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**Abstract**

The Ghanaian economy has been on an upward trajectory over the past three decades, yet a number of challenges bedevil growth, redistribution and sustainability. After 56 years of independence, the need for a formal academic and practitioner forum for engaging minds on the past, present and future state of the economy has been lurking in the background. The birth of the Ghanaian Journal of Economics is a response to this urgent quest, providing a platform for cutting edge research on the Ghanaian economy and similar other economies to inform policy design and implementation. As the maiden issue, this review article seeks to retrace developments in the economy a few steps back to bring readers up to date on current state of research. The review is historical, and the scope is to synthesize the diverse developments in the Ghanaian economy within the confines of a relatively brief article. This article is thus not an exhaustive treatment of the topic, and it does not cover all the esoteric details of the Ghanaian economy. In the end, however, we hope to offer some perspectives on the literature for readers of the journal, investors, managers of the economy, regulators and academics while also providing a roadmap for future research endeavours.

## 1. Introduction

Ghana is a democratic country located on the west coast of Africa with an estimated population of about 26.6 million[1] in 2013. It is the first sub-Saharan African country to become independent from British colonial rule in 1957. The country's economy is ranked the 85$^{th}$ largest in the world with a total GDP of US $40.7 billion in 2012

[1] The estimate is based on a population figure of 24,658,823 in 2010 with annual population growth of 2.5%.

and a per capita GNI of US$1,550 (World Bank, 2013). In the ECOWAS sub-region, Ghana's economy is the second largest behind Nigeria[2], accounting for 10.3% of total GDP of the sub-region. Ghana's economic performance has been quite strong over the past three decades during which the country pursued market-led economic policies and programmes with minimal involvement of government in direct economic activities. The recovery of the country's economy from recession in the early 1980s on the back of the economic reform and structural adjustment programme, and the sustained growth since then has earned the country a lot of commendations in terms of economic achievement. This prompted Leechor (1994) to describe the country's economy as a frontrunner in the economic reform process. Ghana recorded about 5.2 % annual average growth between 1984 and 2010 and became a lower middle income country after a rebasing of its national accounts in 2010 with a change in the base year from 1993 to 2006. The rebasing pushed the country's annual average growth to 8.3 % between 2007 and 2012. In 2011, the country commenced commercial production of oil. This development contributed 5.4 percentage points (oil-GDP) to the 15.0 % real GDP growth in that year, with Ghana taking an enviable position as one of the six fasters growing economies in the world that year.

Concerns have, however, been raised about the quality of economic growth particularly in terms of employment, inequality and general improvement in the livelihood of Ghanaians. Moreover, the growth figures have not been matched with improved livelihoods, raising doubts about the trickle-down effects of growth. Besides, sustainability of the growth is an issue that keeps lingering in the minds of policy makers. As Aryeetey et al (2001) argue, the perceived lack of appreciation of Ghana's sustained growth performance might be linked to the fact that the measured growth figures had little meaning for the livelihoods of Ghanaians. Employment generation trails economic growth with most jobs created in the informal sector where earnings are low (Baah-Boateng, 2013a). Indeed, the labour market is characterised by high levels of informal and/or vulnerable employment, coupled with high incidence of poverty particularly in rural areas and the northern savannah regions of the country. The country continues to battle with the problem of maternal, infant and child mortality as well as high level of malaria related death, indicating the enormity of the challenge of achieving the health-related goals (Goals 3, 4 and 5) of the Millennium Development Goals (MDG). While enrolment rates at the pre-tertiary levels have gone up substantially, the school system still faces problems of the lack of high calibre teachers and teaching aids. At the same time, the higher educational system continues to churn out a large army of unemployable graduates. With the entrance of private universities, the focus has shifted from science and technology

[2] Nigeria alone accounts for 66.2% of total GDP of all the 15 ECOWAS countries.

education to the mass production of business graduates, given the relatively low opportunity cost involved. The emphasis on ‘certificates’, rather than skills, and the high number of unregulated, poorly staffed and shoddy fly-by-night higher degree awarding institutions in the various capitals has become a characteristic feature of the Ghanaian educational system in the last few decades.

The main purpose of this paper is to review the developments in the Ghanaian economy by putting the searchlight on the key areas that should engage the attention of policy makers. The paper also adduces promising areas of future research for the attention of the research community. The paper is structured into seven sections with section two examining macroeconomic developments. Section three looks at fiscal, monetary and financial sectors. This is followed by trade and exchange rate developments in section four. Section five discusses labour, employment and livelihood, while health and education developments are discussed in section six. Section seven concludes the paper.

