Conditional Development: Ghana Crippled by Structural Adjustment Programmes

Introduction

Ghana launched its Structural Adjustment Program (SAP) in 1983.[1] Since then, the country has experienced strong improvements in its socio-economic standing and the heightening of its industrial capacity.[2] Consequently, the Bretton Woods Institutions including the World Bank and International Monetary Fund (IMF) have lauded Ghana as the most successful implementation of an SAP in Africa.[3] Examining data from 1983-1998, this essay will consider whether Ghana has truly developed under its adjustment program as the World Bank and IMF claim.

This paper has two sections. The first section briefly outlines the arguments made by the World Bank and the IMF in favor of structural adjustment. This section also defines development, a concept used throughout the paper. The second section argues that the IMF and World Bank have failed to fulfill their mandate in three separate ways: alleviate poverty, improve living conditions in Ghana, and promote economic growth by relieving indebtedness.[4] Instead, Ghana is a poignant example of how powerful states have used the implementation of SAPs to maintain the interests of the capitalist system by exploiting the resources of the Global South.[5] Ultimately, adjustment programs have had a negative impact on the human rights of Ghanaians.

Section I

Proponents assert that the problems of the Third World are due mostly to state intervention in the economy, such as state control of manufacturing enterprises and expansive social service programs.[6] The World Bank and the IMF argue that SAPs, rooted in neo-classical economics, a theory that sees the free market as producing the best possible economic outcomes, will alleviate poverty in the Global South, thereby decreasing the divide between the rich and the poor, and decreasing the disparity between rural and urban areas.[7]

Officials at the Bretton Woods Institutions provide three arguments to support their claim that countries that institute SAPs experience greater development than non-adjusting countries.[8] They assert first that when properly implemented SAPs foster the conditions for growth, raising local living standards.[9] For example, when states intervene in the rural sector, where a vast majority of the poor live, agricultural prices inevitably drop, thus decreasing market opportunities.[10] SAPs therefore call for the deregulation of rural markets, raising prices and increasing rural employment.[11] In the urban sector, SAPs promote import liberalization instead of protected markets, which drives competition amongst local industries because they are able to take advantage of imported technology.[12] Second, officials at the World Bank and IMF also maintain that a chief element of SAPs is social conditionality, which incorporates provisions that grant welfare services to poverty stricken areas.[13] Third, countries that do not adhere to adjustment programs are seen as imposing massive costs on the poor due to unsustainable budget and trade deficits that lead to hyperinflation and economic collapse.[14]

In Ghana the implementation of structural adjustments involved reducing government expenditures through cuts in social services… [and] privatization of state-owned enterprises.[15] Ghana also increased its production and exportation of staple products such as cocoa and timber, as well as non-traditional exports. Ghana’s economic reform program was financed by more than six billion dollars in loans from the World Bank and other...
As stated earlier, implementation of SAPs resulted in a drastic turnaround of Ghana’s overall economic performance. For example, from the early 1980s to the early 1990s, gross national investment rose from 3.7% to 16% and inflation declined from an average annual rate of 73% to about 13%. The structural adjustment era in Ghana also resulted in the expansion of their industrial capacity from about 25% in the 1970s to 46% in the 1990s. These improvements resulted in the overall balance of payments position switching from deficit to surpluses, facilitating the elimination of external payments and a buildup of gross official reserves. SAPs also increased international confidence in Ghana’s economy, which helped attract foreign capital particularly in the fields of mining and infrastructure.

Despite these considerable improvements, critics of SAPs have questioned their overall benefits. First, critics challenge the Bretton Woods Institutions’ understanding of development. The World Bank and the IMF see development as being synonymous with national economic growth measured by indicators such as GDP. Detractors of adjustment policies point out that national economic success does not necessarily translate into improved wellbeing for citizens. Instead, they consider how goods are distributed, the reduction of poverty, and an improvement in the quality of life for the majority of citizens. According to Dudley Seers, a development economist for the United Nations, the questions to ask about a country’s development are therefore: What has been happening to poverty? What has been happening to unemployment? What has been happening to inequality? If all three of these have declined from higher levels, then beyond doubt this has been a period of development. If one or two of these central problems have been growing worse, especially if all three have, then it will be strange to call the result development, even if [GDP] doubled.

