

Has the International Monetary Fund's (IMF) Support on the Development of Ghana between 1980 and 2020 Really Made the Desired Impact?

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Abstract:- Donor Agencies are organizations providing financial assistance to different countries to meet their economic and social goals despite resource constraints. A key example of donor organizations that has benefited many countries across Africa specifically, Ghana is the International Monetary fund (IMF). IMF is an organization that focuses on providing financial assistance to its member countries to achieve specific goals that will improve the growth of the country's economy. IMF targets the country to implement strategies or programs that will achieve sustainable growth and prosperity of the country's economy. Since 1957, Ghana has been a member of IMF receiving financial assistance and advice in formulating financial policies that lead to economic growth (IMF, 2019b). Despite the witnessed economic challenges in Ghana, IMF has been an important donor and lender to Ghana over the decades. In Ghana, key economic challenges include poverty, low-income levels, and unemployment. IMF in its relations with Ghana, therefore, focuses on funding programs targeted at increasing productivity, job creation, and overall economic wellbeing of the country.

IMF (2022) website provides essential data regarding the projected economic growth that Ghana will achieve from financing and implementing economic policies as advised by IMF. From IMF website, the projected real gross domestic product rate for Ghana is estimated to be 5.2%. As of 30th June 2022, the outstanding purchases and loans from IMF for Ghana stood at \$1331.09 million. The country's consumer price index was also projected to change at 16.3%. Ghana has had over 15 purchases and loan arrangements with IMF since becoming a member in 1957. In IMF, Ghana has special drawing rights of \$654.51 million with a quota of \$738.0 million (IMF.org, 2022). The data herein shows that there is a positive relationship between IMF and Ghana over the years which is expected to continue in the future. Ghana's economic challenges have been addressed by inputs from IMF in various forms as explained below.

I. IMF AND ITS ROLES IN DEVELOPING COUNTRIES

Developing nations such as Ghana, Kenya, and Tanzania have benefited from various donor agencies helping them achieve their economic goals. In Ghana, membership in IMF has brought several contributions to achieving economic sustainability (IMF, 2019a). The major missions of IMF in developing countries are as follows: To ensure monetary co-operation is achieved between member nations; encouraging the expansion of trade between member nations to achieve economic growth. The final critical mission of IMF among its member nations more so developing nations is to discourage policies that would harm economic sustainability and prosperity (IMF, 2019a). IMF conducts these missions through different practices such as providing financial advice to government leaders when making monetary and fiscal policies. Unlike other economic organizations like the World Trade Organization, IMF does not control trade barriers or tariffs among member nations but provides data-backed advice to member nations on how fostering ease of trade will be beneficial to all countries involved in the process (IMF, 2019a).

According to IMF (2022), the major impact of developing countries engaging in IMF activities is that they have a chance to collaborate with other well-established nations and therefore obtain benchmarking opportunities promoting trade activities. Ghana's economic situation has been fluctuating over the years with the country's GDP and inflation rates differing over years. Research done by Akolgo (2022) shows that IMF has effectively contributed to the economy of Ghana changing towards sustainability. IMF has funded and advised on programs and policies targeted to reduce inflation, promote GDP growth and therefore achieve economic sustainability in the nation (Terry, 2019). Below is a graph showing how IMF policies, advice, funding, and regulations have helped to mend Ghana's economic situation over the years.

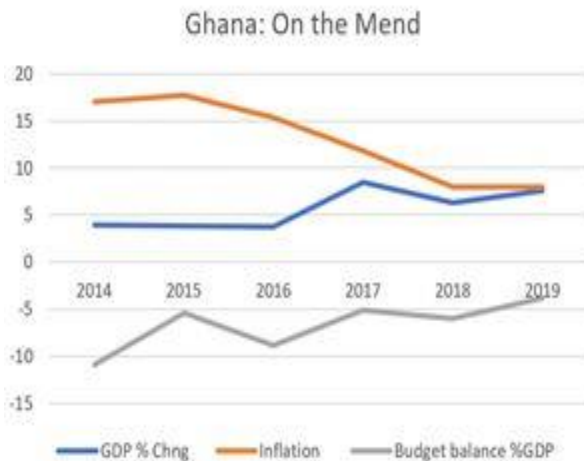


Fig 1 (IMF, 2019b)

