

POLITICAL ECONOMY RESEARCH INSTITUTE

**PERI**

University of Massachusetts Amherst

## **Elements of an Employment Framework for Poverty Reduction in Ghana**

**James Heintz**

2004

**POLITICAL ECONOMY  
RESEARCH INSTITUTE**

Gordon Hall  
418 N. Pleasant St, Suite A  
Amherst, MA, 01002-1735  
Telephone: (413) 545-6355  
Facsimile: (413) 577-0261  
Email: [peri@peri.umass.edu](mailto:peri@peri.umass.edu)  
Website:  
<http://www.umass.edu/peri/>



**WORKINGPAPER SERIES**

Number 85

# Elements of an Employment Framework For Poverty Reduction in Ghana

Report of a joint ILO/UNDP mission

Prepared by James Heintz\*  
Political Economy Research Institute  
University of Massachusetts, Amherst

---

\* This report was prepared in consultation with a joint ILO/UNDP team of researchers and policy specialists. The report is based on the team's findings during two missions to Accra, Ghana, the first in Nov./Dec. 2003 and the second in Apr./May 2004. The members of the team were: Cornelius Adablah (Consultant, Ghana), Christy A. Banya (UNDP, Accra), Paul Derigubaa (UNDP, Accra), Mohamed Gassama (ILO, Geneva), James Heintz (PERI, University of Massachusetts), Kamil Kamaluddeen (UNDP, Accra), Terry McKinley (UNDP, New York), Peter Poschen (ILO, Geneva), and Anthony K. Tsekpo (ISSER, University of Ghana). In addition, Robert Pollin and Gerald Epstein provided helpful suggestions and comments on an earlier draft.

## Table of Contents

Executive Summary .....	iii
Glossary .....	vi
1. Introduction.....	1
2. Background: Economic Reform in Ghana.....	3
3. Employment and the Ghana Poverty Reduction Strategy: Findings of the Study .....	8
3.1 Objectives of the Study.....	8
3.2 Summary of the Findings.....	8
3.3 An Integrated Employment Framework for Poverty Reduction in Ghana.....	11
4. Growth, Employment, and Poverty in Ghana: Towards an Integrated Framework .....	12
4.1 Employment-Intensive Growth for Poverty Reduction .....	12
4.2 Overview of Employment and the Labour Force in Ghana .....	17
4.3 Existing Initiatives, Challenges, and Constraints .....	22
5. Economic Policies to Support Employment-Intensive Growth .....	25
5.1 The Macroeconomic Environment and Price Stability .....	25
5.2 The Financial Sector .....	30
5.3 Budgetary Policy and Public Investment .....	34
5.4 Trade Policy .....	38
5.5 Employment-Intensive Growth and Macroeconomic Stability ....	41
6. Realising Employment Intensive Growth: the Case of the Ayensu Cassava Starch Company .....	43
7. Employment Indicators for Poverty Reduction .....	49
7.1 Short-run employment indicators .....	50
7.2 In-depth employment indicators .....	51
7.3 Building appropriate indicators: utilising the GLSS .....	52

8. Institutional Coordination and Capacity .....	58
8.1 Employment Monitoring and Evaluation .....	59
8.2 Recommendations for Improving Institutional Capacity and Coordination .....	62
9. Conclusions and Summary of Recommendations .....	64
 Appendix .....	 66
Bibliography .....	68
Notes .....	71

## Executive Summary

When employment expands along with production, the benefits of growth will be widely shared. In particular, improving the quality and quantity of employment opportunities directly links economic growth to poverty reduction. The *Ghana Poverty Reduction Strategy* (GPRS) is currently Ghana's blueprint for growth, poverty reduction, and human development. It represents the framework the Government of Ghana adopted to foster economic growth and fight poverty. In view of the critical importance of employment for sustained poverty reduction, there is a need to review the content of the GPRS with specific attention to the issue of employment.

To this end, a joint ILO/UNDP team was set up to study the employment initiatives, programmes, and projects that the Government of Ghana is currently pursuing within the context of the GPRS. The study had three primary objectives: (1) to examine the current content and implementation of the GPRS with regard to employment; (2) to identify challenges for realizing the employment objectives of the GPRS and the programmes that were developed in the course of implementing the Strategy; and (3) to develop recommendations for strengthening the employment content of the GPRS to support poverty-reducing growth.

The study found that, unlike many other Poverty Reduction Strategy Papers (PRSPs), the GPRS presents employment as a core objective of the policy framework. In formulating and implementing the GPRS, the Government of Ghana has already established a solid foundation of employment-targeted programmes. However, despite this foundation, the employment content of the GPRS must be strengthened across a number of dimensions if sustainable poverty reduction is to be achieved. Specifically, an integrated employment framework for poverty reduction should be developed as part of the revision process for the GPRS.

The establishment of an employment-intensive growth path for poverty reduction in Ghana requires the realization of three interrelated components: a growth component, an employment component, and a poverty focus. The connections between these three elements are straight-forward. Economic growth alone is necessary, but not sufficient for employment creation. Growth must be employment-intensive. Moreover, the generation of new employment is not enough to guarantee poverty-reduction. Policies must be

designed such that the poor can take advantage of the new employment opportunities generated.

In addition, the patterns of employment, underemployment, and unemployment in Ghana suggest that an integrated employment framework should target three key areas: (1) agricultural and rural employment, (2) informal urban employment, and (3) labour-intensive industrial development. The focus on agricultural and informal employment is obvious: the majority of the working poor are concentrated in these sectors. However, an effective employment-oriented development framework would also provide better quality, formal alternatives to informal and agricultural employment.

Numerous challenges exist to realizing employment-intensive growth in Ghana. Major constraints include access to credit, inadequate infrastructure, the need for basic skills and training, limited access to markets, technology gaps, supply-side problems of production, insufficient information, and insufficient institutional capacity. Resolving these challenges requires coordination across numerous policy areas and cannot be addressed within the specific provisions of targeted programmes and projects.

If left unchecked, these constraints will confound the realization of employment-intensive growth. Therefore, the report identifies broad recommendations in strategic policy areas – the macroeconomic environment, the financial sector, budget policy and public investment, and trade policy – that go a long way to address the main economic challenges confronting employment programmes and projects in Ghana. The broad policy interventions, discussed in much greater detail in the report, must be combined with strategic agricultural and industrial development programmes that target poverty reduction. The specific example of the Ayensu Starch Company, part of the Presidential Special Initiatives (PSIs), is used to illustrate how such coordination can take place.

In addition to a coordinated policy framework, reliable, timely, and consistent statistics on the state of employment in Ghana are needed if an employment-intensive growth strategy is to be successful. Without such information, identifying policy priorities, evaluating the overall success of an employment framework, or analysing which programmes work and which ones do not becomes impossible. Different types of data are needed to meet the needs of policy formulation and monitoring: short-term employment indicators and in-depth labour market information. The report suggests a

number of specific indicators that could be developed, building on existing surveys and initiatives, in order to track employment outcomes in Ghana.

Successful implementation of an integrated employment framework requires more than strategic policies and labour force information. Without effective coordination and monitoring, government policies to generate new and better employment opportunities for poverty reduction will be compromised. In addition, improvements in institutional coordination will exploit complementarities and eliminate duplicate efforts across sectors and levels of government, i.e. national, regional and district. The report reviews the existing framework for coordination of policies and monitoring of outcomes, and suggests ways for strengthening these institutional mechanisms for implementing an integrated employment framework for poverty reduction in Ghana.

## Glossary

COVE	Corporate-Village Enterprise
DFI	Development Finance Institutions
DPMG	District Poverty Monitoring Group
ERP	Economic Reform Programme
FDI	Foreign Direct Investment
FINSSP	Financial Sector Strategic Plan
GDP	Gross Domestic Product
GLSS	Ghana Living Standards Survey
GPRS	Ghana Poverty Reduction Strategy
GSS	Ghana Statistical Service
HIPC	Heavily-Indebted Poor Country
ILO	International Labour Organisation
IMF	International Monetary Fund
M&E	Monitoring and Evaluation
MDAs	Ministries, Departments, and Agencies
MDGs	Millennium Development Goals
MFEP	Ministry of Finance and Economic Planning
MMDE	Ministry of Manpower Development and Employment
MOFA	Ministry of Food and Agriculture
MOTI	Ministry of Trade and Industry
MTEF	Medium-Term Expenditure Framework
NBSSI	National Board of Small-Scale Enterprises
NDPC	National Development Planning Commission
NIPMG	National Inter-Agency Poverty Monitoring Group
PRSP	Poverty Reduction Strategy Paper
PSIs	Presidential Special Initiatives
REDP	Rural Enterprise Development Programme
RPMG	Regional Poverty Monitoring Group
SSNIT	Social Security and National Insurance Trust
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation
WB	World Bank



## **1. Introduction**

When employment expands along with production, the benefits of growth will be widely shared. Better employment opportunities provide people with new, and often improved, sources of income. In this way, improving the quality and quantity of employment opportunities directly links economic growth to poverty reduction. Low-income households possess few assets of their own. Instead, the most abundant resource the poor have at their disposal is their labour (Islam 2004, Squire 1993). A development strategy that more fully employs a country's human resources and raises the returns to labour becomes a powerful tool for reducing poverty. To realise this potential, development strategies cannot relegate employment to the margins of policy formulation. Employment must become a core objective of economic policy.

The *Ghana Poverty Reduction Strategy* (GPRS) is currently Ghana's blueprint for growth, poverty reduction, and human development. It represents the framework the Government of Ghana adopted to foster economic growth and fight poverty. The breadth of the GPRS is impressive. The Strategy addresses industrial policies, macroeconomic stability, social policy, governance, programmes for the vulnerable and excluded, and rural development. In short, it identifies and confronts the most important development challenges Ghana currently faces.

In view of the critical importance of employment for sustained poverty reduction, however, there is a need to review the content of the *Ghana Poverty Reduction Strategy* with specific attention to the issue of employment. To this end, a joint ILO/UNDP team was set up to study the employment initiatives, programmes, and projects that the Government of Ghana is currently pursuing within the context of the GPRS. The aims of the study were three-fold: (1) to examine the current content and implementation of the GPRS with regard to employment; (2) to identify the challenges to realising the employment objectives of the GPRS; and, based on these findings, (3) to present recommendations for strengthening the employment content of Ghana's national policies.

This report presents the study's findings and recommendations. It is organised as follows. The second section, following this brief introduction, discusses the backdrop to the report, focusing on Ghana's recent economic performance and the objectives of the country's prior reform efforts. The third section summarises the main findings of the

study. It argues that, although a foundation of employment programmes and projects currently exists, the employment content of the GPRS could be strengthened by developing a more integrated employment framework.

The remaining sections of the report suggest how such an integrated employment framework could be crafted. Section four reviews the necessary components of an employment-intensive growth strategy and discusses the challenges to realising this goal in Ghana. Section five analyses four areas of economic policy that can be leveraged to support employment-intensive development – the macroeconomic environment, the financial sector, budgetary policy and public investment, and trade policy. Section six shows, in concrete terms, how coordination across policy areas supports innovative approaches to employment creation – using the example of the Ayensu Cassava Starch Company.

Section seven argues that the production of consistent and timely employment information is imperative if effective policies are to be developed and labour market outcomes monitored. The section also presents recommendations of specific indicators that could be used to track progress in improving employment opportunities. Section eight discusses problems of institutional coordination and capacity that currently impede the implementation of a poverty-reduction strategy that specifically targets employment. Finally, section nine summarises the recommendations of the report and offers some concluding remarks.

## 2. Background: Economic Reform in Ghana

Ghana has a long history of economic adjustment programmes. In 1983, the Government of Ghana initiated the Economic Reform Programme (ERP), the first in a series of strategies implemented after the economic turmoil of the 1970s that explicitly incorporated the IMF Stabilisation and World Bank Structural Adjustment Programmes. In the years following the implementation of the ERP and subsequent reform programmes, Ghana experienced significant improvements in macroeconomic performance. Real gross domestic product (valued in cedis), which had shrunk by approximately 16 percent between 1971 and 1983, began to grow again, posting average annual growth of 4.7 percent and per capita growth of 1.7 percent from 1984 to 2001.<sup>1</sup> Figure 2.1 tracks Ghana's growth performance, based on official measurements, from 1965 through the reform period.

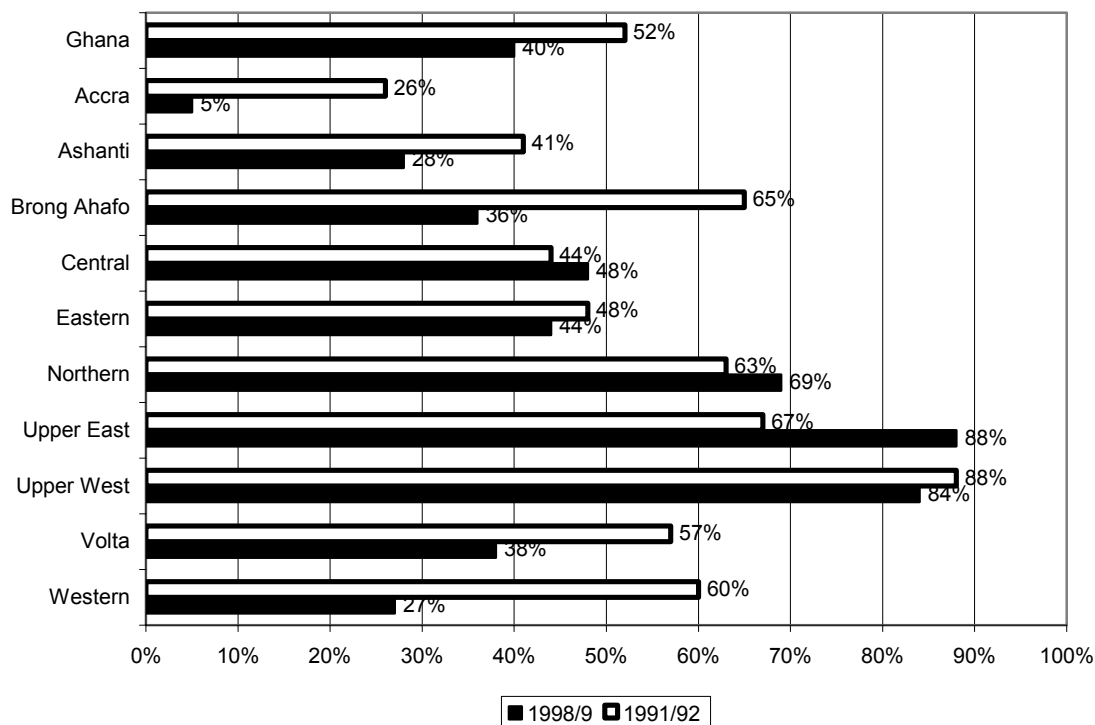
Figure 2.1. Annual growth in Gross Domestic Production, 3-year moving average, Ghana 1965-2003.



Source: World Bank *World Development Indicators 2003* and Bank of Ghana.

In addition, gross investment rates improved to over 20 percent of GDP today, compared to an average of 10.2 percent in the 1970s. Inflation was gradually contained with single-digit inflation rates expected in 2004. Real per capita income remains lower than the immediate post-independence levels. Measured in \$US 1995, per capita GDP was \$421 in 2001, but \$450 in 1960. Nevertheless, over the past decade, poverty has declined on average. For example, between 1992 and 1999 the proportion of all Ghanaians living in poverty fell from 52 percent to 40 percent (Figure 2.2), and those in extreme poverty, from 36 to 27 percent.<sup>2</sup>

Figure 2.2. Poverty rates in Ghana, Ghana Living Standards Survey 1998/9.



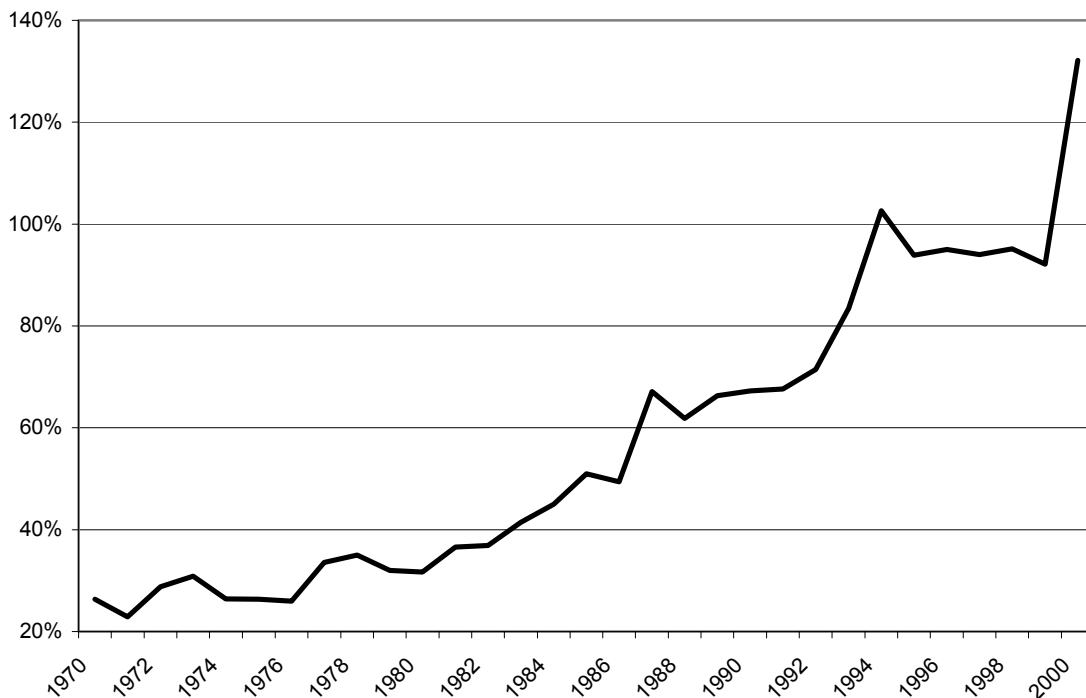
Source: GSS (2000b).