Development also entails access to life-sustaining goods such as health and water, and freedom from debt for the majority of the population. According to these criteria, critics are justified in questioning Ghana’s accomplishments under SAPs. By adhering to this definition of development, the section that follows will develop and add to the arguments made by detractors of the SAPs. Specifically, the IMF and World Bank have failed to reduce poverty, improve living conditions for the majority of Ghanaians, and promote economic growth by relieving indebtedness. Thus, adjustment programs have exacerbated difficult social conditions that have negatively affected human rights.

Section II

The most searing critique of SAPs is that the conditions of the poor in Ghana did not improve. Considering that development is primarily concerned with reducing poverty and promoting economic growth for all citizens, structural adjustment was a failure in Ghana. The World Bank and IMF maintain that their primary objective is poverty alleviation; yet, poverty in Ghana was actually higher after structural adjustment than before its implementation. Although Ghana experienced a real minimum wage increase of 75% in the first three years of SAP, much of these gains were never felt amongst the populace due to a rise in food prices, and the payment of high fees for social services. For example, in 1986, rates for water were raised by between 150 to 11,150 percent; for electricity by 47 to 80 percent…and health fees by 800 to 1,000 percent. Because of these high costs, many households could not access those basic necessities.

Another important dimension of poverty in Ghana is regional variation. Ten years after the adjustment programs were implemented in the country there was no evidence that regional inequalities had been addressed. Roughly one half of all Ghanaians who reside in urban areas were estimated to be poor. Moreover, rural areas were not reaping the supposed benefits of the adjustment policies, such as increased wages and employment opportunities, and access to health care facilities. For example, 80% of the poor lived in the rural regions of the country. In Ghana there are three savannah regions, Northern, Upper West, and Upper East. Twelve percent of the population lived in these areas, which had 18% of the country’s poor and 35% of the extremely poor. The benefits of adjustment programs failed to trickle down to those who resided in the resource-poor
savanna, who produced food to sell locally, and did not participate in the export market. The SAPs inability to enhance the productivity and security of the rural poor explains why poverty reduction did not occur in Ghana.

The IMF and World Bank argue that the efficiency advantages of concentrating resources on urban farmers outweigh the equity gains, which require redistributing assets to small rural farmers. In reality, not only do redistributive measures reduce the vulnerability of small farmers in Ghana, but they also bring wider benefits. There is a substantial body of evidence which shows that smaller farms, primarily located in rural areas, have higher levels of productivity per acre than larger farms, typically found in more urbanized regions. Smaller farms maintain productivity by using their own labor, as opposed to larger farms that typically have to invest in capital-intensive systems of production. Moreover, increased rural incomes have multiplier effects upon the broader economy, generating demands for local goods and services.

Improving physical infrastructure is another necessary condition for creating an enabling environment for poverty alleviation. One of the defining features of poverty in Ghana was geographical isolation. The majority of the poor people in Ghana live in areas separated from transport networks and marketing facilities. However, when considering one of the main areas of focus under SAPs—the improvement of the physical infrastructure within Ghana—regional discrepancies were clearly present. Of the total funds that were loaned to Ghana for their adjustment program, more than 37.1% were earmarked for the improvement of roads and train networks. Because the purpose of these rehabilitation efforts was to promote production for exports, most investments were made in the export-oriented south.

A similar phenomenon was seen in the allocation of funding to the various sectors of the economy. For instance, the adjustment programs provided the agricultural industry with less than six percent of the projected six billions dollars, a large part of which was used to rehabilitate the cocoa industry. This was particularly damaging for employment prospects in the non-cocoa producing regions, such as the Northern and Upper regions, where the agriculture industry employs respectively 71.7% and 65.3% of the population respectively.

The World Bank and IMF claimed that one success of the adjustment programs in Ghana was higher prices for agricultural products, which benefited the farming population. In reality, even though the cocoa industry received a large influx of money under adjustment programs, the majority of the population experienced limited gains. The increases in the price of cocoa affected only about 18% of the cocoa-farming households in Ghana. Five years into structural adjustment it was revealed that the benefits of the rise in the price of cocoa for farmers were highly skewed, with just 32% of farmers receiving 94% of gross cocoa income. Because of deteriorating road conditions, the prices received by farmers in the poorer north and rural areas actually dropped due to the high cost of transporting crops to markets.

