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Strong Democracy, Weak State

The Political Economy of Ghana's Stalled Structural Transformation

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3.1 Introduction

What are the political and institutional factors that enable governments to pursue policies to promote economic and agricultural transformation? Sustaining growth, achieving inclusive development, and promoting structural transformation require qualitatively different, albeit not necessarily mutually distinct, economic policy interventions. In particular, respecting property rights, investing in broad-based public goods, such as infrastructure, education, and health, and adhering to macroeconomic stability, can be critical "fundamentals" for, or enablers of, sustainable growth, but they do not necessarily result in structural transformation (see Chapter 2 of this book, and Rodrik 2014). Instead, the latter may be more likely when specific industries are favored, firms are incentivized, and market failures within and across sectors are overcome (see Sen 2015). Hausmann et al. (2008) identify three different types of market failures that need to be overcome in order to achieve transformation: self-discovery externalities (identifying new products that can be produced profitably), coordination externalities (engaging in simultaneous investments upstream and downstream), and missing public inputs (legislation, accreditation, and infrastructure). Structural transformation therefore requires more activist government policies beyond providing an enabling environment.

However, some of the economic policy levers that are available for addressing these market failures may be more viable in certain political and institutional settings than others. By investing in the economic "fundamentals," peaceful, democratic societies are typically better at *sustaining* growth than conflict-ridden, autocratic ones (e.g., Acemoglu and Robinson 2012; Feng 1997; Gerring et al. 2005; Przeworski et al. 2000; Rodrik 2000). Yet, these same political virtues may not always be associated with the institutional environment and economic policies needed to generate structural transformation. Historically, structural transformation has not been uncommon in closed political regimes, ranging from Bismarkian Germany of the late 1800s, to the 1970s period of dictatorship in Brazil and South Korea, to one-party regimes in Ethiopia and Rwanda from the 2000s onward (e.g., Holden 2012; Kelsall 2013; Kohli 2004; Leftwich 1995; Poulton 2014; Schneider 1999).

This chapter therefore argues that Ghana's sustained economic growth in recent decades reflects a concerted commitment to maintaining political fundamentals. Ghana is broadly lauded for its environment of political pluralism, respect for human rights, free and fair elections, and vocal civil society. According to multiple indicators, including Freedom House, the Ibrahim Index of African Governance (IIAG), and Polity IV, Ghana ranks near the top of the African region. A genuinely competitive multi-party system has resulted in the alternation of political parties in office and has classified the country as one of only a handful on the continent to have achieved democratic consolidation according to Huntington's (1991) two-turnover test. In fact, the two main political parties, the National Democratic Congress (NDC) and the New Patriotic Party (NPP), peacefully have handed over power to each other in 2000, 2008, and 2016. Party institutionalization and respect for the rule of law meant that the death in office of President John Atta Mills in 2012 did not result in the power vacuum or political chaos witnessed recently in African countries that have faced a similar fate, such as Malawi and Zambia. Despite the presence of ethnic divisions, they have not undermined the country's unity, and no group has ever attempted to secede (see Oduro et al. 2014). Indeed, while neighboring countries with similar economies, such as Côte d'Ivoire, were plunged into ethnic and religious conflict in recent years, Ghana has remained peaceful and avoided local conflicts from exploding into regional or national conflagrations. When Ghana became the only sub-Saharan African country besides South Africa to launch a $750 million Eurobond in 2007, it was four times oversubscribed with political stability repeatedly identified by international investors as one reason for its success (Chung 2007; Rao 2007).[1]

Yet, despite these virtues, and as shown in Chapter 2, Ghana has been unable to achieve substantial structural transformation in the sense of accelerating the growth of high labor productivity sectors and shifting labor to them from low-productivity sectors, like traditional agriculture (see also Jebwab and Osei 2012; Killick 2000; Powell and Round 2000). Moreover, the

[1] Indeed, despite the country's growing external debt and ambiguity about oil reserves, the country has successfully launched three additional Eurobonds.

country appears to face recurrent lapses of fiscal management. Public sector capacity and financial management indicators are often volatile, with a strong deviation from economic prudence close to elections. Public opinion surveys indicate low levels of trust in the government to deliver on its promises while constrained relationships between successive governments and the domestic business community have impeded long-term strategizing on priorities for growth and development.

Consequently, Ghana is strongly democratic but plagued by weak state capacity, and these politico-institutional characteristics have shaped the economic policies pursued, including in the agricultural sector, and the resultant development trajectory. Specifically, Rawlings, who oversaw the transition from the economic crisis years of the early 1980s, combined aspects of developmental neo-patrimonialism with a small but technocratic financial team to push through structural adjustment policies that helped stabilize the macro economy. After the country's democratic transition in the early 1990s, Ghana has witnessed broad investment in public goods and social welfare due to its competitive party system. However, this chapter argues that three political economy factors have undermined its ability to achieve substantive structural transformation. First, democracy has enabled a broader range of interest groups to permeate policymaking decisions, often resulting in policy backtracking and volatility as well as fiscal deficits around elections that, among other things, stifle credit access for domestic business through high interest rates. Secondly, public sector reforms were not pursued with the same vigor as macroeconomic reforms, meaning that the state has lacked the capacity typically necessary to identify winning industries or to actively facilitate the transition to higher value-added sectors. Thirdly, successive governments, regardless of party, have failed to actively invest in building strong, productive relationships with the private sector, which is a legacy of Rawlings' strong distrust and alienation of the sector during his tenure in office.

The chapter expounds on these arguments by first reviewing in Section 3.2 the extant scholarship on the linkages between governance, economic growth and structural transformation. Section 3.3 explores Ghana's initial investments in economic fundamentals before turning in Section 3.4 to the challenge of maintaining these fundamentals as the country democratized and as disparate interest group pressures became more pronounced. Then, Section 3.5 elaborates on the capacity constraints of Ghana's bureaucracy, which can be traced to insufficient attention to much-needed public sector reforms in recent decades. Weak business–state relationships are analyzed in Section 3.6 before exploring the broader implications of these political and governance dynamics for agricultural transformation. The final section concludes by discussing what this combination of a strong democracy and a weak state implies for feasible policy options in agriculture and beyond.

3.2 Governance, Growth, and Transformation: Regime or State?

The political and institutional characteristics that define countries can be broadly aligned according to the type of political regime and the capacity of the state. Regimes fall along a wide continuum, ranging from completely authoritarian with no space for competition to liberal democracy with multi-party competition, freedom of association, and rule of law (see Howard and Roessler 2006; Levitsky and Way 2010).

Regime types are not always correlated with state capacity. The archetypical view on state capacity originates from Weber (1978) who argued that a rational-legal bureaucracy guided by meritocracy, high levels of expertise, and respect for the law was most likely to promote prosperity. According to Sen (2015), the two main elements of state capacity are bureaucratic power (i.e., the ability of the state to implement policy decisions) and infrastructural power (i.e., the capacity of the state to exert full authority over national territory). In a cross-country analysis using proxies for Weberian state structures in thirty-five developing countries, Evans and Rauch (1999) find that meritocratic recruitment and career mobility are associated with higher economic growth, even after controlling for human capital and initial levels of GDP per capita (see also Rauch and Evans 2000).

The Weberian ideal is typically contrasted to patrimonial rule whereby government officials are driven more by allegiances and informal ties than by expertise. Van de Walle (2001) has used the term “neo-patrimonial” to refer to states with the outward trappings of a Weberian bureaucracy with rules, regulations, and formal procedures but are internally governed by clientelist practices. He refers to African administrations whereby “the top technocrats may be very competent and well trained, but they lead underfinanced state structures with very little data gathering, planning, and policy analysis capabilities” (van de Walle 2001: 55). The literature suggests that regime type plays an important role in determining investment in economic fundamentals while state capacity may play a larger part in shaping economic transformation.

3.2.1 Democracy

Democratic governments may have an incentive to provide a more equitable distribution of resources (Acemoglu and Robinson 2006; Boix 2003), and invest more in public than private goods (Bueno de Mesquita et al. 2005; Baum and Lake 2003). In addition, research suggests that they spend more on education and social welfare (Ansell 2008; Brown and Hunter 1999; Huber et al. 2008), and do better than autocracies on important measures of well-being such as life expectancy and calorie consumption (Besley and Kudamatsu 2006; Blaydes and Kayser 2011). Bates and Block (2013) even find that the introduction of competitive presidential elections in Africa since the 1990s is correlated with improvements in total factor productivity in the agricultural sector.

There are various causal mechanisms underlying these relationships. Meltzer and Richard (1981) argued that where the median income is lower than the mean income, the majority of voters are poorer than their compatriots. In a poor democracy, politicians are therefore motivated to adopt policies favoring the less well-off in order to increase their chances at re-election. Lake and Baum (2001) further suggest that the accountability of the electoral process forces democracies to improve human capital as broadly as possible (see also Stasavage 2005). Rodrik (1999) emphasizes the value of political participation, arguing that democracies have higher manufacturing wages because they allow greater freedom of association and collective bargaining.