II. HISTORY OF IMF PROGRAMS IN GHANA 1980-2022

Despite being a member nation since 1957, Ghana's relationship with IMF became strong and essential in shaping the country's economy during the 1980s when the country was facing a hunger crisis (BBC News Pidgin, 2022). Further research from BBC News Pidgin (2022) shows that from 1981-1983, Ghana faced a period of hunger brought by climate change leading to the then President Rawlings calling for donor organizations including IMF to help alleviate the hunger situation. It was during this tough period that Ghana's economy became stagnated. There was no growth with high inflation rates calling for the need for the government to implement financial policies such as increased government spending (BBC News Pidgin, 2022). Other than receiving charity support to help with social needs such as food, IMF further provided financial advice, policy formulation, and regulation in Ghana. IMF contributed to implementing the structural adjustment program which was effective in reducing inflation in Ghana. IMF donor programs and financial assistance to Ghana saw the country's inflation rate reduce from 142 in 1983 to 10% in 1991 (BBC News Pidgin, 2022). The country's economy was stabilized with the help of IMF (BBC News Pidgin, 2022).

The years 1995, 1999, 2003, and 2009 are four key periods in Ghana's economic history where the country received a boost in policy implementation and financial assistance from IMF. In 1995 and 1999, IMF and other international financial bodies moved to implement a program called the debt cancellation policy (BBC News Pidgin, 2022). This program was meant to benefit highly indebted poor countries more so than those in Africa. With new leadership in 2001, the then Ghana President John Agyekum Kufuor worked with stakeholders to rebuild the government by focusing on the high debt that the country had cumulated from donor international financial organizations. In 2003, President John Agyekum Kufuor moved for IMF considering Ghana's

loans to be canceled as the country was categorized as a highly indebted poor country (HIPC). By 2006, Ghana's loans to IMF had been reduced from \$66 billion to only \$23 billion (BBC News Pidgin, 2022). IMF however restructured the loans and directed the Ghanaian government to invest the amount to be paid for the loan in education, healthcare, and job creation strategies.

Despite the positive economic growth Ghana had been witnessing over the years, a power challenge in the country led to further poor economic situations making the country in dire need of foreign financial assistance from institutions like IMF. In 2015, IMF approved a \$918 million loan to Ghana to address the poor economic situation that the country was facing (BBC News Pidgin, 2022). The then President John Dramani Mahama sought IMF intervention to secure funding for strategies that would boost economic growth. IMF approved the loan to ensure faster job creation in the country and stimulate economic growth. From 2020, the COVID-19 crisis led to disruptions in global supply chains leading to inflation (BBC News Pidgin, 2022). Government leaders have been split over the need for the government to turn again to IMF for financial assistance over the different contributions of donor agencies. Below are the implications or impacts of donor agencies like IMF on a HIPC like Ghana.

III. IMPACT OF DONOR AGENCIES' PROGRAMS ON GHANA'S ECONOMY

➤ Addressing Hunger and Food Security

Examples of donor agencies involved in promoting economic and social sustainability in Ghana include the World Food Program (WFP), IMF, the United States Agency for International Development (USAID), The Food and Agriculture Organization (FAO), and the Borgen Project. These organizations have all noted the challenge of hunger and food insecurity in northern parts of Ghana. From 1981 to 1983, Ghana witnessed its toughest economic period with the country being hunger-stricken due to climate changes. One of the contributions of a donor organization like IMF during this period was to alleviate hunger and provide for the development of food security strategies. Fighting hunger requires input from various stakeholders. Research done by Stubbs, Kentikelenis, Stuckler, McKee, and King (2017) shows that despite the country witnessing its worst hunger period in 1981-1983, hunger and food insecurity persists in the Northern parts of Ghana. Donor agencies like the World Food Program have therefore developed strategies to alleviate hunger not only by providing funding and relief food but also developing sustainable long-term options (Stubbs et al., 2017). According to WFP, there are various companies and community-based organizations identified as key stakeholders to promote agricultural development at a local level.

