

Economic Growth and Development & Agricultural Sector

Economy of Ghana Lecture Notes

By

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Economic Growth and Development

- Economic growth rate is the rate of change in real income or real output. Economic growth is a sustained increase in a country's national income or output due to an increase in the country's production capacity.
- Economic growth is normally measured by GDP. If economic growth (greater production of goods and services) translates into improvement in the standard of living of the people, it is referred to as Economic development. Economic development is economic growth coupled with positive or favourable change in the structure of the economy that transform the quality of life of the **majority** of people.

Distinction between Economic Growth and Development

- Is economic growth enough to better the lives of the citizens of a country? No. Why?
 - If rate of population growth is faster than that of economic growth, there can be growth but the per capita output low leading to poor living standards.
 - Does the type of goods and services produced benefit the majority of the people? Eg military goods, presidential palaces, etc. versus production of food stuffs and housing units.
 - Type of technology being used in the production: If capital intensive method or high technology is used majority may be unemployed hence the growth will not generate wealth for them. Services sector conundrum?
 - Income distribution may be skewed in favour of the rich or only a few. This because per capita income gives false impression that everyone gets equal share of the national cake (GDP) when distributed. Then foreigners versus indigenes share of the GDP could also mislead as foreigners repatriate their earnings.

Distinction... Economic Growth and Development

- While economic growth is quantitative improvement (i.e. improvement in growth figures, reduction in inflation rates and unemployment figures, improvement in our terms of trade, etc), economic development is qualitative improvement (i.e. improvement in the standard of living of the people- their income levels and distribution of income, health and life expectancy, mortality rates, happiness and less dependence on social vices for livelihood, etc). Goods matter (economic growth) versus people matter even as we produce goods (economic development).
- Can there be economic development without economic growth? The answer is mainly NO.
- What are the indicators of economic development? Increased value addition to raw materials, increased industrialization, manageable population growth rate, reducing reliance on loans and grants from other countries, improvement in HDI and its components, reduction in the income gap between the poor and the affluent, etc.

Distinction... Economic Growth and Development

- The growth rate of a variable is its percentage increase per annum
- To define economic growth, we must specify both the variable we wish to measure and the period over which the variable is measured
- In an economy, economic growth is based on real GDP or real GNP or national income
- **Economic growth** is the rate of change of real income or real output
- Economic growth is a sustained increase in a country's national income due to an increase in production capacity.

Distinction... Economic Growth and Development

- Economic growth is of great importance to developing countries
- Greater production of goods and services makes it possible for improvement to take place in the standard of living of their people
- However, a high rate of economic growth does not always mean that the majority of the people will be better off. It depends on issues like:
 - The rate of population Growth- (e.g. Economic growth can be offset by population increases)

Distinction... Economic Growth and Development

- The type of goods and services produced-economic growth is simply an increase in the amount of goods and services in the country
- The type of technology used-economic growth tells us nothing about the way increases in productivity come about. If it is capital intensive, then majority of population will be left impoverish
- The income distribution-Economic growth per capita is only an average figure which does not mean that everybody's income has risen at that rate. The distribution can be skewed with a few pple highly rich.

Distinction... Economic Growth and Development

- **Economic Development** means more than just economic growth
- Development is taken to mean growth plus change in the structure of the economy
- It does not mean that the economy is becoming rich but majority of the people are becoming rich as well
- That is changes in the economy are taking place which will ensure that standards of living will continue to improve in the future
- One strong indication of economic development is that it is a long term process.

