3.5	-6.9
Inflation	2.0	29.8	50.2	116.5	22.3
Agriculture to GDP	44	48	53	54	55
Industry to GDP	19	21	16	14	12
Service to GDP	37	31	31	32	33
Balance of Payment	-	5.2	-1.6	-5.3	1.1
GDP per capita \$ USD	253	218	295	302	289

Table 3.2: Macroeconomic indicators in Ghana (1970-1982)

Source: World Bank (1992) cited in Osei 1995

The PNDC government initially sought to embrace the populist and anti-market development strategies in pursuit of development in Ghana. With the anti-market approach, the PNDC government sought to sever all ties with the World Bank and the IMF and to reduce the influence of the market on the economy to ensure that the state had control over the economy in order to reduce market failure<sup>3</sup>. To ensure that the PNDC government had taken control of the Ghanaian economy, measures such as price controls, import duties, quotas and tariffs were introduced. As a defensive measure, the PNDC government became hostile to the prescriptions of the West and the Breton Woods<sup>4</sup> institutions such as the World Bank and the IMF (Aryeetey & Kanbur, 2008:51). However, faced by challenges such as the famous drought of 1983 and the forced return<sup>5</sup> of over one million Ghanaians from Nigeria, the

<sup>3</sup> Market failure occurs when structures to permit the existence of a perfect market are weak, therefore, causing misallocation of resources (Todaro & Smith, 2011).

<sup>4</sup> The Bretton Woods institutions were established at the Bretton Woods Conference in 1944 to establish a new global economic framework after the economic crises of 1930 and the World War II. These institutions include the World Bank, the IMF and the UN (Potter et al, 2008).

<sup>5</sup> Under the Alien Compliance Order of 1969, Busia's government forcefully deported Nigerians and other foreign nationals who constituted about 20% of Ghana's population at the time. Nigeria retaliated in 1983 by deporting more than one million Ghanaians residing in Nigeria

PNDC government was compelled to embrace the Economic Recovery Program (ERP) which was initiated by the World Bank and the IMF (Rimmer 1992: 180).

The ERP, also referred to as neoliberalism, is a policy reform which was introduced by the Washington, D.C.-based institutions; the World Bank and the IMF which sought to end the state led development model of the 1970s in favour of a free market system because the free market approach liberates individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets and free trade (Harvey, 2005: 2). See also section 2.4.1. In Ghana, the ERP was implemented between 1983 and 1992. The adjustment period which is stratified into two phases (ERP I) spanned between 1983 and 1986 while the second phase (ERP II) commenced in 1986 and ended in 1991. Both came with general and specific objectives. The ERP I for instance focused on stabilization of the Ghanaian economy by reversing the spiral decline in the supply of goods and services as well as reducing inflation and budget deficit. The ERP II on the other hand focused on structural issues such as the mobilization of domestic resources to improve the infrastructural development and domestic savings (Cheru, 2002: 1).

From the broader perspective however, the ERP introduced several general reform programs such as a restructuring of the exchange rate. A floating exchange rate was introduced to replace the fixed exchange rate which had been in operation in the country since the 1970s. Prior to the recovery, the economy of Ghana operated with the fixed exchange rate with occasional devaluation. The introduction of the ERP saw an era of reliance on market forces in determining the exchange rate. The liberalization of the exchange rate also contributed significantly to trade liberalization in Ghana. The ERP also introduced reforms in the banking sector in Ghana. This involved the restructuring of financially stressed state owned banks in order to assist them perform effectively. Reforms in the banking sector also included strengthening the effectiveness of the Bank of Ghana in discharging its roles and responsibilities.

Lastly, the ERP also helped improve the export sector in the country. This included among other things the introduction of export bonuses to encourage exports of local products, goods and services and import surcharges to discourage imports (Anin, 2003).

The reform era witnessed a shift in the mode of delivering donor aid to developing nations. In Ghana, aid was provided in the form of budget support to assist with the implementation of the reform programs in the country (Stiglitz, 2002: 21; Ayittey, 2005:154)). Foreign aid providers insisted that Ghana abides by the policies of the ERP as recommended by the World Bank and the IMF before aid is given to the country. According to Armstrong (2008:36), the World Bank alone committed about US\$2.4 billion to restructure the Ghanaian economy between 1983 and 1996. Of this amount, 40% (UD\$1 billion) was made up of adjustment lending which was directed towards policy reforms and the development of the export sector in Ghana. This facility was to be repaid after the adjustment period with interest. Table 3.6 captures the list of policy- based loans from both the World Bank and the IMF from 1983 to 1996.

<b>IMF</b>	<b>YEAR</b>	<b>AMOUNT (US\$ MILLION)</b>
Standby	1983-1984	238.50
Standby	1984-1986	180.00
Standby	1986-1987	81.80
Extended Fund Facility	1987-1990	245.40
Structural Adjustment Facility	1987-1990	129.86
Enhanced Structural Adjustment Facility	1988-1991	368.10
Enhanced Consultation	1992-1995	0.0
Enhanced Structural Adjustment Facility	1995-1999	164.4
<b>World Bank</b>	<b>Year</b>	<b>AMOUNT (US\$ MILLION)</b>
Reconstruction Import 1	1983	40.0
Export Rehabilitation 1	1984	17.1
Export Rehabilitation 2	1984	40.12
Export Rehabilitation 3(Technical	1984	17.1

Reconstruction Import 2	1985	60.0
Health & Education	1986	15.0
Industrial sector 1	1986	24.95
Industrial sector 2	1986	28.5
Structural Adjustment	1987	80.9
Education Sector	1987	34.5
Structural Adjustment	1987	14.66
Agricultural services	1987	17.02
Structural Adjustment	1987	34.0
Institutional Support	1988	10.8
PAMSCAD	1988	10.6
Financial Sector	1988	100.0
Public Enterprise Assistance	1988	10.5
Cocoa Rehabilitation	1988	40.0
Education Sector Adjustment II	1990	50.0
Structural Adjustment III	1991	-
Financial Sector Adjustment II	1991	100.0
Agricultural Sector Adjustment Credit	1992	80.0
Private Sector Development	1995	13.0

Table 3.3: IMF & World Bank policy-based loans to Ghana (1983-1996)

Source: Armstrong (1999)

The reforms saw the donor community assisting in reforming major sectors of the Ghanaian economy. Prominent among these sectors was education. By the middle of the 1980s the country had started receiving assistance from major donors such as the World Bank, United Kingdom and the European Union and the USA as indicated in table 3.4 (Thompson & Casely-Hayford, 2008).

Aid providers	Project Name	Period	Budget	Project Focus
DfID	Whole Scho Development	1988-2005	£50 million	Support for two pilot schools in each district in Ghana.
EC	Micro- Projects	1990-1996	ECU 14.1 million	Community activities to promote education.
		1996-2000	ECU 9million	
USAID	Primary Education	1990-1995	US\$35 million	Technical assistance.
	Project Quality Improvements	1997-2004	US\$53 million	School improvement.

Table 3.4: Donors Contribution to Ghana's educational reform

Source: Thompson et al (2008)

The health sector also received its share of donor assistance. The donor community provided support in the form of technical and capacity to improve the operations within the sector. The World Bank and the IMF applauded the economic reform program in Ghana as a success. According to the World Bank (1994), the Ghanaian economy was significantly improved under the ERP with real GDP averaging 5% between 1983 and 1990 and inflation decreasing from 145% to 36% over the same period. The Ghanaians living in poverty fell from 52% to 40%, while those in extreme poverty declined from 36% to 27% between 1983 and 1991 (CDF, 2002-25). These positive economic indicators served the basis for long term economic planning in Ghana.

Though the ERP was praised as a success story, Cheru (2002) indicated that Ghana was only able to manage a mere 3% economic growth during the whole of the ERP era (1983-1992). The economy could not maintain sustainable economic growth and development due to inflationary pressures resulting from outburst in fiscal policies during general elections in 1992 and 1996. The poverty rate in the country also remained insurmountable during the ERP period. The Ghana Living Standards Survey (GLSS) (1991/1992 and 1998/1999) indicated that the number of Ghanaians living below the



poverty line in 1999 was still as high as 43%. The three northern regions were still characterized by high poverty levels notwithstanding the ERPs. See Table 3.5.

<b>Region</b>	<b>1991/1992</b>	<b>1998/1999</b>
Ashanti	41.2	27.7
Brong-Ahafo	65.0	35.8
Central	44.3	48.4
Eastern	48.0	43.7
Greater Accra	25.8	5.2
Northern	53.4	59.2
Volta	57.0	37.7
Upper East	88.4	83.9
Upper West	87.1	84.3
Western	59.6	27.3

Table 3.5: Poverty distribution according to regions in Ghana  
Source: Cheru (2002)

Rawlings, the President of the country at the time of the reform programs on the eighth anniversary of the implementation of the ERP, made the following observations about the ERP:

... I should be the first to admit the economic recovery programme launched in 1983 and since acclaimed internationally as a success, especially in the corridors of the World Bank, has not provided all the answers to our national problems. Many families continue to exercise severe constraints on their household budgets, notwithstanding the vast improvements in the supply of goods and services on the market today. There are many who have found it difficult during the Christmas holidays to manage a modest celebration with a chicken for a meal, a new dress for

a child or a bottle of Schnapps for the folks back at home. Meanwhile, we are thinking of how to meet our rents, the next term's school fees and other routine expenses. These everyday difficulties which ordinary Ghanaians have to face make it hard for us to appreciate any significant gains we have made under the Economic Recovery Programme (Anin, 2003).

By November 1987, the government of Ghana again revealed that “despite promising medium- to-long term growth prospects under the ERP, the economy is still characterized by widespread poverty.” In the same sentiment, Easterly (2001), a World Bank senior official who was actively involved in the implementation of the ERP in Ghana also noted that the recovery programme “did all the right things with a lot of World Bank money, yet it has not been the success story many have claimed.” Bawumia (1998) also indicated that the economic growth rate figures during the reform periods were bias and did not give a true reflection of the impact of the reforms on the majority of Ghanaian citizens.

Bawumia argued that the growth rate of the economy was not particularly relevant since a high growth rate was inconsistent with increased poverty and unemployment in the country during the reform periods. He further argues that though economic well-being can sometimes be measured on the basis of increased government expenditure on education, health and welfare, there was little evidence to suggest that such government outlays, directly or indirectly, benefited the poor masses in Ghana during the reform period.

The ERP period in Ghana also witnessed a cut back in employment in both the public and the private sectors. The public sector for instance shed about 200 000 jobs between 1983 and 1987. In the Cocoa Marketing Board (CMB) alone, about 52 000 workers were retrenched between 1985 and 1987. The private sector also retrenched about 48 000 under the SAP initiative. The retrenchment approach resulted in high levels of unemployment in Ghana (Kimberly, 2005: 2). Also, the conditions attached to the donor aid during the adjustment era made aid ineffective to the economy of Ghana. Apart from the fact that aid was used as a weapon in the Cold War to either turn Ghana into a communist state or

into a capitalist state, aid was tied with the intention of tying the country to the donor and its market as alluded to in chapter two. According to Ayitey (2005: 290), about “80 percent of U.S. aid is spent on American contractors, subcontractors, goods and services.”

Lastly, the SAPs could not bring about sustainable economic growth and poverty alleviation in Ghana because of its mandatory devaluation policy. The SAP mandated the devaluation of the Cedi in relation to the American Dollar. The intention was to make exports from Ghana cheaper on the international market. However, this strategy did not succeed because imports such as machinery, medicine and fuel became too expensive for Ghana (Kimberly, 2005: 3). As a result of the failures that characterized the ERP, the government of Ghana launched the Programme of Actions to Mitigate the Social Costs of Adjustment (PAMSCAD) in November 1987 with the objective of alleviating the harmful effects of the ERP. According to the Government of Ghana (1987), PAMSCAD sought to address the impact of the recovery programme on the vulnerable groups in the Ghanaian society. These vulnerable groups are mainly farmers in the northern region of the country. The loopholes that became so obvious in the ERP ushered in the Post- Washington Consensus in 1990 when the country was preparing to return to civilian rule after almost two decades of military rule under Chairman Rawlings. The PWC sought to provide remedies for all identified loopholes and criticisms levelled against the Consensus as discussed in section 2.4.3. In 1992, the PNDC government yielded to pressure from within and from the donor community and returned to constitutional rule. A national referendum in 1992 adopted a new constitution for the country. This was followed in December the same year, with a national general election which saw the National Democratic Congress (NDC) under the leadership of Rawlings emerge victorious; this, therefore, gave birth to a new constitution of the Fourth Republic (GoG, 2010).

### 3.1.4 The Era of Hope (1992-2008)

After more than a decade of military rule by the PNDC government, the Rawlings administration was forced by the donor community to return the country to constitutional rule in 1992 (Awortwi, 2011; 359). In the same year, general elections were held and the electorate voted Rawlings and his newly formed political party, the National Democratic Congress (NDC)<sup>6</sup> party into power thereby introducing the Fourth Republic.

Rawlings continued with the adjustment program which was started in 1983 but with revisions to reduce the negative impact on the citizens. A revised economic program was introduced at the beginning of the 1990s and coincided with the emergence of the Post-Washington Consensus (PWC). The Post-Washington Consensus (PWC), sought to provide remedies for all identified loopholes and criticisms levelled against the Consensus (Hewitt, 2000: 305; Jomo & Fine, 2006: 16). The PWC acknowledged the state as an integral part of development in developing countries and advocated for an integration of both the market and the state (Jomo & Fine, 2006: 16). According to Thorbecke (2000: 40), the state became a vanguard in ensuring that market imperfection is guarded against by providing the enabling environment for economic growth and making available basic services such as health, education, and infrastructure development necessary for economic growth and development. See section 2.4.3.

The inception of the PWC coincided with the end of the Cold War; therefore, the era of

---

<sup>6</sup> The PNDC government headed by Rawlings held a referendum in 1992 for Ghanaians to decide whether to return to civilian rule or not. The referendum turned out to be in favour of a civilian leadership –Fourth Republic. As a result, in December 1992, a national general election was held and the National Democratic Congress which was also headed by Rawlings won the election. Since the constitution of Ghana only allows a president to rule for four years, an election was again held in December 1996 and the NDC party again won. However, since the constitution allows a sitting president only two-terms in office, Rawlings handed over the leadership of the NDC to Atta-Mills who contested with Agyekum Kuffour in the 2000 election. The New Patriotic Party (NPP) which was led by Kuffour won the 2000 general election and also ruled for two-terms in office from the year 2000 to 2008

providing aid to dictators to oppress their populations became a thing of the past. During the Cold War, aid was used as a weapon to attract allies from the developing world to either Communism which was spearheaded by the Soviet Union or Capitalism, dominated by the USA, therefore, good governance or using aid resources for constructive purposes was not always a priority. However, after the war, good governance was reckoned as an instrument for effective management of donor assistance. Hence, the PWC advocated for the provision of aid to strengthen democratic institutions and civil societies as prerequisite for sustainable economic development in developing countries (Goldsmith, 2001). In Ghana for example, the donor community has been very instrumental in initiating and sustaining the Fourth Republic. Agencies such as the USAID, the Danish International Development Agency (DANIDA), the United Nations Development Program (UNDP), the Canadian International Development Agency (CIDA), the European Union (EU), the Netherlands Institute for Multiparty Democracy (NIMD), and the National Democratic Institute (NDI) are some of the major donors which have been involved in the democratic reforms in Ghana (Gyimah-Boadi, 2010: 2).

Apart from the electoral reforms, aid provision in the 1990s in Ghana was still geared towards the promotion of the ERP consequently donor aid took the form of commodity aid, technical aid, program and project aid (CEPA, 2005). However, during the PWC, aid was mainly in the form of loans which attracted interest over a period of time. Hence, by the end of the 1990s, the country had become heavily indebted as a result of the loans which the country contracted from the donor community to fund the economic recovery program. Therefore, between 1983 and 2000, loan aid to Ghana had amounted to US\$3.9 billion, which was equivalent to 78% of the country's GDP while household poverty had climbed to 30% around the same period (World Bank, 2000; Kim 2013). It was in the midst of this unfavourable economic climate that the New Patriotic Party (NPP) under John Agyekum Kuffour came into power after defeating the NDC party in the 2000 general election.

### **3.1.5 Kuffour and the Ghanaian Economy (2001-2008)**

In the general election in 2000, the New Patriotic Party (NPP) under the leadership of John Kuffour won and took over the reins of government of Ghana. By 2001, when the new government took over the leadership of Ghana, the country was characterized by low economic growth, high poverty rate and indebtedness. By 2001, the country's debt ratio was higher than the average debt ratio in Sub-Saharan Africa (IMF, 2007; Zounmenou, 2009:4). To mitigate the economic challenges which the government under Kuffour had inherited, Ghana had to embrace the global development approach of the new millennium which was to meet the MDGs, and also promote global peace as indicated in section 2.4.4.

In September 2000, Ghana along with 189 UN member states adopted the Millennium Development Goals (see Table 2.1) with the objective of promoting a world of “common values and renewed determination to achieve peace and decent standards of living for every man, woman and child” (NDPC, 2010: 3). In an attempt to facilitate the attainment of the MDGs by 2015, the World Bank and the IMF introduced the Highly Indebted and Poor Countries (HIPC) initiative. As indicated in section 2.4.4, even though the HIPC initiative was launched in 1996, it was in 1999 that the initiative was revised to have bearing on poverty reduction, debt relief and development programs (IMF, 2013). By 2001, Ghana qualified for the HIPC and subscribed to it in 2003. As already explained in section 2.4.4, a country qualifies for the HIPC benefits by meeting two very critical conditions: the decision and the completion point. At the decision point, a nation must meet the following conditions: eligible to borrow from the World Bank's International Development Agency and the IMF's Poverty Reduction and Growth Trust; be faced with unsustainable debt burden; have a track record of reform and sound policies from the IMF and the World Bank supported programs and finally have developed a Poverty Reduction Strategy (PRS) with stakeholders' inputs.

## **Ghana's Poverty Reduction Strategy (GPRS I)**

The poverty reduction strategy (PRS) was a prerequisite for debt relief under the HIPC initiative therefore, when the NPP government subscribed to the HIPC initiative, the government had to prepare a PRS to qualify for the benefits that are associated with HIPC. The GPRS I addressed the issue of how to create wealth by restructuring the economy towards accelerated growth, so that the objectives of poverty reduction and the protection of the vulnerable and excluded could be sustained (National Development Planning Commission, 2005: 1-2). The GPRS I helped to reduce the incidence of poverty among food crop farmers by 13% in 2005 while child mortality rate for children under five dropped from 110 to 95 per thousand and enrolment in junior secondary school rose to 65% from 61% (ILO, 2004). In the social development circles, there were increased expenditure outlays in support of the medium-term priorities of the government with regard to special programmes targeted at the vulnerable and excluded. These included the rehabilitation of street children, increased access to legal-aid services for the poor, integration of Persons With Disabilities (PWDs) into mainstream production and employment, and increased access of economically marginalized women to credit through the establishment of the government's micro-credit scheme and the Women's Development Fund supported by the government of Japan (National Development Planning Commission, 2005:10). In addition, the GPRS I also assisted in the establishment of the National Health Insurance System (NHIS) to provide access to health care for all Ghanaians at a subsidized cost, and in 2004, government again promulgated an Educational Reform Programme to assure that every Ghanaian of school age had access to free basic education as prescribed by the National Constitution and the UN's Millennium Development Goals (National Development Planning Commission, 2005: 14).

## **Ghana Growth and Poverty Reduction Strategy (GPRS II)**

In 2006, the GPRS I was replaced by the Ghana Growth and Poverty Reduction Strategy (GPRS II) (2006-2009) which was guided by the ambition of doubling the size of the economy and elevating

the Ghanaian economy into a middle-income status by 2015 (IDA & IMF, 2007: 1). The GPRS II was also designed and prepared based on the lessons and experiences derived from the implementation of the GPRS I (2003-2005). With the attainment of relative macroeconomic stability under GPRS I, the GPRS II was directed towards increasing economic growth and poverty reduction by assisting the private sector as much as possible to create wealth through shaping the acts and policies of government deliberately to generate the maximum opportunities for additional employment (National Development Planning Commission, 2005: 4-5) hence, the GPRS II was anchored on the following priorities:

#### *Macroeconomic stability*

According to the National Development Planning Commission (NDPC) (2006), the goal of the GPRS II in ensuring continued macroeconomic stability was to position Ghana as a middle-income country with per capita income of at least \$1000 with an annual GDP growth rate of between 6-8% by the year 2015. As a result, the GPRS II was geared to take care of the structured constraints at both the policy and institutional levels which impede productivity especially in the private sector which is the engine of growth and poverty alleviation in the country. This also called for prudent fiscal and monetary policies, prudent debt management and international trade.

#### *Private sector-led growth*

The GPRS II also sought to accelerate private sector-led growth by focusing on economic policies which address the major constraints confronting the private sector such as access to both domestic and international markets, access to capital, capacity to operate effectively and efficiently, institutional and legal bottlenecks, embracing new methods of production and the role of other sectors of the economy in facilitating a private sector-led growth (Adutwum, 2006: 7). Since the agricultural sector is a major contributor to Ghana's GDP, the sector received priority intervention in areas such as irrigation, access to land, access to credit and inputs to facilitate production processing,



and exportation of agricultural products. The policy also encouraged the mechanization of production in the agricultural sector and improvement in transport networks which could help open up the sector (NDPC, 2006).

### *Human resource development*

The GPRS II also sought to promote a healthy, well-trained and disciplined human resource sector to advance into a middle-income country hence, the policy emphasised the promotion of the human resource capacity and included the following:

- Education: This included among other things improved access and participation in education to all citizens of school age in every part of the country. The form of education must be relevant to the development of the country. Hence, under the GPRS II, most public secondary and tertiary institutions saw a facelift in an attempt to position them in the delivery of equal, quality and efficient education especially in Science and Technology as well as in entrepreneurship in order to produce skilled labour required by industry in Ghana.
- Health: The health sector under the GPRS II emphasized equal access to quality health care and nutrition in the country, the institutionalization of sustainable financing of the sector to incorporate the poor and ensure efficiency in the delivery of health services especially in preventative health care and environmental sanitation.
- Safe water and environmental sanitation: The GPRS II also focused on improving environmental sanitation throughout Ghana in order to protect the human resource capacity of the country and ensure that the country's development programs are in line with what the MDGs agreed upon as outlined in chapter two of this study.
- Urban housing and slumps upgrading: The GPRS II sought to provide Ghanaians decent housing as part of promoting economic growth and also ensure that workers have access to decent accommodation throughout the country.

- Population management: The strategy also incorporated measures to control population growth rate in relation to the social services and infrastructure in the country.

### *Good governance and civic responsibility*

The GPRS II enshrined good governance and civic responsibility into its strategy as a way of promoting economic growth and development. The strategy sought to empower both state and non-state machineries in the search for sustainable peace and governance in the country. This involves strengthening democratic institutions such as executive, legislature and the judiciaries as well as civil societies in an effort to ensuring separation of power, good governance and cooperative governance. In pursuit of the GPRS II priorities, the economic strategy also sought to integrate various international agreements which were relevant to the poverty reduction objectives of which Ghana is signatory. Principal among these were the Millennium Development Goals (MDGs), the New Partnership for African Development (NEPAD) and the African Peer Review Mechanism (APRM), the Convention on the Elimination of all forms of Discrimination against Women (CEDAW) and the African and Beijing Platforms for Action (NDPC, 2010). The GPRS I and II became the basis for the Multi-Donor Budget Support (MDBS) in Ghana (AFRODAD, 2005). The MDBS sought to harmonize and coordinate the policies and procedures of donors in an attempt to reduce transaction costs for the recipient country through agreeing on a common matrix and triggers against which performance is assessed to improve dialogue between government and the development partners, and conditioning funding commitments and disbursements on the achievement of the agreed targets.

Since the beginning of the new millennium, donor aid flow to Ghana had reached an unprecedented level of US\$598.17 million and further increased to US\$ 1306.93 million in 2008, and this made Ghana one of the largest recipients of aid in the world (OECD/DAC, 2013). Table 3.6 gives a good picture of the trend of aid to Ghana.

Year	ODA	Multilateral aid	Grants	Loans	Net Debt relief
1960	2.94	0.41	3.04	-	-
1961	2.97	0.36	3.37	-	-
1962	5.61	0.06	4.16	2.49	-
1963	18.01	0.83	5.13	13.86	-
1964	20.22	1.11	7.9	13.47	-
1972	<del>46.33</del>	<del>8.59</del>	<del>82.57</del>	<del>48.34</del>	-
1966	40.99	4.536	28.09	47.97	-
1967	45.38	10.367	39.32	30.70	-
1968	62.221	10.74	32.04	46.92	-
1969	61.34	20.39	47.89	29.28	-
1970	90.17	38.71	30.47	49.39	-
1978	162.48	36.37	66.18	38.04	-
1979	408.02	68.043	67.442	394.61	2.01
1980	790.85	32.451	64.031	540.88	0.38
1981	607.78	22.846	367.291	895.62	0.27
1982	598.73	20.722	62.045	968.21	0.16
1983	600.69	32.588	72.021	327.85	3.46
1984	686.22	22.98	52.87	264.87	82.8
1985	902.43	40.32	60.69	404.92	67.82
1986	1488.89	43.6	106.06	428.02	361.48
1987	4090.89	229.68	143.045	306.67	79.34
1988	575.59	326.84	229.2799	392.15	-
1989	715.53	361.79	266.15	484.25	6.81

2006	1243.24	646.62	5489.55	508.66	112.79
2007	1165.21	453.08	845.81	339.3	9.75
2008	1306.93	575.43	877.2	463.7	9.11

Table 3.6: Donor Aid to Ghana -1960-2008 (US\$ Millions)

Source: OECD (2012).

The Multi-Donor Budget Support (MDBS) became the most important way of donor support at the dawn of the new millennium in order to improve aid coordination and also ensure aid effectiveness (AFRODAD, 2005: 19). The process has contributed to greater predictability of resource inflow for budget implementation, improved aid coordination, effective tackling of poverty, enhanced growth prospects, accelerated public financial management reform and improved efficiency in donor coordination. The MDBS has also reduced the proliferation of donor conditionalities, the unpredictability of donor funding and the inconsistency between donor and government budget cycles (CEPA, 2005: 19). By 2008, the International Development Association (IDA) through the MDBS, had contributed approximately US\$1.2 billion to the Ghanaian economy in areas such as the energy sector, governance, policy reforms, private sector development and public financial management (World Bank, n.d.).

The increase in aid to Ghana was complemented by resources from HIPC funds which Ghana subscribed to in 2003. The HIPC initiative provided Ghana with debt relief of close to \$4 billion at the time when Ghana's external debt was \$6.1 billion and resulted in the cancellation of all non-concessional debts ranging between US\$ 30 to 40 million a year to the government of Ghana which enabled Ghana to save about US \$558 million in annual debt service payments (Bawumia, 2012: 5). The HIPC funded programs enabled the Ghanaian economy to attain unprecedented economic growth, high rate of employment and significant reduction in poverty in a turbulent global economy which according to Gyimah-Boadi (2008: 223) is an indication of structural economic transformation. By 2006, Ghana became the first country in Sub-Saharan Africa to half extreme

poverty; a prerequisite of the MDGs with the overall poverty rate declining from 51.7% in 1991 to 28.5% in 2005 (Government of Ghana, 2010; Andrews, 2009). Between 2000 and 2008, the annual GDP of the country had grown from 3.7% to 7.3% while per capita GDP has also increased from \$482 to \$1,266 over the same period. The performance of other macro- economic indicators is also captured in Table 3.7 (Government of Ghana, 2009).

<b>Economic Indicators</b>	<b>Unit</b>	<b>2000</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>National Accounts</b>							
GNI at Current Prices	Million US\$	6,459	8,144	9,966	11,704	13,763	15,744
GNI Per Capita	US\$	330	380	450	520	600	670
GDP at Current Prices	Million US\$	4,980.2	8,881.4	10,731.9	12,537.8	14,702.2	16,114.1
Real GDP Growth Rate	%	3.8	5.6	5.9	6.4	6.3	7.0
Real Per Capita GDP Growth Rate	%	1.4	3.2	3.6	4.1	4.1	4.9
Gross Domestic Investment	%GDP	24.0	28.4	29.0	33.3	33.8	35.9
Public Investment	%GDP	9.2	12.4	12.0	13.6	14.3	14.9
Private Investment	%GDP	14.8	16.0	17.0	19.7	19.5	21.0
Gross National Savings	%GDP	15.6	18.4	20.7	20.5	21.8	17.3
<b>Government Finance</b>							
Total Revenue & Grants	%GDP	19.8	29.7	29.1	27.8	29.5	28.4
Total Expenditure & Net Lending	%GDP	27.7	33.3	30.7	34.9	38.1	42.4
Overall Deficit(-)/Surplus (+)	%GDP	-7.9	-3.5	-1.6	-7.1	-8.7	-14.0
<b>External Sectors</b>							
Exports Volume Growth (Goods)	%	7.2	14.5	-0.9	15.4	-3.7	7.5
Imports Volume Growth (Goods)	%	-26.0	13.8	14.2	14.4	14.6	14.1
Terms of Trade Growth	%	-21.6	-21.1	-4.1	4.4	11.5	5.3
External Reserves	Months of Imports	0.7	2.4	2.2	2.0	-	-

Table 3.7: Ghana's Macroeconomic Indicators (2000-2008)  
Source: ADB Statistical Department (2010)

However, notwithstanding the prodigious amount of assistance which Ghana has received from the donor community over the past five decades, Ghana's economy has not witnessed much growth to commensurate the quantum of donor aid given to the country on regular basis (Killick, 2010: 2). Indeed it slipped from being classified (by the World Bank) as a middle-income country to a Highly Indebted

and Poor Country (HIPC). The assertion by Killick (2010) would be investigated in more detail in the subsequent chapters of this study.

