Hacettepe University Graduate School Of Social Sciences

Department of Economics

Master of Arts in Economics - MA.

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WHY INSTITUTIONS FAIL – THE CASE OF GHANA'S COCOA SECTOR

Mawulom Afi NYAVOWOYI

Master's Thesis

Ankara, 2019

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KABUL VE ONAY

Mawulom Afi Nyavowoyi tarafından hazırlanan "Kurumların Düşüşü – Gana Kakao Sektör Örneği" başlıklı bu çalışma, 21/01/2019 tarihinde yapılan savunma sınavı sonucunda başarılı bulunarak jürimiz tarafından Yüksek Lisans tezi olarak kabul edilmiştir.

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Bu çalışmadaki bütün bilgi ve belgeleri akademik kurallar çerçevesinde elde ettiğimi, görsel, işitsel ve yazılı tüm bilgi ve sonuçları bilimsel ahlak kurallarına uygun olarak sunduğumu, kullandığım verilerde herhangi bir tahrifat yapmadığımı, yararlandığım kaynaklara bilimsel normlara uygun olarak atıfta bulunduğumu, tezimin kaynak gösterilen durumlar dışında özgün olduğunu, Tez Danışmanının **Doç. Dr. Derya Güler AYDIN,** danışmanlığında tarafımdan üretildiğini ve Hacettepe Üniversitesi Sosyal Bilimler Enstitüsü Tez Yazım Yönergesine göre yazıldığını beyan ederim.

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ABSTRACT

NYAVOWOYI, Mawulom Afi. *Why Institutions Fail – The Case of Ghana's Cocoa Sector,* Master's Thesis, Ankara, 2019

The world can literally be divided into two groups- the haves and the have nots. While some countries are associated with wealth and deemed a paradise; due to high living standards, others are noted for hunger, disease and low incomes. There has been significant research to explain the reason for this gap; one of the most recent ones being the institutions hypothesis.

This work examines the problem of inequality in development. This is done by dwelling on existing research on development; and mainly on the hypothesis that inclusive institutions are the key to development. The main aim here is to establish the link between institutions and development and to investigate this relationship, using the cocoa sector in Ghana.

Within this framework, first, an insight into the characteristics of under development in Ghana and in its cocoa growing areas, is given. Second, besides the institution hypothesis, existing researches that have sought to explain the cause of under development, are also reviewed. Then, using economic indicators such as GDP per capita and life expectancy as the measurement units for living standards, a relationship between the development of Ghana on the basis of cocoa sector and development theories, especially the institutions hypothesis is established. This study explains what makes institutions good and why the same results are not duplicated everywhere, especially in Ghana and other developing countries.

Key Words

Development, Institutions, Inequality, Living Standards, Ghana's Cocoa Production.

ÖZET (TURKISH ABSTRACT)

NYAVOWOYI, Mawulom Afi. *Kurumların Düşüşü – Gana Kakao Sektör Örneği*, Yüksek Lisans Tezi, Ankara, 2019.

Dünya, zengin ve yoksul ülkeler üzere iki gruba ayrılabilir. Bazı ülkeler yüksek yaşam standartları ve servetleri dolayısıyla cennette sayılırken, diğerleri açlık, hastalık ve düşük gelirle yaşamak zorundadır. Bu farklılığın nedenini açıklayan pek çok önemli araştırma yapılmıştır ve olanlardan bir tanesi de kurumlar hipotezidir. Bu çalışma, kalkınmadaki eşitsizlik sorununu incelemektedir. Bu amaçla, çalışma kalkınma ile ilgili mevcut araştırmalar temelinde, esas olarak kapsayıcı kurumların kalkınmanın anahtarı olduğu hipotezine dayanmaktadır. Bu tezin temel amacı, kurumlar ve kalkınma arasındaki ilişkisel bağı, Gana'nın kakao sektörünü dikkate alarak araştırmaktır.

Bu çerçevede, ilk olarak, Gana'nın kakao yetişen bölgelerindeki az gelişmişlik unsurları ele alınmıştır. İkinci olarak, kurumlar hipotezinin yanı sıra, kalkınma literatüründeki farklı yaklaşımlar gözden geçirilmiştir. Daha sonra, kişi başına GSYİH ve yaşam beklentisi gibi iktisadi göstergeler, yaşam standartları için ölçü birimi olarak kullanılmış ve Gana'nın kakao sektörü özelindeki gelişimi ile kalkınma teorileri (özellikle de kurumlar hipotezi) arasında bir ilişki kurulmaya çalışılmıştır. Çalışma, iyi işleyen kurumların neler olduğu, aynı kurumların, farklı az gelişmiş ülkelerde özellikle de Gana'da neden farklı sonuçlar verdiğini ortaya koymaktadır.

Anahtar Sözcükler

Kalkınma, Kurumlar, Eşitsizlik, Yaşam Standartları, Gana'da Kakao Üretim.

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INTRODUCTION

After the Second World War and the Cold war, the world became divided into two main spheres: The North and the South. The main distinguishing factor between the two halves, is the level of income and development. Whiles the North consists of rich developed countries who experience consistent increase in surpluses and sustained high levels of income, the South is dominated by countries with low incomes, low standards of living and economic/political instability. The North is made up of countries such as the United States, countries in Europe and some Asian countries like South Korea. The South is represented by countries in sub Saharan Africa such as Ghana, and others in Latin America. There are differences in living standards, in these two halves of the world. Life expectancy in the North is higher than in the South, so is GDP per capita income and other economic indicators. The South has higher levels of poverty, disease prevalence and unemployment. The gap between these two halves of the world seems to be constant: because as the South makes attempts to better its development status, the North keeps increasing their surpluses. There is poverty and income inequality in every part of the world; but in general, poor living standards and poverty tend to be on a greater scale in developing countries like Ghana.

This raises a vital question - "why do some countries remain poor even though there has been increases in world surpluses?". Traditional economists in the past drew the conclusion that an accumulation of capital was the most vital requirement for growth and development. This requirement has been supplemented by other modern theories of development. These theories can be categorized into either external or internal causes. Even though these theories all have a role to play in explaining differences in development indicators, focus would be placed on institutions for the purpose of this study. According to institutionalists, economic indicators-prosperity or poverty are influenced by the rules that regulate the behavior of individuals, firms and the state. The main proposition is that, the difference in standards of living between rich and poor countries are as a result of a difference in institutions. Thus, developed countries have better development indicators than developing countries like Ghana, because, the former has better-established institutions; which function more effectively. These ‘good’ institutions are responsible for regulating political ambition/power, economic transactions and social interactions.

The main objective of this research is to examine the relationship between institutions and development or the lack of it, in Ghana’s cocoa growing areas. This would be done by providing answers and explanations to the following questions:

What institutions are prerequisites for development? Are institutions the main factor for economic growth?

How do institutions foster development? Is the impact of institutions on development direct or indirect?

What influences the formation and functioning of institutions?

After establishing the link between institutions and development, the study turns to analyze institutions in Ghana by answering the following questions:

Are institutions totally absent in Ghana and in cocoa growing areas?

If institutions indeed exist, why don’t they produce the same results as is seen in developed countries?

Are there any differences between Ghana (or other poor countries) and rich countries that are not taken into account, by the institutions hypothesis or other development theories?

This work is divided into two (2) chapters. In chapter 1, historical background information and general characteristics of the Ghanaian economy are provided. Then the causes of poverty and lack of development is analyzed. By using cocoa farmers and cocoa growing areas as a sample space, the chapter highlights:

General developmental issues in the Ghanaian society.

How organization of an economic activity (in this case cocoa production) affects growth of the sector and the living standard of stakeholders (cocoa farmers).

Barriers to growth and development, which are only present in Ghana and other developing countries.

The second chapter dwells on development literature that have explained the inequality in income levels and development. Here, an analysis is carried out, on the propositions of the following development theories and hypotheses.

The Dependency Theory.

The World Systems Theory by Immanuel Wallerstein, based on Dependency theory

Differences in Institutions by Acemoglu and Robinson.

Economic Structure (Collin Constatine).

This chapter examines the role of these theories in understanding causes of under development in Ghana and specifically its cocoa growing regions. A discussion is made on how the theories apply to the research question(s). In cases where the theories do not apply, explanations and possible reasons for the contradiction are provided. The bulk of the chapter is dedicated to studying how existing institutions work in the Ghanaian economy.

The study ends with explanations on why development theories do not always do not produce similar results in both rich and poor countries. Essentially it explores why Ghana's economy and the cocoa sector remain underdeveloped even though there are some institutions present. The chapter ends with how this issue can be addressed.

CHAPTER 1 ECONOMIC GROWTH AND DEVELOPMENT IN DEVELOPING COUNTRIES: A HISTORICAL ANALYSIS

The focus of this chapter is to establish some background information about the economic and development status of poor countries. After establishing the historical and current background, an investigation is made into the causes of lack of development; using a segment of the population. The living standards of people in the cocoa growing regions as well as organization of the sector, in the two top producer countries- Ghana and Ivory Coast are analyzed. The analysis seeks to buttress the assertion that the lack of development in poor countries is a paradox. The paradox is that, like Ghana and Ivory Coast, most sub Saharan African countries remain poor, even though these countries are repositories of essential natural resources, which command high prices and have a constant demand on global trading markets. Why does this economic leverage not reflect in the lives of people in poor countries? After identifying the causes of the paradox, the chapter pinpoints some micro and macro levels similarities between the selected segment (cocoa sector) and the country as a whole. On the micro level, an investigation is made, into the organization and functions of shareholders in the cocoa sector; whiles on the macro level, economic indicators are analyzed on a national basis. The chapter ends with possible reasons that inhibit growth and development; and opens the door for theories on the subject.

The study begins with background information about Ghana, in the contexts of political, geographic, social, history and economic; followed by a focus on recent events and a general outlook for the future.

1.1 A GENERAL SOCIAL AND ECONOMIC BACKGROUND OF GHANA

Ghana is a country located in West Africa, bordered by Burkina Faso to the North, Ivory Coast to the West, Togo to the East and the Atlantic Ocean to the South. From 1902 to 1957, the country, then known as the Gold Coast, was under British colonial rule. It was the first country in sub Saharan African to gain independence; and in 1960 the country became a republic. Soon after becoming a republic, the young country was declared a one-party state in 1964; which was the beginning of a series of significant political events. The first President Kwame Nkrumah was ousted by a military takeover in 1966 and between 1966 and 1982, the country witnessed four successful military take overs. (Berry, 2004).

However, from 1992 till date, the country has enjoyed some considerable amount of political stability with governance under five constitutionally elected presidents. This achievement puts Ghana ahead of many African countries on the basis of democracy and political stability. Also, it has been observed as a major influencing factor for the country's comparative progress and economic prosperity in recent years.

Ghana is located on the West African Coast. It shares borders with Burkina Faso in the North, Togo and Ivory Coast to the East and West respectively; and the Atlantic Ocean in the south. Due to its geographic location, Ghana enjoys a tropical climate with two main seasons: wet and dry. Most parts of the country experience two rainy seasons: from May to June and in September. The vegetation can be divided into two: rainforest primarily present in the South, whiles the North is made up of savanna woodland. Rainfall amount varies between the two belts of the country, ranging from 30 to over 80 inches per year. The land in the savanna part of the country produces food crops such as rice, millet, and sorghum in addition to cash crops like shea, peanuts and cotton. The rain forest supports the growth of food crops which are mainly roots or tubers; and cash crops such as timber, oil palm as well as Ghana's major export crop, cocoa. Cocoa is grown across a "large diagonal belt that stretches across the center of the rain-forest region" and is the country's second largest export; after gold. (Gocking, 2005).

The sector employs about 800,000 farming households among the estimated 28 million people resident in the country (COCOBOD, 2018),(Ghana Statistical Service,). Ghana is a multi-ethnic society and is made up of a host of large and small ethnic groups. The largest among them are the Akan, the Mole Dagbani, the Ewe, the Ga Adangbe, the Guan, the Gurma, the Grusi and the Mande-Busanga (Ghana Statistical Service, 2000) The country is divided into sixteen administrative regions; the capital city and seat of government is in Accra. The two biggest regions by population (Ashanti and Greater Accra) account for 31% of the population (close to 9 million people). (Ghana Statistical Service 2016).

Ethnic rivalry and inequality formed during colonial and post-colonial days, as a result of inequality in the distribution of resources, still continues in modern times. Evidence of this is present in the continuous North-South migration as well as ethnic-based political affiliations. (Asante & Gyimah-Boadi, 2004).

Ghana is the 86th largest economy in the world with a total GDP of $47.3 billion and per capita income of $1641 in 2017 (Worldbank,2018). The main components of the economy are agriculture, industry, manufacturing and service. The contribution of agriculture to the GDP is 18.3%, that of manufacturing is 25.5%, whiles services make up 56.3%. (Ghana Statistical Service,2018).

Agriculture was considered the mainstay of the economy in the past; the share of agriculture in GDP was 49% in the late 1980s, which dwindled to 18.9% in 2016. The sector has been overtaken by service due to inefficiencies in production, marketing and post-harvest losses.

Alagidede et al, 2013 found this shift to actually be an indication of structural change in the economy. A possible cause is that the economy is adjusting to pressures to improve the welfare of the labor force and citizens as a whole. In the long term, it is expected that this structural change would lead to increases in formally organized economic activities. This is not the case in Ghana, as informal arrangements continue to dominate the organization of economic activity.

1.1.1 ECONOMIC OVERVIEW - MACROECONOMIC VARIABLES:

In this section, recent significant developments in the economy of Ghana are discussed to provide a picture about the current state of the economy in terms of fiscal and monetary positions. This would give a background information about policy changes and to lay a foundation for future economic projections.

Ghana seems to be benefiting from over two decades of political stability and prudent domestic economic policies. In 2001, the country joined the HIPC initiative. HIPC which stands for 'highly indebted poor country', is a debt relief program initiated by the IMF and the World Bank. It was in essence an agreement between the two international bodies and major creditors to reduce the debts of poor countries that met certain criteria. Ghana's external public debt was significantly lowered from a whopping 157% of GDP (in the 1990s) to 26.1% in 2006 (Alagidede et al, 2013).

Simultaneously, monetary policy was targeted at reducing inflationary expectations, which led to stability in the foreign exchange market and brought down interest rates. As a result of this stable macroeconomic attributes, recorded real GDP growth was 5.9% in 2005, from an average of 5.5% between 2000-2004. (OECD, 2006). A main component of growth was in agriculture which benefitted from favorable weather conditions and better agrotech practices and management. Cocoa production witnessed a 30 percent boost in output in 2004 and even though it decreased by 20 percent in 2005, the net increase was still higher than previous years. (OECD, 2006).

Since 1992, Ghana has always recorded a fiscal deficit, with the exception of 1994 and 1995. (See figure below).

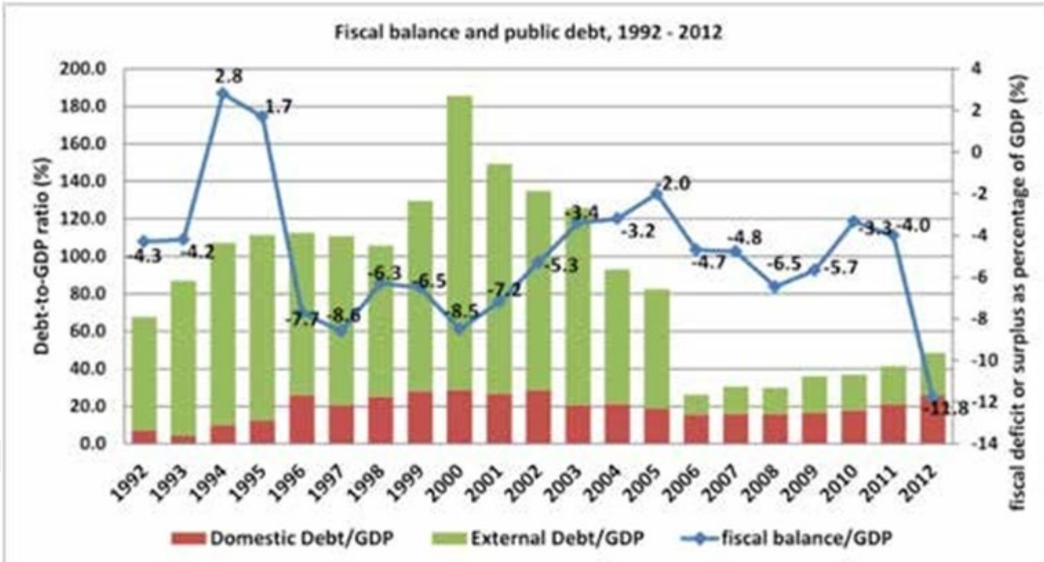

Figure 1 Fiscal Debt

Source: (Alagidede et al, 2013).

Also, a picture of government budget in recent years can be seen in the table below.

GOVERNMENT BUDGET (% OF GDP) YEAR	2010	2011	2012	2013	2014	2015	2016	2017
Domestic revenue	17.4	20.8	21.2	19.7	21.1	21.4	19.4	19.4
Grants	2.4	2.1	1.6	0.8	0.7	1.3	0.7	0.8
Total expenditure	26.0	23.8	28.6	29.9	28.2	27.3	30.6	25.3
Overall balance	-6.3	-4.3	-11.5	-11.0	-10.2	-6.9	-7.9	-6.3
Domestic primary bal.	0.1	2.9	-1.6	-1.7	3.2	4.1	0.5	3.3

Table 1 Government Budget as Percentage of GDP

Source: Constructed from data in Bank of Ghana Annual 2014 Report.

The main sources of government revenue are taxes, social security contributions and grants. Government revenue is spent mostly on employee compensation, interest payments, grants to government agencies and other transfers.

Sources of higher expenditure and hence fiscal deficit in recent years include the following:

Single Spine pay Structure: This was a 2010 policy to increase salaries of civil servants.

Decelerated growth. In 2014, the economy experienced a contraction in the industry and services sectors; as a result of the effects of the currency depreciation on input costs, slumped domestic demand and frequent power outages.

Rising inflationary pressures due to currency depreciation and monetary financing of the fiscal deficit such as the issuing of bonds.

Due to the consistent deficits, the main goal of government macroeconomic policy in recent years, has been to reduce the GDP to debt ratio; which the Central Bank planned to do by rationalizing expenditure and enhancing revenue collection. Government receipts in 2017 totaled GH¢41.5 billion which represented 20.2% of GDP but was below the revised target of GH¢43.1 billion (21.4% of GDP). Receipts consisted of tax revenue (77.7%), non tax revenue (12.8%) and grants made up (3.7%). Payments for the year were 0.4 percent below the budgeted amount. Payments totaled GH¢52.0 billion, representing 25.3% of GDP against the revised budget amount of GH¢52.2 billion (25.8% of GDP). 87.8 percent of all payments come from recurrent expenditure while capital expenditure accounts for the remaining 12.2 percent. (Bank of Ghana,2017).

Overall, the government recorded a budget deficit which equaled 5.9 percent of GDP which was lower than the 6.3 percent revised target. The deficit was financed by domestic sources. (Bank of Ghana,2017).

Having provided a picture of the economy in the past decade, the most recent happenings and future projections will now be discussed.

In 2017, the fiscal deficit dropped from 9.3% of GDP (in 2016). This was achieved through expenditure cuts (1.3% of GDP), imposed on recurrent and capital expenditures. Public debt in December 2017 was estimated at 69.2% of GDP, an improvement over the 73.4% in 2016; reflecting a growth in GDP and a slowdown in debt accumulation.

Growth in the mining and oil sectors expanded the economy by an estimated 8.5% in 2017 as against 3.6% the previous year. The foreign exchange market saw a stability in Ghanaian currency, the Cedi and a simultaneous rise in foreign reserves. A source of this growth was a stronger performance in the commodity market: higher earnings from oil, gold, and cocoa, and a decrease in imports. (The World Bank,2018). This was a significant improvement over the 2010-2014 figures; which saw a contraction in the economy, adversely affecting other indicators and resulted in an IMF bailout.