Instead of reducing poverty, SAPs actively contributed to it by forcing layoffs in both the government and the private sector. A key conditionality of SAPs is that the governments of adjusting countries are required to cut back on public sector employment, reduce government expenditure and improve public sector performance. In the first decade of structural adjustment in Ghana, 200,000 individuals in the public sector lost their jobs. These cutbacks decreased the size of the labor force in formal sector employment to less than 10%. Unemployment rose from about 10% in 1980, to 19% in 1987 and to 21% in 1993, with job losses affecting urban and educated citizens in particular.

In addition, many local private sector industries failed due to trade liberalization, which introduced competition from the Far East. Ghana lost a further 48,000 jobs in the private sector under structural adjustment. Despite claims to the contrary, SAPs have not been able to eliminate poverty in Ghana, precisely because they do not address the roots of poverty and inequality, investing in small farmers and combating geographical isolation. Officials from the Bretton Woods Institutions argued in favor of capital accumulation into the hands of a select few until the benefits trickle down to the majority. In actuality, their real priority was to foster an attractive environment for foreign investment.

The human rights implications of SAPs are profound. As stated previously, SAPs have severe negative social
costs that make them largely unpopular amongst the populace. Additionally, SAPs systematically erode the traditional role of the state, through market deregulation and privatization. Consequently, adjustment programs foster problems of legitimacy for sub-Saharan African states and erode their political capacity to govern. These conditions could encourage countries to resort to more repressive measures to ensure the implementation of adjustment reforms. By insisting on politically difficult conditionalities in the implementation of adjustment programs, the Bretton Woods Institutions cultivate an environment whereby the rights of citizens to physical safety can be violated. Thus SAPs, as they have been formulated and implemented in sub-Saharan Africa, appear incompatible with human rights protection.[60] Such issues can arise when local property rights are in conflict with foreign corporate investment. Moreover, the top down imposition of SAPs on heavily indebted and vulnerable sub-Saharan African states also violates the democratic rights of the African people and the sovereignty of African nations who provide little input into the formulation and implementation of those SAPs that directly affect them.

The World Bank and the IMF insist that improved social welfare provisions are at the core of SAPs, and that adjustment programs have had considerable success in this area.[61] Unfortunately, examining the level of investment directed toward health and social security in Ghana under structural adjustment proves that the social needs of the country are not being addressed.[62] An important feature of SAPs is conditionality, which requires that states in adjusting countries make drastic cutbacks in government expenditure on social services.[63] In an effort to secure adjustment loans, the government of Ghana reduced expenditures on social services and shifted a significant portion of the costs onto the populace with the introduction of a user-pay system for healthcare.[64] Under SAPs, Ghana spends roughly six American dollars per capita on healthcare, far lower than most developing countries.[65] The inadequate funding of the public health sector engendered numerous problems, including understaffed facilities, insufficient infrastructure, low pay, and low morale, which resulted in a massive brain drain of health professionals out of the healthcare industry and out of the country.[66] The net effect of these adjustment policies was to strip developing countries of their social capital and to create a vacuum of skill that could be filled by highly-trained Westerners.[67] Additionally, the conditions of other African countries were so reduced that many of the available workers had access only to technical level education, which created a workforce that was able to do only the substandard jobs that people from the West did not want to do.[68]

Regional inequality is another major problem with health care in Ghana under structural adjustment. A Ghanaian’s access to health care is largely determined by where they live, as rural areas do not receive an adequate share of the health care budget. Even though only 36% of Ghanaians reside in urban areas, they accounted for over 42% of the total government health budget in 1989, a figure that increased to 49% a decade after the introduction of structural adjustment. In the same year it was also revealed that the top 20% of the population according to income enjoyed 33% of government spending on health care, while the poorest 20% received only 12%.[69] Because government-provided health facilities are mostly located in urban areas, it is estimated that the over eight million people in 47,000 rural areas lack any access to health care.[70]

