Ghana: Can the Adjustment Reforms be Sustained?

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Résumé: *Cette étude a pour objectif principal la détermination de la possibilité ou non de répéter dans le futur, les succès obtenus par le Ghana dans la mise en oeuvre de reformes économiques, au cours de la période 1983-1989 après une très longue période de détérioration économique à partir de 1960 et une crise aiguë en 1980-1983. L'analyse indique que, même si des résultats significatifs ont été obtenus au plan économique, le succès demeure très fragile tout pourrait donc être remis en cause par des chocs internes ou externes.*

Introduction

Since 1983, the Government of Ghana (GOG) has been pursuing an economic recovery programme (ERP) aimed at stabilization and structural adjustment. Most of the reform measures initiated or planned were laid down as conditions for receipt of IMF and World Bank assistance though were subsequently embodied in the government ERP. The results of the Ghanaian experience since 1983 have been seen to be quite exceptional, making Ghana one of the few cases of successful adjustment in SSA with IMF support. Most donor countries, the IMF, World Bank and many international organizations now view Ghana's experience as a critical test case, an example to SSA countries of the virtue of comprehensive economic reforms.

This paper seeks to examine Ghana's adjustment experience since 1983 with the view to investigating as to whether the successes achieved can be sustained in the future.

Background to the Economic Recovery Programme

The Ghanaian economy has been deteriorating since 1960 but the situation became critical in the 1980-83 period. The period between 1960 and 1980 was characterized, in varying intensity, by persistent inflation, fiscal imbalances, declining growth and political instability. A gradual decline in per capital income accompanied by a worsening income distribution and growing unemployment contributed to the incidence of absolute poverty. Discouraged by the deterioration in the economy, political Instability and poor policy performance, aid donors gradually with drew their support which further worsened the balance of payments situation. The bad situation

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became worse in the years after 1980 with a sharp decline in real GDP and per capita real GDP, severe shortages of food and foreign exchange, galloping inflation, mushrooming of black market, and a grossly imbalanced fiscal account (See Table 1).

Table 1: Ghana: Selected Economic Indicators

Indicator	1970	1975	1977	1978	1979	1980	1981	1982
(Percentage Changes)								
Real GDP	6.86	12.9	2.3	8.5	-3.2	0.6	-2.9	-6.5
Real GDP per Capita	4.6	-15.0	1.3	5.0	-6.1	-3.9	-4.2	-10.3
Consumer Price Index (CPI)	3.0	29.8	116.5	73.7	53.9	50.1	116.5	22.3
(As Percent of GDP)								
Gross Domestic Investment	14.2	12.7	11.1	5.4	6.5	5.6	4.6	3.4
Gross Domestic Savings	12.8	13.7	10.0	4.0	6.6	4.9	4.0	3.7
Government Revenue and Grants	19.3	15.4	10.5	6.6	9.2	6.7	4.5	5.3
Government Expenditure and Net Lending	21.6	22.9	20.0	15.7	15.6	11.1	11.0	11.2
Government Budget Balance	-2.3	-7.6	-9.5	-9.1	-6.4	-4.4	-6.5	-5.9
(Million US Dollars)								
Current Account	-67.7	17.6	-79.7	-45.9	122.0	29.2	-420.8	-108.6
- Exports, FOB	427.0	801.0	889.6	892.8	1065.7	1103.6	710.7	607.0
- Imports, FOB	375.1	650.5	860.2	780.3	803.1	908.3	954.3	588.7
Direct Investment	67.8	70.9	19.2	9.7	-2.8	15.6	16.3	16.3
Changes in Reserves	6.6	2.5	-109.4	-85.5	31.0	95.7	35.9	1.3
External Debt	548.7	729.3	1058.4	1269.0	1272.5	1314.4	1461.8	1397.0
(Percentage)								
Net Capital Inflow/GDP	2.8	-0.4	0.6	0.7	0.2	0.3	0.4	0.4
External Debt/GDP	24.8	15.9	11.8	10.7	13.8	9.1	6.5	5.6
Debt Service Ratio	5.0	3.2	3.6	6.5	6.0	7.7	6.6	13.1

Source: World Bank [World Tables, 1991], Kusi [1991a]

The crisis was an inevitable out come of the country's poor and highly unsatisfactory domestic policy and planning. There were also some external shocks which would have caused severe economic problems whatever economic policies were being pursued.

Development plans have had a very poor record of implementation in Ghana. The plans in the 1960s and 1970s, especially the Seven Year Development Plan [7YDP] and the Five Year Development Plan [5YDP], were all based on a comprehensive planning approach, using macro-economic variables and seeking consistency and sectoral balance. What the country failed to recognize was that, however good a development plan may appear on paper, it is of little use unless it is implemented. In this area the country largely failed. As Huq (1989) observed, two sets of forces have worked in concert against the successful implementation of development plans in the country. The first set of forces included inadequate political commitment, political instability, natural disasters and unanticipated adverse movements in the terms of trade, all of which were beyond the control of those charged with the implementation of the plans. The second set of forces was relatively more within the ambit of the planners and included inadequate involvement of the agencies expected to implement the plans in the process of the plans preparation; inadequate institutions; shortages of skilled manpower; and inadequate policy instrument and projects. Ironically, the 5YDP, which identified all these factors itself (see GOG 5YDP, 1977) suffered the fate of non-implementation mainly due to the reluctance of the policy makers to adhere to the discipline required to sustain a successful development plan. The result was that the economy, between 1970 and 1983, suffered from extreme crisis management with decisions taken on *ad hoc* basis, uncoordinated and implemented haphazardly, leading to severe waste of human and material resources. Not surprisingly. mistaken policies were not only repeated but they were pursued assiduously.

In the area of domestic policy, a basic tenet which has guided economic management in the country has been the faith of successive governments, barring one or two, In administered allocative mechanisms rather than allocation by the free market forces. This doctrine created a high degree of distortions in the economy and contributed immensely to the crisis of the early 1980s. A key element of this doctrine was the persistent overvaluation of the exchange rate. From 1975 onward, the official exchange rate was not adjusted in line with the country's deteriorating international competitiveness. As a result, the cedi became highly overvalued and a flourishing black market emerged. The black market exchange rate rose very high as domestic inflation and foreign exchange shortages grew, so that by early 1983, the black market rate was 22 times the official exchange rate, and 27 times the equilibrium [purchasing power parity] rate [Stryker, 1990 p. 18], making Ghana the country with the most serious distorted exchange rate regime in the whole of Africa. The most immediate consequences of the exchange rate overvaluation were that export producers using the official channels were effectively taxed, while importers benefited, leading to a substantial distortion of the comparative advantage in productive sectors such as cocoa, mining and timber. Further, as the overvaluation of the cedi

increased and the divergence between the official and black market prices widened, a stage was reached when it became significantly cheaper to import almost anything than to export through the official channels. The resulting scarcity of foreign exchange had severe repercussions on production capacity, especially in mining and manufacturing activities, of the economy.

