RETHINKING DEVELOPMENT AID: IS THERE AN END TO FOREIGN AID TO GHANA?

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ABSTRACT

This thesis strives to identify the most fitting sustainable development pattern within a pool of focus choices the Ghanaian economy faces that is most likely to open a door to an aid-free, self-sufficient national economy.

After a careful look at the historical roots of the Ghanaian aid-dependency, along with current social, economic, and political implications of the situations, one of the main finding of this research includes the realization that there is no realistic outlook for Ghana on moving to a completely aid-free economy anytime in the next decade.

The conclusion of this research is that even though an immediate move to a completely aid-free economy without catastrophic backlashes is virtually impossible, the most feasible and realistically effective chance for Ghana to minimize its foreign aid dependency is to focus most main reforms on the agricultural sector. Within the agricultural sectors cocoa production has been identified as one of the most lucrative option. Re-channeling some of the existing aid resources, focusing on establishing a more FDI friendly environment, which allows a full exploration of the country's most promising comparative advantage possibilities along with developing local human capital, and raising life standards in the rural areas, most affected by extreme poverty is what this thesis wounds up suggesting.

Finally, this thesis suggests that further reform options be explored affecting cocoa export, re-evaluation of the current tax base, and related opportunities a sound agricultural sector with a flourishing "farming business" would open up the Ghanaian economy towards a growth path that guarantees a long run, organic integration into the global economy.

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INTRODUCTION

After having successfully completed its Poverty Reduction and Growth Facility (PRGF) arrangement with the International Monetary Fund (IMF) at the end of 2006 Ghana, is now benefiting from the Multilateral Debt Relief Initiative, which should see Ghana's debt stock reduced from US$6.4 billion to US$1.5 billion, releasing funds previously used for debt servicing (World Bank 2007). The government's foreign exchange position has improved significantly since 2001, due to increase in exports, tax revenues, private transfers (remittances) and tourism as well as increase in official development assistance. In 2005, official aid was not quite half of revenue from exports and less than private transfers (World Bank 2007). While official aid still accounts for around 40% or more of the national budget, Ghana's financial position has improved dramatically (Jones et al, 2007). Development assistance is less important to the economy than private remittances, but remains more significant than foreign direct investment (World Bank 2007).

The present improved financial position should give the government more possibilities to push for a more inventive reform, that would be less reliant on foreign aid and place more weight on strengthening local tax basis. "The obstacle to the government taking more leadership in managing aid and fulfilling its development vision is not so much an aid dependent economy as it is aid dependent political and administrative systems" (Jones, et al 2007, 12).

Ghana is aid dependent, but aid dependence is about much more than the size of aid flows. Aid dependence is a way of working within the aid receiving government, of relating to donors, of negotiating aid (Chisala 2006). Considering all angles and aspects of the currently difficult socio-political relationship between donor agencies and the Ghanaian government -alongside examining the origins of aid dependency in the specific case of Ghana rooted in historic events since the fall of the colonial era- this thesis strives to contribute to the already existing literature of the topic of identifying sectors harboring most opportunities for comparative advantage exploration, indirectly leading to minimized aid dependency levels.

While a number of studies have been devoted to exploring the levels of aid dependence in Ghana, and hinted at the dire need of further reform in various industry sectors (ie. mining, manufacturing, agriculture), none has clearly identified one specific field and link it to minimizing aid dependence opportunities.

This particular paper will focus its recommendations to higher levels of privatizing the agricultural sector, more precisely cocoa production, while simultaneously creating a more foreign-investment friendly environment, as a booster of the "framing-business" and leading to a more independent and globally integrated national economy.

This thesis starts out by a more theoretical introduction of the notion of aid, followed by an analysis of the many faces and impact of international aid at developing countries' economies', issues in aid channeling, and the proposition of higher levels of local ownership, through more private-public partnerships (PPPs) as a solution to fighting corruption and creating a more hospitable environment for sustainable development. The topic of corruption and its reverse effects on a developing economy are a focal point of this chapter.

The thesis continues by offering a more analytical insight at the history of Ghana in chapter 2, highlighting the main structural changes that have taken place since the fall of the colonial era. The most important aspect of this chapter is to set a revealing background, serving as an explanation to how the changes that occurred starting in the '60 have unavoidably resulted in a gradually deepening aid-dependency situation.

Chapter 3 examines the issue of aid-dependency from a socio-political angle, arguing that in countries with weak institutions, high levels of aid may backfire, making governance reforms more difficult, leading up to a "cozy accommodation with dependency" (Mule 1996). This part of the thesis also discusses the existing and ever so deepening conflict of interest between the Ghanaian government and the "Shadow Government" made out of foreign donor agencies indirectly contributing to 46% of the country's GDP.

Finally, Chapter 4 will move on to identifying the primary sector that has the most potential of contributing to Ghana's future aid independency through an assessment of current economic trends and domestic market development.

Conclusively a revision of certain current policies as well as some new innovative reform options –such as general stimulation of the private sector, as well as strengthening of the country's tax base, contributing to a significant reduction in country wide poverty, decreases aid dependency and leads to general social welfare- will be suggested for further studies.

Countless studies have emerged throughout the years on the above mentioned topic, especially studies conducted on African and South East Asian nations. While some studies managed to show proof of positive correlations between financial assistance and long run development, when broken down into its elements, especially the African scheme points towards a quite different reality (Annex 1). The unavoidable question remains what the secret ingredient would be that makes development aid be effective in some cases and lead to almost adverse effects in others. The most obvious answer would naturally be "corruption and bad decisions".

As economist Fredrik Erixon has phrased it in his 2005 BBC article entitled Why Aid Doesn't Work: "it is sound economic policies, not aid, that in the last decades have lifted millions - even billions - of Asians out of extreme poverty, and provided the resources to limit the extent of (or in some countries, eradicate) starvation, diseases, and other visible signs of poverty" (Erixon 2005, 2).

Similar to many other Sub-Saharan countries, in case of Ghana development aid was not channeled correctly. Erixon goes on adding that "instead of gearing up investments, money was spent on current spending and public consumption - which, in turn, led to a rapidly growing public sector in the economy", which then "strengthened other socialist tendencies in the economy and investment became, in many developing countries, mainly a government activity, boosting fiscal budgets and leading to a rapidly growing number of state-owned enterprises largely supported by the donor community at the time, becoming arenas of corruption and this corruption spread like wildfire to other parts of the society" (Erixon 2005,1). While donors did try and regulate and monitor some of the aid channeling, it was either without considering all existing restrains and factors –thus feeding into corruption-, or making thing even worse by tying unrealistic conditions to aid-flow.

One would instinctively ask the question "why now?", "what has changed", "what indicators are there pointing toward a more successful outcome?". While no drastic changes have taken place in Ghana's economy this past few years, there were some gradual but unavoidable series of events (further explored in chapter 3) that lead to higher levels of national self consciousness, through which more and more internationally acclaimed Ghanaian *politicians* and economists started to speak out in favor of strengthening local economies, the private sector, investing in local human capital development and reducing aid-dependence levels.

Now, when the Ghanaian National Development Commission (headed by the Senior Minister in government) is in the process of approving the Ten Year National Plan is a great opportunity "to be bold and really focus on channeling existing aid sources towards much needed reforms within the agricultural sector, the most promising of all domestic income generating sources towards a more self sufficient, less aid-driven national economy" (Jones, et al 2007, 27), but even more importantly take some crucial steps towards creating a more FDI friendly environment through taking a series of already existing reform to a more innovative level.

Chapter 1. THE MANY ASPECTS OF INTERNATIONAL AID

It is important to clarify some general notions and concepts of the aid doctrines in order to better understand the actual need for international development aid in the case of Ghana. This chapter starts by a general definition of aid and with all the misconceptions and confusion surrounding the entity of international donors. Then, moving on to identifying issues with aid channeled under some less than ideal circumstances –eg. weak institutions, etc.-, it refers back to the actual Ghanaian case, highlighting current economic tendencies under the heavy influence of international aid.

1.1 Aid Doctrines

The aid doctrine is a complex one and it involves questions and answers going beyond the simple definition of development assistance. The following section will try to briefly summarize the main notions around the questions of where aid comes from, why it is supplied, who recipients are and what guarantees there are pointing to the effectiveness of aid?

In order to put the current levels of Ghana's aid dependence in perspective, one must compare most current report of aid contributing to over 10 percent of the Ghanaian GDP, in comparison to average Sub Saharan countries having had foreign aid-flows averaging to only about 7 percent of their GDP (UNDESA 2007).

