



Executive Brief - Ghana

Impact of the Financial Crisis on Vulnerable Households

Background: This brief is part of a series of five presenting the findings of case studies on the impact of the global financial and economic crisis on households' food security, conducted in March and April 2009.¹

Overview

Ghana is a country in West Africa of 24 million that has achieved significant progress in reducing poverty and hunger. As a small open economy, Ghana is vulnerable to external shocks to foreign capital flows, trade, ODA and remittances. The study is intended to show how a country that has made so much progress can be affected by the economic crisis.

What is the impact macro-economic impact on the country?

- ✓ **The early impact is small, but the potential impact is large.** So far, capital flows, exports of horticultural products, timber and shea nuts and remittances have declined.² Timber exports declined by 27% and remittances by 16% in January-February 2009, compared to the same months in 2008.
- ✓ Ghana's high current account deficit, high budget deficit, export dependency, aid dependency and low international reserves make it **very vulnerable to external shocks**. The exchange rate already lost 23% of its value against the US\$ in 2008. A depreciated currency means higher import costs of food and fuel and other inputs and higher debt repayments, adding pressures to the government budget and curtailing economic growth.

What is the impact on households' food security?

- ✓ **Household purchasing power has been reduced** due to lower prices for selected cash crops, declining remittances and rising inflation, including of food prices. The price for Ghana's main cash crop, cocoa, has remained relatively high, providing a cushion for the 1.6 million cocoa producers.
- ✓ For now, **the most affected group appear to be shea nut collectors**. Shea nut collection is a key income source for women in the savannah – the poorest and most hunger-prone area – during the lean season, providing a buffer against seasonal food insecurity. About 33% of incomes of smallholder farmers in the savannah come from shea nuts. Due to lower volumes and prices for shea nuts, women are increasing the share of their income spent on food, at the expense of health and education.
- ✓ **Unskilled labourers'** livelihoods are affected by declining volumes in industries, such as timber. Due to their lower incomes, unskilled labourers are sending fewer remittances to their families elsewhere in Ghana and are migrating to find alternative employment opportunities. Three percent of households in Ghana rely mainly on unskilled labour for their income.
- ✓ **High food and fuel prices and lower incomes** have put pressure on food consumption among many livelihoods. Urban households in Accra in particular face high food and utility costs. The decline in income is to some extent mitigated by the existence of Ghana's social protection system, which includes, *inter alia*, a capitation grant for education and a national health insurance system. This will allow some households to modify their expenditure to protect their food intake without sacrificing access to basic social services.
- ✓ **The livelihood groups that are the most vulnerable to the type of shocks associated with the financial crisis are:** the cash crop producers, who are vulnerable to a decline in cash crop prices, the livelihood group dependent on assistance and remittances and the urban poor. The analysis also shows that substitution with cassava often prevents a decline in food consumption. If Ghana is also hit by a natural disaster, wiping out food crops, farmers in general, whether they grow food or cash crops or raise livestock, and food processors are very vulnerable. The combined effects of shocks **could lead to declines in food consumption by as much as 17%** for some livelihoods.
- ✓ The main **coping mechanisms** include reduction of the quality and quantity of food consumed. In some cases, parents are removing their children from private and putting them in public schools, increasing pressures on government budgets. Casual labourers are migrating. Cash crop farmers are diversifying into crops where prices remain attractive. Smallholders in the north are selling livestock and seeking alternative occupations, such as casual labour.

¹ Analysis has been undertaken in Armenia, Nicaragua, Ghana, Bangladesh, and Zambia.

² Shea butter is a product used in the cosmetics industry.

How is the situation likely to evolve?

✓ **A further decrease in remittances, foreign capital and export volumes and prices is likely.** A decline in ODA and tourism revenues is also probable. Yet, the impact of this could be comparatively limited if cocoa and gold prices remain relatively high and official financing of the deficits forthcoming. A collapse of cocoa and gold prices in 2009 is not likely, but cannot be excluded.

✓ In a negative scenario, Ghana would be faced with a further decline in foreign capital flows, remittances and exports, for instance if there is a collapse in cocoa or gold prices, driving down the value of the currency. That would feed into accelerating inflation, lower households' purchasing power, escalating debt repayments and lower economic growth. Government capacity to mitigate the impacts of the crisis will be further constrained. **Rural livelihoods would be undermined**, leading to unsustainable coping strategies that could lead to higher rates of malnutrition. A natural disaster in 2009 on top of this would be the most negative scenario.

✓ In a positive scenario, Ghana would continue to benefit from relatively favourable cocoa and gold prices and official flows in the future, limiting the deterioration of macroeconomic indicators and allowing the government to maintain safety net assistance. Specific vulnerable groups would continue to require assistance.

What are the ongoing responses?

✓ The Government has a rather **broad safety net system**, which includes a targeted cash transfer programme (LEAP), national health insurance, a capitation grant, school feeding and a national youth employment programme. A scaling-up of interventions could take place should the situation require.

✓ The Government set up a working group on social protection that is coordinating interventions to monitor and respond to the economic and financial crisis' effect on Ghana.

✓ The World Bank will conduct an assessment of the crisis' impact on poverty from April-June.

Needs and recommended priority actions

❖ **Monitoring:** Ghana's food security monitoring system (FSMS) should be modified to extend data on nutrition and food consumption and link it to prices. A series of economic indicators such as export volumes and prices, remittances, livestock prices and wage rates should be monitored on a monthly basis. Combined with the FSMS, such information should provide early warning of a potential deterioration in livelihood opportunities and food security/nutrition status.

❖ **Recommended responses:**

In the short-term: food-for-work or food-for-training interventions in the north, particularly to offer alternative opportunities to the shea nut collectors, particularly women, for the 2009 lean season. **Water and irrigation projects should also be among the priorities.**

In the medium-term: 1) support to smallholder agriculture to reduce household vulnerability to market shocks; 2) increase the availability of microfinance, e.g. through links with informal rotating savings and credit schemes ("susu"); and 3) support to local processing of primary products which would lessen Ghana's vulnerability to price swings for commodities.

❖ **Contingency planning** should be undertaken, and thought could be given to expanding the school feeding programme should the situation deteriorate and affect the large cash crop-producing livelihood group. Careful consideration will have to be given to avoid overwhelming the capacity of education and health systems. Plans should be made to **expand safety net measures** to address a potential worsening situation among the urban poor and households receiving remittances.

❖ **Coordination** among stakeholder, such as the Government, UN agencies, donors and NGOs, should be enhanced to improve targeting of existing safety net programs, identify gaps and increase effectiveness and efficiency of interventions. Government efforts to decentralize decision-making to district assemblies will help in this regard.

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How was the assessment done? The assessment findings are based on secondary data analysis, and the analysis of primary data collected among 250 Ghanaians through 30 focus groups discussions, key informants interviews and a trader survey (25 traders were interviewed). Data collection took place in Accra, Ashanti, Brong Ahafo, Central, Upper East and Upper West regions between 24 March and 10 April.