Because of this impressive record, Ghana has often been showcased as a “success story”, demonstrating how structural adjustment can work in sub-Saharan Africa. However, at many levels significant challenges remain, raising doubts about the sustainability of the current development path. Ghana remains highly dependent on overseas development assistance. Despite high rates of growth during the years of structural adjustment, Ghana’s current account deficit, excluding current transfers of

donor aid, has shown little sign of improving. Gross domestic investment has improved significantly in recent years. Nevertheless, gross domestic savings remain at low levels, indicating that much of the investment is financed externally. Without these external funds, Ghana's increase in domestic investment, the country's respectable rates of growth, and the structure of its balance of payments would prove unsustainable.

More importantly, Ghana's macroeconomic performance has not facilitated structural transformation of the economy. The limited diversity of the Ghanaian economy, including its dependence on primary commodity exports, has changed little. Value-added in agriculture accounts for approximately 36 percent of GDP, roughly equivalent to the 1961 figure of 35 percent.<sup>3</sup> From 1997 to 2001, primary commodities accounted for 61.2 percent, on average, of Ghana's exports compared to 11 percent for manufactured goods.<sup>4</sup> In addition, Ghana's dependence on external financial flows meant that the country's external debt grew under the economic reforms. In 1983, total external debt was 41.4 percent of GDP, but increased to 132.2 percent of GDP by 2000 (Figure 2.3).<sup>5</sup>

*Figure 2.3. Total external debt as a percentage of GDP, Ghana 1970-2001.*



*Source: World Bank Global Development Finance 2003.*

The lack of structural transformation of the Ghanaian economy constrained the development of new and better employment opportunities and a fuller utilisation of the labour force. Under the economic reform programmes, higher rates of growth did not improve employment for a large segment of the working population (Baah-Boateng 2004, Fine and Boateng 2000). Instead, the majority of employment opportunities continued to consist of low-income agricultural and informal activities. Moreover, formal public and private sector jobs declined. Persistent unemployment, underemployment, and growth in precarious forms of employment remained central features of the economy. The most recent round of the Ghana Living Standards Survey revealed that, of the labour force aged 15 to 64 years, 52 percent were self-employed in agriculture, 34.3 percent worked in the informal economy, and only 13.7 percent worked in formal public or private employment.<sup>6</sup>

Regional disparities also grew more pronounced. In the 1990s, poverty actually increased in the Northern, Upper East, and Central regions which are dependent on agricultural production (Figure 2.2). Other rural regions saw smaller declines in poverty compared to urban areas. The food crop farming population, one of the largest employers of labour, recorded the highest poverty rate, constituting 59 percent of the poor.<sup>7</sup>

A major factor contributing to growing poverty in the rural areas is the decline in the absolute level of agricultural productivity in recent years. Moreover, other sectors of the economy with labour-intensive linkages have not grown adequately to produce a significant number of alternative employment opportunities. The result has been increased rural to urban migration, but without sufficient employment creation in the urban centres. Over the two decades from 1981 to 2001, urban population growth rates averaged 3.95 percent a year compared to an overall population growth rate of 2.85 percent.

The inability to increase employment opportunities and to enhance the quality of remunerative work undergirds Ghana's limited capacity to translate a record of moderate growth into sustainable improvements in living standards during the period of economic reform. There have been improvements in several human development indicators over this period. Life expectancy at birth increased from 54.0 years in 1982 to 55.9 years in

2001. Similarly, on average, infant mortality rates fell from 88.4 per 1,000 live births to 57.0 over the same period. Nevertheless, improvements in human development would have likely exceeded these achievements if the benefits of growth had been widely distributed.

In the face of these substantial social deficits and the weight of the external debt, Ghana opted for the Heavily Indebted Poor Country (HIPC) path in 2000. The Government of Ghana produced the *Ghana Poverty Reduction Strategy* (GPRS) as part of the country's participation in the HIPC programme. The GPRS is the Poverty Reduction Strategy Paper for Ghana.<sup>8</sup> An initial framework for the GPRS was developed in 2002 and a revised document was finalised in 2003, covering the medium-term period 2003 to 2005. The GPRS represents the country's current economic development framework – a comprehensive blueprint that supports the twin goals of growth and poverty reduction. It is a broad-based growth and development strategy that maps out a medium-term course for improving human development outcomes and reducing poverty.

### **3. Employment and the Ghana Poverty Reduction Strategy: Findings of the Study**

#### *3.1 Objectives of the Study*

The joint ILO/UNDP mission had three primary objectives. First, the study examined the current content and implementation of the *Ghana Poverty Reduction Strategy* with regard to employment. This involved evaluating the GPRS document itself but, more importantly, also looking at the specific projects, programmes, and policies currently being pursued in the process of implementing the Strategy. Second, the mission identified challenges for realising the employment objectives of the GPRS and the programmes that were developed in the course of implementing the Strategy. The scope of this inquiry was broad, ranging from the macroeconomic environment to government capacity limitations. Finally, based on these findings, the mission developed recommendations for strengthening the employment content of the GPRS with the ultimate aim of improving the employment situation in Ghana to support poverty-reducing growth.

In pursuing these objectives, the mission undertook consultations with government institutions, donors, researchers, and civil society organisations to evaluate the role of employment in the GPRS in more detail. A list of the individuals consulted is provided in the appendix to this report. In addition to the consultations with policymakers and stakeholders, the mission analysed employment data, economic trends, international experiences, and country-specific policy documents and research studies in drawing its conclusions.

#### *3.2 Summary of the Findings*

Unlike many other Poverty Reduction Strategy Papers (PRSPs), the GPRS itself presents employment as a core objective of the policy framework. One of the five stated pillars of the GPRS is “Production and Gainful Employment”. Many of the Ministries, Departments, and Agencies (MDAs) that are responsible for implementing this pillar of the GPRS have established a foundation of employment-targeted projects and programmes within the context of the GPRS. The MDAs have developed a core set of



initiatives for creating and improving employment opportunities and, in some cases, have begun to implement them.

However, despite its strong foundation of employment-targeted programmes, the employment content of the GPRS must be strengthened across a number of dimensions if sustainable poverty reduction is to be achieved. The GPRS treats employment as a sectoral issue, linked to specific programmes of agricultural, industrial, and export development, and other production-oriented initiatives. The document does not identify the challenges to implementing these sectoral projects or propose solutions. The GPRS lacks details on employment targets and how employment outcomes will be monitored. Employment is not consistently seen as a means to improve access to income and lower poverty rates (the *raison d'être* of the GPRS). Rather it is frequently regarded as a by-product of sectoral policies which cannot address the challenge of employment by themselves.

In addition, the other pillars of the GPRS impact employment outcomes, including “macroeconomic stability”, “human resource development and basic services”, “special programmes for the vulnerable and excluded”, and “governance”. However, the issue of employment is largely absent from the discussion of these policy areas. For these pillars, employment and employability could have provided the benchmark for the success of these strategies, representing a cross-cutting output for all policy areas.

Furthermore, the GPRS does not adequately analyse the dynamics of the informal economy or present a well-orchestrated approach to poverty reduction for working people in informal employment. Informal employment and subsistence agricultural activities currently account for the majority of employment in Ghana. In many cases, the growth of informal activity represents a willingness to accept extremely low-quality employment as the only option available. Therefore, conditions in informal employment should be more systematically addressed within the context of a comprehensive strategy for poverty reduction.

The mission also found that the current lack of consistent and timely information on employment, both formal and informal, is an impediment for developing effective policies and monitoring outcomes. Stakeholders repeatedly identified the lack of adequate information on employment, labour markets, and the profile of the Ghanaian

workforce as a fundamental constraint for addressing employment problems in Ghana. This lack of basic information will limit the development of employment-oriented growth strategies within the context of the GPRS.

Although employment information is currently limited, a core infrastructure exists for generating data on patterns of employment, incomes, and labour force characteristics. The backbone of this information system is the Ghana Living Standards Survey (GLSS). The GLSS has the potential to generate much-needed information to assess current employment trends and assist in the formulation of targeted policies. In addition, the Bank of Ghana has begun to evaluate the impact of its policies on real economic outcomes – including employment. To this end, the Bank of Ghana has developed two tools – a Business Confidence Index and a Composite Index of Economic Activity – for assessing developments in the productive sectors of the economy. We explore how these initiatives could be developed further to strengthen the employment focus of the GPRS later in the report.

In addition, the monitoring and evaluation of the GPRS with respect to employment outcomes is currently weak. The employment and labour force indicators used to monitor the performance of the Strategy are insufficient for gauging the success of the GPRS. For example, within the Monitoring and Evaluation Plan of the GPRS, the only indicator tangentially related to employment creation is the number of employment centres operating in Ghana. The lack of attention to employment represents a significant, and potentially debilitating, omission in the current monitoring and evaluation process. Therefore, establishing a system for evaluating and monitoring progress in terms of the quantity, quality, and types of employment opportunities created is essential.

We also found that institutional coordination across MDAs poses a significant challenge for realising the employment objectives of the GPRS. Effective coordination is essential since the various components of the GPRS are interrelated and cannot be separated into individual strategies. For example, macroeconomic policies determine the environment in which an expansion of production and employment occurs. Investments in education and other social services impact labour market outcomes. Budget allocations must support policy priorities. Sectoral coordination is only one aspect of the challenge of

GPRS implementation. Coordination must also occur between the national, regional, and district levels.

Finally, the institutional capacity of many government bodies – including MDAs at the national level and district assemblies at the local level falls below what is required to fully implement the policies. Even the most well-developed employment strategies will fail if the capacity to implement them has not been developed.

### *3.3 An Integrated Employment Framework for Poverty Reduction in Ghana*

Based on these findings, we recommend that an integrated employment framework for poverty reduction be developed as part of the revision process for the *Ghana Poverty Reduction Strategy*. As mentioned above, the Government of Ghana has already established a solid foundation of employment policies. Therefore, the employment framework should build from what already exists. Nevertheless, the employment content of the national poverty reduction strategy must be strengthened and enriched in a number of respects. The remainder of this report will outline the elements of such an employment framework and provide concrete recommendations for moving towards a growth path in Ghana that generates decent employment and reduces poverty.

## **4. Growth, Employment, and Poverty in Ghana: Towards an Integrated Framework**

### *4.1 Employment-Intensive Growth for Poverty Reduction*

Employment links economic growth to poverty reduction. When economic growth generates new or improved employment opportunities, specifically for low- and middle-income families, household incomes will rise across the board. Employment creation provides a direct channel for distributing the benefits of economic growth broadly throughout the population.

Evidence from around the world suggests that the greater the employment focus, the more effective economic growth becomes in fighting poverty (Khan 2001, Islam 2004). The precise path to poverty reduction differs from country to country. However, most developing countries that have dramatically reduced their poverty levels have done so by improving employment opportunities. In these cases, low-income households have been able to participate in the improvements in the quality and quantity of paid work – for example, by improving agricultural productivity or increasing jobs in labour-intensive production. Numerous examples exist – Indonesia, Vietnam, Chile, Bangladesh, and South Korea, to name a few (Osmani 2004, Khan 2001).

Economic growth alone can not be counted on to generate significant improvements in employment and poverty reduction (Osmani 2004, 2003). Countries from around the world have experienced periods of “jobless growth” in which output expands, but employment stagnates or declines. Similarly, in many economies, informal employment has grown much more rapidly than formal employment, even during periods of relatively rapid economic growth. Such “informalisation” represents a deterioration, on average, of the quality of remunerative work. For a country like Ghana, in which employment must be central to any effort to reduce poverty, the *type* of growth matters as much as the *level* of growth.

Employment is not the only means of translating growth into poverty reduction. The additional resources that growth generates can be utilised to provide basic services to the poor – such as education, health, and child maintenance grants. Social provisioning is a necessary component of a comprehensive poverty-reduction strategy, insuring the supply of public goods and services necessary for human development. However, the

development of a poverty-reduction strategy does not demand a stark choice between employment and social provisioning. An employment-intensive approach complements programmes aimed at meeting basic needs by improving the material resources low-income households have at their disposal. Generating decent work becomes a powerful instrument for achieving the common objective of human development.

In this respect, an employment-targeted approach to economic development assists the attainment of the Millennium Development Goals (MDGs). The impact of employment is not restricted to poverty reduction, but supports other human development targets. For example, improving women's access to paid employment opportunities improves gender equity. Moreover, when women have access to independent sources of income, the distribution of resources within the household is often more equitable and child health and developmental outcomes frequently improve. The implications are clear: appropriately designed employment policies – including those that explicitly address gender issues and avoid the “male breadwinner bias” (Elson and Cağatay 2000) – can have an enormous positive impact on human development and the attainment of the MDGs.

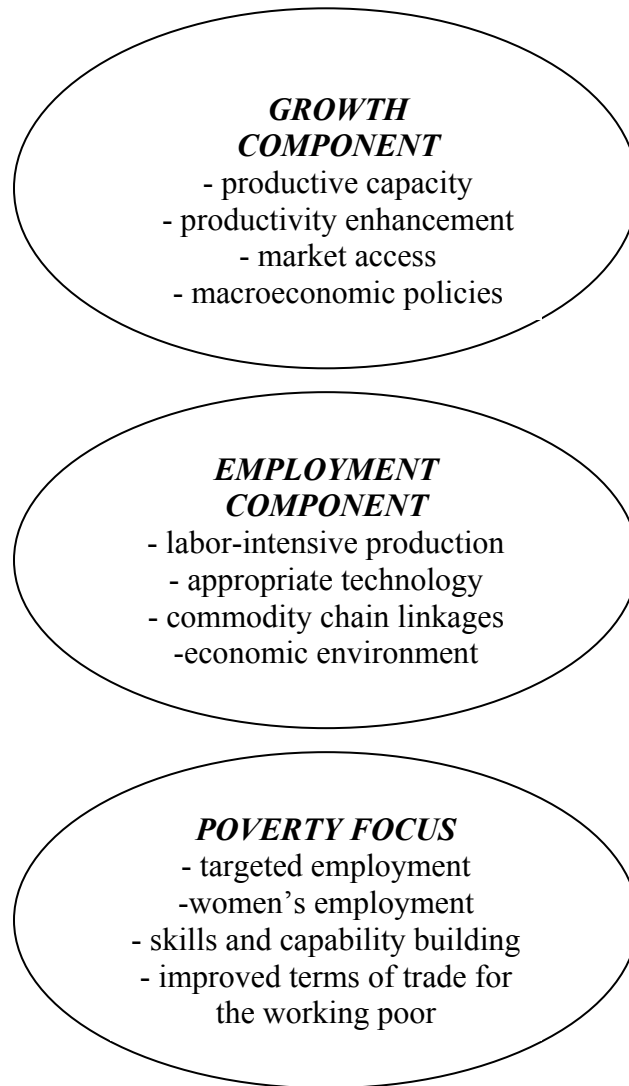
The establishment of an employment-intensive growth path for poverty reduction in Ghana requires the realisation of three interrelated components:

- **A Growth Component** - generating higher rates of economic growth.
- **An Employment Component** - insuring that economic growth produces a significant number of new employment opportunities and improves existing ones.
- **A Poverty Focus** - linking poor individuals and households to new and improved employment opportunities.

The connections between these three elements are straight-forward. Economic growth alone is necessary, but not sufficient. Growth must be employment-intensive. Moreover, the generation of new employment is not enough to guarantee poverty-reduction. Policies must be designed such that the poor can take advantage of the new opportunities.

In developing a conceptual framework for an employment strategy, it helps to examine each of these three components in more detail. Figure 4.1 summarises these connections. Concrete suggestions for how these different elements can be realised are contained in subsequent sections of the report.

Figure 4.1. Employment-intensive growth for poverty reduction



**A Growth Component.** Higher rates of economic growth require improvements on three fronts: (1) expanding investment in productive capacity, (2) raising productivity, and (3) securing adequate demand. The expansion of productive capacity through new investments will generally raise labour demand, since increased production requires additional labour as well as capital. In addition, productivity improvements lay the groundwork for sustained improvements in living standards and wages. Higher productivity generates growth by increasing the potential output from a given pool of resources.

However, higher rates of productivity can work against employment creation when less labour is needed to produce a certain level of output. Similarly, new investments will not increase demand for labour if such investments simply add to excess capacity. To avoid these pitfalls, employment-intensive growth requires that increasing demand for domestically-produced goods and services is matched with productivity improvements and investments in productive capacity. Therefore, access to markets – the ability to export to foreign markets and the expansion of domestic demand – is necessary to realise the benefits of greater productivity and investment

These elements of an effective growth strategy for employment creation – increased investment, productivity improvements, and access to an expanding market – will not flourish in a hostile macroeconomic environment. Therefore, macroeconomic policy must support employment-targeted growth. In addition, a growth strategy that relies heavily on attracting foreign direct investment (FDI) to Ghana will not likely contribute to an employment-targeting approach. The bulk of FDI that comes to Ghana finances investment in highly capital-intensive export sectors, most notably mining and mineral extraction industries (UNCTAD 2003). Higher levels of FDI could raise the rate of economic growth in Ghana, but will do little to support employment creation.

***An Employment Component.*** Sectoral interventions and agricultural and industrial policies are needed to insure that growth is employment intensive. Investment must flow to labour-intensive sectors, enterprises, and activities so that the composition of economic activity shifts and generates more employment. In Ghana, efforts to improve agricultural production, develop new agro-industries, support small- and medium-scale enterprises, expand labour-intensive manufacturing, and provide public services and infrastructure are all examples of targeting labour-intensive activities. Investment in these activities can generate a larger number of employment opportunities relative to investment in other capital-intensive sectors, such as mining.

However, a purely sectoral approach artificially limits employment creation. Industrial policy must be crafted to leverage downstream and upstream linkages and to take advantage of larger employment multipliers. Technologies must be appropriate to insure competitive market access and to absorb labour. When the broad economic policy

environment is inappropriate – for example, when macroeconomic priorities reduce the employment potential of the economy by rationing credit or encouraging capital-intensive investments – policy priorities should be adjusted appropriately.<sup>9</sup>

***A Poverty Focus.*** The poor must be able to benefit from the employment strategy. Targeted employment policies directed at segments of the economy where the poor are concentrated contribute to this objective. In Ghana, the largest number of poor households is located in rural regions. Therefore, employment opportunities must focus on the rural areas and agricultural development. Improvements of returns to farming are vital, but the development of other opportunities for remunerative work is also essential. For many in the rural areas the only way out of poverty is to find an alternative to subsistence agriculture. Currently, such alternatives have been hard to find. Many people migrate to urban areas where low-productivity, low-income employment in the informal economy is the only option.

