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THE INSTITUTE OF ECONOMIC AFFAIRS
A Public Policy Institute

A Review of the Ghanaian Economy in 2012

The Ghanaian Economy: Annual Review 2012

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INTRODUCTION

Africa has been experiencing fast economic growth in the past decade. According to the African Development Bank, between 2001 and 2010, six of the world's ten fastest-growth economies were in sub-Saharan Africa (SSA). In 2011, the economy of SSA grew by 5.2 per cent, down from 5.4 per cent in 2010. Economic growth in Ghana reached 14.2% in 2011. Ethiopia's economy expanded by 11.4% in 2010. Rwanda and Mozambique managed growth rates of 7.2% and 6.8% respectively in 2010, while Uganda and Kenya recorded growth of 6.1% and 5.6% respectively. This growth performance however did not to translate into productive and decent employment for the growing working-age population. Ghana has been no exception.

Despite high sustained growth over the last ten years, there is concern that the structure of the Ghanaian economy remains unchanged, is unbalanced, and is not able to deliver labor-intensive growth. Of over 10.2 million people reported to be engaged in different economic activities in 2010, over 86% was in the informal sector with about three quarters of total employment considered to be in vulnerable employment. Ghana still depends on agriculture and on the extractives sector. While about 60% of the population, predominantly rural, depends on agriculture, agricultural productivity remains low and the potential for job growth remains low. The capital intensive nature of the extractive sector means its job creation potential is low and is limited to low-paying skills. The lack of linkages in the economy means that spillover jobs related to mining also remain low. De-industrialization is a major symptom of change in the wrong direction: the share of manufacturing in GDP for Ghana as a whole has declined over the past decade and a half. It is the growth of the service sector that has become the catalyst for the formal sector job creation.

This report examines Ghana's growth performance in recent times and assesses the impact of growth on job creation. To put the 2012 report in perspective, Chapter 1 sets out the trends and developments in the indicators of growth of the Ghanaian economy against developments in the world economy and what they mean for the Ghanaian economy. Ghana's strong domestic performance was in contrast to a slow and uneven recovery in the global economy. Ghana's twin deficits and rising debt increase the vulnerability of the economy to external shocks and make it difficult to build the foundations of a sustainable growth.

Chapter 2 explores the sources of growth in order to understand why growth has failed to translate into adequate and quality employment generation. It reviews government actions and the job creation content of recent economic policies, and emphasizes the urgent need for coherent national development planning and the first steps to ensure inclusive growth and job creation.

Chapter 3 reviews the real sector of the economy – agricultural, industrial and service sectors – and analyzes policy appropriateness for job creation. Agriculture continues to lose ground as the dominant sector. The rate of growth of the industrial sector has slowed down. Services remain the fastest growing sector. The manufacturing sector has also stopped growing. There are signs that the real sector is showing weaknesses, an especially troubling trend against the background of substantive revenues from the oil sector. Chapters 4 and 5, respectively, examine the fiscal and monetary developments of the economy. Developments in Ghana's external trade, current accounts, balance of payments and external debt status are the content of Chapter 6.

Ghana has always had one social protection programme or the other. Recently, budgetary allocations to social interventions have increased in the effort to meet the MDGs. Chapter 7 examines the range and scope of programmes, their effectiveness and financial implications, and concludes with observations about what government must do to avoid a fiscal paralysis because of the misuse and abuse of certain programmes.

"A country that fails to plan, plans to fail" is a common adage used to underscore the need for a development plan for a nation. Chapter 8 examines this old adage, and argues for the necessity of development planning if Ghana is to move further beyond its current lower middle income status. To sign or not to sign the EU Economic Partnership Agreements and the implications for Ghana's industrial sector as well as the prospects for job growth is the subject of Chapter 9.

CHAPTER 1

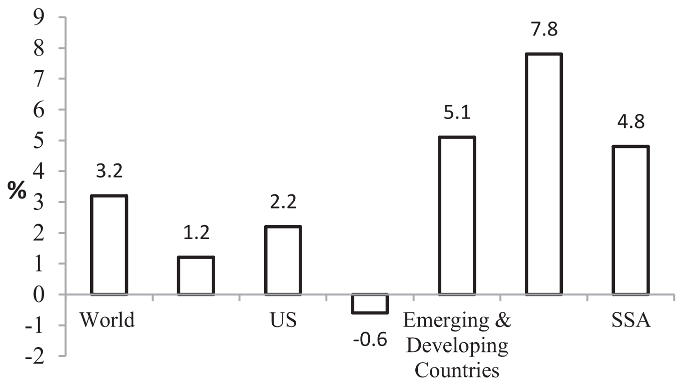
GHANA AND THE WORLD ECONOMY

Ghana's domestic economy experienced a strong performance in 2012 despite a slowdown in the world economy. Real GDP growth was estimated at 7.9 per cent compared with global growth of 3.2 per cent and sub-Saharan Africa (SSA) growth of 4.8 per cent (Bank of Ghana, 2012). The domestic performance was driven by a strong growth in the services sector (8.8%), which more than offset a sluggish agricultural sector growth of 2.6%. The industrial sector grew by 7% which was below the target of 15.8% due mainly to a contraction in oil and gas production as a result of production difficulties in the Jubilee Field in the first half of the year (Ministry of Finance, 2013).

The strong domestic performance was in contrast to a slow and uneven recovery in the global economy. In 2012, while the world economy continued to show signs of recovery from the 2008-2010 financial crises, growth remained sluggish and uneven across different regions of the world. Growth efforts were stymied as many developed economies continued with fiscal consolidation efforts to reduce debts. While fiscal consolidation is necessary for the most part, it negatively affected demand, contributing to a slow recovery from the recession. Additional uncertainties arising from the continued euro-zone debt crises as well as the US fiscal concerns did not augur well for the recovery. On the other hand, accommodative monetary policy has been encouraging growth as central banks around the developed world try to lower policy rates to encourage financial intermediation and borrowing. In what follows, we summarize global economic trends and its effect on the Ghanaian economy in 2012 as well as prospects into 2015.

1.1 Trends in Growth and Trade

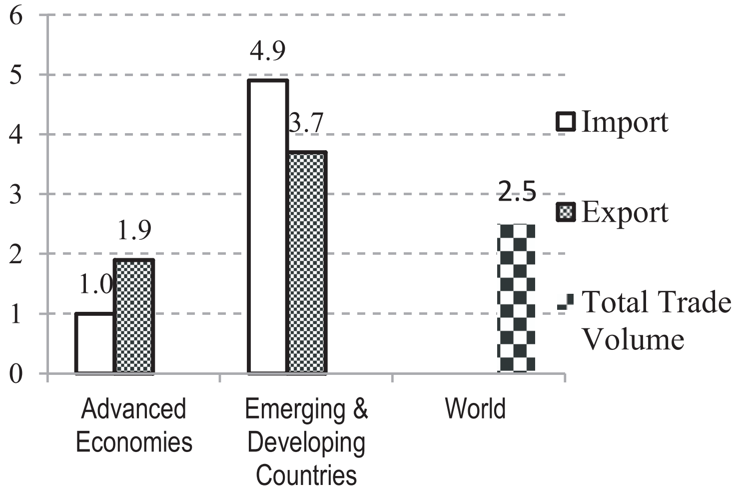
Figure 1. 1 Economic Growth 2012



The recovery of the global economy from the global financial crises of 2008-2010 remained slow in 2012. Uncertainties about the ability of policymakers to control the euro-zone debt crises and to agree on a long-term fiscal plan for the US adversely affected global growth. More so, continued fiscal consolidation programs in advanced economies, though necessary for controlling the debt crises contributed to a slowdown in growth. The low growth and uncertainty in advanced economies spilled over to emerging and developing economies through sluggish growth in trade and financial markets (WEO, 2012). As a result, growth in emerging and developing economies fell from the 6.2% recorded in 2011 to 5.1% in 2012. China's economy grew by 7.8% compared to 9.2% in 2011 and Sub-Saharan Africa grew by 4.8%, down from 5.1% in 2011. Growth in emerging and developing economies however remained strong at 5.1%, and contributed to offsetting the sluggish growth of 1.2% in advanced economies as world output registered a 3.2% growth in 2012.

A weak growth in world trade partly contributed to lower economic performance in 2012. Growth in imports and exports in advanced economies were 1% and 1.9% compared to the 4.3% and 5.3% registered in 2011. Comparatively, growth in both imports and exports in emerging economies were higher (4.9% and 3.7% respectively), but this was also lower than the levels attained in 2011 (8.3% and 6.7% respectively). Total trade volume for the world economy was 2.5%; driven by the relatively strong growth in trade in emerging and developing economies such as China, India, Brazil and Sub-Saharan Africa. The slower growth in trade in advanced economies is explained largely by the impact of the euro-zone debt crises, uncertainties and fiscal consolidation efforts which has resulted in falling aggregate consumption.

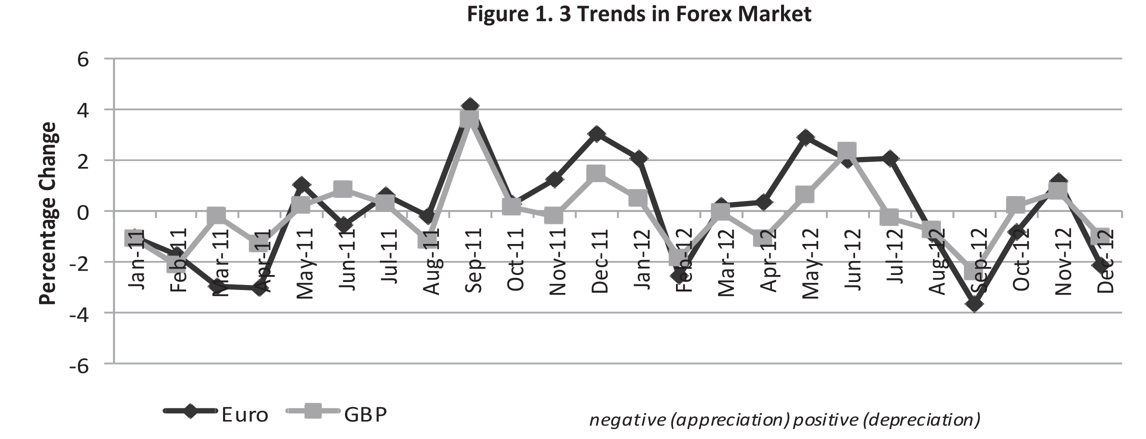
Figure 1. 2 Growth in Trade



1.2 Trends in financial markets and exchange rates

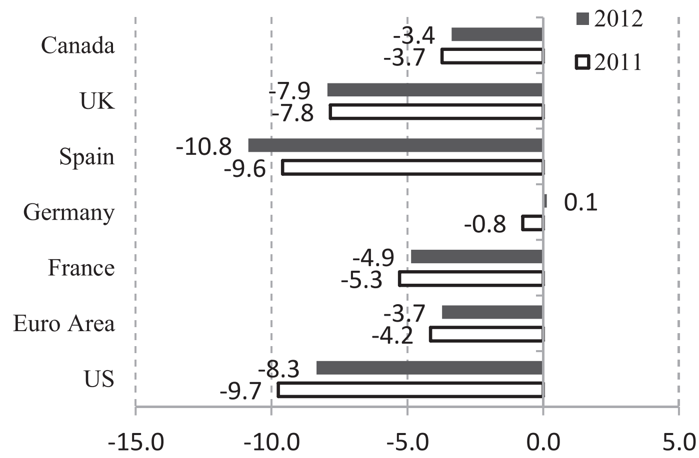
The US dollar remained relatively unstable against two major currencies The Pound Sterling and the Eurobetween 2011 and 2012. Comparatively, the Dollar was more stable against the Pounds Sterling than the Euro. Over the two year period, the US Dollar recorded its highest depreciation against both currencies in September 2011, depreciating by 4.2% against the Euro and 3.5% against the Pound Sterling.

Figure 1. 3 Trends in Forex Market



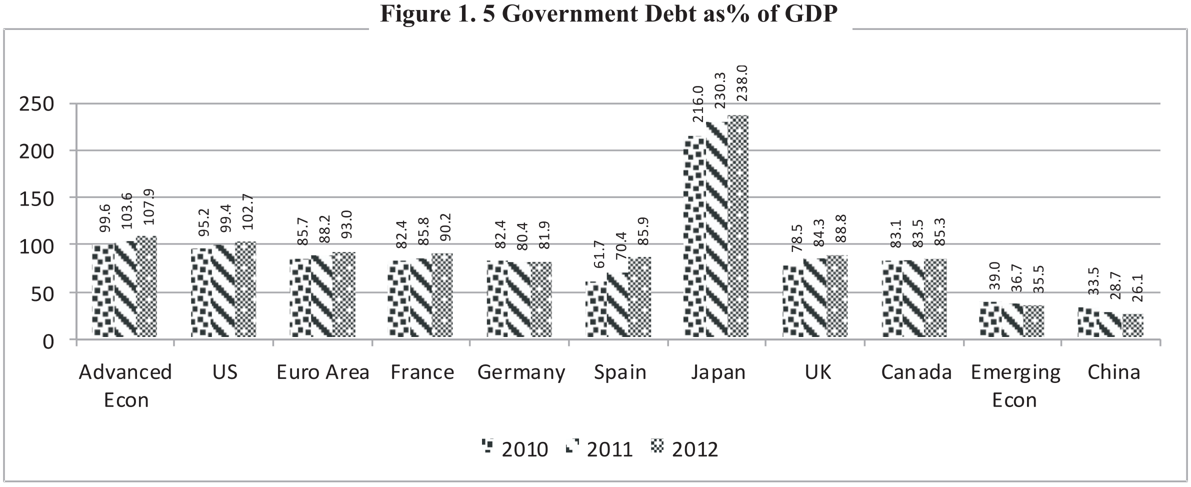
1.3 Fiscal Picture of Major Western Economies

Figure 1. 4 Budget Deficit/Surplus (percent of GDP)



During 2012, fiscal consolidation efforts were carried out in many major advanced economies. As in 2011, these efforts yielded some improvements in public finances. The United States reduced its budget deficits by 1.4% from 9.7% of GDP in 2011 to 8.3% of GDP in 2012. Despite the prolonged debt crises, the Euro area also reduced its budget deficit to 3.7% of GDP from 4.2% of GDP. Notably, Germany moved from a deficit position of 0.8% of GDP in 2011 to register a budget surplus equivalent to 0.1% of GDP, the first surplus since 2007. However, not all advanced economies succeeded in reducing deficits. In particular, Spain's budget deficit increased by 1.2% from 9.6% of GDP in 2011 to 10.8% of GDP in 2012, while the U.K saw a more modest increase of 0.1% of GDP. The fiscal tightening efforts that yielded improvements in public finances in 2011 and again in 2012 are expected to continue over the medium term.

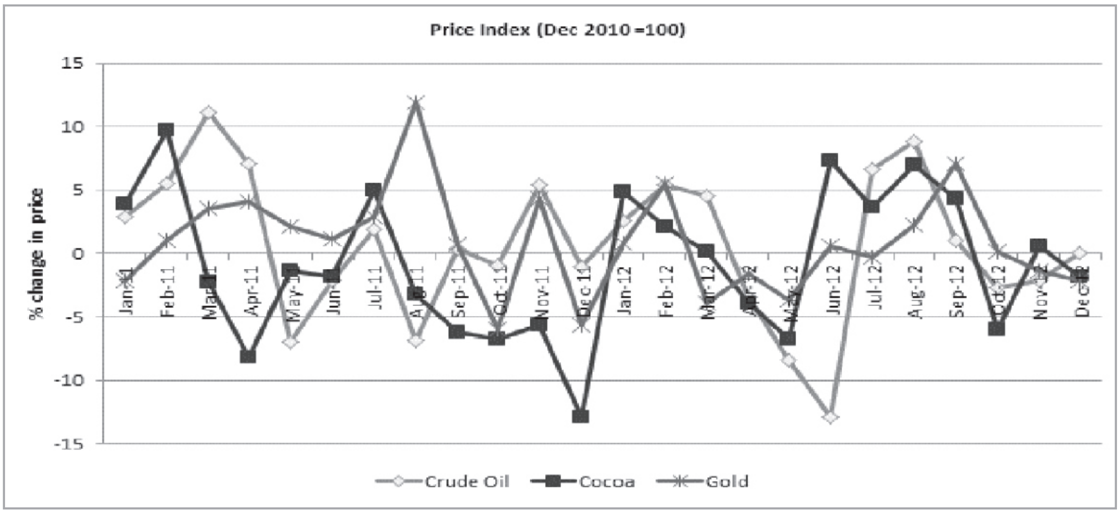
Figure 1. 5 Government Debt as% of GDP



Notwithstanding the improvements in public finances over the last couple of years, debt ratios across the major economies of the world remain high and rising. General government debt as% of GDP in the advanced economies increased from 99.6% in 2010 to 107.9% in 2012. Within this group of countries, Japan had the highest debt ratio of 238% of GDP in 2012. The debt situation continued to worsen for the United States and the Euro Area countries with debt levels rising from 99% of GDP in 2010 to 103% of GDP for the United States, and from 88% of GDP in 2011 to 93% of GDP in 2012 for the Euro area. Debt levels for emerging and developing economies however declined during the same period, from 39% of GDP in 2010 to 35% of GDP in 2012. China is noteworthy in this group, as the country's debt level decreased from 34% of GDP in 2010 to 26% of GDP in 2012.

1.4 Trends in major commodity prices Crude oil, Cocoa, and Gold

Figure 1. 6 Price Indexes of Crude Oil, Cocoa and Gold



Prices of cocoa on the international market closed the year 2012 at US$ 2,431.82 per tonne. This was a recovery from the January 2012 price of US$ 2,307.76, but well below the peak of US$ 3,471.10 achieved in February 2012. The price of cocoa generally trended downward in 2012 subsequent to the February 2012 peak. The decline in prices is attributable to improved supply and inventory levels in leading markets amid a general decline in demand. The price index shows that cocoa prices declined by 20% between 2011 and 2012.

The price of gold remained strong throughout the year as uncertainties regarding the global financial markets continued to boost the demand for precious metals such as gold, diamonds, etc. The price at the end of December 2012 was at US$ 1,684.76, compared to a price of US$ 1,390.55 in December 2010. Unlike cocoa, the price of gold has performed creditably, rising by 21% between December 2011 and December 2012.

Crude oil prices trended upward during the first quarter of 2012, reaching a high of US$ 117.79 in March 2012. Prices however declined to a year-low of US$ 90.73 at the end of June 2012 amid concerns about the lingering debt crises in the Eurozone and signs of a slowdown in Chinese output growth. Prices rallied again in the third quarter owing to political tensions in the Middle East which affected supply. The resurgence in price slowed towards the end of the year amid uncertainties about the US elections and fiscal cliff as well as higher inventory levels. The price index shows that crude oil prices rose by 12% between 2011 and 2012.

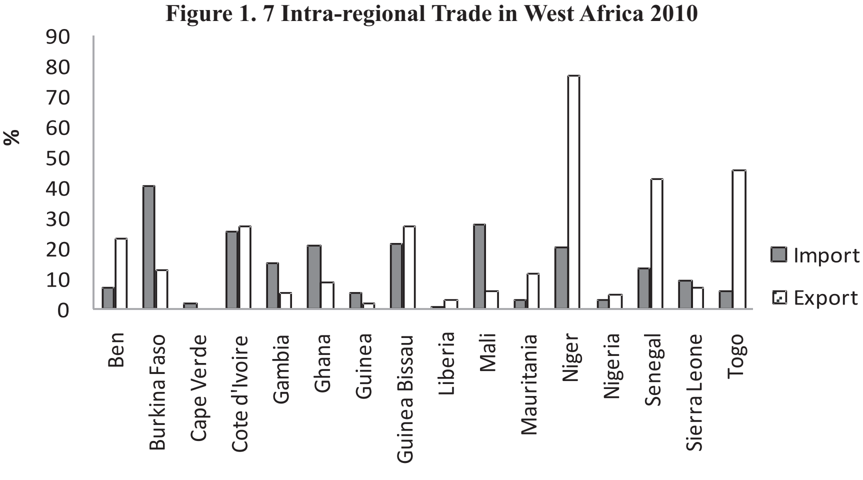
1.5 The world economy and China, Europe and North America

Growth performance in 2012 and in 2013 so far shows a slowdown in economic growth in major emerging economies. While the growth rates of countries like China are projected to remain above those of advanced economies, recent trends suggest that a growing number of emerging economies may be coming off their cyclical peaks. Recent World Economic Outlook projections indicate that growth rates for major emerging economies notably, Brazil, Russia, India, China and South Africa (the BRICS) will be below the elevated levels seen in recent years (WEO, October, 2013). The slower growth is in response to the slump in growth in the major economies of the world, namely the United States and the European Union. In addition, the effects of the monetary and fiscal stimulus injected by authorities into these economies in the wake of the financial crises are now wearing off, leading to slower output growth. Growth in advanced economies however regained some momentum in 2013 in the United States and Japan on the back of stronger domestic private demand. The Euro area is slowly crawling out of recession as fiscal tightening measures have eased deficit levels in major core European countries.

1.6 Developments in West Africa Trade and Fiscal Balances

Developments in the West African sub-region continue to be inundated with political and social unrest in countries, like Guinea Bissau and Mali. However, the performance of the economies in the sub-region remained strong and the sub-region is expected to be the fastest growing region in Africa in 2013/14. In 2012, the region grew by 6.6% up from 6.2% in 2011 (AEO, 2013). It is projected to achieve growth rates of 6.7% in 2013 and 7.4% in 2014. Growth is being driven by the oil and mineral sectors although agriculture and services also show strong growth boosted by domestic consumption. Strong oil prices will continue to boost the growth levels of the oil exporters in the region. In addition, the discovery of crude oil deposits off the coast of Liberia and Sierra Leone, discoveries is expected to increase foreign investment into the sub-region and propel economic growth and development.

Figure 1. 7 Intra-regional Trade in West Africa 2010

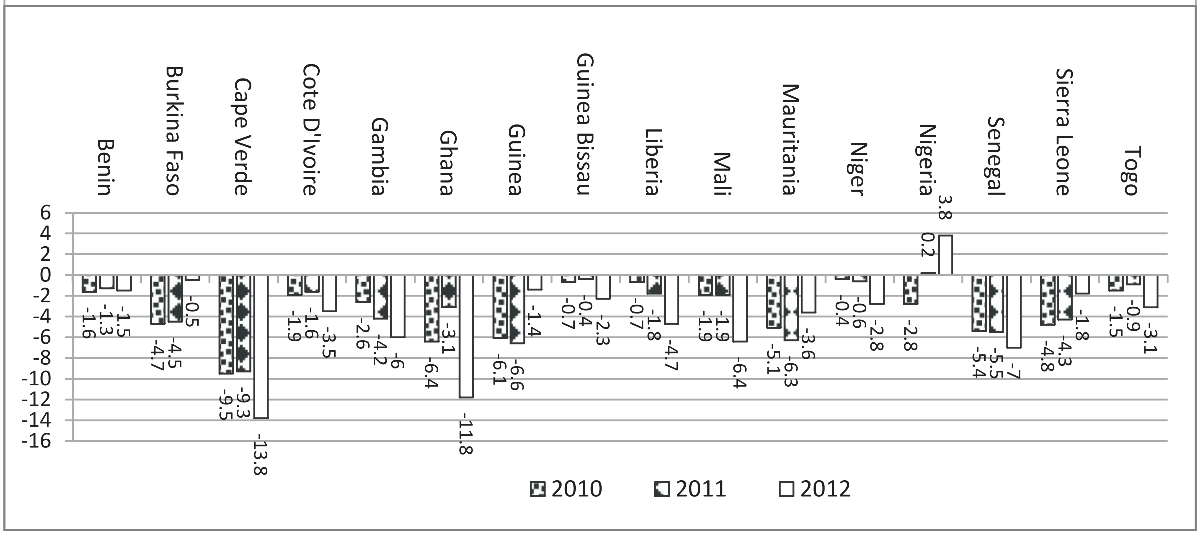


Source: Direction of Statistics--IMF

Trade within the West African sub-region remains a key developmental challenge, despite several efforts by ECOWAS to stimulate and sustain trade within the sub-region. Efforts aimed at boosting regional integration via trade have been beset with myriads of barriers of trade such as excessive controls and checks at various ports and the threat of the inundation of the sub-regional markets with Chinese imports. Overall Niger tops the chart of countries with an impressive sub-regional trade record. In 2010, Niger's trade within West Africa stood at 20%

and 77% of imports and exports respectively. Togo, Senegal, Burkina Faso and Cote d'Ivoire made progress in their engagement in trade in the sub-region. It must be emphasized that Nigeria's-the largest economy in the West Africatrade in West Africa is very minimal. In 2010, Nigeria's import and exports in sub-region represented 2.7% and 5% of its total trade volumes. Much of this export has been crude oil.

Figure 1. 8 Overall Fiscal Balance



For the most part, the fiscal balances of governments in the sub-region worsened in 2012 when compared with 2011. Most notably, the fiscal deficit for Ghana deteriorated from 3.1% to 11.8% of GDP, attributable to election year spending and a rising public sector wage bill, and that for Cape Verde worsened from 9.3% to 13.8% of GDP. Benin, Cote d'Ivoire, Gambia, Guinea Bissau, Liberia, Mali, Niger, Senegal and Togo also saw their deficits worsening in 2012. The deterioration in fiscal balances is in large part attributable to the maintenance of high public sector wage bills, and large-scale public works (UNECA, 2013). On the other hand, Nigeria, Burkina Faso, Guinea, Mauritania and Sierra Leone saw improvements in fiscal balances. Nigeria once more registered an improvement in fiscal balances as the surplus registered in 2011 increased from 0.2% to 3.8% of GDP in 2012.

1.7 Medium Term Implications for Ghana

Developments in the world economy in 2012 and medium term prospects have varied implications for the Ghanaian economy. The following are some of the expected impacts;

- Reduction in Aid: While there have been calls for donors not to give in to their fiscal pressures and to stand by their aid commitments, the OECD Development data shows that overseas development assistance (ODA) declined from 0.32% of the combined gross national income of DAC countries in 2010 to 0.31% in 2011. However, African countries seem to have been spared severe aid cuts as their share of total net ODA increased from 37% in 2010 to 38% in 2011 (AEO, 2013). That said there has been a gradual shift away from bilateral aid on core development projects to humanitarian assistance (AEO, 2013). As key western donors grapple with fiscal consolidation in their home countries, there seems to be a reorientation towards humanitarian aid which may be more easily justified in the donor home countries. This however affects recipient countries' ability to realize development projects that are contingent on continued ODA. Given the high and unfavorable fiscal stance of most western economies and the increasing need for tightening their fiscal stance, the trends in ODA flows are expected to continue into the medium term.

- Export revenue from cocoa, gold and oil exports and Non-traditional-Exports (NTE): Given the slow growth in major economies in Europe and North America as well as an expected deceleration of growth in China, there is a medium term threat of weaker exports and lower commodity prices. For Ghana, this means that the prospects of the growth of exports into traditional markets may be low, and prices of cocoa and non-traditional exports are not expected to show any appreciable rise in the near term.

- Any sharp or protracted decline in crude oil prices may also lead to delays in planned oil projects over the medium term, which will affect output growth.

- Reduction in remittances: In 2012, remittances overtook overseas development assistance (ODA) and foreign direct investment (FDI) as the largest source of external flows to Africa (AEO, 2013). However, developments in the Euro-zone and other western economies will obviously affect remittances to most developing economies including Ghana. Over the years, remittances have become a key developmental tool in most developing and lower-middle income economies, but rising unemployment and budget cuts in western economies (host countries) have reduced significantly remittance flows to the former.

CHAPTER 2

GROWTH AND JOB CREATION IN GHANA: PAST PRESENT AND FUTURE

2.1 Introduction

Ghana's growth performance has been touted as one of the best in Sub-Saharan Africa (SSA). The country's annual growth averaged 5.6% between 2000 and 2010 based on the old series of national accounts. A rebase of the country's national accounts in 2006 lifted the country from a lower income to a lower middle income status with an annual average growth of 8.3% between 2007 and 2012. The country recorded a growth of 15% in 2011 on the back of the commencement of oil production. The challenge however has been the seeming failure of this impressive growth performance to translate into gainful and sustainable jobs in the country.

Job creation and has not kept pace with economic growth in the country over the past decade. One estimate is that between 2000 and 2010, the 6.4% average annual real GDP growth (based on the new series) could only translate into about 3.3% employment growth, indicating employment elasticity of output of 0.52. Besides the slow response of employment to economic growth is the quality of jobs created for the increasing working age population. Most of the jobs in the country are created in the informal sector where earnings are relatively low. Indeed, of every 20 jobs created in Ghana in 2000, 17 were informal sector jobs with only 3 created in the formal sector which conforms to regulations and pay social security benefits to employees.

This chapter assesses Ghana's job creation challenges and suggests some policy options. An overview of Ghana's employment and unemployment picture follows in Section two. Section three narrates Ghana's growth performance and the structure of composition of the economy and provides some reasons why growth is not creating jobs. Section four provides a brief account of government policy actions over the last decade, followed in Section five with suggestions in addressing job creation challenges in the Ghanaian economy.

2.2 Employment and Unemployment

Growth and Distribution of Employment

Lack of regular production of labour market data is a major constraint on any analysis of employment and unemployment in Ghana. Labour force survey is a major source of labour market data because it provides comprehensive instruments to produce quality labour market indicators. However, Ghana has never conducted labour force survey. Any analysis therefore often relies on population census and nationally representative household surveys such as GLSS and CWIQ.

Available data suggests that total employment[1] in the country rose from 7.43 million in 2000 to 10.24 million in 2010 representing 3.3% annual average growth of jobs or employment over the period (Table 2.1). Relative to 3.2%, annual average growth of the working age population[2], employment-to-population ratio rose marginally from 66.9% to 67.4% indicating slow growth of jobs or employment over the decade. The limited jobs created over the period occurred largely in the informal sector where the sectors' share in total employment increased by 2.3 percentage points over the 10-year period. Employment in the informal sector rose from 83.9% of total employment in 2000 to 84.7% in 2003 and inched further up to 87.3% in 2006 before dropping to 86.2% in 2010. At the same time, employment in the public and private formal sectors declined by 0.8 and 1.5 percentage points over the period.

Table 2.1 Growth and Distribution of Employment

Employment Sector	2000	2003	2006	2010
Total Labour force (in millions)	8.29	---	9.42	10.88
Total Employment (in millions)	7.43	---	9.14	10.24
Employment-to-population ratio (%)	66.9	66.7	67.3	67.4
Institutional sector (%)				
Public	7.2	7.6	5.7	6.4
Private formal	8.9	7.7	7.0	7.4
Informal	83.9	84.7	87.3	86.2
Status/Type (%)				
Wage employment	16.0	15.6	17.5	18.2
Employer	5.2	3.7	4.5	4.9
Own account work	68.2	66.7	55.0	59.9
Contributing family work	6.7	7.4	20.4	11.6
Other	3.9	6.6	2.6	5.4
Vulnerable employment rate (%)	***74.9***	***74.1***	***75.4***	***71.5***

Source: *Computed by the Author from Census, CWIQ & GLSSV datasets*

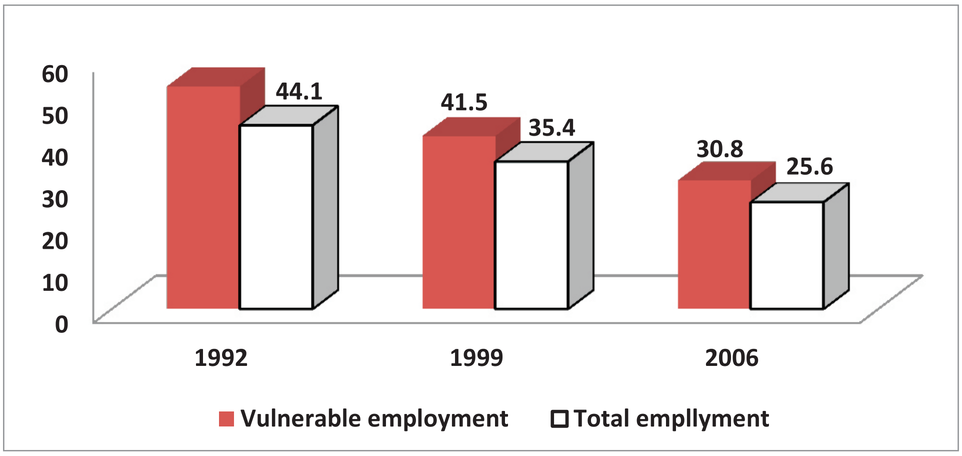
There has not been any noticeable change in the distribution of employment by type which largely measures the quality of jobs. Employment type or status indicates a worker's attachment to the job he or she does as a regular or wage employee, self-employed or contributing family worker and others. Within a ten-year period, wage employment increased from 16% to 18.2% while self-employed with employees or employers declined marginally from 5.2% to 4.9% over the period (Table 2.1). Own account work or self-employment without employees which is the dominant type of employment fell from 68.2% to 59.9% while the share of contributing family work increased from 6.7% to 11.6%. These two types of employment are associated with low earnings and provide a measure of vulnerable employment.

[1] This refers to the number of people aged 15 years and above who worked for pay in cash or in kind or for profit or family gain for at least one hour during 7 days prior to the survey or census.

[2] Working age population refers to those aged 15 years and over. There is no upper limit because in Ghana and many developing countries, a considerable number of people above 60 years are still active particularly in agriculture and or the informal sector.

Thus, employment in Ghana is dominated by vulnerable employment which accounts for 71.5% of total employment in 2010 down from 74.9% in 2000. Workers in vulnerable employment are less likely to have formal work arrangements and are therefore more likely not to have the benefits that often come with decent employment such as social security, work safety and recourse to effective employer-worker dialogue mechanism.

Figure 2.1 Working Poverty Rate: 1992-1996



Source: *Computed from Ghana Living Standards Surveys (GLSS3&4&5)*

Lower earnings and working poverty associated with jobs considered to be vulnerable also suggests that workers confined to these types of jobs are more likely to be working poor. Indeed, work does not fulfil the income component of decent work if the work does not provide sufficient income to take the worker and his/her family out of poverty. The working poverty rate is measured by the number of employed persons living in a household with incomes below the poverty line as a percentage of total employment. Figure 2.1 shows the declining working poverty rate in Ghana since 1992 but the rate remains higher among people in vulnerable employment at 31% in 2006. Thus nearly every 1 of 3 people in vulnerable employment is working poor compared with 1 of 4 in total employment.

Unemployment

The unemployment rate in Ghana declined from 10.4% in 2000 to 7.3% in 2003 and further dropped to 3.1% in 2006 before inching up to 5.8% in 2010 (Table 2.2). In terms of absolute numbers, the total number of unemployed people declined from 863,740 in 2000 to 282,786 in 2006 and rose to 632,994 in 2010. The rates are also estimated to be higher in urban than in rural areas largely as a result of rural-urban labour movement, particularly the youth in search for hardly existing jobs. The unemployment rate is also higher among the youth than all adults. As reported in Table 2.2, youth unemployment rate was 1.6 times higher than all adults in 2000 and more than twice higher between 2003 and 2010. Generally, the youth face most salient labour market barriers including job skills mismatch (both technical and non-technical); and labour demand barriers, such as observed discrimination by employers towards young people on grounds of lack of job experience, insufficient exposure to the work environment; and stereotyping. These tend to impede their access to employment especially if they are first time jobseekers.