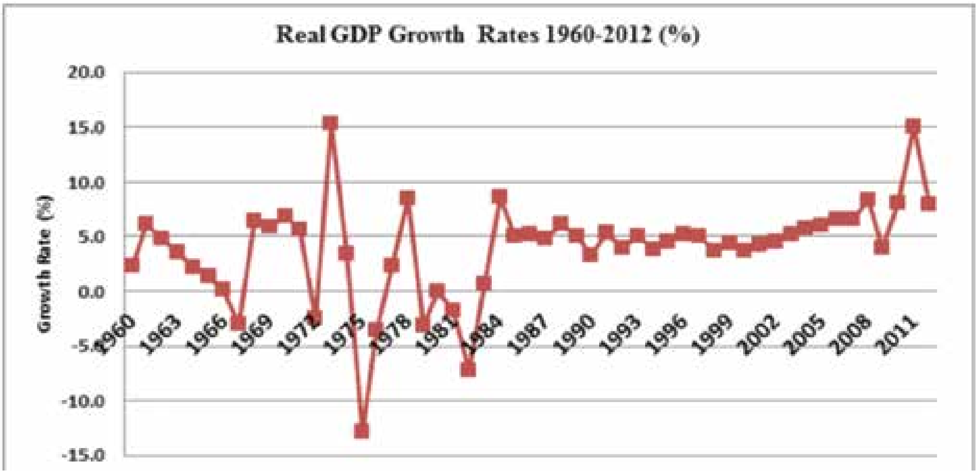
## 2. Macroeconomic Developments

### 2.1 *Growth Trends*

One major indicator of a country’s macroeconomic performance is real GDP growth. Ghana’s growth record was quite erratic prior to the mid-1980s when the country embarked on economic reforms. From a reasonably high GDP growth of 6.2% in 1961, the economy of Ghana began to record a steady slowdown in GDP growth reaching negative 3.0 in 1967 before recovering strongly to record 6.4% the following year (see Figure 1). Growth remained stable for a short while and stumbled again in 1972 with a growth rate of negative 2.5%. Indeed, growth was turbulent during much of the period after the mid-1960s and only began to stabilise in 1984. As shown in Figure 1, the negative growth the country experienced occurred in 1967, 1972, 1975-1976, 1979, and 1980-1981. Instructively, most of the years of negative growth coincided with a period of intense political instability, and external shocks. The first negative growth occurred a year after the first military coup d’état in 1966, while the period 1972, 1979 and 1981-1982 coincided with military intervention. The lowest growth of negative 12.9% was experienced in 1975 following a poor response to the oil-price shock of 1973 as Ghana could not access the international capital markets to find the bridging finance for domestic expenditures. Misguided economic policy in the form of inflationary financing and domestic borrowing were also to blame for the negative growth recorded in the 1970s and early 1980s. The serious drought experienced in the country in the early 1980s, and what economic historians point to in respect of the return of about one million Ghanaians from

Nigeria added stress to an already overburdened economy.

**Figure 1:** Real GDP growth rates, 1960-2012 (%)




***Source**: Constructed from National Accounts, Ghana Statistical Service*

In searching for solutions to the economic challenges facing the Ghanaian economy in the late 1970s and early 1980s, the government put in place liberal economic policies under the sponsorship of the World Bank and the International Monetary Fund (IMF). In 1986, the second phase of the reform was supplemented with the Structural Adjustment Programme (SAP) targeted at correcting a number of structural imbalances to ensure a sustained healthy economic growth. The response of the economy to the paradigm shift of economic management from state control to a liberalised one was strongly positive with a strong growth rate of 8.6% in 1984. This positive growth performance has continued since 1984 and picking up strongly since 2001.

The generally strong economic growth performance is a reflection of liberal economic policy accompanied by large inflows of aid and foreign direct investment that has triggered increased levels of investment, particularly in the public sector. These improvements coupled with aid inflows contributed to high levels of public spending mostly on infrastructure such as roads, schools and hospitals. Aryeetey and Tarp (2000) have asserted that the growth of the 1980s emanated from the expansion of capital application, largely as a consequence of increased aid inflows. An estimation of a simple growth accounting model by Aryeetey et al (2001) attributed Ghana's growth pattern to total factor productivity (TFP) which in turn was aided by the liberal economic regime. Since Aryeetey et al (2001), there have been few or no studies examining the sources of growth in the Ghanaian economy. The entry of crude oil exports in the late 2000s, the structural changes taking place in education and health policies, and the shrinking of the share of agriculture to GDP provide avenues for future research, particularly on questions regarding the sources of growth in the Ghanaian economy over the past three decades.

## 2.2 *Sectoral Analysis of the Economy*

The pattern of Ghana's economic growth has varied significantly by sector and this is reflected in the shifts in the sectoral distribution of national output from agriculture in favour of the two other sectors. Growth has been relatively stronger in services and industry, and the outcome of this development is the shift in sectoral dominance from agriculture to services. Estimates from Table 1 indicates an annual average growth rate of agriculture of about 3.3% between 1984 and 2012 compared with 7.8% for industry and 6.7% for services. Consequently, the share of services improved from an average of 37.9% in 1984-88 to 42.5% in 1989-92 based on 1975 constant prices. After a rebase of the national accounts in 1993, the sector's share which dropped to 31.2% in 1993-96 improved marginally to 32.9% in 2001-05. A rebase of the national accounts in 2006 further pushed the contribution of the sector to GDP to an average of 50%. The strong show of services in terms of growth and sectoral contribution has emanated largely from improved growth performance of trade, hospitality, telecommunication and financial subsectors, aided by liberalisation of activities that have seen increased private sector participation in the sub-sector.

**Table 1:** Sectoral Growth Rates and Composition of GDP, 1984-2012 (%)

| Sector | 1984-88 | 1989-1992 | 1993-96 | 1997-00 | 2001-05 | 2006-10 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|
| Agriculture | 49.0 | 43.5 | 40.9 | 40.2 | 9.7 | 28.2 | 25.3 | 22.7 |
| | (1.9) | (1.6) | (3.1) | (3.9) | (5.1) | (4.5) | (0.8) | (1.3) |
| Industry | 13.0 | 14.0 | 27.9 | 27.7 | 27.4 | 21.7 | 25.6 | 27.3 |
| | (12.7) | (4.4) | (4.6) | (4.2) | (5.0) | (8.4) | (41.6) | (7.0) |
| Manufacturing | 8.5 | 8.7 | 10.2 | 10.1 | 10.0 | 8.8 | 6.9 | 6.9 |
| | (12.7) | (2.6) | (2.1) | (4.5) | (4.5) | (2.6) | (17.0) | (5.0) |
| Service | 37.9 | 42.5 | 31.2 | 32.1 | 32.9 | 50.1 | 49.1 | 50.0 |
| | (7.8) | (7.1) | (5.2) | (5.7) | (5.3) | (7.6) | (9.4) | (10.2) |

Note: 1984-1992 figures are based on 1975 constant prices; 1993-2005 based on 1993 prices; & 2006-2012 based on 2006 constant prices

***Source:*** *Computed from National Accounts*

The contribution of the industrial sector to national output also increased strongly from 13.0% in 1984-1988 to 27.4% on account of improved growth performance of mining and the construction sub-sectors. The commencement of oil production in commercial quantities in 2011, pushed industrial growth rate to a high of 41.6% and thus bringing the share of the sector from 21.7% in 2006-10 to 27.3% (Table 1). Manufacturing recorded some appreciable growth performance in the early period of the reform in the second half of the 1980s which contributed to improved share of the subsector in GDP in the late 1980s and early 1990s. The removal of foreign exchange restrictions as part of the economic reform contributed to improved capacity of manufacturing firms through the availability of foreign exchange for the importation of raw materials, spare parts and equipment for the operation of existing plants and machinery. The sector has, however, witnessed weak growth which has reflected in the declining share of the sub-sector from 10.2% in 1993-96 to 6.9% in 2012 (Table 1). Over the past two decades, the sub-sector has been battling with the problem of rapid depreciation of the domestic currency, high cost of credit, lack of adequate and reliable energy supply, cheap imports and weak infrastructural base. These factors, in addition to the structural rigidities within the economy have contributed to the less than satisfactory competitiveness of domestic manufacturing enterprises in the liberalised trade environment.