On the other hand, there have been suggestions that an emphasis on democracy can be counter-productive for development (e.g., Collier 2009; Sachs 2005) and that democracy can foment clientelism and undermine the effective delivery of services (see Booth 2012). Ross (2006) finds that social welfare spending in democracies disproportionately benefits middle- and upper-income groups, supporting other scholars' observations that elections result in targeted spending for organized constituents rather than broad welfare spending (see Keefer 2007 and Karakoc 2010). In the African agricultural sector in particular, Poulton (2014) suggests that democratization has resulted in governments favoring short-term policy options, especially input subsidy programs, rather than more long-term investments in research and development or extension.

Relatedly, the political budget cycle plays an important role in democracies. This view suggests that fiscal policy, especially government transfers for certain goods and services, is manipulated before elections by opportunistic incumbents (see Rogoff 1990). The pattern is especially strong in developing countries (see Brender and Drazen 2005). For instance, based on a sample of forty-four African countries, Block (2002) finds that a government's budget deficit increases by 1.2 percentage points in an election.

The collective implication from this literature is that the opportunities for political participation and accountability that accompany democracy can force governments to invest in economic fundamentals. However, economic policies may also favor those constituencies that are most powerful, either in numerical or material terms. This may result in policies that are not necessarily conducive to long-term growth or to achieving strategic development objectives.

3.2.2 Developmental States

The fact that democracies can become hostage to interest group pressures, and thereby distract from long-term strategic planning, has long bolstered the arguments of "developmental state" scholars. Historically, the term "developmental state" referred to those states, including Japan, Taiwan, South Korea, Singapore, and Hong Kong that engineered a transition from agrarian economies or island trading centers to industrial economies through industrial policy (see Evans 1995; Johnson 1982). Johnson's (1982) main insight from the study of the Japanese miracle was that economic development is plagued by market failures and depends on the government's ability to facilitate coordination of the private sector, offer selective and conditional support to particular firms through subsidies, and intervene in markets when necessary.

Solving these coordination problems required a specific set of political and institutional characteristics. Politically, these transformations occurred under authoritarian regimes that avoided capture by societal demands. Although these governments invested in education, their repression of labor allowed for export-oriented growth based on low wages and flexibility in hiring and firing (Deyo 1989; Haggard 1990). Institutionally, these developmental states were characterized by technocratic policymaking, the concentration of decision-making authority in just a few ministries or pilot agencies, and key reforms to bureaucratic routines and norms (see Amsden 1989; Chang 1994; Haggard 1990; Cheng et al. 1998; Wade 1990). Recruitment and compensation based on merit and career mobility were other key factors that precluded rent-seeking that might otherwise undermine commitment to long-term development strategies.

More recent studies have looked at the developmental state argument in other contexts, demonstrating that it may not have a natural affinity for a particular regime type. For example, Mauritius is frequently portrayed as a democratic developmental state (see Bräutigam 1997; Sandbrook 2005). Rodrik (2008) also discusses notable cases of state-led industrial policy in democracies, including South Africa and Uruguay. Botswana represents a more muted example whereby a capable state led by a cattle-elite was committed to development (Acemoglu et al. 2003). But repeated attempts to diversify the economy, even through multiple industrial policy plans, has failed to generate significant structural change since the 1990s (see McCaig et al. 2015). Notably, Mauritius' major period of transformation occurred during the thirty-four-year rule of same political party while both Botswana and South Africa's democratic periods have been one-party dominant.[2]

There are, however, critiques of the developmental state approach. Some have noted that there has been an overemphasis on successful cases of industrial policy (see Geddes 2003; Robinson 2009). The failed cases of ISI industrial policy in much of Latin America are an important caveat whereby governments did selectively intervene to favor an inward, rather than export-oriented, strategy. In other words, even states that have all the institutional prerequisites to oversee a long-term strategy may still choose policies that generate neither growth nor transformation. Secondly, developmental states cannot be shaped overnight to respond to development strategy imperatives but rather the product of long-term historical processes, including colonial lineages (Kohli 2004). A third critique, elaborated on more below, is that a technocratic Weberian state may be necessary but insufficient for transformation and that more attention is needed on the nature of the relationships between states and business.

3.2.3 State Business Coalitions

Relationships between the bureaucracy and the private sector need to be honed over time, generating credible commitments and trust, facilitating the flow of information and learning, and adapting to changing economic circumstances (e.g., Leftwich 2010; Maxfield and Schneider 1997). Consequently, some have claimed that complex and close networks between the public and private sector are the linchpin for economic transformation. In the context of explaining the East Asian miracle, Evans (1995: 59) coined the concept of

[2] From independence in 1968 until 1982, the Mauritian Labor Party was dominant in parliament and its leader, Sir Seewoosagur Ramgoolam, remained prime minister for those thirty-four years.

"embedded autonomy," referring to the bureaucracy's ability to be embedded in society through "a concrete set of connections that link the state intimately and aggressively to particular social groups with whom the state shares a joint project of transformation."

Deliberation councils, which are consultative fora of business and government that discuss policy options and make recommendations to executive agencies, were one way of facilitating this relationship in Asia (see Campos and Root 1996). In assessing different "varieties of capitalism," Hall and Soskice (2001) observe a similar modality in the coordinated market economies of northern Europe whereby government, business, and labor frequently engage in a corporatist arrangement. Such corporatism has been based in turn on peak business associations having the ability to enforce commitments among their members to effect cooperation that helps address coordination failures (Katzenstein 1985). Schneider (2013) elaborates on the elements for the success in such councils, including smaller numbers of participants balanced across relevant stakeholders, frequent meetings that raise expectations of repeated interaction, high-level representation from the government, and clear mandates. Rodrik (2008) also concurs that the implementation of industrial policies requires governments to engage in "embeddedness" through not only deliberation councils but also public-private dialogue, or sectoral roundtables. Bräutigam et al. (2002) suggest that state–business relationships transform into growth coalitions when three criteria are met: equal capacity between the state and private sector, broad representation of business associations, and allocation of non-public benefits, such as export quotas, to selective members of the private sector.

The political context is not insignificant in shaping dynamics with the private sector. While authoritarian contexts can be much more predictable for the private sector than volatile democratic transitions, business groups can quickly resettle and adapt to a new status quo in consolidated democracies (see Schneider 2010). Schneider (2013) though, cautions that governments should not be hijacked by business interests. He makes the distinction between passive and active industrial policies, with the former referring to lowering business costs by removing red tape and the latter referring to public subsidies aimed at altering firms' incentives to export or focus on research and development. To ensure that activist policies aimed at transformation benefit society rather than just government or business alone, Rodrik (2008) emphasizes the need for not only incentives but also "sticks" through conditionalities and sunset clauses as well as accountability mechanisms for performance.

In the African context, the nature of the business–state relationship often has wavered between crony capitalism, whereby the private sector is co-opted by ruling parties, and marginalization through active repression or passive disengagement with the business community. These patterns are particularly relevant to the African *domestic* private sector rather than to multi-national corporations, which may have more flexibility in their choice of government partners. According to Taylor, the nature of these relationships often depends how diversified the economy is, the relative contribution business makes to the economy, and the institutional strength of business vis-à-vis that of the state (Taylor 2007). For instance, Handley (2008) notes that Mauritius' export-led growth orientation was facilitated by a strong degree of organization among business associations clustered around sugar, export-processing zones (EPZs), and tourism. This facilitated a corporatist mode of policymaking that included government, business, and labor. Rodrik (2007) likewise documents how South Africa's Department of Trade and Industry worked with private sector associations to develop Customized Sector Programs to formulate policies for individual sectors and help expand into non-traditional areas.

3.2.4 Neo-patrimonial Developmental State

If strong states and a strong business sector are critical for transformation, then is there any option for countries that lack these ingredients? Those who believe that there is a neo-patrimonial developmental state model claim that there is room to be optimistic. In this model, states may be weak and characterized by clientelist practices but guided by a strong and visionary leader who prefers long-term, pro-capitalist policies and creates pockets of technocratic efficiency to achieve them. Rents, or excessive profits typically from monopoly trading or corruption (see Khan 2000), are managed centrally and directed to productive purposes. This view builds on Olson's (1993) distinction between roving and stationary bandits, whereby the latter refer to leaders who recognize that rents can be maximized in the long term if the economy is allowed to grow.

This stream of scholarship has been strongly influenced by a set of African cases.[3] Booth and Golooba-Mutebi (2014) point to the Rwanda case under Paul Kagame and the Rwandan Patriotic Front (RPF). The RPF's war reserves

[3] Much of the argument about neopatrimonial developmental states has emerged from the African Power and Politics Program at the Overseas Development Institute.

were initially used in 1994 to rehabilitate state finances and institutionalized into the party's investment arm, currently known as Crystal Ventures, which invests in agro-processing, mobile phones, construction, road-building, and furniture. The company plays a significant role in campaign contributions during elections to prop up the RPF. Despite this obvious conflation of party and business interests, Kagame has remained committed to using Crystal Ventures and other public resources to achieve economic and social development via Rwanda Vision 2020 rather than padding the wallets of politicians. A similar dynamic has been observed in the Ethiopian context under the late Meles Zenawi and the EPRDF (see Berhanu and Poulton 2014). Other examples include Malawi under Hastings Banda's early tenure (1964–79) and Bingu wa Mutharika, as well as Côte d'Ivoire under the early years of Houphouët-Boigny (see Cammack et al. 2010; Kelsall 2011). The notable element under all these cases were that political leaders provided the leadership to guide specifically pro-rural development strategies.

