The False Promise of International Financial Institutions in Building Stable Democracies in Third World Countries

Foday Sulimani
Wright State University

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THE FALSE PROMISE OF INTERNATIONAL FINANCIAL INSTITUTIONS IN BUILDING STABLE DEMOCRACIES IN THIRD WORLD COUNTRIES

A thesis submitted in partial fulfillment of the requirements for the degree of Master of Arts, International-Comparative Politics

By

FODAY A.S. SULIMANI
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2007
Wright State University
I HEREBY RECOMMEND THAT THE THESIS PREPARED UNDER MY SUPERVISION BY FODAY A. SULIMANI ENTITLED “THE FALSE PROMISE OF INTERNATIONAL FINANCIAL INSTITUTIONS IN BUILDING STABLE DEMOCRACIES IN THIRD WORLD COUNTRIES” BE ACCEPTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF “MASTER OF ARTS, INTERNATIONAL-COMPARATIVE POLITICS.”

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ABSTRACT


The available literature on the democratic process in third world countries shows that there is a strong correlation between the strength of a country’s economic and social infrastructure and the successful promotion of democratic principles. It is my assumption that democracy can not be established without strong economic and social infrastructures. Furthermore, the current aid programs as operated by international financial institutions (IFIs) like the International Monetary Fund (IMF), the World Bank and the United States Agency for International Development (USAID) give false hope to third world countries that fail to develop sound socioeconomic policies and yet want to establish stable democratic societies. Are neo-liberal policies advocated by international financial institutions necessarily associated with successful democratization? *Is a strong economic and social infrastructure a necessary prerequisite in order for neo-liberal policies to be correlated with strong democracies?*

Two third world countries that have received aid from international financial institutions are Ghana and Mauritius. A case study of these countries will help to determine if the success of neo-liberal aid programs in promoting democracy is strongly correlated with the strength of that country’s pre-existing infrastructure when the aid program begins.
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<tbody>
<tr>
<td>AFRC</td>
<td>Armed Forces Revolutionary Council</td>
</tr>
<tr>
<td>AGS</td>
<td>Accelerated Growth Strategy</td>
</tr>
<tr>
<td>BTI</td>
<td>Bertelsmann Foundation Index</td>
</tr>
<tr>
<td>CAM</td>
<td>Comité d’Action Musulman</td>
</tr>
<tr>
<td>CIA</td>
<td>Central Intelligence Agency</td>
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<tr>
<td>CPP</td>
<td>Convention People’s Party</td>
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<tr>
<td>CPI</td>
<td>Corruption Perception Index</td>
</tr>
<tr>
<td>EC</td>
<td>European Community</td>
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<tr>
<td>EEC</td>
<td>European Economic Community</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>EPZ</td>
<td>Export Processing Zone</td>
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<tr>
<td>EOI</td>
<td>Export Oriented Industrialization</td>
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<tr>
<td>ERP</td>
<td>Economic Recovery Program</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>HDI</td>
<td>Human Development Index</td>
</tr>
<tr>
<td>HIPC</td>
<td>Heavily Indebted Poor Country</td>
</tr>
<tr>
<td>HIV/AIDS</td>
<td>Human Immunodeficiency Virus / Acquired Immunodeficiency Syndrome</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and Communications Technology</td>
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<td>IFI</td>
<td>International Financial Institutions</td>
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<td>ILO</td>
<td>International Labor Organization</td>
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<tr>
<td>Acronym</td>
<td>Description</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IPEA</td>
<td>Applied Economic Research Institute</td>
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<tr>
<td>ISI</td>
<td>Import Substitution Industrialization</td>
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<tr>
<td>JEC</td>
<td>Joint Economic Community</td>
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<tr>
<td>JSS</td>
<td>Junior Secondary School</td>
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<tr>
<td>LDCs</td>
<td>Least Developing Countries</td>
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<tr>
<td>MCB</td>
<td>Mauritius Commercial Bank</td>
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<tr>
<td>MEDIA</td>
<td>Mauritius Export Development and Investment Authority</td>
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<tr>
<td>MEPZA</td>
<td>Mauritius Export Processing Zone Association</td>
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<tr>
<td>MLP</td>
<td>Mauritian Labor Party</td>
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<tr>
<td>MMM</td>
<td>Mauritian Militant Movement</td>
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<tr>
<td>MSM</td>
<td>Mauritian Socialist Movement</td>
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<tr>
<td>NDC</td>
<td>National Democratic Congress</td>
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<tr>
<td>NGO</td>
<td>Non-Governmental Organization</td>
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<td>NLC</td>
<td>National Liberation Council</td>
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<td>NPP</td>
<td>National Patriotic Party</td>
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<td>NRC</td>
<td>National Redemption Council</td>
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<td>OASS</td>
<td>Old Age Social Security</td>
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<td>OFI</td>
<td>Operation Feed Your Industries</td>
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<tr>
<td>OFY</td>
<td>Operation Feed Yourself</td>
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<tr>
<td>PAMSCAD</td>
<td>Program of Action to Mitigate the Social Costs of Adjustment</td>
</tr>
<tr>
<td>PHC</td>
<td>Public Health Community</td>
</tr>
<tr>
<td>PMSD</td>
<td>Parti Mauricien Social Démocrate</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>PNDC</td>
<td>Provisional National Defence Council</td>
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<tr>
<td>PNP</td>
<td>People’s National Party</td>
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<tr>
<td>PP</td>
<td>Progress Party</td>
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<tr>
<td>PSM</td>
<td>Mauritian Socialist Party</td>
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<tr>
<td>PQLI</td>
<td>Physical Quality of Life Index</td>
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<tr>
<td>SAL</td>
<td>Structural Adjustment Loan</td>
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<tr>
<td>SAP</td>
<td>Structural Adjustment Program</td>
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<tr>
<td>SMC</td>
<td>Supreme Military Council</td>
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<tr>
<td>UC</td>
<td>University of Connecticut</td>
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<tr>
<td>UK</td>
<td>United Kingdom</td>
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<td>UN</td>
<td>United Nations</td>
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<tr>
<td>UNAIDS</td>
<td>United Nations Programme on HIV and AIDS</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Program</td>
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<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<tr>
<td>UNESCO</td>
<td>United Nations Educational, Scientific and Cultural Organization</td>
</tr>
<tr>
<td>UNICEF</td>
<td>United Nations Children’s Fund</td>
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<tr>
<td>USA</td>
<td>United States of America</td>
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<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
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<tr>
<td>WDI</td>
<td>World Development Indicator</td>
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<td>World Development Report</td>
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<td>World Health Organization</td>
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<td>World Resources Institute</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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Acknowledgement

Many people have been a part of my growth and I would like to express my profound gratitude to them for making it possible. I am bound to my family for their abundant support: my son (Alhaji) and daughter (Isata) who have taught me the value of unconditional love and to my wife (Fanta), who continues to provide a shoulder of support during hectic moments.

Thanks to Rev. Kemoh Sulimani (Jr.) and Dr. Lewis, who respectively ignited my curiosity about the indebtedness of African countries and narrowed my focus on researching the correlation between strong socioeconomic infrastructures and the success of neo-liberal policies. My colleagues: Abdourahman Dia, Steven Joyce, and Brooke Shannon were great at sending me references and providing feedback. I must also emphasize the tremendous impact of members of my thesis committee on the development and finalization of this thesis: Dr. Anderson, whose course in ABS 731 provided the framework of my thesis topic, Dr. Luehrmann, who instilled in students the value of constructive criticism and respect for the works of other scholars, and the Chairperson of my thesis committee, Dr. Green, whose eye for detailed and objective presentation of material determined the direction of this study. Her comments helped me clarify my points in an objective and neutral way.

Last but by no means the least, I have furthermore to thank my mum, Rev. Judith Sulimani and my deceased father, Kemoh Sulimani (Sr.) who bore, cared for, and gave me unconditional love. To them, I dedicate this thesis.
As valuable as all of the above individuals and their influences have been on the progress of this study, I take responsibility for any mistakes and omissions I may have caused in the process.
1. Introduction

Amartya Sen (1999) rephrased the debate about democracy’s global appeal. A country, he asserts, does not have to be deemed “fit for democracy;” rather, the debate should be over whether a country would become “fit through democracy” (Sen, 1999, 4). Scholars see democracy as the panacea for the social, economic, and political problems in many third world countries. They cite democracy’s intrinsic value, its instrumental value, and its constructive importance as contributors to fair distribution of wealth, high levels of civic participation, high per capita income, and high levels of education in any country.¹ These factors are also essential for building stable societies in which economic and political liberties are guaranteed and income inequality is substantially reduced.

In third world countries, over a billion people live on less than $1 a day with three-quarters of a billion people malnourished and dying from diseases that are readily preventable in developed countries.² In sub-Saharan Africa (henceforth Africa), where most of this underdevelopment persists, 77% of countries are either not-free or partly-free.³ The social, economic and political problems in third world countries have given rise to civil wars, abuse of civil and political liberties, high infant mortality and illiteracy rates, and persistent overall lack of economic and political development. In response to these prevailing issues, international financial institutions have advocated aid programs broadly known as structural adjustment programs (SAPs) which are meant to promote neo-liberal economic policies, build strong social institutions, and promote good governance.⁴ Yet, why have aid programs designed by international financial institutions

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¹ Sen (1999); Lipset (1959)
² IMF (2006)
³ Freedom House (2006)
⁴ Economic growth is usually measured by an increase in real GDP terms (Dreher, 2006; Ndulu and O’Connell, 1999; Burnside and Dollar, 2000). IFIs promote economic growth through conditionalities
failed to produce their socioeconomic and political development objectives in third world countries? *Is a strong economic and social infrastructure a necessary prerequisite for neo-liberal policies to be correlated with the development of strong democracies?*²

I agree with scholars who question whether there is a positive correlation between foreign aid and development. Performing research on the relationship between foreign aid and development is important in light of the fact that most aid comes in the form of loans and the combined debts of the world’s poorest countries continue to rise and the majority of people in these countries live in sub-standard conditions. As of 2002, the world’s poorest countries owed international financial institutions over $523 billion.⁶ The majority of these debts were incurred ostensibly to build economic and social structures that would alleviate poverty and thereby build the foundations for sustainable development. But too often these funds have not been used for this purpose, and many of these countries continue to lack sound infrastructures. It is my assumption that strong economic and social infrastructures would create the right conditions for democratization.

Contrary to the utopian dream of attaining socioeconomic development through foreign aid, much of the literature on democratization suggests that democracy can only be established where there are strong growth- and development-oriented policies.⁷ That is, endogenous factors (infrastructure) are crucial to the attainment of stable democracies much more than exogenous factors (foreign aid).⁸ How can poor countries attain the

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² Dreher, 2006. Economic growth should eventually lead to development. I measure economic development in terms of improvements in education, health, industrial development, sanitation, and other social welfare services (Lipset, 1959; Przeworski et al, 2000). Development involves the progress towards sound infrastructures. I argue that even when SAPs lead to economic growth, they fail to develop the socioeconomic infrastructures that promote democratization. See also IMF (2006).

⁵ Socioeconomic infrastructures refer to a country’s level of income distribution, education, social welfare, healthcare, communications, transportation, and sanitation services.

⁶ Shah (2005)
⁷ Nsouli (2000); Burnside and Dollar (2000); Diamond et al. (1987)
⁸ Modernization theories opened the debate about the relative importance of exogenous and endogenous factors in democratization. Scholars like Diamond et al, 1987; Lipset, 1959; Przeworski et al, 2000; Huber
socioeconomic and political development that is necessary for building stable societies?
Without sound infrastructures already in place, are the neo-liberal policies advocated by
international financial institutions likely to be associated with successful democratization

1.1. The Research

Why have aid programs operated by international institutions failed to produce
their socioeconomic and political development objectives in third world countries?
International financial institutions maintain that aid programs in the form of SAPs are
meant to promote economic growth and political development in the recipient country.
Lipset (1959), Przeworski et al., (2000), and Huber et al., (1993) have conducted studies
that show a strong correlation between economic development and democratization.9 The
aid programs by international institutions have failed to positively impact socioeconomic
development in many third world countries, especially in Africa, and thus, failed to
promote democratic consolidations.10 Are aid programs significantly more likely to
contribute to socioeconomic development and therefore democratization in countries with
strong, preexisting social and economic infrastructures? That is, is a strong economic and
social infrastructure a necessary prerequisite in order for neo-liberal policies to be
correlated with strong democracies?

et al, 1993; and Carothers, 2004 have produced important literature on this issue. My research will focus
primarily on foreign aids that are conditioned on the implementation of SAPs.
Lipset’s study (1959) shows a direct correlation between economic development and democracy.
Przeworski et al (2000) determined that democracies survive in countries that are developed. Huber et al
(1993) argue that the changes caused by industrialization and urbanization are crucial to democratization.
Stephen Knack (2004), Does Foreign Aid Promote Democracy? Burnside and Dollar (2000), Aid,
Policies, and Growth.
**Sub-questions**

1. Which aspects of infrastructures are most or least important to democratization?
2. Can countries sustain economic growth and political development without sound infrastructures?
3. Can sound infrastructures come after democratization?
4. What modifications need to be enacted for structural adjustment programs to be more beneficial to citizens of borrowing countries?

**1.2. Review of the Literature**

Since the 1980s scholars have paid attention to poverty related issues and have provided policy objectives that could help alleviate the lack of economic growth and political development in third world countries. The prevalent poverty in Africa poses problems for the world community as a whole. Many scholars see democracy as the panacea for curing the widespread poverty in that region. As such, many international financial institutions have tailored their aid programs to reflect neo-liberal policies that are conducive to democratization. Since many third world countries largely depend on foreign aid to provide basic services for their citizens, they are forced to adopt the policies set forth by international institutions with hopes of achieving socioeconomic development. However, empirical evidence has shown little correlation between aid programs and the development of education, health, sanitation, and other social welfare services.\(^\text{11}\) Can aid programs (as they currently exist) build stable democracies in third world countries?

\(^{11}\) See Knack (2004); Goldsmith (2001)
I define democracy in terms of Dahl’s (1971) “polyarchy” which suggests three essential conditions that are required for a country to be considered democratic. First, there should be meaningful competition among individuals and organized groups for political power. Second, there should be a “high inclusive” level of political participation in selecting leaders and determining policies. Third, a level of civil and political liberties must exist; in other words, there should be freedom of expression, freedom of the press, and freedom of associations.

Scholars (Lipset, 1959; Diamond et al, 1987; Przeworski et al, 2000) have identified socioeconomic growth as a strong variable that is causally related to transitions to democracy and/or building strong democracies. I measure a country’s socioeconomic development in terms of its infrastructure. That is, its level of education, healthcare, sanitation, welfare, and income distribution. My study focuses on aid programs widely known as structural adjustment programs (SAPs) which impact a recipient country’s policies on education, healthcare, sanitation, welfare, and income distributions. There is much debate in the literature over how SAPs impact the above variables vis-à-vis socioeconomic growth, political institutions, and building state capacity.

**Socioeconomic Growth**

According to international financial institutions the conditionalities placed on loan packages are intended to jumpstart socioeconomic development by stimulating economic growth. Proponents of IMF conditionalities argue that measures like SAPs are intended to promote responsible economic policies in borrowing countries. Conditionalities have been used as tools to promote economic and political liberalization. It is argued that conditionalities influence good governance in countries where bad government policies
have led to economic stagnation and decline.\textsuperscript{13} For example, World Bank studies in the 1980s indicate that the improved governance rule stressed by international financial institutions produced market reforms which sweep away “the economically unproductive clientele networks and government-enabled rents” that impede democratization (Sandbrook, 2000, 76). Conditionalities that are placed on recipient countries of foreign aid, in a way, ensure fiscal accountability and improve on economic performance.\textsuperscript{14}

Other scholars (Anunobi, 1992; Pankhurst, 1998; Burnside and Dollar, 2000) see debt and the structural adjustment programs imposed by IFIs as key elements undermining efforts to achieve sustainable development in African countries. The IMF and World Bank’s policy conditions reduce the wages for workers in the recipient countries, while ensuring larger profits of multinational corporations. For example, the macroeconomic policies which were implemented in countries like Sudan and Zambia in the late 1970s led to high inflation rates that adversely impacted the middle and low income groups, and the rural populations.\textsuperscript{15}

Diamond et al. (1987) suggest that it is sound policies and honest administrations that promote economic performance rather than conditionalities or even the natural resource endowment of a country. For example, many African countries have generous amounts of mineral resources, but few match the consistent growth performance of Botswana. Underlying Botswana’s performance is not conditionalities, but sound policies and effective management. Some critics of conditionalities see it as deliberate measures

\textsuperscript{12} Conditionalities were incorporated into the International Monetary Fund’s Charter in September 1968.
\textsuperscript{13} Arthur Goldsmith (2001) defines good governance as the capacity of political institutions to produce public goods. It involves freedom of the press, competitive elections, maintaining peace, guarantee of laws and order, support for economic infrastructure and ensuring a minimum level of social well-being. Diamond et al (1987) link bad government policies to the political situations in Argentina, Chile, Peru, and Uruguay where (between 1950s and 1980s) “import-substitution and sharply pendular policies” promoted non-competitive industries that resulted in economic stagnation, political instability and turmoil (Diamond et al 1987, 9).
\textsuperscript{14} Knack (2004)
\textsuperscript{15} Anunobi (1992)
employed by Western countries (who hold a disproportionate number of shares and votes in these institutions) to keep third world countries in a perpetual state of indebtedness.\textsuperscript{16}

Another argument advanced in favor of foreign aid is that it can indirectly promote movements toward democracy by improving on education and increasing per capita incomes. Sandbrook (2000) contends that even though the programs of macroeconomic stabilization and liberalization imposed by the IMF and the World Bank in the 1980s produced riots and demonstrations (by the urban workers and middle class), these actions promoted movements that were against authoritarian regimes in many African countries. Economic depression discredits authoritarian governments and fosters domestic movements.\textsuperscript{17}

Burnside and Dollar (2000) hold a different view; for them, foreign aid “on an average has had little impact on growth” (Burnside and Dollar, 2000, 864). Although international financial organizations make “good policy and governance” a condition for granting aid, their study shows that aid was granted to many countries that did not meet the necessary requirements. As such, corrupt governments in Nigeria still secured aid from bilateral and multilateral aid donors. They argue that granting loans to corrupt governments indirectly enables “bad governance” because, those governments default on loan repayments and invite the wrath of sanctions on their countries. Such sanctions lead to “mass poverty, unemployment, unsustainable population growth rates, high rate of inflation, and the rapidly decreasing ability of the country to feed itself…” (Anunobi, 1992, 118).

\textsuperscript{16} Anunobi (1992)

\textsuperscript{17} IMF conditionalities in some instances have produced movements against authoritarian regimes as in the case of Kenya in the 1980s and 1990s, where civil liberties groups rose up against President Arap Moi’s authoritarian regime (Sandbrook 2000, 4). Elsewhere, I observe that in other instances these same conditionalities gave rise to authoritarian regimes. For example, the impact of conditionalities in Ghana brought about widespread support for Rawlings when he seized power from Limann’s administration in the early 1980s (Panford, 1997).
Further, the implementation of SAPs in many African countries led to substantial
decreases in expenditures on programs such as education, sanitation and healthcare. IFIs
were thus seen as “foreign aggressors or agents of imperialism, whose objectives are to
undermine the welfare and prosperity of African people” (Pankhurst, 1998, 4). Africa’s
current debt burden is “more than 200 percent of its exports” and “servicing that debt has
diverted resources away from essential development programs” (IMF Survey, 1999, 349).

The impact of IFIs on socioeconomic growth has been the biggest bone of
contention between scholars who see foreign aid (based on structural adjustment) as the
necessary route to creating accountability in third world countries, and those who call
attention to the stifling and unfair nature of such loans. I argue that, loans with or without
conditions, are not the primary needs in promoting economic growth and political
development. Any country that lacks the educational capacity, healthy citizenry, and a
relatively fair distribution of wealth will always be plagued by poverty and strife. Aid
conditioned on building the infrastructures that affect these variables is the panacea to the
lack of sustainable development in third world countries.

Political Institutions

Political institutions play an important role in “shaping the conflict-regulating
capacity of democratic systems” (Diamond et al, 1987, 12). The incapacity of
authoritarian regimes to create sustainable development in the 1970s and 1980s was one
of the reasons advanced by IFIs for adopting reforms that were intended to build and
strengthen political institutions in recipient countries. Surveys conducted by the World
Bank during this period identified political factors as major causes for Africa’s economic
State-interventionist policies, nepotism, and waste prevented economic growth and engineered capital flight. Furthermore, the legal systems in these countries which failed to safeguard property rights or enforce contracts, discouraged potential investment. As such, one of IMF’s conditions after the 1980s was that states must create an “enabling environment” for investment in the private sector.

The provision of such an environment involved good governance, in which accountability, “transparency and openness in decision-making, the rule of law…” and efficient public management were incorporated into government (Sandbrook, 2000, 13). For example, the USAID explicitly made democratic governance a condition for receiving assistance from them. Sizeable amounts of resources from IFIs have been committed to countries that demonstrate good governance in accountability and promote the rule of law. It is the assumption of these international institutions that democratization is the vehicle that could “re-establish the rule of law, open up policy debates, reduce governmental waste…enhance accountability, and empower coalitions supporting market-based reforms” (Sandbrook, 2000, 13).

Contrary to the adoption of reforms that promoted good governance, foreign aid was still given to untrustworthy leaders who repressed their populations. As such, the “good governance” condition upon which aid is granted has achieved little political and administrative headway. Nicolas van de Walle (former Governor of the World Bank) concedes that “aid on balance has been undermining institutional capacity in Africa” (Van de Walle cited by Goldsmith, 2001, 123). Further, reduction in state spending on necessary commodities like food and medicine, in an effort to “balance the books” with

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18 World Bank (1989)
19 Sandbrook (2000)
21 Knack (2004)
22 Goldsmith (2001)
IFIs undermined democratically elected governments and in some cases enabled repression of citizens. In Zimbabwe for instance, President Mugabe has cited IMF conditionalities as the cause of the decline in the state’s capacity to meet the citizens’ basic needs.⁴³

Another defining characteristic of democracy is the existence of a medium of competition through which political authority is given, civil and political liberties are guaranteed, with a free press and the rule of law.⁴⁴ This function of democracy has caused many international financial institutions to include these conditions in aid packages. For example, USAID spends more than $700 million a year on democracy related programs, including the provision of technical assistance to parliaments, judiciaries and political parties, fostering the growth and participation of civil society organizations, and monitoring elections.⁴⁵ In addition, most international financial institutions now include, among the conditions attached to grants or loans they give, better performance in the areas of civil liberties, the conduct of elections, and respect for the rule of law.

Carothers (2004) questions the effectiveness of foreign aid programs aimed at training parliaments and judicial system “in countries with long histories of nondemocratic rule and the absence of the rule of law” (Carothers, 2004, 17). Most of these programs do not set attainable goals for the time frame and resources available to them. Furthermore, the development of effective institutions and a participant civil society will thrive better if they are generated from within than from without. Local

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²³ A central argument of Carothers (2004) in Critical Mission is that, democracy promoters have failed in their mission because of disjointed policies that did not create a balance between the needs of the donor and recipient countries. This lack of foresight has been the central problem of IFIs. A comprehensive approach to promoting sustainable development in third world countries should be preceded by the development of sound institutions and infrastructures. See also Pankhurst (1998).

²⁴ Schumpeter (1976)

²⁵ Carothers (1999)
organizations and institutions that receive technical assistance from foreign donors usually lose their domestic credibility. As Carothers puts it, external assistance to political processes raises a sensitive question about “what is development versus what is deformation of a local political process” (Carothers, 2004, 18).

There is no quick solution to building an environment that will ensure sustainable development. It takes investment in specific sectors in society to produce the right institutions that will foster growth and development, and guarantee the rights and liberties of citizens. As Lipset (1959) observed, the higher the education in any country, the better the chances for producing the institutions that promote economic and political liberalization. I agree with him.

*State and Society*

Stable democracies usually have governments that govern effectively. That is, in such countries state structures are capable of producing economic growth, meet distributive demands, and maintain order without restricting liberty.\(^{26}\) For the state to perform this role, the state itself must be strengthened. According to the World Bank (1997), the reforms advocated by SAPs are actually intended to help states balance their responsibilities with their capacity. In other words, states become more effective and strong when they can negotiate, implement, and monitor complex agreements with IMF and other aid agencies; effectively manage the private sector; resolve infrastructural problems that discourage private investment; and mediate the many conflicts within society including ethnic, employment, and factional problems which might threaten social peace and stability.\(^{27}\)

\(^{26}\) Diamond et al. (1987)

\(^{27}\) Sandbrook (2000)
The majority of African countries have not experienced this strength because of “the general weakness and decline in the effectiveness of state structures in the post-independence period” (Diamond et al., 1987, 15). In this region, post-independence governments (Ghana for example) plundered and personalized state structures to the point in which the countries became ungovernable. The good governance approach that is been imposed by international financial institutions is intended to produce a democratization process that will generate the reforms necessary to turn back the damages caused by the above administrative weaknesses.28

Kaufman (1992) sees things differently. According to him, the reforms which usually accompany SAPs cut back social expenditures, lower subsidies, and ultimately undermine the strength of governments. Furthermore, Engberg-Pederson et al. (1996) posit that there is no evidence to suggest any “positive causal link” between the changes advocated by international financial institutions and “political pluralism and improvements in the observance of human rights” (Engberg-Pedersen et al., 1996, 23).29 Also, Carothers (2004) argues that some of the policies pursued by international institutions undermine human rights issues and inadvertently empower authoritarian rule in some regions. Furthermore, in his controversial “The End of the Transition Paradigm,” Carothers (2004) discusses some of the faulty assumptions and failures of agencies like the USAID in promoting democratic values in recipient countries. The lack of understanding of the political climate and history of some of these countries leads to waste of funds on unproductive projects. Most third world countries lack the structures that are necessary for economic growth and for meeting the demands of pluralism.30

28 Dia (1993); Van de Walle (1995)
30 Diamond et al. (1987)
Political instability and authoritarian regimes in Africa have emerged as a result of political and economic crisis; the economic reforms imposed by IFIs can be very instrumental in producing such crises.\textsuperscript{31}

The above literature suggests that an effective management of aid is vital to the development of stable democracies; thus, the recipient country must demonstrate fiscal responsibility.\textsuperscript{32} Most aid programs aimed at promoting economic growth and political development fail because endogenous factors are not supportive of such programs.\textsuperscript{33} Furthermore, any solutions to the problems in third world countries should reflect these countries’ needs and perspectives on the one hand, and should be able to meet acceptable standards in the international community on the other.\textsuperscript{34} There should be a sharing of the debt burden between lenders and borrowers, and this must reflect the reality that aid programs can only effectively contribute to economic and political development, if they are combined with high quality economic management based upon sound infrastructure.

1.3. Methodology

It is worth restating the assumptions that underlie the hypothesis of this research. Firstly, I assume that the conditions that are incorporated within structural adjustment programs have a direct impact upon democratization in the borrowing country. Secondly, I define democracy in terms of Dahl’s polyarchy. That is, a country should meet the criteria set forth in Dahl’s polyarchy for it to be considered a stable democracy. Thirdly, I contend in line with scholars like Lipset (1959) and Przeworski et al (2000), whose

\textsuperscript{31} See Footnote 8 for reference.
\textsuperscript{32} Fiscal responsibility refers to a country’s capacity to develop sound policies that are geared towards developing education, healthcare, sanitation, and other social welfare services.
\textsuperscript{33} Cyril Enweze, Vice President of the African Development Bank observed that countries that receive foreign aid must develop accountability, transparency, anticorruption actions, participatory governance, and an enabling legal and judicial framework if aid programs should promote economic growth and political development (IMF Survey, 1999). Most third world countries can not boast of such an environment.
studies have determined that the level of socioeconomic development can either lead to democratization or promote democratic consolidation respectively. Finally, the primary variables that comprise a country’s level of socioeconomic development or infrastructure include education, healthcare, sanitation, and level of income inequality.

A case study of two countries (Ghana and Mauritius) will help determine whether there is a positive correlation between SAPs and democratization. The “most similar systems” design offers the right model for this study. Despite some obvious differences, the above countries share four critical similarities that directly impact the variables in this research. These similarities include their colonial legacies, a diverse ethnic citizenry, extensive debts from IFIs in the 1980s, and the level of socioeconomic growth prior to implementing SAPs. The reforms that were implemented during structural adjustment determined whether these countries developed stable democracies or remained Delegative democracies. In other words, the aids that these countries received, which made the adoption of structural adjustment a prerequisite for qualifying for those loans, has been the determining factor for state of democracy in these countries.

Ghana adopted SAPs from IFIs in the 1980s that had an impact on their socioeconomic policies in the areas of education, welfare, sanitation, and income distribution. Ghana’s structural adjustment program was introduced in 1983 and was called the Economic Recovery Program (ERP). Ghana’s ERP has gone through three phases: the ERP (1983-1987), the ERP II (1987-1993) and the Accelerated Growth Strategy (AGS) post 1993. The reforms adopted under Ghana’s various ERPs continue to shape that country’s economic and political growth. Mauritius refused accepting the IMF and World Bank conditions dealing with education, healthcare and welfare services.

34 President Mogae of Botswana discussed ways in which foreign aid could be beneficial to both recipient and donor countries (IMF Survey, 1999).
35 Hutchful (1997)
The SAP adopted by Mauritius in the late 1970s and early 1980s directly tried to develop the export processing zone (EPZ) strategy that the country had implemented in the early 1970s. In 1985, Mauritius became the first African country to successfully conclude its structural adjustment program with the World Bank and IMF.36

I assume that the structural adjustment programs adopted by Ghana have a direct impact on the development of infrastructures and progress towards democratization. Currently, Ghana is one of the “heavily indebted poor countries” (HIPC) and seeking debt relief from international donor agencies. Mauritius, on the other hand, which did not adopt SAPs that directly affected its socioeconomic policies, has one of the strongest economies and stable democracies in Africa. Comparing these countries will help predict the impact of conditionalities on democratization.

