IMF PROGRAM WITH GHANA: THE ROLE OF CIVIL SOCIETY ORGANIZATIONS

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Preamble

On August 6th, 2014, the government announced it has approached the IMF for an economic program the fund could support. Though, the government was elected to act on behalf Ghanaians, the public is not certain as to what government actually asked for whether for policy credibility, fund-supported program, partnership etc clearly inconsistent with the public’s right to know. Vacuum being filled by the Civil Society Organisations platform on the IMF bailout makes all the more needful. This is necessary in building ownership in the program which is key to achieving the program objectives. The twin deficits namely current account and fiscal deficits reflects systematic failures in the economy that needs to be addressed going forward. Given that the roots of Ghana’s current economic malaise stem from macroeconomic instability emanating mainly from fiscal policy, it is expected that the thrust of the policy recommendations will focus on fiscal stabilization/consolidation (revenue enhancement and expenditure restraint) though this can be broadened to include other areas.

1. Historical Background

The IMF/World Bank have had a long relationship with Ghana transcending different regimes whether military or civilian since Ghana formally joined the IMF on September 20, 1957. It is important to be reminded that Dr. Kwame Nkrumah approached the IMF for a bailout or loan albeit tough conditions in 1965 but he rejected the offer because of austerity measures attached to the facility. In all these engagements with Ghana and other countries, IMF’s tough stands on conditionality/austerity measures/internal devaluations or price of their credit/support have softened reflecting the change in its approach even during the global financial crisis and the European Debt crisis and its dealing with developing countries including Ghana. The Sahelian drought of the 1980s and the accompanying deportation of Ghanaians from Nigeria together with the rampant bush fires
motivated the PNDC government to turn to the IMF for the longest marriage/romance/hang-out. Babies were born out of this long romance including the Economic Recovery Program (ERP) which was meant to arrest the downwardness of the Ghanaian economy and the second child (Structural Adjustment Programme) meant to correct structural misfits in the economy.

Of course, there were associated conditionalties including trade liberalisation, liberalisation of the financial sector resulting in the influx of foreign banks, public sector retrenchment/labour devaluation, tax hikes, privatisation of state owned enterprises, adoption of flexible foreign exchange regime resulting in the creation of forex bureaus to absorb the informal black market into the formal financial system, devaluation of the cedi and removal of subsidies on a number of items including fuel, education, health, social services. Given the historical romance, it is needful to be reminded that Ghana just existed an IMF program in July 2012 when the country turned to the IMF for the Extended Credit Facility (ECF) which was a three year stabilisation program (July 2009 to July 2012). The ECF enabled the government to steer its affairs through the difficult first two years of the political business cycle/election year effect which is more evident soon after the election. Election year expenditures are usually not accompanied by productivity growth because the latter is not the target of such excessive injection in the economy and therefore the inflationary pressures of such action cannot be unexpected. Two years on, August 2014, the government announced its major policy decision to turn to the IMF though this had long been predicted notably by economists in the country. But as at now it remains to be known what government has asked for whether for policy credibility or partnership or technical support or fund program (my considered opinion is that this lack of clarity is not good for economic governance, disclosure and transparency which lies at the intersection of government rights to privacy if such right exists and the public’s right to know and this makes the role of CSOs on the IMF Bailout all the more important).

Given the sterling statistics at our disposable, could we have done without the IMF, no or even if yes that is not an option because it is now a victim of economic miscarriage. But it is important to note that Ghana exited the IMF’s Poverty Reduction and growth Facility (PRGF) in 2006 leading to the issuance of 750 million dollar first Eurobond after it obtained a favourable credit rating though the economic fundamentals were not the same as 2014. That was to usher in a new era for the country but that effort was effectively undone in 2009 when the government made a U-turn. The huge variance exhibited in the mid-year review and supplementary budget for 2014 could be a tacit admission of government’s own lack of appreciation of the election (2012) year effect resulting in the unrealistic assumptions underlying the targets in the 2014 budget. In that sense, the extra lenses provided by the IMF could provide some credibility going forward and moderate the level of economic uncertainty in the country. So August 8, 2014 reads from the IMF “Today, IMF Management received a formal request from the Ghanaian authorities to initiate discussions on an economic program that could be supported by the IMF. The Fund stands ready to help Ghana address the current economic challenges it is facing. We
expect to send an IMF team to Ghana in early September to initiate discussions on a program”

