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Owning economic reforms: A comparative study of Ghana and Tanzania

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Discussion Paper No. 2001/53

Owning Economic Reforms

A Comparative Study of Ghana and
Tanzania

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Abstract

This paper compares reform ownership in Ghana and Tanzania over the past two decades. It finds that on several dimensions, Ghana's early economic reforms enjoyed a high degree of ownership. That ownership was not embedded, however, in a politico-institutional framework that ensured that ownership would be maintained. Initial efforts to broaden consultation were not maintained and the small economic team was insufficiently widened. The politically more difficult second-generation reforms, the move to multi-party democracy and the exponential increase in aid contributed to a decline in ownership in Ghana. In the case of Tanzania, while initial reform efforts were made without aid, the acrimonious debate with donors that preceded the eventual agreement with the IMF and the socialist ideological heritage strengthened the perception of little ownership. Tanzania's relatively weak state capacity and weakened policy decision making process have contributed to lower ownership. Most important, however, the high degree of aid dependency and dominance of donors sometimes tends to mask the real attempts the country is making. Tanzania has made interesting innovations in trying to manage its relations with donors. If they are to succeed, state and institutional capacity must be strengthened and donors must give the country some space.

Keywords: foreign aid, conditionality, Ghana, Tanzania, political economy
JEL classification: F35, O55

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1. Introduction

Ghana and Tanzania provide interesting contrasts of sub-Saharan Africa's reform experience. Though situated in politically volatile regions of the continent, they have so far managed to steer clear of political destabilisation and have been able to introduce and maintain political pluralism. Reform ownership by policymakers and institutions and participation in policy making by the population are key ingredients of reform success. Both countries have tried to address these issues in recent years. Ghana was an early reformer, starting already in the 1980s, while Tanzania was a much later convert to the reform process. In the latter part of the 1990s Ghana experienced significant backsliding in its reform efforts, associated partly to the policy diversion implied by the introduction of political pluralism. However, while Tanzania, whose policy of state-led development was for several years supported by a number of bilateral donors, was ostensibly slow to reform and slower still in committing to market liberalisation, it is now seen as making tangible progress. Comparing the experiences of Ghana and Tanzania is thus useful in trying to understand how reform ownership affects economic performance in sub-Saharan Africa.

There are several reasons why reform ownership is an important determinant of policy success. Typically economic reforms involve difficult decisions that, at least initially, have negative impacts on important segments of the population. Devaluation and trade liberalisation, for example, affect not only the activities of exporters and importers but also those of manufacturers and, in the countryside, commodity producers. On the other hand, fiscal adjustment, civil service reforms and privatisation impact variously on the welfare of groups engaged within and outside the public sector and in the different geographic regions. There are thus bound to be winners and losers during the reform process and net gainers are often difficult to pinpoint a priori. Where potential losers are plentiful and well connected, reforms will be resisted. Since the benefits of the reforms accrue only in the medium to long run it is necessary for the government to be committed. In the absence of commitment reforms cannot to be sustained, with reversal likely in the face of political opposition.

This chapter looks at the subject of reform ownership in sub-Saharan Africa with Ghana and Tanzania as case studies. It identifies the factors, including institutions and policies, that determine the countries' capacity to formulate, implement and sustain economic reforms. Section 2 reviews the evidence on the links between ownership and reform, while section 3 provides a chronology of the reform process in both countries, including the role of domestic institutions as well as that of donors. Section 4 summarises the determinants of reform ownership and concludes the chapter.

2. Linking ownership to reform outcomes

Since reform ownership touches on a wide range of policy and institutional issues, it tends to defy simple characterisation and definition. Johnson and Wasty (1993) have suggested four contexts in which reform ownership can be demonstrated: At the level of initiation; during the process of refinement when broad consensus among policymakers is required to move ahead; with respect to expressible political support for reform; and the extent of public support and participation. In the case of initiation, for example, ownership is

considered high when the government initiates and implements the programme as opposed to when the programme is prepared by the World Bank itself.

Research on reform ownership has focused on two main areas, corresponding roughly to the role of donors and multilateral agencies in the process and the response of recipient governments. To the first set of studies belong those that have looked at the effectiveness of policy conditionality in bringing about reform (Burnside and Dollar, 1997; Collier, 1997; Killick, 1997; White and Morrissey, 1997; Killick *et al.*, 1998, International Monetary Fund, 2001). The second set of studies examines more directly the link between ownership and policy implementation and outcomes (World Bank, 1998; Dollar and Svensson, 1997; Devarajan *et al.*, 2001).

Policy conditionality relates closely to the political economy of reform ownership. It is instructive that the authors of the External Evaluation of the ESAF noted that ‘a common theme that runs through perceptions of ESAF at the country level is a feeling of loss of control over the policy content and the pace of implementation of reform programs.’ (International Monetary Fund, 1998: 36). The recipient country’s ability to influence its reform ownership depends on the size of its financial resources, human capacities and on its strategic importance. In a context where one party is perceived to be weak, with little technical competence to propose options or to implement programmes, ownership will be difficult to achieve. There are several examples of this in the World Bank’s negotiations with its member countries. Those with greater bureaucratic and policy management expertise, such as Argentina and Chile, are not only better prepared for negotiations but are also more likely to get their points of view incorporated in the programmes.

African case studies in Devarajan *et al.* (2001) strongly suggest that while conditionality may, in a period of rapid reform, be helpful in establishing a country’s credibility, its usefulness is often short-lived.¹ This is because the continued use of conditionality by donors masks efforts at reform ownership, even in environments where it is beginning to take root. Moreover, the arduous process of confirming whether the conditions have been fulfilled gives the impression that reforms are imposed from outside. It is also likely that numerous conditionalities complicate the policy debate, as was partly the case in Ghana in the late eighties, making it difficult for domestic groups to participate meaningfully.