The above cases were selected for the following reasons. Ghana was considered the success story of IMF’s structural adjustment programs in the 1980s. Two decades later, Ghana is one of the heavily indebted poor countries in Africa. Mauritius has gone through similar transitions as Ghana, but sound economic and social policies have made it one of the fastest growing economies in the world with a strong democracy. Ghana and Mauritius share similarities in terms of political history, ethnic diversity, and heavy borrowing from IFIs from the late 1970s to the early 1980s that forced the implementation of SAPs. However, even though both countries accomplished economic growth in the 1990s, the condition of living of Mauritians is better than that of Ghanaians and Mauritius’ democracy is consolidated. Can economic liberalization produce political liberalization? What factor is responsible for Mauritius’ success and Ghana’s failure? Is progress towards democratization related to the level of development of a country’s infrastructures at the commencement of structural adjustment?

36 English (2002)
Contemporary social science scholars widely accept the following indices as effective measurements of the variables that will be analyzed in this study. The “Physical Quality of Life Index” (PQLI), which was developed by the Overseas Development Council, effectively measures a country’s literacy, life expectancy, and infant mortality rates. The “Human Development Index” (HDI) ranks countries and provides a composite picture of a country’s provision of sanitation, education, and other welfare services. The “Gini Index” provides data on income distribution. The above will be used to test the independent variables relative to infrastructure. For the dependent variable, to track progress toward consolidated democracies, I will use data from Freedom House, World Bank, and IMF reports.

Another variable that will be analyzed in addition to the above variables vis-à-vis democratization is that of corruption. Pervasive corruption in many third world countries determines how effectively aid is used. The “Corruption Perceptions Index” (CPI) developed by Transparency International measures the extent of corruption in a country’s public and political sectors. IMF, World Bank, USAID, and Freedom House statistics will also be used to measure the level of corruption in the countries under review.

Finally, the time frame for this study will range from 1980 to date. The debt crisis of the early 1980s forced Ghana and Mauritius to turn to international financial institutions for loans. During that same period, IFIs advocated SAPs as comprehensive, long-term solutions for debtor nations. As such, this time frame will provide observations of how SAPs have faired in promoting economic growth and political development.

37 Welch (2000)
Ghana’s interactions with the world’s most prominent and influential financial institutions – the IMF and World Bank – started in the 1960s. By the 1980s and 1990s, Ghana was one of the few sub-Saharan countries that consistently implemented IMF and World Bank’s structural adjustment programs (SAPs) that were aimed at reversing the country’s economic decline and set it on the path of economic growth and development. This chapter reviews Ghana’s successes and failures with SAPs. This review will primarily focus on the Rawlings years (1981 – 2000), a period that witnessed the prescription and consistent implementation of IMF and World Bank policies.

The first part of this chapter gives a historical background of Ghana’s emergence from colonialism and its prospects for economic and political development. Following this, I will review the economic and political conditions in Ghana prior to the implementation of SAPs; the debt crisis of the 1970s and 1980s that necessitated the implementation of SAPs. The final sections analyzes the Economic Recovery Programs (ERPs) that were adopted from 1983-2000 and their impact on Ghana’s economic growth and socioeconomic infrastructures. The concluding section of this chapter reviews Ghana’s democratization against the background of the ERPs.

2.1. Historical Background

In 1957 Ghana became the first sub-Saharan African country to gain political independence from colonial rule. Ghana’s independence was characterized by tremendous hope in its ability to lead Africa toward economic development. In comparison to other African countries, Ghana in the 1960s was considered the “Black Star” of Africa.\(^{39}\) During this period (the late 1950s to 1960s), Ghana was the wealthiest country in all of sub-Saharan Africa; it had $532 million in foreign reserves, the best infrastructure, relatively, a well-trained and educated work force, a wealth of natural resources including gold, bauxite, and manganese, and was the world’s leader in cocoa exports.\(^{40}\)

Although Ghana had such wealth of reserves at independence, hindsight shows that its development prospects were forestalled by certain economic and political factors. Firstly, the British colonial regime’s economic policies failed to lay the foundations for sustainable development.\(^{41}\) Similar to other colonial territories, the colonial regime pursued economic policies that focused primarily on export trade of raw materials. In Ghana these products included cocoa, gold, timber, diamond, and bauxite. In an advantageous way, sound policies were not developed to sustain Ghana’s economic growth and incorporate its economy into the expanding worldwide capitalist system.\(^{42}\) Secondly, in the political realm, the British colony’s indirect rule policy produced a class of bureaucrats, soldiers, and middle-class professionals who consumed a considerable portion of the surpluses produced by the rural and unskilled workers without any accountability to the general citizenry. In Ghana, this was the class that dominated the

\(^{39}\) Konadu-Agyemang (1998) observes that at independence Ghana was the wealthiest African nation in terms of its reserves, and its natural and human resources. Panford (1997) compares the economic and social infrastructure of Ghana from 1951-1973 and the period after the late 1970s.

\(^{40}\) Louis (2005); Konadu-Agyemang (1998)

\(^{41}\) Louis (2005)
nationalist movement and gained control of the state apparatus at independence. It is against this background that power was handed over to Kwame Nkumah and his Convention People’s Party (CPP) in 1957.

It is not surprising then that the high hopes of Ghana becoming the most developed country in sub-Saharan Africa started dwindling as Kwame Nkrumah and successive leaders (who were either democratically elected or who seized power) embarked on programs that depleted Ghana’s reserves and continued it on the path of perpetual dependence on foreign assistance.\(^\text{43}\) As Panford (1997) observed, Ghana did not experience civil wars (as did many African countries after independence) but corruption, lack of accountability, political instability, and later the austerity measures imposed by SAPs gave rise to the deteriorating living and working conditions of Ghanaians.\(^\text{44}\)

A timeline (Table 2.1) of the different governments that have ruled Ghana from independence to date shows that political instability is one of the main factors that has hampered Ghana’s prospects for development. From 1957 to 2006, a total of thirteen governments have ruled Ghana: six military regimes, two regimes under a military leader turned civilian president (Jerry Rawlings), and five democratically elected governments. This data becomes even more significant when we see that within a nine-year period (January 1972 to December 1981) a total of five governments ruled Ghana: four military regimes and one democratically elected government.\(^\text{45}\) It was during this period (1972-1981) that Ghana’s economic and political situation reached crisis proportions. The rapid shifts in political and ideological regimes during this time frame resulted in policy instability and the advent of Ghana’s dependence on foreign assistance for its

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\(^{42}\) Grier (1981)
\(^{43}\) Louis (2005); Boafo-Arthur (1999); Grier (1981)
\(^{44}\) Louis (2005); Konadu-Agyemang (1998); Panford (1997)
The various governments in Ghana have constantly shifted the country’s policy direction: Nkrumah promoted Pan-Africanism, Ankrah and Busia adopted neo-liberal policies, Acheampong promoted nationalism, Limann focused on socioeconomic development, and Rawlings followed the path of structural adjustment.

From a policy perspective, Louis (2005) observes that from independence to date, Ghana has adopted policies aimed at producing an economic development similar to Western European countries and the US. This neo-liberal approach advocates free market initiatives aimed at increasing the gross domestic product (GDP) “with the hope that the benefits thereby accrued would trickle down to the whole society at large in the form of jobs and other economic opportunities” (Louis, 2005, 1). That is, an increase in GDP would create the necessary conditions for the wider distribution of the economic and social benefits of growth. In addition to this view, scholars including Osei-Dadzie (2004), Konadu-Agyemang (1998), and Gyimah-Boadi (1991) argue that the economic and political development policies that have been implemented by the majority of past and present political leadership in Ghana have been selfish and motivated about the personal gains for the leaders and their cronies. These neo-liberal policies, however, have failed to transform Ghana into a modern industrialized society.

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45 Boafo-Arthur (1999); Hutchful (1997)
46 Hutchful (1997)
In tandem with the above factors are other anti-development conditions that permeate the Ghanaian society. Scholars (Panford, 1997; Konadu-Agyemang, 1998; Boafo-Arthur, 1999; Aryeetey and Fosu, 2004; Louis, 2005) cite economic mismanagement, uncontrolled inflation, a mismanaged public sector, productivity disincentives, over-subsidized social services, corruption, and inept leadership as causes of Ghana’s economic and political downturn.⁴⁷

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⁴⁷ Konadu-Agyemang cites the extensive literature that have been produced by scholars like Kraus 1991; Younger 1989; Gyimah-Boadi 1991; and Werlin 1994 addressing the conditions that led to Ghana’s decline between 1970 and 1983.
Corruption has been a feature of politics – in developed and developing countries, democratic and authoritarian societies, old as well as new democracies – since recorded history.⁴⁸ In Ghana, corruption has become an everyday phenomena and is one of the major factors that have hindered socioeconomic and political growth in the country.⁴⁹ At the government or state level, nepotism, cronyism and tribalism are the basis of the culture that overrides political life. Appointments and selections to all branches of government are not determined by merit, but on the basis of tribe, friendship or relatives in positions of authority. To compound the situation are the favors expected by the patrons from their beneficiaries, which includes but not limited to, financial payments, awarding undeserved government contracts to patrons, and diversion of funds to fund political activities.⁵⁰

Also, corporate governance, which should be an effective tool in creating safeguards against corruption and mismanagement is virtually nonexistent. As a result, accountability, transparency, rule of law, fairness, responsibility, and property rights are very weak and serve as breeding grounds for corruption.⁵¹ Public officials and ordinary citizens have gradually embraced corruption as a norm of society. As will be observed, Ghana’s leaders as well as the overwhelming majority of citizens freely engage in misappropriating public funds, accepting and giving out bribes, and profiteering in business. The leaders violate the constitutional rights of citizens, are unaccountable, involve in election corruption, and lack transparency. For example, in 1964 Nkrumah changed the country’s constitution to make himself a “Life President.” Busia (1969-1972) was unable to curtail the rampant corruption among civil servants. General Acheampong

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⁴⁹ Adomako (2005) describes the different levels of corruption in Ghana including white level, civil level, and everyday level. Mensah et al. (2003) conducted a study that offer empirical findings about the intertwining nature of corporate governance and corruption in Ghana
⁵⁰ Adomako (2005)
in 1972 confiscated all shares of foreign businesses. Limann’s government (1979-1981), similar to the Busia regime, was unable to stop misappropriation of government funds. Five of the ministers in Rawlings’ government (1993-2000) are currently on trial for embezzling $22 million of funds allocated for different projects during their rule. And currently, President Kufuor’s Minister of Youth and Sports is on trial for stealing $46,000 in just the first month of his appointment.\textsuperscript{52}

As Adomako (2005) points out, corruption is one of the most deadly social and ethical problems that has faced Ghana in the last 50 years. In a survey conducted by Ghana’s Center for Democratic Development (2000), 75% of households in Ghana see corruption as a serious problem, 66% admit to be paying 10% of their annual incomes in bribes to public officials, and 44% of companies (domestic and international) admit to making unofficial payments to public officials on an ongoing basis. The culture of corruption is imbibed in Ghanaian society and can not be ignored in discussing Ghana’s democratization vis-à-vis economic reforms.

In addition to all of the above, structural factors like terms of trade and the fluctuating prices of export commodities versus the costs of imported goods have created structural imbalances in Ghana’s economy. Within two decades of gaining independence, the Ghanaian economy had crumbled and international financial institutions became key players in the country’s future.

When Flight Lieutenant Jerry Rawlings staged his second coup on December 31, 1981 the majority of Ghanaians believed he would develop the policies needed to address the country’s political and economic problems.\textsuperscript{53} Hopes in Jerry Rawlings and his

\textsuperscript{51} Mensah et al. (2003)
\textsuperscript{52} Sarpong (2006)
\textsuperscript{53} According to Hutchful (1997) the Provisional National Defence Council (PNDC) – led by Rawlings – was a radical civil-military coalition that seized power from the democratically-elected Limann government in 1981. This was the second instance of Rawlings staging a coup. His reason for this coup was to halt the
Provisional National Defence Council (PNDC) government to turn Ghana’s fortunes around did not translate into reality. Similar to circumstances that were prevalent during previous regimes including corruption, lack of sound development policies, unproductive state enterprises, overarching foreign influence over Ghana’s development policies, Rawlings was faced with a situation beyond his comprehension. Between December 1981 and 1983, the economy continued to spiral downward as inflation rates reached record levels, droughts, famines, and the forceful return of over two million Ghanaian economic refugees from Nigeria by the Shehu Shagari regime (1979-1983) added fuel to an already blazing debt crisis.\footnote{Panford (1997)} In desperation, the PNDC government (in the middle of 1983) entered into negotiations with the IMF and World Bank. The outcome of those negotiations was the adoption of the structural adjustment programs (SAPs) prescribed by the Bretton Woods institutions as the panacea for Ghana’s economic decline.

As stated in Chapter 1, the conditions placed on loans through SAPs directly impact the recipient country’s socioeconomic infrastructure. I argue that strong socioeconomic infrastructures are necessary prerequisites for neo-liberal policies of IFIs to promote strong democracies. I seek to test this assumption by assessing the impact of the Economic Recovery Programs and Structural Adjustment Programs on Ghana’s democratization.

2.2. \textit{Post Colonialism: Economic Growth and Political Development}

For a better perspective on how Ghana’s economic fortunes turned for the worse, a review of the different governments’ policy records between the late 1950s and the late 1970s is necessary.
Kwame Nkrumah and the Convention People’s Party

By the time Ghana’s independence was declared on March 6, 1957, Kwame Nkrumah was already serving as that country’s first African Prime Minister; after having won Ghana’s first free and fair general elections under universal franchise in 1951. In 1960 he won the next general election and became the first president of independent Ghana. Nkrumah gained popularity in Ghana and Africa as a whole by taking an anti-colonial, anti-neo-colonial, and anti-imperialist stance towards political issues. He became very committed to Pan-Africanism; having being influenced by black intellectuals like Marcus Garvey, W.E.B. DuBois, and George Padmore.

Kwame Nkrumah promoted development policies that were aimed at moving Ghana’s economy toward a more industrialized model. This was a popular idea at the time because it was reasoned that moving African countries out of the colonial trade system through reducing its dependence on foreign capital, technology, and material goods would allow them to be truly independent. To accomplish this goal, the Nkrumah government developed policies that promoted import-substitution industrialization (ISI) through the use of public capital (mainly Cocoa Marketing Board surpluses), amassing budgetary deficits, and through heavy external borrowing. Even though this approach attained high rates of capital formation, it failed to achieve the economic growth and industrialization that was intended. Many of the projects that the CPP government embarked on were unsuccessful and too expensive for the amount of revenue it was receiving from the export trade.

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56 Osei-Dadzie (2004)
57 Ghana’s development policy in the 1960s focused on transforming the country into an industrialized nation through “concentrating high rates of capital formation into a relatively few years” (Hutchful, 1997).
58 Hutchful (1997)
Scholars like Panford (1994) and Konadu-Agyemang (1998) argue that Nkumah’s approach was able to achieve a certain level of modernization of the economic structure. That is, the creation of the nation’s first welfare system, the construction of major highways, railroads, the tap water system, schools, and the Volta hydroelectric power plant that generates power for Ghana and surrounding countries were programs that moved Ghana towards building a modern nation.\(^{59}\) However, there is not much debate about the fact that it was at these early stages of Ghana’s development that the authorities started growing the budget deficits, investing in inefficient state enterprises, and showing its inability to develop policies that would control inflation and produce effective social services.\(^{60}\) Furthermore, it was during the Nkrumah years that the Ghanaian leadership started stifling the interests, rights, and civil liberties of Ghanaians. For example, in 1958 the Trade Union Act made strikes illegal; the Preventive Detention Act of 1961 allowed the arrests and detention of citizens without the involvement of the nation’s court system; and in 1964 Nkrumah declared Ghana a one-party state and made himself “Life President.”\(^{61}\)

By 1965, Nkrumah’s expansionist programs had had a negative impact Ghana’s economy. A combination of factors including inefficient state enterprises, agricultural stagnation, falling export earnings resulting from a decline of the world cocoa market, and growing budgetary deficits “produced serious inflation and other distortions in the economy” (Hutchful, 1997, 3). In May 1965, Nkrumah’s government approached the

\(^{59}\) Osei-Dadzie (2004)

\(^{60}\) This has been extensively discussed by Hutchful (1997); Kraus (1991); Younger (1989); Konadu-Agyemang (1994, 1998)

\(^{61}\) U.S. Department of State, Bureau of African Affairs (2006) discusses Nkrumah’s corrupt, oppressive, and dictatorial practices. Similar characteristics will be demonstrated by future military regimes in Ghana, especially the Rawlings regime that was well noted for banning political activities, beatings of citizens, and murdering government officials including judges and opposition leaders that disagreed with their policies in the 1980s.
IMF for financial assistance. The World Bank’s assistance was also sought that same year. Both the IMF and World Bank prescribed non-inflationary borrowing and a drastic reduction of government spending to levels that could be covered by government revenues. The Nkrumah government rejected the institutions’ prescription because it would have halted the government’s development programs. Unfortunately, Nkrumah’s rejection of the institutions’ conditions “shook foreign confidence in the Ghanaian economy” which had already started going downhill (Rimmer, 1992 as cited by Boafo-Arthur, 1999, 2). In February 1966, Nkrumah’s government was overthrown by the Ghanaian military and the National Liberation Council (NLC) took over the reigns of government. The coup leaders argued that Nkrumah had become a dictator, was exiling political dissidents, and that his expansionist policies were ravaging the Ghanaian economy.

The National Liberation Council

The NLC that formed after the overthrow of Ghana had cordial relations with the IMF and was the first to adopt stabilization measures in May 1966 (barely three months after seizing power from the Nkrumah government). The NLC’s “Standby Arrangement” with the IMF addressed deflationary fiscal and monetary policies. It focused on the reduction in overall government expenditure, non-inflationary sources of borrowing, reduction in bank credits to both the public and private sectors, wage and salary controls, and large-scale retrenchments in the public and private sectors. Also,

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63 Boafo-Arthur (1999)
64 Scholars (Osei-Dadzie, 2004; Boafo-Arthur, 1999; Seymour, 1980) speculate that Nkrumah was overthrown with the help of the American CIA because of his anti-neocolonial rhetoric and seeming support for communism over capitalism (even though he claimed neutrality). Yergin and Stanislaw (2006) argue that American corporations (for similar reasons undermined) Nkrumah’s development programs like the Akosombo Dam project.
these measures advocated the phased liberalization of import and exchange controls, removal of price controls and subsidies, devaluation of the national currency (by 30% against the U.S. dollar), and short-term rescheduling of the external debt and restrictions on new short – and – medium term borrowing.\textsuperscript{67}

The NLC’s stabilization policy showed some strength in terms of reducing both budgetary expenditure and the deficit. However, during that same period, there was an increase in unemployment that caused a decrease in the real income of the poor. Also, the private sector was unable to raise investment that would have compensated for the reduction in public spending. That is, the foreign investment that liberalization was expected to attract did not materialize. Furthermore, inefficiency continued in both the parastatals and in the agricultural sector; balance of trade and the deficit worsened; and fiscal stabilization was only temporary.\textsuperscript{68} As a result, the military willingly turned over the government to civilians.

\textit{Busia and the Progress Party}

Ghana’s government returned to civilian authority under the Second Republic in October 1969 when the Progress Party, led by Dr. Kofi Busia won 105 of the 140 seats in the nation’s parliamentary elections.\textsuperscript{69} Busia’s government attempted a two-pronged approach to Ghana’s economic problems. On the one hand, it deepened trade liberalization by allowing importation of more foreign goods and services. On the other hand, it focused on “rural development, agriculture…private sector development…and

\footnotesize{\textsuperscript{65} Boafo-Arthur (1999) observes that three months after seizing power the IMF granted a standby credit to the NLC government because it had satisfied the Funds conditions sufficiently.
\textsuperscript{66} These Standby Arrangements promoted trade liberalization financial restrictions in the form of retrenchment of labor in the private sector and some government parastatals (Hutchful 1997).
\textsuperscript{67} Boafo-Arthur (1999); Frimpong-Ansah (1991); Hutchful (1985)
\textsuperscript{68} Hutchful (1987 and 1997)
\textsuperscript{69} U.S. Department of State, Bureau of African Affairs (2006)}
increased spending in order to stimulate the economy out of recession” (Hutchful 1997, 3).70

These efforts to rescind Ghana’s economic decline failed because international financiers refused to support President Busia’s development policies: the country’s deficit doubled by 1971, the prices of the country’s exports declined, and the cocoa market collapsed in mid-1971 (events that were beyond the Busia government’s control). These events led to the prescription of additional austerity measures by the IMF and World Bank, which resulted in further devaluation of the cedi. The Busia government’s adoption of additional conditionalities set forth by the IFIs was political suicide in that, it created a political backlash by Ghanaians to whom it was accountable, and it became the only national government whose implementation of IMF policies was used by the military as a pretext to overthrow it. According to the military, the worsening conditions that resulted after the adoption of SAP – a drastic devaluation of the cedi, sudden increase in the prices of basic items like sugar, rice and milk – had created discontent among citizens and warranted a change of government.71 The coup leaders, led by Col. I.K. Acheampong, ousted the Busia government in January 1972 and formed the National Redemption Council (NRC).72

2.3. Debt Crisis: 1970s and 1980s

In the early 1970s, Ghana started experiencing persistent economic problems consistent with deteriorating underdeveloped economies.73 Internally, these problems included corruption and mismanagement of the economy, falling living standards, high rates of inflation, rising budget deficits, drop in foreign exchange revenue, rising

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70 See also Boafo-Arthur (1999)
71 Jeong (1995); Hutchful (1997); Boafo-Arthur (1999)
unemployment, and increasing indebtedness. Externally, problems including lower demand and prices for raw materials (produced by these countries) versus the higher prices for imported goods (fuel, food, medical supplies, etc) created serious structural imbalances in these economies. By the early 1980s it was evident that Ghana’s economic growth and political development had nose-dived.

The economy was in ruins and the military had become the major player in Ghanaian politics. At the same time, a good portion of the country’s minimal revenue was used for servicing its debts. Figure 2.1 shows the percentage of Ghana’s revenue that went toward serving its public debts between 1970 and 1981. It was under these conditions that the country reversed to military dictatorial rule in 1972, just three years after the establishment of the Second Republic.

The National Redemption Council and the Supreme Military Council I & II

The 1972 coup leaders, led by Col. I.K. Acheampong (later General Acheampong) formed the National Redemption Council (NRC). The NRC promised to improve the lives of Ghanaians and based its programs on nationalism, economic development, and self-reliance. The government was re-organized in 1975, and the Supreme Military Council (SMC I), headed by now General Acheampong replaced the NRC.

General I.K. Acheampong and his NRC and SMC I governments redefined Ghana’s policy direction. Between 1966 and 1971 – based on IMF and World Bank conditions – the cedi had been devalued by 78.6% against the dollar. To reverse the resulting increases in the prices of essential commodities, the Acheampong government

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73 Panford (1997); Konadu-Agyemang (1998); Aidedeji et al. (1990); Hutchful (1997)
74 Konadu-Agyemang (1998); Panford (1997); Pellow and Chazan (1986); Ray (1986)
75 U.S. State Department, Bureau of African Affairs (2006)
revalued the cedi upward by 21.4%, unilaterally repudiated Ghana’s external debts, and imposed strict controls over the private and public sectors. It was hoped that the removal of excessive external influence over the country’s economy would mobilize Ghanaians into utilizing their domestic resources for national development. Unfortunately, during this period, the internal and external shocks that resulted from rising oil prices, droughts, rising budget deficits, massive government corruption, and smuggling weakened Ghana more.

*Figure 2.1: Ghana’s debt service as a percentage of GDP (1970-1981)*

To halt the fast economic decline, General Acheampong’s chief of staff, Lt. Gen. F. Akuffo arrested him in July 1978 and formed the SMC II government. General Akuffo succumbed to IMF pressure and reintroduced SAPs in 1978. The stabilization measures

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76 Boafo-Arthur (1999); Frimpong-Ansah (1991)
77 Boafo-Arthur (1999, 7) argues that General Acheampong ideologically mobilized Ghanaians to believe in themselves. The regime’s twin programs of Operation Feed Yourself (OFY) and Operation Feed Your Industries (OFI) under the slogan of “grow what you eat and eat what you grow” compelled citizens to rely on internal resources over external loans. Further, Acheampong antagonized external donors by seizing the shares of foreign mining, timber, banking and insurance companies.
introduced under General Akuffo included another devaluation of the cedi by 58%, reduction of the planned budgetary deficit from C1.5 billion to C500 million, and increasing the price of cocoa from C40 to C80.\textsuperscript{79} These measures failed because the production of cocoa and other products declined, and Ghana lost its position as the world’s leading cocoa producer. Also, the government was unable to curtail the rampant corruption in which senior military officers played a major role.\textsuperscript{80} These declining conditions and the leaders’ apparent inability to resolve Ghana’s problems were excuses used by other military leaders to intervene in politics.

In June 1979, Rawlings and a group of junior and noncommissioned officers staged a bloody coup; executing eight senior military officers including Generals Acheampong and Akuffo. The Armed Forces Revolutionary Council (AFRC) government that was formed by Rawlings was noted for its “Special Tribunals” that summarily sentenced hundreds of individuals to long prison terms, confiscated the properties of individuals, and killed dozens of judges and other professionals.\textsuperscript{81} Jerry Rawlings’ brief entry into government in 1979 was economically unspectacular but foreshadowed his ruthless tactics in dealing with dissidents and enforcing policies.\textsuperscript{82} Jerry Rawlings made no new economic policies before handing power over to a democratically elected government in September 1979.

\textsuperscript{78} Between 1971 and 1977 Ghana’s overall deficit rose by 450 per cent (Hutchful, 1997).
\textsuperscript{79} Boafo-Arthur (1999)
\textsuperscript{80} U.S. Department of State, Bureau of African Affairs (2006); Panford (1997)
\textsuperscript{81} U.S. Department of State, Bureau of African Affairs (2006); Boafo-Arthur (1999)
\textsuperscript{82} Jerry Rawlings and the junior officers that seized power from the Akuffo regime (SMC II) in June 1979 had a brief stay in office, but their rule was noted for the brutality used to enforce price controls (Yankah, 1986; Hutchul, 1997). Also, the U.S. Department of State, Bureau of African Affairs’ (2006) profile of countries discusses the anti-democratic Special Tribunals that AFRC used to sentence, imprison, and execute citizens that were accused of corruption in public and private enterprises.
Hilla Limann and People’s National Party

The AFRC conducted presidential and parliamentary elections in June and July 1979, which the People’s National Party (PNP), led by Hilla Limann won. On September 24, 1979 the AFRC handed over power to the newly elected President and Parliament of the Third Republic.

From the outset, President Limann was against austerity measures because of the hardship they caused Ghanaians and the political backlash such measures would have brought on his government. As such, he refused to accept the Fund’s program. Instead, the Limann government tried to cater to the demands of the unions, workers and export farmers; the groups that had been most adversely affected by Ghana’s economic decline. Being unable to reach any agreement with the Fund, the government was unable to halt the economic decline. Unfortunately, during this same period there was further decline in the cocoa market and Ghana’s budget deficit (1980/81) rose from C1.62 billion to C4.5 billion (cedis). It became apparent that Limann’s government was incapable of resolving Ghana’s daunting economic problems.

Hutchful (1997) and Konadu-Agyemang (1998) give us an apt picture of the scale of Ghana’s economic crisis by the early 1980s. According to Hutchful (1997) the increase of public expenditure between 1975 and 1981 did not correspond with an increase in government revenue. By 1981, domestic and export production had declined and the

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83 The Fund refers to the program through the IMF provides loans to countries experiencing balance of payments problems. Such loans are provided under an “arrangement” that stipulates the specific policies and measures that borrowing countries would adopt to resolve their balance of payments problems. The economic program(s) that underlie these arrangements are formulated by the country in consultation with the IMF and require the approval of the Fund’s Executive Board before the loans are released – in phased installments (IMF Factsheet, 2006).

84 Hutchful (1997) argues that Limann was skeptical of the relevance of IMF solutions. To meet the demands of the unions, workers and farmers, his government tripled the minimum daily wage from C4.00 to C12.00. Note also, Boafo-Arthur’s (1999) discussion of Limann’s approach to the IMF.

country was utilizing only 24% of its industrial capacity. As such, the manufacturing index dropped from 100 in 1979 to 63.3 in 1981. During this same period (between 1974 and 1982), the “production of maize, rice, cassava, yams and other major crops fell 50-80 per cent. Cocoa exports also fell by over 30 per cent in the same period, lowering Ghana’s share of total world production from 24.4 per cent in 1974/75 to 15.4 per cent in 1980/81” (Hutchful 1997, 4-5).

According to Konadu-Agyemang (1998), between 1970 and 1983 real export earnings fell by 52%, domestic savings and investments as a percentage of GDP dropped to almost zero, and an unprecedented number of skilled and unskilled Ghanaian employees left the country. As the nation was experiencing its worst droughts and famines (early 1980s), “the sudden expulsion and repatriation of over 1 million Ghanaians who had earlier sought greener pastures in Nigeria, added fuel to the already existing high unemployment and inflation rates” (Konadu-Agyemang 1998, 131).

The inability of Ghanaian governments to produce successful policies to solve the country’s economic problems had negatives consequences for both the citizens and the state as a whole. On the part of the citizens, survival became a major challenge. Important cleavages (class, ethnic, regional, generational and gender) became apparent in the Ghanaian society as a result of the shifts in income and social power. For the state, its institutions were weakened as a result of the multiple military interventions in the affairs of government. Political and ideological divisions permeated society and there was lack of any coherent economic and political policy direction.