After a steady growth in economy from 2010, the Ghanaian economy slumped into stagnation in 2014 where the growth in economy was only 4.2 percent whiles CPI inflation scaled up to 17 percent, twice the Central Bank's expected 8 (+/-2) percent range. The slump in growth was promoted by rising interest rates, unemployment, rising public debt, currency depreciation and electric power shortages. In 2015, the International Monetary Fund approved a three-year Extended Credit Facility program worth $918 million towards an economic reform program in Ghana. (IMF, 2015).

The main aims of the reform were to:

- Restore macroeconomic stability and promote higher growth.
- Achieve fiscal discipline: control public expenditure and ensure transparency in public finance.
- Promote private sector activity and boost investor confidence.
- Reduce poverty

(IMF,2015).

After considering the macroeconomic position in terms of the monetary and fiscal movements, as well as stabilization attempts to keep the figures in control, an overview of recent events in the financial sector will now be studied.

The year 2017 saw the beginning of disruptions in the financial sector of Ghana. In August 2017, two collapsed local banks were taken over by the Ghana Commercial Bank through a Purchase and Assumption Agreement. As part of the government's attempts at cleaning up and boosting confidence in the banking sector, the Bank of Ghana (Ghana's central bank) revoked the licenses of five banks on the grounds of poor corporate management and dishonest practices. The five banks were merged into one, which was to be run by the state. (Bank of Ghana,2018). The immediate effect off this was a further debt accumulation for a country which is still under an IMF bailout. To clear off the banks' debts, government issued bonds totaling $1.2 billion (GH¢ 5.7bn); a move which will consequently affect the taxpayer because of its toll on public debt. (Government of Ghana, Ministry of Finance and Economic Planning,2018). In 2018, the Central Bank raised the minimum operational capital requirement for banks, from GHS 120 million ($25 million) to 400 million ($83.5 million) Note: Exchange rate for July 2018 averaged GHS 4.79 to $1) Banks who fail to meet this requirement by December 2018 are to get their licenses revoked or have their statuses reduced. (Bank of Ghana, 2017). The response of affected banks has been possible merger talks, lobbying for an extension of deadline and others have turned to the stock market to raise the additional required capital.

The fluctuations in the Ghanaian economy, especially the slump in growth after 2010 affected the foreign exchange market as well. The cumulative depreciation of the Ghana cedi to the US dollar from 1990 to 2013 is 7,010.2%. For the same period, the annual weighted depreciation of the Ghanaian currency against its US counterpart was 20.4% (Nortey et al, 2015). The currency also experienced an instability and depreciation crisis between 2013 and 2016 as a result of fluctuations in the world commodity market and domestic problems.

Even though the period between 2010 and 2014 did not show a positive outlook for the economy, a little light flickered at the end of the tunnel in 2015, with the country experiencing a reduction in poverty levels. As part of the Millennium Development Goals (MDGs), Ghana prioritized poverty reduction and was the first sub-Saharan African country to reduce poverty by 50 percent in 2015, as required by the Millennium Development Goals (MDGs). (UNDP,2015). Notwithstanding, an estimated 10 percent of the Ghanaian population are living in extreme poverty; with majority of people in this bracket living on less than the global poverty line of $1.90 a day. (Poverty Clock Report, 2018).

Thus, poverty still remains a major obstacle to development; or perhaps a sign of the lack of development. In the country dynamics, poverty rates show differences in location: between the North and the South with people in the North being poorer than those in the South. (World Bank,2011). In order to bridge the gap between the two areas and also to reduce poverty in the country as a whole, the government of Ghana has undertaken some initiatives to reduce the poverty level, improve inequality and general living standards. Notable among these policies are:

The Free Basic Compulsory Education which promotes education for citizens at the basic level which comprises the first 11 years of school; and benefactors are children between ages 4-15. A free senior high school education system has also been introduced for the 2018/2019 academic year.

The National Health Insurance Scheme which is a state-run health insurance project which pools funds together to provide health insurance benefits. The bulk of the scheme's revenue is from a levy taxed on goods and income.

Livelihood Empowerment Against Poverty (LEAP) which is a poverty reduction initiative that makes cash transfers to beneficiaries.

Mass youth recruitment.

1.1.2 CURRENT FIGURES AND PROJECTIONS:

Projections and estimates for the future are influenced by historical and present data. After discussing the most recent movements in the Ghanaian economy, the study now proceeds to provide estimated future performance figures. Future projections serve as a guide for policy recommendation. The country experienced a drastic reduction in economic growth from 14% in 2011 to 3.5% in 2016. In 2017, with a growth rate of 6.3% the economy made a recovery which was facilitated by growth in nonoil sectors, lower inflation, and new hydrocarbon wells. "Over the medium term, economic growth is expected to accelerate to 8.5% in 2018 and then moderate at 6.2% in 2019 as the budget and current account deficits narrow amid lower inflation and falling interest rates" Fiscal performance is expected to improve: revenue is expected to be boosted via more efficient revenue mobilization, increases in oil production and controlled spending. The budget deficit dropped from 8.9% of GDP in 2016 to 4.7% in 2017. ()

Inflation has seen a gradual drop from 19.2% in January 2016 to 12.2% in September 2017 and 9.9% in August 2018. The findings of African Economic Outlook (2018) showed that Ghana's economy has a positive outlook but certain challenges are prevalent: The country stands a risk of facing debt crisis and higher financing costs as a result of a strong US dollar and rising global bond yields which contrasts with the price fluctuation of its exports.

"The country's heavy reliance on primary commodities, including cocoa, gold, and oil - all prone to volatility in international commodity prices - create uncertainty about its actual future paths for growth, inflation, export receipts, and domestic revenue." (Michael Geiger, World Bank, 2018). Abundance of natural resources and poverty is a common plague of developing countries and Ghana is no exception. The aim of subsequent discussions is to bring to the fore, what roles institutions in Ghana play in this paradox and how the situation could possibly be improved. A focus is placed on the cocoa production sector in Ghana; the economic and social lives of cocoa farmers and how that is related with the income or poverty specifications of the country as a whole. First a discussion on the causes of the above-mentioned paradox is carried out.

1.2 THE PROBLEM WITH RESOURCE-RICH COUNTRIES

There has always been an inverse relationship between the natural resource wealth and the economic development indicators of poor countries. Out of 65 countries which qualify as natural resource rich, studied between 1970 and 1998, only four had an annual growth of 4% in GNP per capita on average. These four namely Botswana, Malaysia, Thailand and Indonesia also had investments worth 25 percent of their GDP. (Gylfason, 2000). Resource rich in this context refers to the ownership in abundance of oil, minerals and other natural resources. The above statistics will be a backdrop for analyzing the cocoa sector in Ghana.

The following table provides some economic development indicators among the top cocoa producing countries. As mentioned earlier, abundance of natural resources is inversely related to development. A data analysis is performed next to give a better picture.

Table 2 shows how cocoa production is distributed among the regions of the world.

Table 2 Cocoa Production Among Regions of the World.

	2015/16	Estimates 2016/17		Forecasts 2017/18		
Africa	2923	73.1%	3625	76.4%	3490	76.1%
Cameroon	211		246		240	
Côte d'Ivoire	1581		2020		2000	
Ghana	778		970		880	
Nigeria	200		245		240	
Others	153		145		130	
America	677	16.9%	739	15.6%	748	16.3%
Brazil	141		174		170	
Ecuador	232		270		260	
Others	305		295		318	
Asia & Oceania	397	9.9%	379	8.0%	349	7.6%

Indonesia	320		290		260	
Papua New Guinea	36		40		40	
Others	41		49		49	
World total	3997	100.0%	4744	100.0%	4587	100.0%

Source: International Cocoa Organisation (ICCO), 2018.

It is observed from the table that Africa produces more than 70% of the world's cocoa. Given that most African countries are primary producers and exporters, the relationship between cocoa output and development can provide a picture of other sectors of the economy. Now a look is presented on the living standards in top cocoa producing countries. Table 3 shows a list of the top ten cocoa producing countries in the world and some economic indicators pertaining to them.

Table 3 Economic Indicators in Cocoa Producing Countries.

COUNTRY	GDP PER CAPITA ($)	LIFE EXPECTANCY (years)	HDI	% of POPULATION LIVING BELOW POVERTY LINE
Ivory Coast	1,662	55	0.474	46.3
Ghana	1,641	63	0.592	24.2
Indonesia	3,846	69	0.694	9.8
Nigeria	1,968	55	0.527	60.9
Cameroon	1,446	58	0.495	37.5
Brazil	9,821	76	0.759	7.9
Ecuador	6,198	76.5	0.752	35
Mexico	8,903	77	0.774	43
Peru	6,571	75	0.75	21
Dominican Republic	7,052	74	0.736	30.5

Source: Constructed from World Bank World database, 2017).

From the table it is observed that, only among the top 10 cocoa producers, about only four (Brazil, Ecuador, Mexico and Dominican Republic) have a per capita income greater than $3896; to qualify as upper middle-income status; the other six are lower income.
As expected, per capita income is positively related with life expectancy. Life expectancy is on average 75.5 years in the three upper middle-income countries, and 61years in the lower middle-income countries. Only two (Indonesia and Brazil) of the top ten cocoa producers have less than 10 percent of their population living in poverty, Ironically the top producers (African countries), who account for more than 70 percent of the world's produce are lower middle-income countries with larger percentages of the population living under poverty. The average life expectancy in these countries is less than 65 years.
As posited, there is an inverse relationship between cocoa output and income figures. The upper middle-income countries churn out a lower percentage of global cocoa output whiles their high output counterparts have low per capita income. Perhaps unlike in low income countries, the bulk of GDP or export revenues in high income countries, are not derived from natural resources. A case in point is the Mexican economy, which thrives mainly on industry and services. Perhaps the economies of the upper middle-income countries are better managed or there are certain growth inhibiting attributes which are only peculiar to Ghana and other poor countries. The inverse relationship between abundance of natural resources (cocoa and the selected development indicators is a common paradox in economic development literature. Possible reasons for this paradox are discussed next.

According to Gylfason (2000), the phenomenon can be explained by the following factors
a) Dutch Disease: A strong explanation for the inverse relationship between high resource and low development, is a phenomenon which economists call the Dutch disease. This refers to an economic problem where an improvement in a sector of the economy (mostly natural resource production) is linked with adverse effects on other sectors. The idea is that resource rich countries possess resources that are crucial for industries or consumers on the local and international front. These resources are listed on the international commodity market and priced in foreign currency, usually in US dollars. Export of resources, and thus receipts of foreign currency boosts a country's economy by increasing its foreign reserves.

An increase in supply of foreign currency causes an appreciation of the domestic currency in respect to foreign currencies. If the appreciation is consistent, the domestic currency may experience over valuation over time. When this happens, imports from the country would be expensive to foreigners, causing a low demand. Even though the resource is a major source of foreign revenue, it is only one of the many income generating goods for the domestic economy. Hence a decreased demand for the other goods causes substantial decrease in revenue. A slump in revenue or a lack of it makes it difficult for governments to attain their goals in economic growth as well as social intervention policies. Even though resource-rich countries earn substantially from the export of their resources, the appreciated value of their currency has a negative effect on the performance of other sectors or export goods. As a result, government revenue and development indicators are adversely affected.

b) Rent seeking is the practice using a nation's resources to generate wealth for certain individuals, without giving back to society. A common example for resource rich countries would be government offering privileges such as tariff protection to domestic farmers. Also, corrupt practices put resources in the hands of only a few people, whiles the society wallows in want. (Gylfason, October 2000).

c) Low skilled labor: Resource based economies are mainly primary producers. Primary production involves the growing, harvesting or excavation of natural resources. These activities make use of low high labor-intensive skills rather than capital or skill. The quality of human resource found in primary sectors is low. It is difficult for this type of labor to diverse their skills, i.e. work in other industries (Gylfason, 2000).
The study now turns to examine the nature of cocoa production in Ghana.

1.3 THE COCOA PRODUCTION SECTOR IN GHANA.

In this section, a review of the cocoa sector in Ghana is done. The organization of cocoa related institutions is discussed, followed by pricing and processing of cocoa beans.
Ghana is the second largest cocoa exporter in the world, and cocoa is the top crop export of the West African country. The revenue from the cocoa industry represents about 30 percent of Ghana's total export earnings (Anthonio, D. C. and E. D. Aikins (2009). "Reforming Ghana´s cocoa sector - an evaluation of private participation in marketing" 2009; Gockowski J. et al.,2011 Increasing income of Ghanaian cocoa farmers: Is introduction of fine flavour cocoa a viable alternative. USDA, 2012). In 2011, cocoa bean and products export receipts for the first quarter was $859.4 million, making up 61 percent of total export earnings.

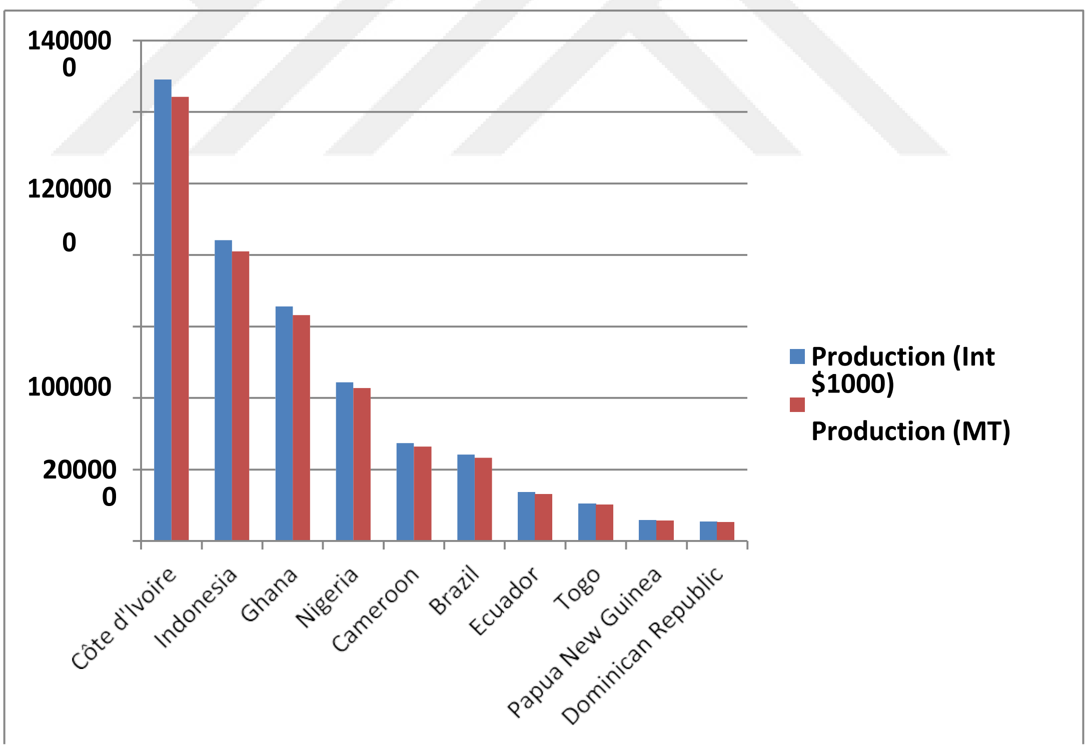

Figure 2 Top ten cocoa producing countries in 2010 (USD, tonne).

Source: FAOSTAT, 2010

The Government of Ghana maintains dominant control of the cocoa industry; exercising a monopoly over the purchase and export of cocoa beans. Regulation and monitoring of operations is done by the Ghana Cocoa Board (COCOBOD). The board is mandated to:

- Control domestic marketing and export activities.
- Supervise research.
- Provide extension services.
- Sell seeds to farmers.
- Ensure quality.

The Government of Ghana is responsible for setting purchasing price and season for buying cocoa beans. From cocoa growing areas, the cocoa beans are bought and sold to COCOBOD by obligation; by private entities called Licensed Buying Companies (LBCs) and the state board in turn sells it.

Even though the government exercises a monopoly on buying and selling, it has a liberalization policy on sales and distribution of. The policy is to promote private sector participation in the economy.

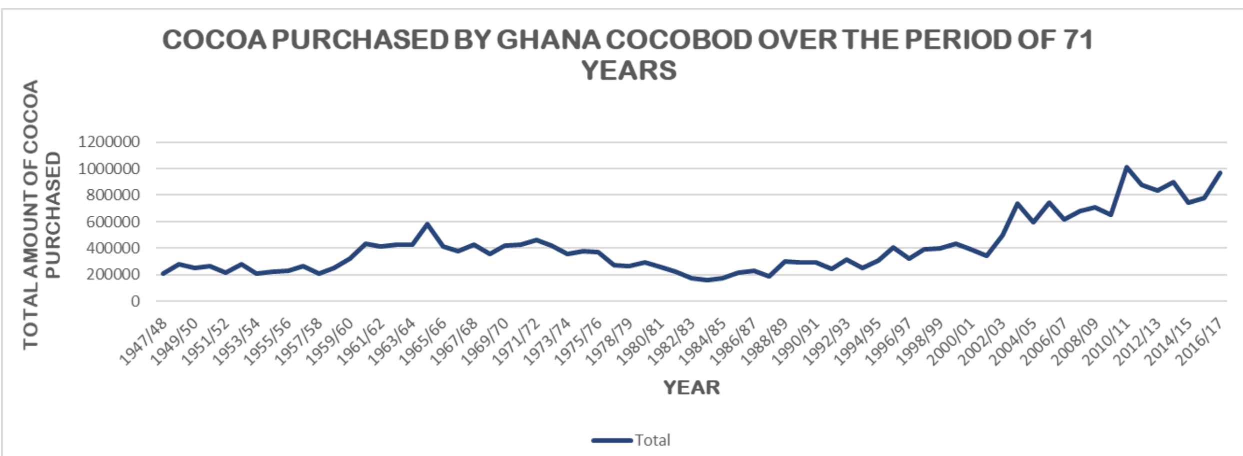

Figure 3 Cocoa purchased by COCOBOD

3 Source: Constructed with data from COCOBOD

Quantity is measured in tons. Assuming all the cocoa produced is bought by the state board so supply=demand.

From the figure it is observed that cocoa production fluctuates almost every year and by wider margins over significant periods. Between 1947 and 1957, production went up by

100% and then again by 50% between 1964 and 1966. However, this growth was short-lived as production dropped by 33% in the years that followed and dropping further to 66% in the 80s. According to a USDA report in 2012, the government was a main player in rendering support to the cocoa sector as well favorable weather conditions over several years. Support generally took the form of:

1) Pest and disease control (which resulted in few cases of pests and diseases especially black pod, swollen shoot disease and capsid insect attack;

2) Fertilizer application

3) Promoting more efficient agronomic practices

4) Higher prices paid to farmers (this encouraged high production)

5) Rehabilitation and replanting of old farms

6) The development of hybrid cocoa seedlings with higher yields and;

7) Improved infrastructure such as road rehabilitation works in cocoa growing communities (this has facilitated the transport of high volumes of the dry beans to the ports) (USDA,2012). The millennium saw positive growth in output. A major increase in recent times is seen in 2010/2011 where there was an increase by approximately 36%. However soon after that, the industry was faced with dips reaching up to 20%. Perhaps majority of the trees were close to the end of their lifespan (USDA, 2012).

Cocoa is purchased with syndicated loans by the government. The COCOBOD secured a $1.5 billion trade-finance agreement with a consortium of 12 foreign banks to finance the purchase of cocoa beans from growers in the MY 2010/11 season. (USDA, 2012).

The price of cocoa in Ghana is not liberalized. It is fixed and controlled by the government. For instance, when there are improvements in world market prices, the government adjusts producer price upwards. The aim of the GOG is for the farm gate price of cocoa beans to be at least 70 percent of the Free on Board (FOB) price. This policy has largely created incentives for the farmers/producers to increase production. Also, they are encouraged to manage their farms as a viable business enterprise. (USDA, 2012).