The studies in Devarajan *et al.* (2001) reached a number of conclusions on ownership and economic reform in Africa. First that, implementation aside, the success of reforms is a result of the extent to which governments have been able to undertake broad domestic consultation. However, the latter need not necessarily follow any predetermined pattern. In Uganda, for example, the government used its umbrella type political structure, which by excluding individual political parties from power is not seen as democratic in the Western sense, to enable a fair amount of consultation during the reform process. ‘President Museveni established the Presidential National Forum to debate reform issues in 1987. The Uganda’s Manufacturers Association sponsored seminars and discussion papers in the 1987-9 period. The Presidential Economic Council had open debates on reform and sponsored a December 1989 conference on trade liberalization that has been described as a turning point in public opinion’ (Devarajan *et al.*, 2001: 11).

¹ Côte d’Ivoire, Democratic Republic of Congo, Ethiopia, Ghana, Kenya, Mali, Nigeria, Tanzania, Uganda and Zambia.

Also crucial for reform ownership is the institutional capacity of governments. Since ownership means both that political commitment exists and that there are 'able technocrats who can work out the details of reform' (Devarajan *et al.*, 2001: 29), technical assistance that provides training and policy advice to ensure this can be useful in strengthening and broadening the foundation of ownership. Aid during reforms, by increasing the benefits of the latter or reducing their disruptive impacts, could also strengthen commitment and increase the likelihood that reforms are sustained. The case studies find, however, that complex reforms, such as privatisation and civil service reform, that directly threaten vested interests are difficult to champion, while macroeconomic reforms, being less discriminating in their impacts, are associated with greater ownership.

In the Johnson and Wasty study cited above, based on a sample of 81 World Bank adjustment credits approved in thirty-eight countries between 1980 and 1988, a positive correlation is found between ownership and how satisfactorily the programmes met their objectives.² They also found that ownership was strongly predictive of programme success in 73 percent of all cases. Notably, the commitment of the country's political leadership was found to be the most important determinant of success. Similar findings are cited in Kahler (1992) and Killick *et al.* (1998). They indicate that in reform programmes considered well implemented, the government's prior commitment was a crucial factor. By contrast, the majority of the poorly implemented ones took place in environments of low commitment.

Political legitimacy and credibility are thus key ingredients. Johnson (1994) observes, with respect to the poor implementation of IMF programmes, that lack of legitimacy means that the government will 'attain only a rather modest degree of implementation in the face of sabotage, indifference, non participation, and minimum effort and compliance from the general population.' However, the experience of countries such as Ghana, Korea and Uganda suggests that in the short to medium run it might be possible to pursue reform relatively well even where political legitimacy was lacking. This is because reforms that generate growth and improve the standards of living are likely to find support, in spite of the perceived illegitimacy of the governments implementing them. However, in the long run, reforms nurture their own demands for political change, and governments eventually have to address political reforms as well.

There are two important weaknesses of the empirical analyses of reform ownership reviewed above. First, efforts are often biased towards assessing government, thereby ignoring beneficiary ownership. Second, the 'measurement' of ownership is often done *ex post* and not when it is happening, raising the possibility that evaluators could be biased by their perception of developments in the country.

Ignoring beneficiary ownership can be a costly oversight. For example, Ndulu (2001: 6) argues that in enforcing accountability and ensuring aid effectiveness, strengthening the

² Assessed by looking at four indicators: (i) who initiated reforms; (ii) political leadership's commitment; (iii) technocrats' intellectual conviction; and (iv) how broad-based the support for reforms is. Each of these indicators was rated according to a four level scale depending on the degree of ownership. So for example, in the case of the first indicator, if the government initiated and implemented the programme then ownership was highest. On the other hand, if the programme was prepared by the Bank and implemented despite serious disagreements then ownership was ranked at the lowest level.

voice of the citizens is crucial. This can only be ensured by their increased participation in the design and implementation of the programmes. However, although evidence from the aid effectiveness literature highlights the importance of beneficiary participation for performance, this is easier to do at the project than the macroeconomic level. Furthermore, the fact that ‘ownership’ tends to be ‘measured’ after the fact is problematic. In conjunction with the subjectivity of the term itself, there is the risk of the evaluation being biased by perceptions of developments in the country at a given moment. In a sense, we are ‘predicting’ after the event. Haggard and Kaufman (1992: 7) argue that what is important in assessing ownership is not so much the progress made with respect to some ‘variables’ but rather the extent to which reforms have become ‘consolidated’ i.e. ‘that they have been institutionalised within the policy system’. This is important because it ensures the existence of stable coalitions of political support.

But of perhaps more serious concern are the queries raised by Killick *et al.* (1998) and Lancaster (1999) on the desirability of ownership for reform success. Using a principal-agent framework, Killick argues that ‘ownership’ is really a proxy for the extent to which the reforms are perceived to be in the interest of the government and the population. In other words, the degree of government ownership that is demonstrated is a function of the extent to which its objectives dominate those of the donors. Ownership is thus an indicator of ‘interest conflict’. Under domestic ownership, the government is in the driver’s seat as far as identifying priorities and changes is concerned, while in its absence the donors’ objectives and priorities dominate, increasing the possibility of interest conflict.

In Killick’s view, there is unlikely to be convergence between the objectives and interests of donors and recipients. The reasons he gives are that the two parties ‘are conditioned by different historical and institutional backgrounds; they are answerable to different constituencies; they each have their own internal management imperatives; there may be differences in attitude to the role of the supporting finance offered by donors (the moral hazard issue); there are asymmetries in the incidence of adjustment costs, including the costs of mistakes, and these lead to differing attitudes to risk and the desirable speed of change; nationalistic resentment of ‘donor interference’ and of inequities in the treatment of countries is apt to give rise to generalised suspicion of externally recommended policy reforms’ (Killick *et al.*, 1998: 98-9). The existence of ‘interest conflict’ helps to explain why ownership may not be sufficient to generate the desired economic outcomes.