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86 Hutchful (1997) argues that severe shifts in income and social power created cleavages in Ghanaian society: important civil society groups withdrew from the political process, the society became polarized over, “respectively, monetarist and structuralist, and socialist and capitalist solutions to the crisis” (Hutchful, 1997, 5).
In as much as the endogenous factors played a major role in Ghana’s decline, the influence of international financial institutions (IFIs) and the world market on Ghana’s policy direction can not be ignored. It is evident that from 1957 to 1981 and there after, the Bretton Woods institutions gave support only to Ghanaian governments that adopted SAPs – be they democratic or anti-democratic and economically successful or not. For example, the Nkrumah and Limann governments were unable to negotiate any deals with the IMF and World Bank because they were opposed to the conditionalities placed on SAPs, but the NLC and SMC II received support from those institutions. This becomes more glaring when we assess successive Ghanaian governments’ relationship with the Fund and the World Bank (after 1981).

Jerry Rawlings and the Provisional National Defence Council (PNDC) and the National Democratic Congress (NDC)

Jerry Rawlings’ rule of Ghana – after he seized power for a second time in 1981 – should be divided into two phases: first as leader of the PNDC and second as the civilian president and leader of the NDC. It is worth noting that both phases were characterized by pursuit of similar economic policies with not much of a change in personnel.

Upon his second coming in 1981, Rawlings promised to purge the nation of corruption and “end its neo-colonial economy” (Panford 1997, 82). Rawlings argued that IFIs’ influence over Ghana’s economic development was forcing the country to still pursue colonial economic policies – dependence on export of raw materials and foreign imports – that would not improve on the conditions of living of Ghanaians. This rhetoric
won the support of students, urban masses, workers, unions and left-wing organizations that were frustrated by Ghana’s economic and political problems.\textsuperscript{87}

However, similar to previous regimes, the PNDC’s ambitious intention of stemming the crisis was short-lived as events beyond their control overshadowed the minor gains they were making in managing the deficit, price controls and black-marketing. Between 1981 and 1983 fierce droughts caused famine in Ghana. The extremely dry weather caused bush fires and as a result, there were shortages in the country’s staple foods (rice, yam, maize, and cassava) and meat.\textsuperscript{88} Worsening the situation was the expulsion of over a million illegal Ghanaians from Nigeria by the Shagari regime (October 1979 to December 1983) and the payments the government was making to external debtors siphoned much needed funds from its revenue.\textsuperscript{89}

Faced with this national crisis, the PNDC was left with not much of an alternative than to seek financial assistance from international financial institutions. After a series of negotiations with the IMF and World Bank, the PNDC in June 1983 was approved for loans in the form of a Standby Arrangement that covered Ghana’s outstanding interest payments to private banks in developed countries.\textsuperscript{90} As a condition for providing this credit, the PNDC was forced to adopt the economic reforms that inaugurated Ghana’s Economic Recovery Programs.

\textbf{2.4. The Economic Recovery Programs (ERP)}

Chapter 1 discusses the theoretical underpinnings that form the foundation of structural adjustment programs. It is against that concept that Ghana’s Economic

\textsuperscript{87} Hutchful (1994 and 1997); Panford (1997)
\textsuperscript{88} Panford (1997)
\textsuperscript{89} Panford (1997); Konadu-Agyemang (1998); Hutchful (1997). As part of the NLC’s agreement with the IMF and World Bank, payments on Ghana’s debt and other interest were deferred to 1974–1981 (Boafo-Arthur, 1999).

Konadu-Agyemang (1998) identified the following key aspects of the different phases of Ghana’s ERP. The first phase of Ghana’s ERP tried to reduce government expenditure from the “1982 level of 10.2 percent to 8.6 percent of GDP” (Konadu-Agyemang 1998, 132). Also, the exchange rate was adjusted through devaluation of the cedi, price controls were abolished, the tax base was broadened and the tax administration was strengthened in an effort to increase government revenue. The second phase initiated structural changes to address the causes of demand and supply imbalances. It focused on rebuilding the productive base; liberalizing the exchange rate and trade system; privatizing state enterprises; reforming and reducing the size of public service; attempting reforms of the tax system and its administration; instituting reforms in the domestic banking system; and trying to rehabilitate the economic infrastructure (export industries and the public sector). The third phase tried to “build upon the previous phases by implementing structural and institutional reforms” (Konadu-Agyemang 1998, 132). Steps were taken to complete exchange rate reforms, develop the private sector, reform the civil service, control public expenditure, and alleviate poverty. Also, changes were made on tax and cocoa sector policies “with the aim of achieving an average annual real GDP growth of at least 5%; reducing the average rate of inflation from 37% in 1990 to 5% in 1993; and generating an overall balance of payments surplus of at least $90

91 Panford (1997) identified two phases of the SAPs prescribed for Ghana: the ERP (1983 to 1985) and SAP (1986-date). I agree with Anyinam (1994) and Konadu-Agyemang (1998) that Ghana’s ERPs have gone through four phases that have addressed different aspects of economic growth.
million a year” (Konadu-Agyemang 1998, 132). From 1994 to 2000, under IMF direction, the Rawlings government tried to further reduce inflation, maintain a realistic exchange rate, complete the privatization of state enterprises, and efficiently allocate resources for growth.93

For the period 1983 to 1994, the IMF and World Bank acknowledged Ghana as the country that implemented structural adjustment economic policies more consistently than any other African country.94 Ironically, it was the military dictatorship of Rawlings and his PNDC government that showed commitment to liberal economic reform. During the Rawlings’ years, Ghana “earned a reputation as one of the most successful IMF and World Bank cases in Africa and the rest of the developing world” (Panford 1997, 82).

Several causes have been advanced for the seeming success of adjustment in Ghana during Rawlings’ military and civilian governments.95 Firstly, Boafo-Arthur (1999), Hutchful (1997), and Panford (1997) argue that the pivotal factor for the consistency and success of adjustment in Ghana was Rawlings’ personal commitment to reform and the authoritarian political climate under which the SAPs were sustained. Furthermore, unlike his predecessors, Rawlings rejected monetary expansion like salary increases and extensive government subsidies for social services as the cure for inflation. Also, Rawlings focused on the internal factors (domestic shortcomings including corruption and profiteering) that were responsible for Ghana’s economic crisis. Finally, Rawlings’ PNDC explored all avenues of reform, regardless of the consequences and through coercion, and was able to silence all social opposition.96

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92 See also World Bank (1995); Anyinam (1994)
93 Louis (2005); Oduro (2004); Konadu-Agyemang (1998)
94 Jeong (1995); Panford (1997); Konadu-Agyemang (1998); Hutchful (1997)
95 Konadu-Agyemang (1998); Panford (1997); Hutchful (1997); Jeong (1995)
96 Hutchful (1997); Jeong (1995)
Secondly, macro-economic indices show that Ghana is successful at adjustment. In comparison to other African countries that have implemented SAPs, Ghana has “fared better from a standpoint of aggregate economic indicators” (Panford 1997, 83). Figure 2.2 tracks Ghana’s annual growth rates in gross domestic productions from 1965 to 2003. The graph shows marked improvement in the country’s GDP from 1983 to 1987 and an average annual growth rate of 5% since then.

However, success in Ghana’s economic growth can be traced to the extensive foreign loans Ghana received from international financiers for sticking with the SAPs. Figure 2.3 shows us the steady increase in aid that Ghana received from international donors in the 1980s and 1990s. For example, from 1983 to 1992 the overall gross domestic investment increased from 11% to 16%. 97 During this period, Ghana’s GDP grew consistently: from 1984 to 1986 the country’s average GDP growth was 6.3 percent.

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97 Aryeeetey and Fosu (2002)
annually, and 5 percent since then.\textsuperscript{98} The average annual growth in GDP of other sub-Saharan African countries is 2.1 percent.\textsuperscript{99}

Figures 2.2 and 2.3 show that as more foreign loans were given to Ghana, there was a corresponding increase in the country’s annual growth rates. To a great extent Ghana’s economic growth was sustained by increases in foreign debt rather than the development of its economy for sustainable development. For example between 1983 and 1987 foreign aid to Ghana rose from approximately 20\% per capita to over 30\% per capita. During that same period, Ghana recorded an increase in annual growth rates from – 4\% in 1983 to over 6\% in 1987.

Similar to Ghana’s GDP growth, were substantial improvements in its balance of payments between 1983 and 1994. The credit facilities and markets provided by the World Bank and other international financiers for companies in the cocoa, mining and timber industries enabled those industries to triple the supply of their goods and improve on Ghana’s foreign exchange earnings.\textsuperscript{100} For example, between 1986 and 1996, industries that were operating at 25\% of installed capacity before 1984 were performing at 35-40\%.\textsuperscript{101} Export growth increased from 9\% before adjustment to 11\% from 1985 to 1992.\textsuperscript{102} Earnings in cocoa exports rose from $409.2 million in 1983 to $722.1 million in 1990. This accounted for approximately 42\% of Ghana’s export earnings between 1986 and 1996.\textsuperscript{103} Also, the foreign exchange earnings from the trade of timber, minerals and non-traditional products increased during this same period. Export earnings from the mineral sector reached its peak in 1994 at 48\% but declined to 41\% in 1996.

\textsuperscript{98} Aryeetey and Fosu (2002); Konadu-Agyemang (1998); Panford (1997)
\textsuperscript{99} Konadu-Agyemang (1998)
\textsuperscript{100} Konadu-Agyemang (1998) states that gold is now Ghana’s leading export. See also, Aryeetey and Fosu (2002).
\textsuperscript{101} Konadu-Agyemang (1998)
\textsuperscript{102} Aryeetey and Fosu (2002)
\textsuperscript{103} Aryeetey and Fosu (2002); Parfitt (1995 as cited by Panford, 1997, 83)
Finally, improvements in Ghana’s balance of payments curtailed inflation. For example, inflation which was at 123% in 1984 dropped to 34% in 1991, decreased further to 32% in 1994 and then 14.1% in 2004.\textsuperscript{104} Also, there has been growth in real incomes per head from 0.4% annually between 1970 and 1980 to 2% since the introduction of SAPs in 1983. Most significantly Ghana has devoted 30 to 60 percent of its foreign earnings to paying debts.\textsuperscript{105} The above data shows the huge turn-round that Ghana’s economy experienced since the late 1970s.

\textit{Kufuor and the New Patriotic Party}

Ghana’s Fourth Republic was established in January 1993. Under pressure from the international community and Ghanaians, the PNDC in 1992 appointed a Consultative

\textsuperscript{104} World Bank (2006); CIA World Factbook (2006); Aryeetey and Fosu (2002)

\textsuperscript{105} Ghana’s external debt stands at $6 billion (Bank of Ghana, 2006).
Assembly that drew up the constitution that established the country’s Fourth Republic.\textsuperscript{106}

As stated earlier, Rawlings transformed his government to a civilian party under the NDC, won the elections held in November 1992 and December 1996, and ruled Ghana as a civilian president from 1993 to 2000.

By the mid 1990s Rawlings’ regime had been mired in accusations of mismanaging the funds provided for various projects under Ghana’s poverty related plans.\textsuperscript{107} Economic growth had not improved the living conditions of Ghanaians and Ghana’s external debt continued to rise. The various projects implemented to reduce poverty in the country had not met the desired results instead; international donors accused the Rawlings’ regime of lack of transparency in handling foreign loans.\textsuperscript{108} As Ayittey (2001) observes, Rawlings who diligently pursued the policies prescribed by the IMF and World Bank, ended up blaming external factors (low prices of exports, tardy disbursement of foreign aid pledges) for the country’s worsening economic crisis. It is under these sour conditions that in December 2000, Ghana experienced the first “democratic” presidential change of power in its entire history. John Kufuor (NPP) defeated the NDC’s John Mills by winning 56.73\% of the vote.\textsuperscript{109} Kufuor’s NPP also won 103 of the 200 seats in Parliament, with the NDC winning 89 and other independent small parties winning eight.\textsuperscript{110}

\begin{thebibliography}{99}
\item U.S. Department of State, Bureau of African Affairs (2006)
\item Ayittey (2001); Ampaw (2006)
\item U.S. Department of State, Bureau of African Affairs (2006)
\item Ghana’s Fourth Republic was established in 1992. Ghana is a constitutional democracy: the President is the head of the Executive Branch and is elected for a four-year term (can be re-elected once); Legislative Branch calls for a unicameral Parliament comprising 230 members that are directly elected for four-year terms; and Ghana’s Supreme Court is the Judicial Branch (CIA World Factbook, 2006). Also, U.S. Department of State, Bureau of African Affairs (2006)
\end{thebibliography}
This transition was significant in terms of Ghana’s political development. However, Oduro (2004) and Louis (2005) argue that even though there was a change of government in 2000, President Kufuor and his NPP government have not advocated any change in terms of economic policy and development agenda. Instead, the IMF and World Bank continue to determine Ghana’s economic policies. In March 2001 Ghana applied for debt relief under the Heavily Indebted Poor Country (HIPC) program and in 2004 received $3.5 billion total relief from its creditors over a twenty-year period. It is hoped that under the enhanced HIPC initiative, Ghana would be able to increase its expenditure on education and health programs.

This research focuses on the ERPs that were implemented during the Rawlings’ years and for a brief period by the Kufuor government (before opting for debt relief). Does Ghana’s impressive showing in its macroeconomic indices translate into sustainable economic and political development? There is the expectation that the ERPs would improve living and working conditions. Have twenty years of adjustment accomplished this? Have there been improvements in the country’s socioeconomic infrastructure? Have the institutions that promote strong democracies been built?

Konadu-Agyemang (1998) argues that “adjustment has taken some casualties, and will continue to take some more” (Konadu-Agyemang 1998, 133). The reduction in spending in education, health care, income disparity, and sanitation during the ERPs has impeded Ghana’s prospects of building a consolidated democracy that could survive economic crises, natural disasters, and guarantee the civil liberties of citizens. The next section will assess how ERPs have affected Ghana’s socioeconomic development.

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111 Department of State, Bureau of African Affairs (2006); World Bank (2006); IMF Report (2006)
2.5. Impact of the ERP on Economic Development and Socioeconomic Infrastructure

According to the Bank of Ghana report (2006) the economic reforms of the 1980s and 1990s have only recorded modest development in Ghana’s economy. Despite the consistency with which Ghana has implemented SAPs, Ghana (like many other economically poor sub-Saharan African countries) has continued to experience “worsening economic conditions leading to unacceptable levels of poverty and higher levels of external debt” (Bank of Ghana, 2006, 3).

In 2001, with all the celebration of the growth rates the country had achieved during the implementation of SAPs, the Ghanaian government was forced to declare bankruptcy and apply for the enhanced debt relief under the HIPC Initiative because the country still is so heavily indebted and is unable to repay its public debts. Ghana’s foreign debt had risen from $1 billion in 1981 to over $6 billion in 2000 and over 30% of the country’s annual revenues were allocated for debt servicing. Figure 2.4 shows Ghana’s debt over time (1983 – 2000). In addition, unemployment rates remained high (20% in 2000), income disparity was growing between the rich and poor, a comprehensive health policy had not been implemented to address the needs of majority of Ghanaians, and the country was unable to use its limited resources to pay its foreign debts and at the same time improve on the conditions of living of the citizens. The Kufuor government saw debt relief as the way of relieving the country of its debt burden and providing much-needed funds for socioeconomic development.

112 Bank of Ghana (2006); Aryeetey and Fosu (2002); Apusigah (2002)
2.5.1. Economic Growth and Income Inequality

Ghana’s economic growth has been, to a great degree, at the expense of development. That is, whereas the country has experienced economic growth - as measured by an increase in real GDP terms - there has been a decline in its level of income distribution, education, healthcare and social services. The conditionalities imposed by SAPs have caused three major social problems in Ghana’s income distribution: increase in poverty and income inequality, rise in unemployment, and devaluation has led to a fall in real income wages.

Figure 2.4: Ghana’s External Debt (1983 – 2000)

![Graph showing Ghana's external debt (1983-2000)]


Firstly, at the macro-economic level, the policies prescribed by the World Bank and the IMF caused a major shift of resources from the urban to the rural areas. The policies implemented by the PNDC during the first two phases of the ERPs (1983-1989) focused on retrenchment in state sectors, while credit facilities were provided for export
materials like cocoa, timber, and mining that are in the rural areas. As such, whereas help was provided for export crop farmers, SAPs hurt urban wage earners. As Jeong (1995) observes, in as much as key urban groups have taken much of the cost of the reform programs, in the rural areas economic liberalization has only favored large landowners, commercial farmers, and multi-national corporations.\textsuperscript{114}

As a result, there has not only been an increase in income disparity, but additionally, there has been a rise in poverty levels in both the rural and urban areas. In the urban areas, the number of people living below the poverty line increased from 35% in 1970 to 50% in the mid-1980s to early 1990s. As of 2002, 78.5% of Ghanaians live below the poverty line ($2 a day) and in the area of income inequality, the richest 30% of the country control 80% of the national income.\textsuperscript{115} According to the most recent IMF and World Bank estimates (cited by Louis, 2005), with the current growth rates it will take the average poor in Ghana at least 30 years to cross the poverty line.

Secondly, there is a marked increase in unemployment (1983-2000).\textsuperscript{116} Privatization of state enterprises and massive retrenchment in both the public and private sectors after adjustment has resulted in the loss of hundreds of thousands of jobs. Measures advocated by the World Bank and the IMF provided increased flexibility to employers in the hiring, firing, use and compensation of labor.\textsuperscript{117} By 1992 150,000 jobs had been lost in the public sector, up to 45,000 civil servants were retrenched, and an

\textsuperscript{113} Jeong (1995); Lipset (1981) identifies wealth, industrialization, urbanization, and education as strong indices of economic development. I argue that shifting resources towards rural areas weakens urbanization and runs counter to attaining economic development.

\textsuperscript{114} Jeong (1995) argues that economic liberalization favored large landowners, commercial farmers, and multi-national corporations involved in the mining industries since these were the sectors believed to generate the foreign exchange earnings needed to balance Ghana’s budget.

\textsuperscript{115} The poverty line used in this study is the one defined by Sonia Rocha (1997) of the Applied Economic Research Institute (IPEA), which establishes the poverty line at approximately $2 to 3 per day/capita. According to the Human Development Index (HDI, 2005), Ghana ranks 138 of the 144 countries included in the report. Apusigah (2002) states that 52% of Ghanaians live below the poverty line.

\textsuperscript{116} CIA World Factbook (2006); Konadu-Agyemang (1998)
additional 35,000 jobs were cut in other state enterprises. According to Chhibber et al. only about 15% of the 250,000 Ghanaians leaving the school system annually would find formal sector jobs. According to the CIA World Factbook (2006), as of 1997 Ghana has a 20% unemployment rate (the most recent available data on Ghana’s unemployment rate). Finally, Ghana’s currency has gone through excessive devaluation. As of 2005, as many as C9, 072.5 (cedis) exchanged for $1 (CIA World Factbook, 2006; WDI, 2006). The extreme devaluation of Ghana’s currency (over 64,000% from 1983-2005) has had a devastating effect on the country’s imports of fuel, machinery, hospital supplies, school supplies, etc. And, the fact that incomes were not increased to parallel the increased cost of living (as a result of devaluing the cedi) the real wages of Ghanaians has dropped considerably.

The adjustment programs that were implemented between 1983 and 1989 had such a negative impact on the livelihood of Ghanaians that by the late 1980s Ghana was in turmoil. Massive demonstrations by the general citizenry forced the PNDC government to – after further negotiations with and approval by the World Bank and IMF in 1988 – implement the Program of Action to Mitigate the Social Costs of Adjustment (PAMSCAD).

PAMSCAD was initiated in 1989 to provide a “safety net for population groups vulnerable to the effects of the economic reform” (Leite et al. 2000 cited by Apusigah,

117 The majority of the companies that have been privatized in Ghana belong to MNCs that violate and limit labor standards in most third world countries (Panford, 1997).
118 Konadu-Agyemang (1998); Weissmann (1990); Panford (1994)
120 Konadu-Agyemang (1998)
121 Apusigah (2002) argues that the growing impatience of Ghanaians with the effects of SAPs on their livelihood was evident in the massive demonstrations that were embarked on between the late 1980s and the mid-1990s. During this time, the ruling government’s use of force to suppress dissent often resulted in fatalities. Aryeetey and Fosu (2002) in their study of Ghana’s economic growth from 1960-2000
This program was initially funded by a $85 million loan that was aimed at creating 40,000 jobs over a two-year period and in the process improve on basic needs through labor intensive self-help projects. By 1993, the program received additional loans that focused on general health conditions, social and economic infrastructure, and education. However, as Panford (1997) observes the $100.70 million allocated for community development under PAMSCAD was too late to turn around the decline in education, employment, income disparity, and healthcare services.

Furthermore, the program was badly mismanaged and did not create the employment it was supposed to. According to Ayittey (2002) officials of the PNDC and NDC governments squandered at least 40% of World Bank loans and Western aid to support PAMSCAD. For example, over $280,000 allocated to the Tema Municipal Assembly for the implementation of its Poverty Alleviation Program (in the late 1990s) by the World Bank remains unaccounted for; and $20,000 assigned for the small community farmers of the Afram Plains was embezzled by NDC officials. As a result of the misappropriation of program funds, Ghana’s various poverty reduction plans from 1989 to 2000 were unable to create jobs and alleviate poverty as was intended.

Aryeetey and Fosu (2002) and Kanbur (2001) ask why Ghanaians still show a lack of appreciation for adjustment even though the economy has been growing at a rate of 4%-5.5% for two decades. Apparently, as ordinary Ghanaians would attest, growth rates mean very little when you can’t find a job. The question then is what modifications determined that SAPs did not deliver the economic development Ghanaians expected. Konadu-Agyemang (1998) and Panford (1997) argue that PAMSCAD failed to alleviate the negative social costs of adjustment. Apusigah (2002); Konadu-Agyemang (1998); Panford (1997) Panford (1997) observes that PAMSCAD has failed to mitigate the impact of SAPs in Ghana. Ayittey (2002) discusses the rampant corruption that accounts for the failure of many government programs. Panford (1997) argues that several factors including government corruption, unreliable revenues for supporting the program, ineffective state parastatals, etc account for the failure of PAMSCAD to provide employment opportunities for the unemployed.
need to be enacted for structural adjustment programs to be more beneficial to citizens of borrowing countries?

2.5.2. Education

The educational sector has taken a big hit as a result of the implementation of SAPs. After independence, Ghana offered its citizens free and compulsory universal education because this was denied under colonialism. This policy was later extended to the secondary and university levels.\textsuperscript{125} Under this policy the cost of books and other educational materials were provided free to students. By 1983, the central government was investing 25.7\% of its total expenditure on education. During this period, government expenditure as a percentage of GDP allocated to education was 6.4\%\textsuperscript{126} As a result of these investments in the educational sector, Ghana (between mid-1960s and early 1980s) produced the best-trained and educated work force in the sub-Saharan region.\textsuperscript{127}

The national education reform program that was adopted in 1987 as part of Ghana’s structural adjustment programs shifted the cost of education to students, especially at the university level. Subsidies for educational materials, boarding, and food allowances at the university level were removed; government expenditure as a percentage of GDP dropped to 1.0\%; and the implementation of the Junior Secondary School (JSS) system created problems for parents and guardians of secondary school age children. The

\textsuperscript{125} Asare and Wong (2004) discuss the economic development policies of Ghana and Malaysia. They argue that Malaysia has attained more economic and political development than Ghana because of political stability, human development (education and health), a diversified economy, and the development of domestic entrepreneurial groups.

\textsuperscript{126} According to Asare and Wong (2004) the amount of funds provided for education in the first two decades after Ghana’s independence was above most sub-Saharan countries. However, by 1999 government expenditure on education as a percentage of GDP had dropped to 4\% (WDI, 2006).

\textsuperscript{127} Asare and Wong (2004); Konadu-Agyemang (1998); Panford (1997)
JSS system was a community-sponsored program that required parents and guardians to contribute towards establishing the new school system.\textsuperscript{128}

According to the Asare and Wong (2004) the cost of school expenses like school uniforms, textbooks, transport fares to school, etc are beyond the financial means of parents in the rural areas. For example, in the late 1980s when a school of predominantly poor children in Ashiaman demanded C20, 000 each from the parents of its 198 pupils to cover the costs of a government-provided six-classroom pavilion, only three parents were able to pay in full. The C168, 000 that was raised for this project was barely enough to complete one classroom.\textsuperscript{129}

The reforms in education have affected Ghana’s development in the following ways. Firstly, the uncoordinated approach of the different agencies like USAID, Action Aid, UNICEF, EU, etc under PAMSCAD has resulted in minimal gains in improving the quality of education in Ghana.\textsuperscript{130} In addition to the minimal gains recorded, the World Development Report (2006) states that Ghana’s educational sector lacks financial sustainability because of its over-dependence on external donors and NGOs for funding. According to World Development Indicators (WDI, 2006), 4% of Ghana’s expenditure goes towards education. However, foreign donors provide most of the funds that the government allocates for educational expenses (3%).\textsuperscript{131} In other words, the Ghanaian government only allocates 1% from its national coffers for education. In the late 1960s, 6% of Ghana’s expenditure went towards the educational sector.

Secondly, during the ERPs Ghana was unable to develop the policies that would have improved on the country’s educational sector as many other developing countries in sub-Saharan Africa. This has resulted in an increase in the number of adult Ghanaians

\textsuperscript{128} Jeong (1995); Asare and Wong (2004)
\textsuperscript{129} Graham and Hormeku (1996)
\textsuperscript{130} World Development Report (2006); Mettle-Nunoo and Hilditch (2000); Graham and Hormeku (1996)
that are functionally illiterate. According to World Bank (WDR, 2000/2001 as cited by Asare and Wong, 2004, 6), 40% of adult females and 22% of adult males were functionally illiterate as recently as 1998. The average adult literacy rate in sub-Saharan Africa as of 2003 is 61.3%; the adult literacy rate in Ghana (2003) is 54.1%. This data suggests that Ghana has lagged behind many African countries in growing its human capital and lost ground under SAPs.

Thirdly, educational reforms have created inequalities among citizens enrolled in secondary and tertiary education. There has been a decline in the enrollment of students in rural areas, especially in the northern parts of the country. The WDR (2006) indicates that access to tertiary education is declining in the both the rural and urban areas. Only about 10% of basic schools produce over 70% of students admitted to Ghana’s tertiary institutions.

Finally, the limited employment opportunities for the educated including university graduates, is creating additional social problems. The Ghanaian government has not been able to replace over half of the jobs that were retrenched during the early period of SAPs. Further, the new companies that have taken over Ghana’s industries under privatization have not been able to increase employment as was expected. As Panford (1997) puts it, “the symptoms of this social and economic malaise are the youths who roam the streets in urban areas plotting their escape from the country in search of greener pastures in other countries” (Panford, 1997, 86).

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131 Mettle-Nunoo and Hilditch (2000)
133 World Development Report (2006); Asare and Wong (2004); Graham and Hormeku (1996)
2.5.3. Healthcare and Sanitation

The physical health of the workforce and general population is an important aspect of human capital that sustains a country’s economic development.\textsuperscript{134} Scholars (Panford, 1994; 1997; Konadu-Agyemang 1998; Kraus, 1991) argue that the health of Ghana’s workforce and general population has been jeopardized by the imposition of hospital and other health care fees after the implementation of the ERPs. As a means of reducing government expenditure, full cost recovery and cost saving measures in health care delivery were introduced after 1983.\textsuperscript{135} That is, all categories of patients were expected to pay for health care services. In addition, new charges were introduced to cover the costs of basic hospital supplies and prescriptions. Under this new policy, hospital pharmacies had to use the cash collected from patients to purchase medicines. Ghanaians dubbed this new policy “cash or die” (Panford, 1997, 93).

The impact of these measures to health care services in Ghana can only be fully understood within the context of a comparison between similar services before and after the introduction of SAPs. At independence, Ghanaians received free health care services through public health facilities and over 90% of Ghanaians did not have health insurance policies.\textsuperscript{136} After reforms were implemented that required that all patients pay for their health care services, only 2% of the population that needed health care at any given time – about 18% of the population – had access to it.\textsuperscript{137} According to Laari (2006), during the period when the “Cash and Carry” policy was in place (1985 to 2004) attendance at health facilities dropped and people who could not afford the health care costs died of diseases that are readily prevented in developed countries. Currently, there are nine physicians per 100,000 people; 2.3% of Ghanaians are infected with HIV/AIDS; only

\textsuperscript{134} Asare and Wong (2004)  
\textsuperscript{135} Konadu-Agyemang (1998); Panford (1997)  
\textsuperscript{136} Laari (2006)
58% of the population has access to improved sanitation; and 206 per 100,000 people have tuberculosis.\(^{138}\)

ERPs removed health care services that were readily available to the poor who could not afford the services provided by hospitals. And similar to other professions, the deteriorating socioeconomic conditions under SAPs have undermined primary healthcare in Ghana and spurred the exodus of up to 50% of health care professionals from public health to other countries including the United Kingdom, United States of America, and Canada.\(^{139}\)

As earlier stated, PAMSCAD was introduced to mitigate the impact of SAPs on education, employment, income inequalities, and health. According to Britwum et al. (2001) the health component of PAMSCAD involved the provision of essential drugs through the public health community (PHC). Implementation of the Exemption Policy (1988) that was introduced to cover certain categories of people including the poor, children under 5 years old, disabled people, and pregnant women, among others had many problems. For example, officials could not determine who was poor enough to be exempted. Also, many Ghanaians did not know about this policy in order for them to take advantage of the benefits. Above all, the programs under the PHC were largely ineffective “due to insufficient funding, shortage of manpower and equipment, and lack of logistical support” (Britwum et al. 2001, 64).

