

# Inequality: the biggest challenge



The global crisis has already wounded Ghana's economy severely. Initial damage has included decreasing exports and remittances from abroad and galloping devaluation. The crisis is threatening to hamper efforts to reduce poverty, which had been registering successes. Government efforts to mitigate the impact of the crisis appear insufficient. The biggest challenge is to improve income distribution, since poverty is deeper in rural areas. Policies are urgently needed to strengthen agriculture, a sector that had been contributing almost 40% of the GDP.

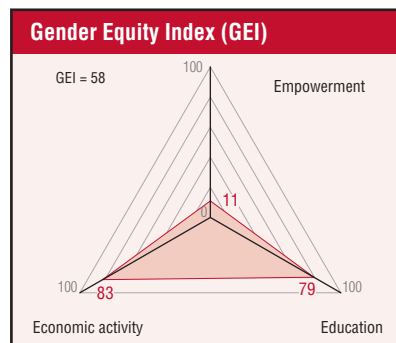
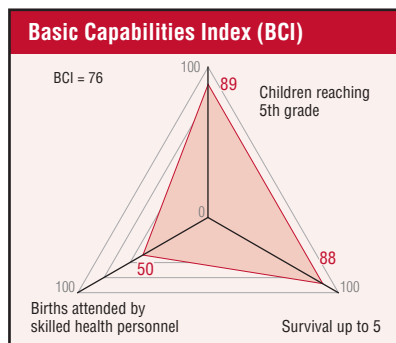
## The Social Watch Coalition-Ghana

The harsh winds of the global financial crisis have already begun to batter Ghana. The cedi, Ghana's currency, lost 23% of its value against the dollar in 2008, and 19% against the euro. Private capital flows are drying up and large investment projects are being put on hold due to cash flow problems and doubts about their ultimate profitability. Donor inflows to both the Government and civil society organizations are dwindling. Vulnerable sections of society, particularly poor rural and urban women and children who depend for their survival on charitable organizations, philanthropists and NGO safety net programmes, are in serious jeopardy.

According to the Ghana Living Standard Survey, the percentage of the population living below the poverty line fell significantly, from 51.7% in 1991/92 to 28.5% in 2005/6, including a drop of 17% in urban areas and 24% in rural communities.<sup>1</sup> Although progress was slower in the country's three northern regions, this trend generated great optimism that Ghana could achieve its first MDG poverty reduction target within a few years.

This optimism is being eclipsed by the lengthening shadow of the global crisis. Gross Domestic Product (GDP) was forecast to climb 7% in 2008 but the actual rate was 6.2%. The lower 2009 target of 5.9% reflects a belief that the decline in global economic growth will probably drive down the world market price of cocoa, one of Ghana's main exports.

Compounding the damage of the anticipated drop in the quantity and price of Ghana's exports, economists are projecting a 20% plunge in remittances from Ghanaians working abroad in 2009.<sup>2</sup> This would be a hard blow, since they currently equal 30% of exports. Speaking at the Royal Institute of International Affairs in London in March 2009, President Atta Mills admitted that Ghana's economy was facing worrisome challenges, adding that the "economic



downturn will result in very, very serious repercussions for our economy". He also predicted that the dip in remittances from abroad would be followed by tumbling donor support and trade.

The squeeze on remittances will put additional pressure on the cedi, which has dropped due to greater demand for foreign currency to meet higher oil bills and food prices, infrastructural development needs and payments on external debts. The cedi lost ground against all the major currencies in the second quarter of 2008, at an annual rate of 31%. In the first quarter of 2009, actual depreciation reached 10%. This is expected to accelerate inflation, already running far above projections as a result of higher international food and crude oil prices. In 2008, instead

of climbing between 6% and 8% as predicted, prices jumped between 16.5% and 18.1%. Currency depreciation helped boost the rate to 20.53% in March 2009. The rising price of fuel imports could make transportation one of the main drivers of inflation by April 2009.<sup>3</sup>

### The 2009 budget

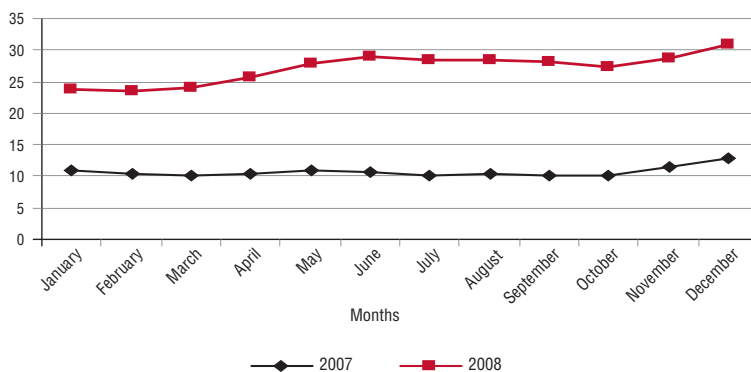
In response to the deceleration of growth and its unequal benefits, the Government is likely to adopt a "distribution-with-growth and stability development strategy," which would target disadvantaged groups and regions. Whether it will actually fulfill this goal is

<sup>3</sup> *Business & Financial Times*, 14 April 2009.