The theoretical purpose of aid is to reduce poverty and support sustainable development. On a broader scale aid is meant to be a complementary element in a country's development, at social, economic and political level, assisting in building a stable infrastructure, which would then on the longer run attract both foreign and domestic investors resulting in economic boom (Transparency International 2007).

Given the very large scale of motives donors are fueled by, the above question becomes quite difficult to be narrowed down to a general answer. In order to reveal the multifaceted nature of donor giving one must keep in mind that very few motives are directly related to economic development, per se (Radelet 2006, 4).

Although common knowledge lets one assume that the main rationale for foreign aid is the fight against poverty and creating more competent national economies in today's global world, foreign policy and international relations are probably the most prominent determinants of aid flow to any given developing country (Radelet 2006, 7).

A very interesting trend of donors supplying aid to their former colonies in hopes of an extended political influence and policy regulation detention can be detected, which cannot leave one but wonder whether a number of underlying motives and self interest are a natural "pruduct" of these tendencies. Generally, bilateral aid tends to "support the economic interest of certain firms or sectors in a donor country", unlike most of the multilateral aid – though by no means immune to the above trend (Radelet 2006, 8). The US has recently stopped reporting the actual percentage of its "tied aid", but historically it has been known to be around 75 percent throughout the past decades (Burnside et al, 2000, 65).

1.2 Corrupted Aid: Aiding Corruption?

Donor countries have a major role in strengthening or undermining domestic accountability mechanisms in recipient countries (Bantekas 2005). According to a 2007 Transparency International (TI) study entitled Poverty, Aid and Corruption, corruption begins upstream when aid priorities are not based on needs of the poor or long-term national development objectives, but are "supplier driven", influenced by both domestic and donor industry interests (Transparency International 2007, 10).

As witnessed in the case of numerous Sub Saharan countries corruption completely changed the outcomes of humanitarian assistance programs, seriously undermining intended results, moreover creating preferable environment for potential conflict situations on top of existing ones, or even worsen a country's economy as a whole in some extreme cases. When a large percentage of aid is used for other purposes than the intended ones, or for private gain “aid turns into a double edge sword” causing far more harm, than it does good (Bantekas 2005, 6). Clearly, aid supplied to corrupt governments, will only feed into corruption undermining domestic accountability systems, assuring further opportunities for even more corruption (Bantekas 2005).

Donor countries typically have a major role in strengthening or undermining domestic accountability mechanisms in recipient countries. When donor agents agree on assuring supports for specific targets, with preexisting conditions, but without an adequate transparent infrastructure, naturally a large percentage of funds will end up being diverted through corruption (Transparency International 2007, 12).

Assessing the country specific elements contributing to corruptibility of aid one must firstly look at the political and governance context of the issue, after which the problem must be examined from the point of transparency and access to information, while lastly, and perhaps most importantly, the forms and levels of accountability must be tackled (Knack 2000, 28).

1.3 Measurable Consequences of Corruption in Ghana

The most powerful tool to illustrate the modalities corruption and the lack of timely reform enforcement (mainly due to internal political turmoil) has lead to Ghana’s current state of economy, is to draw a succinct comparison between Malaysia and Ghana’s dramatic difference in their stage of economic development.

These two countries were relatively evenly developed from an economic point of view 50 years ago, when they gained independence from Britain: equally poor and equally dependent on foreign aid (World Bank 2006). Yet today Ghanaians weighted average income is about $300.00 a year, while an average Malaysian earns over $3,000.00[1] per year (World Bank 2006). One cannot help but wonder what had gone wrong in Ghana’s case? Why is it that the driving force of Ghana’s economy is it’s raw material import –as it was 50 years ago-

[1] Adjusted for purchasing power (World Bank 2006).

combined with some foreign aid, while Malaysia ”makes its own cars and boasts skyscrapers that rival anything in New York and London” (Quartey 2007, 2).

One must not dig very deep to discover the first and probably key element that lead to Malaysia’s current performance. Malaysia has been enjoying political stability since the early 70’s. Its Gross Domestic Product (GDP) grew by an average of 6.5% per year from 1957 to 2005 (World Bank 2006). Malaysia’s government has taken an active role in guiding the nation's economic development. The New Economic Policy (NEP), first established in 1971, sought to eradicate poverty and to enhance the economic standing of the country’s population as a whole (World Bank 2006). The present government has guide the country through the severe Asian financial crisis in 1997-1998 –when the country’s GDP contracted by 7%- as well as the “dot-com-bubble” of 2001 and in April 2001, the government released a new plan, the "National Vision Policy," to guide development over the period 2001-2010. The National Vision Policy targets education for budget increases and seeks to refocus the economy toward higher-technology production. The stated goal is for Malaysia to be a fully developed economy by 2020 (World Bank 2006).

Thus Malaysia managed to create and ensure political stability, established a solid framework of laws, which allowed entrepreneurs to flourish, and create a sustainable background for all aid to be used effectively.

Ghana, on the other hand, just 9 years after its independence experienced the first of a series of military coups, which resulted in nearly two decades of complete political and indirectly economical instability (Jones, et al 2007).

Although foreign aid helped prevent economic collapse and was responsible for subsequent improvements in many sectors, Ghana’s national reserves were gone by the mid 1960s and economy had been stagnating for a solid 15 years. Population growth offset a modest increase in gross domestic product, but real earnings declined for many Ghanaians. Continued mismanagement of the economy, record inflation (more than 100% in 1977), and increasing corruption, notably at the highest political levels, led to growing dissatisfaction

(Lawson etal, 2007). However international organizations such as the World Bank ad the International Monetary Found (IMF) kept pumping money into Ghana, a country with a huge budget deficit (almost 40% of expenditures in 1979), increasingly overvalued currency, flourishing black-market activities, high unemployment, a deteriorating transport network, and continued foreign exchange constraints. In the early 1980s an ample restructuring program was announced by the government, but no effective measures were taken to reduce rampant corruption and black marketing (World Bank 2006).

Ghana was recognized for its economic and democratic achievements in 2006, when it signed a five-year, $547 million anti-poverty compact with the United States' Millennium Challenge Corporation. Ghana's stated goals are “to accelerate economic growth, improve the quality of life for all Ghanaians, and reduce poverty through macroeconomic stability, higher private investment, broad-based social and rural development” (World Bank 2006, 25).

Although Ghana is clearly on the right path toward eradicating extreme poverty and reaching full development within the next couple of decades, it will simply not be comparable with development achieved in Malaysia.

Thus, one can rightfully conclude that addressing corruption is an integral part of partnership that both donor and recipient governments are accountable for. While “poverty reduction efforts are often located in environments where corruption is endemic, aid modalities can be designed to frontload anti-corruption efforts ” (World Bank 2006, 27) . Immediate benefits may occur in the delivery of previously diverted resources to beneficiaries (Burnside 2000).

1.4 Private-Public Partnerships: Higher NGO Involvement and Higher Local Ownership?

Even though the ultimate goal of this thesis is to identify a pattern that would contribute to a less aid dependent national economy, one must keep in mind that aid dependency cannot and will not occur over night. Thus all current opportunities must be examined in line with a more sustainable national economy. One of these opportunities is simply a better way of making (currently present) aid count.

While numerous views are in support of the theory that quite a large part of the original donor-recipient conflicts could be resolved through a greater reliance on NGOs when it comes to actual aid channeling (Murrell, et al 2002, 77), one cannot overlook the danger of overweighing reliance on NGO authorities. NGOs typically have their own agenda's, whose goals are not "necessarily aligned with those of donors and recipients" (Martens et al, 2002, 98). As one of the co-authors of the book The Institutional Economics of Foreign Aid, Bertin Martens explains that on most occasions frustrated and disappointed donor agencies rely on smaller NGOs to exercise pressure on various local level governments, or even simply bypass them through direct distribution of foreign aid, but a major issue becomes that these NGOs are not locally elected organs, thus don't officially represent the wider public, or neither are they accountable to them. Another concern raised in case of single-handed NGO channeling of donor resources is the possibility of NGOs being all too heavily influenced by the originating donor agencies' agenda, thus indirectly contributing to a "backlash" against a recipient country's internal reform policy (Martens, et al 2002, 99). Also, while most NGOs in Third World Countries are legitimate charities, monitoring and evaluating processes can become problematic due to the "long chain of subcontracts" (Martens et al, 2002, 100).

Thus, the solution that most experts seem to agree on is that aid should encourage and promote local ownership. This, however, implies an active involvement of the recipient government (e.g. "commitment on behalf of government officials in the design, implementation, and evaluation of aid activities"), as well as a conscious investment on the behalf of aid channeling NGOs to get local populations and stakeholders more involved in decision processes (Svensson1995, 36).