Despite the shortcomings of PAMSCAD in improving the health sector, Ghana has recorded minor improvements in life expectancy and infant mortality. However, Rosenberg (2006) observes that improvements made in public health, nutrition, and medicine in the twentieth century have increased life expectancy and lowered infant

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\(^{137}\) Laari (2006); UN Office for the Coordination of Humanitarian Affairs (2006)

mortality across the world. The improvements in life expectancy and infant mortality rates in Ghana is unimpressive when compared to improvements that have been made in countries like Malaysia and Mauritius with similar infrastructures as Ghana’s at independence.

The promise that austerity measures and neo-liberal policies would lead to economic growth (in terms of growth in per capita) has been achieved in Ghana. Unfortunately, the above assessment demonstrates that Ghana’s economic growth has not translated into improvements in the conditions of living of its citizens, or human development. The modest gains achieved by SAPs have been at the expense of Ghanaians who continue to live under stringent austerity measures. This is why scholars question whether the ERPs have been as successful as its proponents tend to suggest. World Bank (2006) and IMF (2005) reports cite Ghana’s current 5.1% annual GDP growth rate as an indicator of successful adjustment. Panford (1997), Konadu-Agyemang (1998, 2000), Britwum et al. (2001), and ILO/UNDP Report (2003) call attention to the fact that the conditionalities imposed by SAPs have taken away much-needed funds from the social sectors. This has contributed to the less than average development in Ghana’s education, healthcare, unemployment, income disparity, and sanitation in comparison to other third world countries with similar resources. And the Rawlings’ authoritarian regime that promoted and sustained SAPs in the 1980s and 1990s stifled the political rights of citizens in order to maintain its policies. The next section reviews the impact of the ERPs on democratization in Ghana.

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140 Matt Rosenberg (2006) observes that improvements made in public health, nutrition and medicine have contributed to improved life expectancy in the world. According to Carnell (2000), during this period (1980-2000) life expectancy increased to an average of 75 years in developed regions and 63 years in less
2.6. ERP and Democratization

In Chapter 1, I argued that a country with a strong democracy is one in which the democratic process has moved from simply electing governments to an institutionalized system of choosing leaders, policies and guaranteeing civil and political liberties. Furthermore, I agree with scholars like Asare and Wong (2004), Przeworski et al. (2005), Acemoglu and Robinson (2002), and Lipset (1981) whose studies have determined a correlation between economic development and democratization.

Further, a common thread that runs through these studies is the importance of education, income distribution and wealth, political incorporation, and the availability of social services to economic or political development. As Asare and Wong (2004) summarized, a crucial contributor to the economic and political development of a country is human capital. Education, health and the distribution of wealth are important variables in the development of human capital.

To what extent have Ghana’s ERPs promoted these variables that scholars see as vital to the attainment of strong democracies? Freedom House (2006) portrays Ghana as a “free” country because political rights and civil liberties are guaranteed. On a scale of

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141 O’Donnell (1992) extensively discusses the typology of democracies. He argues that installing an elected government does not make that society a representative democracy. According to him, attaining consolidated democracy is a long process that culminates in the institutionalization of democratic institutions. Note Sen’s (1999) discourse of the intrinsic value, instrumental value, and constructive importance of democracy.


143 Lipset (1981) argues that the higher the level of education of a nation, the better the chances for democracy. Asare and Wong (2004) also see the importance of education and health to a country’s industrial growth. Acemoglu and Robinson (2002) suggest that intermediate levels of inequality promote transitions to democracy or strengthen the institutionalization of democracy.

144 It is worth noting that Freedom House does not rate governments per se or evaluate the political conditions in a country. A country’s rating (free, partly free, or not free) is determined by two general...
1 to 7, with 1 representing the most free and 7 the least free, Ghana scores a 2 on both political rights and civil liberties because of the successful hand-over of power from one democratically elected government to another in 2000.\textsuperscript{145} But, has Ghana developed the infrastructures that are most important to democratization? Can Ghana sustain its economic growth without sound infrastructures? Is the rule of law guaranteed?

Boafo-Arthur (1999) contends that the “incompatibility thesis” of the pursuit of adjustment and democratization “\textit{pari passu}” has been challenged by the current economic and political dynamics in Ghana. He argues that Ghana has been able to pursue adjustment and democratization because of the “receptivity to adjustment by critical societal groups, the strength of associational groups, the absence of viable alternatives, and the continued support by the international donor community” (Boafo-Arthur, 1999, 41). Do these make Ghana’s democracy strong?

Meaningful civic participation is an important aspect of the democratic process and even more critical in consolidation. A democratic society ensures that policy decisions are made with the input of the citizens. During the years when the ERPs were actively implemented (1983-1992), a military dictatorship that had banned political participation and was treating dissidents with impunity ruled the country.\textsuperscript{146} The prevailing political climate under which the ERPs were implemented made it difficult if not impossible for various groups that were opposed to the program to rise up against their imposition.

\textsuperscript{145} Freedom House (2006) has the following ratings of Ghana’s political system: Not Free – 1970 to 1992, Partly Free – 1993 to 2000, and Free – 2001 to date. This data portrays Ghana’s democracy in a positive light for the years when elections were held. As stated, the strength of a country’s democracy is determined by the institutionalization of democratic processes, state capacity, and legitimacy.
Harvey and Robinson (1995 cited by Boafo-Arthur, 1999) argue that the international financial institutions that prescribed the ERPs did not advocate for a democratic environment because such and environment makes economic reform more difficult or even impossible. The emphasis on “good governance” only became one of the IFIs conditionalities in the mid-1990s. According to Jeong (1995), the PNDC was able to maintain neo-liberal economic policies despite popular opposition through the regime’s willingness and capability to “insulate itself from powerful social groups and deal with social opposition with coercion, a weak institutional structure in society, and heavy financial assistance from international donors” (Jeong, 1995, 82). From 1983 to 1997, the period during which the ERPs were consistently implemented, Ghana was either under military rule or under the rule of a military leader turned civilian president. This was a period when the ruthlessness of the military regime successfully weakened political participation and citizen input in formulating critical policies for Ghana’s future.

In democratic societies, the civil society or civil movements serve as forums for the creation of new ideas and as a check on the government. The ERP moved resources away from the sectors of society that build a strong civil society and other associational groups including the civil service, health care professionals, educators, labor unions and domestic entrepreneurs. Retrenchment, reduced expenditure for social services, and adverse conditions of living of the workforce and general population resulted in a politically weak civil society. These groups (which were originally active) have not been able to make any meaningful impact on Ghana’s economic and political growth. Further, the actions of Ghanaian military governments that dealt harshly with political

146 Boafo-Arthur (1999); Jeong (1995)
147 Boafo-Arthur (1999); Jeong (1995)
opposition – especially during the Rawlings years – have resulted in the lack of participation of vital groups in the political process.

Instead of dealing with these harsh realities, millions of professionals have immigrated to neighboring countries or across the globe in search of greener pastures. Studies conducted by Ghana’s Commission on Population and Development (2006) confirm that brain drain from poor countries leads to a permanent loss in growth and income levels. In Ghana, the health and education sectors are areas where immigration has had tremendously negative impacts. It is believed that there are more Ghanaian doctors working outside the country than there are in Ghana. As stated earlier, between 1990 and 2000 it is estimated that 50% of Ghana’s health care professionals immigrated to other countries. In the educational sector, “the shortage of academic, professional and research staff have left some of the universities with inexperienced and insufficient staff with low morale” (Owusu-Ankomah, Ghana’s Minister of Interior, 2006). The net effect of this decline is that Ghana has been left with a weak civil society, the concentration of power in the hands of the executive branch, a weak legislature, and a media that is over-shadowed by government interference.

Furthermore, the ERPs created a new class of elites who repressed the masses. The beneficiaries of SAPs include top executives in public services, local agents of foreign business partners and consultants, top executives in private business dealing with foreign capital, beneficiaries of divestiture measures in state owned enterprises and large

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150 Osei-Dadzie (2004) argues that even under the Kufuor regime public officials are still engaged in corrupt practices and lack transparency even after the president vowed to clamp down on corruption. Further, tribalism, nepotism, and cronyism are still an integral part of Ghanaian politics, coupled with the fact that too much power has been given to the executive branch over the legislature and the judiciary. Jeong (1995, 83) discusses the power’s given to Ghana’s executive branch of government.
landowners and big-time commercial farmers.\textsuperscript{151} This new class of elites controls over 70% of Ghana’s wealth and supports adjustment because of the capital gains it affords to them. It is not surprising that the income disparity between the richest 10% and poorest 10% of Ghanaians continues to increase. The gains made in the 1950s and 1960s through expanded access to social services – education, health, housing, urban transportation – through subsidies provided to the poor is virtually extinct.\textsuperscript{152} As such, Ghana has been riven by constant political unrest in the 1980s, 1990s, and as early as 2001/2002 and 2006.\textsuperscript{153} According to Panford (1997), the mounting social discontent could explode and threaten the political stability now exists in Ghana.

Another area where ERPs have weakened Ghana’s democratization is in the government’s inability to formulate and implement policies that are independent of the dictates of external donor governments. This incapacity is a result of Ghana’s heavy reliance on external financial support.\textsuperscript{154} From 1983 to 1999, external donors had contributed a total of $8 billion into Ghana’s economy. This dependence on external aid “has consequently escalated the debt burden with high debt service ratio” (Boafo-Arthur, 1999, 52). By the time the ERP was introduced in 1983, Ghana’s total external debt was $1.177 billion. Currently, Ghana’s external debt is over $6.4 billion.\textsuperscript{155} Ghana has not been able to diversify its economy and promote industrialization because donor governments dictate its economic policies. Ghana’s economy continues to heavily rely on cocoa production and gold mining because that’s what IFIs prescribe and what they are willing to invest in.

\textsuperscript{151} Boafo-Arthur (1999, 62)
\textsuperscript{152} Laari (2006); Aryeetey and Fosu (2002); Panford (1997)
\textsuperscript{153} In 2001 and 2002, students and other civil movements conducted widespread demonstrations over taxes on fuel, communication, and unaffordable educational expenses. In summer 2006, doctors closed down hospitals across the country.
\textsuperscript{154} Boafo-Arthur (1999); Aryeetey and Fosu (2002); Asare and Wong (2004)
\textsuperscript{155} Boafo-Arthur (1999); IMF Report (2006)
The lack of diversification in the nation’s economy makes its economic growth not as bright as the picture portrayed by IFIs. Above all, Ghana’s over-dependence on foreign aid erodes the state’s capacity to determine its internal and external policies. Democracy is weak in any society that answers to the dictates of foreign donors rather than to the needs of its population. This was demonstrated in Busia’s overthrow wherein the military’s reason for staging the coup was that the civilian administration had turned over the reigns of government to international financiers.

In conclusion, the steps that have been taken by both the Rawlings and Kufuor governments to mitigate the socioeconomic impacts of the ERPs on economic growth and political development have not brought Ghana out of the dark. Opting for debt relief in 2000 shows that Ghana has still not developed the structures necessary for sustainable growth. For example, in the agricultural sector (on which the country depends for foreign exchange earnings) measures have not been taken to allow for the “modernization of agricultural production...agricultural credit and price support programs” (Baffoe, 2005, 2). It is only in recent years (2000-2005) that programs are being developed that primarily focus on the social sectors (education and health). PAMSCAD and other poverty related strategies have failed to reverse the effects of the ERPs on the conditions of living of Ghanaians. The country is still heavily indebted to foreign governments, who, through IFIs continue to vet, revise, and approve Ghana’s domestic budget.

While the IMF and the World Bank have been brandishing Ghana as a “poster child” for successful adjustment in third world countries, the impact of SAPs on Ghana’s socioeconomic infrastructures – which are necessary prerequisites for building strong democracies – have often been ignored. Ghana’s economy has been growing at 5.2% per annum, but development has still not been accomplished. Instead, the current state of
education, health, income distribution, unemployment rates, etc. show that Ghana has actually lost ground under SAPs. Four consecutive elections have been held in Ghana (1992, 1996, 2000, and 2004), but citizen input and participation in policy formulation is still limited and power continues to be heavily concentrated on only one branch of government – the executive branch. The institutionalization of democratic ideals like the rule of law, transparency in all areas of government, an independent judiciary, a participant civic population, etc. is years away. Economic growth alone is necessary, but not sufficient for improving on sectors in society that educate the citizens, guarantee their well-being, and have them involved in all affairs of their lives. In other words, SAPs took away much-needed funds from the social sectors that build the foundations for the development of such ideals. As a result, Ghana’s democracy is weak, fragile, and overly dependent on the good-will of donor governments.

156 Louis (2005)
3. **MAURITIUS**

On March 12, 1968 Mauritius attained independence from British colonial rule and in 1992 it became a republic within the British Commonwealth of nations. Since independence Mauritius has been a stable democracy with regular free elections, a strong civil society, positive human rights record, has been able to attract considerable foreign direct investment, and currently has one of Africa’s highest per capita incomes. How did a country that was expected to fail (because of scarce natural resources) develop from a low-income, agriculturally based economy to a middle-income diversified economy?

This chapter reviews Mauritius’ economic growth and development from 1980 to 2000, a period during which the country adopted IMF and World Bank conditionalities (1979 – 1987), reformed its economic policies, and institutionalized democratic principles.

The first part of this chapter will give a historical background of Mauritius (post-independence) and its prospects for economic and political development. The following sections review the economic and political conditions in Mauritius prior to the implementation of SAPs, the debt crisis of the 1970s and 1980s, and the Export Processing Zone (EPZ), which (during adjustments) was very instrumental in transforming the country’s economy. Following that, I analyze the impact of the EPZ on economic growth and socioeconomic infrastructures in Mauritius. The final section reviews the impact of the EPZ on Mauritius’ democratization.
3.1. Historical Background

Subramanian (2001) observed that few African countries have achieved high standards of living and consolidated democracy since their independence, but one notable exception has been Mauritius. James Meade, in the early 1960s, stated that the prospects for Mauritius’ development were bleak; it was a small island state with a “very diverse” population, not endowed with any natural resources, low in managerial and technical resource skills, and having only a monocrop economy to face the daunting challenges of growth and development. However, Mauritius’ history portrays a country that bucked the trend of stagnation and poverty and succeeded in building a vibrant economy that proves “Meade’s dire prognostication famously wrong” (Subramanian, 2001, 22). Was growth and development achieved because Mauritius made overcoming the negatives that stacked against the island a priority?

At independence (1968) Mauritius was faced with difficult structural problems; the island’s occupation by the different colonizers from 1638 to 1968 contributed “to form a structural syndrome of underdevelopment” (Bertelsmann Foundation, 2006, 2).

Firstly, like most of the other British colonies, Mauritius produced only what the colonial government imposed on it. In this case, the country’s integration into the colonial economy left it with a sugarcane monocrop plantation economy that was vulnerable to both weather conditions and to fluctuations in demand and price. In fact, by the time Mauritius gained independence in 1968, the country did not only depend on sugar for

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157 James Meade was head of the Royal Commission that was appointed in 1959 by the Governor of the colony to survey the development prospects of Mauritius (Meade Report, 1961 cited by YeungLamko, 1998). See also Subramanian (2001).

158 Mauritius was discovered by the Portuguese in the early sixteenth century; in 1638 the Dutch created the first settlement and the French stayed in control – from 1721 to 1810 – until it was conquered by the British. The British authority ruled Mauritius for 158 years (1810-1968) before it gained independence in 1968 (Bowman, 1991). Also, Sobhee (2006); Walle (2004)
95% of its total export earnings, but the sugar sector had already reached its physical limits of development.\textsuperscript{161} That is, all the available land for the cultivation of sugar was already in use by Mauritian farmers. As such, prospects for sustainable growth and development of the economic sector which only relied on sugar production and exports were bleak, especially when compared to countries like Ghana, Nigeria, and Botswana (at independence) that had a wealth of natural resources, advanced tertiary institutions, and an educated work force that bolstered their human resources. Mauritius on the other hand joined the league of newly independent countries with no natural assets and did not have any advanced tertiary institutions to foster growth and development.\textsuperscript{162}

Secondly, colonial rule left the country with a high degree of ethnic and sociocultural heterogeneity.\textsuperscript{163} Mauritius is the only African country where 90\% of the population comprises immigrants from other regions. Two-thirds of the country’s population are descendants of contract workers recruited from British India, 3\% are of British and French origin, 3\% are of Chinese origin, and remaining one-quarter are Creoles of African descent.\textsuperscript{164} This composition of a diverse group of immigrants left the country with different languages, religions, and cultures and was initially seen as a potential avenue for political and economic rivalry and conflicts in the development process.\textsuperscript{165} For example, English is the medium of instruction in the island’s schools, French is the language used by the media, politics is mostly conducted in Kreol, and few Franco-Mauritian plantation owners controlled the country’s economy.\textsuperscript{166} However, hindsight shows that cultural and ethnic diversity has surprisingly worked well for

\textsuperscript{159} YeungLamko (1998); Bertelsmann Foundation (2006)  
\textsuperscript{160} YeungLamko (1998); Bertelsmann Foundation (2006)  
\textsuperscript{161} YeungLamko (1998)  
\textsuperscript{162} The only tertiary institution Mauritius had at independence was the Mauritius College of Agriculture (Bowman, 1991).  
\textsuperscript{163} Bertelsmann Foundation (2006); Bowman (1991)  
\textsuperscript{164} Bertelsmann Foundation (2006); Walle (2004)
Mauritius’ political growth and development. What then accounts for the “Mauritian miracle” that has caught the attention of international scholars?

Scholars (Sobhee, 2006; English, 1998; YeungLamko, 1998; Weissman, 1996) have primarily focused on Mauritius’ market-oriented economic policies as the important factors that account for the “Mauritian miracle.” But according to Miles (1999), economic reforms only offer a partial explanation for the democratic consolidation that has taken place in Mauritius. In addition to successful economic reforms, the country’s peculiar colonial history, its political geography and present demography, and its robust civil society offer valuable explanations about Mauritius’ economic growth and political development.

Mauritian society is a creation of diaspora communities that have gone through cultural and linguistic transformations to produce a political culture that accommodates the views of citizens and adheres to the dictates of the constitution. Subramanian and Roy (2001) see the country’s plural population of 1.2 million as the social capital that has greatly helped in attracting investors and strengthening commercial ties between Mauritius and the different continents whose offspring inhabit the island.

Further, the country’s historical experience of “sequential colonialism” and the complex dualistic institutional structure that was inherited by post independence governments have been important to the country’s economic and political

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165 Bertelsmann Foundation (2006); Darga (1998); Bowman (1991)
166 Miles (1999)
167 Even though diversity has worked well for consociational arrangements in the political process, it still has a negative impact on wealth distribution as discussed later. Mauritius’ sociocultural heterogeneity has produced a class of plantation and sugar factory owners who even today constitute “an ownership oligarchy” Bertelsmann Foundation (2006, 2).
168 Scholars including Sobhee (2006), Walle (2004), Miles (1999), and YeungLamko (1998) see Mauritius’ development from a low-income to a middle-income diversified economy as a “miracle” because of the way in which the country has effectively utilized its limited natural resources to foster socioeconomic growth and development.
169 Miles (1999)
In other words, dealing with two sets of colonial influences has helped the leaders in developing sophisticated political skills that thrive on the accommodation of all views in the political process. This tolerance has been the supplementary force that has strengthened the social capital that has worked well in favor of Mauritians.

Also, Mauritius has made great progress in its economic growth and political development because of the country’s political leadership, a strong civil society, and tremendous assistance from the international community. Table 3.1 illustrates that the Mauritian political system has historically been forged by alliances that cut across ethnic, religious, and political cleavages. As Walle (2004) observed, no single leader can be credited for putting Mauritius on the right path to development. Instead, the political compromise that was crafted by the leading politicians “across the ethnic divide right around independence” paved the way for political stability and long term economic growth (Walle, 2004, 3). In other words, from independence the political elite realized that it was only through consensus building and forming alliances that social and political stability was guaranteed.

Mauritius’ political and judicial systems are a combination of the British and French models. The political structure is patterned on the British parliamentary system where the party that wins the majority of seats chooses the prime minister. Until March 1992 when Mauritius became a republic, a titular governor general in the name of the British monarch presided over parliament. Since then, a president, appointed by the prime minister and ratified by parliament has assumed the role of the governor general. The constitution is a composite of British constitution and the French Napoleonic code. The chief justice is appointed by the prime minister and he/she helps in selecting five other judges. The Supreme Court interprets the constitution and serves as the Court of Criminal and Civil Appeals. The British Privy Council continues to serve as the country’s highest court of appeal (U.S. Library of Congress, 2006; Miles, 1999).

Sobhee (2006); Miles (1999); Treebhoohun (1999); Carroll and Carroll (1999)

Miles (1999)
Table 3.1: Mauritius’ governments since independence

<table>
<thead>
<tr>
<th>Government</th>
<th>Leader</th>
<th>Dates of Tenure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mauritian Labor Party (MLP)</td>
<td>Dr. Navin C. Ramgoolam</td>
<td>7/2005 – Present</td>
</tr>
</tbody>
</table>

Source: European Community Country Overview (2006); U.S. Department of State (2006); Darga (1998); Bowman (1991)

The above point is vividly demonstrated in light of the fact that over 90% of Mauritian governments have ruled through coalition building with other parties. No single leader, political party, or ethnic group has been able to dominate the political
As a result, the leaders have been directly or indirectly forced to accommodate the views of the opposition, its diverse communities, and ethnic groups. Successive governments have, with varying degrees of success, tried to work out a *modus vivendi* that takes the concerns of the island’s myriad communities into consideration in the formulation of policy. The diverse interests of the different communities have contributed to a political culture that is “sometimes volatile and highly fluid,” and characterized by shifting alliances. As Miles (1999) puts it, politics in Mauritius “makes for familiar bedfellows in small bedrooms” (Miles, 1999, 96).

In addition to the political leadership, Mauritius’ vibrant civil society has greatly influenced economic growth and political development. Civil society plays a central role in the formulation and implementation of policies. It has promoted the growth and development of the country’s socioeconomic infrastructures by engaging in a range of activities and functions that include women’s groups, charity, the handicapped, senior citizens, religion, education, youth and culture, and sports. The freedoms that Mauritians enjoy within civil society have helped them in channeling their intercultural differences in positive directions. Miles (1999) observed that civil society has promoted a Mauritian nationalism that does not come at the expense of ethnicity, but which embraces all subcultures without expecting them to shed their own particular familial and private

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174 The political parties that emerged after Mauritius gained independence were primarily formed along ethnic, cultural, and economic lines causing class-based struggles and ethnic competition and violence. The realization – in the 1960s and 1970s – that individual parties rarely had the ability to control the government produced norms of conduct whereby coalitions joined together different parties that represented different ethnic, cultural, and religious interests (Lange, 2007). On the other hand, individual susceptibilities to cultural mixing through intermarriage and linguistic and cultural assimilation have made ethnic and communal boundaries remarkable fluid. As a result, the majority of parties now cut across ethnic, religious, and cultural lines (Christopher, 1992).


176 Miles (1999); Darga (1998)

177 Carroll and Carroll (1999); Miles (1999)
customs. In Mauritius as in other democratic societies, civil society has been one of the main pillars in the sustenance and progress of governance. At the economic level, Mauritians inherited an economy – at independence – that was heavily dependent on sugar export earnings and for a third of the total employment in the country. An attempt to diversify the country’s economy through an import-substitution (ISI) strategy in the early 1960s failed to deliver growth in the country’s employment sector and was unable to attract foreign investment in the economy. To address these underdevelopment issues, the government that took over from the British colonizers changed Mauritius’ economy strategy from import-substitution industrialization to export-oriented industrialization (EOI). Although different economic reforms have been implemented by the various coalition governments post-independence, all such reforms have consistently followed the EOI strategy that was adopted by the Mauritian Labor Party government under the Export Processing Zone (EPZ) Act of 1970. It can be argued that, domestically, a stable political and social environment, consistency in the development strategy, and the development of socioeconomic infrastructures should be given credit for the “Mauritian miracle.”

178 Darga (1998)
179 YeungLamko (1998)
180 Import substitution industrialization (ISI) and export-oriented industrialization (EOI) were two central strategies in the debate over development economics in the 1950s and 1960s (YeungLamko, 1998). Many of the newly independent countries in sub-Saharan Africa adopted the ISI strategy believing that less reliance on imports from the developed countries or their former colonial masters would eventually make them truly independent. According to YeungLamko (1998), Mauritius adopted the ISI strategy in the early 1960s based on the recommendations of the Meade Report (1961). Legislation was passed in 1964 that protected companies that were setting up ISI industries from external competition through tariff and non-tariff barriers to trade. This strategy was unable to cope with the unemployment situation and did not attract the foreign investment that was expected. See also Sobhee (2006).
181 Unlike African countries that were attracted to the ISI strategy, in the Asian region many of the LDCs saw the importance and benefits that international markets would bring to their economies. As such, countries like Hong Kong, Singapore, and South Korea – as early as the late 1950s – tailored their development goals along the lines of export industrialization. That is, developing industries that produced primarily for international consumption. Mauritius (after 1970) followed the example of Asian economies (Sobhee, 2006; YeungLamko, 1998).
182 Sobhee (2006); Subramanian (2001); YeungLamko (1998)
In spite of the above positive aspects of growth and development, Mauritius “is no political paradise” (Miles, 1999, 98). Miles (1999) and Bowman (1991) argued that as the economy has mushroomed, so has the level of corruption. Darga (1998) observed that government parastatals have been intensely subjected to the practice of political patronage and clientelism in the recruitment and promotion of employees. Further, Mauritius has witnessed high levels illicit drug trading, political violence, and curtailing of political freedoms. For example, many Mauritian diplomats have been caught smuggling drugs into countries like Holland and the United States. Numerous assassination attempts have targeted political leaders like Bérenger in 1971 and Jugnauth between 1983 and 1995. Police brutality has sometimes sparked racial tensions, as in the February 1999 beating of a popular Creole seggae musician (Kaya) and from 1972 to 1976 the MLP in response to national strikes banned all political activities under a state of emergency. Still, there is agreement that even though malpractice is not absent in Mauritian politics, corruption “has not become predatory on the economic growth and the overall development of the country” (Darga, 1998, 10). For Walle (2004), corruption appears to be relatively unimportant and abuse of power is minimum.

Mauritius has emerged as one of the few African success stories. However, Mauritius’ development from a low-income to a middle-income level country has not come without hassles. The first decade of the post-independence period saw a wave of growth (1970-1976) and then a drastic deterioration of the country’s fiscal and external balances, and in its employment and inflation rates (1979-1981). This situation was worsened by external factors including world recession and the oil crisis of the 1970s,

183 See also Walle (2004); Miles (1999).
184 Scholars (Sobhee, 2006; Dabee and Greenaway, 2001; Treebhoohun, 1999; Darga, 1998; YeungLamko, 1998) argue that the trade preferences enjoyed by Mauritius – in the early 1970s – with Europe, Asia, and the United States quickly improved the country’s revenues, but during that period excessive wage increases for public employees and expansionist policies created balance of payment problems to the economy.
deterioration in the terms of trade for the country’s major export (sugar), import restrictions on EPZ exports (1976-1979), and decline in foreign investment during that period.\textsuperscript{185} The declining economic situation led to a growing deficit in 1976 –1977; this forced Mauritius to approach the IMF in 1978 for a Standby Agreement.\textsuperscript{186} From 1981 to 1987, the government had no alternative than to adopt the IMF and World Bank prescribed structural adjustment program (SAP). This program primarily targeted development of export-oriented industrialization; favorable conditions at home and abroad helped the EPZ flourish and Mauritius was able to pay off its debts to the IMF and the World Bank between 1987 and 1992. Did the country’s preexisting socioeconomic infrastructures foster the success of the SAP? How was Mauritius’ SAP different from that of Ghana?

3.2. \textit{Post Colonialism: Economic Growth and Political Development}

Four distinct eras can be identified in Mauritius’ economic growth and political development from 1968 to 2005: the Sir Seewoosagur Ramgoolam era (1968-1982), the Sir Anerood Jugnauth era (1982-1995), the Navin Ramgoolam era (1995-2000), and the Sir Anerood Jugnauth and Paul Bérenger era (2000-2005). This section reviews how these different eras impacted Mauritius’ growth and development.

\textit{The Seewoosagur Ramgoolam Era (1968-1982)}

The majority of political parties that were formed as the British colonial government allowed more political participation by Mauritians in the political process of their country were organized along ethnic, cultural, and economic lines.\textsuperscript{187} The political

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{185} YeungLamko (1998)
\item \textsuperscript{186} From 1978 to 1986 Mauritius negotiated five Standby Agreements with the IMF (English, 2002).
\item \textsuperscript{187} Meisenhelder (1997); Bowman (1991)
\end{itemize}
\end{footnotesize}
leaders who emerged during this process were under many pressures to address the multiple concerns of a society that had so many differences in terms of class, religion, color, caste, and language. These differences became manifest in the drive for independence when some communities and interests advocated for an association with the colonial regime, while others wanted an independent Mauritius. The Mauritian Labor Party, led by Sir Seewoosagur Ramgoolam, was able to generate a strong movement for suffrage and independence with the support of the Indo-Mauritian farmers and professionals, and Indian and Creole laborers. The August 1967 elections were very important to Mauritius’ status in international relations; the MLP-led alliance for independence won these elections and Mauritius was granted independence on March 12, 1968.

The government that was formed at independence had two main challenges: laying the foundation for stable political development and developing an economic strategy that would jumpstart economic growth and development. From the political perspective, the Seewoosagur government had to find a way of working with other political parties to address the needs of Mauritius’ diverse communities. As stated above, political parties were formed along ethnic, cultural, and economic lines with none of these groups having a clear majority to control parliament. As such, crafting a way of forming alliances and keeping them together became crucial to the country’s political stability. Sir Ramgoolam realized this need and reached out to all factions of the Mauritian society in 1969 and formed a broad-based national unity government which

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188 Bowman (1991)
189 According to Bowman (1991) the PMSD, led by Gaëtan Duval fought against independence and in favor of an association. Duval rallied the support of minorities including the Franco-Mauritians, Chinese, Muslims, and Tamils against the MLP which was dominated by Hindus. This group, especially the Franco-Mauritians advocated for an association with the colonial regime because their economic interests were greatly protected under colonial rule. In contrast the poor farmers and Creole minority wanted to sever ties
included members of the main opposition party – the PMSD.\textsuperscript{191} As Bowman (1991) observed, the coalition government that was formed in 1969 was a typical “Mauritian hybrid” that blended Hindu and other communal activists, socialists from within the MLP, and “the wealthy white landowners, Chinese, and the poor Creole workers” from the PMSD (Bowman, 1991, 70). It was at these initial stages that the Mauritian leadership accepted the fact that it is only through forging partnerships with rivals that stability and national unity would be maintained.