The reluctance to adjust the exchange rate was accompanied by a system of price control. In April 1982, official price list, published in two volumes, contained 1900 prices, with many items having separate prices depending on size, make and quality [GOG, 1982]. The consequence of the price controls was that while consumers found the maximum price fixed by legislation very acceptable, producers regarded it as highly unacceptable. Hence demand for all goods exceeded supply, and with the somewhat incoherent attempts to control the prices by the use of the police and the military as authorized price inspectors, coupled with the maintenance of the overvalued exchange rate and the absence of accompanying measures in the form of taxes and subsidies to reflect in prices the actual scarcity, the black market economy was expanded, reaching some 40 percent of the national economy in the early 1980s [Huq, 1989]. The emergence of large scarcity rent resulting from the price distortions coupled with the inability to enforce controls at the retail level made trading an increasingly lucrative activity. Obtaining access to goods at official prices for resale - a practice known locally as "kalabule" - became an important source of income [Young, 1989]. In other areas of the economy, the insistence on the government controlled prices which bore no relation to the realities of the market situation created disincentives to production and encouraged extensive smuggling.

The impact of the control price policy, the overvaluation of the exchange rate, and the resultant black market economy was devastating. It deprived the government not only of large foreign exchange earnings through official channels, but revenue in the form of export duty, import duty, income and sales taxes, and it seriously affected the distribution of income in the society. Further, the belief that the price control policy would help check inflation by keeping prices of goods low, safeguard the interests of the poor by providing them with goods at low official prices, and controlling scarcity rent never materialized. Instead, the policy and the problems it created made it increasingly impossible to check inflation which was engendered by the large government budget deficits financed mainly from increases in money supply. (See Table 1). Clearly, the price controls proved very ineffective in the face of the extreme scarcity and rapid inflation, and rather exacerbated the problems brought about by the currency overvaluation and the expansionary fiscal and monetary policy.

The adverse impact of the overvalued exchange rate and control price system were compounded by the decline in workers' income resulting from the Government's minimum wage legislation. Governments have implemented minimum wage legislation since 1960 when the wage rate was fixed at 0.65 cents per day. Since then, the minimum wage has been revised upwards several times but the policy did not only fail to maintain the real wages and salaries of workers at subsistence levels, It discriminated more against the skilled personnel. In real terms, the minimum wage in 1980 was 54 percent of its 1970 level. By 1983, it had fallen to 17 percent [Ewusi, 1987]. Besides the compression of the wage structure, the differential between the highest and lowest paid in the civil service fell to only 1.8:1 compared with 10:1 in the private sector in 1983 [Jonah, 1989; World Bank Dec. 1987]. Given the severity of the situation, many skilled personnel either left the country to the neighbouring countries, where conditions were relatively better, or left their professions for trading activities in order to survive. Others had to work outside their main job, i.e. holding second or third jobs, unless they were fortunate enough to have an outside income.

The causes of the decline in real wage rates were related to the shrinking of government revenue, resulting from the erosion of the tax base by the overvaluation of rate exchange rate and price controls, and the high rate of inflation. Since the early 1970s, increases in nominal wages failed to keep pace with the rate of inflation. The result was that, in nominal terms, average wage rate rose at an average of 28.4 percent per annum in 1974-83, in real terms, average wages actually declined at the rate of 13.3 percent per annum over the same period [Ewusi, 1987]. There was also the problem of low productivity. It goes without saying that productivity in both public and private sectors was bound to be low if workers were receiving less than a living wage, and if considerable amount of time were spent in seeking scarce commodities, travelling to and from work places, and holding down second or third jobs. The low productivity was also linked to the policy of the successive governments to retain redundant labour on the payroll of the public enterprises and organizations, a policy that led to much underutilization of labour.

The near neglect of the agricultural sector and the consequent decline in food and cash crop production and exports was a major cause of the economic decline in the 1970-83 period. Of particular importance was the price distortions introduced by government policies designed to directly influence agricultural incentives. Equally crucial was the relative importance of administrative decisions versus price incentives as mechanisms for influencing the allocation of resources. The price policy intervention resulted in a massive transfer of resources and welfare from producers, particularly cocoa farmers, to the government and played havoc to both food and cocoa production [see Stryker, 1990].

In the case of food production, it was only during the early part of the 1970s, i.e. during the NRC regime, that a clear-cut policy was initiated. The government launched the OFY with the goal to achieve self-sufficiency in food production and to reduce the heavy expenditure of foreign exchange on food imports. But here, the emphasis was on exhortation and moral incentives as opposed to sound economic incentives. The OFY depended largely upon direct farmers response rather than on price incentives. Although some success was achieved mainly through backyard gardening and other public efforts, shortages of food at official retail prices were widespread, and the government was compelled to subsidize food imports and to request for large amounts of food aid. The food shortages also led to widespread price increases. The consumer price of maize, for example, increased from cedi 135 per metric ton in 1970 to cedi 42,245 per metric ton in 1983 [see Stryker, 1990 pp.133-134] and throughout the 1970s and pre-drought 1980s, increases in food prices outpaced those of other commodities, in some cases by a factor of 1.3:1 [CBS Quarterly Digest of Statistics, March 1987, p.49]. The food crisis was best seen as a failure of government policy to promote self-sufficiency and/or food security through appropriate measures to raise productivity and yield, and to lower the costs of irrigation and improve storage facilities at the production centres, as well as the government's inability to increase food imports to fill the gap. Thus the shortages of food and shortage of foreign exchange were causally interlinked. Food deficits constituted a drain on scarce foreign exchange. At the same time, the scarcity of foreign exchange led to a gradual collapse of the import programme and the transportation system, which in turn, aggravated the food scarcity and raised food prices at the wholesale and retail outlets. There were however some external shocks. The severe drought of 1978-79 and 1982-83 not only caused poor food crop harvest and consequent price increases, it also led to bush fires which destroyed significant acreage of both food crops and cocoa farms. The expulsion of nearly 1,000,000 Ghanaians from Nigeria also put enormous pressure on food supplies. Although the returnees settled quickly, largely in the rural areas, their return played a significant role in the food price increases in 1983, since it naturally took them some time to become self-sufficient in food.