The notable caveat of the developmental patrimonialism school of thought is that it is highly dependent on a particular leader or a well-organized dominant party. The contributors to this scholarship have not explained whether the visionary and long-term leadership that maintains this precarious balance between predation and development can be institutionalized when (and if) the leader or party is ousted.

3.3 Ghana's Initial Investment in Economic Fundamentals

How do these various schools of thought relate to Ghana's development trajectory? In many ways, Ghana's positive and sustained growth since the Structural Adjustment period starting in the 1980s validates the alternating importance of strong leadership to enforce commitment to economic fundamentals as well as the role of democracy in generating political incentives to invest in broad-based infrastructure and other public goods. Historically, however, neither of those features were prominent.

Shortly after Independence in 1957, Ghana descended into a repeated cycle of civilian government, military coups, and dictatorship for three decades (see Table 3.1). The political instability resulted in macroeconomic chaos as each successive regime reversed their predecessors' policies and attempted to chart a new economic course. For instance, Kwame Nkrumah's attempts at Big Push modernization relied on an import-substitution industrialization approach that resulted in overvaluing the exchange rate, lacked planning, and involved

Table 3.1. Timeline of political regimes and governments since Ghana's Independence

Government	Political regime	Ruling party	Leader
1957–64	Civilian democracy	Convention People's Party	Kwame Nkrumah
1964–6	One-party state	Convention People's Party	Kwame Nkrumah
1966–9	"Caretaker" military regime	National Liberation Council	Joseph Ankrah (1966–9); Akwasi Afrifa (1969)
1969–72	Civilian democracy	Progress Party	Kofi Busia
1972–9	Military regime	National Redemption Council	Ignatious Acheampong
1979–81	Civilian democracy	Convention People's Party	Hilla Limann
1981–3	Military regime	Provisional National Defense Council	Jerry Rawlings
1983–92	One-party state	Provisional National Defense Council	Jerry Rawlings
1992–2000	Civilian democracy	National Democratic Congress	Jerry Rawlings
2000–8	Civilian democracy	New Patriotic Party	John Kufuor
2008–16	Civilian democracy	National Democratic Congress	John Atta Mills (2008–11); John Mahama (2011–16)
2016–present	Civilian democracy	New Patriotic Party	Nana Akufo-Addo

negligible engagement from the private sector. Under Busia's tenure, there were disproportionate investments in Asante-dominated regions of Ashanti and Brong-Ahafo and the expulsion of migrant cocoa workers on sharecropping contracts under the Alien Compliance Orders Act, which severely undermined cocoa production. Under Colonel Acheampong, more than 20 million cedis were allocated to Operation Feed Yourself to increase production of rice, maize, and other goods for domestic consumption. Bad rains coupled with the overvalued exchange rate and a collapse in the cocoa sector mean that by 1975, food actually had to be imported, but there was a lack of foreign exchange to do so.

The turning point, both politically and economically, emerged in 1983, two years after Flight Lieutenant Jerry Rawlings took over in a coup and established the Provisional National Defense Council (PNDC). A severe drought and the expulsion of more than one million Ghanaians from Nigeria prompted Rawlings to agree to an Economic Recovery Program (ERP) with the IMF that year. Between 1983 and 1992, Ghana's structural adjustment experience was actually characterized by six IMF programs.[4] The first

[4] These included three standby agreements (1984, 1985, 1986), an Extended Fund Facility combined with a Structural Adjustment Facility (SAF) (1987) an enhanced SAF (1988–91), and a Fund Monitored Program from 1992 (see Martin 1993).

program, the ERPI, was signed in 1983 and implemented in 1984–7 under standby agreements. The ERPI focused on "getting the prices right" through stabilization policies aimed at halting the decline in Ghana's industrial production and commodity exports. The emphasis of the IMF was on restoring external balances by rehabilitating exports via devaluation through a foreign exchange auction and creating a private foreign exchange bureau (Kraus 1991). Other key aspects of policy conditionality involved increasing the producer price of cocoa by lowering the export tax, reducing the marketing costs of Cocobod, removing subsidies and price controls, restricting pay increases for public sector employees, liberalizing trade, divesting from state-owned enterprises, and introducing cost recovery in health and education sectors through user fees (e.g., Bawumia 1998; Rimmer 1992). About thirty-two state-owned enterprises were put up for sale and the government claimed it would accept bids on any of the 185 SOEs, except for eighteen that were considered "strategic" (Rothchild 1991).[5]

The second phase of the Economic Recovery Plan, ERPII, launched in 1987–91, aimed to deepen these policies and further stimulate economic development (Nugent 1995). To do so, the government received net aid disbursements ranging from $370 million in 1984 to $488 million by 1990, which were targeted at, among other things, rehabilitating the cocoa, mining, and timber industries (Kraus 1991; Nugent 1995). By 1990, the Ghana Stock Exchange opened in order to mobilize greater domestic resources for capital investment and to attract foreign direct investment, a new investment code was established, and more restrictive decrees were repealed (Aryeetey and Harrigan 2000).[6]

With respect to agriculture, the World Bank and other donors supported the Agricultural Services Rehabilitation Project under ERPI and helped establish the Policy Planning, Monitoring and Evaluation Directorate in the Ministry of Agriculture to improve the ministry's capacity to design and implement agricultural projects. Through the Public Investment Program launched in 1984, an emphasis was placed on improving roads, highways, water, and electricity, with a particular concentration on export-producing rural regions (see Bawumia 1998). As part of the ERPII, the minimum guaranteed price for maize and rice was increased and the supply of agricultural inputs temporarily improved, even as subsidies for fertilizers and machinery gradually were

[5] Nugent (1995) notes however that while about forty companies had been removed from the public domain by mid-1991, only seventeen of those had actually been sold to private investors.

[6] For instance, the 1971 Manufacturing Industries Act, the 1974 Price Control Decree, and the 1976 Control of Sale of Specific Goods Decree were all removed.

reduced. The cocoa sector Rehabilitation Project aimed to improve efficiency in marketing and production in the sector and an Agricultural Policy Coordinating Committee was established to help bring together all the various institutions dealing with agricultural policy (see Nyanteng and Seini 2000).

While many other African governments also pursued such programs at the time, Rawlings' government actually remained committed to the program and avoided the half-hearted implementation that exacerbated economic conditions in countries such as Malawi, Senegal, and Zambia (see Devarajan et al. 2001; Martin 1993). Indeed, as Herbst (1993: 30–1) observed, other African governments that faced economic crisis simply "limped by" while Ghana underwent a major economic overhaul. Rawlings' ability to stay committed to economic reform relied on a careful balancing act between technocratic implementation and authoritarian practices.

This approach manifested in a number of ways. First, interest group demands did not hijack the government's reform agenda. A number of scholars observed that the state's autonomy from interest group pressures were a key feature of this era (see Jeffries 1992; MacLean 2010; Rothchild 1991). For instance, anti-austerity opponents within the PNDC were expelled by Rawlings (Martin 1993). In addition, while the ERPs' short-term impacts made livelihoods more difficult for all strata of society, it is widely believed that they were more beneficial to the rural sector than to urbanites (see Callaghy 1990; Herbst 1993; Mikell 1989). Agricultural producers concentrated in export crop production, especially cocoa, benefited from the currency devaluation and improved producer prices. In 1984, the party published a *Rural Manifesto* that emphasized the importance of accelerating rural development in the country (Gyimah and Jeffries 2000). In 1986, the PNDC also tried to promote the registration of agricultural titles in order to secure tenants' land rights (Boone 2014).

By contrast, urbanites, who had actually been Rawlings' main supporters in 1981, suffered from the rising cost of imports, lower wages, retrenchments, and the introduction of user service fees. By 1989, the PNDC had retrenched approximately 53,000 civil servants (Rothchild 1991). Some urban discontent manifested in clashes on university campuses and protests by the Trade Union Congress (TUC) and urban workers. However, government repression of the labor unions deterred large-scale urban protests (see Herbst 1993). In addition, those who were hurt most by the reforms had become relatively disorganized and leaderless, lacking clear lobbying channels as a consequence of so much policy and political instability in the preceding decades (Martin 1993).

As Callaghy (1990: 277) notes, "A key characteristic of the Rawlings regime was its relatively narrow organizational base... Insulation from important sociopolitical veto groups, themselves weakened by the shredding of the previous fifteen years, allowed the PNDC to do more than other more constrained regimes."