In addition to the challenges of forming alliances, the new government had to address the high level of income inequality between the 3% Franco-Mauritians and over 80% of other ethnic groups that were extremely poor. This challenge became even more urgent with the rise of the Mauritian Militant Movement (MMM) – in 1969 – that challenged the then accepted notion that Mauritian society was one divided just among communities. The MMM interpreted the Mauritian society in terms of class; they focused on issues relating to unemployment, poor wages, and the redistribution of land.\textsuperscript{192} Since these were concerns at the heart of the majority of Mauritians, the MMM was able to draw a lot of support from the very communities that formed the MLP coalition’s political base.

From 1970 to 1971 the MLP led government faced series of strikes that disrupted the Mauritian economy.\textsuperscript{193} Unable or unwilling to address the issues that were raised by with colonialism because they saw much hope for improvements in their conditions of living in an independent Mauritius.

\textsuperscript{190} Meisenhelder (1997)

\textsuperscript{191} In 1969 Sir Seewoosagar’s MLP formed a coalition government with the main opposition party, PMSD, and CAM. The cabinet was expanded from ten to twenty-one members; Gaëtan Duval (leader of PMSD) was made the foreign minister and his party was given seven seats in the cabinet. Also, CAM had two cabinet seats and the remaining twelve seats were given to MLP members (Bowman, 1991).

\textsuperscript{192} Bowman (1991)

\textsuperscript{193} The MMM capitalized on the growing discontent of the majority of Mauritians (about their poor conditions of living) by organizing strikes that sought economic reforms for the poorly paid workers and advocated other political reforms. Sectors like transportation, agriculture, docks, public service, and
the various sectors that engaged in these civil disobedience, the MLP led government resorted to oppressive practices. A state of emergency was declared at the end of 1971, twelve trade unions were suspended, numerous trade union and MMM leaders were arrested and imprisoned with no charges brought against them, political meetings were banned, and the MMM newspaper, *Le Militant* was shut down. These violations of civil and political liberties and the shifting alliances between the various political parties – especially between 1971 and 1976 – threatened Mauritius’ young democracy.

From political challenges that faced Sir Seewoosagur Ramgoolam and his government, Mauritius had inherited an economy that was poised to fail. Unlike other African countries, Mauritius had no mineral or oil deposits, the country was very distant from sources of raw materials abroad, there was shortage of management and technical skills, and there was little capital for investment purposes. As English (2002) puts it, Mauritius was a poor country with an annual per capita income of only $350, a rapidly growing population that threatened to overwhelm a stagnant sugar economy, and an unemployment rate that was estimated at 16%. Also, the country’s sugar economy was primarily in the hands of a few Franco-Mauritians. According to Meisenhelder (1997), of the 19 large estates (sugar) that accounted for 93% of the country’s exports fifteen were owned by local Franco-Mauritians, three by foreign capital (Lonrho), and one was owned by the state. Addressing the countries social and economic inequalities between the upper and the lower class was necessary, especially with series of strikes that demanded land redistribution and better salaries for the poor farmers.

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196 See also Subramanian (2001); YeungLamko (1998); Bräutigam (1997); Bowman (1991).
To address the above problems, Sir Ramgoolam’s regime adopted a Fabian or social democratic ideology by advocating for a partnership between the public and private sectors.¹⁹⁷ Mauritius had a very strong indigenous capitalist class that was dominated by Franco-Mauritian plantation and sugar factory owners.¹⁹⁸ Prior to independence, this small group of Mauritians had accumulated much wealth from the sugar plantations and was in control of the country’s economy. At the other end of the spectrum, were the Indo-Mauritians (the majority) and other minorities that accounted for over 80% of the country’s population. This group was relatively poor but formed much of the middle class; by independence they were in political control of the government, some of them had started owning land, and were having growing access to public education.¹⁹⁹

Post independence, the sugar economy remained in the hands of the Franco-Mauritians, while the state and the public sectors were dominated by the Indo-Mauritian middle class. For the country’s economic growth, the independence government realized that cross-ethnic/class alliances had to be formed around coalitions of workers, the middle class, and the upper class. The traditional capitalist class was allowed to prosper while the state became more involved in the economy; the government held down wages and rewarded workers through public services and benefits, and implemented policies that favored local capital accumulation.²⁰⁰ The leaders hoped that such a partnership would achieve both capitalist economic growth and a modern welfare state.²⁰¹

¹⁹⁷ Meisenhelder (1997)
¹⁹⁸ Bertelsmann Foundation (2006); Meisenhelder (1997)
¹⁹⁹ Meisenhelder (1997)
²⁰⁰ According to Bräutigam (1997), the MLP coalition government was under so much pressures from the demands of all sectors of society – spearheaded by the MMM – that it provided subsidized rice and wheat flour for the rural and urban poor (beginning in 1973), gave fertilizers to small scale sugar producers, implemented a policy of free primary and secondary education for school age children, lowered the voting age to eighteen years, and provided free healthcare for all. Also, the government passed laws that heavily protected local businesses from external competition. See also Meisenhelder (1997).
²⁰¹ Dabee and Greenaway (2001); Treebhoohun (1999); Meisenhelder (1997)
Also, the new government moved away from the import-substitution industrialization (ISI) strategy that was adopted in the early 1960s. The ISI strategy was beset by two main factors: it was unable to encourage much needed investment in the Mauritian economy and could not create the jobs that would have reduced the unemployment rate. By 1970 the country had an unemployment rate of 20% and only a few ISI companies had been set up. Studies of Hong Kong, Taiwan, South Korea, and Singapore showed that Export Processing Zones (EPZ) produced rapid economic growth and created employment for the domestic population. Since economic growth and employment creation were problems that Mauritians had to address, the Seewoosagur government decided to emulate the Asian countries by developing its own strategy. This was embodied in the Export Processing Zone (EPZ) Act No.51 of 1970.

As discussed in the next section, Mauritius experienced an economic boom between 1970 and 1975. However, this proved to be short-lived as both endogenous and exogenous factors dampened the country’s economic prosperity; by 1976 Mauritius was facing a debt crisis.

3.3. **Debt Crisis: 1970s and 1980s**

Mauritius, like much of the world faced some form of political and economic crises in the 1970s and 1980s. For Mauritius, the first half of the 1970s was marked by rapid economic growth and development of the country’s infrastructures. However, during the second half of the 1970s the economy stagnated, budget deficits expanded, and

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202 The Meade Report (1961) recommended that Mauritius should diversify from its over-dependence on sugar, and to industrialize in order for it to cope with the rapidly growing population and unemployment problems (Meade Report, 1961 cited by YeungLamko, 1998). As such, the Mauritian government adopted the import-substituting industrialization (ISI) strategy suggested by the Meade Report. Legislation was passed in 1964 that provided incentives for setting up ISI industries. However, between 1964 and 1968 the labor force continued to grow rapidly and the ISI industries did not create as many jobs as was expected.

the country had to turn to the IMF and World Bank for assistance. Scholars (English, 2002; YeungLamko, 1998; Meisenhelder, 1997; Treebhoohun, 1997; Bräutigam, 1997) have produced extensive literatures that identify the endogenous and exogenous factors that contributed to both the economic growth that Mauritius experienced in the early 1970s and the stagnation it faced during the latter half of that period. Among these factors were the favorable prices for sugar in the international market in the 1970s, attractive trade agreements with EC countries, and the timely implementation of the export-oriented industrialization strategy. On the hand, causes for the stagnation and crisis that Mauritius’ economy faced in the late 1970s were attributed to the expansionist and wage policies the government adopted in the early to mid-1970s, coupled with other circumstances beyond the government’s control including cyclones that hit the island in the late 1970s and the oil crises and world recession from the mid-1970s to the early 1980s.

Firstly, the economic growth that Mauritius experienced immediately following independence was spurred by favorable sugar prices in the international market. The increased demand for sugar and its by-products forced an increase in sugar prices around the world. In 1972 the price of sugar increased from £40 to £330 (pounds sterling) per ton. Fortunately, during this period (1972-1974) Mauritius successfully renegotiated the quota for its sugar exports under the EEC Sugar protocol; the country’s sugar exports increased from 380,000 tons to 505,000 tons at a guaranteed price of £260 per ton.

The European Community (EC) was originally founded on March 25, 1957 by the signing of the Treaty of Rome under the name European Economic Community (EEC). In 1992, the “Economic” was removed from its name by the Maastricht treaty. The EC is one of the three pillars that are collectively known as the European Union (EU). Two important accomplishments of the EEC (in the 1960s) were the establishment of common price levels for all agricultural products and the removal of tariffs on trade between member nations. In 1970, Mauritius joined the Yaoundé II Convention and became an associate member of the EEC. The Yaoundé II Convention remained in force until the advent of the Lomé Convention in 1975. The Convention provided special, privileged trade and aid links between former French and Belgian African colonies and the European Community (YeungLamko, 1998). See also Meisenhelder, 1997.
This favorable trading agreement and the quadrupling of the price for sugar in the international market, increased the value of sugar exports from Rs. 321.6 million (Rupees) in 1971 to Rs. 1584.2 million in 1974.\textsuperscript{208} The increased revenue that was received from sugar exports had an immediate positive impact on the country’s economy growth.

Secondly, the special trading privileges under the Yaoundé Convention provided Mauritius and other African countries access to markets of EC members. In other words, for Mauritius and similar countries, all restrictions (quotas or tariffs) were removed from the exports of their products to EC markets. As Sobhee (2006) and Meisenhelder (1997) noted, the economic growth that Mauritius experienced at the early part of independence was primarily due to the preferential trade arrangements negotiated under the Lomé Convention and the Multi-Fibre Agreement that allowed its textile products to be exported around the world.

Finally, the implementation of the EOI strategy was very timely in that it coincided with a favorable trading climate in the international arena. Under the EOI strategy, the entire island was converted into an export processing zone (EPZ) where apparel, watches, and jewellery were produced for international markets.\textsuperscript{209} Investment, employment, and export expanded considerably after the implementation of the EPZ. From 1970 to 1977 up to 86 export industries were created employing 17,474 workers.\textsuperscript{210} Investment in the export sector did not only come from foreign entrepreneurs, but also from the local business community that was making high profits from the sugar boom during this period.\textsuperscript{211} Also, investment in the export sector led to an increase in EPZ export earnings from Rs. 3.9 million in 1971 to Rs. 196.4 in 1975, and then to Rs. 433.4

\textsuperscript{208} Treebhoohun (1999)  
\textsuperscript{209} Weissman (1996); Shams (1989)  
\textsuperscript{210} YeungLamko (1998)
million in 1977.\textsuperscript{212} As a result of the increases in investment and export earnings, Mauritius was able to considerably improve on its balance of payments; from a surplus of Rs. 94 million in 1970 to Rs. 365 million in 1974. Between 1971 and 1975 EPZ exports grew at 31\% per annum and EPZ employment expanded by 38\%.\textsuperscript{213} Also, the fact that Mauritian products could access prominent Europeans markets under special trading privileges brought in much needed investment capital from countries like Hong Kong and Taiwan that did not have such access. From 1972 to 1977 Mauritius’ gross domestic product (GDP) grew at an average of 9\% per annum.\textsuperscript{214}

The MLP government used the surplus revenue it was receiving during this period to develop the institutional framework for industrialization and development.\textsuperscript{215} The agricultural sector was furnished with modern equipment to increase productivity. Jobs were created in government service, manufacturing, and tourism. Further, the government increased wages, built tertiary educational institutions, kept taxes low, and provided subsidies for small farmers.\textsuperscript{216} The government also developed its economic infrastructure during this period; it constructed modern roads, developed its electricity and water supplies, offered training to the labor force, and improved on its internal and external communications and transportation systems including telephone networks, telex, air services, and sea port facilities.\textsuperscript{217}

It was during this period that Mauritius was making progress in economic growth, that the government adopted policies that would later lead to crises.\textsuperscript{218} For example, in

\begin{footnotesize}
\textsuperscript{211} Durbarry (2001) \\
\textsuperscript{212} YeungLamko (1998) \\
\textsuperscript{213} English (2002); Bräutigam (1997) \\
\textsuperscript{214} English (2002) \\
\textsuperscript{215} YeungLamko (1998); Meisenhelder (1997) \\
\textsuperscript{216} Treebhoohun (1999); Meisenhelder (1997) \\
\textsuperscript{217} Mauritius’ first post-independence plan indirectly influenced the allocation of resources while allowing the private sector to direct economic initiatives. It surpassed the social and economic development targets it set for the period 1971 to 1975 (YeungLamko, 1998). See also Meisenhelder (1997). \\
\textsuperscript{218} Bowman (1991)
\end{footnotesize}
response to the strikes and riots in the early 1970s – for better wages – the government substantially increased wages, awarded unnecessary end-of-year bonuses, and increased the subsidies on food and social welfare services with no long-term financing plan.\textsuperscript{219} The wage and expansionist policies adopted by the government created imbalances in the economy. From 1975 to 1976 government budgetary expenditure as a percentage of GDP increased from 22\% to 29\%; it further increased to 32\% in 1978 and this resulted in the rapid increase of the budget deficit.\textsuperscript{220} As YeungLamko (1998) and Bräutigam (1997) argued, the government’s ill-advised wage policy and the increased spending on social services created rapid price inflation and a drop in the rate of growth of the economy. For Treebhoohun (1999), the government’s ambitious investment program in infrastructure – estimated at Rs. 7 billion for the plan period 1975-1980 – disregarded macroeconomic management and had dire consequences on the economy. The Mauritian leaders had to borrow heavily from European governments to sponsor their expansionist policy. Figure 3.1 shows a sharp increase in Mauritius’ external debt service in the mid-1970s.

Internationally, the 1973 and 1979 oil crises led to world recessions. Furthermore, between 1976 and 1979 the price of sugar tumbled; France imposed import restrictions on EPZ exports in 1976 and the United Kingdom acted similarly in 1979. As the price of oil doubled during the second oil crisis in 1979, the price for imported goods soared; this caused a relative decline in foreign investment.\textsuperscript{221} In addition, other natural circumstances beyond the control of the government had negative impacts on the economy.

According to Bräutigam (1997), the sharp rise in the cost of oil imports from 1973-1974 together with the poor harvests of sugar in the mid-1970s depressed earnings

\textsuperscript{219} English (2002); Treebhoohun (1999)
\textsuperscript{220} English (2002); Greenaway and Gooroochurn (2001)
\textsuperscript{221} English (2002); Treebhoohun (1999); YeungLamko (1998); Bräutigam (1997); Meisenhelder (1997)
in the sugar sector and resulted in a sharp deterioration in the country’s balance of payment. Four cyclones hit the island between 1976 and 1980, destroying crops and reducing sugar production. By the end of the 1970s, as a result of all of the above internal, external, and natural circumstances, Mauritius’ “balance of trade deficit widened; the government’s budget deficit expanded; workers were laid off (567 in 1976, 3581 in 1978, 4234 in 1980); the unemployment rate soared” (Treebhoohun, 1999, 6).

Figure 3.1: Mauritius’ debt service as a percentage of GDP (1970-1981)

The worsening economic situation forced the Mauritian government to negotiate its first Stand-by Agreement with the IMF in 1978.\footnote{Dabee and Greenaway (2001); Treebhoohun (1999); YeungLamko (1998)} Natural disasters – a couple of cyclones between December 1979 and March 1980 – and a fall in sugar production prevented the Mauritian government from meeting the requirements of the first Standby Agreement with the IMF. As such, another agreement was negotiated with the IMF and the World Bank in 1980. The loans that were granted under this new Agreement were
conditioned on the implementation of a structural adjustment program that started in 1981. Mauritis’ SAP is discussed in Section 3.4.

Mauritius had seen its own share of successes and failures in the first decade of independence. Sir Seewoosagar Ramgoolam managed to maintain a coalition from 1968 to 1982 when his government was democratically removed from office. He has been given credit for laying the economic and political foundation upon which the Mauritian society has developed into a successful middle-income country. From 1968 to 1982 the infrastructures for a strong welfare state were built, the country started diversifying the economy, and the leaders started abiding by the results of the democratic process. This legacy has been followed by successive Mauritian governments.


Events leading up to the 1982 elections made it virtually impossible for the MLP to stay in power. The MLP was in constant turmoil after the 1976 election and corruption among government officials was becoming rampant. Also, the Mauritian economy was in crisis and the majority of citizens were feeling the pinch. The austerity measures that were adopted with the implementation of SAP created economic, political, and social discontent among Mauritians. As such, it was not surprising that the 1982 election was an

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223 English (2002); Treebhoohun (1999)
224 From within the party a younger group of “progressive MLP members formed the groupe des contestataires and advocated for greater social justice, less lavish spending on foreign missions, and a clampdown on domestic corruption. The expulsion of the groupe des contestataires leader, Harrish Boodhoo, in August 1979 led to the formation of the Mauritian Socialist Party (PSM) which had support from the poorer, rural Hindu communities. Boodhoo advocated Hindu nationalism and accused the MLP/PMSD government of corruption, nepotism, mismanagement, and bankrupting the country. His support of, or opposition to, various governments from 1976-1990 was a deciding factor in their success or failure. Also, government corruption had become so rampant that a commission of inquiry forced the resignation of two MLP ministers in May 1979 (Bowman, 1991).
225 Economic growth rates which had averaged 9% per annum from 1970 to 1976 had dropped by 9% in 1979 and unemployment was at 11%. The country’s balance of payments deficit for fiscal year 1981/1982 reached Rs. 1 billion, inflation was running at 30% per annum, foreign investment slumped, and natural disasters (cyclones) from 1979 to 1981 crippled the economy (English, 2002; Bowman, 1991).
overwhelming victory for Sir Anerood Jugnauth and his MMM/PSM coalition: they won 62% of the vote and all sixty elected seats in parliament (forty-two by the MMM and eighteen by the PSM).  

The Sir Anerood Jugnauth era went through four distinct phases: 1982-1983, 1983-1987, 1987-1991, and 1991-1995. These phases were marked by various coalition governments ruling Mauritius, corruption scandals at all levels of government, but above all, significant improvements in the country’s economy. In the area of politics, Jugnauth came to power at a time when it had become obvious that only forming alliances with other groups would give leaders the necessary majority to govern. From 1982 to 1983 Jugnauth ruled in coalition with the PSM; this phase ended over conflicts relating to policy issues. By then, to the surprise of many Mauritians, Bérenger (the new Minister of Finance) advocated for a continuation of the SAP that had been adopted by the MLP government in 1981; to him the program’s focus on developing export-oriented industries was economically sensible for Mauritius’ growth and development. Boodhoo’s PSM party was opposed to the continuation of SAP because the IMF and World Bank austerity plan was having adverse effects on poorer Hindus who had been the primary beneficiaries of government subsidies.

Sir Jugnauth was unable to resolve this conflict and save the coalition. On the one hand, he agreed with Bérenger that repudiating the agreement his predecessor had with the IMF and World Bank would shake the international community’s confidence in the Mauritian economy which heavily depended on international markets and international

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226 In 1982, Mauritius’ parliament comprised of 60 seats (this was increased to 62 in 1992) that were directly elected by the electorate and 8 additional seats that were allocated to the “best losers.” The 1982 election was the only time in Mauritian history when a single political party – the MMM – had enough elected seats to form a government by itself, but in accordance with a pre-election agreement – with the PSM – to form an alliance government, the MMM had to abide by the terms of that agreement. Important figures in the MMM/PSM coalition were Jugnauth (MMM) – Prime Minister, Harrish Boodhoo (PSM) – Deputy Prime Minister, and Paul Bérenger (MMM) – Finance Minister (Bräutigam, 1997; Bowman, 1991).
financiers. On the other hand, Jugnauth knew that his predecessor was kicked from power primarily because of the austerity measures that were implemented as a condition of SAP. The incapacity of Sir Anerood Jugnauth to solve this problem and the rift between the core MMM and PSM supporters led to the collapse of the MMM/PSM coalition government in March 1983 and new elections were set for August 1983.

The brief rule of the MMM under Jugnauth should be remembered for two important aspects of Mauritius’ economic and political development. Firstly, Mauritian leaders were able to work through a tumultuous stage of their political development without violating the provisions of the constitution and violence. Secondly, the economic policies of Bérenger cemented acceptance of the SAP that had been adopted prior to the MMM/PSM regime.

From 1983 to 1987 Mauritian society was engulfed in excessive corruption scandals. According to Bowman (1991), charges of government corruption, fraud, and drug trafficking were a constant feature of Mauritian political life post 1983. Numerous members of the Alliance government and senior police officers were exposed of being involved in drug trafficking and the government was either unwilling or unable to clamp down on this problem. Due to these scandals, ranking cabinet members and parliamentarians defected from the Alliance. By November 1986 it was obvious that

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227 English (2002); Bowman (1991)
228 Bowman (1991)
229 Upon the collapse of the coalition, Jugnauth left the MMM to form the Mauritian Socialist Movement (MSM), while Bérenger took over the MMM. Jugnauth’s MSM contested the August 1983 election with the PSM, the MLP, and the PMSD – the two parties that were just removed from power (Bowman, 1991)
230 Corruption became so rampant during the Jugnauth era that in December 1985, four members of the Alliance government were arrested in Amsterdam for drug trafficking while traveling on diplomatic passports; Pelladoah, Nawoor, Thomas, and Currun (who became known as the “Amsterdam boys”) were caught with twenty kilos of heroin. Even though three of those caught were released, Pelladoah was imprisoned for eight months in Amsterdam. Between 1985 and 1986 two commissions of inquiry were set up that revealed the extent of government corruption: politicians, police officers, drug dealers, businessmen, doctors, pharmacists etc, were implicated in drug trafficking (Bowman, 1991).
231 All the individuals that were caught in the Amsterdam drug trafficking were members of the MLP. This caused a rift within the MLP and resulted in the defection of many of its members. Also, the relationship between Jugnauth and Boolell (the MLP leader) was strained over power sharing; in fact Boolell was
the Alliance had crumbled and Sir Jugnauth did not have enough of a majority to stay in power. As such, an election was set for August 1987 which Jugnauth’s MSM contested with the same Alliance as in 1983 with the exception of the PSM.\(^{232}\)

Two major factors worked in their favor for Jugnauth in the 1987 election; firstly, members of the Alliance were able to work through their differences and remained united for the election and secondly, the Mauritian economy was gradually recovering.\(^{233}\) Bowman (1991) argued that, the result of the election confirmed that Mauritians were more interested in economic prosperity and the communal electoral traditions that had been developed over the years, than punishing the entire government for corruption charges against some of its members.

Political life in Mauritius from 1987 to 1995 was pretty much the same: a shaky alliance that saw the resignation or defection of some of the members and corruption scandals.\(^{234}\) However, one important policy decision that was introduced by the MSM and MMM leadership for the September 1991 election was the introduction of legislation to make Mauritius a republic.\(^{235}\) This legislation was passed on March 12, 1992 and Mauritius became the twenty-ninth republic under the British Commonwealth.\(^{236}\) This was significant because it was only after the passage of the 1992 legislation that the British monarch ceased being the country’s ceremonial head of state. Under the new

\(^{232}\) Boodhoo (leader of the PSM) was out of favor with both the Alliance and the MMM because he had become a lightening rod in Mauritian politics. He played a key role in the downfall of the Sir Ramgoolam regime, was instrumental in the 1982 victory of the MMM/PSM coalition and was a catalyst in its collapse, helped the new Alliance win in 1983 and by 1986 was a bitter enemy of Jugnauth. It is not surprising that none of the major parties allied with him hence (Bowman, 1991).

\(^{233}\) Bowman (1991)

\(^{234}\) In 1988, Nigel Soobiah, son of the Mauritian High Commissioner to the UK was arrested in the U.S. and charged with heroin trafficking; his arrest unraveled a drug network of Mauritian diplomats or their wards that used their diplomatic status to benefit from illicit drug trade. Other corruption scandals included government officials selling Mauritian passports to non-citizens, bribing officials for lucrative contracts, and assassination attempts on prominent leaders (Bowman, 1991).

\(^{235}\) U.S. Library of Congress (2006); Bowman (1991)
republic, Sir Veerasamy Ringadoo, a Hindu, was appointed as the first president of Mauritius. At the economic level, Jugnauth inherited an economy that was in crisis, but his era (1982-1995) witnessed significant improvements in the country’s economy. By 1982 Mauritius was relying on loans – conditioned on the implementation of the SAP – from the IMF and World Bank to keep its economy afloat. Sir Anerood Jugnauth’s various coalition governments – from 1982 to 1995 – have been given credit for turning the Mauritian economy around from the crisis mode it had reached in the early 1980s.

The most important decision that was made by Bérenger during the MMM/PSM alliance (1982-1983) was to continue with the IMF/World Bank program that the Sir Seewoosagur government had adopted in 1981. This decision was important for two main aspects; firstly, according to English (2002) and Treebhoohun (1999) it was important that Mauritius put “its macroeconomic house in order before it could expand welfare programs” (English, 2002, 8). Secondly, Mauritius continued to receive foreign aid from international financiers and the SAP that was approved for Mauritius by the IFIs promised to lay the foundations for “renewed growth by promoting export-oriented industries” (Treebhoohun, 1999, 6).
The adoption of strict monetary and fiscal policies during structural reforms and a favorable international economic environment for the country’s EOI strategy worked well for the country’s economy in the late 1980s. The rapid growth that occurred in the EPZ sector helped Mauritius to successfully conclude its structural adjustment program in the 1980s; the second adjustment loan it received from the World Bank in 1983 was the last of that type, its last macro policy agreement with the IMF was in 1985, and by 1987 Mauritius was achieving a surplus on its external current account and was able to pay off its loans to the IMF and World Bank in 1992. The next section discusses Mauritius’ SAP.

3.4. The Structural Adjustment Program (SAP) and the Export Processing Zone (EPZ)

As discussed in Section 3.3., the Mauritian economy experienced increased levels of growth in the early 1970s, but was in crisis by the end of that decade. In February 1978, the Mauritian government negotiated its first Standby Agreement with the IMF. From 1978 to 1986 Mauritius negotiated five Standby Agreements with the IMF and two structural adjustment loans (SALs) with the World Bank valued at $55 million. English (2002), Greenaway and Gooroochurn (2001), and YeungLamko (1998) provide a detailed discussion of the different agreements Mauritius had with the IMF between 1978 and 1986. This section specifically deals with Mauritius’ structural adjustment loans (1981-1985) from the IMF and World Bank that were conditioned on the implementation of the SAP.

242 English (2002); Treebhoohun (1999)
243 See also, English (2002); Greenaway and Gooroochurn (2001); Treebhoohun (1999); YeungLamko (1998); Meisenhelder (1997); Bowman (1991)
244 English (2002); Greenaway and Gooroochurn (2001)
By 1981 when Mauritius started its SAP, the Standby Agreements with the IMF had forced the devaluation of the rupee by 47%, taxes and fees had been raised, real wages and food subsidies reduced, and the unemployment rate had reached 15%. Also, the government’s balance of payment and fiscal deficit was 15% and 10% of GDP respectively, and interest payments on the loans the government had received in the 1970s had equaled 22% of export earnings. It was in the course of these stabilization programs that Mauritius negotiated two loans with the World Bank that were conditioned on the implementation of a Structural Adjustment Program (SAP).

The first SAL was disbursed during the period June 1981 to June 1982 and the second SAL was from March 1984 to June 1985. Greenaway and Gooroochurn (2001), Treebhoohun (1998), YeungLamko (1998), and Meisenhelder (1997) state that the main aim of Mauritius’ SAP was to lay the foundation for renewed growth by promoting export-oriented industrialization, by developing tourism, and by diversifying the agricultural sector. The above scholars and others including Sobhee (2006), English (2002), Durbarry (2001), Bräutigam (1997), and Weissman (1996) agree that it was during SAP that Mauritius’ EPZ became the “engine” of growth that transformed the nation’s economy for sustainable development. How did SAP impact Mauritius’ EPZ strategy?

The concept of an export processing zone (EPZ) started in Ireland in 1959 when the Shannon Export Free Zone was created in a bid to replace the jobs that were lost during the decline of Shannon airport. Mauritian leaders observed that the Asian

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245 English (2002)
246 Greenaway and Gooroochurn (2001)
247 According to Durbarry (2001) the Shannon Free Zone strategy declared Shannon airport a free zone and actively sought to attract manufacturers. By 1975 the Shannon Free Trade Zone had created over 3,800 new industrial jobs and employment in the airport itself had increased from 1,230 in 1960 to 2,200 in 1975. The success of Ireland in this venture was very attractive to many LDCs who were grappling with unemployment and other development related problems.
countries that had implemented the EOI strategy were reversing their unemployment problems and securing the investment capital that ISI strategy could not generate. As a country that had been diagnosed as a prime candidate for failure – because of its lack of natural resources, unemployment problems, and its geographical proximity to other regions – Mauritius took its cue from Asian economies (who by the late 1960s were reaping the benefits of the emerging global economy) and ventured into production for international consumption.248

Durbarry (2001) and YeungLamko (1998) define an EPZ as an administratively, and sometimes geographically, designated area where industries that are manufacturing goods earmarked for export are given special status. Their status allows them free import of equipment and other materials for their industries, favorable legal provisions and regulations pertaining to taxation, control over employment rules and regulations, and flexibility in the repatriation of profits to other regions. UNCTAD (1983) identified five main objectives of EPZs: generating foreign exchange earnings, creating employment, attracting foreign capital and advanced technology, acquiring and upgrading labor and management skills, and creating linkages between EPZ industries and the domestic economy.