In the case of the cocoa sector, production declined from 403,000 tons in 1970 to 179,000 tons in 1983, a decline of some 55.6% during the period. Given the fact that yields of cocoa trees, with proper maintenance, do not seriously show a decline until at bast 25 years after planting [Merrill, 1974], much of the decline in production after 1970 appeared to have been due to a failure to replant at a rate sufficient to maintain steady production. But fundamental to the decline of the cocoa sector were poor pricing policy, declining incentives, infestation by insects and swollen shoot diseases, and the breakdown of the rural transportation system and the severe drought and

bush fires. Since independence, the cocoa sector has been in the hands of the Ghana Cocoa Marketing Board [GCMB] which sets annual producer prices, purchases the crop from the farmers and markets it to foreign buyers. Although the main reason for establishing the GCMB was to insulate cocoa farmers from fluctuations in producer prices, and ostensibly producers income, due to world market instability, the Board's direct intervention helped to keep producer prices far lower than they would have been otherwise. The problems of cocoa farmers in earning higher incomes were compounded by export taxes on cocoa and the overvaluation of the domestic currency. In spite of the increases in the world prices of cocoa, farmers in Ghana received only 38 percent of the world price in 1972. By 1978, farmer's share had reduced to only 26 percent and averaged some 36 percent in 1982-83. The combined effects of taxation and exchange rate overvaluation led to a rise in the effective cocoa export duty from 54 percent in 1960-69 to 99 percent in 1970-79. It was only in 1981 when export tax on cocoa was abolished that farmers received 240 percent of the total cocoa export proceeds. At the same time that cocoa incomes were being taxed to support public expenditures, government controls over the prices of food crops were largely ineffective making food crop farmers freedom to sell their crops at high open market prices. The result was that, most cocoa farmers were unable to pay for labour to maintain and harvest their crops, and often it did not pay them to rehabilitate or replant trees or even to harvest all the crops. Gradually most cocoa farmers shifted to the production of the more profitable food crops such as maize, cassava and rice. Although, there were other reasons for the shift in farmers interest [see Huq, 1989 p. 113], the increasing relative profitability of food crops at free market prices seemed to be the significant factor.

The low producer price of cocoa also encouraged extensive smuggling of the commodity into the neighbouring countries, where prices were substantially higher when converted at the unofficial exchange rate. The ratio of Ghana's cocoa price to that of Cote d'Ivoire and Togo with which Ghana shares common borders, stood at 97 percent in 1965 in each case. By 1980, Ghana's price had declined to 23 percent of that of Togo and 18 percent of that of Cote D'ivoire. Meanwhile, as Ghana's export market share slumped, both Togo and Cote d'Ivoire increased. Cote D'Ivoire increases were more remarkable - from 9 percent of the world's total in 1961-63 to nearly 30 percent in 1980-82 [World Bank WDR, 1986]. The World Bank reported that the rise in Cote d'Ivoire's export share of the worlds total was greater than the increase in its exportable surplus, suggesting an extensive smuggling of cocoa, estimated at 10 percent of Ghana's total output, from Ghana in response to the more attractive prices. [May, 1985].

Non-price factors also contributed to the cocoa sector decline in the 1970-83 period. Over half the trees were reaching the end of their

productive lifetime and swollen shoot disease and capsized worked in concert to reduce cocoa output by about 10 percent per annum during 1975-83. Poor extension services, lack of access to credit, acute shortages of spraying machines and insecticides due to foreign exchange shortages, poor rainfall in the late 1970s, ageing farm population, all contributed to the decline in production. Yet the exchange rate/producer price played an important role, and together with the non-price factor led to a decline in official exports of cocoa of 60 percent in volume terms between 1970 and 1983. [See Nyanteng, 1980; World Bank, 1981; Loxley, 1988]. This development tended to undermine the balance of payments position and the import capacity of the country. It also destabilized the government accounts since it reduced cocoa duty revenues and, indirectly, taxes on imports and local production. Thus as the cocoa sector declined, so did public revenue, and while the government fiscal deficits expanded and called for a more rapid growth in money supply, adding a demand element to inflation, the principal budgetary problem was in fact deficient revenue and grossly inadequate real expenditure levels.

The extensive state ownership of economic enterprises which brought enormous pressure on the fiscal budget was partly to blame for the economic crisis. Up to 1983, the public sector consisted of 180 majority state-owned enterprises and about 50 entities with minority interests [Swanson and Wolde-Semalt, 1989]. Some, such as the Volta River Authority VRA and some of the enterprises owned by GIHOC seemed to have operated efficiently and profitably. Many others did not. A diagnostic survey by Swanson and Wolde-Semalt of 100 SOES revealed rising operating deficits of 0.2-3.4 percent of GDP In 1980-82, financed in part by government subsidies equivalent to 9 percent of government expenditure. Their outstanding debt to the government and to the domestic banks increased from 21 percent of total domestic credit in 1980 to 37 percent in 1982. Their external debt similarly increased during the period from 15 percent to 18 percent of the total national external debt, according to the survey report There were many reasons for the dismal performance of the SOES in the country. These include overmaning, the implicit assurance that state enterprises will be supported by the government even in the face of continual losses, low level of capacity utilization, the fixing of prices at levels significantly lower than open market prices and financial mismanagement. [See Huq, 1989, pp.241-244 for a detailed discussion on the poor performances of the SOES].

The fragile political base of all the governments in the review period and their alienation from the ordinary workers and peasants were also important explanatory factors in the country's slide to economic stagnation. The frequent changes in governments, mostly in military coups, and often connected directly to economic disarray, and the abrupt and often arbitrary

changes in policy they brought about, did not create a fertile ground for establishing a policy base for stable, long-term growth. Indeed, the indecisive rule of the Limann government during 1979-81 was partly attributed to the fear that, a realistic policy, based on devaluation and removal of price controls, would have made the government highly unpopular, and would have thus forced it out of office as happened with the previous civilian regimes. The failure of leadership, not only at the level of government but also at the level of enterprises, the failure to confront economic reality, and the rather self-serving "helplessness" of political leadership as they became part of the racketeers and rentiers whilst productive people got frustrated and lacked incentives to survive, represented a fundamental contribution to the state of the economic decline [Tsikata, 1990].

In the case of the Ghanaian economic crisis, a number of external factors over which it had no control made matters worse. We have mentioned the impact of the 1978-79 and 1982-83 drought on agricultural production and the return of about 1,000,000 Ghanaians expelled from Nigeria and the problems they created, especially on food supply and social amenities. The other external shock was the deterioration in the terms of trade. By 1982, Ghana had suffered a fall of 59 percent in her terms of trade relative to 1970 caused largely by the oil price escalations and world cocoa price declines. [See Kusi, 1991a, chapter 3]. Such huge deterioration in the terms of trade caused severe foreign exchange losses that, imports of various items, including essential spare parts, raw materials, food and even drugs for the hospitals, had to be sharply curtailed, thus causing serious damage to the economy.

The consequence of the economic crisis was that, large sections of the society experienced substantial reductions in living standards to the point where, for some groups, even their lives were endangered. The failure of the food supply to keep pace with the population growth affected per capita food consumption which in 1983 was only 64 percent of the 1972 level [World Bank, 1984]. In the urban centres, wages and salaries were so low that they were simply insufficient to live on. At the peak of the drought-induced inflation of food prices, the minimum wage was estimated to cover only 2.6 percent of the minimum socially acceptable household budget for a family of five, while salaries of middle-level civil servants covered just 5.9 percent [UNICEF, 1986 p.5]. Most workers adjusted by producing more of their own food and other requirements, and where possible, by taking second or third jobs (as mentioned earlier) and for engaging in petty trading. Women and children, in particular, moved into petty trading which, for the women, added to their already heavy domestic duties and perhaps to formal work and direct production responsibilities, and for the children, often diverted them from schooling. Illicit means of raising

additional income - such as theft, corruption and black marketing - became very common [Chazan, 1986]. For most urban workers, real income and consumption fell drastically and overall poverty increased substantially. This was also compounded by the fall of employment in establishments with more than 10 employees by at least 30,000 to under 450,000 between 1979 and 1983 [Green, 1986].