The majority Ghana's cocoa is exported either as dry bean or in processed form. Smaller volume light crop cocoa beans are sold to domestic processing firms at a discount. (Quality of light crop bean is the same as the main crop; light crop beans are only smaller in volume) (USDA, 2012).

The beans are turned into primary products, such as, liquor, butter, powder and cake. Processing is done by four major domestic firms and about 90% of the end products is exported whilst the remaining ten percent is used in the production of confectionery products. The local confectionery market is made up of about ten (10) companies engaged in the production of products such as chocolate, cocoa beverages, cocoa powder, sweets, ice cream, and chocolate drinks.

The preceding information has given a snapshot of the cocoa industry in Ghana. Since this study is focused on investigating a common trend in developing countries, it is prudent to evaluate the Ghanaian cocoa; side by side with another country (Ivory Coast). Ivory Coast, the world's leading exporter of cocoa in the world shares a lot of similarities with Ghana; from geographic location, colonial and political history, social structure, population, GDP per capita and other economic indicators. The discussion seeks to explore the organization and dynamics of the cocoa sectors of these two West African neighbors. By doing this, an observation is made on the similarities or differences in the organization and impact of a common resource: cocoa. Also, attempts are made to answer the following questions:

What common conditions exist in both countries? Do they produce the same results? Can the differences in income and living standards be explained by differences in institutions? How would the differences/similarities affect policy recommendation or change?

1.4 COMPARISON OF COCOA PRODUCTION IN GHANA AND IVORY COAST.

1.4.1 IVORY COAST BACKGROUND

The name Ivory Coast seems to have become redundant in modern times as the country is now identified with its cocoa production more than anything else. The West African country is the world's highest producer of cocoa, generating 1,448,992 tons of cocoa beans which represents as much as 40 percent of the world's cocoa; and fetched the country $3.74 billion in revenue. (The Atlas on Regional Integration in West Africa,2017).

The closest rival to Ivory Coast is Ghana which churns out only 58 percent of Ivory Coast's production. (Smallholders, defined in this context as those having farms of less than five hectares in size, are responsible for over 80 percent of Ivorian production)

The cocoa industry in Cote D'Ivoire is regulated by the Coffee Cocoa Council. Pricing and purchasing are done by this state-run body. In the late 1970s, Cote d'Ivoire emerged as the world's largest cocoa exporter cocoa. The country accumulated $1.5 billion in export revenue from its cocoa and coffee which was at the time, worth 53 percent of total exports. (FAOSTAT 2006 Country Profile: Cote D'Ivoire). Cocoa has increased to over 70 percent of agricultural exports, with agricultural exports now still accounting for 43 percent of total merchandise exports.

The Liberalization of the Cocoa Sector in Côte d'Ivoire and its Consequences.

The Stabilization Fund (CAISTAB) performed the following functions:

- Determined the purchase prices.
- Collected taxes.
- Compensated for any decreases in the prices paid to exporters (maintained paying a guaranteed price. (The Atlas on Regional Integration in West Africa,2017).

In the 1980s, three main factors caused adverse effects on the prices and revenue from cocoa.

- The deregulation of international commodity markets,
- The establishment of global private groups
- The rise of new competitors (Indonesia and Malaysia).

By 1985 price of cocoa beans had taken a dip. The immediate redemption measure was to accumulate stock in order to push prices up. This initiative proved futile and in 1989, the country began a process of liberalization; with its main effects being:

- The dissolution of the CAISTAB in 1999. The aftermath of that was, major international groups (Cargill, Archer Daniels Midland and Barry Callebaut) began to spell trading terms for the industry.As a result, plantation price was halved; which reduced the participation of local exporters and also made it difficult for farmers to access credit.

In 2012, the government made some changes to the organization of cocoa and its administration. The main feature of these reforms is the change in benefactors of government backed economic support. The reforms favor smallholder farmers over conglomerate cocoa grinders. It consolidated several administrative marketing boards into one centralized governing authority, known as the Café Cacao Council (CCC).

The priority of the reform was to ensure farmers received 60 percent of the world cost, insurance, and freight price (CIF). This was in deep contrast to the previous system which was focused on maintaining the competitiveness of Ivorian cocoa products in the western world. In the old system, marketing boards published “indicative” farm gate prices, which middlemen were encouraged to pay. More often than not, farmers received much less than this indicative price—about 65 percent of it, and only somewhere between 20-40 percent of the international CIF price. In 2011/12, farmers on average earned about $1.29 per kilogram, despite a recommended price of $2 per kilogram. In addition,

1. Spot purchases were replaced by forward-auctions. The aim of the CCC is to use forwards to maintain the price floor and encourages investment in ageing plantations. The forward auction system facilitates two daily auctions for export contracts. Contracts, which detail bean quantity and export period, are allocated after the marketing board has considered all bids. However, there is little transparency in the selection process.
2. Prohibition of exporters from purchasing more than 10 percent more beans than they have the right to export. The objective is to minimize secondary market trades between exporters.

3. Barring exporters from paying above the government-fixed price scale. (The Atlas on Regional Integration in West Africa,2017).

1.4.2 DIFFEERENCES AND SIMILARITIES BETWEEN GHANA AND IVORY COAST'S INDUSTRY

- Ghana started off with government-controlled state backed economic support, Cote D'Ivoire created some room for private initiative.

  In Ghana, private cocoa buyers disappeared after the country gained independence in 1957. In turn, the industry was run by cooperatives controlled by the state.

  When Côte d'Ivoire gained independence in 1960, a declaration "la terre appartient à celui qui la cultive" (the land belongs to those that cultivate it) was made by the President-Planter Houphouët- Boigny. The result was a land-rush on the part of both farmers and agro processors; not only for cocoa but other products such as palm, rubber and fruits. However, a state-run agency SATMACI was set up to provide farmers and producer groups with extension services as well as access to equipment and other farm inputs. (The Atlas on Regional Integration in West Africa. 2017).
- Vulnerability to Fluctuations. Both countries were hit by a drop, in world prices in the 1960s leading to a crisis, necessitating some policy adjustments. In Ghana, although production reached a peak in 1964 with 500,000 tons, the crisis led to an economic wise decline and the COCOBOD was compelled to bring back an era of liberalism, as private buyers returned to the market. (The Atlas on Regional Integration in West Africa, 2017).
- Gains in Ivory Coast, losses in Ghana: In 1969, Ghana lost manpower and skills due to a mass expulsion of foreigners by a state legislature. Most of these expelled foreigners made their way into Cote D'Ivoire and must have contributed significantly to the growth of the industry there. Cote D'Ivoire further embarked on an aggressive cocoa policy (free provision of improved seedlings, loans and

subsidies), leading to unstoppable spurts in growth. (The Atlas on Regional Integration in West Africa, 2017). Ghana on the contrary suffered a drop in level of production in the 1970s although there was a hike in world prices. This was as a result of dilapidated road networks and deteriorated cocoa plantations, coupled with fraudulent exports. Attempts by the state to curb the situation by funding inputs and labor to establish plantations, proved futile. (The Atlas on Regional Integration in West Africa, 2017).

The period between the late 1960s to the early 1980s were among the most unstable in Ghana's political history. There were four military takeovers averaging to one coup every four years. A timeline is provided below:

1966: The first president Dr. Kwame Nkrumah is overthrown whiles in China.

1969: Dr. K.A Busia is elected as second and a new constitution is drawn.

1972: President Busia is overthrown by Col. I.K. Acheampong.

1978: General Akuffo takes over charge of the country from Gen. I.K. Acheampong.

1979: General Akuffo is overthrown by Flt Lt Rawlings.

1979: Dr Hilla Liman is elected president.

1981: President Liman is overthrown by Flt. Lt Rawlings. (Berry, 2004).

For a very young country at the time, the effects of this rampant political instability were economically excruciating. Military administrations and civil conflicts as in the case of Ivory Coast are by default a disincentive to investment and growth (Abbot, 2007). Most of the time, the new leaders attempt to use their positions to get rid of the inefficiencies of the old system. As is most often the case, these 'inefficiencies' are rather deepened in the following ways:

1. Disruption in the country's leadership and administration disrupts daily economic activities such as production and trade because it results in panic, change in policy and suspension of rule of law.
2. The priority of military governments is often getting back at the overthrown administration at the expense of furthering economic growth. A lot of time and state resources are spent on bringing the previous administration to book

3. Military governments do not last long in most cases. They do not stay long enough to fix the problems they intended to correct and often, they easily break down from internal struggles or are pressurized to hand over to a democratically elected government.

Coups are a recipe for uncertainty and stunted economic activity. It is therefore not surprising that the cocoa output of Ghana in the 70s suffered in the wake of the political instability discussed above.

1.4.3 EMERGENCE OF NEW COMPETITION IN COCOA SUPPLY

The 1980s and 90s were not very favorable for cocoa exporters.

The emergence of Indonesia and Malaysia as significant producers of cocoa

There was a continued fall in world prices which lasted until the mid-1990s.

Regulatory and support mechanisms for producers rapidly ran out of steam: budget restrictions, layoffs in production, outreach and research support structures, followed by competition between the COCOBOD and private enterprises (1993) and the CAISTAB's bankruptcy. (The Atlas on Regional Integration in West Africa, 2017).

Thereafter, multinationals began to dictate conditions to the entire sector, leaving planters with no choice but to accept the price offered. Eager to better control the quantity and quality of their supplies from planters, they found ways to get closer to them (credit, pre-financing of harvests). They also set up processing and semi-manufactured product units. With limited means, local competitors found themselves unable to fight them, thereby leading to a decrease in the number of actors in the sector. Finally, despite a theoretical purchase price fixed at the start of the agricultural season, small producers experienced a drop, in income, especially in Côte d'Ivoire. (The Atlas on Regional Integration in West Africa. Economy Series, 2017).

1.5 COUNTRY SPECIFIC ISSUES: GHANA

Even though Ghana and Ivory coast are the biggest producers of a commodity with no perfect substitutes and elasticity of demand close to zero, the two countries remain poor. Obviously mass production in one industry is not enough to cause holistic development; there are other factors that influence poverty levels and other areas of the economy that determines income levels. However, since the cocoa industry forms a significant part of agricultural exports, which in turn makes up a majority of the total economic output as well as export, a study of the institutions governing the cocoa industry should provide a reflection and base for the other export revenue generating industries.

I examine some institutions which affect the cocoa industry and also contribute to development or lack of it. Beginning from a microeconomic point, the study focuses on the wealth and welfare of cocoa farmers in Ghana. First, reasons are explored to explain the poor standards of living in cocoa growing regions, stemming from low output, low income and poor infrastructure. The reasons to be discussed propose that a lack of education and technological capital affect productivity whiles limited access to basic social amenities reflects a negative standard of living.

WHY ARE COCOA FARMERS IN GHANA POOR?

Economic activities in the cocoa sector comprise farming, trade, transportation and processing; which employ about 2 million people (World Bank, 2011). Cocoa is grown in the forest zones of Ghana, mostly in rural underdeveloped communities. The yardstick for development in this context shall be the availability of proper infrastructure, access to potable water, electricity, health facilities and higher educational establishments.

(cocoaconnect.org the standard of living of Ghanaian cocoa farmers)

In Ghana and Ivory Coast, like in many developing countries, there are wide gaps between infrastructure and development in the capital/big cities, and the rest of the country. Perhaps resources are not enough to provide basic amenities in these places or there is no significant incentive to do so.

EDUCATION: Cocoa is farmed by local farmers with little or no formal education. Farms are owned by families and are passed down to generations. Most of the skills needed for cocoa production are passed down or learned by doing and also by word of mouth. Any specialized or technical need is met by the extension services provided by the government board. It is reasonable to conclude that education or the demand for higher education is not the biggest welfare issue for cocoa farmers. Cocoa farmers often send their children to schools outside their communities for higher education and those children are likely to migrate to the big cities afterwards. There is therefore no urgent call or need for higher education institutions in cocoa producing areas as this is not directly linked to higher production. Only 10% of cocoa farmers operate under high technology that can guarantee yield of about 1400 kg/ha. From the year 2000, a number of output-enhancing policies such as the cocoa pests and diseases program aimed at increasing farmers' productivity through adoption of high technology, were institutionalized by COCOBOD. (Asamoah et al,2013). However, the question is, having institutionalized this policy for over a decade; to what extent have these policies impacted on farmers' living conditions compared with the general national standards. Only 11 percent of rural areas compared to 72 percent of urban households had access to pipe - borne Water, while 27 percent of rural and 79 percent of urban people had access to electricity (Ghana Statistical Service, 2008).

Due to the rural nature of cocoa growing areas, population and population densities are low. There are comparatively more abundant life sustaining plants and water resources than in urban areas. People have been able to survive solely on natural provisions such as rainwater and sunlight for centuries. Of course, the water bodies are not safe, the weather patterns unreliable and electricity could increase productivity; but the available alternatives seem to be adequate and if they are not, it doesn't directly affect cocoa production, hence the incentive to provide them is reduced. There is no legislation that stipulates the distribution of national income/expenditure or the provision of infrastructure and other amenities, based on the revenue generating capacity of an area. So, in spite of the fact that these rural areas earn the country hundreds of millions of dollars, there are no provisions binding the central or local governments, on the distribution of export revenue. It can be argued that cocoa growing areas benefit from all national development, economic and social policies.

However, for some reasons, these areas still lack behind in development areas such as literacy rate and health. Incentives create institutions and institutions are established and managed on a cost benefit analysis basis. If a group of people stand to benefit from the existence of certain institutions and risk losing significantly in their absence, then the said institutions would be promoted and consequentially established. Given the liberalization policies in the cocoa industry, cocoa beans are bought from farmers by private licensed firms and then sold to the state backed entities. Private firms and owners exist as profit making, cost minimization organizations. The core of their activity is to find the best quality cocoa beans; and definitely not intervening in macroeconomic or development issues. Based on the cost benefit analysis approach, since the development or lack of it, in cocoa growing areas do not directly affect the output quantity and quality of cocoa beans, there is rationally no incentive for private purchasers to champion the cause of developmental projects or policies.

These private entities may as part of their social corporate responsibilities, offer some support to communities but there are currently no laws that demands their obligation to do so. Hence, the onus seems to lie on the state agency to provide a good standard of living for people in cocoa growing areas. This is being done is by imposing a price floor and regulating the purchases by private entities whiles the rest of the responsibility is shifted to the central government.

If roles were reversed and private entities were in charge of selling and exporting, would the government be pressurized to provide the needed amenities?

Income of cocoa farmers are meagre as it is. Coupled with that, most of their expenditures are made in farm inputs and personal consumption; and are just enough to meet needs till the next harvest season. There are few investment or banking institutions in rural areas. Modern investment tools are still foreign to many farmers, most of whom have only basic education and suffer from path dependence. Farmers suffer from path dependence and prefer to invest their money in new farmlands or improving their current ones. However, this type of investment is vulnerable to price fluctuations on the world commodity market, pests and disease outbreaks and loss in soil fertility.

In addition, farmers are often cushioned from price instabilities; as well as benefit from obtaining credit facilities made possible by the state board, COCOBOD. This reliance may have created a lack of demand for external finance or credit facilities.

The preceding discussion has focused on the cocoa farmers themselves. In the next discussion, focus is shifted to external factors that prevent growth of output and income.

1.5.1 FACTORS THAT INHIBIT GROWTH AND EXPANSION: SOCIO-CULTURAL FACTORS

A) Land Ownership and Acquisition: In Ghana, the traditional and primary form of land ownership is through family inheritance. Cocoa growing areas happen to be less urban and consequently more homogenous in terms of indigenous ethnic and family groups. Even though there may be non-natives who farm in these areas, the land, in most cases is owned by natives. Cocoa farms are the most ideal form of investment in these areas and the resource is kept in the family as much as possible. People gift farmlands to their relatives and as is usually the case, children inherit these farmlands from their parents. This is a good form of future security but the size and value of the resource are affected by horizontal expansion in the family tree, time and diminishing returns.

Assuming a family owns ten hectares of land which is equally inherited by their five children in the event of the parents' demise. Each of the children (2nd generation) now owns two hectares of cocoa farmland. If each member of the second generation has four children (3rd generation), they (the 3rd generation) will be entitled to 0.5 hectares of land each, and the pyramid base grows larger in size. For each increase in the family tree, there is a decrease in land size per capita which corresponds to a decrease in output and income holding all other things (improved technology, higher prices of output) constant. Owing to the fact that land is the most important resource and the dominant income generating capital, it is put to use as efficiently as possible. Efficient in this context implies that the land is hardly allowed to 'lay waste' in fallow periods. In the long run this affects the fertility of the soil and result in significant diminishing marginal returns. A direct effect of land fragmentation is that technological or and largescale production is inhibited. From the discussion made above, it was concluded that the traditional form of land acquisition and ownership promotes fragmentation and reduced output and income per capita of land owners. Owing to the fragmented nature of land, economies of scale from large scale cropping are forfeited and low income makes it difficult to employ high technological inputs.Owing to the lack of technological farming, there is a high labor demand for labor in the sector. However, this labor must be cheap for low income reasons and farmers would often employ their immediate family on the farm. Thus, the birth rate in cocoa growing areas tend to be higher than the national average; resulting in a high dependency ratio. To obtain an optimum or semi optimum level of production, labor input has to compensate for the lack or low level of technological input. If the farm and cocoa production is related to the number of children, then the children will be socialized in the skills of the trade and are most likely to carry on with the trade. Given that cocoa farming is the predominant economic activity in these areas and with low levels of education two things are likely to happen:

Children of farmers/landowners will grow up to continue the trade of their parents

Those who do not, who earn a higher income from other careers would have a high number of family depending on them. This is because the Ghanaian society is structured in a way that makes family welfare some sort of group not individual responsibility. Children are expected to take care of their parents in their old age as well as their siblings or other relatives who may not be well off financially.

Besides the socio-cultural factors, the problem of high dependency ratio is compounded by the absence of social security programs for aged workers in the informal sector. These issues affect income levels and distribution. Next, the problems of growth are analyzed from an economic perspective.

1.5.2 ECONOMIC FACTORS THAT INHIBIT GROWTH IN THE COCOA SECTOR.

a) Low Demand for Chocolate Products in Ghana.

A sweet and confectionery culture is not an existing norm in Ghana or Ivory Coast. The highlight of a report on cocoa production in Ivory Coast in featured a shocking revelation of a cocoa farmer who had never tasted chocolate. Without taking into consideration, the diet culture, urban rural differences in specific regions, it is easy to ascribe the revelation as one of the typical paradoxes every inequality/development literature points out, about life in poor countries. The real paradox is that demand for cocoa/chocolate products is actually low in exporter countries such as Ghana; for the following reasons:

Coffee shop type of recreation is a foreign/developing culture. Traditionally, people met in groups in open spaces to entertain themselves (community centers, school or community park, local bar). These open places were reasonable walking distance from the home of partakers. Coffee shops have started springing up but the few that exist, only operate in the urban areas. Diets of people are mainly carbohydrates (roots, tubers), meat and vegetables. People do not have teeth sweet enough for sweets. There is no dessert culture as seen in western countries. People here make do with drinks from locally grown ingredients such as maize and oil palm or fruits which have always served as substitutes for confectionery.

Most chocolate products are processed abroad, making them expensive for poor/low income families. Users of chocolate however use a bulk of it in their breakfast which consists of liquid beverages. A bulk of these consumers are not farmers. In a typical farming community, the day starts early and long hours of manual work is put in. Obviously, a farmer needs more than a glass of hot chocolate to start his day.