Table 2.2 Unemployment rates by Age, Sex and Location (%)

Demographic Group	2000	2003	2006	2010
All (15+)	10.4	7.3	3.1	5.8
Urban	12.8	10.7	6.1	8.0
Rural	8.6	4.8	1.3	3.5
Youth (15-24)	16.7	16.3	6.6	12.9
Education				
No education	9.6	---	2.4	3.0
Basic	10.6	---	4.6	6.1
Secondary+	12.7	---	10.9	9.8
Tertiary	11.0	---	7.8	9.5

Source: *Computed from Population and Housing Census and GLSSV*

The phenomenon of unemployment often singled out as one of the major labour market challenges across the globe does not seem to be very serious considering the 3.1 to 10.4% rate recorded between 2000 and 2010 (Table 2.2). The observed lower rate of unemployment is explained by the definition and measurement which requires a jobless individual who is available for work to actively seek work. According to ILO (1982), the unemployed refers to a person above a specified age who is jobless or "without work", available for work and has not worked for at least one hour during a given reference period and actively looking for work.

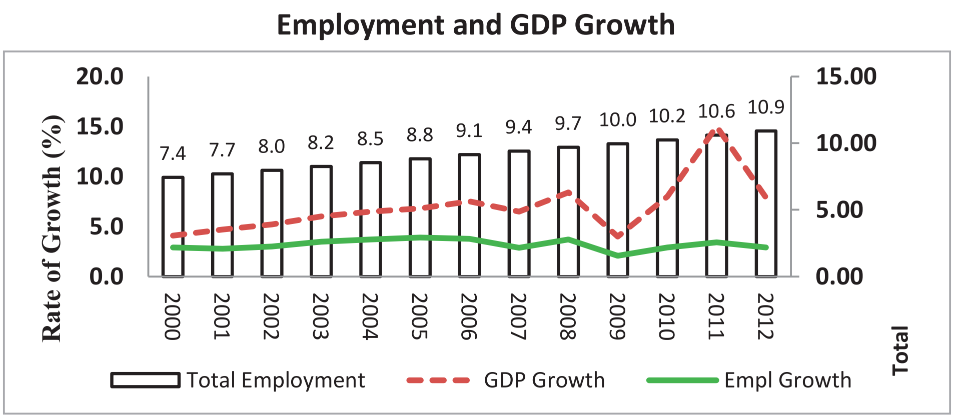
However, a considerable number of the jobless may be available for work but fail to look for work for various reasons including the perception of no jobs. Moreover, because of the lack of public and private employment centres coupled with the absence of social protection programmes (such as unemployment benefits) as an incentive, many of the jobless make no effort to look for jobs by registering at these centres. This tends to create a high "discouraged worker" effect which if added to the unemployment rate based on the ILO definition raises unemployment rate to 6.5% in 2006. Thus, relaxing the "seeking work" criterion and making it broad unemployment gives a better measure of the phenomenon that largely reflects the reality in developing countries including Ghana (Baah-Boateng, 2012).

Besides the large number of discouraged workers that tend to underestimate the seriousness of the unemployment rate in Ghana, the high level of informal employment also masks the phenomenon of unemployment in the country. Thus, in the face of absence of any unemployment benefit for jobseekers, many who find unemployment undesirable turn to the informal sector to seek employment asylum even though the sector is associated with lower earnings. Invariably, this tends to produce a low unemployment rate in countries like Ghana where the environment allows informality which accounts for 86.2% of total employment in 2010 to flourish.

The educational dimension of unemployment (measured by job-seeking out of joblessness) shows higher unemployment rates among the educated than the uneducated. From Table 2.2, the highest unemployment rate is reported among those with secondary education followed by tertiary graduates while those with no education have the lowest unemployment rate. Thus, in 2010 the unemployment rate among secondary and tertiary graduates was more than three times higher than those with no education and one -and- a half times higher than those with basic education. Indeed, with limited or no employable skills to enable them access formal sector employment, the only option for those with basic or no education is to target the informal sector rather than remain unemployed. This explains the lower unemployment rate among individuals with no or limited education. In contrast, the limited employment opportunities in the formal sector combined with unattractiveness of the informal sector to people with secondary school education or higher largely explains the higher unemployment rate among the educated. With over 50 universities and 10 polytechnics offering similar programmes in the country and the slow growth of the formal sector, the problem of unemployment among secondary school leavers and tertiary graduates particularly the youth would continue to pose major challenge to the Ghanaian labour market.

2.3 Growth trends and Sectoral composition

Figure 2. 2 Growth of Real GDP and Employment: 2000-2012 (%).



Source: *Constructed by Author from National Accounts, Population Census and GLSS5*

The slow growth of employment particularly in the formal sector of the labour market is largely a reflection of the weak job creation content of growth of national output. Thus, high and increasing economic growth has not translated effectively into the creation of adequate jobs and this is reflected in the divergence between the real GDP growth and employment growth (Figure 1.2). Total employment in Ghana rose from 7.43 million in 2000 to 9.14 million in 2006 representing average annual employment growth of 3.5% over the period. This was against the backdrop of 6.1% average annual real GDP growth yielding employment response to output of 0.57. A slower growth of employment from 9.14 million to 10.24 million between 2006 and 2010 or 2.9% average annual growth as against 6.6% average annual real GDP growth suggests a slower response of employment growth measured by employment elasticity of output of 0.44.

The low employment elasticity of output can be explained from both the demand and supply sides of the labour market. Labour demand depends largely on the pattern and sources of economic growth. The high growth recorded over the past decade has been powered largely by low labour absorption extractive activities as well as the trade and finance sector. The growth of the high job creation sectors of manufacturing and agriculture has been relatively slow and judged to be among the weak performing sectors. Table 2.3 reports sectoral growth of national output over the six year period 2007-2012. Agriculture grew annually on average by 3.4% compared with 13.5% and 8.5% for industry and services respectively. The strong growth in the industrial sector was largely driven by growth in the mining and extractive sector which averaged 41.1% on the back of crude oil production in 2011 which raised the year's growth of the sector to 206.5 percent. Manufacturing growth was quite low averaging 5.1% on annual basis with adverse implications for job creation. The strong growth in the services sector also occurred on the back of high growth in the trade and finance sub-sectors which expanded annually by 8.4% and 13.2% respectively between 2007 and 2012.

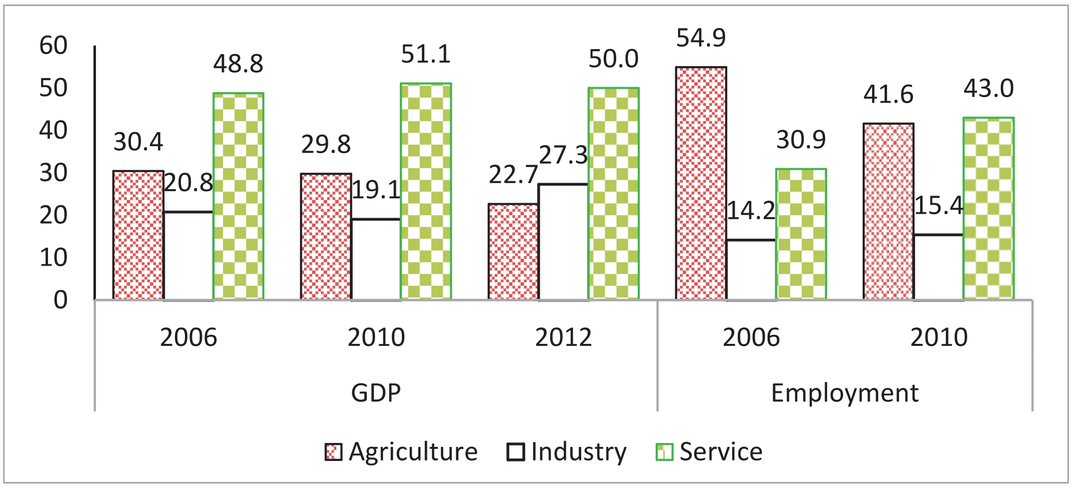
Table 2. 3 Growth Rates of major sectors 2007-2012 (%)

Sector	2007	2008	2009	2010	2011	2012
Agriculture	-1.7	7.4	7.2	5.3	0.8	1.3
Industry	6.1	15.1	4.5	6.9	41.6	7.0
Manufacturing	*-1.2*	*3.7*	*-1.3*	*7.6*	*17.0*	*5.0*
Mining & quarrying	*6.9*	*2.4*	*6.8*	*18.8*	*206.5*	*5.0*
Service	7.7	8.0	5.6	9.8	9.4	10.2
Trade	*5.4*	*9.5*	*5.4*	*13.3*	*11.0*	*5.8*
Finance	*18.3*	*10.8*	*9.3*	*16.7*	*1.0*	*23.0*

Source: *Constructed from National Accounts*

The slow growth of agriculture translates into its dwindling share in national output from 30.4% in 2006 to 22.7% in 2012 while industry and services made some gains. The share of industry and services in national output surged from 20.8% and 48.8% in 2006 to 27.3% and 50.0% in 2012 (Figure 2.3). Estimates from the national accounts also show a consistent decline in the share of manufacturing from 10.2% to 6.9% between 2006 and 2012 while mining and extractive sub-sector saw its share rise from 2.8% to 8.8 percent. The changing structure of the economy translates into the changing sectoral distribution of employment in Ghana. Agriculture's share in employment dropped from 54.9% in 2006 to 41.6% in 2010 in favour of services and industry (Figure 2.3). Thus the share of services in total employment surged from 30.9% to 43.0% over a four year period while that of industry rose marginally by 1.2 percentage points from 14.2% in 2006.

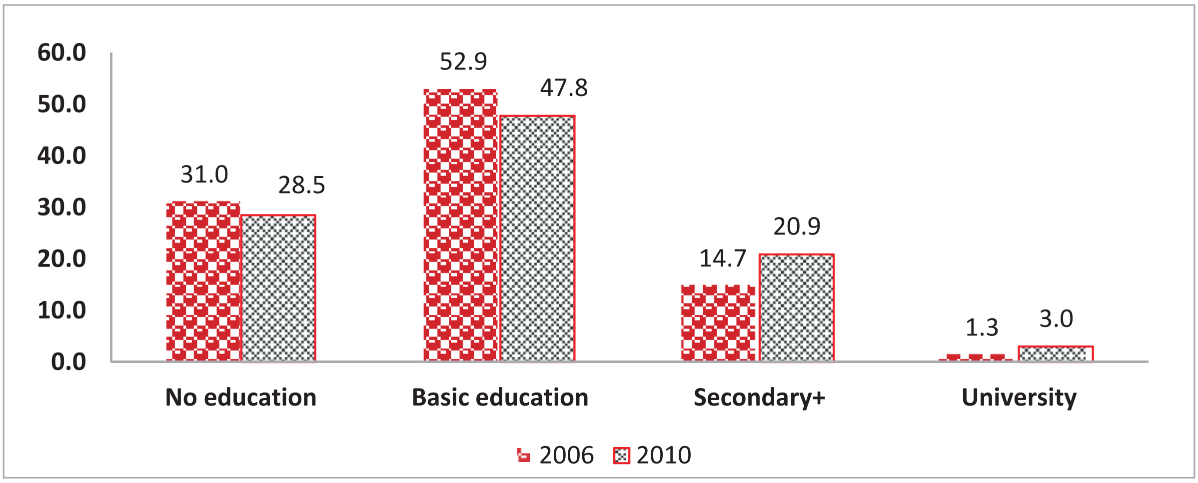
Figure 2. 3 Sectoral Distribution of National Output and Employment 2006-2012 (%)



Source: *Constructed by Author from National Accounts, Population Census and GLSS5*

From the supply side is the problem of the quality of human resource in the country. Estimates from the 2010 Population and Housing census indicate that less than half a million (442,251) of the 15.2 million working age population in Ghana have had at least bachelor's degree with about 485,000 people with post-secondary diplomas. In contrast, about 1.6 million of the working age population have never attended formal school with as many as 7.25 million people in the working age population having had primary, JHS or middle school education. Figure 2.4 presents the distribution of the working age population by the level of education in 2006 and 2010 and shows a slow improvement in the quality of human resource in Ghana with a rise in the proportion of working age population with at least secondary education from 16.0% to 23.9 percent. This compares with a decline in the proportion of the working age population with basic education from 52.9% to 47.8% and a marginal drop of the proportion with no formal education from 31% to 28.5 percent. With secondary education as the basic requirement to obtain formal sector employment, only 24% of the working population in 2010 could access formal sector employment with the informal sector being the only source of employment for the remaining 76 percent. This largely explains the dominance of informal employment in Ghana.

Figure 2. 4 Distribution of Working Age Population by level of Formal Education



Source: *Constructed by Author from 2010 Population Census and GLSS5*

Apart from the limited number of people with formal education, the system of education, programmes and quality of teaching and learning also tend to produce skills that sometimes do not match with employment requirements in the labour market. Invariably, programmes pursued at tertiary and second cycle institutions in Ghana are biased towards humanities as opposed to science, engineering and technology. Currently, there are over 50 public and private universities and 10 polytechnics in the country, few of which are running courses in medicine, science, engineering and technology where skills are in short supply. In contrast, increasing supply of human resource in business administration, arts and social sciences in excess of what the economy requires also creates a problem of educated joblessness. Polytechnic education designed to fill middle level manpower of the country in the area of technical, vocational, electronics and engineering training seems to have lost its way. The move to grant Polytechnics, degree awarding status has the potential of shifting the key focus of polytechnic education as producers of middle level manpower.

The design of training curricula of educational and training institutions which does not often have any place for the involvement of industry tends to make the skills produced less and less relevant to the needs of industry. Teaching methods that focuses on learning and passing examinations rather than emphasising problem solving skills cannot escape blame for the problem of skill mismatch in the economy. This problem is not only limited to university and polytechnic education but also occurs in vocational and technical training. In some African countries, training activities offered to out-of school youth in carpentry, auto mechanics and bricklaying in formal vocational and technical training as well as traditional apprenticeship systems, ignored labour market demand, leading to unemployment and low returns on investment in training. The relevance of technical and vocational education in Ghana has declined considerably on account of declining government support in terms of tools and equipment for training. If half of the support provided to the National Youth Employment Programme (NYEP) now the Ghana Youth Employment and Entrepreneurial Development Agency (GYEEDA) is accorded government agencies such as NVTI, ICCES and OIC, under Ministry of Employment and Labour Relation (MELR) many more young people would have been trained and managed to set themselves up than what GYEEDA is providing.

The opportunity for instructors to undergo retooling exercises through practical attachment in industries to be in tune with changing demands in the labour market is totally absent in the education system. This makes instructors ill-equipped to be able to deliver effectively in class. This goes to the detriment of students. Furthermore, the emphasis on examinations as the main tool for assessing students and trainees coupled with certificate biased teaching approach rather than the ability to deliver in the labour market undermines the ability of many in the educated workforce to cope with the changing dynamics of the labour market. This undoubtedly has adverse effects on the quality of products thrown into the labour market by academic and training institutions. Thus, even if the economy is able to create sustainable jobs in the formal sector, the mismatch between skills produced by the educational system and what employers require would still create incidence of joblessness.

2.4 Government actions (or interventions) towards job creation

Government intervention becomes necessary when the labour market fails to ensure a reasonable and sustainable growth of sustainable employment. The absence of a well-coordinated and harmonised national development strategy geared towards employment oriented growth has been the bane of the Ghanaian economy in relation to job creation. Historically, employment issues in the country have often been treated as residual or passive outcome of sectoral and macroeconomic policies and are mostly uncoordinated.

Over past decade, some attempts have been made to design and implement public policies and programmes targeted at addressing job creation challenges in the country. In 2002, the government undertook Skill Training and Employment Placement (STEP) programme for the unemployed who were registered in 2001. The main objectives of the programme were to create jobs for the unemployed youth as a step to alleviating poverty by providing them with the necessary skills to improve their economic lives. Under the programme, unemployed youth were offered skills training with job placement assistance or start-up finance for the self-employed free of charge. The main weakness of these projects in terms of employment generation is that jobs created from these projects were not sustainable because they were largely limited to the life of the projects. Besides, many of those registered as unemployed were engaged in trades like hairdressing, tailoring, carpentry among others, but might have perceived those types of engagement as not part of employment. Therefore the STEP programme that offered the same or similar kind of skill training made it unattractive to them.

Since 2003, Ghana has put in place three medium-term strategy frameworks (GPRS I and GPRS II)[3] and a 4-year Ghana Shared Growth and Development Agenda (GSGDA) 2010-2013 to promote growth and poverty reduction. In all of these medium-term policy frameworks, employment generation was not seen to be the main focus of the strategies. This is reflected in the absence of any initiative to generate regular labour market data to monitor the employment generation response to the policies on the basis of these policy frameworks.

The National Service Scheme which has been in existence for over 3 decades has also been used to provide a one-year opportunity for tertiary school leavers to render service to the nation. The Scheme provides a sort of platform to facilitate the transition of the youth from school to work by providing an opportunity for young school leavers to be exposed to the ethics of work. Most of these young people are posted into educational institutions to carry out teaching activities. At the end of the one year programme, some of them are absorbed by the institutions where they had their national service, while many others enter the labour market as new jobseekers[4] with few of them pursuing further studies.

One major policy initiative that is directly targeted at providing job opportunities for young people aged 1535 years is the NYEP which has been re-christened as a government agency called GYEEDA. The programme which was initiated by the government in 2006 was meant to address youth employment challenges facing the country at the time and its implication for national security. The programme seeks to provide an opportunity for young people regardless

[3] GPRS I is Ghana Poverty Reduction Strategy and GPRS II is Growth and Poverty Reduction Strategy.

[4] Estimates from the 2010 Population and housing census report, 79.4% of the 632,994 jobseekers were doing so for the first time.

Of their level of education to be engaged temporarily and acquire skills to facilitate their transition into permanent work. The programme has been criticised on many grounds. For example,

(i) those engaged under the programme do not contribute to social security, making it fall short of meeting the tenets of decent work including payment of social security and social dialogue;

(Ii) dominance of the management of the programme by political appointees has also been a major source of criticism of the programme to the effect that some critics perceive it as being used as a tool for political advantage by the ruling government. Financial malfeasance and corruption at the management level of the programme contained in a Ministerial Committee report on GYEEDA released in 2013 gives credence to the criticism of the management of the programme

(iii) delay in payment of monthly allowance to the youth engaged; and

(iv) The absence of any proper exit plan after the period spent on the programme has remained a major concern for the viability of the programme. Even though beneficiaries are expected to be engaged over a period of two years and exit into permanent employment, the reality is that many of the beneficiaries stay beyond the period of engagement while some exit into joblessness with others finding their way back to the programme.

2.5 What needs to be done

Jobs creation is the outcome of the design and implementation of economic policies that stimulate the desire of enterprises to engage jobseekers through employment-oriented economic growth and to enhance the productivity of job seekers through effective and efficient human resource development. The starting point of addressing job creation challenges of the country is recognizing that job creation for the jobless is one of the keys to achieving an improved standard of living and poverty reduction. Thus, mainstreaming job creation in all policy initiatives is one major way of addressing employment generation challenges in the economy. This could take the form of incorporating and assessing job creation effects of all policy initiatives at macroeconomic and sectoral levels.

It is also important to recognise the heterogeneity of the jobless particularly in terms of the skills they have. In the very short-term, the adoption of labour intensive initiatives through public works programmes, targeted at those with limited or no formal education and skills is one major way of absorbing the jobless with no formal education. In the medium to long term, public investment that aims at facilitating the growth and expansion of agriculture and manufacturing that are more employment friendly sectors is one major way of creating jobs and addressing unemployment challenges. Obviously, unemployment is a component of joblessness arising largely out of deficiency in aggregate demand and cannot be tackled unless economic growth is sufficient and has strong job creation content. Investment in infrastructure, effective agricultural marketing strategy, affordable credit support and deepening of sectoral linkages, offer greater prospects of creating productive and quality jobs for the expanding working age population.

Skills mismatch which occurs when there is a gap between skills churned out by academic and training institutions and what is required by employers. This needs to be tackled through the design of appropriate curricula that meet the requirements of industry. Moreover, vocational and technical skills training must also be designed in line with demands of the economy. Clearly, investment in education must be geared towards providing students with the knowledge needed to compete in the job market. In the midst of slow growth of wage employment opportunities coupled with the expanding working age population in the country, there is the urgent need to re-orient the jobless from seeking to be employed, to setting up one's own enterprise, grow it and become a provider of jobs. Removal of constraints such as poor access to affordable credit, poor infrastructure, absence of business support and lack of entrepreneurial orientation would provide the platform for entrepreneurial development towards the creation of productive jobs. An educational system that promotes creative learning and innovative thinking is critical for entrepreneurial development. Thus, a review of Ghana's education system in a manner that will emphasise creativity and innovation rather than certificate driven training would provide the foundation for the development of entrepreneurship for sustainable job creation.

A long-term national development strategy that emphasises the generation of decent and productive jobs is necessary to set the country on the long-term path of creating sustainable jobs in the economy through structural transformation of the economy. This will make it possible for employment to be fully integrated into all sectoral and macroeconomic policies as well as human capital development strategy. From the demand side of the employment equation, agriculture and manufacturing deemed to have greater job creation potential and strong backward and forward linkages could be used as the lead sectors supported by construction, energy and the services sectors in the long-term national vision. This would be backed by macroeconomic policies: fiscal, monetary, exchange rate and trade policies that are in tune with the dictates of the long-term national agenda. The demand-side initiatives will elicit appropriate supply response through enactment of appropriate human capital development strategy to train and develop required skills to promote growth of targeted sectors. This would require academic and training institutions to design programmes and curricula to meet the skills required in the lead sectors of agriculture and manufacturing. Equally essential is investment in the development of reliable, accurate, timely and regular labour statistics necessary for regular monitoring of job creation outcomes of the long term national vision for periodic review of strategies within the broader long term national strategy.

CHAPTER 3

THE REAL SECTOR OF GHANA'S ECONOMY: RECENT PERFORMANCE

This chapter assesses the recent performance of Ghana's real sector using data spanning 2006-2012.

- The industrial sector has been the star performer of Ghana's real sector over the past two years but the rate of the growth of the sector has slowed down. The rate of growth of mining and quarrying which turn out more than half of the industrial sector output recently crawled to a stop for the first time in years.

- The services sector took over from the industrial sector in 2012 as the fastest growing component of the economy and looks set to continue to lead real sector performance.

- Despite recent slightly encouraging performance, agriculture continues to lose ground as the dominant sector of the economy. The decline has, however, been moderated by strong performance in livestock production and a rebound of the fisheries sector.

- The historically dominant cocoa sector which recorded strong performance in the 2010-2011 periods has turned down sharply and is part of the reason for agricultures' muted performance. Agriculture, however, remains the largest employer and the outlook appears positive because of recent policy focus on the agricultural sector.

- The manufacturing sector has also stopped growing. There are signs that Ghana's real sector is showing weaknesses and this especially troubling against the background of substantive revenues from oil. The government needs to be aware that oil revenues are currently cushioning the weaknesses in the real sector but oil is a non-renewable resource which employs few people. Oil revenue is volatile as well, so the high paying and labor intensive agricultural industry seem to be the area that can provide jobs.

3.1 Introduction

Ghana's agricultural sector remains the largest employer in the country's real sector but it continues to lose ground as the dominant player of the real sector despite its recent slightly encouraging relative performance (Figure 3.1). Agricultural output fell from 25.6 per cent of GDP in 2011 to 23.1 per cent in 2013 (Budget Statement, 2013). The manufacturing sector performance is not encouraging either, leaving the services sector as the only moderately growing sector (Figure 3. 1).

The recent slightly improved performance of the agricultural sector (Figure 3.2) has been led by improvements in crop production (exclusive of cocoa) and livestock production while there has been significantly weaker performance in the hitherto strongly performing cocoa sector (Figure 3.3). Forestry and logging also declined in 2012 dragging down the overall sector performance and muting the effect of the strong growth in crops and livestock. Fishing bounced back albeit growing below the 2012 target after declining in 2011.

It is an undisputed fact that there are systematic as well as structural problems in Ghana's real sector, a situation which has been worsened in some regions, particularly in the Western Region following the recent oil find because of competition for land and human resources. To illustrate the weaknesses in the agricultural sector, note that the average level of education of most of Ghana's farmers remains low, access roads to farming areas are still unusable especially during the rainy seasons, agriculture is still largely non-mechanized and rain-fed, there are no long term storage facilities and rural-urban migration is undermining the sources of cheap agricultural labour. The oil find seems to be spurring a transfer of scarce skilled labour from the agricultural sector.

In the manufacturing sector, high energy and transportation costs, low management ability, low skill, poor quality education, lack of experience of potential employees and a weak maintenance culture still plagues the industrial sector making it uncompetitive internationally. While the outlook for the industrial sector, especially the non-extractive manufacturing sector is bleak, the outlook for the agricultural sector, however, appears positive as the current government has made it a policy to focus on the agricultural sector.

For instance the recent weaker performance of the forestry and logging sector is not necessarily bad because logging negatively affects the environment. The government reported in the 2013 budget that part of the reason for decline in the output of the forestry and logging sector is that fewer permits for logging were given out. Even more positive is the news that the reforestation project has recently obtained, and is due to get, more support in both the northern and southern sectors. These will help the forestry sector bounce back albeit in a sustainable way.

3.2 Agricultural Policy in the Short and Medium Term

In the 2013 national budget, the government made it clear that agriculture remains a key sector and that the ultimate goal of agricultural policy is to transform the sector into a vibrant and modern one. The government identified *more intensive use of technology* as a policy that can help quicken the transformation of the agricultural sector. The short-term agricultural policy was captured in the 2013 budget statement as follows:

> "The continuous introduction of technology to improve agricultural production remains the main focus of Government policy interventions. The key interventions are the adoption of livestock production technologies, agricultural mechanization, irrigation development, fertilizer subsidy, seed improvement, quality standardization, and the implementation of modern buffer stock management techniques. The expected results are increased productivity and output, incomes and export earnings, food security, supply of raw materials for value addition and rural development" (Budget Statement, 2013).

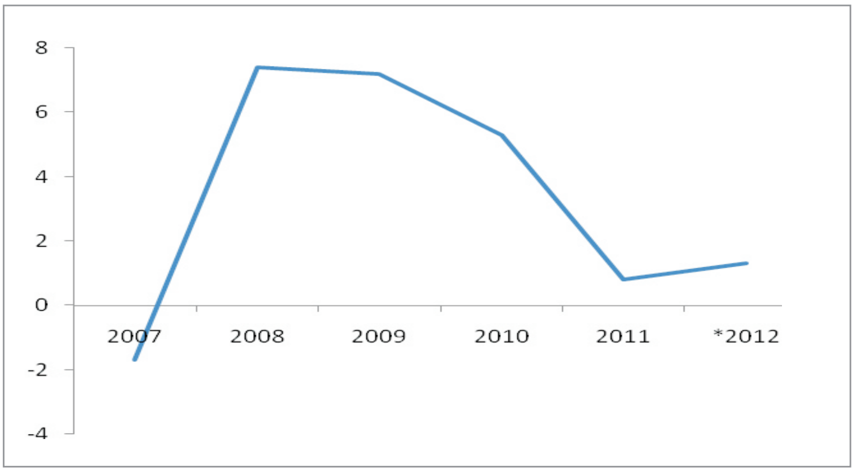
Agricultural Sector Performance

Recent available data shows that Ghana's agricultural sector growth rates are now increasing again albeit at a very slow pace of barely 1% over the past 2 years (Figure 3. 2). This is significant as the sector growth fell between 2008 and 2011 despite the government's pro-agriculture policy stance.

Figure 3. 1 Growth of the Individual Sectors of Ghana's Real Economy from 2007 to 2012

Data Source: Ghana Statistical Service

Figure 3. 2 Agricultural Sector Growth Rates: 2007 - 2012



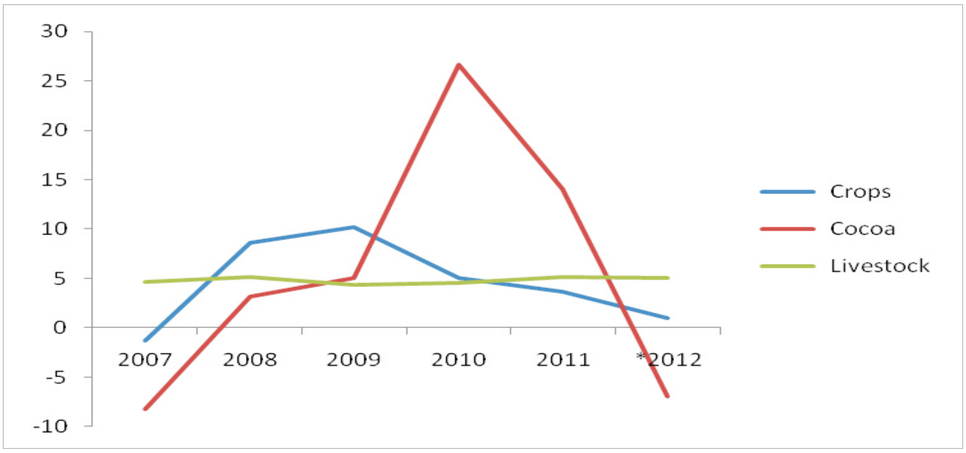
Data Source: Ghana Statistical Service

The key sub-sectors in the agricultural sector are cocoa, crop production, livestock, forestry and logging and fisheries. Cocoa dominated the agricultural sector for several decades but in terms of growth, the three top sub-sectors in the agricultural sector (crops, cocoa and livestock) are performing poorly (Figure 3. 3). Crops and livestock, and cocoa are declining at 5% and 7% respectively after very strong performance by the latter in both 2010 and 2011.

The underlying weaknesses in the cocoa sector needs to be addressed because the strong performance of cocoa in 2011 and 2012 were probably due to smuggling from Cote d'Ivoire (CIV), the worlds' largest exporter of cocoa when it was unstable in the previous year. Renewed strength in the CIV cocoa sector following political stability is what is reflected in Ghana's poor cocoa sector performance. It does follow therefore that an appreciation of the Ghana cocoa purchase price relative to the CIV purchase price will induce smuggling of cocoa into Ghana from CIV and very quick turnaround for Ghana's cocoa exports.

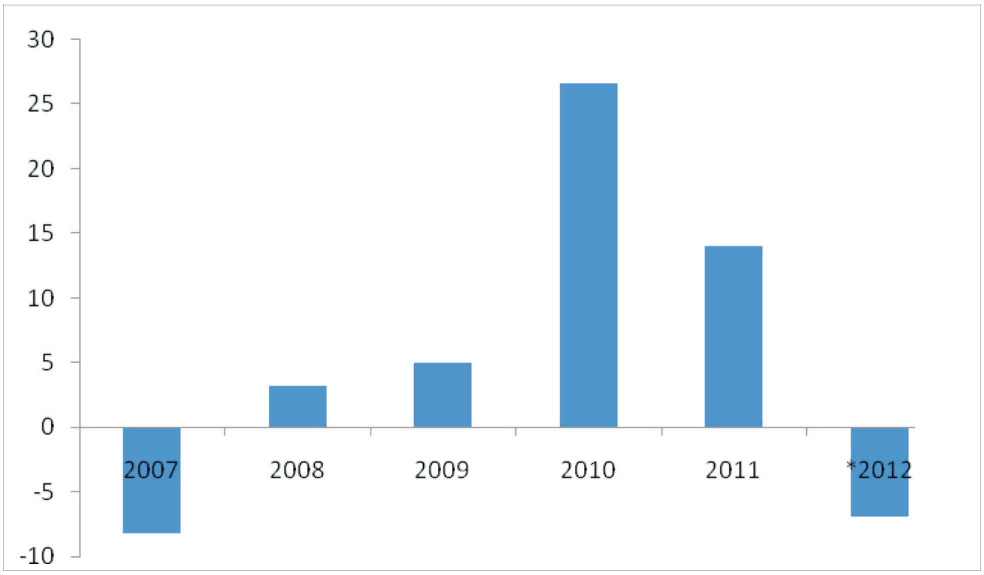
Others have argued that after the large increases in 2010 and 2011, further growth will take a longer time even if more cocoa trees are planted as cocoa takes more than 3 years to mature. The possibility remains though that smuggling from the CIV can swell Ghana exports in the short term.

Figure 3. 3 Growth Rates of the Dominant Agricultural Sectors



Data Source: Ghana Statistical Service

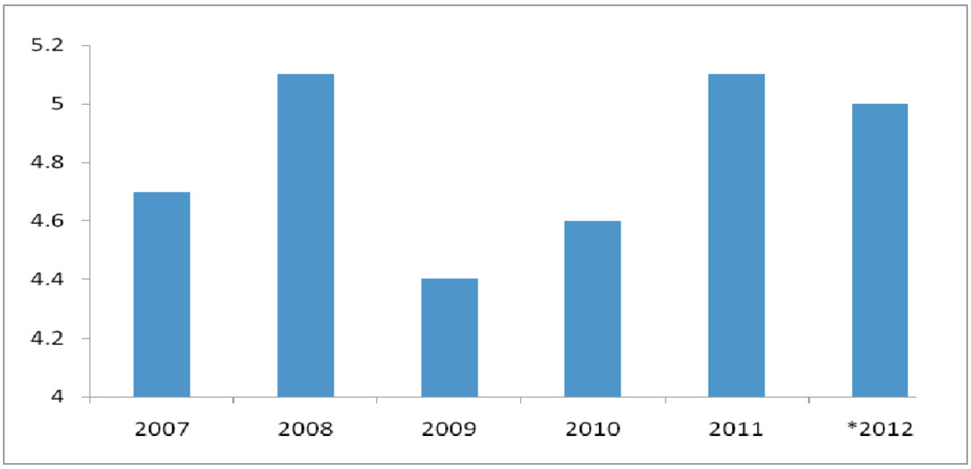
Figure 3. 4 Growth Rates of Cocoa Production Over Time



Data Source: Ghana Statistical Service

Cocoa production saw a massive growth in output from 2009 to 2010, but a steep decrease from 2010 to 2012. Hence, cocoa production does not appear to be doing well in the sector.

Figure 3. 5 Growth Rates of Livestock Production Over Time

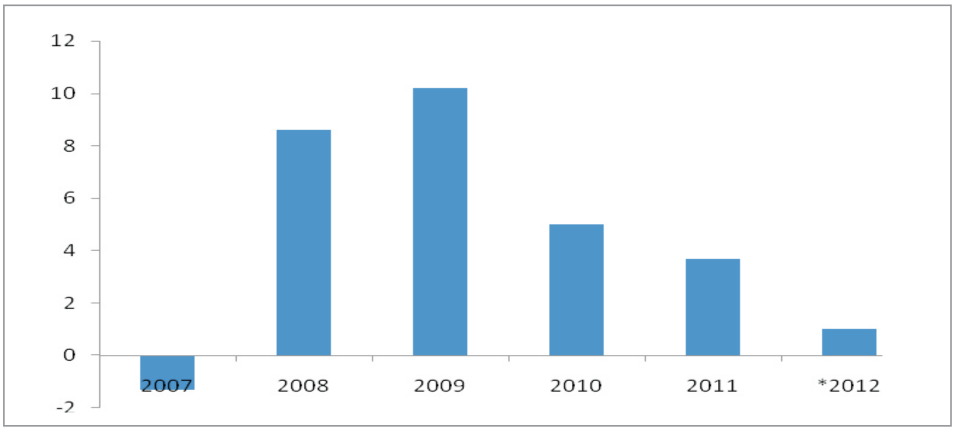


Data Source: Ghana Statistical Service

Livestock production saw a slight fall in growth rates 2012, after consistently increasing from 2009 to 2012. Hopefully, this slowdown in growth is short lived as the sector has shown an overall positive outlook from 2007 to 2012.