In addition to the declines in personal incomes and consumption, reductions in real government expenditure had adverse effects on the welfare of many Ghanaians. Transport and basic infrastructure fell into disrepair, and more tragically, the quality of health care and education fell to abysmally low levels. Schools, hospitals and health centres deteriorated physically as they could not afford critical supplies and also lost a large number of their skilled personnel to other sectors or countries. Inevitably, the collapse of the social service expenditure, combined with the widespread fall in real incomes and the erosion of per capita food availability seriously undermined the welfare of many Ghanaians. The human costs of the crisis in terms of shortened lives, a less healthy existence, loss of educational opportunities, enhanced daily pressures to eke out a living, loss of leisure time and the generalized deprivation was very large [Loxley, 1988].

In recognition of the human costs of the crisis and the realization that the recession could not be halted without a massive injection of foreign assistance, the PNDC government, in the absence of any other alternative, reached an agreement in 1983 on economic recovery programme with the IMF and the World Bank.

The Economic Recovery Programme

The recovery programme entailed two main phases:

1) ERP 1, 1983-86

2) ERP 11, 1986-88

The first phase of the ERP was set within a 4-year time frame. The first year, 1983-84, was devoted to stabilization and the preparation of the economic conditions for the launching of a medium-term programme, 1984-86. The main thrust of the stabilization programme was to re-align relative prices in favour of production and exports, reduce government budget deficits and thereby the underlying pressures and to facilitate the flow of imports to ease the active shortages in the economy. The main focus of the medium-term programme was on rehabilitation, liberalization and growth of the economy. It was intended to introduce macroeconomic adjustments which would give support to the other measures designed to rehabilitate the physical infrastructure and remove bottlenecks inhibiting supply response.

The second phase of the ERP was designed to strengthen and build upon the foundations laid by the ERP 1. The policy actions undertaken during this

phase were therefore to be seen within the context of the longer-aims of the ERP, namely "the creation of a growth-oriented, competitive, efficient and integrated economy in which the living standard of the average Ghanaian would be progressively raised". [GOG, October, 1985]. The key elements contained in ERP 11 were broadly similar to those of the ERP 1. However, the focus of the ERP 11 was to implement a structural adjustment programme (SAP), at the core of which was a 3-year rolling public investment programme (PIP). It should be emphasized that the sequencing of the phases of the reform process was in practice not distinct but substantially overlapped. The phases may therefore be considered as parts of a continuous rather than separate segments of the programme.

The key policy measures of the recovery programme were:

a) *Exchange and Trade Policy Reform*: Since the overvalued exchange rate has been the principal cause of the country's low international competitiveness and disincentive to production and exports, the government introduced a major reform in this area. The exchange reforms were aimed at promoting efficiency in production, tapping economic rent, and directing foreign remittances through official channels. As a transitional measure, a multiple exchange rate which imposed surcharges on foreign exchange payments and bonuses on foreign exchange receipts, and which effectively resulted in two exchange rates; cedi 23.375 = US$1.00 and cedi 29.975 = US$1.00; was introduced in April 1983. In October 1983, the two effective exchange rates were unified, resulting in an exchange rate of cedi 30.00 = US$1.00. Since then the exchange rate was periodically adjusted to maintain its real purchasing power in terms of the currencies of the country's major trading partners. In September 1986, the exchange rate was made to move rapidly towards its equilibrium level by an introduction of a two-window system, under which window 1 rate was administratively determined, and window 11 rate determined by a weekly foreign exchange auction. Under the two-window system, proceeds from exports of cocoa and residual oil, payments for petroleum products, pharmaceuticals and official debt service payments passed through window 1 while all other transactions were subjected to the weekly auction rate. In February 1987, the system was unified and made to operate on Dutch lines where successful bidders were required to pay the rate they bid even though the quoted exchange rate was set at the marginal rate which just exhausts the available foreign exchange. In addition, all bidders were required to deposit 100% of the cedi value of the foreign exchange successfully bid. Since the introduction of the auction in 1986, the exchange rate has depreciated steadily, reaching the average of cedi 270.00 = US$1.00 in 1989.

To further improve the operation of the exchange system, additional measures which included:

- establishment of foreign exchange bureaux in February 1988 (140 licensed as at December 1989);
- export retention scheme (set at 20-35% depending upon the commodity type);
- liberalization (ending of price controls, ceilings on agricultural purchase prices except for cocoa, shea nuts and palm oil, and abolition of import licensing) were initiated.

b) *Fiscal Policy*: The early restoration of fiscal discipline and the pursuit of a growth-oriented fiscal strategy were important elements of the adjustment efforts. As a result, fiscal policy called for the reduction of fiscal deficits with the policy measures initiated reflecting the impact of the new exchange rate adjustments and attempts to restore the tax base which had been greatly eroded by the persistent overvaluation of the cedi and the large divergence between the official (the base at which taxes are assessed) and market prices (at which market transactions take place). To make government revenue more responsive to changes in the economy, the basis for tax assessment for import duties, sales and purchase tax were revised to make the value of dutiable goods reflect the face value plus some surcharges. Similarly, the basis for tax assessment of corporate income tax was changed from profits of the previous years to actual income earned during the current year. In addition, the practice of advance payment of taxes at the beginning of each quarter, which caused extensive tax evasion, was changed so that corporate bodies and self-employed could pay taxes at the end of each quarter. In the case of personal income tax, the policy aimed at adjusting the tax brackets and to a lesser extent the tax rates. This was reinforced by a general increase in all taxes whilst fees and levies for various services provided by government institutions were revised upwards

On the expenditure side, measures which included strict scrutiny of selected expenditure items, removal of fictitious names from the government payroll, and the maintenance of the total wages bill in the budget at 5-6% of GDP, were introduced. Measures were also taken to reduce the civil service workforce by redeploying some 5% of the personnel, or some 15,000 workers each year between 1988-90. Expenditure was also directed towards raising capital outlays in a context of a rationalized three-year rolling public investment programme aimed at rehabilitating the growth and economic infrastructure, and channelling more resources to operations and maintenance service particularly in priority sectors of agriculture, health and education. The expenditure policy was expected to be supported by increases in revenue resulting from the exchange rate depreciation, a rise in

income levels, expansion in the volume of trade, and the widening of the tax coverage to reduce evasion.