The EPZ Act of 1970 had incorporated the above objectives in the legal framework within which export-oriented industries were expected to operate. This Act provided fiscal and financial incentives for firms producing for export markets.249 Some of these incentives included complete exemption from payment of import and excise duties on raw materials, productive machinery, and equipment; exemption from payment of income tax on dividends and profits for the first ten years; availability of factory

248 Weissman (1996)
249 Greenaway and Gooroochurn (2001); YeungLamko (1998)
buildings and fully serviced land at subsidized rates; subsidized electricity or water rates; free repatriation of capital, profits, and dividends; and favorable labor laws. Since its inception, industries in Mauritius’ EPZ focused on the production and exportation of light bulbs, hand-made model ships, watches, jewellery, and textiles. Since the late 1990s, the EPZ industries have further diversified into financial services and information and communications technology (ICT).

Mauritius’ SAP primarily focused on export-oriented manufacturing based on the contention that improvements in this sector of the economy would create the conditions necessary for export-led growth and mitigate the persistent unemployment problem the country faced. At the time that the SAP was implemented unemployment in Mauritius was at its peak (around 22%), the government deficit was over 13% of GDP, and foreign debt had risen (to $226 million from $33 million in 1972). To reverse this situation, policies implemented under Mauritius’ SAP (1981-1986) focused on trade and exchange rate liberalization, restriction of credit expansion, providing incentives for competition and high productivity within the economy, and reforming the economic institutions as a foundation for development.

Although the SAP was initiated under the Sir Ramgoolam’s government (1968-1982), Sir Anerood Jugnauth (1982-1995) continued on this path of adjustment until the program was concluded in the late 1980s. The Jugnauth regime did not only continue the

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YeungLamko (1998)
Sobhee (2006); YeungLamko (1998); Bräutigam (1997); Weissman (1996)
It should be noted that prior to SAP the two pillars of the Mauritian economy were sugar and export-oriented manufacturing (English, 2002; Treebhoohun, 1999)
Durberry (2001); Bräutigam (1997)
In the 1970s and 1980s, Mauritius had policies that heavily protected the domestic industries from outside competition, provided rapid wage increases and bonuses to disgruntled workers, and mismanagement in government agencies was becoming rampant (Durberry, 2001; Treebhoohun, 1999; Bowman, 1991). As such, Mauritius’ SAP promoted an outward looking strategy (EPZ), insisted on the adherence to effective microeconomic management, and the development of the country’s human resources for high productivity. However, heavy protection of domestic industries continued until the mid-1990s when the EPZ sector’s growth stagnated.
export-oriented strategy of his predecessor but put in place new institutions and incentives to “maintain the viability and inherent attractiveness of the EPZ” (Durbarry, 2001, 112). In the area of monetary and fiscal policies the Seewoosagur and Jugnauth governments reformed the tax structure, restricted wage increases, reduced food subsidies (although they were not eliminated), lifted price controls, and controlled the manner in which increases were made to the education and welfare sectors. For example, despite the continued rise in inflation wage hikes were held to approximately 60% of the rise in the consumer price index and a “regressive value added sales tax of 5% was implemented” (Bräutigam, 1997, 50). Also, to encourage local companies to export, a graduated tax structure was established whereby a 2% rebate was given to local enterprises for every 10% of output exported.

In addition to the monetary and fiscal policies adopted, institutional reforms played a significant role in the economic recovery and ultimate development of the country. During SAP a successful international campaign was launched by the government to attract investors from Europe and Southeast Asia. For example, in 1984 a parastatal organization, the Mauritius Export Development and Investment Authority (MEDIA), comprising members of the private sector, was set up to search for new markets and attract new investors. The main objectives of MEDIA were to promote the export of Mauritian goods and services; engage in investment promotion activities, such as, promoting Mauritius as an attractive manufacturing base for export purposes; develop

255 Additional incentives included automatic 100% income tax relief for the first ten years for EPZ industries, 50% exemption after the eleventh year, and 25% exemption from the sixteenth to the twentieth year. Further, profits reinvested in new manufacturing enterprises received other exemptions, foreign technicians were granted global exemption on a proportion of their salaries, and there was a guarantee against nationalization of foreign enterprises. See Durbarry (2001) for other incentives provided for EPZ firms after 1982.

256 Greenaway and Gooroochurn (2001); Treebhoohon (1999); Bräutigam (1997)

255 Treebhoohon (1999)

258 Durburry (2001)

259 Durburry (2001); Treebhoohon (1999)
and operate industrial sites and estates; and to “plan, implement, and review programmes to develop export and investment in export oriented manufacturing” (Durbarry, 2001, 112).

According to Durbarry (2001) the fiscal and financial incentives provided by the governments, the provision of first-rate infrastructural facilities, and cheap, literate and skilled labor led to a massive flow of foreign direct investment (FDI) in the economy. FDI increased substantially between 1983 and 1989; from Rs. 19 million in 1983 to Rs. 68 million in 1984; this upward trend of FDI was maintained until 1990 when doubts by international investors about the future of the island caused a decline in investment.260

Following the initial rise in investment in the EPZ between 1981 and 1989, the growth of firms was constrained from 1989 to 1991. In 1989, 107 operating firms were closed primarily due to swelling costs in productivity; the government’s wage compensations in 1988 in both the public and private sectors forced the closure of a lot of EPZ industries; and employment fell from 89,080 in 1988 to 88,650 in 1989.261 Though much could not be done about the wage increases that were enacted in 1988, the government took other measures to sustain and consolidate the growth that the EPZ had witnessed during SAP. Between 1989 and 1991 the authorities developed programs that diversified the EPZ into areas other than textile production. Initially, textile industries accounted for 90% of EPZ employment; in the early 1990s the government encouraged investment in other products like leather goods, footwear, jewellery, flowers, and

260 Plans by the Jugnauth coalition in the late 1980s to make Mauritius a Republic created doubts about political stability in the country. Also, the wage increases that were adopted in 1988 resulted in high cost of productivity. These factors forced many firms to close and prevented new investors from coming to the country (Durbarry, 2001).
261 In 1988 pressures from workers unions and other agencies forced the Jugnauth government to increase wages in the public and private sectors. These pressures were felt by EPZ industries whose workers also advocated for increased wages; this led to swelling costs and reduction in competitiveness. The net effect was the closure of a substantial number of EPZ firms (Durbarry, 2001).
watches.\textsuperscript{262} This move improved on employment and was beneficial to both the textile and non-textile industries. For example, there was an increase in employment in textile from 20,421 in 1982 to 80,118 in 1999. Simultaneously, employment in non-textile firms rose from 3,055 to 10,334 in 1999.\textsuperscript{263}

After 1991, the various governments have adjusted policies to meet the challenges of globalization. Not surprising, the EPZ during and after SAP has positively impacted Mauritius’ economic growth in the following ways. Firstly, the rapid growth that the Mauritian economy witnessed in the 1980s can be traced to several economic, political and social factors. Mauritius implemented its EOI strategy at a time when many sub-Saharan African countries had not realized the benefits of globalization to their economies. Mauritius took advantage of favorable trade agreements and the growth of the international economy in the 1980s to diversify its economy and improve on its export earnings.\textsuperscript{264}

Also, Mauritian leaders played an important role in the different phases of industrialization: initiator, promoter, protector, and arbiter.\textsuperscript{265} The leaders showed great commitment to the development of the country and not to sectarian interests. They determined the economic policy direction of the country but trusted the private sector with development and implementation of the development strategies. Furthermore, the civil service was very instrumental in implementing the various economic and social programs. Finally, the close collaboration between the public and private sectors was marked by the willingness and commitment to constructively participate in policy making. For example, twice every year the Prime Minister chaired a joint meeting

\textsuperscript{262} Durbarry (2001)
\textsuperscript{263} Durbarry (2001)
\textsuperscript{264} Treebhoohun (1999); Weissman (1996)
\textsuperscript{265} Treebhoohun (1999)
between his economic ministers and all members of the Joint Economic Community (JEC) to determine policy directions.\textsuperscript{266}

Secondly, microeconomic indicators show that the EPZ contributed enormously to the rapid growth of the Mauritian economy.\textsuperscript{267} Prior to the rapid growth of the manufactured export in the 1980s, sugar was the main source of income and export earnings and it contributed significantly to the GDP. For example, in 1976 sugar accounted for 23\% of total GDP and 73\% of export earnings. By then, the EPZ only accounted for 2.6\% of GDP. From the mid-1980s, the EPZ contributed up to 13\% of GDP and the Mauritian economy grew at an average of 4\% over the period.\textsuperscript{268} Figure 3.2 shows steady improvement in the economy from 1981 to 2000, even though growth rates were less than spectacular in some years. In addition to the EPZ growth, Mauritius received extensive foreign aid from international financiers during adjustment as seen in Figure 3.3.

The EPZ accounted for a good proportion of the growth that the economy witnessed during the period shown. That sector increased the trading account of the economy and since the late 1990s, surpassed sugar in foreign exchange earnings. The exports of textile, wearing apparel, jewellery, and lately financial services and ICT show the relative importance of the EPZ in the Mauritian economy.

\begin{thebibliography}{9}
\bibitem{266} Treebhoohun (1999)
\bibitem{267} Durbarry (2001)
\bibitem{268} Sobhee (2006); Durbarry (2001)
\end{thebibliography}
Finally, because of the impressive growth record of Mauritius in the 1980s, it became the only African country to successfully conclude its SAP during that period. The second SAL that the government negotiated with the World Bank in 1984 was the last of that type, as was its fifth macro policy agreement with the IMF in 1985. By 1987 Mauritius had not only paid off its last structural adjustment loan to the World Bank but had achieved a surplus on its external current account. Also, the rate of inflation which was 42% in 1980, due to the devaluation of the rupee, was below 5% in the late 1980s. Furthermore, the progress made at the macroeconomic level trickled down to the socioeconomic development of the country. The EPZ’s impact on economic development and socioeconomic infrastructure is analyzed in the next section.


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269 English (2002)
270 YeungLamko (1998)
As demonstrated above, giving credit to IFIs for Mauritius’ economic success would be misleading. Instead, a farsighted leadership that showed commitment to constructive development, a stable political environment, favorable conditions and preferential trading arrangements in international markets, an aggressive socioeconomic infrastructural development, and the EPZ account for the “Mauritian miracle.” The question now is can the Mauritian miracle be sustained without preferential trade agreements?


Two eras can be identified after Mauritius successfully concluded its SAP: the Navin Ramgoolam era (1995-2000) and the Jugnauth/Bérenger era (2000-2005). During both eras, the country’s political institutions continued to thrive and the political climate
remained the same as in the first two decades after independence.\textsuperscript{271} Coalition
governments continue to rule Mauritius and the leaders abide by the decisions of the
electorate; this has succeeded in consolidating Mauritius democracy.\textsuperscript{272} One important
political development that is worth noting though was the implementation of the pre-
election arrangement between the MMM and the MSM that made Paul Bérenger (in
2003) the first non-Hindu to assume the position of Prime Minister. Bérenger hails from
the Franco-Mauritian upper class that is not favored by the majority of Mauritians
because of the level of social and economic disparity between the small upper class and
the majority that form the lower class. The distrust of the upper class by the majority has
consistently prevented the election of Franco-Mauritians to higher positions of authority
in Mauritian politics.\textsuperscript{273} As such, the election of a Franco-Mauritian Catholic to the
highest position in the country was an important first step in Mauritius’ political
development.

Politically, Mauritian society continues to face challenges that could deride the
economic gains that have been made so far. The leaders continue to grant wage increases
at times when the economy is stagnating. Meisenhelder (1997) observed that, by 1995
local wages continued to rise while firms that were opened during the EPZ boom were
closing at a fast rate. The complex system of pay-offs whereby political leaders
compensate their supporters through unwarranted wage increases and bonuses erode the
economic gains that the country makes; this was partially responsible for the debt crisis in

\textsuperscript{271} Mauritian political parties continue to form alliances for strategic reasons – mostly to win elections – but easily pull out or are dismissed from government when the various interests collide (Cherian, 2000; Bowman, 1991).

\textsuperscript{272} Huntington (1991) defined a consolidated democracy as one in which there has been two electoral turnovers of power according to the popular will; in Mauritius this occurred in 1982, 1995, 2000, and 2005. In addition, Mauritius development meets Dahl’s (1971) criteria for a strong democracy; there is meaningful competition, a high level of political participation, and civil and political liberties are guaranteed.

\textsuperscript{273} According to Cherian (2000), many Mauritians believed that Bérenger’s race and religion had been preventing him from becoming prime minister. See also, U.S. Department of State (2006); and Ford (2003).
the 1970s and 1980s. Again, between 1995 and 2000 undue wage increases caused distortions in the budget; the economy experienced declining rates of savings, balance of payment deficits, and increased public debt.\textsuperscript{274} Also, corruption continues to dampen Mauritius’ success story. For example, in 2002 Robert Lesage, head of the Mauritius Commercial Bank (MCB), the country’s biggest financial institution was charged with misappropriating up to $30 million worth of shares.\textsuperscript{275} Although Walle (2004) argued that there is minimum corruption in Mauritius, there is strong possibility for it to become an epidemic in society.

It is the Mauritian economy that has faced the most challenges after the SAP. The main pillar of the economy – export-oriented manufacturing – heavily relies on favorable conditions in international markets and special trading privileges for its sustainability, but those conditions and privileges are phasing out.\textsuperscript{276} During the Jugnauth/Bérenger era, the guaranteed price of Mauritian sugar – which was above the world market price – at the European Union (EU) market was legally challenged at the WTO, the preferential treatment which Mauritius had under the Multi-Fiber Arrangement ended in 2004, sugar and textile exports dropped, the EU drastically cut the price it paid for sugar under the quota system, and both foreign and domestic investors started withdrawing their investments to seek cheaper pool of labor in the region.\textsuperscript{277} Also, Mauritius invested a lot in developing a strong social welfare system that provides services including compensations to the poor, a social security and pension program for the elderly, and healthcare services to the public. As important and innovative these programs are – for an

\textsuperscript{274} See Figure 3.1. Also, Sobhee (2006); Meisenhelder (1997)
\textsuperscript{275} Ford (2003)
\textsuperscript{276} Mauritius’ EPZ was developed at a time when there was less competition in that sector. Preferential treatment from countries like Hong Kong, Singapore, South Africa, and Sri Lanka (all of whom were looking for new international investment opportunities) is declining as these countries can now invest in other countries where the cost of production is cheaper; for example, China, India, and Madagascar. Also,
African country – providing revenues to sustain them can be a burden on the economy if extra taxes are not imposed to pay for them. As the Bertelsmann Transformation Index (2006) stated, the social services programs are gradually reaching the limits of their sustainability. The elimination of such programs will be a major cause for social and political instability within Mauritius’ diverse communities.

In response to these vulnerabilities of the economy, the different governments (after the adjustment period) have attempted reforms that have managed to sustain the economy’s growth and development. For example, between 1995 and 2000, the Navin Ramgoolam government invested in computer and software production, diversified the agricultural sector further into fruits, vegetables, and flowers; continued promotion of the tourist industry; and the development of an export-oriented service sector – primarily financial services. These new measures succeeded in sustaining the country’s growth rates; the annual GDP growth rate increased from 5.6% in 1995 to 8.9% in 2000 and foreign trade recorded an average growth rate of 9.5% from 1995-2000. But during this same period, trade deficit increased by Rs. 3 million – mainly due to the imports of machinery and transport equipment – and unemployment rate increased from 5.1% in 1995 to 8% in 2000.

Jugnauth and Bérenger diversified the economy further into offshore banking and Information and Communication Technology (ICT). Between 2000 and 2005, the government rapidly invested in these new sectors to dampen the effects of reduced sugar and textile exports. Although the economic growth rates dropped during this period in comparison to the 1995-2000 period (from an average of 6% per annum from 1995-2000

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277 IRIN (2006); Sobhee (2006); IMF and World Bank (2003); Ford (2003)
278 Sobhee (2006); Treebhoohun (1999); Meisenhelder (1997)
to an average of 3.5% from 2000 to 2004), diversification into these new sectors helped in sustaining Mauritius’ economic growth. According to Sobhee (2006), the economy grew around 4% from 2002 to 2005, growth in the Financial Services sector offset the declining performance of the sugar and textile industries, and inflation rates fell from 6% in 2000 to 4.8% in 2004. Also, employment in the services sector – tourism, finance, transport and communication – reversed the high unemployment rates the country was facing in early 2000. Where as the sugar and EPZ sectors lost approximately 19,000 jobs between 2000 and 2003, the services sectors created over 25,000 new jobs during that same period. Venturing into projects that are relatively less dependent on preferential trading agreements is important for the sustained growth of the economic sector.

Mauritius has failed to fit regional patterns. That is, while most sub-Saharan economies crumbled soon after independence and their political systems declined into chaos, Mauritius’ economy is relatively strong and the political and social environment is stable. Internally, the leaders have managed to maintain a stable political and social environment that endears the island to international investors. Exogenously, the international community has rendered tremendous support to Mauritius as discussed in previous sections. The simultaneous growth of the economy and continued adherence to the rules of the political system has created domestic constituencies that have a stake in the continuation of the same patterns. As Sacerdoti and El-Masry (2005) put it, Mauritius has succeeded in establishing strong institutions that have improved on the conditions of living of Mauritians and the leaders continue to reform their EOI strategy to meet the demands of the changing international environment. In the process, the country

280 Sobhee (2006)
281 Sobhee (2006)
has witnessed improvements in economic growth and income distribution, education, and healthcare and sanitation.

3.5. Impact of the EPZ on Economic Development and Socioeconomic Infrastructure

For the last three decades, Mauritius has successfully transformed its fortunes from that of a low-income monocrop economy with a per capita income below $400 (in 1970) to that of a middle-income diversified economy with per capita incomes of $4,900 in 2004. While real per capita incomes stagnated in over 90% of sub-Saharan Africa, it tripled in Mauritius. From 1970 to 2000 real GDP grew at an average of 5.9% per annum, the income of the average Mauritian tripled, life expectancy and literacy rates increased, the income gap between the richest and poorest Mauritians narrowed considerably, and unemployment rates declined. According to Sacerdoti and El-Masry (2005), Mauritius was able to achieve this success by diversifying its economy from a heavy reliance on a single export commodity (sugar) to other sectors including export processing, tourism, financial services, and more recently ICT. Scholars (Sobhee, 2006; English, 2002; Durbarry, 2001; Subramanian, 2001; Treebhoohun, 1999) agree that export processing (EPZ) has been the “engine” of Mauritius’ economic success and the revenues it brought to the economy has trickled down to all aspects of the country’s socioeconomic development. How has the EPZ impacted Mauritius’ economic development and socioeconomic infrastructure – which this thesis argues are important variables in democratization?

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283 U.S. Department of State (2006); English (2002); Weissman (1996)
284 IMF Survey (2005); Subramanian (2001); Weissman (1996)
3.5.1. Economic Growth and Income Inequality

Unlike regions where after the implementation of SAP economic growth came at the expense of development, in Mauritius reforming the EOI strategy was instrumental in improving income distribution, education, healthcare, employment, and social services. That is, the reforms that took place during SAP (in the 1980s) reduced poverty and unemployment, bridged the gap between the rich and the poor, and considerably improved on the real wages of all Mauritians.

At the macroeconomic level, the EPZ directly impacted employment, real GDP growth, exports, and foreign exchange earnings. When the EPZ was established in 1970, the sugar industry was the dominant employer and the country had a 20% unemployment rate. Since then employment in the sugar industry has fallen behind EPZ industries and the unemployment rate currently stands at 9.5%; EPZ enterprises employ more workers than the sugar industry and the government combined. The EPZ sector has not only created employment opportunities, but has been attracting labor from the agricultural sector. Also, Durbarry (2001) argued that the EPZ has made an enormous contribution to GDP growth. Prior to the EPZ, sugar was the main source of income and accounted for 23% of total GDP and 73% of export earnings. As of 2005, the EPZ contributes up to 13% of total GDP while the sugar sector’s contribution has been reduced to 6% of total GDP.

For Sobhee (2006), the increased investment and expansion of EPZ exports led to higher growth rates. The country successfully substituted foreign debt by local debt; the

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285 Subramanian (2001)
286 Sobhee (2006); Subramanian (2001)
287 The current unemployment rate in Mauritius is very high when compared to the mid-1990s when it was below 4%. According to Sobhee (2006) the EPZ accounts for fluctuations in employment rates; closures of EPZ enterprises between 2000 and 2003 are responsible for the current state of employment in Mauritius. However, the current growth in the services sector is reversing that trend (World Factbook, 2006; U.S. Library of Congress, 2006; Subramanian, 2001).
country’s external debt declined from 24% of GDP in 1981 to 12.9% in 2004 and inflation was reduced to 5% in 2005. However, similar to countries that adopt conditional loans from IFIs, Mauritius public debt greatly increased, prior to, during, and after structural adjustment as portrayed in Figure 3.4.

One important factor that accounts for the positive impact of the EPZ on the Mauritian economy was the additional foreign exchange earnings brought in as a result of increased exports in goods and services other than sugar. With the help of favorable trading agreements, the EPZ sector now dominates exports – bringing in net foreign exchange earnings of Rs. 9,152 million in 1997, above the Rs. 7,294 million brought in by the sugar sector.

Secondly, Mauritius was able to reduce poverty – post independence – through a couple of measures adopted by successive governments. EPZ revenues to government budgets were vital to achieving the objectives of those measures and in some cases EPZ enterprises directly impacted poverty. The fact that the Mauritian governments did not restrict EPZ enterprises to specific areas in the country allowed employment opportunities to be created across the country. As such, employment with EPZ industries brought direct revenue to Mauritians in both the rural and urban areas. This was particularly beneficial to females whose numbers accounted for 80% of the EPZ workforce in the initial stages of the EOI strategy. Weissman (1996) cautioned though, that the chief attraction to EPZ investors “is a cheap, brutalized, and controlled workforce” (Weissman, 1996, 2). In most countries where EPZs are established,

288 World Factbook (2006); Durbary (2001)
289 World Factbook (2006); Sobhee (2006)
290 Countries that adopt SAPs borrow heavily from the IMF and World Bank to maintain, among other financial obligations, scheduled interest payments on their external debts, provide revenue to bring their deficits down, and finance programs that have to be reformed. As a result, these countries end up accruing additional debts during adjustment; this problem is worse for countries like Ghana who pursued adjustment for a very long time.
including Mauritius, labor laws are repressive when compared to the approved international standards.

Figure 3.4: Mauritius’ External Debt (1981-2000)

Also, revenues from both the sugar and EPZ sectors allowed governments at different stages of the country’s growth to increase wages in the public sector and provide social services to poor Mauritians. Increased wages in the public sector forced similar and sometimes better wage increases in the private sector. For example, in the EPZ sector, the average daily earnings tripled from Rs. 52 in 1989 to Rs. 151 in 1999 surpassing average earnings in other sectors during the same period – which was Rs. 119 in 1999.\(^{292}\) This is important because in countries like Haiti, Guatemala, and El Salvador the wages of workers in EPZ industries are not only poor but workers who have tried to organize and

\(^{291}\) Durbarry (2001)  
\(^{292}\) Durbarry (2001)
demand improved conditions have met with brutal repression.\textsuperscript{293} This has not being the case in Mauritius.

Furthermore, the state has been able to build a strong middle-class through long-term strategies like the provision of free compulsory education, the implementation of micro-credit schemes that deal with poor households and women who require finance to start up their own businesses, and providing export tax exemptions for small-scale planters.\textsuperscript{294} For example, in the 1980s the Mauritian Development Bank was directed by the government to offer $18 million in unsecured small business loans to unemployed Mauritians (especially graduates) who wanted to establish EPZ firms. According to Bräutigam (1997), this program accounts for the fact that over 50% of current EPZ firms are owned by Mauritians. In countries like Kenya, Cameroon, and Senegal all EPZ firms are owned by international corporations that repatriate profits to other regions.\textsuperscript{295} With over 50% of Mauritius’ EPZ firms owned by local investors, profits are kept and reinvested in the economy.

Above all, the governments have continued to respond to the needs of the poor by providing subsidies for food (mainly rice and flour), increased free education to include secondary and university education, provide benefits for the elderly through the old age social security (OASS) program, and guarantees a minimum income to all citizens.\textsuperscript{296} Mauritius is one of the few African countries that have established a minimum wage level for its citizens. Currently, only 10% of Mauritians are below the poverty line and the nature and depth of poverty in Mauritius is “distinctly less severe than the poverty levels

\textsuperscript{294} Sobhee (2006); Bräutigam (1997)
\textsuperscript{295} Weissman (1996)
in neighboring African countries” (World Bank Country Brief, 2004 as cited by the Bertelsmann Transformation Index, 2006, 10). But within the country, the economic miracle has not benefited minority groups like the Creole who form 28% of the population. The poverty and social imbalances that exist in Mauritius are a threat to social stability and potential area of future conflicts. The Hindu majority who control the political scene remain reliant on the willingness of the Franco-Mauritian upper class – who dominates the economic sector – to cooperate in an equitable spread of the country’s economic benefits. This willingness has not yet been demonstrated by the upper class.

Thirdly, with inflation below 5% in 2006 when compared to approximately 40% in the early 1980s, the country has seen considerable improvement in the real wages of all Mauritians. The government has successfully consolidated the national budget and stabilized prices and, with per capita incomes of $4,900 Mauritius has done exceptionally well in growth rates, employment, and income distribution. The country’s HDI in 2006 ranked 63rd – with a score of 0.800 – out of 177 countries with data. Also, the value for Mauritius’ Human Poverty Index is 11.3 and the country ranks 24th among 102 developing countries for which the index has been calculated.

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296 It is worth noting that even at the height of the country’s economic crisis, the governments reduced but continued subsidies for food, education, and provided social welfare benefits to citizens (Sobhee, 2006; Bräutigam, 1997).
297 Although only 5% of Mauritius’ population is classified as undernourished, there is still some relative poverty as well as “provocative levels of social inequality” especially between the Franco-Mauritian upper class and the majority of the population – above all the Creole minority (BTI, 2006, 10).
298 Conflicts between the Franco-Mauritian plantation owners (2% of the population) and poor farmers (approximately 30% of the population) have been a part Mauritius’ history. The poor wages and inadequate social services provided to unskilled workers have been reasons for continuous civil disobedience (BTI, 2006; UNDP, 2002; Bowman, 1991).
299 Bertelsmann Transformation Index (2006); UNDP (2002)
300 UNDP (HDI Report, 2006)
3.5.2. **Education**

Similar to economic growth and income distribution, the educational sector prospered in the last couple of decades because of the additional revenues generated by the EPZ and other sectors of the economy. Since independence Mauritians were in agreement that the provision of good quality primary, secondary, and tertiary education is the foundation for all forms of national development.\(^{301}\) And, as in other sectors of Mauritius’ socioeconomic growth and development, the different governments that have implemented policies – although shaky at times – that fostered progress.

In 1956, the colonial regime passed the Education Act that provided free education at the primary school level.\(^{302}\) Sir Ramgoolam extended the provision of free education to the secondary level in 1976 and under Sir Jugnauth, postsecondary education became free to Mauritians in 1988.\(^{303}\) According to UNDP (2006), the data from 1990 to 2000 revealed that Mauritius has made significant progress in the field of access to Education; primary education is compulsory and free and both boys and girls have the chance to attend primary schools. By 1994 the enrollment rate in primary education had reached 95% and the pupil teacher ratio was 20.\(^{304}\)

One of the conditions of the SAP prescribed by the IMF and World Bank for Mauritius was the reduction of expenditures on education; which from 1968 to 1980 was approximately 13.5% of total government expenditures.\(^{305}\) The education expenditure reduction plan advocated by the IMF and World Bank included reducing expenditure on education to 4% of GDP; charge some school expenses like books, sports, and feeding

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\(^{301}\) U.S. Library of Congress (2006); Parsuramen (2001); Bowman (1991)

\(^{302}\) Parsuramen (2001)

\(^{303}\) It is important to note that all of Mauritius’ tertiary schools – the University of Mauritius, the Mauritius Institute of Education, the Mahatma Gandhi Institute, and the Mauritius College of the Air – were opened after the country attained independence (between 1968 and 1981). The only tertiary institution in the island prior to independence was the College of Agriculture that was established in 1965 and later incorporated into the University of Mauritius (Bowman, 1991; U.S. Library of Congress, 2006).
programs to parents, no recruitment of new teachers from 1985 to 1988, and the phasing out of sub-standard secondary schools from 1983. Although the Mauritian government implemented most of the IMF and World Bank conditionalities that restricted wage and social welfare increases, it refused cutting back the expenditures that developed the education and healthcare sectors. Instead, the government maintained its education and healthcare expenditures by increasing taxes on sugar exports to provide the revenue for its policies in these areas.

The Mauritian leaders were resolved that human resource development was fundamental to sustainable development. In fact the governments – post SAP – increased their investment in education by offering total free education and even tailored the curriculum in some of the tertiary institutions to fit the country’s development goals. Even after 1991, the governments have made the effort – sometimes strenuously – to provide adequate funding for education; between 1991 and 1995 average expenditure on education was 15.3% of total government expenditures and has been around 16% since. The evidence that follows demonstrates that the governments’ investment in education has paid off.

Firstly, Parsuramen (2001) argued that the policies implemented under the guidelines of the 1984 White Paper and the 1991 Master Plan for the educational sector have accomplished a lot for Mauritius’ socioeconomic development since 1984. For example, between 1984 and 1991 free education was extended to the tertiary level.