Secondly, Ghana benefited from a relatively well-trained and capable technocratic team, led by the minister of finance and university professor, Dr. Kwesi Botchwey, Dr. Joseph Abbey, and the head of cabinet, P. V. Obeng. Unlike Nkrumah, Rawlings did not meddle in the economic policymaking of his technocratic team. Critically, much of this economic team remained intact throughout the structural adjustment period, allowing for policy continuity, credibility with the donors, and implementation experience (e.g., Jeffries 1992; Kraus 1991). A majority of the policy making structure was concentrated around this core economic team and a few pragmatic military leaders, compared with a much more complex policymaking structure at the time of countries such as Zambia (see Martin 1993). Thirdly, the PNDC could capitalize on being a rather new government that needed to rectify the abuses and mismanagement of previous regimes. Ruling governments in countries such as Tanzania and Zambia, which essentially had been under one-party rule for decades, could not as easily defer blame (Martin 1993).

During this period, Ghana witnessed a growth in foreign direct investment (FDI) that was facilitated by the promulgation of an Investment Code in 1985 and restructuring of the Ashanti Goldfields Company, which opened up opportunities for joint ventures with foreign investors in the mining sector (Tsikata 1995). FDI increased from only $2 million in 1984 to $22.5 million a decade later (Tsikata et al. 2000). Gold production increased fivefold in the decade after 1984, leading it to supersede cocoa in exports (Nugent 2004). Inflation declined from 123 percent in 1983 to 10 percent a decade later, while average GDP per capita growth reversed from hovering around negative 3.5 percent between 1973 and 1983, to 2.2 in the ten years after the ERP began (WDI 2016). At the same time, as seen in Figure 3.1, the level of taxation of agriculture decreased substantially during the latter half of Rawlings' tenure. Despite receiving large shares of foreign aid, including to agriculture, during this period, Wiggins and Leturque (2011: 17) strongly credit economic reform for this revival: "Funding to agriculture (narrowly defined), however, may not be quite the point: much of what benefited the farmers, and cocoa growers in particular, came from economic reform, macroeconomic stability and public investments in highways—rather than from programs implemented by the Ministry of Food and Agriculture."

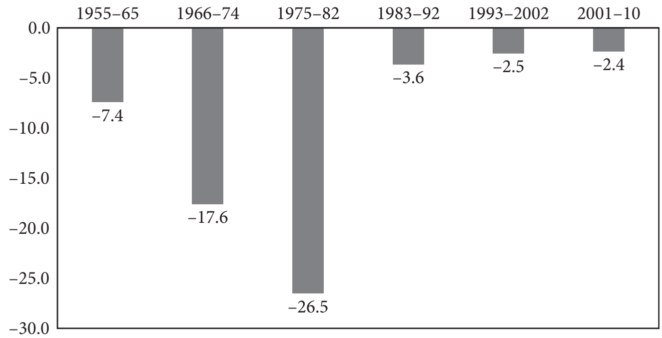

Figure 3.1. Average nominal rates of assistance for all agriculture in Ghana (%)
Notes: These rates indicate net taxation levels and obscure differences in protection and taxation across imports and exports and among products.
Source: Anderson, Kym, and Signe Nelgen (2013).

By investing in the economic fundamentals that benefited a large portion of the rural population, Rawlings felt comfortable enough to allow multi-party elections in 1992. As LeVan (2015: 190–1) notes, the ultimate success of this structural adjustment period was the ability to hold elections and debate policy outcomes. By the time of the democratic transition in 1992, policy change no longer required regime change. Notably, in the elections that year, the PNDC transformed into the National Democratic Congress (NDC) and Rawlings was the party's candidate. He won 58.3 percent of the vote compared with 30.4 percent for the main opposition candidate, Professor Adju Boahen of the New Patriotic Party. One distinct pattern to the election outcomes was that Rawlings' share of votes was higher in all rural constituencies than urban ones in almost every region, emphasizing that he had established a rural support base as a consequence of the orientation of many of the structural adjustment policies (see Bawumia 1998; Gyimah-Boadi and Jeffries 2000).[7]

3.4 Democracy's Double-edged Sword

Much like Rawlings' acquiescence to the ERP in 1983, Ghana's transition to democracy in the early 1990s represented a critical juncture in the country's political economy that shifted incentive structures and interest group dynamics. On the one hand, the need to attract votes every four years in a highly

[7] He had also obtained an overwhelming majority in the Volta region, reflecting support from his own regional stronghold and Ewe constituents.

competitive two-party system has had positive impacts on the welfare of citizens through the provision of public goods.[8] On the other hand, catering to a broad array of pluralist pressures has had some negative implications for government coffers and indirectly hurt the domestic private sector.

As much of the democratization literature discussed earlier has posited, Ghana observers find that political parties and elites now provide public goods, such as rural roads, that benefit large constituencies rather than narrowly targeted private goods (e.g., Gyimah-Boadi and Prempeh 2012; Harding 2015; Weghorst and Lindberg 2009). A key reason for this is that elections between the NDC and NPP are always incredibly close, especially in key regions of the country, and therefore winning votes requires courting a broad range of voters. Williams (2009: 144) argues that political motivations also explain why the government has continued to support producer prices for cocoa under the Fourth Republic: "Given the large share of Ghanaians involved in the cocoa industry, cocoa interests have noticeable political weight in democratic politics. The producer price is frequently an issue of discussion of Ghana's main political parties. Thus, Ghana's democracy has helped to protect the producer price increases over time."

In addition, Ghana has demonstrated impressive progress towards meeting key development objectives since transitioning to democracy. These may partially be attributed to its formal commitment to the Millennium Development Goals (MDGs) in 2001, which were subsequently integrated into the Ghana Poverty Reduction Strategy (2003–5) and the Growth and Poverty Reduction Strategy (2006–9). In turn, Ghana benefited from financial assistance through HIPC, Multilateral Debt Relief Initiative, MDBS, as well as initiatives such as the United States Millennium Challenge Account (UNDP 2015). Figure 3.2 illustrates that commitment to the MDGs corresponded with greater expenditures in the education and health sectors, as a share of GDP, from 2000 onwards. By contrast, infrastructure investment in communications and transportation and as well as agricultural expenditures were much more modest (see also Chapter 5).

The MDGs were an important policy driver in many countries regardless of political regime type. But, Ghana has been a top performer in Africa with regards to its progress towards achieving the MDG targets, particularly with respect to the poverty and social welfare targets. For instance, literacy rose from 58 to 71 percent of the population between 1999 and 2014 while net

[8] In the 2000, 2008, and 2012 elections, the margins of victory in the presidential elections for the first (or only) round were 4, 2, and 3 percentage points, respectively.

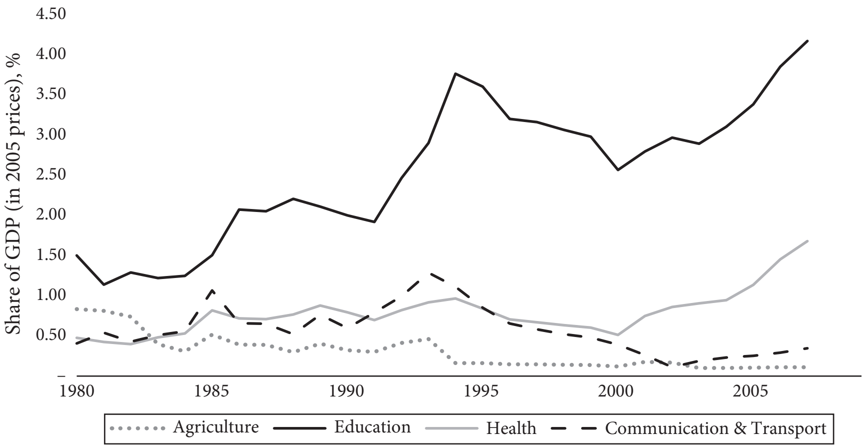

Figure 3.2. Shifts in sectoral public expenditures, 1980–2007

Source: Calculated from Statistics for Public Expenditure for Economic Development (SPEED) database, available at: http://dx.doi.org/10.7910/DVN/INZ3QK.

female enrollment in primary school increased from 60 to 89 percent during the same period. The equivalent increase for secondary school was 32 to 54. The share of the population now having access to an improved water sources is particularly notable, increasing from 56 percent in 1992 to 87 percent by 2015.[9]

Beyond the impetus of the MDGs, successive democratic regimes in Ghana invested in a number of broad-based social welfare schemes. Notable among these includes the National Health Insurance Scheme, which was established in 2003 and represents one of Africa's few attempts to implement a universal healthcare program (Blanchet et al. 2012). In 2005, the government also abolished primary school fees and provided schools with a small grant (capitation grant) for each pupil enrolled. Another example includes the Livelihood Empowerment Against Poverty Program (LEAP), which was launched in 2008 and now expanded to all ten regions of the country with more than 70,000 beneficiaries. LEAP is a cash transfer program that provides beneficiaries with direct cash payments and free health insurance (Handa et al. 2013). While all three programs began under the NPP, they were scaled up under the NDC tenure of Presidents Mills and Mahama, indicating a broad consensus across parties about their importance.

[9] Data is from the World Bank's World Development Indicators.