In contrast, agriculture which was considered the backbone of the Ghanaian economy has consistently lost its dominance in the economy with a decline in its contribution to national output from 49.0% in 1984-88 to 22.7% in 2012. The absence of adequate support for the food crop, fishing and livestock sub-sectors prompted by the removal of agricultural subsidies as part of the economic reform measures, coupled with marketing problems and post-harvest losses cannot escape blame for the dismal performance of agriculture. The rapid loss of forest cover as a result of bush fires, logging and other human activities, limited support from extension services, and the absence of adequate irrigation facilities which accounts for the heavy reliance on rain have also contributed to the shrinking share of agriculture in national output. The performance of agriculture would have been worse had the cocoa sub-sector not picked up strongly from 2001 as a result of deliberate policy by government to regain the country's lost glory in global cocoa production. The policy of mass spraying and enhanced producer price for farmers led to improved cocoa production from about 400,000 tonnes on the eve of the millennium to 1 million tonnes in 2009/10, pushing the country from third to second position behind Cote d'Ivoire on the league of world cocoa producing nations.

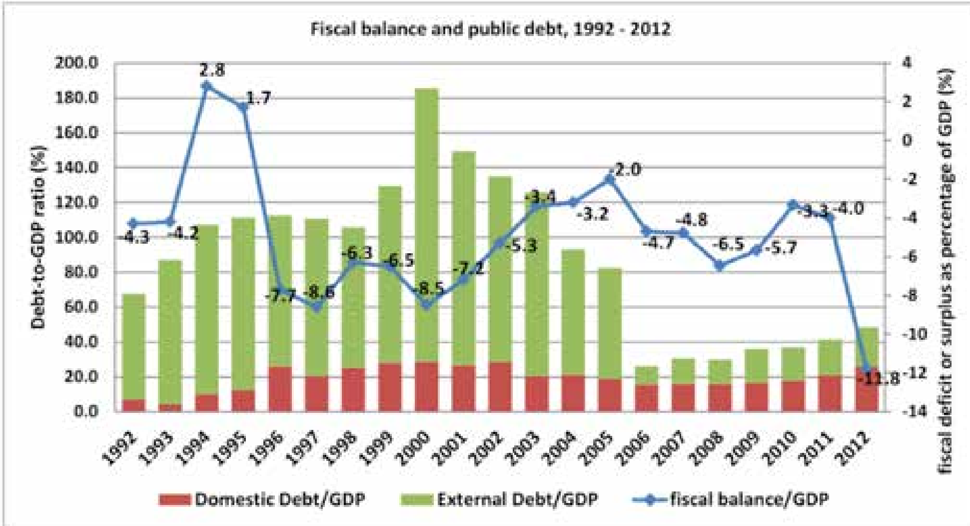
The shift from agricultural dominance to services in real GDP may be perceived as structural transformation of the economy. Structural transformation of economic arrangement represents an increasing ability of the economy and society to respond efficiently and effectively to changing and growing pressures for enhanced welfare among people. This entails a process by which increasing proportions of employment and output of the economy are accounted for by sectors other than agriculture. It involves a net resource transfer from agriculture to other sectors of the economy over the long term. Structural transformation is also associated with a shift from informal to formal arrangements in the organization of economic activity. However, evidence available suggests that the dominance of informal activities in the services sector and the dwindling importance of manufacturing in economic arrangements make it difficult for this structural shift to be judged as structural transformation of the Ghanaian economy.

## 3. Fiscal, Monetary and Financial Sector Development

Ghana's economic management has been characterised by fiscal deficit. Since 1992, the country has recorded budget deficits (with the exception of 1994 and 1995 when fiscal surplus of 2.8% and 1.7% of GDP respectively were reported) (see Figure 2). One common feature of the fiscal trend is the peculiarly unbridled spending in election years. Since 1992, when the first general election was held to usher the country into fourth republican constitutional rule, there have been huge deficits in election years (the only exception is 2004). Even though fiscal deficit is not always bad, the concern has been what caused the deficit and how it is financed. Indeed, many economists may not even worry much about government's decision to run deficit to deal with severe recession by spending on public investment such as infrastructure, education, health and research that would generate returns to redeem the debts that would be accumulated from the deficits. However, fiscal deficits that emanate from wasteful expenditure or simply to fund current consumption within an environment where infrastructure, finance and human resource constraints disable private businesses from stepping up production to meet the aggregate demand that come from the increased consumption could stifle growth and employment.

Theoretically, there are three possible sources of financing fiscal deficit: inflationary financing, external borrowing and issuing bonds in the domestic financial market. Deficit financing through money printing has the effect of causing persistent price hikes. External financing of fiscal deficit also tends to cause external debt to grow with the implication of not only exacerbating balance of payments problems, but also increase the interest payments on external debt which in turn worsens the fiscal deficit problem through interest payments. The option of financing deficit through domestic bond issue also drives up interest rates, crowds-out private domestic investment and hampers economic growth.