c) *Public Sector Management Reforms*: The reform measures aimed at overcoming the progressively inefficient and weak pubic sector management capabilities. This involved the provision of financial resources for training, equipment and materials to strengthen the analytical capabilities of key economic and financial management agencies, attract and retain skilled Ghanaians into the Public service, promote civil service reform and assist in the implementation of the civil service redeployment programme. To this regard, a Government task force supported technically by a team of ODA consultants was set up to review the civil service wages and salary structure. Following the task force recommendations, salaries (in nominal terms) were revised substantially in 1988. In addition a "Skills Mobilization Scheme" which provided for expatriate Ghanaians returning home to join the public service as well as special financial rewards to civil and public servants who were given specific SAP-related jobs were launched. The 5% civil service redeployment policy was also linked to the public sector management reforms.

d) *State-owned Enterprises Reforms and Divestiture:* The SOES reform programme aimed at improving SOES efficiency and productivity; reducing financial and management burden of the enterprises on the government, and increasing their managerial autonomy and accountability. This involved:

- a formulation of an appropriate policy framework (including policy of products and services; access to current and capital budgetary transfers) for the SOES sector;
- a divestiture or privatization programme (involving 34 SOES and 100 GCMB plantations; and 40 SOES earmarked to become joint ventures);
- strengthening SOE management and government's ability to monitor and evaluate their managerial performance.

e) *Monetary Policy:* Credit policy since 1983 has been broadly restrictive and was designed to hold domestic credit expansion below 20 percent largely by reducing government borrowing). Accordingly, the policy placed strict limits on domestic bank lending with credit guidelines being provided to the Commercial Banks by the Central Bank. A more liberalized interest rate policy was also pursued, designed to strengthen the incentives for financial savings and to restore confidence in the banking system. All controls on interest rates and sectoral distribution of bank credit had by 1988 eliminated except for a minimum credit requirement to agriculture.

f) *Cocoa Sector Policy*: In the export-oriented activities, cocoa, timber and mining sectors were accorded special priority. In fact, the recovery of the cocoa industry was considered a vital element of the ERP not only because of the importance of the industry in export revenue, government revenue, agricultural employment but also because of the punitive levels of implicit taxation embodied in pre-1983 producer prices. The immediate goal was to arrest and reverse the decline in cocoa production. The thrust of policy was therefore aimed at small cocoa farmers who were encouraged to rehabilitate and replant their farms through remunerative producer prices which were revised and adjusted upwards each year, reaching cedi 70,000 per ton in 1988 from cedi 20,000. In 1983. As a result of these major price adjustments which were made possible by the exchange rate depreciation, cocoa producer price as a proportion of world market price increased to 41.1% in 1988 from 30.3% in 1984, and the target was to hit 55% of the world market price in 1989.

In addition, a more rational policy for acquiring inputs (spraying machines and insecticides) and their distribution to farmers was pursued whilst a special replanting programme was also launched in the areas most severely affected by bush fires and swollen shoot disease. At the same time, a major restructuring of the State Cocoa Marketing Board was initiated, aimed at improving the Board's efficiency and reducing operational costs so as to allow farmers to receive incentive prices and to achieve the target set.)

g) *Encouraging the Private Sector*: The private sector was to play a key role in the rehabilitation programme as it was expected to account for 70 percent of the rehabilitation programme costs [Kusi, 1991a]. In this connection, efforts were made to actively attract and encourage both domestic and foreign investment, particularly into petroleum exploration and production, mining and mineral processing, timber logging, wood processing and domestic resource-based manufacturing activities. Part of the motivation for reducing the size of the public sector and the prevalence of state controls was to encourage the growth of private investment. Besides, provision was made for the private sector to be consulted in a tripartite government- employers-workers forum under the National Economic Commission. Company income tax in the manufacturing sector was reduced from 50 percent in 1983 to 45 percent in 1985. But the most significant measure adopted to attract and encourage private investment was the introduction of an Investment Code in July 1985 and a new Minerals Code in the third quarter of 1986.

The Investment Code listed a wide range of activities in agriculture, industry, tourism and real estate development as priority areas. The benefits accorded to these areas included exemption from payment of duties on imported essential plant, equipment and accessories, attractive depreciation

and investment allowances and income tax rebates, and permission to maintain offshore accounts in which 25 percent of foreign exchange earnings may be retained for importation of equipment and inputs and for payment of dividends and remittances abroad. The Code also offered government guarantees against expropriation and provided for arbitration in case of investment disputes [GOG, investment Code, 1985 pp.4-5]. The Minerals Code (GOG, Minerals Commission Law, 1986) modified eight existing laws, clarified mining rights situation, and set out new incentives for investors. The incentives included corporate tax allowances, capital allowances under which companies can write off between 40 percent and 100 percent of capital investment against tax (depending on the sector), permission for companies to use offshore bank accounts to service foreign loans, dividend payments and expatriate staff remuneration. Reconnaissance licences were to be issued under the Code for one year renewable period, while prospecting licences would be valid for three years and mining leases for up to 30 years. The government, however, retains the right to 10 percent participation in all prospecting and to extend its share if commercial quantities of a mineral are discovered [GOG, Minerals Commission Law, 1986]

Improvements in the banking services were also aimed at raising the private sector confidence while the abolition of the stamp duty on asset revaluation was intended to encourage private business to revalue their assets so as to gain easier access to bank credit.

h) *Programme to Mitigate the Social Cost Adjustment (PAMSCAD)*: Within the framework of the ERP, the government was concerned, on one hand, with certain groups, particularly the redeployed, bearing an undue share of the costs of adjustment, and on the other hand, with the poor and vulnerable groups who were not likely to share in the benefits of the recovery in the short-term (GOG, January 1988). This was especially serious since the poorer groups, particularly the rural population and the urban informal sector, were least able to protect their position during the period of the economic decline. Conscious that the very sustainability of the ERP could be endangered by inadequate attention to its social dimensions, the government in 1988 introduced an action-oriented programme which aimed to improve the delivery of basic services to the poor, raise their productivity, and enhance their opportunities for gainful employment, as an integral component of the SAP. The programme included 24 specific projects grouped under five main categories, namely

(1) community initiative projects
(2) employment generation projects
(3) projects for the redeployed
(4) basic needs projects; and
(5) education projects

The largest single component of PAMSCAD was employment generation projects which accounted for US $35.13 million, representing 41.7 percent of the total programme costs. Employment creation was deemed important because the redeployment programme (for the retrenched employees from the civil service and SOES) was expected in the short-term to worsen the employment situation. The policy therefore was to initiate programmes which would create 40,000 new jobs in 1988 and 1939 through:

1) programme of public works, consisting of food-for-work projects in the northern part of the country, priority public work projects and labour intensive feeder roads projects which together were expected to create 15,000 jobs;

2) a credit scheme for small-scale farmers and enterprises to meet their financial requirements and to create about 10,000 jobs; and