However, these and other programs clearly can be manipulated for political gain, especially for the incumbent party. For instance, Rawlings and the NDC publicly rejected becoming a HIPC country in 1999. When the NPP came to power, it reversed this policy and agreed to join HIPC. Subsequently, the construction of schools and public toilets were clearly labeled "HIPC Benefits" as a visual reminder to voters that these public goods were the consequence of the NPP's actions (see Abdulai and Hulme 2014). Likewise, Ghana abolished primary school fees in 2004 (World Bank 2009), which Stasavage (2005) has attributed to an effort to win over rural voters.

At the same time, democracy has enabled a broader range of interest groups to permeate policymaking decisions compared with the PNDC. While the use of repression significantly weakened protest activity during the one-party regime of Rawlings' PNDC, the transition to a multi-party democracy created the space for popular resistance, and elections every four years generated an incentive for politicians to respond. Thus, when the government attempted to introduce a 17 percent value-added tax (VAT) in 1995, industrial workers and civil servants launched the *Kume Preko* ("You Might as Well Kill Me") demonstrations in Accra and Kumasi. A component of its economic reform program with the IMF, the VAT was intended to replace sales tax and provide the government with a much more reliable and equitable revenue source. But a coalition of interest groups, led by Nana Akufo-Addo of the opposition NPP, forced the government to reverse the policy (Osei 2000).[10] A similar set of policy reversals was witnessed with respect to increasing petrol and electricity prices in the wake of popular protests in urban areas (Hutchful 2002).

Catering to particularly urban interest groups was also reflected in the "political budget cycle." As noted earlier, the political business cycle refers to the expansion of spending in the run-up to an election in order for an incumbent party to improve its chances at re-election, only to reduce spending after the election period has ended (see Rogoff 1990). Ghana has actively followed this cycle since democratization, with observers claiming that the 1992, 1996, and 2008 elections were especially destabilizing (see Mosley and Chiripanhura 2016; Prempeh and Kroon 2012) and that the four increases in the wage bill have been suspiciously timed to take effect around elections (STAR-Ghana 2011).[11]

[10] The government was though then able to successfully implement the VAT in 1998 and this has since provided a significant share of revenue (see Williams 2009, footnote 20).

[11] The introduction of the Single Spine Salary Structure in 2010 was actually intended to stop the tendency of labor strikes among different unions to mobilize for higher pay increases in response to the demands of other unions (see STAR-Ghana 2011).

More specifically, in 1991, Ghana had a surplus of 1.5 percent of GDP but by 1992, the year of the elections, it then had a fiscal deficit of 5 percent of GDP (Block 2002). As the 1996 elections approached, additional fiscal "slippages" were apparent as the NDC increased capital spending in rural areas on roads and hospitals to maintain the support it gained from the previous elections while responding with salary increases after a set of successive strikes by doctors, nurses, workers of the Cocoa Board, railway employees, and civil servants (see Leite et al. 2000). In fact, Kwesi Botchwey, the technocratic finance minister who helped oversee Ghana's structural adjustment, resigned from cabinet as a result of disagreeing with Rawlings over the use of public finances to win the 1996 elections (*Africa Confidential* 2016). The overall fiscal deficit amounted to 9.5 percent of GDP that year, and the IMF and World Bank temporarily halted their aid disbursements (Tsikata 2001).[12] A World Bank's (2011) public expenditure review also emphasized that fiscal deficits as a share of GDP were found to be significantly higher during election years.

By around 2000, the gains from the ERPs had been eroded and the government began negotiations for debt forgiveness under the Heavily Indebted Poor Countries Initiative (HIPC). But, the political budget cycle fueled by Ghana's intensely close democratic competitions did not cease with the NDC and continued under the NPP. During its 2000–8 tenure, the NPP also backtracked on removing subsidies from public utilities and petroleum products, as well as reducing the public sector wage bill (Gyimah-Boadi 2009). As the 2008 elections drew near, the government provided higher wages and salaries to civil servants, increased energy sector subsidies, and invested in a set of highly visible prestige projects (see Whitfield 2010). After the 2012 elections, the government announced a deficit of 12 percent of GDP, exceeding its original projection of 6 percent (Oduro et al. 2014). These deficits have contributed to high interest rates ranging around 16 to 19 percent between 2009 onwards that make credit costly and deter domestic private sector investment (see Quartey and Afful-Mensah 2014).[13]

By the end of 2016, Ghana's debt stock was 74 percent of GDP and the fiscal deficit estimated at 9 percent of GDP (IMF 2017). Poor macroeconomic management, coupled with frequent electricity outages, are both credited with the defeat of the NDC in the December 2016 elections. Nana Akufo-Addo of the NPP was elected president with some of the largest vote margins

[12] They resumed disbursements, even though Ghana was still off track with its macroeconomic indicators, due to pressure from three bilaterals: the United Kingdom, Canada, and Japan (see Tsikata 2001).

[13] Quartey and Afful-Mensah (2014) find that the spread between lending and savings rates averaged at least 20 percent between 1997 and 2012, which discouraged both savings and investment.

in the country's history of democratic elections. While President Akufo-Addo acknowledged the dire situation of the economy in his First State of the Nation address, he also promised large-scale programs that would put additional pressure on the already limited fiscal space. These included offering free secondary school education to all Ghanaians, creating four new regions out of the current ten, building a new factory in every one of the country's 254 districts under the "One District, One Factory" policy, and a campaign entitled "Planting for Food and Jobs" that intended to expand agricultural extension serves and increase the availability and accessibility of improved seed and fertilizer (Akufo-Addo 2017).

3.5 Ghana's Lame Leviathan: Limitations to Public Sector Reform

In addition to regime dynamics, relatively weak state capacity, measured by public sector management and civil service, is a second political economy factor that has undermined Ghana's structural transformation.[14] As Booth et al. (2005) observe, "Everyone seems to agree that the public service, particularly the civil service, has reached a very low ebb. Incentive structures within the civil service actively discourage initiative and pro-activity. For individuals, the way to move up the system is to avoid mistakes, maintain a low profile and let seniority work its magic." Likewise, Whitfield (2010: 735) observes that "the result today is a public administration system that does not work and which severely reduces the ability of the government to implement reforms and programs." The complete decimation of the quality civil service during the politically volatile decades preceding Rawlings' tenure, combined with the overwhelming influence and dependence on the donors and their parallel institutional structures in the two subsequent decades, are key reasons for these outcomes (see Whitfield and Jones 2009).

This state of affairs is even more disappointing given how much effort has been invested into public sector reform. The weakness of the public sector was identified as one of the bottlenecks to better implementation of Ghana's stabilization policies in the 1980s. In fact, in 1987, the World Bank provided a $100 million credit for a Structural Adjustment Institutional Support Project (SAIS) in order to reform public sector management through improving the management and policy capacities of key ministries. The project resulted in

[14] The term "lame leviathan" was coined by Callaghy (1987).

the retrenchment of approximately 50,000 civil servants (IMF 1999). When the project end in 1993, auditors concluded that SAIS had had little impact on economic policy planning and the government had resisted change (see Hutchful 2002). Around the same time, a Civil Service Reform Program was implemented with the aim of re-examining the salary structure while also improving motivation and performance. By 1997, Ghana had one of the highest ratios of civil servants to population, with 84,000 in central government and 123,000 in local government (IMF 1999).

A series of other programs then followed, facilitated by a Ministry of Public Sector Reform that was established in 2005 to coordinate all of these reform efforts. These included the Civil Service Performance Improvement Program (CSPIP), which ran from 1995 until 2006 and involved senior bureaucrats within ministries, departments, and agencies signing performance contracts with the president (Larbi 1999). This too failed to transform the public sector's organizational culture, with insufficient incentives, lack of political will, and high levels of institutional fragmentation representing some of the main hindrances (Ohemeng 2011).

Around the same time in the mid-1990s, the Public Services Commission began reviewing the salary structure to assess and address wage disparities. In 1997, the government also aimed to improve budgetary planning and implementation through the Public Financial Management Reform Program (PUFMARP). In the same year, it also attempted to implement a ten-year strategy entitled the Public Sector Reinvention and Modernization Strategy (PUSERMOS) that intended to, among other objectives, reduce the civil service to just 2,500 staff by reallocating most staff either to the Metropolitan, Municipal, and District Assemblies (MMDAs) or to subvented agencies, such as universities, health services, and the highways authority (IMF 1999). An Economic Management Capacity Building Project—Public Sector Reform Program from 2005 to 2011 funded by the World Bank and DfID was also rated "unsatisfactory" by its conclusion (World Bank 2010). Public sector reform was again on the agenda in 2010 with a proposed Presidential Delivery Unit Model (see World Bank 2010) as well as in 2014 as Ghana began negotiating with the IMF to secure financial assistance (Bigg and Kpodo 2014).