### **3.2 Conclusion**

The chapter looked at the political and economic phases which the Ghanaian economy had travelled from 1957 up to the year 2008. The chapter began by discussing the first phase of the political and the economic characteristics of Ghana from 1957 to 1966 when the reign of Nkrumah, the first president of Ghana came to an end through military coup d'état.. The second phase which spanned between 1966 up to 1983 was very critical in the economic history of Ghana because the era was characterized by political instability. Within this period, the country witnessed nine different political leaderships of which four were military dictatorships. The third phase (1983-1999) saw a paradigm shift in the development ideology of the country to accommodate the tenants of both the Washington consensus and the Post-Washington Consensus (Fosu & Aryeetey, 2008: 36). The final phase (2001 – present day) is a continuation of the second wave of SAPs, the period of Poverty Reduction Strategy Papers (PRSPs), involving Growth and Poverty Reduction Strategies I and II (Andrew, 2009: 97). This was followed by a discussion on how the political instability in the country affected the pattern of aid flow into the country. The last section looked at the role of the donor resources in economic development and poverty alleviation in Ghana. The next chapter (chapter four) looks at the research methodology of this study.

## **CHAPTER FOUR**

### **RESEARCH METHODOLOGY**

#### **4.1 Introduction**

This chapter explains the empirical research methodology followed to analyse the role of foreign aid on economic development and poverty alleviation in Ghana. It gives a description of how the research methodology was followed and addressed topical issues such as the representation of the sample, the validity and the reliability of the methods used in the study as well as the problems encountered and how they were surmounted (de Vos, Strydom, Fouche & Delpont, 2011: 70). The chapter begins by discussing the research paradigm and methodological perspectives that informed the choice of the research method. This is followed by a discussion of the study population, sampling and data collection techniques.

#### **4.2 The Research Paradigm**

There are different ways to derive meaning of things around the world. The numerous models of reference we employ to organise observations and reasoning as human beings is referred to as a research paradigm (Babbie, 2010: 320). Since there are different research paradigms, the challenge was how to decide on the most appropriate one for this study. The quest for an objective approach has led to the studying of various research paradigms including the positivist<sup>7</sup> paradigm, conflict<sup>8</sup> paradigm and the functional paradigm (see section 4.2.1) as the fundamental models for observations and reasoning since research is about generating understanding of “why and how things work or should work” (Punch, 2009: 2). The three paradigms have given good insight into the various

---

<sup>7</sup> Positivism is a scientific way of understanding the truth about the universe (Cohen & Crabtree, 2006).

<sup>8</sup> Conflict paradigm is a social behaviour characterized by conflict whereby the most powerful in society always want to dominate the factors of production (Babbie, 2010).

paradigms relevant to this study and an opportunity to compare and choose the right paradigm relevant to the study of the role of foreign aid on economic development and poverty alleviation in Ghana. The main objective of this study is to analyse and bring about an understanding of the role of foreign aid on the economic development and poverty alleviation in Ghana, therefore, it is based on the above assertion that this research has subscribed to the functionalist paradigm to guide this study.

#### **4.2.1 The Functionalist Paradigm**

Functionalism, which is also known as social systems theory, was introduced by Comte (1798-1857) and Spencer (1820-1903). Functionalist theory is based on the idea that society is a stable, orderly system with interrelated parts that serve specific purpose. Society is perceived by functionalists as a system of interconnected parts whereby the various parts function for the overall wellbeing of the entire society. According to functionalists, the family is a miniature society – every member of the family plays a role to enable the family to function well (Turner, 2006:18). Babbie (2010:38) elaborates on the functionalists’ theory by comparing the functioning of the society to the human body or automobile by stating that in the human body for instance “each component – the heart, lungs, kidneys, skin, and the brain have a particular job to do. The body as a whole cannot survive unless each of these parts does its job, and none of the parts can survive except as a part of the whole body.” With the analogy of the automobile, Babbie (2010:38-39) again considers the functioning of the society to an automobile where the “tires, the steering wheel, the gas tank, the spark plugs... each of the parts serve a function for the whole; taken together, the system can get us across town.” This explanation of the functioning of society is also applicable to the position and function of LDCs in the world context and the fact that some multilateral and bilateral institutions base their foreign aid to LDCs on the functionalists’ perspective in the sense that there cannot be global peace unless the Southern hemisphere is economically free and able to participate equally in the global arena.



### **4.3 Research design**

The objective of this section is to examine the research approach and methodology used to determine the role of foreign aid in promoting economic development and alleviating poverty in Ghana. In an attempt to ensure that the study is grounded in the functionalists' paradigm and the debates surrounding foreign aid and development in LDCs, and reach an objective conclusion on the topic under discussion, I have subscribed to using a qualitative approach with emphasis on content analysis and qualitative field research. Qualitative research is based on an inquiry process of understanding based on distinct methodological traditions of enquiry that explore a social or human problem. The researcher builds a complex, holistic picture, analyses words, reports, detailed views of informants, and conducts the study in a natural setting (Creswell, 2003:15). In other words, qualitative research provides an empirical perspective by studying human action as its primary goal is to describe and understand human behaviour. Babbie (2010: 24) also defines qualitative research methodology as the “methods for examining social research data without converting them to a numerical format.” It is also important to note that qualitative research is normally used when the research question does not easily lend itself to numbers and figures. In other words, while quantitative research is based on the logical-positive paradigm, which utilizes experimental research methodologies, qualitative research is underpinned by phenomenological paradigm which makes use of a variety of interpretive research methodologies (Best & Khan, 2006: 246). A variety of terms such as ethnography, case study, and constructivist, participant observational and phenomenological have been used to describe forms of qualitative research methods. However, Erickson (1986: 119) used the term “interpretive,” one of the most common types of qualitative research methods to refer to the whole family of approaches to represent all qualitative methods to avoid the suggestion that the “approaches are simply non quantitative” (Best et al, 2006: 247).

Relevant to this study however is the content analysis and field research. By adopting both content analysis and field research, a critical requirement was to get the research population actively involved in the entire research process (Gaventa, 1993: 25).

#### **4.4 Study population**

The term population refers to the group the researcher is interested in generalizing about or the theoretically specified aggregation of study elements. A study population or target population on the other hand is referred to as the group of elements from which a sample is selected (Babbie, 2010: 199). It can also be defined as the population of individuals whom the researcher is interested in describing and making statistical inferences about (Vogt, 2007: 59). The study population for this study comprises donors, policy think tanks (a group of economic experts on the Ghanaian economy), and government of Ghana officials, NGOs in Ghana, post graduate students and political parties in Ghana.

#### **4.5 Sampling Techniques**

A sample is defined as the drawing of limited number of cases from the study population (Babbie, 2007: 190). Sampling must be done in such a manner that the selection of elements from the target population accurately portrays the total population from which the elements are selected. There are two main categories of sampling: 1) The probability sampling is a method whereby all elements in the population have the opportunity of being included in the sample and the probability that any one of them will be selected can be calculated. The probability sampling is also made up of random, stratified, systematic and cluster sampling methods 2) Nonprobability sampling on the other hand is the method in which population elements are selected because of the researcher's personal understanding that they are representative of the population and available. Examples of nonprobability sample include, convenience and purposive sampling (Vogt, 2007:77). This study made use of a non-probability sampling technique in the selection of respondents because the study

did not permit the kinds of probability samples employed in large-scale social surveys. Hence, purposive or judgemental sampling and the snowball sampling procedures became the sampling techniques for this study.

Purposive sampling is a nonprobability technique whereby the units to be observed are selected on the basis of the researcher's own judgement about which ones will be the most useful or representative of the population (Babbie, 2005: 189). In other words, purposive or judgemental sampling is used when the researcher has knowledge of the characteristics to be studied, its elements and the purpose of the study. Activities of the donor community in Ghana and in LDCs are known to the researcher; therefore, the purposive sampling technique was employed. However, the snowball sampling was used complementary to purposive sampling. This sampling, which is usually considered as accidental sampling is used when members of the population to be studied are difficult to locate or identify. According to Babbie (2010: 193) the snowball sampling is appropriate "when the members of a special population are difficult to locate, such as individuals, migrant workers or undocumented immigrants". Babbie further indicated that in snowball sampling, "the researcher collects data on the few member of the target population he or she can locate then ask those individuals to provide the information needed to locate other members of that population whom they happen to know" (Babbie, 2010: 193). In Ghana, where the activities of donors are not well coordinated, snowball sampling was most appropriate because respondents provided the researcher and the fieldworkers with contact details of respondents who otherwise could not be located.

#### **4.6. Respondents**

Respondents from both multilateral and bilateral donor institutions in Ghana were interviewed. A total of nine officials from the donor community were interviewed: two officials from the World Bank, one from the IMF, one from the European Union and two representatives from UNDP. An official each

from the Canadian embassy, and the United States Agency for International Development (USAID) were also interviewed. An NGO from each of the ten regions in Ghana was interviewed. One person from the Ministry of Finance, one from the Ministry of Local Government and Rural Development, one from the Ministry of Education and one from the Ministry of Trade and Industry were also interviewed. Ten representatives from Policy Think Tanks in Ghana were also interviewed. This comprised five from the Centre for Economic Policy Analysis (CEPA), five from the Centre for Democratic Development (CDD) and six representatives from the three well known political parties in Ghana: two from the National Democratic Congress (NDC), two from the New Patriotic Party (NPP) and two from the Progressive People's Party (PPP) as well as thirty graduate students in economics comprising ten from the University of Cape Coast (UCC), 10 from the University of Ghana (UG) and ten from Regent University College of Science and Technology (RUCST). The respondents are captured in table 4.1 below.

The problem under investigation requires that certain respondents were selected as it might have been difficult to get information from all stakeholders of development in Ghana. The choice of these sixty eight (68) respondents was made taking into cognisance that the respondents' positions in Ghana were directly or indirectly connected to donor aid, poverty alleviation and development in Ghana. In other words, these respondents constitute major stakeholders in the aid-development discussion of Ghana; therefore, they are better positioned to provide all that is necessary on the topic under study.

Donor institutions such as the World Bank, the IMF, UNDP, USAID, European Union, and the Canadian Embassy which were very prominent in influencing government decisions on development and poverty reduction in the Ghana over the period of study were also interviewed.

<b>Institution interviewed</b>	<b>Identified institution</b>	<b>No. of respondents</b>
Donors	World Bank	2
	IMF	1
	UNDP	2
	European Union	1
	USAID	1
	Canadian Embassy	1
Civil Society Organization	NGOs	10
Public Sector	Ministry of Finance	1
	Ministry of Local government	1
	Ministry of Education	1
	Ministry of Trade and Industry	1
Policy Think Tanks	CEPA	5
	CDD	5
Political Parties	NDC	2
	NPP	2
	PPP	2
Graduate Students	UCC	10
	UG	10
	RUC	10
Total		68

Table 4.1: List of respondents  
Source: Field Data (2014)

#### **4.7 Data collection techniques**

Data for this research were collected over a period of two years – from September 2011 to August 2013 by four trained fieldworkers. Two of these field workers were masters’ degree students in the Institute for Development Studies from the University of Cape Coast and the other two belonged to the Association of Unemployed Graduates of Ghana. These unemployed graduates were recommended to me by the secretariat of the Unemployed Graduates of Ghana based on their knowledge in social research. The two students were assigned the Central and the Western regions of Ghana while the two graduates were assigned to other 8 regions of Ghana. All the field workers

underwent a three day workshop in data collection and interviewing techniques in Tarkoradi, Ghana by the researcher. The first two days were for theoretical training while the last day was dedicated to the practical aspects of interviewing and data collecting techniques.

### ***Primary Data Collection***

Primary data were collected through qualitative interviews. The researcher made use of an interview guide consisting of open- and close-ended questions. Qualitative interview involves an interaction between an “interviewer and a respondent in which the interviewer has a general plan of enquiry, including the topics to be covered, but not a set of questions that must be asked with particular words and in a particular order” (Babbie, 2010: 318). Two sets of interview guides were developed; one of the interview guides was designed for donors and civil society organizations while the second interview guide was designed for respondents in the public sector, Policy Think Thanks, political parties and graduate students in Ghana. The interview guides were mainly open-ended and interactive (see appendices A & B).

In an attempt to secure responses from individuals who are well versed in the topic under study and the fact that donor foreign aid activities are not well coordinated as indicated in section 4.5, the snowball sampling method was adopted to select key people and institutions for interviews. Data collection focused on the various regimes over the period of study, the philosophy that informed these regimes, their approach towards donor aid and whether aid in anyway influenced economic growth and development, and poverty alleviation in the country.

### ***Secondary Data Collection***

The study also relied on secondary sources or content analysis as complimentary to primary data

sources. Content analysis involves the use of existing materials by researchers and the analyses of data originally collected by others. In other words, content analysis is “the study of recorded human communication such as books, websites, paintings and laws” Babbie (2010: 394). It is an unobtrusive method of data collection because it involves different nonreactive research techniques (techniques that have no impact on the people being studied). Content analysis is also perceived by Rubin and Babbie (1997: 421) as a “way of transforming qualitative material into quantitative data” implying that every form of communication, whether recorded or not, can be transformed into quantitative data by coding and tabulating the communication. The study of secondary sources was necessary to present the theories on aid and economic development; to give an overview of political and economic development in Ghana from 1957-2008; and to investigate donor aid flow. Since it is impossible to observe and analyse every communication on the role of foreign aid in economic development and poverty alleviation in Ghana, the cluster sampling technique was adopted in this research. Cluster sampling is used in social research when “it is either impossible or impractical to compile an exhaustive list of the elements composing the target population” (Babbie, 2010: 394).

Indeed, in this study, since it is impossible to compile and study all communications and publications on donor aid, economic development and poverty alleviation in Ghana, the unit of analysis became official documents on aid and development of the Government of Ghana, literature on aid from bilateral and multilateral institutions, text books, articles and reports on foreign aid, development and Ghana. Web documents relating to the research topic also serve as an integral component of data for this study. The following libraries were visited for data:

- UNISA Library
- University of Cape Coast Library
- University of Ghana Library
- British Council Library in Ghana
- University of Development Studies Library in Ghana

Table 4.2 gives a summary of the type of secondary data sources that were collected to address the research objective.

Objectives	Source of Data
Political development in Ghana (1957-2008)	Books, Government of Ghana publications, literature, text books, articles and reports on political development and Ghana.
Economic development in Ghana	Literature, text books, articles and reports on economic development and Ghana.
Poverty reduction strategies (1957-2008)	Literature, text books, articles and reports on poverty and Ghana.
Influence of aid: <input type="checkbox"/> Economic development <input type="checkbox"/> Poverty reduction <input type="checkbox"/> Institutional development	Official documents on aid and development of the Government of Ghana, literature on aid from bilateral and multilateral institutions, literature, text books, articles and reports on foreign aid, development and Ghana. Web documents relating to the research topic also serve as an integral component of data for this study
Drivers of economic change: <input type="checkbox"/> Human capital <input type="checkbox"/> Natural resources <input type="checkbox"/> Institutions	Literature, text books, articles and reports on development in Ghana.

Table 4.2: Secondary sources of data for the study  
Source: *Field Data (January, 2014)*.

The use of content analysis in this study was very economical in terms of time and money which were invested. In addition, the unobtrusive nature of content analysis made it possible to investigate the problem under discussion without affecting the people concerned because the data has already been established.



#### **4.8 Data Analysis**

Data analysis for this study relied mainly on qualitative techniques, and was carried out on an ‘on-going’ and ‘terminal’ basis (Creswell 2009). The ongoing data analyses were made jointly with the respondents in the field in order to eliminate personal biases in interpretation and also ensure that data is accurately captured in the field. The terminal data analysis was done after the completion of data gathering from both primary and secondary sources. The data gathered were triangulated and analysed in relation to the set objectives, and thematic categories of the research. Thematic coding techniques were used to summarize and analyse themes in relation to the study. Suitable data analysis method was adopted for this study. Data were processed using ‘coding’ for ‘discovering patterns’ (Babbie 2010) before analysed using the software package for social science research (SPSS version 16.0).

#### **4.9 Validity and Reliability**

Stringer and Genat (2004) provide a set of criteria for establishing the validity and reliability of qualitative research, as summarized below:

1. **Creditability or integrity of study:** this may be accomplished by triangulation using different sources, methods and perspectives to corroborate findings. Participant briefing or feedback may also enhance credibility as any wrong interpretations could be corrected.
2. **Transferability:** unlike quantitative research that assumes the need to generalize the results of the study, qualitative research by its nature seeks to apply the results directly to the local context.
3. **Participant validity:** the credibility of action research may also be enhanced by the active participation of stakeholders in the research process. This overcomes, to some extent, the

propensity of some researchers to observe and interpret events through the lens of their own interpretive framework.

Considering the ongoing debate on the various research methodologies, this research contends that there is value in both the quantitative and qualitative research methods in the search for knowledge. As a result, even though this study is generally guided by qualitative research methodology, the study makes room for quantitative methods, where appropriate, with a view to seeking some convergence of the two methods in such a way that quantitative data is backed by qualitative understanding of what the data mean (Holland & Cambell 2006). By so doing, the study aims to contribute towards advancing the frontiers of qualitative research.

In an effort to ensure validity and reliability in the data collected, the study combined field notes, captured pictures, captured audio visual scenes, and in-depth interview questionnaires to establish connections and consistencies by ensuring that raw data were stored in the form of transcription notes and categorized under themes. In addition, descriptive statistics and statements were generated to provide summaries, illustrations, and quotes before synthesis was made through filtration of preconceptions, personal opinions and separating biases and stereotypes. Finally, the study conducted cross-checking and validating before findings were generalised. Field research like all research methods is characterised by unique strengths. And as part of this study, the researcher has identified the following as the strengths of the field research:

- **Flexible to work with:** the unstructured nature of questionnaire for field research permits the researcher to solicit broad information from the interviewees without difficulty
- **Provides the natural setting:** field research method provides the leverage for the researcher to relate to the attitudes of the sample population, hence, a better insight into the topic under study in its natural setting (Whyte 1989).

#### **4.10 Limitations and challenges of the study**

In the first place, my personal values could not be completely eliminated in the interpretation of the results. This was, however, minimized by frequent feedback of findings to respondents for validation. Furthermore, the other four members of the research team provided an alternative source of interpreting the data collected, thereby minimizing any possible bias or misinterpretation by me. The other methodological challenge with the data collection was the hesitation of some respondents to freely express their views, apparently due to the fear that any critical opinions might come to the notice of their superiors and attract their anger and possible hostility.

However, the assurance of confidentiality made them open up. The study also encountered the challenge of getting some people to participate in the interview. Some people were too busy with other work activities which prevented them from participating in the interview. Furthermore, it was difficult to manage the expectations of some respondents especially the members of the political parties. They had the initial impression that the research was not going to bring them immediate tangible benefits. However, after the researcher explained the purpose of the research and how it could go a long way to benefit them, they co-operated.

The researcher started the interview by interviewing members of the donor community. Most of the people interviewed were initially hesitant to grant me audience especially the donor community because workers from these donor institutions were forbidden from discussing their operations and activities with strangers without authorization from their respective country representatives or managers. As a result, the researcher was made to write an authorization letter stating the objective of my studies to the authorities concerned before I was assigned officials for interviews. In some instances, my request was turned down outright with the excuses that the staff was hard pressed for

time. In some instances, there were no responses from the country directors to my request. However, the instances where I was granted permission, the officials given to me were very cooperative and willing to divulge information which they considered 'insensitive' to public consumption. The representatives who were interviewed from the donor communities were very objective in their responses. But the researcher inferred from their responses that some of the officials were very careful in responding to questions which could compromise their activities in Ghana. Some of representatives interviewed expressed great interest in my research and even expressed interest in the outcome of the study.

The second group of people interviewed were officials from the public sector in Ghana. Even though the officials were very open and willing to respond to all my questions, some of them who granted me interview personalised the topic under discussion and lashed out at past and present political leadership of Ghana whom they claimed have failed the country in terms of promoting sustainable economic development and poverty alleviation. In any case, the researcher was strong in such instances in order to avoid biases by posing a leading question which avoided digression. Soliciting responses from the three leading political parties in the country, NDC, NPP and PPP was very herculean because the interviews were very quick at pointing fingers at the shortcomings of their opponents and were most often interested in digression from the interview guide. However, with my experience as a teacher and a researcher, I was able to control proceedings and succeeded in getting all the necessary responses from the leading political parties.

The fourth phase of the interview was with the graduate scholars and policy think tanks in Ghana. Accessing these scholars and think tanks was the easiest in the interview process because the scholars were mainly found in Cape Coast and in Accra. The purpose of the study was explained to the scholars interviewed and the Policy Think Tanks. The scholars expressed a lot of interest and objectivity in the topic under discussion. While some uncompromisingly lambasted the politicians

for the woes of the country, others lay the blame on the politics in the donor aid scheme. The Policy Think Tanks however suggested indigenization as the best way for the country in the search for sustainable economic development. The next interview was with the NGOs in Ghana. Some of the officials with the NGOs were unwilling to take time off their busy schedule to make time for the interview. But after a few follow-ups especially in the mornings before official work started, most of them became accessible. However, just like the donor community, representatives from the NGOs refused to grant me interview until their superiors instructed them to do so after I had petitioned my research objectives to the managers.

#### **4.11 Conclusion**

The chapter provided contextual understanding of foreign donor aid and social development in Ghana. Based on an analysis of the various research paradigms, the study opted for the qualitative research paradigm as the overall methodological approach to guide the study. Within this framework of qualitative method, the study adopted content analysis and field research approach in its data gathering and analysis. The chapter also elaborated on the methods of data collection and analysis. The next chapter looks at research findings and analysis.

## **CHAPTER FIVE**

### **DATA PRESENTATION AND ANALYSIS**

#### **5.1 Introduction**

This chapter presents and analyses the data derived from the in-depth interviews with the donor community, NGOs, officials from the public sector, policy think tanks, political parties and graduate students as indicated in section 4.6. The main objective of this chapter is to identify the reasons why Ghana receives foreign aid and establish why aid is provided by the donor community, assess the overall role of aid on poverty reduction and development in Ghana and whether there is an alternative model to promote sustainable development in Ghana. The results primarily reflect the perceptions and attitudes of respondents obtained through in-depth interviews. The discussion of the results is divided into two broad sections, that is, analysis of responses from Ghanaians and the donor community. There are also subsections under these categories in line with questions of the interview schedules as presented below.

#### **5.2 Analysis of Ghanaian Respondents**

This section presents analysis of data collected from respondents in the public sector, Policy Think Tanks, political parties, graduate students in Ghana.

##### **5.2.1 Demographic Characteristics of Ghanaian Respondents**

This shows the demographic features of respondents such as gender, age, educational background amongst others. Figure 5.1 indicates that 88% of the Ghanaian respondents were males while 12% were females.

The above result is a reflection of the level of inequality and discrimination against women in the Ghanaian society. There is still discrimination against women in terms of employment in the country even though there is a noticeable improvement. Gender discrimination in employment and decision making are manifested through unequal access to work and unfair prerogatives in favour of men in terms of decision making. The gender discrimination in decision making has stalled economic development in the country, notwithstanding the establishment of the Ministry of Women and Children's Affairs (MOWAC) to deal with issues pertaining to gender equality at governmental level. This was confirmed during personal interviews.

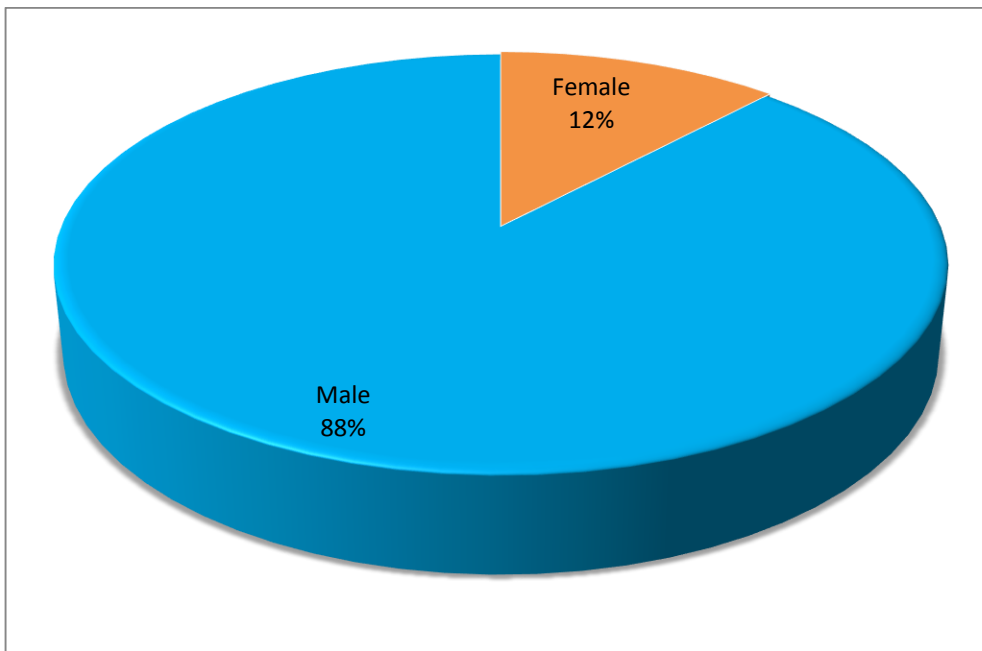


Figure 5.1: Gender  
Source: Field Data (January, 2014)

Figure 5.2 below reveals the age distribution of respondents for the study. Findings reveal that the age group of 31- 40 years recorded the highest frequency of respondents representing forty nine percent (49%) while respondents from 40 years and above accounted for thirty six percent respectively (36%).

In addition, respondents between the ages of 21-30 constituted sixteen percent (16%). The result from Figure 5.2 implies that decision making in Ghana is dominated by Ghanaian youth.

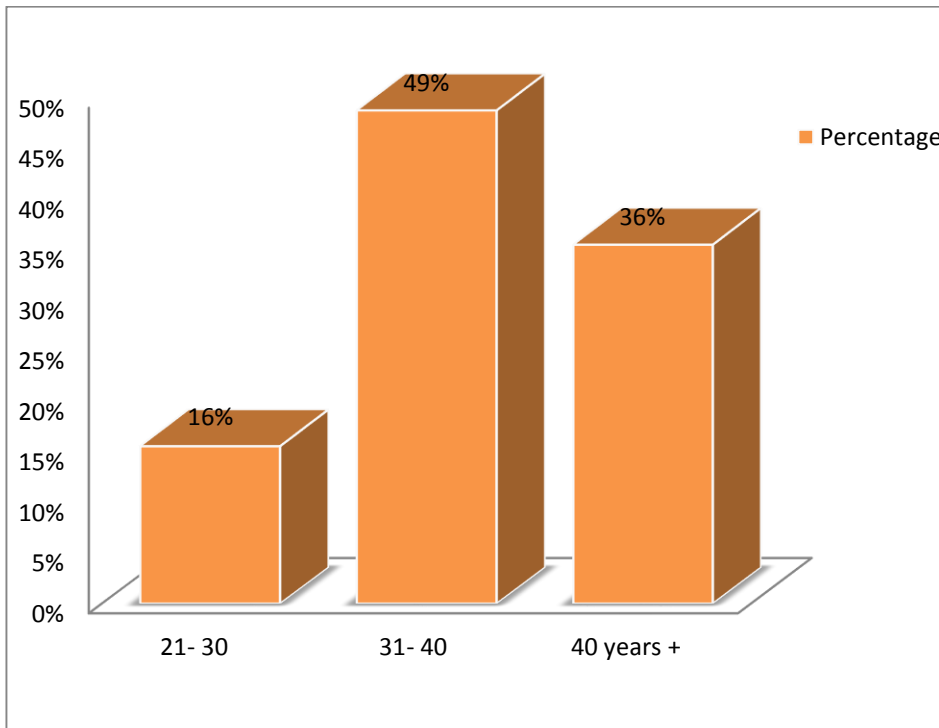


Figure 5.2: Age distribution of respondents  
Source: Field Data (January, 2014)

Figure 5.3 also reveals that all the respondents have tertiary education. In this regard, the researcher is confident that information or data collected are of high accuracy and reliable for making inference and generalizing since the respondents are educated and have good understanding of the topic under study. This presupposes that the conclusion of the study will reflect the perception of educated Ghanaians about foreign donor aid.