There is however a constant demand for cocoa products such as cocoa butter lotion and cocoa beverages mainly used as breakfast. There is thus a correlation between culture and economic factors: culture is a significant factor which affects the demand of cocoa products in Ghana. An aspect of economics that is also a main contributing factor to growth or lack of it, in the cocoa sector, is industrial organization. How does industrial organization inhibit growth in the cocoa sector?

1. First, there exists a monopoly over chocolate production: The main producer of Ghanaian chocolate and largest domestic demander of cocoa is the Cocoa Processing company of Ghana (CPC). CPC was established in 1965 during Ghana's industrialization wave. It became a limited liability company in 1981 and has been listed on the Ghana Stock Exchange since 2003.Currently the company produces seven main flavors of chocolate, one type of chocolate spread and three kinds of cocoa powder for beverages. A major trademark of the company is its non-additive policy in its products, that is, no cocoa butter substitutes are found in its products, which makes Ghanaian chocolate quite unique in terms of ingredients.

   Perhaps demand could by stimulated but there exists a very a narrow array of cocoa/chocolate products which does not make them competitive. On the other hand, imported chocolate has an uncountable array of flavors and sub products. The demand for made in Ghana chocolate is still comparatively high but could it be improved if there were more products?

   Could there be an improvement if the company had competition?

   Would competition maybe increase consumer welfare? How?

   What protection is being given to the company and how does that affect other companies from entering the market?
2. The export of chocolate / processed cocoa products is low: A common feature of under developed countries is that they export primary products; that is unprocessed natural resources/raw materials. The processing of turning cocoa beans into chocolate and other related products involve many steps/processes in the industrial chain. Even though cocoa beans are the main ingredients for confectionery products, the value added to the cocoa beans is proportionally greater to the value of the finished product.

   It is therefore in line with economic principles that manufacturers and retailers of chocolate products earn more in proportion to the cultivators of the beans. If Ghana or other developed countries could export value added products instead of just raw materials, their revenue could be higher and terms of trade, better. Why are these countries not doing this then?

- Cost of industrial machinery is high
- Opportunity costs of import substitution are high
- Path dependence
- Inability to meet required tastes or preferences of importers

Still on the growth inhibiting factors, institutional failures that negatively affect prosperity among cocoa farmers and the industry as a whole, will now be considered.

3. The Presence of Unregulated Market Activities Such as Smuggling: Cocoa trade is regulated by central government agencies. These bodies set a price floor for the product and make it illegal for anyone to sell above or below it. However, each country sets its own price which may be different from the price offered on the commodity market. If the price of cocoa is higher somewhere else and transportation costs are low, there is an economic incentive for farmers to sell their cocoa in the countries with higher prices. This practice even though economically efficient is illegal in some circumstances. A typical example is seen in the across border smuggling of cocoa between Ghana and Cote D'Ivoire who are neighboring countries with porous borders.
4. The Lack of Collective Action, Bargaining Power: It has been discussed how the system of land acquisition encourages fragmentation. This fragmentation is not only in the physical structure but can also be seen in the organization of farmers. If farmers came together as an interest group they could act with pressure on the cocoa market. On the macro-economic level, the largest producers could also form some form of oligopoly that allows them to control price and or output. Like OPEC, the cocoa growers could influence prices and more importantly get them skewed in their interest. The most obvious way collective bargaining could be effective is the coming together of renters or so-called caretakers of farmlands. These are the people who actually cultivate the cocoa trees on farmlands leased to them by landowners. They could come together for better leasing terms, payment and land use since they are the worst off in the production chain.
5. A Principal Agent Problem or Conflict of Interest: The main type of farming system in cocoa growing areas is sharecropping. Under this system, a landowner rents out

his land to a caretaker who cultivates it and gives two thirds of the farm output to the land owner. Land ownership is tied to crops grown on the land. If the tenant farmer at any point in time, for any reason does not have cultivated plants on the rented piece of land, the farmer has the right to take back possession of the land. The agreement between the renters and owners is informal and not enforceable by any legal authority. There is a general lack of trust in this circumstance. More importantly there is a principal agent problem. Farmers are compelled to do what they can to keep possession of their rented land even if it means sacrificing proper care and maintenance. Landowners may be more concerned with high crop yields at a time whiles renters may want to devote more efforts to keeping the land fertile over a period of time. While renters may want to apply more inputs such as fertilizers or practice fallow periods, it may be expensive (real and opportunity costs) for farmers to do this. This can affect the optimum level of productivity; farmers may continue cultivating the land even when it needs a rest, just so they do not lose it. Farmers would shy away from taking long term decisions about the farm since ownership of land is not guaranteed in the future. The pressure to meet the demands of landowners may affect quality in favor of quantity.

In addition, government support and benefits are usually given to the landowners since they are the registered individuals for transactions (such as sales of cocoa beans) with the government regulating body. It is ironic that the landowners who have a better income are the recipients of the social benefits from the cocoa regulating board. Recently, there have been plans to introduce a social security program to support cocoa farmers in their old age. As expected, the beneficiaries would be the registered individuals who happen to be landowners. Caretakers even though they play a major role in the cocoa production chain, do not directly benefit from the revenues and social programs provided from cocoa revenue. These programs include scholarships, access to health facilities and the newly proposed social security. Even though the COCOBOD is providing some social interventions and benefits from cocoa revenues, there is still a large proportion of workers in the industry who do not obtain access to these interventions due to the fact that they are neither recognized nor accounted or budgeted for.

Just like scholarships and health facilities, measures and policies are constantly formulated to improve the livelihood of cocoa farmers. These policy interventions made by the sector's administrative bodies hardly achieve the intended impacts in the areas targeted. The reason for this is summarized in what is dubbed the 'floating problem' in this study.

1.6 THE FLOATING PROBLEM OF POLICY IMPLEMENTATION (A CONTRAST TO TRICKLE DOWN ECONOMICS)

As seen previously, even though there are established institutions there equally exists a gap in the functioning of these institutions and their expected results. The policies of Ghana's COCOBOD for instance, does not often have a direct impact on the living standards of cocoa farmers. Thus, even though formal institutions are present at the top, there is little reflection of their presence at the bottom; i.e. the income and living standards in cocoa growing regions. This can be described as a contrast to the trickle-down theory. The floating problem as used in this discussion shall be used to refer to the situation where prosperity at the top of an organization has no direct impact on its lower levels. The wealth, organization or policies in a particular sector or chain, is not observed at lower levels of the chain. The bottom shows startling differences in characteristics, from the top. Whiles the top lives in abundance, the bottom is often impoverished due to a failure of wealth/welfare to trickle down. When there is an increase in growth, a significant portion 'floats' on top instead of benefiting all members in the sector, as expected. The COCOBOD is one of the richest autonomous bodies in the Ghanaian public sector. The organization owns facilities such as 'Cocoa clinic' located in Accra and offers services to elite family and friends of COCOBOD. Such is the stratification so much that, the clinic does not operate as a full public health facility; neither is it the first point of call for ailing cocoa farmers. To start with, it is located hundreds of kilometers from the cocoa growing regions which are usually served by health posts. Even though COCOBOD runs on cocoa revenue and a government budget of which cocoa export revenue forms a large proportion, there has not been an efficient way for the prosperity of COCOBOD to flow into cocoa growing communities.

Another instance of the floating problem is seen in the office of the administration of COCOBOD. Appointments are made based on educational competence, experience or political affiliation. Hardly would you find someone with experience in cocoa farming working at the head office of COCOBOD let alone head it. Even though heads of the institution may have interests in cocoa farming, owning some farms or a share in outputs, it usually happens after the appointment and in most cases, through corrupt mechanisms.

A logical reason why Cocoa farmers do not take active part in the administration is they lack the necessary qualifications in terms of education. However, due to corruption, scholarships targeted at cocoa farmers do not go the right people, defeating the purpose of the scheme. Furthermore, administration takes more of a bigger budget than production: Cocoa revenue may be substantial but so is the budget for its administration. A lot of the revenue generated from cocoa is spent on administration rather than in procuring more production inputs and services. The government has shown interest in investing in production by supplying fertilizers, pesticides, extension services, and most importantly establishing a cocoa research institute. Most farm inputs are sold to farmers only at subsidized prices but a lot more could be done. The COCOBOD does not seem to have first-hand interest in the production because it does not directly make the purchase from farmers. It responds to issues about farming more out of established responsibility rather than precautious initiative. The buyers who are private organizations do not have firsthand interest either: cocoa farming is only a business for them and with government regulations (price controls for example), they naturally will not desire to incur further costs by directly investing in production.

SUMMARY

The discussion made in this chapter so far has identified some features of developing countries. Even though Ghana is mainly discussed, developing countries exhibit similar characteristics so much that there is such a term as ‘third world problems’; which signifies problems that cut across less developed countries. These common issues include poverty, hunger, huge public debts and fiscal deficits, and bad infrastructure; with this chapter throwing more light on poverty and low standards of living. Poverty is linked with low income receipts which stems from low earnings and over dependence on a particular - (primary) product. In addition, trade transactions made involving this product, is not reflected in the lives of the producers. There is a gap between the level of endowment in terms of resources and the level of endowment in terms of personal incomes or standards of living. Least developed countries serve as depositories of globally marketable commodities such as gold, cocoa, coffee and oil. As seen among cocoa farmers in Ghana and Cote D’Ivoire, even though these sectors are vital to the economy due to their income generation abilities, there is no matching prosperity in the lives of producers or direct stakeholders. The production/extraction of natural resources such as gold, cocoa, coffee and oil provides a main source of constant revenue to the national accounts of low income countries. The earnings from these resources form a colossal share of export earnings and GDP. Given its importance to the economy, there are established institutions that manage and regulate these sectors to make them sustainable and to make sure their revenues are being put to judicious use. Unfortunately, these institutions and the other stakeholders, mainly farmers seem to be existing in different worlds. While the institutions seem to be creating avenues that are expected to enhance social and economic status, there is no direct impact of such policies in the lives of the ‘bottom’ stakeholders. This has been denoted as the ‘floating problem’ and the analysis holds for several resource rich countries. That producers of resources stay poor because revenue and policies designed based on the existence of these resources, fail to seep through the layers, i.e. from the policy makers to policy targets.

This analysis was based on a specific group in the societies of low-income countries. It can equally be extended to a whole country, since poverty in resource rich countries is not applicable to only stakeholders in export-oriented sectors, but a majority of the population.

The factors that prevent majority of people in most resource rich nations as a whole, from benefitting from their resources have also been discussed. It has been shown that being a victim of the Dutch Disease, low skilled labor, having a false sense of security and the existence of rent seeking behaviors are among the factors responsible for the poverty in resource rich countries. This list is however not exhaustive.

This chapter ends with the proposition that countries have different backgrounds and cultures; as well as unique problems. These factors also affect policy implementation and, in some cases, hinder their effective performance. That the differences in history and culture affect growth and development efforts, is one of the main propositions of this study.

The adverse dynamics of being a resource rich country and the effects of the floating problem are somewhat limited to a unique type of society. One where there is a stark difference and ‘virtual barrier’ between the rural-urban, leader-follower, components of the population. This barrier may be established by differences in education levels and economic interests and incentives.

After studying countries subject to these conditions, the page has been opened for a more comprehensive study into the causes of poverty in other countries in general. The answer to the question ‘why do some countries remain poor’ has been given by other research works. These theories which have a more general outlook on causes of poverty and low economic indicators, are subjects for discussion in the proceeding chapter. The objective of this study, is to explain how universal theories work; and why they do not work for all countries.

CHAPTER 2: THEORIES, HYPOTHESES AND PROPOSITIONS ON UNDERDEVELOPMENT

Development literature is filled with a fair amount of eye-opening research, which have attempted to answer the question "why have some nations remained poor in the face of worldwide improvements in living standards, technology and economic surpluses?" Notable among the researches and theories that have attempted to answer the question above, are:

- Economic Structure
- The Dependency Theory
- The World Systems Theory
- The Institutions Hypothesis

In this section, the causes of non-development are analyzed, based on these existing theories, hypotheses and propositions. Dependency and world system theories demonstrate how the lack of development in Ghana and its cocoa sector is influenced by external forces which function as a system to keep certain countries rich, and others poor. The Economic structure and institutions hypotheses portray how development in the Ghanaian economy can be promoted by altering internal factors such as production and rules that govern production and the society. The chapter makes a concise summary of the main arguments made in the mentioned studies. Next, it analyzes these works, based on their roles and impact in developing countries. Essentially, the contents of this chapter shall identify where the theories of underdevelopment apply to underdevelopment among shareholders in Ghana's cocoa sector. Where the evidence provided by the theories is not sufficient or does not correlate with existing evidence, possible reasons for the unexpected difference would be explored. The main propositions and arguments made by these theories are discussed next, beginning with Dependency Theory.

2.1 DEPENDENCY THEORY

Dependency theory was born in the 1950s as a result of the attempts of Raul Prebisch (the then United Nations Economic Commissioner for Latin America) and his colleagues to unearth the reasons why economic growth in industrially advanced countries did not necessarily result in growth in the poorer countries. (Ferraro,1996). Dependency theory is basically based on the premise that poor countries remain poor because of their constant dependence on rich ones. Dependency theory describes the world as shaped in such a way that, some countries are favored to the detriment of others. Whiles the favored group undergoes expansion, development possibilities are limited in the other group. (Dos Santos, 1971). The theory grew as a contrast to modernization theory which stipulates that countries have to go through series of stages: from traditional to modernity, in order to become developed. Thus, to become developed, underdeveloped societies have to eliminate traditional norms and structures, making way for a change in their social, economic, and political structures. (Valenzuela &Valenzuela 1978).

For dependency theorists, poor countries stay underdeveloped because there is a current world system which prevents them from developing; and not necessarily because of corrupt and authoritarian governments. This system of dependency is what makes it possible, for rich countries to exploit poor ones and inhibit their growth and development. Poor countries are particularly called 'underdeveloped' by dependency theorists; because it is believed that their problem is the fact that they are not fully utilizing their potential for development. Dependency theorists have divided countries of the world into a number of groups which are as follows:

The Core Nations- The core refers to developed and powerful nations. For example, USA

Periphery of Core Nations-These are developed nations that are not as powerful as the core. (developed but not as powerful. For example. Canada).

Core of periphery: This group consists of developing countries that possess great wealth but not so much power. An example is BRICS).

Periphery of the Periphery: are the ones with low GDP and low standards of living. (Afolabi, 2015).

These groups are also broadly divided into two main ones- core and periphery or dominant and dependent: The relationship between the groups is that, the countries in the periphery depend on the core. (Ferraro, 1996).

Below is an illustration of how the system looks.

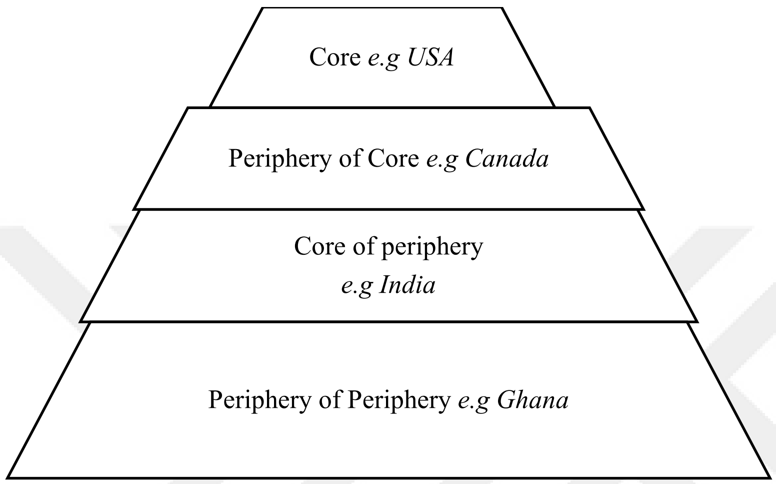

Figure 4 Dependency Theory pyramid

Source: Author Created.

Basically, every group serves the interests of the groups above it, in the pyramid. All countries serve the interests of the Core whiles the Periphery of the Periphery serves the interests of all other groups. The Core of the Periphery serves the interests of the Periphery of Core and the Core nations whiles the Periphery of the Core serves the interests of the Core. How is this possible? There are three fundamental assertions made by dependency theorists.

International division of labor: According to dependency theorists, there exists a division of labor among rich and poor countries, or the core and the periphery. Labor in the core nations produce industrial, technological output and research and development services whiles those in the periphery work mainly in agriculture and resource extraction. Industry in the core uses the cheap raw materials from the periphery to manufacture sophisticated and more expensive goods, which the periphery imports, to meet their needs.

Class Distinction: In all countries, in all groups there is a division between the rich (economic and political elite) and the poor. The main objectives of the elite in all countries, is to ensure their continuous stay in power and also to increase their wealth. Given their interests, the elites tend to cooperate with one another to keep the system unchanged.

Global Capitalism: The above labor and class distinctions exist together in a wider system characterized by global capitalism. Economic theory on trade and finance, is dominated by liberal ideologies. Also, core countries use Multinational Corporations and financial institutions as tools to serve their interests. Thus, global capitalism is characterized by dominance and exploitation and systems that promote the interests of the wealthy/the core. The system is built and run by the core to promote their interests; hence there is very little room to serve the interests of the poor and tackle underdevelopment.

In addition, some unique characteristics of dependency theory are as follows:

It makes a distinction between undevelopment and underdevelopment. Undevelopment is the condition where resources are not being used whiles Underdevelopment denotes the situation where resources are being actively used, but in a way, which benefits dominant states and not the resource owning state. It can be concluded that Underdeveloped countries are poor because their role in the European dominated economic system is only to supply raw materials or cheap labor.

Dependency theorists argue that dependency and underdevelopment are sustained by dominant states, as well as through the power of elites in the dependent states. Elites in poor countries maintain a dependent relationship "because their own private interests coincide with the interests of the dominant states". Elites in dependent countries share the values and culture with elites in dominant states. This is because they receive training in dominant states. These elites believe that enforcing statutes of the dominant states such as liberal economic policy, can be the cure to underdevelopment. (Ferraro, 1996). Proponents of dependency theory believe that "national interest can only be satisfied by addressing the needs of the poor within a society, rather than through the satisfaction of corporate or governmental needs." Dependency theory proposes that Ghana's cocoa sector remains a primary sector and has not seen much industrialization, because that is the systematic position in the world economy. How such a system is developed and maintained, is the main idea developed by, world system theory which is discussed next.

2.2 THE WORLD SYSTEMS THEORY

A world system is defined as a social system, characterized by defined boundaries, structures, membership, legitimation rules, and coherence. Life in a world system is made up of the conflicting forces which keep the system together by tension. Any attempt to remold the system to the advantage of any group may cause the coherence in the system to break down. Similar to an organism, a world system has a life-span during which some aspects of its features experience change while others remain unchanged. Its structures can be described as being strong or weak at different times. A defining unique characteristic is that, life within a social system is 'largely self-contained, and that the dynamics of its development are largely internal' (Wallerstein, 1974).

Historically, there has been two types of such world-systems:

World-empires- This is a type of world system in which there is a single political system over most of the area, even if the degree of effectiveness of its control is reduced.

World Economy: In this system, there exists a single political system which does not exist over all, or virtually all, of the space.

The focus for this study would be on the world economy which is controlled by capitalism according to world system theorists. Capitalism is described as the political side of the economic organization that has kept the existing world economy from becoming a world empire. According to Wallerstein, capitalism has flourished because the world economy is composed of and bounded by multiple political systems. (Wallerstein, 1974).

Wallerstein describes capitalism as an economic mode which is based on the fact that economic factors operate within an arena larger than the control ability of any political entity. This has helped capitalism progress whiles remaining structurally based and has made it possible for the world system to constantly expand, even though the distribution of its rewards is very skewed. A possible form of world system which could be an alternative to capitalism is a socialist world government. The quality of the socialist system that makes it a preferred option is that, it would use a reintegration of the levels of political and economic decision-making, in order to maintain productivity and change the system of distribution. Capitalism is seen as a system of surplus appropriation which essentially creates profits for the elite. For capitalism to remain in full force, the following 3 conditions must be adhered to:

- Constant expansion in production.
- Externalization of costs- for example costs from pollution are pushed on the nation state.
- Presence of strong nation states.