Performance of other key agricultural sub-sectors

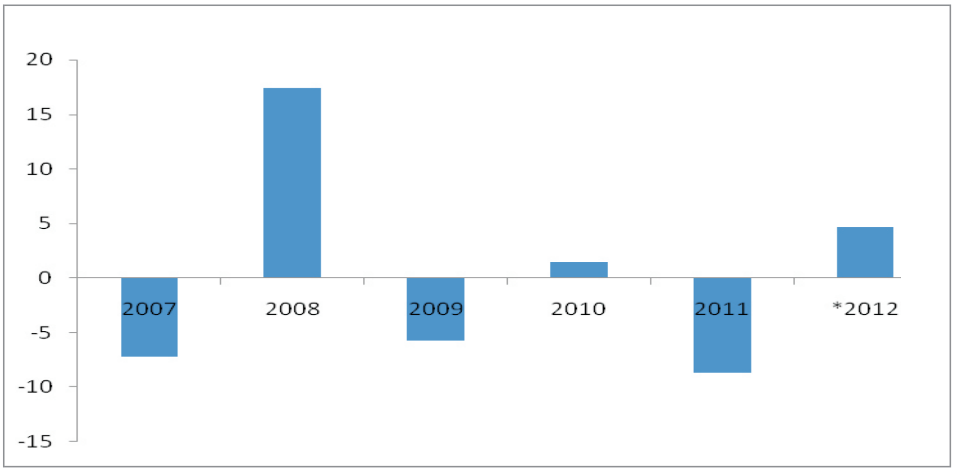
Figure 3. 6 Crops (excluding cocoa) Production Growth Rates: 2007 2012



Data Source: Ghana Statistical Service

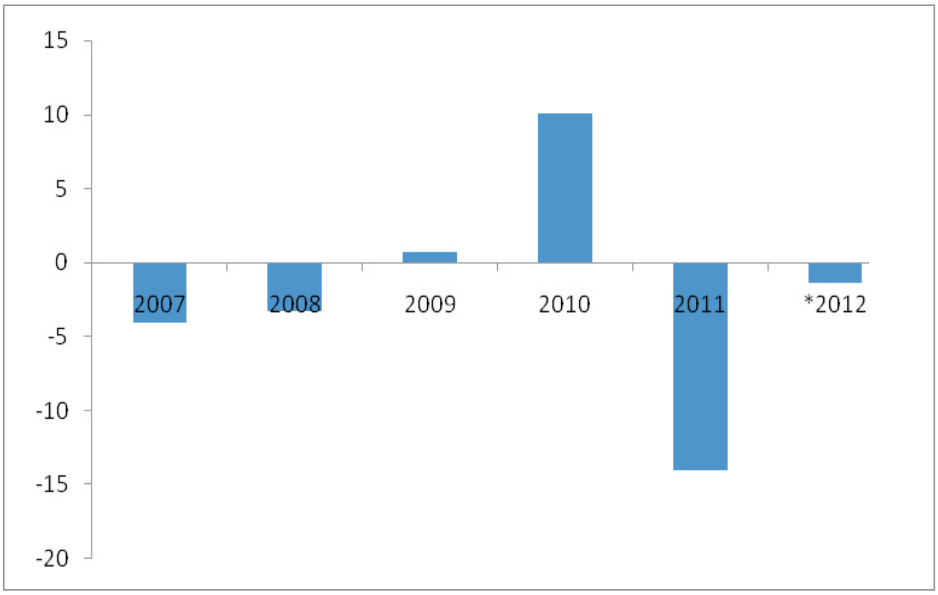
Growth of crop production showed a significant upward trend from 2007 to 2009, but fell between 2009 and 2012 (Figure 3.6). Unfortunately the trend is likely to continue unless there is a major positive shock such as atypically good rainfall for a sustained period of time. The downward trend in the performance of the crop sectors is especially alarming given that the sector is dominated by tree crops such as Shea and Palm. Tree crops typically take a long time to bear fruit after planting which implies any corrective measure such as replanting or new planting will take time to show up in the production numbers.

Figure 3. 7 Growth Rate of Fisheries: 2007 2012



Data Source: Ghana Statistical Service

Figure 3. 8 Growth of Forestry and Logging: 2007-2012

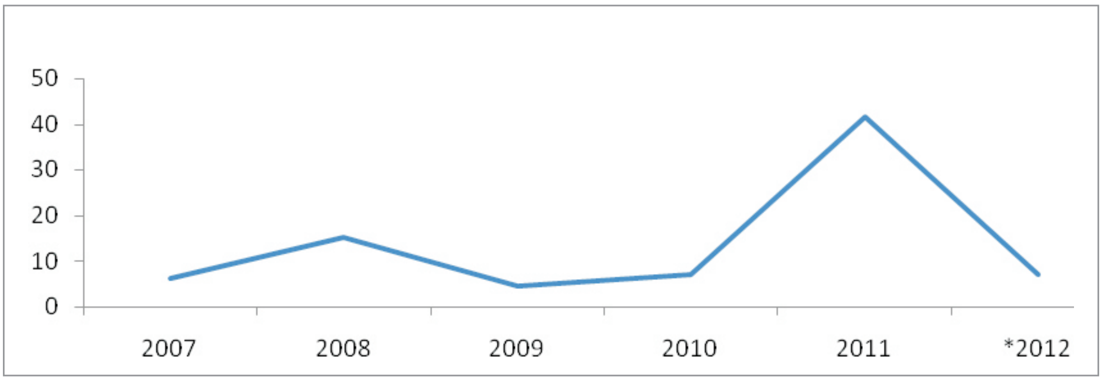


Data Source: Ghana Statistical Service

3.3 Industrial Sector Performance

Although it pays relatively high wages, the industrial sector is historically the smallest contributor to Ghana's overall GDP (Ghana Statistical service, 2012). Yet this sector performed relatively better than the agricultural sector from 2008 to 2012 although the strong performance seems to be waning more recently.

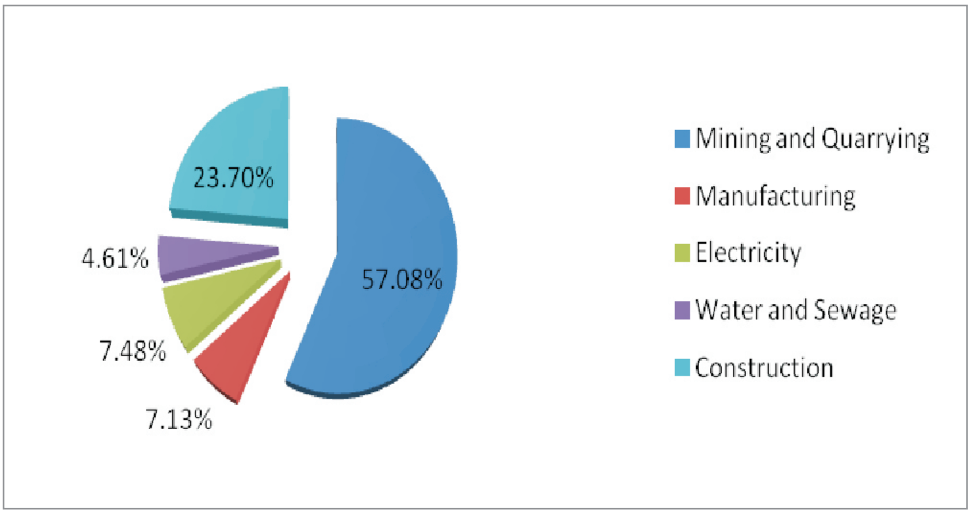
Figure 3. 9 Growth of the Industrial Sector from 2007 to 2012



Data Source: Ghana Statistical Service

The industrial sector growth rate has been fluctuating between 2007 and 2012. It increased immensely in 2010 but fell again between 2011 and 2012 (Figure 3. 9). Some economists believe that the post 2010 spike in growth has to do with Ghana's oil find as cement and steel manufacturing firms ramped up output in anticipation of increased oil-related construction. Since the demand for such oil-related construction has since stabilized the acceleration in the manufacturing sector has tapered off.

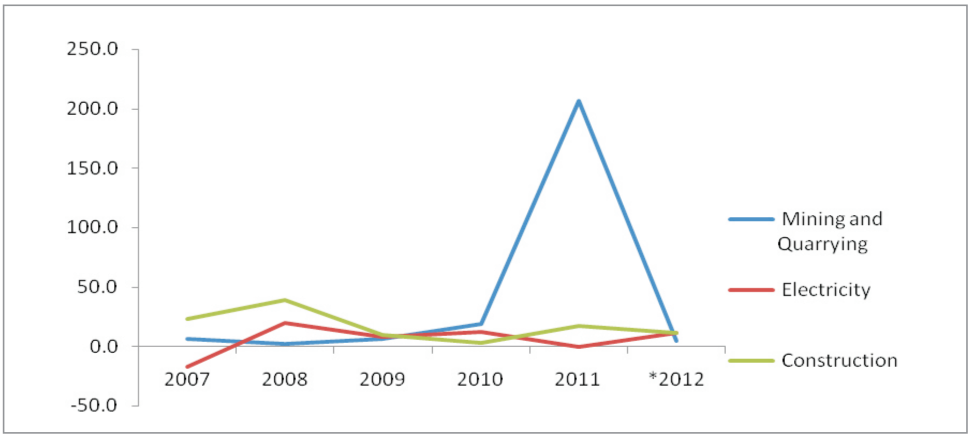
Figure 3. 10 Sectoral Composition of the Industrial Sector (2007 2012 Averages)



Data Source: Ghana Statistical Service

From Figure 3.10 above, it is clear that, Mining and Quarrying, Electricity and Construction are the three dominant players in the industrial sector.

Figure 3. 11 Growth Rates of the Key Dominant Players in the Industrial Sector



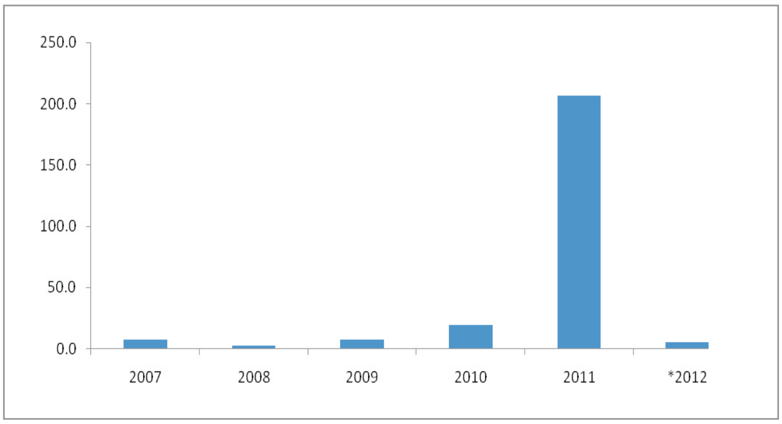
Data Source: Ghana Statistical Service

The industrial sector performance can be divided into phases: pre and post 2010 representing when construction and mining were respectively the dominant sub-sectors. From Figure 3.11 above, it can be seen that in 2007, construction dominated the industrial sector, followed by mining and quarrying, and electricity respectively. In 2008 electricity overtook mining and quarrying, but construction retained its position.

Between 2009 and 2010, mining and quarrying overtook construction and became the dominant player in the industry. Electricity followed and construction became the smallest player during the period. Between 2010 and 2011, construction overtook electricity and became the second dominant player in the industry, making electricity the least dominant among the three. Mining and quarrying was still the most dominant within this period. In 2012, construction bounced back, taking its place as the leading key player in the industry. Electricity followed keenly, and mining and quarrying fell drastically making it the least player in the industry in the same year.

Components of the Industrial Sector

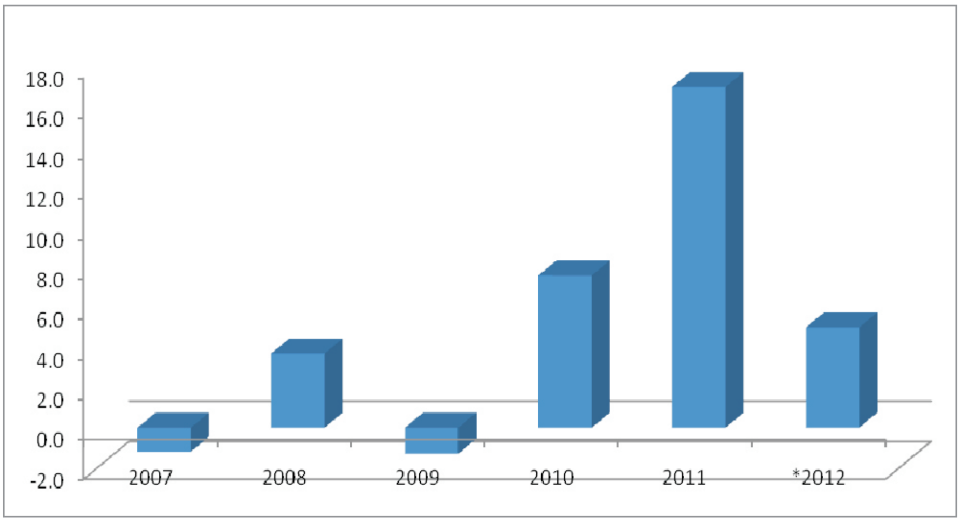
Figure 3. 12 Growth Rate of Mining and Quarrying



Data Source: Ghana Statistical Service

Mining and quarrying fell from 2007 to 2008 but showed an increasing trend from 2008 to 2010, which was even more intense in 2011. However, there was a massive decrease in 2012 (Figure 3.12).

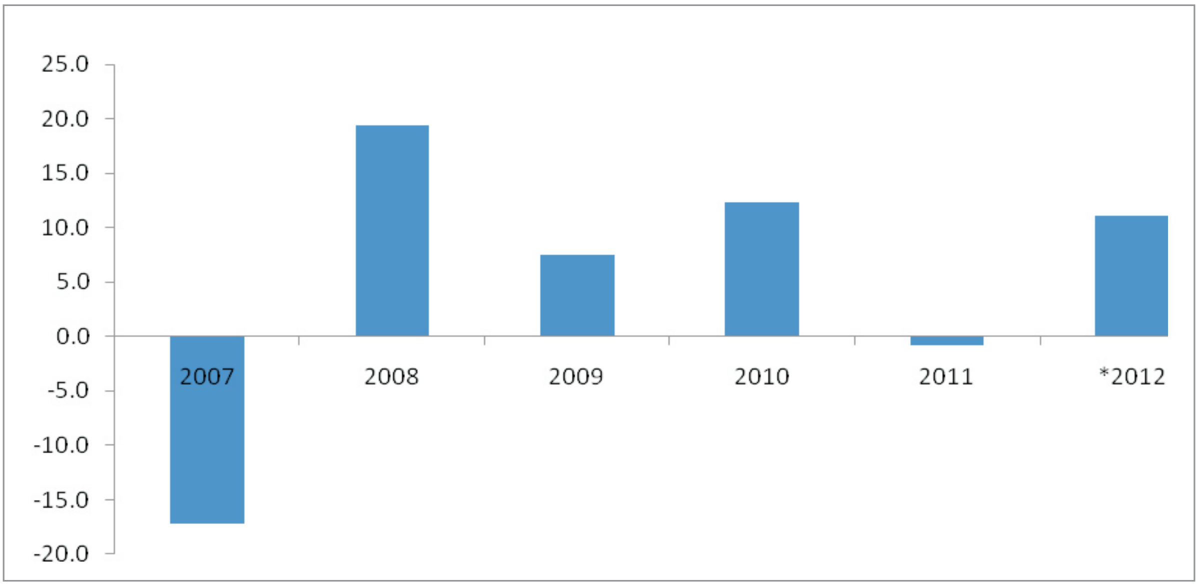
Figure 3. 13 Growth Rate of Manufacturing



Data Source: Ghana Statistical Service

Manufacturing increased from 2007 to 2008 but fell in 2009. This was followed by an encouraging upward trend from 2009 to 2011, but a steep fall in 2012 (Figure 3.13).

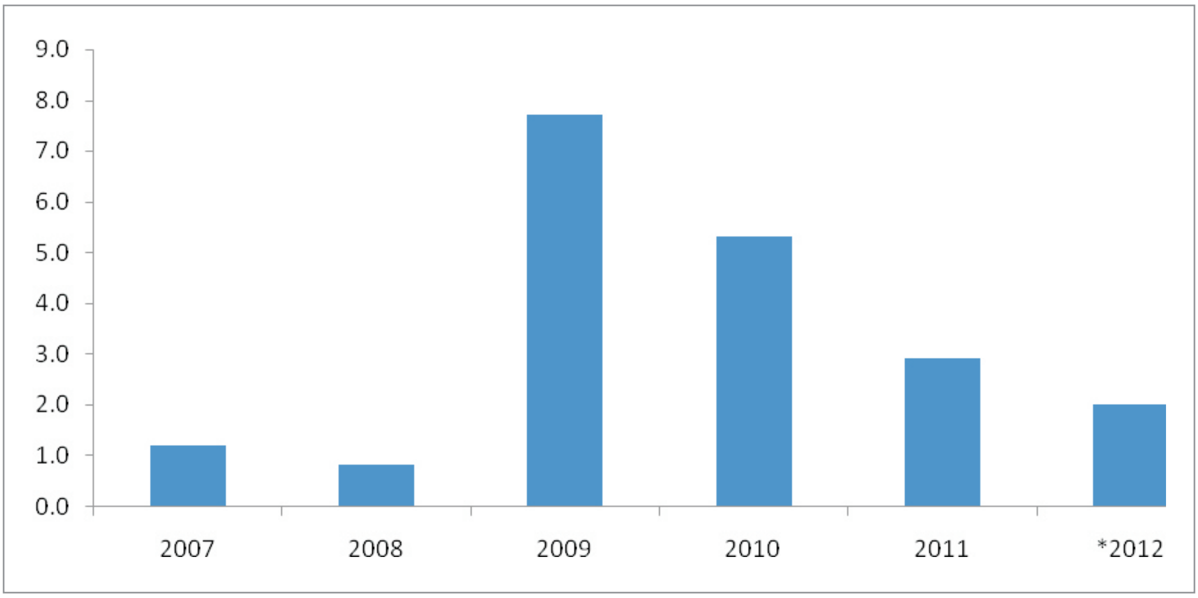
Figure 3. 14 Growth of Electricity Production



Data Source: Ghana Statistical Service

Electricity production appears to have fluctuated between 2007 and 2012. It rose sharply from 2007 to 2008, followed by a drastic fall in 2009. There was another increase in 2010, a decrease in 2011, and a rise again, in 2012.

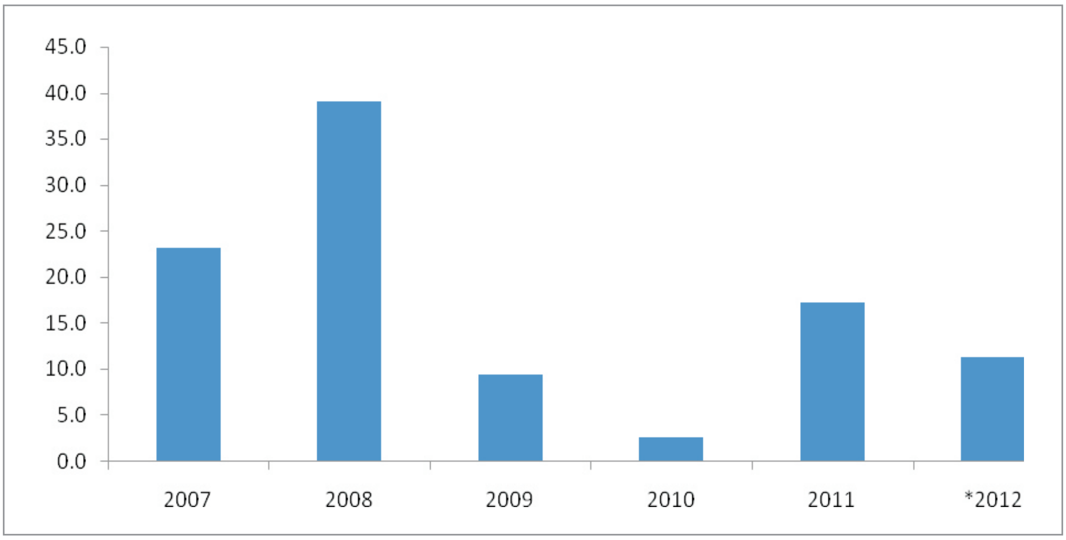
Figure 3. 15 Growth of Water and Sewage



Data Source: Ghana Statistical Service

Water and Sewage fell from 2007 to 2008, rose in 2009, and showed a decreasing trend from 2009 to 2012.

Figure 3. 16 Growth of Construction



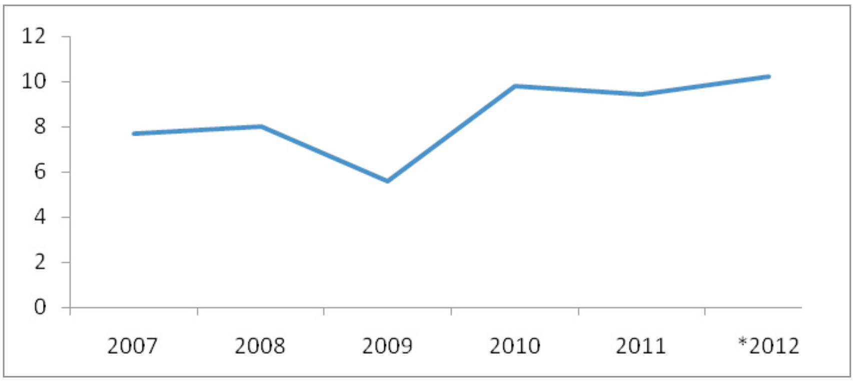
Data Source: Ghana Statistical Service

Construction showed an increasing trend from 2007 to 2008. This fell in 2009 and begun to increase again from 2009 to 2010. It bounced back in 2011 but this was short-lived as it fell again in 2012.

3.4 Performance of the Service Sector

The service sector was the second largest contributor to Ghana's overall GDP recent history but in 2010 the service sector overtook the agricultural sector as the dominant sector in Ghana's real sector (Ghana Statistical Service, 2012). This sector has been relatively stable compared to both the agricultural and industrial sectors from 2008 to 2011 (Bawumiah, 2012).

Figure 3. 17 Growth Rate of the Service Sector from 2007 to 2012

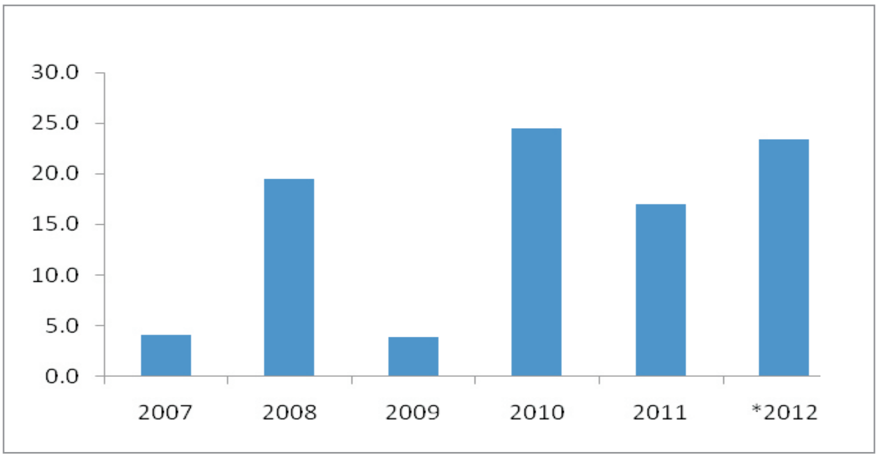


Data Source: Ghana Statistical Service

Components of the Service Sector

The service sector comprises of Financial and Insurance Activities, Information & Communication, Education, Public Administration & Defense, Social Security, Health and Social Work, Trade, Repair of vehicles, Household goods, Transport and Storage, Hotels and Restaurants sectors, Community Social and Personal Service Activities, and Real Estate, Professional, Administrative & Support Service activities

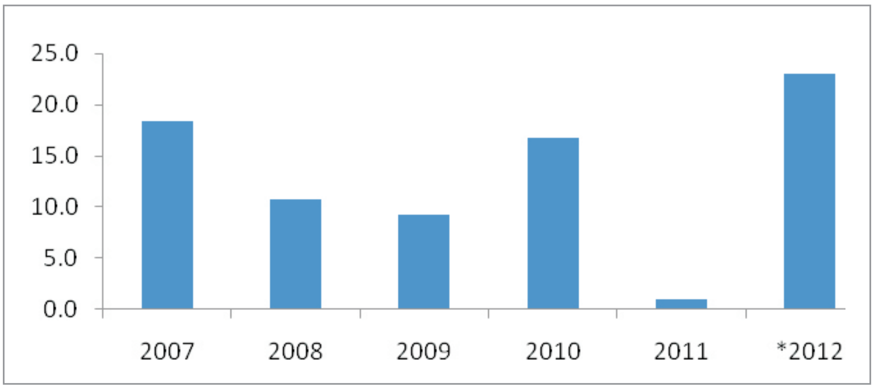
Figure 3. 18 Growth of Information and Communication



Data Source: Ghana Statistical Service

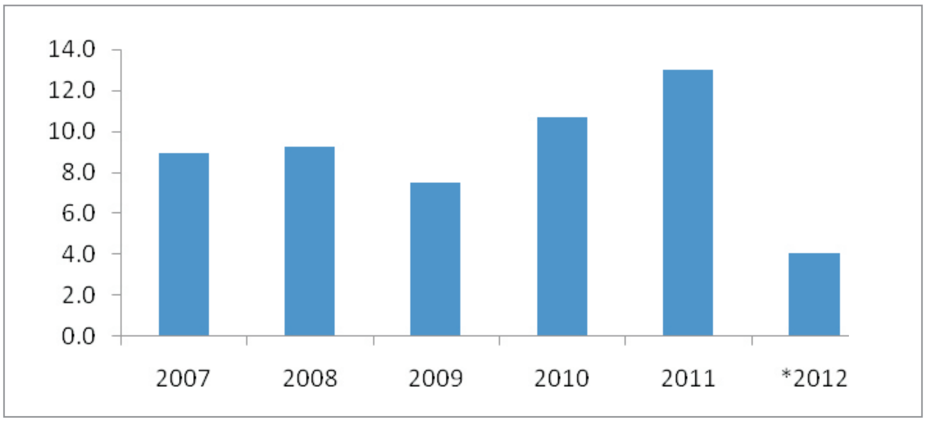
Information and Communication has shown a fluctuating trend between 2007 and 2012. Hence, it is quite difficult to predict that the increase from 2011 to 2012 might be consistent.

Figure 3. 19 Growth of Finance and Insurance Activities



Finance and Insurance activities showed a decreasing trend from 2007 to 2009, but bounced back in 2010, falling drastically again in 2011, but rising to its peak in 2012.

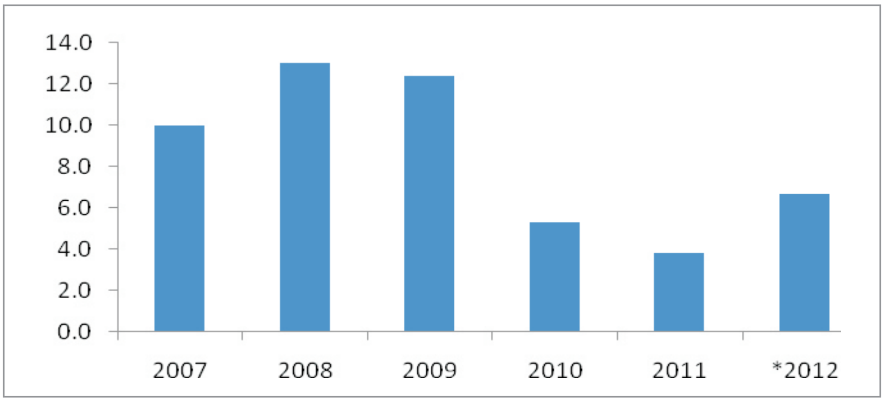
Figure 3. 20 Growth of Community, Social & Personal Service Activities



Data Source: Ghana Statistical Service

Growth rate of Community, Social & Personal Service Activities was quite stable from 2007 to 2008, but showed a positive trend from 2009 to 2011, after which it fell in 2012.

Figure 3. 21 Growth of Education



Data Source: Ghana Statistical Service

Education increased from 2007 to 2008, but showed a decreasing trend from 2008 to 2011, although it appears to be bouncing back in 2012 (Figure 3.21).

3.5 Recent Sources of Growth and Job Creation

Jobs in the real sector are currently mostly available in service establishments like education, finance and insurance, information and communication. The tertiary institutions such as banks and telecoms remain a major source of jobs while manufacturing jobs have dwindled in recent history. Non-traditional agricultural products such as cassava farming are now lucrative as the country's breweries substitute western alcohol substrates like barley for cassava. However for more jobs to be created several key issues need to be addressed

High interest rates must be reduced

Lower interest rate on borrowing would no doubt encourage investment and in turn stimulate growth. Ghanaian interest rates are highest regionally. At the current interest rates, it is quite difficult for entrepreneurs to employ a large number of workers for their businesses because they cannot pay back loans let alone generate profit.

Savings rates must be increased.

To finance investment entrepreneurs need loanable funds which are only made possible if there is savings from both the private and public sectors. However interest rates on savings are low in Ghana leading to a wide interest rate spread between lending and borrowing. Interest on savings is so low that most Ghanaians prefer to ignore the formal banks for the purposes of savings. Short of collusion between banks, there is no reason why one bank should not offer slightly higher interest rates on savings to get more customers. Pooling savings into the formal sector is what is needed to increase the supply of loanable funds.

High taxes at the ports must be reduced

Economic theory holds that market activity which generates jobs is significantly reduced the higher the tax. Ghana's system of taxation at the ports ignores the purchase value of goods at origin and rather uses the value at destination for tax purposes. This has resulted in a situation where a car purchased for $2000 in the USA attracts an import tax of nearly $2500 dollars because the value of the car at destination is judged to be $10000. This mechanism feeds on itself because the higher taxes will then be added on to the final purchase price of the car in the domestic economy which will push the taxes higher in the next round. High costs of cars push transportation costs up and this reverberates negatively throughout the economy. Lower taxes at the ports will lead to more business and create more jobs for the masses.

CHAPTER 4

FISCAL DEVELOPMENTS

Fiscal policy in 2012 aimed to strengthen macroeconomic stability by targeting a low deficit on the back of strong domestic revenue mobilization boosted by windfall oil revenues and rationalized expenditure. In the end, domestic revenue increased to 21.0% of GDP. Expenditure (excluding payment of arrears and discrepancies) rose sharply to 28.6% of GDP dominated by the recurrent spending. The result was a (cash) budget deficit of 11.3% of GDP, nearly three times the 2011 level of 4.1% of GDP. This was financed largely from domestic resources culminating in an increase in total public debt to 48% of GDP, of which the domestic component was 25% and the external component 23%.

4.1. Government Revenue

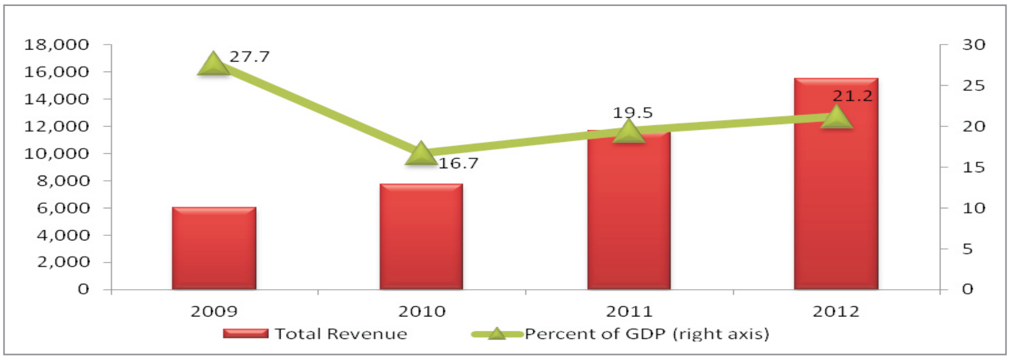
Total domestic revenue, which includes tax and non-tax revenue, amounted to GH¢15,508 million, equivalent to 21.2% of GDP. The amount was 31.6% higher than the revenue collected in 2011, but a fraction lower than the budget amount (Table 4.1 and Figure 4.1).

Table 4. 1 Government Domestic Revenue (GH¢ M)

Indicator	2009	2010	2011	2012 Provisional Outturn	2012 Rev. Budget	Absolute change 2011/2012	Percentage Change (%) (2011/2012)
REVENUES							
Total Revenue	**5,998.2**	**7,730.6**	**11,676.6**	**15,508.1**	**15,377.88**	**3,693.61**	**31.6**
(% of GDP)	27.7	16.7	19.5	21.2			

Source: 2012 Budget, Bank of Ghana Statistical Bulletins

Figure 4. 1 Government Domestic Revenue (GH¢ m)



The tax component of domestic revenue amounted to GH¢12,388.9 million. This was 26.7 % higher than the 2011 out-turn, but 0.4 % less than the budget estimate (Table 4.2). As a ratio of Table 4. 2 Tax Revenues (GH¢ 'm)

Table 4. 2 Tax Revenues (GH₵ 'm)

Indicator	2009 Prov. Outturn	2010 Prov. Outturn	2011 Prov. Outturn	2012 Prov. Outturn	2012 Rev. Budget	Absolute change 2011/2012	Percentage change (%) 2011/2012
Tax Revenue	4,803.7	6,294.7	9,776.1	12,388.9	12,438.4	2,612.8	26.7
Direct Tax	1,716.9	2,454.0	4,036.6	5,536.2	5,874.4	1,499.6	37.2
Income	846.3	1,114.8	1,493.3	2,368.3	1,967.3	875.0	58.6
Personal	773.5	1,014.6	1,360.9	2,204.4	1,789.4	843.5	62.0
Self employed	72.8	100.2	132.4	163.9	177.9	31.5	23.8
Companies	661.9	987.7	1,568.0	2,361.5	2,685.6	793.5	50.6
Others	208.8	351.5	975.3	806.4	837.4	-168.9	-17.3
Other direct taxes	156.6	222.3	794.8	714.1	721.9	-80.7	-10.2
Airport tax	22.0	36.7	49.1	68.8	55.6	19.7	40.1
Indirect Tax	1,598.6	1,992.7	2,982.3	3,507.6	3,496.5	525.3	17.6
Value Added Tax	1,268.4	1,618.3	2,376.1	2,777.3	2,802.8	401.2	16.9
Domestic	472.5	648.6	987.4	1,061.2	1,060.5	73.8	7.5
External	795.9	969.7	1,388.6	1,716.0	1,742.3	327.4	23.6
Taxes on Domestic Goods	330.2	374.4	606.2	730.29	693.7	124.1	20.5
Excise duty	51.5	117.9	167.7	185.8	218.2	18.1	10.8
Petroleum tax	278.7	256.5	438.5	544.5	475.5	106.0	24.2
o/w Debt recovery levy	80.2	35.6	31.9	0.0	0.0	-31.9	-100.0
Taxes on International Trade	762.7	1,146.1	1,516.0	1,990.1	2,123.9	474.1	31.3
Imports (Import duty)	745.9	1,051.5	1,511.0	1,886.9	1,986.1	375.9	24.9
Exports (Cocoa)	16.8	94.7	5.0	103.2	137.8	98.2	1964.0
National Health Insurance Levy	319.0	388.0	550.2	714.0	682.1	163.8	29.8
Other Revenue Measures	88.0	137.3	135.0	128.4	145.7	-6.6	-4.9

Source: 2010, 2011, 2012 & 2013 Budget Statements, Bank of Ghana Statistical Bulletin March 2013

GDP, tax revenue was 16.9% in 2012 compared with 16.3% in 2011(Table 4.3).The rebasing of GDP in 2010 caused the tax effort to dip. Tax effort is relatively low compared to other middle-income countries. This is the result of the narrow base in the face of a large untaxed informal sector, the high level of exemptions, the high rate of evasion, weak enforcement and corruption.