Going to the IMF were necessitated by the following as contained in the IMF’s press release on their first visit to Ghana after the government submitted a request to the IMF…..“Ghana continues to face significant domestic and external vulnerabilities on the back of a large fiscal deficit, a slowdown in economic growth and rising inflation. These vulnerabilities are putting Ghana’s medium-term prospects at risk. The mission estimates growth to decelerate to 4 ½ percent in 2014, from 7.1 percent in 2013, and inflation to reach an average of around 15 percent for the year. The fiscal deficit is expected to remain elevated at around 9 ¾ percent of GDP, driven by weak revenue performance, a large wage bill and substantially rising cost of debt service. The external current account deficit is projected to narrow to 10 percent of GDP, as imports declined substantially due to slower growth and a large depreciation of the currency, while export performance remained weak. The currency weakened sharply through August, before recovering very recently”

The twin deficits namely current account deficit and fiscal deficit are two vectors representing or embodying a number of systematic weaknesses in the economy. Persistent current account deficit reflects systematic vulnerabilities in the domestic economy in its inability to provide import substitutes as well as low export evidenced by weakening manufacturing/industries reflecting also challenges facing the sector (ie huge infrastructural deficit/unreliable energy supply though enough electricity poles have been erected, unsupportive financial system evidence by lack of access to credit/high cost of credit mainly as a result of competition from treasury bills), unmodernised agricultural sector reflecting lack of budgetary support to the sector resulting in the import of basic agricultural output from neighbouring countries such as okra, tomato, pepper etc. If as a country we do well in providing import substitutes, the savings from there could even compensate for lack of export.

The other deficit represents weakening revenue performance and government’s lack of expenditure restraint. The current deficit is impregnated largely by the 2012 election (political business cycle) giving birth to the current challenges the country is facing. The budget deficit shows the borrowing requirement of the central government thus effectively crowding out the private sector rather than crowding them in. This has also effectively reduced monetary policy to just a broom to sweep/clean the mess created by fiscal indiscipline rather the anchoring monetary policy to effectively bring down inflation and engineer growth as the huge budget deficit is often monetised from the Bank of Ghana. It is important to say that fiscal discipline is needful to give credibility to inflation-targeted regime or such monetary policy framework. Unfortunately, the Bank of Ghana has been denied that space and therefore is unable to deploy monetary policy to achieve the desired economic outcome. This has also put our public debt on an unsustainable path both in terms
debt sustainability (debt burden/debt-to-GDP ratio) and debt affordability (rising cost of servicing our debt). The excessive pressures brought on the local currency as a result of these deficits resulting in the depreciation of the currency is largely predictable. The cedi is as strong as the fundamentals of the Ghanaian economy just as a building is as strong as its foundation. It is very difficult to record favourable results from these twin factors or variable and not have the fundamentals of the economy right.

2. Cost/Benefit Analysis of IMF bailout

The Ghanaian economy for the past several months has been distressed with some critical ailing condition amidst huge current account and fiscal deficits with the resultant effect of high inflation, slow economic growth and the depreciation of the cedi etc. Against this background, Ghana’s President, after a meeting with his Economic Advisory Committee directed that “immediate initiatives be taken to open discussions with the International Monetary Fund and other Development Partners” in support of Ghana’s programme for stabilisation and growth. This decision by the government has led to a mixed reaction from the public in general. There are those among the general public who have indicated that a bailout programme from the IMF will lead to another phase of hardship while the country tries to meet the terms of the partnership whereas others view the bailout option as a necessary evil with benefits. This means that, in spite of how rigorous the conditionalities and requirement may be it is without its benefits therefore we investigate the cost and benefits of the IMF bailout programme for the country.