Individuals must also be equipped to take advantage of new opportunities. Adequate skills and training must be matched to emerging employment opportunities. In some cases, access to credit and capital are required for the poor to take advantage of economic opportunities.

In addition, the terms of trade for the working poor must improve in order to discourage immiserising employment – that is, employment that traps workers in a cycle of low-productivity and poverty. In Ghana, the prices producers receive for their agricultural produce are much lower than consumer prices in the urban markets. Much of the value is captured by others along the distribution network that links the product and the market. Similarly, crowding in the urban informal marketplace creates intense competition and reduces the already low incomes that informal workers earn. In these cases, if poor workers could capture a larger share of the value of what they produce or sell, the poverty-reduction potential of employment would be enhanced.

This conceptual framework sketches, in very broad terms, the characteristics of employment-intensive growth geared towards poverty reduction. The ideas presented here are not specific to Ghana and, as such, they provide only general lessons about the



relationships between growth, employment, and poverty. We could apply these arguments to any country – developed or developing. But this lack of specific proposals leaves open the question of the policies that would actually constitute an integrated employment framework for Ghana. In devising more specific proposals, we must take into account the existing labour force situation, if employment policies are to target the poor.

#### *4.2 Overview of Employment and the Labour Force in Ghana*

The vast majority of Ghanaians work to earn a living. An estimated 77.2 percent of the population, aged 7 years or older, is economically active. If we consider people aged 15 to 64 years, the activity rate rises to 88.8 percent – 91.2 percent for men and 87.1 percent for women. According to the most recent Ghana Living Standards Survey (GLSS), approximately 6.7 percent of the population 15 to 64 years old was openly unemployed and 82.1 percent was employed (Table 4.1).

*Table 4.1. Employment and unemployment, by gender, Ghana 1998/9.*

	<b>All</b>	<b>Male</b>	<b>Female</b>
<i>Total population aged 15+</i>			
Unemployed	6.7%	7.2%	6.4%
Employed	82.1%	84.0%	80.7%
<i>Employed population aged 15-64</i>			
Formal private and public employment	13.7%	22.7%	6.2%
Total informal employment (a-b)	86.3%	77.3%	93.8%
(a) Private informal and non-agricultural self-employment	34.3%	21.4%	45.1%
(b) Self-employment (agricultural)	52.0%	55.9%	48.7%
<i>Sub-category of employed</i>			
Unpaid family work	17.2%	10.7%	22.7%

*Source: GSS (2000a)*

The rates of employment and unemployment are important indicators of the state of the labour force in Ghana. However, they present a limited view of the overall employment situation. Measurements of the type of work available and the extent of underemployment, not simply open unemployment, are needed to fill out the picture.

According to the most recent data from the GLSS, formal employment accounted for a relatively small fraction of total employment – only 13.7 percent of employed persons aged 15 to 64 years. For the purposes of this overview, let us define “total informal employment” to include private informal employment and self-employment (both agricultural and non-agricultural). Using this definition, an estimated 86.3 percent of the employed population worked in informal activities. Women were disproportionately represented in informal activities with 93.8 percent of all employed women working in informal employment. For men, the comparable figure was 77.3 percent. Women were more likely to perform unpaid work in family enterprises and to work in non-agricultural informal activities.

*Table 4.2 Employment and unemployment, urban and rural, Ghana 1998/9.*

	<b>All</b>	<b>Urban</b>	<b>Rural</b>
<i>Total population aged 15+</i>			
Unemployed	6.7%	11.9%	4.3%
Employed	82.1%	78.3%	84.0%
<i>Employed population aged 15-64</i>			
Formal private and public employment	13.7%	25.9%	8.1%
Total informal employment (a-b)	86.3%	74.1%	91.9%
(a) Private informal and non-agricultural self-employment	34.3%	55.3%	24.7%
(b) Self-employment (agricultural)	52.0%	18.8%	67.2%
<i>Sub-category of employed</i>			
Unpaid family work	17.2%	8.6%	21.2%

*Source: GSS (2000a)*

Ghana’s employment situation varies significantly from rural to urban areas (Table 4.2). Although formal employment is concentrated in urban areas, non-agricultural informal employment accounted for a majority of urban employment. Informal trading and service provision were the most common activities of the urban informal economy. In contrast, agricultural self-employment represented approximately two-thirds of all rural employment. Incomes from agricultural employment were extremely low on average and poverty rates were the highest in rural areas. Unpaid work on a family farm

or enterprise was much more common in rural areas, with much of this work done by women.

Agriculture dominates the sectoral distribution of employment (Table 4.3). An estimated 55 percent of the employed population nationwide worked in agricultural activities. Trading was the next largest sector in terms of employment. An estimated 18.3 percent of the employed worked as traders. Manufacturing represented 11.7 percent of employment and community and social services, which include the public sector, 9.8 percent. Much of the formal wage employment can be found in these two sectors, but they represent only a fraction of total employment opportunities. Self-employment represents the bulk of employment in both agriculture and trading, and this underscores the prevalence of informal employment throughout the Ghanaian economy. While formal employment has stagnated in recent years, informal self-employment has been rising (EMPRETEC 2003).

*Table 4.3 Employment by sector, Ghana 1998/9.*

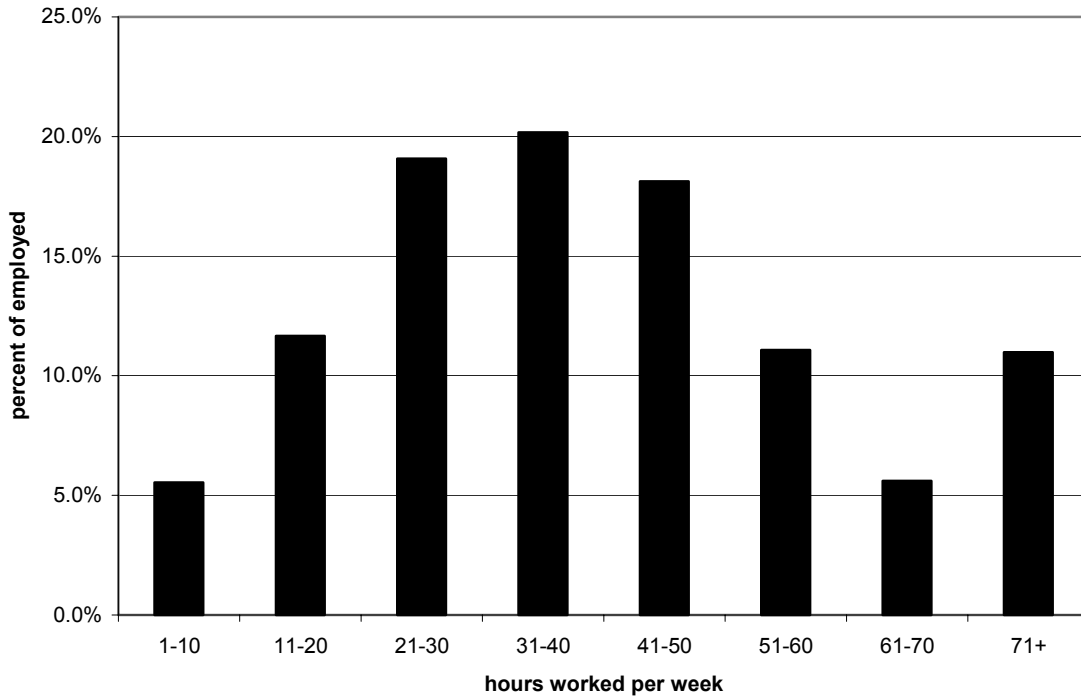
	<b>All</b>	<b>Male</b>	<b>Female</b>
<i>Employed population aged 15-64 by Type of Work</i>			
Agriculture	55.0%	59.8%	51.1%
Mining/Quarrying	0.7%	1.4%	0.1%
Manufacturing	11.7%	8.9%	13.9%
Utilities	0.2%	0.4%	0.1%
Construction	1.4%	2.8%	0.2%
Trading	18.3%	7.4%	27.4%
Transportation/communication	2.2%	4.6%	0.1%
Financial services	0.8%	1.7%	0.1%
Community & social services	9.8%	13.0%	7.1%

*Source: GSS (2000a).*

Simply classifying the working population as either “employed” or “unemployed” does not shed much light on the reality of employment in Ghana. It fails to recognise the severe problem of underemployment – sometimes called “disguised unemployment”. Individuals will be counted as employed even if they work only a few hours a week or if their productivity is so low that their efforts yield little in terms of income or output. Capturing the extent of underemployment is difficult. The quantity of employment, expressed as hours of work, provides one measure (Figure 4.2). For example, according to the most recent GLSS, about half of all employed individuals worked less than 40

hours per week. In addition, 14 percent of the employed reported that they worked less than 40 hours a week, but they would work more if they had the opportunity to do so.

*Figure 4.2. Distribution of hours worked per week, Ghana 1998/9.*



*Source: Calculated from the GLSS 4 data.*

However, hours of work are not a perfect measure of underemployment because it does not take into account the intensity, or the productivity, of the time spent at work. An individual might work very long hours, but generate little income or production during that time. For example, an informal street trader could work many hours, but sell very little, particularly if demand is slack. In Figure 4.2, the fraction of people working over 50-59 hours or 60-69 hours a week declines, but then increases again for people working over 70 hours. This could represent a different kind of underemployment: people working long hours in low-productivity activities just to earn a basic income.

A discussion of the Ghanaian labour market would be incomplete without reference to the institutional framework that governs employment relationships. The principal legal framework for the hiring and termination of workers in the country prior to the enactment of the Labour Act (Act 651 of 2003) was the Labour Decree of 1967. This earlier law made provision for the establishment of public employment centres

which were meant to regulate the labour market. The new Labour Act amends, consolidates, and extends the laws relating to labour, including the role of employment centres. The functions of the employment centres include:

- Assisting unemployed and employed persons to find suitable employment and assisting employers to find suitable workers.
- Facilitating the occupational and geographical mobility of labour thereby smoothing temporary distortions in supply and demand for labour in labour markets across the country.
- Collecting and analysing information on the labour market.
- Registering the unemployed.
- Assisting in social and economic planning to generate employment.
- Providing vocational guidance for young workers.
- Providing a framework for dealing with youth unemployment and unemployment among disabled persons.

The effectiveness of these institutions was seriously tested with the deterioration of the economy in the 1970s and the accompanying rise in unemployment. Employment centres were overwhelmed by the number of unemployed and could not perform their role in facilitating the operation of labour markets. Nevertheless, the effective discharge of the functions detailed in the new Labour Act should improve the functioning of labour markets throughout Ghana. In the process, additional data would be generated on the Ghanaian labour force, including short-term labour market indicators for the formal economy.

The patterns of employment, underemployment, and unemployment in Ghana detailed above suggest that an integrated employment framework for poverty reduction should target three key areas: (1) agricultural and rural employment, (2) informal urban employment, and (3) labour-intensive industrial development. The focus on agricultural and informal employment is obvious: the majority of the working poor are concentrated in these sectors. Improving the quality of agricultural and informal employment opportunities will directly impact the living standards of the poor.

However, an effective employment-oriented development framework would also provide better quality, formal alternatives to informal and agricultural employment. Therefore, industrial development, stressing employment creation in both rural and urban areas, must complement the other focus areas of the employment strategy.

### *4.3 Existing Initiatives, Challenges, and Constraints*

The raw materials for employment-intensive growth geared towards poverty reduction already exist in Ghana. As mentioned previously, the Government of Ghana has developed a number of employment-oriented projects and programmes within the context of the GPRS. There are numerous examples:

- ***The Presidential Special Initiatives (PSIs)*** in cassava, palm oil, garments, and salt aim to enlarge and diversify export markets with direct linkages to labour-intensive activities across supply chains.
- ***The Rural Enterprise Development Programme (REDP)*** of the Ministry of Trade and Industry is a decentralised approach to employment creation that directly involves district administrations. The vision of the programme is that each of Ghana's 110 districts should be able to develop a business plan for three flagship enterprises based on local resources and competencies.
- ***The National Board of Small Scale Enterprises (NBSSI)*** continues to support the development and improvement of informal enterprises.
- ***The Ministry of Food and Agriculture*** is pursuing projects to raise the returns to agricultural employment, including the promotion of high-value crops such as cashews and improvement of the country's livestock production.

More employment and improvements in labour income are the core outcomes these programmes and projects aim to achieve. In addition, the employment created through these initiatives is likely to be well-targeted in terms of poverty reduction. The creation of new opportunities and the improvement of existing ones are targeted at rural, informal, and low-income workers and their families.

Despite the promise of these employment-oriented programmes and projects, numerous challenges to realising them exist. Constraints include access to credit, inadequate infrastructure, the need for basic skills and training, limited access to markets, technology gaps, supply-side problems of production, insufficient information, and too little institutional capacity and coordination. The main challenges to implementing the existing employment projects are summarised in Table 4.4.

Resolving these challenges requires coordination with policies that lie outside the scope of specific employment programmes. For example, providing adequate infrastructure requires support from the budgetary process. Insuring access to markets involves trade and exchange rate policies. Financial sector reforms and monetary policy

can lower the cost of credit and increase the availability of medium-term financing. Without the supporting economic policies in place, the probability that the existing employment programmes will achieve their intended targets is diminished.

*Table 4.4 Challenges and constraints facing existing employment initiatives*

<p><b><u>Credit</u></b> Credit for investment tends to be high-cost and short-term. Access to medium- and long-term credit on favourable terms for investment remains a problem.</p>
<p><b><u>Infrastructure</u></b> Inadequate economic infrastructure – including roads, water, and electricity – limits access to markets and reduces productivity, particularly in rural areas.</p>
<p><b><u>Skills and Training</u></b> Basic skills and training limit the development of small-scale enterprises and entrepreneurial activities. Even basic literacy and numeracy can raise productivity.</p>
<p><b><u>Market Access and Competitiveness</u></b> Limited market access can constrain demand for products and limit production. Supply-side issues – such as competitiveness and product quality – also reduces demand.</p>
<p><b><u>Lack of Labour Force Information</u></b> Lack of information on employment, skills, and Ghana’s labour market compromise government planning for effective employment creation.</p>
<p><b><u>Coordination Problems</u></b> The realisation of employment objectives involves coordination across MDAs. Lack of coordination can hinder the realisation of employment policies.</p>

In confronting these challenges, it must be recognised that specific strategies are needed for different segments of the Ghanaian economy. In particular, an employment framework must identify and address the specific needs of those engaged in informal activities, both agricultural and non-agricultural. There is no guarantee that creating an “enabling environment” for the private sector in general will address the specific needs of small-scale, informal, or labour-intensive enterprises. A targeted approach to meeting these challenges is needed, with the ultimate objective of improving the quality and quantity of employment opportunities.

The following three sections of the report present recommendations for addressing these challenges and, thereby, identifying the core elements of an integrated employment framework for Ghana. In the next section, we discuss core economic policies that must support the employment framework. These include the macroeconomic environment, the financial sector, budgetary policy and public investment, and trade

policy. Recommendations for developing employment indicators and improving institutional coordination are discussed in the final sections of the report.



## **5. Economic Policies to Support Employment-Intensive Growth**

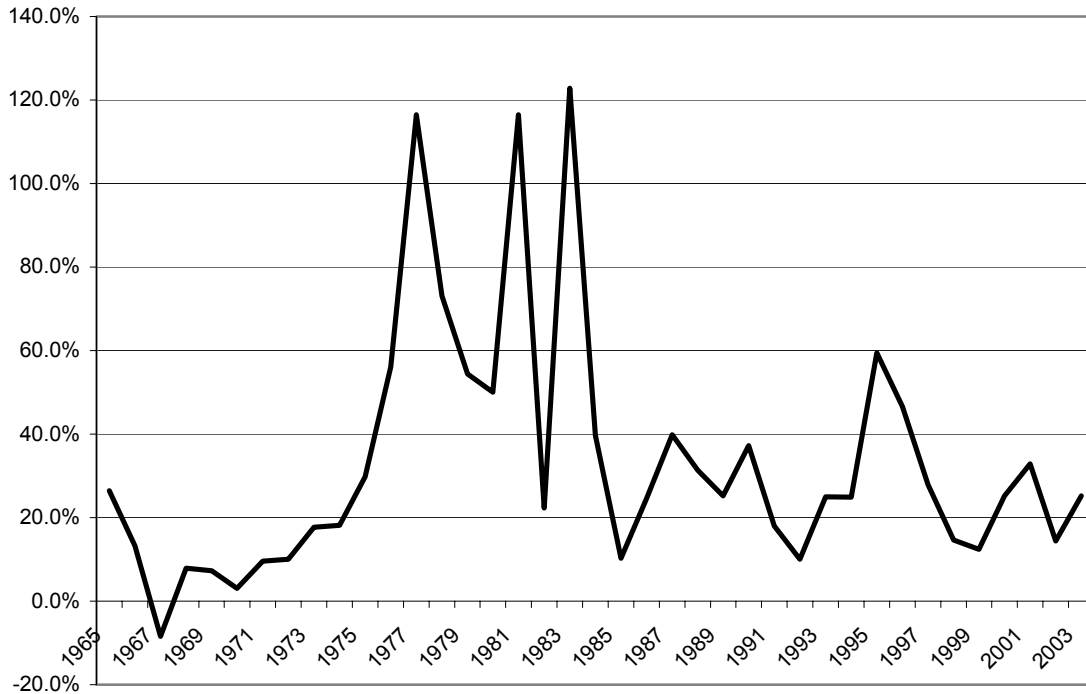
Removing the constraints that impede employment-intensive growth requires coordination with policies that lie outside the scope of specific sectoral programmes. Employment-targeted initiatives cannot thrive in a hostile economic environment. Therefore, broad economic policies must be reoriented to focus on improving employment opportunities for poverty reduction. The following section examines four policy areas –the macroeconomic environment and price stability, the financial sector, budgetary policy and public investment, and trade policy – that directly impact employment creation and provides recommendations for strengthening their employment focus.