Table 4. 3 Tax Revenue as% of GDP

Indicator	2010 (% of GDP)	2011 (% of GDP)	2012 (% of GDP)
Tax Revenue	13.6	16.3	16.9
Direct Tax	5.3	6.7	7.6
Income	2.4	2.5	3.2
Personal	2.2	2.3	3.0
Self employed	0.2	0.2	0.2
Companies	2.1	2.6	3.2
Others	0.8	1.6	1.1
Other direct taxes	0.5	1.3	1.0
Airport tax	0.1	0.1	0.1
Indirect Tax	4.3	5.0	4.8
Value Added Tax	3.5	4.0	3.8
Domestic	1.4	1.7	1.5
External	2.1	2.3	2.3
Taxes on Domestic Goods	0.8	1.0	1.0
Excise Duty	0.3	0.3	0.3
Petroleum tax	0.6	0.7	0.7
o/w Debt recovery levy	0.1	0.1	0.0
Taxes On International Trade	2.5	2.5	2.7
Imports (Import duty)	2.3	2.5	2.6
Exports (Cocoa)	0.2	0.0	0.1
National Health Insurance Levy	0.8	0.9	1.0
Other revenue measures	0.3	0.2	0.2
Nominal GDP (GHC m)	46,232.00	59,816.00	73,109.00

Source: Author's Computations from Table 4.2

Of total tax revenue in 2012, direct taxes amounted to GH¢5,536.2 million and accounted for 44.7% of the total. As a ratio of GDP, direct tax collection was 7.6%, of which income tax was 3.2%, company tax 3.2% and "other direct taxes" 1.2% (Table 4.3 and Figure 4.2). Indirect taxes, defined to include VAT and taxes on domestic goods but excluding international trade taxes, amounted to GH¢3,507.6 million. This was 17.6% higher than the collection in 2011 but just 0.3% above budget (Table 4.2). Of the components, VAT showed the higher absolute increase of GH¢401.2 million, while taxes on domestic goods increased by GH¢124.1 million. As a ratio of GDP, indirect taxes decreased from 5.0% in 2011 to 4.8% in 2012 (Table 4.3).

Figure 4. 2 Direct Tax Revenues (2011 and 2012)

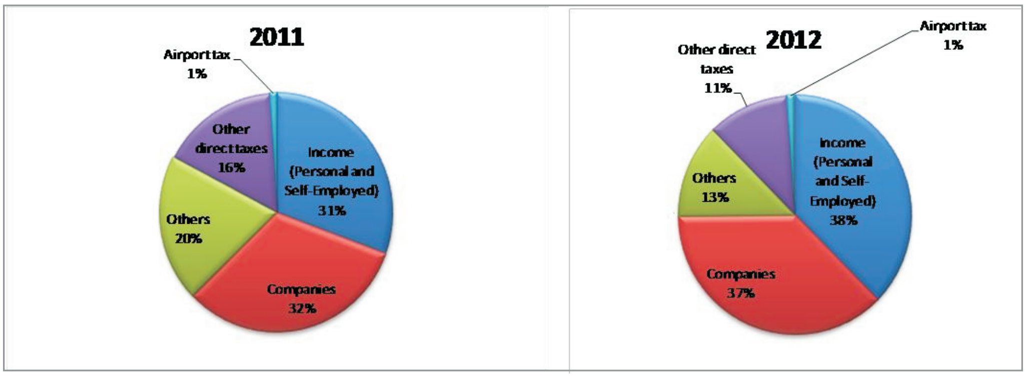
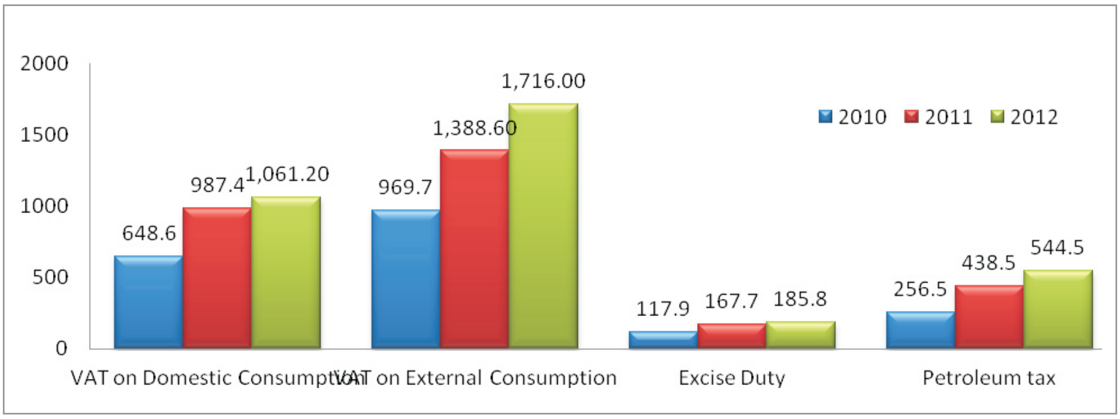


Figure 4. 3 Indirect Tax Revenue (GH¢ m)



International trade taxes comprising import and export duties, amounted to GH¢1,990.1 million. This was 31.3% higher than the figure in 2011 but 6.3% short of the budget amount (Table 4.2). Import taxes continued to contribute the bulk of trade taxes. As a ratio of GDP, trade taxes rose from 2.5% in 2011 to 2.7% in 2012 (Table 4.3). Non-tax revenue amounted to GH¢2,853.0 million. This was 56.6% higher than the collection in 2011 and also 6.7% higher than budget (Table 4.4). As a ratio of GDP, non-tax revenue increased from 3.0% in 2011 to 3.9% in 2012. In terms of share of total tax revenue, non-tax revenue accounted for 18.6% in 2012, up from 15.6% in 2011.

Table 4. 4 Non-Tax Revenue (GH¢ 'M)

Indicator	2009	2010	2011	2012	2012 Rev. Budget	Absolute change 2011/2012	Percentage Change 2011/2012
Non-tax revenue	870.3	1,226.1	1,822.0	2,853.0	**2,672.6**	**1,031.0**	**56.6**
% of GDP	2.4	2.7	3.0	3.9	-	-	
% of Total Revenue	14.5	15.9	15.6	18.6	-	-	

Source: 2009 & 2011, 2012 Budget, Bank of Ghana Statistical Bulletin March 2013

Grants declined by 1.3% to GH¢1,160.3 million. Significantly, grants fell short of budget by as much as 25.1%. With the exception of program grants that exceeded budget, all other components of grants fell short. The large shortfall in grants was in line with election year trends. But in terms of both GDP and total revenue, grants have been on the decline during the entire period 2009-12 (Table 4.5). It would appear that with Ghana attaining middle-income status and also becoming an oil producer, its access to concessional financing, particularly from the traditional multilateral and bilateral sources, is likely to decline over time. This will have to be supplemented by its' own resources and commercial borrowing as needed. Diversification of the sources of financing, including from the new emerging market countries, will also be helpful.

While Ghana started oil production from late 2010, it has yet to receive corporate taxes from the oil companies as they are eligible to recoup their capital costs before paying taxes.

For domestic revenue to improve significantly, the tax bottlenecks noted above, including the narrow base, spate of exemptions, evasion, and corruption, will have to be tackled head on.

Table 4. 5 Grants (GH¢ M)

Indicator	2009	2010	2011	2012	2012 Rev. Budget	Absolute change 2011/2012	Percentage Change 2011/2012
Grants	1,101.2	1,080.2	1,175.0	1,160.3	1,549.7	-14.7	-1.3
% of GDP	5.1	2.3	2.1	1.6	-	-	-
% of Revenue	18.4	14.0	10.1	7.5	-	-	-
Project grants	543.9	591.4	688.1	512.3	794.0	-175.8	-25.5
Programme grants	398.9	288.3	244.4	502.5	436.1	258.1	105.6
HIPC Assistance (multilaterals)	96.2	122.6	131.5	56.7	190.9	-74.8	-56.9
Multilateral Debt Relief Initiative (MDRI)	62.2	78.0	110.8	88.8	128.8	-22.0	-19.9

Source: 2010, 2011, 2912 & 2013 Budget Statements, Bank of Ghana Statistical Bulletin, March 2013

4.2. Government Expenditure

In 2012, total government expenditure, excluding payment of arrears and "discrepancies," was GH¢20**,944.7 million or 28.6% of GDP. This** was 56.5% higher than the figure for 2011 and 10% higher than budget (Table 4.6). Including payment of arrears and "discrepancies," however, total expenditure was GH¢25,317.1 million (or 34.6% of GDP) and 17.2% above budget (Table 4.7).

Table 4. 6 Government Expenditure (GH¢ m)

Indicator	2009	2010	2011	2012	2012 Rev. Budget	Absolute Change 2011/2012	Percentage change 2011/2012
Recurrent	**5,631.8**	**8,045.8**	**9,705.0**	**15,973.4**	**13,063.3**	**6,268.4**	**64.6**
% of Total Expenditure	67.5	69.8	72.5	76.3			
Non-Interest Expenditure	**4,599.5**	**6,606.5**	**8,093.8**	**13,537.3**	**10,872.2**	**5,443.5**	**67.3**
Personal emoluments	2,478.7	3,182.5	4,534.9	6,665.5	5,637.5	2,130.6	47.0
Goods & Services	621.2	961.8	723.9	1,321.8	967.2	597.9	82.6
Transfers	1,331.3	1,991.4	2,504.6	4,477.8	3,560.0	1,973.2	78.8
Interest Payments	**1,032.3**	**1,439.4**	**1,611.2**	**2,436.2**	**2,191.2**	**825.0**	**51.2**
Domestic	750.1	1,124.3	1,307.9	1,879.7	1,683.4	571.8	43.7
External	317.2	315	303.3	556.4	507.8	253.1	83.5
Capital Expenditure (total)	**2,425.7**	**3,168.6**	**3,675.0**	**4,971.3**	**5,972.3**	**1,296.3**	**35.3**
Domestic financed	991.5	1,136.0	1,962.8	2,436.7	2,691.3	473.9	24.1
Foreign financed	1,440.8	2,032.7	1,712.2	2,534.6	3,281.0	822.4	48.0
Total Expenditure	**8,345.5**	**11,532.2**	**13,380.0**	**20,944.7**	**19,035.7**	**7,564.7**	**56.5**

Source: 2009 & 2011 Budget, Bank of Ghana Statistical Bulletin

Table 4. 7 Total Expenditure (including arrears and discrepancies) in 2012

	2012 Outturn (GHC 'm)	2012 Rev Budget (GHC 'm)
Total Expenditure (including arrears and discrepancies)	**25,317.1**	**21,596.6**
Total Expenditure	20,944.7	19,035.7
Arrears	3,829.8	2,560.9
Discrepancies	542.5	0

Source: 2013 Budget Statement

Recurrent expenditure continued to dominate overall expenditure, with its share increasing from 67.5% in 2009 to 76.3% in 2012. This means that the relative share of capital expenditure has been on the decline, a trend that is detrimental to long-term economic growth. Recurrent expenditure, in turn is dominated by personal emoluments, which, as a ratio of GDP, has risen steadily from 6.9% in 2010 to 9.1% in 2012. In addition, transfers (largely in the form of consumer subsidies) also amounted to 6.1% of GDP in 2012. It is important to keep recurrent expenditure under control such that more resources can be devoted to development spending. This will require, among others, far-reaching payroll and public sector reforms. While some measures have been taken to improve the former, other problems persist, including the prevalence of ghost names. Regarding the latter, it appears reforms, including downsizing, have been continually shelved due to the potential social impact and for political considerations. Further, universal consumption subsidies, including those relating to fuel and utilities, may have to be scaled down and replaced by social interventions targeted at the poor.

Table 4. 8 Government Expenditure (Excluding Payment of Arrears and Discrepancies) as% of GDP

Indicator	2010 (% of GDP)	2011 (% of GDP)	2012 (% of GDP)
Recurrent	17.4	16.2	21.8
Non-Interest Expenditure	14.3	13.5	18.5
Personal emoluments	6.9	7.6	9.1
Goods & Services	2.1	1.2	1.8
Transfers	4.3	4.2	6.1
Interest Payments	3.1	2.7	3.3
Domestic	2.4	2.2	2.6
External	0.7	0.5	0.8
Capital Expenditure (total)	6.9	6.1	6.8
Domestic financed	2.5	3.3	3.3
Foreign financed	4.4	2.9	3.5
Total Expenditure	24.9	22.4	28.6

Source: Author's computations from Table 3.6

Figure 4. 4 Recurrent and Capital Expenditure (GH¢ m)

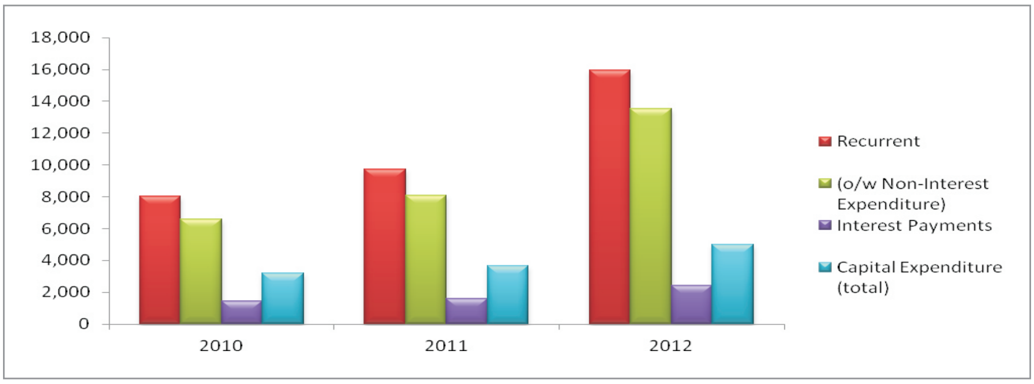
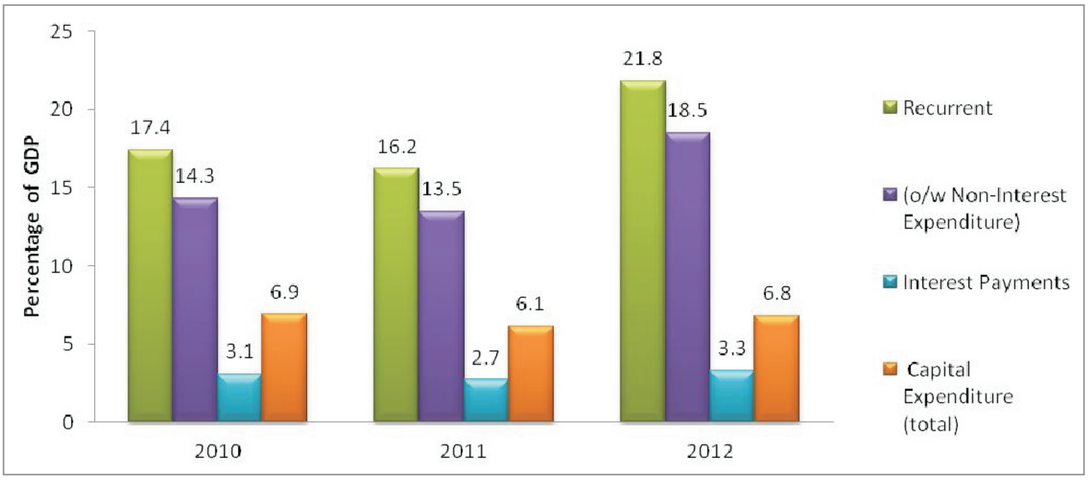


Figure 4. 5 Recurrent and Capital Expenditure as% of GDP



Revenues, Expenditures, Deficits and Public Debt

Table 4. 9 Fiscal Balance and Financing (GH¢ M)

Indicator	2009	2010	2011	2012	2012 Rev. Budget	Absolute Changes 2011/2012	Percentage change 2011/2012
Overall balance (cash)	-2,130.7	-3,408.5	-2,466.2	-8,106.1	-4,669.0	-5,639.9	228.7
(% of GDP)	-5.8	-7.4	-4.1	-11.3			
Overall balance (incl. Divestiture and Discrepancy)	-2,056.2	-2,999.9	-2,395.4	-8,648.7	-4,669.0	-6,253.3	261.1
Financing	2,056.2	2,999.9	2,395.4	8,648.7	4,669.0	6,253.3	261.1
Foreign (net)	1,014.2	1,302.3	863.4	1,231.4	1,777.8	368.0	42.6
Borrowing	1,413.2	1,711.1	1,447.6	1,855.0	1,378.7	407.4	28.1
Project loans	1,082.7	1,441.3	1,024.1	1,667.4	1,105.3	643.3	62.8
Programme loans	330.5	269.9	423.6	187.7	273.3	-236.0	-55.7
Amortisation	-457.7	-502.3	-584.3	-623.6	-982.6	-39.3	6.7
Domestic financing (net)	1,042.1	2,142.6	1,988.1	6,831.0	2,760.6	4,842.9	243.6
Banking	766.7	972.9	315.6	2,445.1	-263.4	2,129.5	674.7
Bank of Ghana	-92.9	-182.6	661.2	2,196.8	0.0	1,535.6	232.2
Comm. Banks	859.6	1,155.6	-241.8	339.1	0.0	580.9	-240.2
Non-banks	275.4	1,169.6	1,672.6	4,386.0	3,024.0	2,713.4	162.2
Other Domestic Financing	0.0	-445.0	-572.0	542.0	0.0	1,114.0	-194.8
Exceptional financing	58.7	93.5	115.9	44.2	130.6	-71.7	-61.8
Nominal GDP	36,597.6	46,232.0	59,816.0	73,109.0			

Source: 2010, 2011, 2012 & 2013 Budget Statements, Bank of Ghana Statistical Bulletin, March 2013

4.3 Fiscal Deficit and Financing

In 2012, the budget recorded a (cash) deficit of GH¢8,106.1 million (or 11.3% of GDP), GH¢3,437 million (or 74%) higher than the budget figure (Table 4.9). The deficit was financed largely from domestic sources, of which the nonbank sector contributed the most. The Bank of Ghana includes private non-resident contributors to budget financing in this sector. The rising contribution of the latter in deficit financing raises the issue of potential capital reversal with consequent pressure on the exchange rate. Bank financing came largely from the Bank of Ghana, which ostensibly had to take the slack left by commercial banks. While Treasury bill rates were high, the commercial banks appeared to prefer lending to the private sector, where rates were even much higher.

4.4 Domestic Debt

Ghana's total domestic debt increased by GH¢6,694.1 million (or 56%) to GH¢18,535.2 million, and from 19.8% to 25.4% of GDP (Table 4.10). The shares of medium- (1-2 year maturity) and long-term (greater than 2-year maturity) debt, increased from 47% and 16% to 52% and 17% respectively, while the share of short-term debt (up to 1-year maturity) decreased from 37% to 32% (Figure 4.10). The increase in the shares of the longer-dated debt is due to attempts to lengthen the maturity profile of the debt as well as possible shifts in investor preferences in favour of the longer-term instruments.

Table 4. 10 Size and Composition of Domestic Debt (GH¢ m)

Component (GH¢ m)	2006	2007	2008	2009	2010	2011	2012
A. Short-Term	793.30	880.20	2,022.60	2,643.10	3,214.50	4,353.30	5,839.17
B. Medium-Term	1,096.10	1,823.80	1,752.50	2,107.50	3,788.30	5,601.10	9,544.54
C. Long-Term	1,004.20	1,004.20	1,025.10	1,352.30	1,277.30	1,886.70	3,151.51
Total (A+B+C)	2,893.50	3,708.20	4,800.20	6,102.90	8,280.10	11,841.10	18,535.21
Memorandum Items							
Nominal GDP (GH¢ m)	18,705.1	23,154.4	30,178.6	36,597.6	46,232.0	59,816.0	73,109.0
Domestic Debt/GDP (%)	15.5	16.0	15.9	16.7	17.9	19.8	25.4

Source: Bank of Ghana Statistical Bulletins

Figure 4. 6 Total Domestic Debt & as Percent of GDP

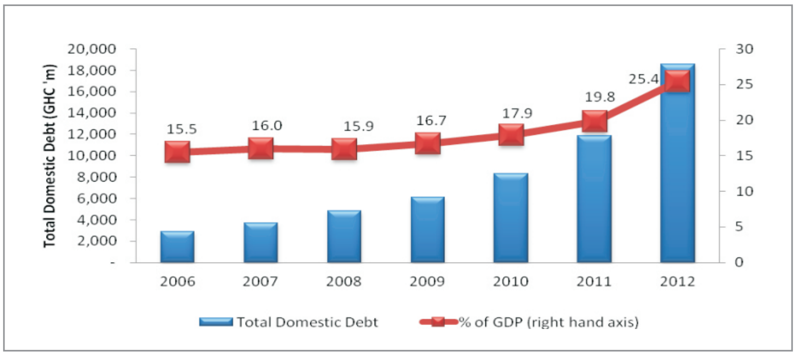


Figure 4. 7 Composition of Domestic Debt by Maturity (Percent)

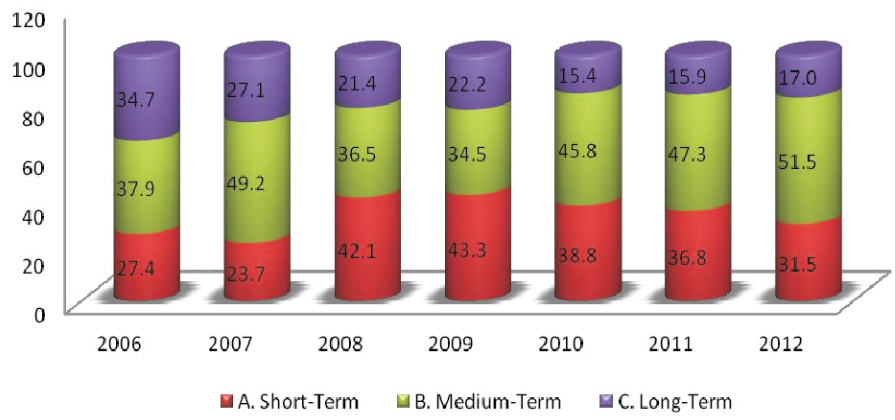


Table 4. 11 Absolute Change in the Composition of Domestic Debt (GH¢'m)

	Absolute Change 2006/2007	Absolute Change 2007/2008	Absolute Change 2008/2009	Absolute Change 2009/2010	Absolute Change 2010/2011	Absolute Change 2011/2012
A. Short-Term	86.9	1,142.4	620.5	571.4	1,138.8	1,485.9
B. Medium-Term	727.7	-71.3	355.0	1,680.8	1,812.8	3,943.4
C. Long-Term	0.0	20.9	327.2	-75.0	609.4	1,264.8
Total	**814.6**	**1,092.0**	**1,302.7**	**2,177.2**	**3,561.0**	**6,694.1**

Source: Author's Computations from Table 4.9

In terms of holders of the domestic debt, the banking system increased its share from 59% to 66%, reversing a declining trend. The nonbank sector decreased its share from 41% to 34%. Within the nonbank sector, however, the relative share of non-residents continued its upward trend, increasing from 19% to 36%. There is always a risk of potential reversal of capital by non-residents, which could put pressure on the exchange rate.

Table 4. 12 Percentage Change in the Composition of Domestic Debt (%)

	Percentage Change 2006/2007	Percentage Change 2007/2008	Percentage Change 2008/2009	Percentage Change 2009/2010	Percentage Change 2010/2011	Percentage Change 2011/2012
A. Short-Term	11.0	129.8	30.7	21.6	35.4	34.1
B. Medium-Term	66.4	-3.9	20.3	79.8	47.9	70.4
C. Long-Term	0.0	2.1	31.9	-5.5	47.7	67.0
Total	28.2	29.4	27.1	35.7	43.0	56.5

Table 4. 13 Holdings of Domestic Debt (Absolute Levels) (GH¢ m)

	2006	2007	2008	2009	2010	2011	2012
Holder	**GH¢ m**	**GH¢ m**	**GH¢ m**	**GH¢ m**	**GH¢ m**	**GH¢ m**	**GH¢ m**
A.Banking System	**2,244.7**	**2,522.1**	**3,255.5**	**4,247.6**	**5,289.1**	**7,004.6**	**8,980.9**
o/w Bank of Ghana	118.2	1,371.0	1,872.1	2,147.7	1,533.3	2,702.3	3,769.8
B. Nonbank Sector	**649.0**	**1,186.1**	**1,544.7**	**1,855.4**	**2,991.1**	**4,836.6**	**4,614.9**
o/w Non-Residents	-	-	433.5	483.6	1,565.0	2,268.1	4,939.4
TOTAL (A+B)	**2,893.7**	**3,708.2**	**4,800.2**	**6,103.0**	**8,280.2**	**11,841.2**	**13,595.8**

Source: Bank of Ghana

Table 4. 14 Holdings of Domestic Debt (Percentages) (%)

	2006	2007	2008	2009	2010	2011	2012
Holder	**%**	**%**	**%**	**%**	**%**	**%**	**%**
A. Banking System	**78.0**	**68.0**	**68.0**	**70.0**	**64.0**	**59.0**	**66.1**
o/w Bank of Ghana	4.0	37.0	39.0	35.0	19.0	23.0	27.7
B. Nonbank Sector	**22.0**	**32.0**	**32.0**	**30.0**	**36.0**	**41.0**	**33.9**
o/w Non-Residents	-	-	9.0	8.0	19.0	19.0	36.3
TOTAL (A+B)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Table 4. 15 Percentage Changes of Holdings of Domestic Debt (%)

Holder	Percentage Change 2006/2007	Percentage Change 2007/2008	Percentage Change 2008/2009	Percentage Change 2009/2010	Percentage Change 2010/2011	Percentage Change 2011/2012
A. Banking System	12.4	29.1	30.5	24.5	32.4	28.2
o/w Bank of Ghana	1,059.9	36.5	14.7	-28.6	76.2	39.5
B. Nonbank Sector	82.8	30.2	20.1	61.2	61.7	-4.6
o/w Non-Residents			11.6	223.6	44.9	117.8
TOTAL (A+B)	28.1	29.4	27.1	35.7	43.0	14.8

4.5 External Debt

In 2012, Ghana's external debt increased by US$1,246.1 million or 16.4% to US$8,835.6 million. As a ratio of GDP, the external debt increased from 19.7% to 22.7%. In 2006, the external debt ratio dipped to 10.7% after the HIPC and MDRI reliefs, but has subsequently increased steadily as borrowing has increased (Table 4.16).

The shares of multilateral and bilateral debt declined from 51% and 36% to 48% and 33% respectively, while the share of commercial debt increased from 13% to 19%. Commercial debt will be assuming increasing importance given that Ghana's access to concessional debt is bound to decline following its ascendancy to middle-income status as well as becoming an oil producer.

Figure 4. 8 Ghana's External Debt - Absolute Levels (US$ m) and Shares in GDP (%)

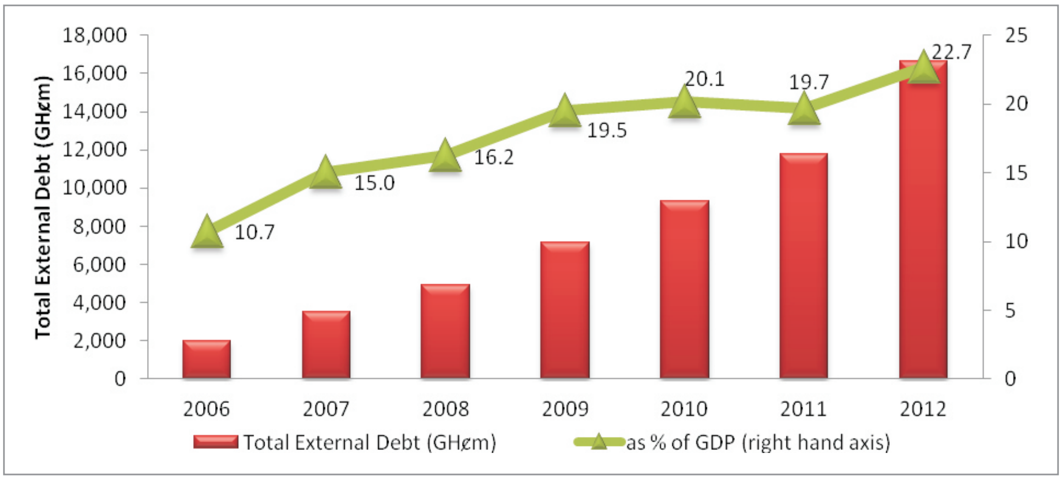


Figure 4. 9 Shares of External Debt by Holders (Percent)

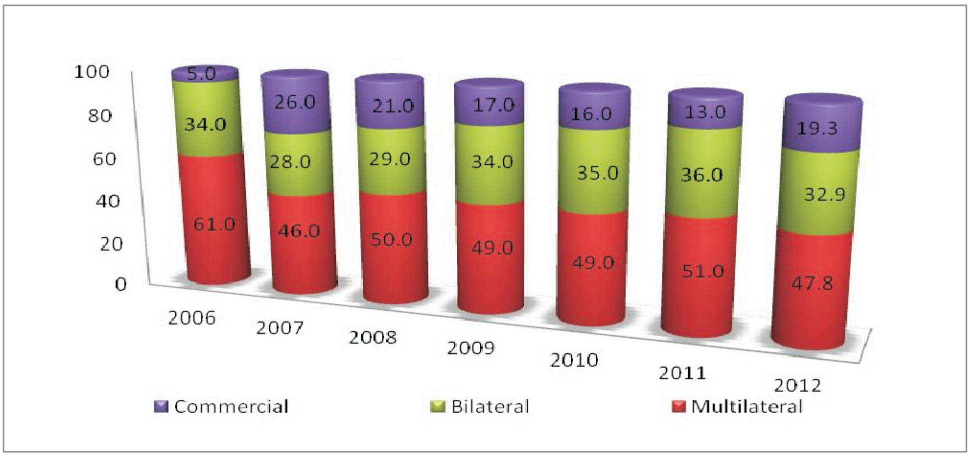


Table 4. 16 Size and Composition of External Debt

Component	2006		2007		2008		2009		2010		2011		2012	
	US$ m	**%**	**US$ m**	**%**	**US$ m**	**%**	**US$ m**	**%**	**US$ m**	**%**	**US$ m**	**%**	**US$ m**	**%**
Multilateral	1,326.9	61.0	1,667.9	46.0	2,028.3	50.0	2,461.8	49.0	3,081.9	49.0	3,891.8	51.0	4,225.1	47.8
Bilateral	732.0	34.0	992.6	28.0	1,168.2	29.0	1,687.2	34.0	2,211.1	35.0	2,712.3	36.0	2,906.5	32.9
Commercial	118.4	5.0	929.8	26.0	838.5	21.0	858.9	17.0	1,027.7	16.0	985.4	13.0	1,703.9	19.3
Total (US'm)	**2,177.2**	**100.0**	**3,590.4**	**100.0**	**4,035.1**	**100.0**	**5,007.9**	100.0	**6,320.7**	100.0	**7,589.5**	100.0	**8,835.6**	100.0
Total GH¢ m	**2,010.6**		**3,484.1**		**4,899.0**		**7,154.8**		**9,315.4**		**11,767.4**		16,610.9	
Memorandum Items														
Exchange Rate (GHC per US$)	**0.92**		**0.97**		**1.21**		**1.43**		**1.47**		**1.55**		**1.88**	
Nominal GDP (GH¢ m)	**18705.1**		**23154.4**		**30178.6**		**36597.6**		**46232.0**		**59816.0**		**73109.0**	
External Debt/GDP (%)	**10.7**		**15.0**		**16.2**		**19.5**		**20.1**		**19.7**		**22.7**	

Source: Bank of Ghana Statistical Bulletins

Table 4. 17 Percentage Changes in Ghana's External Debt Components

Component	% Change 2006/2007	% Change 2007/2008	% Change 2008/2009	% Change 2009/2010	% Change 2010/2011	% Change 2011/2012
Multilateral	25.7	21.6	21.4	25.2	26.3	8.6
Bilateral	35.6	17.7	44.4	31.1	22.7	7.2
Commercial	685.3	-9.8	2.4	19.7	-4.1	72.9
Total in US$m	64.9	12.4	24.1	26.2	20.1	16.4
Total in GH¢ m	73.3	40.6	46.0	30.2	26.3	41.2

Source: Author's Computations

4.6 Total Debt

In 2012, Ghana's total public debt increased by GH¢11,537.6 million or 49% to GH¢35,146.1 million (Table 4.18). As a ratio of GDP, the debt rose from 40% to 48%. Of the total, domestic debt accounted for 53% and external debt for 47%. These shares compare with 59% and 41% respectively in 2006. (Table 4.19).

Table 4. 18 Total Public Debt and its Components (GH¢ m)

	2006	2007	2008	2009	2010	2011	2012
	GH¢ m	GH¢ m	GH¢ m	GH¢ m	GH¢ m	GH¢ m	GH¢ m
External Debt	2,010.6	3,484.1	4,899.0	7,154.8	9,315.4	11,767.4	16,610.9
Domestic Debt	2,893.5	3,708.2	4,800.2	6,102.9	8,280.1	11,841.1	18,535.2
Total Public Debt	**4,904.1**	**7,192.3**	**9,699.2**	**13,257.7**	**17,595.5**	**23,608.5**	**35,146.1**
Memorandum Items							
Nominal GDP	**18,705.1**	**23,154.4**	**30,178.6**	**36,597.6**	**46,232.0**	**59,816.0**	**73,109.0**
Public Debt /GDP	**26.2**	**31.1**	**32.1**	**36.2**	**38.1**	**39.5**	**48.1**
External Debt / GDP	**10.7**	**15.0**	**16.2**	**19.5**	**20.1**	**19.7**	**22.7**
Domestic Debt / GDP	**15.5**	**16.0**	**15.9**	**16.7**	**17.9**	**19.8**	**25.4**

Source: Bank of Ghana Statistical Bulletins

Table 4. 19 Total Public Debt and its Components (%)

	2006	2007	2008	2009	2010	2011	2012
	%	%	%	%	%	%	%
External Debt	41.0	48.4	50.5	54.0	52.9	49.8	47.3
Domestic Debt	59.0	51.6	49.5	46.0	47.1	50.2	52.7
Total Public Debt	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Author's Computations

Figure 4. 10 Shares of Total Public Debt (Percent)

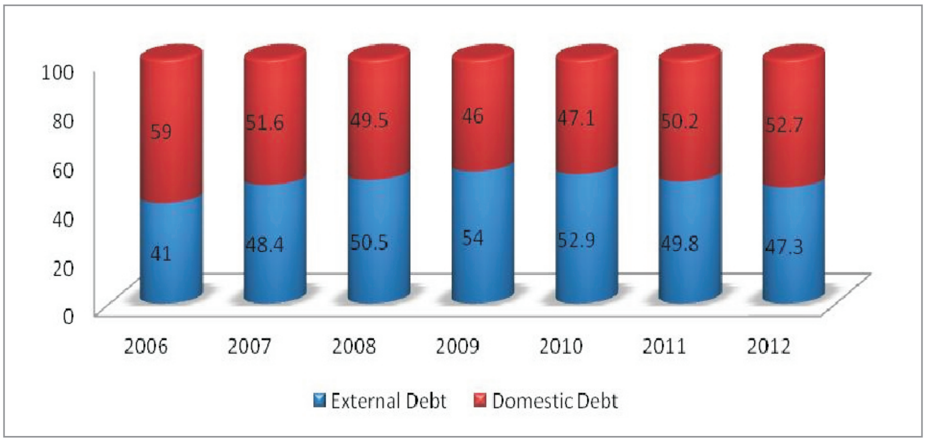


Table 4. 20 Percentage Changes in Total Debt

Component	%Change 2006/2007	%Change 2007/2008	%Change 2008/2009	%Change 2009/2010	% Change 2010/2011	% Change 2011/2012
External Debt	73.3	40.6	46.0	30.2	26.3	41.2
Domestic Debt	28.2	29.4	27.1	35.7	43.0	56.5
Total Public Debt	**46.7**	**34.9**	**36.7**	**32.7**	**34.2**	**48.9**

Source: Author's Computations

With the budget deficit reaching an unprecedented level in 2012, together with a rapidly rising debt, fiscal consolidation is a priority in 2013. Success in that regard depends on the extent to which revenue can be increased by addressing the identified bottlenecks, while prioritizing expenditure by restraining the recurrent component and creating space for higher capital spending.