**Figure 2:** Trends of fiscal balance and public debt in Ghana, 1992–2012



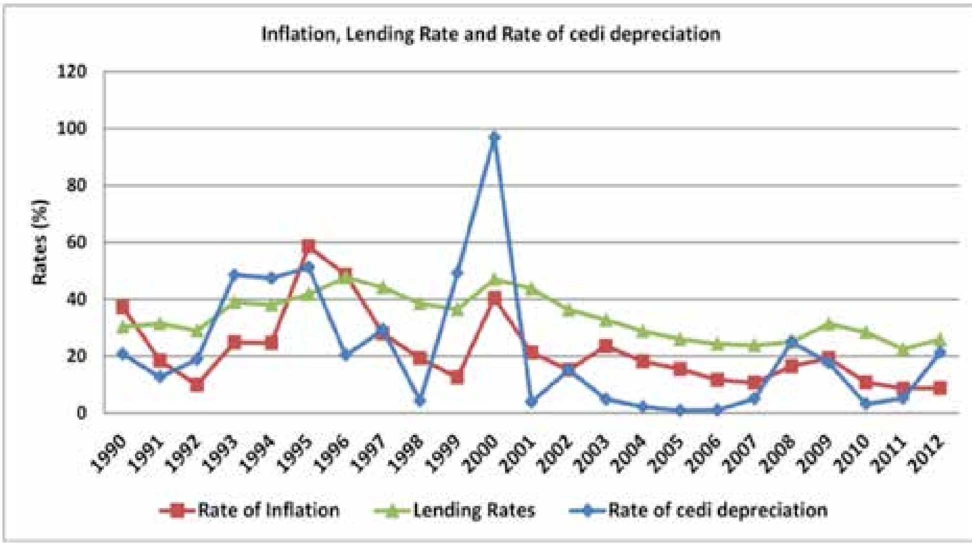

***Source:*** *Constructed from Annual Reports and Quarterly Bulletin of Bank of Ghana*

The problem of fiscal deficit in Ghana is not limited to the last two decades. The economy found itself in fiscal crisis during the period prior to economic reforms in 1983. The rapid and unrestrained growth of public expenditure in support of over-extended public sector activity in the 1970s and early 1980s, coupled with sluggish revenue generation on account of limited tax base resulted in huge fiscal deficit (Tsikata and Amuzu, 1997) reaching a peak of 11.4% of GDP. The decision to finance the deficits through money printing caused a sharp rise in money supply resulting in high rate of inflation and overvalued exchange rate in a controlled exchange rate regime while domestic borrowing also caused domestic debt to rise. As the expenditure-revenue gap widened amid limited non-inflationary sources of finance, deficit financing became the principal source of the budgetary support, causing the share of government borrowing from the domestic banking system, mainly from the central bank, to increase from 49% in 1970 to 86% in 1982 (Kusi, 1991). The economic decline that ensued in the early 1980s compelled the country to undertake economic reforms to resuscitate the economy. A major element of the reform was rationalisation of public expenditure and revenue improving measures through tax reforms to address the chronic fiscal problem. The reform succeeded in bringing the deficit under control over a short period of time (1985-1991 and 1994-95).

The re-emergence of the deficit brings to the fore the need for a study on the underlying factors explaining Ghana's fiscal deficit problem which hit 11.8% of GDP in 2012. This is important because the inability of government to keep fiscal deficit under control and its financing mechanisms do not only contribute to increase public debt, but also constrains the country's ability to borrow to execute capital investment. The growth of public debt in the 1990s which reached unsustainable level of 186% of GDP, made up of 157% from external sources and, 29% owed domestically landed the country in the midst of Heavily Indebted Poor Countries (HIPC) in 2001. The government's decision to subscribe to the HIPC initiative which qualified it to benefit from debt reliefs from external creditors contributed significantly to the rapid decline in public debt to a low of 26.1% in 2006 (Figure 2). At the same time, the fiscal deficit assumed consistent decline from 8.5% of GDP in 2000 to 2.0% of GDP in 2005. However, in recent time, the deficit has begun to widen. Public debt has been climbing, reaching almost 50% of GDP in 2012 (Figure 2). Although the figures are not very conclusive, rising debt raises questions about the sustainability of fiscal policy. Can the government meet its debt obligations without compromising on growth? This question, in addition to solvency, international credibility and the level of debt that is commensurate with aggregate economic performance should occupy important place in both academic and practitioner research.

Like most economies around the globe, the conduct of fiscal policy is generally complemented by monetary policy. In Ghana, the focus of monetary policy which is under the purview of the Bank of Ghana is on ensuring stable rate of inflation and exchange rates, and balance of payments equilibrium. Inflation has been one of the key macroeconomic challenges in the country over the years and until 2011 when a single digit rate was recorded, the rate of inflation has hovered within the range of 10%-58.5% yielding an average annual rate of 23.1% over a eleven year period between 1990 and 2010 (see Figure 3). As a result, average lending rates of banks have remained quite high reaching a peak of 47% in 1996. Indeed, the economy has witnessed a downward trend in lending rates in line with falling inflation since 2001 (Figure 3), but the average nominal lending rate of 26% and a policy rate of 16% in 2012 with 8.8% inflation has raised questions about the sensitivity of the banking system to inflationary trends. The combination of fiscal deficit and inflation has made it difficult for the country to meet the convergence criteria for the West African monetary zone for the take-off of monetary integration in the West African sub-region in addition to the UEMOA monetary zone. The survival of private businesses in such a high interest rate environment gives a cause to worry in terms of economic growth and employment generation. The question of how some private businesses manage to operate in such a high cost credit environment opens up a gap for research.

**Figure 3:** Trends of inflation, lending rate and rate of cedi depreciation




***Source:** Constructed from Annual Reports and Quarterly Bulletin of Bank of Ghana*

The tools used in the conduct of monetary policy depend on the structure of the financial system. Prior to the introduction of financial reforms in Ghana in 1988, government's involvement in the monetary and credit policies was quite pervasive. The financial system was dominated by government owned banks. As noted by Gockel et al (1997), the banking system in Ghana before the financial reforms could be described as indigenised, largely owned and strongly influenced by the government. The type of financial and monetary policies pursued prior to the financial reforms was based on Keynesian model that favours low interest rates as a means of boosting investment and economic growth and subsequently high savings rates. The monetary authorities used low interest rate, reserve requirements, credit ceilings and sectoral credit control as the main tools to influence money supply and other financial indicators. These measures resulted in financial repression with weak financial intermediation. As noted by Gockel et al (1997), the banking system was characterised by low capital base; weak management and accounting information system; inadequate legal and regulatory framework, including ineffective supervision by Bank of Ghana. The situation was worsened by the effect of demonetisation of existing currency in 1979 and confiscation of fifty-cedi notes in circulation in 1982 which created loss of public confidence in the financial system with the effect of reducing the effectiveness of monetary control as more money is kept outside the banking system.

