

Executive Brief - Ghana

Effects of the financial crisis on vulnerable households

Follow-up study February-March 2010

Background: This brief is part of a series of case studies on the impact of the global financial and economic crisis on households' food security¹. These studies were carried out a year after initial assessments of the crisis's impact in the same countries in order to show trends in vulnerability and responses.

Overview

✓ Ghana is a country in West Africa of 24 million inhabitants that has achieved significant progress in reducing poverty and hunger. The 2009 study concluded that although initial impacts were small, effects could potentially be large if exports, foreign financial flows and remittances would decline. As of April 2009, Ghana was very vulnerable to external shocks because of high current account and budget deficits. Ghana had already suffered from high food and oil prices and a depreciated currency. The early impacts of the crisis on Ghana included a 27% decline in timber exports and a 16% decline in remittances in January-February 2009 compared to the same months in the previous year. The worst-case scenarios did not happen and the impact of the global economic and financial crisis was cushioned by high cocoa and gold prices and official financial flows.

Update on the macro-economic impact on the country

✓ **Overall, the economic impact on Ghana has been small.** High prices for gold and cocoa exports and high official financial flows limited the impact of the global crisis, as reflected in key macroeconomic indicators. Exports increased in 2009 to US\$5.8 billion (from US\$5.3 billion in 2008) and the current account deficit fell significantly. Reserves increased to US\$3.2 billion at the end of 2009, from US\$2 billion a year earlier. Since the middle of 2009, economic activity has increased and the inflation rate has decreased. GDP growth slowed to 4.7% in 2009, against 7.3% in 2008, and is expected to reach 5.4% in 2010. The budget deficit's size relative to GDP has declined. Oil production starting in 2010 and oil exports from 2011 to 2015 should further strengthen the country's macroeconomic balances.

✓ **The impact of the economic crisis is most evident** in the composition of financial flows, remittances, timber and shea nut exports and employment. An increase in official financial flows from the World Bank and the IMF have compensated for a reduction in private capital inflows. International remittances to Ghana were expected to decline by 2.6% in 2009. Timber exports dropped by 33% in January-October 2009 compared to the same months a year earlier, reflecting the slowdown in the global construction sector.

Update on the impact at household level

✓ **Household purchasing power has been reduced** due to lower prices for crops, declining remittances and inflation. The price for Ghana's main cash crop – cocoa – has remained relatively high, despite a decline in early 2010, providing a cushion for the nation's 1.6 million smallholder cocoa producers. Unskilled labour is migrating to cocoa producing areas to take advantage of increasing wage rates in the sector.

✓ The most vulnerable group in Ghana continues to be **smallholder farmers in the north**. This livelihood group expects prices for shea nuts – which account for a third of household income, according to last year's report – to be even lower than they were a year ago, when they had dropped already dramatically. Shea nuts are an important source of lean season income for women. Remittances received from migrants in other parts of Ghana have also declined. These factors are exacerbating the high chronic vulnerability of the livelihood group. Overall, the group is unevenly covered by existing safety nets and access to some social services, which translates into high out-of-pocket expenses for health and education.

✓ The **urban poor in Accra** are facing higher food prices, a decline in remittances and a depressed labour market. According to the focus groups, unskilled wage rates have declined by 21% compared to March 2009. Unemployment and underemployment are perceived to be much higher than a year ago. The deterioration in the urban unskilled labour market is affecting the youth who rely on these activities for much of their income. Higher food prices, linked to high transportation and processing costs, are limiting food access for the poor in Accra.

✓ **Unskilled labourers'** incomes have decreased, with the exception of the timber industry where there seems to be a rebound in activity after a sharp drop in 2009. However, the general increase in food, utility and other costs are affecting real incomes. Due to their lower purchasing power, unskilled labourers are sending fewer remittances to their families elsewhere in Ghana, including to the very vulnerable in the north.

✓ The 2009 **maize harvest in the north was above-average**, lowering prices in the main production areas. The difficulties of the poultry sector in the south, hard-hit by reduced credit availability, continue to dampen demand for and prices of maize. The trend, however, has not reached southern areas such as Kumasi where real maize prices remain high because of higher transport costs. Although net buyers of maize in the north are benefiting from these lower prices, net sellers in the north are penalized.