CHAPTER 5

MONETARY AND FINANCIAL DEVELOPMENTS

This section covers monetary policy, key monetary aggregates, inflation, interest rates, the banking sector and the Ghana Stock Exchange. The key developments in 2012 were as follows: Monetary policy aimed to support fiscal policy to consolidate macroeconomic stability as a basis for sustained growth. Broad money supply (M2+) increased by 24.3% and reserve money by 36.0%.Year-on-year and average inflation increased to 8.8% and 9.2% respectively. The prices of many consumer goods rose at faster rates, indicating a clear discrepancy from the official figures. The Policy Rate (PR) was increased to 15% in response to pressure on the exchange rate. With the exception of lending rates, other rates increased in sympathy with the PR. Banking sector activity continued its strong upward trend, with a sharp increase in industry assets/liabilities. Bank credit increased by 44%, with services, commerce and finance, and manufacturing being the major beneficiaries. The Ghana Stock Exchange saw its market capitalization and share values increase significantly.

5.1. Key Monetary Aggregates

In 2012, broad money supply (M2+) (defined to include cash with the nonbank public, domestic currency deposits and foreign currency deposits) increased by 24.3 % to GH¢22,618.60 million. The pace of growth was much slower than in 2010 and 2011 (Table 5.1). The growth in M2+ was driven entirely by Net Domestic Assets (NDA) of the banking system, which is predominantly credit to government and the non-government sector, partly offset by Net Foreign Assets (NFA) (Table 5.2).

Table 5. 1 Money Supply M2+ (GH¢ m)

Indicator/year	2009	2010	2011	2012
Money Supply(M2+)	**10,211.3**	**13,663.0**	**18,195.1**	**22,618.60**
Absolute Changes	-	3,451.7	4,532.1	4,423.50
Growth Rate (%)**	24.7	33.8	33.2	24.3

**Year-on-year. *Source: Bank of Ghana*

Figure 5. 1 Money Supply M2+ (GH¢ m)

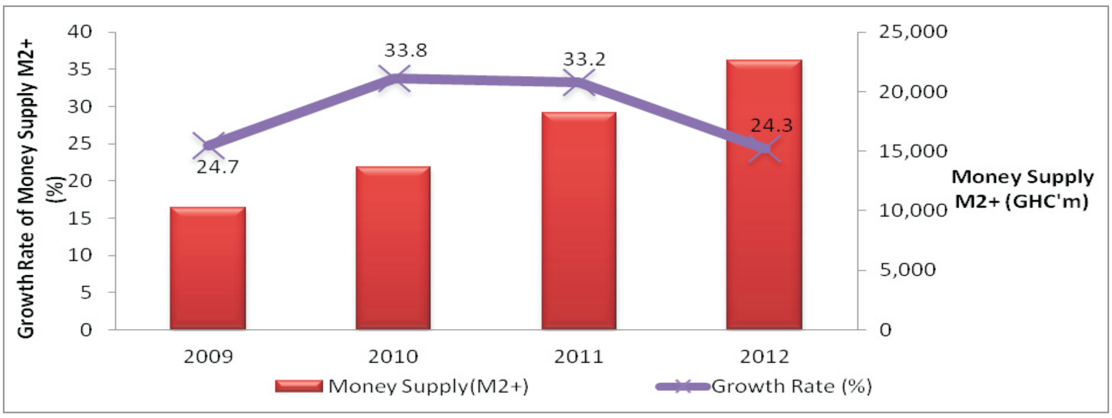


Table 5. 2 The Sources of Money Supply (GH¢ m)

Indicator		2010	2011	2012	Percentage Change 2011/2012	Absolute Change 2011/2012
A.	Money Supply (M2+) (B + C)	13,663.0	18,195.0	22,618.6	24.3	4,423.6
Sources						
B.	Net Foreign Assets (NFA)	5,754.0	7,880.0	6,953.4	-11.8	-926.6
C.	Net Domestic Assets (NDA)	7,909.0	10,315.2	15,666.7	51.9	5,351.4

Source: Bank of Ghana

Reserve money (or high-powered money), which comprises currency in circulation and banks' reserves, increased by GH¢2,081.0 million or 36% to GH¢7,861.0 million (Table 5.3). The increase in reserve money was also driven entirely by NDA of Bank of Ghana, of which the largest component is credit to government, with a partly-offsetting effect from a decline in NFA. On the contrary, during the period 2010-11, reserve money growth was driven entirely by NFA, with NDA exerting partly offsetting effects (Table 5.4). This simply means that unlike 2010-11 when the increase in reserve money was backed by foreign assets (net), the change in 2012 was backed by domestic assets (net).

In principle, foreign assets strengthen the value of domestic monetary aggregatesM2+ and reserve moneymore than domestic assets.

Table 5. 3 Reserve Money and Sources (GH¢ M

Indicator	2010	2011	2012	Absolute Change 2011/2012	Percentage Change 2011/2012
Net Foreign Assets (NFA)	5,241	6,670	5,989.0	-681.0	-10.2
Net Domestic Assets (NDA)	-831	-890	1,872.0	2,762.0	310.3
Reserve Money (RM)	4,410	5,780	7,861.0	2,081.0	36.0

Source: Bank of Ghana

Table 5. 4 Sources of Growth of Reserve Money (Percent)

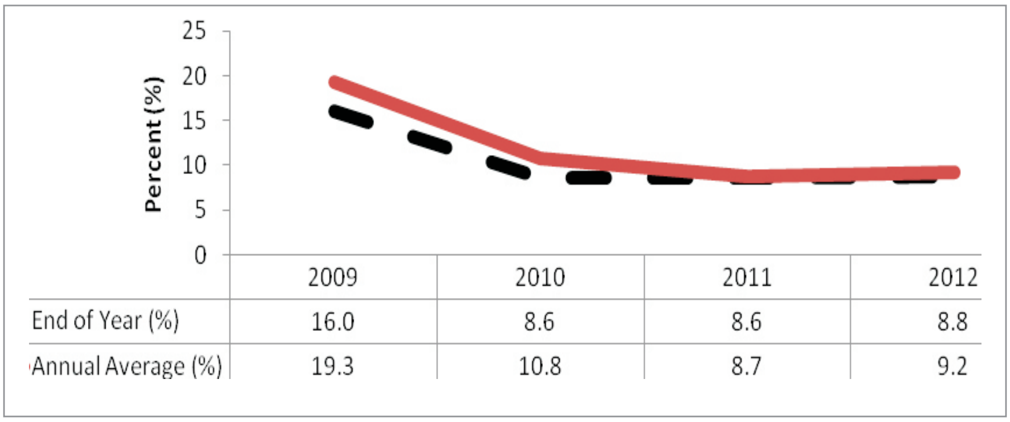
Indicator/year	2010	2011	2012
Net Foreign Assets (NFA)	64.8	32.4	-10.2
Net Domestic Assts (NDA)	-19.8	-1.3	310.3
Reserve Money (RM)	45.0	31.1	36.0

Source: Bank of Ghana

5.2 Inflation

In 2012, both year-on-year and average headline inflation increased, the former from 8.6% to 8.8% and the latter from 8.7% to 9.2% (Figure 5.2). The increase in inflation was driven by both demand and cost-push pressures. Demand pressure emanated largely from an expansionary fiscal policy that saw high levels of expenditure in the election year. On the other hand, cost-push pressures resulted from a sharp depreciation of the Cedi in the first-half of the year and higher food prices.

Figure 5. 2 Headline Inflation

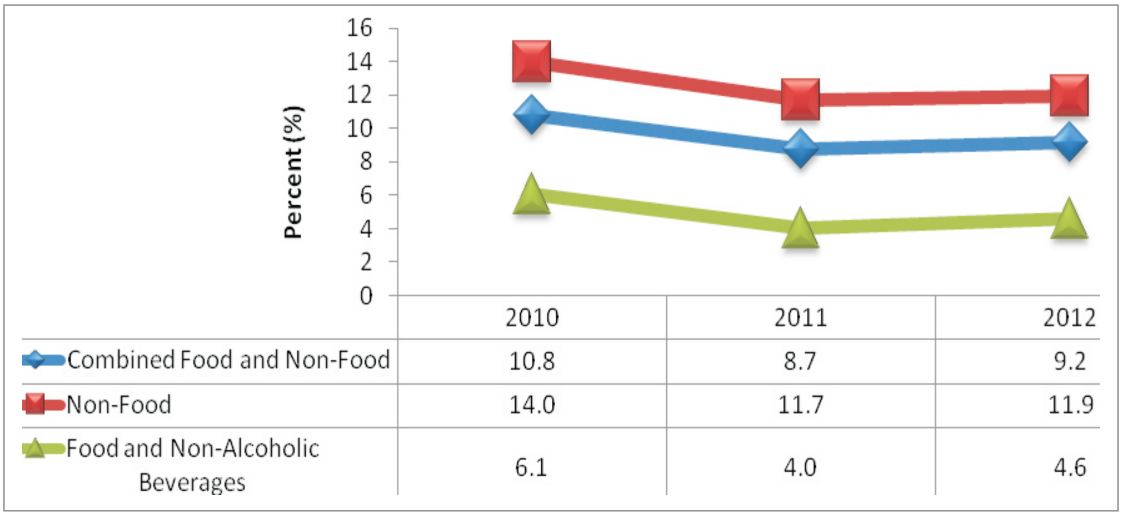


	2009	2010	2011	2012
End of Year (%)	16.0	8.6	8.6	8.8
Annual Average (%)	19.3	10.8	8.7	9.2

Source: Ghana Statistical Service

Both food and non-food inflation increased during the period. Notably, however, food inflation remained at low-single-digits while non-food inflation stayed in the low-teens (Figure 5.3).

Figure 5. 3 Food and Non-Food Inflation, Averages



	2010	2011	2012
Combined Food and Non-Food	10.8	8.7	9.2
Non-Food	14.0	11.7	11.9
Food and Non-Alcoholic Beverages	6.1	4.0	4.6

Source: Ghana Statistical Service

Overall inflation remained at single digit, but the general cost of living remained high with prices of many consumer items rising faster than suggested by official inflation. The discrepancy between the official measure of inflation and the general cost of living raised widespread doubts about the reliability of the former. The Ghana Statistical Service (GSS) indicated its intention to rebase the CPI, including by revising the basket of goods and services and re-weighting the component items in order to reflect current consumption patterns.

5.3 Interest Rates

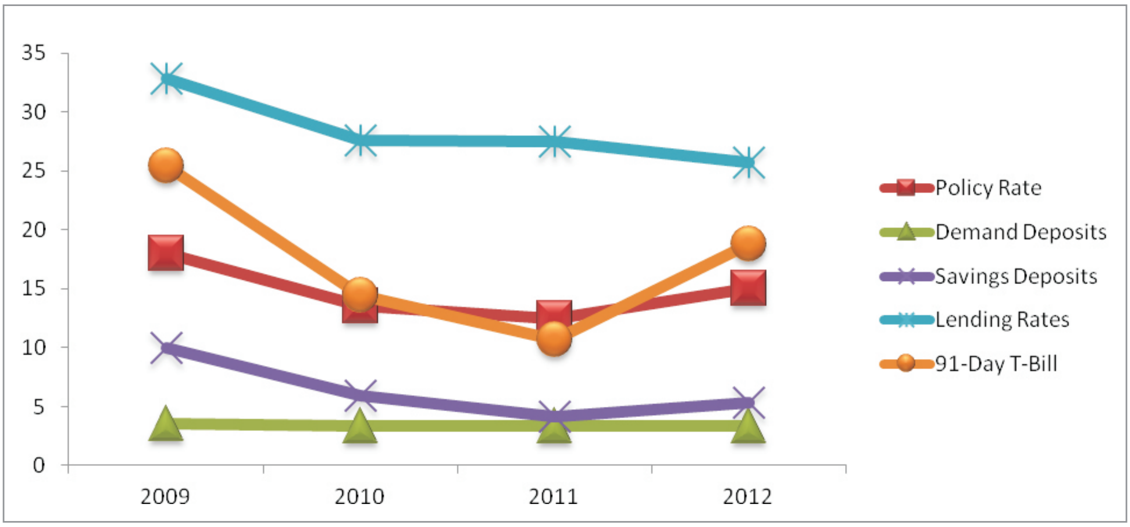
With the exchange rate coming under pressure in the first-half of the year, the Bank of Ghana raised its benchmark Policy Rate from 12.5% to 15.0%. Rates for Treasury bills, (that is instruments with less than one-year maturity) also increased from 10.7% to 18.8%. For commercial banks' interest rates, average lending rates surprisingly decreased from 27.5% to 25.7%. On the deposits' side, average demand deposit rates remained unchanged at 3.4% while average savings deposit rates increased from 4.1% to 5.3% (Table 5.5).

Table 5. 5 Trends in Interest Rates

Interest Rate (%):	2009	2010	2011	2012
- Bank of Ghana Policy Rate*	18.0	13.5	12.5	15.0
- Demand Deposits (annual av.)	3.6	3.4	3.4	3.4
- Savings Deposits (annual Av.)	10.0	5.9	4.1	5.3
- Lending Rates (Annual Av.)	32.8	27.6	27.5	25.7
- 91-Day Treasury Bill (Annual Av.)	25.4	14.4	10.7	18.8

*Source: Bank of Ghana, * End Period*

Figure 5. 4 Trends in Nominal Interest Rates



While lending rates declined on average in 2012, they remain high both in real terms and in terms of the spread over other rates (Table 5.6). The high cost of credit is a source of concern as it stifles investment and economic growth. The problem is attributed to both high operational costs of banks and high lending risks, which need to be addressed as a matter of urgency.

Table 5. 6 Implicit Real Interest Rates[1]

Rate		2009	2010	2011	2012
Lending Rates (Annual Av.)	Nominal	32.8	27.6	27.5	25.7
	Real	13.6	16.9	18.8	13.8
Prime Rate (Policy Rate)	Nominal	18	13.5	12.5	15.0
	Real	-1.3	2.8	3.8	3.1
Treasury Bill Rate (91-Day)	Nominal	25.4	14.4	9.4	18.8
	Real	6.2	3.7	0.7	6.9
Demand Deposit (Annual Ave.)	Nominal	3.6	3.4	3.4	3.4
	Real	-15.7	-7.3	-5.3	-8.5
Saving Deposit (Annual Average)	Nominal	10.0	5.9	4.1	5.3
	Real	-9.3	-4.8	-4.6	-6.6
Interest Rate Spreads					
Average Lending Rate – Demand Deposit Rate		29.2	24.2	24.1	22.3
Average Lending Rate – Savings Deposit Rate		22.8	21.7	23.4	20.4
Average Lending Rate – Policy Rate		14.8	14.1	15.0	10.7
Average Lending Rate – T-Bill Rate		7.4	13.2	18.1	6.9
Inflation Rate		19.3	10.7	8.7	9.2

Source: Bank of Ghana, Real rates equal nominal rates minus inflation rates

1. Real interest rates are computed as the nominal rate discounted by the inflation rate

5.4. Developments in the Banking Sector

In 2012, banking sector activity continued its strong upward trend. The assets and liabilities of banks each increased by GH¢5,815.2 million or 26.9 %to GH¢27, 424.7 million (Tables 5.7 and 5.8). On the assets side, claims on the private sector (GH¢11,477.4 million) and on Government (GH¢4,990.0 million) remained dominant. The liabilities, on the other hand, were dominated by private sector

Table 5. 7 Assets of Deposit Money Banks (GH¢ m)

	2006	2007	2008	2009	2010	2011	2012
Cash Reserves							
Cash in Till	71.2	168.4	208.4	261.4	335.5	481	636.92
Balance at Bank of Ghana	385.8	617.7	862.6	1,151.9	1,583.9	2,280.8	2,692.7
Total	**456.9**	**786.1**	**1,071.0**	**1,413.3**	**1,919.4**	**2,761.8**	**3,329.7**
Foreign Assets	**496.2**	**631.8**	**978.8**	**1,541.2**	**1,327.6**	**1,953.8**	**2,126.9**
Claims on Government							
Government Stocks	689.3	841.9	528.1	819.4	2,417.4	2,615.5	2,914.8
Treasury Bills	162.7	115.2	577.9	1,254.1	1,062.8	946.4	1,393.2
GCILBS	0.8	0.0	0.0	0.0	0.0	0.0	0.0
TOR Bonds	193.2	193.2	193.2	193.2	193.2	682.0	682.0
Total	**1,045.9**	**1,150.3**	**1,299.1**	**2,266.7**	**3,673.4**	**4,243.9**	**4,990.0**
Claims on Public Corporations							
Other Bills	**8.8**	**7.1**	**24.5**	**21.6**	**60.8**	**297.2**	**113.9**
Loans & Advances	**455.7**	**850.8**	**1,082.5**	**1,274.7**	**1,218.1**	**791.5**	**1,548.2**
Total	**464.5**	**857.9**	**1,106.9**	**1,296.3**	**1,253.1**	**1,088.7**	**1,662.0**
Claims on Private Sector	**2,064.0**	**3,295.6**	**4,884.3**	**5,654.0**	**6,697.8**	**8,752.4**	**11,477.4**
Other Assets	**575.4**	**898.5**	**1,075.5**	**1,886.9**	**2,267.9**	**2,808.5**	**3,838.7**
Total Assets	**5,103.0**	**7,620.2**	**10,415.8**	**14,058.3**	**17,243.7**	**21,609.5**	**27,424.7**

Source: Bank of Ghana

Table 5. 8 Liabilities of Deposit Money Banks (GH? m)

PVE SEEPS							
Demand Deposits	803.1	1412.7	1686.6	1648.4	2963.7	4337.1	5533.0
Foreign Currency Deposits	902.4	992.9	1816.8	2664.2	2727.9	3954.2	5116.8
Savings Deposits	694.3	849.6	964.1	1256.5	1875.2	2554.5	3339.9
Time Deposits	466.8	837.6	1246.1	1825.9	2284.2	2520.6	2738.5
Total	**2866.6**	**4092.9**	**5713.6**	**7395.0**	**9851.1**	**13366.4**	**16728.2**
% of GDP	15.3	17.7	18.9	20.2	21.3	22.3	22.9
PUBLIC SECTOR DEPOSITS							
Demand Deposits	251.1	208.8	406.2	351.1	348.6	437.9	430.0
Savings Deposits	1.4	1.1	1.3	1.2	2.3	3.3	5.9
Time Deposits	70.5	138.3	231.2	325.7	371.5	448.2	262.2
Total	**323.0**	**348.1**	**638.7**	**678.0**	**722.4**	**889.4**	**698.2**
% of GDP	1.7	1.5	2.1	1.9	1.6	1.5	1.0
GOVERNMENT DEPOSITS	**57.7**	**301.5**	**349.4**	**452.5**	**795.9**	**1006.4**	**1413.4**
FOREIGN LIABILITIES	**203.2**	**569.4**	**724.0**	**877.2**	**814.6**	**743.4**	**954.5**
CREDIT FROM BANK OF GHANA	**42.4**	**52.7**	**12.5**	**443.9**	**134.8**	**80.6**	**175.1**
PAID-UP CAPITAL & RESERVES	**616.9**	**833.9**	**1195.8**	**1789.6**	**2336.3**	**3048.2**	**4037.2**
OTHER LIABILITIES	**993.2**	**1421.6**	**1781.7**	**2422.3**	**2588.6**	**2475.1**	**3418.1**
TOTAL LIABILITIES	**5103.0**	**7620.2**	**10415.8**	**14058.3**	**17243.7**	**21609.5**	**27424.7**
% of GDP	27.3	32.9	34.5	38.4	37.3	36.1	37.5
Memorandum Item							
Nominal GDP (GHC m)	18,705.1	23,154.4	30,178.6	36,597.6	46,232.0	59,816.0	73,109.0

Source: Bank of Ghana

deposits (GH¢16,728.2 million) and paid-up capital and reserves (GH?4,037.2 million). Within the private sector deposits, foreign currency deposits have grown rapidly over the years. Even discounting the exchange rate effect, the increase is still significant and suggests an increasing propensity to hold these deposits as a hedge against possible cedi depreciation.

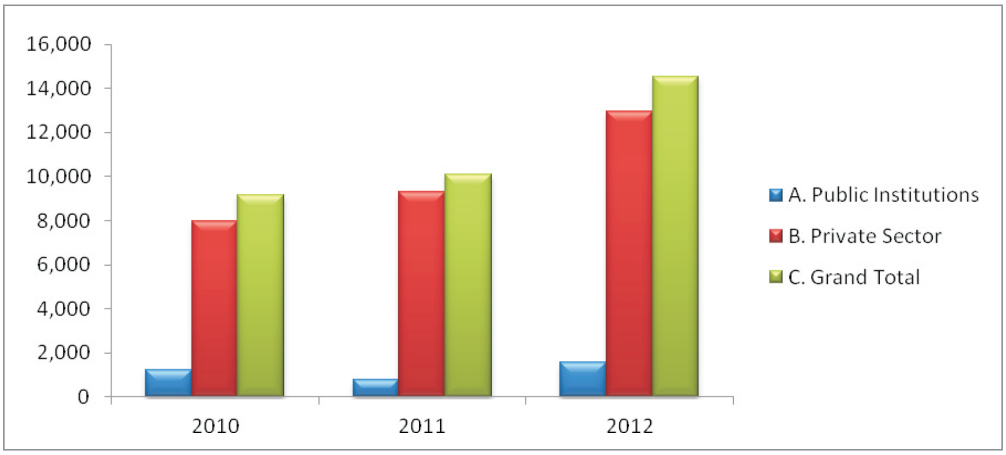
In 2012, deposit money banks' credit to public institutions and the private sector together increased by GH¢4,420.7 million (or 43.8%) to GH?14,513.7 million. Credit to the private sector registered the larger increase of GH¢3,664.0 million, while credit to public institutions increased by GH¢756.7 million (Table 5.9). Prime, large-sized private enterprises are usually favoured in the allocation of credit. For small- and medium-sized enterprises (SMEs) and informal businesses, which are regarded by banks as having higher credit risk, access to formal credit remains a major problem, which calls for appropriate policy intervention. High borrowing by government also further crowds out SMEs.

Table 5. 9 Developments in Deposit Money Banks' Credit to Private and Public Sector

	2010		2011		2012		Absolute Change	Absolute Change
	GH¢ m	%	GH¢ m	%	GH¢ m	%	(2010/2011)	(2011/2012)
A. Public Institutions	**1,218.1**	**13.3**	**791.5**	**7.8**	**1,548.2**	**10.7**	**(426.6)**	**756.7**
B. Private Sector	**7,955.6**	**86.7**	**9,301.5**	**92.2**	12,965.5	**89.3**	**1,345.9**	**3,664.0**
Agric., Forest & Fishing	489.8	6.2	537.2	5.8	631.3	4.9	47.4	94.1
Export Trade	155.1	1.9	112.7	1.2	148.3	1.1	(42.5)	35.7
Manufacturing	1,060.3	13.3	836.9	9.0	1,436.5	11.1	(223.3)	599.5
Trans., Storage, Comm.	321.3	4.0	391.7	4.2	625.7	4.8	70.4	234.0
Mining & Quarrying	216.8	2.7	398.5	4.3	276.9	2.1	181.7	(121.6)
Import Trade	461.8	5.8	861.5	9.3	1,038.0	8.0	399.8	176.5
Construction	601.8	7.6	751.6	8.1	1,100.3	8.5	149.8	348.7
Commerce and Finance	1,859.1	23.4	1,520.9	16.4	2,202.2	17.0	(338.2)	681.3
Electricity, Water & Gas	521.0	6.5	625.0	6.7	1,028.4	7.9	104.0	403.4
Services	1,650.0	20.7	2,507.7	27.0	3,431.3	26.5	857.7	923.6
Miscellaneous	618.6	7.8	757.8	8.1	1,046.6	8.1	139.2	288.9
C. Grand Total(A+B)	**9,173.7**	**100.0**	**10,093.0**	**100.0**	14,513.7	**100.0**	**919.3**	**4,420.7**

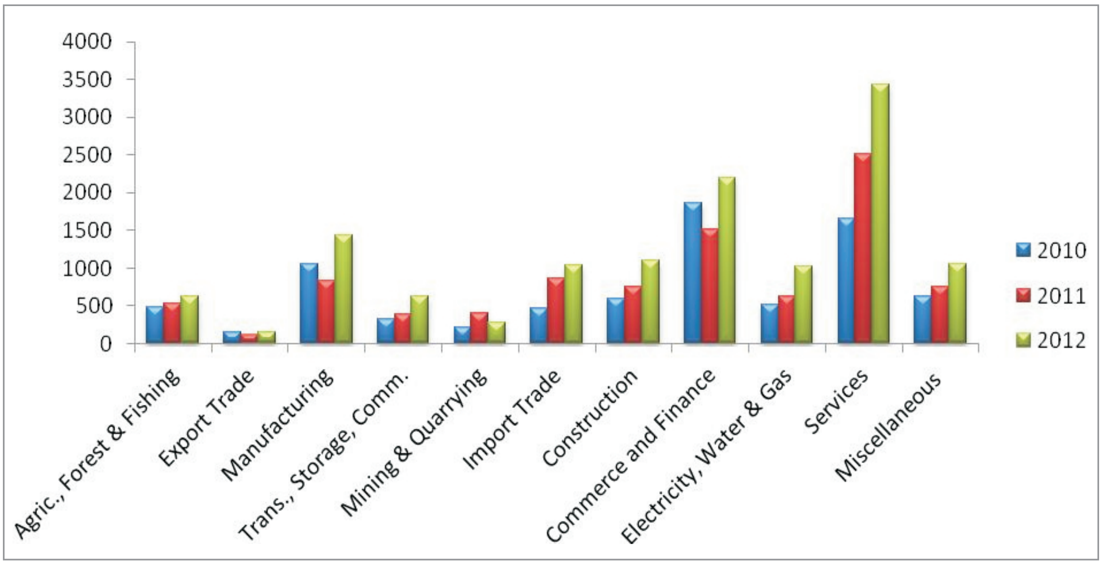
Source: Bank of Ghana

Figure 5. 5 Deposit Money Banks Credit (GH¢ m)



In terms of sectoral allocation of credit in 2012, services received the largest share (GH? 923.6 million), followed by commerce and finance (GH?681.3 million), and then manufacturing (GH?599.5 million). Export trade received the lowest credit increase (GH?35.7 million), while credit to mining and quarrying declined by GH?121.6 million. In terms of total credit outstanding at the end of 2012, services had the biggest share of 26.5%, followed by commerce & finance with 17.0%, and then manufacturing with 11.1%. Export trade had the lowest share of 1.1%, while agriculture had 4.9%.

Figure 5. 6 Sectoral Distribution of Bank Credit (GH¢ m)



In terms of the three broad sectors of the economyagriculture, industry (comprising manufacturing, mining & quarrying, construction, electricity, gas & water), and services (comprising export trade, import trade, transport, storage & communications, commerce & finance, and "services")services continued to receive the commanding share of outstanding credit to the private sector (57%) followed by industry (30%), and agriculture (5%). Miscellaneous credit took the rest (8%). Services is a preferred sector because it appears to be more lucrative and less risky to lend to, whereas agriculture in particular is shunned because it is perceived to be more risky to lend to. In the circumstance, it may require direct intervention to support the sector, including through well-managed and resourced specialized financial institutions.

5.5. Developments in the Ghana Stock Exchange

Table 5. 10 Key Stock Exchange Indicators

Year	2009	2010	2011	2012
Market Capitalization (GSE) GHC m	**15,941.9**	**20,116.7**	**47,350.2**	**57,264.22**
GSE All Share Index	5,572.3	7,369.2	-	-
Composite Index	-	-	969.0	1199.72
Financial Stocks Index	-	-	863.1	1039.86
Number of Listed Companies	35	35	34	34

Source: Ghana Stock Exchange, Values as at end of December for each year.

In 2012, market capitalization of the Ghana Stock Exchange (GSE) increased by GH?9,914.0 million (or 21%) to GH?57,264.2 million (Table 5.10). The number of listed companies remained at 34. The two measures of performance of stocksthe Composite Index and the Financial Stock Indexrespectively increased by 24% and 20%. This shows continued strong performance of the Stock Exchange.

CHAPTER 6

EXTERNAL SECTOR DEVELOPMENTS

6.1 Introduction

Ghana remains a small open economy. Its exports have been on an upward trend since 2005. In 2012, oil exports overtook cocoa as Ghana's second major export commodity with gold as the first. The volume and price of gold exports have generally been on an upward trend. Gold the dominant commodity in the minerals subsector, contributed 42% to total exports in 2012. Deforestation appear to have significantly affected exports of timber and timber products with its share in total exports declining, from 8% in 2005 to 1% in 2012. Non-traditional exports almost quadrupled during the review period.

The top ten export destinations have on average, absorbed 87.8% of Ghana's exports. Imports have been increasing at a faster pace than exports; almost quadrupled during the period under review. Consumer goods have been Ghana's major import category since 2010. Since 2011, Ghana has imported more vehicles for the transport of persons than capital and intermediate goods imports.

The Balance of payments has mostly been in surplus although the current account deficit has been worsening since 2005. Foreign Direct Investment (FDI) has been a key driver in the capital and financial account. Foreign exchange market transactions over the past few years have soared in response to increased international trade and capital flows. Although the nominal exchange rate had been depreciating, the real exchange rate remained relatively strong. External debt has been increasing but remains at a sustainable level.

6.2 Export Trends

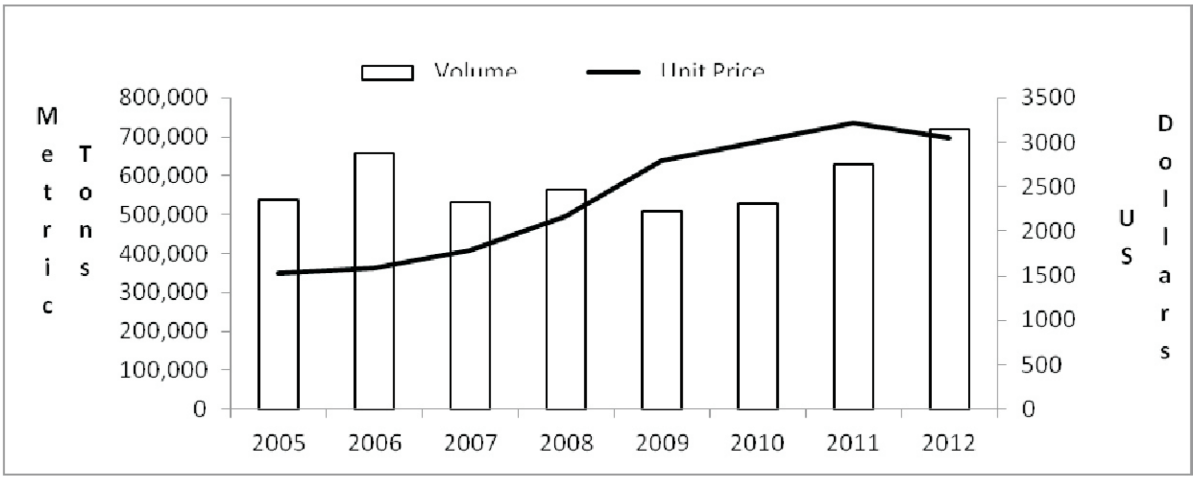
Export values have been on an upward trend since 2005. Being primarily a commodity exporting country, Ghana's exports during the review period have been dominated by three commodities. Between 2005 and 2010, gold and cocoa dominated the exports, on average accounting for 70% of total exports. The lowest contribution of these two commodities to the total exports during the review period was 66% in 2005 and the highest being 76% in 2010. In 2011, total exports recorded a significant increase of 60.6% as a result of two main factors: One, a third commodity crude oil was added to the country's major exports; and two, cocoa exports during the 2010/11 season exceeded one million metric tons for the first time. In 2012, crude oil overtook cocoa as the country's second major export.

6.2.1 Key Export Commodities

Cocoa Beans

The total value of cocoa beans export has been on the increase since 2005, only witnessing a marginal decrease in 2007 (**Error! Not a valid bookmark self-reference.**). This trend is explained by the cyclical pattern in cocoa output and world prices. In 2007, there was a decline in the total export value of cocoa beans because although world prices increased by 12 percent, the volume exported had declined by 19%. On the other hand, the 10% decline in export volumes in 2009 did not reflect in a drop in export earnings as world prices increased by 29% from $2172.4 in 2008 to $2802.4.

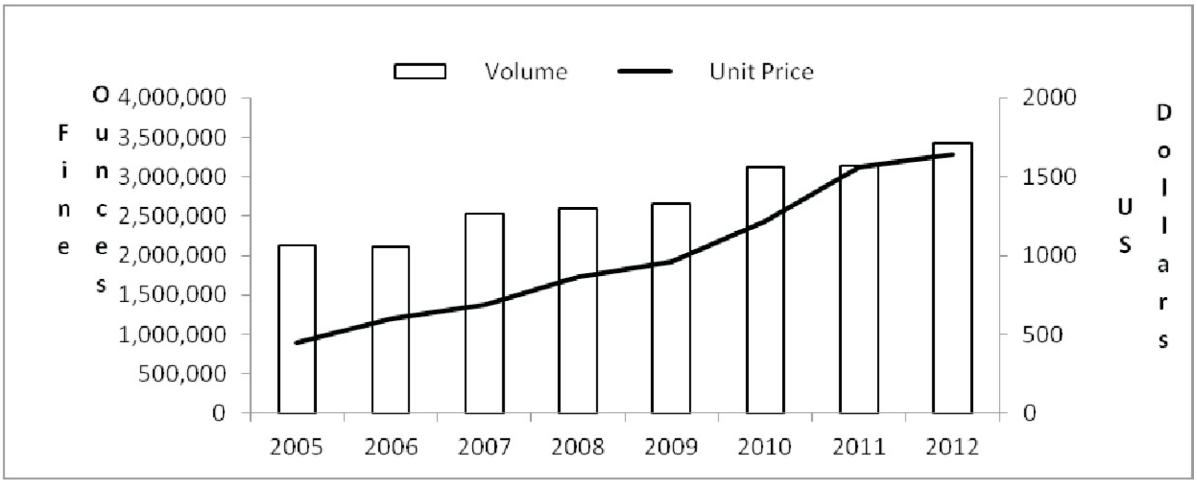
Figure 6. 1 Volume and Value of Cocoa Exports



Source: Bank of Ghana

Minerals

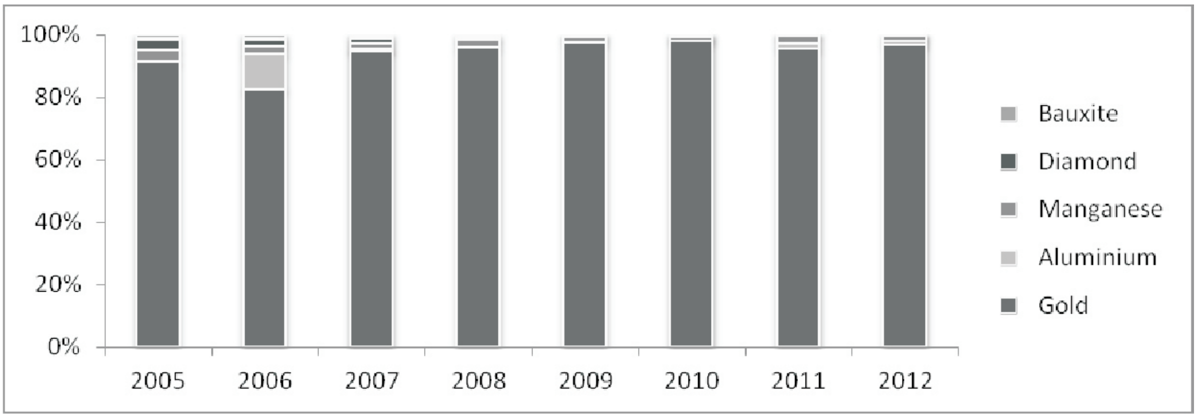
Figure 6. 2 Volume and Value of Gold Exports



Source: Bank of Ghana

The share of minerals in total exports has been increasing from 37% in 2005 to 43% in 2012. In the Minerals sector, gold has been the dominant commodity. Gold has consistently contributed over 90% of total export value in the minerals subsector except in 2006 when its share was 82.5 percent.