Economic Growth and Development

- To developing countries, Economic development should normally reflect:
 - Increasing importance of industrial as opposed to agricultural activities
 - Reducing migration of labour from rural to urban centres
 - Lessening dependence on agricultural or raw materials export
 - Reducing population growth and lessening high dependency ratio
 - Reducing reliance on loans and grants from other countries
 - Reducing illiteracy
 - Increasing life expectancy
 - Reducing mortality rate etc

Reasons for current level of Economic Development in Ghana

- Is the current level of development about Natural and Human Resource unavailability? Or a management problem?
- Leadership: More often than not, policies and programmes which should really make economic sense might not make political sense to some leaders. This happens because they maximize different goals (votes vs biting the bullet). For fear of losing political power, it has become almost a compulsion for leaders not to develop realistic policies. My view is that the day Ghana will get a Prez who will be interested in only one term although he is qualified for two terms is when we can see the kind of leader(s) we need for economic development. South Africa had such a leader before: Nelson Mandela.
- Economic plan failure: Various economic plans have not been well executed, sometimes because of tying of plans to political party regimes and politicking on plans.
- Ghanaian attitude: Ghanaian attitude of time management, taking responsibility and general sense of sacrifice has also been problematic.

Reasons for the Current Level of Development

- **Honesty versus Corruption:** Corruption has negative effects on efficient utilization of scarce resources and getting better returns for investments. Judgement debts, huge compensation, inflating the cost of projects in contracts, rent-seeking activities as well as directly unproductive activities of middlemen in contracts generally account for our current level of development.
- **Political ideology puzzle:** This might be a bit weird but the fact is that the country has for far too long relied on political party manifestos in driving our development. My view is that many of the manifestos sometimes give inordinate ambitions but unrealistic promises which have only one aim of winning political power rather than genuinely geared towards the economic development. I don't think political parties' manifestos can be a blue print for our development.
- The afore-mentioned points seems a bit political and leadership biased so let also turn to some level of economic reasons:

Reasons for the Current Level of Development

- **Capital formation** Almost all developing nations have a scarcity of physical capital relative to other resources, especially labor. Low savings and resultant low investments. For instance, fixed capital accumulation as a source of economic growth or development reduced from about 56.2% between 1996-2000 to 29.8% between 2001-2005 (Killick , 2010 pg. 436).
- **Capital flight** is the tendency of both human capital and financial capital (productive capital) to leave developing countries in search of higher rates of return elsewhere. Ghana has lost some of its best brains that could have transform our economy to the world as a result of low motivation and better returns in the diaspora.
- **Human resources and Entrepreneurial Ability:** The quality of labor may pose a serious constraint on the growth of income. **Brain drain** is the tendency for talented people from developing countries to become educated in a developed country and remain there after graduation. Entrepreneurs who can organize economic activity appear to be in short supply as a result of many age-old problems such as the kind of education and training, inadequate venture capital openings/policies for entrepreneurs; entrepreneurship support largely reduced to giving inspiration people, etc.

Reasons for the Current Level of Development

- ***Social overhead capital*** is the basic infrastructure projects such as roads, power generation, reliable telecommunication facilities, good water supply systems that add to a nation's productive capacity. In developing economies and Ghana for that matter, government provision of public goods is highly deficient, and many socially useful projects cannot be successfully undertaken by the private sector because of the bulk of investment required. Low investments into the provision of such facilities over the years is another reason for our current level of economic development. Eg. “dum-so-dum-so”, telecommunication disruptions etc will not ensure a meaningful economic development.
- **Faster than output population growth**
Over the years our population has also been growing faster than that needed to ensure good per capita income levels. Sadly, many of these new births comes from people in the low income bracket thereby just extending the problem from one generation to another.

Structure of the Ghanaian Economy

- The Structure of the Ghanaian Economy can be summarized as containing:
 - Real Sector
 - Monetary Sector
 - External Sector

- Within the Real Sector, there exist:
 - Agricultural Sector
 - Industrial Sector
 - Services Sector

Broad categorization of economy's sectors

- **Real Sector** looks at economic activities that end up producing physical goods and services. The real sector is the sector that brings about production of goods and services whose monetary value is aggregated as the GDP of the country. The sector comprise the agriculture sector, Industrial Sector and Services Sector. These sectors also have their various sub-sectors.
- **Monetary Sector** activities are centred around value of money and the risk management involved in handling money and its associated assets. These sub-sectors include Banking, Financial and Non-Bank financial institutions.
- **External Sector** considers the country's engagement in business, trade and financial transactions with the international world. Its sub-sectors include foreign trade and international financial transactions with multilateral donor institutions and countries like IMF, World Bank.
- We take a detour through the sectors within the real sector discussing the sub-sector composition of the sectors, features, challenges, policy prescriptions so far and what is extra policy is needed from students perspectives.