This lack of access to health care in many parts of the country is tied to regional inequality in malnutrition and mortality rates[71] For example, 45% of all women and 65% of pregnant women in northern Ghana are malnourished compared to 30% and 45% respectively in the urban areas.[72] Problems of malnutrition are generally more severe in rural areas and decrease with urbanization. A similar phenomenon is seen when examining the infant mortality rate.[73] Five years into adjustment programs, the infant mortality rate for urban areas was 6.7% and 8.7% for rural areas.[74] These figures indicate a significant improvement from the average infant mortality rate of 13.2% for the entire country prior to adjustment.[75] However, SAPs failed to alter regional inequalities in infant mortality.[76]

The regional inequality of not only healthcare but also the distribution of clean drinking water facilities has also not been addressed under SAPs. While only 1% of the rural populations have access to good drinking water from indoor plumbing, 8% and 27% of residents in Accra and other urban areas, respectively, enjoy such access. Within these regions, clean drinking water facilities are limited mostly to the high-income residential areas and the upper-income groups. Low-income individuals in these areas depend upon public pipes, many of which are not functioning. As a result, many lower income individuals are forced to purchase water from a few privileged households.[77]
Due to their free market ethos, the World Bank and IMF pushed for the privatization of public goods and services, such as water. By introducing their user-pay adjustment policies, these international financial institutions (IFIs) ensured that clean drinking water was made available only to the communities that could afford it. Those who could not pay for clean water were forced to turn to unsafe sources such as rivers and ponds, which had drastic health implications for Ghana. For example, cases of guinea worm, spread through unclean water, increased drastically in poorer communities, at a time when Ghana had nearly eradicated the disease. By extending Ghana a loan to rehabilitate its water sector only if the government transferred control over the facilities to private multinational companies, the World Bank and the IMF put the lives of citizens in the hands of corporate entities that were accountable only to foreign shareholders. These corporations’ main motivation is profit, and consequently price becomes a barrier to access to water for the poor.[78]

Ultimately, adjustment programs result in the infringement of citizens’ economic and social rights, namely the right to health and the right to an adequate standard of living. The path undertaken by the World Bank and IMF to improve the living conditions of underdeveloped nations, rapid economic liberalization, appears to have had the opposite of the intended effect. Instead of promoting equitable economic growth that lifts the poor out of poverty and social misery, the consequences of adjustment agreements has been to exacerbate these conditions.[79]

The adjustment programs prescribed by the World Bank and IMF also failed to promote economic growth by relieving indebtedness.[80] Ghana ranks 41 on a list of the most indebted countries in the world with an external debt amounting to roughly 7.51 billion US dollars.[81] The majority of this debt was accrued during the adjustment era, which involved heavy borrowing from developed countries.[82] Under SAPs, Ghana’s total debt grew at an average of 7% each year from 1987 onwards.[83] Ghana also struggled with massive domestic debt increases under SAPs.[84] Prior to structural adjustment, domestic debt was 2.8% of GDP; seven years later this figure had risen to 15.6%, with domestic debt servicing eventually accounting for 20% of government expenditure.[85]

Because Ghana has a primary commitment to use its export revenue for debt repayment, the government cannot afford to use its earnings to fund socio-economic programs or to make long-term investments. In fact, at the height of SAPs in Ghana, the government was spending about four times more on debt servicing than they were on health care.[86] Critics of the programs hold that SAPs are a part of the Debt Trap, whereby indebted countries in the Global South are kept poor and powerless in the global economic-political system. Concerned primarily with ensuring that loans to the Third World were repaid, the Bretton Woods Institutions and the Western commercial banks developed a mutually-supporting partnership. Specifically, the banks relied upon the World Bank and IMF to ensure loan repayment, which was done by making the introduction of SAPs a necessary condition for further loans. In return, the Bretton Woods Institutions demanded that commercial banks contribute more money to them for international lending. This infusion of capital further empowered the IFIs, while increasing the profits of the commercial banks at the expense of the heavily indebted Global South, whose people suffered from unemployment and higher prices for basic necessities.[87]