### *5.1 The Macroeconomic Environment and Price Stability*

One of the five pillars of the *Ghana Poverty Reduction Strategy (GPRS)* is “macroeconomic stability”. Macroeconomic stability provides a predictable environment for investors, employers, the self-employed, and the poor to make economic decisions. An unstable environment generates risks and uncertainty that dampens economic growth and severely limits new employment opportunities. In many cases, the costs associated with economic instability fall on the shoulders of low-income households. Therefore, an employment-intensive growth strategy for poverty reduction requires macroeconomic stability as an anchor for the overall employment framework.

Apart from issues of fiscal management – which will be addressed separately – the over-arching goal for macroeconomic stability in the GPRS is price stability.<sup>10</sup> The explicit target is to reduce inflation to 5 percent by the year 2005. A glance at historical trends reveals why inflation receives so much attention in Ghana (Figure 5.1). During the economic crisis years of the 1970s, Ghana experienced extremely high rates of inflation. One of the principal reasons for high inflation was the fact that the Bank of Ghana directly financed the public debt, leading to excessive increases in the money supply (Aryeetey and Harrigan 2000). Even during the period of economic reform, inflation has remained relatively high, averaging 27.2 percent over the 20 years 1984 to 2003. In recent years, inflation has been reduced and the inflation rate is currently approaching single digits.<sup>11</sup>

Figure 5.1. Inflation rate in Ghana, Consumer Price Index, 1965-2003.



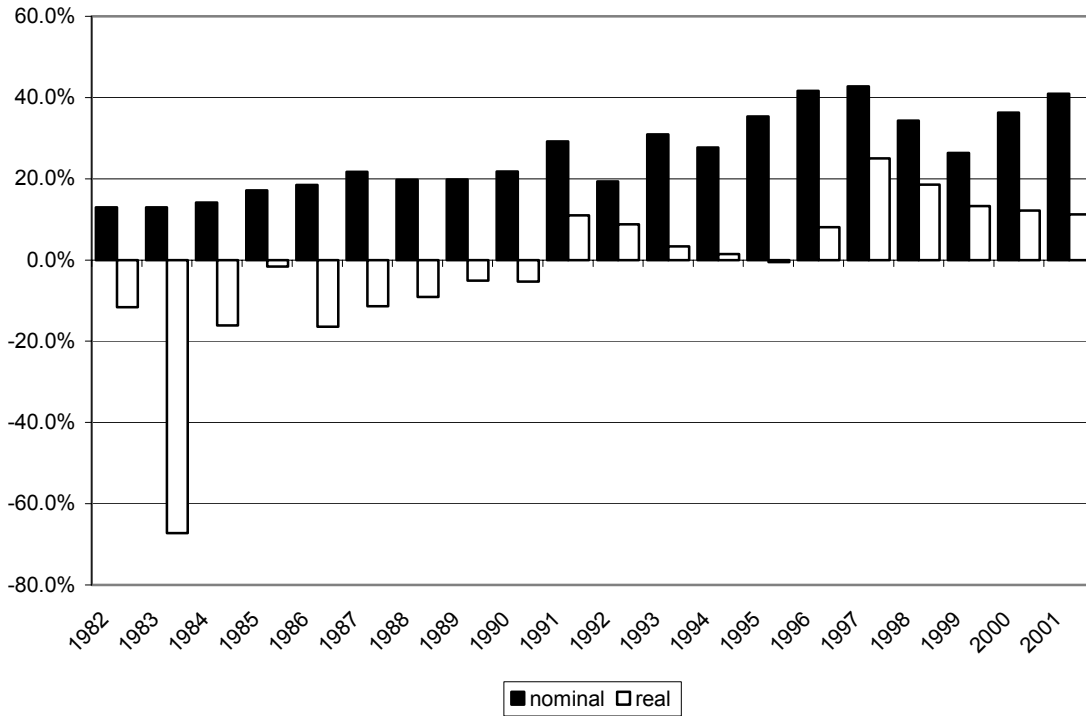
Source: World Bank World Development Indicators 2003 and Bank of Ghana.

Bringing inflation under control will improve Ghana's macroeconomic environment when compared to past episodes of price instability. However, as inflation continues to fall, the costs of reducing inflation further will begin to mount. Research studies suggest that, below a certain threshold, the costs of lowering inflation – in terms of reduced employment and foregone output – will rise relative to the benefits (Epstein 2003). Because of this, a monetary policy regime aimed at lowering inflation to very low levels could dramatically reduce the efficacy of programmes to reduce poverty through employment-intensive growth.

On-going reductions in inflation using monetary policy require tight control on the money supply and levels of credit. Under these conditions, the direct cost of pushing down inflation is rising interest rates. As interest rates increase, they have a negative impact on investment, consumer demand, and economic growth. Over the twenty-year period, 1982 to 2001, real interest rates – that is, the interest rate less the inflation rate – rose as inflation was brought under control, with the real interest rate on treasury bills

becoming positive in the early 1990s (Figure 5.2). Real interest rates have remained at high levels in recent years. Although lower inflation has improved Ghana's macroeconomic environment in terms of price stability, tight credit and high interest rates constrain employment-intensive economic activities.

Figure 5.2. Nominal and real interest rates, 3-month treasury bills, Ghana 1982-2001.



Source: IMF International Financial Statistics 2004.

Note: Real interest rates are calculated using the GDP-deflator. Bank lending rates are likely to be higher than the rate on t-bills because of the risk premium.

A macroeconomic policy framework that targets low levels of inflation without considering a broader range of targets runs counter to a strategy of employment-intensive growth. At the macroeconomic level, slower growth and weak investment will undermine the creation of new employment opportunities. At the project-specific level, overly tight monetary policy will make credit less available and will increase the demands on cash flow to service the debt of farmers, informal producers, and business enterprises. As the challenges to realising employment-targeted programmes become more daunting, the success rate of these initiatives will fall.

Urban informal economic activities can be particularly vulnerable to macroeconomic policies that make credit less accessible or slow domestic spending. Research has found that, in Ghana, informal employment depends on domestic demand in local markets (Barwa 1995). This is not surprising since trading and service provision account for most urban informal employment. A study of informal enterprises in Cape Coast has shown that the availability of credit has a significant influence on the enterprise's efficiency and, therefore, its income-generating potential (Bhasin and Akpalu 2001). Since a large number of Ghanaians rely on the income from informal employment, the costs of lowering inflation must also take into account the effect on these workers.

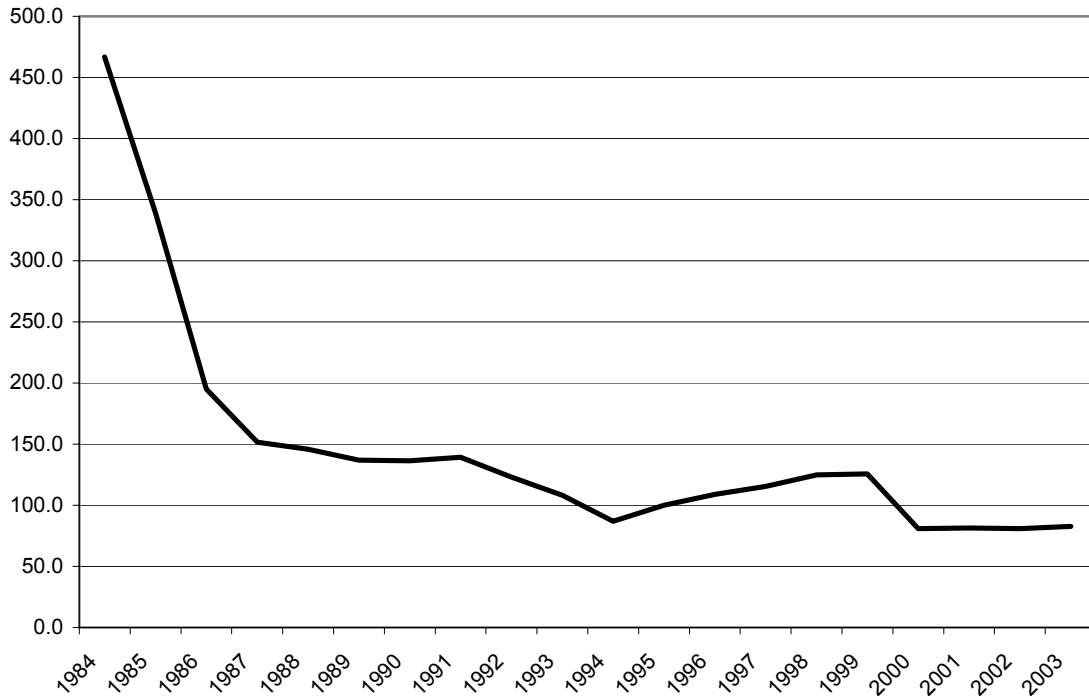
The potential pitfalls of a monetary policy that stresses a low inflation target are not limited to high real interest rates and limited access to credit. In many countries, most notably developing countries in Latin American, the pursuit of low-inflation in recent years has led to an appreciation in the real exchange rate. Studies show that exports in Ghana are sensitive to changes in the exchange rate (Baffoe-Bonnie 2004). Therefore, an appreciating real exchange rate will reduce access to world markets by raising the price of exports and increasing import penetration into the domestic market. Under these conditions, the barriers to employment-intensive growth would become more, not less, prohibitive.

An appreciating real exchange rate would be particularly damaging to the current employment-targeted programmes and projects of the Government of Ghana. Many of the employment strategies that have been developed within the context of the GPRS require increased market access and a strong competitive foundation for Ghanaian producers. For example, the cassava starch PSI – which sells an undifferentiated product on a highly competitive market – would be severely affected by an over-valued real exchange rate.

Fortunately, the real exchange rate for Ghana has not shown a tendency to appreciate as the inflation rate has fallen. Figure 5.3 shows estimated changes in the real effective exchange rate since 1984. Before the Economic Reform Programme (ERP) of 1983, the exchange rate of the cedi was kept artificially high. With the implementation of the ERP, the real value of the exchange rate experienced a rapid depreciation in 1983 and 1984, evident in the early years of Figure 5.3. More recently, Ghana has been able to

reduce inflation without compromising its competitive position. The real exchange rate has depreciated slightly, not appreciated. However, as the inflation rate continues to fall into the single digit range, the potential for a real exchange rate appreciation is likely to grow.<sup>12</sup>

Figure 5.3. Index of the real effective exchange rate for Ghana, 1984-2003, 1995=100.



Source: IMF International Financial Statistics 2004.

Note: The real effective exchange rate index is CPI-based and calculated with respect to Ghana's major trading partners. A fall in the value of the index indicates a decline in the real exchange rate of the cedi.

The creation of an appropriate macroeconomic environment for employment intensive growth must take these concerns into account. Controlling inflation and maintaining a predictable level of price stability are important goals. However, these must be supplemented by other targets if the macroeconomic environment is to support poverty reduction. From the analysis presented here, two obvious additions are (1) employment and other indicators of real economic activity and (2) the real exchange rate. Adding these targets would provide a more balanced approach to monetary policy formulation. If the pursuit of low inflation resulted in significant unfavourable

movements in real economic activity and exchange rates, then appropriate interventions would be implemented in order to restore economic balance.

In many respects, monetary and exchange rate policies are relatively crude tools for affecting economic outcomes. In view of this, monetary policies, by themselves, cannot constitute an effective employment framework for poverty reduction. They must be accompanied by a range of targeted interventions. However, they can be brought into service to create an enabling environment that minimises constraints for employment-intensive growth.

### *5.2 The Financial Sector*

Credit constraints that impede employment-intensive development have multiple causes. They arise from the structure of the financial system itself and not simply from monetary policy choices. There are numerous examples of such structural factors that are relevant for Ghana. These include:

- The financial structure of banks with respect to the assets they hold limits the availability of medium- and long-term credit.
- Substantial risk premiums and limited competition within the banking sector raise the rates that borrowers face.
- Research suggests that, in some circumstances, informal and small-scale credit institutions in Ghana allocate credit more successfully and at lower cost than larger banks to support the activities of small-scale enterprises (Lyon 2003, Amoako-Tuffour 2002). However, informal suppliers of credit are not well integrated into the banking system.

The structure of Ghana's financial sector affects the country's chances of realising an employment-intensive development path. Ghana's financial institutions are currently structured to supply high-cost, short-term credit. In recent decades, only a small share of financial resources found its way into employment-intensive investments.<sup>13</sup> Moreover, there is a mismatch between the *type* of credit available and the needs of employment-targeted projects. Medium- and long-term credit that supports productive investment is required. Even if monetary policy were loosened, the structure of the financial system prevents credit from being directed towards poverty-reducing development.

The financial sector can be transformed to create an environment that supports employment-intensive growth. These reforms can be carried out as part of other initiatives, such as the implementation of the Financial Sector Strategic Plan or FINSSP (Ministry of Finance 2003).

There are numerous reforms that should be targeted as part of a larger employment framework. Incentives could be established that encourage banks to hold assets that channel resources towards employment-targeted investments. The Government of Ghana could underwrite loans for strategic development projects, thereby lowering the cost of credit. The Government could also coordinate, at the national and district level, the activities of banks, entrepreneurs, and policy-makers to facilitate financing for approved employment projects. Linkages could be forged between informal credit markets and the banking sector to mobilise resources for the development of new informal employment opportunities.

To illustrate the potential of financial sector restructuring, we will briefly review four specific possibilities for transforming the sector into one that supports broad-based employment creation: (1) introducing asset-based reserve requirements for employment-targeted projects; (2) government underwriting of strategic projects; (3) increased coordination among banks, government, and businesses to achieve employment outcomes; and (4) integrating informal credit sources into the banking and payments system.

***Asset-based reserve requirements.*** The idea behind asset-based reserve requirements is straight-forward: give the banking system an incentive to hold a portfolio of assets that channels resources towards employment-targeted investments. In recent years, banks have preferred to hold short-term treasury bills with high yields rather than extending credit to riskier projects. The introduction of asset-based reserve requirements would alter these incentives.

For example, if banks extend loans to approved employment-targeted projects, they would enjoy a lower reserve requirement than if they held other types of assets (e.g. other types of loans, t-bills, short-term securities, etc.). Banks that are subject to a lower reserve requirement would enjoy a competitive advantage in the credit market. By

introducing such a system, financial resources could be directed to strategic projects, reducing the impediments to employment creation.

***Government underwriting of strategic investments.*** In Ghana, there is an extremely large gap between the interest rates banks pay to depositors and the rates they charge lenders. One factor behind this gap is the large risk premium banks charge. These risk premiums can prove debilitating to employment-targeted development. Extending credit to medium- and long-term productive investments is not attractive to banks in Ghana because of the perceived risk and the availability of substitute assets, such as treasury bills, that have high returns and are less risky. One way of reducing the risk associated with these investments is to have the government underwrite, or guarantee, a portion of the loan to support approved projects.

Government underwriting of credit has been proposed in the Financial Sector Strategic Plan (FINSSP) in order to develop a stronger mortgage market in Ghana (Ministry of Finance 2003). A similar approach could be applied in order to meet the social objective of generating improved employment opportunities. Government underwriting does have implications for fiscal policy, since a non-performing loan would place demands on public resources. However, with adequate safeguards to prevent abuse, underwriting loans is a viable strategy to support employment-intensive growth.

The FINSSP also envisions a new role for Ghana's Development Finance Institutions (DFIs) that parallels the idea of strategic underwriting. Instead of having the DFIs operate as deposit-taking institutions, the DFIs would extend credit for strategic development programmes, funded with government-guaranteed development bonds. This strategy could be easily combined with asset-based reserve requirements such that banks that hold a certain fraction of their assets as development bonds would enjoy lower reserve requirements. As in the case of underwriting loans to support employment-intensive growth, there are potential fiscal implications associated with this new vision for Ghana's DFIs. The DFIs would not fully recover the principal on non-performing loans and, in this situation, the development bonds would represent a net addition to the domestic public debt. Therefore, safeguards must be put into place to assess the preparedness and credit-worthiness of employment projects.



***Government facilitation of credit agreements.*** Government can often facilitate bringing banks, project managers, and entrepreneurs together in order to coordinate financing for employment-oriented projects. Lack of information about prospective borrowers or the nature of the projects can become a roadblock to credit access. Government agencies – at the national, sectoral, and district levels – can help remove these barriers by serving as a catalyst for targeted investments. In some cases, government could take an active part, providing infrastructure, training programmes, or extension services to help insure the success of the projects.

A promising mechanism for achieving such facilitation at the local level are the district assembly “Sub-Committees for Productive and Gainful Employment” that have been established in two districts in the Central Region as part of the ILO Decent Work Pilot Programme. They bring together elected assembly members, local authorities, small businesses and local community representatives to jointly identify and support local development opportunities.

***Linking informal and formal credit institutions.*** Informal and formal credit institutions have distinct advantages vis-à-vis one another. In Ghana, informal credit institutions frequently have more detailed knowledge of local conditions, their clients, and the communities in which they operate (Lyon 2003, Amoako-Tuffour 2002). They often face lower transactions costs when extending credit to underserved communities and regions. On the other hand, formal credit institutions enjoy economies of scale and can mobilise large amounts of deposits for credit extension. A situation exists in which large commercial banks frequently cannot efficiently serve small-scale borrowers, and informal credit networks do not have access to the resources and economies of scale of formal banks. By forging linkages between formal and informal credit institutions, more financial resources could be made available to support the expansion and improvement of informal activities, with potentially large positive impacts on employment outcomes.

Formal and informal credit markets interact in a number of different ways. In some cases, informal credit institutions may compete with or substitute for formal credit. In other cases, different types of complementarities exist. For example, formal credit

institutions may lend informally mobilised deposits or informal lenders might act as intermediaries for formal institutions (Aryeetey 2003). Complementary linkages can be forged on a number of fronts. For instance, relationships could be built between formal banks and savings and credit associations in order to facilitate group savings and lending for informal and small enterprise development (Amoako-Tuffour 2002). Arrangements between formal banks and *susu* collectors – individuals who mobilise informal deposits and extend credit to their clients – to improve interest rates on deposits and enhance small-scale credit extension provide another example of how these linkages can be fostered (Aryeetey 1998). Developing these new institutional relationships will likely require a broader regulatory structure for suppliers of credit in Ghana that specifically incorporates a role for informal credit institutions.