The capitalist world economy is divided into three main groups: the core, the semi periphery and the periphery. The core is made up of countries such as the USA, Canada, France, Germany, Japan and the United Kingdom. The semi periphery comprises of member of BRICS as well as countries such as Mexico and Ireland. The periphery is made up of countries such as Haiti, Afghanistan, Zimbabwe, etc. The core nations control and exploit the natural resources and labor in the peripheral countries. Moreover, this relationship is stable as it is difficult for a country to move from the periphery into the core. How does the system work to exploit poor countries?

1. Economic resources (including labor) are constantly being shifted to the core. This results in the periphery being in constant debt to the core; vis-à-vis foreign direct investments and trade deficits. The immediate effects of these deficits are devaluation of currency, privatization of state-owned enterprises and reduced public sector employment.
2. There is a skewed income/capital redistribution, in favor of the core. The core states efficiently accumulate capital both internally and externally whiles the periphery lose theirs as a result of unequal exchange with the core. In the core states, capital is accumulated through effective tax policies, government purchasing, investment in research and development and infrastructure development.
3. On the external front, the core protects and amasses capital by utilizing its political, economic and military power to enforce unequal exchange. It is the use of this power that makes it possible for the core to dump unwholesome products on the periphery, dictate lower than free trade prices for raw materials imported from the periphery, exploit cheap labor, erect trade barriers and impose quotas. (Wallerstein, 1974).

Is dependence of the periphery on the core nations a by-product of the established world system, or is the dependence promoted by the type economic structures in the periphery? The relationship between economic structures and development, is discussed next. World systems theory has so far given an insight into how the dependency relationship between the dependent and dominant countries, is maintained. Both theories- world systems and dependency, show that the efforts of Ghana to develop its economy, society and cocoa sector, are a function of global (external) relationship. Dependency theory classifies Ghana and other countries as either dominant or dependent and identifies their features and relationship among them. The World system also classifies countries into two main groups and has demonstrates how the relationship between the groups are sustained by capitalism. These theories provide some quality intuition about the reasons for underdevelopment in Ghana and similar countries. However, as mentioned earlier, there are two types of causes-external and internal. The two theories have explored the external factors but this is not adequate to answer all the questions posed in this study. This is because, the two factors -internal and external are interrelated and reinforce each other. To have an adequate explanation on developmental issues, internal factors are also studied, beginning with economic structures.

2.3 ECONOMIC STRUCTURES PROPOSITION

In the 1990s, endogenous theorists proposed that the differences in wealth among countries was related to differences in research and development, human capital, technical change and capital accumulation. (Aghion et al,1992), Grossman et al (1991), Romer (1990). Even though this development prerequisite had been spelt out clearly, it was obvious that poor countries were not putting it to practice. What is the reason for this? This section would focus on the endogenous factors that facilitate/ prevent the growth and development of economies; beginning with economic structures and later the institutions hypothesis. Economic structures argument asserts that production and the returns on production has an important role in determining whether nations would be poor or rich. Institutionalists maintain countries are poor because they lack the necessary institutions that would propel

them to invest in capital or technical changes. According to Acemoglu and Robinson (2012), economic growth is a function of economic and political institutions. This proposition is not without flaw according to economic structures proposition (Constatine 2017 Economic structures, institution and economic performance). Constatine observes that whiles endogenous theorists have ignored the role of institutions, institutionalists have also overlooked the importance of economic structures in the growth process of an economy. Economic structures are the sum of a country's productive structure which can be seen in the country's technological capabilities. Production capabilities can either cause increasing or decreasing returns. A country has increasing returns productive structure if its economy is dominated by high technological goods; and a decreasing return if it mainly produces low or no valued added commodities.
(Constatine,2017,).

A major proposition from the Economic Structures camp is that, countries whose economies are dominated by activities that experience decreasing returns are more likely to remain poor. This is due to the fact that decreasing returns negatively affects the effectiveness of institutions, which subsequently affects growth.

The main argument put forward by the economic structures hypothesis is that, economic performance depends on the production structure of an economy. Thus, robust growth in an economy is directly related to the production of commodities that have increasing returns. (Andreoni et al, 2014). (Nelson&Winter,1990).

Commodities which have increasing returns are usually produced under imperfect competition, which positively affects growth in the following ways:

1. Higher and more sustainable prices: wages and profits are higher as compared to economic activities produced in highly competitive industries. Studies show that imperfectly competitive market structures are more conducive for innovation and technical progress. (Dasgupta & Stiglitz,1980), Nelson&Winter (1990) & Schumpeter (2008).
2. Economic activities with increasing returns serve as a proximate source of innovation.

3. Increasing returns are an important source of economic diversification. This is because the technology used can be readily applied in the production of a variety of other commodities, leading to further growth.

A main difference between the economic structure and the world systems and dependency theories is that, the economic structure focuses on the internal whiles the others on external factors. Whiles the external factors posit that the lack of development in Ghana and its cocoa sector could be a result of global relation and pre-determined systems, the economic structures maintain than the Ghana's primary production system and contribution to world output, is the main reason why the country is not developed. Economic structures are not the only internal factor that could explain the lack of development in Ghana's cocoa sector. Production structure is influenced by rules of state and society, which is the main idea promoted by the institutionalists; and which would be examined next.

2.4 INSTITUTIONS

This work seeks to highlight the impact of institutions on development. It is apt therefore to consider the propositions of institutionalism before making an analysis of the preceding theories. Acemoglu and Robinson posit that the key to development and the source of underdevelopment is the lack of 'good institutions.' The authors of 'Why Nations Fail' divide institutions into two broad types- inclusive and extractive. Inclusive institutions are those that promote political freedom and inclusion as well as protect property rights; whiles extractive institutions do the reverse. Inclusive institutions are believed to be the ideal type of institutions required for development; because they create conducive environments for innovation and exchange. The authors maintain that differences in institutions account for the differences in wealth; after analyzing countries under other development hypotheses, showed flaws. These include the ignorance hypothesis, the geography hypothesis and the culture hypothesis. According to Acemoglu et al, these three hypotheses do not explain "neither the origins of prosperity around the world nor the lay of the land around us". (Acemoglu & Robinson, 2012). They do not provide enough reason as to why most countries in sub-Saharan Africa such as Ghana are poorer than their counterparts in

Western Europe or East Asia. Also, why some nations, such as Mexico and Peru adopt institutions that make their citizens worse off; whiles other nations like the United States or England, adopt institutions and policies that have positive welfare impacts. A summary and shortfalls of these hypotheses are discussed next. This would prove how the relationship between these hypotheses and the institutions hypotheses. Also, it demonstrates how institutions are indeed a better solution to the development problems of Ghana.

THE GEOGRAPHY HYPOTHESIS: The geography hypothesis maintains that the difference in wealth and prosperity rich and poor countries is created by differences in geographical settings. Whiles poor countries are located between the tropics of Cancer and Capricorn, rich nations are found in the temperate zones. (Acemoglu&Robinson, 2012). French political philosopher Montesquieu held the proposition that people in tropical climates were poor because they were lazy; and also tended to be ruled by dictatorship governments. This view has been modified in recent times- the relationship between geographic location and productivity/ prosperity has been shown to be indirect rather than direct. Ghana happens to be in the tropics with its cocoa growing regions found in the interior part of the country, predominantly rural areas. Could the geography hypothesis be the cause of poverty? It is shown that diseases such as malaria which is prevalent only in tropical areas, have negative impacts on health and productivity of labor. In addition, the land in tropical countries have not been proven to generate productive agricultural output. (Acemoglu &Robinson, 2012). However, the geographic argument is flawed taking into account the following examples. First, there is very little difference in the geographic characteristics between North and South Korea; yet the same cannot be said about their economic prosperity. Second, there was a similar economic disparity between East and West Germany, which were only divided by a wall. Also, the city of Nogales in divided between Arizona USA and Mexico by just a fence. The fence does not alter the geographic makeup on either side, but there are stark differences on the two sides of the fence, in terms of economic indicators. For example, the income of the average household in the north of the fence (Arizona USA) is about $30,000 a year. However, households in the south (Mexico) live on one-third of that amount. Literacy and school enrolment are higher in the USA side than the Mexican side; and so is life expectancy. People to the south of the fence do not have access to many public amenities, coupled with bad road infrastructure and high crime rates. Given these examples, it can be observed that it is the systems and institutions that make countries/towns more prosperous than their neighbors. (Acemoglu & Robinson,2012). Even with the tropical disease argument, it is observed that diseases are a result of poverty, not the cause of it. Certain diseases are still prevalent as a result of governments' inability to eradicate them via effective public health policies, as was done in developed countries such as England. England used to be an unhealthy place to live, in the nineteenth century until the government invested in effective health services, clean water and proper sewage management. Are tropical countries poor because their soil is not rich enough? No. It is observed that even though tropical soils tend to be thinner and more vulnerable to water erosion, this is not the major factor for the poor agricultural output in poor countries. It is rather, the ownership structures of land and the incentives provided for farmers by the governments and institutions that directly contribute to the output in these countries. This was seen in the Ghana's cocoa sector example, in chapter one. Acemoglu & Robinson (2012) made the following conclusion, based on the above illustrations.

Disparities in productivity, income or development between cities/countries have got nothing to do with the environmental location but with institutions. As seen, people enjoy good health because they practice better health care and generally have better access to health facilities- a result of good institutions. The US has institutions that enable people to acquire education and skills training, encourage business transaction in a risk free, safe environment. This encourages investment in high technology, which reflects in high wages. Politically, the institution of democracy makes it possible for the people to elect and replace their own representatives; making the latter accountable and obliged to meet the people's demands. In countries such as Mexico however, people live in inferior sanitary conditions and establishing a business come with a risk. The way in which institutions function are different from the US case; it creates different incentives for investment which account for the difference in prosperity. (Acemoglu & Robinson, 2012).

Thus, the answer to the question "why is country A poor and B rich?" cannot be adequately answered by geography but is mostly explained by the differences in institutions. If the differences in the living standards can easily be observed, and given that people would prefer high living standards, why then don't low income countries adopt the ways of their developed peers? Is it perhaps because low income countries do not have the right ingredients for achieving similar growth or they are following the wrong recipe? The possibility that poor countries are poor because they do not know the right things to do is summed up in what is called 'the Ignorance Hypothesis' which would be discussed next.

THE IGNORANCE HYPOTHESIS: According to this proposition, there exists an inequality in wealth and prosperity because leaders in poor countries do not know what policies or measures to take to make their countries rich. This analysis is based on the ideals of English economist Lionel Robbins that defined economics as a "science which studies human behavior as a relationship between ends and scarce means which have alternative uses." There exists a market economy if people have the freedom to choose which economic transactions (what to produce, sell or buy) to engage in; anything contrary to this arrangement is considered a market failure. (Acemoglu & Robinson, 2012).

The fundamental argument raised by ignorance hypothesis theorists is that there are a lot of market failures in poor countries and these countries remain poor because their policy makers do not know how to and have followed the wrong methods to fix these 'failures'. Rich countries on the other hand, are rich because they know the right policies to utilize in eliminating these failures. An example of how the ignorance hypothesis can cause obstacles to development is seen in the case of post-independence Ghana. The country under its first president embarked on an industrialization program; some of which were failures due to the way they were structured. For instance, there was a mango canning plant established in a part of Ghana where mangoes were not even grown. The output of the said plant was to be more than the entire world demand for the product. Also, there was a shoe factory situated in the middle of the country, for which the supply of leather only came from the north of the country. The finished goods were then to be sent to the south for sale since demand was concentrated in the south. Needless to say, both projects couldn't be sustained and have since been abandoned among others. (Acemoglu & Robinson, 2012). What is important to note is that, it wasn't that the president didn't have the right people to advise him-people like Tony Killick and Nobel laureate Sir Arthur Lewis were available for the job. The driving force behind the irrational development policies was the fact that the post-independence government was using the industrialization program to buy political support, in order to sustain his undemocratic regime. The story was not different during the tenure of the second government which was democratic but equally initiated unsustainable economic initiatives. There were price controls, managed through marketing boards and the country experienced an overvalued exchange rate. The common thing between this democratic government and the previous undemocratic one, is that industrialization policies were used to propagate a political agenda. This agenda was to create favor with certain powerful groups by transferring resources to them in order to keep them content. For example, food was cheap in urban centers due to price controls. However, this could not be sustained and as a result, the country was faced with an economic crisis resulting from balance of payment problems and shortage of foreign exchange leading to an IMF intervention which came with a huge devaluation of currency. (Acemoglu & Robinson, 2012).

It is not enough to know the right policies. It is expected that well-meaning leaders would learn and adopt the policies that "increased their citizens' incomes and welfare" As shown so far, they would only do so if they have the incentive to do so. In places where institutions are not strong enough to override individual motives, policies are not pursued for the right reasons- collective welfare of the people. The proper incentives are only created if there are proper institutions to foster them. In the absence of that, leaders can get away with sub-standard policies even though they know better.

THE CULTURE HYPOTHESIS: The culture hypothesis is accredited to German sociologist Max Weber, who argued that the rise of a modern industrial society in Western Europe was facilitated by the Protestant Reformation and the Protestant ethic. Even though the culture hypothesis no longer bases on religion, it still places emphasis on values and ethics. It is the differences in these values and ethics that account for the differences in development. It is observed that people in Africa do not have good work ethics and resist western methods. Those in Latin America are believed to be suffering from some "Iberian" "culture which causes them to be intrinsically profligate and impecunious". (Acemoglu & Robinson, 2012). The culture hypothesis does not hold because of the following contradictions.

1. Even though Chinese culture and Confucian values were expected to inhibit growth, the Chinese work ethic has turned out to be an engine of growth.
2. The Korean peninsula has a long period of common history and cultural homogeneity in terms of language and ethnicity. This is similar to the case of Nogales on the US Mexico border. However, there are different regimes on the two sides of the border; giving rise to different institutions and incentives.
3. The people of Kongo adopted some aspects of Western culture such as dressing, literacy and house designs; as they came into deeper contact with Europeans. The Kongolese were however reluctant to adopt western superior technology, simply because they lacked any incentives to do so. At the time, the people faced a high risk of all their output being expropriated and heavily taxed. Slavery was also rife and the environment for investment was just not there. (Acemoglu & Robinson 2012).

In addition, a change in culture cannot be used by themselves, to explain growth miracles in Asian countries. This is because, culture is in general, slow to change. What caused changes then in those countries, at that rate? It is definitely institutionalism not culture, that has the quality of rapidly causing change. Hence, like the geography and ignorance hypotheses, the culture hypothesis does not explain why there are differences in incomes in different parts of the world today. (Acemoglu & Robinson, 2012).

It is the difference in institutions that explains the difference in wealth between countries. The reason why Britain is richer than Egypt is because Britain experienced a revolution that led to major changes in politics and economics, as early as 1688. Winning the fight for more political rights enabled the society to expand her economic opportunities. Thus, a fundamentally distinct political and economic path was created, which led to the Industrial Revolution. The effects of the Industrial Revolution did not reach Egypt which was still being ruled by a monarchy. Even though the monarchy was eventually overthrown, it brought to power another set of elites who were equally a disincentive to transformation and development. Politically, there was a change but there was no change in the basic structure of society and the people of Egypt remained poor. (Acemoglu&Robinson,2012). As seen, institutions are the key and their role in development, will be discussed next.

(Ghana example with this hypothesis like in chapter, show relationship Ghana's cultural factors such as religion vs work ethics). As seen, the geography, ignorance and culture hypotheses all have some correlation with development or the lack of it. However, their evidence is often one dimensional or scanty and do not adequately explain the causes of poverty in Ghana. This is why the institutions hypothesis is deemed a better approach since it is more comprehensive.

2.4.1 Why Institutions?

Acemoglu et al define institutions as "the rules that influence how an economy works and the incentives that motivate people". (Acemoglu & Robinson, 2012). The main types of institutions are political or economic and these can have characteristics of either being inclusive or extractive. Inclusive (economic) institutions are those that promote participation of the masses in economic activities and gives them the freedom to choose what they want to do with their skills and talents. The common prerequisites of inclusive economic institutions include:

- Secure private property rights,
- A fair system of law,
- Allows the entry of new businesses and freedom for people to choose how to use their resources,
- Provision of public services that ensure a level playing field for players in exchange and contract transactions.
- Creates trust by enforcing and regulating contracts. (Acemoglu & Robinson, 2012)

This type of economic institutions can be found in South Korea and the USA. It is believed that these countries and others like them have achieved high levels of development because inclusive economic institutions promote productivity, encourage innovation and investments and lead to growth. Institutions that show features contrary to what is described above, are called extractive. These extract incomes and wealth from subset of the society to another. Whiles the receiving subset benefits, the other faces losses. This was the order of the day in colonial Latin America and North Korea today. Beside economic institutions, political institutions also play a significant role in economic growth and development. Political institutions that are centralized and pluralistic are called inclusive. Inclusive political institutions place power in the hands of a broad section of society and ensures that there are constraints to limit the use of this power. The other side of the coin-extractive political institutions, place power in the hands of a small group of elites with very few constraints placed on the exercise of this power. (Acemoglu and Robinson 2012 Why nations fail: the origins of power, prosperity, and poverty).

Economic and political institutions go hand in hand. In the case of extractive political institutions, the economy is also structured by the elite to transfer resources from the non-elite. Thus, to survive, extractive economic institutions depend on extractive political institutions. In the same vein, the presence of inclusive political institutions would inhibit the progress of extractive economic institutions. This is possible because inclusive institutions tend to share power broadly, preventing its concentration in the hands of a narrow elite. Inclusive political institutions remove erected barriers that skew the benefits to be derived from well-functioning markets. Inclusive economic institutions promote the ideals of inclusive political institutions and create opportunities for fairer distribution of resources, rather than cause only a few people to benefit. Extractive economic institutions however, enrich only a group-the elite, who in turn use their economic wealth and power to consolidate and perpetuate their political dominance. (Acemoglu & Robinson, 2012 pg. 90-95).

Given the praises of inclusive institutions sung so far, one may ask "why then are they not adopted and practiced everywhere, especially in developing countries?" Possible answers are summarized next.

First, A Fear of Creative Destruction: Economic institutions create incentives for economic progress and at the same time cause redistribution of income and power. Sometimes, the redistribution may be such that people who had power could become worse off. Hence, disputes and conflicts are common, over the choices and functions of which economic institutions; such conflicts create winners and losers. Even though the Industrial Revolution which caused dramatic increases in income and formed the foundation for today's industrial world, it was a subject of conflict back in the day. The Industrial Revolution wasn't opposed because people were ignorant of its benefits; it was primarily opposed because of the amount of total change it was expected to bring.

The process by which economic structures are transformed by constantly destroying old ones and replacing them with new ones is called Creative Destruction. According to Schumpeter creative destruction often accompanies economic growth and technological change (Schumpeter 2008 Capitalism, socialism and democracy). The fear of replacing old economic structures with new ones, replacing human skills with technological processes, new businesses taking resources and business from existing ones, is often the cause of opposition to inclusive institutions- both economic and political. (Acemoglu & Robinson, 2012).With the Industrial Revolution, the spread of factories took resources from land and led to decreases in land rents and increases in wages of workers. Elites saw their trading privileges dwindling and thus opposed industrialization. In spite of the opposition faced, industrialization forged on and grew in England. This was not the case in the Austro-Hungarian and the Russian empires however where industrialization was blocked by elites and absolutist political powers that faced losses. This explains the difference in economic growth and development- while England prospered, the Austrian-Hungarian and Russian economies lagged behind. (Acemoglu & Robinson, 2012).

