



Nathan Andrews

What Foreign Aid Can and Can't Do in Africa

Understanding the Context of Aid and Socio-Economic
Development in Ghana

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Preface

There is definitely an issue with Africa; but whether it is the “trouble with Africa”, “the enigma of capital”, “the leadership challenge in Africa”, “Africa unchained”, “Africa in chaos” or “the white man’s burden”, we cannot decidedly say. What we certainly know is that there are so many variables to consider when discussing “development” in Africa. It is simply not justifiable for one to assume the problems of Africa are self-inflicted, neither is it prudent to argue that African’s themselves do not have a role to play in carving a sustainable path of development.

Before embarking on this book project, I began to ask where to position myself in this big volume of literature on foreign aid and development in Africa. And since every book is expected to bring onto the table something “new”, I was getting worried as I did not seem to have ample “newness” in the manuscript. But then I realized I have lived long enough in Ghana to be able to write something that will challenge people’s thinking on the subject of socio-economic development. Having matured and lived in a developing country for more than two decades, it seems to me that I have something to say about ‘development effectiveness’. Watching television and listening to radio, the notion of what is going wrong, or at least a perception of it started developing back then in Ghana. My two years of experience as a broadcast journalist – attending conferences, writing reports and news and conducting interviews with all sorts of public/private officials – has given me good exposure to some of the basic challenges to progress. The primary objective of the book is to get the world to re-think development, especially when it involves developing countries since in most cases there might be a lot more latent explanatory variables that can explain the ineffectiveness/failure of development efforts other than most people perceive. As a young and upcoming scholar who is still yet to clearly identify with specific ideologies, or even to cultivate friends and enemies in the academia, I feel I could make some difference with this book. As William Shakespeare once said in *As You Like It*:

All the world's a stage,
And all the men and women merely players:
They have their exits and their entrances;
And one man in his time plays many parts,
His acts being seven ages.

This quote has spurred me on to thinking about the present and what difference I can make in people's lives, and to the realization of this book. I believe if I do not share with the world the little that I know, a second chance may never come. The book is a result of my master's degree at Brock University. I am particularly grateful to God for His continuous guidance and wisdom. Also, I acknowledge my MA supervisor, Dr. Hevina Dashwood, for her immense direction and support. Her invaluable comments and suggestions made me think deeper about topic, making my arguments more focused and coherent. I also thank my second reader, Prof. Terrance Carroll, for agreeing to read my paper. His thorough reading and comments thereof resulted in relevant changes to an initial draft. I appreciate your comments, Terry. Being the main two people who contributed to the research project which has now turned into a book, available to readers around the world, I feel indebted to both. Thank you! Finally, let me say that the book may not be complete in every sense of the word. It is a small book or you can call it a brief treatise on Ghana's socio-economic development, but I hope it helps move the global debates on foreign aid and Africa's development forward.

LIST OF ABBREVIATIONS

AFRC	Armed Forces Revolutionary Council
CHRAJ	Commission on Human Rights and Administrative Justice
CPP	Convention People's Party
CPI	Corruption Perception Index
CSOs	Civil Society Organizations
DAC	Development Assistance Committee
DFID	Department for International Development
DOVVSU	Domestic Violence and Victims Support Unit
ERP	Economic Recovery Program
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GLSS	Ghana Living Standard Survey
GNP	Gross National Product
GPRS	Growth and Poverty Reduction Strategy
G-JAS	Ghana Joint Assistance Strategy
HDI	Human Development Index
HIPC	Heavily Indebted Poor Country Initiative
IDC	Industrial Development Corporation
IFIs	International Financial Institutions

ILO	International Labour Organization
IMF	International Monetary Fund
ISI	Import Substitution Industrialization
LDCs	Least Developed Countries
LEAP	Livelihood Empowerment Against Poverty
MDBS	Multi-Donor Budgetary Support
MDGs	Millennium Development Goals
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MDAs	Ministries, Departments and Agencies
NDC	National Democratic Congress
NEPAD	New Partnership for Africa's Development
NHIS	National Health Insurance Scheme
NLC	National Liberation Council
NPP	New Patriotic Party
NPRP	National Poverty Reduction Program
NRC	National Redemption Council
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organization for Economic Co-operation and Development

PAMSCAD	Program of Actions to Mitigate the Social Cost of Adjustment
PNDC	Provisional National Defence Council
PNP	Peoples National Party
PRSP	Poverty Reduction Strategy Paper
PSI	Presidential Special Initiative
SAPs	Structural Adjustments Programs
SMC	Supreme Military Council
SOEs	State-Owned Enterprises
SFO	Serious Fraud Office
TUC	Trades Union Congress
UNDP	United Nations Development Program
UNICEF	United Nations Children's Fund

