CHAPTER EIGHT: CONCLUSIONS

The Ghanaian society is woven around a multiplicity of customs, traditions and practices that result from the diverse ethnic representations in the country. Ghana’s demographic characteristics are roughly similar to those of many developing countries. Life expectancy is relatively lower than those of Industrial countries, with moderately high infant, child, and maternal mortality rates although these have witnessed a general decline in the past decade. The male – female ratio, just like that of the rest of the world is approximately equal. There has also been an improvement in access to sanitation, education and health services, although the country is experiencing a creeping rise in HIV/AIDS prevalence.

Being the first country sub of the Sahara to gain independence from colonial rule, Ghana was held as a beacon of hope for black Africa. In the immediate years following independence, this hope was kept alive with impressive economic performance helped largely by a well laid economic foundation prior to independence.

The immediate post-independence development attempt, which was within the framework of mainstream ideas of Import-Substitution Industrialization Strategy, was marked by strong economic growth. Whilst growth rates tended to fluctuate, they nevertheless were quite appreciable, with the annual average rate of economic growth exceeding 4 percent up to 1960. From the mid-1960s however, things began to go bad. A combination of inappropriate domestic policies, adverse external economic conditions and a succession of political turbulence in the two decades beginning from 1964 meant the economy was virtually in an abyss, though there were spurts of good economic growth. Thus by 1981 the economy had virtually collapsed.

The inception of economic reforms in 1983 enabled the economy to begin to pick up once again. Real GDP growth has been consistently positive for nearly two decades, although it has averaged 4.5% over the period. As Aryeeetey and Fosu (2002) have noted, much of this growth can be attributed to the implementation of economic reforms. Though there have been attempts to ensure fiscal discipline and create a stable macroeconomic environment, the statistics reveal clearly that fiscal and monetary policies were essentially expansionary with a consequent difficulty in controlling inflation. External inflows in terms of export receipts and foreign aid have been quite substantial but disappointingly unreliable, as aid disbursements did not much the commitments. Added to this has been the mounting domestic and foreign debt; the unsustainability of the foreign debt component led the country to opt for the HIPC Initiative in 2001. Whilst economic performance has generally improved, it is still vulnerable to negative exogenous shocks, which in the past had thrown projected targets out of the window.

Whilst overall performance has been impressive, in an African context, the performance of the various sectors of the economy has been uneven. For a long time, the economy has been largely agrarian, and thus the performance of the Agricultural sector had propelled economic performance. Its contribution to overall output has been approximately averaged 40% over the past decade, although earlier years have witnessed larger shares. In spite of its importance in GDP the sector has been less dynamic compared to other sectors, with fluctuating growth rates. In recent years however, the contribution of Agriculture in overall output has been on the decline.
Closely related to Agriculture is land administration. Agriculture cultivation is done on approximately a third of the arable land suitable for agricultural purposes. However, the administration of land is surrounded by several complexities; a combination of tradition, customs, and state legislations. Consequently, land acquisition for almost any purpose is cumbersome and fraught with uncertainties. Women have therefore been the most vulnerable in this regard; women have limited access to and control over land resources, and consequently their role in agricultural output is not fully realised. Government in this regard put in place a new Land Policy in 1999 with the aim of facilitating a rational and relatively orderly system of land administration.

The Services sector has also witnessed a tremendous improvement in performance, emerging as the second leading share in total output, overtaking Industry. Growth in the sector has been the most rapid compared to other sectors. The rapid expansion in Wholesale and Retail Trade, Restaurant and Hotels as well as Government services sub sectors was the key factor behind the growth of the services sector during the period. The sector has almost emerged as a significant labour employment generator.

The performance of the Industrial sector has however been far below expectations. Industry, which has been touted as the “engine of growth” for the economy, has for nearly a decade and a half slacked. Overall contribution to total output has virtually been stagnant. It is important to note the implementation market and trade liberalisation policies during the reform period have significantly improved industrial capacity from a low of 20% in 1983 to about 60% in the early 1990s due to greater availability of imported inputs. From the late 1990s until recently, the rapid depreciation of the cedi, the high interest rate and the relatively harsh economic environment has impacted negatively the growth of the industrial sector. Thus, its average annual growth of 4.33% over the last decade fell short of the targeted growth of at least 8%. Over the last decade, there was no clear-cut industrial policy that sought to inject dynamism in to the sector. The level of employment in the sector has not been very encouraging as it has been less than 10% over the last decade.