In line with topic of accountability, another solution that has been proven highly successful in case is South-East Asian developing nations, as is becoming increasingly popular in with donor nations is that or *public-private partnerships* (PPPs).[2] Henrietta Fore, the Chief Administrator of the United States Agency for International Development (USAID) defines PPPs more as "global development alliances "(GDAs) (Fore 2008, 1), some of which include the community outreach assets of a non-governmental organizations, the management savvy of private companies and the strategic vision of an international donor agencies working in ways that complement each other, the public and private sector can together become a tremendous force for elevating aid effectiveness to a new level" (Fore 2008, 2). Fore, the author of the article "Why the Private Sector Holds the Key to Better Development Aid" strongly believes that the future of international development aid lies in much more efficient PPPs rather than development aid delivered by bilateral or multilateral agencies. She continues her argument backed by current USAID data, proving that in current years private capital flows has from the US alone have amounted to 6.5 times more of that coming from public development assistance[3] (Fore 2008).

One of the most important aspects that GDA can contribute to any developing country's reform process is that the business model it relies on "market-based solutions to advance broader development objectives, implying that in case of success, the resulting alliances are both more sustainable and have greater impact (Fore 2008, 4).

While there were some clear efforts in focusing more on the PPPs on the Ghanaian government's end, as mentioned in chapter 3, they were never explored to their fullest extent until recently, mainly due to other seemingly more urgent political or economical agendas.

[2] Most PPP advocates believe that "where large government expenditures do not translate into improved public services, the problem is often a combination of week institutional capacity, poor governance structures, a lack of incentives for efficiency, and political interference. While PPPs are not the only solution to this problem, they can be a highly effective tool for addressing underlying causes of inefficiency and putting poorly-performing enterprises on the path of recovery" (Slattery 2009).

[3] A great example is 2007 USAID teamed up with several organizations of West African Farming communities, "alongside partners like the Rockefeller Foundation, the Bill and Melinda Gates Foundation, Pioneer Hi-bred, Monsanto, Kemseed, and the African Trade Association, are seeking to establish a network of over local agri-dealers. By stabilising income from agro-business dealers and farmers across West Africa, the alliance is creating a more inviting environment for business investment and growth" (Fore 2008, 3).

1.5 Why is Aid Never a Long Term Solution?

Based on countless studies one could confidently conclude that long term economic development, and sustainable local development of any country is determined much rather by qualitative factors (such as clear and impartial enforcement of laws and reforms, the effectiveness of government in distributing and protecting public goods, the level of openness of local economies towards trade and foreign investments, etc) than raw numbers, thus quantitative ones (Cobbina 1999, 7).

Also, high levels of "guaranteed external aid flows" almost always end up having adverse effects, resulting in local governments lacking of sense of emergency when adopting much "needed but politically difficult reforms, thus reducing savings and private investment and delaying expected supply response", and "may also lead to excessive numbers of projects relative to the country's absorptive capacity, dependency behaviors, distortions in incentives created by multiple scales of donor-financed supplements, the dominance of donor driven objectives and donor specified performance indicators"(Armstrong 1996, 47).

Thus, both aid-recipient countries and donors are advised to focus all their efforts on "addressing key issues in the context of development paradigm needed (…) to move out of aid dependency" (UNDESA Report 2007, 1). Under ideal conditions foreign economic aid "should not prevent the creation of economic conditions so that the recipient countries eventually become less dependant of aid, and rely on its indigenous resources on the long run" (UNDESA Report 2007, 3).

As further analysis in the following chapters shows, when a country's economy is built on a unreasonably large percentage of foreign aid, that naturally draws further, more layered and complex issues, such as foreign interest, conflict between the actual local government and a "shadowing" organ, overseeing and regulating local policies through a conditional aid supply, which the recipient country has gradually become to depend on.

Chapter 2. PAST AND PRESENT SOCIO POLITICAL AND CONOMIC SITUAION OF GHANA

This chapter examines the historical backdrop of Ghana's present economic state, tracing multiple angles leading up to present levels of aid-dependency. While most of the below historical data serves as a mere reference point in the analysis to come regarding the evolution, present status and future of the Ghanaian aid dependency situation, one must take a closer look at local institutions and post-colonial institutional changes before diving into detail regarding aid flows, and issues related to channeling foreign aid flows

2.1 Institutional Reforms in a Post-Colonial Economy

Being the leader of the "gold Coast", the first African colony to gain independence from Britain on March 6th, 1957, Kwame Nkrumah set as his original goal to strengthen the country's fairly stable economy, focusing on industrial development through the exclusive usage of existing domestic resources (Killick1978). A true believer in "scientific socialism" (an utopian version of African socialism), Nkrumah was -on the other hand- trying to take full use of certain aspects of the capitalist system in his reform agenda. However, the usage of these bureaucratic elements without an initial tight legal regulatory framework naturally gave way to corruption (Killick 1978, 32).

In another move to assure social democracy Nkrumah set up public companies and public utilities –both owned by the state of Ghana- in an attempt to provide for the poorest of the country. His attempts, however fell short, mainly due to bureaucratic management forms, which lead to mismanaged and ultimately misappropriated public funds. The above named public companies, then were bailed out from state revenues obtained from cocoa production, thus indirectly disadvantaging local farmers. The situation has only worsened with time and resulted in the country losing its title as the world's largest and best quality cocoa producer by the mid '60. As a response to his increasing unpopularity due to failed reforms and a general economic and social decline of the country, president Nkrumah started exercising dictatorial measures, which then unavoidably lead to his ousting by a military coup in 1966 (Hutchful 2002).

The removal of Nkrumah from power did not, however, provide any solutions, leaving the country in a severe economic down-spiraling cycle. In 1979 Jerry John Rawling, the head of the Armed Forces Revolutionary Council, came to power. He claimed power in the name of "participatory democracy", and remained head of state for the following 20 years. During the Rawling years, also known as the "Rawling Necklace", the Ghanaian economy has finally hit rock bottom (Hutchful 2002). Rawling's second and final presidential term was followed by the presidency of John Kufuor, reelected for his second term, as well, in 2004.

As briefly mentioned above, president Nkrumah was building upon a ready inherited system focusing exporting primary goods with economic policies focusing on "extracting fiscal surpluses" (Hutchful 2002).[4] Most critics agree that the main reason for the Nkrumah strategy failure was "an excessive number of industrial investments crowded in a short time span and the inappropriate kind and size of enterprises the government established (Killick 1978, 45).

Before being overthrown by a military coup lead by John Rawling, Nkrumah has put his last effort into applying for a debt rescheduling process, and loan extension, but since most money was owned to Western countries, a natural condition set was that of a detailed agreement with the International Monetary Fund (IMF). Nkrumah chose to turn his back on any compromise with the IMF (Hutchful 1984).

In the following military era, under John Rowling, economic reforms had continued focusing more on fiscal and monetary policies in the late '60s, mainly under the watchful eyes of the (IMF). These reforms included the "abolition of direct controls on exchange rate,

[4] In the 60's the main economic strategy utilized by the government was a "two-pronged economy strategy: rapid state lead modernization strategy based on import-substitution industrialization, and commitment to a wide range of social welfare (…) as a foundation of subsequent growth". While all these actions did initially lead to a quick capital gain, they did ultimately fail in generating sustainable economic growth (Jones, at al 2007, 3).

prices, and import licensing; deflation of domestic demand, stimulation of exports, reform of public expenditure and reduction in state-owned enterprises" (Jones, et al 2007, 6). Overall social disadvantages of the above period, mainly due to high fiscal expenditures at state level, controlled wages, and heavy national debt cannot be neglected either.

The most important phenomenon –from this paper's point of view- is the gradual, yet unavoidable appearance of the conditions set by international donor agencies, leading up to the "unhappy but necessary" alliance between the Ghanaian government and donor agencies, which goes way beyond fiscal policies.

2.2 Macro Economic Policy

As early as 1981, the new Ghanaian regime –the Provisional National Defense Council (PNDC) headed by Rawling- recognized the urgency of economic stabilization through structural adjustments[5]. With the help of the World Bank (WB) and the IMF the government launched the Economic Recovery Programme (ERP) in 1983. (Jones, et al 2007, 3). The ERP, given its nature of an artificial partnership between the local macroeconomic advisory team and the World Band and IMF representation entailed numerous negotiations about the technicalities of reform implementation. These negotiations would naturally happen behind closed doors, which then gradually lead to a "de-institutionalized" form of decision making (Jones, et al 2007, 5). The above mentioned partnership only grew stronger, once primary structural adjustments seemed to have been working, and the international community began to regard Ghana as "the success story for African reform" in the '80s . As soon as Ghana was looked at as a "success story" the level of control in aid flow has loosened, making the work load easier on donor agencies, as well as adding to the "comfort factor" of Ghanaian organs, getting used to a "guaranteed source of income" (Jones et al 2007).