The government’s decision to go to the IMF means it has reached the depth of its ability to manage the economy. This sends signal to the world that it needs the IMF to lend its credibility, it plans and ability to manage the economy so that other government and international agencies can find it easier to do business with it. The oversight responsibility of the IMF to make sure systems work efficiently and effectively creates an awareness that somebody is overseeing from a distance what the government is doing and puts in the necessary control to check the Government of Ghana’s excess expenditure against revenue and all that to bring relief back to the economy. This will restore confidence in the economy and the presence of the IMF at this point is going to be essential in improving the ability of the country to stabilize its current economic decay. At this stage, the benefit of the IMF is not more in terms of financial inflows but rather fiscal discipline they bring through the government is very notable. Opting for an IMF bailout will bring sanity in our financial management. In
other words, government expenditure will be scrutinized—wastage, corruption and mismanagement will minimize under the IMF’s care. It is my considered opinion that Ghana needs more of expenditure discipline (fiscal discipline) than financial inflows also given the Ghana’s Special Drawing Rights (SDR)

Given the number of reforms in the past, it needs to be said that economic gains were recorded but not at the level where it equitably benefited all including moderate and low income earners. In other words, the economy has not experienced much of pro-poor growth but rather increasing jobless growth for Ghanaians. As a country, we pound enough fufu just for others to go and eat because our economy is predominantly dominated by foreign players and growth is effectively recorded here but growth is not resident here as evidenced by huge capital flight causing high volatility in the foreign exchange market during financial year ends for multinationals. Already, the announcement of possible IMF program has resulted in some benefits to the country as yield on the second Eurobond dropped as well as the successful issuance of the third Eurobond at 8.125%. The foreign exchange market has also responded positively to the arrival of the news. Investor confidence soared given the track record/reputation the IMF has in imposing stringent fiscal austerity measures and the fact that nations take more heed of measures imposed by the IMF than their own country. More emphasis on austerity measures signalled by the IMF positions the country as a victim of her own history as empirical regularity from past programs postulates this direction.

Gains from conforming to such austerity measures come at the cost of growth and employment for the country. Example during the European debt crisis, the MD of the IMF was very critical of the emphasis on more austerity measures rather than more measures to promote growth favouring the latter over the former quite similar to the US where growth was promoted rather through stimulus, devaluation of the dollar rather than austerity measures. Gains from macroeconomic stability will come at a cost to especially the vulnerable in the society, unemployment, job cuts, freeze on public sector recruitment look unavoidable. It is important to know the limit to Ghana’s Special Drawing Rights (SDR) and the upper amount itself is not enough to remedy the deficiency in the economy. Whatever gains that will be made; we need to work hard to build on that to ensure economic transformation. We must know that the best helping hand the nation/country can find or have is at our own arm and not that of the IMF.
3. Socio-economic and Political Impacts of Policies Options

On 7\textsuperscript{th} May 2014, the Fund released its country report on Ghana following discussions with government that ended on February 25\textsuperscript{th} 2014 (IMF, 2014). In the report, the Fund discusses the state of Ghana’s economy, policies and suggestions for addressing the current challenges. This section takes the policy recommendations contained in this report as the likely policy measures to be presented by the Fund in its negotiations with the government. Two main factors have influenced this approach taken in this section. First, that report is the Fund’s most recent report on the country and less than a year had elapsed between the release of that report and the start of negotiations between the two parties. Secondly, the direction of the economy has not changed since the release of this report. Indeed, many of the macroeconomic indicators that informed the policy prescriptions of the Fund have deteriorated and we believe the policy suggestions are unlikely to significantly different from those in this report.

3.1 Policy alternatives

Given that the roots of Ghana’s current economic malaise stem from macroeconomic instability emanating mainly from fiscal policy, it is expected that the thrust of the policy recommendations will focus on fiscal stabilization/consolidation. The specific policy measures expected include revenue mobilization measures, control of the wage bill, and prioritized capital spending.

Broadly, these policy measures have been mentioned and discussed at various fora on the state of Ghanaian economy. The government introduced a number of new taxes and revenues measures consistent with those identified above in the 2014 budget statement (MOFEP, 2013). These have been referred to as “home-grown solutions” in the course of discussion. Measures to improve efficiency in tax administration and rein in government spending were also included in the Senchi Consensus (National Economic Forum, 2014). However, the details of the discussion of these broad policy measures with the IMF are likely to be differ in terms of the scope and depth of the specific measures, as well as the timing of the implementation.