Against the background of these challenges in the financial system, Ghana embarked on financial sector reforms in 1988 with the introduction of new Banking Law of 1989. The reform measures involved the privatisation of state-owned banks as part of the financial liberalisation and deregulation programme, development of capital and security markets, and the promotion of non-bank financial institutions and restructuring of the regulatory framework to improve bank supervision. After two and a half decades, these reforms have yielded some fruits, paving the way for the entry of foreign banks, expansion in credit, and growth in bank branches. Prudential regulation has also been strengthened, but there are no yet adequate studies examining the efficiency and competitiveness of the banking system. In addition to changes in the banking system is the emergence of new products and securities in the entire financial system. There has been growing number of funds managed by various investment houses such as Databank, IC Securities, Ecobank Capital, HFC Trust and Strategic African Securities among others. Growth and aggressive funds and real estate investment trusts are beginning to make their appearance on the Ghanaian market. However, the size of these funds is not very well documented. The amount of assets under management, and the performance and regulation of the funds remain unexplored. While the mutual fund industry is a relatively new phenomenon in Ghana, it at the same time offers opportunities for researchers and practitioners to examine the importance of this aspect of the financial system and its contribution to the overall economy.

The market for longer term borrowing or debt instruments such as treasury notes and corporate bonds, municipal bonds and mortgage securities are extremely thin, highly underdeveloped and very illiquid. The government bond market particularly remains underdeveloped. This in turn is related, but not limited to the absence of a sound market infrastructure, a paucity of institutional investors, low domestic savings rates, and lack of interest from international investors. The result is a small, highly homogeneous investor group. Moreover, economic instability, often fed by the high fiscal deficits alluded to earlier, rapid growth of the money supply, and a deteriorating exchange rate, more often than not weakens investor confidence and increase the risks associated with development of the market for government bonds. To overcome some of the hurdles of the domestic market, most developing countries look at international markets where the market is well regulated, and the opportunities for raising capital abound. In September 2008, Ghana became the first West African sovereign state to enter the international bond market, selling a benchmark issue to raise $750 million. The 10-year bond was sold at par to yield 8.5%, and this followed the successful rating of B+ by both Standard & Poor's and Fitch. However, the prospects of more issues quickly evaporated following the onset of the credit crunch.

The budget deficit (which stood at 14% of GDP at the end of 2008 and 11.8%

at the end of 2012) poses the greatest challenge to the development of a sound government bond market. Such huge levels of deficits not only threaten growth through spending cuts and austerity measures but also impose a drag on the economy through attempts to reduce them. In the past, high inflation also posed a grave threat to sound macroeconomic management. The solution to inflation risk has been to issue bonds that are linked to an index of the cost of living in order to provide citizens with an effective way to hedge inflation risk. This became known as government of Ghana inflation indexed bonds. The principal amount on these bonds is adjusted in proportion to increase in the consumer price index. Therefore, they provide a constant stream of income in real (inflation-adjusted) cedis. A well-developed bond market is key to financial development and economic growth. At the macroeconomic level, a strong government debt market would provide a conduit for domestic funding of budget deficits and can strengthen the transmission mechanism of monetary policy, including the achievement of monetary targets or inflation objectives, and can enable the use of market-based indirect monetary policy instruments. As indicated by Alagidede (2011), development of a domestic securities market can increase overall financial stability and improve financial intermediation through greater competition and development of related financial infrastructure, products, and services.

Available research in the area of corporate financing is scarce but anecdotal evidence suggests that Ghanaian companies are shy of corporate bonds and other long term instruments for financing. The pecking order suggests retentions and some amount of bank borrowing, and if need be some minimal equity financing. This is partly a reflection of the domestic economy, where over 70% of companies are small scale and mostly family owned. There is also minimal use of municipal bonds by the municipal assemblies and local authorities in Ghana. The big municipal areas such as Tema, Tamale, Kumasi, Bolgatanga, and Cape Coast can raise funds to finance road construction, waste disposal management, household water provision, build bridges and highways, and even develop local industry. The dynamics of such a market will not only take the burden of development from central government but also ease the pressures on the central government budget, generate local employment and reduce the rural-urban drift with the attendant problems of congestion, crime and overcrowding in the national capital. For this to happen, decentralisation and devolution ought to be sturdy and the legal and tax system rationalised. All the mechanics of such markets are beyond this review article, however, the thought presented here provide a menu of options to engage the minds of researchers in teasing out the modalities for such a venture.

A very important development in the financial system is the establishment of the Ghana Stock Exchange (GSE) by the closing decade of the 1980s. Although attempts at establishing a stock market in Ghana dates back to the 1960s, it was not until late 1989 that the idea became a reality (Alagidede and Panagiotidis, 2008). In a sense, one can argue that the financial reforms, as part of the overall economy wide restructuring that started in the late 1980s made the establishment of a stock market inevitable. Incorporated as a private company limited by guarantee, official trading commenced on the floor of the GSE on November 12, 1991 with three brokerage firms and 11 listed companies. The number of listed domestic companies increased to 13 in 1992; 19 in 1995 and currently stands at 33. The listed firms span from gold mining and oil, banks, pharmaceuticals and biotechnology and food processing companies.