[5] "The term structural adjustment typically refers to policy prescriptions attached to structural adjustment loans from the World Bank and IMF. In practice, 'adjustment' is not a set of policies, but rather a process of policy-making in which the Bank and Fund played a central role. Adjustment in Ghana was characterized by experimentation, incorrect sequencing and conflicting conditions of the Bank and Fund, and as a result, policy advice and conditions were revised and refined over time. How these policy changes were produced depended on the negotiating framework: between the Bank and Fund, and among the Bank, Fund and PNDC macroeconomic team" (Jones, et al 2007, 4).

It is important to note the gradually developing dependency pattern that is about to turn into a seemingly unbreakable vicious circle between donor agencies and the Ghanaian government.

Further examining the macroeconomic discourse of events, it must be observed that while the stabilization process seemed to have gone flawlessly, the national budget was actually challenged by the major crash in cocoa price that occurred in 1989. Not surprisingly the World Bank and IMF, once again came to the rescue by increasing donor supplies in exchange for a bit more control on the policy making table (Hutchful 2002, 55).

The '90s were marked by very heavy government spending, which then paired with fiscal shocks[6] of the late '90s resulted in a total currency depreciation and skyrocketing inflation levels (Hutchful 2002, 215).

The above events have lead the government to further deepen its external debt, in order to balance its annual budget without affecting the internationally acclaimed growth figures. However, by 1999 Ghana had unavoidably joined the line of Heavily Indebted Poor Countries (HIPC) (Hutchful 2002, 216).

2.3 Liberalization of Financial Sector

The liberalization of the financial sector was one of the key elements that the Ghanaian government subjected itself to as part of the ERP (Jones, et al 2007). Regarded as fundamental stepping-stone in the process of macro-economic structural adjustment, the IMF actually insisted that financial liberalization was one of the first policy reforms to be implemented.

Generally speaking, financial liberalization "increases savings, improves resource allocation efficiency, and contributes to economic growth" (Stiglitz 1998, 24). Especially in the case of developing countries fiscal autonomy is regarded as an essential part of sustainable economic development, due to a possible increase in domestic savings through

[6] Fiscal shocks were explained by the "delay in introducing a Value Added Tax for political reasons, an increase in civil servant salaries, expenditure on rural infrastructure, and lastly corruption and party patronage" (Jones, et al 2007, 4).

accelerated growth, and a reduction on “excessive dependence on foreign capital flows” (Demirgic-Kunt, et al 1998, 3).

When studying the actual steps Ghana has taken on the road to financial liberalization, in order to see the actual magnitude of the changes, one must review the country’s financial standing prior to 1983.

Due to extremely tight government control the above period was characterized by full state monopoly when it came to bank ownership, foreign bank ownership. Brokerage-houses were virtually non-existent. The government was keeping interest rates at their lowest possible, with undefined risk elements leaving the population without any incentives to open up savings accounts in national financial institutions. This completely controlled environment, without the slightest possibility for competition then inevitably lead to a low sectoral performance, as well as complete discouragement of any sort of initiative on behalf of the private sector (World Bank 1997, 18).

As convenient as total state control seemed from a political point of view, Ghana found itself in the desperate need of reforms to develop a healthy and self-sufficient financial sector than would later on allow the national economy to compete at global level.

Through the reforms brought in 1983 several financial, as well as “non-bank”[7] financial institutions were established. New policy reforms allowed for private investment to flourish. Full foreign ownerships bans were lifted, allowing free way to an influx of Foreign Direct Investment (FDI). State banks were privatized and interest rates were no longer controlled by the government, but by professionals in charge based on market conditions through a bidding system (World Bank 1997).

As anticipated, the liberalization of the financial market hugely contributed to the Ghanaian economic growth. Based on World Bank records the output of the economy had gone up by 5% from the beginning of the financial liberalization period to 1989 (World Bank

[7] The “non bank” financial institutions were “made up of a stock exchange, insurance companies, a Social Security, a National Insurance Trust, discount houses, the Home Finance Company, venture capital companies, a unit trust, and a leasing company”, etc. (World Bank 1995, 9)

1997). A major change was registered in the agricultural sector, an area that will be looked at closer in the final chapter of this thesis, as a main identified source for comparative advantage exploration on global level. Ghanaian cocoa output had gone from 159,000 tons in 1983 to 247,000 by the end of 1989, mainly due to technical advances in production cycle resulting from FDI, as well as more flexible local loans (Cobbina 1999, 5).

As much admirable progress as the country had made in the beginning phases of the structural adjustments, a very fragile, newly liberalized Ghanaian economy was less than immune to changes on the international market. As briefly pointed out in the section discussing macro-economic policy reforms, the national budget was facing serious challenges due to high volatility on the international financial market, which caused the government to turn to international donor agencies marking the start of a downward spiraling aid-dependency pattern, as further discussed in chapter 3.

Chapter 3. THE POLITICS OF AID: A SHADOW GOVERNMENT?

Having discussed the many faces and dangers of international aid when "mishandled", or simply channeled in an environment lacking adequate policies or institutions, this chapter proposes to look at the very peculiar case of Ghana, where the long run existence and influence of donor agencies has gradually lead to the development of a so called "shadow government".

3.1 The Birth of a Shadow Government

In order to accurately and objectively present the theory of the so-called Ghanaian "shadow government" a brief recap and extension of the chronological checkpoints examined in Chapter 1 are unavoidable.

Based on World Bank and IMF reports foreign aid had been heavily flowing to Ghana throughout the '89s and early '90s culminating in 1992. The main reasons for this pattern were that a heavier aid-flow was meant to give the newly stalled Ghanaian economy a boost, as well as to further encourage slowly occurring political reforms.

Following the 1992 elections and the beginning of the PNDC regime (as discussed in the previous chapter), Ghanaian government spending became, increasingly restless. The new government, eager to take on new tasks and carry out reform agendas kept government spending at all time high, without, however, delivering any results. This state of obvious non-action was frustrating donor agencies, who didn't have enough power to adequately monitor government spending to simply cut back on aid flows (Lawson et al, 2007). As illustrated on the graph "Aid flow to Ghana as Share of GDP (1984-225)" (Annex 2) aid flows only became significant after 2002, most of which were within the parameters of debt relief (Jones et al, 2007, 7).

In their 2007 work Ghana: Economic Policymaking and the Politics of Aid Dependence Jones and Whitfield argue that in spite of a clear macroeconomic need, the aid dependence, that Ghana was and still is suffering from is a "political aid dependence" (Jones et al 2007, 7). They go on adding "political aid dependence" actually reach back to the '80s, when the financial sector liberalization took place, most government advisors had left to fill more financially promising roles in the private sector, as a consequence of which the government was forced to rely on consultants provided by foreign donor agencies, alongside groups of local political appointees functioning in a highly "de-institutionalized" environment. Naturally, this phenomenon had lead to an increasing loss of interest on behalf on the local government in economic policymaking, giving way to foreign donor influence. Gradually, donor agency representatives, dubbing as "observers", in the name of a better cooperation were virtually operating at both national and sub-national level "each to their own agenda and little coordination" (Jones et al, 2007, 8).

Another issue was that donor agencies were no longer in charge of only advising and monitoring macroeconomic agendas, they started having a say in sectoral strategies, and good governance, which has started an indirect shift towards local organs answering to foreign aid channeling agencies rather than their own government (Armstrong 1996, 52-54).

Thus in the light of the above events, the appearance of a "shadow government" was a rather natural, legitimate, and unavoidable process.

In 1994 the NDC government established an International Relations Department within the Ministry of Finance in order to counterbalance the newly gained authoritative power of donor agencies, but the government agency ended up being overpowered and remained "highly understaffed and ineffective", letting the World Bank and other donor agencies dictate the rules (Areetey, et al, 2004, 57).

As Areetey had summed it up, the NDC government also had a very forceful political incentives agenda to deal with besides the economic and administrative constraints. The paradoxical situation became unavoidable: a government that is frustrated and trying to reduce foreign donor influence in the country's political agenda is practically depending on the aid flow assured by the above agency in order to function, thus "maintain itself in power" (Areetey, et al 2004).

Ghana rang in the new millennium with no increase in donor coordination, or effective aid channeling, and while "new reforms were announced constantly, but with shallow implementation and indifferent results, and reforms were overseen by a government increasingly disconnected from the process and concerned with staying in power and self-enrichment" (…) "this way of managing aid became a default program, which was rarely overridden by political leadership or civil service "(Jones, et al 2007, 10).