304 Parsuramen (2001)
305 Parsuramen (2001); Bowman (1991)
306 Sub-standard secondary schools were institutions that performed below the national average on the High School Certificate Examinations conducted in collaboration with the University of Cambridge in the U.K. (Parsuramen, 2001).
307 Parsuramen (2001); Meisenhelder (1997); Bowman (1991)
308 Nath (2001)
309 After 1981 the government reformed the education system to fit the changing needs of the economy, “given the practical orientation and technical skills that are required to service the EPZ sector” (Parsuramen, 2001, 10).
(1988), 14 new primary schools were built, 37 extended, and more than 50 refurbished, teacher training was intensified, school libraries were strengthened and schools were provided with audio-visual facilities, enrollment reached 97%, and over 700 teachers were recruited.\(^{311}\) Literacy in the 1990s for the population over fifteen years of age was 80%; 85% for males and 75% for females. This number increased to 85.6% in 2003 (88.6% for males and 82.7% for females) and Mauritius ranked better than all other African countries in the Education Index (2006).\(^{312}\)

Secondly, the development of a strong educational sector has produced a large, diverse, and economically viable middle-class. At independence, majority of the middle-class were Indo-Mauritians who were primarily employed in the public sector.\(^{313}\) Developments that have taken place in the educational sector have given rise to a large and upper income level middle class that invests in the country’s economy. Education has helped in wealth redistribution and in bridging the gap between the previously small upper class and the poor.\(^{314}\) In other words, the country’s educational policies accounts for the visible improvements in wages and living conditions of Mauritians; the state schools offer a “route to social mobility for the children of middle and working class families” (Meisenhelder, 1997, 285). This is evident in the private sector, where as Bräutigam (1997) observed, the loan facilities provided by government to unemployed graduates in the 1980s accounts for the over 50% of EPZ enterprises that are owned and operated by middle-class Mauritians.

Thirdly, Mauritius’ human capital development has been crucial to sustainable growth and development. The granting of free secondary schooling in 1976 provided the

\(^{310}\) U.S. Library of Congress (2006); Sobhee (2006); Parsuramen (2001); Dabee and Greenaway (2001)
\(^{311}\) Parsuramen (2001)
\(^{312}\) U.S. Library of Congress (2006); World Factbook (2006); BTI (2006); Sobhee (2006)
\(^{313}\) Bowman (1991)
\(^{314}\) Parsuramen (2001); Bowman (1991)
semiliterate labor force that was needed at the initial phase of industrialization. Extending this provision to the tertiary level in the late 1980s provided the technical, managerial, and expertise needed to further diversify the economy into financial services (off-shore banking), tourism, and ICT. As Sobhee (2006) noted, these sectors have readily replaced the jobs lost in the export manufacturing sectors in the mid-2000s; the services sector increased employment levels from 238,800 to 264,900 over the period 2000 to 2003.

Finally, the country’s high level of education has been instrumental in building a strong civil society. At independence, Mauritius already had nongovernmental groups that were dedicated to promoting the religious, ethnic, social, and economic goals of the country’s diverse communities. Through the years, this group has evolved as a broad-based civic network that is very much involved in the policy making process in all important policy sectors. Carroll and Carroll (1999, 23) gives credit to the government for deliberately involving professionals on policy related issues and to a “moderately well-educated populace” who can effectively participate in such a process.

The leaders of Mauritius showed commitment to the general well-being of their country; the plans they implemented that emphasized export led growth, social and political stability, and infrastructural development, especially in the area of education has been crucial to the sustained development the country is enjoying. This process has not only built the legitimacy of the state, but continues to improve on the policy capacity of the different governments.

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315 Treebhoohun (1999)
316 Carroll and Carroll (1999); Bräutigam (1997); Bowman (1991)
3.5.3. Healthcare and Sanitation

Healthcare and sanitation is another area where the government has demonstrated a strong commitment to human resource development. Some of the major challenges that Mauritius faced at independence were a rapid growing population, unemployment, inadequate health care facilities and healthcare education, and shortage of healthcare professionals.\textsuperscript{317} At the time Mauritius gained independence, the population was growing at 3% per annum and suffering from diseases common in underdeveloped countries including malaria, tuberculosis, smallpox, and cholera.\textsuperscript{318} In addition, Mauritius did not have good or adequate healthcare facilities or healthcare professionals, health or welfare programs were insufficient, and poverty prevented the majority of the citizens from having access to healthcare. A combination of the above factors resulted in high infant mortality rates (80 per 1000 in 1970) and a life expectancy that was below 60 years.\textsuperscript{319} The above circumstances were a huge setback for the quality of life of Mauritians.

In response to these problems, Mauritian leaders, as early as the 1970s started rapidly expanding public-financed health and other social services.\textsuperscript{320} By then, the government implemented policies that provided free health care to all Mauritians and developed programs that dispersed health services and facilities across the country to give everyone reasonable access to treatment. It also started welfare programs that guaranteed fixed wages to poor Mauritians, social welfare benefits to the elderly, and trained professionals to meet the healthcare needs of the population.\textsuperscript{321} Investments in this sector have improved on the quality of life of all Mauritians in the following ways.

\textsuperscript{317} U.S. Library of Congress (2006)
\textsuperscript{318} Parahoo (1986)
\textsuperscript{319} Mauritius Ministry of Health (2002)
\textsuperscript{320} Mauritius Ministry of Health (2002); World Bank (1995)
\textsuperscript{321} U.S. Library of Congress (2006); BTI (2006); Sobhee (2006); World Bank (1995); Bowman (1991)
According to Mistry (1999), social indicators and the standards of living of Mauritians improved because of the governments’ insistence on keeping the budgetary allocations for free education, health care, and other social services intact in spite of pressures from the IMF and World Bank to cut back on expenditures in these sectors during the period of adjustment. This has resulted in Mauritians enjoying the standards of nutrition, health, and education of countries with much higher per capita incomes. Mauritius has been able to control its population growth at levels seen only in developed countries. This was accomplished through national family planning programs that employed a variety of techniques including free contraceptives and supplies, training of aids to work closely with family groups, training potential parents on family planning methods, and educating the public through billboards and the media. As a result, the rate of population growth has declined; between 1980 and 2000 the annual average population growth was 0.9% total; with growth rates of 1% in rural areas and 0.8% in urban areas.

Secondly, the governments have continued to allocate substantial amounts of funds to healthcare, social security and welfare, and other social services. For example, average health care expenditure as a percentage of general government expenditure was about 5% in the 1970s; this increased to 8.4% between 1987 and 1995, and has been in the 8.8% range since then. Currently, the patient/doctor ratio has been significantly reduced (one doctor for every 1,089 inhabitants), with trained personnel attending all births. Infant mortality has declined to 13.5 per 1000 births, life expectancy increased to 72 years in 2005, and according to BTI (2006), there are adequate health care centers

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322 Bowman (1991)
323 World Resources Institute (2006); Mauritius Ministry of Health (2002)
325 In Ghana there are only nine doctors per 100,000 people (WHO, 2006; Mauritius Ministry of Health, 2002).
or public hospitals across the country, and 99% of the population has access to safe
drinking water.\textsuperscript{326}

Thirdly, Mauritius now boasts of having one of the best social welfare programs
in Africa. In addition to the OASS benefits for the elderly, the country offers health
insurance to poor Mauritians, child development and family welfare programs, and other
special welfare programs that have been used to lower the country’s Human Poverty
Index to 11.3%; below that of even the U.S. with a corresponding figure of 15.8%.\textsuperscript{327}
Finally, the general health of Mauritius is good and has improved over the last three
decades, but there is still more work to be done.\textsuperscript{328} For example, as of 2007 Mauritius
leads the world in the rate of diabetes (over 20% of Mauritians above 30 years have type
2 diabetes), the level of tuberculosis cases remain the same as in 1980 (approximately
150 per year), 0.1% of adults 15 years and over are infected with HIV/AIDS, and non-
communicable diseases like hypertension, cancer, and heart disease are a growing
problem.\textsuperscript{329}

Mauritius is in a strong position in terms of economic growth and socioeconomic
development. Macroeconomic indicators shows fluctuating growth rates for the last
couple of decades, but a diversified economy that continues to sustain growth and
development. Mauritius has also greatly invested in human development; in 2006,
Mauritius ranked 63\textsuperscript{rd} on the Human Development Index (HDI) – close to Bosnia (62\textsuperscript{nd})
and Malaysia (61\textsuperscript{st}) – and way ahead of all other African countries, including South
Africa which is ranked in 119\textsuperscript{th} place.\textsuperscript{330} Mauritius does not only have a better ranking

\textsuperscript{326} In developing countries, life expectancy is 64 years and infant mortality is 61 per 1000 births (Mauritius
Ministry of Health, 2002). See also, WRI (2006); Sobhee (2006)
\textsuperscript{327} BTI (2006); Sobhee (2006); Bräutigam (1997)
\textsuperscript{328} In the WHO (2002) report, Mauritius ranked 84th out of 191 countries in overall achievement of the
health system.
\textsuperscript{329} Mauritius Ministry of Health (2007), BTI (2006); WRI (2006); Mauritius Ministry of Health (2002)
\textsuperscript{330} UNDP (HDR, 2006); BTI (2006)
than all African countries on HDI, it is the same for Life Expectancy Index, the
Education Index, and the Human Poverty Index. Even though improvements need to be
made, the income gap between the richest and poorest Mauritians has narrowed; the GINI
coefficient declined from 0.5 in 1962 to 0.37 in 1997.\textsuperscript{331} Not surprisingly, in 2002
Mauritius ranked 16 of 155 developing and newly industrialized countries.\textsuperscript{332} All of the
above have been made possible by a leadership that has shown a commitment to
improving on the lives of Mauritians, standing up to the IMF and World Bank regarding
its education and social welfare policies, winning preferential trade agreements, and
adopting a development strategy (EPZ) that was implemented under favorable
international conditions.

3.6. \textit{The EPZ and Democratization}

In previous chapters, I argued that there is a strong correlation between economic
development and democratization.\textsuperscript{333} Further, I agreed with scholars whose studies have
determined that education, income distribution and wealth, political incorporation, and
the availability of social services are important variables to economic and political
development.\textsuperscript{334} How has the EPZ contributed to the above variables that promote strong
democracies?

It is obvious that Mauritius has done extremely well in terms of economic and
political development, given the circumstances under which it emerged from
independence. The past three decades have served to “consolidate the Mauritian model of

\textsuperscript{331} The GINI index for Mauritius is 37 (according to 1987 estimates) and the country ranks 62 out of 175
countries, ahead of all African countries including Libya – 63\textsuperscript{rd} and South Africa – 111\textsuperscript{th} (CIA, 2006; HDR,
2003).
\textsuperscript{332} BTI (2006)
\textsuperscript{333} See studies by Przeworski et al. (2005); Asare and Wong (2004); Acemoglu and Robinson (2002); and
\textsuperscript{334} Asare and Wong (2004); Acemoglu and Robinson (2002); Lipset (1981)
stable, democratic, export-led growth” (Bräutigam, 1997, 52). Mauritius shifted from an economic regime that was highly protected and which heavily depended on sugar for both employment and revenues to one that is an increasingly liberalized export powerhouse. In the course of this economic transformation, the country has experienced nine democratic elections and five peaceful changes of leadership. Mauritius’ democracy is firmly consolidated and Freedom House (2006) gives it perfect scores in political rights and civil liberties; the country scored 1 in both areas. How was Mauritius able to consolidate its democracy?

Firstly, Mauritius has successfully developed the right political institutions that form the foundation for consolidated democracies. The Westminster model of government – adopted from the British colonizers – was deliberately structured by Mauritians in a “modified consociational fashion” to represent all ethnic concerns (Bräutigam, 1997, 53). Mauritius parliamentary system was designed so that no single party can gain a majority of seats through votes alone since 10% of seats are reserved for the “best losers.” This provision by the constitution has forced political parties to run in coalitions and forge consensus with the different ethnic groups. Bräutigam (1997) sees the need for consensus as an important modus operandi that has steered the leaders away from extreme positions on economic policy and has helped to consolidate the democratic system. Consensus building is important to Mauritian politics given the diverse ethnic groups that inhabit the island.

Also, Mauritian leaders have respected the rule of law and separation of powers provisions that are anchored in the constitution. Mauritius has a good track record of having legitimately established governments. This legitimacy is realized by holding

\[335\] See also BTI (2006)
\[336\] Eight parliamentary seats are allocated to “best losers” from all the major ethnic groups (Bräutigam, 1997).
regular competitive multi-party elections, guaranteeing citizens their basic freedoms, adherence to the rule of law, and an independent media.\textsuperscript{338} Elections have been conducted in a transparent manner and its results have been accepted as free and fair by both winners and losers. Unlike many African countries were their constitutions were changed to give both legislative and executive powers to the ruling party, Mauritius has maintained a constitution where the separation of powers between the legislature, the executive, and the judiciary are entrenched.\textsuperscript{339}

Secondly, in addition to a political leadership that has institutionalized democratic principles in the election process, rule of law, and separation of powers, the country has also developed a vibrant civil society that is very involved in policy formulation and implementation. As Bräutigam (1997) observed, democratic consolidation requires institutionalized channels for “voice” by the labor and business communities and professional organizations. In Mauritius this voice has been provided by a strong civil society that represents the interests of the many labor and business unions. Mauritius has developed institutions that provide formal opportunities for dialogue between the private and public sectors over matters of concern and have an input in shaping some aspects of policy.\textsuperscript{340} For example, the government in the 1990s invited the Mauritius Export Processing Zone Association (MEPZA) to become a collaborator with government in policy making. Mauritius has a lot of committees, unions, and organizations that negotiate and establish recommendations relating to wages, protection of workers, and various policies of interest.\textsuperscript{341} As Carroll and Carroll (1999) concluded, it is the consultation between government and Mauritius’ broad civil society that has built

\textsuperscript{337} BTI (2006)  
\textsuperscript{338} Darga (1998)  
\textsuperscript{339} Darga (1998)  
\textsuperscript{340} Bräutigam (1997)  
\textsuperscript{341} Carroll and Carroll (1999); Bräutigam (1997)
legitimacy and improved on the policy capacity of the government. In the majority of African countries civil societies, where present, are usually not actively involved in policy formulation as in Mauritius.

Thirdly, the success of Mauritius can be traced to the EOI strategy that it adopted soon after independence. The EPZ Act of 1970 was an outward looking strategy that provided generous incentives to attract foreign direct investment. FDI was not only actively encouraged and sought, but there was a consensus among Mauritians that the EOI strategy was the route to development. Mauritius’ EPZ greatly benefited from preferential trading agreements with the EC and the U.S; the growth that was taking place in these markets in the 1980s accrued a lot of foreign exchange earnings for Mauritian goods. Also, Mauritius received a lot of investment from Asian countries, especially from Hong Kong entrepreneurs where prospects of transferring the territory back to China in 1997 made investors nervous. Mauritius was uniquely well positioned to attract these investors. As the EPZ took roots in the country’s economy, macroeconomic indicators improved; from 1980 to 2005 the economy diversified into tourism, financial services, and ICT, average annual GDP growth rate was 4%, inflation declined to 3.8% in 2004, and per capita incomes reached $4,900. As Przeworski et al. (2000) determined in their study, countries that have per capita incomes of over $6,000 either make transitions to democracy or consolidate their democracies. Mauritius has succeeded in achieving that level of economic growth and its democracy is strong.

Fourthly, developments that the EPZ spurred in the country’s physical and social infrastructures have directly and indirectly contributed to consolidating democracy. In the 1970s the government paid foreign consultants to train Mauritians to staff new areas

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342 Sobhee (2006); English (2002); Treebhoohun (1999); Bräutigam (1997); Bowman (1991)
343 Treebhoohun (1999)
344 Treebhoohun (1999); Weissman (1996)
including bureaus of project evaluation, export marketing, investment promotion, and monitoring.\textsuperscript{346} Even when the EPZ was being reformed in the 1980s expatriates were hired to train the labor force and substantial amounts were invested in education, health care, and other social welfare programs; human resource development is fundamental to growth and development.\textsuperscript{347} Furthermore, the government invested billions of rupees in building roads, harbor, electricity, telecommunications, water supply etc. Even though mistakes were made in the 1970s with regards fiscal management, these investments helped provide the physical and socioeconomic infrastructures that were necessary for the take-off of export-oriented manufacturing in the 1980s.\textsuperscript{348} That is why the World Bank (1992) attributed the success of Mauritius’ export-led growth reforms, in part, to stronger institutional capacity and infrastructural development.

Finally, as Walle (2004) argued, the positive synergy between political and economic success has consolidated Mauritius’ democracy. Factors including the establishment of institutions that adhered to democratic principles, separation of powers between the three branches of government, and the empowerment of technocrats to make and implement effective development policies resulted in economic success. Economic success reinforced the political choices, consolidated democratic governance, and “created domestic constituencies that had a stake in the continuation of the same patterns” (Walle, 2004, 1).

The strong showing of Mauritius in the above areas does not negate the fact that it still has some challenges to face. Mauritius needs to maintain a competitive edge in export manufacturing especially with the phasing out of preferential agreements with the EC and the U.S. and the development of relatively cheap costs of production in countries

\textsuperscript{345} Sobhee (2006); BTI (2006); U.S. Library of Congress (2006); Treebhoohun (1999); Bräutigam (1997)
\textsuperscript{346} Bräutigam (1997)
\textsuperscript{347} Asare and Wong (2004); Treebhoohun (1999); Bräutigam (1997)
like China, India, and Bangladesh. With an economy that depends on the international economy, producing reasonable and high quality goods will likely sustain its viability. Also, employment in Mauritius depends on the country maintaining its current industries and at the same time continues to attract FDI. Fluctuations in the employment rates have primarily been caused by the lack of FDIs and closures of export-oriented industries. It is possible that Mauritius’ excessive dependence on favorable conditions in international markets could be catastrophic in times of world economic crises and recessions.

Furthermore, as reported in the Bertelsmann Transformation Index (2006), Mauritius still has some relative poverty and provocative levels of social inequality between the Franco-Mauritian upper class and the majority of the population, especially the Creole minority. Failure to address this issue could lead to social instability. Also, the country’s welfare regime is gradually reaching the limits of its ability to deliver.\textsuperscript{349} Attempts to reform the pension system has met with bitter opposition by the citizens and the government has failed to address this issue because of the political repercussions such reforms would cause. For a country that is now a middle-income country the role of women in both the private and public sectors is still limited. Although they constitute approximately 20\% of the labor force, they generally occupy a subordinate role in society and only 5\% occupy senior positions in the 100 top companies.\textsuperscript{350} Finally, corruption continues to taint the progress the country is making in many other areas. For example, domestic banking market scandals in recent years have impeded efforts to market

\textsuperscript{348} BTI (2006); Treebhoohun (1999); Bräutigam (1997)

\textsuperscript{349} Mauritius has two-tier pension system. Individuals can qualify for pension through the National Pension Fund based on the duration of employment and can also be paid out of the tax-financed pension after they reach 60 years (BTI, 2006).

\textsuperscript{350} Freedom House (2006)
Mauritius as an international financial center.\textsuperscript{351} Therefore, Mauritius’ political and economic miracle could sink at anytime, depending on circumstances outside its control.

At the moment, however, Mauritius has proven to have the capability to manage its affairs and initiate its own development strategy. The EPZ strategy was not imposed from without by IFIs but was studied, developed, and institutionalized from within. In the process, the country was able to improve on microeconomic indicators, socioeconomic infrastructures, and consolidate democratic governance. The government is actively investing in the region to keep its economy strong; this farsighted endeavor by the leadership to reform the economy in accordance with international developments has been a major factor in the country’s development. Also, developing a strategy in the 1970s that takes advantage of the benefits of globalization – when many African countries were inward looking – has put Mauritius way ahead of its counterparts. Above all, the continued guarantee of the political and civil liberties of its population, the maintenance of a stable political climate, the adherence to the rule of law, the consistency in the implementation of the economic strategy, and constant improvements of physical and social infrastructures have been crucial to the consolidation of Mauritius’ democracy and the sustained growth of the economy.

\textsuperscript{351} Freedom House (2006)
4. **Analysis of Findings and Conclusion**

Determining the success or failure of foreign aid that is conditioned on the implementation of SAPs is crucial to the ongoing debate about the importance of IFIs in eradicating poverty and improving on the conditions of living of the billions of people still living in abject poverty, many of whom are in third world countries. Virtually all developing countries have implemented or are in the process of instituting SAPs.\(^{352}\) As discussed in Chapter 1, third world countries whose economies are particularly vulnerable to crises – usually caused by domestic and international factors – seek loans from IFIs that are conditioned on the implementation of programs that are intended to provide “shock therapy” for ailing economies.\(^{353}\) The proponents of SAPs say that they promote good governance, help reduce government deficits, maintain timely payment of external debts, and control inflation; however, in the process of restructuring the economies of borrowing countries, the socioeconomic infrastructures – which I argue are important variables in promoting stable democracies – are adversely affected. The question then is, without sound infrastructures already in place, are the neo-liberal policies advocated by IFIs likely to be associated with successful democratization? The study of Ghana and Mauritius provide some helpful insight for third world countries.

Chapter 1 detailed the main assumptions underlying this study. It is hypothesized that democracy is the panacea for the social, economic, and political problems in third world countries.\(^{354}\) Also, conditions placed on structural adjustment loans directly impact

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352 Welch (2000)  
353 University of California (Atlas of Global Inequality, 2004)  
354 I define democracy in terms of Dahl’s (1971) polyarchy.
Furthermore, I argue in line with scholars (Asare and Wong, 2004; Acemoglu and Robinson, 2002; Przeworski et al., 2000; Lipset, 1981) whose studies determined that high level of socioeconomic development determines transitions to democracy or consolidation of democracy. In addition, it is assumed that the primary variables that comprise a country’s level of socioeconomic development or infrastructure include education, healthcare, sanitation, and income distribution. Finally, I argue that strong economic and social infrastructure is a necessary prerequisite in order for the neo-liberal policies advocated by IFIs to be correlated with strong democracies. It is against this background that I analyze the impact of SAPs on democratization in Ghana and Mauritius.

The rest of this chapter is organized in the following order. The next section compares and contrasts the development strategies of Ghana and Mauritius prior to SAPs, the programs that were implemented during adjustment, and the sociopolitical climate under which SAPs were adopted. Following that I analyze how the respective SAPs implemented by Ghana and Mauritius impacted the variables that promote socioeconomic growth and development. The final sections review the strength of democracy in Ghana and Mauritius, draw some conclusions, and offer recommendations for further research.

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355 IFIs advocate policies that are meant to have a positive impact on economic growth. It is assumed that economic growth should eventually lead to development (UN, Agenda for Development, 2002). I measure economic development in terms of improvements in education, health, industrial development, sanitation and other social welfare services (Przeworski et al., 2000; Lipset, 1959).
4.1. The Structural Adjustment Programs (SAPS) in Ghana and Mauritius

The economic and political growth and development in Ghana and Mauritius from independence to the year 2000 were impacted by domestic and international factors that played a key role in determining the strength of democracy in both countries. Factors including the sociopolitical climate, the development strategies, and the economic policies of both countries determined why Ghana and Mauritius had to seek the assistance of the IMF and World Bank at some point in their growth and development. Also, these factors provide some insight about the nature of the SAPs that the IMF and World Bank prescribed for them and explain the respective support they received from developed countries – either through foreign direct investment (FDI) or favorable trading agreements – in the development process.

Firstly, Ghana and Mauritius produced and maintained different sociopolitical environments that either attracted or repelled investments into their respective economies. Although Ghana was the first sub-Saharan African country to gain independence from British rule and carried the hope of setting the pace for Africa’s economic development, a series of political miscalculations by Ghana’s leaders from the 1960s to the 1990s prevented FDI into the economy and set the country on the path of instability and underdevelopment. For example, just seven years after independence, Nkrumah (in 1964) abandoned political pluralism by declaring Ghana a one-party state, made himself a “life president” in 1965, and nurtured a political environment that stifled the rights, interests, and civil liberties of Ghanaians, made government officials unaccountable for fiscal mismanagement, and gave extreme powers to the executive branch of government.

The Nkrumah government’s disregard for the rule of law set the precedent for consistent violations of the constitution by government officials, the military, the business community, and ordinary citizens. After the Nkrumah era, successive military
governments – with brief periods of democratically elected governments in 1969 and from 1969-1981 – whose leaders had little or no experience about the complex dynamics of growth and development became prime architects of the course of Ghana’s economic and political growth until 2000.\textsuperscript{356} Throughout the 1960s the country regressed into a dictatorial political climate. Disregard for the rule of law, as well as the institutionalization of nepotism, cronyism, and corruption in society weakened international confidence and stifled foreign direct investment into the economy.

Contrary to the precedent set by Ghanaian leaders in the 1960s, Mauritian leaders realized soon after independence in 1968 that consensus building among the country’s myriad interests, communities, political parties, and ethnic groups was important for the country’s growth. The Mauritian economy was heavily dependent on a single commodity (sugar), did not have sufficient skilled managerial resources, had high levels of income inequality, and high rates of unemployment. Yet Mauritian leaders over the years gave priority to reversing the social, political, and economic negatives that stacked against them. But for a brief period (1971-1976) when political activities were largely proscribed, the different governments adhered to the rule of law, maintained a relatively stable sociopolitical environment, and developed a strong and vibrant civil society that serves as voice for the diverse communities. This stability attracted international investors and foreign capital and at the same time European, Asian, and Western countries awarded Mauritius’ good behavior with favorable and preferential trading arrangements that partially account for the Mauritian miracle. Unlike Ghana, where sociopolitical instability made the country less attractive to foreign investors, Mauritius’ good track record of

\textsuperscript{356} Under pressure from the international community and Ghanaians, Ghana’s Fourth Republic was established in 1993. Rawlings transformed his military government into a civilian party and continued to rule Ghana until 2000 (U.S. Department of State, 2006).
stability was endearing to foreign investment. As FDI increased, the country improved on its socioeconomic infrastructures and on the conditions of living of Mauritians.

Secondly, the development history of Ghana and Mauritius demonstrate that sociopolitical stability and effective macroeconomic management are equally important to economic growth and development. That is, if a country develops a stable political and social environment, but fails to be fiscally disciplined a crisis scenario is ensured. So alike, the respective governments in Ghana and Mauritius – following independence – mismanaged their economies thereby causing huge budgetary deficits and accumulated lots of debts by heavily borrowing from developed countries to sponsor their domestic policies. In other words, the economic policies implemented and the level of corruption in Ghana and Mauritius after the 1970s negatively impacted the growth and development of their economies. In Ghana – in addition to the unstable sociopolitical environment that military rule caused – government mismanagement, expansionist policies, and corporate corruption became bottlenecks to growth, led to the accumulation of debt, and the country’s ultimate reliance on the IMF and World Bank for reversing the decline of the economy.

Similar to the situation in Ghana, in the 1970s macroeconomic mismanagement and expansionist and ill-advised wage policies in Mauritius created huge deficits that necessitated adoption of the IMF and World Bank’s prescribed structural adjustment program in the 1980s. Furthermore, both countries implemented policies that heavily protected domestic industries from outside competition and which in turn prevented their industries from expanding and supplementing the revenues of their economies. Ghana and Mauritius developed different sociopolitical institutions but their failure to adhere to strict fiscal discipline landed them in the same economic situation by the late 1970s.
In addition to these domestic factors, other circumstances outside the Ghanaian and Mauritian governments’ control – natural disasters and world recessions in the 1970s – created structural imbalances of their economies and resulted in debt crises. The Ghanaian society was unstable; for example, within a nine-year period (January 1972 to December 1981) four military regimes and one democratically elected government ruled the country and these governments failed to effectively manage the country’s economic policies. In the case of Mauritius, the independence government produced a stable sociopolitical environment, but macroeconomic mismanagement reversed the progress the country was making towards development. In sum, the economies of Ghana and Mauritius witnessed rapid socioeconomic growth immediately after their independence, but their economies were in crises in the late 1970s because of one or a combination of the above factors that consequently forced the adoption of the conditional measures attached to the financial assistance they received from the IMF and World Bank.

Thirdly, Ghana and Mauritius’ growth and development were impacted in varying degrees by the different economic development strategies they implemented. The Nkrumah government, which took over from the colonial administration in Ghana in 1957 adopted an import-substitution industrialization (ISI) economic strategy and implemented policies fashioned along socialist or nationalist agendas that “called for a strongman at the head of a one-party state, state-owned industries” and unrestrained accumulation of debt to sponsor expansionist policies (Koppisch, 2002, 117). The belief that such policies would make Ghana less reliant on developed countries, especially the former colonial authority, had a two-fold effect on the economy. Firstly, it prevented Ghana from taking advantage of the benefits of the then evolving global economy and secondly, it frightened Western entrepreneurs away from the country especially during General Acheampong’s military rule (1972-1978) when the shares of foreign businesses
in the mining, timber, banking, and insurance companies were illegally confiscated. These domestic blunders did not make the international community enthusiastic about redeeming the Ghanaian economy when it became bankrupt in the late 1970s. Instead, stringent doses of anti-socioeconomic development policies were prescribed by the IMF and World Bank that added to the degradation of the country’s socioeconomic infrastructures and caused a decline in the conditions of living of Ghanaians. In other words, the policies implemented by Ghana under its ERPs which removed subsidies from education, health, and social welfare programs and drastically reduced employment in the public sector, collapsed the structures that are essential to Ghana’s political and economic development.

Contrary to the development strategy of Ghana, Mauritius pursued the outward looking export-oriented industrialization (EOI) strategy that provided attractive incentives for foreign investors. Attempts at developing the country’s economy through the ISI strategy (prior to independence) had failed to attract foreign investments and increase employment opportunities for Mauritians. Implementation of Mauritius’ EOI strategy in the 1970s was very timely, in that it coincided with a favorable trading international climate that provided preferential opportunities for the country’s exports at prices that were above the international market. As a result of the vicious circle of special trading privileges granted to Mauritius from the 1970s to the 1990s, the economy opened to foreign direct investment and primarily accounts for the swift development of the country’s economic institutions. Unlike Ghana, which did not enjoy similar privileges and where sociopolitical instability made the country less attractive to foreign investors, Mauritius’ good track record of stability and the support it received from developed

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357 In addition to government mismanagement, corruption, and exorbitant expansionist policies, the Ghanaian economy took a hard hit during the oil crises and world recession in the 1970s and 1980s.