### *5.3 Budgetary Policy and Public Investment*

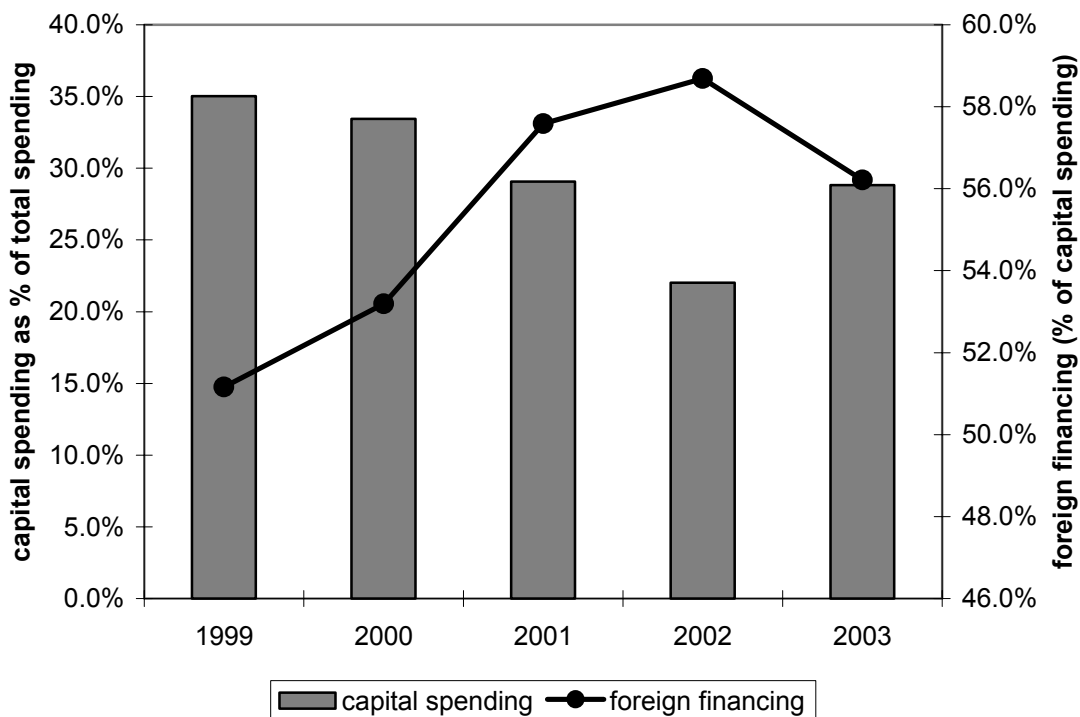
The budget is perhaps the single most important tool for supporting employment-intensive growth. Many of the challenges that have been identified for implementing employment-targeted projects have budgetary implications: up-grading skills and training, improving access to credit, building capacity to plan and coordinate employment policies, and providing public infrastructure. If budget priorities do not reflect the needs of an employment-intensive development framework, then the success of that framework will be severely compromised.

At the same time, the need for macroeconomic and fiscal stability place limitations on the resources available for public expenditures. In the past, financing a large share of public expenditures through the Bank of Ghana produced an undisciplined monetary environment and excessive rates of inflation.<sup>14</sup> High external debt burdens continue to consume a large share of public financial resources. In addition, the servicing costs of domestic debt are large, due to the high interest rates on treasury bills and the short-term structure of the public debt. Therefore, borrowing additional public resources to finance a comprehensive programme of employment creation in Ghana – through debt monetisation, foreign borrowing, or increases in domestic debt – is not likely to be sustainable. Significant debt relief and the mobilisation of more tax and non-tax revenue

are needed to generate sustainable increases in public resources that could be used for investment in infrastructure.

In addition, insuring adequate public investment and infrastructure provision within the resource envelope currently available to the Government of Ghana is a critical budgetary intervention for employment creation. Over the past five years, capital spending accounted for approximately 30 percent of total public expenditures on average (Figure 5.4). This represents a relatively high level of public investment for a given level of public expenditure. However, the level of capital spending has been volatile over this same time period. Insuring a sustained level of capital spending to support improvements and expansion of employment opportunities must remain a priority for poverty reduction.

*Figure 5.4. Capital spending and foreign financing of public investment, Ghana 1999-2003.*



*Source: Bank of Ghana.*

Given the constraints on fiscal policy, mobilising resources to maintain public investment at the levels needed to support long-run employment creation remains a challenge. Over the past five years, an average of 55 percent of all public capital

expenditures was financed with foreign resources, and this percentage appears to be increasing on average, although it dropped slightly in 2003 (Figure 5.4). Donor-supported infrastructure projects greatly extend the extent of capital investment available to Ghana. Insofar as this support is stable and sustainable, it provides a valuable injection of resources to enhance the country's infrastructure.

Domestic resources can also be better mobilised and targeted to support public investment. These issues have been recognised in the *Ghana Poverty Reduction Strategy* (GPRS). The domestic debt can be restructured in order to reduce the size of debt servicing costs. By introducing long-term public debt instruments, such as the Government of Ghana Index-Linked Bonds, instead of relying only on short-term treasury bills, servicing costs could be reduced and the savings applied to public investment. In addition, revenue collection could be strengthened and improved by altering the tax structure, blocking leakages, and widening the tax base where appropriate.

The overall level of capital expenditure will not necessarily be the most appropriate indicator of budgetary support for an integrated employment framework. The type of infrastructure matters. In particular, budget priorities cannot neglect investment in economic infrastructure – roads and transportation, storage facilities, and basic utilities, such as water, telecommunications, and electricity – if the constraints to employment-targeted investment are to be reduced.

The provision of economic infrastructure can simultaneously support employment growth and improve poverty-targeting. Consider the following example. The prices self-employed farmers earn for their output at the point of production are much lower than the prices that prevail in the final consumer markets. Intermediaries in the transportation and marketing segments of the distribution chain earn sizeable rents and capture a large share of the final price. The result is that the farmers' terms of trade – the return on their labour relative to their cost of living – remain low. However, better storage facilities and transportation infrastructure can reduce the farmers' dependence on intermediaries, increase their share of the final price, and improve their terms of trade. The provision of appropriate infrastructure not only improves employment by providing better access to

the markets for the agricultural goods, but also targets poverty-reduction by raising the returns to labour for poor workers.

In view of the importance of economic infrastructure provision, budget priorities should be coordinated and monitored in terms of their ability to support appropriate public investment. The medium-term expenditure framework (MTEF) must incorporate the needs of an integrated employment framework – including specific targets for public investment in economic infrastructure. These infrastructure targets should, in turn, address the constraints facing employment projects. Other programme-specific needs – for example, education or extension services – should also be reflected in the budget. However, at the aggregate level, providing a sustainable level of investment in economic infrastructure is a critical budgetary target for facilitating the realisation of employment programmes and projects.

Allocating budget resources to economic infrastructure is necessary, but not sufficient, for improving the stock of public investment in Ghana. The *Ghana Poverty Reduction Strategy* recognises the potential of infrastructure projects to create local employment opportunities and stimulate the local economy. These opportunities are particularly valuable in the case of employment during the agricultural off-season and in cash-starved subsistence economies. In practice, however, the use of labour-intensive methods has been declining. Current tendering and contracting procedures for public infrastructure projects are frequently biased against labour-based contractors, foregoing substantial employment impacts (Akalbila 2003).<sup>15</sup>

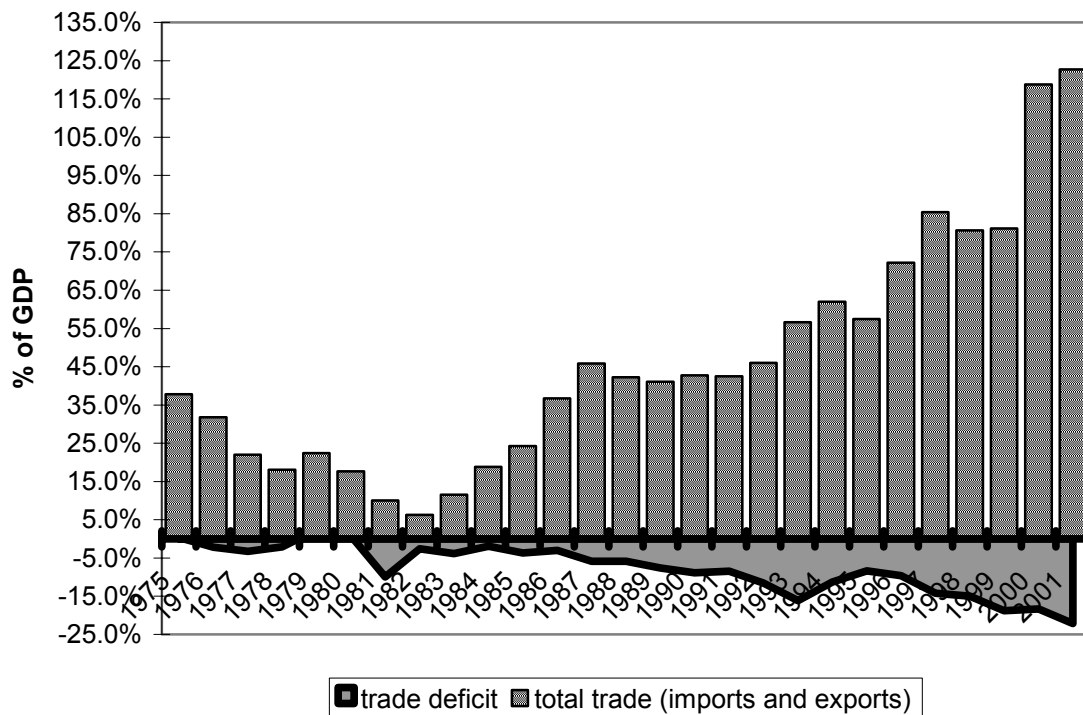
Capacity to deliver on public investment projects is also a potential constraint. Without the capacity to deliver, the ability of the budget to support economic development is severely weakened. The issue of institutional coordination and capacity will be taken up in a subsequent section of this report.

#### *5.4 Trade Policy*

The direction of trade policy in Ghana directly impacts employment – from the opportunities that export-oriented sectors generate to the effects of import penetration on domestic producers and informal street traders. Appropriate trade policy is central to

gaining access to markets – both foreign and domestic. Trade is also a central component of the balance of payments. A deteriorating trade balance can upset macroeconomic stability with the rest of the world, leading to burgeoning external debts or undermining human development goals.

*Figure 5.5. Total trade volume and trade deficit as a percent of GDP, Ghana 1975-2001.*



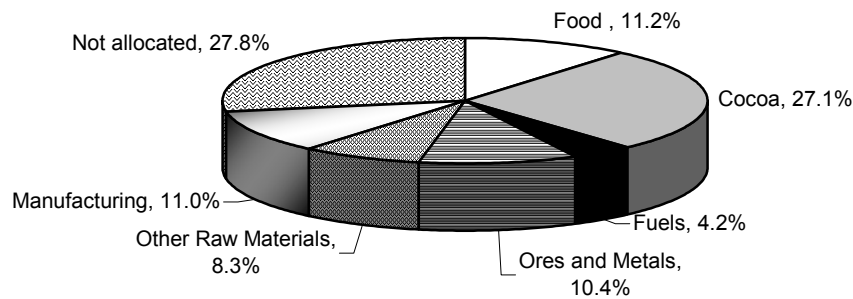
*Source: World Bank World Development Indicators 2003.*

The volume of trade in Ghana, measured as total imports and exports as a percent of GDP, has increased since the economic reforms of the early 1980s (Figure 5.5). As the volume of trade expanded, so did the trade deficit with the rest of the world. For example, in the ten-year period 1982 to 1991 the average trade deficit was 5.4 percent of GDP compared to 14.5 percent for the period 1992 to 2001. The trade deficit grew despite a substantial real devaluation of the cedi in the early 1980s. A policy of trade liberalisation during the reform period increased the flow of imports into Ghana and produced the expanding deficit (Areytey and Harrigan 2000). Trade was not only growing faster than the Ghanaian economy as a whole, but imports were also growing faster than exports.

This growth in import penetration relative to export growth has important negative implications for the country's employment situation.

Primary commodities comprise the largest share of exports from Ghana (Figure 5.6). From 1997 to 2001, food, cocoa, ores, metals, fuel, and raw materials accounted for an average of 61.2 percent of all exports. In contrast, manufactured goods comprised an average of 11.0 percent of exports over the same period. Therefore, Ghana competes in highly competitive export markets, characterised by relatively undifferentiated products and exhibiting substantial price volatility. Moreover, programmes – such as the

*Figure 5.6. Exports by Product, Ghana, Average 1997-2001.*



*Source: UNCTAD. Handbook of Statistics 2003.*

Presidential Special Initiatives (PSIs), which aim to create employment through the development of strategic export-oriented industries, require competitive access to global markets in cassava starch, palm oil, salt, and garments and textiles. Policies to improve market access, competitiveness, and product quality will influence Ghana's chances of success in generating employment by exporting to world markets.

Barriers to market access are substantial in today's multilateral trading system, particularly for low-income exporters of agricultural and agro-industrial products. Subsidies and explicit trade barriers limit access to the relatively affluent markets in North America, Western Europe, and Asia. Greater market access can be negotiated through trade agreements, often requiring the reciprocal removal of tariffs and trade liberalisation. In the context of an employment-oriented development strategy, the benefits of market access must be weighed against the potential negative impact of greater import penetration and job losses.

Opening up the affluent markets of Europe, North America, and Asia is only one element of market access – one which emphasises the demand side of trade. In Ghana, the supply side is equally important. At the level of the enterprise, efficient production, best-practice management systems, and guarantees of product quality will have a fundamental impact on market access. With increasing import competition, these supply-side issues are also important for securing *domestic* market access. For example, domestically produced rice currently cannot compete in terms of product quality with rice imported from Asia. The result has been a loss of employment in rural areas in recent decades.

Trade policy must be coordinated with improvements in the supply-side if Ghana is to succeed in establishing an employment-intensive development path. The sequence in which policy initiatives are pursued is critical. For example, if trade liberalisation is pursued before Ghanaian firms have improved their competitiveness and product quality, domestic economic activity and employment will be displaced. Openness *per se* is not a policy objective unto itself and must be complemented by an integrated approach to industrial policy and macroeconomic management (Ministry of Trade and Industry 2002). In light of these concerns, the employment impacts of proposed trade policies should be assessed and factored into the formulation of the national approach to trade and openness.

The policy tools discussed elsewhere in this report can support improvements in market access, competitiveness, and product quality. Improving infrastructure will reduce production costs (e.g. due to fewer power cuts or lower transportation costs) and improve product quality (e.g. due to less spoilage). Access to credit and targeted financing can



make possible investments in new technologies and production techniques. Monetary policy that insures a competitive real exchange rate and adequate domestic demand will improve market access. A coherent industrial strategy will develop Ghana's competitive strengths – for example, in agro-industrial production – and generate new employment opportunities. Once again, an integrated framework is needed – including strategic trade policies – to realise the goal of poverty reduction through employment-intensive development.

### *5.5 Employment-Intensive Growth and Macroeconomic Stability*

We have already stressed that maintaining macroeconomic stability will facilitate employment-intensive growth. However, the effects run both ways. The policy tools outlined here can also be used to stabilise the Ghanaian economy.

For example, growing trade deficits will eventually create imbalances in the balance of payments and pressures on foreign exchange reserves. This can lead to greater dependency on external debt and foreign aid transfers. However, policies that support employment-intensive growth alleviate some of these pressures. For example, finding the right balance between an inflation target and a real exchange rate target can help keep exports competitive and reduce excessive import penetration. If this is combined with employment-targeted programmes for investment in agricultural and industrial development – utilising the national budget and new tools for credit allocation – then the pressures on the balance of payments will be reduced. Employment-targeted investment becomes the primary instrument for restructuring the economy and securing macroeconomic stability (Griffin 1996).

Similarly, monetary policy is not the only tool for controlling inflationary pressures. Addressing capacity constraints and structural sources of inflation are also required. In Ghana, limited productive capacity relative to the demand for goods and services will contribute to inflation. Therefore, expanding productive investment and more fully employing Ghana's human resources will reduce the pressures that cause prices to rise. Similarly, structural problems can fuel price increases. For example, lack of transportation and storage facilities increase the costs of food and the losses due to

spoilage. Reducing these barriers by providing quality infrastructure will curb inflationary pressures.

In short, a well-designed employment framework geared to poverty reduction should not compromise macroeconomic stability. Instead, it will help guarantee a stable environment for investors, workers, the self-employed, and government. However, a narrow focus on macroeconomic stability alone – for example, excessive emphasis on inflation-targeting – will impede the realisation of a broader employment strategy. Ironically, this can undermine macroeconomic stability in the long-run by failing to address the structural problems of the Ghanaian economy.