3.2 A Problematic Alliance

Being reelected to complete a second term as the president of Ghana in 2004, the head of the National Patriotic Party (NPP) showed further efforts to focus on sustainable development of the country through investing in the private sector. The creation of the new Ministry of Private Sector Development was meant to monitor reform implementation and geared toward an assessment of how to achieve higher levels of self-sustainability within the parameters of the Ghanaian economy. Some efforts to establish a various public private partnerships were made, focusing on main export earners in an effort to boost employment and reduce poverty. But the government's visions were never realized due the "imperative of crisis[8] management" (Jones, et al 2007, 10).

The NPP was forced to accept the Heavily Indebted Poor Country (HIPC) title, which meant immediate debt relief. As it is in most cases no debt relief came with signing up for further conditions, thus giving up some of the authority that the government was originally striving towards. (Jones, et al 2007, 11).

Through the process of researching and assessing a country's aid dependence one must take a close look at the he highly paradoxical issue of aid forgiveness and its long term

[8] The economic crisis was the harsh reality that the NPP had inherited from the Rawling regime, during which foreign aid levels had reached thus far heights, making up over 10 percent of the GDP by the end of 1999, as well an unstable national political environment, worsened by extreme tensions between donor agency representatives –frustrated by both lack of full control and transparency in the distribution system- and the Ghanaian government (Thompson 2009).

consequences, as opposed to the more visible short term ones. While in most cases not having any realistic alternatives, Third World countries are quite skeptical towards the process –and especially the benevolent nature- of aid forgiveness.

As previously discussed Ghana became the "beneficiary" to the HIPC initiative, sponsored by the World Bank and International Monetary Fund (IMF). The debt relief plan was given green light in 2004 and it assumed a decrease in Ghana's national debt towards the IMF by 49 percent by 2012, respectively 67 percent by 2025 to the World Bank (Thompson 2009).

Just like loans and grants, aid forgiveness comes with conditions, oftentimes stricter and more numerous than most loans, and in most cases it automatically implies the loss of authority and "ownership" of the recipient government (Areetey, et al 2004).

. In his final report entitled PRSP Institutionalization Study, Charles Abugre, a Ghanaian policy expert right out claims that through various "Poverty Reduction Strategies" various donor agencies simply "assume new powers over low income countries (…). These creditor institutions only underwrite a small, almost insignificant, part of the costs to national strategies, yet they have the final say" over them. He goes on adding that using such power the World Bank can easily control both social and political aspects of developing countries "from behind closed doors", and "representatives of civil society, trade unions, NGOs, religious organizations are often hand-picked", so that there is a guarantee that they will obey all rules set by donor agencies oar nations (Abugre, et al 2001 34).

3.2.1 Foreign Interest versus Domestic Interest

The GPRS, presented in Chapter 2, got revised under the watchful eyes of World Bank representatives in 2005, being renamed GPRS II. While not free of tensions and conflict of interest, the new GPRS II represents a great stepping stone as a tentative to an effectively collaboration between the Ghanaian government and donors. Though donors have much less saying in any policy reform debates, and the "NPP government chose to merge its national policy framework with that of the donors by presenting the new GPRS as the constitutionally required Coordinated Programme. However, at the end of the day the GPRS is still seen by Ghanaians as a donor requirement" (Areetey et al, 2004 in Jones, et al 2007, 12).

In 2003 a general form of government budget support was presented in Ghana: the Multi-Donor Budget Support[9]. This budget support was primarily aimed at "reducing transaction costs and the burden on weak government bureaucracies of managing a plethora of donor initiatives" (Jones et al, 2007, 12).

Considering all options an historical data, the budget support was yet the most effective and "mildest form of imposition" on the Ghanaian government. This newly established and fairly functional "dialogue" between the local government and main donors, has also been a great influence on the final outcome of several national strategies, as far as sectoral reform implementations are concerned (Lawson et al, 2007 21).

As a summation of the above stated issues one can conclude that no mater how innovative and "collaborative" new regulations, or aid conditions are, they are still an organic part of this vicious cycle that doesn't seem to be able to be broken any time soon, through which the government needs foreign aid in order to implement reform (and be able to function in its day-to-day activities), but while complaining of "tied hands" regarding reform implementation, they, themselves assure access to donor agencies to policy discussions, in the name of a peaceful collaboration . Ironically, the more successful the collaboration between the government and donor agencies, the higher the ability of donors to influence government thinking, and the smaller the likelihood of governments standing up for a change (Lawson et al, 2007). This way, the vicious circle of aid and policy dependency of the country simply gets taken to a different –more agreeable- level, with even more minuscule chances to get broken.

[9] By 2007 eleven donors had signed up to support the Ghanaian government. Budget support only accounted for a fraction of the total aid portfolio, decreasing to only 27 percent in 2005 from an initial 39 percent in 2003 (Lawson et al, 2007).

3.2.2. Private Sector

As later on explored in Chapter 4 of this paper strengthening of the private sector has been identified as one of the most realistic and feasible modalities to move toward a less aid dependant state of the Ghanaian economy. As such, the private sector development strategy became the most crucial one within the context of the above mentioned partnership.

The main policy decisions are developed and implemented –naturally, under the watchful eyes of the "shadow government"- by two Ministries: the Ministry for Private Sector Development and the Ministry for Trade (UNDESA 2007, 9).

The Ministry for Private Sector Development had enjoyed slightly more freedom while drafting the original strategy, oftentimes called by donors "too interventionist", but the final Private Sector Development Strategy in 2004 became a compromise document between the Ghanaian government and the "shadow government representatives" in form of a team of consultants, who would continuously "defer to international best practice" in their arguments (Jones et al, 2007, 15).

What one must not forget, though is that international best practice, "thus the one fits all" (World Bank 2006, 3) transplant model is not applicable in all situations, or it simply may lead to very different outcomes depending on particular, country specific characteristics.

The best example of such transplant models not necessarily achieving the same outcome would be the adaptation of the Medium Term Expenditure Framework (MTEF) in an attempt to stabilize Ghana's previously inefficient and unpredictable budgetary system, showing no clear linkage between expenditure goals and acctual available revenues or efforts linked to national development plans (World Bank 2005). The MTEF was also supposed to contribute to a "greater match between the foreign donor's governance expectations and the government's actual ideas of plans regarding domestic reform implementation" (Killick 2005, 15).

Although the MTEF had a relative successful debut in Ghana in 2000, a stark stagnation followed, and is still not as integrated in the country's budgetary system as initially expected, leaving foreign consultants and donor agency representatives wondered why the case of Ghana wasn't such a long run, smooth success as Botswana or Uganda. The most obvious answer would be the lack of transparency and accountability. Ironically, these issues are an organic product of the twisted relationship between the Ghanaian government and the "shadow government" of donor agencies (Killick 2005). In case of Botswana or Uganda this was a non-issue, since there was very little will or opposition on the local government's end, thus the reforms could get easily implemented, monitored and evaluated.

The Ghanaian government has always been very persistent in pursuing its own agenda, which then indirectly lead to a "de-linking of budgeting from policy making and planning" (World Bank 2006, 15). While Ghana's main goal has been to contribute to the Vision 2020 goals[10], through strengthening the private sector (identified as a mean to leading to long term sustainable development and aid-independency), donor organs have been trying to push for a mainly public sector performance oriented expenditure, leading to lack of consistency, adequate monitoring, and generally accountability issues, which then would explain the lesser success of the Ghanaian MTEF transplant, than those of its fellow Sub-Saharan neighbors (World Bank 2006).

Another very important –and certainly more successful than the implementation of the MTEF- step in the process was the formulation of the National Trade Policy and Trade Sector Support Programme. More so then the above mentioned strategies, this was a very strenuous process, having Alan Kyerematen, the Minister of Trade and Industry and the main driving force behind the whole NPP strategy as its policy coordinator on the Ghanaian government side. Kyerematen, with a "very strong vision for the Ministry" (…) "carefully managed every step of the of the formulation process. While the Minister did employ a team of international

[10] The "Ghana Vision 2020" is a document presented to the Ghanaian Parliament by president Jerry John Rawlings on January 6, 1995, according to which: " (...) the long Term vision for Ghana is that by the year 2020 Ghana will have achieved a balanced economy and a middle-income country status and standard of living, with a level of development (…) the aim is to consolidate the gains so far secured over the past decade and lay foundations... to create an enabling environment which will facilitate substantial improvements in the economic life and social conditions of all Ghanaians."

consultants, he had made it clear that the team was only to "outline certain options available to Ghana, and not to select or advise as to which particular option it should select". The final version of the trade policy was drafted in 2005, and was the first document of its kind where a Ghanaian Ministry really took "ownership", and did not compromise its ambitious plan "written to stimulate Ghana's industrialization, rather than the resource envelope that donors were offering" (Jones et al, 2007, 18).

