

Reflections on Aid and Debt Management in Ghana

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"Foreign Aid" is a post World War II phenomenon. Most European countries devastated by the war received aid to reconstruct their cities. This in fact led to the establishment of the International Bank for Reconstruction and Development; otherwise known as the World Bank. In recent times "Foreign Aid" refers to the financial support given by external donors to developing countries. There are two objectives for giving aid:

- The first objective was to promote long-term growth and poverty reduction in developing countries; the underlying motivation of donors was a combination of altruism and a more self-interested concern that, in the long term, their economic and political security would benefit if poor countries were growing.
- The second objective was to promote the short-term political and strategic interests of donors. Thus, America gave massive aid to Zaire at the height of the cold war because it served American interests. Similarly, in its role as champion of independence of African States, Ghana under Nkrumah extended aid to the tune of \$10 million to Guinea to rebuild its economy after France had packed out. Naturally, with the Cold War over, foreign aid has dwindled.

"Foreign Aid" comes in all shades and guises. Official Development Assistance (ODA) comprises grants plus concessional loans that have at least a 25 percent grant component. The difference between a grant and a loan is that grants are like gifts and do not have to be paid back. Official development finance(ODF), on the other hand, is all financing that flows from developed country governments and multilateral agencies to the developing world. Some of this financing is at interest rates close to commercial rates. Often the term "Foreign aid" is associated with official development assistance and normally targeted to the poorest countries.

Aid can be divided into bilateral and multilateral components. Bilateral assistance is administered by agencies of donor governments (such as the U.S. Agency for International Development or Japan's Overseas Economic Cooperation Fund). Multilateral assistance is funded by contributions from wealthy countries and administered by agencies, such as the United Nations Development Programme and the

World Bank. Of all official development assistance, roughly a third is multilateral.

Some bilateral aid is tied—that is, it must be used to procure goods and services from the donor country. Studies have shown that tied aid reduces the value of that assistance by about 25 percent, and there is widespread agreement that untying bilateral aid would make it more effective. Among OECD countries there has been a clear trend away from tied aid. Aid can also come in the form of technical assistance.

A couple of decades ago, the debate on aid centered on the expression "Trade not Aid". Protagonists argued that it is more important for the developed countries to engage in fair trade with the developing countries than to inebriate them with debt through aid. A famous quotable

cliché during those arguments was the Chinese proverb that "It is better to teach an hungry man how to fish than to give him fish". All said and done, most of us will agree that the expression should be "Trade and Aid"; or in other words, the hungry man should be given a piece of fish for now and then be taught how to fish. Aid is necessary for development. Most countries that have gone through successful reform did so on the back of massive foreign financial support.

For a country struggling to get on its feet, it is just not possible to marshal all resources domestically to finance all of its expenditures. The resulting broad gap would have to be filled by foreign aid and also by borrowing from internal and external sources. When foreign support is taken into consideration, the resulting domestic budget is defined as "broad". Thus, if foreign grants are added to the domestic revenue and foreign supported capital expenditures are added on the expenditure side, the resulting balance will be referred to as the Overall Broad Balance. If the overall broad balance still shows a deficit then this would have to be financed by borrowing internally or externally. It is the borrowing to close the gap, which leads us into a debt situation. It is also possible for a country to receive enough foreign grants such that its budget on a broad basis shows a surplus as happened in Ghana in 1989, resulting in zero domestic finance.

Trends in Aid to Ghana

Aid flows to Ghana reflect the country's economic and political history. Aid flows remained at a low level in the seventies. This was a period of mostly chronic domestic economic mismanagement. The NRC under Acheampong had earlier 1972 got Ghana blacklisted in the international financial circles when they repudiated some external debts. With the emergence of a democratically elected government in September 1979, aid flows rose for two consecutive years. This trend reversed after 1981 following the coup d'état by the armed forces. Starting in 1985, however, a clear and sustained increase in aid flows occurred as donors perceived greater commitment by government to better economic management and economic reform. Indeed, between 1985 and 1995 total aid flows to Ghana increased threefold from US\$150.7 million to US\$450.8 million. For the past decade, aid flows to Ghana have provided an average of \$570 in project and programme support. In the 1990s there has been a marked decline in programme aid, while project aid has increased.

Aid Disbursements, 1989-1998 (US\$ m) Source: ADMU, MOF										
	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Programme	173	213	213	190	232	76	172	125	72	132
Grants	41	70	55	74	62	45	84	52	31	38
Loans	132	143	158	116	170	31	88	72	41	93
Project:	303	287	243	357	303	431	571	597	509	505