*Table 5.1. Summary of Recommendations*

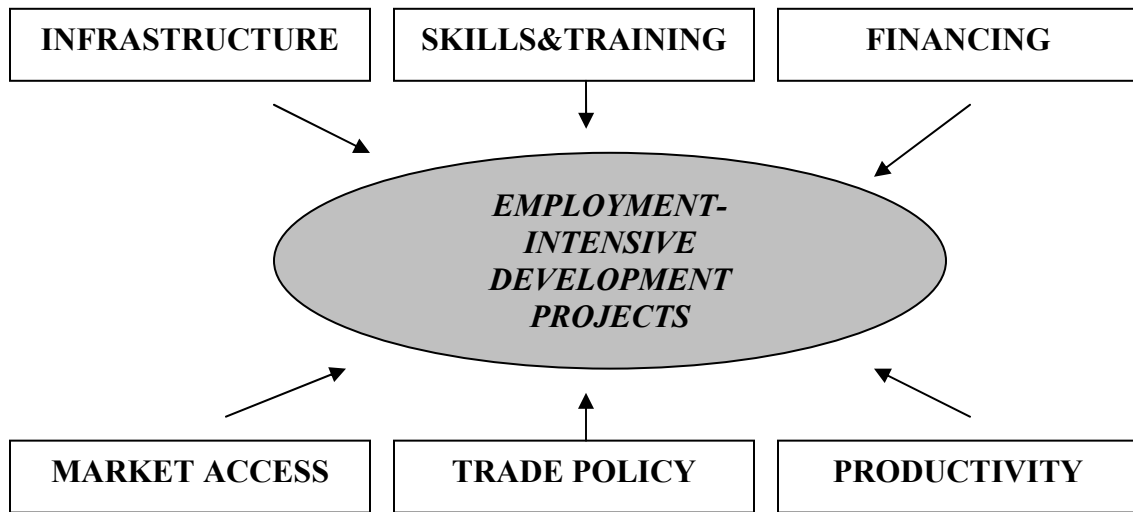
<b>The Macroeconomic Environment</b> – inflation targets should be supplemented with real exchange rate and employment targets, along with other indicators of real economic activity. Employment intensive growth will reinforce, not undermine, macro stability.
<b>The Financial Sector</b> – financial policy tools and supporting government initiatives should be developed to mobilise low-cost, medium- and long-term credit and channel these financial resources towards employment-intensive investments.
<b>Budget Policy</b> – allocations within the budget and medium-term expenditure framework (MTEF) should be routinely monitored and coordinated to insure sustained funding of economic infrastructure and the specific needs of approved employment programmes.
<b>Trade Policy</b> – supply-side limitations to market access should be addressed along with demand-side concerns. Trade policy should be coordinated with a broad industrial strategy. In addition, trade policy should be formulated with proper attention to sequencing of reforms and the employment impacts of policy choices.

The policy areas discussed above – the macroeconomic environment, the financial sector, budget policy and public investment, and trade policy – do not constitute all the elements of an integrated employment framework. Instead, if properly designed, they go a long way to address the main economic challenges confronting employment programmes and projects in Ghana. If left unchecked, these constraints will confound the realisation of employment-intensive growth. Nevertheless, they must be implemented together with strategic agricultural and industrial development programmes that target poverty reduction, many of which exist within the context of the *Ghana Poverty Reduction Strategy*. Table 5.1 summarises the policy recommendations outlined in this section.

## 6. Realising Employment Intensive Growth: the Case of the Ayensu Cassava Starch Company

A significant number of factors must come together to realise the employment objectives of a development project – financing, training, infrastructure, competitiveness, and market access (Figure 6.1). Without a supportive policy environment, even the most well conceived projects can fail to deliver. The previous section of this report described how economic policy areas can be coordinated to reduce the constraints to employment-intensive growth. This section concretises these issues by showing how Ghana has been able to coordinate across a range of policies to launch an innovative employment programme: the Aysensu Cassava Starch Project, one of the Presidential Special Initiatives.<sup>16</sup>

Figure 6.1. Factors supporting the realization of a targeted employment programme.



The Presidential Special Initiatives (PSIs) are economic development strategies based on products in which Ghana could cultivate a competitive advantage. These include cassava starch, palm oil, salt, and garments and textiles. The employment-generating potential of these initiatives is large, due to linkages with labour-intensive production processes along the supply chain. Many of the employment opportunities created would be located in the rural areas, directly linking employment creation to poverty reduction.

The cassava starch project is the most highly developed PSI at this time. Cassava is a traditional food crop grown in Ghana. Currently, cassava is cultivated as a staple food. However, the tubers of the cassava plant have a high starch content and can be processed and refined into pure starch. There is an established world market for refined vegetable starches in which cassava starch competes with corn and potato starches. Therefore, a well-designed development project can transform a traditional subsistence crop into a strategic export. By doing so, demand for the output of small-scale farmers would increase substantially, generating employment for the rural areas.

Gaining access to the world starch market is no small feat. Ghana's cassava starch would have to be competitively produced and of high quality. Therefore, to gain a foothold in this market, a world-class starch factory – the Ayensu Starch Company – was constructed in Bawjiase in the Central Region of Ghana as the first step in the overall plan for the cassava starch PSI. The ultimate objective of the cassava starch PSI is to establish 10 such factories in regions throughout the country. The Ayensu Starch factory is capital-intensive and possesses state-of-the-art technology for processing cassava tubers. The product the factory produces is pure starch that meets the standards of the global market.

A modern, capital-intensive refining plant does not directly create large numbers of jobs. The factory itself will employ approximately 28-30 people, even when running at its maximum annual capacity. The employment potential of the cassava starch PSI lies elsewhere. Approximately 10,000 small-scale farmers from 9 districts near the plant supply the factory with cassava. The factory represents a sizeable new market for the cassava farmers and an opportunity to increase employment and incomes in the surrounding rural areas.

The cassava starch initiative will generate employment through three channels:

- (1) Currently, substantial underemployment exists among self-employed agricultural workers. By creating a new market for the farmers who are currently producing cassava, the initiative will reduce underemployment and increase the intensity of employment on existing small farms.
- (2) The cassava initiative will also generate new employment opportunities. The managers of the project have worked with traditional leaders to allow landless

rural workers to rent land for cassava production. By doing so, new lands are brought into production and new employment opportunities are created.

- (3) Higher levels of employment will have multiplier effects throughout the local economy. For example, demand for transportation services – to bring the cassava from the farm to the factory – has increased. Also, more labour is needed at harvest time, creating additional seasonal employment opportunities.

In addition to these three channels for employment creation, the quality of work – in terms of its income-earning potential – will also improve. In order to meet the needs of the factory, productivity per farmer will need to increase. Higher productivity will raise the returns to labour. Therefore, rural incomes will rise due to two influences: (1) increases in the amount of employment available and (2) improvements in the returns to labour.

Finally, the Ayensu Starch initiative creates assets for the farmers in addition to employment. Currently, Ghanaian banks hold an equity stake in the factory in trust for the 10,000 farmers. As the factory becomes profitable, the banks will eventually transfer ownership of these shares to the farmers. If all goes according to plan, the farmers will become the owners of the factory in addition to being its suppliers.

The Ayensu Starch Company represents an application of what has been called the COVE, or Corporate-Village Enterprise, concept. The COVE concept is an innovative approach to export-oriented agro-industrial development with a strong rural employment focus. The COVE approach to agro-industrial development combines three core elements: (1) the utilisation of state-of-the-art production technologies to improve competitiveness, (2) whole or partial ownership of the production facilities by the farmers or the rural community, and (3) professional management of the project. By bringing together these elements, it aims to reconcile the need for achieving global competitiveness – in terms of product cost and quality – with the objective of generating broad-based employment to reduce poverty.

Asset creation is a central component of the COVE concept. The farmers, rural workers, or communities will own the processing facilities that give them access to global markets. It is too early to determine whether the asset-creation aspects of the COVE model will have a long-term impact on rural development. However, asset creation in general lays the groundwork for future economic growth. As the asset base of rural

communities expands, so does the potential for generating new economic opportunities. In this respect, broad-based economic growth becomes a long-run outcome of the employment strategy.<sup>17</sup>

The cassava starch PSI has great potential for increasing employment and reducing poverty among farmers. However, the concept would have never been realised without substantial policy coordination in other areas: financing, infrastructure, extension services, trade policy, and land tenure. In thinking about the creation of an integrated employment framework for Ghana, it is useful to see how policy coordination was used to bring the Aysenu Starch Company into existence.

***Financing.*** Financing for the Ayensu Starch Company was provided by Ghanaian banks, including the Agriculture Development Bank and the Ghana Commercial Bank. The banks were brought on board early in the project development and planning phases. The necessary financial resources were mobilised by facilitating communication between the banks, the project planners, and the managers. Debt provided most of the finance. However, the banks also hold an equity stake in the company. As mentioned previously, these shares are held in trust for the 10,000 farmers who supply the factory with cassava. As the Company turns a profit, these shares will eventually be transferred to the farmers.

***Infrastructure.*** As a central element of the development of the cassava starch PSI, the Government of Ghana provided economic infrastructure that allows the factory to operate. Without this public investment, the cassava starch initiative would never have gotten off the ground. The type of infrastructure provided includes roads, electricity, and water. Nevertheless, improvements in infrastructure are still needed. For example, the power supply is connected to a rural network in which outages are a frequent problem. Approximately 35 percent of all downtime in the Ayensu factory is currently due to power outages, raising the cost of production. This example underscores the need for on-going infrastructure improvements to enhance productivity and maintain competitiveness.

***Extension Services.*** Providing a new market for cassava is not sufficient for improving productivity on small-scale farms. New production techniques to guarantee higher yields

are necessary. The Ayensu Starch Company provides extension services to its suppliers in order to raise productivity and improve yields. Cassava yields using traditional cultivation practices average approximately 5 tonnes per acre. The factory's extension efforts have raised productivity to about 10 tonnes per acre, moving towards a final goal of 15 tonnes per acre. However, the higher yields increase the difficulty of harvesting the cassava in a timely fashion. The United Nations Industrial Development Organisation (UNIDO) has worked to develop a new type of manual harvester to meet this challenge. Without such attention to the supply-side of cassava production, the starch processing initiative would not be effective.

**Trade Policy.** The world starch market is highly competitive and difficult to penetrate. The investment in a state-of-the-art plant with high-quality output was a precondition for market access. In addition, the Ayensu Starch Company has contracted with International Starch Trading A/S, a global starch marketing organisation affiliated with the Danish International Starch Institute, to market its starch. This partnership allows Ghana, a new supplier country, to sell on the global starch market. In addition, the Ayensu Starch Company has been designated as a Free Zone, allowing imported inputs into the factory duty-free. These strategies demonstrate how the creative application of strategic trade policies can support agro-industrial development.

**Land Tenure.** Without a rental market for land to produce cassava, only farmers that already have access to land would be in a position to take advantage of the opportunities created by the PSI. The lack of asset ownership would be a significant constraint to employment creation. However, negotiations with local tribal leaders have created a supply of productive land for rent. Landless rural workers therefore have access to employment through these rental arrangements. By addressing land tenure as part of the overall employment strategy, the cassava starch PSI broadens the employment impact and more effectively targets poverty.

These examples demonstrate how coordination across policy areas is necessary for realising the objectives of specific employment-targeted projects and programmes.

Here the focus has been on the Ayensu Starch Company and the cassava starch PSI as a concrete example of how a specific employment framework has been constructed. We can imagine this same approach being applied on a larger scale to produce a comprehensive and integrated employment framework for the whole of Ghana.

The precise support measures needed will vary from project to project. However, the general economic environment in Ghana can be shaped to support employment-intensive growth along the same lines as in the case of the cassava starch PSI. These general policy areas have been sketched out in the previous section: targeted financing for employment creation, ensuring access to markets, budget policies to support the provision of infrastructure, macroeconomic targeting of real economy outcomes, supply-side measures to improve competitiveness, appropriate trade policy, and other interventions. It is also important that they stimulate private sector investment in employment-intensive sectors. This is particularly true for small enterprises which have high ratios of jobs created for a given level of investment. The development of a national employment framework is simply a matter of pulling together strategic employment programmes with the necessary supporting economic policies.



## **7. Employment Indicators for Poverty Reduction<sup>18</sup>**

Developing reliable, timely, and consistent statistics on the state of employment in Ghana is imperative if an employment-intensive growth strategy for poverty reduction is to be successful. Often, national poverty reduction strategies do not give priority to improving the quantity and quality of employment available to the workforce simply because information for planning policies and monitoring outcomes does not exist. Without such information, identifying policy priorities, evaluating the overall success of an employment framework, or analysing which programmes work and which ones do not is impossible. Therefore, improving the quality and consistency of labour market data in Ghana will bolster efforts to strengthen the employment content of national policies.

Different policy areas have various needs with respect to employment information. Policies that are adjusted on a routine basis – for example, monetary policy – would require timely employment information that is up-dated frequently. However, short-term indicators lack the depth of information that other policy-makers need. For example, medium-term programmes to improve employment conditions among poor, informal workers require detailed information on who these workers are, the type of work they do, and the incomes they earn.

Since financial resources for data collection are limited, there is a trade-off between frequency and depth of information. Statistics that are generated frequently must be relatively inexpensive to collect. Therefore, they will lack depth relative to statistics produced within a longer timeframe and with fewer pressures for rapid turn-around. However, greater detail is needed to formulate a comprehensive employment strategy. Therefore, more in-depth – and more expensive – surveys of employment in Ghana must periodically supplement the collection of short-term indicators in order to provide the kind of information required. However, as the cost of the survey rises, the frequency with which it can be administered declines. Generating good information for employment-focused development requires striking the right balance between frequency and depth.

This section discusses both types of employment statistics: the development of short-term indicators and the collection of in-depth employment information. In addition, we suggest a number of specific indicators that could be calculated in order to track employment outcomes in Ghana within the context of a broad poverty reduction strategy.

### *7.1 Short-run employment indicators*

Some policy-makers whose decisions affect employment must respond to changes in the economic environment on a more-or-less continuous basis. Monetary authorities, such as the Bank of Ghana, provide a clear example. They must regulate the money supply, oversee exchange rate regimes, and govern international capital flows. Timely and accurate information that is frequently up-dated is necessary for formulating policy responses in these areas. For example, monetary policy that targets inflation routinely needs information on the prevalent price level. If monetary policy is to respond to changes in the real economy – including levels of employment – then similar routine indicators of employment and real economic activity must be developed.

The Bank of Ghana has already created two tools to help evaluate monetary policy choices in terms of their impact on real economic performance – a Business Confidence Index and a Composite Index of Economic Activity. The Composite Index of Economic Activity includes a measurement of formal employment which could be further developed into an indicator for employment-targeting.

The employment data for the Composite Index is currently derived from SSNIT (Social Security and National Insurance Trust) data. The SSNIT data on employment has problems, since the statistics are derived from the level of contributions to the Social Security Trust and might not accurately map actual changes in employment. At any time, contributors who delayed their contributions due to financial or management constraints may not be captured in the data. As a result the SSNIT data is likely to underestimate the level of employment. Moreover, SSNIT currently only covers the small fraction of the workforce in the formal sector. Despite these shortcomings, the Composite Index represents an innovative effort to monitor, to some degree, the real outcomes of macroeconomic policy, including the overall level of employment.

Therefore, the Bank of Ghana's real economy indicators could be improved to more accurately capture general trends in employment. For example, the Bank could develop a survey of conditions in the informal economy. The survey would be administered to self-employed informal workers in order to assess the current economic

conditions they face. The sample of workers surveyed could be drawn from the most recent round of the Ghana Living Standards Survey (GLSS), scaled down to make a short-term survey financially viable. In many respects, assessing general trends in underemployment in the informal economy is more important than gauging changes in the head-count number of employed. This information could easily supplement other short-run employment indicators used by the Bank of Ghana.

Moreover, the Bank of Ghana should improve the existing employment indicators in the Composite Index. For example, the Bank could work with SSNIT to improve the quality of routine employment information derived from this source. This could include refining the information SSNIT collects to include more precise employment figures and expanding the scope of the data collected if SSNIT coverage moves into the informal economy in a meaningful way.

### *7.2 In-depth employment indicators*

The leading source for detailed employment information is currently the 1998/9 Ghana Living Standards Survey (GLSS). The GLSS has been administered in four rounds, with a fifth round planned for 2004/5. In the 1998/9 round, an employment module was included in the GLSS that collected detailed information on labour force participation, employment status, type of employment relationships, informal and formal employment, hours of work, and regional patterns of employment. This fourth round of the GLSS allows these employment indicators to be linked to demographic characteristics, household expenditures, and measurements of poverty.

The GLSS, together with the employment supplement, provides the type of information needed to develop detailed indicators of the employment situation in Ghana. It is important to note that the GLSS will only be a useful source of employment information if a consistent employment module persists as part of the survey. Past practice has been to administer the GLSS approximately once every five years. Clearly, this is too infrequent to be useful for short-run policy responses. However, the type of information the GLSS provides is essential for medium-term planning and evaluation. Therefore, in the future, the GLSS, including the employment component, should continue to be administered.

As the need for employment information continues to evolve, other household-based surveys, such as the administration of a Ghana Labour Force Survey, would be appropriate to gather additional in-depth information. The type of surveys employed and the frequency with which they are administered will depend on financing, capacity, and need. Regardless of the future form of the survey instrument and the improvements that can be made, the bottom line remains the same: in-depth employment and labour force information will continue to be needed on a consistent and reliable basis if employment-targeted development is to succeed.

### *7.3 Building appropriate indicators: utilising the GLSS*

This section outlines a set of possible indicators for tracking employment outcomes in Ghana. The indicators are based on questions that have been asked in the most recent Ghana Living Standard Surveys (GLSS 4). As mentioned above, the GLSS for 1998/99 had a labour force module in its questionnaire that asked households relevant questions about their employment status and remuneration. If this module continues to be included in the GLSS, then national policymakers would have a useful way of tracking the general impact on employment of their poverty reduction policies. For this current report, the 1998/9 GLSS provides us with an initial snapshot of possible indicators.

The employment indicators that we propose have a poverty focus. This means that they emphasise employment conditions that confront or adversely affect poor workers. These could include unpaid family work, work requiring little skill or education, part-time work, low-paying work that obliges workers to obtain more than one job, lack of employment opportunities for young workers, and low-productivity, low-paying jobs in sectors such as the non-agricultural informal sector or agriculture.

These proposed employment indicators are consistently expressed as shares of low-quality forms of employment which national policymakers should seek to minimise. This will become clear as we elaborate each of the specific indicators. A summary of all the indicators suggested here, including their values based on the 1998/9 GLSS is presented in Table 7.1. The remainder of this section will describe the logic behind each employment indicator and its relation to poverty reduction.

Table 7.1. Summary of Proposed Employment Indicators, GLSS 1998/9.