Though the above strategies were theoretically approved by the "shadow government", new issues leading to further negotiation arose when it came down to actual financing of the reforms. Donor agencies only wanted to finance certain aspects of the strategies, and also disagreed with the government's modalities of prioritizing funding for 2005-2007 (Jones et al, 2007). Hence, desperate for funding, the Ghanaian government was once again forced to compromise "ownership" and instead of actually coordinating and all the reforms, it will play a greater part in the monitoring and evaluating process, letting the "shadow government" take the true lead.

3.3 Is Saying NO to Foreign Control an Option?

The answer is definitely not a black or white one. As much as the government expresses its wishes to do so, or it would be necessary for the long run sustainable economic development of the country, an abrupt departure from foreign aid –making up about 46 percent of the country's economy would cause complete chaos and more damage to its current financial state than it is at present. While a complete and sudden departure from foreign aid is clearly not an option, a gradual reduction in the percentage of aid dependency is what the government should be focusing on. This gradual reduction of foreign aid is most likely to happen through a focusing away of previously explored and unsuccessful methods, and making an educated decision on how to better open up the one sector that has shown true potential in the past, and apply new private sector policy reforms toward the most promising field of the Ghanaian agricultural sector, namely cocoa production.

As of for right now Ghanaian government officials find themselves in a position that doesn't allow them to say "no" to loans, grams or any form or foreign aid, in the shadow of a not yet self-sufficient national economy. Another, almost equally as determining factor is that politicians almost fully depend on aid sources for financing their day-to-day activities, as well, offering "incentives to other actors to take aid, and little incentive to reject it", such as "perks[11] for poorly paid civil servants and poorly resourced Ministries" closing the door on any major changes in the immediate future (Jones et al, 2007, 24).

[11] Amongst perks enjoyed by civil servants and employees of various Ministry branches are: "vehicles, travel outside the country, per diems, going into a job on contract", etc. (Jones et al, 2007, 24).

Chapter 4. OUTLOOK ON AID DEPENDENCY

Given the possibilities of comparative advantage (Annex 3) held by the agricultural sector, as well as it's strong potential, leading up to a more independent and sustainable national economic development, the government, along with foreign donor agencies have tried to repeatedly invest in agricultural development. While progress of some level was always present, the inability to produce any long run results cannot be overlooked. Huge sums have been diverted and have led to no results mainly due to the fact that rural strategies tended "not to be underpinned by sufficient rural focused research-based knowledge and transnational sharing of such knowledge based experiences between actors in rural development" (Ghanaian Chronicle 2006, 2).

This final chapter will first take a look at recent historical data and reforms realized in the agricultural sector in support of the assumption that higher levels of PPPs within the agricultural realm (more precisely cocoa production), the creation of a more FDI friendly environment, investing in local human capital development is the key to a long term sustainable economic development, thus drastic reduction of dependence on foreign aid.

4.1 Ghana Today: Facts and Data, Current Economic Trends

According to official data 37.3 percent of the GDP is contributed by the agriculture sector, while 56 percent of the total Ghanaian population constitutes the active labor force in the above named sector. 28.5 percent of the total population lives below the poverty line (CIA The World Factbook 2008). A September 20, 2006 article from the Ghanaian Chronicle entitled Ghana: Almost 50 Years of Freedom based on a living standard survey shows that 82.3 percent of Ghana's total population falls under the definition of "poor", 64 percent of which resids in the country side. The same survey had underlined that "about 84.9 percent of heads of households (…) are income poor and 93.7 percent of them are knowledge poor" (Ghanaian Chronicle 2006, 2).

4.1.1 The Roots of Ghanaian Agriculture

Although the country seems to be blessed with favorable climate, as well as natural resources, agricultural output has not only failed to improve, but has rather fallen since the country's gain of independence in 1957 (Leechor1994). The agricultural deterioration process as a whole has begun in the mid '60s, with a steep fall in commodity prices, and an increase in certain inputs -such as fertilizers, etc.- left farmers with little to no initiative to produce. The decrease in production, then lead to an unavoidable decline in services and infrastructure, per se (Ghanaian Chronicle 2006).

The worse consequence, however, was the decrease in overall food production, leading to a decline in food self-sufficiency ratio from "83 percent from between 1961-66 to 71 percent in 1978-80 coupled with a four-fold increase in food imports in the decade prior to 1982" (Leechor1994, 12). The Ghanaian situation hit its all time low in 1983 with the arrival of the great draught. The population was suffering of food shortages and food exports were basically non-existent.

Thus the Ghanaian government launched a series of reforms known as Structural Adjustment Program (SAP) providing a more "market friendly" environment, under which the agricultural sector had expanded by a yearly 2 percent average between 1985 and 1994, "reversing the 1.2% annual decline during the years 1970-1980 (Leechor1994, 6). The above mentioned series of reforms was also known as the Economic Recovery Program (ERP).

Throughout the installment of the first phase of ERP in early 1984, the Ghanaian government had identified agriculture as the key element of the economic sector when it came to possible financial salvage of the country. The government has since fairly effectively oriented foreign grants and loans towards the revival of the agricultural sector through investing in general infrastructure, services, transportation, and other elements contributing in either a direct or indirect manner to a successful export-crop chain (Leechor1994).

4.1.2. Ghana's Agriculture under the ERP and Beyond

Ghana's ERP program was heavily backed by the World Bank. The ultimate development goal of the WB and the Ghanaian Ministry of Agriculture were an annual sustainable sectoral growth of 4 percent, affecting mainly "smallholdings and low income farmers" (Leechor 1994, 7-11). In spite of all government efforts that have been made average agricultural growths have stayed stagnant between the years of 1990 and 1995 at 2 percent, lagging behind previous growth rates from the colonial era of 4.3 percent per year (Gibbon 1992).

One of the major criticisms the government had to face was that of almost diverting attention from improving food crops through solely focusing on exports promotion. This deficiency was then addressed by the next Ghanaian ruling party, the Provisional National Defense Council (PNDC), by consciously promoting the importance of local food production. The PNDC introduced a new set of agricultural reform, the Medium Term Agricultural Development Program in 1991, the goal of which was to achieve complete "food self-sufficiency and security by 2000" (Government of Ghana 2008).

Although the government had stressed the importance of the increase of all domestic crops, per se, priority was given to those crops fueling market production, "improvement of Ghana's balance-of-payments position, and provision of materials for local industrial production" (Government of Ghana 2008). Also, according to WB guidelines, the Ghanaian government was supposed to solicit even more of the private sector's services, which in exchange has meant a clear disadvantage for "subsistence industrial producers", specifically in the field of cocoa, palm oil production, etc. (CIA The World Factbook 2008).

In a smart move -being accused of manipulating farming communities- the government has little by little tried to reduce its role in directly assisting farmers, letting the Ghana National Association of Farmers and Fishermen -established in 1991 by farmers and local communities- take over most of its previous functions and assistance capacity. This, however, has naturally meant a great disadvantage when it came to sustainable financial support to the farming community (CIA The World Factbook 2008).

4.2 The Business of Farming

Although cocoa production (representing around 40% of the country's total exports) has reached a record 400,000 metric tons in 1998 -contributing to a record growth in the Agricultural sector of 5.3%-, average sectoral growth has been lagging behind other sectors of the Ghanaian economy (CIA The World Factbook 2008).

4.2.1 Most Burning Issues Rural Farmers Face

In order to attempt to suggest healthy, long run solutions to local Ghanaian farming communities, one must take a closer look at actual present day problems that constitute the roots of general agricultural hardships.

Besides the above mentioned issues associated with general agricultural underdevelopment, there are some very peculiar ones rural farmers are faced with. As Mr. Aviram Tal, the general manager of Dizengoff Ghana Limited, a company selling various types of fertilizers and agrochemicals to local farming communities (today a subsidiary of Balton CP Ltd - a privately owned multinational British Company with an over 40 year experience in agriculture and horticulture) identified in the Ghanaian Chronicle in a June 24, 2004 interview, "lack of knowledge and good sources of information on the part of the farmers are some" of the major problems (Ghanaian Chronicle 2006, 2). Mr. Tal went on adding that the whole country was "suffering from fake agricultural materials smuggled from Cote d'Ivoire", which are not prepared in the right proportion, according to international standards, and ultimately contribute to a worsening of the situation, rather than improve land fertility. "Fake fertilizers", also known by the locals as "the devil's salt" can actually cause the land to become saline, thus unusable for years to come (Maseru 2006).