Figure 6. 3 Performance of Various Minerals in Total Mineral Exports



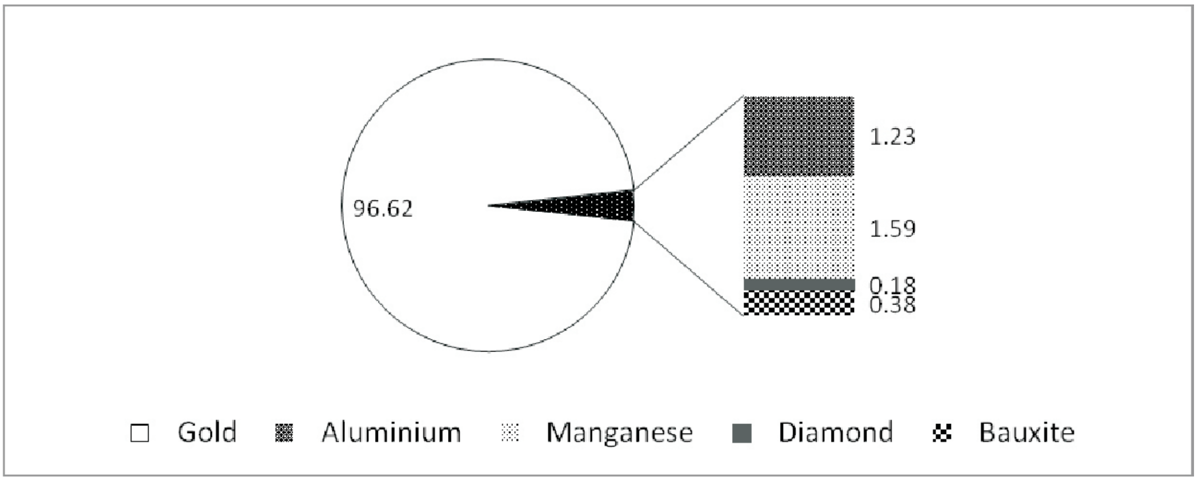
Source: Bank of Ghana

Accounting for the reduced share of gold in the minerals subsector in 2006 was the improved performance of the other minerals. For instance, aluminum, which made no contribution in 2005, had a share of 11.4% in 2006 (

Figure 6. 3 Performance of Various Minerals in Total Mineral Exports.

Also for three consecutive years 2008 to 2010 aluminum made no contribution in the subsector, thus increasing once again gold's share to 95.9% in 2008 and 97.4 and 97.8% in 2009 and 2010 respectively. The performance of the other minerals namely, bauxite, diamond and manganese was quite unstable (Figure 6.4).

Figure 6. 4 Performance of Various Minerals in Total Mineral Exports, 2012

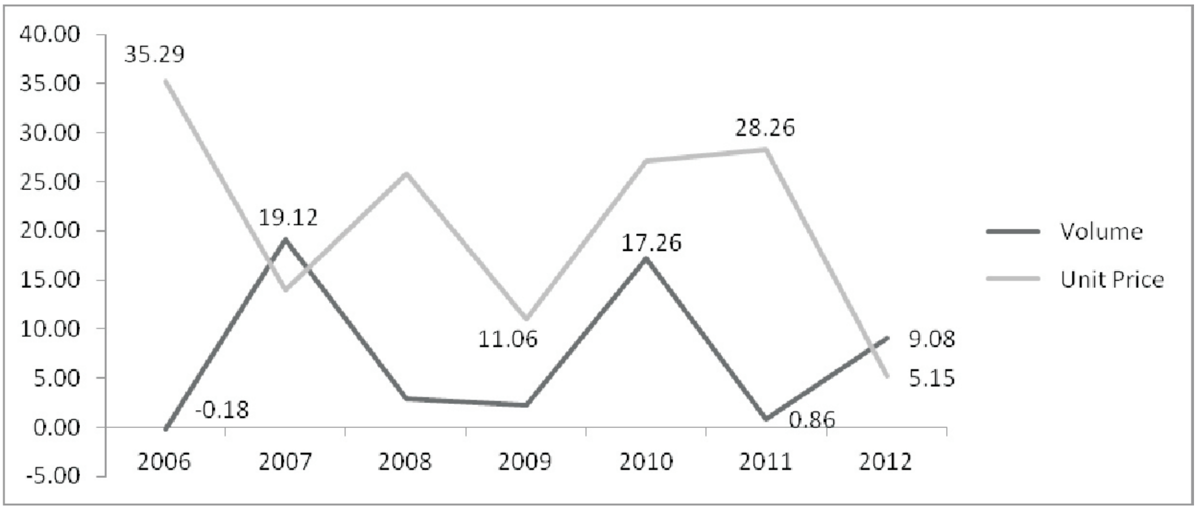


Source: Bank of Ghana

In 2012, the share of gold in the minerals subsector was 96.6% with the remaining 3.4% distributed amongst the other minerals as in Figure 6.4. The percentage of total exports gold's share was 42% in 2012, having increased from 34% in 2005 largely on account of both rising prices and increased production

(Figure 6. 2 Volume and Value of Gold Exports).

Figure 6. 5 Percentage Change in Volume and Price of Gold Exports



Source: Bank of Ghana

On average, volume and price of exported gold increased by 7.3 and 21% respectively. For most part of the review period, the change in volume of gold export and price exhibited an inverse relationship in line with economic theory.

Timber and timber products

The export of timber and timber products experienced a dramatic decline during the review period. From a contribution of 8% in total export value in 2005, it had steadily been declining, falling to 1% by 2012 (Table 6.1). Although the unit price had not fared so poorly, the volume had generally been on a downward trend. While the unit price of timber had increased by 5% from its starting value of $486.0 in 2005, volume declined by 49% from 466,155 cubic meters in 2005 to 237,607 cubic metres in 2012. The decline in timber exports could be due to deforestation, which is occurring at an annual rate of 2% according to available statistics. The Government responded by coming up with the Ghana National Plantation Project 2010, which seeks to plant 20,000 hectares, which should reverse the declining trend in the long run.

Table 6. 1 Volume and Value of Timber Product Exports ($ Million)

Timber and Timber Products	2005	2006	2007	2008	2009	2010	2011	2012
Value ($'M)	226.54	199.48	250.13	316.80	179.83	189.47	165.66	121.43
Volume (m)	466,155	454,608	531,813	586,865	428,503	427,131	355,620	237,607
Unit Price ($/m)	485.97	438.80	470.34	539.81	419.68	443.58	465.84	511.05

Source: Bank of Ghana

Non-traditional exports

Performance of the non-traditional export sector, defined as all exports except cocoa beans, minerals, timber and electricity, has been encouraging. There are two major patterns: Growth from 2006 to 2011 and a decline in 2012 (Table 6.1). Although the value of non-traditional exports declined by 9.1% from $2595.9 million in 2011 to $2,359.2 in 2012, it had increased by 252.4% over its 2005 value of $669.5 million. This is an indication that Ghana has been moving up the value chain.

For instance, during the review period, export of cocoa products (powder, butter, and cake) have seen a generally upward trend both in volume and price. The volume declined in 2007 and 2012 by 4% and 20% respectively while the price declined in 2006, 2011 and 2012. The volume of cocoa products exported since 2005 has witnessed a phenomenal increase of 321% while the volume of cocoa beans exported has increased by 34% since 2005. However, as a share of total export value, the contribution of cocoa beans and products has been on the decline from 32% in 2005 to 21% in 2012 due to a better performance in the other export commodities.

Table 6. 2 Non-Traditional Exports ($ Million)

	2005	2006	2007	2008	2009	2010	2011	2012
Total Non-Traditional Exports	**669.50**	**897.86**	**1,159.44**	**1,326.12**	**1,522.41**	**2,163.14**	**2,595.86**	**2,359.23**
Residual oil	91.08	73.04	81.53	117.00	-	68.37	21.52	-
Cocoa product	89.91	146.39	156.98	261.89	443.65	625.19	842.94	635.92
Other Non-traditional exports	488.51	678.43	920.93	947.23	1,078.76	1,469.58	1,731.40	1,723.31

Source: Bank of Ghana

In terms of the growth that occurred in non-traditional export value, three patterns may be discerned: A remarkable growth of 34.1% in 2006, a slowdown in the pace of growth between 2007 and 2009, and another pick up in 2010. The level of growth remained almost the same for 2008 and 2009. This could be attributed to the global financial crisis during this period, which dampened demand for Ghana's exports.

According to available data, South Africa has been Ghana's top export destination during the last three years (Table 6. 3 Direction of Trade, Exports) due to gold exports. Although total exports to South Africa have been increasing in levels over the last three years, the share of South Africa in Ghana's total export value has reduced from 48.6% in 2010 to 31.8% in 2012 since Ghana began exporting oil. Switzerland has been consistent in maintaining its position as Ghana's third biggest export destination mainly cocoa and gold exports since 2010. The top ten destinations have taken an average 87.8% of total exports. During the last three years, exports to the top ten countries have been increasing. It was 79.5% in 2010, 90.1 in 2011 and 93.7% in 2012.

Table 6. 3 Direction of Trade, Exports

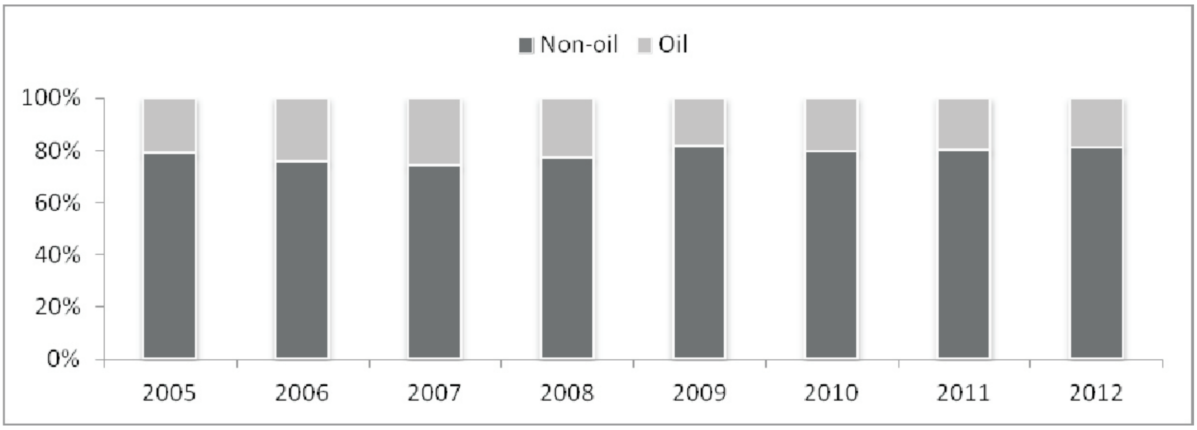
2010			2011			2012		
COUNTRY	**US $ MILLION**	**CONTRIBUTION (%)**	**COUNTRY**	**US $ MILLION**	**CONTRIBUTION (%)**	**COUNTRY**	**US $ MILLION**	**CONTRIBUTION (%)**
SOUTH AFRICA	3,074.64	48.57	SOUTH AFRICA	3,080.0	26.72	SOUTH AFRICA	4,042.3	31.84
NETHERLANDS	756.26	11.95	FRANCE	2,158.8	18.73	UAE	1,818.0	14.32
SWITZERLAND	584.73	9.24	SWITZERLAND	1,255.2	10.89	SWITZERLAND	1,488.2	11.72
UNITED ARAB EMIRATES	509.80	8.05	NETHERLANDS	1,150.1	9.98	FRANCE	1,444.4	11.38
UNITED KINGDOM	320.91	5.07	UAE	977.3	8.48	ITALY	1,262.1	9.94
FRANCE	270.10	4.27	**ITALY****	885.1	7.68	NETHERLANDS	959.3	7.56
BELGIUM*	245.59	3.88	UNITED STATES	800.5	6.95	CHINA	659.1	5.19
UNITED STATES	244.41	3.86	**CHINA****	477.3	4.14	UNITED KINGDOM	371.6	2.93
NIGERIA*	176.97	2.80	UNITED KINGDOM	435.5	3.78	UNITED STATES	362.9	2.86
GERMANY*	147.39	2.33	**TURKEY***	305.9	2.65	**MALAYSIA****	285.9	2.25
	6,330.81	**100.00**		**11,525.68**	**100.00**		**12,693.8**	**100.00**

Source: Bank of Ghana

**Country dropped out of the top ten as at 2012; **Country was not in the top ten in the preceding year*

6.3 Items Ghana Imports

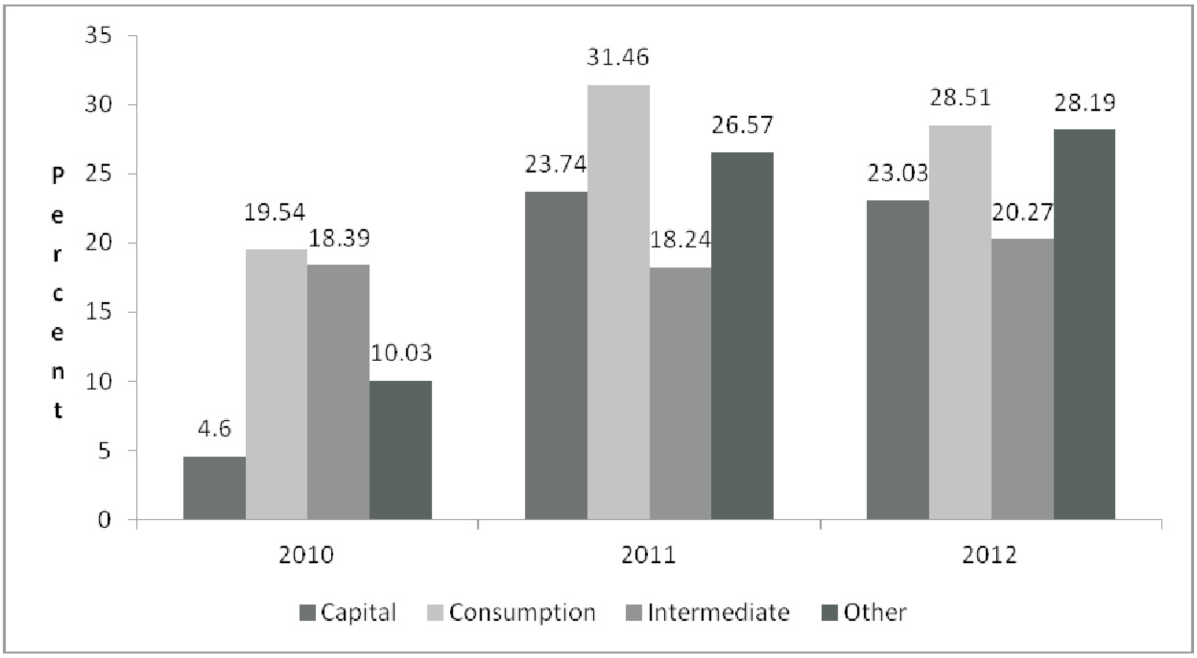
Figure 6. 6 Shares of Oil and Non-Oil Imports



Source: Bank of Ghana

Ghana's imports have been steadily on the rise since 2005. During the review period, imports have risen by 235% from $5.3 billion in 2005 to $17.8 billion in 2012. Items imported can be put into two broad categories, namely, oil and non-oil imports. The shares of oil and non-oil imports have remained fairly unchanged since 2005 (Figure 6. 6 Shares of Oil and Non-Oil Imports). On average, oil imports have been 21.5% while the remainder has been non-oil.

Figure 6. 7 Imported Goods by Category



Source: Bank of Ghana

Ghana remains a net importer of oil although it began exporting crude oil in 2011 as the country tries to market its crude oil in order to achieve the right price on the world market. The non-oil imports have also been put into three main categories capital, intermediate and consumer goods. Items that cannot readily be placed in any of these categories are put under 'others'. Consumer goods have consistently dominated Ghana's imports according to available data (Figure 6. 7 Imported Goods by Category).

Also of interest is the fact that under 'other', one item motor vehicles for the transport of persons has dominated. In 2012, this one item alone had almost the same share as four items that found their way in the top ten under consumer goods.

Table 6. 4 Top Ten Non-Oil Imports

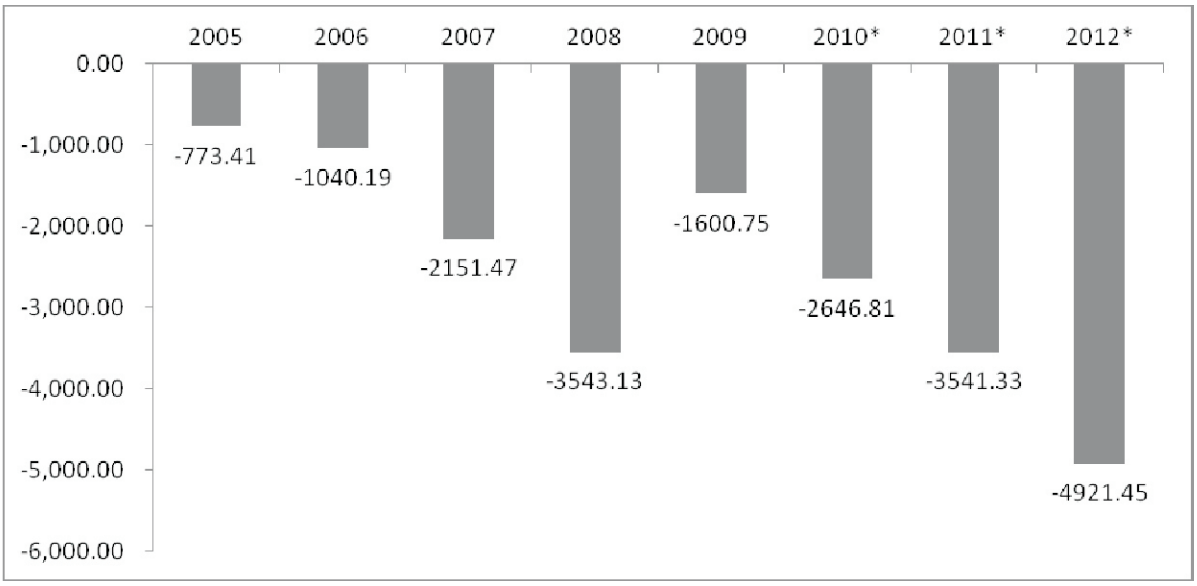
2010			2011			2012		
Description	**US$'M**	**% Distr.**	**Description**	**US$'M**	**% Distr.**	**Description**	**US$'M**	**% Distr.**
Capital	**168.48**	**4.06**	**Capital**	**821.52**	**23.74**	**Capital**	**877.22**	**23.03**
Motor vehicles for the transport of goods	168.48	4.06	Motor vehicles for the transport of goods	562.43	16.25	Motor vehicles for the transport of goods	649.56	17.06
Consumption	**810.90**	**19.54**	Telephones for cellular networks or for wireless handsets	131.07	3.79	Self-propelled bulldozers, excavators	227.66	5.98
Broken rice	287.33	6.92	Machine for the reception, conversion and transmission or regeneration of voice..	128.02	3.70	**Consumption**	**1,085.77**	**28.51**
Frozen fish, nes	205.32	4.95	**Consumption**	**1,088.65**	**31.46**	Broken rice	444.40	11.67
Sugar	194.80	4.69	Broken rice	511.69	14.78	Poultry cuts and offal	225.53	5.92
Frozen poultry cuts and offal	123.44	2.97	Cane or beet sugar	220.99	6.39	Sugar	222.26	5.84
Intermediate	**763.19**	**18.39**	Poultry cuts and offal	201.62	5.83	Frozen fish	193.57	5.08
Umilled spelt, common wheat and meslin	259.84	6.26	Frozen fish	154.35	4.46	**Intermediate**	**771.78**	**20.27**
Cement clinkers	233.88	5.64	**Intermediate**	**631.20**	**18.24**	Spelt, common wheat and meslin	341.45	8.97
Fungicides	166.49	4.01	Spelt, common wheat and meslin	347.70	10.05	Cement clinkers	286.95	7.53
Primary forms of polyethylene	102.99	2.48	Cement clinkers	283.50	8.19	Casing, tubing and drill pipe of a kind used in drilling for oil or gas	143.39	3.77
Other	**416.34**	**10.03**	**Other**	**919.57**	**26.57**	**Other**	**1,073.52**	**28.19**
Motor vehicles for the transport of persons	416.34	10.03	Motor vehicles for the transport of persons	919.57	26.57	Motor vehicles for the transport of persons	1,073.52	28.19
Grand Total	**4,149.36**	**100.00**	**Grand Total**	**3,460.95**	**100.00**	**Grand Total**	**3,808.30**	**100.00**

Source: Bank of Ghana

6.4 Current Account Balances

For every year during the review period, imports of goods and services exceeded Ghana's exports, which has meant that the current account has persistently been in deficit (Figure 6. 8 Current Account Deficit ($ Million). The current account deficit to GDP ratio has also been worsening since 2005. Although it improved in 2009 partly due to the global financial crisis, it picked up again in 2010. While GDP increased by 280% from $10.7 billion in 2005 to $40.7 billion in 2012, the current account deficit worsened by nearly 60 fold from $773.4 million in 2005 to $4.9 billion in 2012. This is quite worrying as the economy is increasingly deepening its import dependence. The relationship between imports and exchange rates is well established; increased imports weaken the cedi, which pass through to inflation.

Figure 6. 8 Current Account Deficit ($ Million)



Source: Bank of Ghana

6.5 Balance of Payments

On the other hand, the financial and capital account was in surplus throughout the review period, moderating the effect of the current account deficit on the overall balance. As a result, the overall balance went into deficit only twice in 2008 and 2012 during the period under review.

Within the capital and financial account of the Balance of Payments, we see Foreign Direct Investment (FDI) making significant contribution to the surpluses achieved during the review period. Since 2005, FDI to Ghana had been gathering momentum. There was a decline in 2009 but it picked up again in 2010. By 2012, FDI in Ghana had increased by more than twenty times the level witnessed in 2005. However, 2005 appeared to be an unusual year having registered a significantly lower level of FDI than subsequent years. While the average contribution of FDI to the surpluses enjoyed on the financial and capital account has on average been 63.9%, in 2005 FDI's share was 17.4%. Therefore, the development in FDI would be better appreciated from 2006. In 2006, FDI to Ghana quadrupled compared to the level witnessed in 2005. According to available data, the mining and telecom sectors have been the main drivers of FDI.

6.6 Foreign Exchange Market and Exchange Rate Developments

Since 1992, when the wholesale auction system was abolished, the exchange rate has been primarily determined in the inter-bank market where major foreign exchange transactions take place. Forex bureaux which deal in bills at spot, add a premium to this official exchange rate. Therefore, the exchange rate is determined by the demand and supply conditions. The Bank of Ghana's intervention in the foreign exchange market aims only to smooth short-term exchange rate fluctuations through the purchase and supply of foreign exchange to the banks. Thus, the exchange rate regime for this period is classified as a flexible exchange rate regime in the form of managed floating.

Foreign Exchange Market

Foreign exchange market transactions over the past few years have soared in response to increased international trade and capital flows. Activities in the foreign exchange transaction market recorded significant increase from 2007 to 2012 though it slowed down in 2009. Foreign exchange purchases declined by 23.2% to US$5,599.2 million in 2009 from US$7,293.9 million recorded in 2008.

After foreign exchange purchases declined in 2009, it picked up in 2010 by 35.4% to US$7,583.6 million in 2010. The foreign exchange market posted a considerable increase in activities from 2010 to 2012. The value of foreign exchange purchases amounted to US$11,418.5 million in 2012 from US$7,583.6 million in 2007. A major contributing factor to the surge in transactions was the government's floatation of fixed bonds which was a significant source of foreign exchange in the market over the past three years.

Table 6. 5 Foreign Exchange Purchases

Period	Purchases (US$ Million)
2007	5,406.70
2008	7,293.91
2009	5,599.19
2010	7,583.57
2011	10,977.97
2012	11,418.47

Source: Bank of Ghana

Developments in Exchange Rate

Nominal cedi-dollar exchange rate depreciated during the period under review. The highest level of depreciation was experienced in 2008 with 19.3% followed by 17.7 per cent in 2012 which coincided with election cycles. The development in real exchange rate (RER)[5] which measures the competitiveness of the economy was mixed. RER appreciated in 2006, 2007, 2009 and 2010 by 6%, 2.7%, 0.4% and 7.3% respectively indicating Ghana lost competitiveness in export markets and encouraged importation of foreign goods. RER however depreciated strongly in 2008 and 2012 by 9.4% and 12.0% respectively largely due to high nominal depreciation during the period.

The depreciation of real and nominal exchange rates occurred in spite of the massive inflow of foreign currency through non-residents' purchasing of domestic bonds and petroleum exports. In 2012 in particular, there were intense demand pressures in the foreign exchange market emanating from external loan repayments, oil and non-oil imports as well as speculation in the market, which weakened the Ghana Cedi as against the US Dollar. However, the introduction of new monetary policy measures by the Bank of Ghana to moderate volatility in the foreign exchange market and improved inflows from the cocoa sector and the 3-year and 5-year bond sales, helped in reducing the depreciation of the currency.

[5] RER is measured as Nominal exchange rate adjusted by the ratio of foreign consumer price index to domestic consumer price index

Table 6. 6 Trends in Nominal and Real Exchange Rate Cedis per US dollar (Period Average)

Year	Nom Exch Rate (GHC per $)	Dep of Nom Exch Rate (%)	Bureau Rates	Dep of Forex Bureau Rate	RER (Interbank)	Dep of RER
2005	0.91		0.94		1.01	
2006	0.92	-1.35	0.94	-0.79	0.94	6.73
2007	0.97	-4.61	0.99	-4.32	0.92	2.70
2008	1.20	-19.29	1.22	-19.42	1.01	-9.43
2009	1.43	-16.10	1.46	-16.09	1.01	0.40
2010	1.45	-1.53	1.46	0.00	0.94	7.26
2011	1.55	-6.10	1.65	-11.67	0.95	-1.03
2012	1.88	-17.70	1.95	-15.10	1.08	-11.98

Source: Bank of Ghana

6.7 Developments in External Debt and Eurobond financing

After substantially reducing external debt from $6,347.8 million in 2005 to $2,177.24 million in 2006, the intractable nature of Ghana's external indebtedness and the associated interest payments has resurfaced as it has risen by 25.7% from $2,177.2 million in 2005.

Unsurprisingly, external debt to GDP ratio has also accelerated in recent times as the growth in nominal external borrowing has outweighed the growth of GDP. The external debt to GDP ratio recorded a sharp decline from 59.6 per cent in 2005 to 10.7 per cent in 2006 as a result of debt relief after reaching HIPC completion point in 2004. The fall in external debt was however short-lived as it started growing in 2007 and has persisted to reach 19.8% in 2012 though it is still operating below the critical benchmark of 50 percent.

With the emergence of petroleum production and exports, the ratio of debt service to the export of goods and services has declined sharply in recent times after peaking at 4.3% in 2009. The ratio of debt service to the export of goods and services hovering around an average of 3.9%[6] does not pose debt sustainability problems in terms of finding foreign exchange for servicing as it remains below the critical 25% level.

[6] This ratio may be higher as many of the companies in the mining sector have Stability Agreements, which allows them to retain a significant proportion of their foreign exchange earnings.

Table 6. 7 External Debt Indicators

YEAR	2005	2006	2007	2008	2009	2010	2011	2012
Total External Debt	**6,347.8**	**2,177.24**	**3,590.4**	**4,035.1**	**5,007.9**	**6,320.7**	**7,589.5**	**7,978.5**
Multilateral Creditors	5,565.1	1,326.86	1,667.9	2,028.3	2,461.8	3,081.9	3,891.8	2,308.6
Multilateral (% of total)	87.7	60.94	46.5	50.3	49.2	48.8	51.3	28.9
Bilateral Creditors	602.5	732.03	992.6	1,168.2	1,687.2	2,211.1	2,712.3	2,716.1
Bilateral (% of total)	9.5	33.62	27.6	29.0	33.7	35.0	35.7	34.0
Commercial Creditors	180.2	118.35	929.8	838.5	858.9	1,027.7	985.4	1,505.7
Of which:								
International Capital Market	-	-	750.0	750.0	750.0	750.0	750.0	750.0
Commercial (% of total)	2.8	5.44	25.9	20.8	17.2	16.3	13.0	18.9
Debt Service/Exports of Goods and Services (%)	5.5	3.3	3.2	4.3	4.3	3.70	3.30	3.90
External Debt/GDP (%)	59.6	10.7	15.0	16.2	19.1	20.9	20.8	20.8

Source: Bank of Ghana

In recent times, the Eurobond has been issued by many African countries to obtain funds from the international market. The first of such issue by Ghana took place in 2007 with an amount of $750 million with an interest rate of 8.5% per annum and a tenure of 10 years.

6.8 Conclusion

Ghana's external sector has exhibited trends expected of peer economies. As a small open economy it demonstrated resilience during the global financial crisis. Exports were on an increasing trend although it slowed at the peak of the financial crisis. The external sector witnessed some transformation. The country saw its first oil exports in 2011. By 2012, oil had overtaken cocoa as the countries second biggest export earner. The review period also witnessed increasing FDI inflows, mostly related to the oil and gas sector. While the country increased its exports, imports were also increasing. In fact, imports have always exceeded exports during the review period. The current account deficit has been deepening, yet the overall balance of payments was in surplus during most part of the period due to the moderating effect from the capital and financial account. The cedi weakened in terms of the nominal depreciation, which could be attributed to a number of factors including the high imports. However, the real exchange rate remained relatively strong.

CHAPTER 7

SOCIAL PROTECTION AND POVERTY REDUCTION IN GHANA

Ghana has always had one social protection programme or the other. The National Social Protection Strategy launched in 2007 marked the first attempt by government to harmonize all the social intervention programmes and to give meaning and clarity on why they must be pursued. Subsequently, several social interventions have emerged in an effort to accelerate poverty reduction. Budgetary allocations to social interventions have also increased in the effort to meet the MDGs. However, there is also a growing concern that the myriad of social interventions suffer from duplication and poor targeting. The range and scope of programmes therefore must be reviewed and where necessary reformed or withdrawn if the economy is to avoid suffering from a fiscal paralysis following the misuse and abuse of certain programmes.

7.1. Introduction

In all market activities there are winners and losers. Winners are those who are able to build upon their endowments (natural or inherited) to increase their welfare. Losers risk a decline in welfare for several reasons, including disease, lack of individual development capabilities and deprivations some of which are beyond their personal control. One of the roles of government is to ensure protection of the latter and increased welfare of all citizens. To this end, governments often put in place measures to mitigate the adverse impact of the market system on the weak and the vulnerable through wealth redistribution policies, such as direct cash transfers, the use of vouchers, food stamps and other payments on behalf of such groups, in what is generally known as social intervention or social protection programmes; most of these in the form of subsidies.

Social protection is generally described as an indemnity against poverty, a guaranteed access to health care facilities and as a means of promoting inclusive development. The International Labour Organization[7] sees social protection as being about people and families having security in the face of vulnerabilities and contingencies, it is about having access to health care, about work safety, protection from hunger and its ill-effects of malnutrition and undernourishment and about access to housing.

In Ghana, apart from seeing it as its core responsibility, the government has also been encouraged by its desire to achieve the Millennium Development Goals (MDGs) and New Partnership for Africa's Development (NEPAD) targets to increase its budgetary allocation toward social protection by increasing the range of programmes and expanding the scope of existing ones. The social desirability apart, questions about the financial sustainability and relevance of some of the programmes have begun to emerge. The goal in this section of the annual report is to review the range of social protection programmes and provide some policy recommendations. To this end, we first discuss the concept of subsidies as a social protection tool for poverty reduction, then evaluate the basis for selected social protection programmes, and analyse the cost, focusing in particular on the cost implications of these programmes on the 2012 National Budget.

[7] *International Labour Organization 2010.*

7.2. Economic Subsidies as a Social Protection Tool for Poverty Reduction

Social intervention programmes in Ghana have a long history. Most notable is free education for the Northern part of Ghana after recognizing the potential of such a policy in reducing poverty and addressing regional development imbalance. In recent times, specific social protection policies especially petroleum and utilities subsidies, have received attention in the popular media, and have been the subject of discussions of macroeconomic policy adjustments. A subsidy is defined as a type of financial or in-kind support extended to an individual, business and institution, generally with the goal of promoting beneficial economic and social outcomes.[8] Subsidies are generally regarded as an important poverty reduction tool, especially in developing countries.

In Ghana the two most common forms are production subsidies and consumption subsidies. Production subsidies are generally in the form of market price support, direct support or payments to factors of production. [9] A typical example is the Integrated Agriculture Support Programmes which includes the Fertilizer and Seed Subsidy programme estimated to have benefited 300,000 farmers in 2012. [10] Production subsidies can also be used to provide incentives for start-up firms or sometimes as the basis for a regional development policy. Examples are The Local Enterprises and Skills Development Programme (LESDEP) and the Savannah Accelerated Development Authority (SADA) programmes. Consumption subsidies reduce the price of goods and services to the consumer. Typical examples are education related social intervention programmes like the Capitation Grant Scheme, free school uniforms, exercise books and textbooks all aimed at reducing the overall cost of education for Ghanaians. The most widespread and perhaps most controversial form of consumption subsidies are petroleum and utilities subsidies, which reduce the cost of fuel, water and electricity to final consumers.

The net effect of these intervention programmes is an increase in production or consumption. When a consumer is given a subsidy, meaning a lower price, consumption is expected to increase. This is the economic justification for the implementation of certain social intervention programmes like the Capitation Grant, free exercise books which are essentially designed to reduce the cost of education and by extension increase school enrolment. The same is true for production; that is, when a producer receives a subsidy, which supports prices at a competitive level, supply of the good or service in question is expected to increase.

The importance of subsidies as a poverty reduction and social protection tool is often overshadowed by government's reluctance to concede that the rationale behind some of these subsidy measures may be weakened over time, the incidence may vary and the desired social impact weakened. Subsidies have the potential to hinder the overall resource allocation efficiency of the economy. Subsidies distort prices and by extension the efficient production and Consumption of goods and services in any economy. General subsidies such as those on petroleum products not only have a negative fiscal impact on government finances but have far reaching local, national and global environmental effects if the subsidies result in increased use of private vehicles, increased motor and vehicular traffic at the expense of mass transit public transportation options.

[8] See Myers and Kent, 2001.
[9] Ibid
[10] See The Budget Statement and Economic Policy of the Government of Ghana for the 2013 Financial Year.

Consumption subsidies, especially as applied to electricity and water, could potentially result in the misuse and overuse of the particular good or service, and more disturbingly alter consumer's long term attitude towards the use of these products. It is plausible to conclude that, following the recent reduction in utility subsidies, many Ghanaians are now more conscious about energy conservation and water preservation in response to new higher tariffs.

Although there are economic arguments against the use of subsidies, as highlighted, there are still economic arguments for its continued use or reforms in Ghana. Reducing direct subsidies can indeed lead to income losses to the poor and even provoke political unrest in some cases (Chander, 2001). The complete elimination of all subsidies in Ghana will negatively impact on the poorest in society who by virtue of their relatively low income levels, generally lack the ability to adjust to fiscal shocks.