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Introduction

There remains a gap between the developed and developing countries, creating many divides, stereotypes, and categorizations that further marginalize growing economies. However, the recent spate of globalization has not made this North-South divide any better.¹ The developmental gap has led to constant capital inflow from the developed countries to those in the Third World. The end of World War II coincided with the evolution of a set of rules, institutions and procedures to regulate various aspects of international economic relations. This was the 1944 Bretton Wood System which sought to rebuild the international economic system through its institution, the World Bank. This was followed by the Marshall Plan of 1947 which was in operation for four fiscal years as a reconstruction (or aid) plan meant to rehabilitate European countries in crisis at that time. The plan had expended almost \$ 12.5 billion by 1951 in rebuilding physical and social infrastructure in Europe. Since the time of the Marshall Plan to present, and due to its relative success, aid has been seen by many as a catalyst to economic growth, and has thus been applied in many countries all over the world. On account of their poverty situation, skyrocketing debt crises and socio-economic problems, aid has assumed some level of indispensability in developing countries. I can safely say that Ghana, since independence from the British in 1957, has benefited from a great deal of aid.

Nonetheless, decades of foreign aid have done little in changing the destinies of many Third World countries, majority being in Africa; leaving them in the deplorable conditions they find themselves in today. The repercussions of failed or ineffective aid programs are what we are seeing now but there is certainly more to it than meets the ordinary eye. There are so many issues and complexities with aid that it has become

¹Bowles emphasizes this point clearly in his article. He states that there is still a clear boundary between the developed and developing and that artificially constructed terms such “developed-underdeveloped”, “North-South”, “core-periphery” and “First-Third World” only go to cement the development divide that exists. Besides, there is no evidence that the divide is going away. See Paul Bowles, “Globalization and Boundaries: Is the ‘Development Divide’ Still Relevant?”. *Canadian Journal of Development Studies*, (No. 3, 2005), pp. 428-9.

unpopular even among people who know they need help. We can call it a result of the Pandora's box effect.² Others simply think regular inflow of aid is a way of increasing dependency of the developing world on the developed – a result of what can also be called the “baby-sitting effect.”³ What we know, at least, is that money alone has not improved living conditions in many Third World countries, hence the need for further analysis as to how best development can be ensured.

The main argument in this book is that foreign aid, when not applied in a conducive domestic, political and social environment, is more likely to lead to stagnant growth. This does not mean in a good policy environment aid will necessarily flourish since there are several factors from outside that can diminish any potential positive impacts: it only means that aid works in a domestic socio-cultural, politico-economic context which must be recognized by donors if they seek to make meaningful impact. We shall see that there are many internal factors, besides aid, that influence a country's development. Exogenously, however, there are donor strings attached to the aid which in essence make it ineffective. We should not forget that regular supply of financial and technical assistance to developing countries keeps them (recipients) eternally dependent on the donors. My point is that aid is meant to aid, that is, to help people to be able to help themselves, and not to sharpen their tastes for more help. In fact, development can be effective when aid is untied and geared towards specific aspects of the economy or society where the best impact will be realized. For instance, if aid targets the building of roads and bridges to enhance the transportation of agric produce from hinterlands, yet it does not in itself promote agric production, the roads and bridges remain as white elephants – an entirely fruitless endeavor.

² This is my concept of how aid has resulted in many more implications than it was intended – a good venture that has gone bad. We can also see it in the “white elephant” or “flavor of the month” perspectives.

³ This is derived from the idea of baby-sitting in childcare. The baby becomes so dependent on the nanny or mother that without her, nothing can be done. If conscious efforts are not made to wean the baby it grows to become a mature person who lacks personal initiative and cannot take risks. It is applicable to how dependency plays out in global relations. This is my coinage. Any semblance it may share with an existing concept is unknown to me.

The argument is not that aid has been a total failure of aid since in cases of disaster and humanitarian assistance it has been able to reach people when and where mostly needed. Without this temporary supply of food and other materials multilateral and donor agencies give in such times, some people will have no reason and means to live on. Foreign aid has succeeded in establishing particular projects that are still relevant to the people today. Ghana in particular has received a great deal of capital inflow from the developed world. The US, for example, contributed close to half of the cost of the Akosombo Dam that was constructed during the rule of Ghana's first President, Dr. Kwame Nkrumah. This dam, which was co-funded by Britain and World Bank, has been the main source of electricity to Ghana and parts of the West African sub-region.⁴ The Swiss Government has recently offered a nine million Swiss Francs Multi-donor budget support to help Ghana reduce poverty and enhance economic growth. The amount is part of a 27 million-Swiss Francs (about 24 million dollars) support to be released yearly between 2009 and 2011.⁵ These cases in point do not nullify the argument that foreign aid, in most cases, is far from successful⁶ - especially when looking at its long-term effects.