IMF is an essential agency in fighting hunger in Ghana. Not only does it provide financial assistance through loans and purchases but it also guides the country to develop the right

fiscal and monetary policies. IMF in 1981-1983 aided Ghana to overcome the hunger crisis by providing financial assistance and policy advice (Alawattage & Azure, 2021). IMF herein advised against the progression of a state-controlled economy and advocated for the use of a market-oriented economy to help in the creation of jobs, improve employment opportunities and promote market growth all of which contribute to food security (Pinto, 2019). With the help of collaboration from community leaders, government leaders, and Ghanaians at the local level, examples of programs that have been implemented to alleviate food insecurity and hunger are as follows: The donor agencies have encouraged education on sustainable farming methods among the locals; Donor agencies have also provided the locals with relief food for short-term sustainability as the country develops effective inclusive strategies for food security (Alawattage & Azure, 2021).

➤ *Reducing Unemployment*

Data from Statista (2022) shows that Ghana is one of the countries in Africa with a small unemployment rate over the past 10 years. In the 21st century, Ghana's efforts to fight unemployment have been funded by various organizations to implement long-term economic sustainability. As explained above, Ghana's relationship with donor agencies such as IMF has been productive in shaping the political and economic programs focused on creating employment opportunities. IMF has provided loans and programs such as debt cancellation helping Ghana to invest more resources into activities like education, healthcare, and self-employment opportunities for the youth. Ghana's unemployment rate in 1999 was 10.1% and the rate reached an all-time high of 10.36% by 2000 (Statista, 2022). It is during this period that the then President turned to IMF in search of loans, donations, purchases, and policy advice to fight unemployment in the country. With the help of agencies focusing on restructuring the country's economy to be market-oriented, many organizations have implemented skills development programs helping create employment opportunities. Organizations such as IMF have provided support such as the \$918 million loan approved in 2015 to help the country address unemployment and other economic challenges in the country (Statista, 2022).

IMF's loans, grants and donations from other donor agencies have effectively led to the country addressing the problem of unemployment. Data from Statista (2022) shows how successful the programs implemented by the government with the help of donor agencies as stakeholders have been in reducing unemployment. Statista (2022) shows that unemployment was at an all-time low of 4.64% in 2006 when IMF program of debt cancellation was implemented. This program helped the country invest its resources in the national programs focused on creating a strong healthcare and education system to provide the youths with relevant skills for being employed and self-employment programs. In 2015 when the \$918 million loan was approved by IMF, unemployment had grown to 6.81% due to tough economic situations in the

country. The loan considered as an investment in the country's programs to tackle unemployment has been effective. Unemployment was reduced to 4.22% within the next two years as Statista (2022) shows. Despite the economic challenges faced in Ghana, donor agency programs have been effective in guiding the country to address the problem of unemployment (Statista, 2022).

➤ *Restoring Debt Sustainability and Economic Restructuring*

A study by Akolgo (2022) shows that IMF's contribution to shaping Ghana's economy started in 1966 after the overthrow of Kwame Nkrumah by the National Liberation Council. The government herein invited IMF to take charge of leading the economy through its three major functions namely policy advice, capacity development, and financial aid (IMF, 2019a). In the early 1980s, Ghana's economy faced slow growth including elevated levels of poverty, hunger, food insecurity, unemployment, and inflation. Through different programs that IMF was engaged to implement in Ghana, the overall impact was witnessing economic restructuring and growth to achieve economic sustainability (Pinto, 2019). According to Oxford Analytica (2021), economic sustainability has been achieved through different strategies focusing on having a nation that eradicates poverty and develops a strong educational system and social infrastructure able to meet the short and long-term social needs of the citizens.

Ghana's economy has been growing over the years with the help of donor agencies and foreign international stakeholders (I. M. F. Survey, 2019). Across the sub-Saharan region, Ghana is one of the countries having a positive economy due to programs focused on reducing unemployment and creating more jobs for the people. Ghana's main economic strength lies in exporting its resources such as cocoa, gold and oil discovered recently. Effective planning, use, and distribution of the returns from these resources have been a challenge due to the political volatility witnessed in the country over various years. Changes in leadership regimes have seen leaders implementing different policies focused on benefiting the people to achieve a strong GDP and consumer index. As Mungomba, Haatongo-Masenke, and Cheelo (2020) further explain, Ghana's economy has grown over the years tackling key economic challenges such as poverty from 53% in 1991 to only 21% in 2012.