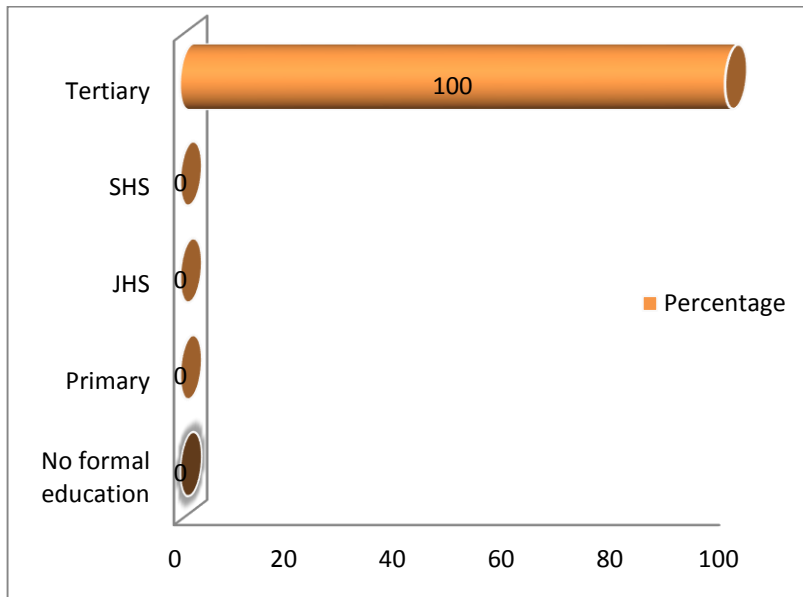


Figure 5.3 Educational level  
 Source: Field Data (January, 2014)

### 5.2.2 Respondents’ Understanding and Perception of Foreign Donor Aid

Figure 5.4 below presents respondents’ definition and understanding of foreign aid in rated categories with respect to the definition in the literature review. Findings indicate that the majority of the respondents with a percentage point of sixty two (62%) have clear understanding of foreign donor aid. The majority of the respondents described foreign donor aid as a transfer of resources from advanced countries to poor countries. A typical definition of some respondents includes “foreign donor aid is the transfer of resources from donor communities to poor countries in the world to aid development”. By this definition, the interviewee explained that the resources from the donor organization or country could be in cash either as grants or loans, physical goods and technical assistance and training.

This definition conforms to Ekiring (2000), who defined foreign aid as an international transfer of capital, goods, or services for the benefits of other nations and that of Riddell’s (2007: 17) whose definition postulates that foreign donor aid refers to “all resources transferred by donors to recipients.” See section 5.4. Respondents’ understanding of foreign donor aid was essential for

the reliability of the findings of subsequent questions. Findings reveal that significant number of respondents representing sixty-two percent (62%) have in-depth understanding of foreign donor aid. On the other hand, only eleven percent (11%) of the respondents have the basic understanding of foreign donor aid.

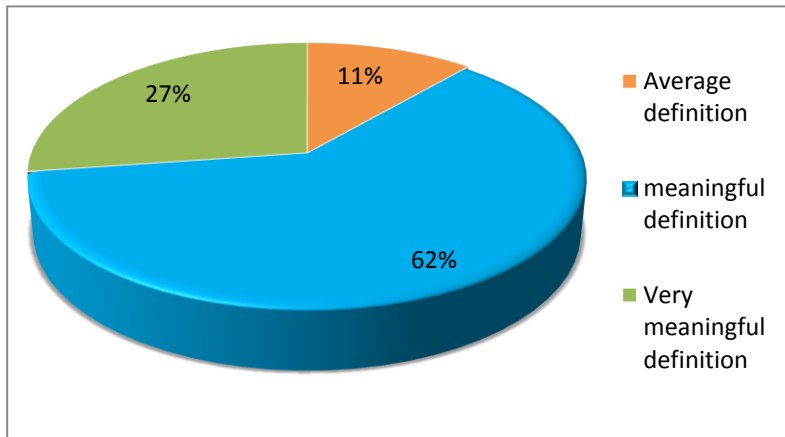


Figure 5.4 Definition of Foreign Donor Aid  
 Source: Field Data (January, 2014)

### 5.2.3 Why Ghana receives aid

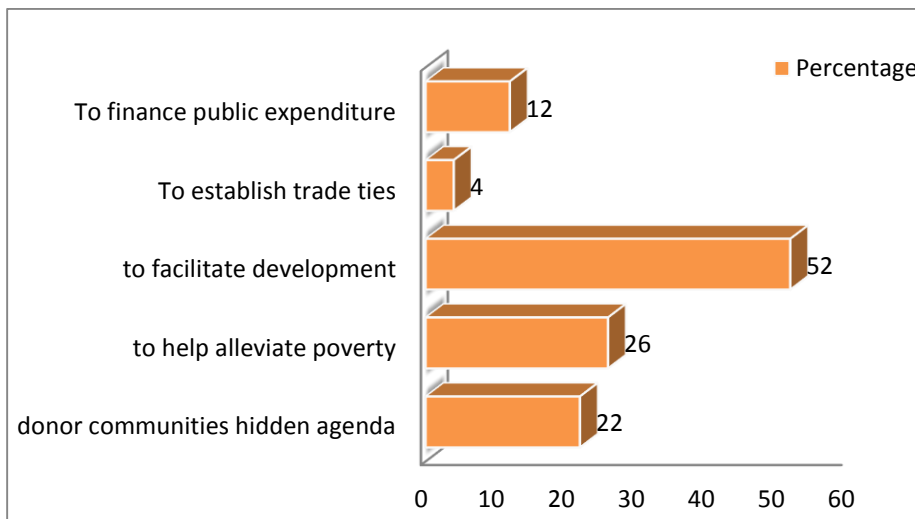


Figure 5.5: Why Ghana receives aid  
 Source: Field Data (January, 2014)

Figure 5.5 reveals the general perceptions of Ghanaian respondents on the key reasons why Ghana keeps receiving foreign donor aid. In response to this question, 52% of the Ghanaian respondents assert

that the donor community provides assistance to Ghana to facilitate economic growth and development in the country. Ghana like most developing countries lacks the capital needed to enhance economic growth and development. Therefore, the respondents allude to the provision of donor assistance as a resource which can help initiate and promote sustainable economic growth and development. This argument is based on the resource gap theories which argue that developing countries are faced with resource gaps which have to be filled by donor resources. The respondents argue that sustainable economic growth and development is based on investment and savings within a specific country. Therefore, since Ghana does not have the necessary investment to propel economic take-off, donor resources become inevitable in filling this resource gap as was acknowledged by both Sachs (2005) and (Todaro, et al, 2009) in section 2.2.1. In this view, respondents perceive foreign donor aid as a supplement or support to internally generated revenues in providing the needed financial support for the country's development. The respondents related to the success story of the Marshall Plan which succeeded in reconstructing Europe after World War II (section 2.1.1), the Botswana and the Mauritius unprecedented economic growth and development which was funded by donor assistance as indicated in section 1.1.1.

On the other hand, twenty six percent (26%) indicates that the reason why the donor community provides aid to Ghana is to help alleviate poverty. According to the respondents Ghana is one of the countries in the world with high incidence of poverty and is the reason why the country joined the group of countries considered by the World Bank as poor and highly indebted. See section 2.4.4. Therefore, in order for Ghana to escape from poverty and provide jobs to the growing population, the country receives donor assistance.

The Ghana Living Standards Survey (GLSS) which was conducted in 2005/2006 indicates that there has been an 11% drop in Ghana's poverty rate and 9% in the country's extreme poverty

rate between 1999-2000 and 2005-2006 and this can be attributed to support from both bilateral and multilateral institutions in the country in areas such as budget support; infrastructural development; poverty reduction programs; agricultural development; education, water and sanitation, as well as energy provisioning.

Respondents from the Ministry Local Government for example indicated that the donor communities have directly intervened in areas such as water, sanitation and hygiene (WASH). According to the representatives from the Ministry of Local Government, Ghana is one of the lowest ranked countries in the world in terms of sanitation. In 2010, the country ranked the 4<sup>th</sup> lowest in the world. However, government's budget allocation has been dismal since independence. Representatives from the Ghana Ministry of Finance also indicated that government of Ghana only spends about 1.7% on water, sanitation and hygiene (WASH, 2014) with as little as 0.1% of budget allocation for rural sanitation.

Hence, donor organizations such as the World Bank (WB) funded International Development Association (IDA), the European Union (EU), Canadian International Development Agency (CIDA), Agence Francaise de Development (Afd) and the Japanese International Cooperation Agency (JICA) have taken over the responsibility of sanitation and water provisioning in the country (CIDA, 2013: 20). As a result, in 2004 for instance, CIDA had to construct about 2000 boreholes which account for 46% in the Northern Region of Ghana alone to provide the residents of the area with reliable portable water supply. An example of such projects in Ghana is captured in figure 5.6



Figure 5. 6: Donor funded boreholes in Ghana  
 Source: *Field Data (January, 2014)*

On the contrary, 22% of the respondents perceive the aid scheme as a scam to exploit vulnerable countries like Ghana because after more than five decades of the aid program in Ghana, the country is still categorized by the World Bank as a poor country. According to all the graduate students for instance, aid is provided to serve the interest of the donor community and not in the interest of the recipient nation. They reiterated that donors use the provision of donor assistance to establish markets for goods and services from their countries of origin. According to respondents, the Chinese government for instance brought workers from China to undertake the construction works which Ghanaians could have done, is a clear indication that the donor community has hidden intentions in the aid scheme. In the same vein, respondents also indicated the construction of the George Bush Motor Way in Accra where engineers were brought from the USA to construct the road at the expense of Ghanaian engineers who could equally carry out those tasks. As a result of conditions like the aforementioned, a country like Ghana is always at the losing end as regards to the global aid scheme.

Twelve percent (12%) of the total respondents, however, attribute the provision of aid to Ghana as an effort by the donor community to fund infrastructural development in the country. According to these

respondents, Ghana is a country with weak infrastructure, poor educational system and a weak health system. However, since the government of Ghana does not have the means to adequately fund these projects and sectors, the donor world intervenes. Representatives from the Ministry of Trade and Industry for instance indicated that as early as the 1960s, the country's development partners assisted in the construction of the Akosombo Hydro-Electric dam to supply a reliable source of energy to the country, especially to the merging industrial sector which Nkrumah had established. The donor community again assisted the government of Ghana in constructing the Kpong Water Dam for regular water supply to the capital, Accra and its environs. The representatives from the New Patriotic Party also included that road construction is another sector which has received much attention from the donor community especially after the year 2000. This attempt was to help the country meet the targets set in the MDGs. As a result, between 2002 and 2005 for instance, the donor community became a major financier in the road sector committing about US\$408.98 into road infrastructure development in Ghana. This is illustrated in Table 5.1 below.

<b>Investors</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>Total</b>
Government of Ghana	28.15	58.21	59.13	80.12	<b>225.61</b>
Ghana Road Fund	52.28	77.94	74.84	103.29	<b>308.35</b>
Donor Aid	47.00	86.80	118.80	156.38	<b>408.98</b>

Table 5.1: Investment in Ghana's roads 2002-2005 (US\$ Million)

*Source: Government of Ghana (2013)*

The trend of assistance from the donor community has contributed in the construction of major roads such as Accra-Kumasi, Accra-Cape Coast and Kumasi-Tamale. Assistance from the US government under the Millennium Challenge Account which was established by George Bush, the former president of Ghana has seen the construction of a major road in Accra, the capital city (see Figure 5.7) which has led to the free flow of traffic in Accra.



Figure 5.7: George Bush Motor Way  
*Source: Field Data (January, 2014)*

Policy Think Tanks also alluded to the fact that donor assistance in Ghana has significantly contributed to providing better health care and educational services in Ghana. With regard to health services, the donor community has provided support in the form of technical and capacity to improve the operations within the sector. Since the second half of the 1990s, Ghana's development partners have helped reorganize the country's comprehensive public health planning and capacity building both at the national and the local levels by pooling support to the sector into a common fund within the sector-wide framework. The respondents further indicated that by 2008, the donor community helped the country establish the National Health Insurance Scheme (NHIS) which has been able to provide affordable health care services to more than 50% of the Ghanaian population. Assistance of this nature has brought about progress in service delivery in the country which has resulted in a 30% reduction in under-five mortality between 2003 and 2008; that is a decline of 111 per 1000 live births in 2003 to 80 per 1000 live births in 2008 while neonatal mortality rate has also witnessed a decline of 43

per 1000 births to 30 per 1000 births over the same period. Respondents also indicated that the educational sector in Ghana has also received its share of assistance. Since independence in 1957, countries such as the US, UK, Germany and Canada have deployed educational experts and teachers into the country to help train scholars and technocrats who could help initiate and promote sustainable economic growth and development in Ghana. Apart from that, Ghanaian scholars have also received scholarships from across the developed world to train people in areas such as engineering and medicine and nursing. They further reiterated that by the middle of the 1980s when the country embraced the economic reform program, the educational sector experienced high traffic of donor inflows. Prominent among the donors were the World Bank, United Kingdom and the European Union and the USA.

Between 1987 and 2002, the World Bank for instance contributed US\$271 million towards the reform while the UK through the Department for International Development (DfID) financed the construction of a Whole School Development program at a cost of £50 million as captured in section 3.1.3.

Four percent (4%) of the respondents also see the provision of donor assistance as a means of establishing trade ties with the government of Ghana. According to respondents, the provision of aid facilitates agreement between the donor provider and the government of Ghana. For instance, the trade relationship between Ghana and China is made possible with the large inflows of aid from China in recent years, the respondents noted.

#### **5.2.4 Is Ghana aid dependent?**



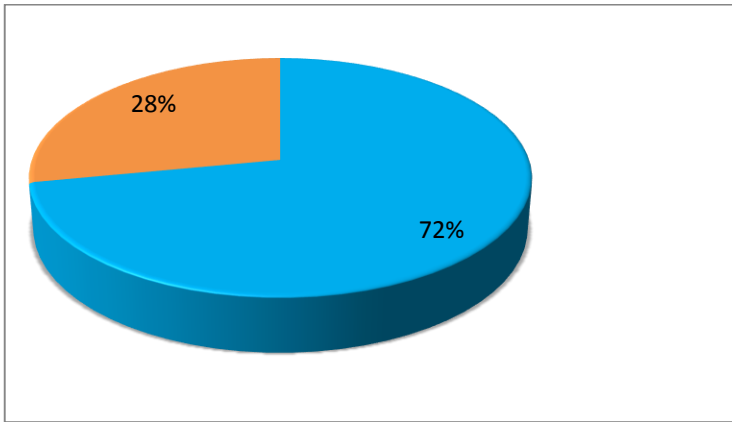


Figure 5.8: Is Ghana donor aid dependent or not?  
Source: Field Data (January, 2014)

Most of the respondents (72%) are of the view that Ghana is donor dependent while twenty eight percent (28%) are of the contrary view (See Figure 5.8). According to the representatives from the three political parties interviewed, the inability of the country to internally generate revenue for budget funding makes it impossible for the country to wean itself off donor assistance.

They indicated that in Ghana, the government is only able to raise tax revenue between 50% and 60% of which the shortfall is filled by donor resources. As a result of this trend of large sums of regular donor inflows, the country's net aid inflow as a ratio of gross national income has become higher than the net average aid ratio in Sub-Saharan Africa. Hence, according to the respondents from the Ministry of Finance and Economic Planning, almost all our projects in the country are donor funded. This empirical finding affirms the historical trend of Ghana's reliance on foreign donor aid for economic development. Nevertheless, twenty eight percent (28%) of the respondents perceive that irrespective of the historical trend of Ghana's reliance on foreign aid, Ghana however, is not foreign donor aid dependent because the country is able to fund more than 60% of its budget without external assistance. According to this group of respondents, an aid dependent country solely depends on donor resources for all of its activities including growth and development programme. The situation

is different in Ghana because the government of Ghana is able to fund most development projects and programs in the country.

### 5.2.5 Aid and the sovereignty of Ghana

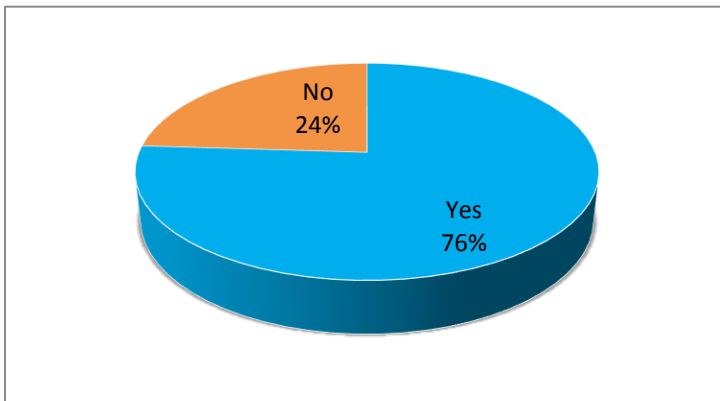


Figure 5.9: Aid has compromised our sovereignty as Ghanaians  
Source: Field Data (January, 2014)

Seventy six percent (76%) of the Ghanaian respondents suggested that Ghana’s dependency on donor assistance over the past five decades has compromised the sovereignty of the country and this confirms the arguments posited by Moyo (2009) in section 2.4.2. According to the Policy Think Tanks and the graduate students, the dependency of Ghana on the donor community for assistance has made it very difficult for the country to take decisions without the concern of the donor community. Hence the leaders in the country are not able to take decisive economic decisions as a sovereign state. With the current level of dependency on donor funds, a respondent from the University of Cape Coast in Ghana indicated that donors tend to influence major decision making in the country which is tantamount to what he calls “neo-colonialism.”

On the contrary, twenty four percent (24%) of the respondents suggested otherwise. Representatives

from the Ministry of Finance and Economic Planning were very emphatic in arguing that the donor community does not dictate economic development policies to the government of Ghana which could be equated to comprising the sovereignty of the country. Instead, the donor community only plays an advisory role in decisions concerning the development of the country. This is because donors constitute Ghana’s development partners; therefore, development decisions are taken in consultation with the country’s development partners. Apart from that, decisions concerning the growth of the country are what they called “home-grown” and not donor imposed decision. Above all, funding of Ghana’s budget is predominantly done through internally generated funds from sources such as Value Added Tax (VAT), mineral rent, royalties, cooperate tax and royalties and tariffs and not with donor aid.

### 5.2.6 Are donor activities properly monitored in Ghana?

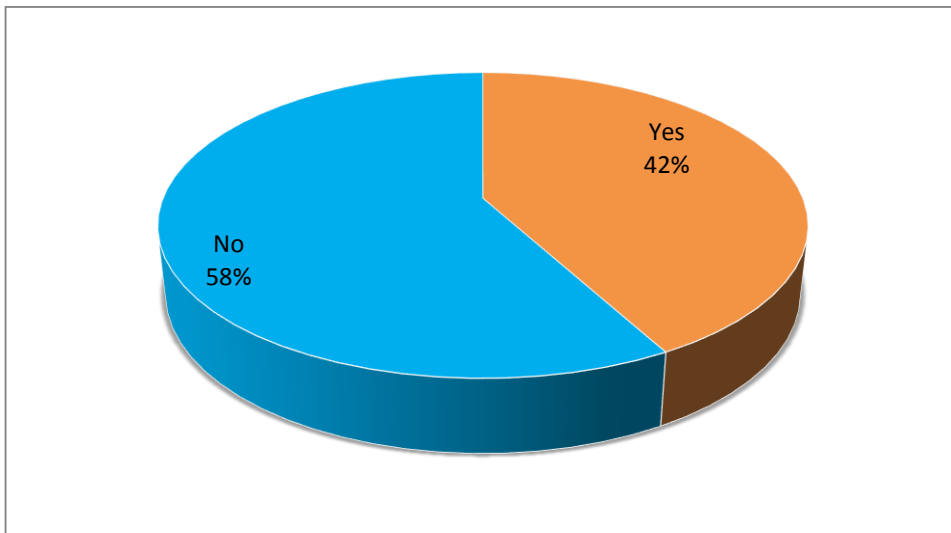


Figure 5.10 Are donor activities properly monitored in Ghana  
Source: Field Data (January, 2014)

Figure 5.10 indicates that fifty eight percent (58%) of respondents argued that donor activities are

not properly monitored in Ghana. A representative from the Ministry of Finance indicated that between 1970 and 2010, the number of bilateral and multilateral donors to Ghana increased from 18 to 44 and this makes it almost impossible to monitor their activities, hence, the challenge of fragmentation, corruption and mismanagement of donor activities. Respondents also indicated that apart from the multitudes of donors in the country whose activities are hardly coordinated, bilateral aid donors usually have more than one agency charged with giving foreign aid having overlapping responsibilities and different objectives. These, according to the respondents, make it difficult to monitor and confirm whether these resources reach the intended beneficiaries or not. In Tamale, a town that has received significant amount of foreign aid in Ghana, a final year development student from the University of Development Studies noted that the main challenge preventing donor aid from reaching the intended beneficiaries is what he calls “donors biting more than they can chew.”

He explains that donors fragment their efforts in almost every section of the northern region therefore; the intended objective of relieving the poor is eluded. According to this respondent, the uncoordinated donor activities in Ghana have resulted in unprecedented corruption in the aid industry. Contracts are regularly awarded to cronies, friends and close relatives in return for kickbacks. As a result, apart from poor projects being poorly executed, projects are ridiculously priced. One of the development consultants in the Western Region of Ghana reported that Projects which were supposed to benefit the communities are not able to stand the test of time. He fumed “we don’t even know what these NGOs are doing in this community.” Projects constructed only last for few months and they are out of use because these projects are poorly constructed with inferior raw materials. Pointing to a playing ground of children in the neighbourhood, he indicated that in less than a year, the ground had to be abandoned because the machines the children are supposed to play with posed serious danger to the children in the community.

A development expert from Wa, the Upper West Regional capital of Ghana submitted that the affluence which is exhibited by donors and local administrators of aid in the region, one of the poorest regions in Ghana, is a clear indication that the resources intended for development are looted by the custodians. This practice is very public in the Northern Region of Ghana where the slogan is “are you poor? Then form an NGO to get money from the ‘whites’ to better your lot.” The ‘whites’ in this context refers to the donors, who are light skinned. The misconception about aid and the use of it is an indication that donor aid is not meant to assist the poor or help promote economic growth among the poor but for the selfish interests of the local administrators of these resources. A respondent categorically told the researcher that his uncle was a very poor public servant in Ghana until the uncle became an owner of an NGO. Today, the uncle has fleets of cars and landed properties in the country.

However, the poor whom the uncle is supposed to be helping in the village still remain in desperation which implies that the wealth which the uncle is accumulating is simply the resources which were to be invested in the community to enhance its development. On the contrary a percentage of forty two (42%) said that donor activities are properly monitored in Ghana. According to an official from the National Development Planning Commission (NDPC), donor activities in Ghana are coordinated and monitored by both donors and the government of Ghana through the mutual accountability which was a consequence of the Paris Declaration (PD) and Accra Agenda for Action (AAA). In 2005 for instance, the government of Ghana was part of the aid recipient nations that agreed upon an Aid Harmonization and Effectiveness Matrix (AHEM) with the donor community.

The AHEM set country outcomes for each of the 12 PD indicators and actions which all governments and partners agreed to abide by to achieve them. The Accra High Level Forum which came out with the Accra Agenda for Action (AAA) was also another platform where the government of Ghana and the donor community further committed themselves to the implementation of the PD in an effort to

promote mutual accountability. The government also ensures accountability through regular meetings and regular reviews of the Public Accounts Committee and the preparation of the budget in an open session. In addition, a respondent from the Ministry of Finance also indicated that audit reports are submitted to parliament for review and finally made public through the press and also through the Ghana Audit Service website. She further indicated that there is an increase in open dialogue between donors and the government of Ghana. This is manifested in the form of joint sector reviews, planning and monitoring meetings between the government and donors, regular policy dialogue, establishment of sector working groups and frequent consultations on decisions on targets informed by the MDGs.

The MDBS annual review meetings have become very inclusive, therefore, allowing stakeholders such as the Civil Society Organizations (CSOs) the opportunity to participate. Donors also publish information about their activities in the press, and in their websites.

### **5.2.7 Alternative method of managing foreign donor aid in Ghana**

In relation to the previous discussion, respondents suggested alternatives to ensuring proper management of foreign donor funds in Ghana. In this respect, figure 5.11 presents empirical findings which make it obvious that the majority of the respondents with a representative frequency of nineteen (19) corresponding to thirty eight percent (38%) proposed that the ultimate means of managing foreign donor aid is through proper accountability coupled with checks and balances, a position which was seconded by twenty percent (20%) of the respondents. In addition, measures such as effective monitoring and ensuring of proper systems and structures were significantly supported by sixteen percent (16%) respectively. Lastly, ten percent (10%) of respondents indicated that participatory planning involving beneficiaries should be put in place.

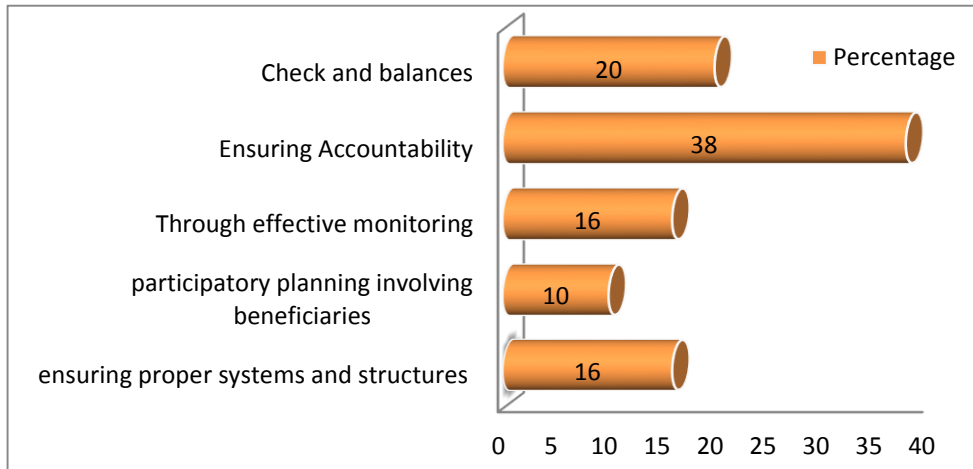


Figure 5.11 Alternative method of managing foreign donor aid in Ghana  
 Source: Field Data (January, 2014)

### 5.2.8 Can aid help promote economic development and alleviate poverty in Ghana?

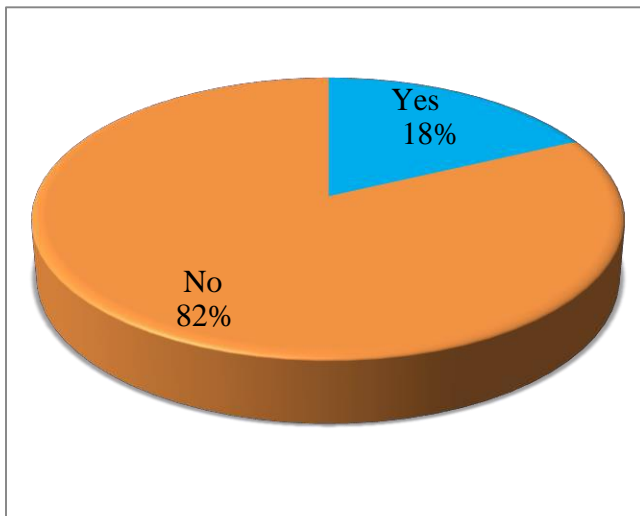


Figure 5.12: Can foreign donor aid help alleviate poverty and promote economic development in Ghana.

Source: Field Data (January, 2014)

With reference to Figure 5.12, the majority of the respondents, eighty two percent (82%), indicated that foreign donor aid cannot help alleviate poverty and promote economic development in Ghana. Officials from the public sector indicated that Ghana has been receiving donor assistance since independence in 1957 but the country still remains a poor country with high levels of poverty, high mortality rate, high levels of unemployment and dilapidated infrastructure. The respondents reiterated

that Ghana after more than five decades of receiving donor assistance is characterized by high levels of poverty and unemployment rates which have culminated into high incident of street hawking in almost all the major streets in the country as indicated in Figure 5.13. The famous economic recovery program which the donor community introduced to the Ghanaian economy in the 1980s rendered about four hundred thousand Ghanaians jobless as a result of the IMF and the World Bank advice for the government to downsize the workforce in the public sector. See section 3.2.3.



Figure 5.13: Street hawking in Ghana  
*Source: Picture taken by Spyghana (2012).*

Respondents further argue that donor assistance does not necessarily come to developing countries as grants. In Ghana for instance, the aid which was provided to restructure the economy between 1983 and 2000 were mainly loans. Therefore, between 1983 and 2000, loan aid to Ghana had amounted US\$3.9 billion which culminated in the country subscribing to the HIPC status in 2001. See section 3.2.2.6. Ironically, in the midst of increasing foreign aid flows, household poverty levels in Ghana also increased to 30% over the same period which supports the observations made by Bawumiah (2012). This group of respondents also attributed the reason why aid cannot help Ghana



develop and escape poverty to some of the conditions attached to the foreign aid. According to the respondents, donor providers usually insist that goods and services are bought from the origin of the donor country in return for aid.

A typical example was given about the USA government insisting that aid which is provided to the government of Ghana is used to buy goods and services from the USA. These conditions according to the respondents do not permit the recipient to effectively utilize the assistance in promoting economic development and poverty alleviation.

On the contrary, eighteen percent (18%) of the respondents mainly from the representatives of the three political parties argued otherwise, stressing that donor resources have contributed significantly to economic development and poverty alleviation in Ghana especially in the rural communities where service delivery from the central government is very poor. See section 5.2.3.