Research Problem and Questions

The problem is that the impact external financial and technical assistance on overall development in the Third World is still contentious. However, there are ample instances to prove that aid has not lived up to its purpose – development through poverty eradication – in most cases. This makes a mockery of the Millennium Development

⁴ See Alhassan H.S., "Viewpoint – Butterflies vs. Hydropower: Reflections on Large Dams in Contemporary Africa", *Water Alternatives*, Vol. 2 Issue 1, 2009, pp. 151-3, www.water-alternatives.org (accessed April 8, 2009).

⁵ Ministry of Finance and Economic Planning, Ghana, retrieved on May 7, 2009 from <http://www.mofep.gov.gh/speech080409.htm>

⁶ In Ghana we can cite the case of the KLERP (Korle Lagoon Ecological Restoration Project), a US\$89.52 million which began a decade ago. It was expected to be complete by 2005 but evidence of the project nearing completion is lacking. See website for program statistics, <http://www.klerp.com/fsite/004.html>

Goals (MDGs), especially that of reducing poverty by half by 2015. It is not only that aid does not work: it is also that in Africa certain peculiar conditions might pertain that do not allow aid to be used judiciously for the designated programs and projects. The main questions the book seeks to address are; have aid policies proven themselves to be most effective in promoting Ghana's socio-economic development or have they rather undermined it? Has aid been able to buy development in Ghana or can future assistance do so? There is voluminous literature on aid and development but is there any clear link between foreign aid and (under)development? Based on the answer the analyses reveal, we shall then judge whether Ghana's realization of the MDGs is feasible.

In the end, I shall conclude with a judgment on where Ghana is in terms of socio-economic development. The dependent variable is Ghana's socio-economic development while the independent variable is the role of aid-oriented policies in promoting development in Ghana. I use the millennium benchmarks (MDGs), United Nations Development Program (UNDP) human development indicators, and poverty data from the Ghana Living Standards Survey to measure progress towards development. This measurement should enable us to adequately prove whether real progress has been achieved, or whether it is merely an increase in macro-economic numbers such as GDP or GNP that do not reflect the overall developmental reality.

Book Design

The book emphasizes a case study approach, using Ghana as a case to highlight the broader dynamics of the aid-development debate. This case tests the broad debates on aid and applies them to a country that has become a beneficiary of substantial amounts of aid. Dealing with the domestic institutional context, we can say no two countries are identical. However, certain features that we shall allude to in Ghana might be relevant determinants of development in other countries in the developing world, especially in the Least Developed Countries (LDCs). There are other reasons why focusing on Ghana is justified.

Firstly, Ghana as one of the countries in the Third World classification qualifies as a case study in this regard. Moreover, not much specific work has been done on the country, regarding the impact of foreign assistance on its economic development. Most of the current literature focuses on Africa or the Caribbean and Pacific regions broadly, regardless of the fact that Africa alone has too much diversity, and that what causes aid to fail in one country could be totally different from the causes in other countries on the same continent. The book hopes to enhance the level of specificity with which aid's contribution to development is treated in the developing world. Secondly, Ghana in some sense has become an aid darling due to its compliance with most of the World Bank and IMF reform programs. Ghana is back in the global economic spotlight, especially after the discovery of a projected 600 million-barrel oil deposit at Cape Three Points in the Western Region of the country and a declaration of a "Golden Age of Business" by the government. Agriculture, however, still accounts for about 36 per cent of GDP.⁷

Conceptual Approach and Methodology

For the purpose of this book, we shall adopt the definition of Official Development Assistance (ODA) by the Organization for Economic Co-operation and Development (OECD); it is the officially allocated capital inflow to developing countries aimed at promoting economic development and the welfare of the people, often concessional in nature and containing a grant element (usually 25% minimum).⁸ We limit ourselves to this definition because the discussion in the subsequent chapters will be based, to some extent, on bilateral aid from the OECD countries. Aid is usually aimed at promoting development, but what is development? Is it GDP growth rates or does it involve a visible change in the lives of a substantial portion of the population of a country? How can this be measured? This study understands development includes social as well as economic indicators. The most used is the UNDP's Human Development Index (HDI) which looks

⁷ See Republic of Ghana, Ministry of Finance and Economic Planning, *Investing in Ghana*, September 2006 Newsletter, p. 4, <http://www.mofep.gov.gh/newsletter.pdf> (accessed April 8, 2009).