3) a programme of rehabilitation, improvement and repairs of high schools, which was expected to generate about 4,000 pbs for both skilled and unskilled workers through the use of labour intensive techniques [GOG, Jan. 1988 p.7]

i) *External Debt Policy:* The gradual reduction of outstanding debt payments was an important element of the reform package. This was designed to improve the confidence of the international trading and finance community in the country. Planned payments of outstanding debt (amortization, interest payments, short-term capital and payment arrears) were therefore put at US$864 million in 1983-85. This was to increase to US$871 million in 1986-88, giving an annual average payments of US$289 million between 1983 and 1988, and panned debt-service ratio (excluding arrears reduction) to increase from 43% in 1983 to 57% in 1988. With these high debt payments a prudent external debt management policy which focused on alleviating the debt service burden by seeking official external assistance in the form of grants or high concessional long-term loans, strictly limiting public borrowings from non-concessional sources, and encouraging the inflow of private direct investment became a crucial element of the reform process

Economic Performance under the ERP

Table 2 shows the performances of selected key economic indicators of the country during 1983-89. Broadly, the indicators show that the main objectives of economic stabilization and growth were achieved. As Table 2 shows, the economy registered growth for six consecutive years since 1984 with an average annual real GDP growth of 6.0 percent in 1984-89 reflecting the expansion of gross domestic investment whose share in GDP increased from under 4 percent in 1983 to 15 percent in 1989. In per-capita terms, real GDP growth averaged 2.4 percent in 1984-89. The growth of the GDP affected all sectors of the economy with the industrial sector showing

the strongest supply response to the economic reform measures. Manufacturing output increased by an annual average of 9.2 percent, mining by 7.1 percent and agriculture, 2.2 percent in 1983-89. [Table 2]. Domestic inflation rates, although still bothersome, have declined precipitously from 122.8 percent in 1983 to 25.2 percent in 1989 [Table 2] largely as a result of the strong improvement in the GDP growth and the liberalization of trade, which has permitted large imports of goods into the country.

The programme has also succeeded in reversing the growing fiscal deficits which characterized the pre-programme period. Government fiscal balance as percentage of GDP moved from an average annual deficit of 2.2 percent in 1983-85 to a surplus of 0.5 percent in 1986-89 [Table 2], largely due to the extensive tax reforms and the rationalization of government expenditure. The tax reforms not only lead to Improvements in the tax bases and effective enforcement of the tax laws, but also widened the tax net and substantially reduced evasion, leading to substantial tax collection. The improvement in the tax revenue was also reinforced by the steep depreciation of the exchange rate which led to sharp increases in the bases of the import and export taxes.

The performance of the external sector was however mixed. Although the country has succeeded in increasing its recorded exports of both the traditional and non-traditional commodities, total export earnings continue to lag behind import costs, thereby leaving a deficit in the current account each year in 1983-89. As Table 2 indicates, merchandise exports increased steadily from US$439.1 million in 1983 to US$807.2 million in 1989, imports increased rather sharply from US$499.7 million to US$1034.8 million over the same period. In terms of volume, exports expanded at an annual average of 5.3 percent whilst import growth recorded an average of 9.8 percent in 1983-89. The shortfall in the trade balance was compounded by the ever increasing net income deficit which has shown no sign of decline since 1970. However, as a result of the trade and exchange reforms supported by the strong fiscal discipline, the country has been able to virtually eliminate all external payments arrears, whilst at the same time improving the international reserves position.

Future Prospects and Challenges

Ghana's economic performance over the 1983-88 period positions it well for the future. Even so, there are still gaps and problematics - both in terms of the absence of output growth based on domestic savings and private investment, and human and social factors - which require serious attention if the gains are to become sustainable

Table 2: Ghana Selected Economic Indicators

Indicator	1983	1984	1985	1986	1987	1988	1989
(Percentage Changes)							
Gross Domestic Product (1975 prices)	-4.6	8.8	5.1	5.2	4.8	6.2	6.1
Gross Domestic Product per Capita	-7.5	5.8	2.4	2.5	2.1	3.5	3.4
Consumer Price Index (CPI)	122.8	39.7	10.4	24.6	39.8	31.4	25.2
Agricultural Production	-7.0	9.7	0.7	3.3	0.0	3.6	4.9
Industrial Output -	-22.9	8.7	17.6	7.6	11.5	11.4	7.4
- of which: Manufacturing	-11.7	13.7	24.3	11.0	10.0	9.2	8.0
Services	2.3	6.9	7.5	6.6	9.4	7.9	7.0
Export Volumes	-27.9	2.0	21.1	10.8	7.7	12.3	11.3
Import Volumes	-9.7	27.0	11.2	14.3	12.9	10.2	3.0
(As Percent of GDP)							
Gross Domestic Investment	3.7	7.0	9.6	9.6	13.3	14.0	15.0
Gross Domestic Savings	0.6	6.6	7.6	7.9	11.1	13.8	13.1
Government Budget Balance[1]	-2.7	-1.8	-2.2	0.1	0.5	0.4	0.8
Current Account Balance[2]	-6.1	-4.1	-5.4	-2.9	-4.3	-5.0	-5.9
Net Capital Inflow	0.2	2.7	1.4	1.1	5.1	2.3	4.9
External Debt	3.6	23.7	34.0	42.6	61.8	58.6	58.5
(Million US Dollars)							
Current Account Balance[2]	-248.3	-180.0	-243.7	-165.5	-220.1	-261.9	-310.6
Exports, FOB -	439.1	566.7	632.3	749.4	824.0	881.0	807.2
- of which: Cocoa	268.6	381.7	412.0	503.3	495.4	462.0	407.8
Imports, FOB	-499.7	-616.0	-671.3	-733.5	-933.8	-990.9	-1034.8
Foreign Direct Investment	2.4	2.0	5.6	4.3	4.7	5.0	15.0
Foreign Reserves[3]	144.8	301.6	478.4	513.0	195.1	221.3	347.3
External Debt	1598.4	1897.7	2174.3	2652.1	3133.8	3112.6	3077.7
Debt Service Payments	146.0	143.0	162.0	233.0	422.0	538.0	438.0

Source: GOG, Budget Statement and Economic Policy, 1989; 1990:
Central Bureau of Statistics, Quarterly Digest of Statistics, June 1989; March 1990:
World Bank, World Tables, 1991.
[1]: excluding capital expenditure financed through external project aid.
[2]: before official transfers.
[3]: excluding gold holdings.