### 5.2.9 Can Ghana achieve sustainable economic development and poverty alleviation without foreign donor aid?

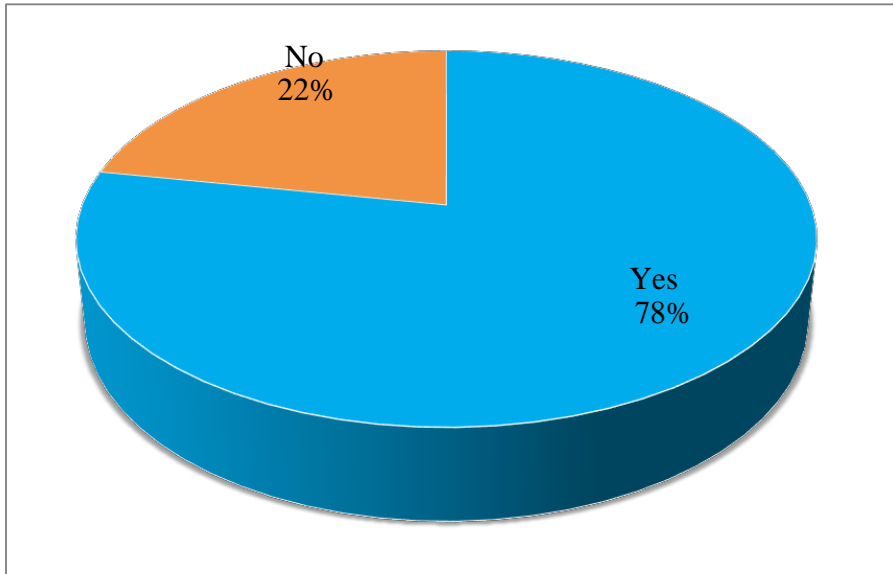


Figure 5.14 Can Ghana achieve sustainable economic development and poverty alleviation without foreign donor aid?

Source: *Field Data (January, 2014)*

According to empirical findings revealed in Figure 5.14, the majority of the respondents are optimistic that Ghana could be better off without foreign donor aid. In this relation, seventy eight percent (78%) of the respondents confirmed that sustainable development and poverty alleviation can be achieved in Ghana without foreign donor aid. According to these respondents, Ghana is endowed with natural resources which could be harnessed judiciously to initiate and promote sustainable development. A respondent from the government of Canada made the following observations: “With the rise in commodity prices for items such as gold and cocoa and the recent discovery of oil and gas, Ghana can manage without donor assistance even though the process has to be gradual to avoid shocks in the economy.” She explained that even though the time has not come yet, there could be a time when the donor community would have to gradually pull out and assist countries like Burkina Faso, Mali, Niger and those other countries which are less endowed. She reiterated that ‘closing the aid tap’ would have to be gradual because pulling out without the proper process would plunge the country’s

economy into chaos.

The respondent again noted that the government of Ghana could widen the tax net in order to generate more revenue which could replace the resources from the donor community. A respondent from the Ministry of Finance indicated that taxes are mainly paid by citizens in the formal sector of the economy while most of the people in the informal sector are left out because the tax system in the country is porous and ineffective. As a result, even though workers in the informal sector are mostly richer than those in the formal sector, those in the informal sector are always left out of the tax net. Explaining the challenge and the tax system in the country, she took me to a street in Accra to interact with some of the street vendors to determine the profit they make on their daily sales to ascertain whether they pay any form of tax to the government. The findings from the interaction indicated that the vendors make very substantial profits on daily basis but they do not pay tax because in the first place vendors are not obliged to pay tax and secondly, there is little knowledge of their profit margins in order for them to be taxed. This aspect however needs further investigation to establish the number of people in the informal sector of the Ghanaian economy who are not taxed.

One of the development experts and a scholar of Development Studies who was interviewed in Accra indicated that sustainable economic development the world over is a conscientious effort from within and not from donors. He reached out for a book written by Lee Kuan Yew, titled *From Third World to First: The Singapore Story – 1965-2000*. From the book, the respondent explained how the Singaporeans have painstakingly studied the tenacity of the Japanese in building Japan after WW II and how the Singaporeans have adopted the same positive attitude towards reconstructing Singapore from poor to a very rich country ranking the third in GDP in the world. He further indicated that Ghana can develop when we shun dependency on aid and embrace positive work ethics and approach in promoting development in the country. However, he warned that this approach must start from the

leadership which he claims is lacking in the country.

On the contrary, twenty two percent of the respondents argued that Ghana cannot do without donor aid because of the level of savings gap in the country. According to these respondents, there is no evidence that the country can generate funds internally to replace donor funds in an effort to promote sustainable economic development. They further indicated that in 1982, Rawlings and his administration tried to wean the country from donor aid and the donor community. However, the effort became futile and an economic disaster for the country. Consequently, in 1983, the government had to go back to the donor community for aid. See section 3.2.2.6.

A respondent from the University of Ghana explained that there has been high inflow of donor assistance to Ghana since 1983 when the country embraced the Economic Recovery Program (ERP) which was alluded to in section 3.2.2.6. According to him, this was followed by a phenomenal upsurge in donor assistance since the dawn of the new millennium as part of the HIPC initiative and the MDGs drive. All these inflows, according to him, have generated a dependency syndrome that makes it impossible to wean Ghana off donor aid. According to him, any attempt to even decrease the flow of donor assistance to the Ghanaian economic will result in what he calls “economic chaos.”

A respondent from the NDPC noted that internally generated revenue alone might not be sufficient to propel accelerated growth and development in Ghana, therefore, the government needs external funding to fast track the desired growth and development anticipated in the country. According to the Minister of Finance, Mr. Seth Tekpe, “it might take the government 15 to 20 years to complete the construction of a road. But with external assistance, the process can be hastened.” Therefore, since government alone cannot generate all the needed resources required to promote economic development and alleviate poverty in the country, donor aid becomes inevitable in the search for

development in Ghana.

### **5.2.10 Donor resources and standard of living in Ghana**

In Figure 5.15 fifty eight percent (58%) of the respondents indicated that donor resources have not improved the standard of living of Ghanaians but has instead impoverished the citizens through aid dependence and unfavourable conditions usually attached to donor inflows as alluded to in section 5.2.4. According to a respondent from the New Patriotic Party (NPP), the largest opposition party in Ghana, by the year 2000, Ghana was considered as one of the highest aid destinations in Sub-Saharan Africa (SSA). Paradoxically, at the time when aid was at its peak, the country was also experiencing low economic growth, high poverty rate and indebtedness to the extent that the country's debt ratio was higher than the average debt ratio in Sub-Saharan Africa. (See section 3.2.3.). He indicated that history has taught Ghanaians that foreign donor aid is inimical to the development and the welfare of the people in the country by indicating that the famous Economic Recovery Program (ERP) which the government carried out under the direction of the World Bank and the IMF, left in its wake unprecedented suffering among Ghanaians. He indicated that about four hundred thousand civil servants were rendered unemployed as a result of the ERP. However, forty one percent (41%) of the respondents indicated that donor resources have improved the standard of living of Ghanaians, especially those in the rural communities and northern part of Ghana. According to a graduate student from the Regent University of Science and Technology in Ghana, the contribution of donor assistance in the Ghanaian society, especially among rural dwellers cannot be underestimated. Health care provisioning such as the eradication of Guinea Worm in northern Ghana is sponsored by donors such as the European Union, CIDA, DANIDA and the World Bank. The provision of basic human needs such as water, shelter and food is also mainly done by the donor community.

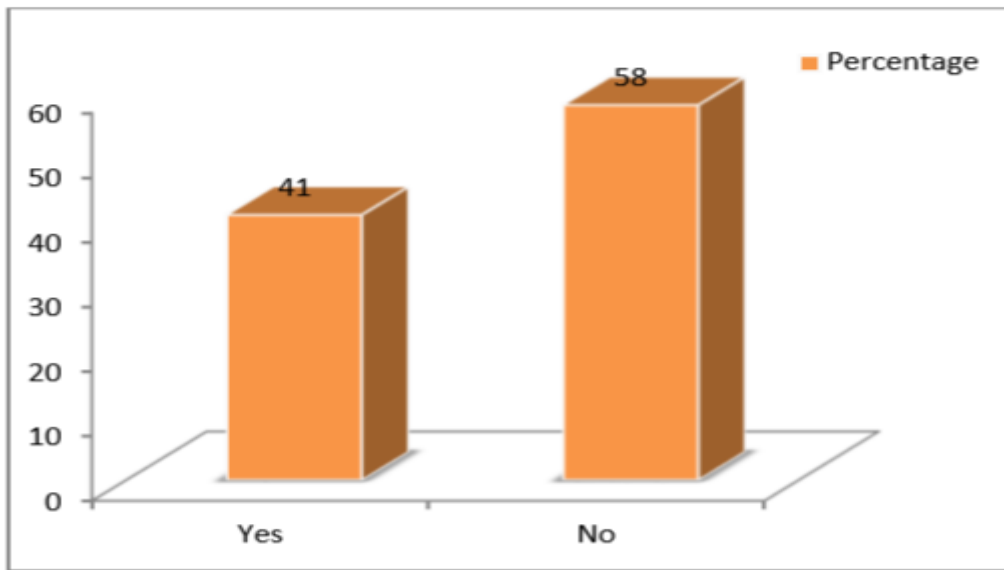


Figure 5.15 Donor resources have improved standard of living Ghanaians  
 Source: Field Data (January, 2014)

### 5.3 Analysis of aid by foreign donors/NGOS in Ghana

Respondents under this section constitute foreign donors to include World Bank, IMF, UNDP, European Union, USAID and Canadian Embassy together with NGOs in Ghana.

#### 5.3.1 Characteristics of the Aid institution

Demographic analysis of Donor Aid agencies indicates that the majority of the donor aid agencies are secular as indicated in Figure 5.16. Thus, eighty nine percent (89%) of the donor institutions were secular. On the other hand, eleven percent (11%) of respondents attested that their foundation is religious.

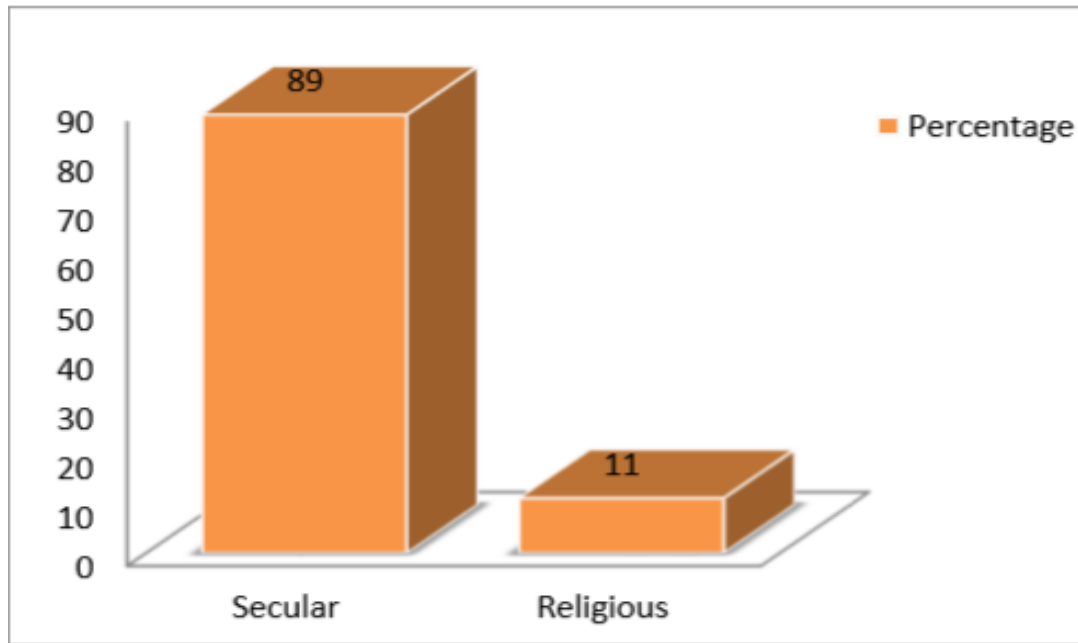


Figure 5.16 Description of the Aid Institution  
 Source: Field Data (January, 2014)

Empirical findings as shown in Figure 5.17 indicate that the majority of the donors representing ninety four percent (94%) originated from abroad while only six percent (6%) of the respondents confirmed their agency to be of local origin. This signifies that most of Ghana’s donor assistance comes from foreign countries.

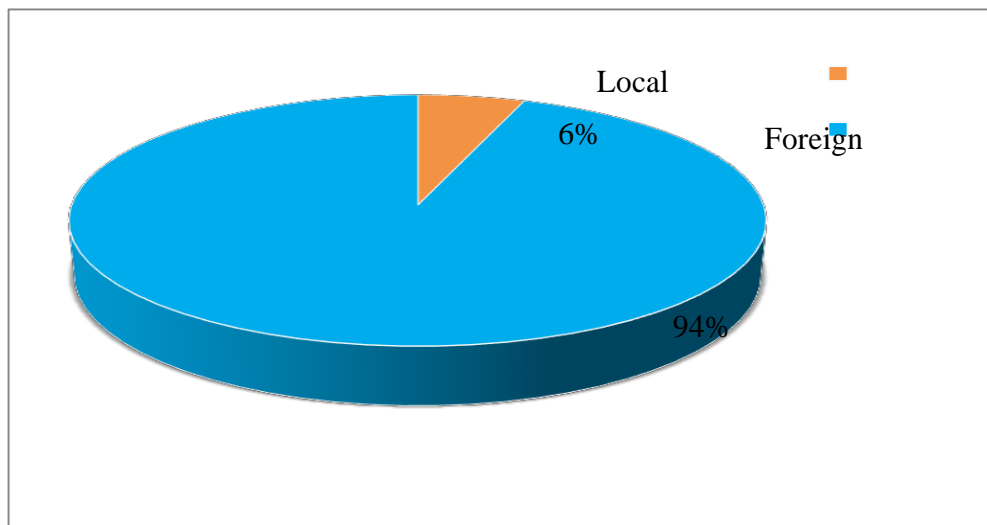


Figure 5.17 Origin of aid Institution  
 Source: Field Data (January, 2014)

The empirical findings shown in Figure 5.18 below reveal that the majority of the respondents, representing thirty one percent (31%), testify that the main function of donor agencies include health, infrastructure development and providing food and clean drinking water in raising the standard of living of Ghanaians. Twenty five percent (25%) of the respondents indicated that aid agencies are involved in the provision of basic human needs such as clothes, shoes, food and portable drinking water. Nineteen percent (19%) of the respondents also indicated that the core functions of aid agencies is the provision of health services, education and agricultural development projects while thirteen percent (13%) of the respondents indicated infrastructural development as the core function of the donor community.

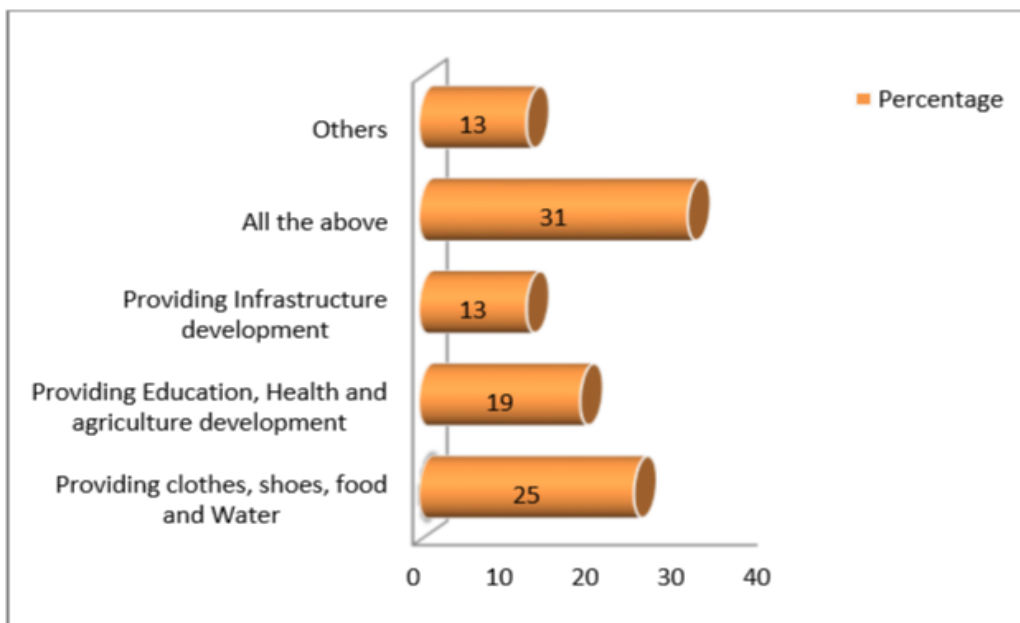


Figure 5.18 Core functions of donor Institutions  
 Source: Field Data (January, 2014)

The criteria for selecting beneficial communities and institutions include, among others, poverty and development indicators, requests from communities through the local government and by recommendation from the government of Ghana as illustrated in Table 5.2.



<b>Indicators</b>	<b>Frequency</b>	<b>Percentage</b>
Poverty and development Indicators	10	56%
Request from the communities through the Local Assembly	6	33%
Recommendations from the government.	2	11%
<b>Total</b>	<b>18</b>	<b>100</b>

Table 5.2: Selection of aid recipients  
Source: Field Data (2013)

The majority of the respondents representing (56%) indicated that recipient communities are selected based on poverty and economic development indicators of communities concerned while 33% select recipient communities based on request from local authorities in Ghana. Eleven percent (11%) rely on recommendations from the government of Ghana to select recipient communities. As a result of the aforementioned criteria in selecting aid recipient communities, the Northern Region and the rural communities in Ghana have become home to most of the donor agencies. See section 3.2.2.6. A representative from the Canadian development agency was interviewed and information from the interaction indicated that almost all Canadian aid in Ghana is sent to the northern part of the country to help bridge the unequal distribution of wealth between the north and the south of the country.

The UNDP representative in Ghana also indicated that most of the UN programs and projects are executed in the northern part of Ghana because of the high incidence of poverty and underdevelopment in the area. The Canadian representative who was interviewed attributed the challenges facing the Northern Region of Ghana to lack of political will on the part of the government to improve the status of the region. According to the representative from the Canadian Embassy, the

government could incentivize investors to promote economic growth and development in the north. However, since there is no political will, economic activities are mainly centred in the cities in the southern part of the country and these make the lives of people in the northern region of the country very difficult.

### 5.3.2 Donor aid and its relevance and challenges in Ghana

#### 5.3.2.1 Reasons why donors provide aid to the Ghanaian economy

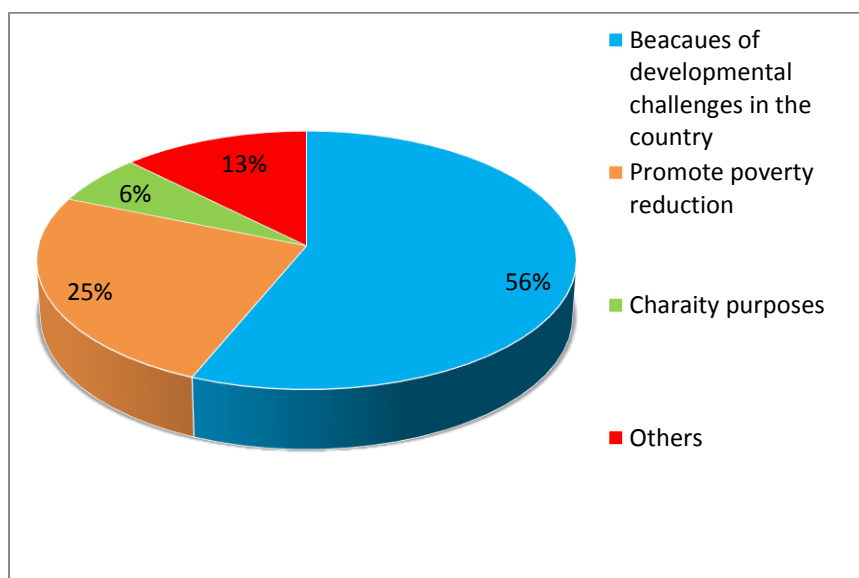


Figure 5.19 Reasons why donors provide aid to the Ghanaian economy  
*Source: Field Data (January, 2014).*

From Figure 5.19, fifty six percent (56%) of donors and NGOs revealed that donor aid is provided to the Ghanaian economy as a result of the alarming developmental challenges in the country which were alluded to in section 5.2.3. Twenty five percent (25%) on the other hand indicated that aid is provided to the Ghanaian economy to help alleviate poverty as already alluded to in section 5.2.3. above. Six percent (6%) claimed to provide donor aid to Ghana on charity grounds whereas thirteen percent (13%), classified as other reasons, claim they provide aid to Ghana to promote trade tides, and for world peace.

### **5.3.2.2 Aid and its beneficiaries**

The reasons posited by the donor community for providing donor aid in Ghana are laudable because these reasons provide the platform for effective economic take-off. However, the country is still experiencing high levels of poverty and underdevelopment, especially in northern Ghana as indicated in sections 5.2.11 and 5.3.1. As a result, it was important for the researcher to solicit the opinions of aid donor agencies on transparency of fund management as some Ghanaians perceive that there is mismanagement of donor funds, with donor funds not being used to serving its purpose (See section 5.2.7). In this regard, all the donors and NGOs interviewed were optimistic that aid from their institution reaches the intended beneficiaries. According to the respondent from the World Bank, moneys are released in smaller quantities which are well monitored through reports from recipients and open dialogue between donors and the government of Ghana. This, according to him, is carried out through joint sector reviews, planning and monitoring meetings between the government and donors, regular policy dialogue, establishment of sector working groups and frequent consultations about decisions on targets informed by the MDGs as indicated in section 5.2.7. Donors also publish information about their activities in the press and their websites. These are all measures embraced by the donor community to ensure that assistance from aid reaches the intended beneficiaries.

### **5.3.2.3: Ghana and aid dependency**

Literature and findings from Ghanaians indicate that Ghana is donor dependent. (See section 5.2.4). interestingly, majority of the respondents from the donor community, representing sixty nine percent (69%) agree that Ghana is donor dependent. According to an interviewee, Ghana's budgets and most development programs and projects in Ghana especially in relation to poverty alleviation are donor funded. Notwithstanding the confirmation by donors, thirty one percent (31%) of the respondent indicated the contrary. According to these respondents, irrespective of the historical trend of Ghana's reliance on foreign aid, Ghana however, is not foreign donor aid dependent. They buttress their views

with the fact that the country is able to finance almost her entire budget as presently the chunk of the country's revenue is internally generated.

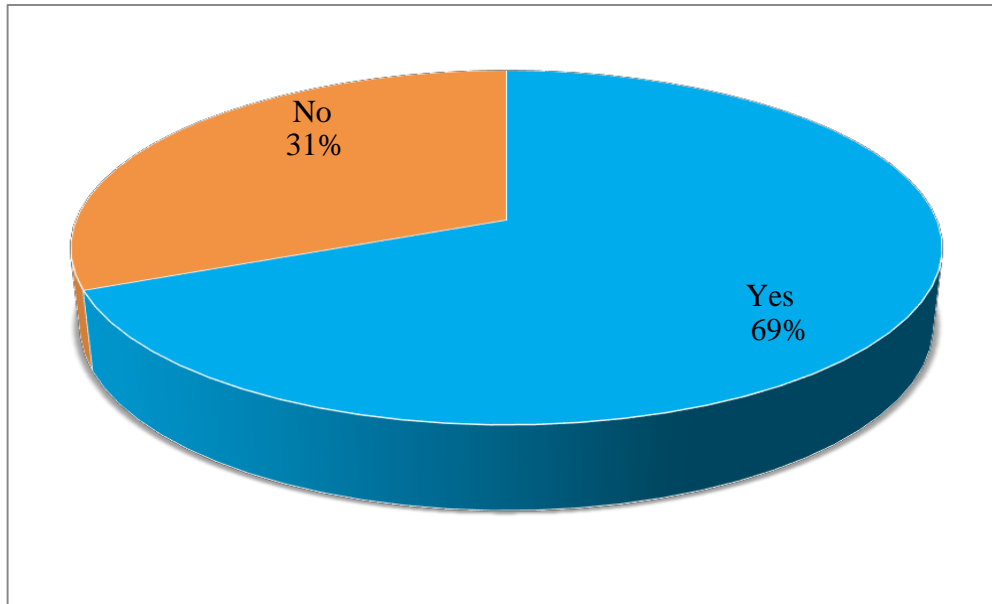


Figure 5.20 Ghana is donor aid dependent  
*Source: Field Data (June, 2013)*

#### **5.3.2.4: Role of foreign aid in the economy of Ghana from the donor perspective**

The role of donor assistance in promoting economic development and poverty alleviation especially among rural folks in Ghana cannot be understated. Figure 5.21 indicates that the majority (56%) of donors and NGOs suggested that foreign donor aid contributes very significantly to the development of the economy of Ghana as already alluded to by respondents from Ghana in section 5.2.3. A further thirty one percent (31%) expressed that the role of foreign aid is significant.

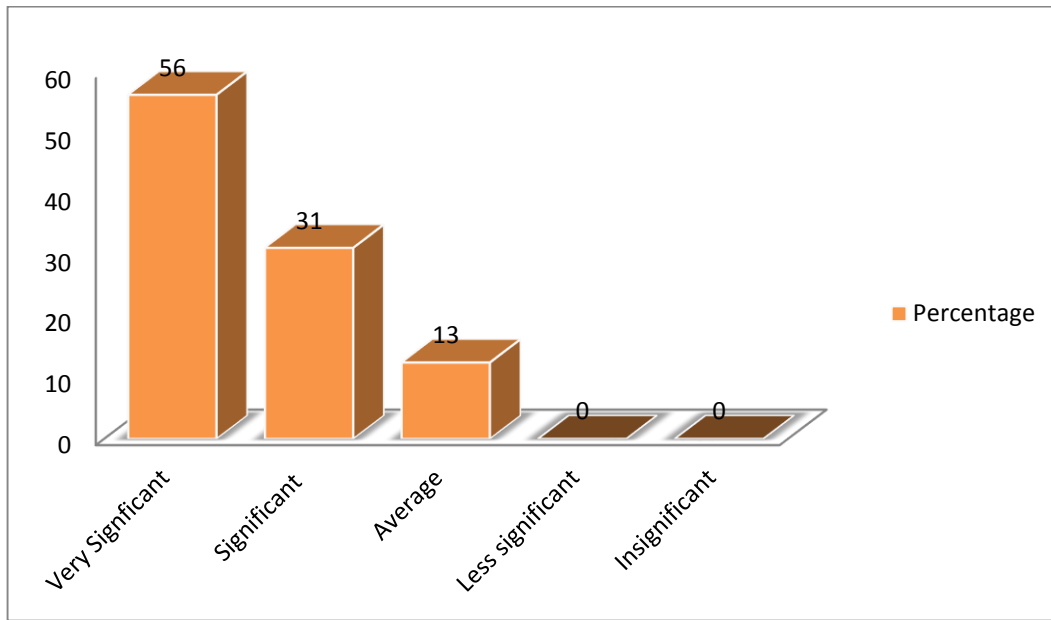


Figure 5.21 Role of foreign aid in the economy of Ghana from donor perspective  
 Source: Field Data (June, 2013)

### 5.3.2.5: Management of donor resources in Ghana

Figure 5.22 indicates that foreign donors agree that foreign donor aid is well managed. Thus, the majority of the respondents, that is eighty one percent (81%), concurred that aid is well managed through proper coordination efforts instituted from both the government of Ghana and the donors in Ghana as already alluded to in section 5.2.7. According to a respondent from CIDA, there are structures in the ministry of finance devoted to working with donors in monitoring progress of projects financed by foreign donor. Nevertheless, nineteen percent (19%) of the respondents expressed their doubt about how well foreign aid is managed in Ghana. According to these respondents, even though there had been attempts since 2005 to ensure proper management of donor activities, there are still challenges in implementing all the recommendations of the Paris Declaration (PD) and the Accra Agenda for Action (AAA) as a result of poor coordination and interests of the various donors. The USA is not part of the MDDBS because USAID argues that its objects and line of activities cannot align with the MDDBS which almost all donors in Ghana are party to.

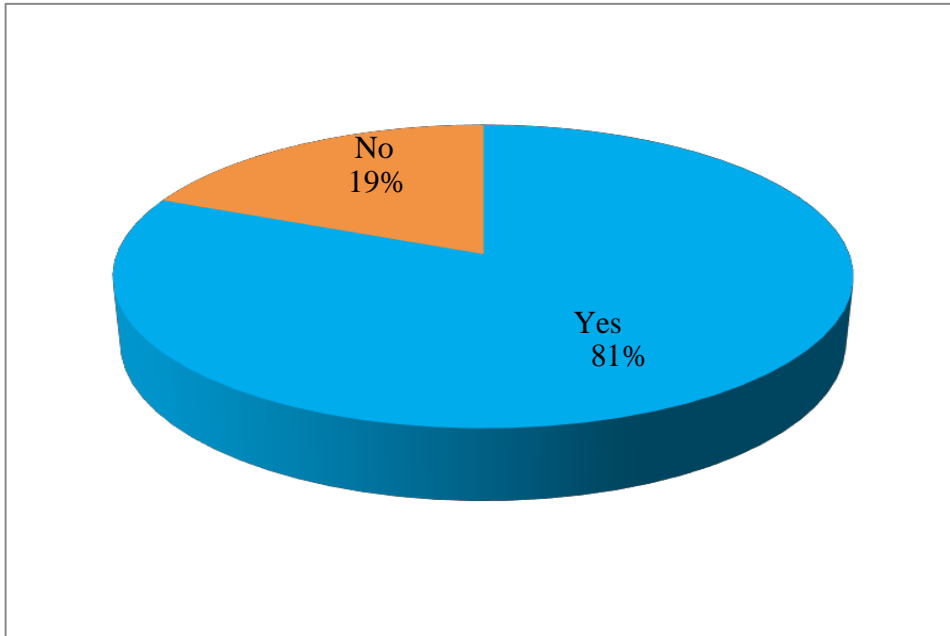


Figure 5.22 Foreign aid well managed in Ghana  
Source: *Field Data (June, 2013)*

### 5.3.2.6 Foreign donor aid can help alleviate poverty in Ghana

Empirical findings depicted in Figure 5.23 show that ninety four percent (94%) of donors and NGOs are optimistic that foreign donor aid can help alleviate poverty in Ghana if the funds are carefully managed by authorities and this will in the long run help promote sustainable economic development in Ghana. On the other hand, six percent (6%) of NGOs and donors argued otherwise. They also argued that every country that has developed did so through sound fiscal and monetary discipline and not necessarily through foreign assistance and interventions. See section 1.1.1.2.

