

Is There Hope for Ghana's Economic Challenges?

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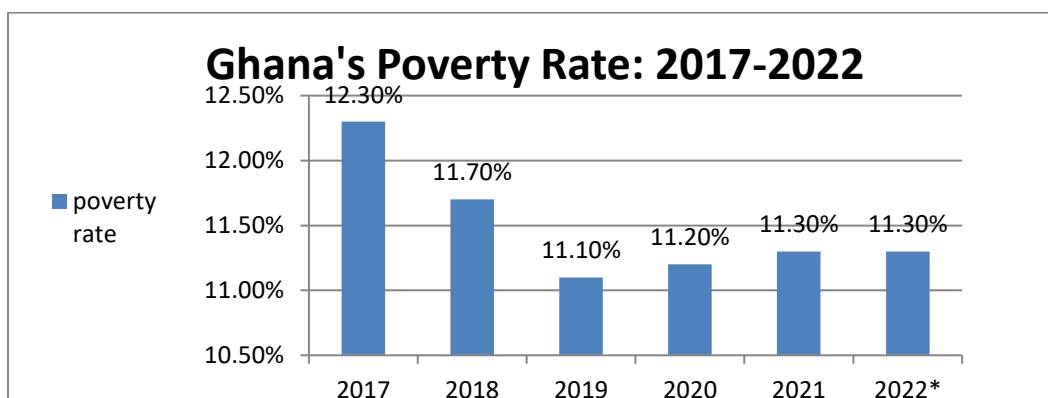
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Introduction

Increases in the price and output of cocoa, gold, and oil have helped Ghana evolve during the last 30 years: real GDP growth has quadrupled, severe poverty has decreased by half, and Ghana was upgraded to a Lower Middle-Income Country classification in 2011. The essential question is: How can this remarkable progress, which is firmly based on natural wealth, continue to generate macroeconomic growth and poverty reduction?

Ghana cannot afford to rest on its glories till now. In Ghana, 3.3 million people (about 11% of the population) live in abject poverty. In the years after 2019, there is no major change in the percentage of the population living in abject poverty as depicted in figure 1.0. Ghana has a youth unemployment rate of 12 % and a 50 % underemployment, both of which are greater than the average unemployment rate in Sub-Saharan African countries. Ghana has a GDP per capita that is around half that of comparable emerging and developing nations. And, according to the previous debt-to-GDP ratio, the country's debt has risen from 73% to 76% in recent years. ^[1] According to the Maastricht criteria for EU membership, any country with a debt-to-GDP ratio of more than 60% is financially irresponsible.

Fig.1.0 Poverty rate of Ghana from 2017-2022 (* year 2022 is forecasted)



Source: Ghana Statistical Service (GSS), 2021.

The main issue with Ghana's economic growth dependent on oil is that it does not provide enough jobs. Because of the shortcomings of the non-oil economy, an insurgency is escalating in northern Ghana. The government is on a mission to discover the magic recipe that would prevent Ghana's economy from becoming a "one trick pony." Unfortunately, there

is no easy answer for the non-oil economy of Ghana. However, the government is determined to transform the country's economic structure by focusing more on industrializing the non-oil sector.^[2] The government introduced the National Industrial Revitalization Program (NIRP) to address this course.^[3] The government claims to have provided financial help to 60 of its failing enterprises in industries such as manufacturing and textiles. The goal is to "revitalize" the private sector and promote widespread industry.

Is this government support (i.e. subsidies) the most cost-effective method to spend money? It certainly raises a number of questions. Are office-bound government bureaucrats the right people to judge which enterprises should and should not receive funding? Is it appropriate for the government to determine winners and losers? The point is that government subsidies are an inefficient use of public funds. Subsidies cause opportunity costs, depriving the government of funds that could be used for better things like worker health care or a safety net for the poor. Finally, and most significantly, government subsidies only address the effects of a poor business climate (i.e., struggling enterprises), not the causes of non-oil business failures.