Despite the positive economic growth, Ghana faced various challenges that led to increased inflation and poor management of resources. By 2015, Ghana's economy was in trouble with the country having a widening current account, budget deficits due to poor resource allocation, high inflation, and a currency that was losing value (Konadu-Agyemang, 2019). The economy witnessed further challenges with credit drying up in the reserve banks due to poor fiscal policies implemented by the government. Interest rates rose and banks recorded numerous losses in defaulted loans due to the rising inflation and high cost of living. This is where IMF's three

major functions are applied in contributing to the country's economic growth (IMF, 2019a). In collaboration with various stakeholders, IMF provided financial assistance to Ghana to the tune of \$918 million. IMF's involvement, in this case, was directed at developing a three-step program focused on restricting the economy and adjusting the relevant factors leading to a lack of sustainability (I. M. F. Survey, 2019).

Other than providing financial assistance to the tune of \$918 million, IMF helped the country restore debt sustainability (I. M. F. Survey, 2019). Herein, the government was urged to limit hiring and increased expenditure which saw a rising cost of maintenance of the public service at the expense of reduced productivity and revenue. IMF advised the government to eliminate subsidies for utilities and petroleum products, something that was seen to lead to inflation. IMF advised the country to fight inflation by formulating policies and strategies focused on recovering money in circulation to increase revenue. Restoring debt sustainability was further achieved by the government cracking down on tax evaders and promoting revolutionary tax exemptions for essential products and services. IMF further advised Ghana on the need to adopt taxation strategies for luxury car imports to improve its revenue. The overall effect of attaining debt sustainability was the formation of the Public Financial Management (PFM) Act which called for transparent and accountable leadership responsible for managing the public resources to avoid corruption, poor policy formulation and curb high debt (I. M. F. Survey, 2019).

A key role of IMF in developing nations is capacity building (Oxford Analytica, 2021). Capacity building means helping a country develop suitable programs and policies suitable to strengthen the country's economy and attain long-term sustainability. IMF contributed to Ghana strengthening its monetary policies as a measure to curb the rising inflation alongside other economic challenges. A study by Terry (2019) shows that Ghanaian authorities in collaboration with advice from IMF agreed to gradually end how the central bank was used to finance the budget deficit and instead focus on new revenue generation strategies. The goal herein was to address the high inflation witnessed in the country (Aryeetey et al., 2017). Monetary policies such as interest rates, reserve minimums, public bonds, discount rates, and open market operations are examples of strategies used to curb inflation in a country (Brown, 2017). In 2015, IMF entered an agreement with the Ghana government in a bid to fight high inflation using monetary policies by cleaning up the banking system. Research shows that there was undercapitalization of some banks and they were capitalized. The central bank developed new regulations including minimum reserves, underwriting, and credit evaluation standards. In collaboration with IMF through the obtained source of funding, the central bank wound down on insolvent lenders. Insolvent microfinance institutions' depositors were paid back as a way of restoring the country's capacity to improve financial reserves and fight against inflation (Oxford Analytica, 2021).

IV. CONCLUSION

It is imperative to note that IMF has rolled out programmes running into several millions of United States dollars aimed at supporting Ghana to develop in all areas of the economy. Very significant to that, Ghana's economy has seen upward growth over the years with the help of donor agencies and foreign international stakeholders (I. M. F. Survey, 2019). Across the sub-Saharan region, Ghana has been noted as one of the countries having a positive economy due to programs focused on reducing unemployment and creating more jobs for the people. The question then is “why does Ghana continue to seek for support from IMF in spite of the good programmes?” Has the problem something to do with political leadership? Further study will help us to elucidate the circumstances surrounding the mystery of Ghana's continued engagement of IMF. In conclusion, and judging from the cited references, it can be deduced that Ghana is yet to experience the desired impact of IMF support for the period under review.

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