It is no surprise that critics of SAPs condemn this practice and point to debt bondage as the new face of colonialism. Debt is the crux of the unequal power relations between the North and the Global South, used to dominate and exploit the resources of indebted countries. Debt payments involve a transfer of resources and money from the South to the North estimated at $200 billion American dollars in 2002, an increase of $80 billion in four years. Affluent countries use debt as a vehicle to impose disastrous neo-liberal economic policies upon developing nations, and these policies in turn ensure that poverty and debt remains a permanent condition of the developing world.[88]

As stated previously, as a result of the extensive borrowing under the adjustment programs, Ghana’s export revenue is primarily used to service its debts.[89] Consequently, Ghana was forced to reorganize its economy around the priority of foreign debt servicing.[90] Exports were accelerated to provide capital to service Ghana’s debt, yet the drive for exports was unable to generate enough money to cover interest payments.[91] Faced with the possibility of defaulting on its debt, Ghana was forced to take on a new loan organized by the Bretton Woods Institutions. The purpose of the loan was to give Ghana a respite to arrange their finances, and resume repayment of their debts. The loan was conditional on an agreement that Ghana would continue to adhere to the
adjustment measures, which were the primary cause of Ghana’s current indebtedness.[92] This process created a debt trap, whereby the more Ghana paid to the Bretton Woods Institutions, the more Ghana owed.

Because Western governments and IFIs were Ghana’s main creditors, critics of SAPs have argued that debt has been used by Northern elites to gain a stronghold over the economic and financial destinies of the Global South.[93] The IMF and the World Bank and other multilateral organizations based in the G-7 receive more than 70 percent of Ghana’s external debt repayments. The remaining 30% is owed to the powerful nations who also dominate the IMF and the World Bank. The dominance of the G-7 nations, who hold the majority of voting shares over the IMF and the World Bank are the architects of SAPs. This empowers them to promote open and free markets, which are profitable for developed countries, but not for the fragile economies of the developing world.[94]

Powerful states also benefit in a more direct way from adjustment programs. For example, more than half of the World Bank’s loans were used by Ghana to purchase foreign goods and services, of which about seventy percent went to wealthy donor countries. The World Bank and the IMF allow wealthy nations to create the appearance of providing billions of dollars to economically stricken areas, when in actuality they are simply providing that money to their own contractors to work in less developed regions.[95]

Critics of SAPs point to the debt crisis as an example of an economic war perpetuated by the West for the re-colonization of Africa. Through debt bondage, the powerful states that dominate the Bretton Woods Institutions desire to:

i) arrest the rising prices of raw materials in the 1970’s which led to an economic slump in Western countries; ii) curb the alleged radicalism of the Third World in demanding a new international economic order; iii) arrest putative industrialization in poor countries, increasingly seen as a threat to manufactured exports from the creditor countries.

Hence, the chief function of SAPs has been to maintain the interests of the world capitalist system in which multinational corporations can trade, invest and move capital across nations without hindrance from national governments.[96]

In some ways, the adjustment programs in Ghana succeeded in effecting essential structural changes at the macroeconomic level; however, they did not improve the quality of life of Ghanaians at the micro level. Factors such as poverty, unemployment, and socio-economic disparities did not disappear during the adjustment era, and were even worsened due to the policies of the World Bank and the IMF. Ghana is not an isolated case. In fact, the evidence on the failure of SAPs is particularly comprehensive in much of sub-Saharan Africa. Whenever SAPs have been the main staple of development policies in this region, indebtedness and inequalities have tended to increase. Contrary to what the program sponsors assert, adjustment programs undermine recovery prospects, and fail to protect access to health and social services. The current methods that are being used by the Bretton Woods Institutions sacrifice the human rights of the poor who are unable to survive in a climate where unbridled market forces determine access to resources.[97] Hence, it is safe to conclude that adjustment programs have had a negative impact on the human rights of Ghanaians. The IMF and World Bank have failed to fulfill their mandate in three separate ways: failed to alleviate poverty, failed to improve living conditions in Ghana, and failed to promote economic growth by relieving indebtedness. Instead, Ghana is as a poignant example of how powerful states have used the implementation of structural adjustments to maintain the interests of the world capitalist system by exploiting the resources of the Global South.

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