



INSTITUTE FOR FISCAL STUDIES

POLICY BRIEF

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STRONG ECONOMIC GROWTH AND SIGNIFICANT REDUCTION IN UNEMPLOYMENT: THE CRITICAL ISSUES TO ADDRESS IN GHANA'S 2019 BUDGET

1.0 INTRODUCTION

The Ghanaian economy has maintained virtually its “colonial structure” 60 years after independence as it still depends largely on cocoa, gold, timber and recently oil as the country’s main export commodities. Exported in raw and unprocessed form, these commodities fetch low prices on international markets where Ghana is a price taker, rendering the economy vulnerable to terms-of-trade shocks. The agriculture sector’s contribution to total output has been falling due to declining productivity. The manufacturing base of the economy has also been shrinking as many state-owned industries privatized years ago have closed down and many private businesses are suffocating under the weight of numerous obstacles. Services have emerged as the leading sector of the economy, but productivity and incomes are low in the sector. The combination of all these factors has slowed Ghana’s economic growth for the most part of the last two decades, with serious implications for job creation.

This paper looks at how a strong and broad-based economic growth can be achieved to significantly create jobs in order to reduce unemployment in the country.

2.0 OVERVIEW OF ECONOMIC GROWTH AND UNEMPLOYMENT

Ghana’s economic growth slowed down for the most part of the last two decades, with serious negative implications for job creation. Even though the economy picked up strongly in 2010- 2012 and 2017, this was driven largely by the coming on stream of the oil and gas sector, which is known to have limited job creation impact. The agriculture and manufacturing sectors, which have relatively better employment generation potential recorded slow growth up to 2016 when the manufacturing sector resumed strong growth, followed by the agricultural sector in 2017.

Unemployment has therefore become the most serious challenge currently confronting Ghana. Indeed, the unemployment problem has reached a crisis point, given that the rate

consistently increased over most part of the past three decades, and stood at 11.9% at the end of 2015. The overwhelming majority of the unemployed are young people, aged between 15 and 34 years. Only 10% of graduates find jobs after their national service, and sometimes it takes up to 10 years for a large number of them to secure employment. Majority of the employed are in the private sector, of which about 90% are in the informal sector, known for its low productivity and very low incomes. The failure of Ghana's economy to grow at appreciable rates and create jobs and improve incomes and livelihoods of Ghanaians has become the major concern.

3.0 POLICY RESPONSE

To address the problem of declining agriculture performance, restore the sector to a path of high and sustainable growth and take it back to its rightful position as the backbone of the economy, the government unveiled a Marshall Plan for Agriculture (MPA) that seeks to tackle all the systemic challenges that have confronted the sector and inhibited its contribution to the economy and job creation. Under the plan are a number of flagship initiatives, including the "Planting for Food and Jobs (PFJ)", a GH¢400 million Fund to de-risk agriculture and the agribusiness sector; a "One Village One Dam" initiative; and the "Agriculture Management System (AMS)" initiative, an end-to-end solution and a Virtual Farmer Program (VFP), designed to boost the entire agriculture supply chain. The PFJ program is expected to create over 4.6 million jobs in four years and the VFP, some 33,000 jobs for the youth.

To revitalize industrialization, the "One District One Factory" (1D1F), under which, at least, one viable factory is to be established in each of the 216 districts in the country to transform the economy from a service-based to a more industry-focused economy has been launched. Other initiatives to support the industrialization agenda include the establishment of one industrial park in each

of the 10 regions of the country; one warehouse in each of the 216 districts (One District One Warehouse), "National Industrial Revitalization Program" and the "National Entrepreneurship and Innovation Program". The 1D1F program is expected to generate 1.5-3.2 million jobs nationwide by the end of 2020.

In early this year, the government introduced the Nation's Builders Corp (NABCO) initiative to reverse the growing trend of joblessness among university graduates. Providing jobs for 100,000 graduates in 2018, NABCO is the most direct government initiative developed to address graduate unemployment in the country. A Youth Development Authority has also been established to harmonize and coordinate all government sponsored youth initiatives and policies to support the youth to establish businesses for themselves. The NABCO initiative seems to represent a public works program, which will have to be carefully planned and managed so that it does not become an albatross on the national budget. YEA and NABCO also seem to have similar objectives. It is therefore important to avoid creating wasteful duplicative systems and confusion in targeting and implementation.