A number of indicators confirm that Ghana's state capacity, measured by public sector performance and management, remains sub-standard. For instance, Figure 3.3 focuses on some of the governance variables underlying the Ibrahim Index of African Governance (IIAG). Although there are many governance datasets, the advantage of the IIAG is that it builds on more than thirty independent African and global databases, including from the World

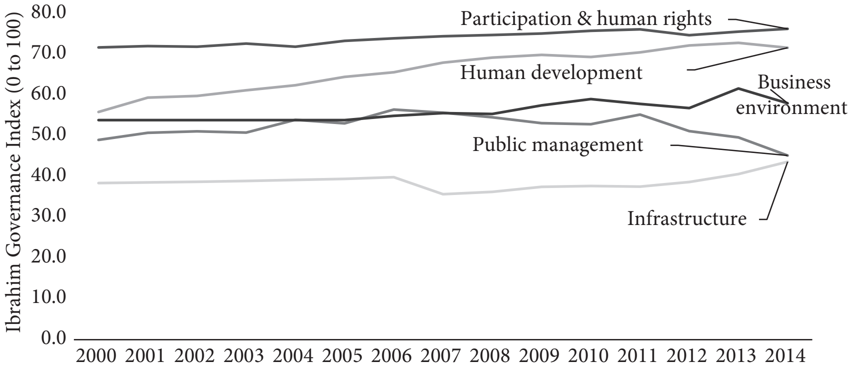

Figure 3.3. Trends in Ghana's governance profile, 2000–14

Source: Mo Ibrahim Foundation, Ibrahim Index of African Governance (IIAG). Available at: http://mo.ibrahim.foundation/iiag/downloads/.

Bank and the African Development Bank. Using a scale ranging from 0 to 100, with higher scores indicating better performance, Ghana's does well with respect to participation and human rights, confirming the country's democratic strengths. Moreover, as already noted, there have been clear improvements in education, health, and social protection throughout the 2000s, which accounts for the positive "human development" performance. While the business environment and infrastructure are lower, the most striking trend is with regards to "public management," which is the only indicator that has actually declined over the last fourteen years.[15]

Table 3.2 below also indicates that Ghana performs worse on this indicator than a number of other Africa countries. The Table includes a mixture of well-recognized high-capacity African countries (e.g., Botswana, Rwanda, and South Africa), countries that underwent democratic transitions in the early 1990s (e.g., Benin, Senegal), countries that underwent SAPs at the same time as Ghana (e.g., Malawi, Tanzania, Uganda, Zambia), and other West African economies (e.g., Côte d'Ivoire, Nigeria). As of 2014, Ghana was the worst ranked for this indicator among this sample. Moreover, Ghana was only one of

[15] "Public management" includes statistical capacity, budget management, ratios of revenues to expenditures, fiscal policy, external debt service to exports, revenue collection, access to financial records of state companies, and quality of public administration according to the extent to which civilian government is structured to design and implement government policy effectively. When the latter category is disaggregated even more, this captures policy coordination and responsiveness, service delivery and operational efficiency, merit and ethics, pay adequacy, and management of the wage bill (see the metadata explanations found at the Mo Ibrahim Foundation IIAG website: http://mo.ibrahim.foundation/iiag/).

Table 3.2. Comparisons of public management across selected African countries (Ibrahim Index of African Governance, ranging from 0–100)

Country	IIAG Index		
	2000	2014	Change
Benin	53.5	55.9	2.4
Botswana	66.5	67.6	1.1
Côte d'Ivoire	37.6	47.0	9.4
Ghana	**48.9**	**45.1**	**–3.8**
Kenya	51.9	56.5	4.6
Malawi	39.6	47.9	8.3
Mozambique	42.3	56.6	14.4
Nigeria	42.8	51.8	9.0
Rwanda	45.2	60.7	15.5
Senegal	56.8	58.7	1.9
South Africa	74.7	71.6	–3.1
Tanzania	53.5	55.3	1.8
Uganda	45.7	49.2	3.5
Zambia	38.1	51.3	13.2

Source: Mo Ibrahim Foundation, Ibrahim Index of African Governance (IIAG). Available at: http://mo.ibrahim.foundation/iiag/downloads/.

two countries to have experienced a decline in its public sector management between 2000 and 2014.[16]

This is particularly notable given that Ghana's civil service is relatively large compared with other African countries. For instance, based on the 2000 census, the number of public employees in administration, defense, education, and health as a share of the population was 2.1 percent while the equivalent average for the African region was 1 percent (see also WB 2011). A decade later, the number of people working in the formal public sector had doubled from 388,020 to 639,260 people, equivalent to approximately 1 public servant for every 40.6 people.[17] According to a World Bank public expenditure review, a large share of expenditures in the social sectors, including up to 80 percent in the education sector, was actually allocated to personal emoluments and administration (WB 2011).

Why is this important? One key reason is that stronger public sector management can provide a bulwark against corruption and misuse of public

[16] Ghana has performed relatively well in raising taxes as a share of GDP. However, the main tax agencies, including the National Revenue Secretariat, the Customs, Excise, and Preventive Services (CEPS), and the Internal Revenue Service have recruitment, training, and promotion policies that are separate from those used in the main civil service (see Terkper 1995).

[17] This was calculated from the 2010 Census population, which was 24,658,823.

resources that could be better invested in stimulating productive economic activities, including infrastructure. A second reason is that it is reflective of the degree of policy coordination within the civil service, which can help determine whether there are large gaps between policy formulation and implementation. In addition to these oversight and coordination roles, the developmental state literature discussed earlier emphasized the importance of a more capable bureaucracy for proactively selecting sectors and industries to prioritize in order to generate economic transformation.

3.6 Weak State–Business Relationships

A third governance hindrance to structural transformation in Ghana is the persistent inability of the government to engage with the private sector in a manner that in other contexts has facilitated the identification of sectoral priorities and helped overcome bottlenecks to performance (see, e.g., Maxfield and Schneider 1997; Rodrik 2008). Under Rawlings' PNDC regime, the government ignored the private sector and during the first decade of democracy, he actively politicized it through the selective distribution of SOEs. While the NPP rhetorically committed to a more interactive relationship with business, signified by President Kufuor's call for a Golden Age of Business, observers suggest that this ultimately resulted in more superficial overtures than substantive outcomes.

More specifically, during the PNDC's regime from 1983 to 1992, businessmen in sectors as diverse as textiles, timber, tobacco, and pharmaceuticals actively were harassed and targeted for arrest or property confiscation since any sign of capital accumulation suggested potential violation of state regulation of the economy (Kraus 2002). In fact, many businessmen had been charged with economic sabotage before the National Public Tribunal, which is outside the normal judicial system (Tangri 1999). As Opoku (2010: 86) notes, "One reason for the lack of consultation between government and business between 1983 and 1991 was Rawlings' self-proclaimed role as the defender of the 'common man'; his need to periodically reaffirm his commitment to the poor gave rise to continuing denunciations of business." In fact, Rawlings even refused to meet publicly with private sector representatives until 1988, five years after the ERP had been signed (Handley 2007). The government provided little support to businesses that had to repay loans to foreign banks even as the ERP was causing the currency to devalue. In addition, the stabilization policies involved tight credit and high interest rates, which resulted in denying capital to the indigenous private sector despite the protests of Ghanaian business associations (Kraus 2002). Trade liberalization exacerbated the weakness of the private sector, contributing to the collapse of 1,200 local industries between 1983 and 1992 and an additional 400 each year between 1995 and 1999 (Nugent 2004; Opoku 2010).[18]

The onset of democracy facilitated greater interaction between the NDC and the private sector. For instance, in 1995, the Private Enterprise Foundation (PEF) was established with members from the Federation of Associations of Ghana Exporters, Ghana Chamber of Mines, and the Association of Ghana Industries and it had credible levels of engagement with the government. When the NDC published its development strategy document in 1995, entitled *Ghana Vision 2020*, it emphasized that poverty reduction and transformation to middle-income status needed to rely on agro-processing and light manufacturing (Aryeetey and Fosu 2007). Soon thereafter, an act of parliament established the Ghana Free Zones Board (GFZB) to promote economic development.

On the other hand, Rawlings' democratic tenure also coincided with a partisan bias in economic decision-making. When the World Bank began pushing divestiture of SOEs, the government ensured that many of the beneficiaries from these sales were NDC party members (see Gyimah-Boadi 1997; Handley 2008; Kraus 2002; Opoku 2010). In fact, the Divestiture Implementation Committee was almost completely staffed by NDC loyalists (Pitcher 2012), and all final sales had to be approved by the President's Office (see Leite et al. 2000). While the NDC established the Council of Independent Business Associations, it was regarded as a "creature of government" aimed at distributing patronage to partisan supporters (see Opoku 2010). More generally, the NDC preferred engaging with multinational business, which was considered apolitical, rather than the domestic private sector, which was assumed to be more aligned with supporting the avowedly pro-business NPP (see Kraus 2002).[19]

When the NPP acceded to the presidency under the leadership of John Kufuor, the new administration attempted to reverse some of the key policies and tendencies of the NDC. For instance, it rejected *Ghana Vision 2020.*

[18] Indeed, over the course of the reforms in the 1980s, the rate of growth in manufacturing value-added had fallen from 13 to 1 percent (Opoku 2010).

[19] The NPP is the modern incarnation of the liberal and elitist political traditions of Kofi Busia and J. B. Danquah who in turn came from the Ashanti region and established the United Gold Coast Convention in 1947. The prominence of cocoa and timber sectors in Ashanti resulted in Akan-speakers having a relatively large presence in the modern-day business community.