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Of great concern in continuing the adjustment programme is how to maintain the momentum of growth in the future. In the early years of the adjustment programme, rapid growth was made possible as improved incentives and increased imports of essential inputs encouraged the use of excess capacity in different sectors of the economy. To maintain the same rates of growth in the long term will require increasing amounts of investment, particularly private investment. Until now, the private sector's response to the policy reforms (except in the mining sector) has not been encouraging as was originally anticipated. Most of the improvement in investment performance has been on account of higher public investment, which increased from 1.8 to 10 percent of GDP between 1983 and 1988 compared with a corresponding increase in private investment from 1.9 to 4.1 percent of GDP over the same period [Kusi, 1991a, Table 4]. There is some evidence that private investment has grown in small-scale manufacturing and agricultural sectors. For example, a recent field survey in 4 villages in Ashanti region shows a substantial increase in new planting of cocoa over the adjustment period [see Commander, Howell and Seini, 1989]. Private investment in medium and large scale manufacturing has been disappointing. The little private investment that has taken place has been directed mainly at rehabilitation and only in few cases at expansion [Koch-Weser, 1989].

The slow response of the private sector to the policy reforms may be linked to the contextual framework within which the programme was launched and is currently being implemented. At the initial stages of the programme, emphasis was placed on a few range of policy instruments - including exchange rate reforms, tax reforms, restructuring of domestic relative prices, and removal of subsidies - as means of bringing domestic expenditure and income into desirable relationship, and reviving the cocoa and mining sectors. This strategy created uncertainties in the private sector, particularly the manufacturing sector, regarding the future investment climate. In addition, certain measures introduced in conjunction with the demand management policy reforms worked to erode the private sector's confidence in government policies and its long term commitment to private sector development. Such measures as the demonetization of all 50 cedi notes (the then highest currency denomination) without immediate replacement, the freezing of bank deposit accounts in excess of 50,000 cedis, the requirement of compulsory payment by cheque for all business transactions in excess of 1000 cedis, and the subjection of individuals and businesses to a rather crude investigation and confiscation of properties for various reasons, made the private sector very suspicious of the government intentions towards it. Further, the tight liquidity squeeze resulting from the authorities' restrictive monetary policy and steep depreciation of the exchange rate has created serious cash flow problems for most manufacturing enterprises and has blocked their access to critical imported

inputs for increased capacity utilization to restore financial viability. At the same time, the manufacturing sector is faced with stiff competition from outside as a result of the trade liberalization policy, leading to a close down of some industries [Kusi, 1991b]. Until recently, the government had ignored the requests of the local manufacturers for protection against foreign competition, and when it eventually came out with a formula by which protection might be given, there was some strings attached. Notably, enterprises would have to demonstrate that they were capable of producing exportable goods and/or import substitutes at competitive prices and were also prepared to enter into a performance agreement which would ensure recovery by government of its assistance [EIU, May 1991]. It is doubtful as to whether this condition would be well received by the local manufacturers. Besides, competition from imports appears difficult to counteract given the industry's inability to re-equip because of liquidity constraint and high operating costs attributable to the state of plant and machinery on one hand and excess capacity on the other. There is thus no way that the country can achieve international competitiveness and develop manufactured exports without large infusion of new physical and human capital.

The sustainability of the structural adjustment programme is also closely linked to the agricultural performance. From a development perspective, a more fundamental concern is the need to reverse the long-term decline in food production per capita and achieve food self-sufficiency, an issue to which the adjustment programme seems to have given relatively little attention compared to the strong focus on reviving export production. Food production rose impressively in 1984 when the drought broke, but in per capita terms the recovery was not sustained through 1988 and production per capita of all food crops fell below their 1970 levels Food production per capita declined by some 18.2 percent between 1984 and 1988. [World Bank World Tables, 1991, p.271]. In part, the fight for food self-sufficiency may have been hindered by the adjustment programme itself. As the market mechanism was allowed to freely operate, it was expected that the differentials in favour of cash crop production would gradually narrow with food prices being dragged along in response to relative shortages. Eventually both markets would move to equilibrium levels of output as prices adjusted. Instead, the programme had the effect of turning the domestic terms of trade dramatically against food producers. [Loxley, 1988]. This was essentially the result of the exchange rate policy which raised not only the prices of non-food items faster than the increase in food prices, but also succeeded in improving the returns to cash crop production, especially cocoa, relative to those of food production.

The medium-term impact of such a deterioration in relative food prices is not known. Clearly, non-price factors are extremely important in agricultural production. The restoration of transport capacity and of fertilizer imports

may still lead to a larger volumes of food reaching the market in spite of the relative price fall. Equally, food crops are usually planted alongside newly planted cocoa seedlings to give shade for the initial years of the cocoa plant's life. Initially therefore, food output can be expected to increase in response to incentives to plant, but this increase will only be a short-term outcome. What is required is a long-term strategy for food production, and this will need a better understanding of the micro-situation in which food is produced and of the constraints, both price and non-price, on increased food production. Improvements in small-farmer yield should be a prime aim, and packages of technologically appropriate, improved inputs and methods (production and storage at farm level) are needed.

The emphasis placed on institutional reforms and divestiture programme also poses serious problems. First, as Commander, Howell and Seini [1989] observed, it is not clear as to whether the private sector will be willing to take over the importation and distribution of basic inputs, particularly given the shrinking demand resulting from the elimination of subsidies. Second, getting rid of the state-owned enterprises, most of which are over-staffed, have backlog of unpaid salaries, and have operated at a loss for more than a decade does not seem to be an easy task. Clearly the privatization drive would inevitably mean large-scale redundancies. A crucial question in this context is who will ultimately be responsible for the payment of unpaid salaries and retrenchment compensation or terminal benefits that would result from the new efficiency measures to be introduced in the divested enterprises. The government claims it does not have the resources. On the other hand, few private investors will want to pick up the tab, fewer still any sort of labour dispute [Morna, 1988]. The labour problem does not only continue to deter potential investors but could cause serious political problems, which if not handled carefully, can disrupt the whole divestiture programme.

Although a number of measures including the signing in March 1989 of a bilateral investment protection with UK and the countries decision to join the World Bank Multilateral Investment Guarantee Agreement (MIGA) are signs of the authorities' aggressive campaign to attract foreign investment, there is still much to be done to improve Ghana's image within the international investment community and to inspire the confidence of private investors. For instance, issues like administrative delays in new investment approvals, availability of finance and foreign exchange and the problem of obtaining work and residence permits for expatriate personnel need to be dispelled. There is also a general concern that the 1985 Investment Code needs revision while the Ghana Investment Centre (GIC) needs to be given a greater autonomy and to become a "one-stop Investment shop" for potential investors. Indeed, to help identify the issues of concern to the private sector, a continuous dialogue between the government and the private sector

becomes very crucial. The authorities attempts to establish fora and mechanisms for such productive dialogue are important steps that need to become more regular and structured. This dialogue will also be enhanced were the private sector to build up its institutional capacity to put forward specific proposals for changes based on solid analytical studies. Ultimately, the private sector's response to the government's initiatives will depend upon the confidence it places on policy continuity, government action in support of legitimate private economic activity, and the enforcement of property rights by the state.