UNICEF (2013)[11] in analysing the recent reduction in fuel subsidies in Ghana, point to a "second round effect" in the form of increased prices of food and services which depend on fuel for their production and distribution. Therefore financially constrained households could see a decline in their consumption and wellbeing unless policy measures are directly put in place to address these concerns and protect the gains Ghana has made under the Millennium Development Goals (MDGs) and poverty reduction.

One of the key steps towards reforming or addressing some of the efficiency, fiscal and equity challenges posed by the implementation of these subsidy programmes is to have a well defined and targeted intervention programme. Social intervention programmes can be designed to be targeted or non-exclusive (i.e. national) programmes. Non-exclusive intervention programmes are those that are enjoyed by all in society as long as you produce or consume that good or service for which the subsidy applies e.g. petroleum subsidies. Targeted intervention programmes are those that are narrowly defined with clearly identified beneficiary groups (i.e. targets), be it producers or consumers of the good or service in question. For example, Agricultural Machinery Subsidy programme provides compact tractors to smallholder farmers in Ghana. Usually there are some defined criteria for a consumer or a producer to qualify for such support under a targeted intervention programme.

The effective implementation of targeted social intervention programmes in Ghana, especially those designed to alleviate poverty will be cost effective and equitable with no scope for leakages to the non-poor. The biggest challenge in designing a targeted intervention policy is that, it is very difficult to identify the poor in Ghana in any cost-effective manner given the lack of accurate information, identification and database system. Therefore to circumvent these challenges, subsidies could be designed to target those goods and services that the poor prefer, limiting the potential leakages to the non-poor through a self selection or self-targeting strategy.

For instance, the provision of cheaper alternative public transportation systems like the Metro-Mass Transit provides options for commuters to self-select which transport means best fits their income levels and whether to opt for the public transportation system. Therefore in the case

[11] See complete article in the Daily Graphic, Thursday April 25th 2013, by Sarah Hague.

Where petroleum subsidies are reduced or phased out, such self-targeting policy interventions should be considered as a means of improving targeting and cushioning poorer consumers. The implied fiscal savings of withdrawing a blanket intervention programme like the petroleum subsidy can therefore be used to invest and also develop a more efficient public transport system.

In many countries, poorly designed and poorly implemented subsidy programmes continue to be one of the key binding constraints to poverty alleviation. The fiscal burden of these social intervention programmes have grown larger. For example, utilities and fuel subsidies alone for the 2012 fiscal year was GH?339 million, equivalent to 0.5% of GDP. This, together with other subsidy programmes contributed to an overall budget deficit of 11.8% as at end 2012, which was higher than the projected 6.7% target.

7. 3. Social Protection Programmes In Ghana

Ghana has always had one social protection programme or the other. However, with the advent of the World Bank-sponsored Poverty Reduction Strategy Papers (PRSPs), as part of the conditions for the release of Heavily Indebted Poor Countries (HIPC) funds, the government introduced a number of social intervention programmes. A National Social Protection Strategy (NSPS) was launched in 2007 to harmonize all the social intervention programmes and to give meaning and clarity on why they must be pursued.

The NSPS represents the government's vision of creating an all-inclusive and socially empowered society through the provision of sustainable mechanisms for the protection of persons living in extreme poverty and related vulnerability and exclusion. The beginning of the NSPS has led to the expansion in the scope of the existing social protection programmes to benefit a greater number of vulnerable people in society while new programmes have been introduced. Most of these programmes cut across healthcare, education, poverty and inequalities.

The NSPS is based on the notion that the vulnerable and excluded, if not taken care of, could reverse the gains of development rather than contribute towards development. Thus, social protection programmes in Ghana are not meant to only assist the vulnerable and excluded but also, to empower them to make meaningful contributions towards the economic transformation

Of the country. To this end, Ghana's social protection strategy is an integrated one which encompasses direct and indirect cash transfer schemes, specific sectoral development programmes, skills development and job creation instruments. The list of social protection programmes cuts across sectors, ranging from education to healthcare to livelihood support. The social protection programmes currently being implemented by the Government of Ghana include the following:

1. Ghana School Feeding Programme (GSFP).
2. Capitation Grant.
3. National Health Insurance Scheme (NHIS).

4. Livelihood Empowerment Against Poverty (LEAP).

5. Ghana Youth Employment and Entrepreneurship Development Agency (GYEEDA, formerly NYEP).

6. Integrated Agriculture Support Programmes.

7. Central Regional Development Commission (CEDECOM).

8. Savannah Accelerated Development Authority (SADA).

9. Local Enterprises and Skills Development Programme (LESDEP).

7.4. Why Social Protection Programmes In Ghana

This section reviews some selected social protection programmes and why they were instituted. The aim is to match their objectives with actual achievements and measure their success against the fiscal impact.

7.4.1 Livelihood Empowerment Against Poverty (LEAP)

The Livelihood Empowerment Against Poverty (LEAP) Program is a social cash transfer program. It provides cash and health insurance to extremely poor households across the country to alleviate short-term poverty and encourage long term human capital development. Since the trial phase in March 2008, the program, which is fully funded from general revenues of the Government of Ghana, has increased coverage from about 35,000 households to 39,146 households in 2010 and further to 60,000 in 2011. The original target groups for LEAP are as follows:

- Social Grants for Subsistence Farmers and Fisher folk
- Social Grants for the extremely poor above 65 years
- Care Givers Grant Scheme for Orphan and Vulnerable

  Children (OVCs), particularly Children Affected By Aids (CABAs) and children with severe disabilities.
- Care givers Grants for incapacitated /extremely poor People Living with HIV/AIDS (PLWHAs)
- Social grants for Pregnant Women/ Lactating Mothers with HIV/AIDS.

7.4.2 Ghana Youth Employment and Entrepreneurial Development Agency

The Ghana Youth Employment and Entrepreneurial Development Agency (GYEEDA) was designed with the goal of empowering the young people to contribute meaningfully to the socio-economic and sustainable development of the nation. It has the objective of supporting the youth to transit from a situation of unemployment to employment or to prepare school dropouts to continue their education for a period not exceeding two years. The programme is currently deploying nine modules: Youth in Security Services (viz. Community Protection Unit, Youth in

Fire Prevention, Youth in Immigration), Agri-Business, Health Extension, Waste and Sanitation, Paid Internship, Community Teaching Assistants, Trades and Vocation, Eco-Brigade, and Information Communication Technology.

7. 4.3 Local Enterprises and Skills Development Programme

The Local Enterprise and Skills Development Program (LESDEP) trains the unemployed to acquire viable skills that will eventually make them self-employed through specialized hands-on training, within the shortest possible time in their localities. The initiative aims to serve as an employment creation avenue, through which residents would acquire trade, vocational and other entrepreneurial skills. The Programme would eventually improve the socio-economic well-being of the youth and support SMEs to take strategic positions in the economy. Government committed over GH¢67 million to LESDEP in 2012.

7.4.4 Sahara Accelerated Development Authority

The Savannah Accelerated Development Authority (SADA) is a policy initiative aimed at bridging the developmental gaps that exist between Northern and Southern Ghana. SADA's mandate is to accelerate the socio-economic development of the Savannah belt through strategic investment in resource development. It envisions a “Forested North” by 2030 where agricultural production is modernized and oriented towards a larger market. In 2011, GH¢30 million was released to SADA and GH¢100 million set aside as seed money in 2012 in a bid to reduce the development gap between the north and the south.

7.4.5 Education-related Social Intervention Programmes (SIPs)

Government has introduced a number of measures in the education sector in a bid to minimize the impact of the cost of education on the poor. This is in line with the objective of achieving free compulsory universal basic education through increased school attendance by children of school going age. Some of the education-related policies which have been introduced since 2003 include Capitation Grant, Ghana School Feeding Programme (GSFP), free school uniforms, free exercise books and textbooks and subsidies for the cost of examination for students of junior and senior high schools.

While the Capitation Grant scheme aims to waive the cost of tuition in basic schools, GSFP, on the other hand, aims to provide one hot nutritious meal in a day for children in public basic schools located in deprived communities. Free school uniforms, free exercise books and textbooks as well as the examination subsidy programme, all aim at reducing the cost of education for the poor. Nonetheless, because they are not properly targeted, people who otherwise could afford certain costs enjoy these policies as do the poor.

7.4.6 National Health Insurance Scheme

In 2003, government introduced the National Health Insurance Scheme (NHIS) in an effort to ensure equitable access to health care and nutritional services. The goal of establishing the NHIS is to remove the financial barrier in accessing health and nutritional services, particularly for the poor and vulnerable. Thus the NHIS is mandated to provide universal coverage to ensure equity in access to health care and nutritional services.

7.5. Impact Of Social Protection Programmes In Ghana

The social protection programmes have achieved various degrees of success. For instance, LEAP coverage has increased from 80 districts in 2010 to 95 districts in 2011 and further to 98 districts in 2012 with the number of beneficiary households increasing from 46,727 in 2010 to 68,557 in 2011 and further to 71,456 in 2012. Consequently, the number of beneficiaries also increased to 285,824 in 2012 with beneficiaries receiving an improved average cash grant of GH¢36.00 on monthly basis, which represents a 300% increase over the 2011 average of GH¢12.00. GYEEDA also recruited 219,150 beneficiaries in 2011, representing more than twice the recruitment of 108,403 at the end of 2008. By end-2012, the number of beneficiaries had increased to 457,779.

In 2012, 44,735 beneficiaries were provided with skills training in vocational, entrepreneurship and business development services under LESDEP. In addition to this, over 6,249 beneficiaries were set-up with production equipment to start their own businesses after having undergone training. Furthermore, 1.6 million pupils in deprived communities received free school uniforms with 1,582,402 pupils in 4,545 schools enjoying one nutritious hot meal a day in 2012. In addition to this, government distributed 28.4 million free exercise books to basic schools in 2012.

The various education-related interventions have led to an increase in the gross enrolment ratio from 86.5% in 2003/04 to 96.5% in 2011/12. Furthermore, there has been an increase in the number of pupils reaching proficiency in all subjects except Mathematics in third grade. The number of students reaching proficiency in grade 3 English increased from 16.4 in 2005 to 24.2 in 2011 while it dropped from 18.6 to 18.2 in Mathematics for the same grade. The number of students reaching proficiency in grade 6 English increased from 23.6 in 2005 to 35.3 in 2011; and increased from 9.8 to 16.1 for grade 6 Mathematics.

The number of people that have registered under NHIS has increased markedly from 12,518,560 in 2008 to 14,511,777 in 2009, 18,031,366 in 2010 and further to 21,274,392 in 2011. About 63.3% of the active category the bulk of the subscribers belongs to the exempt category which includes children under 18 years, pregnant women, people 70 years and over. This means that NHIS has achieved some level of success in reaching out to the poor and vulnerable but it also indicates the enormity of financial burden on state resources.

Out Patients Department (OPD) visits per capita, which measures the extent to which the population is utilizing outpatient services at health facilities, increased from 0.71 in 2008 to 0.81 in 2009, 0.98 in 2010 and further to 1.07 in 2011. The increase in OPD attendance is partly because the NHIS has reduced the cost of healthcare.

7.6. Cost Implications of Social Protection Programmes in 2012

Social protection programmes come at a great cost due to their vast scope and accountability issues. Government spent GH¢206.4 million for the payment of Capitation Grants, JHS and SHS examination fee subsidies, supply of free exercise books and free uniforms in deprived communities. Of this amount, GH¢32.1 million went towards the payment of Capitation Grant, GH¢7,518,157 for the conduct of the 2012 Basic Education Certificate Examination (BECE). Part of this sum was used to build classroom blocks for schools under trees, rehabilitation of science resource centres for senior high schools and scholarships.

Government spent GH¢6.0 million, GH¢6.3 million and GH¢8.1 million on LEAP in 2010, 2011 and 2012, respectively, with approximately 285,824 beneficiaries receiving cash grant under the programme in 2012. The cash grant payment under LEAP was increased by 300% from an average of GH¢12.00 to GH¢36.00 in 2012.

Government also disbursed GH¢67.6 million to LESDEP towards youth empowerment through the acquisition of technical and entrepreneurial skills and supporting job creation at the local level. GYEEDA received an amount of GH¢219.3 million, compared with GH¢14 million in 2011, while CEDECOM expended an amount of GH¢7.1 million to enable it implement its work programme.

7.7 Recommendation For Improving Social Protection Programmes

The real intention of social protection programmes is to cushion the poor and vulnerable against harsh economic conditions through cost subsidization schemes, and cash transfers, among others. However, the reality is that such interventions are poorly targeted leading to people who do not merit the cushioning enjoying it. This has increased the cost of running the programmes leading to calls for their rationalization or outright cancellation.

In the interest of sustainability, the scope of a number of the programmes should be narrowed to give focus to the poor and vulnerable and also make them more cost effective. For example, there are too many programmes in the education sector alone. This has brought about coordination challenges, leading to duplication of efforts and wastage in different government agencies. Low coordination is a recipe for poor accountability which is also a recipe for corruption.

Poor targeting is also an issue. For instance, not all JHS and SHS candidates should be subsidized to write their final examinations since some parents can more than afford to pay the fees. Secondly, the Capitation Grant should not be for everyone in public basic schools since some parents can afford more than others. The grant should be given to needy students only.

Steps should also be taken to reduce corruption and waste in the disbursement of the Capitation Grant and GSFP. Government must institute proper audit to ensure that the Capitation Grants are not paid in respect of “ghost students”. Head teachers should be made to vouch for the integrity of the school roll they provide and held accountable for the existence of unknown pupils on roll.

The social protection programmes are numerous with seeming duplications existing between programmes. There is the need to situate the programmes under ministries under whose mandate these programmes fall with focal persons in these ministries coordinating through meetings and reports to avoid overlaps and duplication of effort.

A great percentage of tax revenue has been earmarked for the District Assemblies Common

Fund (DACF), Ghana Education Trust Fund (GETFund), National Health Insurance Levy (NHIL) and Ghana Road Fund (GRF). This leaves government with quite a narrow fiscal space for discretionary spending. Sometimes central government takes on responsibilities that fall within the domain of these statutory funds.

Since social protection programmes take place within sectors and districts, we recommend the application of some of these earmarked funds for their implementation. GETFund, for example, can support the education-related SIPs with the main budget coming through the DACF component meant for the district's education spending. This will ensure greater efficiency because the sectors/districts would be in charge of the expenditure and monitoring.

It is important to note that, all social intervention programmes especially those that come in the form of direct subsidies must ultimately have a terminal date. It is an indication of the failure of the policy measure itself, if it results in a long term dependency and fails to alleviate the existing poverty and improve the overall well being of society as designed. Therefore it is important for policy makers to be circumspect in implementing new social intervention policies, since evidence from the recent attempts by government to scale back subsidy support for both the petroleum and utilities sector has been met with vigorous opposition. Indeed once these social intervention programmes are put in place, they become politically difficult to eliminate, even when evidence suggests they are becoming unsustainable, expensive and inefficient.

For every direct subsidy (for example, in utilities), scarce national resources needed for capital investments in infrastructure such as health, public transport, water systems and educational facilities are ultimately crowded out. Reforming these social intervention programmes will result in significant pay-offs in terms of improved scarce resource utilization, fiscal savings for other capital investments, higher growth, greater equity and improved overall wellbeing for Ghanaians especially the vulnerable when targeted appropriately. Reforming these social intervention programmes must be handled tactfully, as local and international evidence suggests that, sudden, uncoordinated reforms to these programmes are generally unpopular and largely unsuccessful. What is required is the development of a well thought through, coordinated and detailed reform plan.

Subsidies and Social Intervention Programmes

Appendix

Table 1: Summary of Expenditure on some Social Protection Programmes

	2008		2009		2010		2011		2012
ACTIVITY	AMOUN(GH¢)	BENEFICIARIES	AMOUNT(GH¢)	BENEFICIARIES	AMOUNT(GH¢)	BENEFICIARIES	AMOUNT(GH¢)	BENEFICIARIES	AMOUNT(GH¢)
Ghana School Feeding Programmes	9,512,953.67	441,189.00	596,089.00	580,025.00	50,000.00	658,219.00	60,000.00	713,631.00	
LEAP	1,112,626.16	23,000.00	7,500,000.00	30,346.00	12,000,000.00	40,000.00	12,000,000.00	65,000.00	81,000,000.00
GYEEDA		108,403.00		110,796.00	15,000,000.00	100,000.00	16,785,500.00	108.00	219,300,000.00
LESDEP									67,600,000.00
NHIS	235,429,513.00	12,269,503.00	375,209,162.00		480,907,660.00		477,672,730.00		
	AMOUNT(GH¢)		AMOUNT(GH¢)		AMOUNT(GH¢)		AMOUNT(GH¢)		AMOUNT(GH¢)
CAPITATION GRANT	8,344,696.20		15,000,000.00		35,500,000.00		23,800,000.00		32,100,000.00
JHS SUBSIDY	1,668,939.24		4,044,631.50				4,911.494.00		7,518,157.00
SHS SUBSIDY	6,341,969.11				22,762,00.00		14,000,000.00		
SCHOOLS UNDER TREES			10,000,00.00		6,000,000.00				

Source: National Budgets (2007-2013)

CHAPTER 8

DOES GHANA NEED A LONG-TERM NATIONAL ECONOMIC DEVELOPMENT PLAN?

8.1 Introduction:

"A country that fails to plan, plans to fail" is a common adage used to underscore the need for a development plan for a nation. A development plan generally involves economic policy instruments that define a country's strategic choices and short-, medium- and long-term objectives for its socio-economic development, often with projected resources to finance these choices. Effective planning is a key pre-requisite for achieving national socio-economic development goals and the pursuit of a country's vision. A well-defined national development policy framework, with the appropriate choice of policies, well-designed programme and projects, well-sequenced and executed generates the desired social and economic development outcomes. The national economy comprises of different but interlinked sectors, all of which compete for national resources with inevitable trade-offs. It is the appropriate choice of development pathways, with well-coordinated strategic policies and programmes with a long-term focus that could bring about the optimal use of the nation's resources and also yield the maximum outcomes. A well-designed long-term national strategic framework serves as the direction and destination to where the country intends to go, and form a rallying point for mobilizing and coordinating the national efforts of all citizens for a common goal.

Development planning is not new in Ghana. Since colonial times the country has designed and implemented short and medium term plans with varying outcomes and challenges. A number of social and economic infrastructural facilities that the country currently boasts of including Korle Bu Hospital, Takoradi and Tema Harbours, and the Akosombo hydro-electric dam among others are products of a conscious effort by government to develop the national economy through a well-coordinated national economic strategic framework. The economic success of the East Asian Tigers is explained by the deliberate design and implementation of comprehensive and coordinated national economic planning with a long-term focus with the state directing and encouraging investment in some instances. The government of Malaysia pursued a series of macroeconomic plans to develop and industrialise its mixed economy. In South Korea and Singapore, the governments designed and implemented economic planning in a mainly market-based economy with active state involvement in an industrialisation drive during the period of rapid development.

The call for a long-term national strategic framework for Ghana is often informed by the uncoordinated manner in which management of national economic policies have been carried out. In 2009, the government charged all ministries to put together strategies and measures to create jobs against the reality that job creation is a function of growth and expansion of the economy, and not mere political desires. The design and implementation of employment policies by employment ministries in isolation from macroeconomic and sectoral policies cannot be expected to yield sustainable job creation outcomes. Indeed, since the commencement of the fourth republic, the execution of government developmental programmes has largely been driven by party manifesto promises. The distribution of road, school and hospital projects across the country is mostly influenced by promises given by government on the political election campaign tour, not guided by any sound economic or socio-economic criteria.

8.2 History or Review of Development Plans

Prior to the 1980s

Ghana has had a number of development plans with different focus. Development planning has been carried out in different countries for varying reasons. Although, planning is generally inherent in a socialist economic setup, the process is also necessary in mixed and market economies. The history of development planning in the country can be traced to the colonial period with the design and implementation of the first development plan by Gordon Guggisberg in 1919. The ten-year development plan (1920-1930) focused largely on infrastructural development with the view to increasing exports and thus boosting government revenue and overall national prosperity. However, the plan faced several challenges some of which include financial constraint and shortages of skilled labour that held up the construction of infrastructure.

Nonetheless, the Guggisberg plan is credited with infrastructural expansion and the foundation for the provision of adequate health and education in the country in the 1920s. Thus, Takoradi, the first deep-water port, Korle Bu Hospital and Achimota College underscores the accomplishment of infrastructural development and the strong foundation for health service provision and training of teachers, public sector workers and politicians. Two other development plans of ten year duration each (i.e. 1930-1940 and 1946-1956) followed the most popular development plan but faced several challenges including the 1930s Great Depression and the Second World War that reduced the commitment of Britain to its colonies.

The first pre-independence coordinated economic strategy that was championed by self-government is the five-year development plan of 1951-1956 with the objective of developing infrastructure and social services to lay an industrial foundation, increase agricultural output and pursue import substitution. This was followed by the first post-independence development plan of 1957-1959 by Nkrumah which sought to consolidate the goals of the 1951-1956 plan. The government followed it with a second five-year development plan of 1959-1964 with the main goal of developing all sectors of the economy, complete the Volta dam to provide electricity and establish an inland fishery industry, produce local substitutes and promote the construction industry. Nkrumah's 7-year development plan of 1963-1970 is one of the popular socio-economic strategic frameworks of the country which provided a major step to transform the infrastructural base of the country, promote import substitution industrialisation and agricultural development. The plan was initiated in 1964 with the key goals of accelerating economic growth, commence a socialist transformation of the economy and remove vestiges of the colonial economic structure. The smooth implementation of the plan was however truncated in 1966 by a military coup d'état by the National Liberation Council (NLC).

Table 8. 1 Selected number of development plans and economic strategies:1920-2013

Period/Regime	Plan or Strategy	Objectives
1919-1929 Colonial regime	The Guggisberg 10-Year Development Plan	Infrastructural development and the production of agricultural materials
1951-1956 Pre-independence	The First 5-year Development Plan	Develop infrastructure as foundation for increased agricultural output and pursue import substitution industrialisation. Provision of social services was also crucial.
1957-1959 Nkrumah regime	The Consolidated Plan	Consolidate the goals of the 1951-1956 plans in terms of infrastructural development
1959-1964 Nkrumah regime	The Second 5-year Development Plan	Develop all sectors of economy Complete Volta dam Produce local substitutes Promote construction industry
1963-1970 Nkrumah regime	The 7-year Development Plan	Develop infrastructure and promote import substitution industrialization to enhance manufacturing and agricultural growth
1968-1970 From NLC to Busia regime	The 2-year Development plan (Stabilisation Plan)	Stimulate economic and cultural development Improve living standards Develop industrial estates Promote private sector
1971-1972 Busia Regime	2 Year Rural development Plan	Rural development with rural electrification programme
1975-1980 Regime of Kutu Acheampong	The 5-Year Development Plan	Inward looking strategy with self-reliance in agriculture (Operation Feed Yourself) and National Reconstruction.
1983-1986 PNDC	ERP:1 (SAP) Stabilization era (IMF/WB Supported programme)	Rationalisation of government expenditure, mobilise domestic revenue Exchange rate adjustment and subsequent liberalisation
1986-1989 PNDC	ERP:2 Structural Adjustment & Financial Sector reform	Reforming and reducing the size of the public sector Privatization of state owned enterprises Exchange rate and trade liberalisation Financial sector reforms
1990-2000 (P)NDC	ERP Continued : Structural and Institutional Reform	Complete exchange rate reform and reliance on market-based instruments of monetary policy Deepen civil service reforms and public expenditure rationalization and promote efficient allocation of resources for growth
1996-2000	Vision 2020 First Step	Achieve a balanced economy with improved living
NDC		standards and attainment of middle income status by the year 2020
2001-2008 NPP	GPRS I, II: Ghana Poverty Reduction Strategy	Directed towards anti-poverty objectives of the UN‘s MDGs and accelerate the growth of the economy towards the achievement of a middle income status
2009-2011 NDC	Ghana Shared Growth and Development Agenda (GSGDA)	Lay the foundation for the structural economic transformation by 2020, through industrialisation based on modernised agriculture and sustainable exploitation of Ghana‘s natural resources, particularly minerals, oil and gas.

The military government put together a two year development plan of 1968/69-1969/1970 with the main goal of moving the economy from "stabilisation to development" as a foundation for the design and implementation of a more comprehensive development plan by an elected civilian government which took office in September 1969. The new civilian government followed the stabilisation plan with a two-year development plan geared towards rural development. The overthrow of the Busia government in January 1972 brought to an abrupt end the implementation of the rural development plan. In the mid-1970s, the military regime led by Kutu Acheampong put together a five-year development plan over the period 1975/76-79/80 which focused on inward looking strategy towards self-reliance and national reconstruction aimed at promoting employment and skill for workers.

The smooth implementation of various development plans have been hampered by a number of factors. Key among these include financial constraints and the frequent abrupt truncation of plans midway through the plan period through military takeovers. Between 1957 and 1980, Ghana experienced seven government takeovers four of which were through coup d'états. Nonetheless, a number of economic and social infrastructural facilities such as the Tema and Takoradi harbours, road and bridges, hydroelectric power as well as many secondary schools and hospitals can be traced to some of these development plans particularly the ten-year Guggisberg and 7-year Nkrumah plans.

Post 1980

The implementation of development plans and economic management prior to the 1980s were carried out with strong and direct participation of government in economic activities. The poor economic performance in the late 1970s and early 1980s with negative growth and high inflation coupled with the 1983 drought compelled the government to subscribe to Bretton Woods economic prescriptions that emphasised outward oriented and private sector-led economy with minimal government involvement. The economic reforms that followed involved measures to stabilise the economy and promote growth through rationalisation of government expenditure, improve domestic revenue mobilisation, and liberalisation of exchange rate and external trade. It also entailed measures to reduce the size of the public sector through retrenchment and privatisation of state owned enterprises and financial reforms. The ERP/SAP is considered to be more of a paradigm shift from state-dominated economic management to private sector/market-based economic management. This type of economic management is likened to the state development planning that is based on macroeconomic policies and financial planning conducted by governments to stabilise the market and promote economic growth in marketbased economies. It involves the use of monetary, fiscal and sectoral policies to stimulate the market towards targeted outcomes.

Recognising the need to have a well-coordinated long-term national strategic framework for the country, the government put together a 25-year national vision for Ghana, the "Vision 2020" beginning in 1996 with the goal of achieving a balanced economy and a ***middle-income country status with improved standard of living***, with a level of development close to the present level in Singapore. The implementation of the plan was truncated in 2001 by a new government after implementation of the first phase (1996-2000).

Since 2003, the government has pursued three different medium-term policy framework beginning with the Ghana Poverty Reduction Strategy (GPRS I) followed by the Growth and Poverty Reduction Strategy (GPRS II), and the current Ghana Shared Growth and Development Agenda (GSGDA) with 2013 as the last year of implementation. These policy documents provide the framework for concessional assistance from Donor Partners and outlines measures to address the problem of poverty and put the economy on the path of transformation. Although, these documents are medium term policy frameworks prepared by the National Development Planning Commission (NDPC), their design is largely influenced by the expected financial support for donor partners discussed at Multi-Donor Budget Support (MDBS). While these documents are not officially referred to as development plans, the public tend to generally refer to them as such.

The GPRS I was a comprehensive policy document to support growth and poverty reduction over a three-year period 2002/03-2004/05. It encompassed the policies, programmes, and projects that were needed to improve the development of the country on a sustainable basis mainly through job creation. The key goal of the strategy was to ensure that all Ghanaians have access to basic social services such as healthcare, quality education, potable drinking water, decent housing, security from crime and violence as well as the ability to participate in decision making. The GPRS I was anchored on five thematic areas namely macroeconomic stabilisation, production and gainful employment, human resource development and basic services, vulnerability and exclusion, and governance. The GPRS II which covered a four-year period of 2005/06-2008/09 was designed to attach greater importance to accelerated economic growth than was the case with the GPRS I. The central goal of the GPRS II was *to accelerate the growth of the economy* towards the achievement of a middle income status within a measurable plan period. The Strategy had four main thematic areas and these are continued macroeconomic stability, accelerated private sector-led growth, vigorous human resource development and good governance and civic responsibility.

The GSGDA that followed the GPRS II covered a four-year period of 2010-2013 and was anchored on the continued pursuit of macroeconomic stability and the sustainable exploitation of Ghana's natural resource endowments in agriculture, minerals and oil and gas, supported by strategic investments in human capital, infrastructure, human settlements, science, technology and innovation to drive industrialisation, with particular emphasis on the development of manufacturing. The four-year development agenda had seven thematic areas. These are ensuring and sustaining macroeconomic stability; enhanced competitiveness of Ghana's private sector; accelerated agricultural modernisation and natural resource management; oil and gas development; infrastructure and human settlements development; human development, employment and productivity; and transparent and accountable governance. A key difference though between the GPRS and the follow-up GSGDA was that the GPRS was subject to comprehensive and the most extensive public consultations than any other development plan put together in the country.

8.3 The Need for a Long-Term Coordinated Policy Framework

National economic planning is an important mechanism designed to mobilise all available institutions and resources and to coordinate the wide variety of tasks involved in achieving quantified objectives and promoting economic development. Ghana's economy has remained stronger for over three decades and particularly in the last decade with improved economic growth and with relatively stable macroeconomic environment. The country has consistently recorded a growth rate of at least 5% since 2003 reaching a peak of 15% in 2011 on the back of the commencement of commercial production of oil. A rebase of the national accounts pushed the country from a lower income to a middle income status with implications for possible dwindling of financial support from donor partners. However, this improved economic performance has not reflected in the structural transformation necessary to enhance the livelihood of many Ghanaians.

There are a number of social and economic challenges confronting the nation that warrant a long-term development strategy to address. Incidence of poverty remains high despite improvements since 1991 with worsening inequality between and within regions. High incidence of joblessness (but low unemployment, a common feature of many African countries) and large number of workers in vulnerable employment and working poor remains a major social and economic problem of the country. Though total and youth unemployment rates stood at 5.8% and 12.9% respectively in 2010, a large number of people were estimated to be outside the labour market while many working people were earning very low. The absence of a clear direction of the country's education system as reflected in the political battle of 3-year versus 4-year senior high school education between two major political parties tend to throw many young people onto the street to survive on vulnerable jobs such as street hawking.

Additionally, the absence of structural transformation of the economy has the effect of undermining sustainable growth and development of the country. Indeed, structural transformation entails a process by which increasing proportions of national output and employment are accounted for by sectors other than agriculture and resource extraction, and is largely associated with a shift from informal to formal economic arrangements. It is against this background that the recent shift of the dominance of agriculture in favour of services in terms of output and employment cannot be said to constitute structural economic transformation.

Economic management in the country has largely been characterised by uncoordinated and inconsistent design and implementation of economic policies. Since the beginning of the 4th Republic in 1993, the management of the Ghanaian economy has been driven by political party manifestos. With the exception of the Vision 2020 which in the minds of some people did not have inputs from all Ghanaians, the country cannot boast of any comprehensive long term national policy framework that would provide economic direction of all governments regardless of their political orientation. The review of the three-year senior high school to four years and the subsequent reversal after a change of government and the numerous problems associated with the Ghana Youth Employment and Entrepreneurial Development Agency (GYEEDA) are indications of the ad-hoc nature of pursuing national development policy agenda. The constitutional requirement that compels new governments to put together a coordinated programme for economic and social development of Ghana after two years in office tends to prevent continuity of programmes of previous governments. Thus, the coordinated socio-economic development agenda is often stuffed with manifesto promises which are often driven by the need to win votes from electorates but not necessarily on the basis of national economic and social objectives.

In recent times, many Ghanaians have called for the urgent need to have long-term national strategic development framework which is nationally owned and not driven by partisan considerations. Having joined the group of oil producing countries, a long term national development agenda is imperative to ensure that the productive sectors such as agriculture and manufacturing with the capacity to create gainful and sustainable jobs are not neglected (i.e. avoid being caught by the Dutch disease). In addition, having embraced democratic system of governance, the fear of a long-term development plan being truncated by military intervention in the governance system which characterised development planning in the 1960s and 1970s is highly unlikely to occur.

A long-term national strategic vision of a 30-year duration, broken into five-year medium terms is what the country needs as a prime component of development strategy to provide a clear direction for the country. It will require an adoption of a bipartisan approach in the design of the plan to deepen the national ownership and ensure its continuity across different governments. The long-term strategic framework will make it possible to link fiscal, monetary and trade policies with sectoral strategies. It will also entail long term strategies to link agriculture with manufacturing and services to promote backward and forward linkages towards the national goal. In addition, human resource development (education and health) strategies and infrastructural development are then fashioned out to meet the needs of the major sectors. A long-term national strategic framework would ensure policy stability and protect successive plans from changes in government, as well as ensuring the effective implementation of policies on a long term basis. Various political groupings would then draw their manifesto from the national long-term strategic framework to ensure that governments regardless of their political orientation would not deviate from the national direction.

CHAPTER 9

TO SIGN OR NOT TO SIGN: GHANA AND EU ECONOMIC PARTNERSHIP AGREEMENTS

Economic Partnership Agreement (EPA) negotiations began in 2002 as established under the Cotonou Agreement, signed in Cotonou on 23rd June, 2000. The **EPA** is a system to create a free trade area (FTA) between the European Union and the African, Caribbean and Pacific Group of States (ACP). It is a reciprocal trade liberalization agreement through which the EU is seeking to eliminate duties on about 80% of goods exported by the EU to ACP countries in return for 100% access to the EU market by ACP countries. The EU maintains that the overall impact of trade rules established by the EPA could be much greater than the removal of tariffs, stressing that EPAs represent an opportunity to revitalize ACP-EU trading relations, promote ACP economic diversification and regional integration and reduce poverty in the ACP countries. On the contrary, critics have argued that signing the EPA can be detrimental to the economies of ACP and reduce welfare of their citizens. This resulted in a deadlock that would have proved damaging especially to vulnerable economies within the ACP states such as Ghana. The EU thereby introduced the Interim Economic Partnership Agreements (IEPAs) in 2007, which are agreements on trade in goods aimed at preventing a disruption of ACP trade with the Union. The IEPAs are therefore a stepping stones towards full EPAs.

Although no scientific impact analysis has been carried-out since the IEPA was signed by Ghana in 2007, anecdotal evidence suggests that the country has largely benefited from the IEPA arrangements. A cursory look at data from the country's non-traditional exports, which are mainly to the EU markets, suggests a rapidly increasing trend since the Cotonou arrangements and the subsequent signing of the IEPAs. However, the issue now is whether Ghana should sign the full EPA as the IEPA expires in October, 2014. Many civil society organizations and individuals remain skeptical and have raised concern about Ghana signing the full EPA. Some of the concerns are that (a) Ghana's trade regime with the EU would lead to rapid dismantling of tariffs and loss of revenue to the state; (b) elimination of tariffs on goods originating from the EU will precipitate the premature collapse of the domestic manufacturing sector; (c) signing EPAs will lead to the devastation of domestic agricultural sector and impoverish farmers; (d) the EU is using divide and rule tactics by negotiating with individual countries when negotiations seem to stall with the regional groupings and this is likely to undermine the process of regional integration in the ECOWAS; and (e) last but not least, an investment regime within an EPA could have a high risk of further limiting Ghana's ability to regulate its own market for development reasons.

In the face of these criticisms, and also having regards to the benefits Ghana stands to gain, we suggest that before Ghana signing the EPA, it should take on board all the recommendations being offered. In particular, the full EPA should stress and include a revision clause and an appropriate monitoring and impact assessment system, which the country will reserve the right to review every three to five years. Also, negotiations on the investment component of the EPA (or Singapore issues) should be postponed to three to five years after signing the EPAs and should take place only when both parties are willing to do so.