Agricultural Sector: Composition, Characteristics, Relevance, Challenges and possible policy solutions

- Composition: Agric sub-sectors (See paragraph 44 of the 2014 Budget)
 - Crops other than cocoa (about 61% of agric GDP). The crops here are largely Roots, Tubers & Plantain like cassava, yam, cocoyam, plantain; Cereal crops like maize, sorghum, millet, rice; and Fruits and Vegetables like onion, pepper, tomatoes, oranges, pinapples, banana, etc.
 - Cocoa sub-sector (14% to agric GDP). The main crop here is cocoa and has been Ghana's main crop export for a long time. For example, Ghana produced over 1 million metric tonnes (1,024,000) of cocoa in 2011 which yield \$2.871 billion in forex earnings in 2011.
 - Livestock (7%). The main animals under livestock are, poultry, cattle, sheep, goats, pigs and others like horses, donkeys, guinea fowls, ducks etc.
 - Fisheries (5%). Tuna, frozen fish, dried/smoked fish. Acquaculture, with considerable private sector involvement is also gradually turning to produce fish especially fresh water tilapia for domestic consumption
 - Forestry (11%). This includes activities in timber production and logging. For instance, in 2010 timber earned Ghana \$189million compared to \$166million in 2011.

Features/xtics of the Agriculture sector

- Characteristics here are attributes which identify the nature of Ghana's agric sector over the years. They include:
 - Small-holder/peasant/subsistence agriculture: Production of output in the agric sector is mainly done on small-scale where families with titles to fragmented land engage in agric to sustain their families basic livelihood and sell the rest for other basic needs. This is basically the main aim for farmers, fisher folks, livestock producers and even to some extent cocoa farmers. Commercial agriculture is therefore not predominant.
 - Rainfed agriculture with its irregularities as a result of climatic changes. This also explains the pattern for production of agric output whereby they wait for the rainy season to engage in their major agric activity except for marine fishermen. Irrigation part? Where are the pockets of irrigation agric projects?

Features/xtics of the Agriculture sector

- Use of crude implements/tools/low technology application to agric. Majority of producers in the agric sector depend on cutlasses and hoes making agric looks a drudgery. Besides, unimproved seeds, fertilizers and new technologies in the production of agric output are not being applied on scale. A few combined harvesters recently but woefully inadequate for large-scale production. Many fresh water fisher folks still use canoes with oars and only the marine ones use out-board motors.
- Method of land preparation/crop production remains slash, burn and plant with shifting cultivation dominant. The small holders farmers especially embark mainly on mixed cropping because of their subsistence expectations.

Relevance of agric sector

- **Contribution to the GDP:** The sector is a major contributor to GDP over the years. Its contribution to GDP averaged 55% in the 1980s, declined to 41% in 1995, to 36.5% in 1999 and now about 34.8% over the past decade.
- **Contribution to employment:** Though the share of agric in GDP has been on the decline over the years, the sector still contributes more to employment generation than any of the other sectors. At least, 50% of the economically active population is employed in the agric sector. For example, from a high of 64% employment generation in 1960, this has declined to 45% in 2000 and in 2008, it generated about 43.5% jobs compared to 37.3% from the services sector in 2008. Can you explain why this is so? Clues: Easier to enter agric than industry, and more technology application in services sector than agric. See paragraph 672 of the 2014 Budget
- **Food supply:** Agric produces food items to meet the nutritional and healthy living needs of the population. This helps ensure that a healthy nation is a wealthy nation. However, due to taste and preferences some citizens prefer imported food items compared to locally produced ones especially in urban areas. But this has not diminished the sector's contribution as high production of food items has been attributed as one of the reasons for which Ghana has experienced stable inflation rate over the past 3yrs. Why? Clue: Food component of CPI basket of goods is assigned about 44.9% weight.