Instead, it inserted its own priorities from the NPP manifesto into the Poverty Reduction Strategy (PRS) needed to access HIPC support at the time, including an emphasis on modernizing agriculture, promoting agro-processing and strengthening the private sector through access to long-term credit (see Whitfield and Jones 2009). Moreover, in 2001, Kufour established a Ministry of Private Sector Development (MPSD) that was tasked with catalyzing a "Golden Age of Business" by providing a liberalized trade and investment environment as well as promoting an industrial policy to attract manufacturers and establish value-added jobs. The MPSD was also tasked with creating a Captains of Industry program to match university students with Ghanaian businessmen and women. In addition, the NPP government reinforced the export zones approached initiated by the NDC by establishing an Export Development and Investment Fund (EDIF) in 2001 in order to develop and promote the country's exports (Asem et al. 2013).

During the same year, the Kufour launched the President's Special Initiatives (PSIs), which were aimed at boosting investment in targeted areas such as cassava starch, salt, textiles, garments, and oil palm (Arthur 2006). Another contrast from the Rawlings' era was that Kufuor held biannual meetings with the Ghana Investors Agency Council, which consisted of members of various business associations. These meetings allowed the business community to provide feedback on how policies affected the investor climate, with one concrete outcome being the reduction of corporate taxes in 2003 (Arthur 2006). In addition, under Kufuor, the private sector was often given the opportunity to review the annual proposed budget and provide input accordingly before it was presented to parliament (see Ackah et al. 2010).

Figure 3.4 provides one indication that the Kufuor regime signaled a more positive policy environment for the business community in at least one regard, i.e., domestic credit. As a share of GDP, this measure captures whether financial institutions provide resources to the private sector through, for example, loans and trade credits, and its generally used as a measure of the size and health of the private sector. Under the NPP, domestic credit to the private sector almost doubled from the time of Rawlings' presidency and was four times higher than under his one-party regime.

Nevertheless, Table 3.3 still suggests that from a comparative standpoint, Ghana ranks relatively poorly on this measure both within Africa and from a global perspective. In fact, as recently as 2010, major fruit-processing and agricultural-export companies faced interest rates as high as 32 percent when seeking loans from commercial banks in Ghana (see McMillan 2013). According to Ghana's most recent enterprise survey, which surveyed 720 private

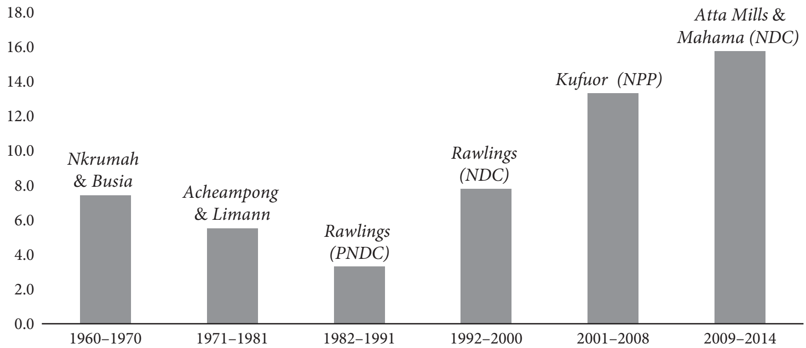

Figure 3.4. Domestic credit to the private sector (average % of GDP)

Notes: The best score on the index is a 100. See descriptions of what the indicators encompass in the footnote 15, this chapter.

Source: Calculated from World Development Indicators database (2016).

Table 3.3. Comparisons of domestic credit to the private sector (% of GDP), 2014

Category	Country	2014
Africa	Benin	22.9
	Botswana	31.9
	Ghana	**19.9**
	Kenya	34.4
	Malawi	16.2
	Mozambique	31.8
	Nigeria	14.5
	Senegal	33.2
	Tanzania	13.8
	Uganda	14.4
	Zambia	17.1
Emerging Markets	Brazil	62.6
	China	130.0
	Mexico	27.6
	South Africa	151.5
	Turkey	57.9
High Income	Germany	83.5
	Japan	178.4
	United Kingdom	165.4
	United States	180.7

Source: World Development Indicators database, 2016.

sector firms, access to finance was overwhelmingly identified as the main obstacle to growth (World Bank 2014).

More generally, despite the efforts of the NPP, the anticipated expansion of the private sector and transformation of the economy did not materialize to a significant degree. One challenge was that the PSI Secretariat, which was tasked with implementing the PSIs, received minimal public financing in practice. Whitfield et al. (2015) note that the minister of finance at the time opposed the PSIs because he felt such an undertaking should be instead financed by the private sector rather than the government. This, along with competing demands for several other government programs and an energy crisis reduced the budgets requested for it by the Ministry of Trade and Industry.[20] The PSIs, along with a strategy to modernize agriculture through support from the Millennium Challenge Corporation, were never informed by significant input from key actors within the industry, undermining the substantive commitment of the government to involve the private sector (Whitfield 2010). Perhaps as a consequence of the Rawlings' era legacy, Booth et al. (2005) found that under the NPP, the business community increasingly preferred to lobby for special treatment through informal channels with individual politicians rather than to press for better conditions for the private sector more broadly via institutionalized business associations.

3.7 Implications for Agricultural Transformation

The dynamics noted above, including a preoccupation with the short-term goal of winning votes, insufficient public sector capacity, and politically biased linkages with the private sector, have had an impact not only on the broad economic transformation but also on Ghana's repeated attempts to pursue high value-added agriculture. This has manifested in at least four ways.

First, the government hesitates to pursue reforms that could alienate stakeholders who are powerful in either financial or political terms. For instance, there has been reluctance to tackle land reform, which would have substantial implications for the government's relationship with powerful traditional authorities. Typically, the central government, whether NDC or NPP, has followed a policy of non-interference in chieftancy affairs, particularly over

[20] There may have also been a political motive as well since both the minister of finance and the head of the PSI secretariat were competing against each other in the 2004 NPP party primaries (see Whitfield et al. 2015).

Table 3.4. Sources of communal conflict in Ghana

What is the major source of conflict in your community?	Percentage
Indebtedness	4.5
Ethnic/tribal conflict	9.9
Political differences	9.5
Marriage	6.2
Land disputes	31.9
Chieftancy	30.9
Religion	0.7
Other	6.4
Total observations	1,410

Notes: The sample is only for those who noted that there is tension/conflict in their respective communities

Source: GLSS 6, conducted in 2012–13.

land allocation under customary tenure, which is the tenancy system for approximately 80 percent of Ghana's land (Lavers and Boamah 2016; Ubink 2008). One key reason is that chiefs in many parts of Ghana can mobilize large numbers of rural voters during election periods (see Bonoff 2016). Nevertheless, land tenure security is a major constraint in Ghana. As seen in Table 3.4, land disputes are the overriding cause of conflict in Ghanaian communities. When further disaggregated by regions, land disputes are the top source of conflict in six of Ghana's regions (Central, Greater Accra, Volta, Eastern, Upper East, and Upper West). Goldstein and Udry (2008) find that insecure land rights in Ghana have significant effects on discouraging smallholders to invest in soil fertility. In the aftermath of the 2008 food crisis, when approximately twenty foreign companies attempted to acquire land in Ghana to produce jatropha and sugarcane for biofuels, the lack of clarity on land tenure created a very confusing environment for both smallholders and foreign investors (see Ahwoi 2010; Boamah 2014; Schoneveld et al. 2010).

More generally, Throup et al. (2014) observe that large-scale commercial farming investment, by both domestic and foreign investors, will not proceed at scale in Ghana until investors are assured that no new stakeholders will emerge to claim the land after a deal is completed. This is a critical observation given that the government views enhancing commercial agriculture and strengthening value chains as a major route towards modernizing agriculture, evidenced by the Ghana Commercial Agricultural Project launched in 2012.[21]

[21] See: http://mofa.gov.gh/site/?page_id=7036.

For instance, Amanor (2013) points to a number of delays for agro-processing investors linked to ongoing land disputes between chiefs or held up in the courts. McMillan (2013) also points to the challenge of land tenure insecurity for the Blue Skies processed-fruit company in Ghana. Due to land tenure disputes, many commercial investors prefer to rely on outgrower schemes or nucleus schemes with smallholders rather than invest in new land, but these arrangements are also fraught with risks (Throup et al. 2014). The government certainly recognizes the problem of tenure insecurity, and even noted this as a binding constraint within its Food and Agriculture Sector Development Policy (FASDEP II). Yet, some of the modalities for addressing the challenge, such as the introduction of Customary Land Secretariats, have not gone far enough in achieving good land governance (see Biitir and Nara 2016; Lavers and Boamah 2016).