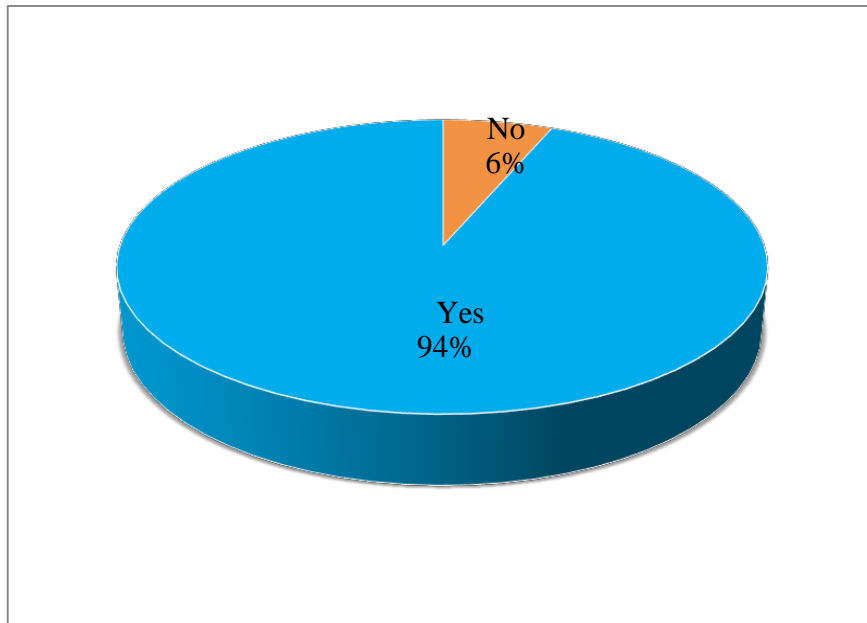


Figure 5.23 Foreign donor aid can help alleviate poverty in Ghana  
 Source: Field Data (June, 2013)

### 5.3.2.7 Ghana and middle income status

Figure 5.24 shows that sixty two percent (62%) of donors and NGOs admitted that Ghana deserves to be ranked among middle-income nations because the country has been able to sustain a gross domestic product GDP growth averaging 6% for more than six consecutive years. In contrast, thirty eight percent (38%) of the respondents argued that Ghana does not deserve to be classified as lower-middle income country because the country is still faced with high levels of unemployment and still needs to go through structural reforms such as governance, taxation and educational reform to qualify for a middle-income status. According to a respondent from the UNDP office in Ghana, the country might not be able to attain most of the Millennium Development Goals (MDGs) by 2015 because the country is still a developing nation and not a middle-income nation as reflected in figure 5.24 below.

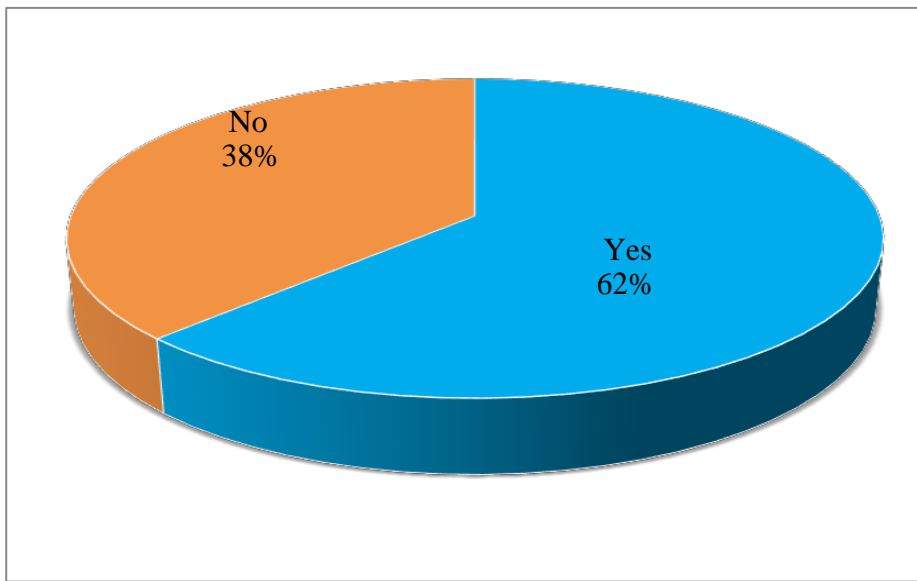


Figure 5.24 Ghana and middle income status

Source: *Field Data (June, 2013)*

Figure 5.25 indicates that eighty one percent (81%) of donors and NGOs admitted that Ghana will not be able to attain all the Millennium Development Goals (MDGs) by 2015 because of outstanding issues such as poor sanitation and high levels of infant mortality. However, nineteen percent (19%) of donors and NGOs argue that Ghana can attain all the Millennium Development Goals (MDGs) by 2015. The responses from donors raise the question of the role of foreign donor aid in economic development and poverty alleviation in Ghana since the attainment of the MDGs has a bearing on the reasons why the donor community increased the flow of assistance into the country since the dawn of the new millennium. See section 3.2.3.



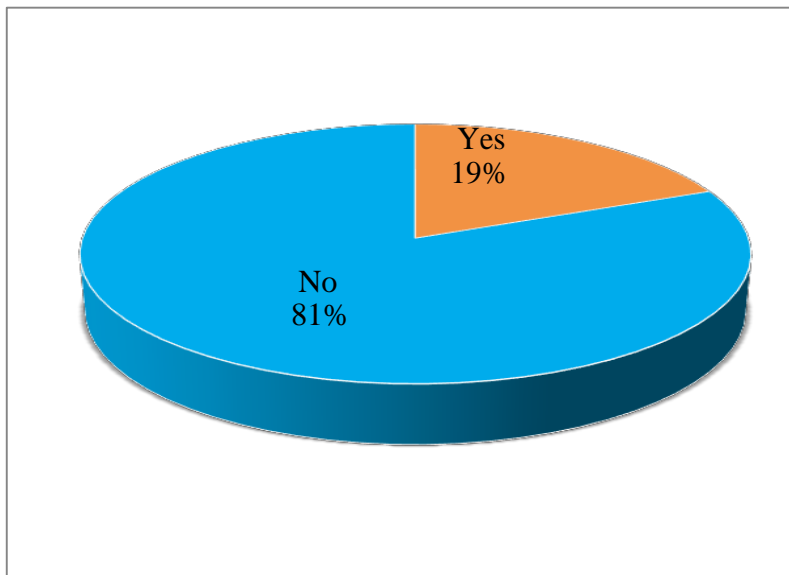


Figure 5.25 Ghana and the Millennium Development Goals  
*Source: Field Data (June, 2013)*

#### **5.3.2.8: Future of aid in Ghana**

Empirical findings as indicated in figure 5.26 shows that foreign donor aid is likely to be terminated in the near future. Majority of the respondents representing sixty nine percent (69%) indicated that the tap of aid will soon stop flowing. A respondent from the Canadian government argued that with the discovery of crude oil in Ghana, donor assistance will have to be directed to countries such as Mali, Burkina Faso and Niger which are still battling with a resource gap as already alluded to in section 5.2.10. However, she indicated that the process of aid withdrawal will be a gradual process in order to avoid what he calls economic shock destabilization of the Ghanaian economy. On the other hand, a significant number of respondents indicated that there is a high chance for Ghana to continue receiving foreign donor aid because there is a lot of work to be done in transforming the Ghanaian economy.

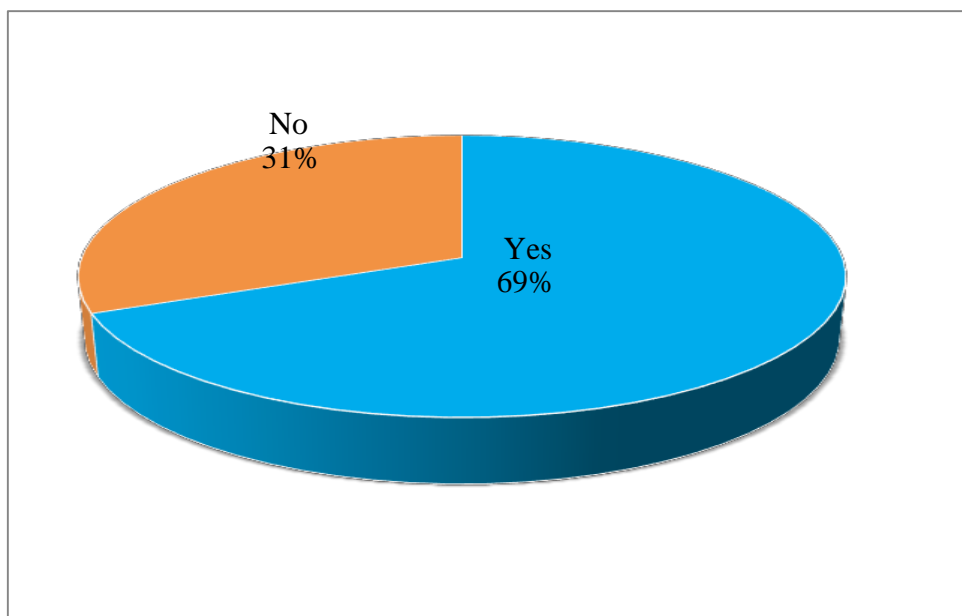


Figure 5.26 Future of aid in Ghana  
 Source: Field Data (June, 2013)

### 5.3.2.9: Alternative sources of replacing donor aid in Ghana

Figure 5.27 shows that eighty one percent (81%) of donors and NGOs are of the view that with the pace of corruption and mismanagement of the natural resources in the country, it is very difficult or almost impossible to replace the assistance from the donor community. A respondent from the European Union office in Ghana indicated that revenue from tax could replace donor assistance in the country. However, the tax system is porous and needs restructuring to serve as an alternative to donor aid as already alluded to by an official from the Ministry of Finance in section 5.2.10. Nineteen percent of respondents suggested that there are alternative sources of funding that can perfectly replace donor aid in Ghana. According to a respondent from Canadian Embassy, Ghana could harness revenue from natural resources such as gold, crude oil and diamonds to wean itself off donor assistance as indicated in section 5.2.10. Alternatively, she indicated that revenue from tax could also replace donor assistance. However, she warned that the present tax system will have to be restructured to serve this purpose.

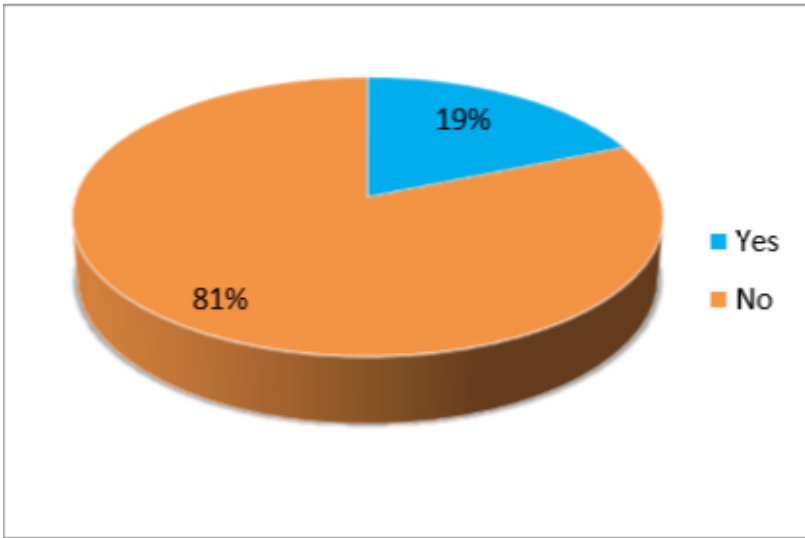


Figure 5.27 Alternative sources of replacing donor aid in Ghana  
 Source: Field Data (June, 2013)

#### 5.3.2.10 Should Ghana continue to receive Donor Aid?

The empirical finding depicted in Figure 5.28 discloses that sixty nine percent (69%) of NGOs and donors are in agreement that Ghana should continue to receive foreign donor aid in an attempt to alleviate the high level of poverty and the challenge of underdevelopment facing the country. According to these respondents, internally generated revenue alone cannot help the country escape the resource gap. On the other hand, thirty one percent (31%) of the respondents argued that Ghana can do without foreign donor aid and postulated that Ghana should halt the inflow of foreign donor aid if the country intends to develop and become self-reliant. By this suggestion, interviewees were implying that foreign aid makes the country foreign donor dependent.

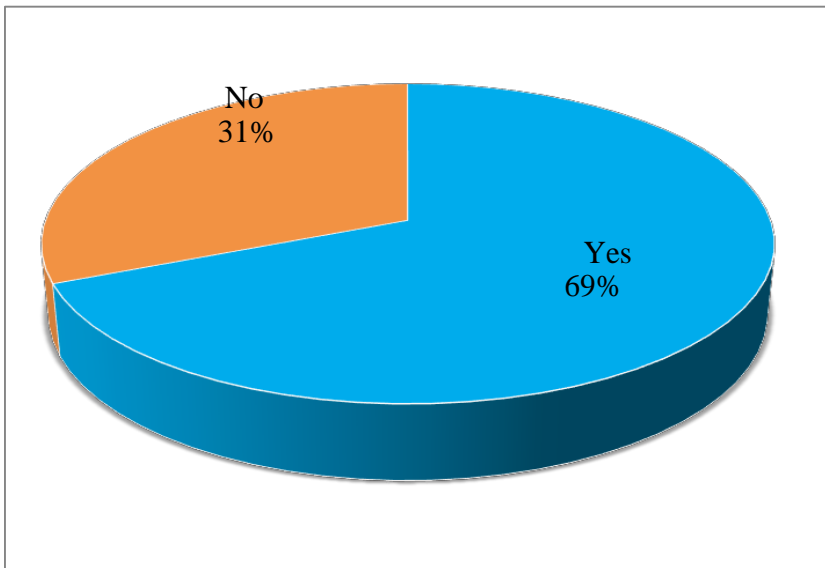


Figure 5.28 Should Ghana continue to receive Donor Aid?  
 Source: Field Data (June, 2013)

### 5.3.2.11: Challenges faced by donors in Ghana

The activity of the donor community in Ghana is faced with a lot of challenges notwithstanding the collaborative efforts between the donors and the government of Ghana. Sixty-seven percent of donors and NGOs indicated that their major challenge is lack of cooperation from the government of Ghana. According to the donors, theoretically, there is positive collaboration in terms of policy dialogue and planning; it is not translated into action because of poor cooperation from the government of Ghana. According to the respondents, the government of Ghana often fails in her commitment to fund projects and usually results in the termination of the project or donors committing additional funds into projects and programs which were supposed to be jointly funded by both donors and the government of Ghana. Apart from project funding, government officials usually fail to submit government reports and the necessary data which could facilitate the operations of donors in the country. Twenty-two percent (22%) of the respondents attribute the problems facing the donor community in Ghana to lack of the requisite skills in the country to execute projects and programs in the country.

Donors indicated that expatriates with adequate skills and experiences often have to be contracted into the country at additional cost to train the local staff and sometimes execute projects and programs in the country. Eleven percent (11%), however, attributes the challenges facing the donor community in Ghana to land tenure system in the country. In Ghana, the ownership of land resides in chiefs, families and individuals and these make it very difficult to secure land at ease to execute projects. Respondents indicated that the bureaucracy and the corruption involved in buying land for projects which will benefit the citizens of Ghana deter donors from implementing most of their projects and programs in the country.

<b>Challenges</b>	<b>Frequency</b>	<b>Percentage</b>
Poor cooperation from the government of Ghana	12	67%
Lack of project experts in Ghana	4	22%
Land tenure problems in Ghana	2	11%
<b>Total</b>	<b>18</b>	<b>100</b>

Table 5.3 Challenges faced by donors in Ghana  
Source: Field Data (2013)

#### **5.4 Conclusion**

Ghana has benefited from donor assistance since independence. The objective of this assistance is to promote economic development and help reduce the level of poverty in the country. However, the country has not witnessed much economic growth and development since independence in the midst of this donor assistance. As a result, most Ghanaians have decided to call for an end to resources from the donor country because donor assistance has made it difficult or almost impossible for the country to develop. Decades of receiving aid in Ghana has turned the country into an aid dependent nation that is not able to function effectively without assistance from the donor community. Some respondents have even indicated that the sovereignty of the country is compromised as a result of

continuous intervention in the affairs of the country by the donor community. It was pointed out by some of the respondents that the multiplicity of donor activities in Ghana has led to mismanagement and corruption in the aid scheme in the country. Eighty one percent (81%) of the respondents from the donor community, however, indicated the contrary. According to these respondents, the Paris Declaration and Accra Agenda for Action have resulted in the Multi-Donor Budget Support that has streamlined the operations of donors in Ghana, making incidents of mismanagement and corruption a thing of the past.

Respondents from the donor community also indicated that the flow of donor aid to Ghana might come to an end in the near future, especially with the discovery of crude oil in the country. According to them, resources will have to be transferred to less developed countries in the future. Apart from foreign donor aid, respondents suggested alternative sources of revenue to help promote sustainable development and poverty alleviation in Ghana. These include expanding the tax brackets, mineral rent, royalties, corporate tax, VAT, and tariffs. The bulk of respondents from the donor community representing sixty nine percent (69%) are of the opinion that Ghana should continue to receive foreign donor aid since the country is still characterized by high levels of poverty and underdevelopment. Some donors, however, indicated that Ghana can only be weaned off donor assistance when proceeds from the natural resources in the country such as gold, crude oil and diamond are well managed by the leadership of the country. Respondents indicated that the reason why it has become very difficult to wean Ghana off donor assistance in the face of abundant resources is the ineffective tax system which makes it difficult and sometimes impossible to collect taxes from individuals and organizations in the informal sector in the country.

Donors attribute the challenges facing them in executing their projects and programs in the country to poor government cooperation, lack of experts to execute donor initiated projects and programs in the country, as well as land tenure system in the country. With regards to the land tenure system, respondents blame the bureaucracy and the corruption involved in securing land in Ghana as a deterrent to donor operations in the Ghana.

In an attempt to draw an objective conclusion on the role of aid in Ghana, the next chapter addresses a possible alternative approach to attaining sustainable economic development and poverty alleviation in Ghana other than aid

## CHAPTER SIX

### ALTERNATIVE DEVELOPMENT APPROACH

#### 6.1 Introduction

The quest to promote sustainable economic development in Ghana dates back to 1957 when Nkrumah sought to transform the economic structure of the country from a producer of raw material into an industrial nation capable of transforming raw materials into finished products. This development drive was short-lived as a result of the political instability and the unprecedented demand for foreign donor aid which characterised the post-Nkrumah era (Kim, 2013: 1). As a result, by the beginning of the new millennium, donor aid flow to Ghana had reached an unprecedented level of US\$598.17 million and further increased to US\$ 1306.93 million in 2008 making Ghana one of the largest recipients of aid on earth (OECD/DAC, 2013) as indicated in table 3.5. However, as indicated by Ghanaian respondents in chapter 5, foreign aid has not played a significant role in poverty reduction and economic development in Ghana, therefore, the need for a home-grown alternative development approach, is inevitable.

Even as this chapter suggests an alternative for developing Ghana, the study is mindful of the fact that the country has been receiving aid for more than five decades and therefore, “weaning” the country off the “addiction” might not be simple. According to Moyo (2009: 75), aid dependent countries are “like any addict, it needs and depended on its regular fix, finding it hard, if not impossible to contemplate existence in an aid-less world.” Hence, the chapter proposes an alternative development approach that will hopefully lead to declining dependency on foreign aid in Ghana. Hence, the chapter begins by looking at a home-grown alternative development approach that is based on the informal sector of the economy. The chapter further looks at how the informal sector, which employs more than 80% of the labour force in Ghana can be funded with microcredit from microfinance institutions and resources from the donor community.



## 6.2 The informal economy

The informal economy is that part of the economy that is not taxed, monitored by any form of established judicial, regulatory and institutional framework. The informal economy is defined as “the production and employment that takes place in unincorporated small or unregistered enterprises” (Chen, 2012: 2). In 2005, President Kufour, the former president of Ghana in the January Sessional Address to the Ghanaian Parliament described the informal sector as a group of individuals and enterprises that are unable to keep pace with modernity (Kuffour, 2005). In the same year, at a presentation in 2005 on the topic *Policy Dialogue on Poverty Reduction and Wealth Creation in the Informal Economy*, the Director General of Private Enterprise Foundation in Ghana defined the informal sector in Ghana as an unstructured, high risk, chaotic system. Success in the sector is highly selective and may not be due to predictability or verifiable factors (PEF, 2005). This study has adopted the definition put forward by the Director General of Private Enterprise Foundation in defining the informal sector in this study because it perfectly captured all that the informal sectors stand for in Ghana.

The term informal economy or informal sector was coined by a British anthropologist, Keith Hart in 1971 in his study of the economic activities among the unskilled migrants from Northern Ghana to the capital, Accra in search of greener pastures (Hart, 1973). Even though the informal economy was officially defined in the early half of the 1970s, the origin of the informal sector in Ghana can be traced to the era of colonial capitalism in the Gold Coast when operators in the sector were mainly involved in selling agricultural products, transport owners, porters and repairers (Adu-Amankwa, 1999).

Over the decades, the informal economy has prevailed and functioned side by side with the formal sector of the economy in the Ghanaian economy in both the urban centres and the rural communities. Though the informal sector is often “concerned with petty production, using very simple, labour

intensive techniques with a minimum of capital” (Brown, 1995: 207), unverified statistics secured from the Registrar General’s Department in Ghana indicates that 92% of companies registered operate in the informal sector. It was also noted that the informal sector provides about 85% of employment to the labour force in Ghana in addition to 70% contribution to the country’s gross national product (GDP). The data was augmented by contributions from different scholars and institutions that have interacted with the Ghanaian economy. According to Xaba, Horn and Motala (2002) about 89% of the labour force in Ghana is employed by the informal sector. This sector became a force to reckon with as a leading employer in Ghana when about 45 000 workers were laid off from the public service as part of the Economic Recovery Program (ERP). With the inability of the formal economy to absorb the increasing number of emerging labour force, the informal economy has naturally provided solace for the unemployed in the country in addition, the sector also contributes about 22% of real GDP and 52% to trade and commerce to the Ghanaian economy (Osei- Boateng & Ampratwum, 2011: 4).

Notwithstanding the diverse contributions of the informal sector to the growth and development of the Ghanaian economy, the sector is still plagued by a myriad of challenges such as capacity development in the form of market development, modern technology, human resource management, developments in domestic and international trade, as well as logistic and supply chain. However, above all these challenges, lack of timely access to finance has become the biggest threat to the sector because most of the operators in the sector lack collateral such as houses, cars and other forms of assets that could be borrowed. Sometimes, when the collateral is available, it is often undocumented and cannot be enforced legally. As a result, only 5% of the Ghanaian population has access to the banking sector even though about 80% of households in the country will be prepared to save if they had access to appropriate savings schemes (Moyo, 2009). Successive governments since independence in 1957 have tried to fund the informal economy by supporting the sector with tax payers’ money and relying on the unreliable and inadequate funds from donors. These have not helped

the situation because despite the support funding gaps still exist (Moyo, 2009).

In an effort to mitigate the financial challenges facing the informal economy in Ghana, this study suggests that the microfinance system might be the solution to the problem and the growth of the Ghanaian economy on a sustainable basis. Microfinance is defined as the provision of financial services to the poor and low income earners that are unable to access money from formal financial institutions (Conroy, 2003). The International Fund for Agricultural Development (IFAD, 2009: 1) also defined microfinance as “all financial services that are accessible to poor and low-income rural households and individuals.” According to Otero (1999), microfinance is not limited to the provision of capital to better the lot of the poor at individual levels, but also for the establishment of financial institutions capable of providing financial services to the poor who are marginalized by the formal banking sector.

There are two main approaches of microfinance: the welfarist and the institutionalist approaches. The welfarist approach focuses more on the client and how to make loans affordable to the client in an attempt to improve the standard of living of the recipients of financial services from microfinance (Morduch, 1999). The institutionalist on the other hand argues that microfinance is a profit making institution that should focus on how to cover cost with the available revenues because self-sufficiency results in sustainability and poverty reduction in the long-term (Congo, 2002).

### **6.3 Brief history of microfinance**

In the 1970s, access to credit became a major issue among most poverty alleviation organizations especially among women movements that became critical of how “credit programs and credit cooperatives were being used by women” (Mayoux, 2002, 76-81). Hence, by the beginning of the

1980s, poverty-targeted microfinance institutions like the Grameen Bank emerged. In mid-1970s, Dr Yunus, the acclaimed “father of microfinance” came up with the idea of the Grameen Bank which is literally translated from Bengali as ‘Bank of village’ to restructure the financial sector in Bangladesh, his home country to include the poor, who happen to fall on the periphery of the formal banking sector. Yunus’ innovation was to find a way of lending to the poor who have no collateral against which to borrow. The only asset of this marginalized group of people is in the form of land which is undocumented and legally unenforceable. As a result, Yunus made use of the communal trust and interdependence which the rural poor shared as collateral. The Grameen bank works this way as an illustration: a loan of about a \$100 is given to about six traders in a selected village. Within this group, the \$100 is advance to for instance, trader A for a specified period of time.

After the period, the money is paid back by trader A to the bank with interest of about 10% to 12%. The \$100 is made available to the same group, which is then passed on to trader B in that succession. However, if any member should default; the group is extended no further loans. Even though technically speaking, the group does not share joint liability; the group is implicitly responsible for the repayment of the loan. As a result, in times of difficulty in repayment, members of the group contribute the defaulted amount so that the defaulter pays back in good time in order to keep the loan revolving in the group. The Grameen Bank is a resounding model. The bank initially which begun micro-lending to 36 000 members with a portfolio of \$ 3.1 million in 1983 saw the membership skyrocketing to 1.3 million members accessing loans in 2008 with less than 2% default rate. Today, the bank has also diversified into insurance, and pension schemes, educational scholarship and housing programs (Moyo, 2009: 127).

In the 1990s, donors and NGOs became involved in microfinance, hence, reducing poverty especially among women. That effort saw the birth of the International Fund for Agricultural Development

(IFAD), which bears similitude with the Grameen Bank, is focused on ensuring that the living standards of the rural dwellers all over the world are improved through empowerment. Since the establishment of IFAD, its main goal has been to support the rural poor's finance systems, therefore, by 2008; the institution had become the fourth largest sponsor of donor activities among the poor in the world (CGAP, 2008).

#### **6.4 Importance of microfinance**

The importance of microfinance in promoting sustainable growth and development in developing countries cannot be underestimated. In the first place, microfinance covers a large number of clients than any other financial institution in the world (Dunford, 2006). The Microcredit Summit Campaign Report (2007) indicated that over 3,300 microfinance institutions reached 133 million clients with microloan in 2006. Of this number of beneficiaries, 93 million of the clients were with the brackets of very poor when they took their first loan which was in line with the development community's urgent call for the improvement of the welfare of the needy in the world (UN, 2005). In his ground breaking study titled *The fortune at the bottom of the pyramid*, Prahalad (2004) indicated that microfinance has made it commercially feasible for a large number of previously "unbankable" to access financial services. Details of his explanation are captured in Figure 6.2. Secondly, microfinance helps develop the informal economy by providing the necessary financial and non-financial services to boost the activities within the sector. In addition, Mayoux (2010) also argues that microfinance is able to provide the financial needs of the poor and vulnerable especially women in the informal economy. See figure 6.1. Women constitute about 70% of the world's poor even though they contribute significantly to the growth of the global economy and sustainable livelihoods of families and communities (UN, 2005). The provision of financial services through microfinance plays a critical role in empowering women in decision making, and enhancing their socio-economic status.



Figure 6.1: Beneficiaries of microloan  
Source: Djan (2008).

Microfinance also makes room for the previously considered “unbankable” citizen to have access to banking services as already alluded to in section 6.2.1. According to Dunford (2006), banking the “unbankable” leads to financial system development because microfinance lowers the cost and increases the convenience of financial services.