<sup>1</sup> *Daily Graphic*, 23 April 2009.

<sup>2</sup> UN World Food Programme (UNWFP). *Assessing the Impacts of the Global Economic and Financial Crisis on Vulnerable Households in Ghana*, 2009. Available from: <74.125.47.132/search?q=cache:5WmMJOfitbcJ:ochaonline.un.org/OchaLinkClick.aspx%3Flink%3Docha%26docId%3D1111129+WFp+Assessing+the+Impacts+of+the+Global+Economic+and+Financial+Crisis+on+Vulnerable+Households+in+Ghana&cd=2&hl=es&ct=clnk&gl=uy>.

CHART 1. Monthly Inflation 2007-2008



Source: World Bank Ghana 2008.

uncertain; so far there is no clear indication about the direction of its economic policy.

The 2009 budget has three major goals: it is an initial effort to put into practice the ideas contained in the ruling National Democratic Congress (NDC) party manifesto; to respond to the global financial, fuel and food crises; and to tackle current socio-economic challenges. The driving force is the four main themes espoused in the NDC manifesto: transparent governance, a strong economy creating real jobs, investing in people and expanding infrastructure for growth.

Even though the Government has outlined some policy initiatives to try to mitigate the effects of the global crisis, they do not seem adequate. Moreover, it should be noted that government measures to stimulate and subsidize farming production are minimal. According to the IMF, agriculture contributes nearly 40% of the country's GDP and employs more than half of the active labour force, but this is the sector with the highest incidence of poverty. About 70% of the rural population is actively involved in agriculture.<sup>4</sup> Even so, the country imports more than 40% of its food. This could be turned around: Ghana has the capability to lead a "green revolution" in Africa. Only some 16% of the country's arable land is used for farming.<sup>5</sup> To boost agriculture and contribute to job creation, economic growth, and the general well-being of the population, farmers need the supported of investments in inputs, fertilizer, training and access to markets. However at this critical moment, the 2009 budget allocates only 10% of its funds to agriculture.

### The biggest challenge

Drastically reducing poverty will require more equitable distribution as well as higher growth. At the moment, the country is experiencing rising inequality, growing regional disparities and deep poverty. In the rural savannah, for example, a staggering 60% of the population remains poor, and poverty is declining at a slower rate than elsewhere in the country. In the Upper East and Upper West regions, the poverty rate did not decline at all between 1991/92 and 2005/06, and in the Greater Accra and Upper West Regions, it actually increased.

4 Farming continues to dominate the economy with a 33.59% share of total GDP in 2008. Growth in the sector was 5.1% driven by crops and livestock sub-sectors which went up by 5.82%.

5 Data from the Green Economy Initiative; "Ghana goes biofuel, despite global food crisis". Available from: <[www.greeneconomyinitiative.com/news/176/ARTICLE/1205/2008-12-06.html](http://www.greeneconomyinitiative.com/news/176/ARTICLE/1205/2008-12-06.html)>.

**CHART 2. The incidence of poverty by area in 2005/06 (%)**

	Share in population	Poverty incidence	Share in total poor
National	100.0	28.5	100.0
Urban	37.6	10.8	14.3
Rural	62.4	39.2	85.7
Accra	11.8	10.6	4.4
Coastal, urban	5.8	5.5	1.1
Coastal, rural	11.0	24.0	9.2
Forest, urban	14.6	6.9	3.5
Forest, rural	28.0	27.7	27.2
Savannah, urban	5.4	27.6	5.2
Savannah, rural	23.4	60.1	49.3

Source: Ghana Statistical Service, 2007.

**CHART 3. The incidence of poverty in the northern regions, 1990/91-2005/06 (%)**

	1991/92	1998/99	2005/06
Northern	63	69	52
Upper East	67	88	70
Upper West	88	84	88

Source: Ghana Statistical Service, 2007.

The World Food Programme's Comprehensive Food Security and Vulnerability Analysis for Ghana revealed that about 1.2 million people – 5% of the population – were food insecure. However, this national average hid striking regional differences: 34% of the population in the Upper West region, 15% in the Upper East region and 10% in the Northern region are food insecure, a total of about 435,000 people. The study also identified about 2 million Ghanaians who had food consumption patterns barely acceptable at the time of the survey that may quickly deteriorate following a natural or human-created shock. Of those, 1.5 million live in rural areas of the Upper West, Upper East and Northern regions.

The impact of the global crisis on Ghana's economy will be severe in the medium term. The question that citizens are trying to come to grips with is whether the country should focus on aid from the international community to cope with the economic fallout, or resort to harsh fiscal and monetary initiatives. Urgently, women farmers in Ghana need support in the form of investments in inputs, such as fertilizers, and also in training and access to markets. These would boost agriculture while contributing to job creation, economic growth, and the well-being of the population. ■