Thus in spite of the tremendous improvements achieved since the inception of the reforms, the structure of the economy has seen little change. Reforms have only led to a structural shift, instead of change. Government has however not relented in its efforts at revamping Industrial activity. A host of initiatives have been put in place to provide financial assistance and technical advice to firms, especially small and medium enterprises. In addition, there are institutions (DAPIT, ITTU, CSIR, etc.) set up to provide a link between scientific research and industrial activities.

The external sector has been important to Ghana’s overall economic performance; good performance in the late 1950 and early 1960 were associated with good trade performance, whilst bad economic performance was associated with poor trade performance. Trade policy had hitherto been more restrictive prior to 1983. The inception of the reforms meant an introduction of a liberal market and outward oriented approach to trade policy. Although this period witnessed continued current account deficits, inflows came in to fill the gap. The cedi also witnessed steady depreciation during this period, although in period of adverse shocks, the depreciation has been rapid.
Ghana’s exports composition has continually revealed its comparative advantage in agricultural products as a result of geography, minerals and low cost labour skills. The presence of low cost labour also confers on the country a comparative advantage in agro processing, light manufacturing and in the provision of services like data processing. This advantage is however only potential as much needs to be done to actualise the benefits inherent from the possession of this advantage. The composition of imports has also revealed its comparative disadvantage in high skilled capital intensive production. Imports have therefore mainly consisted of equipment, construction machinery and services, especially for insurance and freight.

To attract investment, especially FDI into the economy, governments have since the commencement of the reforms attempted to create an enabling environment. However, certain bottlenecks are inhibiting the country’s intentions. These among others include relatively inadequate infrastructure, corruption, and a slow moving bureaucracy. Notwithstanding these problems, the country has attracted quite substantial inflows of aid and investment. FDI flows which had remained particularly low in the 1980s began to pick up from the early 1990s. The significant inflows of investment were channelled to the mining, telecommunications, foods, drinks and brewery and banking sectors. Whilst the improvements in inflows have been remarkable, they are low compared to other African countries.

The 1990s have witnessed the introduction of policy changes in respect of trade and FDI. Trade policy has moved towards a liberal outward orientation, with a flexible exchange rate regime. Though the exchange rate is flexible, the idea has been to ensure that it is stable hence a policy of building up reserves for targeted interventions. Though this approach might seem contradictory, what is important in its pursuit is a careful reading of the factors that are putting pressure on the currency at any particular time in order to distinguish the fundamental ones from the merely speculative. Great efforts have also been made to expand the production of non traditional exports, and in this direction numerous programmes have been initiated aimed primarily at facilitating easy access to export markets and to credit. These include the Trade Investment Programme, the Private Enterprise and Export Development programme, Export Development and Investment Fund, and more recently the AGOA.

Policies aimed at attracting FDI have mainly been through the enactment of a new Investment Code, in 1994, superseding all earlier ones. The Code has guarantees and incentives for investors among which include well defined rules of dispute resolution, free transferability of profits and dividends, and the retention of foreign exchange. The establishment of Export Processing Zones have also greatly facilitated the setting up of joint Ghanaian and foreign owned firms engaged largely in manufacturing. The Gateway project is intended to attract a critical mass of export-oriented firms to kick-start export-led growth as well as facilitate trade.

The Ghanaian labour market has for a long time been dominated by agriculture and informal economic activities. However, the inception of reforms has drastically altered the character of the labour market. Whilst the public sector continues to be the single largest employer in the formal sector, employment growth in that sector has witnessed a gradual decline due to public sector downsizing. As a result, growth in private formal employment, and more especially in informal sector employment has
been substantial with a resultant increase in the importance of the informal sector in total employment generation in Ghana; the predominant form being self-employment.