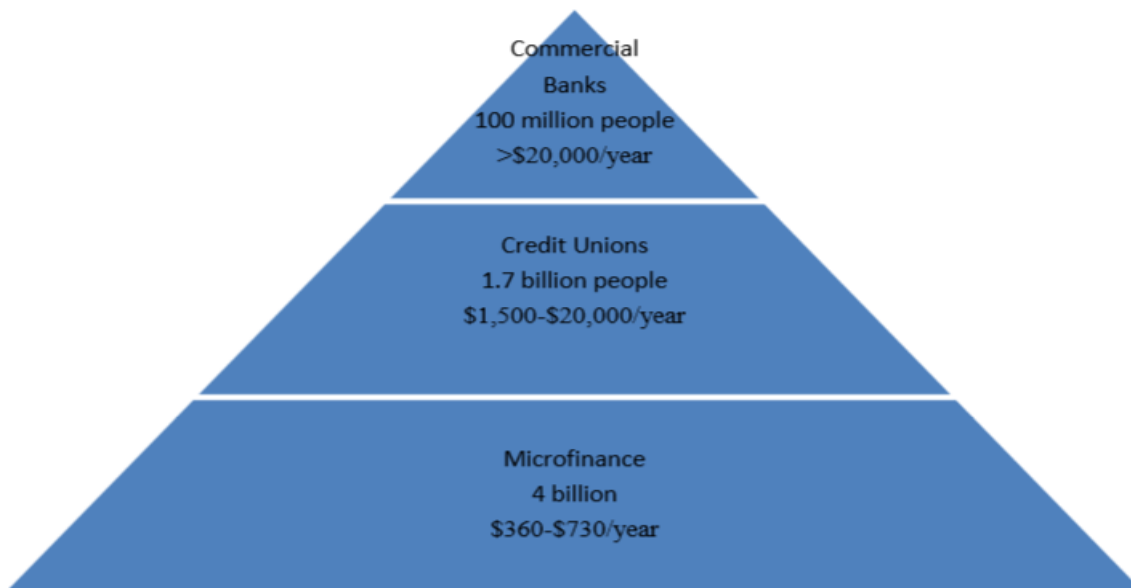


Figure 6.2: Microfinance and the lower income groups  
Source: Dunford (2006)

Figure 6.2 reflects that very few people are covered by the Commercial Banks even though the bank is considered prestigious and at the apex of the pyramid. Credit Unions which come after the commercial banks in terms of ranking and prestige have done better than Commercial Banks in terms of customers. However, Microfinance which is at the bottom of the pyramid covers the bulk of the population in the pyramid by covering people in the brackets of near poor, upper poor, the poor and the destitute. This implies that microfinance institutions are more accessible to a large number of people than any other forms of financial institutions. Therefore, in the search for a more reliable source of funding for the informal economy in Ghana, attention must be given to microfinance.

### **6.5 Microfinance and the attainment of the Millennium Development Goals (MDGs)**

The MDGs as captured in Table 2.1 in section 2.4.4 were designed to promote sustainable economic development and bring poverty in developing economies to the lowest ebb. The MDGs are bold and ambitious plans to raise the quality of life and the advancement of the human race, and the goals serve as the roadmap for attaining the better life (UNFPA, 2005). However, these goals are only achievable when all stakeholders in global development work together to address issues such good governance, economic growth, physical security and basic infrastructural development. This study, however,

suggests that the availability of financial services for poor households through microfinance will play a critical role in the attainment of the MDGs which is in line with The UN Millennium Project which asserts that the role of microfinance in attaining the MDGs cannot be over emphasized because the strategies postulated to achieving the MDGs by 2015 are interwoven with the purpose of establishing microfinance institutions (Millennium Project, 2005). The UN Millennium Project which advocates the role of microfinance in attaining the MDGs indicates that access to reliable source of finance is vital in attaining the MDGs on time, therefore, microfinance should be given the needed attention (UNCDF, 2003).

The role of microfinance goes beyond the provision of business loans. According to Littlefield, Morduch and Hashemi (2003) the poor invest financial services from microfinance in education, health, and for household emergencies in addition to microenterprises. The success of the Grameen Bank in aiding more than half of its 3.4 million borrowers in Bangladesh to escape poverty is evidence that access to financial services can enable the poor improve their household income. See section 6.3. In an effort to determine how microfinance can help achieve the MDGs, this section looks at the goals in relation to the role of microfinance.

### **Eradication of extreme poverty and hunger**

Eradication of poverty and hunger is one of the development strategies driven by the Millennium Development Goals (MDGs). However, attaining this objective has to be done in circumspective because poverty is multi-dimensional and has ripple effects on human development such as education and health; and marginalisation of the vulnerable in society; material deprivation such as food and environmental protection as illustrated in Figure 6.3 below.



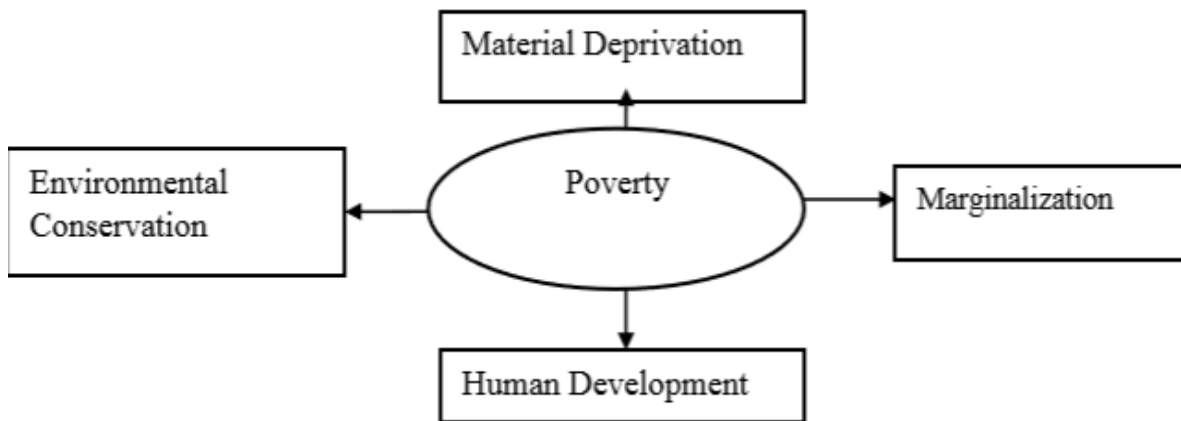


Figure 6.3: Multi-dimensional effects of poverty  
 Source: Formulated by the author

In halving extreme poverty and hunger by 2015, the first step is to identify the poor and the marginalized in society and find creative ways of breaking the cycle of poverty which is hindering their development (Mayoux, 2009: 6). See section 6.3. Microfinance has proved to be an effective tool for poverty reduction with the potential of transforming the lives of the poor and serves as the best strategy in reaching the MDGs (Simanowitz & Brody, 2004). According to Annan (2003:5) “sustainable access to microfinance helps alleviate poverty by generating income, creating jobs, allowing children to go to school, enabling families to obtain health care, and empowering people to make the choices that best serve their needs”. These financial resources enable the poor to protect, diversify and increase their source of incomes which are required for poverty alleviation apart from providing poor households with loans, savings and insurance facilities which serve as buffer for uncertain and difficult economic periods (Littlefield, et al, 2003). A comprehensive study on microfinance conducted by the World Bank in the 1990s on three major microfinance programmes in Bangladesh (Grameen Bank, BRAC, and RD-2) concluded that female clients increased household consumption by 18 takas for every 100 takas borrowed which resulted in 5% of clients graduating from poverty each year by accessing financial resources from microfinance

(Khanker, 1998). In another study carried out by an NGO, Freedom from Hunger in Ghana, it was found out that clients had increased their incomes by \$36 compared to \$18 for non-clients (Freedom from Hunger, 1998).

### **Achieving universal primary education**

Primary education is defined by UNESCO as completion of grade 1-5. However, in developing countries, attaining this goal seems very difficult and almost impossible to attain by 2015 because in Sub-Sahara Africa for instance, about 40% of children of school age are out of school and even those who enrol in schools, only one out of three successfully complete primary school (Basic Education Coalition, 2004: 4). According to Basic Education Coalition (2004), Monitoring Report on Education for All, there are over 100 million children in the world without access to schooling of which 60% of these affected children are girls. This difficulty emanates from very unique and different factors. Firstly, national budgets in developing nations are usually woefully inadequate to successfully fund infrastructure and the personnel in the education sector. Apart from the national budget constraints, most parents in developing countries are very poor and cannot afford to send their children to school in an effort to attain basic education. It is as a result of these challenges that this study suggests microfinance institutions to play the crucial role of assisting in attaining the MDG Two. Even though microfinance institutions cannot reform a nation's educational system, loans from these microfinance institutions can help ensure that children of school age who are sent to school have their fees paid, school stationary provided in addition to providing the school children with balanced diets because well fed students tend to outperform a hungry and a needy child. In addition to ensuring that children are sent and retained in schools, some microfinance institutions have programs which provide for the educational needs of clients in the form of non- formal education. The Bangladesh's Rural Advancement Committee (BRAC) for instance works to provide children with education in the form of non-formal education in villages. The Grameen Bank of Bangladesh has also made it possible for

all girls in the Grameen Bank household to have some basic education besides the scholarship the bank provides to brilliant but needy students in Bangladesh (Dunford, 2006; Moyo, 2009).

### **Promote gender equality and empower women**

Statistics from the International Labour Organization (ILO) (2006) indicates that 70% of the world's poor are women who have been impoverished by discrimination, stereotype, cultural and economic challenges such as women heading households due to outmigration by men who are supposed to be the heads of households (Mayoux, 2009: 6). Therefore, poverty-targeted microfinance must be promoted among the rural poor, especially among women in order to attain the Millennium Development Goal Three. According to the Microcredit Summit Campaign Report (2007) over 3,300 microfinance institutions reached 133 million clients with a microloan in 2006. 93 million of the clients were among the poorest when they took their first loan and 85% of these poorest clients were women. Harris (2007) also indicated that by 2006, about 79 million of the world's poorest women had benefited from microfinance services which have made microfinance become the solution to improving livelihood especially with regards to women since access to credit and other financial services have enabled women to increase their income and standard of living as well as the living conditions of their families (Cheston, 2006). According to Somavia (2006 cited in ILO, 2006: 1), "microcredit plays a critical role in empowering women; helps deliver newfound respect, independence, and participation for women in their communities and in their households". Through microfinance services, women who were previously impoverished and powerless because they have no stake in taking decisions that affected them have been empowered to become major stakeholders in societies. According to Mayoux (2010) access to savings and loans through microfinance institutions has given women greater role in economic decisions concerning them and according to International Labour Organization (ILO), by increasing women access to financial services through micro financial institutions, the core values of gender equality and non-discrimination is promoted.

## **Reduce child mortality**

Microfinance services such as loans and credit facilities have improved household welfare and reduced child mortality among the poor (Millennium Project, 2005). When household income is improved health issues such as diarrhoea, malaria and other diseases are likely to be attended to adequately. Improved household income leads also to better education on prevention and prompt medical attention when symptoms appear. According to Dunford (2006:11), mothers who are involved with Lower Pra Rural Bank's Credit and Education programs in Ghana were more likely to breastfeed their children until the required age and are also able to afford medication when they are required. This program has helped reduce infant mortality and improved height- for-age as well as weight-for-age for children of participants (ibid). The poor and the marginalized are not able to provide adequate medical care for their wards; therefore, the incidence of child mortality is always high among the poor in society.

## **Improve maternal health, Combat HIV/AIDS, malaria and other diseases**

The MDGs seek to improve maternal health (MDG 5), combat HIV/Aids and other diseases (MGD 6) globally by 2015 because the MGDs especially “the eradication of extreme poverty and hunger cannot be achieved if the questions of population and reproductive health are not squarely addressed” (Annan, 2002: 1). Poor reproductive health accounts for one-fifth of disease globally and more than half a million of deaths among women during birth or due to complications during pregnancy while three million of the world's population is lost annually due to Aids (UNFPA, 2012). To curb the high death rate and the spread of HIV/Aids requires an equitable health system which will save women from dying during childbirth and educate the youth who are sexually active on reproductive health and family planning because 75% cases of HIV are sexually transmitted. However, this can only be achieved when the economic status of the poor is improved since poverty perpetuates illiteracy, poor health, and poor health care as well as rapid population growth (ibid). In 1994, 179 nations agreed on

a plan which could lead to the attainment of a universal reproductive health by 2015 (International Conference on Population and Development (ICPD)). Yet evidence pointing to the attainment of these goals appears very bleak because of lack of adequate funding. Funding this plan was estimated at US\$18.5 billion and donor nations agreed to fund one-third of the total cost. However, while funding increased, resources always fell short of the amount required to attain this objective (UNFPA, 2005).

In poor societies, microfinance institutions have contributed to financing health programs and have also empowered the previously poor households so that they can afford health services (UN Millennium Project, 2005). A study of the BRAC microfinance in Bangladesh indicated that members who had been with the financial institution for a long time had high use of contraceptives, which has helped to improve members' reproductive health and maternal health (Dunford, 2006).

### **Ensure environmental sustainability**

The seventh MDG seeks to integrate sustainable development policies to safeguard environmental resources, ensure access to portable drinking water by 2015 and improve the lives of 100 million slum dwellers by 2020 (UN, 2000). Ensuring environmental sustainability requires collective effort of all global citizens, to tackle poverty which poses an eminent threat to the attainment of the goal. The poor have very little regard for the environment because their immediate concern is survival. That is why rhino poachers in South Africa for instance will brutally kill a rhino for its horn and illegal gold miners in Ghana will destroy virgin forests and also pollute water bodies for alluvial gold. The best way of addressing environmental challenges is to first tackle the problem of poverty by promoting the informal economy. The informal sector has become a major employer of the labour force recently. In Ghana for instance, the sector employs more than 80% of the labour force. See section 6.2. However, due to financial limitations, the informal sector has not been able to function to its full

potential. Therefore, it is important that resources from external sources are utilised to develop the informal economy. Poverty-targeted microfinance institutions must also be promoted so that the poor can be empowered to safeguard environmental resources, ensure access to portable drinking water and improve the lives of slum dwellers. In countries such as Bangladesh and India where microfinance institutions are effectively operated, housing loans are given to the poor to improve their living conditions and living space in the form of resettlement (Millennium Project, 2005).

### **Develop a global partnership for development**

The eighth MDG is to ensure a global partnership for development through the promotion of global liberal markets through good governance, development and poverty reduction; meet the special needs of developing countries through opening up of the markets of the developed world; and boosting the private sector through new technology such as the information and communication technology (ICT) (UN, 2000). To attain this objective, the informal economy which employs about 80% of the poor, must be well funded. Dunford (2006) argues that the provision of financial support to businesses in the informal sector will promote job creation in the sector. See section 6.4. Hence, since the commercial banks are reluctant to provide financial services to operators in the informal economy for lack of adequate collateral as already alluded to in section 6.4, microfinance institutions become inevitable. Microfinance institutions have helped develop the informal economy by providing the necessary financial and non-financial services to the sector. Mayoux (2010) indicates that microfinance is able to provide the financial needs of the poor and vulnerable especially women in the informal economy because microfinance is not limited to the provision of capital to better the lot of the poor at individual levels, but also for the establishment of financial institutions capable of providing financial services to the poor who are marginalized by the formal banking sector. See section 6.4.

## **6.6 The role of microfinance in poverty reduction and the development of the informal sector in Ghana**

The definition of poverty and how it is measured is still characterised by controversies. Sometimes, poverty is determined using an absolute standard of welfare (amount of income, life expectancy, consumption and housing condition), while in other cases, poverty is “relatively” determined by relating a person’s condition with another person’s or an international average. However, Hulme (1997) look at poverty beyond material deprivation to include people who suffer from social inferiority, powerlessness and isolation while Sida (2005: 15) argues that “poverty has multiple and complex causes. The poor are not just deprived of basic resources; they lack access to information that is vital to their lives and livelihoods, information about market prices for the goods they produce, about health, about the structure and services of public institutions and about their rights”. This study embraces Sida’s (2005) definition of poverty to discuss microfinance as a tool for poverty reduction and the development of the informal sector of the Ghanaian economy.

In Ghana, like in most SSA countries, the level of poverty is so high that scholars like Fox and Liebenthal (2006) concluded that attempting to reduce poverty in Africa is an elusive and quixotic exercise. In Ghana for example, the 1998/99 GLS indicated that 5 out of the 10 regions in the country had about 40% of the residents living in poverty. These regions were the Eastern, Central, Upper West, Upper East, and Northern region with poverty profiles of 44%; 48%; 84%; 88% and 69% respectively (GSL, 1998/99). See section 3.2.3. The second GLS 2005/2006 did not show any significant improvement in the poverty profile of Ghana. The Northern and Upper East Regions registered slight reduction in poverty from 69% to 52% and from 88% to 70%, but the Upper West region experienced an increased in poverty level from 84% to 88% (GoG & UNDP, 2007).

The high level of poverty in Ghana has attracted the attention of the development community in recent years. The beginning of the new millennium for instance has witnessed an increase in momentum to make poverty an issue of the past in Ghana, hence, the Ghana Poverty Reduction Strategy (GPRS I) and Ghana's Growth and Poverty Reduction Strategy (GPRS II) to reduce poverty and promote sustainable economic growth and development in the country. See section 3.2.3. Reducing poverty is multifaceted and goes beyond just the generation of incomes of the poor, but include making funds very accessible to the majority of the poor who are in need (Todaro et al, 2009). It is not enough to provide some income to some sections of the poor in society but it is equally important to make funds available and accessible to the poor in society in such a way that it helps create decent jobs, reduces poverty and eventually brings dignity to the poor.

### **6.6.1 Microfinance in Ghana**

Microfinance operations in Ghana dates back to the 20<sup>th</sup> century. In the early 1900s, Susu, which is one of the microfinance schemes in Ghana originated from Nigeria and started taking root in the Ghanaian society. Also, anecdotal evidence suggests that the first credit union in Ghana was established by Canadian Catholic Missionaries in northern Ghana in 1955 (Asiama & Osei, 2007). Microfinance has evolved into its current state due to the establishment of Rural and Community Banks (RCBs), the liberalization of the financial sector and the promulgation of PNDC Law 328 of 1991, which allows for the establishment of non-bank financial institutions such as loans and savings companies, credit unions, and Susu companies to provide financial services to the informal economy (BoG, 2007). The liberalization of the microfinance sector has seen the evolution of three broad categories of microcredit institutions which include:

- Formal suppliers of microfinance which include rural and community banks, savings and loans companies and commercial banks.



- Semi-formal suppliers of microfinance (credit unions, financial non-governmental organizations and cooperatives).
- Informal suppliers of microfinance (susu collectors and clubs, rotating and accumulating savings and credit associations (ROSCAs and ASCAs), traders, moneylenders and other individuals).

Microfinance mainly involves the provision of financial services to the previously “unbankable” in the society. See section 6.4. According to the Bank of Ghana (2007), microfinance institutions in Ghana are involved in the provision of services such as loans, insurance, savings, transfer services and other financial products services. According to the United Nations (2005) the increasing role of microfinancial institutions among the poor is as a result of the following: the poor need access to productive resources to improve their lives, with financial services as a key resource. Loans from microfinance institutions which are usually advanced in the form of “start- ups” to farmers, traders and craftsmen/women are used to procure the factors of production such as seeds, fertilizers, and machines. In other words, microcredit provides beneficiaries access to productive capital to increase their operations. Microcredit summit campaign Report (2007) indicated that over 3,300 microfinance institutions reached 133 million clients with microloan in 2006. Of this number of beneficiaries, 93 million of the clients were with the brackets of very poor when they took their first loan which is in line with the development community’s urgent call for the improvement of the welfare of the needy in the world. See section 6.4. Between 2001 and 2006 for instance, Rural and Community Banks in Ghana were able to advance loans to the poor to a tune of about US\$ 115.10 million (BoG, 2007). Access to funds by operators in the informal sector has also assisted in expanding business frontiers by creating jobs for the growing population in the country.

Apart from making funds available to the poor, microfinance institutions have also provided micro insurance services to protect the income of their clients. Micro insurance has enabled beneficiaries to become more involved in their financial destinies and avoided the economic uncertainties that face them on daily basis which could lead to the incident of falling back into poverty in the event of misfortune (Abor, 2013). The Centenary Rural Development Bank in Uganda and other microfinance programmes in countries such as Morocco, Tunisia and Ethiopia are examples of the benefits of micro insurance where farmers are ensured against poor weather conditions.

The refusal of formal financial institutions to grant credit facilities to the poor has also created the high demand for microfinance resources. In Ghana, conventional banking institutions have often targeted salaried workers as well as large and established companies and have little or no appetite for the poor and those in the informal sector. The traditional, conservative banking sector services are divided into three categories: well established companies and government employed salaried workers; salaried workers not employed by the government; and those on fixed salaries. With this type of entrenched stratification in the banking sector, preference is always given to well established companies such as those in the import and export trade and the government employed salaried workers because these are deemed low-risks clients with low default rates. Therefore, in an effort to provide banking services for the third group which includes the vast majority of Ghana's poor who are the poor and constitute the bulk of people in the informal sector of the economy, microfinance institutions were established (BoG, 2007).

Microfinance has also impacted positively on women empowerment in Ghana. In Ghana, women have been marginalised in every sphere of the society as a result of discrimination, stereotype, cultural and economic challenges such as women heading households due to outmigration by men who are supposed to be the heads of household (Mayoux, 2009). Therefore, Poverty- targeted

microfinance resources are seen as the best opportunity to empower women because “microcredit plays a critical role in empowering women; helps deliver newfound respect, independence, and participation for women in their communities and in their households” (Somavia, 2006:1). Through microfinance services, women who were previously impoverished and powerless because they have no stake in taking decisions that affected them have been empowered to become major stakeholders in societies. According to Mayoux (2010) access to savings and loans through microfinance institutions has given women greater role in economic decisions concerning them since by increasing women access to financial services through micro financial institutions, the core values of gender equality and non-discrimination is promoted. See section 6.4. According to Dunford (2006:11), mothers who are involved with Lower Pra Rural Bank’s Credit and Education programs in Ghana were more likely to breastfeed their children until the required age and are also able to afford medication when they are required. This program has helped reduce infant mortality and improved height-for-age as well as weight-for- age for children of participants. See section 6.5.

### **6.6.2 Leveraging on microfinance to develop the informal economy in Ghana**

The informal sector in Ghana mainly consists of micro and small-scaled enterprises who are involved in production, wholesale and retail activities. Activities in the informal economy in Ghana are predominantly based on geographical location. In rural communities, informal sector activities are centered around farming, fishing and fish processing and agro-processing while informal sector activities in urban canters include non-agricultural activities such as retail business and craftsmanship (GSS, 2008).

In Ghana, the informal economy is the leading employer of the growing labour force. About 89% of the labour force in Ghana is employed by the informal sector as a consequence of the net hiring freeze in the public sector and the inability of the formal sector in the country to generate the jobs as

a result of unhealthy competition from abroad. As already alluded to in section 6.2, the informal sector for instance became a force to reckon with as a leading employer in Ghana when about 45 000 workers were laid off from the public service as part of the Economic Recovery Program (ERP). With the inability of the formal economy to absorb the increasing number of emerging labour force, the informal economy has naturally provided solace for the unemployed in the country (Osei-Boateng & Ampratwum, 2011: 4).

The informal sector is however characterised by poverty and underemployment because operators in the sector usually do not earn much to escape the poverty trap. The source of poverty in the informal economy in Ghana emanates from limited access to productive resources especially, productive capital. Though operators in the informal economy usually raise funds for their operations from sources such as friends, family members and loan sharks or informal money lenders, this credit is often inadequate for their operations (Robinson, 1995). Limited access to funds has exposed the sector to unmitigated danger. Production in the sector is mainly based on traditional and crude methods which usually affect output and quality of the final product apart from exposing workers in the sector to hazardous working conditions because they cannot afford protective cloths.

As a result of the aforementioned challenges facing the informal economy, this study calls for the use of microfinance resources to promote the informal economy. The objective of microfinance institutions is to raise income and broaden the financial market by making financial services available to the small and medium enterprises that are marginalised by the financial market because they are considered “unbankable”. See section 6.4. Microcredit from microfinance institutions which are usually advanced to entrepreneurs in the form of “start-ups” to farmers, traders and craftsmen/women are used to procure the factors of production such as seeds, fertilizers, and machines. In other words, microcredit provides beneficiaries access to productive capital to increase their operations. See section 6.6.1. As

already alluded to in section 6.6.1, between 2001 and 2006 alone, Rural and Community Banks in Ghana were able to advance loans to the poor to a tune of about US\$ 115.10 million (BoG, 2007).

Microfinance institutions also provide micro insurance to protect the income of entrepreneurs. Micro insurance enables the beneficiaries to become more involved in their financial destinies and avoid the economic uncertainties that face them on daily basis. The micro insurance protects the wealth entrepreneurs accumulate. Micro insurance enables operators in the informal economy to insure their assets and operations against misfortune (Abor, 2013). See section 6.6.1.

## **6.7 Conclusion**

Since the fall of Nkrumah, the flow of foreign donor aid into the Ghanaian economy has been unprecedented. By the beginning of the new millennium, donor aid flow to Ghana peaked at US\$598.17 million and further increased to US\$ 1306.93 million in 2008 making Ghana one of the largest recipients of aid on earth as already alluded to in section 6.1. However, foreign aid has not played a significant role in poverty reduction and economic development in Ghana, therefore, a home grown alternative development approach is inevitable. This study, therefore, suggests that the informal economy and microfinance services are the best alternatives in promoting economic growth and development in Ghana because the informal economy has become the major employer of the labour force in Ghana apart from the contribution it makes towards trade and economic growth and development. See section 6.6. However, since the sector is constrained by access to funds from conventional commercial banks, microfinance institutions should come to the rescue of operators in the informal economy for the following reasons.

Firstly, microfinance institutions cover a wider section of the Ghanaian population than the rest of the banks because microfinance is tailored to the needs of the informal economy as indicated since the primary function of microfinance institutions is to provide financial services such as loans, savings,

insurance and other financial services for the poor and low-income clients especially in the informal economy which have been marginalized by the formal banking sector. See section 6.2. Though the term microfinance became an official term in the 1970s, microfinance in Ghana dates back to the 20th century. In the early 1900s, Susu, which is one of the microfinance schemes in Ghana and has originated from Nigeria started taking root in the Ghanaian society. Also, anecdotal evidence suggests that the first credit union in Ghana was established by Canadian Catholic Missionaries in northern Ghana in 1955.

Microfinance has evolved into its current state due to the establishment of Rural and Community Banks (RCBs), the liberalization of the financial sector and the promulgation of PNDC Law 328 of 1991 that allows for the establishment of non-bank financial institutions such as loans and savings companies, credit unions, and Susu companies to provide financial services to the informal economy (BoG, 2007). Microfinance has proven to be a reliable source of finance in attaining the Millennium Development Goals (MDGs). See section 6.5. According to the UN, access to reliable source of finance is vital in attaining the MDGs on time, therefore, microfinance should be given the needed attention because the institution is capable of equipping the poor and vulnerable with “tools to protect, diversify and increase their source of income” (UNCDF, 2005).

Apart from the attainment of the MDGs, Xaba, Horn and Motala, (2002) have indicated that with a reliable source of financial support from microcredit, the informal sector can employ about 89% of the labour force and be able to contribute to the growth of the country more than its current contribution of 22% of real GDP and 52% to trade and commerce to the Ghanaian economy. Therefore, loans in the form of “start-ups” to farmers, traders and craftsmen/women that are used to secure the factors of production such as seeds, fertilizers, and machines have to be encouraged. The next chapter looks at the summary, recommendations and conclusion for this study.

## CHAPTER SEVEN

### SUMMARY, CONCLUSION AND RECOMMENDATION

#### 7.1 Introduction

The primary objective of this research was to analyse the role of foreign aid in poverty alleviation and economic development of Ghana from 1957 to 2008. In order to achieve the above, the following secondary objectives were set:

1. To present the theories on aid and economic development;
2. To give an overview of political and economic development in Ghana from 1957-2008;
3. To investigate donor aid flow, aid coordination and role of aid on economic indicators and poverty in Ghana; and
4. To recommend a possible alternatives and guidelines for promoting economic development poverty alleviation in Ghana.

The methodology for this study was based on qualitative approach with emphasis on content analysis and field study as alluded to in section 4.3. The choice of this methodology is informed by the understanding that the qualitative research methodology is grounded in functionalism, which is also known as social systems theory and assisting in getting a better understanding of the role of foreign aid, poverty reduction and economic development in Ghana.

In the following discussion, the main arguments and findings of each chapter were summarised and followed by a conclusion and recommendations.

## **7.2 Summary**

Ghana has received substantial amounts of donor aid to promote sustainable economic development in the country since independence in 1957. However, fifty years down the line, Ghana is still among the less developed countries in the world because there still exists high level of poverty and human suffering. Consequently, there had been a polarised debate among scholars and development practitioners about the role of donor aid in the development of the Ghanaian economy. Hence, the focus of this study was to determine the role of donor aid on economic development and poverty alleviation in Ghana.

### **7.2.1 Economic Development and Foreign Aid**

Chapter 2 of this study looked at the development economic thinking that has influenced the global aid program from the 1950s to the year 2000 and also the contemporary debates surrounding the donor aid programme. Section 2.2 looked at the modernization theory, which originated from the classical/neoclassical theories that emerged as a mode of social life in Europe in the seventeen century, but became a dominant development theory which influenced the allocation of development assistance to the poor in the 1950s and 1960s. As discussed in section 2.2, modernization theory in the 1950s and the 1960s consisted of theories such as the linear- stages theory and the structural change model. The linear-stages theorists perceive modernization as a series of successive stages through which all economies pass because all advanced nations in the world today had passed all the stages of development, therefore, developing nations must be prepared to travel the same path in order to attain the status of development.