Available data is generally sparse but most studies indicate that the GSE has provided avenues for corporations to raise long-term capital to finance investments. Yartey and Adjasi (2007) point out that new equity issues are a significant source of finance for quoted companies, accounting for about 12%. In terms of assets growth and new investments, the evidence suggests that listed companies make very little use of the opportunities presented by the stock market. This in turn can be attributed to a number of factors militating against company growth and new venture creation. The average company size in Ghana is relatively small and this presents problems of credibility in accessing external capital, particularly the inability of external creditors to monitor the activities of companies due to information asymmetry and the high risk nature of investments undertaken by most firms. The market is illiquid. The turnover ratio is only about 1.6%.

In spite of these problems, the stock exchange provides an organised avenue for trading securities issued by publicly quoted companies and the government. The existence of an organised capital market promotes a culture of thrift. In an economy like Ghana where the national savings rate have fallen from a high of 17% in the 1960s to 5% in the 2000s, the role of the exchange is critical in consumption timing. The growing importance of mutual funds, unit trusts, and real estate investment trusts could potentially enable consumers to defer current consumption in return for future consumption and assist in the transfer of savings to investment in productive enterprises as an alternative to keeping money under pillows and mattresses.

The extent to which the GSE can ameliorate information asymmetry, engender growth of funds and consumption timing, and improve asset allocation is a function of the efficiency of the market. Studies on the efficiency of the GSE have been appearing gradually in the literature. Appiah-Kusi and Menya (2003), Osei (2003), Ntim et al, (2011), Alagidede and Panagiotidis (2008) and Rambaccussing (2010) address various issues such as calendar anomalies and weak form efficiency, semi-strong form efficiency and impediments to price discovery. However, market efficiency is an ever evolving concept and new and updated studies are constantly needed to judge the performance of the market. Market efficiency is also now seen as a relative rather than an absolute concept and this requires further examination to judge the efficiency of the stock market relative to other aspects of the financial system. Moreover, new techniques for measuring efficiency have been growing over time. Several instruments have made their way into the Ghanaian financial system that requires scrutiny. All these provide interesting avenues for prospective researchers to add to the scant but growing literature on the efficiency of the GSE.

In late 2008, the GSE embarked on what we may term a 'Big Bang', rolling out a corpus of reforms aimed at improving efficiency and price discovery. The reforms hinged on new rules on automated trading, clearing and settlement and the establishment of a Securities Depository Company approved by the Securities and Exchange Commission (SEC). The procedures set forth in the new rules aimed to reduce the costs and inefficiencies with the manual trading and settlement system, increase trading activity and liquidity and boost market performance. The trading floor of the GSE is now equipped with computers with each Licensed Dealing Member (LDM) having access to trading workstations on the floor of the exchange. This effectively sounds a death knell to the unwieldy practice of writing each trade with markers on a white board. In time, the market may even become faceless when the investing public embrace online trading fully. Currently, LDMs are allowed to provide terminals to some of their clients for the latter to route orders to buy and sell securities via the internet, subject to the rules of the GSE Automated Trading System (GATS).

The reforms are still ongoing and with time, data will become available for a more formal empirical analysis of the impact of the reforms on key microstructure variables such as liquidity, efficiency and bid-ask-spread bounce. One recent study by Mensah et al (2014, forthcoming) provides a novel piece of evidence on automation of the GSE and the effect of the 'Big Bang' on weak form market efficiency. Their analysis indicates that the GSE is yet to fully absorb the impact of the reforms as both pre and post automation efficiency remains the same. Microstructure evidence is inconclusive. However, with hindsight, we can argue that continuous electronic auction trading system could make it possible for the market to generally publish executed trades automatically and immediately. This would contrast sharply with the manual system where, trades must be manually reported to the exchange within a set time limit, after which they may be published, perhaps with time delay, according to the rules of the exchange. Central electronic auction markets cannot function without a relatively high degree of pre-trade and post trade transparency, and since the investing public are obliged to interact directly (i.e. through brokers), some portion of the consolidated limit order book (at least the best bid and ask) must be publicly visible. These requirements of the present trading arrangement, should, all things being equal, improve transparency, minimise fraud and boost market activity. Hence subsequent studies and extensions of the works of Mensah et al (2014) could be worth undertaking.

Going forward, political economy questions raised by Singh (1999) are valid for Ghana. For instance, should developing countries like Ghana waste their meagre resources in establishing stock markets instead of developing and improving the already existing banking systems? Corporate governance and firm performance has been initiated in studies such as Adjasi et al (2006). However, questions on the procedures, customs, laws and sets of institutions that underpin the way a corporation is directed, administered and controlled in Ghana still remain underexplored. Director share ownership and corporate performance of Ghanaian firms, corporate governance structure and disclosure rules ought to take centre stage in studies examining the overall interaction of the stock market with the rest of the economy. To date, there is no substantive study analysing the performance of IPOs. While one would admit that there has been limited IPOs in the first place, the neglect of the research community in examining the trends and performance of the few issues is unpardonable. As the market develops in sophistication and stature, derivative instruments, which are currently non-existent, may also make their appearance, thus offering further opportunities for research in evaluating their role in risk management and hedging.

## 4. Trade and Exchange Rate Developments

The international trade and payments system in Ghana has evolved from a controlled system to a more liberalised regime. After many years of pursuing restrictive foreign exchange rate regime, Ghana embraced flexible exchange rate system as part of the economic reforms in 1983. There was also a shift from restrictive trade practices to a more liberalised external trade regime. The immediate outcome of this policy shift was a sharp improvement in Ghana’s external trade performance and improved external trade competitiveness. The surge in foreign trade and payments improved the balance of payments situation and contributed to poverty reduction through increases in rural incomes (Asenso-Okyere et al, 1997). The liberalisation of the exchange rate market made available foreign exchange to domestic enterprises to import needed spare parts and inputs to boost production capacity and promote economic growth.