However, anecdotal evidence suggests the labour market has been characterised by an increasing incidence of underemployment even though open unemployment particularly among university and polytechnic graduates has increased in recent times. The participation of women and children in the labour market has also increased, although that of females is lower than that of males, whiles the growing incidence of child labour is now a major problem in Ghana. Due to the generally lower levels of educational attainment among women, their average earnings are therefore lower than those of men. In general, the employment pattern of the labour market is dominated by the self-employed; both females and males.

The Ghanaian labour market, especially the formal sector, exhibits wage rigidities as a result of the institutional nature of wage negotiations, and the influence of labour unions. However, public sector wages are generally lower relative to private formal, and in some cases for informal employment. However, wages in the formal sector are generally higher than those in the informal sector due to strong unionisation within the formal sector. Growth in employment has not kept pace with that of the economy. Agriculture remains the largest source of employment growth, however a slow down in agricultural performance has meant a slow down in employment growth. This sluggish employment growth has resulted in an increase of the unemployment rate from 2.8 percent to approximately 10.4 percent in 2000. In general, however, unemployment rates have been lower for males than for females.

In order to take advantage of growing opportunities arising from increased globalisation, many in the labour force are upgrading their skills, by acquiring professional certification in their respective occupations. Others too have plunged into the world of IT, so they are able to effectively participate in the changing global economy. Several institutions are offering individuals the opportunity to undertake such skills upgrading. Non formal structures exist to offer training to other members of the labour force. These schemes usually take form of seminars, workshops and apprenticeship.

The improved economic performance has led to a decline in the overall poverty incidence rate from 52 percent in 1992 to 40 percent in 1999. Efforts have not relented to reduce poverty, and currently the GPRS shapes current approach to economic management. Notwithstanding these efforts, the general pattern of poverty is not even across the country. Growth has led to a widening of the gap between the richest and the poorest; that is, income distribution has been unequal across all households. In terms of geographical spread, the three Northern regions and the Central region have witnessed no drastic decreases in poverty over the period. All the remaining regions, particularly Greater Accra, Ashanti, and Brong Ahafo, have recorded significant reductions in income poverty.

Additionally, the patterns of income distribution across the two broad geographical localities in Ghana are not at all surprising. We observe that, the urban populations have larger incomes than their rural counterparts. The gap between the incomes of the urban areas increased between the 1991-92 and 1998-99 periods. The ratio of urban mean income to rural mean income was 1.12 in 1991-92; however, this increased to
1.34 in 1998-99. This was an almost 20% increase in the gap between the two broad localities.

The pattern of poverty by economic activity indicates that those engaged in informal economic activities are more likely to be relatively poor, compared with those engaged in private and public formal employment. However, this does not imply that all those engaged in informal employment are likely to be poor, since some of the highest earners in the country are engaged in informal economic activities. Additionally, a higher incidence of poverty is witnessed for those engaged in food crop farming, export farming and non-farm self-employment, whilst those engaged in export farming have witnessed a decline in their incidence of poverty. This can largely be attributed to their increased participation in international trade and the resultant gains that accrue to factor inputs, in this case labour.

The observed pattern of poverty between rural and urban areas of Ghana also manifests in the availability of basic infrastructure and services. Whilst it worthy note that there appears to be no significant difference between enrolment rates at the primary level in both rural and urban areas, the same situation cannot be said for secondary education. As a result, literacy rates between these broad areas are also disparate. In addition, access to health facilities also how this wide incongruity between rural and urban areas in Ghana. This apparent correlation between poorer areas and a lack of facilities is also manifested across the ten administrative regions. Poorer regions are disadvantaged in respect of school attendance rates, access to health and educational facilities, as well as the distribution of health and educational professionals.

These patterns of poverty and disparity across the country have spurred several quasi-state and non-government organisations to take up the fight of poverty. That is not to say Government has left the fight against poverty entirely to these bodies. Government, through the PRSP and GPRS has set out a framework by which poverty could be tackled within the broad framework of macroeconomic management. Additionally, CBOs and district assemblies have taken up the mantle in the fight against poverty by augmenting the role of Government. These have begun show results in some parts of the country, the Afram Plains being a notable example.