Societies create different institutions because they have different customs, practices and property rights. While some achieve political centralization and economic institutionalism early, others do not. These differences are often minimal at the beginning but with time, they result in totally different prosperity trajectories. A difference in the institutions and effect on wealth can also be seen between historical England and France. In the former, the Atlantic trade and colonization resulted in the creation of a large group of rich traders who had few links to the Crown, in the latter, this was not the situation. English traders constantly demanded changes in political institutions to reduce royal control and restrictions. A similar conflict to absolutism was present in France but due to the fact that opponents in England were largely wealthy traders who were more numerous than their French counterparts, the English opposition prevailed and won the fight-transformation of economy. The case of Western and Eastern Europe is also evidence of institutional impact on prosperity. In the West, England, Spain and France were governed by constitutional institutions like Parliament in an absence of serfdom; the story was different in the East. For example, the kingdom of Poland-Lithuania, was ruled by a powerful elite class called the Szlachta, so powerful that they creven introduced elections for kings. The Szlachta rule dominated over a predominantly rural society made up of serfs, with no freedom of movement or economic opportunities. Differences were not seen in Europe alone; but were and are seen in other regions including Ghana and other African countries.

Another example which shall be a salient case in point, for the purpose of this research, is the development of institutions in Ghana. If one follows the story of the Industrial Revolution, it is observed that Africa was the part of the world that benefited the least from the opportunities that were made available by the revolution. The reason is primarily due to the lack of institutions to take advantage of such opportunities. The region was a late comer to the formation of centralized states, which when formed, turned out to be absolutist and unsustainable in the long run. A notorious example is the Kongo. The absolutism in Kongo dominated the society and fostered the growth of extractive institutions. These institutions controlled by the Kongolese elite, captured the agricultural output of citizens and enslaved the people by trading them for guns and luxury goods. In Kongo, Ghana and most parts of Africa, the large profits from slavery led to its reinforcement, worsening already insecure property rights and intensified warfare and the destruction of existing institutions. Although this period saw the formation of some new and powerful states, their mode of survival was warfare and plunder and they used their new structured form to exploit the slave trade. The slave trade ended at the beginning of the 18th century, but another obstacle developed, preventing the continent from reorienting its own institutions-colonization. By the 1960s, colonialism had entrenched a more complex and adverse institutional legacy in Africa, than what was found at the beginning of colonization. Even after the wave of independence that saw the end of colonialization, the development of post-independence political and economic institutions did not create improvements in the institutions of former colonies. Instead, independence only created a change of ‘extractive hands’ as unscrupulous indigenous leaders to took over and intensified the extractive institutions the colonial masters had run. These extractive institutions reproduced characteristics of states under absolutism- insecure property rights. The creation and recreation of extractive institutions has become a vicious circle and thus has prevented the industrial revolution from reaching Ghana or Africa. The good news is that, institutions can be transformed, improved and their stifling hands on prosperity removed. This was seen in the cases of China and Japan who were under absolutist state rule, similar to that of Africa and Eastern Europe in the 19th century. In China, there were neither independent cities, nor merchants. The industrialists were either nonexistent or had weaker political power. Even though China was a major principal in naval power and long-distance trade before the Europeans, this was to change when Ming emperors decided that increased long-distance trade and its consequential creative destruction was likely to threaten their rule. The defeat of China in the Opium wars in the 19th century led the leaders to sign a series of treaties that allowed European exports to enter and paved the way for economic growth. (Acemoglu & Robinson, 2012). It has been shown in a number of cases that, economic growth was preceded by transformation in the countries' economic as well as political institutions. Long distance trade transformed both the Kingdom of Kongo and Europe. However, institutional differences in the two places led to differences in the outcome- differences in wealth and prosperity. In the same way that changes towards inclusive economic institutions can promote rapid economic growth, a turn away from previously inclusive institutions can result in stagnant growth. Interestingly, abrupt turn away from extractive institutions can also result in collapsed rapid growth. Argentina and the Soviet Union are examples worth noting: where infighting over the spoils of extraction or lack of innovation and creative destruction led to the collapse of the ruling regimes. Also, as illustrated by the ignorance hypothesis, leaders in the young Ghanaian republic in the 1960s, pursued certain policies just to win political favor or maintain a certain status. It can be said that this practice has continued to the present age: governments prioritize commencing new projects instead of sustaining existing ones, just to meet their political agenda. On the whole, instead of introducing totally different systems, existing structures that promote corruption, low productivity, unequal exchange and inefficient management, are allowed to persist. Based on the highlighted impacts of institutions, some of which have been discussed so far, it is tenable to say that neither the Ignorance hypothesis nor the Culture or Geography provides as much explanation on the differences in wealth and prosperity among countries, cities and regions. These hypotheses do not provide a satisfactory explanation for the divergence and subsequent inequality, in terms of prosperity. This work agrees with the institutions hypothesis: that a difference in institutions accounts for the difference in prosperity. If institutions in developing countries are shaped after that of developed countries and function like them, then the economies and living standards in poor countries would improve. This assertion is however a bit simplistic and like the previous hypothesis and theories, it only offers a partial explanation to the question "why do some countries remain poor?". The theories summarized above will now be discussed thoroughly, in the light of how they apply to the situation in Ghana, and the ways in which they do not.

GHANA'S CURRENT SITUATION: DISCUSSIONS BASED ON LITERATURE

The propositions and theory discussed so far, in relation to the current situation in underdeveloped countries, would now be discussed, in relation to development in Ghana. These theories are the Economic Structures, Dependency and World Systems Theories and the Institutions Hypothesis.

According to Economic Structures proposition, institutions are useful for the exchange of goods. However, focus on exchange, is promoted based on an implied assumption that production in all countries exhibit an increasing return. This assumption is erroneous because, in poor countries the main problem with production is the absence of production capabilities. So long as this production problem holds, working on eliminating imperfect exchange remains futile. (Constatine,2017). It is true that the economies of most developing countries are dominated by economic activities that exhibit decreasing returns; however, it has not been proven that changing economic structure in favor of commodities with increasing returns, would turn the fortunes of developing countries, around. It will be argued that, goods with diminishing returns are just a unique type of output and are not necessarily the reason for low incomes and poverty in under developed countries. This can be explained by the following reasoning:

1. Diminishing returns exist but so does high demand inelasticity: The results of economic activities in developing countries produce goods such as agricultural products, obviously with diminishing returns. It is true that cocoa, bananas, coffee and some minerals experience diminishing returns; but it also holds that such products do not have very close/ perfect substitutes because they need certain unique climate conditions to thrive. Per economic theory, these products should command high prices since the demand for them is close to being inelastic and supply somewhat restricted. However, the prices for these products are not determined solely by the producers themselves, but are subject to global market

conditions. Hence prices may sometimes be below their true value. Notwithstanding, these products with decreasing returns form a bulk of the constant export revenue of developing countries. Therefore, even though developing economies are based on diminishing returns commodities, the receipts from these activities constantly provide a substantial source of monetary support due to the fact that they have no close substitutes, and can only be produced under unique or specific conditions. Hence it can be said that, producing decreasing returns commodities is not in itself the cause of poverty.

2. Diminishing returns can be altered and improved. Another argument on economic structures is that developing countries are unable to generate high income directly and indirectly because of diminishing returns. Directly, these commodities are of low technological complexity and thus command low prices; and indirectly because diminishing returns activities are not substantial enough to serve as an incentive for the enforcement of institutions such as property rights. In today's highly technologized world, the physical conditions that cause diminishing returns can be improved or eliminated. For instance, low soil fertility and limited supply of agricultural land can be eliminated by introducing high yield crops, fertilizers and automated commercial farming. Also, raw materials can be processed or preserved using various technological methods. If diminishing returns continue to persist in the face of available improved global technology, then the real question to ask is: why do poor countries not opt for technological methods to combat diminishing returns? Diminishing returns can be improved and thus cannot be the main obstacle to development. If diminishing returns are allowed to persist in the face of high technology, then it should be treated as a sign of other economic deficiency; particularly an ineffectiveness of institutions.
3. Diminishing returns property has no direct impact on supply and quality: The main characteristic of diminishing returns is that the products are not technologically advanced or complex. Production is mostly done using traditional methods and little value is added to the final product. This affects prices and, in some cases, output amounts. However, since these products are demanded for their features such as

quality or taste, their demand is not affected by their diminishing returns characteristic. This is because diminishing returns have very little or no impact on the quality and taste of the product. Diminishing returns would surely affect prices and harvest quantities, however it is hardly the case that price fluctuates as a result of supply shocks or poor output quality. In contrast, there is sometimes over production. Lack of value added or low technological components corresponds with low prices but certainly has no effect on quality. Perhaps by not pursuing value addition, developing countries have specialized in extraction and export; and changing this status quo may result in other expenses and inefficiencies; if not planned properly. If there is a constant demand for output based on their specific taste or quality, in spite of their diminishing returns features, then diminishing returns cannot be a hindrance to income receipts and economic growth.

4. The absence of trickle-down economics is not an outcome of diminishing returns: As discussed in Chapter 1, trickle-down economics is not a common happening in poor countries; where wealth and access to living standards-enhancing amenities are only seen among a particular class of people; usually elites or high-income earners. Given the economic structure argument, the presence of diminishing returns in an economy is a potential reason for low wages in poor countries. This is not the issue as the problem in poor countries is not primarily low wages but high inequality. The problem of inequality stems from a lack or inefficient social interventions as well as ineffective revenue generation methods. This is essentially an institutional problem and not an economic structure deficiency. If it were totally a problem of producing commodities with diminishing returns, countries such as the USA, China, Turkey, the EU-who are top producers of wheat, corn, rice, tree nuts would see players in these sectors among their poor population. In contrast, this is hardly the case due to other institutional factors. Thus, even though diminishing returns production negatively affects incomes and receipts by poor countries, it is not enough to explain the difference between poor and rich countries. This is because, even in countries with similar economic structures, a difference in institution and the

organization of other complementary institutions goes a long way to determine income levels.

5. The relationship between low wages in diminishing returns economies is somehow justified by economic theory. Apart from export-based production, other sectors in developing economies do not produce competitive goods or services. Labor tends to be low skilled and output tends to be technologically simple. Wages can be said to be matching with marginal revenue of production and living costs; which makes sense economically. The problem is not the low level of wages but the purchasing power which is often eroded by external factors such as inflation, commodity and forex market fluctuations, structural reforms, etc. These factors are the result of external shocks and are often outside the control of the domestic economy. Perhaps countries with weak economic structures are more vulnerable to these external shocks and the adverse effects hit them harder. If this is the case, then it would make sense to hold diminishing returns as the cause of low purchasing power. However, emphasis is made on purchasing power and real wages, not nominal wages since nominal wages are determined for the most part, by efficient market conditions. In effect, wages in developing countries are not low because of lack of increasing returns. Wages actually match the value of domestic output and consumer expenditure. However, purchasing power is adversely affected by external shocks and macroeconomic fluctuations, which cause it to erode.

Constatine (2017) mainly argument is that a country's production structure is the basic source of its economic performance. It is the determinant of the rate of firm level innovation, diversification of economy, length of job ladders and direction of structural change. The author argues that economic structures are the fundamental cause of long-run growth or stagnation. Different economic structures have different scopes for structural learning, innovation and various effects on the distribution of income, which are key determinants of economic performance. (Constatine, 2017). Economic activities with increasing returns enjoy higher income as well as a more price elastic demand in export markets, unlike products with diminishing returns. Furthermore, there exist many important positive externalities from a system of production based on economic activities with increasing returns. The job ladders are larger for these economic activities, leading to a rewarding work experience. In particular, higher wages and profits spill over into other sectors increasing the overall standard of living. (Constantine, 2017). This is why teachers, garbage collectors in developed countries receive remuneration significantly higher than that of their counterparts in developing nations. It is not that the garbage collectors/store attendants in the US offer extra services or higher skills than those in Ghana. In some cases, workers in developing countries may have higher levels of education than those in developed countries; but the spill-over effects are curtailed due to diminishing returns of economic activities (Constatine, 2017. Another example of the positive externality/spillover effect or the lack of it, is seen in the demand of chocolate or confectionery in poor countries. It is not solely that developing countries do not have taste preferences for such confectionery; their incomes are more elastic and with high poverty levels, indulging in confectionery can be deemed a luxury; hence the low demand.

If the economic structure is an important determinant of economic development, the question to be asked is why developing countries do not adopt these favorable production methods? Do poor countries lack the incentive to do so or are there ingrained factors that prevent them from making the necessary changes? Given that poor countries constantly play active roles on the world stage and global markets by supplying vital resources for industry, increasing the quality of human capital through increased education and joining international and regional bodies to improve trade, it is clearly not the lack of incentive to reap better profits. It may be due to other obstacles or an established system that is not in the control of these poor countries; hence neither their actions can do little to influence it. This is the foundation of ‘dependency theory’ and ‘world system’. How these two theories apply to the problem of stagnant growth and development and to what extent they answer the questions of underdevelopment, would be discussed next.

Dependency and World Systems theories have provided a sufficient evidence on the impact of exogenous factors on development. Institutions are effective at driving growth and subsequent development; but institutions cannot exist in abstract. There are factors that affect the formation of institutions and others that prevent them from working. According to the theories described, there is constant dominance by and exploitation by rich countries of poor countries. It is obvious that the workings of the system to keep this status quo, provides the possible reasons for underdevelopment.

1. The system works to create unequal exchange whereby poor countries export raw materials and import high industrialized and technologically complex goods. This is the main cause of trade deficits for poor countries; because import expenditures are way higher than the revenue from their exports. The often-used explanation is that poor countries earn peanuts from exports because they do not add value to their raw materials. This assertion is true- raw materials could command higher prices if they were turned into secondary products or finished products. However, this is only a partial justification for the problem. In actual sense, the prices of exports by poor countries is kept down systematically through dependency theory's division of labor. This is possible because raw materials have no close substitutes and either form a vital or huge component of the so-called finished products. According to economic theory, goods with inelastic demand and no close substitutes would command would command competitive prices. This is however not the case for developing countries' exports, prices of which are determined by the international commodity market, run by the core nations. If adding value to raw materials was the simple magic wand, why haven't developing countries shifted their economic structures since it is possible to do so? For example, in Ghana, the share of agriculture in the GDP dropped from 49% to 18.3% in favor of service which made up 56.3% of the GDP. (Ghana Statistical Service Provisional 2017 Annual GDP, April 2018). Why didn't it change in favor of manufacturing? In essence; why didn't the changes reflect in the addition of value to agricultural output, such as cocoa? This confirms the division of labor argument by dependency theorists. In summary, the world system works to keep the status quo - rich countries producing high value-added goods and poor countries producing low or no value goods.
2. The recommendations made by scholars to underdeveloped countries still end up serving the interests of the core. It has been shown that the lack of certain institutions in regulating economic activities, is a source of underdevelopment; notorious among them are capitalism and political pluralism and stability. These

recommendations are often made based on studying the differences between the economic and political structures between the two halves of the world, and may not provide accurate reasons for these differences. As proposed by world systems theory, capitalism is the best option there is at the moment; which seems to be true. There is no better alternative proven to be more efficient; but for countries with weak governments and minimal social intervention, the promotion of capitalism is like adding salt to injury. Capitalism has been described by world system theorists as an efficient appropriation of surpluses; and has been seen as an ideal system in the core nations. However, surpluses hardly exist in peripheral nations and attempts to appropriate resources using capitalistic methods results in high levels of inequality. Capitalism has manifested its ill effects in the peripheral countries more than it has, in the core; but the same cannot be said about political pluralism and subsequent stability. Political plurality has produced positive results; which is evident in Ghana's GDP growth in recent years. Based on the two theories, it is observed that the current world system only serves the interests of nations in the core. Looking at it from this angle, one would see that politically inclusive institutions have created a positive externality which is enjoyed and exploited by the core. Political inclusive institutions attract foreign direct investments which only promote capitalism and serve the interests of the elite. One may argue that half a loaf is better than none (getting low wages is better than getting zero wages) but the benefits of FDIs are somewhat cancelled out by the adverse effects. What are the adverse effects of FDIs? Apart from stifling local production, capitalism and foreign ties increases the country's vulnerability to external crises. Such crises and the presence of expensive consumer goods cause inflation and eventually erode purchasing power. Also, standards of living worsen with the existence of pure capitalism. Working long hours under bad conditions and living on low wages can actually affect life expectancy. Even though neo classical institutions are recommended as tools for development, these institutions may not achieve the expected positive impacts, if they promote the agenda of the core nations.

Apart from political institutions, developing countries look up to developed countries for institutions that would promote their socio-economic status. As with the political pluralism example, even though such institutions are aimed at increasing wealth and prosperity in under developed countries, they can end up working against that very agenda. One of such institutional efforts adopted from developed countries, is the elimination of inequality through the promotion of education and skills acquisition. The past decades have seen an increase in literacy levels and quality of human capital, in the peripheral countries. Ironically, these poor countries do not fully benefit from these changes, as quality human resource is 'poached' by countries in the core. This is facilitated by the following reasons:

- Countries in the periphery do not have the opportunities to absorb highly skilled labor. High unemployment, low investment in research and development and few technology related jobs, account for this.
- Living and working conditions in the core nations are far more attractive. Enforced contract laws, attractive employee benefits, social order and predictability of future outcomes are some of the magnetic causes that draw human resource from the periphery to the core.

In addition to adopting seemingly favorable institutions from the core, the peripheral countries are members of international organizations and party to agreements that are skewed in favor of the core. International organizations are run by the core and are mostly in pursuit of neoliberal ideals; and all members of this organizations have no choice than to follow suit, even if it has adverse effects on them. A common example of this 'negative peer pressure' is seen in trade agreements; and free trade for that matter. Free trade defeats the purpose of development because it promotes unequal exchange, it encourages dumping and it stifles domestic production. Another reason that makes world systems theory hold is that the gap between the core and periphery keeps widening at a constant rate. Even though peripheral countries have increased their wealth and have better economic indicators (low poverty rates, high literacy levels, eradication of killer diseases) now, there is still a gap between them and core nations as the latter also keeps adding to their surpluses. The more the capital accumulation, the worse the strain on developing countries in order to keep the balance in the system. In the end, the gap has continued to remain constant between core and peripheral nations. It is as though the core has a standard to keep-keeping a gap between they and them and the periphery. This confirms the propositions of the world system and dependency theorists. Dependency and world system theories have so far evaluated the economy from an external perspective. The two theories have provided salient reasoning and evidence as to why it is difficult to change the characteristics of underdevelopment. In addition to the external factors, there must be internal factors that are responsible for underdevelopment. These internal factors either reinforce the problem of underdevelopment or may actually be the original cause of it. Whiles external obstacles to development exist, they are supplemented by internal ones, notorious among them is institutions. The propositions of institutions hypothesis made previously, would now be analyzed, with respect to the current situation of developing countries.

One of the objectives of this thesis is to explore how institutions contribute to development and to find answers to contradictory circumstances. These are the cases in which institutions do not produce the same results in developing countries, as they do in developed countries.

INSTITUTIONS According to institutionalists, economic growth depends primarily on the economic and political institutions. The reason why some countries invest more in education and innovation than others, is due to the differences in the functioning of institutions. North (1990), Acemoglu & Robinson (2012). It is maintained and proven that having inclusive institutions is the key to development. This is because inclusive institutions promote trust and encourage innovation. Essentially, institutions create incentives for people to make efficient use of their resources or talents. How is this achieved?

1. Inclusive institutions offer individuals the opportunity to decide how to use their capital or labor, which is contrary to the situation in historic Eastern European countries where coerced or forced labor was the norm; and in Asia where the state owned and controlled factors of production. (Acemoglu & Robinson, 2012).
2. Inclusive institutions protect individuals from expropriation and hence encourage investment. In political pluralistic settings, rule of law is the order of the day. Laws and not personal convictions are the governing principles. The presence of rule of

law fosters political stability which encourage long term investment. Also, there is a better level of trust in economic transactions. (Acemoglu & Robinson, 2012).