Finally, ownership is a dynamic and endogenous concept. Generally, good economic outcomes will tend to support greater ownership. In Botswana, for example, diamonds and the benefits of a well-managed economy not only led to steady economic growth—they also reduced the economic importance of aid, giving the government an advantage in its negotiations with donors (Maipose *et al.*, 1997). Even governments that might initially be lukewarm about reforms are likely to change their tactics when they perceive that the reforms are enhancing their political capital. On the other hand, no amount of ownership can prop up a programme that fails to yield tangible benefits over time. As the saying goes, ‘success has many parents, but failure is an orphan’.

3. Economic reforms in Ghana and Tanzania

In both Ghana and Tanzania, economic crisis was an important impetus for reform. The initiation and sequencing of reforms and political change, and their implications for

economic policy differed, however, influenced by the historical context of each country. Thus in both cases it is important to understand the economic quandary that had to be addressed as well as the nature of the ensuing reform process.

In Ghana, a democratically elected government was overthrown in 1981 in a *coup d'état*. On seizing power, Flight Lieutenant Jerry Rawlings and his populist Provisional National Defence Council (PNDC) inherited a bankrupt economy. Economic mismanagement during previous governments, as well as adverse terms of trade, had led to economic stagnation, economic imbalances characterised by severe shortages, ineffective controls and corruption. By 1977, inflation had reached 77 percent and production had shrunk in every sector of the economy.³

While the PNDC recognised the severity of the problems it faced, internal dissent meant that an economic reform program could not be adopted until towards the end of the military regime's first year in power (1982),⁴ when it felt more secure. By then, it had become clear to the PNDC how few alternatives were available. Ideological supporters of the regime, not only influential leftist intellectuals but also the governments of Libya and the Soviet Union, indicated that the PNDC had little choice but to turn to the Bretton Woods institutions for assistance. A number of exogenous shocks in 1983, including a severe drought, bush fires that decimated the cocoa crop and the deportation of over a million Ghanaian workers from neighbouring Nigeria, as well as a number of counter-coup attempts in the earlier part of the PNDC rule, compounded the sense of crisis.

What then gave the PNDC the political space to undertake economic reforms initially? The 1981 coup marked a significant break from the past. Rawlings was not beholden to the established interest groups (parastatal managers, holders of import licenses or former politicians) and could afford to undertake politically difficult reforms such as currency devaluation. The political sphere was implicitly demarcated into the beneficiaries of the earlier system of controls and import licensing, that is former politicians and their associates, and its own supporters, including labour unions, workers, the armed forces, farmers and students (Tsikata, 2000). The former were kept out of the new government's initial reforms while the empowerment of the latter was said to be the PNDC's *raison d'être*. That the leadership was convinced that the reforms would help the poor was also an important factor in consolidating reform in the initial years of the PNDC (Herbst, 1993; Jeffries, 1991).

With the advent of multiparty democracy and the elections of 1992, the reform process became more complex, however. By their nature, second generation reforms, such as privatisation and civil service reforms, went well beyond core ministries, requiring the involvement of both sector ministries and sub-national governments. The difficulty of economic reform in a budding democracy was brought into stark relief by the VAT fiasco

³ There is a voluminous literature on economic reform in Ghana. See for example Aryeetey *et al.* (2000), Pereira *et al.* (2000) and Herbst (1993). My paper extends the literature by focusing on reform ownership in a comparative perspective.

⁴ However, the underlying ideological battles and power struggles within the inner circle were not over. Between 1982 and 1985, several unsuccessful coup attempts occurred. By the mid eighties, however, a sort of political stability had been established.

of 1995. The government had attempted to introduce value-added tax (VAT) with little prior information or consultation. However, the resulting civil disturbances forced the government to withdraw the tax and to undertake consultations (see Pereira *et al.*, 2000: 38). The VAT was re-introduced three years later after a much broader public information campaign and down from the originally proposed 15 percent to 10 percent.

While economic decline was equally dramatic in Tanzania in the 1970s, recognising the need for reform and acting on it appear to have taken much longer than in Ghana. With support from like-minded bilateral donors (mostly the Nordic countries of Denmark, Finland, Norway and Sweden), Tanzania was able, even though the country's relationship with the IMF and the World Bank had virtually collapsed by 1981, to attempt to forge its way out of the economic crisis relying on national experts. Between 1981 and 1983, it introduced 'home-grown' initiatives such as the National Economic Survival Programme of 1981-2. These, however, failed to address the core weaknesses of the economy and were subsequently abandoned (Stein 1991: 93-4).

The decade that followed the introduction of economic reforms in the early 1980s saw many initiatives and programmes whose implementation was complicated by lack of a broad-based domestic consensus for reform.⁵ The slow pace of implementation also reflected the difficulty of undoing the country's socialist legacy. An important landmark of the socialist past was the Arusha Declaration of 1967, which led to the nationalisation of businesses as well as the collectivisation of rural activities including farming. It had also strengthened control over the economy of the sole political party—Chama Cha Mapinduzi (CCM)—under the leadership of Nyerere. Thus in the early 1980s socialism was much more embedded in Tanzanian society, when reforms began, than Rawlings' leftist populism was in Ghana. The Tanzanian tradition of consensus-building and participatory decision-making also reduced space for dramatic reform action by the leadership. Above all, Nyerere's influence as President, head of CCM and elder statesman meant that little could be done without his consent. Since reforms implied the undoing of his legacy, reformers had to tread carefully. Indeed the pace of reform accelerated markedly and gained momentum after he stepped down from the presidency in 1985.

The shifting fortunes of groups supporting limited and guided liberalisation and those supporting a more open approach were reflected in policy inconsistencies in Tanzania in the mid-eighties. For instance, towards the end of 1987, even elements in the government continued to advocate for further liberalisation, the Ministries of Agriculture and Livestock and Local Government and Co-operatives banned private businessmen from buying produce directly from farmers, with only co-operative unions and primary societies allowed to do so (Kiondo, 1991: 31). Among the two groups vying for influence over economic policy, the first included the bulk of the party elite and business groups connected to them, while the second comprised mainly Asian business families. Political sensitivities, it has been argued, precluded the latter from overt declaration of support for the reforms (Kiondo, 1991: 39). Moreover, the reforms were perceived as secretive even by highly placed party officials.