9.1 Background to Economic Partnership Agreement between EU and ACP

Economic Partnership Agreement (EPA) negotiations began in 2002 as established under the Cotonou Agreement, signed in Cotonou on 23rd June, 2000. The **EPA** is a system to create a free trade area (FTA) between the European Union and the African, Caribbean and Pacific Group of States (ACP). There is a growing criticism that the non-reciprocal and discriminating preferential trade agreements offered by the EU under the Cotonou agreements are incompatible with WTO rules. The EPA is a key element of the Cotonou Agreement, the latest agreement in the history of ACP-EU Development Cooperation and was supposed to take effect as of 2008, but as of October 2013 the negotiations are not yet completed. The EPA is a reciprocal trade liberalization agreement through which the EU is seeking the elimination of duties on about 80% of goods exported by the EU to ACP countries in return for 100% access to the EU market by ACP countries.

The EU maintains that the overall impact of trade rules established by the EPA could be much greater than the removal of tariffs, stressing that EPAs represent an opportunity to revitalize ACP-EU trading relations, promote ACP economic diversification and regional integration and reduce poverty in the ACP countries. On the contrary, critics have argued that signing the EPA can be detrimental to the economies of ACP and welfare reducing of their citizens. Thus, the extent to which trade must be liberalized under the new EPAs is still a widely debated issue and remains controversial as to whether countries such as Ghana should sign the full EPA after the expiratory of the Interim EPA (IEPA).

Key features of the agreement

The precise structure of the EPA is still under negotiation between ACP and EU states. However, as envisaged by the EU and based on the IEPA , the EPA would include:

- The establishment of free trade areas with ACP regions that offers a reciprocal market access scheme compatible with WTO rules;
- Liberalization of 90% of the total value of trade between the EU and the ACP, whereby the EU liberalizes 100% of its trade and the ACP liberalizes 80% of its trade. The EU offers ACP countries 100% quota-free and duty-free access to EU markets, with transition periods until 2010 for rice and sugar for 2015;
- Liberalization of 80% of imports from the EU over 15 years (of poverty-reduction related goods, raw materials/inputs for industrial development), commencing with 0-rated items in 2009 and dismantling the first real tariff items (at 5 percent) only from 2013;
- Protection for 20% of imports from the EU either placed on the exclusion list or not to be liberalized before less than 25 years, according to Ghana's development program (sectors protected: agricultural and agro-processing products, infant-industries products, high fiscal revenue products and luxury goods)
- Other provisions on trade facilitation, standards and sanitary and phytosanitary measures, new rules of origin simplifying former provisions, especially in sectors such as textiles and clothing, agriculture and fisheries
- There are binding rules on investment, government procurement and competition policy.

As mentioned previously, because of the continuing WTO incompatibility of previous arrangements, the EPA's key feature is their reciprocity and their non-discriminatory nature. They involve the phased out removal of all trade preferences which have been established between the EU and the ACP countries since 1975 as well as the progressive removal of trade barriers between the partners. In order to fulfill the criterion of being a non-discriminatory agreement, the EPAs are open to all developing countries, thereby effectively terminating the ACP group as the main development partner of the EU. In the negotiations, ACP countries are split into six regional groups: West Africa; Eastern and Southern Africa (ESA); Southern African Development Community (SADC); Central Africa; the Caribbean (CARIFORUM); and the Pacific. Each of these groups is negotiating a separate EPA with the EU. Ghana is negotiating as part of the West African Group of countries, which includes Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Sierra Leone, Senegal and Togo.

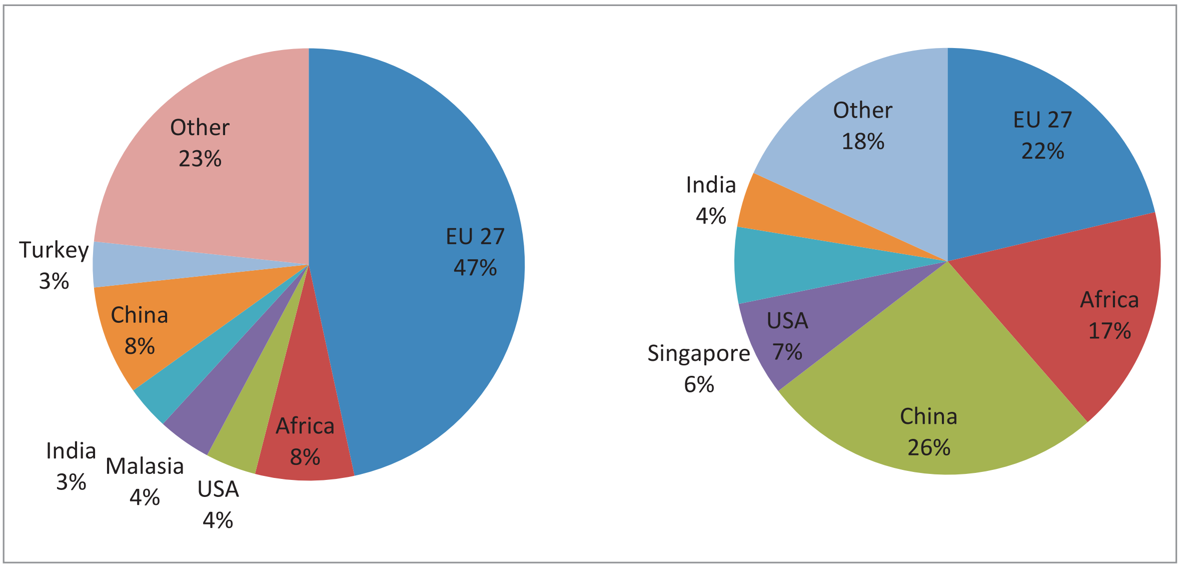
Several commentaries and research have been written and said about the EPA being presented by the EU for ACP countries to sign[12]. This is largely in respect of the establishment of a reciprocal trade agreement that confronts the EU - the problem of how to reconcile the special status of the ACP group with the EU's obligations to the WTO and the impact this new agreement will have on the welfare of the ACP citizens. While the latter problem remains unresolved, the solution proposed for the first problem is an agreement which is only as reciprocal as necessary to fulfill WTO criteria. It is believed that with this, the ACP countries will have some room to manoeuvre and to maintain some limited protection of their most vital products. The EU maintains that the overall impact of trade rules established by the EPA could be much greater than the removal of tariffs, stressing that EPAs represent an opportunity to revitalize ACP-EU trading relations, promote ACP economic diversification and regional integration and reduce poverty in the ACP countries. On the contrary, critics have argued that signing the EPA can be detrimental to the economies of ACP and reduce the welfare of their citizens. Thus, the extent to which trade must be liberalized under the new EPAs is still a widely debated issue and it remains controversial whether countries such as Ghana should sign the full EPA after the expiratory of the Interim EPA (IEPA). The main objective of this report is therefore to explore the pros and cons of Ghana signing the EPAs and to suggest ways forward.

9.2 The Structure of Ghana's Trade with the EU

External trade continues to contribute significantly to Ghana's GDP. In 2012, the total merchandise trade to GDP ratio was about 78%. The structure and composition of Ghana's exports is still dominated by primary commodities, making up about 85% of total merchandise exports. Exports to the EU is by far Ghana's largest export destination, accounting for almost half (47%) of all exports. The next major export destination is China whose share has grown from 5% in 2005 to 8% in 2012. While exports to the rest of Africa have stagnated at 8% over the same period, that of USA has declined from 8% to 5%. Malaysia and India account for 4% and 3% respectively. With regard to imports, the main country of origin is China, accounting for about a quarter (26%) of all imports. The EU follows closely with 22% while imports of African origin account for 17%. The USA, Singapore and India account for 7%, 6% and 4% respectively.

[12] Patel Mayur, The Ethical Globalization Initiative (2007), CEPA (2007), Karingi et al. UNECA (2005b), Christian Aid (2005a, 2005b)

Figure 1: Share of Exports and Imports by Major Origin in 2012



Source: IMF, Direction of Trade Statistics, 2012

The composition of Ghana's merchandise exports to EU was until recently dominated by primary agricultural exports. In 2005, before the production of oil, over 80% of Ghana's exports to EU were primary agricultural products with little value added.[13] These included cocoa, fruits, vegetables and fresh fish. Currently these constitute just about 45% of exports to the EU while mineral fuel and oil take almost half (49%) of products exported to the EU market. Manufactured products constitute less than 3%. On the contrary, imports from the EU are made-up of mainly manufactured products, with mineral fuel or petroleum products (31%) and mechanical machinery (19%) dominating. Others, which are all high value-added products, are electronic equipment, vehicles, textiles (including used ones), steel and pharmaceutical products.

Table 9. 1 Ghana's Trade with the EU27, 2012

Exports to the EU		Imports from the EU	
Product Description	**Share of Total Exports**	**Product Description**	**Share of Total Imports**
Mineral Fuels, Mineral Oils and Products of their Distillation;	48.4%	Mineral Fuels, Mineral Oil And Bituminous	31.1%
Cocoa and Cocoa Preparation	36.7%	Machinery and Appliances	14.7%
Edible Fruit and Nuts;	2.5%	Vehicles and Accessories Thereof	9.1%
Wood and Articles Of Wood;	1.3%	Electrical Equipment	5.8%
Aluminium and Articles thereof	1.3%	Pharmaceutical Products	2.9%
Rubber and Article thereof	0.7%	Miscellaneous Chemical Products	2.4%
Fish and Crustancceans, Molluc	0.5%	Articles Of Iron or Steel	2.3%
Edible Vegetables and Roots and their Tubers	0.5%	Textile Articles; Worn Clothes	2.2%
Pearls, Precious Or Semi-Precious Stones, Precious Metals	0.4%	Plastics and Articles Thereof	1.8%
Total Exports to EU27 (1000 EURO)	3 284 633.200	Total Imports from EU27 (1000 EURO)	3586868.040

Source: EUROSTAT, 2013

[13] TradeMap (2006) with Data from EU (27) countries

Why did Ghana sign the Interim EPA in 2007?

The interim Economic Partnership Agreement (IEPA) between Ghana and the European Community and its Member States was signed in December 2007. Prior to signing the Cotonou agreement, Ghana's exports to the EU were governed by two alternative arrangements: the Most Favored Nation (MFN) rate available to all countries; the standard Generalized System of Preferences (standard-GSP) available to all developing countries[14]. Under these arrangements, only about two-thirds of Ghana's exports (67%) were zero-rated under MFN, with an additional 5% of exports given duty-free access under the standard GSP[15]. The remaining 30% or so which were mainly Ghana's non-traditional exports did not have access to EU market. This includes (in order of their share of value) exports of: prepared or preserved tuna; pineapples; cocoa butter and cocoa paste; fresh vegetables; parts and accessories for instruments used in topography, oceanography; aluminum; wooden sheets for veneering and plywood; frozen octopus, cattle-fish and sharks; bananas; cassava; and palm oil.

The Cotonou agreement therefore provided the most favorable trade agreement for ACP countries, giving about 98% of all Ghana's exports to the EU duty-free entry (zero per cent tariff). However, the favorable treatment of ACP countries provided by the EU through the Cotonou Agreements contradicted the WTO principle of 'Most Favored Nation (MFN) Treatment'. The MFN principle is one of the fundamental principles of the multilateral trading system. According to the WTO agreements, countries cannot normally discriminate between their trading partners. WTO member countries must ensure that when special consideration, such as a lower customs duty rate for one of their products is given to another country the same has to apply for all other WTO member countries. The EU countries and most of the ACP Countries are members of the WTO and are therefore subject to WTO rules. Because of this contravention of WTO rules, there was a pressing need for a replacement of the Cotonou agreement with a WTO compatible accord by January 2008. Otherwise, countries like Ghana had to revert to the standard GSP. What this would then mean is that a third of Ghana's export would have to face higher tariffs, which had the potential to cripple Ghana's fast growing non-traditional exports. For example, leading exports of tuna would face tariff increases of between 18% and 20%, fruit and vegetables exports (2-8%), and cocoa butter and paste (4-6%).

Consequently, the EU proposed the EPAs as the best alternative that came closest to the provisions of the Cotonou Agreement. An EPA, according to an EU report, would offer several advantages that could be much greater than the removal of tariffs and could potentially provide market access improvements for Ghana in the following areas[16]:

· ***Greater certainty of market access***: In contrast to the GSP scheme, which is subject to periodic review and can be withdrawn unilaterally by the EU, the provision of bound and secure market access under an EPA might encourage growth in the export sectors, as investors seek to take advantage of preferences that are more stable and predictable.

[14] The "Generalised Scheme of Preferences" (GSP) is a set of EU rules allowing exporters from developing countries to pay **lower duties on their exports** to the EU. The EU's GSP provides preferential access to the EU market to **176 developing countries** and territories.

[15] This calculation was based on 2005 Eurostat and UNCTAD TRAINS data by Patel (2007). **Zero rated goods are goods, which even though are taxable; the tariff rate is zero percent. Sometimes** the reduced rate only applies in certain circumstances, or it may depend on the origin of the goods. This is different from tax exempted goods, which refers to goods that are not taxable and are outside the scope of the tax regime.

[16] Overall impact of trade rules established by the EPA could be much greater than the removal of tariffs **(Patel 2007)**

· ***A more favorable Rules of Origin Regime*****:** Rules of Origin define the conditions that a product must satisfy in order to 'originate' from the exporting country, which is granted preferential access. An EPA could make these Rules of Origin more favourable through certain changes to the existing Cotonou provisions.

· ***Local Capacity Building:*** An EPA could assist Ghanaian exporters to comply with food health and safety standards through cooperation in standard setting and information transfer, and by building the capacity of local institutions to carry out health inspections and export certification requirements. Efforts can also be made to increase the predictability and consistency of EU standards and directives.

· ***Increased market access for Services:*** Currently, there are significant barriers to entry in the EU services market. This is particularly the case with respect to modes 3 (where a foreign firm establishes commercial presence in the export market) and mode 4 (where the natural persons selling services move to the market).

However, there was strong resistance to the EPAs in their original form, as they covered non-trade issues like services and investments. This resulted in a deadlock that would have proved damaging especially to vulnerable economies within the ACP states such as Ghana[17]. The EU thereby introduced the Interim Economic Partnership Agreements (IEPAs), which are agreements on trade in goods aimed at preventing a disruption of ACP trade with the Union. The IEPAs are therefore a stepping stones towards full EPAs. In other words, it should be considered as a temporary solution while negotiations to conclude a comprehensive EPA with the West African region were ongoing.

Could Ghana have avoided signing the IEPAs at the time? There are two contrasting view points on this issue. The first view point suggests that Ghana was left in a precarious position without any viable alternatives and therefore had no choice than to sign the IEPAs. According to this view, while most countries (12 out of 15) within the ECOWAS are classified as Least Developed Countries (LDC) and therefore are accorded with the “Everything but Arms (EBA) status[18], Ghana, Nigeria and Cote D'Ivoire are non-LDCs and thereby did not qualify for the EBA. As well as Cote D'Ivoire, Ghana was left with no choice than to sign an interim EPA. Nigeria could afford to postpone immediately signing any form of EPA because of the special treatment oil-producing countries in Africa receive. Commodity oil export, which is Nigeria's major export commodity, is exempted from tariffs in that regard, reverting to GSP was not likely to have any significant effect on its exports to Europe in particular. And Cote D'Ivoire, being a member of the West African Economic and Monetary Union (UEMOA) which is a well organized and better integrated union than ECOWAS, had provided a potential exit strategy of having independent negotiations with EU should ECOWAS not come through with a viable agreement.

The contrary viewpoint suggests that Ghana actually did have alternatives and could have avoided signing the IEPAs without any significant effect on its exports to the EU. One viable alternative for Ghana at the time was the 'Special Incentive Arrangement for Sustainable

[17] Patel Mayur, (2007) “Economic Partnership Agreements between the EU and African Countries: Potential Development Implications for Ghana”, Realizing Rights: The Ethical Globalization Initiative

[18] The EBA is a special arrangement for least developed countries (as recognized and classified by the UN) giving them duty-and quota-free access for almost all their exports.

Development and Good Governance', known as the 'GSP-Plus' scheme. This scheme provides additional benefits for countries implementing certain international standards in human and labour rights, environmental protection, the fight against drugs, and good governance[19]. According to **Patel (2007), although, t**he GSP-Plus scheme did not at the time cover ACP countries because these countries had already received preferences under Cotonou, if Ghana were to ratify all relevant international conventions, which it had already ratified most of, it could meet the criteria necessary to benefit from the GSP-Plus scheme. It was estimated then that of all the products Ghana exported to the EU, 98% of these exports would face the same zero-rated applied tariff under GSP-plus as they were under Cotonou. In other words, all of Ghana's top exports to the EU would continue to enter the EU duty-free under the GSP-Plus.

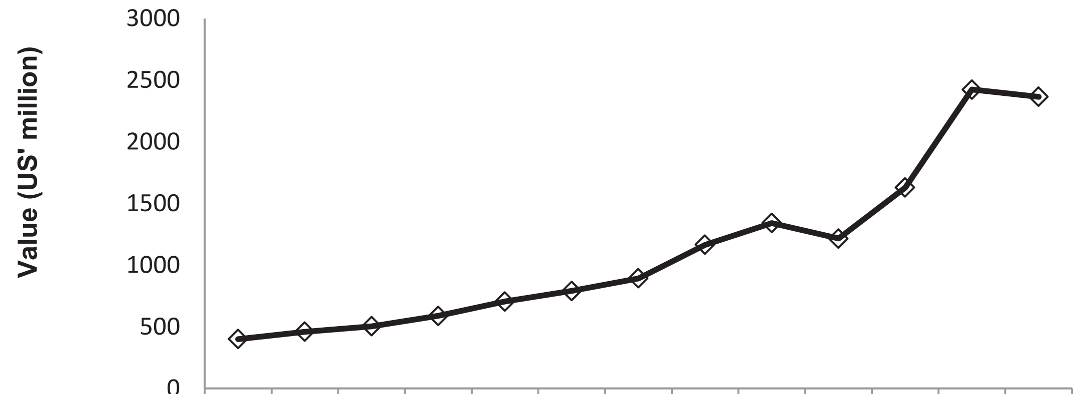
Another suggestion was that a new tranche of GSP could have been created exclusively for ACP countries, providing preferential access equivalent to Cotonou. Alternatively, the duty-free and quota-free access to EU markets currently provided to LDC countries under EBA, could have been extended to all ACP countries. However, both of these options were unlikely to be politically feasible because they did not conform to the WTO's Enabling clause (under which the GSP was created), which states that a preferential access scheme must either apply to all developing countries, or all LDCs. It was therefore unlikely for Ghana to have resorted to this new tranche of GSP.

9.4 Has Ghana benefited from the IEPAs?

Although no scientific impact analysis has been carried-out, anecdotal evidence suggests that the country has largely benefited from the IEPA arrangements. A cursory look at data from the country's non-traditional exports, which are mainly to the EU markets, suggests a rapidly increasing trend since the Cotonou arrangements and the subsequent signing of the IEPAs. The non-traditional sub-sector has recorded a substantial growth in exports since 2002 to the present. Part of this upturn period for the NTEs is when the Cotonou Agreements (2002-2007) and the IEPA (2008- present) were in place. For example, figure 2 below shows that NTE exports value which averaged below US$500 million in the years preceding the Cotonou Agreement increased to about US$1165 million in 2007 when the Cotonou expired. This export value more than doubled in a few years when the IEPA was signed increasing to US$2423 million by the end of 2011. It is a well known fact that the greater majority of these NTEs agricultural products such as cashew and shea-nuts, pineapples and semi processed products such as cocoa paste and canned tuna as well as handicrafts are exported to the EU market.

[19] To be eligible for GSP-plus a country must meet two criteria. The first is a requirement of vulnerability, which relates to measures of economic diversification and smallness. The second is a commitment to human and labour rights, the environment and good governance, as measured by a countries ratification and effective implementation of sixteen human and labour rights conventions, and eleven environment and governance principles (see Chapter 1, Article 9 of European Council Regulation (EC) No. 980/2005 (covering period 1 January 2006 to 31 December 2008) .

Figure 9. 1 Trend in Total Non-Traditional Exports (NTE): 2000-2012



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
NTE Value	400.7	459.6	504.3	588.9	705.4	790	892.9	1165	1341	1215	1629	2423	2364

Source: GEPC NTE Performance Report 2012

9.5 Why are Civil Societies against the Signing of the Full EPA?

Many civil society organizations and individuals have raised several concerns about Ghana signing the full EPA by October, 2014. Among some of the concerns raised are that Ghana's trade regime with the EU would lead to rapid dismantling of tariffs on goods originating from the EU and thereby precipitate the premature collapse of the manufacturing sector. These critics believe that removal of import duties on imported goods from the EU would expose locally manufactured products to a level of competition they would not be able to withstand. The prospect of losing the local market to EU imports posed a threat to the infant industries and their very existence. In this regard, many civil society organizations have taken the position that the EPA should not be considered as a successor to the Cotonou Agreements.

Others have also argued that the EPA is not as much about the interests of the ACP countries as it is about Europe becoming more economically competitive. It is obvious, the argument continues, that products manufactured in Europe are unable to compete with those manufactured in Asia even in the European market let alone compete in the African market. The EU therefore sees the EPAs as its main way of becoming competitive again. According to this view point, the EPAs are about finding markets for European products, having access to cheaper raw materials from ACP countries and being able to compete with China, India and recently Brazil in the African market. This is because when ACP countries, for that matter Ghana, exports raw materials duty free to the EU market, EU manufacturers will be able to buy these raw materials at cheaper prices and the savings from not paying import duties will be passed on to them. After production, the EU manufacturers will be able to export their products to Ghana duty free thereby achieving additional cost savings. The cost savings on both raw materials and finished goods is likely to make EU goods competitive with goods manufactured from China and other emerging countries.

There are also strong protests against signing EPAs on the ground that it will lead to the devastation of the agricultural sector and impoverish farmers. When that happens million of small-scale farmers will lose their livelihoods since agriculture employs more than 50% of Ghana's labor force. This will largely be a result of subsidized European agricultural produce that will be exported to Ghana to displace domestic agricultural produce which often do not enjoy that much subsidy. For example, in 2010, the EU spent €57 billion on agricultural development, of which €39 billion was spent on direct subsidies[20]. It is a fact that agricultural and fisheries subsidies constitute over 40% of the EU budget as at 2012. On the other hand, since the 1980s Ghana has given no subsidies to its farmers/producers of agricultural products. Therefore, if forced to sign an EPA, agricultural producers would be adversely affected by cheaper EU agricultural exports which will push domestic producers out of market and worsened the high poverty incidence among farmers in the country.

Others have also questioned why the EU since 2008, has not been able to finalize the EPA with regional blocs like ECOWAS. Some of these concerns include the fact that the EU is using divide and rule tactics by beginning negotiations with individual countries when negotiations seem to stall with the regional groupings. For instance, when negotiations with ECOWAS stalled, the EU decided to negotiate directly with Ivory Coast and Ghana. In the view of these critics, the approaches of the EU seem to go contrary to their stated aim of ensuring regional integration within and across the ACP regions. The EU in recent times has resorted to some form of threats and coercion by insisting that countries such as Ghana ratify or sign the EPAs by the 2014 deadline. The question being asked is why is it that the EU cannot stick to negotiation with the regional blocs like ECOWAS but is rather pressuring individual countries to sign? It is feared that if Ghana or any of the individual member states signs the EPAs it will undermine the process of regional integration in the ECOWAS. This is largely because the 12 LDCs that enjoy the non-reciprocal EBA scheme with the EU may not be willing to give it up for a more demanding reciprocal EPA[21].

Another issue that also raises concern among civil society is that an EPA, if signed, will lead to the lowering of tariffs on imports from the EU, which is likely to result in significant losses in government revenue. Like many other African countries, Ghana is heavily dependent on international trade taxes including import and export taxes, which accounted for over 16% of total tax revenue in 2012. An UNECA (2005b) report on assessment of the impact of the EPA between the ECOWAS Countries and the EU estimates the revenue loss to be in excess of 19% of government expenditure. In this regard, if the government is unable to offset these losses, it could lead to possible severe cuts in public expenditure in key social sectors, such as health and education. On the contrary, a relatively recent World Bank paper on fiscal revenue implications of the prospective EPA between ECOWAS and the EU finds that, under standard import price and substitution elasticity assumptions, eliminating tariffs on all imports from the EU would increase ECOWAS' imports from the European Union by 10.5-11.5% for selected ECOWAS countries, namely Cape Verde, Ghana, Nigeria, and Senegal[22]. This increase in imports would be accompanied by a 2.4-5.6% decrease in total government revenues, owing mainly to lower fiscal revenues. Tariff revenue losses should represent 1.7% in Ghana. However, according to the paper the revenue losses may be manageable because of several mitigating factors, in particular the likelihood of product exclusions, the length of the agreement's implementation period, and the scope for reform of exemption regimes.

[20] "Agriculture and rural development", EU 2010 Budget Report. Available at: http://eur-lex.europa.eu/budget/data/D2010_VOL4/EN/nmc-titleN123A5/index.html

[21] CEPA Report (2007)

[22] Lynge Nielsen and Simplice G. Zouhon-Bi (2007) "The Economic Community Of West African States : Fiscal Revenue Implications Of The Prospective Economic Partnership Agreement With The European Union" ***The World Bank Policy Research Working Paper Series* No. 103**

Last but not least is the so called 'Singapore Issues' which critics believe remain a red-herring issue as far as the EPA is concerned. The Singapore Issues are measures that go beyond simply liberalizing trade in goods by dismantling tariffs to domestic policy-making of African countries, particularly with regard to investment policies. The EU is believed to be pushing for the inclusion within the EPA of agreement on investment, government procurement, competition policy and trade facilitation, all in the name of increasing the liberalization of public services and trade in services. According to the EU, such liberalization will not only strengthen existing institutions, but also and in particular, an investment agreement within this framework would help attract much-needed FDI into Africa. However, there has been strong opposition to any attempt for the EU to force ACP countries like Ghana to accept liberalization commitments in public services and the so-called Singapore issues. Critics have argued that given the empirical evidence on the determinants of FDI flows[23] and the existence of an investor friendly regime already in place in Ghana, there is no compelling reason why an investment agreement under the EPA will lead to increased FDI flows into the country. Rather an investment regime within an EPA could have a high risk of further limiting Ghana's ability to regulate its own market for development reasons.

9.6 Should Ghana Sign the Full EPA in the Face of these Criticisms?

Before we answer the question whether Ghana should or not sign the EPA, we will briefly discuss what the likely consequences would be if Ghana does not sign the EPA by October 2014. As previously mentioned, if that happens Ghana would have to revert to the standard GSP or MFN arrangements. Table 2 below reveals that if Ghana does not sign and reverts to either the MFN or the standard GSP, about 85% of its current total exports to the EU market will be unaffected by the new tariff regime. The traditional exports such as cocoa beans, hardwood lumber, gold and diamonds would continue to enjoy free access to the EU market. However, there would be losses for about 15% of Ghana's exports (about 30 % if we take out the current increase in exports of mineral fuel) to the EU market, because NTEs such as exports of tuna, fruits and vegetables, and cocoa butter and paste would face tariff increases ranging from 2% to about 21%.

[23] The empirical evidence shows that FDI flows to developing countries are mainly determined by factors to do with market size, economic growth rates, per capita incomes, macroeconomic stability, reliability of public authorities, a higher level of FDI stock, rule of law and security of property rights (C. Chunlai (1997)

Table 9. 2 Ghana's Top Exports to the EU (2012) Comparisons between MFN Standard GSP, GSP-plus and EPA

	Product Description	Value 2012	Share of total Exports	EU Tariffs			
				MFN	Standard GSP	GSP Plus	Proposed EPA
16041418	Cocoa Beans, Whole Or Broken	944 447.070	28.75%	0	0	0	0
16041418	Prepared Or Preserved Tunas And Skipjack	82 165.790	2.50%	24	20.4	0	0
08043000	Fresh Or Dried Pineapples	33 750.320	1.03%	5.8	2.3	0	0
18040000	Cocoa Butter, Fat And Oil	72 328.570	2.20%	7.7	4.2	0	0
44072969	Lumber Tropical Hardwood	Nil	0.00%	0	0	0	0
18031000	Cocoa Paste (Excl Defatted)	132 634.320	4.04%	9.6	6.1	0	0
44072995	Lumber Tropical Hardwood	5 197.160	0.16%	0	0	0	0
16041411	Tuna And Bonito	20 053.200	0.61%	24	20.5	0	0
44083985	Sheets For Veneering	4 125.740	0.13%	4	0	0	0
71081310	Gold Bars, Rods, Wire	189.490	0.01%	0	0	0	0
71023100	Non-Industrial Diamonds	4 061.330	0.12%	0	0	0	0
07099090	Courgettes	Nil	0.00%	12.8	8.9	0	0
90159000	Parts Used For Instruments In Topography	5 723.180	0.17%	2.7	2.7	0	0
40012200	Natural Rubber	14 740.320	0.04%	0	0	0	0

Source: Author's calculation from EUROSTART 2012

NB: The EU tariff rates are as 2003

Some analysts maintain that there could still be a better alternative access for Ghana if it does not sign the EPA. For example, Ghana can negotiate with the EU to be included in an extended GSP-plus arrangement. Unlike the EPA, the GSP-plus will guarantee almost 100% tariff free access to the EU without reciprocally opening its market to the EU. While this could be possible, this arrangement is unilaterally granted by the EU, with beneficiary countries having little or no control over its coverage and application. Besides, GSP- plus put enormous pressure for the state to ratify certain international conventions which the country may not be ready to do now.

For example, according to the Article 9(1) of Regulation (EU) No 978/2012 establishing the rules and requirements for the granting of the preferences under the special incentive arrangement for sustainable development and good governance, known as the GSP-plus, in order to ensure the transparency and predictability of the process, a country making a request shall include in their application comprehensive information concerning the ratification of the conventions listed in Annex VIII to the GSP Regulation (the 'relevant conventions'). This shall include a copy of the deposited ratification instrument to the relevant international organization, the reservations made by the requesting country and the objections to these reservations made by other parties to the convention. This explicitly ties non-reciprocal preferences to the 'effective implementation' of conditionalities pertaining to human and labor rights and environmental protection.

It is also important to note that currently, according to point (a) of Article 9(1) of this Regulation, a GSP beneficiary country may benefit from the tariff preferences provided under GSP+ if it is considered to be vulnerable due to a lack of diversification and insufficient integration within the international trading system. As at the end of 2012, there were only two West African countries (Nigeria and Cape Verde) among the so called 35 vulnerable countries which may request to be granted this special incentive arrangement under GSP-plus. This therefore automatically disqualifies Ghana for applying to the GSP-plus, thereby taking away any hope of resorting to this alternative zero-rated tariff scheme from the EU should Ghana refuse to sign the EPA.

In view of this and having regard to the advantages that Ghana stands to gain from a comprehensive EPA with the EU, particularly in regard to its burgeoning NTEs sector which will be the hardest hit if Ghana should revert to the standard GSP, we suggest that Ghana should give serious consideration to signing the full EPA before the deadline. However, it has to ensure that certain key preconditions are met or are being addressed by the EU. It is noteworthy that while all the various concerns raised against signing the full EPA are legitimate and had to be taken into consideration before signing any pact with the EU, some of these concerns have already been decisively dealt with by the EC within the IEPA. For example, the concern that EPA will cripple agriculture produce from Ghana has been addressed by placing locally produced items in an exclusion list that is free from the trade agreement. Ghana has received tariff-line exclusions for chicken and other meats, tomatoes, onions, sugar, tobacco and beer. It should however be noted that despite Ghanaian agricultural products having preferential access to the EU market, the EPA cannot bring about the development of Ghanaian agricultural production unless production capacity is strengthened and modernized through technical and financial investment.

Moreover, on the issue of EPAs having the potential of collapsing Ghana's infant industry, this may not wholly be the case. The full EPAs also prescribed that all products manufactured in Ghana are excluded from any dismantling arrangement. The exclusion list represents 20% of exports to the EU and places no legal obligation to remove or reduce tariff on these products, if eventually the full EP is signed. As previously noted, Ghana would dismantle tariffs on 80% of imports from the EU over a 15-year period. The first five years of this period would see no dismantling whatsoever. This period could be used as a transition period within the EPA for SMEs in the country to adapt to the changes put in place by the agreement while building their capacity to be globally competitive.

This, however, cannot happen without support for these infant industries and SMEs in general by the government and the EU. The EU, in October 2007, adopted the EU Strategy on Aid for Trade, with the commitment to increase the collective EU trade-related assistance to EUR 2 billion annually by 2010. The strategy insists that the West African region receives an appropriate and equitable share. However, there is the need for an early determination and provision of the share of the Aid for Trade resources and that these funds should be additional resources and not merely a repackaging of European Development Fund (EDF) funding. Again, that they should conform to Ghana's priorities and that their disbursement should be timely, predictable and in line with the execution schedules of national and regional strategic development plans.

9.6 Recommendations

From the foregoing we strongly suggest further that any EPA should take on board the following recommendations:

1. As the country is faced with internal constraints such as poor infrastructure, inefficient customs management, excessive red tape and difficulties to meet technical standards in high value export markets, any trade agreement should aim at facilitating trade and building SMEs to be competitive. These should include support for improving ports or customs facilities, strengthening partners' trade negotiation or regulatory capacity, and helping countries meet specific European health and safety standards as well as infrastructure improvements in energy, transportation and water.

2. Regarding the potential revenue losses to the state upon signing the EPA, we acknowledge that this is a genuine problem. However, we argue that these ought to be considered short-term adjustment costs which can be overcome through re-structuring and broadening domestic tax bases. A well-developed domestic tax system should be less reliant on import taxes as an important source of government revenue.

3. In order to guarantee its flexibility and adaptability, the full EPA should stress and include a revision clause and an appropriate monitoring and impact assessment system. A parliamentary committee can be set up and mandated to monitor and assess how the EPA is impacting on the country's international trade and domestic industries, as well as, the welfare of the people. The Committee should reserve the right to recommend a review of the agreement every 3 to 5 years and decide whether to abrogate or re-endorse it, or to renegotiate certain aspects which have proven not to be mutually beneficial.

4. Should Ghana wait for ECOWAS? There is a strong opposition against signing the EPA outside of ECOWAS on the grounds that no agreement should be signed by any single member state with the EU where such an agreement does not agree with ECOWAS' position as an entity. But under the circumstances, perhaps what Ghana needs is to make sure that it anchors its discussion on the subject to the minimum set of multilaterally agreed rules and making sure that it synergizes the EPA with its own view of where Ghana wants to go. Ghana may not have to wait for ECOWAS. The ECOWAS Commission can afford to drag its feet. As previously mentioned, 12 out of the 15 member states which are LDCs continue to enjoy the non-reciprocal EBA trade regime and therefore will not be too keen at pushing ECOWAS to sign. At the same time, as Nigeria and Cape Verde qualify as beneficiaries of the standard GSP-plus, Ghana and Ivory Coast are left with no viable alternative. It seems reasonable that in order that an EPA will not create new difficulties for intra-regional trade, but rather facilitate regional integration, the ECOWAS Commission should accelerate the Common External Tariff (CET) regime and the harmonization of the 20% exclusion list for all member states to avoid conflicting and overlapping regional trade agendas. In that regard, each member state can independently sign the EPA as and when it deems necessary without injuring the integration process. On the other hand, if Ghana does not want to take an isolated decision, but would be guided by the collective decision of the ECOWAS Commission, then such a decision must not overlook Ghana's peculiar situation as far the trade relationship with the EU is concerned.

5. With regard to the "Singapore Issues", since the current WTO rules do not require EPA countries to undertake liberalization in the areas of services, investment, government procurement, intellectual property rights, competition, trade facilitation, data protection, movement of capital or tax governance, we recommend that such issues should not be part of the present pact. Negotiations on them should be postponed to three to five years after signing the EPAs and should take place only when both parties are willing to do so.

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