Developing countries provide evidence of the impact of inclusive political institutions. As seen in chapter one, Ghana had quite an unstable political phase after independence. From 1992 to date, the country has known peace and stability and simultaneously has seen improvements in its economic indicators. The apex of this was witnessed in 2011 where the economy's GDP grew at the rate of 14.4%. (Ghana Statistical Service, 2011). Recent economic growth has been associated to the historical political stability. The reverse holds for Democratic Republic of Congo and Uganda. Democratic Republic of Congo which is the 3rd largest country in Africa, recorded a GDP per capita figure of $457 in 2017. Uganda's per capita income for the same period, was $604, whiles that of Ghana was $1641. (World bank Data). Ghana gained independence in 1957, DR Congo in 1960 and Uganda in 1962 so it is fair to say these countries started out around the same time. Ghana has historically had its fair share of political turmoil but since 1992, the country has been a stable democracy and has since seen five different government regimes in power. DR Congo country has experienced constant political turmoil since its independence from Belgium, in the form of civil wars and coup d'états. In Uganda, the current president has been in power since 1986. What are the implications of these political features?

According to Marsh Global Risk Report for 2017, the most politically stable in Africa are Botswana, Ghana, South Africa, Tunisia and Morocco. Somalia, Central African Republic, Chad, South Sudan and DR Congo were identified as the most unstable. Table 4 shows the relationship between GDP per capita and political stability. It compares per capita incomes for the mentioned African countries against their political risk indexes.

Table 4 Relationship Between GDP Per Capita And Political Stability

COUNTRY	POLITICAL RISK INDEX	2017 GDP PER CAPITA INCOME ($)
Botswana	75.4	7,595
Morocco	67.9	3,007
Ghana	71.7	1,641
South Africa	5	6,160
Tunisia	61.5	3,490

Somalia	34.8	500
Central African Republic	23.8	418
Chad	40	669
South Sudan	19.4	237 (in 2016)
Democratic Republic of Congo	25.4	457.8

Source: Constructed from information on world bank data & Marsh Political Risk, 2018

The first five countries are characterized by low political risk and the bottom five, with high political risk. Political risk index is determined by measuring short-term political risk index (STPRI). STPRI assigns and calculates figures for government influence on policy-making, social stability, risks of a coup, and any other possible threats to political authority. Countries are rated on a scale of 1-100 where 1 represents conflict-ridden and 100 means very stable. In 2017, the political risk index was 85 in the United States and 19.6 in Yemen. Countries that score less than 49 are considered politically unstable. (Marsh, 2018).

From the table, a positive relationship between political stability and GDP per capita, can be observed. Countries with scores greater than 49 tend to have higher GDP per capita income, than those with scores less than 49. Countries with scores higher than 49 have GDP per capita of at least $1600 and as high as $7500 approximately. On the other hand, countries with scores less than 49 generally have per capita income of less than $700. Thus, the assertion of political pluralism is sound- political inclusive institutions are important for development. However, some cases have proven to be exceptions- either there is little political risk (democracy) but low GDP or there's a high GDP per capita under a system close to absolutism. Many poor countries boast of democracy but the presence of this inclusive institution has not made them developed, whiles others exhibit better features of growth even without democracy. This contradiction is what is analyzed next: But first, a look at the factors what influence the choice of a political system. The reigning political system at any given point is determined by measuring the tradeoffs in each alternative system. Taking a society to be divided into two groups (elite and nonelite) the reigning political or economic structure creates some cost and benefits to either group. With the elites being in control of the system, they choose a structure that maximizes their utility. Where land is important to the elite, they will be more willing to avoid democracy. If on the other hand, income from capital is more important than income from land, the elites would be more willing to have a democratic system as the costs of repression is greater than the cost of democracy in the case above. For example, in agrarian societies, the benefits from having a democracy does not outweigh the costs of a revolution or coup. Hence, agrarian societies tend to be less democratic than industrialized ones. This is because industrialization runs on some form of consistency and quality matters. Economic transactions in industrialized societies are controlled by an invisible hand that is responsible for coordination and trust. Hence any disruption to this element also disrupts trust and the structure of the economy. Also, there exists differences between industries: Lack of democracy is costlier in capital intensive countries rather than land intensive ones. Capital intensive industries are also more elastic to taxes than the land intensive ones. (Acemoglu & Robinson, 2006).

The preceding discussion has given a theoretical understanding about the choice of political systems. It seems to work well for small societies in historic periods but it hardly provides sufficient explanation on the choice of political systems today, due to the following reasons. In today's world, it is a difficult task to classify an economy as absolutely agrarian or industrial. Economies are often mixed, consisting of significant amounts of agriculture, manufacturing and services with each sector led/controlled by influential groups who act within a confined set of laws. Hence, it is not easy for one group to swing the political/economic structure for the sole purpose of maximizing their individual group profit. Also, there exists no perfect correlation between a lack of democracy and a lack of development. Officially known to be monarchies, Saudi Arabia and Qatar are among the richest countries in the world. Qatar has a GDP per capita of approximately \$60,000 and a life expectancy of 78years; which is comparable with that of the United States of America. The two countries are on extreme opposite sides of the democracy spectrum. In a similar vein are the kingdoms of Eswatini (formerly Swaziland) and Morocco. These two countries happen to be the only non-democratic countries, out of the fifty-four African countries. Strikingly enough, the GDP per capita of Morocco and Eswatini are higher than the GDP of 42 out of the 54 countries. The GDP per capita income of these two monarchies are approximately \$3000 which is twice the \$1500 average in sub Saharan Africa. (World Bank

Data, 2017). Furthermore, the per capita GDP of Morocco is 46% higher than that of Ghana which has been a stable democracy since 1992; even though Morocco is ruled by a monarchy. In addition, the life expectancy in Morocco is 74 whiles it is 61 in Ghana. (World Bank Country data). Using GDP per capita and life expectancy as benchmarks and without controlling for differences in population and sources of income, it can be concluded that a country can accrue wealth irrespective of their political structure. Other middle income but non-democratic countries include: China, Cuba, Jordan and Libya. Whiles Libya scores pretty bad on the Marsh political risk index (26.7), it has a GDP per capita income of $7998. Turkey has political risk index of 57.1, 14.6 points less than Ghana's 71.7. There is no correlation between these figures and GDP per capita though. Turkey's GDP per capita ($10,540) is approximately six times that of Ghana's ($1641). Also, Uganda's political risk index (55.8) is higher than Kenya's 45.4. (Marsh, 2018). Ironically, Kenya's GDP per capita stands at $1500 which is two and half times Uganda's $600. (World Bank, 2017) It is clear from these examples that the political stability-prosperity rule doesn't cut across.

According to Constatine, an economic structure can be reproduced under different formal institutional settings whether a democracy or dictatorship. Therefore, if production structures are the same, economic performance can be the same in different countries with different political systems. This is quite contradictory to the thesis that a pluralistic political system or institution is the fundamental cause of growth, as advanced by Acemoglu and Robinson. (2012). With democratic low-income countries such as countries such as Uganda, Burundi, DR Congo, etc. it can be observed that:

1. Democracy is not the sole answer to development problems in Africa. There are other obstacles apart from lack of democracy which are significantly related to development in these countries.

2. The democracy practiced in poor countries like those in sub Saharan Africa, does not bring the expected economic prosperity proposed by neoliberals. This is because neoliberals make propositions based on other conditions or foundations which are either absent in African countries, or are stifled by other institutions which are unique to this part of the world.

3. The entire idea and practice of democracy only looks good on paper and has little to do with everyday governance or administration in low income countries.

Even though there is evidence to show some correlation between high income and well-established democracies, but there have been cases of no direct causality between political stability and economic development. Democracy is one booster of investor confidence and lowered operational risk; but in poor countries, it doesn't serve its purpose fully. This is because in developing countries, democracy and political freedom are seen mainly as going to the polls for elections, and freedom of speech in some places. Due to certain unique attributes such as tribalism, extreme poverty and corruption, found in poor countries, political pluralism does not serve its purpose fully. Even in the absence of political absolutism, the freedom to choose leaders is still influenced by these country specific factors- such as people voting along tribal lines, vote buying is rife due to extreme poverty and vote rigging is common due to corruption. Thus, the democratic process is prevented from producing the most efficient results. As a result, the economic benefits of having a pluralistic political system, are stifled and these countries continue to remain under sub efficient policy makers and development. It is not only political institutions that matter.

The other type of inclusive institution the institution hypothesis dwells on, is economic. Using the difference in the economic history between Eastern and Western Europe and the becoming of the industrial revolution, the authors propose that economies which are centrally planned or controlled show slower growth and output than those that are controlled by market forces. The explanation is that, some market structures encourage innovation more than others. (Nelson & Winter,1990), (Schumpeter, 2008). These favorable market structures also ensure that higher wages and profits are sustained for longer periods. Even though this explanation makes sense, it is overly simplistic in the real world; for the following reasons.

First, "inclusive" and "extractive" economic institutions focus primarily on institutions of exchange and thus make the assumption that production capabilities are already in existence. The institutions hypothesis proposed by Acemoglu et al assumes that there exist production possibilities in developing countries, but this is often not the case. Ironically in poor countries, such production technologies are lacking and thus, cannot stimulate robust growth even when institutions are ‘downloaded’ from developed countries. (Constantine 2017, Economic structures, institutions and economic performance pg.3).

In developing countries currently, there is a wave of boosting private initiatives instead of stifling them. Governments are ensuring the growth of entrepreneurship and private investments by implementing tax incentives among other incentives. For example, in Ghana, the government implemented a program dubbed ‘Ghana Private Sector Development Fund’ in 2003. Financed by the Italian Government the ministry of foreign affairs approved an amount of 11,000,000 Euro, and additional financial resources of 22,000,000 Euro in 2007 to support their Ghanaian counterparts in promoting private sector development. The goal was to establish a credit facility for Ghanaian private Small and Medium Enterprises (SMEs). (Government of Ghana, Ministry of Food and Agriculture). The private sector, in spite of getting support is not booming as a result of the following possible reasons:

1. Private sector businesses are not efficiently organized in poor countries
2. Central governments still own large shares of economic activities and fear of creative destruction prevents them from offloading them to private establishments.
3. Most benefactors of tax are private sector incentives are MNCs who mostly only replicate their activities and do not engage in innovation.
4. The recommended economic system is one of capitalism. In countries where public amenities are lacking, capitalism only deepens the gaps of inequality.

Like capitalism and democracy, some inclusive institutions already exist in developing countries. Thus, the problem is not that countries are underdeveloped because they lack the necessary institutions; it is essentially a problem of implementation and efficiency. The fundamental problem in under developed countries is that, these institutions are only good on paper and are hardly or selectively enforced. Why is this so?

A primary reason for the lack of functionality is that, institutions are costly to enforce. Due to this, economies dominated by economic activities which face diminishing returns, do not produce sufficient value added to cover the costs of enforcement. (Constatine 2017). Economic activities in developed countries are characterized by increasing returns and this facilitates the enforcement of institutions better in these countries. Developed countries have advanced production structures made up of economic activities with increasing returns. In these countries, it is easier for allocative institutions to be enforced from the proceeds from these advanced economic activities; which generate resources high enough to cover the costs of enforcement. For poor countries which are endowed with less production capabilities and whose output is dominated by commodities with diminishing returns, the reverse holds. Proceeds from their economic activities are hardly sufficient to support the enforcement of property rights. A case in point is Ghana, whose main export revenue comes from agriculture and extraction. Ghana like many developing countries are major exporters of primary products, with the bulk of their exports being agricultural. Agricultural produce are extracted and sold under perfect competition. The goods are identical, there are a number of sellers even if not many, output is plentiful and prices are market determined. Also, agricultural land is subject to diminishing returns. In Ghana where cocoa is the main agricultural output, the industry can be said to be facing perfect competition. The country's contribution to global cocoa output is about 17% which is significant. However, there are several other producers for a product which cannot be highly differentiated. Also, cocoa prices are not determined by producer countries but on the international commodity market regulated by demand and supply; theoretically that price is close to the equilibrium price. In the domestic market, price is fixed by the board so perfect competition and the price on the international market is also fixed or almost a form of perfect competition. The main input requirement for agricultural production in poor countries is, land; which is fixed in supply and prone to experience diminishing returns, all other things equal. It is difficult for countries with trade in perfectly competitive markets to obtain some leverage or any benefits from imperfect exchange. Besides cocoa, Ghana's top export products include gold, timber products, tuna, minerals such as manganese, aluminum and diamonds; and recently, crude oil. These products face the same criteria as cocoa and affects the economy in the same way that commodities with decreasing returns do. So, because of the dominant presence of decreasing returns, poor countries like Ghana do not obtain enough resource to enforce their institutions. How so?

The difference between the gains and costs of enforcement determines the performance of institutions. In general, if the production growth of economic activities with increasing returns is higher relative to that of diminishing returns, the gains from private contracting exceed the costs of enforcing allocative institutions. This is why in developed countries where increasing returns abound, institutions of exchange perform as expected; and in the absence of this initial condition, institutions of exchange are inadequately enforced. The absence of proper enforcement of institutions in developing countries, as a result of insufficient private gains to meet costs of formal institutions, paves the way for transactions to be made using extra-market institutions. Apart from the lack of resources, Constatine (2017) makes an argument for economic structures as determinants of the type and efficiency of institutions. The discourse about the link between institutions and development focuses on causation. For new institutional economists, economic growth is caused by the existence of institutions. For industrial policies economists, growth and development is the driving force behind institutions; determining the rate of institutional change.

Constatine makes two main propositions:

(1) There is bidirectional causality between institutions and economic structures

(2) The type of economic structure determines the performance or efficacy of formal institutions.

In essence, “institutions do not exist in abstraction; they co-evolve with an economy’s production structure.” This is seen in the fact that major institutional changes occur when there are any IMF structural adjustments. (Constantine, 2017). In Ghana for example, the IMF credit intervention policy created unemployment in Ghana. (IMF,2015).

That being said, a case can be made for reverse causation- structural transformations cause institutional changes and not institutions causing a change in the economic structure. A case in point is how the discovery of gold in California led to a change in economic activities. In what is popularly known as the what is California Gold Rush, there were changes in both the sectoral distribution of the GDP, as well as alterations in the type of economic activities produced. Hence, the exploitation of the emergence of a new institutional framework occurred as a result of the existence of a natural resource, whose production had to be regulated. (Chang, 2011). In the same vein, changes in institutional structure are needed when oil is discovered- more strategic institutional innovation are needed to ensure that the new economic structure does not fall victim of the Dutch disease but produces sustainable growth. (Constantine, 2017). To sum up, even though Acemoglu et al place emphasis on a very vital component of institutions-property rights and political pluralism, it is difficult to unravel the functioning of institutions without taking into account the production structure in an economy. How then does economic structures influence affect the performance of institutions? According to Khan (2010), Political settlements and the governance of growth enhancing institutions.), institutional performance differs across time and space because of differences in political and economic structures. Economic structure is different between developed countries and developing ones. Whiles the former possesses a larger ratio of private sector contribution to GDP, this does not hold in the latter. (Constantine, 2017), Acemoglu's inclusive institutions focus on innovation and freedom in the private sector. However, the private sector is not as large in developing countries as it is in developed countries. In low income countries, the government is the main employer and the private sector is often badly organized and collective bargaining power is subject to political manipulation. Thus, there is a lack of sufficient incentive. In rich countries with increasing returns production structures, politics is structured around private sector interests and "good" institutions are easily enforced. "Good" institutions are consistent with private sector interest because "good will" and reputation affect the profit line of private firms. Therefore, private enterprises are unlikely to maintain market share and influence if they are tainted with corruption scandals. In contrast, politics is structured around nonprivate sector interests in poor countries (Khan 2010), where "good will" and reputation are of less significance to the firm. (Constantine, 2017). The economies of poor countries are dominated by state activities; and even though the state encourages private participation, the private sector is not huge enough to call the shots. Hence, private sector incentives and innovations that steer growth in other places, are diminished. Also, the government-run agencies do not produce the most efficient results since they do not have strong incentives to do so, or lack healthy competition. To provide further insight into how economic structures affect the formation and function of institutions, a case study on the United States economy is the proceeding discussion. Once upon a time, agriculture was the main component of the US economy until the sector was hit by shocks that caused prices to fall.

Low prices resulted in decreased incomes and increased unemployment. While urban purchasing power increased, demand for urban goods fell among agriculture dependent folk, resulting in stagnation. Inequality between rural and urban population increased as there was a greater demand for occupational rent, resulting in a slump in demand for rural labor. Unemployment increased as former agriculture workers found it hard to find other jobs that could utilize their skills. At this point, a structural transformation was inevitable- the economy began to undergo transformation with manufacturing, construction and trade services emerging as new dominant sectors and production of output with increasing returns. However, the movement of labor from rural to urban sectors was not enough to bring about the structural transformation which stimulated growth. What caused the structural transformation then?

High inequality and forced savings during the first world war created excess savings and increased the supply of loanable funds. Since the new industries couldn't absorb all the available credit and agriculture wasn't viable anymore, there was a sudden leniency in borrowing: rather than cash methods of payment, people were encouraged to buy on credit. This increased consumption and boosted expenditure. So evidently, the structure of the economy was not changed solely via production but by increasing household debt and financial speculation, which consequently led to the Great Depression. One of the reactions to the Great depression was a move to increase industrialization through manufacture of airplanes and weapons. Thus, labor moved from the farms into the factories, ending the great depression and in the end, forged a different equilibrium. This new equilibrium made way for production of goods with increasing returns. As manufacturing jobs grew, career ladders grew longer, unions got stronger and the relationship between wages and productivity grew tighter; stabilizing the growth of inequality. The growth in the manufacturing industry was a "period of stable property rights that created a sufficient wedge between de facto and de jure political powers". Another feature of structural transformation was the promotion of industrial policies to ensure a growth-enhancing structural change. One way of doing this was through the Marshall Plan. The USA lost a significant share of its global market share upon the completion of both Marshal Plans This created a need for a new phase of structural transformation. (Varoufakis, 2013). Like the successful technical progress made in the previous farm economy, the success of the "global reserve recycling mechanism" caused the de-industrialization and loss of manufacturing employment. This time, occupational rents changed against industrial labor leading to deflationary tendencies. In both the services and the industrial sectors, career ladders became shorter. A decreased demand for employment in the manufacturing sector led to the decline of manufacturing wages. As wages shares went downwards, the inequality in income distribution trended upwards. Decrease in the share of the middle-class income caused a decrease in power and a simultaneous increase in the de facto political power of the financiers of the system- the economic elite. This change in distribution of income and political power led to the emergence of new institutions in the early 1980s. The new institutions included tax cuts, de-regulation in the financial market, de-unionization, and paved the way for a new economic structure that is now represented by the FIRE (Finance, Insurance and Real Estate). The effect of this new economic structure was that, it led to a rise in inequality and stalled the new process of structural transformation. This was because, growth was not based on economic activities with increasing returns; but on a financial bubble which when it burst, caused the financial crisis of 2008. This analysis leads to a vital conclusion: the distribution of property rights is endogenous. This is true because the USA economy was structurally transformed mainly due to external shocks even though property rights were well defined and enforced. This is quite a contradiction to Acemoglu & Robinson (2012)'s thesis that "good" institutions have feedback loops that make it impossible for them to be undermined by the efforts of elites. Also, the categorization of institutions into extractive and inclusive and the crowning of inclusive ones as the key to development, may have been an over simplified contention. From the case study, it is realized that there were periods of high inequality and simultaneous economic growth. This contrasts with the fact that the US is considered a beacon of inclusive institutions. Also, the predicted results extractive institutions according to (Acemoglu et al. 2005), is undermined. Should everything be based on the inclusive-extractive contention, growth would have been impossible (even in the USA) in the face of extractive institutions; since inequality demonstrates extractive growth.