⁵ Bigsten *et al.* (2001) provides a good flavour of the internal debate of the time.

3.1 Adjustment programmes

In 1983, the PNDC introduced a four-year Economic Recovery Programme in Ghana which, together with its follow up in 1987-91, received substantial assistance from donors and multilateral agencies. Reform objectives included movement towards market-based prices and exchange rates and demonstrable fiscal discipline. A discrete devaluation of the cedi was followed by the introduction of a fully-fledged auction-based exchange rate system. In 1988, Ghana became the first country in sub-Saharan Africa to introduce foreign exchange bureaux, where foreign exchange was traded with 'no questions asked'. The rehabilitation of the country's deteriorated ports, roads and railways was given priority early in the programme, as well as the liberalisation of input and producer markets, notably in the cocoa sector.

However, the impact of reforms was not uniformly positive. Thus in 1988 the PNDC adopted a Programme of Action to Mitigate the Social Costs of Adjustment (PAMSCAD) one of the first of its type in sub-Saharan Africa. It was a short-term measure with a focus on employment creation, supporting those retrenched from the public sector, meeting the basic needs of the poor and encouraging community participation. However, not entirely unexpectedly, the impact of PAMSCAD on poverty reduction was limited by poor implementation, political interference and lack of capacities at the lower levels, where interventions were to be concentrated (Batse *et al.*, 1999).

In the area of institutional reforms, the government embarked on the restructuring of the civil service in 1987. The main objective was to reduce overstaffing and make civil service wages competitive, while decompressing the wage structure. The reforms faced considerable internal resistance, especially from older cohorts of workers. Moreover, the pay reform by only raising wages modestly, did not significantly enhance incentives within the service. It has been argued that the relatively modest outcomes of the civil service reform are partly to blame on the proliferation of reforms, often competing, in the late 1980s and early 1990s, that stretched the government's implementation capacities to the limit (Pereira *et al.*, 2000: 43).

Privatisation was, for example, undertaken at this time with equally unsatisfactory results. Between 1988 and 1992, its pace was erratic, accelerating between 1994-6 and then losing momentum after that. As in many other sub-Saharan African countries, state divestiture was subject to pressure from vested interests and politicians. Lack of technical capacity for evaluating companies, writing contracts and undertaking due diligence was, however, often the main impediment. The membership of the Divestiture Implementation Committee was dominated by political appointees chosen from supporters of the PNDC, but with little experience in the private sector.

In the early 1990s, with the onset of multiparty democracy, there was a noticeable slowdown in reforms. The loss of fiscal discipline, including sharp increases in civil service wages, in the run-up to the parliamentary and presidential elections of 1992 meant a breakdown in macroeconomic stabilisation. A political business cycle of sorts had thus emerged in Ghana. Although the government launched a National Institutional Renewal Programme (NIRP) in late 1994, in a bid to better co-ordinate public sector reforms, the earlier momentum was not regained.

Still, there is no doubt that the reforms enabled Ghana to return to steady growth, albeit from a narrow base. In a matter of three years (1983-6), macroeconomic reforms helped lower inflation by 90 percentage points to 33 percent. Traditional exports improved rapidly as producers responded to higher producer prices and the removal of marketing impediments, although remaining confined to a few products. In addition to the positive macroeconomic gains in Ghana, poverty and inequality were reduced over the reform period. The incidence of extreme poverty declined from 36 percent of the population at the beginning of the 1990s to 29 percent at the end of the decade, although with sharp variation across regions. In Accra, the capital, extreme poverty declined over the same period from 11.5 percent to 2.5 percent (Aryeetey *et al.*, 2000; Armstrong, 1996), while improvement in the poorer North was slight. Also notable was the improvement in income distribution during the reform period. The Gini coefficient declined from 35.9 in 1988 to 32.7 ten years later (Tsikata, 2000). These gains are closely linked to the nature of Ghana's economic reforms. They had focused on the resuscitation of the agricultural sector by *inter alia* offering better producer prices to farmers and improving social service provision in the rural areas. The rehabilitation of the infrastructure created additional job opportunities (Ahiakpor, 1991). The economic recovery was made possible by financial assistance from the donor community, thus the policymakers' ability to win the latter's confidence was also crucial to success.

As a commentary on the fragility of the achievements of the initial reforms, the macroeconomic stability of the late 1980s in Ghana was rapidly reversed with the introduction of multiparty democracy in the early 1990s. Subsequently, growth became uneven, fiscal indiscipline re-emerged, as well as inflation. It is clear that the quick implementation of the earlier reforms was partly the result of a more streamlined 'command' structure of a dedicated, if non-pluralist, government. With the entry of democracy and competitive politics, the policy agenda was no longer straightforward, necessitating bargaining and compromise over party boundaries.

As noted earlier, Tanzania's initial conditions differed from those of Ghana. Importantly, the latter's military government was not constrained by political commitments from the past. However, the countries shared rundown economies as well as the desperate need for financial resources. As in Ghana, foreign supporters, and isolated but influential domestic groups, made the case that Tanzania needed to approach the IMF and World Bank for advice and funding. Thus between 1982 and 1986, the government undertook to implement reform.⁶ Notably, on the basis of a report by an independent Tanzania Advisory Group, a Structural Adjustment Programme was introduced in 1982. It is noteworthy, however, that the team was funded by an IDA technical assistance credit and its members had to be cleared by both the Tanzanian government and the World Bank.⁷ Besides the devaluation of the shilling to boost exports, prices, including those for producers, were partially liberalised and government expenditure and money supply were reduced. Measures were also taken to improve the efficiency of the parastatal sector.

⁶ The discussion of events is based on Kiondo (1991) and on interviews with important participants who were advisers, academics or government officials at the time.