The structural-change theory sees development and modernization as the willingness of the developing nations to move away from depending on traditional subsistence agriculture into a more modernized industrialized and service economy as alluded to in section 2.2.1. However, it became obvious among



the modernists that the newly independent states could not make much progress in terms of development because of lack of adequate capital which Sachs (2005) calls “savings gap” to fund the much needed development, which could promote sustainable take-off. Foreign aid was provided during these decades to help fill the gaps and to serve as the catalyst for a “big push” into prosperity, especially, in the urban centres so that the effect could trickle- down to the rural sections of the society. However, before the end of the 1960s, the modernization development model had failed to promote prosperity in developing countries. The discontent against the modernization theory ushered in a new development model- the dependency development model in the 1970s-.

The development model in the 1970s shifted from the macro-economic big-push approach to a rural-centred IRD and BNA poverty reduction approach because the end of the 1960s was marked by a sharp decline in economic performance in most developing countries, especially, Latin America and Africa which were faced with economic challenges such as unemployment; underdevelopment; poverty; balance of trade deficits; indebtedness and aid dependent (Hewitt, 2000: 294). The high level of poverty and underdevelopment in the developing world was attributed to modernization, which according to its critics perpetuated the inequality in the global economic system. The failure of the modernization theory made it apparent that economic growth and poverty reduction in the developing world go beyond capital formation, infrastructural development and the establishment of import substitution industries. Hence, according to Thorbecke (2000: 29), the development approach of the decade shifted from the modernization model to promoting self-reliance, nationalization of private assets and adopting indigenous technology in production in developing economies. The shift in development over the period gave birth to new development approaches: the integrated rural development (IRD) and the basic needs approach (BNA). Foreign aid in the 1970s, therefore, was directed towards poverty alleviation in rural communities of developing countries. See section 2.2.1.

The 1980s as was discussed in section 2.4 became known as the “lost decade of development”, a period that witnessed the introduction of the Washington Consensus with its neoliberal concepts such as the SAPs in development discourse and practice. The neoliberal model advocated the withdrawal of the state from the development agenda in developing countries and the market’s assumption of the centre stage in development. The SAPs was introduced to assist developing countries manage their debts. Hence, SAP was considered as a “house cleaning” process in developing countries. Foreign aid in the 1980s was also channelled into the promotion of neoliberal programmes in Low-Income Countries. By the end of the 1980s, however, the neoliberal development programme had failed dismally to promote universal development in LDCs.

The withdrawal of the state brought about huge suffering on the poor and marginalized in developing countries. It was based on the suffering of the marginalized in developing countries that the donor community called for a “human face” in the adjustment scheme. Consequently, the Post-Washington Consensus was introduced in the 1990s to provide leverage for the down trodden in society to the reintroduction of the state in the development of LDCs as discussed in section 2.4.3. The state and the market were to prevail in promoting development in Low-Income Countries.

Foreign aid resources were consequently directed towards the PWC development model. Section 2.4.4 discussed the new millennium which saw a new approach and new actors in the search for development and poverty alleviation among the world’s poor, especially in Africa. The world saw high ranked individuals from diverse backgrounds such as Kofi Annan, the former UN Secretary General, George Bush, former US President, Tony Blair, former British Prime Minister, Jeffery Sachs, a renowned economist and Bono, an Irish musician who led the call for an end to poverty. The clarion call became imperative because of the interdependence between rich and poor countries such that an occurrence in poorer countries has a consequence on the economy of the rich countries and vice versa.

The development agenda of the millennium was peace, security and the promotion of the MDGs. The attack on America in 2001 saw the need to promote development through world peace. Through world peace and the war on terrorism, aid became the agenda of development in the 21<sup>st</sup> century. Donor aid scheme was also directed towards promoting world peace and ensuring the attainment of the MDGs.

The contemporary aid debate reflect mainly two opposing views namely those of the pro-aid scholars versus the anti-aid proponents. The pro-aid scholars are of the view that aid could help initiate and promote sustainable economic growth by bridging the savings gap that has characterized the country since independence and helped reform and build institutions which could underpin lasting economic growth and poverty alleviation. On the contrary, the anti-aid scholars perceive donor aid as the main obstacle to sustainable growth and development in LDCs. The anti-aid scholars further indicates that aid has created a dependency syndrome and exposed the country to all forms of external shocks. The section that follows discusses in detail the contemporary debate that has characterized the donor concept (Moyo, 2009). These polarized views are discussed below beginning with the arguments of the proponents of foreign aid before the arguments of the opposing arguments on aid.

### **7.2.2 Overview of Political and Economic Development in Ghana**

Chapter 3 gave an overview of the political and economic development of Ghana from 1957 to 2008 and the influence of foreign donor aid in influencing the development policies that had prevailed in Ghana from the 1950s up to the 2000s. The chapter was sub-divided into three: the Black Star Era (1957-1966), the Dark Days (1966-1991) and the Era of Hope (1992 till present).

Section 3.2.1 looked at the era of the Black Star which is translated to mean the era of hope for Africa because on the 6 of March 1957, Ghana became independent, and the hope for the liberation of the

entire black race within the African continent and those in the Diaspora became very promising. This aspiration was rekindled by Nkrumah in his famous speech that the independence of Ghana is meaningless, unless it is linked to the entire liberation of the African continent. Nkrumah and the Convention People Party (CPP), which took over the leadership of the country from the colonial administration sought to transform the structure of the Ghanaian economy from primary commodity producer, which the colonial administration presided over to an industrial economy capable of transforming the bountiful raw materials in the country into finished products based on the modernization theory (see section 2.2). Hence, Nkrumah embarked upon extensive industrialization drive and infrastructure development programs to modernize the Ghanaian economy.

The development programs of Nkrumah were comprehensively captured in the 10-Year Development Plan (which commenced in 1951 and ended in 1961) and the 7-Year Development Plan (which came into effect in 1964 and was scheduled to have ended in 1970). Coincidentally, Nkrumah was overthrown in 1966 and could not see to the final implementation of the 7-Year Development Plan.

However, before Nkrumah was removed from office, he had successfully established import substitution industries such as the vegetable oil industry mill, the chocolate manufacturing industry, textile and shoe manufacturing industries, tobacco manufacturing, brewery, fruit canning industry, and the cement manufacturing industry (Government of Ghana, 2012).

The second phase which was referred to as the dark days in the economic history of Ghana, can be described as the most turbulent era in the development of the country. This phase was characterized by political instability, seven changes in the political leadership of which five were military take-overs and inconsistent policy choices (Kilick, 2010: 398). See section 3.2.2. The political instability during this period significantly affected economic development and donor aid allocation in the country. On 24<sup>th</sup> February 1966, the Ghana armed forces with the assistance of members of the Ghana police

service announced the overthrow of Nkrumah and a new regime, the National Liberation Council (NLC) was constituted under the chairmanship of Lt. General J.A Ankrah, a retired head of the Ghana Armed Forces (Buah, 1999: 194). After almost three years in office, the NLC handed over power to Busia and his Progress Party (PP) through a democratic election process in August 1969 (McLaughlin & Owusu-Ansah, 1994:5). The Progress Party under the leadership of Kofi A. Busia came to power when the Ghanaian economy was almost collapsed as alluded to in section 3.2.2.2. Section 3.2.2.3 looked the National Redemption Council (NRC) under the leadership of Lieutenant Colonel Ignatius Kutu Acheampong which overthrew Busia's administration on January 13, 1972 in a military coup d'état. Unlike the coup leaders of the NLC, members of the NRC did not outline any plan for the return of the nation to democratic rule. The NRC sought to create a truly military government; hence, in October 1975, the ruling council was reorganized into the Supreme Military Council (SMC), and its membership was restricted to a few senior military officers.

Section 3.2.2.4 discussed the Supreme Military Council II (1978-1979). In an attempt to salvage the image of the army among Ghanaians, the military removed Acheampong from office as the head of state, forced him to resign from the army, and kept him under house arrest. Instead, Lt. General F.W.K. Akuffo who was the head of the Commander of the Ghana Armed Forces was appointed. Akuffo also reconstituted the SMC I and renamed it the Supreme Military Council II (SMC II). The head of the SMC II sought to find permanent solution to Ghana's ailing economy by instituting austerity economic measures just like his predecessors.

On 4 June 1979, the Armed Forces Revolution Council (AFRC) under the leadership of Jerry John Rawlings and some junior ranked army officers toppled the SMC II government. The AFRC carried out a "house cleaning" operation whereby Gen. Acheampong, Gen. Akuffo, and Lt-Gen. Afrifa, the leaders of the ousted SMC I and II and other high ranked officers were executed by firing

squad as indicated in section 3.2.2.5(Arnold, 2005: 672). In 1979, elections were held and the People's National Party (PNP) under the leadership of HillaLimann won the election. The AFRC handed over power to Limann on 24 September 1979 and this ushered in the Third Republic in Ghana. However, Limann could hardly last for two years in office because on 31 December 1981, Rawlings and his colleagues overthrew Limann's administration and established the Provisional National Defence Council (PNDC) with Rawlings as the chairman. In 1983 the PNDC government was compelled to embrace the Economic Recovery Program (ERP) which was initiated by the World Bank and the IMF as indicated in section 3.2.3. After almost a decade of military rule by the PNDC government, the Rawlings administration was forced by the donor community to return the country to constitutional rule in 1992 as indicated in section 3.2.4 (Awortwi, 2011; 359). In the same year, general elections were held and the electorate voted Rawlings and his newly formed political party, the National Democratic Congress (NDC) party into power which introduced the Fourth Republic. In the general election in 2000, the New Patriotic Party (NPP) under the leadership of John Kuffour won and took over the reins of government as discussed in section 3.2.3.

### **7.2.3 Research Methodology**

Chapter 4 explained the empirical research methodology employed in analysing the role of foreign aid on economic development and poverty alleviation in Ghana. The chapter gave a description of how the research method was followed in order to achieve the research design for this study. It is also worth noting that topical issues such as the representation of the sample, the validity and the reliability of the method used in the study as well as the problems encountered and how they were surmounted were considered in this chapter since methodology is the techniques and procedures adopted in the process of gathering data, for interpretation and the explanation of research.

#### **7.2.4 Data Presentation and Analysis**

Chapter 5 dealt with the analyses of the data derived from the in-depth interviews with the donor community, NGOs, officials from the public sector, Policy Think Tanks, political parties and graduate students.

##### ***The Ghanaian Perspective***

From section 5.2.2, it became obvious that most of the Ghanaian respondents have a good understanding of the meaning of donor aid. Most of the Ghanaian respondents indicating (52%) asserted that the donor community provides assistance to Ghana to facilitate economic growth and development in the country. Ghana, like most developing countries, lacks the capital needed to enhance economic growth and development. Therefore, the respondents alluded to the provision of donor assistance as a resource which can help initiate and promote sustainable economic growth and development. This argument is based on the resource gap theories who argue that developing countries are faced with resource gaps which have to be filled by donor resources.

Section 5.2.4 indicated that Ghana is aid dependent. Seventy two percent (72%) of Ghanaians are of the view that Ghana is donor dependent. The inability of the country to internally generate revenue for budget funding makes it impossible for the country to wean itself off donor assistance. In Ghana, the government is only able to raise tax revenue between 50%-60% of which the shortfall is filled by donor resources. Seventy six percent (76%) of Ghanaian respondents confirmed that Ghana's dependency on donor assistance over the past five decades has compromised the sovereignty of the country. Ironically, findings revealed that forty four percent (44%) of Ghanaian respondents agreed that foreign donor aid plays an important role providing funding for developmental projects in the Ghanaian economy and should be well managed to enhance the desired results.

### *The Donor Perspective*

Respondents from the donor community also indicated that the flow of donor aid to Ghana might be coming to an end in the near future especially with the discovery of crude oil in the country. According to them, resources will have to be transferred to less developed countries in future. Apart from foreign donor aid, respondents suggested alternative sources of revenue which could help promote sustainable development and poverty alleviation in Ghana such as expansion of tax brackets, mineral rent, and royalties, corporate tax and royalties, VAT, and tariffs. The majority of the respondents from the donor community and NGOs representing sixty nine percent (69%) are of the opinion that Ghana should continue to receive foreign donor aid since the country is still experiencing high levels of poverty and underdevelopment. Some donors, however, indicated that Ghana can only be weaned off donor assistance when proceeds from the natural resources in the country such as gold, crude oil and diamonds are well managed by the leadership of the country. Respondents indicated that the reason why it has become very difficult to wean Ghana off donor assistance in the face of avalanche resources is the ineffective tax system existing in the country, which makes it difficult and sometimes impossible to collect taxes from individuals and organizations in the informal sector of the economy.

Donors attribute the challenges facing them in executing their projects and programs in the country to poor government cooperation, lack of experts to execute donor initiated projects and programmes in the country as well as land tenure system in the country. With regard to the land tenure system, respondents blame the bureaucracy and the corruption involved in securing land as a deterrent to donor operations in Ghana as indicated in section 5.3.2.7.



### **7.2.5 Alternative Development Approach**

Chapter 6 discussed an alternative development approach in Ghana. By the beginning of the new millennium, donor aid flow to Ghana peaked at US\$598.17 million and further increased to US\$ 1306.93 million in 2008 making Ghana one of the largest recipients of aid on earth. However, foreign aid has not played a significant role in poverty reduction and economic development in Ghana therefore the need for an alternative development approach, which is home-grown, is inevitable.

This study, therefore, suggested that the informal economy is the best alternative in promoting economic growth and development in Ghana because it has become the main employer of the labour force in the country, employing about 89% of the labour force. The sector is also contributing about 22% of real GDP and 52% to trade and commerce in Ghana. (See section 6.4.) However, since the sector is constrained by access to funds from conventional commercial banks, microfinance institutions should come to the rescue of operators in the informal economy for the following reasons. Firstly, microfinance institutions cover a wider section of the Ghanaian population than the rest of the banks and is tailored to the needs of the informal economy since their primary function is to provide financial services such as loans, savings, insurance and other financial services for the poor and low-income clients especially in the informal economy which has been marginalized by the formal banking sector.

### **7.3 Conclusion**

This study has established that even though Ghana has become one the world's highest recipients of donor assistance, not much has been achieved with the foreign assistance in terms of economic development and poverty alleviation. As indicated in section 5.2.9 eighty-two percent (82%) of Ghanaians indicated that foreign donor aid cannot help alleviate poverty and promote economic development in Ghana since more than five decades of receiving donor assistance has not been able to transform the economy of Ghana because the country still remains underdeveloped with high levels

of poverty, high mortality rate, high levels of unemployment and a dilapidated infrastructure. On the contrary, some Ghanaian scholars and members of the donor community indicated that donor resources have a positive role in the development of the Ghanaian economy. Findings revealed (see figure 5.8) that the majority of the respondents perceive that foreign donor aid plays an important role in funding developmental projects in the Ghanaian economy. Donors also indicated in Figure 5.21 that foreign donor aid contributes very significantly to the development of the economy of Ghana as already alluded to by respondents from Ghana in section 5.2.3. It was further noted by the majority of the respondents from the donor community (94%) that foreign donor aid can help alleviate poverty in Ghana when the funds are carefully managed.

Furthermore, since the Ghanaian economy is still characterized by poor infrastructure, high levels of poverty and low economic growth, this study suggested an alternative development approach, that is the informal economy for Ghana. Section 6.2.1 indicates that 92% of companies registered in Ghana operate in the informal sector. It was also noted that the informal sector provides about 85% of employment to the labour force in Ghana in addition to 70% contribution to the country's Gross Domestic Product (GDP). Notwithstanding the diverse contributions of the informal sector to the growth and development of the Ghanaian economy, the sector is challenged by capacity development in the form of market development, modern technology, human resource management, developments in domestic and international trade, as well as logistic and supply chain. However, above all these challenges, lack of timely access to finance has become the biggest threat to the sector because most of the operators in the sector lack collateral such as houses, cars and other forms of assets against which to borrow as already alluded to in section 6.2.1. It is as a result of the challenge of funds in the informal economy that this study calls for funding the informal economy in Ghana through microcredit from microfinance institutions and funds from donor community based on the functionalist approach to development in Ghana.

#### **7.4 Recommendation**

In light of the findings of this research study, the following recommendations are made to promote sustainable economic development and poverty alleviation in Ghana. The informal sector of the Ghanaian economy must be harnessed and developed to reach its fullest potential of becoming an effective alternative in the promotion of sustainable development in Ghana. This can only actualise when government regulations are designed to protect and promote the informal sector of the Ghanaian economy.

The first step involved in regularising the informal economy is to officially register all businesses within the sector which will enable the Ghana Revenue Authority comprising Internal Revenue Service (IRS), Value Added Tax (VAT), Service and Customs, Excise and Preventive Service (CEPS), the Ministry of Finance and Economic Planning (MoFEP) to mobilise revenue from the sector for development. Registering businesses in the informal economy will also enable operators within the sector to seek assistance from both the government and other stakeholders for the advancement of the informal economy in Ghana. The second step is to promote microfinance as an alternative route to donor-driven development to fund the informal economy.

In order to reduce or end the aid regime, the government of Ghana should harness internal resources and generate income from domestic sources, with effective and efficient utilization of resources to increase the pace of its economic development and make its poverty alleviation programs in a more prudent manner. Effectively utilizing the country's natural resources could promote the much needed development in the country, instead of depending on the "begging bowl" as if the world owes us a living

Another area of concern is protecting infant industries. Ghana must protect its infant industries against dumping of goods and services from the developed world. As much as infant industries are protected, the country must also embark upon aggressive trade within the West Africa sub- region, Africa as a whole and the international community. Therefore, instead of clamouring over donor aid, the country must long for more fair trade which has the potential of promoting economic growth and development.

In conclusion, this study argues that in view of the issues affecting the effective implementation of foreign aid and its outcomes and impacts on Ghana's economic development and poverty alleviation, which were critically examined in this research, this study argues that implementing the above recommendations could help solve some of the major challenges facing the foreign aid system - donors, the government of Ghana and other stakeholders involved in implementing aid programs and projects to help accelerate Ghana's socio-economic development. The contribution of this research to the literature on the theory and practice of foreign aid disbursement policies and its implementation programs not only in Ghana, but also in other African countries, is that the study could set the pace as foundation for examining the challenges, attained goals, and the success rates (what disbursement conditions and implementation strategies are working or not working), of foreign aid, as well as its outcomes and impacts on African economies and other countries in the developing world in general that may be experiencing similar challenges or opportunities in the 21<sup>st</sup> Century.

This study concludes that the informal economy and microfinance offer the best alternative to donor-driven initiatives in economic growth and development in Ghana.

## BIBLIOGRAPHY

- Abor, J.Y. 2013. Empowering the informal sector through microfinance. Paper presented at the inaugural ceremony of the 10th anniversary of the Sika Plan.
- Actionaid. 2013. Real aid: ending aid dependency. London: ActionAid UK head office. ADB. 2010. Development effectiveness review. African development bank group.
- Addae-Boahene, K. 2007. Ghana: aid effectiveness and the educational sector: Implication for civil society. An alliance 2015 report.
- Aduwum, R.O. 2006. The growth and Poverty Reduction Strategy-GPRS II (2006-2009). Accra: NDPC Flagstaff House.
- ADB Research Department. 2009. Africa and the global economic crisis: strategies for preserving the foundations of long- term growth. Working paper series No. 98. Tunis: African Development Bank.
- African Forum and Network on Debt and Development. 2006. Macroeconomics options in Sub-Saharan Africa: linking Poverty Reduction Strategy Papers (PRSPs) and the MDGs. [unpublished].
- AFRODAD. 2005. A critical assessment of aid management and donor harmonisation in Ghana. African Forum and Network on Debt and Development.
- Agyeman-Duah, I. 2008. An economic history of Ghana. Ayebia Clark publishers.
- Kilick, M.O. 2007. Africa's Development: The Imperatives of Indigenous Knowledge and Values. Doctoral thesis submitted to the University of South Africa
- Ake, C. 1996. Democracy and development in Africa. Washington D.C: Brookings Institution.

- Altman, M.P. 2011. Contextual Development Economics: A Holistic Approach to the Understanding of Economic Activity in Low-Income Countries. New York: Springer.
- Anarfi, J., Kwankye, S., Ababio, O.M., Tiemoko, R. 2003. Migration from and to Ghana: a background paper. University of Sussex: Development Research Centre on migration, globalization and poverty.
- Andrews, N. 2009. Foreign official development assistance and Ghana's development: The case for "bringing culture back in" to the analysis. Canada: Brock University.
- Anin, T.E. 2003. An economic blueprint for Ghana. Accra: Woeli publishing services. Annan, K. 2002. Millennium development goals. UN: Washington D.C.
- Annan, K. 2003. Building inclusive financial sectors to achieve the millennium development goals. New York: UN.
- Armstrong, A. 2008. Gold strike in the breadbasket: indigenous livelihoods, the World Bank and territorial restructuring in western Ghana. Retrieved from [www.foodfirst.org](http://www.foodfirst.org)
- Arnold, G. 2005. Africa: A modern history. London: Atlantic Books.
- Aryeetey, E. and Cox, A. 1997. Aid Effectiveness in Ghana. Nordiska Afrikainstitutet: Uppsala
- Aryeetey, E. and Kanbur. 2008. The economy of Ghana: analytical perspectives on stability, growth and poverty (ed). Accra: Woeli Publishing Services.
- Aryeetey, E., Baah, N., and Awortwi, N. 2011. Unbreakable path? A comparative study of decentralization and local government development trajectories in Ghana and Uganda. *International Review of Administrative Sciences*. 78(2): 723-748.

- Awortwi, N. 2011. An unbreakable path? A comparative study of decentralization and local government development trajectories in Ghana and Uganda. Sage publications
- Ayittey, G.B.N. 2005. Africa Unchained: The Blueprint for Africa's Future. New York: Macmillan.
- Ayittey, G.B.N. 2009. After revolutions, beware of crocodiles. New York: New York Times.
- Ayodele, T., Cudjoe, F., Nolutshungu, T.A., and Sunwab, C.K. 2005. African perspective on aid: foreign assistance will not pull Africa out of poverty. Economic Development Bulletin. No2.
- Babbie, E. 2007. The practice of social research. Belmont: Thomson. Babbie, E. 2010. The Practice of Social Research. USA: Wadsworth.
- Bank of Ghana. 2007. A note of microfinance in Ghana. Working Paper. Retrieved from WP/BOG-2007/1
- Basic Education Coalition. 2004. Achieving quality global basic education. Washington DC. Bauer, P. 1991. The development frontier: essays in applied economics. Harvard: Harvard university press.
- Bawumia, M. 1998. A closer look at the distributional impact of Ghana's structural adjustment program (1983-1992). Journal of modern African studies. Vol.36 No.1.
- Bawumia, M. 2012. The state of our economy. Speech delivered at the Ferdinand Ayimmemoria lecture. Accra.
- Bawumia, M. 2014. Ghana is in economic crisis. Retrieved from [www.ghanaweb.com/GhanaHomePage/NewsArchive/Artikel](http://www.ghanaweb.com/GhanaHomePage/NewsArchive/Artikel).
- BBC. 2002. Tony Blair talks to newsnight. Retrieved from [news.bbc.co.uk/2/hi/programmes/newsnight/1988865.s](http://news.bbc.co.uk/2/hi/programmes/newsnight/1988865.s).

- BBC. 2005. Corruption haunts Kenya's leader. Retrieved from [news.bbc.co.uk/2/hi/Africa/4288595](http://news.bbc.co.uk/2/hi/Africa/4288595).
- BBC. 2014. UK cuts aid to Malawi government. Retrieved from [www.bbc.co.uk/news/world-africa](http://www.bbc.co.uk/news/world-africa).
- Best, J.W. and Khan, J.V. 2006. *Research in Education*. (10th ed). New York: Pearson Education.
- Bono. 2005. The rock star's burden. New York: the New York Times.
- Brown, P.C. 1995. *Consumption and investments from migrants' remittances in the south pacific*. Geneva: International Labour Organization.
- Brown, S. 2005. Foreign aid and democracy promotion: lessons from Africa. *The European Journal of Development Research*, Vol. 17, No.2, June 2005, pp179-198.
- Brown, G. 2005. Speech by the Chancellor of the Exchequer at CAFOD's Pope Paul VI Memorial Lecture. Retrieved from [http://www.hm-treasury.gov.uk/speech\\_chex\\_081204.htm](http://www.hm-treasury.gov.uk/speech_chex_081204.htm).173.
- Buah, F.K. 1998. *History of Ghana*. Macmillan.
- Bulmer, M. 1984. *Institutionalization, diversity and the rise of sociological research*. Chicago: University of Chicago press.
- Bulir, A and Lane, T. 2002. *Aid and financial management*. IMF working paper 02/112. Washington: International monetary fund.
- Burnside, C and Dollar, D. 2000. Aid, politics, and growth. *American Economic Review* 90(4): 847-868.
- Busia, A.K. 1951. *Ashanti Political Institutions*. UK: Oxford University Press.



- Central Intelligence Agency. (27 May 2010). CIA - The World Factbook - Ghana. Retrieved from:<https://www.cia.gov/library/publications/the-world-factbook/geos/gh.html>
- CEPA. 2005. Multi-Donor Direct Budget Support in Ghana: The Implications for Aid Delivery and Aid Effectiveness. Accra: Centre for Policy Analysis.
- Chen, M.A. 2012. The informal economy: Definition, theories and policies. WIEGO working paper No. 1.
- Chenery, H.B. 1960. Patterns of industrial growth. *The American Economic Review*, 50(4).pp-634-54.
- Chenery, H.B. 1979. Structural change and development policy. Baltimore: Johns Hopkins University Press.
- Cheru, F. 2002. The PRSP Process in Ghana. Brussels: Economic Commission for Africa. Cheston, S. 2006. Just the facts, Ma'am: gender stories from unexpected sources with morals for microfinance. Washington DC: Microfinance Summit Campaign. CIA. 2011. CIA World Fact book. USA: Center for the study of intelligence.
- CIPE. 2012. Why did the Washington Consensus policies fail? Center for International Private Enterprise: Development Institute.
- Clarke, C. 2002. The Latin American structuralists, in Desai, V. and Potter R.B. (ed). *The Companion to Development Studies*. London: Arnold.
- Clarke, D. 2012. *Africa's Future: Darkness to Destiny*. London: Profile Books Ltd.
- CGAP. 2008. Advancing financial access for the world's poor. CGAP 2008 annual report.
- Coetzee, J. and Graaff, J. 1996. *Reconstruction, Development and People*. South Africa: International Thomson Publishing.
- Coetzee, J. 1989. *Development is for People*. Pretoria: Sigma Press.

- Congo, Y. 2002. Performance of microfinance institutions in Burkina Faso. Discussion paper No. 2002/01. UNU/WIDER.
- Conroy, D.J. 2003. The challenges of microfinancing in Southeast Asia. The Institute of South East Asia Studies: Singapore.
- Creswell, J.M. 2003. Research design: qualitative, quantitative, and mixed methods approaches 3rd edition. Thousand Oaks: Sage publications.
- Davies, M., Edinger, H., Tay, N. and Naidu, S. 2008. How China delivers development assistance to Africa. Centre for Chinese studies: University of Stellenbosch.
- de Beer, F. and Swanepoel, H. 2010. Introduction to development studies. Oxford: Oxford University Press.
- de Beer, F.C., du Plessis, M.M., Liebenberg, A. and Moloi, R. 2001. Rural and urban development studies: only study guide for DVA202-U. Pretoria: University of South Africa.
- de Vos, A.S., Strydom, H., Fouche, C.B. and Delport, C.S.L. 2011. Research at grassroots: for the social sciences and human service professions. Pretoria: Van Schaik publishers.
- Deb, D. 2009. Beyond Developmentality: Constructing Inclusive Freedom and Sustainability. UK: Earthscan.
- Degnbol-Martinussen, J and Engberg-Pedersen, P. 2003. Aid: Understanding international development cooperation. London: Zed.
- Desai, V. and Potter R.B. 2008. The companion to development studies (2nd ed) edition. Britain: Hodder Education.
- Development Committee, 2004. Aid effectiveness and financial modalities. Washington: World

Bank/IMF.

Dibua, J.I., 2006. Modernisation and the crisis of development in Africa: The Nigerian experience.

England: Athenaem Press Ltd.

Dijkstra, A.G. and White, H. 2003. Programme aid development: beyond conditionality. London:

Routledge.

Djan, O. 2008. Microfinance sector in Ghana. A paper presented to the International Development Law

Organization (IDLO). Tanzania.

Downer, A.1997. Promoting good governance and human rights through the aid programme.

Government of Australia archive.

Dunford, C. 2006. Evidence of microfinance's contribution to achieving the Millennium Development

Goals. Canada: Nova Scotia.

Dzorgbo, D-B.S. 2001. Ghana in search of development: challenges of governance, economic

management and institutional building. Ashgate publishing.

Easterly, W. 2002. The elusive quest for growth. Cambridge, MIT: Press.

Easterly, W. 2006. How will greater foreign aid help the poor this time? Heritage Lecture No.950 1-6.

Easterly, W. and Pfutze, T. 2008. Where does the money go? Best and worst practices in foreign aid.

Working Paper 21. June 2008. Brookings global economy and development.