It has been seen from this case study that institutions perform differently across time and space. Institutions evolve over long periods of time and adjust gradually to the demands of the settings. Also, building blocks such as history and culture affect the formation and function of institutions. The most effective institutions arose as a 'reaction' or tailored solution to a particular problem or setting. This is why downloaded institutions do not have the same effects in developing countries as they do in developed countries. Notwithstanding, the institutions hypothesis carries a lot of weight in explaining poverty and differences in economic development.

SUMMARY

This chapter has explored different theoretical explanations for the differences in economic growth and wealth. Countries are poor either because of external or internal inefficiencies. External failures show that some countries stay poor whiles others get rich, because there is a system that is designed to keep things that way. This is seen in dependency and world systems theories. The idea is that countries belong to different classes-the core and the periphery. The classes correlate with wealth, production structure, division of labor. Countries in the core have a higher per capita income and produce highly technological goods whiles countries in the periphery (such as Ghana) produce goods that have low technological input and have low per capita incomes. The system works in a way such that the periphery countries produce raw materials that are utilized in the industrial core. The core then transforms these products into more sophisticated output. This is seen in the cocoa sector of Ghana. The country exports most of its cocoa production output as raw cocoa beans, and only a small fraction, as semi-finished or finished products. Even though Ghana is known for cocoa, it is hardly known for its chocolate or other cocoa products. On the other hand, the machinery used on the farms are imported; and this is the most common scenario of unequal exchange. In short, the periphery depends on the core as a market for their primary produce but the periphery is unable to pay for their imports from their low earnings from primary production. As a result of this, the periphery often remains indebted to the core. Apart from being dependent on the core for export demand, the periphery depends on the core as their link to participate in the global market. Financial aid, multinational corporations and technical know-how move from the core to the periphery. However, the scope of their activities is designed in a way to serve and promote the economic interests of the dominant states like the USA and not the dependent states like Ghana. As a result, expansion in the economies of the dominant states, increases in surpluses, etc. does not necessarily reflect in growth in dependent countries. Ironically, prosperity in the core may produce depravation in the periphery. The characteristics given by the dependency relationship holds in the real world. Evidence of this is shown in Ghana's cocoa production and export habits. There is an unequal exchange between Ghana, other poor and rich countries; which correlates with an unequal distribution of income. Thus, since its features hold in real life examples, dependency theory can be used as a partial explanation to why some countries remain poor. It is partial because, the classes defined by dependency theory are not irreversible; making it possible for a country to change its status. Some Asian countries have moved up, in class from being dependent to dominant. This is proof that it is possible for a country to change her class and income levels. Why then is it difficult to achieve this? The answer is, there is an established system, a type of world economic structure, called global capitalism that binds both core and periphery. World system theorists maintain that the current division in the world is a by-product of economic efficiency since it allows for comparative advantage. Apart from economic control, Ghana and other peripheral countries are controlled by stronger central governments which are found in the core. Capitalism originated in the core and has since become the global economic system. Since capitalism rewards efficient resource allocation and accumulated capital, poor countries like Ghana, remain poor because they do not have resources such as cocoa beans, are not enough to play an efficient role in the world economy. To conclude the chapter, a discussion is made on the internal causes of development- the impact of institutions and economic structure. First of all, it is shown that there is a relationship between the two; in that, economic structures and its changes lead to the rise and growth of certain institutions. Also, institutions control the growth of the economy and subsequently lead to development if the said institutions are inclusive. Using Ghana's cocoa sector as a case in point, it has been seen from the economics structures proposition that, differences in wealth of nations contribute to differences in production structures. However as discussed, production and economic structures are not permanent and with the right incentives, they can be improved for better results. The right incentives can only be are created though efficient institutions. Institution as used in this context, refers to the rules that govern social interactions and economic activities. The chapter has highlighted the impact of institutions on economic growth; which is through the promotion of innovation and creation of incentives. Positive economic growth through institutions is best achieved in countries where political pluralism and protection of property rights are present. A couple of real-life cases have been illustrated to show that the differences in institutions is a major main determinant of the differences in prosperity. Like with other hypotheses analyzed, there are flaws-cases that defy the main proposition. The institutions hypothesis is defied by Ghana and most African countries which have “downloaded” most of the prerequisite institutions but are yet to achieve significant improvement in growth and development. Like Ghana, there are very few African countries that remain politically absolutist or where the state controls the process of production. However, even with the existence of political pluralism, rule of law, western type democracy and participation in global economic activities, there has been no significant changes in the standards of living in these countries. In spite of its short comings, the institutions hypothesis gives considerable explanation on the differences in wealth among different countries; more comprehensive than other theories discussed in this study. However, the institutions hypothesis is more accurate at explaining income differences among countries that have similar characteristics such as geography and culture. In countries with different cultures (including that influenced by history and customs) the institutions hypothesis does not provide adequate explanation on the difference in wealth and development. This is because institutions are formed over time and are influenced by culture, history and policy related to specific circumstances. It can be said that geography is related to culture because culture shows similarities within specific geographic regions. For instance, Ghana’s production choices are affected by climate which is turn is affected by geography. Production also affects wealth and income distribution. All these relationships in turn affects the Ghana’s economic structure and determines the country’s position in the world system, according to dependency theory. Therefore, the coefficient of institution on development, would be high if differences in culture and geography are ignored or eliminated. So long as there exists differences in culture, the formation and function of institutions are naturally bound to show results, across countries. Given this understanding, institutions would not be the only influencing factor for differences in income and development; but a range of other possible reasons. As a result, for institutions to have similar projected effects across all countries, all other essential things must be equal.

STUDY RESULTS AND IMPLICATIONS

This study has examined the gap between rich and poor countries and explored possible explanations for this gap. This has been done mainly by investigating the characteristics of poor countries and the causes of poverty in these countries. This was done by drawing on existing development theories and hypotheses; and comparing them with a real-life scenario; namely the cocoa sector in Ghana. The study has revealed that the lack of development in poor countries particularly Ghana and its cocoa growing areas, is caused by both internal and external factors. The focus of this study has been on the relationship between these two factors and development, with a primary focus on the internal, primarily, institutions. Institutions have been defined as rules that govern society; and are classified into two types- inclusive and extractive. (Acemoglu & Robinson, 2012). Inclusive institutions have been demonstrated to have significant positive effect on growth and development; whiles extractive did the reverse. Thus, to become developed, poor countries need inclusive institutions. However, it has been shown that for Ghana and most developing countries, the existence of so-called inclusive institutions has not shown any substantial improvement in the living standards of people. On the other hand, some countries which have/ have had extractive institutions, have better development profiles. It can be concluded therefore that institutions do not always yield identical (predicted) results in developed countries, as they do in developing countries. This study posited that the reasons for this divergence, include the following.

1. The institutions hypothesis is more theoretical than practical when it comes to solving problems such as low development in cocoa growing regions. Institutionalists assert that political pluralism and protection of property rights are the main requirements for growth and development. Even though there have been significant improvements in political stability and the organization of economic institutions in Ghana and some other sub-Saharan African countries, economic growth has not been significant enough to cause development. This is because, protection of property rights can only positively affect growth and development if there are actual properties (economic innovations and transactions) to protect.

Unfortunately, this is not the case in Ghana and other poor countries. It is not that cocoa farmers or people in Ghana are not innovative enough; or are not interested in innovation. The issue is that, they are more concerned with meeting other lacking needs which are of paramount importance to their survival. These primary needs include proper nutrition, employment opportunities, access to quality healthcare, education and training, social amenities such as potable water and electricity, and safety. So long as these needs remain unmet, it is natural that the people in Ghana would dedicate their limited resources towards meeting them, rather than developing economic innovations; such as commercial automated farming. So long as significant economic innovations remain lacking, secure property rights remains a theoretical idea. One may argue that, it is the absence of economic innovation and transactions that prevent the proper functioning of institutions. This argument leads to a typical chicken-and-egg problem. Are these primary needs lacking because institutions are ineffective; or it is the pursuit of these needs that prevents innovations and economic institutions from functioning properly? This study maintains that the latter holds- that the absence of basic needs (socio-economic institutions) prevents economic institutions from achieving their expected results. This is because, if there aren't enough investments in innovation, it is difficult for protection of rights to materialize into growth or development. To curb this problem, it would be beneficial for the government to implement policies that make the provision of basic needs (socio economic institutions) a top developmental priority. This would take the weight off the shoulders of the populace; so they can invest their resources in more productive and innovative ways. When this happens, production structure can be transformed from state dominated to private dominated; and from primary to secondary production. Consequently, incentives are created for economic institutions (private property rights) to come alive; which can subsequently be followed by the proposed positive development payoff.

2. The foundation of institutionalism is deeply rooted in the economic evolution of present day developed countries. However, historical conditions and culture in ancient times are different from what is found in present times. One of the

arguments used by the authors of 'why nations fail' is that the industrial revolution came about, via inclusive institutions. Besides the industrial revolution, there are other references of how the differences in institutions led to the fall or prosperity of ancient societies such as Eastern Europe, Venice, the Soviet Union and the Ottoman Empire. It is worth noting that world conditions in historical times were different than what they are today-there was less globalization, more political struggles, and bonus sources of wealth from colonization. Today, like Ghana, almost all countries are independent and the world has become a global village with more political stability and competition in trade. Even though, institutions have evolved and adapted to modern times, the foundations remain rooted in historical experiences and culture of western nations. An example is how the Great Depression led to a FIRE (Finance, Insurance, and Real Estate) economy in the USA (see 2.6. Discussion pg 80) Perhaps this is the reason why institutions do not have a good footing in low income countries which do not share similar historical trajectories or culture with developed countries. Most poor countries today were colonized or invaded by foreign powers. These historic events affected the formation and structure of political, social and economic institutions. As seen in chapter one, institutions in Ghana run on a kind of parallel system where formal regulations (adopted from colonial rule) run alongside informal ones (effect of culture and tradition). This practice weakens the strength of institutions; but it is an aftermath of colonization. This is an important difference between developed and developing countries; which can neither be ignored nor eliminated. In short, history is important as it influences the development of institutions. The fact that (inclusive) institutions developed as tailored solutions to social and economic problems in specific societies, means that they cannot always be guaranteed to provide the same results in different societies, or under different conditions.

3. Low opportunity cost/ Fear of creative destruction: Institutions are expected to create incentives for growth and development. As mentioned already, development essentials such as potable water, reliable electricity, social security programs and access to quality healthcare are lacking in cocoa growing areas in Ghana and in

other poor countries; even in those with stable democratic governments. If democratic governments face being voted out of power and openly criticized for bad performance, why then do they fail to facilitate development? The reason is that they do not have enough incentive to out-perform previous administrations. For low income countries to experience any significant development, there is a need to overhaul a lot of their institutions and governance culture. Unfortunately, this is not happening because leaders suffer from a fear of creative destruction as seen in chapter one (the case of post-independence Ghana). Instead of changing the rules of the game-reinventing governance culture, policies and the path of development, governments in poor countries often end up carrying on with 'extractive' institutions and policies, because of fear of creative destruction. Fear of creative destruction is not limited to governments only, but citizens too. In societies where people identify primarily with their tribes, voting decisions or political party affiliations are often along tribal lines. Habits such as lateness and littering are also entrenched in the national lifestyle due to the existence of low opportunity costs of being punished. Politicians are often not held accountable and are not voted for, based on merit. Civil servants and other leaders are chosen based on political affiliation or nepotism. On all sides, incentives to perform productively and efficiently, are diminished. For institutions to reach their estimated aims, this static culture has to be done away with. To further understand the assertion of low opportunity cost, an example is provided. Between 2012 and 2015, rampant power outages caused the Ghanaian economy to decelerate in growth. (growth was only 4.2 percent whiles CPI inflation scaled up to 17 percent, twice the Central Bank's expected 8 (+/-2) percent range). There was a loss alright; but the losses from such problems would have been more disastrous in developed countries. This is because developed countries invest and undertake more extensive and profitable production, than is done in poor countries like Ghana. Therefore, the lack of efficient institutions in low income countries could be attributed to the fact that, the opportunity cost of their malfunction, is lower in low income countries than it is in developed countries. Low opportunity costs mean low incentives for leaders to provide these development essentials. What then is the way forward for developing countries?

POLICY RECOMMENDATIONS

This work has shown a relationship between institutions and economic structure; and it concurs that the two need to go hand in hand, in order to see positive impacts, in the cocoa growing regions of Ghana and other poor countries. In summary, institutions and economic structures affect each other through the creation of opportunity costs. In countries where production structures are costly and extensive (value added products/mass production), the opportunity costs of not having effective institutions, are high. The economic structure stimulates and sustains the proper functioning of institutions. Political stability, protection of private property, enforcement of laws and contracts, provision of proper infrastructure and basic amenities, is made top priority if the country visibly stands a lot to lose, in their absence or malfunction. The effective functioning of institutions in turn, reinforces the growth of the economic structure. From the Ghana cocoa production example, it can be concluded that political stability, proper infrastructure and enforcement of rules/policy, positively affects the production of cocoa and growth in the overall economy. This in turn positively affects the consolidation and distribution of earnings from the sector. With the help of policies to promote income equality and political stability, these earnings can be better redistributed. For these policies to work, the floating problem must be eliminated by removing the barriers to policy implementation, as seen in chapter one. That done, farmers can enjoy positive externalities from their contribution to the economy. The effects of institutions on the economy and vice versa is summarized in the diagram below.

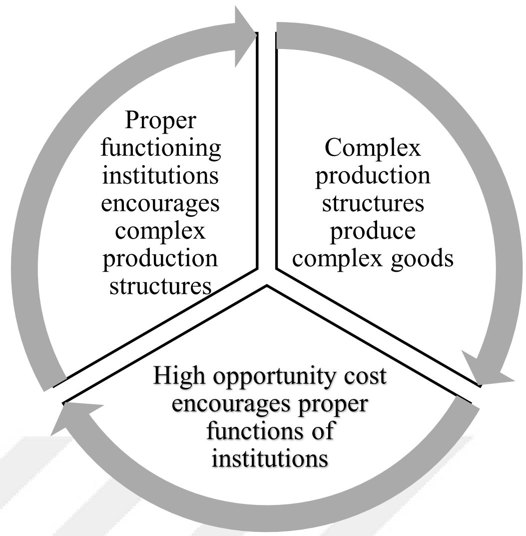

Figure 5 *Production-Institutions Cycle.*

If institutions need higher opportunity costs to produce estimated results, the question is, "How can economic/production structures be improved in developing countries? This study proposes the following:

- Investment in R&D, technology and human capital: Besides allocating government funds for research and development, research can be improved by creating innovative opportunities for all qualified people to get involved. In addition to increasing education and training, efforts should be made to retain qualified people. This is necessary to reduce brain drain and boost the supply of qualified and highly skilled labor. This would improve the quality of research and accuracy of policy recommendation; since it would be done by people who have firsthand experience, knowledge and interest in the problems of low-income countries.
- Combating corruption with automated procedures and a strong independent judiciary: A major canker in Low income countries is the problem of corruption. Corruption reduces trust and efficiency. For starters, corruption in the civil service can be eliminated through the use of automated processes. This can be applied in the administration of taxes, fines, handouts, recruitment of civil servants, business registration, customs and imports processes, etc. The less contact with human factor, the less the incentive to show favoritism or pay bribes. The automation

systems can also help with securing proper databases which is often lacking in Low income countries. Proper identification and accurate databases are important in ensuring policy implementation and also reduce the instances of corruption opportunities. In addition to automated processes, the judiciary should be strong and independent. Campaigns to end corruption will not yield results if the cases that have occurred or would occur, are not addressed, objectively. The presence of strong and independent judiciaries enforces laws and serve as deterrence to corrupt government officials. Once again, the appointment of the judiciary should be devoid of political interference.

- Patriotism conscientization: As seen in chapter one, Ghana and countries in sub Saharan Africa are often heterogenous societies; patched together by their colonial masters, to form a country. It is common to find pockets of different social groups in one country; with differences in language, history and general culture. Due to this, people in low income countries usually hold stronger ties to their social groups than they do to the nation as a whole. On the whole, there is a lack of trust and unity as tribal and political polarity is high; and affects social transactions. As seen before, tribal and political veins run deep and this affects voting decisions and the implementation of a national agenda, such as curbing corruption. Whilst it is not possible to remove obvious differences, people can from a young age, be sensitized to look beyond their differences. There should be more education and programs to foster oneness and unity as well as a strong sense of patriotism. If people's love for their country is strong enough to overrule their individual differences, implementing a national development agenda would be smoother. This could be a solution to the fear of creative destruction.

In conclusion, the role of institutions (the rules that influence how an economy works and the incentives that motivate people) in development, cannot be overemphasized. For developing countries to see changes and improvements in standards of living, the economy and country, should be run by well-established rules that create incentives for both government and citizens to pursue development goals. There are however some peculiar factors found in poor countries, that prevent institutions from achieving their intended results. To make institutions effective, these problematic factors should be neutralized and the floating problem in policy implementation, must be eliminated. Doing so would ensure that institutions on paper are the same in real life. This would create the right incentives for governments and people in poor countries, to pursue positive development.

CONCLUSION

The main objectives of this work were to answer the following questions:

- What are the causes of under development and poverty?
- What role do institutions play in development; and especially in the cocoa sector and cocoa growing areas, in Ghana?
- What factors promote/prevent the proper functioning of institutions?

It has been established that countries remain poor because of factors which can be classified as endogenous or exogenous. Endogenous factors maintain that the world is divided into different groups, and that there is a world economic system that keeps countries in specific positions - either as dominant or dependent. On the endogenous part, the level of development and income levels are determined by economic structures and type of institutions. While production structures with increasing returns cause spill overs and positive externalities in other sectors, those with diminishing returns do not exhibit these positive characteristics. In economies where increasing returns exist, resources are adequate enough to enforce institutions. In addition to production, certain rules have positive impact on development. According to the Institutions hypothesis, inclusive institutions aid development by ensuring trust and creating incentives for innovations.

All theories/propositions discussed have invaluable contributions in explaining why there is inequality in development. However, one contribution that runs through all the others, is the institutions hypothesis; which has been the focus of this work. From chapter one especially, it has been shown that the lack of development in Ghana and its cocoa sector, stems primarily from a lack of effective institutions. From land tenure, farm ownership, production technology, infrastructure and industrialization inefficiencies, it has been observed that institutional problems prevent growth in the cocoa sector and development in cocoa growing areas, and the country as a whole. Since it can be said that institutions are the solution to most of Ghana's development problems, their role and relationship have been discussed. It has been established that inclusive political and inclusive economic institutions are the necessary conditions for development. The role of inclusive institutions can be summed up like this: The existence of democracy has a direct impact on government accountability and political stability; which boosts investor confidence and encourages growth, in the long run. Property rights also promote growth and investment, create high opportunity costs and promote the supply of social amenities and infrastructure.

However, the under development in Ghana and its cocoa sector is not the absence of inclusive institutions; it is the lack of incentives that prevent such institutions from functioning properly. Even though inclusive institutions have been established, they are often crowded out by cultural, historical and socio-economic factors. These include low levels of education, poverty, tribalism and effects of colonization. Some of these factors prevent development policy from having a significant impact, through the floating problem. More importantly, these factors halt the proper functioning of institutions, and prevent them from having the predicted impact, as seen in developing countries. In addition to these internal barriers, there are certain flaws with the institutions hypothesis. Even though inclusive institutions are effective in driving development, the contribution of exogenous factors, such as the ones posited by Dependency theory, cannot be ignored. Also, as shown by this study, institutions work best when complemented with strong economic structures; which create high opportunity costs or incentives for stronger and better institutions.

Furthermore, the institutions hypothesis is built on assumptions that all countries have a common political and economic history, similar cultures, a homogenous social composition and already existing production factors: both capital and human. As established by this research, these assumptions do not hold entirely; especially in Ghana and sub Saharan Africa.

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