However, in the 1990s, the unstable and rapid depreciation of the exchange rate raised concerns about the negative effect of the liberalisation policy on the growth of domestic enterprises in the country. For instance, between 1990 and 2000, the cedi depreciated annually on average by 36.3% (see Figure 3) and coupled with average annual rate of inflation of 29.3% and average lending rate of 38.5%, it became difficult for domestic enterprises to compete effectively with overflowing competing imported goods. At the same time, the dominance of primary commodities in the country's export (cocoa, unprocessed minerals and timber) makes response to the exchange rate depreciation slow resulting in continued trade deficits, which in turn put pressure on the exchange rate and domestic prices. The slow growth of the manufacturing sector has contributed to the drop in the sectors contribution to national output and this is linked to the external trade imbalance and exchange rate constraints among other challenges such as high cost of credit and unstable domestic prices. The common suggestions that are often cited for addressing the external trade challenges of the country include the need to add value to the primary export commodities, develop local taste for local products and the integration of the ECOWAS market to promote intra-regional trade. However, the question of quality and prices of local products are cited as the main reasons for the high patronage of imported goods. In addition, similar types of goods produced by member countries in the ECOWAS sub-region do not seem to promote intra-regional trade. Ghana's major exports which are still dominated by primary commodities are mainly exported to European countries such as the UK, France, Italy and Netherlands while imports are mainly from China, Nigeria and United States. With a call for the country to sign on to the Economic Partnership Agreement (EPA), rigorous research is eminent to inform policy in terms of the benefit and cost of any decision that will be taken by the country.

## 5. Labour, Employment and Livelihood

Developments in the labour market generally mirror activities in the real sector of the economy. However, there is evidence to suggest that employment growth in Ghana has not kept pace with economic growth. Between 2000 and 2010, the total number of people employed increased from 7.43 million to 10.24 million (see Table 2), indicating a 3.3% annual average employment growth as against a 5.5% annual average real GDP[3] growth over the period. This suggests average employment elasticity of output of 0.6. A rebase of the national economy in 2006 that raised the average annual real GDP growth rate to 7.2% between 2006 and 2010 compared with employment growth of 2.9% puts employment elasticity of output at about 0.4, suggesting weakened employment response to economic growth in Ghana. Total employment is estimated to have increased by about 820,000 between 2010 and 2012 (Table 2) representing annual average growth of 3.9% compared with 11.5% annual average real GDP growth. Indeed, ILO (2009) estimates a drop in employment elasticity of output in Ghana from 0.52 in 2000-2004 to 0.4 in 2005-2008. The slow employment growth is reflected in the marginal rise in employment-to-population ratio by only 0.5 percentage points over 2000-2010 period (Table 2)

[3] This is based on real GDP at 1993 constant prices

indicating limited ability of the Ghanaian economy to provide adequate employment for the growing working age population.

The slow growth of high labour absorption sectors of manufacturing and agriculture in contrast to the strong growth performance in low labour intensive sectors of mining and finance sectors partly explains the limited employment response to growth in the Ghanaian economy. Baah-Boateng (2013a) observed a divergence between economic growth and employment generation and attributes it to the slow growth of high labour absorption sectors of agriculture and manufacturing on the one hand, and the higher growth of low employment generating sectors such as mining and finance on the other hand. Evidently, agriculture which until 2010 accounted for more than 50% of total employment and manufacturing which is credited with about 11%, recorded an average of 4.8% and 3.6% output growth respectively between 2000 and 2010. Mining and finance accounted for 1.1% and 0.74% of total employment respectively in 2010. However, these sectors have been two of the key driving forces of economic growth in recent times recording 5.8% and 8.1% respectively over 2000-2010 and in 2011, mining together with oil (which directly employ less than 100 Ghanaians) accounted for half of the 15.0% growth. The drop in agriculture employment from 53% in 2000 to 42% in 2010 is a reflection of the slow growth of the sector. The implication of the weak growth performance of manufacturing over the period is reflected in the stagnant share of the sector in total employment. The strong improvement in employment in the services sector from 31.5% to 43% of total employment between 2000 and 2010 emanated from trade which also reported strong GDP growth. While some attempts have been made to offer reasons for the slow response of employment to economic growth in recent times, it offers opportunity for researchers to delve a bit deeper into the micro foundations underlying the current development.

Unemployment remains quite low at 3.0% in 2012 from a moderate rate of 5.8% in 2010. The rate dropped from 10.4% in 2000 to 7.3% in 2003 and further down to 3.1% in 2006. Similarly, youth unemployment rate declined from 16.7% to 16.3% in 2003 further down to 6.6% in 2006 before surging to 12.9% in 2010. However, the rate of joblessness which consists of the unemployed and the inactive outside the school system is estimated to be more than twice the unemployment rate (Table 2). Baah-Boateng (2013b) attributes the relatively low unemployment rate in Ghana and other African countries to the problem of discouraged workers or hidden unemployment, and the high level of informality that serves as a refuge for many people in the labour market with low level of skills.

As reported in Table 2, the informal sector constitutes the main source of livelihood for Ghanaians, accounting for at least 86% of total employment in 2010. Indeed, the limited employment growth occurred in the informal sector with annual average growth of employment of 3.54% compared with 2.0% and 1.4% in the public and private formal sectors respectively. The formal sector grew by 1.68%. This translates into an increase in the informal sector share in total employment by 2.3 percentage points compared to a decline in the share of public sector employment from 7.2% to 6.4% and private formal sector from 8.9% to 7.4% (Table 2). This suggests that employment generation over the period occurred mostly in the informal sector where earnings are generally low. Baah-Boateng et al (2012) estimate informal sector average daily earnings of 37.5% and 32.1% of average daily earning in the public and private formal sectors respectively in 2006. This could be explained by the fact that wage policies in Ghana tend to benefit formal sector employees especially those in the public sector. The inability of the labour department to enforce the compliance of minimum wage legislation that enjoins all employers to pay workers at least the national daily minimum wage cannot escape blame for the lower earnings in the informal sector which is dominated by self-employment and contributing family work. Indeed, this development opens up a gap in research in this area to show the extent to which the informal sector operators are denied the benefits of public wage policies and the implications for poverty reduction.