The Major Economic Challenges

Poor Debt Servicing

Ghana's key economic issues revolve around public finance management and debt dynamics. Between 2006 and 2021, the country's public debt tripled, rising from 26 % to 83.54 % of GDP. The deterioration of state-owned companies' (SOEs) financial situations in the energy sector, as well as pre-election budgetary expenditures, all led to the piling of public debt. Following the execution of government budget consolidation programs, the budget deficit and public debt ratio have begun to decline. Debt servicing and payroll costs, on the other hand, continue to eat up the majority of budget income. As a result, it becomes critical for the government to develop revenue-raising structure reforms like fiscal policy, public finance, and debt management, as well as the restructuring of SOEs in the energy sector.

Power Crisis

Ghana's unstable and expensive electric power supply is a major impediment to economic development. In truth, Ghana's electrical sector is always in a state of flux. Workers and management who are poorly educated and trained perform inadequate maintenance, which leads to outages. The supply-demand mismatch is wider than ever, with blackouts and brownouts becoming commonplace. Ghana has nearly 4,000 MW of installed generation capacity, but due to shifting hydrological conditions, insufficient fuel sources, and decrepit infrastructure, real availability rarely exceeds 2,400 MW.

2] EIU, Changing the Structure of Ghana's economy, 23 June 2018.

[3] This industrialization program is in addition to government's over-ambitious promise of one factory in each of Ghana's districts (i.e. 1D1F).

There are various approaches for closing the gap between electricity supply and demand. Increasing grid transmission capacity and investing in more power plants would be politically appealing if money was not an issue. Increasing the price of power would clear the market and be economically appealing if political backing was not an issue. The issue is to act decisively in terms of economics while maintaining political stability. That is not an easy task.

Research has revealed that losses in the electrical sector diminish Iraq's annual GDP due to low collection rates and insufficient infrastructure.⁵ If Ghana could improve the efficiency of existing generation, a significant increase in usable electrical supply may be achieved without having to invest heavily in new infrastructure. ⁴If grid operators had the political will to reduce unscheduled maintenance outages and ensure that the correct standard fuel was available in sufficient quantities for existing generators, the existing power infrastructure could produce additional 20-30% megawatts, effectively closing the demand-supply gap without adding more power generation capacity.

However, political realities make this solution for balancing electricity supply and demand unlikely to be chosen. As a result, Ghana prefers to spend a large percentage of total government spending on the construction of new power plants. Ghana's electricity sector is currently swimming at full speed just to stay afloat.

Environmental Problems

Air pollution, the most serious environmental threat to human health, costs around \$2 billion per year and kills nearly 16,000 people prematurely each year. ⁷The elderly account for the majority of mortality, while air pollution is responsible for more than half of pneumonia deaths in children under the age of five. Water pollution causes enormous economic loss, up to 3% of GDP. This is owing to the negative consequences of a lack of water supply, poor sanitation, and the discharge of solid industrial and toxic waste into water systems on people's health.

Plastic pollution has reached crisis levels. Over 3,000 metric tons of plastic trash is created every day, with much of it discarded as litter or dumped in makeshift landfills.⁸This garbage clogs open drains and pollutes the sea. Accra's biggest source of air pollution is e-waste, which is related with the Agbogbloshie dumpsite. Carcinogenic chemicals are released into the air when electronic parts are burned, and poisonous metals are deposited in streams and seas. Each year, \$440 million is spent on diseases caused by lead and mercury exposure, as well as lost IQ points in youngsters.

Poor Educational System

The poor quality of Ghana's education system is one reason for non-oil company failures. The government takes pride in enrolling an increasing number of pupils in school.