⁷ The Tanzania Advisory Group was established in late 1981 because of an understanding between the former Tanzanian President Julius Nyerere and former World Bank President McNamara. An IDA Technical Assistance Credit financed it. The members agreed upon by both Tanzania and the World Bank were M. Head, C. Pratt and G.K. Helleiner. In the secretariat were B. van Arkadie and J. Loxley.

In 1986, a fully-fledged IMF-supported Economic Recovery Program was introduced during the first year of the presidency of Ali Hassan Mwinyi, who had replaced Julius Nyerere in 1985. There was further devaluation of the shilling and a gradual movement towards a more market determined exchange rate system. These were accompanied by further price liberalisation and monetary tightening in a bid to eliminate the inflation overhang. To consolidate these reforms, as well as mitigate their social costs, an Economic and Social Action Programme (ESAP) was introduced in 1989.

The transition from macroeconomic stability to structural reforms in the civil service and the parastatal sector was equally difficult in Tanzania. The first phase of the civil service reform programme (1993-6) focused on retrenchment, while the second, which began in early 1996, addressed institutional issues, including the strengthening of managerial capacity in government. With respect to state divestiture, the Presidential Parastatal Sector Reform Commission was set up in 1993, following the amendment of the Public Corporations Act of 1992, to handle privatisation. According to the commission, as of January 2000 close to 50 per cent of a total portfolio of 383 state-owned companies had been privatised.⁸ However, as in other sub-Saharan African countries, it was easier to privatise the smaller companies than the monopolies in the utilities sector, notably those supplying water and electric power. Difficulties have ranged from the latent distrust of private sector activities in Tanzania to failure to raise sufficient funds to compensate workers who have been laid off, to the existence of bad debts in virtually all the companies offered for sale making negotiations for their divestiture intractable (Bigsten and Danielson, 1999: 86-7).

However, it is illusory to think that Tanzania's socialist legacy had been put to rest (Baregu, 1994). The policy reversals experienced in the 1990s were the direct results of the unresolved debate between the 'nationalistic liberalisers', that is those that felt that reform could build on the earlier collectivist premises and the 'free-marketeters', those that wanted a complete break with the controls of the past. Recent political statements have, however, advocated placing restraints on the activities of foreign businesses in certain sectors of the economy, suggesting that the latter group has not quite taken the day. A reason why this tug of war seems to go on without resolution is that the Tanzanian political leadership places enormous importance on the 'politics of accommodation'. Cabinet members enjoy a degree of autonomy, lack of which would probably drive them to the opposition. Therkildsen (2000: 66) has noted that in Tanzania 'policy decisions...do not necessarily reflect collectively binding political compromises nor genuine political support for the reform package as a whole. Rather, such decisions are often influenced by larger political aims (which may not be relevant to the reform *per se*) or by accommodation to perceived or real donor pressures, or to individual ministries' resource-mobilising strategy vis-à-vis donors.'

As in Ghana, growth in Tanzania rebounded after the introduction of reforms, but was much lower and with a more modest impact on poverty. Between 1987 and 1992, real GDP growth averaged 3.5 percent, double the average growth of the previous decade. The last half of the 1990s noted only a modest increase in growth to an average of 3.7 percent. Thus in terms of welfare, Tanzania's picture is mixed. The gains made in education and health

⁸ See the Presidential Parastatal Sector Reform Commission's *Impact of Privatisation in Tanzania*, January 2000: 10.

during the socialist era, and eroded during the crisis years, have not been restored. Furthermore, preliminary results from an undergoing household budget survey suggest that poverty may have increased in the 1990s. Gross and net enrolment ratios have been stagnant at best, while despite rising costs borne by Tanzanian households, the quality of primary education and healthcare is deteriorating (Cooksey and Mmuya, 1997; Cooksey *et al.*, 1997).

3.2 The institutional framework

In both Ghana and Tanzania, initial economic reforms focused on macroeconomic stabilisation and primarily involved the technical staff of the ministries of finance, the central banks, and the planning commissions. Thus in both countries, a relatively small group of people was involved in the initial analysis. However, the composition of the groups differed, in each country, as did the extent to which final programme designs incorporated their views.

In Ghana, a core group of technical staff mostly from the Ministry of Finance worked with an experienced former Minister of Finance and the new Secretary for Finance to put together a programme in the early 1980s. A Ghanaian World Bank staff member visited Ghana at regular intervals and also met with the government's team in Washington before the negotiations and advised its members. Those involved in this process have indicated that the programmes that were ultimately negotiated with the Bretton Woods institutions were very much Ghanaian products. However, given the departure from its populist rhetoric, the PNDC government was compelled to explain its change of tactics to its key constituencies (students and workers in particular), especially regarding the nature of the reform programme and why it was necessary.

In retrospect the stability of the core decision-making team was crucial to the success of Ghana's early reforms as it provided continuity. Although up to 1986 three teams, including the Economic Management Committee, the Structural Adjustment Team and the Budget Task Force, were involved, their somewhat overlapping membership was merged in 1989 to form the Economic Review Committee.⁹ The new team combined technocrats and PNDC functionaries that mostly knew each other well. The Committee met biannually, including the so-called 'external examiners' (Ghanaians living overseas). However, although by all accounts, this new arrangement strengthened co-ordination, its institutional foundation was weak. To function properly, the new arrangement relied heavily on personal relationships and did not draw sufficiently on the know-how and experience of the civil servants in the ministries involved in the reform process.

In Ghana, the reform programme and its success became strongly identified with the long-serving Finance Minister, Dr. Kwesi Botchwey. In conjunction with changes in the core economic team, ownership of the programme became increasingly personalised and associated with him and a small team around him. With his departure in the mid 1990s, the earlier cohesiveness in Ghanaian reform was lost and a new *modus operandi* had to be

⁹ The Committee was chaired by Kojo Tsikata and included the Secretary of Finance, two Deputy Secretaries for Finance, Governor of the Central Bank, a Former Governor of the Bank of Ghana then at UNCTAD, a Ghanaian World Bank manager, the Ghanaian Ambassador to the US (a former Secretary of finance himself) and four close advisors (some of whom held Secretary positions). With regard to earlier reforms see World Bank (1993 a,b).

found. Ghana illustrates that reform ownership becomes more complex as the need for reform shifts to sector levels, requiring a variety of microeconomic interventions. Moreover, early success is no guarantee for future progress. In Ghana, initial success and paucity of similarly promising performers on the continent attracted much donor support, completely overwhelming officials in the line ministries. It has been estimated that by the early 1990s 'senior officials were spending an estimated 44 weeks a year facilitating or participating in donor supervision missions, time they were unable to devote to their 'own' work' (Sawyer, 1997: 7). Thus, ironically, early success did not make it easier for the government to own reforms or to embark on further reforms.