The country has since its independence played an important role in world trade, and as noted earlier in periods of good external conditions, these have translated into good domestic economic performance. In recent years, globalisation has been on the ascendancy, and Ghana has not been left out. Increased foreign aid, as well as FDI inflows have meant the country stands to benefit from such a process. The notably areas where openness, especially to foreign capital, have been significantly manifest are in export processing, mining and in services. These obviously have employment effects.

The evidence suggests that more people are now employed in the EPZs, as well as in export-oriented industries. Econometric evidence also suggests that increased openness lead to an increase in employment creation. Evidence also shows that increased FDI is associated with a decline in both private and formal sector employment. There is evidence however, which indicates that with openness has
come an increased preference for skilled labour because inflow of foreign machinery acts to increase the relative demand for skilled labour.

Employment is obviously not the only benefit that accrues to a nation as a result of increased openness. There have been notably improvements in the usage of imported machinery and equipment, and a transfer of high technology to such sectors as mining, construction, banking and telecommunications. Moreover, RPED panel data show that the use of improved technologies by firms did lead to an increase in the proportion of output that was exported.

To harness the full potentials of openness, and to coordinate efforts at attracting FDI, Government has set up several institutions to facilitate such a process. Prominent among these are the Ghana Investment Promotion Centre, mandated to encourage and promote foreign investment in Ghana except in the mining and energy sectors, as well as co-ordinate and monitors all investment activities, and the Ghana Free Zones Board, which is mandated to promote processing and manufacturing of goods through the establishment of Export Processing Zones (EPZs). Other initiatives put in place are the Presidential Special Initiatives, EDIF, and the DIC, which are largely augmenting the efforts aimed at trade, investment and export promotion.

International trade theory postulates that increased openness to trade and foreign direct investment (FDI) through its impact on economic growth should make income distribution more equal and thereby reduce poverty in poor/developing countries. This is so because countries that trade would have an increase in their consumption and production possibilities. There is no clear consensus on the effect of trade openness and increased capital flows on poverty reduction and income distribution.

In Ghana, between the mid 1960s and early 1908s, with the exception of the short period of the Busia administration, the trade policy was largely restrictive. However, with the inception of the reforms, the policy has been increasingly outward oriented and more liberal. Evidence from Ghana suggests that those engaged in export farming, for example, have witnessed the greatest fall in poverty incidence, compared to those engaged in other sectors, especially food crop farmers. The relationship between trade openness and poverty incidence has however not been uniform over time. There appears to have been a negative relationship between 1987/88 and 1991/92, and a positive relationship between 1991/92 and 1998/99. Similarly, the relationship between inflows of FDI and income distribution and poverty reduction follow the same pattern.

As noted earlier, the informal sector possesses tremendous potentials as a sponge for attracting new entrants to the labour market, and as a potential source for growth and poverty reduction. However, the products from the informal economy have low import content; hence the ability of factors to reap the benefits from trade is limited. Notwithstanding, evidence from RPED data suggest that small informal exporters stood a greater chance of benefiting from trade compared with their larger sized counterparts.

The reforms were accompanied by an open and liberal trade policy that was aimed at diversifying exports and enhancing productivity to ensure international trade competitiveness in order to achieve a sustainable level of foreign reserves. The evidence
suggests an increase in trade openness. This could be attributed to improved performance from non-traditional, as well as the traditional exports crops, such as cocoa. Under the new trade regime, Ghana has also benefited, in terms of substantial tariff reductions, under the Uruguay Round of trade talks, the EU-ACP preferential trade agreements, as well as the WTO arrangements. Presidential Special Initiatives have also been launched to provide a boost to production activities such as, textile and garments, salt, cassava starch and palm oil.

The liberalisation of the financial sector was among others aimed at ensuring easy availability of credit to the private sector. Evidence however indicates that liberalisation did not increase credit to the export and agriculture sectors, unlike it did to manufacturing, at least under FINSAP I. Thus on the whole, liberalisation of the financial sector did not lead to any significant improvement in poverty reduction and income distribution. EDIF was consequently set as a response to such a failure.

The observed failures of openness to significantly reduce poverty have led Government to institute measures aimed at maximising the distributional impact from trade and FDI inflows. These among others include rural development through the modernisation of agriculture, promoting exports, ensuring competitiveness of the exchange rate, and placing the country in a position to take maximum advantage of preferential trade agreements.