Relevance of agric sector

- **Foreign exchange earnings:** The sector contributes substantially to foreign exchange earnings as a result of export of mainly cocoa and timber, and non-traditional exports of other crops. For instance, the agric sector exports contribute 76.2% of total export earning in 1986 but its contribution has been decreasing over the years to 35.7% in 2000, 38% in 2008 and 25.5% in 2011. Similarly, in 2011 the cocoa sub-sector alone earned Ghana \$2.871billion compared to 2.285billion in 2010.
- **Contribution to government revenue:** Government gets revenue from agric tax and duties on cocoa in the agric sector. From 12.2% in 1990, the agric sector contribution to tax revenue declined consistently to 4.1% in 2000 and rose again to 5% in 2008.
- **Raw materials for industries:** Ideally, the agric sector is supposed to provide linkage with the industrial sector to facilitate value addition and manufacturing. However, due to its problems the sector is unable to perform this role effectively but we do have some of our textile factories depend on local cotton and agric products are serving as raw materials for local industries which produce soap and pharmaceutical/herbal products.

Challenges of the Agric sector

- **Land tenure system:** Land is fragmented and more often in the hands of title owners who are not interested in agriculture. This therefore inhibits large-scale production of agricultural products. Land reforms are necessary to ensure large fertile agric lands are cultivated on commercial basis.
- **Scarcity of water for all year round production.** Irregular rainfall patterns have made planning and cultivation quite unpredictable. This has contributed to crop failure in some instances and in other instances lost of investment into the sector making the sector risky for investors to commit funds to. When this happens especially to maize and other cereals, it affects the few poultry (livestock) farms production as well. Scale irrigation projects including building of dams to support irrigation for all year round production.
- **Poor infrastructure, storage and preservation facilities.** Often, areas where output is produced and there is glut lack good roads to convey the products to the market expeditiously. When it comes to storage, the facilities are inadequate and sometimes items produced get destroyed while there are ready markets in the urban areas for them. Within the fishing sector, farmers have to sometimes throw back their catch because of unavailable cold store facilities attached. Need for target investments into building such facilities or upgrading them to support agric.

Challenges of the Agric sector

- **Low investments** or lack of financial support for agriculture: Farmers who are interested in agriculture sometimes face credit constraints as banks find it more profitable or less risky to lend to such businesses. This affects the levels of production since agric inputs are expensive. It is expensive to acquire a tractor just as it is to purchase an outboard motor for fishing. Government intervention to support farmers if not with cash then inputs or new technology or subsidies.
- **Poor prices:** A season of glut normally comes with a situation where supply outweigh demand hence prices fall severely to affect returns from the sector. Government buffer stock company okay but needs a lot of investment into building more storage facilities so it can buy the excess and store for the future.
- Bush fires especially in the northern Ghana.
- **Inadequate extension service support** to farmers. Extension officer-farmer ratio is poor and as a result the officers are under incessant pressure. 3000 farmers to 1 extension officers.

Discussion: Policy interventions

- The government since 2010 identified agricultural sector as Ghana's greatest strength and as critical for industrial growth
- Some of the programmes and activities for the Agric sector planned by the government since 2010 includes:
 - Buffer Stock management
 - Fertilizer subsidy
 - Livestock and fisheries development
 - Irrigation development and mechanization systems.

Discussion: Policy interventions

- See paragraph 392 and 843 of the 2014 Budget Statement
- **Buffer Stock Management**
- The National Food Buffer Stock Company (NAFCO) was established to hold security buffer stocks and to intervene in the market to ensure competitive prices at all times
- The company acquired and rehabilitated two warehouses for the storage of grains
- About 6,949 metric tonnes of paddy rice and 416 metric tonnes of maize were purchased and stored.