In Tanzania, given the initial resistance within the party and government to reforms, the core analytical work was borne by academicians at the University of Dar es Salaam and technical staff from the Bank of Tanzania and the Ministry of Finance. They were, for example, largely responsible for the design of the abortive 'home-grown' reform efforts, mentioned earlier, and for providing advice during subsequent negotiations with the IMF and World Bank.

However, in contrast with Ghana, the Tanzanian side was unable to gain much from its negotiations with the IMF and the World Bank at the outset. In a recent paper, Mutalemwa, Noni and Wangwe (1999: 31) have argued that 'even when potential centers of ...intellectual capacity existed, they were either bypassed for lack of a consultative mechanism for interacting with non-decision making bodies, or their comments would be ignored because of the *kasumba*¹⁰ habit of listening only to foreigners'. In Tanzania, the apparent lack of influence on policy implementation led to the disintegration of the core group of technocrats mentioned earlier. A series of personnel changes in the economic ministries prevented continuity.

Finally, in contrasting the institutional responses in the two countries, the case of the Public Expenditure Reviews (PER) is illustrative. Since 1993, the Ghanaian government has conducted its own public expenditure reviews, with the Finance Ministry using inputs from the sector ministries and the Planning Commission to do so. In addition to the overall review of expenditures each year, the PER also focuses on an issue of particular concern with respect expenditure and fiscal balance. In Tanzania, on the other hand, the PER working group, comprising government, donors and academics, was first established in 1997. Although the PER process is driven by mechanisms set up in Tanzania, the country's traditional aid dependence nevertheless tends to elevate the role of the donors in the process. The secretariat of the working group is for example based at the World Bank offices, although the Permanent Secretary of the Ministry of Finance chairs the meetings. Comments on the reports related to the exercise are more likely to come from donors other than nationals. Moreover, although the PER is supposed to be a Tanzanian document, it still goes through the review process of the World Bank leading to inordinate delays. This reduces the legitimacy of the Tanzanian consultative process. In the most recent cycle, the bulk of the work and consultations took place in Dar es Salaam in April-May 2000 but eleven months later the final PER report was still not available.

¹⁰ 'Kasumba' is a Kiswahili word that translates loosely as 'having a complex'.

3.3 The role of donors

The discussion of reform ownership leads to that of the role of the donor community in the provision of financial resources and technical assistance and the nature of the attached conditionalities (Burnside and Dollar, 1997; Rowley, 2000). Lancaster and Wangwe (2000: 40) have argued that ‘aid can strengthen organizations by expanding the technical and administrative capacity of their staffs and by increasing their activities... but it can also weaken recipient country institutions by undercutting the planning, budgeting, administrative capacities, and general operations of recipient organizations and their political accountability and legitimacy. It can also reduce the sense of initiative and responsibility on the part of individuals in recipient organizations for achieving their goals and missions’. Whether one or the other happens depends on how aid is managed. This is in turn a function of the historical relationship with donors, their numbers, the institutional framework for aid co-ordination and the capacity of recipients to absorb aid.

The nature and magnitude of donor support both before and during the reform episodes were different in Ghana and Tanzania. Political instability in Ghana had reduced donor interest in the country. However, the rapid withdrawal of aid only began when the Acheampong government repudiated foreign commercial loans in 1973, with the introduction of a ‘we won’t pay’ (or ‘yentua’) policy. Subsequent increases in corruption in the face of economic decline did not help revive donor interest. By 1981, aid per capita was US\$14 or 3.4 percent of GNP, both were well below the sub-Saharan African average. As already noted the initial rhetoric of the PNDC did not endear it to the donor community, with its ties to Libya scaring off other potential donors. By 1981, Ghana’s sources of external finance had narrowed down to a small number of donors (Harrigan and Younger, 2000: 193). Ghana had thus undertaken the economic reforms of 1982-3 with limited donor support. It was only when the Economic Recovery Programme began to show good results that donors jumped onto the bandwagon. Ironically this donor stampede had negative implications for the government’s ability to manage aid flows and thus hurt aid effectiveness.

In contrast, Tanzania has always had strong support from bilateral donors, particularly from the Nordic countries. This support was partly a reflection of the respect enjoyed around the world by President Julius Nyerere. His policies of ‘African Socialism’ had initially been effective in improving social indicators (primary school enrolment and literacy rates) and welfare in Tanzania. The dominance of donors in Tanzania presented a real challenge for government, however. Indeed, it has been argued that donor support may have delayed reform in the early 1980s. In efforts to address this dependence, recent years have seen the government putting in place institutional mechanisms to improve its management of aid inflows.

Apart from the difference in the degree of aid intensity in the two countries, Tanzania shows a marked stability of donor composition, with Sweden, Denmark, Germany and Norway and consistently among the biggest donors up to the early nineties. The Nordic countries, with their own background of social equity and democracy, were particularly enamoured by Tanzania. In fact, the Nordics, as a bloc, became with time something of a donor lobby for Tanzania. This was important during the earlier phase of the economic reforms when Tanzania had to negotiate with the IMF and the World Bank under rather acrimonious circumstances. The Nordic countries continued to support Tanzania even after the multilateral agencies had cut off support in the early 1980s. This long-standing

relationship has contributed to significant commitment on both sides. Close personal relationships were formed between successive Nordic ambassadors and Nyerere himself. A downside of this is that when the donors were forced to change their approach in light of changed realities, as during the period 1993–4 when serious concerns arose regarding weak fiscal structure, poor accountability and lack of democracy, their actions were deemed to be intrusive by the Tanzanians (Helleiner *et al.*, 1995).