Another major issue getting in the way of a productive development of farming is that of Ghanaian land ownership related matters. The government has initiated a land ownership control reform program under the name of Land Administration Program (LAP), which, however is expected to last at least 15 years to be thoroughly and effectively implemented (Amanor 1999).

In present day Ghana all citizens are equally granted land ownership rights on a "first come first served basis" (Kasanga, et al 2001, 5). In practice, however the whole process related to land-lease preparation has multiple phases and can take anywhere between 6 months to 10 years. The present LAP program aims to "establish pilot projects in demarcation and registration of allodial boundaries, land titling and registration offices to improve deeds and title registration, and to strengthen customary land secretariats for effective documentation and record keeping of customary land transactions. This process is expected to last well over 15 years but the first five years would focus on selective piloting of these activities before wider replication" (Alhassan 2006, 10). In the final stage of the above program implementation an efficient land access process, along with perfect security of tenure is supposed to have been achieved (Alhassan 2006).

4.2.2 Present Perspective of Ghanaian Framers

After having pointed out some of the most persisting impediments Ghanaian farmers face, one must explore and evaluate the opportunities this developing country offers to its citizens.

As briefly mentioned in the introductory part of this research paper, around 46% of the country's GDP is based on foreign aid. Thus, it would seem to be quite an obvious step on behalf of the government, to simply try and create an adequate system to better administer this large amount of aid to help itself out of poverty and general economic slump that Ghana has been in for over decades now. The problem, however, like in so many other developing countries is that even though reforms are passed, they do not get implemented properly, they are not being monitored, and there is no proper evaluation system, which would offer a clear picture of the effectiveness of various reforms (Asuming-Brempong 2003).

During the decades following Ghana's independence the government "had pumped huge sums of money into rural development (…), unfortunately rural development strategies tend to not be underpinned by sufficient rural focused research-based knowledge and transitional sharing of such knowledge-based experiences between actors in rural development. (…) Policies seemingly designed for rural development and other interventions do not get to the truly poor" and farming communities in need. (Asuming-Brempong 2003, 5).

The lack of knowledge sharing and proper fund channeling of funds and resources leads into the next great opportunity window, namely investing into local human capital development. Knowledge sharing and developing human capital at local levels is typically the key to any successful project or set of reforms in most developing countries.

Training and local intellectual capital building must, however be anticipated by a thorough land reform that sets very clear division lines and credits future farmers, as well as current ones, with the conscience that they have firm "grounds" to build possible businesses upon, without having to wonder about the lengthiness of the process or future security matters.

Based on the research work entitled Land Access and Security of Tenure in Ghana by Osman Alhassan presented at the International Conference on Agrarian Reform and Rural Development in Porto Alegre, Brazil in March 2006 one can confidently state that a key element in the process of implementing new, positive government proposed land reforms with the help of numerous local and international NGOs is the level of actual stakeholder involvement and input. The author argues, that this would help "involve rural producers who need land most with capacities that would help promote their choices in natural resource management were also made. Since the Government, through the LAP and its parent Ministry, has a new land administration reform process on course, most suggestions are on how credible partnerships can be built and work effectively through increased stakeholder consultations and participation in the implementation of the already started land administration reform process" (Alhassan 2006, 21).

In the process of identifying key actors contributing to a long run success of the "agri-business" in Ghana it is very important to consider the role institutions and their policies regarding micro-credit programs. Although micro-credit programs have been around in Ghana since the mid '90s, only in recent years has the government started seriously channeling funds toward decentralized micro-credit programs affecting small-scale rural farmers (Government of Ghana 2008)..

In a September 2007 post on the Ghanaian government website Togbe Nyakpo, the Regional Coordinator of the Volta region Micro-Finance and Small-Loans Centre, (MASLOC), stated that a newly inaugurated "50-million dollar program was providing financial and technical support to mainly people in the productive sector in the country and not those in the buy and sell business", adding that the program is a "well thought-out intervention to tackle poverty" (Government of Ghana 2007).

Just like in other, previously mentioned fields, it is of decisive importance that farmers (considering that around 75% of them are illiterate, while 94% are knowledge poor) are aware of their "investment options", and above all build up a culture of mutual trust and understanding with banks oriented towards rural development (Government of Ghana 2008).

4.3 Cocoa Production: Is it THE Answer?

Based on the above data it seem like a given to further explore the clear "business opportunity" –one that could indirectly help reduce the country's aide dependence- has been identified in the form of cocoa production.

While Ghana used to be the world's leader in cocoa production during the colonial era, it has now been "out-produced", by its neighbor Côte d'Ivoire. However Ghana still prides itself in supplying Africa's best quality cocoa to the world and plans to regain its territorial superiority on the continent. In fact, the past half a decade Ghana's growth has gone up from the previous 4 decade long average of 2.7% to a 5.6%, tanks to production growth in the agricultural sector, mainly contributed to business of cocoa. (Government of Ghana 2008).

Much of the sudden productivity gain was credited to various productivity enhancing activities like disease control, the use of more appropriate methods of production -including the use of right chemicals- on small scale, privately owned rural farms.

A great stepping stone and an exciting opportunity seems to have presented itself for Ghana's rural farming communities engaged in cocoa production -as well as for the country's agricultural sector as a whole- when in January of 2008 Cadbury, one of the world's leading confectionary company announced the Cadbury Cocoa Partnership in collaboration with the UNDP (United Nations Development Program 2008). Based on a January 28, 2008 UNDP web news article "Cadbury is to invest seed funding of US$2 million (£1 million) in 2008 to establish the Partnership, with annual funding levels rising to US$10 million (£5 million) by 2010" (United Nations Development Program 2008, 2).

. According to James Boateng, the managing director of Cadbury Ghana present cocoa yields are barely hitting 40% of the actual potential in the country, thus one of the main goals of the partnership would be to "improve the income of cocoa farmers by helping them increase their yields and produce top quality beans, introduce new sources of rural income through microfinance and business support, and invest in community-led development from schools and libraries to biodiversity protection projects and wells for clean water" (United Nations Development Program 2008).

Cadbury plans to have this partnership be a productive and sustainable "public-private" model, in form of a more "grassroots"-style frame, involving local farmers, rural community members, local government(s), and INGOs, hoping to be "generating improved opportunities for local farmers, conserving the environment and building a brighter future for younger generations" (United Nations Development Program 2008).

4.4 Existing Recommendations and New Suggested Approaches

As previously established, it seems like the Ghanaian government has already realized and invested into one of the main stepping stones leading to higher productivity in cocoa production, and general agricultural development, which is *local human capital development*. Understanding the current economic environment, business trends, positively identifying opportunities is the key to a sustainable development of the rural farming sector. Starting with day to day issues, such as better product protection and usage, farmers must be educated on opportunities various international aid programs, as well as local government initiatives offer in the field of micro credit loans. Local workshops -some already being organized by Ghanaian banks, major companies with an agricultural focus as well as International Non Governmental/Non Profit Organizations (INGOs/INPOs)- are key factors in boosting locals' farming capacity, thus indirectly maximizing their income margin (Jalulah 2008). *Extensive introductory workshops* are suggested to be established all across the country, with special focus, however, on cocoa-producing farming communities.

Before stepping into the realm of innovative reform suggestions, one must keep in mind the level of –both aid and- policy dependence existing in Ghana. Thus suggestions need to be kept in line with the feasibility resulting from current political realities.

A *moderate re-evaluation cocoa export related policies* could be such a stepping-stone, leading up to of the current Ghanaian tax base adjustment. Considerable *tax-breaks for* those *small farms involved in cocoa production* would be a great boost to local economies, while *minimizing income taxes* [12]perhaps the new government could also "put money directly into the pockets of all Ghanaian workers and encourage them to work even harder" (Thompson 2009, 43) would undoubtedly contribute to higher living standards, as well as develop much needed human capital in remote rural areas most affected by extreme poverty. Along with the tax-breaks, and minimizing income taxes, the government should seriously consider following in its Sub Saharan neighbors footsteps and *lower* its current *corporate tax*

[12] Ghana's current income tax is set at 23 percent (World Bank, 2007).

rates to right around *10 percent*[13] in order to become one of the most desirable countries in Central-Western Africa from an FDI point of view.

[13] Ghana's current corporate tax rate is at 25 percent , lowered from a previous 32.5 percent. (World Bank, 2007).

CONCLUSION

Given the present state of aid dependency and more importantly: policy dependency, though a conditioned aid flow, the Ghanaian government finds itself in a very delicate situation characterized by an endless row of compromises. However, playing the right cards it can still "stir most wheels its way" (Jones et al 2007, 26). The extremely high level of aid dependence is a given, and there is no realistic way for the country to become fully self-sufficient within the next decade. However, the government still has plenty of possibilities to maneuver through the latest reform tied aid-conditions of the World Bank and IMF, and in a more transparent environment (amidst an altogether strengthened civil sphere) channel the existing aid flow in most favorable ways for local economies.