Another area of concern is exports. So far the export recovery has mainly been in gold, log timber and few non-traditional commodities. Beyond these, very little has been achieved in terms of building a broad base for sustainable export growth. Cocoa continues to be the major export earning commodity accounting for an average of 60.6 percent of the merchandise exports in 1983-89 [Table 2]. Manufacturing export potential remains problematic and there is no sign of a major export break-through in the near future. Too much emphasis on the export development strategies has been placed on getting the right foreign exchange prices of the existing export commodities at the expense of pre-export processing and fostering a breakthrough in manufactured exports. Yet it is clear that a sustainable export recovery cannot be achieved solely through the existing traditional primary commodity exports. [Kusi, 1991b]. This is supported by the fact that despite the considerable gains made in 1983-88, the economic situation remains difficult and is accentuated by the sharp decline in the country's terms of trade in 1989 and 1990. Ghana's dependence on a few traditional primary commodity exports which are subject to volatility in prices coupled with the embryonic state of its non-traditional export base means that the country is not yet in a position to meet its foreign exchange requirements solely from export earning levels. To build a base for sustainable export growth - including capacity rehabilitation and utilization and investment in structural adjustment - without external finance would require a doubling of current export levels over the next 5-7 years and thereafter maintaining an annual growth of 5 percent [Green, 1987]. It is very hard to see how this can be accomplished given the present export development strategy. To sustain the adjustment success therefore depends crucially on the continuous flow of external finance. In fact a collapse of the external finance structure in the face of the meagre export earnings will cause a deep compression of imports with decelerating effects on the level of capacity utilization and growth of the economy. But given the long-term effect of the large inflow of resources, in terms of large debt servicing ratio, averaging about 50.6 percent in 1987-89 [EIU, May 1991], the country is already confronted with the problem of how to service the huge foreign debt and simultaneously maintain critical levels of imports, given the inadequate export earnings.

A related problem of the bleak external situation is the growing domestic debt. Although Ghana did not enter the adjustment programme with a debt problem it now has one, the main cause being the heavy reliance, in the initial years of the programme on expensive, short-term IMF standby credits. These are falling due and Ghana's foreign debt totalled US$3.5 billion in 1988 as against US$1.5 billion in 1983. Ghana received a total of US$3,609 million from all sources, including purchases from the IMF over the 1983-88 period, and spent US$2,628 million over the period on debt servicing, debt repayments and other debt-related expenses. These payments represented 73 percent of the resources made available over the country during the period, leaving a net balance of US$981 million. Of this, US$514 million was used to supplement export earnings to finance imports for rehabilitation and production, and the remainder to achieve a significant improvement in the external reserves position [GOG, March-August, 1989]. The debt-service ratio reached 61.9 percent in 1988 with more than half of the debt-servicing burden in 1987 and 1988 on account of IMF charges and purchases. Such high levels of debt servicing seriously constrain the capacity to import, especially given the weak cocoa prices, and is likely to undermine capacity utilization, leading to low production and exports, which again will affect the foreign exchange earning capacity. Thus a vicious circle of foreign exchange constraint is likely to be created. To lessen the future debt burden, both in absolute terms and in terms of the country's capacity to service the debt, high priority may have to be accorded to sound debt management coupled with greater efficiency and increased productivity on the domestic front. This brings into focus the importance of the suggestions outlined to maintain the momentum of the output growth.

The pattern of income distribution and the social impact of the adjustment also continue to threaten the sustainability of the adjustment process. These issues have been examined in detail by various studies [see for example, Loxley, 1988; Green, 1988; Commander, Howell and Seini, 1989; Toye, 1990; Weissman, 1990]. The general conclusion from these studies is that despite the rising per capita income and consumption growth, the adjustment process has created a wide gap between the wealthy and the poor thereby producing little enduring poverty alleviation in the country. Thus while tremendous success has been achieved in macroeconomic restoration, the welfare and living conditions of the poor and vulnerable groups continue to decay. The fact is that, it did not occur to the authorities to initially address the economic and social costs of the adjustment as an integral part of the whole programme. To the government, one of the ultimate aims of the adjustment programme was the creation of the necessary props for employment generation so that people who became redundant as a result of the new efficiency measures could be absorbed into productive activities. Consequently, no specific mechanisms were instituted to ameliorate the negative economic and social effects of the adjustment

during the transition. The failure to initially integrate human imbalance stabilization into the programme's core strategy was a serious flaw. When in 1988, the government came out with a programme to mitigate the social costs of the adjustment (PAMSCAD), it was not only too late but the programme fell considerably short of the issues it was to address. In particular, there was no indication that the concerns behind PAMSCAD will produce a modification of the structural adjustment policies such as import liberalization, credit contraction, and continuing pressures to reduce the publicly paid work-force, that are exacerbating urban poverty. [Weissman, 1990]. The absence of an equitable distribution of the burdens and gains of the adjustment is gradually leading to a decline in critical political support of the programme, particularly among the urban poor, and threatens to jeopardize the whole adjustment programme. [Kusi, 1991b].

The sustainability of the adjustment programme also depends on the extent to which the government addresses itself to longer-term issues such as the rate of population growth and the environment. It is projected that even with a gradual decline in fertility, the country's population in the year 2025 will reach 36 million [World Bank, WDR 1990], placing considerable strain on food availability, energy supplies, environmental resources, health and education systems. Raising the public's consciousness about the need for a rapid decline in fertility and increasing the momentum of the country's population programme is therefore very necessary. In managing the long-term environmental consequences of rapid population growth and economic activity, perhaps the most critical issue is the declining quality of soils as a result of overuse, inappropriate farming practices and the effects of drought and erosion. Another cause for disquiet is the country's rapidly disappearing forests. There have been concerns for many years now that the expansion of cocoa production, logging and timber exports threaten the country's forest cover. The country's forests have shrunk from 8.2 million to 1.9 million square kilometers since the turn of the century [Hodges, 1988]. The renewed emphasis on export promotion strengthens the ecological threat, as might a concerted policy of food self-sufficiency. Here government policy emphasizes the protection of a nucleus of natural forest as a genetic resource, and the management of the remaining forests in a sustainable way. Much more needs to be done. The government needs to expand its monitoring and control of illegal logging and pollution caused by the major mining and manufacturing industries.

Conclusion

Ghana's adjustment reforms have been very successful in many respects. Even so, there are still gaps and problems. Notably, the growth of the economy is yet to become self-sustaining based on the strength of domestic savings and private investment. In the export sector, for instance, very little has been achieved in terms of fostering a breakthrough in manufactured

exports and building a broad base for sustainable export growth. Consequently the sustainability of the reform measures crucially hinges on the continuous flow of external finance. The failure to integrate initially the human dimension of the adjustment into the programme's core strategy has also exacerbated the incidence of poverty to which PAMSCAD cannot redress. Thus the reform measures have achieved significant success at the macro-level while the living standards and welfare of the people, especially the poor and vulnerable, continue to decay. This poses a great threat to the sustainability of the adjustment reforms. Despite these limitations the adjustment programme has helped create a framework for economic growth. It has created an environment of optimism. But this is a fragile one which can seriously be disrupted by domestic and external shocks.

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