The composition of aid donors to Ghana has changed markedly over the years. In the 1970s, the most important donors were Canada, United Kingdom and the United States, while in the 1980s aid from Denmark, Germany, Japan and the Netherlands increased in importance. In the 1990s, Japan became the largest bilateral donor (Tsikata, 2001). Thus, historically the country has not had a dominant long-term relation with a donor or group of donors, and the associated donor leverage has thus been missing. However although traditionally less intrusive in approach and not focusing on policy based lending, Japan's eminence in providing aid to Ghana might be changing this. This was, for example, evident in Ghana's decision not to apply for HIPC relief, since Japan does not support debt forgiveness as a development and growth strategy for poor countries. Comparing the benefits of Japanese aid, which tends to be less conditional, to those of HIPC relief (with its attendant conditionalities), Ghanaian authorities chose to keep the former. As a postscript, recently the UK successfully dissuaded the new Ghanaian government from rejection of the HIPC initiative.¹¹

With economic improvement in the 1980s, aid to Ghana increased exponentially from US\$9 to US\$49 per capita between 1983 and 1991. Much of the support came directly from the World Bank, which saw Ghana as its showpiece for economic reform in Africa. But as discussed above, Ghanaian policymakers were better prepared than other countries in the region. Martin (1991), has noted that the good economic outcomes and better preparation enabled Ghanaians to enjoy, at least for a while, a special relationship with the IMF and the World Bank which led to flexibility on the part of the multilateral agencies and won Ghana a number of concessions. For example between 1992-7, Ghana was able to defer action on devaluation, price control, trade liberalisation and privatisation.

In both countries, the proliferation of aid, in terms of flows and the number of donors involved, created serious aid-management problems. Thus the impact of aid on the local bureaucracies has become a concern in its own right, since it impedes the quality of ownership that aid demands (Brautigam and Botchwey, 1998). In Ghana administrating the conditions associated with the different projects stretched the staff of the sectoral and line ministries to the limit.

However, although this problem was well known and governments tried to put in place mechanisms to resolve it, success was not achieved. Ghana for example created the International Economic Relations Department in the Ministry of Finance to supervise aid matters while Tanzania set up a Tanzania Assistance Strategy in an effort at better co-ordination. In both cases, donors pledged to collaborate with these new institutional arrangements, although in practice they were flouted. Many donors continue to deal directly with project management units in the sector ministries, which they feel are more

¹¹ In April 2001, following a visit by the UK Minister for Overseas Co-operation, the Ghanaian government announced that it was applying for HPIC relief.

efficient than the co-ordination departments. Weak institutional capacities have meant that ownership continues to be shallow and the results inadequate. The poor budgeting of aid flows that results from this bypassing of the central budget, makes it difficult for the governments to ensure that their priorities are met by donor funding. This further compounds the difficulty of managing aid. In Tanzania, this is especially true of the development budget where up to 90 percent of the funds are from donors sources, with 70 percent not going through the budget (Tsikata *et al.*, 1999). In contrast, less than 40 percent of donor aid to Ghana is channelled outside of the budget.

An ironical feature of aid to Tanzania during the reform period is that donors were increasingly worried about the apparent lack of government ownership of the programmes. Bagachwa *et al.* (1998: 63) note, with respect to Danish aid, that programmes were plagued by a perceived decline in the administrative capacity of public institutions, in the ability of the government to contribute domestic resources as well as rising incidence of corruption. The problems then forced Denmark to institute parallel delivery structures, notably NGOs, under its control. However, this reduced the effectiveness of Danish aid, with the aid relationship between Tanzania and Denmark becoming increasingly unequal. Similar sentiments have arisen from reviews of Finnish (Porvali and Associates. 1995), Norwegian (Royal Norwegian Ministry of Foreign Affairs, 1999: 122) and Swedish (Adam *et al.*, 1994) aid programmes. A lack of genuine dialogue is generally indicated, with Tanzania being mainly a commentator on the planned programmes rather than the initiator.

In 1994, Denmark sponsored a group of eminent academics to look at the Tanzania-donor relationship. The Helleiner Report, which resulted, noted that donors were 'frequently ambivalent about the ownership issue: some demand that that the government take greater control of their programmes and at the same time resist when it attempts to do so at the expense of their own preferred projects'.¹² The report recommended a move towards greater Tanzanian ownership of aid programmes and processes, with government formulating a clear development strategy for the country. The donors needed to co-ordinate their activities better and to harmonise their rules and procedures, while leaving overall co-ordination of development in the hands of Tanzanians, focused especially at the sector level. Priority was to be given to political and administrative reforms and to addressing the problems of corruption. The report suggested that in the medium to long term, aid could be reduced, but it warned against reductions if they were to take place 'abruptly and without warning' (Helleiner *et al.*, 1995).

In conclusion, it is notable that generous aid to Tanzania, and from a somewhat homogeneous set of donors, did not ensure a better use or planning for the aid inflows. Indeed traditional aid ties seem to have inhibited ownership at various levels. In Ghana on the other hand, donors had fled the country with the decline of the economy and increasingly autocratic nature of the regimes. Reforms were embarked on with little aid. Still, Ghana was able to formulate a reform programme that was more acceptable at home and that yielded faster results in the first decade of implementation than in Tanzania. The

¹² In a later paper (Helleiner, 2000) based on interviews conducted while in Tanzania, Helleiner elaborated on this point adding to examples in the initial report. When asked to define what they understood by ownership, donor representatives variously answered (i) 'We have to pressure the government to take ownership of...'; (ii) 'Ownership exists when they do what we want them to do but they do it voluntarily'; and (iii) 'We want them to take ownership. Of course they must do what we want. If not, they should get their money elsewhere'.