4.0 COMMENTS

A major challenge to the successful implementation of the government's MPA and its flagship PFJ program is access to land. Land markets have played a fundamental role in facilitating agricultural revolutions. Unfortunately, access to land for large agriculture investment continues to be a core constraint in Ghana because of the complex land administration and governance system, which is time-consuming, costly and exposes investors to substantial risks. Land policies and land administration projects that seek to address land issues comprehensively in the country have been implemented by previous governments. Despite the initiatives, security of land tenure continues to be a constraint to agricultural investment, both for small and commercial farmers. Expansion of mining activities has contributed to strong

economic growth in Ghana but has also affected agriculture in many rural areas and must be urgently addressed. The heart of the issue is that mining activities, especially informal mining popularly referred to as “galamsey”, have come into direct competition with small-scale agriculture, the predominant means of economic growth and job creation in rural areas. Reconciling these two important growth drivers has become a critical governance issue. Absence of modern tools and technology for farmers and poor soil conditions is a major bane of the agriculture sector. Expansion in agricultural production in the country has come largely from expansion of cultivated land and less so from productivity gains. There is also the aging farmer population, yet the sector is unable to attract young people into farming. High illiteracy among farmers also means a constant need for facilitating their access to information on new approaches, technologies, opportunities and policies. The quality and size of public expenditure on agriculture also leave much to be desired. Improving the quality and effectiveness of government spending on agriculture is imperative in the context of the limited fiscal space.

Improving the environment for doing agribusiness is key to adding value to production and creating jobs. Ghana has favorable conditions for agribusiness, but there is need to deepen and quicken the pace of reforms required to attract private investment into the sector. Financing is a major challenge facing agribusinesses in the country, especially for small, medium and micro-businesses. In addition to equity funds, operators in the agriculture sector source funds from formal and informal financial institutions to finance their activities. Financial institutions however are reluctant to provide financing to the sector due to perceived and actual risks.

Government action to support agricultural development is vital to economic growth and job creation. It is expected therefore that the various initiatives outlined by the government since 2017 to reinvigorate the agricultural sector will be translated into concrete actions

to achieve their intended objectives. The initiatives need to be tailored to support the large pool of small-scale peasant farmers who have remained the backbone of the agricultural sector in the country but whose output has been inhibited by low yields or low productivity, thereby leaving them financially-impooverished.

The 1D1F initiative introduced by the government to revitalize the industrial sector to help transform the economy to create jobs is well-intentioned. It is however important for the government to consider the merits of the program based on dotting 216 small- to medium-sized factories across the country in addition to creating 10 large industrial parks, estates, or clusters. More details on the program, including the types of industries to be set up, costs involved, sources of funding, ownership and management structures need to be provided by the government to enable the program's contribution to economic growth to be fully assessed.

A major obstacle to the 1D1F program will be financing. Financing for the 1D1F is expected to come from promoters' equity, private financial institutions, local private equity companies, and development partners. Currently there are many entrepreneurs with viable projects but do not have funds to finance their ventures. Banks and other financial institutions are reluctant to inject capital into businesses. They complain that many business ventures are not well structured, too risky to invest in, and lack track record, etc. Government may have to consider entering into partnerships with potential private entrepreneurs to finance the ventures. In this context, the Venture Capital Trust Fund, established to provide alternative source of funding in the form of equity financing may need to be restructured and resourced and made it to support the 1D1F program.

To address the graduate unemployment problem, there is the need to restructure the education system to make high-quality science and technology education more

accessible to students and redesigning higher education courses to fit the skills needed by the jobs market, including combining classroom work with vocational or industrial attachment.

Infrastructure plays a central role in supporting agricultural transformation and industrialization, improving competitiveness, facilitating domestic and internal trade, and enhancing a country's integration into the global economy. Ghana has made significant progress in infrastructure provision in recent years and a number of patterns emerge consistently across sectors. The country has succeeded in developing broad band national infrastructure backbones and raising household access to services far beyond what is typical for the low-income peer group. Ghana's success in the coverage of infrastructure services is not confined to urban areas. The distribution of Ghana's infrastructure network generally reflects the spatial distribution of economic activity. Despite Ghana's success with increasing access to infrastructure services, the quality of service remains low and a large deficit still exists which has tended to increase investment costs and impede economic growth. The country's infrastructure development is also characterized with operational inefficiencies. Inefficiencies in infrastructure planning, project preparation and public procurement sometimes conspire to create delays that prevents the country from spending efficiently the investment budget allocated to infrastructure. Large sums of money are also being lost to inefficiencies associated with underpricing. A combination of underpricing, under-collection of revenues, and very high distribution losses relative to technical norms lead to high hidden costs of power and water. Reaping infrastructure efficiency dividend has to be a major policy priority for the government. Efforts to scale up infrastructure finance therefore need to be made in the context of genuine commitment to address efficiency.