<b>Indicator</b>	<b>Percent</b>
<i>Indicator 1. Percentage of Employed in Unpaid Work.</i>	19.1%
<i>Indicator 2. Percentage of Children Who Are Employed and Have Never Been to School.</i>	17.8%
<i>Indicator 3. Percentage of Employed Youth Who Have Never Been to School.</i>	34.8%
<i>Indicator 4. Percentage of the Employed Who Work Two Jobs or More.</i>	29.8%
<i>Indicator 5. Percentage of the Employed Who Unwillingly Work 40 Hours or Less.</i>	13.9%
<i>Indicator 6. The Percentage of Economically Active Youth that is Unemployed.</i>	14.7%
<i>Indicator 7. Percentage of the Non-Agricultural Employed Who Are Self-Employed or Employed by Private Informal Enterprises.</i>	77.0%
<i>Indicator 8. Percentage of the Employed Who Work in Agriculture.</i>	56.1%
<i>Indicator 9. Percentage of the Non-Agricultural Employed Who Are Self-Employed or Employed in Private Informal Enterprises Whose Household Labour Income Is Low.</i>	38.8%
<i>Indicator 10. Percentage of the Agricultural Employed Whose Household Labour Income Is Low.</i>	26.4%

**Indicator 1. Percentage of Employed in Unpaid Work.** In many poor households, some household members are obliged to contribute work without pay to a family enterprise. This is very common in agriculture and among female, young or elderly household members. As access to decent-paying employment outside the home increases, the percentage of household members that engage in unpaid work should decrease. In Ghana, a little over 19 percent of the employed (aged 15 to 64 years) are engaged in unpaid work in family enterprises in 1998/99.

**Indicator 2. Percentage of Children Who Are Employed and Have Never Been to School.** This indicator focuses on the employment status of children. One of the drawbacks of having children work is that they miss school, thereby reducing the level of human capabilities developed in Ghana. Thus, this indicator measures the percentage of children, 7 to 14 years old, who are both employed and have never been to school. The implication, albeit not direct, is that employment at such an early age has detracted from their ability to attend school. In Ghana, the combination of having a job and never having been to school applies to almost 18 percent of children in the 7 to 14 age group.

**Indicator 3. Percentage of Employed Youth Who Have Never Been to School.** Youth are defined as the age group that is 15 to 24 years of age. This indicator complements the one for the percentage of children (7 to 14 years of age) who are employed and have never been to school. This indicator could also be compared to the percentage of the employed 15 to 64 years of age who have never been to school. If the percentage for youth were lower, this would represent recent progress in providing a broader segment of the workforce with education. In Ghana, the percentage of the employed (15 to 24 years of age) that has never been to school is a substantial proportion, i.e., almost 35 percent.

**Indicator 4. Percentage of the Employed Who Work Two Jobs or More.** In many economies, a significant proportion of the workforce has to work more than one job simply to generate a decent level of income. The reason is that their primary job does not provide enough income to support themselves and their families. As the income offered by workers' primary job increases, the percentage of the workforce that has to work two or more jobs should decrease. In Ghana, almost 30 percent of workforce has two jobs or more. 27 percent are working two jobs and the remaining 3 percent have more than two jobs.

**Indicator 5. Percentage of the Employed Who Unwillingly Work 40 Hours or Less.** A common characteristic of many poor workers is "underemployment". In rural areas, the reason for an inadequate number of hours could be the lack of non-farm job opportunities or adequate demand for products. In addition, some workers might be satisfied with a low number of work hours while others who lack hours would like more because they need additional income. Therefore, the appropriate indicator for our purposes would be the percentage of employed persons who involuntarily work 40 hours or less. In Ghana, almost 14 percent of the employed report that they work 40 hours or fewer but would like to work more.

**Indicator 6. The Percentage of Economically Active Youth That Is Unemployed.**

Youth unemployment is a major and growing problem in many countries. It highlights the lack of employment opportunities that an economy is generating. Often, new entrants into the workforce are the most affected. One drawback of this indicator is that the workers who are openly unemployed often can afford to be so. Prominent among this group are school leavers who still enjoy parental support and can afford to be more discriminating with respect to employment opportunities. In contrast, poor workers cannot afford to remain out of work for long. When they lose a job, they quickly find some form of employment, no matter how low-income it is. In Ghana, almost 15 percent of economically active youth (15 to 24 years of age) are unemployed.

**Indicator 7. Percentage of the Non-Agricultural Employed Who Are Self-Employed or Employed by Private Informal Enterprises.** In Ghana, formal employment is a minority share of total employment. The ability of an economy to generate widespread formal employment is a useful barometer of economic development. In formal employment, incomes are usually, though not always, higher than in informal employment. With employment-intensive growth, the share of total non-agricultural formal employment should increase. Correspondingly, the share of self-employment and employment in informal non-agricultural enterprises should decrease. Furthermore, the productivity in the informal economy is acknowledged to be very low. As the share of informal employment declines, incomes and the quality of work will rise. In Ghana, the share of the employed in the non-agricultural sector who are self-employed or employed in private informal enterprises is relatively high, namely, 77 percent.

**Indicator 8. Percentage of the Employed Who Work in Agriculture.** In Ghana, agriculture provides the bulk of employment. However, such employment is usually at relatively low wages, principally because agriculture is a low-productivity sector. One of the principal objectives of economic development should be to move workers out of agriculture and into higher-paying formal employment in industry and urban services. In Ghana, a majority of the employed, namely, over 56 percent, still works in agriculture. As the economy develops, this share should fall.

**Indicator 9. Percentage of the Non-Agricultural Employed Who are Self-Employed or Employed in Private Informal Enterprises Whose Household Labour Income Is Low.** The type of employment of a worker does not always indicate the level of income that he or she is earning. A complement to Indicator 7, Indicator 9 shows the percentage of the non-agricultural employed that is not only in self-employment or employment in informal enterprises, but also whose total household labour income is low.

In this case, labour income is defined as all income received by the household through the application of labour, whether this is through receiving wages, in-kind payment, cash income from agriculture or the imputed value of the self-consumed output produced by labour. Other sources of income, such as government transfers, private gifts, or remittances from abroad are not included in this measure.

We divided total household labour income by the number of economically active persons in the household, i.e., those who have likely earned income in the last year. This measure of total household labour income per economically active person is used to rank all the employed.

The threshold that defines substandard levels of income is necessarily arbitrary. For the purposes of computing this indicator, the median of the household income measure is identified. Then we take two-thirds of the value of the median as the reference line for “low income” and identify the percentage of the employed falling below this threshold. This is not a completely relative measure since it is feasible for households to move above this threshold and, correspondingly, for the percentage below it to fall even when the median value rises over time. For the non-agricultural employed who are self-employed or are employed in private informal enterprises, almost 39 percent are in households with less than two-thirds of median household labour income per economically active person.

**Indicator 10. Percentage of the Agricultural Employed Whose Household Labour Income Is Low.** For Indicator 10, we apply the same methodology described above for Indicator 9 to those individual employed in agriculture. For this group in Ghana, over 26 percent is in households whose total labour income per economically active person is less than two thirds of the median.



The ten indicators described above provide examples of the types of measurements that could be used to gauge progress in improving employment outcomes in Ghana. Here we have only presented the values of the indicators computed from the 1998/9 GLSS. Ideally, this data should be tracked over time. In this way, the indicators become a tool for monitoring broad trends and shedding light on the employment record of national policies. Clearly, many factors influence employment in Ghana, and changes in these general indicators cannot always be linked to a specific policy intervention. Nevertheless, they do provide a means of evaluating the success of Ghana's development strategy as a whole and for guiding policy choices in the future.

## **8. Institutional Coordination and Capacity<sup>19</sup>**

Throughout this report, we have stressed that employment-intensive growth requires the application of a wide variety of policy tools. These policies can be brought together as a national employment framework for Ghana within the context of the *Ghana Poverty Reduction Strategy* (GPRS). However, the development and implementation of an integrated employment framework requires coordination across a broad spectrum of Ministries, Departments, and Agencies (MDAs). Vertical coordination is also essential by having the district assemblies formulate employment plans and incorporating these plans into national programmes.

Creating employment-targeted projects alone is not sufficient. Successful implementation requires the orchestration of policy goals and targets – from establishing the right macroeconomic environment to harmonising the medium-term expenditure framework with broad employment objectives. Without a coordinated approach, government policies to generate new and better employment opportunities for poverty reduction will be compromised. In addition, effective coordination and monitoring will exploit complementarities and eliminate duplicate efforts across sectors and levels of government, i.e. national, regional and district.

The framework for institutional coordination – particularly with regard to employment – is underdeveloped. Currently, no single body oversees the many aspects of what could constitute a national employment strategy. Examples of successful coordination among MDAs certainly exist. However, such coordination is often *ad hoc* and fails to permeate throughout the government as an on-going practice. This problem is not unique to issues of employment. Many areas of the GPRS require substantial coordination among MDAs for effective delivery. When the institutional framework for implementation is missing, the poverty reduction strategy cannot achieve its objectives.

Lack of coordination is only one side of the larger institutional problem that hinders the implementation of the GPRS. Limited capacity to implement and monitor an employment strategy is also a constraint. Low levels of remuneration within the MDAs lead to high rates of staff turnover and the inability to attract personnel with the appropriate set of skills. At the district level, lack of suitable institutional mechanisms and low capacity are serious barriers that impede the development and implementation of

district plans. Without adequate capacity, the ability to implement a national employment framework, both nationally and through a decentralised process, will be inhibited.

The National Development Planning Commission (NDPC) should use the revision of the GPRS, planned for 2004 and 2005, to develop an integrated employment framework as part of the revision process. In addition, the NDPC should establish greater institutional coordination of the MDAs around employment issues and strengthen the focus on employment in the monitoring and implementation of the GPRS.

### *8.1 Employment Monitoring and Evaluation*

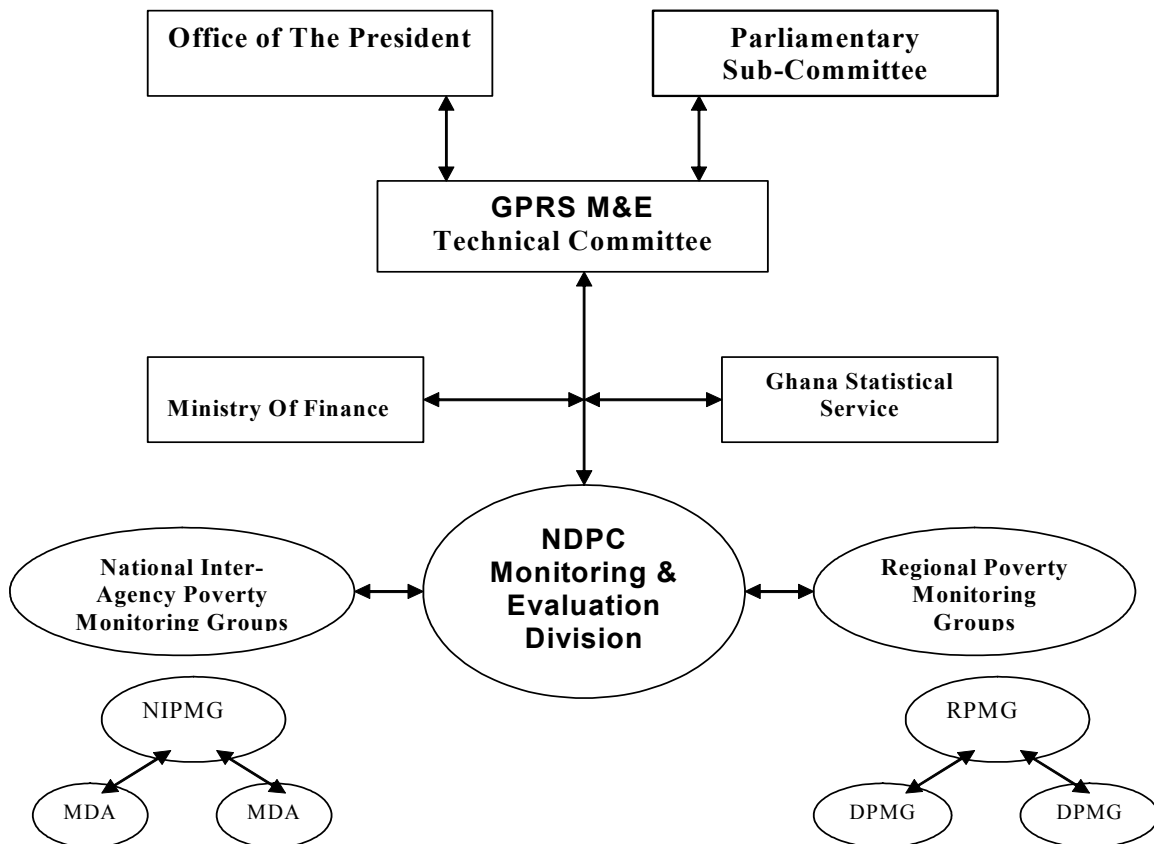
A crucial aspect of coordinating an employment framework within the GPRS is the ability to monitor the outcomes of specific interventions. Successful policies must be identified, problems revealed, and misguided approaches reoriented. The previous section of this report provided a number of recommendations for developing indicators for broad employment trends in the Ghanaian economy. However, indicators also need to be developed that measure the specific outcomes of the employment programmes and projects that have been developed within the context of the GPRS. In the absence of reliable information on project performance, there is little basis for improving the efficacy of employment-targeted programmes.

The current set of monitoring indicators identified in the GPRS gives little attention to employment. A monitoring and evaluation (M&E) Plan exists within the current GPRS. This monitoring system was intended to collect, analyse and disseminate information on performance and outcomes as they relate to the GPRS. Of the fifty-two implementation indicators identified, the only employment-related indicator is “the number of functioning employment centres”.<sup>20</sup> The National Development Planning Commission (NDPC) acknowledges that these indicators are preliminary and will be expanded and improved as the monitoring system unfolds.

The GPRS contains an institutional framework for coordinating monitoring and evaluation activities. This framework is illustrated in Figure 8.1. In that framework, the NDPC is the government body that is responsible for monitoring and evaluating the implementation of the GPRS. Subsequently, there is a feedback function between the

NDPC and the Office of the President and the Legislature. Many other agencies, committees, and groups are involved in the broader M&E process. Currently, the component bodies of this framework are at various stages of establishment. In this regard, the monitoring system is still evolving. For example, the regional policy monitoring groups, which feed information up from the district level, are currently not functioning as had been conceived under the original M&E Plan.

*Figure 8.1. Institutional Framework for Monitoring and Evaluating the GPRS.*



The functions of the different agencies as they are conceptualised within the monitoring and evaluation framework are summarised in Table 8.1. In this institutional structure, the National Inter-agency Poverty Monitoring Groups (NIPMG) are the most appropriate agencies for taking on the specific task of monitoring employment outcomes. The NIPMGs represent the five GPRS thematic areas. Therefore the NIPMG that represents both “Production and Gainful Employment” and “Macroeconomic Stability” is

the natural home for strengthening employment monitoring within the GPRS. This multi-sectoral group has incorporated specialists in the various aspects of the GPRS themes drawn from governmental and non-governmental sources. Furthermore, the Ghana Statistical Service (GSS) is a member of all the NIPMGs – providing a direct channel for connecting the employment indicators discussed in the previous section with the monitoring and evaluation structures of the GPRS.

*Table 8.1. The roles of the different institutions comprising the GPRS monitoring and evaluation framework.*

<b>Office of the President</b> – to provide a focal point for the convergence of all policies developed by MDAs and other government entities, including the GPRS through the Office of Policy Coordination, Monitoring, and Evaluation (OPCME). The Presidency has directed that the OPCME be established under the Chief of Staff.
<b>Parliamentary Subcommittee</b> – to work with the National Development Planning Commission (NDPC) to insure that the performance of the MDA’s are in alignment with existing obligations.
<b>GPRS Monitoring and Evaluation Technical Subcommittee</b> – to serve as an advisory board for the NDPC and the Ministry of Finance and Economic Planning (MFEP) and to give strategic direction to GPRS implementation. The committee is expected to comprise no more than 20 stakeholders
<b>Ministry of Finance and Economic Planning (MFEP)</b> – to supply information on government revenues and expenditure to the NDPC through the Budget Division, the Controller and the Accountant General’s Department. In addition, the MFEP receives information for input into the formulation of budgets and the medium-term expenditure framework.
<b>Ghana Statistical Service (GSS)</b> – to provide information, analysis, and specialised support to the monitoring and evaluation process. The GSS serves on every National Interagency Poverty Monitoring Group (NIPMG).
<b>NDPC Monitoring and Evaluation Division</b> – to serve as the core institution responsible for coordinating, collecting, and disseminating information on the performance of the GPRS as a whole. The NDPC Monitoring and Evaluation Division collects information from the MDAs and the NIPMGs.
<b>National Interagency Poverty Monitoring Groups (NIPMGs)</b> – to represent the five thematic areas of the GPRS and to obtain, review and validate performance information of the MDAs as it relates to the appropriate theme area(s). Membership of the NIPMGs is drawn from governmental and non-governmental institutions.
<b>Regional and District Poverty Monitoring Groups (RPMGs and DPMGs)</b> – to provide disaggregated and decentralised information to the NDPC as it relates to GPRS implementation.

The NIPMG for “Production and Gainful Employment” and “Macroeconomic Stability” should be charged with compiling broad employment indicators and specific

information on the outcomes of the programmes and projects that comprise an employment framework within the GPRS. Naturally, this would mean expanding the number of employment indicators to include measurements of specific outcomes. For example, in the case of the cassava starch PSI, described in detail earlier, appropriate indicators would include the number of farmers involved in the project, the number of new workers brought into the process, and changes in the incomes or poverty status of the farmers involved.

Capacity for monitoring and evaluation among the MDAs, the NIPMGs, and at the regional and district levels remains a serious concern. For example, it would be appropriate for the Ministry of Manpower Development and Employment (MMDE) to take on the coordination of employment indicators and monitoring within the NIPMG, pulling together information from the MDAs and the Ghana Statistical Service. However, the capacity of the MMDE needs to be expanded in order to perform these tasks. Similarly, the district assemblies could provide valuable information on employment outcomes at the local level. This is particularly important since employment targeting for poverty reduction must afford sufficient attention to the rural areas. Once again – current capacity constraints prevent this from happening.