3.1.1 Revenue Mobilization Measures
The Fund generally approves the recent tax measures of the government to address the growing deficit. However, it wants a more aggressive approach to reducing the deficit and is likely to request additional measures. The specific additional revenue measures they have recently recommended are

- Legislative revisions to streamline exemptions permanently and to strictly constrain the power to grant them
- Thorough review of tax regimes for free zones to reduce tax expenditures
- Reconsideration of the windfall profit tax on mining
- Strengthening of tax administration, focused on improved compliance, particularly of large tax payers
- Introduction or increase in the selective tax rates (e.g., higher ad valorem tax or VAT on fuel
- Higher taxes on specific products
- Higher tax rate on real estate along with stepped up registration and valuation efforts
- Immediate freeze on new tax exemptions
- Better identification and targeted auditing of large taxpayers

It is expected that the Fund will insist on many of these additional tax measures.

3.1.2 Spending measures: reducing the wage bill

Much of the recent discussion of the fiscal consolidation has focused on reducing the wage bill. The government has already instituted several measures in this direction. These include proposed freeze on wage increases and net hiring in most sectors, an improved payroll database, audits, and the introduction of an electronic payment voucher system. One likely addition to the wage bill measures is likely to be streamlining of subvented organizations. This is likely to translate into reducing the number of government-subvented organizations and agencies. In the short term, this will be very difficult to accomplish. First, this is likely to require legislative changes. Secondly, appointments to these subvented organizations are means of political patronage and reward for party supporters for their contribution to electoral success. Weaning such organizations of government support might mean a loss of a key source of political patronage. The government is likely to postpone such a measure for a considerable period.

The Fund is likely to propose other measure for reducing the wage including;

- Streamlining of allowances starting at higher income levels
- Non-replacement of retiring public sector employees in overstuffed areas
- Multi-year wage agreements consistent with fiscal consolidation plans

One issue that has been missing from the recent discussion of measures to reduce the wage bill is the size of the executive arm of government. Two aspects of this issue that stand out are the number of ministries, departments and agencies, and the
size of the presidency. There has been several suggestions in the past on the need to reduce the number of ministries by merging some existing ones¹. Although all the major political parties have in the past criticized incumbent government on the number of ministries, the number of MDAs appear to be have increased over time. Moreover, the recent dramatic increases in the number of district assemblies have added to the size of the executive. Finally, growing size and expenditure of the presidency has attracted some attention².

Like other policy measures under discussion, legislative changes are likely to be required to impose limits in all these areas. Specific policy measures include streamlining the criteria necessary for the creation of new districts. Legislative instruments may also be required to put a cap on the size of the presidency. It may also be necessary to extend measures to reduce the wage bill by imposing a curb on allowances and benefits enjoyed by the executive arm.

3.1.2 Spending measures: other measures

The government has implemented other so-called home grown policy measures to address issues on the spending side. Prominent among is the moratorium placed on new contracts (MOFEP, 2013). Although the Fund applauds these measures, it is expected to propose additional spending measures. It has previously signalled measures such as:

- Reduction of statutory transfers to the lowest possible level
- Reduction of transfers to the Ghana National Petroleum Corporation (GNPC)
- Full integration of spending by statutory funds in the overall investment program
- Acceleration of various public financial management reforms, including GIFMIS, the Treasury Single Account

If implemented with the desired political commitment, these measures are likely to improve the fiscal situation. But it is important to situate these in broader institutional reforms to ensure their sustainability. The Senchi Consensus included a number of institutional reforms that ensure long-term discipline in government expenditure. Paramount among them was the need for government and its agencies to adopt a professional approach to government business. It will be important to imbed some of the specific policy suggestions in the discussions with the IMF.

3.1.3 Monetary policy

The Fund is expected to request changes in the area of monetary policy. In general, it has been very supportive of the recent upward adjustments in the policy rate to deal

with the rising inflation and depreciation of the local currency. The Fund is expected to take a strong stance against the Bank of Ghana’s direct financing of government’s deficit. It is also expected to demand changes in the foreign exchange management policies of the BoG. In the past, it has advocated a unified foreign exchange rate quotation system to remove distortions generated by the different systems.

3.2 Socio-economic and Political Assessment Framework

There are several ways of conceptualizing this assessment framework. We will follow the conceptualization of the Independent Advisory Committee on Socio-economic Analysis and consider the socio-economic and political assessment framework as a tool for understanding scale and distribution of the costs and expected benefits of the eventual policy measures after the discussion (IACEA, 1998). The assessment of socio-economic and political impacts aims at examining the direct or indirect effect of a public policy in the spheres of science, economy or society (PREST, 2002). These track changes in people’s way of life, cultural traditions, community (its cohesion, stability, services and facilities) and living standards and quality of life, ie income levels, range of choices in terms of quality and quantities of goods and services.