- **Fertilizer Subsidy Programme**
- The fertiliser subsidy programme was reviewed and a more efficient waybill system was introduced
- The new system was to replace the existing coupon system, to enhance the delivery of the programme and ensure a more transparent distribution system
- The government subsidised 60,000 metric tonnes of fertiliser at an average cost of GH¢16.00 per bag, as part of efforts to increase productivity.

Discussion: Policy interventions

Livestock and Fisheries Development

- For fisheries and livestock development, the government began the construction of cold stores at Nyanyanor, Kromantsi and Apam in the Central Region and Half Assini, New Takoradi, Shama and Sekondi in the Western Region.
- About 11.07 hectares (ha) of ponds and 192 cages were constructed as part of efforts to promote and develop aquaculture and cage culture.
- To improve the performance of local breeds of livestock, livestock farmers were supplied with 2,584 livestock of various improved species in the Northern, Upper-East, Upper-West, Brong Ahafo, Ashanti and Volta Regions.
- In addition, 35,000 cockerels were distributed to 1,750 farmers in 25 districts at subsidized prices to improve the protein intake of Ghanaians.

■ Agriculture Mechanization

- In line with the government's commitment to increase farmers' access to agricultural mechanization services, 84 service centres were operationalized by September 2010 as against 69 in 2009
- In order to boost its food security policy, the govt increased existing food storage capacity by purchasing pro-cocoons to store a total of 30,000 metric tonnes of grains.
- 165 combine harvesters were assembled and deployed across the country in 2011 to support individual farmers to increase productivity.

Discussion: Policy interventions

Irrigation Projects

- The first phase of the rehabilitation of the Tono irrigation dam has been completed, making available 1,874 hectares of land for cultivation
- Additionally, the rehabilitation of 70 dams in the three Northern Regions which were breached was also completed
- The second phase of the Tono irrigation dam was completed in 2011 allowing two night storage reservoirs

- **Sustainable Management of Land and Env't**
- The Agricultural Sustainable Land Management Strategy and Action Plan were launched in August, 2009 to ensure continued productivity of agricultural lands
- The strategy is to provide the framework for sustainable management of the country's land and water resources for higher productivity and growth

Discussion: Policy interventions

Youth in Agriculture Programme (YIAP)

- Under the Block Farm Programme, about 47,000 hectares of land were cultivated with maize, rice, sorghum, soybean and vegetables
- This programme provided financial opportunities to 80,000 beneficiaries
- In the year 2011, under the livestock and poultry sub-programme, 19,300 day-old chicks were procured and brooded for distribution and rearing to 950 farmers in 60 districts in seven regions at subsidised prices. See paragraph 672 of the 2014 Budget Statement.

• Savanna Accelerated Development Authority (SADA)

- There exist a development gap between the north and the south of Ghana
- To bridge gap, SADA was born
- SADA envisions a 'Forested North' by 2030 where agriculture production is modernized and oriented towards a larger market
- The SADA initiative have six unique pillars
- Development of a comprehensive regional and ecological strategy
- A model for the modernisation of agriculture
- Development of strategic infrastructure
- Strong linkage between Northern Savannah and the Sahelian Countries
- A vigorous private sector initiative that strengthens existing private operators
- Active support for Civil Society Organisations (CSOs) and NGOs, to support the developmental programme of the SADA area.

Discussion: Policy interventions

Ghana Commercial Agriculture Project (GCAP)

- In the govt quest to increase agriculture production, it collaborated with the World Bank to develop GCAP.
- GCAP seeks to improve the investment climate for agri-business and also develop Public-Private Partnerships (PPPs) aimed at increasing on-farm productivity and value addition in selected value chains.
- This is aimed at advancing the commercial goals of the Medium Term Agriculture Sector Investment Programme (METASIP)

Discussion: Policy interventions

Goals/Objectives of METASIP

- Food security and emergency
- Increased growth in incomes
- Increased competitiveness and enhanced integration into domestic and int'l markets
- Sustainable mgmt of land and envt.
- Science and technology applied in food and agric devt.
- Improved institutional coordination

THANK YOU