### *8.2 Recommendations for Improving Institutional Capacity and Coordination*

Implementing a strategy for achieving employment-intensive growth will prove impossible without adequate institutional coordination. We can identify a number of recommendations for improving institutional capacity and coordination, with specific regard to employment. These include:

- An integrated employment framework should be included in the revision of the GPRS. This requires that an explicit process for coordinating across programme areas in terms of employment policy be established as part of the revision process. When capacity limitations prevent strengthening the employment content of national policies, these limitations must be identified and addressed.
- Currently, the employment indicators that have been developed as part of the GPRS Monitoring and Evaluation Plan are weak. There is a need to reorient the monitoring process in order to enhance the status of employment in the GPRS. Better indicators and improved sources of information must be developed.

- The National Interagency Poverty Monitoring Group for the thematic areas “production and gainful employment” and “macroeconomic stability” should become the primary institution responsible for coordinating, collecting, and improving information on the employment performance of the GPRS.
- The scale and intensity of the GPRS monitoring system makes significant demands on the capacity of institutions at many levels. Therefore, the capacity of the MDAs whose policies impact employment and that of the district-level structures must be strengthened significantly. When necessary, public resources must be deployed to build capacity.

## **9. Conclusions and Summary of Recommendations**

Employment must form an integral part of any strategy for poverty reduction in Ghana. The creation of new and improved employment opportunities provides a direct channel for distributing the benefits of economic growth throughout the population. In this way, an effective employment strategy can become one of the most potent tools for fighting poverty.

Ghana has already made substantial headway in this direction with the adoption of the *Ghana Poverty Reduction Strategy*. As has been discussed in this report, the Government of Ghana has developed a foundation of employment-oriented projects and programmes within the context of the GPRS. These initiatives lay the groundwork for developing a more ambitious and integrated set of employment policies.

Nevertheless, there is a need to strengthen the employment content of national development policies. This report presented a range of recommendations that, if successfully implemented, would support an employment-intensive growth path to reduce poverty, facilitate the attainment of the Millennium Development Goals, and push forward the frontier of human development in Ghana.

The main recommendations that emerged from the study are as follows:

- An **integrated employment framework** should be developed as part of the revision of the *Ghana Poverty Reduction Strategy*. In the process, employment must be placed at the centre of Ghana's human development and poverty reduction efforts.
- In developing the integrated employment framework, policy-makers should **build on what already exists**. For example, Ghana already has a strong foundation of employment programmes at the national and district levels. Sources of labour market information already exist, but must be maintained and improved. A system for institutional coordination and monitoring has already been established within the GPRS. These are the building blocks for creating a more integrated national employment framework.
- Growth alone is not enough. Employment-intensive growth for poverty reduction demands that three elements of such a development strategy must be pursued simultaneously: **(1) sustaining economic growth, (2) increasing the employment intensity of production, and (3) targeting poverty reduction.**



- **Economic policies must be reoriented to create an environment that is conducive to employment-intensive growth.** Many impediments to realising employment-targeted programmes can be removed by coordinating across policy areas. In Ghana, strategic areas of intervention that will impact employment are:
  - The macroeconomic environment and price stability
  - The financial sector
  - Budgetary policy and public investment
  - Trade policy
- In identifying critical areas for policy coordination and integration, **policy-makers should draw lessons from the models that have already been developed in Ghana.** The Ayensu Cassava Starch Company provides a useful case study that can be generalised within a national employment framework.
- Successful implementation requires the orchestration of policy goals and targets. Without a coordinated approach, government policies to generate new and better employment opportunities for poverty reduction will be compromised. **Effective coordination must be established among the economic ministries and the capacity of MDAs and district assemblies strengthened** if a comprehensive framework for employment-intensive growth is to be implemented.
- Targeting employment will be difficult, if not impossible, without quality information on the employment situation in Ghana. **There is an urgent need to develop both short-run and medium-term indicators of employment.** The Ghana Living Standards Survey (GLSS) and the Bank of Ghana's Composite Index of Economic Activity provide useful starting points for addressing these information requirements.

## **APPENDIX**

### ILO/UNDP Mission – Team Members

Cornelius Adablah (National Consultant)  
Christy A. Banya (UNDP, Accra)  
Paul Derigubaa (UNDP, Accra)  
Mohamed Gassama (ILO, Geneva)  
James Heintz (International Consultant, PERI, University of Massachusetts)  
Kamil Kamaluddeen (UNDP, Accra)  
Terry McKinley (UNDP, New York)  
Peter Poschen (ILO, Geneva)  
Anthony K. Tsekpo (National Consultant, ISSER, University of Ghana)

### Meetings and Consultations

Dr. J.L.S. Abbey (CEPA, Executive Director)  
Mr. Brahms Aghia Achiayao (Ministry of Trade and Industry, Chief Commercial Officer)  
Mr. Stephen Adjei (Ghana Statistical Service, Chief Statistician)  
Ms. Harriet Adu-Maite (NBSSI, Senior Public Relations Offices)  
Mr. Kwasi Adu-Amankwah (TUC, Secretary-General)  
Mr. Jacob Ainoo-Ansah (UNIDO, Accra)  
Mr. Akmel Prosper Akpa (UNIDO, Accra)  
Mr. G.K. Amoako (Ministry of Trade and Industry)  
Dr. Jesse Osamensa Amuah (NBSSI, Deputy Executive Director)  
Ms. Rose Karikari Anang (GEA, Executive Director)  
Mr. Opoku Mamu Asare (Ghana Statistical Service)  
Hon. Ishmael Ashithey (Ministry of Trade and Industry, Minister of State)  
Hon. Dr. S. Nii-Noi Ashong (Ministry of Finance and Economic Planning, Minister of State)  
Hon. Kwadwo Afram Asiedu (Ministry of Trade and Industry, Deputy Minister)  
Ms. Mary Asiedu (NDPC)  
Prof. George Gyan-Baffour (NDPC, Director General)  
Hon. Yaw Barima (Ministry of Manpower Development and Employment, Minister)  
Dr. Mahamudu Bawumia (Bank of Ghana)  
Ms. Grace Bediako (Ghana Statistical Service)  
Nana (Dr.) Baah Boakye (NBSSI, Executive Director)  
Mr. Daniel Boakye (World Bank, Accra)  
Mr. Samuel K. Dodd (Chair, Ayensu Cassava Farmers Association)  
Ms. Elizabeth Hguah (NBSSI, Entrepreneurship Development Department)  
Mr. Malam Seidu Issah (Ministry of Food and Agriculture)  
Mr. E.O. Lamptey (NBSSI, Investment and Credit)  
Mr. Silva Lumor (Ayensu Starch Company Ltd., Factory Manager)  
Hon. Hajia Alima Mahama (Ministry of Trade and Industry, Deputy Minister)  
Mr. Stephen Tetteh Narh (Ghana Statistical Service)  
Mr. Winfred Nelson (NDPC)

Mr. Eric Nortey (NDPC)

Mr. E. Odotei (NDPC)

Hon. Dr. Angela Lamensdorf Ofori-Atta (Ministry of Manpower Development and Employment)

Mr. K.B. Owusu Sekyere (Ministry of Private Sector Development, Technical Adviser)

Mr. Paul Walters (DFID, Economic Adviser)

Mr. Isaac K. Yanney (TUC)

Dr. Elsaid A. Yeboah (FAO, Ghana)

### **Sources**

- Adablah, Cornelius (2004), "Ghana Poverty Reduction Strategy: institutional framework for employment monitoring," prepared for the joint ILO/UNDP mission, "Elaborating Employment Strategies with the Context of the Ghana Poverty Reduction Strategy", Nov. 29 to Dec. 5, 2003 and Apr 27 to May 7, 2004, Accra.
- Akalbila, Ibrahim (2003), "Providing decent jobs in infrastructure development by small- and medium-sized enterprises in support of the Ghana Poverty Reduction Strategy," Interim report prepared for the ILO Ghana Decent Work Pilot Programme, Geneva.
- Amoako-Tuffour, Joe (2002), "Forging links between formal and informal financial sectors: emerging practices in Ghana," *The African Finance Journal*, 4(1): 1-31.
- Aryeetey, Ernest (2003), "Recent Developments in African Financial Markets: Agenda for Further Research," *Journal of African Economies*, 12(supp 2): ii111-ii152.
- Aryeetey, Ernest and Harrigan, Jane (2000), "Macroeconomic and sectoral developments since 1970," in Aryeetey, E., Harrigan, J., and Nissanke, M., eds. *Economic Reforms in Ghana: the Miracle and the Mirage*, Trenton, NJ: Africa World Press, pp. 5-31.
- Aryeetey, Ernest (1998), "Informal finance for private sector development in Africa," Background paper prepared for the *African Development Report 1998*.
- Baah-Boateng, William (2004), "Employment policies for sustainable development: the experience of Ghana," (mimeo.), Department of Economics, University of Ghana, presented at the National Workshop on an Employment Framework for Ghana's Poverty Reduction Strategy, Government of Ghana/UNDP/ILO, May 7<sup>th</sup> 2004, Accra.
- Baffoe-Bonnie, John (2004), "Dynamic modeling of fiscal and exchange rate policy effects in a developing country: a non-structural approach," *Journal of Economic Studies*, 31(1): 57-75.
- Barwa, S.D. (1995), "Structural adjustment programmes and the urban informal sector in Ghana," Issues in Development Discussion Paper 3, International Labour Office, Geneva.
- Bhasin, Vijay and Akpaulu, Wisdom (2001), "Impact of micro-finance on the efficiency of micro-enterprises in Cape Coast," IFLIP Research Paper 01-5, International Labour Organization, Geneva.

Donkor, Kwabena (1997), *Structural Adjustment and Mass Poverty in Ghana*, Aldershot, UK: Ashgate, Ltd.

Elson, Diane and Çağatay, Nilufer (2000), "The social content of macroeconomic policies," *World Development*, 28(7): 1347-64.

EMPRETEC (2003), "Background paper on micro- and small enterprise development and the informal economy," EMPRETEC Ghana Foundation, Commissioned by the ILO Ghana Decent Work Pilot Programme.

Epstein, Gerald (2003), "Alternatives to inflation-targeting monetary policy for stable and egalitarian growth: a brief research summary," Working Paper 62, Political Economy Research Institute, University of Massachusetts, Amherst.

Fine, Ben and Boateng, Kwabia (2000), "Labour and employment under structural adjustment," in Aryeetey, E., Harrigan, J., and Nissanke, M., eds. *Economic Reforms in Ghana: the Miracle and the Mirage*, Trenton, NJ: Africa World Press, pp. 227-45.

Ghana Statistical Services, GSS, (2000a), "Ghana Living Standards Survey: report of the fourth round (GLSS 4)," Accra.

Ghana Statistical Services, GSS, (2000b), "Poverty Trends in Ghana in the 1990s," Accra.

Government of Ghana (2003), *Ghana Poverty Reduction Strategy 2003-2005: an Agenda for Growth and Prosperity*, Accra, Ghana.

Griffin, Keith (1996), "Macroeconomic reform and Employment: an investment-led strategy of structural adjustment in sub-Saharan Africa," Issues in Development, Discussion Paper 16, Development and Technical Cooperation Department, International Labour Office, Geneva.

Hutchful, Eboe (2002), *Ghana's Adjustment Experience: the Paradox of Reform*, Geneva: UNRISD (United Nations Research Institute for Social Development).

Islam, Rizwanul (2004), "The nexus of growth, employment, and poverty reduction: an empirical analysis," (mimeo.) Recovery and Reconstruction Department, International Labour Office, Geneva.

Khan, Azizur Rahman (2001), "Employment policies for poverty reduction," Issues in Employment and Poverty, Discussion Paper 1, Recovery and Reconstruction Office, International Labour Office, Geneva.

- Lyon, Fergus (2003), "Trader associations and urban food systems in Ghana: institutionalist approaches to understanding urban collective action," *International Journal of Urban and Regional Research*, 27(1): 11-23.
- McKinley, Terry and Tsekpo, Anthony (2004), "Proposed indicators for employment monitoring of the Ghana Poverty Reduction Strategy," prepared for the joint ILO/UNDP mission, "Elaborating Employment Strategies with the Context of the Ghana Poverty Reduction Strategy", Nov. 29 to Dec. 5, 2003 and Apr 27 to May 7, 2004, Accra.
- Ministry of Finance (2003), "Financial Sector Strategic Plan (FINSSP)," Accra, Ghana.
- Ministry of Trade and Industry (2002), "Integrated industrial policy for increased competitiveness," Accra, Ghana.
- Osmani, S.R. (2004), "The employment nexus between growth and poverty: an Asian perspective," (mimeo.) Report prepared for the Swedish International Development Agency (SIDA), Stockholm and the United Nations Development Programme (UNDP), New York.
- Osmani, S.R. (2003), "Exploring the employment nexus: topics in employment and poverty," (mimeo.) Report prepared for the Task Force on the joint ILO-UNDP Programme on Employment and Poverty.
- Sowa, Nii K. and Acquaye, Ivy K. (1999), "Financial and foreign exchange markets liberalization in Ghana," *Journal of International Development*, 11(3): 385-409.
- UNCTAD (2003), *Investment Policy Review: Ghana*, Geneva: United Nations.

## NOTES

---

- <sup>1</sup> Unless otherwise noted, all statistics in the “background” section have been taken from the *World Development Indicators 2003* CD-ROM, World Bank, Washington, D.C.
- <sup>2</sup> *Ghana Poverty Reduction Strategy*, Government of Ghana 2003.
- <sup>3</sup> Value-added in agriculture as a percent of GDP has fallen on average since the difficult decade of the 1970s and the introduction of economic reforms.
- <sup>4</sup> Primary commodities are defined as non-processed foods, agricultural raw materials, cocoa, fuels, ores, and metals. UNCTAD. *Handbook of Statistics* 2003.
- <sup>5</sup> *Global Development Finance 2002* CD-ROM, World Bank, Washington, D.C.
- <sup>6</sup> *Ghana Living Standards Survey: Report of the Fourth Round (GLSS 4)*. Ghana Statistical Service, October 2000.
- <sup>7</sup> *Ghana Poverty Reduction Strategy*, Government of Ghana 2003.
- <sup>8</sup> The government of each country participating in the HIPC debt-relief programme of the IMF and World Bank must produce an approved Poverty Reduction Strategy Paper (PRSP). PRSPs describe a country's macroeconomic, structural and social policies, its programmes to promote growth and reduce poverty, and the PRSP's financing needs.
- <sup>9</sup> For example, when fixed capital, such as computers, equipment, and machinery, are imported, an overvalued real exchange rate can encourage capital-intensive investment by lowering the costs of these items. Through such mechanisms, macroeconomic policies impact the factor intensity of production.
- <sup>10</sup> The GPRS envisions achieving low inflation rates by implementing a restrictive monetary regime. The document states that “monetary policy measures emphasise tight credit and open market operations to mop up excess liquidity and restrain inflationary pressures” (p. 58).
- <sup>11</sup> The up-turn in inflation in 2003 is largely due to the price shock that came from reducing government subsidies to petroleum.
- <sup>12</sup> The relatively low level of international flows of portfolio investment in Ghana could explain why the real exchange rate has not shown a tendency to appreciate as inflation has fallen. One mechanism that has led to real exchange rate appreciation, particularly in middle-income economies, is that the higher real interest rates needed to reduce inflation to very low levels attracts short-term foreign capital inflows which bid up the exchange rate. This channel may be weak in Ghana. However, real exchange rate appreciation could still pose a danger if lower inflation rates increase demand for the cedi relative to other currencies. In addition, real appreciation could become increasingly probable as capital markets expand in Ghana.
- <sup>13</sup> In the past, financial institutions extended the majority of credit to the public sector. Therefore, a significant portion of domestic credit was used to finance public expenditures and state-owned enterprises. The impact of this pattern of credit extension on employment-intensive development was uneven and access to credit outside of the public sphere was limited.
- <sup>14</sup> The new Bank of Ghana Act (2002) places limits on debt monetisation. It stipulates that government borrowing from the Bank of Ghana will be limited to 10 percent of its revenue in any given year.

<sup>15</sup> For example, in 2003, less than 20 percent of the US\$52 million budget for feeder roads has funded construction that utilises labour-intensive techniques. Furthermore, it has been estimated by the ECE and ILO (Economic Commission for Europe and International Labour Organisation) that a US\$100 million budget for labour-based works would generate 50,000 immediate employment opportunities.

<sup>16</sup> The development of the Ayensu Starch PSI involved other institutions in addition to the Government of Ghana, certain Ghanaian banks, and the Ayensu Cassava Farmers Association. Some of the institutions involved include Enterprise Africa, the United Nations Development Programme, the International Starch Institute, and the Danish International Development Agency (DANIDA).

<sup>17</sup> Khan (2001) stresses that improving access to assets among the poor is important for subsequent economic growth. Growth becomes endogenous – an output of the employment strategy, not simply an input.

<sup>18</sup> The content of this section draws on the report written by Terry McKinley and Anthony Tsekpo, “Proposed indicators for employment monitoring of the Ghana Poverty Reduction Strategy,” prepared as part of the joint ILO/UNDP mission, “Elaborating Employment Strategies with the Context of the Ghana Poverty Reduction Strategy”, Nov. 29 to Dec. 5, 2003 and Apr 27 to May 7, 2004, Accra.

<sup>19</sup> The content of this section draws on the report written by Cornelius Adablah, “Ghana Poverty Reduction Strategy: institutional framework for employment monitoring,” prepared as part of the joint ILO/UNDP mission, “Elaborating Employment Strategies with the Context of the Ghana Poverty Reduction Strategy”, Nov. 29 to Dec. 5, 2003 and Apr 27 to May 7, 2004, Accra.

<sup>20</sup> Currently, employment centres are largely rendered redundant as employers are over-crowded with job seekers. Furthermore, because many of the unemployed have few skills, employers do not need the expertise of employment centres to recruit unskilled workers. In addition, the employment centres frequently lack the skilled personnel to undertake recruitment for job openings. Consequently, most employment screening is done in the human resource departments of private and public sector institutions.