Underlying Values and principles

Assessment of socio-economic and political impact has to be founded on a set of principles and core values. These values and principles provide the broad basis for making judgements and choices among various options. The framework presented here is based on the respect for democratic processes, demand for equity, justice and fairness, and recognition of the need to protect the vulnerable groups particularly women and children.

Criteria for Evaluation

There are a number of criteria to be considered for choosing an evaluation framework for policies like these. We narrowed them down based on the underlying values listed above.

Political Realism

Choice of policy should reflect the political realities of the country and the times. This is important because it will determine the political will and commitment to the implementation of policy measures which, ultimately, affects the likelihood of success. In particular, the policy alternatives should be evaluated on the merits of government’s commitment in the light of the increasing politicization of all policies and programs which usually reaches a crescendo in the lead up to elections. With
the next election only two years from now, the policies are likely to generate a heated political debate. To be sure, the clout of the IMF is expected to impose some measure of discipline on government in enforcing the agreed policies. Government will not want to irk the Fund and risk credibility with international financial markets that was an expressly stated objective of decision to open discussions with the Fund. However, the political climate is still expected to exert significant influence on the zeal with which government proceed with implementation of agreed policies. Moreover, most of the policy options are likely to be faced with fierce resistance by active political actors, especially labour unions.

While emphasizing the need for policy measures to take cognizance of the political realities, it is important that political considerations do not distract away from necessary tough economic choices needed to arrest the current economic malaise. With or without IMF support, the current state of the economy will require some hard choices to fix. These hard choices are likely to make the government unpopular. It is therefore crucial for the government to be forthright with Ghanaians about the hard choices that have to be made in order to address the current challenges. A good starting point will be extensive consultation and discussion with various civil society groups and the general public.

Equitable Sharing of the burden of adjustment

It widely expected that only a comprehensive set of policies will be required to address the depth of the malaise in Ghana’s economy. Such comprehensive policy measures are bound to impose substantial costs and eventually benefits. A painful process of adjustment will be required. The distribution of the burden of these costs is important. The key consideration is that macroeconomic stability should not be achieved at the expense of the poor. In particular, it is important not the reverse recent gains made in the area poverty rates (GSS, 2014).

The eventual policy measures agreed on should be sufficiently targeted to provide safeguards for the poor. One of the main casualties of the recent economic difficulties of has been payment statutory payments for pro-poor programs. The frequent withdrawal of services by providers owning to non-payment of bills by the National Health Insurance Authority is particularly notable. The final policy measures should as far as possible, insulate pro-poor programs including the Livelihood Empowerment Against Poverty (LEAP), School Feeding Program, National Health Insurance Scheme (NHIS). Moreover, policies that seek to remove tax break for the wealthy and multinational corporations are desirable.
Realistic trade-off between Short-term versus medium to long-term development interests

One of the main points of disagreement between the parties is likely to be time frame for the fiscal consolidation. The government of Ghana believes that its policy measures should be considered in the medium term (IMF 2014: 16). The Fund appears to favour a front-loaded approach which closes the deficit in relatively short period of time. While broadly agreeing with the need for sustainable medium term measures, the Fund is likely to strongly advocate for additional short term adjustments consistent with those it prescribed for the country earlier on. There are merits in both positions. Given the current level of public disillusion with the state of the economy, a frontloading of additional austere measures are is likely to generate a huge public anger and backlash against the whole fiscal consolidation exercise. Indeed, public dissatisfaction with the policy measures instituted has not dissipated and any additional immediate measures are likely to increase public resentment. On the other hand, macroeconomic environment has shown little improvement and appears to be worsening. This calls more additional and more immediate measures.

A delicate balance is on the time frame is needed. Although some immediate measures are necessary to halt the decline in macroeconomic indicators, the Fund’s preference for front-loading should be tampered to lessen the potential for public backlash. However, to ensure government commitment to real reforms, the Fund could get government to agreement to credible plan of action it is unlikely to deviate from.