Ghanaian government was unable, however, to withstand the political pressures that came with political liberalisation in the 1990s and the earlier policy cohesiveness collapsed (Harrigan and Younger, 2000).

4. Determinants of ownership: summary and conclusions

This chapter has focused on the subject of reform ownership in sub-Saharan Africa, with Ghana and Tanzania as case studies. In Ghana economic reform had sprung from the revolutionary zeal of young military officers and left-leaning academics. While Bretton Woods type reforms were not their initial focus, a general lack of resources and support had forced them to approach the IMF and World Bank. Significantly, when the decision for reform was made the PNDC was able to bring many of its followers on board by encouraging a broad debate, which contributed to the success of the early reforms, generating rapid growth, macroeconomic stabilisation, and increased donor assistance.

In Tanzania, on the other hand, the initial conditions were radically different. The government had enjoyed a long period of uninterrupted donor support, and many donors continued to deliver aid even when the economic performance deteriorated. Continued aid inflows helped the government to resist drastic reforms and to attempt to introduce its 'home made' versions. As the crisis deepened, and with donors becoming more willing to withdraw aid, the government had no option but to embark on reforms. These were implemented in an environment not marked by a clear break with the past and where groups within the government and the private sector wrestled for control of the reform agenda.

Most recently, however, Tanzania seems to have made more tangible progress, with the government making efforts to influence the reform agenda positively. This has been rewarded with improved economic performance and higher aid inflows. Ghana, on the other hand, seems to have regressed. The economic performance of the 1990s was clearly undistinguished while the onset of political pluralism seems to have introduced a political business cycle, characterised by worsening macroeconomic aggregates at the onset of elections.

A set of six interrelated lessons can be derived from the above comparison of Ghana and Tanzania. The first is that in both countries historical antecedents to reform are important determinants of subsequent progress. Also that while reform can sprout from many political environments, what is important is political commitment. In Tanzania reforms were popularly seen as 'imposed' from outside, both within government and among the population. This perception was reinforced by the fact that Tanzania's home grown efforts, rolled out with fanfare as alternatives to structural adjustment, failed to garner foreign support. By contrast Ghana's sense of commitment was reinforced by the fact that its economic programme drawn up domestically, but patterned on those of the Bretton Woods institutions, was largely accepted and opened the way for resource inflows.

Secondly, the nature of the aid relationship and how it evolves are important determinants of reform ownership. This relates to the number of donors relative to the country's co-ordination capacity and the type of technical assistance it receives. In Tanzania and Ghana (from the late eighties onwards), the sheer number of donors and the volume of aid overwhelmed staff in the key economic ministries, leaving them little time to strategize and

simply think. The failure of governments to articulate their priorities and the absence of institutional capacities led to loss of control over programmes. Donors took to bypassing the government by constructing parallel mechanisms for aid delivery. The absence of a well-established institutional framework for managing aid thus led to a lack of selectivity and to the proliferation of projects.

The third lesson is that analytical capacity among implementing institutions is crucial to the ownership of policies and programmes. The differing experiences of Ghana and Tanzania are partly linked to varying capacities within the countries and the use to which they were put. Analytical capacity appears to have been stronger in Ghana than in Tanzania, although the latter had a very strong Department of Economics at the University of Dar es Salaam. Yet, as discussed earlier, the Tanzanian government failed to draw on this technical expertise effectively or consistently.

The fourth lesson is that reform ownership is a dynamic concept, evolving with changes in the economy. In Ghana, the first decade of reform saw both good economic outcomes, reduced poverty in rural areas and improving socioeconomic indicators. These strengthened the government's hand and increased its commitment to reform. In Tanzania where the macroeconomic improvements have not been matched by social sector improvements, it was harder to find champions for broader reforms. The nostalgia for the socialist days, when social services were provided almost free, was palpable while the political anxiety regarding the benefits of reform remained high until only recently. Good macroeconomic performance and improving government revenues are also important in helping the government to attract skilled professionals and to remunerate its employees. Poor economic outcomes have the insidious effect of encouraging the most qualified civil servants to leave for the private sector.

The fifth lesson is that a strong institutional mechanism for accountability is the foundation on which mutual trust is built between recipient and donor. In a sense accountability buys the recipient country some implementation space. A loss of trust following perceived mismanagement (whether through incompetence or corruption), such as in Tanzania in 1993-4, or Ghana during the 1992 presidential and parliamentary elections, can set a vicious cycle of events in motion. Aside from withdrawing, a typical reaction of donors can be to try to micromanage projects by introducing parallel management units, with expatriate staff. This intrusiveness rarely leads to trust between recipient and donor or to reform ownership by the recipient.

The last lesson is that the political context matters in several ways for ownership. The emergence of winners and losers in the reform process can strengthen or weaken ownership depending on their ability to shift the political balance. Where the gains tend to be enjoyed by groups with which the government is aligned, there will be open official acceptance of the reforms (e.g. Ghana during the first five years of reform). However, if the political costs of associating with the reforms and alienating support groups exceed the benefits, then the government is unlikely to be a vocal champion of the process (à la Tanzania). The political context also establishes the degree of accountability to which government is held. In most African countries, public discourse on economic development and reform remains inadequate and the means of sanctioning poor government performance are equally meagre. Thus a democratic system whereby the government can be voted out peacefully, if the citizens are dissatisfied with it, is necessary if governments are to be held accountable to citizens for the policies pursued.

An important implication of the above lessons is that both donors and aid recipients need to work much harder at creating conditions that will ensure that reform policies are properly defined, articulated and implemented. The donor community's desire to control aid, in order to ensure full accountability to the home electorate must be balanced against the need to allow sufficient space for recipients to refine their bureaucratic systems and evolve their own procedures for aid management. For a true partnership to emerge, both sides need to let go of the old conceptions and focus on strengthening institutions that can facilitate greater recipient ownership. This will not only demand higher levels of accountability in recipient countries but also measures to establish mutual trust as well as respect for each community's need to respond with credibility to the demands of its political constituency.

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