358 See Chapter 3.
countries was endearing to foreign investment. As FDI increased, the country improved on its socioeconomic infrastructures and on the conditions of living of Mauritians.

Finally, the respective policies forced upon Ghana and Mauritius vis-à-vis education, healthcare, and other social welfare services is correlated with the current conditions of living of Ghanaians and Mauritians and the strength of democracy in both countries. I contend that Mauritius’ ability to negotiate – or the fact that the IMF and World Bank allowed Mauritius to continue investing on its socioeconomic infrastructures – an Agreement with the IMF and World Bank that did not impede its socioeconomic growth primarily explains why Mauritius fared better than Ghana under adjustment. This assertion falls in line with Welch’s (2004) argument that it is the nature of the conditions placed on structural adjustment packages that determines the level of economic, social, political, and environmental problems that such programs create. The outcomes of adjustments in Ghana and Mauritius are related to the socioeconomic policies they had to adopt during their SAPs; whereas Ghanaians have witnessed declining conditions of living, Mauritians have seen improvements in their living standards.

Some parallels run between the policies adopted by Ghana and Mauritius during their SAPs, including elimination of price controls, privatization of industries, reformation of the tax structure, adoption of free trade and other orthodox liberal economic measures, and adherence to strict microeconomic management. Specific to Ghana were removal of subsidies for education, healthcare and other social services programs, and reforms in the mining, timber, cocoa industries for increased productivity. For Mauritius, their SAP primarily focused on diversifying the economy by promoting export-oriented industrialization (EPZ), tourism, and diversification of the

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359 See the chapter on Ghana for a detailed description of the different policies that were implemented during the different phases of the ERPs including devaluation of the cedi, privatization of state enterprises, removal of subsidies, and the abolishment of price controls.

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agricultural sector. As stated in Chapter 3, the Mauritian governments reformed areas of the economy dealing with wages, expansionist policies, protection of local industries, and taxes but refused implementing specific policies that advocated the elimination of subsidies for education, healthcare, and social welfare services.\(^{360}\) Instead, the government raised spending in the development of the country’s human resources to meet the needs of the EOI strategy.\(^{361}\)

Another noticeable distinction between the SAPs in Ghana and Mauritius relates to the length of time that adjustment policies were implemented. Bello and Cunningham (1994) argued that the longer countries spend implementing the IMF and World Bank prescribed policies that cut back on employment, devalue currencies, remove subsidies on education, healthcare, and social welfare services etc., the more indebted they become and the more poverty is intensified in their societies. Although proponents of the IMF and World Bank contend that the conditions placed on structural adjustment loans brings ailing economies into balance, spurs GDP growth, opens industries to competition, improves on productivity, and such growth would trickle down to other sectors of society, the study of Ghana and Mauritius show that such policies can only succeed with strong human resources. That is, sustained growth and development can only be attained in a society that has a well trained and educated work force and where the sociopolitical climate is conducive to both the domestic population and international investors.

As demonstrated in the case of Ghana, a lengthy period of adjustment (from 1983 to 2000) during which the country’s economy posted impressive growth rates did not translate into development. Instead, after two decades of consistently abiding by the IMF

\(^{360}\) Under Mauritius’ SAP the rupee was devalued and expansionist policies curtailed, but the governments continued heavy protection of domestic industries until the mid-1990s when the EPZ sector’s growth stagnated (Sobhee, 2006; Bräutigam, 1997).
and World Bank conditionalities the country (in 2001) applied for debt relief under the HIPC program. This is because Ghana did not have strong educational, welfare, and other professional institutions that would have made adjustment bearable or have positively impacted the future economic direction of the country. Mauritius, on the other hand, because of the support it received from international trading partners and the leverage it had over socioeconomic infrastructural development, implemented a SAP that lasted for a brief period – from 1981 to 1985 – and the country was able to pay off its loans to both the IMF and the World Bank by 1992. This is made possible, domestically, by developing the educational, social, and professional institutions that are crucial to growth and development and, internationally, by preferential trading agreements.

Ghana’s case offers valuable insight about the failures of the IMF and World Bank in evaluating the effectiveness of their programs. By the mid-1980s these institutions failed to see that the austerity measures forced upon Ghana was contributing to the further decline of the country’s already weak socioeconomic infrastructures; PAMSCAD, which was implemented in the late 1980s to mitigate the socioeconomic impact of the ERP on the poor, failed because it was not timely executed and was badly mismanaged.

This thesis stresses the importance of promoting education and healthcare, and reducing income disparity to building strong democracies. Ghana and Mauritius gave different levels of importance to the development of these sectors priority to adjustment and the policies they had to implement during their SAPs impacted education, healthcare, and wealth distribution in different ways. Table 4.1 and Figure 4.1 show the trends in

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361 It was during Mauritius’ SAP that free education became available to all Mauritians from primary to the tertiary level. Also, the curricular in some of the institution were specifically reformed to train individuals for employment in all sectors of the export-oriented industries (Parsuramen, 2001).
human development indicators of Ghana, Mauritius, and other sub-Saharan African countries from 1975 to 2004.362

Table 4.1: Ghana, Mauritius, and sub-Saharan Africa; Human Development Index (1975-2004)

<table>
<thead>
<tr>
<th></th>
<th>GHANA</th>
<th>MAURITIUS</th>
<th>SUB-SAHARAN AFRICA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>0.438</td>
<td>0.630</td>
<td>0.417</td>
</tr>
<tr>
<td>1980</td>
<td>0.467</td>
<td>0.661</td>
<td>0.438</td>
</tr>
<tr>
<td>1985</td>
<td>0.482</td>
<td>0.692</td>
<td>0.454</td>
</tr>
<tr>
<td>1990</td>
<td>0.511</td>
<td>0.726</td>
<td>0.461</td>
</tr>
<tr>
<td>1995</td>
<td>0.531</td>
<td>0.749</td>
<td>0.461</td>
</tr>
<tr>
<td>2000</td>
<td>0.555</td>
<td>0.779</td>
<td>---</td>
</tr>
<tr>
<td>2004</td>
<td>0.532</td>
<td>0.800</td>
<td>0.470</td>
</tr>
</tbody>
</table>

*Source: UNDP (HDR: 2002, 2006)*

The data in Table 4.1 validates the hypothesis that strong socioeconomic infrastructures are necessary prerequisites for the policies advocated by IFIs to be correlated with strong democracies. In other words, Mauritius was successful at adjustment over Ghana and many other sub-Saharan African countries because it had developed a strong educational system, had created access to healthcare and other social welfare benefits for the majority of Mauritians, and had witnessed considerable reduction of poverty levels prior to its SAP. The strong human resource capital that Mauritius developed in the 1970s was beneficial to the countries growth and development during adjustment.

362 The HDI gives us a comprehensive picture of the standards of education, healthcare and sanitation, and the level of poverty in countries. The data in Table 4.1 show that Mauritius had higher standards in education, healthcare and sanitation, and reduced levels of poverty than Ghana prior to adjustment and this trend has continued.
The next two sections give a comparative analysis of how these variables fared under adjustment and determine how adjustment policies impacted democratization in Ghana and Mauritius.

4.1.1. Socioeconomic Growth and Development

According to this study, the implementation of structural adjustment policies is strongly correlated to improvements in the macroeconomic indicators of Ghana and Mauritius. Figures 2.2 and 3.2 show considerable improvements in the annual GDP growth rates of Ghana and Mauritius’ economies between 1980 and 2000; Ghana’s GDP grew at an annual average of 5% and Mauritius’ economy witnessed GPD growth rates of approximately 4% per annum. Also, both countries saw substantial improvements in their...
balance of payments. The credit facilities provided by the World Bank and other international financiers enabled Ghana’s cocoa, mining, and timber industries to triple the supply of their goods and improve on the country’s foreign exchange earnings. For example, earnings in the cocoa sector increased from $409.2 million in 1983 to 722.1 million in 1990.\footnote{Aryeetey and Fosu (2002)} In Mauritius, FDI in the EPZ sector increased the contribution of export enterprises to the total GDP; by the 1990s the EPZ was contributing up to 13% of total GDP and the country’s external debt declined from 24% of GDP in 1981 to 12.9% in 2004.\footnote{Sobhee (2006)} In both countries, improvements in their balance of payments helped in curtailing inflation; Ghana’s inflation rate dropped from 123% in 1984 to 14.1% in 2004, while Mauritius’ declined from 42% in 1980 to 5% in 2005.\footnote{World Bank (2006); World Factbook (2006); Sobhee (2006); Aryeetey and Fosu (2002)} As impressive as the macroeconomic indices are for Ghana and Mauritius between 1980 and 2000, development indicators like the GINI Index, Education Index, the Human Poverty Index, and Life Expectancy Index portray a different picture.\footnote{The UNDP’s Human Development Index (HDI) is a composite index that measures the average achievement in three basic dimensions of human development: a long and healthy life (life expectancy), knowledge (adult literacy), and decent standard of living (human poverty). The life expectancy index calculates the number of years a newborn infant would live if the current patterns of age-specific mortality rates at the time of birth remain the same throughout the child’s life. The education index calculates the percentage of people ages 15 and above that can read and write a short simple statement about every day life. The human poverty Index measures deprivations in the three basic dimensions that are captured in the HDI. The GINI Index measures the income disparity between the rich and poor in a country; the index is measured from 0-100, whereby higher numbers indicate greater inequality (UNDP, 2007; Earth Trends, 2006).}

In Ghana, the implementation of the ERP caused increased levels of poverty and income inequality, a rise in unemployment, and considerable drop in real income wages. As of 2006, 78.5% of Ghanaians lived on less than $2 a day, the country had a 20% unemployment rate, its GDP per capita income was $413, and the GINI index is 40.8.\footnote{Ghana’s GDP per capita income is below the average for sub-Saharan Africa which is $617 (World Factbook, 2007; Earth Trends, 2006).} PAMSCAD, which was initiated in 1989 as a safety net for poor Ghanaians, was badly
mismanaged and was incapable of reversing the adverse effects of adjustment on the majority of the population. Mauritius, on the other hand, has experienced relative reductions in poverty and unemployment, improvements in income distribution, and an increase in the real wages of Mauritians. Currently, the government guarantees a minimum wage to all Mauritians; 10% of the population live below the poverty line, has an unemployment rate of 9.4%, GDP per capita income is over $4,900, and the GINI index is 37.368

When compared to Mauritius, Ghana’s rates of literacy, life expectancy, infant mortality, and access to improved sanitation and water are unacceptable especially for a country that started off (at independence) with better natural, capital, and human resources. Table 4.2 gives the raw data (2004 estimates) on some development indicators of Ghana, Mauritius, and sub-Saharan Africa as a whole. Whereas Mauritius is far ahead of sub-Saharan Africa on all human development indicators, Ghana is either below or barely above the averages posted by other countries in the continent. This becomes more significant in light of the fact that the averages posted by sub-Saharan African countries are the worse when compared to other regions around the world.369

In the Human Development Report (2006), Mauritius has better scores than Ghana and ranks ahead of all sub-Saharan Africa. On the Human Development Index, Mauritius ranks 63 (close to Bosnia and Herzegovina at 62 and Libya at 64), while Ghana ranks 136 (close to Bhutan at 135 and Bangladesh at 137) of the 177 countries for which the data was collected in 2006. The situation is the same for the Life Expectancy Index (Ghana – 0.53 years; Mauritius – 0.79 years), the Education Index (Ghana – 0.54; Mauritius – 0.81), and on the Human Poverty Index Mauritius ranks 24 (close to

369 UNDP (Regional Statistics, 2007)
Suriname at 23 and Peru at 25) and Ghana ranks 58 (close to Namibia at 57 and Morocco at 59).

Table 4.2: Development Indicators for Sub-Saharan Africa, Ghana and Mauritius

<table>
<thead>
<tr>
<th></th>
<th>Sub-Saharan Africa</th>
<th>Ghana</th>
<th>Mauritius</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adult Literacy rate (% ages 15 and older)</td>
<td>65</td>
<td>57.9</td>
<td>84.4</td>
</tr>
<tr>
<td>Life Expectancy (years)</td>
<td>50</td>
<td>56.7</td>
<td>72.4</td>
</tr>
<tr>
<td>Infant Mortality rate (per 1,000 live births)</td>
<td>103</td>
<td>68</td>
<td>14</td>
</tr>
<tr>
<td>Access to improved sanitation (%)</td>
<td>36</td>
<td>18</td>
<td>94</td>
</tr>
<tr>
<td>Access to improved water source (%)</td>
<td>58</td>
<td>75</td>
<td>100</td>
</tr>
</tbody>
</table>


The above data further illustrates the misplaced perception that improvements in macroeconomic indices should precede development of a country’s socioeconomic infrastructures for sustained economic growth and development. The UNDP’s Human Development Reports place emphasis on the measures of three main dimensions of human development: life expectancy, literacy rates, and human poverty. A country’s performance in guaranteeing its citizens a long and healthy life, improving on their knowledge, and providing them decent standards of living tells how much choices citizens have in participating in the life of their communities and in leading lives that they value.

This also underscores the critical role that human development plays in the promotion of economic and political development. As demonstrated in this case study,

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370 UNDP (2007)
371 UNDP (2007)
even though Ghana posted better average GDP growth rates than Mauritius from 1980-2000, Mauritius which did better in terms of improvements on the three main dimensions of human development, has sustained a relatively stable and strong socioeconomic and political environment. Also, due to strong human resources Mauritius was able to meet the challenges of integrating a low-income monocrop economy into a dynamic, productive, and highly competitive global economy; a challenge that Ghana is still struggling with. Not surprising, according to UNDP (2007), Mauritius is one of the few sub-Saharan African countries that is meeting the targets of the millennium development goals (MDGs) in achieving universal primary education, empowering women, and reducing child mortality, while Ghana is lagging behind in the same areas.

Both domestic and international factors helped Mauritius promote human resource development over the years: the commitment shown by the different governments to improving the lives of the citizens, support from developed countries through direct investment and favorable trading agreements, and the bargaining power it had in negotiating the terms of the SAP with the IMF and World Bank. Domestically, much to the credit of Mauritian leaders, even during the SAP, subsidies and revenues were allocated for the country’s education, healthcare, and social welfare programs. Internationally, Mauritius’ goods reached advanced international markets at favorable prices and diversification of the economic sector during adjustment was beneficial to the country’s economy. A combination of the above factors transformed the country from a low-income monocrop economy into a middle-income diversified economy.

Ghana, on the other hand, showed less commitment to human resource development and above all, did not have much leverage in negotiating its adjustment policies with the IMF and World Bank. Instead, it was forced to accept conditions that took resources away from socioeconomic infrastructural development; the impact of
those decisions is reflected in the current state of the country’s level of education, healthcare, and general welfare which are lower than or about the same as African averages. Also, massive retrenchments in the public sector in the 1980s impoverished the majority of Ghanaians who heavily relied on public enterprises for employment and income. As a result, the country remains a highly indebted poor country that still heavily relies on foreign aid to keep its economy afloat and the prospect of reversing that trend is bleak.  

Growths in macroeconomic indices are good for every economy, but improvements in socioeconomic infrastructures are paramount to sustained growth and development. In fact, with the current trends in globalization that exposes small economies to stiff competitions from developed economies and other multinational corporations, developing countries need to develop strong domestic institutions to meet the challenges of integration into the world economy. This is evidenced in the case of Mauritius, whose relatively strong socioeconomic infrastructures prior to the implementation of the neoliberal policies advocated by the IMF and World Bank under its SAP, provided a strong foundation for its success at adjustment. Whereas Ghana, which did not possess similar infrastructures before it started its ERPs, had to opt out of adjustment after nineteen years of consistently implementing the IMF and World Bank policies. Approving Ghana for multilateral debt relief of $4.2 billion at the G8 summit in Gleneagles (2006) – a bulk of the country’s $6 billion debt – over a forty-year period buys the government some space to address the needs of the majority of Ghanaians who have limited opportunities and employment prospects. But Ghana can not rely on aid forever. As such, more than aid, Ghanaians should be interested in human resource

372 Ryan (2006)
373 Ryan (2006)
development, be given the opportunity to negotiate better terms of trade, encourage more FDI, and ensure accountability in all sectors of society. Efficiently addressing these issues will be important to sustaining the progress it has made in improving growth rates.

4.1.2. Democratization

As argued in previous chapters, a consolidated democracy is found in a country that has moved the democratic process past simply electing governments to an institutionalized system of choosing leaders, policies, and guaranteeing civil and political liberties. Also, consolidated democracies are found in societies that have developed better infrastructures that sustain growth, thereby leading to political and economic development. It is a system that upholds the rule of law, with a government that is accountable to the people. It has been the contention of this study that in consolidated democracies, the level of education, income distribution, healthcare, and sanitation are important variables that produce, sustain, and determine the strength of democracy. Freedom House (2006) rates both Ghana and Mauritius as free countries where political rights and civil liberties are guaranteed. But have democratic ideals and processes been institutionalized in Ghana and Mauritius?

A critical aspect of democratic consolidation is an institutionalized channel for “voice” by citizens in policy development and implementation and as a check on government’s powers. Civil society, which serves as the voice of citizens in the democratic process in developed countries, was weak in Ghana’s growth and development, but strong in the case of Mauritius. Mauritius’ myriad ethnic groups and their diverse communal interests made consensus building an important feature of the

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374 See Sen (1999); O’Donnell (1992); Dahl (1971)
375 See Chapter 1.
country’s growth and development. The need by the different communities to have their interests met and the fact that Mauritian leaders could not control power without building alliances among the different cleavages in society resulted in the development of a very strong and vibrant civil society that represents the interests of workers, is involved in policy formulation and implementation, and serves as a resource for the provision of social services for the diverse communities. The broad civil society in Mauritius has helped in building the legitimacy and the policy capacity of the various governments.

This opportunity was lost in Ghana where, soon after independence, the country witnessed series of cycles of dictatorial rule and the erosion of citizens’ input in policy formulation or implementation. After the 1960s, the various military regimes successfully weakened political participation by citizens and civil society was either non-existent or terribly weak. The absence of active citizens’ voice during the different stages of Ghana’s political development weakened government legitimacy and caused an exodus of professionals whose services are vital to the growth, development and sustenance of the country’s socioeconomic and political institutions.

The level of citizens’ involvement in the decision making process in Ghana and Mauritius is correlated to the different ways in which Ghanaian and Mauritian leaders have respectively adhered to the political process. In other words, because of the different degrees of priority that Mauritius and Ghana placed on citizen participation, adherence to the electoral process – as stipulated by their respective constitutions – is correlated with the strength of democracy in each country. Mauritius gained independence a decade after Ghana but has had more election cycles and democratic alternation in power than Ghana. From 1968 to 2000 eight general elections have been held in Mauritius, resulting in four
transfers of power from the incumbent government to the opposition. In Ghana, from 1957 to 2000 twelve governments have ruled the country: six military regimes, two under a military leader turned civilian president, and four democratically elected governments and power has only been democratically transferred once from an incumbent leader to the opposition.

It could be argued that in Ghana, the institutionalization of an acceptable electoral process and the attending legitimacy it accords to government is at its infancy even though the country attained independence before the rest of sub-Saharan Africa. In Mauritius, the leaders have successfully crafted a political culture that adheres to the electoral process and election results are generally accepted by winners and losers alike. Citizen participation and adherence to the electoral process have been positively or negatively correlated to democratization in Ghana and Mauritius because both countries gave different levels of importance to improvements of their socioeconomic infrastructures.

Studies conducted by Przeworski et al. (2005), Asare and Wong (2004), Acemoglu and Robinson (2002), and Lipset (1981) determined that there is a correlation between education, health, income disparity, and economic development in creating transitions to democracy or in consolidating a country’s democracy. These infrastructures are very critical to the development of a strong and vibrant civil society, which in turn is very important to democratic consolidation. This thesis stresses that socioeconomic development (not only economic growth) is a necessary prerequisite for democratic consolidation. As the above scholars determined, socioeconomic development produces: an educated society that tolerates diverse views and adheres to the rule of law, promotes

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376 This exceeds Huntington’s (1991) prerequisite for a consolidated democracy.
an equitable distribution of wealth, and a healthy workforce is highly productive and is capable of sustaining growth and development. This accounts for the difference in democratization in Ghana and Mauritius.

Ghana scores poorly on the HDI which measures improvements in the above variables. Ghana’s socioeconomic infrastructures received little or no attention during the different phases of the ERPs. As a result, Ghana’s literacy rate is below the average in Africa, there are inadequate healthcare facilities, programs, and personnel, and the majority of Ghanaians live below the poverty line. Ghana has not been able to develop a strong middle class that could promote democratic institutions; the new class of elites represses the masses and the mounting social discontent among the majority of Ghanaians could explode and threaten the political stability that now exists in the country.

Mauritius successfully developed its physical and socioeconomic infrastructures; the country ranks better than all African countries on the HDI and is one of the few middle-income countries in the continent. Mauritius has developed a broad and strong middle class that has a stake in the continuation of the same patterns of the country’s growth and development. As such, they keep government in check through the activities of the civil society and during elections. The various alliances that have been formed throughout Mauritius’ political development have been forced to take the interests of the majority into consideration when policies are formulated. This has improved on the standards of education, healthcare and sanitation, and social services. However, one area that needs to be addressed is the extreme level of social and economic disparity between the 2% Franco-Mauritian upper class and the 10% of the population that are still below

377 The transfer of power from Rawlings to Kufuor in 2000 is the only occasion in Ghana’s political history when a party in power has lost elections. All other Ghanaian leaders (military or civilian) were removed from office by the military.
the poverty line. Conflicts between these groups could threaten the social stability the country has enjoyed over the years.

Finally, a strong democratic government is expected to formulate and implement policies that are independent of the dictates of external donor governments. This is a challenge to Ghana, Mauritius, and all developing countries. The formulation and implementation of policies in Ghana has – since the 1980s – been at the utter mercy of international financiers. Ghana’s heavy dependence on external aid has not only increased its debt burden, but prevents the government from pursuing policies that are not approved by donor countries. In like manner, Mauritius’ reliance on favorable international conditions for the sustained growth of its export industries limits the ability of the country to develop policies outside the interests of its trading partners. With the growing important role that globalization plays in directing domestic economic and political policies, creating a balance between what is acceptable at home and abroad is a challenge to the independence of all countries especially developing countries.

4.2. Conclusions and Further Research

The experiences of Ghana and Mauritius offer some interesting insights for African countries and some third world countries that are under similar circumstances. Although this study does not draw parallels with all third world economies – because of potential differences in population size, development strategies, leadership, etc – that have adopted SAPs, it nonetheless captures the plight of countries that do not develop the sectors of society that sustain growth and development and who, during times of economic difficulties, are compelled to give over control of their socioeconomic policies to the dictates of the IMF and World Bank. In this study, we see that both Ghana and Mauritius went through a period under colonial rule and little or no experience with
democracy, have diverse ethnic populations, and had economies that were in debt crises in the 1970s and 1980s that forced the implementation of SAPs. By the 1990s, both countries were witnessing improved GDP growth rates but the standards of living of their citizens and the strength of their democracies were distinctly different; whereas Mauritius succeeded in improving economic, social and political conditions, Ghana is still a heavily indebted poor country and its democracy remains fragile. The level of development of the socioeconomic infrastructures in both countries prior to the implementation of their respective SAPs and the amount of support received from developed countries, in the form of preferential trading agreements, primarily determined the outcome of adjustment.

Also, the impact of adjustment on the socioeconomic variables determined how the economies and policies of both countries performed after reforms. The belief that macroeconomic growth would trickle down to other sectors of society is illusive. Instead, as seen in the case of Ghana, the country continued to witness declining levels of employment, education, and health and rising levels of poverty even though it was posting impressive GDP growth rates. In addition to poor leadership, fiscal mismanagement, and an unstable sociopolitical environment that fended off investment capital and international support, SAPs took vital resources away from the sectors that would have sustained growth and promoted development in both the economic and political spheres of society. In contrast, Mauritius performed better because of the positive synergy between domestic and international conditions during its adjustment years. Although the Mauritian government, similar to Ghana’s, was equally guilty of fiscal mismanagement and corruption that resulted in the implementation of a SAP, the Mauritian leaders however, did not only invest in their country’s socioeconomic infrastructures but promoted a sociopolitical climate that was attractive to foreign investors.
Furthermore, the Ghanaian society witnessed a series of despotic regimes that successfully eroded its socioeconomic infrastructures, drained the country of its professionals, and ran off investors. Consequently, the support that Mauritius received from the international community in terms of FDI was above that of Ghana; the aid Ghana received did not only have to be repaid, but by the mid-1990s – in order to receive further assistance from IFIs – the country had to allocate up to 60% of its export earnings for debt repayments as opposed to infrastructures. This is why the onus of political and socioeconomic success in the majority of African countries, whose economies are more than likely to face crises at some point during the development process, rests on the policies that are forced upon them by international financiers vis-à-vis the development of their socioeconomic infrastructures.

As the debate continues on how IFIs could help developing countries meet the United Nations’ Millennium Development Goals (MDGs), further research on how aid programs can be effective in developing the socioeconomic infrastructures of borrowing countries would be useful. This is important in contemporary international relations because socioeconomic infrastructural development is the prime targets of the MDGs. Also, research on how IFIs could tailor their policy prescription to fit the individual needs of borrowing countries is important because the “one size fit all” approach accounts for numerous failures of SAPs. Empirical evidence shows that a great proportion of programs promoted by the IMF and World Bank in developing countries fail to achieve their intended goals because of the adverse effects of austerity measures on the standards of living of the citizens. Maybe this is because the IMF and World Bank do not take into serious consideration – at the time of negotiating aid packages – the impacts their policy prescriptions have on human resource development of the borrowing countries. As acknowledged by the World Bank in the 1990s, SAPs should not stifle governments’
involvement in human resource development, improvements in infrastructure, and environmental action plans.\textsuperscript{378}

One daunting question this research could not answer, because of restricted access to information pertaining to the IFIs’ negotiations with borrowing countries, is the respective level of input of Ghana and Mauritius in the Agreements they signed with the IMF and World Bank. Why was Mauritius able to refuse certain aspects of the policies advocated by the IMF and World Bank and Ghana could not? Does the ability of the leaders to negotiate determine what is approved for them or is there lack of consistency by IFIs in the criteria they follow in awarding aid packages? Research in these areas would shed further light on how IFIs could be of more relevance in the promotion of socioeconomic and political development.

IFIs come to the aid of countries that are in desperate need of financial assistance, but reducing and sometimes eliminating subsidies for the sectors of society that will sustain growth and development (in order to balance the budgets of ailing economies and make timely scheduled debt repayments to international financiers) show less commitment on the part of the IFIs in eradicating poverty and fostering stable societies. Instead, while the majority of third world countries have plunged further into debt and poverty since the implementation of structural adjustment loans, the financial assets of the IMF and World Bank have increased. For example, Africa’s debt increased from $11 billion in 1970 to over $295 billion in 2002 – of which $153 billion is owed to the IMF and World Bank. During this same period, third world countries have paid $550 billion in both principal and interest payments on $540 billion of loans, and yet there is still a $523 billion debt burden.\textsuperscript{379}

\textsuperscript{378} Wright (1990)
\textsuperscript{379} Shah (2005)
Third world countries should not lose sight of the fact that the IMF and World Bank are financial institutions that will continue to protect the financial assets of the countries that invest in them. However, they should be sensitive to the reality that taking resources away from the sectors of society that promote growth and development makes repayment of loans (in the long run) difficult and sometimes impossible. Inasmuch as making timely scheduled payments to lending countries is important, the welfare of the citizens of borrowing countries is equally crucial to stability, growth, and development. As demonstrated in the G8 summit at Gleneagles, most developed countries are increasingly recognizing this fact and taking steps to reduce the debt burden of the third world. On its part, third world countries should exercise fiscal discipline, hold public and private enterprises accountable, and invest in the sectors of society that foster growth and development. With strong human resource capacity, governments’ legitimacy and policy capacity will be advanced through the accepted democratic institutions.

The IMF and World Bank will continue to perform important roles in the economic and political course of third world countries; they will continue to prescribe structural adjustment programs for ailing economies. This study shows that strong socioeconomic infrastructures prior to the implementation of SAPs are necessary prerequisites if the neoliberal policies advocated by IFIs should be correlated with strong democracies. At the moment, the IMF and World Bank continue to focus primarily on GDP growth rates, free trade, and debt repayment. Until these institutions acknowledge that the economies and industries of developing countries are not mature or strong enough to compete with those of their developed counterparts, SAPs will only continue to foster poverty and reduce the conditions of living of third world countries. The IMF and World Bank should allow African governments the latitude to seriously invest in the
socioeconomic sectors or the political and socioeconomic decline of the majority of 
Africa will remain on its present course.

The economies of third world countries have to open up to outside competition 
and trade, but this should be at a pace that is realistic to the level of the individual 
country’s human, natural, and capital resources. This thesis does not argue against the 
adoption of neo-liberal policies by third world economies, rather, such policies must be 
part of an integrated strategy for encouraging socioeconomic development. SAPs must be 
tailored to each country’s particular situation and must allow borrowing countries the 
leverage to promote human resource development; which is very fundamental to 
sustained growth and development. Also, if third world countries should reduce their over 
dependence on foreign aid, the individual countries must demonstrate the willingness to 
promote civic participation in the economic and political process, observe the rule of law, 
with zero tolerance of corruption. Until these dynamics are taken into serious 
consideration when the conditionalities of structural adjustment loans are agreed upon, by 
the borrowing countries and lending institutions, the unspoken but generally perceived 
hope that foreign aid from IFIs would promote stable democracies in third world 
countries will continue to be false.
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