Sustainability

Ghana has a chequered history with stabilization policies. It is a history of relatively stable macroeconomic environment informed by sensible fiscal policy backed by sound monetary policy in between elections, and fiscal indiscipline combined with loose monetary policies around election periods. This political business cycle is very costly economically, socially and politically: fiscal consolidation measures require painful adjustments costs that are unevenly distributed.

To halt this cycle, it is important to use the current process to institute legislative measures to curb out-of-control spending around elections such as the Fiscal Responsibility Act which has been championed by other interested bodies. This issue has been raised in the past but action has not been taken. The current negotiations and likely policy measures could be a useful opportunity to make progress in this direction. But, it must be noted that just having the Act does not solve our election year problems; like many other laws, care must be taken that the Fiscal Responsibility Act is not observed more in breach than in compliance such as the Bank of Ghana Act, 2002 (Act 612, Section 30). Some of the measures the Fund is likely to propose require would legislative changes. We believe the Fund should
extend this to a general legislation that insulates fiscal policy from the electoral cycle (or at least minimizes its effect). One of the best lasting legacies of the current negotiations will be to make lasting legislative changes that would forestall the need for future IMF bailouts. The program as will be agreed is subject as well to the political business cycle or event risk as it runs into the 2016 election. Though, asking for 3-year program from the IMF which runs into the election seems prudent as it potentially limits abuse of incumbency, is in itself a problem. My considered position is that if the government thinks it is macroeconomic stability that will bring more votes in the next election then the program has the longevity/future to deliver on the objectives but if the government thinks it is the usual election excesses that bring the much needed votes then we must all be careful and be vigilant especially CSOs.

Beyond Macroeconomic Stability

Although the immediate goal of the fiscal consolidation measures being discussed is to stabilize the economy, it is crucial that the measures look beyond macroeconomic stability. Macroeconomic stability should be seen as a means to an end but not an end in itself. It is crucial to extend the discussion to include measures that will promote the growth of the private sector, increase productivity of the public service, and ensure sustained medium to long term growth and wealth creation. Besides institutional reforms to improve government services, cut red-tape and reduce the cost of doing business, it is crucial for government to demonstrate a concrete plan to solving the current energy crisis that has increased the cost of doing business in the country. Broader institutional reforms is needed going forward in order to transform the economy building on the macroeconomic stability that will be achieved. Strengthened institutional framework is key to improve public sector investment decisions in order to realise the intended benefits from prioritized capital spending. This must be predicated on the motive to ensure that growth is fuelled more by productivity rather than capital (labour) accumulation growth.

Civil Society Organisations (Sydney Casely Hayford)

ROLE OF CSOs ON THE IMF BAILOUT

Framework for STRATEGIC Delivery

A CSO is defined as a non-governmental, not-for-profit organization that represents different major groups as defined by the United Nations Conference on Environment and Development (UNCED) in 1992 (Agenda 21, Chapter 23). This term includes various and diverse types of organizations, including NGOs, farmers, women, the scientific and technological community, youth and children, indigenous peoples and their communities, business and industry, workers and trade unions and local authorities.
The concept of civil society goes back many centuries in Western thinking with its roots in Ancient Greece. The modern idea of civil society emerged in the 18th Century, influenced by political theorists from Thomas Paine to George Hegel, who developed the notion of civil society as a domain parallel to, but separate from the states (Cerothers, 1999).

The 90s brought about renewed interest in civil society, as the trend towards democracy opened up space for civil society and the need to cover increasing gaps in social services created by structural adjustment and other reforms in developing countries.

Civil society has been widely recognized as an essential ‘third’ sector. Its strength can have a positive influence on the state and the market. Civil society is therefore seen as an increasingly important agent for promoting good governance like transparency, effectiveness, openness, responsiveness and accountability.

Civil society can further good governance, first, by policy analysis and advocacy; second, by regulation and monitoring of state performance and the action and behavior of public officials; third, by building social capital and enabling citizens to identify and articulate their values, beliefs, civic norms and democratic practices; fourth, by mobilizing particular constituencies, particularly the vulnerable and marginalized sections of masses, to participate more fully in politics and public affairs; and fifth, by development work to improve the well-being of their own and other communities.