⁸ See OECD, <http://www.oecd.org/dataoecd/26/14/26415658.PDF> (accessed August 5, 2009)

at a broader definition of well being using indicators such as life expectancy, literacy or educational progress, and GDP per capita – generally a decent standard of living. Ghana’s HDI is 0.553 which places it in the 135th position out of 177 countries.⁹ Amartya Sen views development as a process of expanding human freedoms.¹⁰ He dwells on five interconnected freedoms; namely, economic opportunities, political freedoms, social freedoms, transparency, and protective security. The concept of development I adopt here involves ‘activity’ not ‘passivity’ – one that involves equity, participation and freedom from suppression. This means that the people for whom development programs are outlined should be actively involved in the process. They should be recognized, so should their beliefs and values. That Africa needs development does not mean it should be any development. It should be “a particular kind that is tailored to suit African requirements and circumstances.”¹¹ This answers the question that most donors fail to give cognizance to: development for whom? Just as science, technology, and trade are crucial to development, so is culture. None can be ignored in the quest to realize effective development.

The new development paradigm propagated by Thomas Palley looks at a domestic demand-led growth which thrives on four pillars – improved income distribution, good governance, financial stability, and “adequate fairly priced supply of development finance.”¹² All these meanings of ‘development’ rely on how poverty is conceptualized. The most common definition of poverty is the World Bank’s less than \$1 a day. The new estimate for the poverty line is living below the per capita income of \$1.25 a day.¹³

⁹ UNDP, 2007/2008 Human Development Report, http://hdrstats.undp.org/countries/country_fact_sheets/cty_fs_GHA.html (accessed April 8, 2009).

¹⁰ Amartya Sen, *Development As Freedom*. (New York: Anchor Books, 1999), p.3

¹¹ A. K. Awedoba, *Culture and Development in Africa With Special Reference to Ghana: Some Basic Issues*, Vol. 1 (Institute of African Studies, University of Ghana, Legon, 2001),p.13

¹² Thomas I. Palley, “A New Development Paradigm Domestic Demand-Led Growth: What is Needed and How to Make it Happen”, *Foreign Affairs in Focus* Discussion Paper, September 2002, p. 8

¹³ This new measurement resulted from a re-evaluation of the World Bank’s \$1 a day poverty line which had been in place since 1999. It has considered new data on the purchasing power parities and other indicators. See the World Bank, *2008 World Development Indicators Poverty Data*, p. 1

Kacowicz in an article enumerates several definitions of poverty by Paul Spicker which include basic needs, standard of living, limited resources, lack of basic security and entitlement, class inequalities and serious deprivation.¹⁴ I am more drawn towards a definition that considers the lack of the basic needs of the people which results from all or some of the indicators above. This is because poverty can be absolute, moderate, as well as social exclusion. Progress does occur in many parts of the world but how it is sustained determines whether it serves its overall purpose or not. Longevity is the essence of it. For this purpose, ‘development’ is mainly progress, be it economic, social or cultural, that serves the basic needs of both today and tomorrow; and poverty is a retrogression that leads to the deprivation of basic needs of both today and tomorrow. These human needs may include water, food, fuel and shelter and such other aspects as rights, freedoms, peace and security. Whether one dollar or two, development is sustained when it serves the purpose and needs of the present generation without jeopardizing those of future generations.

I have used both inductive and deductive approaches in this book. I begin with a more deductive analysis of the theories that have been propounded to explain development and underdevelopment and their relation to foreign assistance to developing countries, specifically Ghana. To carefully answer the research questions, I use cultural analysis¹⁵ and institutionalism. Through a historical explanation (process-tracing), I drew from the cultural framework sociological institutionalism¹⁶ offers. Originating in the subfield of organization theory, sociological institutionalism emphasizes the interactive and mutually-constitutive character of the relationship between institutions and individual action. In this sense institutions will broadly mean formal rules and procedures but also

¹⁴ Arie M. Kacowicz, “Globalization, Poverty and the North-South Divide”, *International Studies Review*, 9, 4 (2007), pp. 569-70

¹⁵ For a detailed discussion of the importance of culture analysis in political economic and social research see Marc Howard Ross, “Culture and Identity In Comparative Political Analysis” in Mark Irving Lichbach and Alan S. Zuckerman, *Comparative Politics: Rationality, Culture, and Structure* (Cambridge: Cambridge University Press, 1997)

¹⁶ See Peter A. Hall and Rosemary C. R. Taylor, “Political Science and the Three New Institutionalisms”, *Political Studies*, Vol. 44, No. 5 (1996), pp. 946-50