Secondly and relatedly, the government hesitates to pursue the preferences of those actors who are numerically small and insignificant for winning elections, even if they have essential technical and business knowledge. This has been apparent in a number of cases. For instance, the NPP government actively tried to push Ghana into cocoa processing rather than just cocoa production. Thus, it reached out to various multinational cocoa processors and promised them a 20 percent discount on “light” cocoa beans, which are smaller beans from a second harvest, in exchange for establishing processing facilities in Ghana. Three firms, Cargill, Callebaut, and Archer Daniels Midland accepted the offer, which in turn also spurred domestic investments in processing factories. Due to low output in the 2000s, Cocobod often was unable to uphold its contract for light beans to processors. Since Cocobod sells its beans on forward contracts, losing a portion of its output to the processors can hurt its ability to finance the management of the company as well as eat into the resources it uses to stabilize the producer price for smallholders. While processing coincided with the NPP’s belief in economic nationalism, it decided that it would be politically suicidal to alienate the interests of thousands of smallholders in favor of the demands of just a handful of processors (see Whitfield and Buur 2014).

A similar dynamic was apparent with respect to the Palm Oil PSI, which began in 2002. Domestic demand was rising for palm oil and domestic production appeared a possible solution for decreasing imports. In addition, a senior NPP member was aware of the success of Felda in Malaysia, one of the world’s largest palm oil estates, and encouraged Kufuor to visit that country to learn how to strengthen the sector back in Ghana (Whitfield et al. 2015). A palm oil committee was established by the PSI secretariat, which included individuals experienced in the sector as well as representatives from Ghana's existing palm oil estates. They emphasized that the PSI would need to involve investments in infrastructure and energy, incentive schemes to encourage private investment, and various land tenure reform modalities to expand existing plantations. However, the PSI Secretariat ultimately decided to follow the policy design recommendations of a small coterie of NPP politicians rather than the sector experts and estate owners, an outcome that Whitfield et al. (2015) attribute to the latter's small numbers and weak influence.[22] More broadly, an extensive in-depth study of agro-processing firms in Ghana revealed that successful agro-enterprises were more likely to be politically connected, resulting in unfair information advantages and disproportionate credit opportunities (see Brüntrup et al. 2014).

The experience of the oil palm PSI is also reflective of a third dynamic, which is a lack of long-term commitment to initiatives that require a high level of implementation capacity. Oil palm production typically involves large tracts of contiguous land, which was not possible to organize in Ghana due to overlapping claims to land tenure. Instead, smallholders were aggregated into larger plots, known as Corporate Village Enterprises (COVEs), in various locations. Twenty-nine nurseries were also established to produce oil palm seedlings that would then be bought by the Secretariat and distributed to COVEs (Asante 2012). Credit initially was provided to smallholders in order for them to hire labor on these larger plots. Yet, despite the anticipated 300,000 hectares of land that were to be devoted to oil palm, only 30,000 hectares were under cultivation by 2008. Moreover, by the time the PSIs were shut down, very few of the nurseries were sustainable. Asante (2012) found that smallholders were overstretched after government financial support to hire labor had dried up, resulting in oil palm that could not be cultivated, and that the drip irrigation system used in the nurseries broke down frequently and was not replaced by the government. The only successful nurseries were those that belonged to already established estates that had installed a different type of irrigation system.

Finally, the government has shied away from taking on a more proactive and anticipatory role in promoting particular agro-industrial sectors. The case of pineapples is instructive in this regard. In the 1980s, a handful of Ghanaian investors, who were mostly urban professionals or public sector workers, recognized the potential of pineapple exports to Europe based on the success in this sector by neighboring Côte d'Ivoire. As Ghana began to demonstrate

[22] There were only four large-scale oil palm estates and four medium-sized private estates (Asante 2012).

success in the industry, these investors focused on meeting volume demands and gave minimal attention to production processes that improve quality or to institutionalizing formal quality control measures. They accorded little regard for investing in technological innovation, skilled labor, infrastructure, and export marketing, and they failed to engage in collective action to ensure national competitiveness within the sector. Aside from a few ad hoc programs, neither the government nor the donors gave much support to the industry due to their preferred interest in supporting smallholder production (Whitfield 2012). While pineapples remain one of Ghana's major horticultural exports, the country's export potential has declined over the 2000s, from a zenith of 71,000 tons in 2004 to approximately 35,000 per year since then. The weakness of the sector is attributed to the inability of Ghana to quickly adapt a new variety, MD2, which was developed by Costa Rica and is now the preference among European consumers (Fisher 2013). Whitfield (2012: 319) contrasts the Ghanaian experience with Costa Rica's where the government supported the pineapple industry by providing tax credits, export incentives, access to land, and investment in agricultural research and development: "The pineapple case shows that competitive horticulture export industries cannot be made from the efforts of individual entrepreneurs alone."

The exception proves the norm, and this is perhaps most apparent with respect to cassava. The Cassava PSI model from the mid-2000s focused on creating a cassava starch industry for export. Consequently, a starch processing factory was built and an outgrower model was used for smallholder cassava producers to supply it with raw cassava. However, smallholders reneged on their contracts whenever prices in traditional domestic markets were high (Gatune 2016). Moreover, since the raw cassava needed to be sent for processing within twenty-four hours after being uprooted, having only one factory (in the Central Region) proved insufficient given the state of road infrastructure, resulting in a huge littering of cultivated cassava on the country's roadways (Arthur 2006). The Cassava PSI was "liquidated" and shut down in 2006 (Asante 2012). However, in 2012, the government sought to revive cassava processing by providing a 10 percent reduction in excise taxes to companies that used raw material inputs. Guinnness Ghana Breweries Limited took advantage of this incentive to create a beer based on cassava (Oxford Business Group 2013).[23] In this case, the government pursued activist policies for attracting business that require relatively low maintenance or outlays of scarce resources. This proved more successful than simply launching a highly

[23] This is called Ruut Extra Premium Beer.

visible and political initiative, such as the PSIs, which had minimal private sector input in design and implementation.

3.8 Conclusions

This chapter has shown that Ghana's reputation for upholding political rights and civil liberties since the country's democratic transition in 1992 is well deserved. As Africa's only institutionalized two-party system, competitive elections have enforced a commitment to the poor and a broad swathe of voters, evidenced by an impressive national health insurance scheme and an extensive social transfer program. Resources also have been heavily invested in health and education, resulting in substantial improvements in social outcomes. Foreign direct investment is attracted by the country's political stability and openness. Compared to the country's years of political instability prior to the 1980s, when ideological differences resulted in high levels of policy volatility, substantive partisan differences between the NDC and NPP have narrowed on key issues. As Throup et al. (2014: 155) note with respect to agriculture, there is now a bi-partisan consensus on key policies: "the peasantry must be encouraged, nontraditional crops must be promoted, development must be brought to the North [through the Savannah Accelerated Development Authority], and investment on infrastructure should be prioritized."

At the same time, the imperative of winning elections has sometimes resulted in a layering of new priorities onto existing development strategies in order for the party in office to show its imprint, as witnessed with the NPP's disposal of *Vision 2020* and the creation of the PSIs. Moreover, deficit spending around elections has often increased interest rates, weakened the currency, and increased the cost of credit which, along with the absence of reliable electricity, all undermine private sector activity (see Arze del Granado and Daal 2014). Whitfield (2010: 734) further argues that the absence of strong coalitions for structural transformation, in agriculture and more broadly, has reduced successive government's incentive to prioritize facilitating policies:

> General voter concerns also place stress on the provision of social services and infrastructure much more than on agricultural policies, except for requests for fertilizer subsidies. In contrast, not much pressure is exerted on government by organized interest groups, and especially not in the area of productive sector policies... In an economy where much of the economic elite are in construction, real estate, financial services, and trading (import and distribution), there are few large and organized trade associations...

> Thus there has not been a big pull within society to deliver a strategy for economic transformation.

While the public may want the government to provide more employment, there is little popular understanding or pressure for the types of policies that would facilitate that outcome.

To achieve more substantive transformation in general and within the agricultural sector in particular, the government needs to learn from its own history and from some of the positive lessons of developmental states in other regions of the world. Under Rawlings' tenure of the 1980s, a technocratic set of bureaucrats in the Ministry of Finance was insulated from popular pressures and able to push through difficult reforms with long-term gains but short-term challenges. The authoritarian regime may have facilitated these dynamics but given the disastrous outcomes under previous autocratic presidents in Ghana, the more essential component was Rawlings' leadership and commitment. Both authoritarian and democratic developmental states in East Asia, Mauritius, South Africa, and Botswana, have been characterized by a much broader degree of technocratic capacity throughout the public sector and a higher level of "embedded autonomy" vis-à-vis the business community. The latter two qualities have been largely absent in Ghana, despite repeated efforts at public sector reform and rhetorical commitments to the private sector.

Consequently, achieving transformation in Ghana will require more activist economic policies within the confines of the state's capacity, without forfeiting commitments to human rights and free and fair political competition. These options may address at least two of Hausmann et al.'s (2008) three market failures, namely addressing coordination externalities and providing missing public inputs while leaving the task of addressing self-discovery externalities for high capacity contexts. Concretely, this may translate into providing tax incentives, credit support schemes to key sectors, land tenure reforms, and institutional modalities to help solve coordination problems that inhibit Ghana's competitiveness in promising industries. To be effective, these policies would need to depart from past tendencies to favor partisan private sector actors and instead prioritize efficiency and innovation.

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