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

✓ The main **coping mechanisms** include reduction of the quality and quantity of food consumed. Migrants from the north are increasingly migrating to the forest area to benefit from opportunities in the cocoa sector, where unskilled wages have increased by 38%. Cash crop farmers are diversifying into food crops. Smallholders in the north are increasing charcoal production.

Outlook

✓ The macroeconomic situation is expected to improve further in 2010 and 2011. The start of oil production and exports will provide further (temporary) relieve for the current account and budget deficits. GDP growth is forecasted by the IMF to reach 24% in 2011. The inflation rate is predicted to continue its decline. Exports of gold and cocoa are expected to continue their strong performance, buoyed by relatively high prices – even if cocoa prices are expected to decline somewhat in 2010 and 2011.

✓ The food security situation is likely to continue to improve as a result of declining food prices and good harvests. Yet, the situation needs to be monitored carefully in northern Ghana during the peak of the lean season (June-August), particularly among vulnerable households.

Update on responses and future outlook

- ✓ Ghana has an established social safety net system that includes no-fee education and a capitation grant system, a national health insurance scheme, a national youth employment programme, and school feeding.
- ✓ Social safety net coverage has increased in the past year. Notably, the urban poor are now benefiting more from school feeding, but the programme still needs better targeting. LEAP, the government cash transfer programme, was expanded to 31,000 households in 2009. The target for 2010 is 55,000 households.
- ✓ Several new programmes are being designed and on the verge of introduction, including the Junior High School conditional cash transfer programme, the Social Opportunities programme and social inclusion cash transfer programme under the Social Investment Fund (SIF).
Existing social safety net programmes in Ghana need to be better targeted in order to reach the most vulnerable, especially in remote rural areas. The progress towards a common targeting mechanism across different social safety nets is a strong step in this direction. Many of the poorest households in the north cannot afford NHIS premiums, or cannot access free health care. Coverage of LEAP remains small. As was revealed in the April 2009 report, the urban poor continue to benefit from better social safety net coverage than rural groups.

Needs and recommended priority actions

Monitoring

- Expand the food security monitoring system to the south, particularly to urban areas. Strengthen the system's capacity.

Recommended responses:

- Livelihood support to women and youth in the north remains a priority. This could include the creation of community assets that specifically benefit women, such as market gardening, dam construction under Food for Work and and Food for Training. Support to food processing (e.g. shea butter and gari production) through micro-credit could help diversify income sources. Such support should aim to reduce the group's vulnerability to climate change and recurrent food shocks.
- Coverage and targeting, particularly of vulnerable groups such as women and children, should improve.
- Support to tackling malnutrition in the deprived regions in Ghana.
- Stronger support for the National Youth Employment Programme particularly in relation to building capacity to designing and investing in pro-poor programmes for youth and monitoring of outcomes.
- Employment programmes in urban areas targeting youth could take place until urban unskilled labour markets recover. A strengthening of the national youth employment programme is required.
- Cash-voucher intervention for urban vulnerable groups.

Coordination

- Support the efforts to develop a common targeting mechanism which enhances synergy across sectoral ministries attempting to target the poor with social safety net programming. Ensure that the hungry and malnourished are covered in this mechanism.
- Support government initiatives to expand coverage and improve targeting of social safety nets, particularly school feeding and NHIS exemptions.

For more information on the case study, please contact:

Ismail Omer, Country Director for WFP in Ghana: ismail.omer@wfp.org; Henk-Jan Brinkman, WFP Office in New York: henk-jan.brinkman@wfp.org; Jean-Martin Bauer, WFP Regional Office in Dakar: jean-martin.bauer@wfp.org

How was the assessment done? The assessment findings are based on secondary data analysis, and the analysis of primary data collected among about 200 Ghanaians through 25 focus groups discussions, key informants interviews and a trader survey. Data collection took place in Accra, Ashanti, Brong Ahafo, and Northern regions from 11 to 17 March 2010.