⁵.Aljawareen, A. F. (2019). Iraqi Economy Post ISIS: Challenges and Opportunities. *Manage Econ Res J*, 5(2019), 9565

^{7,8}worldbank.org/africacan/ghana-balancing-economic-growth-and-depletion-resources

The issue is that Ghana's educational system does not adequately prepare pupils for the world of work. Instead of teaching pupils critical thinking skills for solving workplace problems or creative thinking abilities for indigenous entrepreneurship, Ghana's students are increasingly being taught to memorize and recite facts in a rote learning system.

^[6] Rather than equipping high school and college graduates with the type of thinking skill sets necessary to be significant assets in the workplace, university students are trapped in a rote learning paradigm. The idea is that competitive corporate executives don't want any of these Ghanaian employees who can't think for themselves. These do not give a better hope for solving future problems in the country. In a recent address by the finance minister for Ghana stated that the payroll is full. For that matter, graduates coming out of the colleges should focus on establishing their own businesses. The knowledge acquired doesn't match the working environment.

Addressing Ghana's Economic Challenges

Enhancing Food Security

As a result of all the challenges discussed, Ghana is unable to adequately feed herself. To improve food security in Ghana, the supply and demand for food must be balanced. On the supply side, Ghana needs to increase yields, use resources more efficiently on small subsistence farms, grow a variety of crops, improve farming techniques, invest in R&D, capitalize on urban farming, increase aquaculture productivity, and develop new technologies for its small farmers.

Furthermore, Ghana must adopt a more long-term agricultural policy that protects the environment by halting illegal mining, deforestation, and desertification. Ghana must also move toward more organic farming and better land and water management.

Even if Ghana can minimize food insecurity in the short term, the country's leaders must consider whether current trends have proven Malthus' thesis (that population expansion outpaces food availability) or whether climate change will continue to exacerbate food insecurity in northern Ghana. There is one thing that is certain. Given that the world's population is expected to reach more than 11 billion people by 2100, there will need to be a lot more food available to meet demand.

⁴National Academies of Sciences, Engineering, and Medicine (2017) *Enhancing the resilience of the nation's electricity system* National Academies Press.

⁶Margolis, J., Estrella, R., Goode, J., Holme, J. J., & Nao, K. (2017). *Stuck in the shallow end: Education, race, and computing*. MIT press

¹Economist, After its 16th bail-out, Ghana hopes to put the IMF behind it, 22 June 2019

When Norman Borlaug won the Nobel Prize for his research that led to the Green Revolution in 1970, he warned that the new methods would only afford a 30-year window of opportunity for governments to devise and implement supply-and-demand strategies to address the global food supply crisis. Borlaug's 1970-2000 window of opportunity has passed us by, and Ghana is still looking for that plan.

Taking Urgent Actions against Unemployment

Agribusiness, entrepreneurship, apprenticeship, construction, tourism, and sports are identified as key sectors that can offer increased employment opportunities for Ghanaian youth in a new World Bank report titled "Youth Employment Programs in Ghana: Options for Effective Policy Making and Implementation." More expenditures in career guidance and counseling, work-based learning, coaching, and mentorship could also be ideal means of providing young people with the skills they need to succeed in the workplace.

Conclusions and the Way Forward

Ghana's domestic resource mobilization must be supplemented with foreign financial assistance, especially concessional loans, to address the issue of public debt payment. While maintaining the foreign exchange reserves buffer, the government should actively engage its creditors in exploring other financing options such as debt renegotiating and restructuring, as well as debt service suspension.

Leaders in Ghana must align formal education programs and skills development activities in the context of a rapidly changing labor market that requires new and diverse skill sets, as well as adapt to new technology, in order to reduce unemployment.

In order to adapt to the future of work, the government must collaborate with the private sector, such as involving businesses in the development of training curricula and introducing certificates for occupational norms. To better prepare young people for the transition to work, integrate pre-employment support activities within the country's current school system.

In order to get out of our fiscal challenges, non-oil growth should be seriously taken into consideration. This would give a better hope for Ghana in the near future.

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