This thesis also suggests that besides modalities of a more efficient way of channeling existing aid, further research would be worth invested in exploring reform options affecting cocoa export, alongside a re-evaluation of the current tax base, and related opportunities a sound agricultural sector with a flourishing "farming business" would assure. Tax-breaks for those small farms involved in cocoa production would be a great boost to local economies, while minimizing income taxes, lowering corporate taxes for sake of a more investment friendly environment, as well as develop much needed human capital in remote rural areas most affected by extreme poverty

Thus the answer is not to try and immediately cut completely lose of foreign aid as part of a shock therapy program having its roots in intense internal reform, but rather a gradual installment of cocoa production related moderate sets of reforms, along with a careful refocusing on channeling existing foreign aid flows in a more productive way leading to sustainable development, and –indirectly- to an internally fuelled, self sufficient economy.

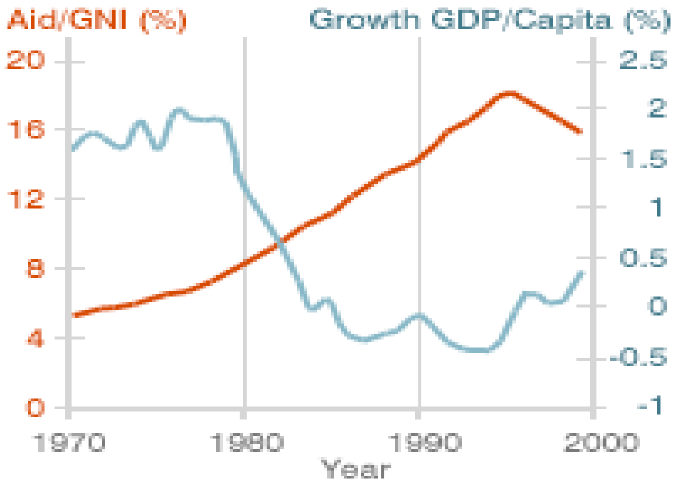
The government has the very delicate task of acting as a quiet, yet powerful facilitator between foreign investors, INGOs and local farming communities in order to preserve a delicate balance required for a sustainable development of the country's economy as a whole through focusing on exclusive comparative advantage chances within the agricultural sector.

Although Ghana has a very strenuous and long way to go in order to achieve its original goal of becoming a middle-income country by 2020 -having completely eliminated extreme poverty-, outlooks on lucrative opportunities are numerous (Jones, et al 2007).

"It is important to note that in the long trajectory of human development, there is no magic pill or silver bullet to accelerate development. What is needed is a concentrated effort to advance bearing in mind that we can only learn by doing" (Mangesi 2008, 12)

Annex 1

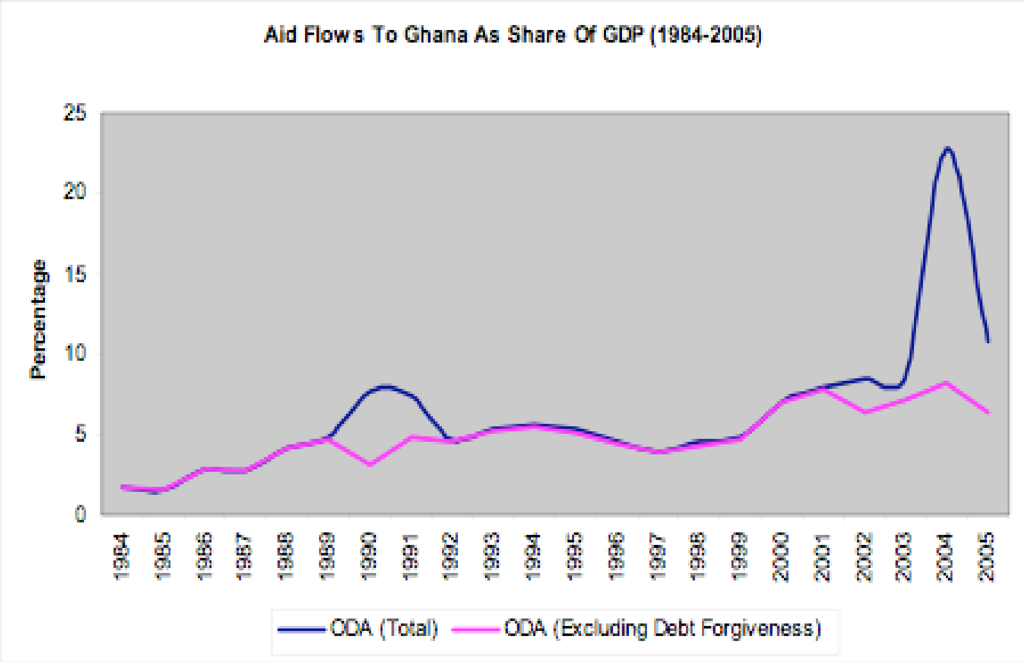
Aid and Growth in Africa 1970-2000



"As African aid rose, growth slowed".

Source: Erixon, 2005 [online version]

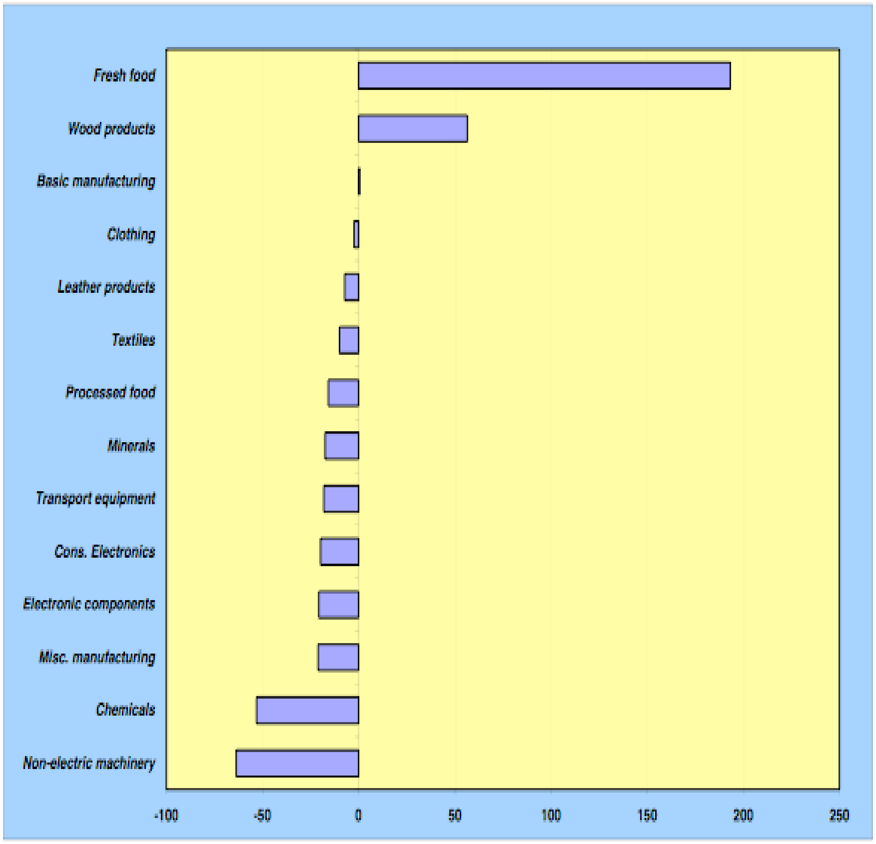
Annex 2



Source: Jones, et al, 2007.

Annex 3

Revealed Comparative Advantage (RCA) of: GHANA



	RCA	Rank
Fresh food	193	1
Wood products	57	2
Basic manufacturing	1	3
Clothing	-2	4
Leather products	-7	5
Textiles	-10	6
Processed food	-16	7
Minerals	-18	8
Transport equipment	-18	9
Cons. Electronics	-20	10
Electronic components	-21	11
Misc. manufacturing	-21	12
Chemicals	-53	13
Non-electric machinery	-64	14

The Revealed Comparative Advantage (RCA) according to the CEPII formula shows the contribution of each sector to the country's overall trade balance. The higher the Index or the better (lower) the ranking, the larger is the contribution of the sector to net exports (exports minus imports) and the balance of trade. The Index indicates the difference between actual net exports and the adjusted net exports taking into account the country's overall trade surplus/deficit.

Source: ITC 2001

Calculations based on COMTRADE of UNSD

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