To close the infrastructure gap and catch up with developing countries in other parts of the world, Ghana needs to expand

its infrastructure assets in the key areas of ICT, irrigation, power, transport, water, and sanitation. Reaping efficiency dividend must be a major priority for the country. Closing the country's infrastructure financing gap is not only about raising investment capital; a substantial part of it relates to maintenance. In trying to fund programs and initiatives to ensure a broad-based economic growth and job creation, the government should recognize that Ghana is already facing a high debt distress, calling for the need to limit the amount of money it borrows in order not to cause further fiscal overruns and generate macroeconomic instability. Fiscal unsustainability and macroeconomic instability would have serious negative implications for real GDP growth, and thus job creation. Given, the weak fiscal and financial position of the country, it is critical that any investments made from borrowed funds be fully informed by economic returns and not political or wasteful social considerations.

While it is necessary to explore various sources of funding to close the country's huge infrastructure financing gap and meet other developmental needs, a 100-year dollar bond is ill-advised. It would, in fact, be suicidal for the country to go for such a colossal bond that lasts 100 years without a blueprint that carefully outlines the development priorities of the country and how the funds would be used to add value to the resources of the country. The decision to issue a bond of this size and for such a long period must be driven by a long-term national development plan (LTNDP) that has received the blessing of all Ghanaians. The fear that such long-term funding will leave huge debts for posterity also points to the need for a LTNDP. To genuinely transform the Ghanaian economy through agriculture transformation and industrialization supported by the required infrastructure so as to sustainably grow the economy, generate high quality jobs and significantly reduce unemployment, particularly among the youth and graduates, would require a LTNDP.

5.0 RECOMMENDATIONS

It has been argued in this paper that a broad-based approach to economic growth is critically needed in order to be able to meaningfully create jobs to reduce the serious problem of unemployment, increase incomes, and alleviate poverty. It is the view of the IFS that the government should continue to pursue its multi-pronged approach to economic growth and development by adopting the following recommendations:

1. Government should consider pruning down the numerous programs and initiatives it is pursuing. This is because of the weak fiscal state in which the country finds itself, in terms of the lack of fiscal space to maneuver, which is caused by the weak revenue generating capacity of the state and the excessive fiscal rigidity in the budget, the For instance, establishing a factory and a warehouse in each of the 216 district assemblies and one industrial park in each region will be too much an overload for the fiscus.

2. Government should support agriculture to boost economic growth and employment by giving priority attention to the implementation of well-designed programs of public investment in agriculture, continued progress on land regulatory reform, and establishment of specific initiative such as a “School to Land Program” to engage young people in agriculture. A “Public Works Program (PWP)” that aims at providing work opportunities coupled with training through the delivery of public works to the youth and unemployed graduates also needs to be developed and implemented.

3. Encourage and support entrepreneurship development by reforming the post-senior high school education curricula to include technical and entrepreneurial disciplines to provide the youth and graduates with entrepreneurial skills that will enable them to set up their own businesses or to become more employable in the job market; setting up business incubators as a mechanism to support business development and management;

and strengthening labor market information and monitoring systems to ensure a regular flow of information on employment opportunities.

4. Although the government effort to secure US\$2.0 billion to support infrastructure development is laudable, for the purposes of effective management of the risks associated with the projects, the arrangement should be brought under the umbrella of the GIIF which has been set up to purposely raise funds to finance such projects. Additionally, the US\$50 billion century bond being contemplated by the government is colossal, and can cause serious damage to the economy even if the government succeeds in borrowing the money at normal interest rates. A US\$50 billion century bond would be too much for a country with a GDP of under US\$60 billion and would be a dangerous experiment that could harm future generations.

5. Explore opportunities for tapping into private financing for infrastructure projects, creating new partnerships and reducing waste in such investments. This strategic shift should be driven by the realization that scaling up financing from traditional sources alone would not be adequate to close the infrastructure financing gap. It is therefore crucial to open opportunities to attract private investors as well as exploring public-private mechanism for financing infrastructure projects in the country.

6. A LTNDP consisting, amongst others, of medium to long-term agriculture, industrialization and infrastructure development plans should be developed for implementation. With these plans in place, present and future governments that come to power within the planning period should be mandated to implement them. The current system whereby each new government is permitted and even required to produce and implement a new development agenda, reflecting partisan views and manifestoes, should be scrapped. To ensure political commitment, it would be required to set out in the national

Constitution that a government in power must continue to support projects that have been taken to a particular level of development. The culture of “we know better than the previous government” or “we have the best brains and ideas” has not achieved much for Ghana historically.



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