In fact, one significant area of progress over the past decade has been the growing influence of local, national and global CSOs and networks in driving policy change, as with debt relief and trading arrangements. Non-governmental organizations (NGOs), community organizations, professional associations and other civil society groups are regularly called on to help design and implement poverty reduction strategies. Their participation is also built into special initiatives, like the Global Fund to Fight AIDS, Tuberculosis and Malaria.

Recent years have witnessed a significant upsurge of organized private, non-profit activity in countries of Asia, Africa and Latin America (Salamon and Anheier, 1997; Salamon, 1994; Fisher, 1993; Brown and Karten, 1991). Long recognized as providers of relief and promoter of human rights, such organizations are now increasingly viewed as critical contributors to economic growth and civic and social infrastructure essential for a minimum quality of life for the people (Salamon and Anheier, 1997; Fukuyama, 1995; OECD, 1995).

The Millennium Declaration, adopted at the largest ever gathering of heads of state in September 2000, commits countries – rich and poor – to do all they can to eradicate poverty, promote human dignity and equality and achieve peace, democracy and environmental sustainability. World leaders promised to work together to meet the Millennium Development Goals (MDGs) with specific targets, including that of reducing poverty by half by 2015.

But despite the growing importance, civil society organizations in the developing world remain only partially understood. Even basic descriptive information about
these institutions – their number, size, area of activity, sources of revenue and the policy framework within which they operate – is not available in any systematic way.

Moreover, the civil society sector falls in a conceptually complex social terrain that lies mostly outside the market and the state. For much of the recent history, social and political discourse has been dominated by the two-sector model that acknowledges the existence of only two actors; the market (for profit private sector) and the state.

This is reinforced by the statistical conventions that have kept the “third sector” of civil society organizations largely invisible in official economic statistics (Salamon, Sokolowski and Associates, 2003). On top of this, the sector embraces entities as diverse as village associations, grass roots development organizations, agricultural extension services, self help cooperatives, religious institutions, schools, hospitals, human rights organizations and business and professional associations.

As such, a comprehensive and representative understanding of the role and significance of the civil society sector continues to be a major gap in the literature, particularly in the context of developing countries.

In order to understand more structurally how CSOs have been influenced over the periods, we can safely consider societal influences under specific headings.

**Authoritarian Political Control:** Perhaps the most basic factor accounting for the generally retarded pattern of the third sector development in many developing countries is the long history of authoritarian rule.

Strong state control figured prominently in the histories of Egypt and Ghana. First under the Ottoman Empire and later under British colonial rule, Egypt was ruled by a succession of authoritarian leaders with only limited opportunity for effective democratic involvement.

In Ghana the pre-colonial societies were organized in traditional tribal form with local chieftains exercising dominant control.

Given this pattern of authoritarianism, little room was left for a truly independent third sector in these societies. What charitable institutions emerged therefore had to fit within the prevailing structures of political and social power and avoid posing serious challenge to the dominant political authorities. Passivity and dependence rather than empowerment and autonomy thus became the early watchword of nonprofit sector activity.

Authoritarian political control did not end in these countries with independence. Rather, it persisted. The upshot has been a persistent atmosphere of distrust between the nonprofit sector and the State in many of these countries. The State remains highly watchful of its power and too easily interprets the emergence of CSOs as a challenge to its very legitimacy.

**Religion:** Religion has a multiple impact on the development of the nonprofit sector. In addition to the basic creed and the support it gives to acts of charity, crucial other facets of religion’s impact need to be taken into account – its posture toward
individualism, its commitment to institution building, and its relationship with State authorities.

Indications are that while religions can share a positive orientation toward philanthropy, they may not generally be supportive of the emergence of CSOs.

In Pakistan, human right CSOs, particularly working on issues like women’s rights, are constantly challenged and sometimes threatened by the dominant religious fundamentalist segments of society, which continue to have influence over the state.

Colonialism: Another factor that helps to explain the generally retarded pattern of third sector development in the third world is the recent history of colonial control. Like religion, however, colonialism’s impact on third sector development has been multi-dimensional. What is more, it has varied somewhat depending on the national traditions and values of the colonial power. Colonialism has tended to undermine the independence of local social classes that might have provided the rallying point for civil society institutions.