Economic development in Africa: aid to Africa. 2006. UNCTAD/GDS/AFRICA/2006/1. Economics,

64: 547–70

Edelman, M. and Haugerud, A. 2005. Introduction: the anthropology of development and globalization

(ed). Malden, MA: Blackwell Publishing.

Ekiring, R. 2000. Impact of foreign aid on poverty alleviation in developing countries: with an

implication to Uganda. The Netherlands: Maastricht school of management.

Elbadawi I. and A. Gelb 2003. Towards Africa's Development: Towards a Business Plan? Paper for Africa Economic Policy seminar, Dar Es Salaam, February 2001. Eldis 2011. Sector wide approaches. Retrieved from <http://www.eldis.org/index.cfm?objectId=235458D6-C242-EEBD-EB8EE95A688E3630>.

Elliot, J.A. 1994. An Introduction to Sustainable Development: The Developing World. London: Routledge.

Erickson, F. 1986. Qualitative methods in research on teaching. In M.C. Wittrock (ed). Handbook of research on teaching. New York: Macmillan.

Essuman, K.A. 2010. The independence of Ghana is still meaningless unless... Retrieved from [www.ghanaweb.com/GhanaHomePage/NewsArchive/artikel.php?](http://www.ghanaweb.com/GhanaHomePage/NewsArchive/artikel.php?)

Fosu, A. and Aryeetey, E. 2008. Economic growth in Ghana: 1960-2000. Ghana: woeli publishing.

Fox, L.M. and Liebenthal, R.B. 2006. Attacking Africa's poverty: experience from the ground. Washington DC: World Bank.

Frey, B. S. and Stutzer, A. 2002. Happiness and economics: how the economy and institutions affect well-being. Princeton University Press, Princeton N.J.

Gaventa, J. 1993. The powerful, the powerless and the experts: knowledge struggles in a information age. Amherst, MA: Bergin and Hadley.

Ghana Statistical Service (GSS). 2002. Population and Housing Census, Summary Report of Final Results. Accra: Ghana statistical service.

Ghana Statistical Service (GSS), 2002. Health Research Unit, Ministry of Health and ORC Macro, Ghana Service Provision Assessment Survey 2000. Calverton, Maryland: GSS, NMIMR, and

ORC Macro.

Ghana Statistical Service. 2000. Poverty Trends in Ghana in the 1990s. Accra: Ghana

Giddens, A. 1991. Modernity and self-identity: self and society in the late modern age. Stanford: Stanford university press.

Government of Ghana. 2006. Ghana partnership strategy: aid harmonization and effectiveness matrix. Accra: NDPC

Global Monitoring Report 2008. Retrieved from <http://go.worldbank.org/j20HF0QLLO>

Go, D.S. and Page, J. 2008. Africa at a turning point? Growth, aid and external shocks (ed). The World Bank: Washington DC,

Goldin, I. Rogers, H. and Stem, N. 2002. The role and effectiveness of development assistance. Washington: World Bank.

Goldsmith, A.A. 2001. Foreign aid and statehood in Africa. *International organization* 55:123-148.

Government of Ghana. 2000-2002. Interim Poverty Reduction Strategy Paper. Accra: State press

Government of Ghana. 2002-2004. Ghana Poverty Reduction Strategy. Accra: State press

Government of Ghana. 2003-2005. An Agenda for Growth and Prosperity, Ghana Poverty Reduction Strategy. Accra: State Press.

Government of Ghana 2005. Harmonisation and Alignment in Ghana for Aid. GoG Press. Government of Ghana. 2006. Ghana: Country Review Report – Strengthening Efforts for the Eradication of Poverty and Hunger. The Annual Ministerial Review Geneva: Switzerland.

Government of Ghana. 2007. The Implementation of the Growth and Poverty Reduction Strategy II. Accra: GoG.

Government of Ghana. 2010. Medium-term national development policy framework: Ghana shared

growth and development agenda (GSGDA), 2010-2013. Accra: National development planning commission.

- Greg, M. 2011. Why Africa is poor and what Africans can do about it. Johannesburg: Penguin Books.
- Gupta, S., Pattillo C. and Wag, S. Are Donor Countries Giving More or Less Aid? IMF Working Paper.
- Gyimah-Boadi, E. 2010. Country report-Ghana. New York: Freedom House.
- Gyimah-Brempong, K., Shaw, T.M and Samonis, V. 2011. Is bilateral aid responding to good governance in Africa? An EPANET Working Paper.
- Hamilton, A. 1966. Report on the subject of manufactures', in H.C. Syrett (ed.). The Papers of Alexander Hamilton. NY: Columbia University Press, Vol. X, pp.230-340.
- Hansen, H. and Tarp, F. 2000. Aid effectiveness disputed in Foreign and development: lessons learnt and directions for the future. Edited by Tarp, F and Hiertholm, P. London: Routledge.
- Hansen, H., and F. Tarp 2001, Aid and Growth Regressions. Journal of Development
- Hansson, P. 2007. Does EU Aid Promote Growth? Britain: MPG Books Ltd.
- Harrigan, J. and Younger, S. 2000. Aid debt and growth. In E. Aryeetey, J. Harrigan and M. Nissanke (eds), Economic reforms in Ghana: the miracle and mirage. London: James Curry.
- Harvey, D. 2005. A brief history of neoliberalism. Oxford: Oxford University Press.
- Hewitt, T. 2000. Half a century of development: In Poverty and development into the 21st century. Edited by Tim Allen and Alan Thomas. Oxford: Oxford University Press
- Holland, J. and Cambell, J. 2005. Methods in developing research: combining qualitative and quantitative approaches. London: ITDG publications.
- Howell, J. and Pearce, J. 2001. Civil society and development: a critical exploration. Lynne Rienner publishers.

- Hulme, D. 1997. Impact assessment methodologies for microfinance: theory, experience and better practice. Finance and development research No 1. University of Manchester.
- Hutchful, E. 1987. The IMF and Ghana: The confidential record. London: Zed Books Ltd.
- IDA and IMF. 2008. Annual Progress Report for the Ghana Growth and Poverty Reduction Strategy (GPRS II). USA: Washington D.C
- IDEG and Canadian Parliamentary Centre (2005). The Road to Middle Income Status: An Analysis of the Growth and Poverty Reduction Strategy. Accra: Ghana.
- IDEG. 2006. Political Participation. Unpublished Draft Research Report prepared for the Open Society Initiative for West Africa. Accra: IDEG. IFAD. 2009. Rural finance policy. Rome.
- ILO, 2003. *Decent Work Pilot Programme Country Briefs*. Ghana: Accra
- ILO, 2006. *Women and microfinance*. Retrieved from [www.ilo.org/wcmsp5/groups/public/@dgreports.../wcms\\_091581.pdf](http://www.ilo.org/wcmsp5/groups/public/@dgreports.../wcms_091581.pdf).
- IMF. 2006. Ghana: Poverty Reduction Strategy. Country Report No 6/225.
- IMF. 2007. Annual report 2007: making the global economy work for all. Retrieved from <http://www.imf.org>.
- IMF. 2013. Ghana article iv consultation. IMF country report no. 13/187.
- IMF. 2013. Heavily indebted poor countries (HIPC) initiative and multilateral debt relief initiative (MDRI) – statistical update. USA: International Monetary Fund.
- IMF, 2014. Ghana article iv consultation-staff report. IMF country report no. 14/129.
- Irvin BM (ed). 2002. New perspective on foreign aid and economic development. London: Praeger.
- Jomo, K.S. and Fine, B. 2006. The new development economics after the Washington Consensus (ed). New Delhi: Tulika Books.

- Kendall, P.C., Suveg, C., Hudson, J.L., Brewer, G., Flannery-Schroeder, E., and Gosch, E. 2004. Cognitive-behavioural therapy for anxiety-disordered youth secondary outcomes from a randomized clinical trial evaluating child and family modalities. *Journal of anxiety disorders*.USA. University of Georgia press.
- Khanker, S.R. 1998. *Fighting poverty with microcredit: experience in Banladesh*. World Bank. Killick, T. 2010. *Development economics in action: a study of economic policies in Ghana (2nded.)*. Milton Park: Routledge.
- Kim, J. 2013. *Aid and state transition in Ghana and South Korea*.WIDER working paper.No. 2003/121.
- Kimberly, L. 2005. *Setting a strong socio-economic development for Ghana in 2008*. Retrieved from [www.ghanaweb/30/04/05](http://www.ghanaweb/30/04/05).
- Kinniburg, I. 2005. *Developing countries and the millennium development goals*. Millennium project. UN. Washinton.
- Kufour, J.A. 2005. *January Sessional Address to the Ghanaian Parliament*. Accra: Parliament of Ghana.
- Lawson, M.L. 2013. *Does foreign aid work? Efforts to evaluate U.S. foreign assistance*. USA: Congressional Research Service.
- Leith, J.C. 2005. *Why Botswana prospered*. Montreal: McGill-Queen's University press.
- Lewis, W.A. 1954. *Economic development with unlimited suppliers of labour*. The Manchester School of Economics and Social Studies, 22(2), May; reprinted in Agarwala, A. and Singh, S. (eds) (1958). *The economics of underdevelopment*. Oxford: Oxford University Press.
- Leys, C. 2005. *The rise and fall of development theory*. MA: Blackwell publishing.
- Littlefield, E., Morduch, J. and Hashemi, S. 2003. *Is microfinance and effective strategy to reach the Millennium Development Goals? Focus Note*. No. 24.



- Lumsdaine, D.H. 1993. Moral vision in international politics: The foreign aid regime 1949-1989. Princeton: Princeton University Press.
- Lynn, T.K. 2003. The Dutch disease. Cambridge: Cambridge university press.
- Maipose, G., Somolekae, G., and Johnston, T. 1997. Effective aid management: the case of Botswana. Sweden: MotalaGrafiska.
- Manning, R. 2009. Using indicators to encourage development: lessons from the millennium development goals. IDS Bulletin No.1.
- Martinussen, JD and Pedersen PE. 2003. Aid: understanding international development cooperation. London: Zed Books.
- Maxwell, S. 2009. Eliminating world poverty: building our common future. Development Policy Review. 27(6): 767-70.
- Mayoux, L. 2000. Jobs, gender, and small enterprises: getting the policy environment right. Geneva: International Labour Organization (ILO).
- Mayoux, L. 2002. Microfinance and women's empowerment: Rethinking "Best Practice". Development Bulletin no.57 pp.76-81.
- Mayoux, L. And Hartl, M. 2009. Gender and rural microfinance: reaching and empowering women. IFAD: Chalasani.
- Mayoux, L. 2010. Women are useful to microfinance: how can we make microfinance more useful to women? UK: Oxfam.
- McKinley, T. 2010. Inclusive growth criteria and indicators: an inclusive growth index for diagnosis of country progress. Manila: Asian Development Bank.
- McLaughlin J.L. and Owusu-Ansah. 1994. The fall of the Nkrumah and its aftermath. Country Study:

- Ghana. USA: Library of Congress Federal Research Division.
- Ministry of Local Government and Rural Development. 2006. Ghana under Kwame Nkrumah. Accra: Moks publications and media services.
- Millennium Project. 2005. Investing in development. UN. New York.
- Mitchell, A. S. and Passé-Smith, J.T. 2003. Development and underdevelopment: the political economy of global inequality. London: Lynne Rienner Publishers.
- Morduch, J. 1999. The role of subsidies in microfinance: evidence from the Grameen Bank. Princeton: Princeton University.
- Morrissey, O 2001. Does aid increase growth? *Progress in Development Studies* 1, 37–50. Mosley, P. 1996. India: regional rural banks. London: Routledge.
- Moss, T.J. 2007. African development: making sense of the issues and actors. London: Lynne Rienner Publishers.
- Moss, T.J. 2010. Updating US foreign assistance tools and development policy for the post-aid world. Center for global development.
- Moss, T.J. 2011. African development: Making sense of the issues and actors. (2nd ed.). Colorado: Lynne Rienner publishers, Inc.
- Moyo, D. 2009. Dead aid: Why aid is not working and how there is another way for Africa. England: Penguin Books.
- Moyo, D. 2009. Everybody knows it doesn't work. *The Guardian* 19 February 1-7.
- National Development Planning Commission. 2005. Growth and Poverty Reduction Strategy (GPRS II: 2006-2009). Accra: NDPC.
- NDPC. 2010. Ghana: Millennium Development Goals report. Accra: National Development Planning

## Commission

- Nkrumah, K. 1957. Handbook of revolutionary warfare. New York: International Publishers. North, D.C. and Wallis, J.J. 1994. Integrating Institutional Change and Technical Change in Economic History: A Transaction Cost Approach. *Journal of Institutional and Theoretical Economics*, Vol. 150(4), pp. 609-624.
- Nurkse, R. 1953. Problems of capital formation in underdeveloped world. Oxford: Basil Blackwell.
- Nyumuyo, W.W. 2009. The environment to invest in marketing and processing of cocoa- the case of Ghana. University of Gavle Business School.
- Oatley, T. 2005. A political logic of foreign debt accumulation. Chapel Hill: University of North Carolina.
- OECD. 2005. Harmonisation, alignment, results: Report on the progress, challenges and opportunities, background paper for OECD High level Forum. Paris: OECD.
- OECD-DAC. 2008. 2008 survey on monitoring the Paris declaration: making aid more effective by 2010. Paris: OECD.
- OECD. 2013. The global picture of official development assistance (ODA). Retrieved from [www.oecd.org](http://www.oecd.org).
- Okoampa-Ahoofe, J.K. 2005. Dr. J. B. Danquah: Architect of Modern Ghana. Nassau Community College: New York, Garden City.
- Osei, B. 1995. Ghana: the burden of debt service payment under structural adjustment. Research paper 33. African Economic Research Consortium, Nairobi.
- Osei, B. 2003. How tied aid affects the cost of aid-funded projects in Ghana. African Economic Research Consortium 137:8.

- Osei, B. 2004. The cost of aid tying to Ghana. Research paper 144. African Economic Research Consortium, Nairobi.
- Osei-Boateng, C., and Ampratwum, E. 2011. The informal sector in Ghana. Friedrich Ebert Stiftung: Ghana.
- Otero, M. 1999. The evolution of non-governmental organizations toward financial intermediation. West Hartford, CT. Kumarian press.
- Patrick, S. 2006. U.S. foreign aid reform: will it fix what is broken? Center for global development.
- Platteau, J. P. 2000. Institutions, Social Norms and Economic Development. London: Routledge.
- Potter, R.B. 2008. Geographies of development. London: Pearson.
- Potter, R.B., Binns, T., Elliot, J.A. and Smith, D. 2004. Geographies of development. London: Pearson.
- Potter, R.B., Binns, T., Elliott, J.A., Smith, D. 2008. Geographies of Development: An Introduction to Development Studies (3rd ed). England: Pearson Education Ltd.
- Prahalad, C.K. 2004. The fortunate at the bottom of the pyramid: eradicating poverty through profit. Wharton school publishing.
- Punch, K.F. 2009. Introduction to research methods in education. London: Sage publications.
- Quartey, P. 2005. Innovative ways of making aid effective in Ghana: tied aid versus direct budget support. United Nations University. Research paper No. 2005/58
- Quartey, P., Ackah, C., Dufe, G and Agyare-Boakye, E. 2012. Evaluation of the implementation of the Paris Declaration on aid effectiveness: Phase II. Ghana country report. University of Ghana: Institute of Statistical, Social and Economic Research.
- Ricardo, D. 1951. The works and correspondence of David Ricardo. No.11 vol. USA: Liberty fund.
- Riddell, G.C. 2007. Does foreign aid really work? Oxford: Oxford University Press.

- Rimmer, D. 1992. *Staying poor: Ghana's political economy, 1950-1990*. New York: Pergamon.
- Rist, G. 2008. *The history of development: from Western origin to global faith (3rd ed)*. London: Zed books Ltd.
- Robinson, M. 1995. Strengthening civil society in Africa: the role of foreign political aid. *IDS Bulletin*, 26(2): 70-80.
- Roe, A. and Schneider 1992. *Adjustment and equity in Ghana*. OECD: Paris.
- Rondinelli, D. 1993. *Development projects as policy experiments: an adaptive approach to development administration*. London: Routledge.
- Rostow, W. 1960. *The Stages of Economic Growth: A Non-Communist Manifesto*. Cambridge: Cambridge University.
- Rubin, A., Babbie, E. 1997. *Research methods for social work (3rd ed)*. Boston: An International Publishing Company.
- Sachs, D.J. 2005. *End of poverty: economic possibilities of our time*. New York: The Penguin press.
- Sachs, D.J. 2007. Africa should be weaned from aid dependency. Retrieved from [www.africanexecutive.com/modules/magamzine/articles](http://www.africanexecutive.com/modules/magamzine/articles).
- Seligson, M.A. and Passé-Smith, J.T. 2003. *Development and underdevelopment: the political economy of global inequality*. Lynne Rienner publishers.
- Sen, A. 1999. *Development as freedom*. New York: Oxford university press.
- Sen, A. 2000. *Development as freedom: human capability and global need*. New York: Anchor Books.
- Serra, N. and Stiglitz, J. 2008. *The Washington Consensus reconsidered: towards new global governance (ed)*. Oxford: Oxford University Press.
- Seyoum, Y.H. 2001. *Development, state and society: theories and practice in Africa*. Lincoln: Authors

Choice Press.

Sida. 2005. Promoting gender equality in development cooperation. Stockholm: Swedish international development cooperation agency.

Simanowitz, P. and Brody, S. 2004. Realising the potential of microfinance. ID21 Insight. No. 51

Simon, D. 2007. Beyond anti-development; discourses, convergences, practices. Singapore Journal of Tropical Geography, 28, 205-18.

Sogge, D. 2002. Give and take: what's the matter with foreign aid? London: Zed Books.

Sowa, N. K. 2003. The Gospel, Poverty and Displacement in Africa. Accra: Centre for Policy Analysis.

Sowa, N.K. 2002. An Assessment of Poverty Reducing Policies and Policies and Programmes. Ghana: Centre for Policy Analysis.

Stake, R.E. 2000. Handbook of qualitative research. Thousand Oaks: Sage.

Stallings, B. (ed). 1995. Global Change, Regional responds: The New International Context of Development. New York: Cambridge University.

Stewart, P 2005. Development theory: Only study guide for DVA201-T. Pretoria: University. Stiglitz, J.E. 2002. Globalization and its discontents. USA: W.W. Norton and Company.

Stolyarov, G. 2007. Willian Arthur Lewis's two sector economic growth model and its failure. A journal for Western Man. Issue XCIX, May 12, 2007.

Sumner, A. and Tiwari, M. 2010. Global poverty reduction to 2015 and beyond: what has been the impact of the MDGs and what are the options for a post-2015 global framework. Working paper volume 2010 number 348. Institute of development studies.

Szirmai, A. 2005. The dynamics of social economic development. Cambridge: Cambridge university press.

- Tarp, F. 2009. Aid effectiveness. UNU-WIDER Research paper.
- Tarp, F., and Hjertholm, P. 2000. Foreign aid and development: Lessons learnt and directions for the future. London: Routledge.
- Taylor, L 2007. The revival of the liberal creed – the IMF and the World Bank in a globalised economy. In Analysing contemporary development debates and issues: Reader for DVADEBT. Compiled by P Stewart. Pretoria: University of South Africa.
- Tejvan, P. 2011. Difference between economic growth and development. Retrieved from [www.economicshelp.org](http://www.economicshelp.org).
- Thomas, R. 2013. The false God of 0.7: understanding the aid business. Retrieved from [www.africanarguments.com](http://www.africanarguments.com)
- Thompson, N.M. and Casely-Hayford, L. 2008. The financing and outcome of education in Ghana. RCOUP Working paper No. 16.
- Thorbecke, E 2000. The evolution of the development doctrine and the role of foreign aid, 1950 2000. In foreign aid and development. Lessons learnt and directions for the future. Edited by F. Tarp and P. Hiertholm. London: Routledge.
- Todaro, P.T and Smith, S.C. 2003. Economic development. USA: Addison-Wesley. Todaro, P.T and Smith, S.C. 2009. Economic development. USA: Addison-Wesley.
- Tuffour, J.A. 2005. Multi-Donor Direct Budget Support in Ghana: The Implications for Aid Delivery and Aid Effectiveness. Ghana: Accra.
- Turner, J.H. 2006. Sociology. New Jersey: Upper Saddle River.

United Nations, 2000. United Nations millennium declaration. New York: U.N. United Nations. 2005.

The Millennium Development Goals Report. New York: U.N.

United Nations, 2006. Doubling aid: making the “big push” work. New York: Geneva.

United Nations. 2010. Rethinking poverty: report on the world social situation 2010. New York: U.N.

United Nations. 2011. United Nations declares famine in two regions of southern Somalia. New York:

United Nations.

UNAID. 2014. The gap report- UNAids. Retrieved from

[www.unaids.org/.../unaids/...unaidspublication/2004/UNAIDS\\_Gap\\_rep](http://www.unaids.org/.../unaids/...unaidspublication/2004/UNAIDS_Gap_rep).

United Nations Conference on Trade and Development (UNCTAD), 1998. World Investment

Report: Trends and determinants. Geneva: United Nations. UNDP. 2010. Ghana country analysis.

Ghana. Retrieved from

[www.gh.undp.org/.../UNDP\\_GH\\_IG\\_GhanaCountryAnalysis2010\\_1010](http://www.gh.undp.org/.../UNDP_GH_IG_GhanaCountryAnalysis2010_1010).

UNFPA. 2006. Reproductive health in the millennium development goals. Retrieved from

[http://www.unfpa.org/africa/newdocs/maputo\\_eng.pdf](http://www.unfpa.org/africa/newdocs/maputo_eng.pdf).

USAID. 2005. Fragile state strategy. [http://www.usaid.gov/our\\_work/democracy-\\_and\\_governance](http://www.usaid.gov/our_work/democracy-_and_governance).

United States Department of Defence. 2006. Quadrennial Defence Review Report. Washington DC:

Department of Defence.

United States Department of State. (5 March 2010). Ghana. Retrieved from:

<http://www.state.gov/r/pa/ei/bgn/2860.htm>

Vogt, W.P. 2007. Quantitative research methods for professionals. Pearson/Allyn and Bacon.

Vondee, J. 2011. Aid as a catalyst to endogenous drivers of development and changes? The case of

Ghana’s three phases of political and economic transformation (1957-2011). Draft PhD



research design submitted to the International institute of social sciences.

Vordzorgbe, S.D. and Caiquo, B. 2001. A report on Status Review of National Strategies for Sustainable Development in Ghana. Accra: National Development Planning Commission.

Whyte, W.F. 1989. Advancing scientific knowledge through participatory action research. *Sociology Forum*, 4:367-386.

Williamson, C.R. 2009. Exploring the failure of foreign aid: the role of incentives and information. Appalachian State University: Springer.

Woode, R. 2012. Third world to first world-by one touch: Economic repercussions of the overthrow of Kwame Nkrumah. Trafford publishing.

World Bank, 1989. Sub-Saharan Africa: From Crisis to Sustainable Growth. The IBRD, Washington DC: World Bank.

World Bank. 2000. HIPC decision point document. New York: Oxford University press. World Bank

2006. Aid Effectiveness Review: Ghana Profile. Washington D.C: World Bank. World Bank

2008. Aid effectiveness reviewed: Ghana profile. Washington D.C: World Bank.

World Bank, 2010. Arab development assistance: four decade of cooperation. Washington: World Bank.

World Health Organization. 2010. The WHO framework for action. *Journal of interprofessional care*. No. 24 (5).

World Vision. 2013. Annual report. Retrieved from <http://www.worldvision.org/sites/.../2013-annual-report>.

Xaba, J. Horn, P. and Motala, S. 2002. The informal sector in sub-Saharan Africa. Geneva: International Labour Organization.

Zounmenou, D. 2009. Ghana's 2008 election: towards a consolidated democracy? Institute for security studies situational report.

## APPENDICES INTERVIEW GUIDE

### Appendix A: Interview Guide (Donor Agencies)

<b>Interview Guide</b>  <b>Research on the Role of Foreign Aid in Economic Development and Poverty Alleviation in Ghana</b>
<b>Introduction</b>
<p>The role of foreign donor aid in promoting economic development in recipient countries is subjected to scrutiny among scholars and policy makers. The aim of this interview is to solicit opinions on the role of aid in the economic development and poverty alleviation in Ghana.</p>
<b>Note</b>
<ul style="list-style-type: none"><li><input type="checkbox"/> The interview would last between 45 minutes and 1hr</li><li><input type="checkbox"/> The interviewed would be recorded</li><li><input type="checkbox"/> The information is only for research purpose and would be handled with confidence</li><li><input type="checkbox"/> Quotation is subject to interviewee's acceptance.</li></ul>
Name of interviewee:
Location:
Donor Agency:
Position of Interviewee:

Date:

**General Information**

When was agency established?

When did you start your operations in Ghana?

How much has your agency provided to the government of Ghana in terms of assistance since you started your operations in the country?

What kind of aid do you provide?

Which sectors of the Ghanaian economy do you support? Why those sectors if any.

What instruments do use in delivering your development assistance in Ghana?

How many people are engaged by your agency in delivering development assistant in Ghana?

How much administration cost do you spend on your operations in Ghana?

In your view, what are the development priorities of this country?

**Aid Coordination and Alignment**

What is your understanding of donor aid coordination?
Do you have any relationship with other donors in the country?
How do you coordinate your activities with other donors in the country?
Are all donor activities well-coordinated in Ghana?
How do you align your programs with the programs of other donors in the country and the programs of the government of Ghana?
In your opinion, do you think there can be an improvement upon the present way of coordinating aid in the country?
<b>Role of aid in economic development &amp; Poverty Alleviation in Ghana</b>
What do you understand by economic development?
Does your agency have any official definition for economic development?
Explain the role of your development assistance in promoting economic development in Ghana

Does your agency have any policy on promoting economic development in Ghana? If there is, explain the policy.

Do you think development assistance from your agency has in any way assisted in promoting economic development in Ghana? If (Yes), in what ways? If No, explain why.

What is your understanding of poverty situation in Ghana?

What role is your agency playing in the fight against poverty in Ghana?

In your opinion, do you think assistance from the donor community is helping in the fight against poverty in Ghana?

**Alternative to donor aid**

Explain why Ghana has not been able to attain sustainable economic development since independence in the midst of avalanche of donor assistance?

Do you think aid has contributed to this challenge of underdevelopment?

Why should Ghana continue to receive aid from donors after five decades of benefiting from development assistance?

In your opinion, do you think Ghana can survive without donor aid?

Do you think there are alternative resources in Ghana that can replace development assistance from abroad? If Yes, mention the alternative resources.
<b>Challenges faced by donors</b>
Mention the challenges that confront your agency in its operation in Ghana?
<b>Monitoring and Evaluation</b>
How do you monitor and evaluate your operations in the country?
<b>Concluding Remarks</b>
Is there anything you would want to add?
<b>THANK YOU</b>



**Appendix B: Interview Guide for Ghanaians (Public Sector Representatives; Policy Think**

**Thanks: Political Parties Reps and Graduate Students)**

<p style="text-align: center;"><b>Interview Guide</b></p> <p style="text-align: center;"><b>Research on the Role of Foreign Aid in Economic Development and Poverty Alleviation in Ghana</b></p>
<p style="text-align: center;"><b>Introduction</b></p> <p>The role of foreign donor aid in promoting economic development in recipient countries is subjected to scrutiny among scholars and policy makers. The aim of this interview is to solicit opinions on the role of aid in the economic development and poverty alleviation in Ghana.</p>
<p style="text-align: center;"><b>Note</b></p> <ul style="list-style-type: none"><li><input type="checkbox"/> The interview would last between 45 minutes and 1hr</li><li><input type="checkbox"/> The interviewed would be recorded</li><li><input type="checkbox"/> The information is only for research purpose and would be handled with confidence</li><li><input type="checkbox"/> Quotation is subject to interviewee's acceptance.</li></ul>
Name of interviewee:
Location:
Institution:
Position of Interviewee:



Date:
<b>Demographic Characteristics</b>
<p>1.1 Sex A Male [ ] B Female [ ]</p> <p>1.2 Age A 20-30 years [ ] B 31-40 years [ ] C 40 years+ [ ]</p> <p>1.3 Highest level of education attained A No formal education B Primary [ ] JHS [ ] SHS [ ] Tertiary [ ] others [ ]</p>
<b>Role of aid in economic development &amp; Poverty Alleviation in Ghana</b>
What is your understanding of foreign donor aid?
In your own words, explain the following terms: economic development and poverty alleviation
What is your perception of Ghana's economic development?
<p>Do you know of any economic development policies which Ghana has had between 1957 and 2008?</p> <p>Yes ( ) No ( ).</p> <p>If yes, what is your assessment of the general relationship between Ghana's development policies and economic development in the country?</p>
Explain whether foreign donor aid has a role in promoting economic development in Ghana or not.

What is the role of donor aid in fighting poverty in Ghana?
In your opinion, do you think assistance from the donor community is helping in the fight against poverty and promoting economic development in Ghana?
<b>Alternative to donor aid</b>
Explain why Ghana has not been able to attain sustainable economic development since independence in the midst of avalanche of donor assistance?
Do you think aid has contributed to this challenge of underdevelopment?
Why should Ghana continue to receive aid from donors after five decades of benefiting from development assistance?
In your opinion, do you think Ghana can survive without donor aid?
Do you think there are alternative resources in Ghana that can replace development assistance from abroad? If Yes, mention the alternative resources.
<b>Concluding Remarks</b>
Is there anything you would want to add?

**THANK YOU**