Low Income and Constrained Social Development: Perhaps the most important impact of colonialism on some of the countries was the constraint it exercised on social development. One of the principal consequences of the colonial experience, in fact, was to limit the space that indigenous middle class elements could occupy in the developing world. This was so because the colonial administration handled many governmental and commercial functions that might otherwise have been performed by the indigenous people, thereby restricting middle class professional opportunities.

Limited Resources: An important factor hindering the growth of the civil society sector is the scarcity of financial resources. Funding constraints limit the scale and functioning of CSOs, significantly impairing their ability to deliver and maintain services. In case of large NGOs, in particular, heavy reliance is frequently placed on funding from foreign donors. This is making CSOs more reflective of donor interests than those of their communities or designated target groups.

Legal Treatment: A further factor impeding the development of the nonprofit sector in some developing countries has been the legal environment within which nonprofits must operate. Certainly in civil law countries such as Brazil, Thailand, and Egypt, where no “basic” right to organize is automatically recognized in law, formal law can shape the environment for action rather fundamentally.

The Development Paradigm: One other factor helping to explain the historically constrained pattern of civil society sector development in the third world is the changing fashion in development policy and development ideology. During the 1950s and 1960s, development thinking emphasized the importance of a State as the principal agent of modernizing reforms.

As a consequence, considerable effort went into differentiating a sphere of State action outside the pre-modern structures of tribe or community, and into creating modern, secular administrative structures that could effectively operate in this sphere. This development framework included a sphere of business in addition to that of
government, but it downplayed, if not excluded, CSOs, which were viewed as only marginal in the frame of affairs.

The shift to “structural adjustment” in the 1980s did not change this fundamentally. To the contrary, the “structural adjustment” paradigm of development merely replaced government with the private business community as the mode of development. In the process, however, it reinforced an essentially two-sector model of society that left little room for a vibrant civil society sector. The lack of civil society growth is thus understandable given that it has been historically neglected in the central policy debate.

**CSOs Involvement in Policy**

CSOs are increasingly demanding involvement in the policy formulation process. They argue that they now play a major role in the implementation of the policies that are formulated by the government, especially those that deal with sustainable development and poverty alleviation. In other words, the CSOs’ programs are directly affected by the policies that the government produces.

CSOs feel that in order for the government to formulate policies that are appropriate for sustainable development, their involvement is necessary since they work for development and can make important inputs to the policy making process.

This involvement of CSOs in policy issues will increase the likelihood that the CSOs understand the policies fully as well as ensure that policies are appropriate to the needs of the people, feasible and implementable on the ground. They can use grassroots experiences and innovations as the basis for improved policies and strengthening local capacities and structures for ongoing public participation.

**General Strategies Employed by CSOs**

Covey (1994) provides a clear breakdown of strategies used by CSOs to influence policy. She says that CSOs use five strategies to influence national policy formulation. These strategies are education, persuasion, collaboration, litigation and confrontation. The education strategy is one where the CSOs attempt to give the government a lot of information, analysis and policy alternatives. CSOs also educate the government by creating and testing innovative development approaches that could be adopted by the state. Education is done through workshops, conferences, physical visits and initiation of pilot projects.

Education strategies may also target other groups besides the government such as the public at large, the media, and CSOs or community members.

In using persuasion as a strategy, a CSO acts like a pressure group to press for policy changes and show public support. The idea here is to convince the government that the CSO supported policy or policy change needs to be recognized and enacted into legislation.

Persuasion is done through various means, which cover meetings, workshops, conferences, invitations to the site, lobbying, demonstrations and even strikes. The main aim is to pressurize the government into changing its policy direction.
The collaboration strategy is one where a CSO works hand-in-hand harmoniously with the government. Relations are usually good and amicable between the government and the CSO that is collaborating with it. Collaboration calls for mutual trust between the government and the CSO it is dealing with. It also calls for transparency within the collaborating bodies. That is, both sides need to show all their intentions, interests, needs, goals, agendas, etc. to each other. This is the basis of building trust and relationships.

In the litigation strategy, the CSOs use the courts to press for policy change. When a CSO believes that the law is being broken or misapplied it can take the government or other offending parties to court for the issue to be legally dealt with.

Lastly, confrontation involves protesting in various forms for policy issues. The protests usually involve radical tactics such as violent demonstrations, destroying property, etc. In most cases, relationships between the government and the CSOs become sour and there is a lot of animosity between the two parties.

In Summary

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REFERENCES


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