**Table 2**: Employment and Unemployment 2000-2010

| Year | 2000 | 2003 | 2006 | 2010 | 2012* |
|---|---|---|---|---|---|
| Total employment (in million) | 7.43 | --- | 9.14 | 10.24 | 11.06 |
| Employment-to-population ratio (%) | 66.9 | 68.0 | 67.7 | 67.4 | 72.8 |
| ***Economic Sector of employment (%)*** | | | | | |
| Agriculture | 53.1 | --- | 54.9 | 41.6 | 50.9 |
| Industry | 15.5 | --- | 14.2 | 15.4 | 13.2 |
| *Manufacturing* | *10.7* | --- | *11.4* | *10.8* | *9.3* |
| Service | 31.5 | --- | 30.9 | 43.0 | 35.9 |
| ***Institutional sector of employment (%)*** | | | | | |
| Public | 7.2 | 7.6 | 5.7 | 6.4 | --- |
| Private Formal | 8.9 | 6.7 | 7.0 | 7.4 | --- |
| Informal | 83.9 | 85.7 | 87.3 | 86.2 | --- |
| ***Type of Employment (%)*** | | | | | |
| Gainful employment | 21.2 | 18.6 | 22.0 | 23.1 | 23.5 |
| Vulnerable employment | 74.9 | 78.2 | 75.4 | 71.5 | 71.1 |
| ***Unemployment and Joblessness*** | | | | | |
| Total Unemployment (%) | 10.4 | 7.3 | 3.1 | 5.8 | 3.0 |
| Youth Unemployment (%) | 16.7 | 16.3 | 6.6 | 12.9 | --- |
| Rate of Joblessness (%) | 20.8 | 16.5 | 12.9 | 12.6 | --- |

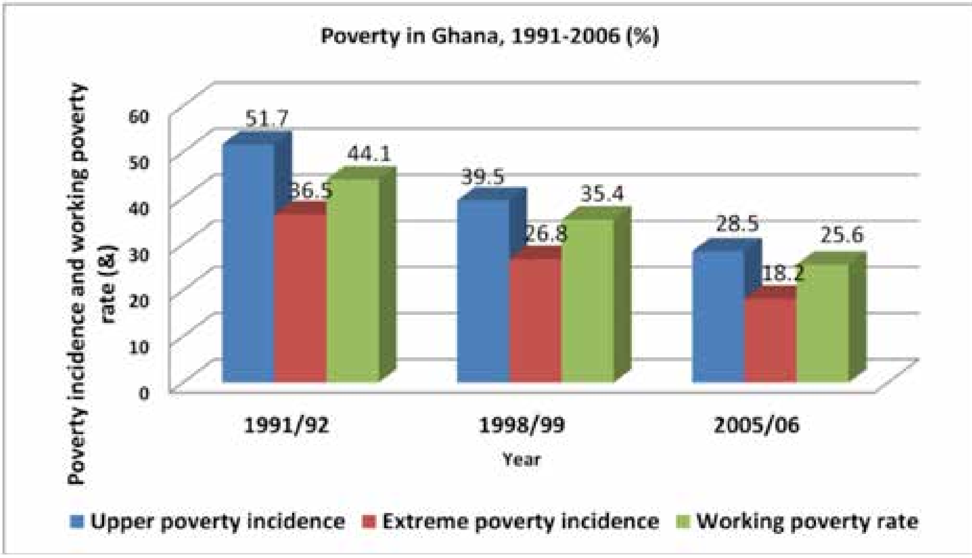
**based on 1st to 3rd Cycle of the GLSS 6 Labour Force Survey (October 2012-January 2013)*

***Source:*** *Computed from Population Censuses, CWIQ and GLSS*

The quality of employment is measured by the type or status of employment which indicates a worker's attachment to the job he or she does as a regular or wage employee, self-employed or contributing family worker among others. Gainful employment that consists of wage employment and self-employment with employees (or employers) accounted for 23.5% of total employment while every 7 out of 10 working Ghanaians were in vulnerable employment in 2010 (Table 2). Vulnerable employment rate is the sum of own account and contributing family work as a percentage of total employment. Workers in vulnerable employment are less likely to have formal work arrangements and are therefore more likely to lack elements associated with decent employment such as adequate social security and recourse to effective social dialogue mechanism (Sparreboom and Baah-Boateng, 2011).

Even though vulnerable employment rate in Ghana has seen a decline with some improvement in the number of people in gainful employment as shown in Table 2, the pace appears to be very slow leaving many workers in poverty. As reported in Figure 4, although incidence of poverty and the working poverty rate have witnessed consistent decline since the beginning of the 1990s, the situation still remains worrying. Incidence of poverty in the country dropped from 52% to 29% between 1991 and 2006 while the proportion living in extreme poverty similarly declined continuously from 37% to 18% over the same period. Consequently, the working poverty rate measured by the proportion of employed people living in poor households also witnessed consistent decline from 44% to 26% over the fifteen-year period with the majority of the working poor engaged in informal and/or vulnerable employment where earnings are evidently low. In effect, so long as the formal sector employment continues to respond slowly to strong economic growth in Ghana and coupled with the difficulty in coping with unemployment in particular and joblessness in general, many disappointed people in the labour market would seek refuge and water down earning in the informal sector.

**Figure 4:** Incidence of poverty and working poverty rate, 1991-2006 (%)




***Source:*** *Computed/Constructed by Authors from GLSS3,4&5*

## 6. Education and Health

Education and health are the two major elements of human capital development and also a major driving force of a country's development through labour productivity. Education is not only a vehicle for economic transformation at the macro level but also a key factor that enables individuals to access gainful employment. The high level of informal employment in Ghana and many African countries could be traced to the low level of education. Available data indicates that 28.5% of the 15.2 million working age population in 2010 had no formal education, while 48% could boast of basic education (Ghana Statistical Service, 2013). Only 3% have had university education while those with secondary education or better account for 21%. The current situation represents improvement in education and skill development over the past two decades. In 1991/92, about 40% of the working age population had never been to school while 54% had some basic education with the remaining 6% boasting of secondary education or better (Ghana Statistical Service, 1995). About 49% of adults were estimated to be literate and this improved to 72% in 2010.

These developments in education are reflected in the significant progress in the school enrolment rate at the basic level over the past two decades. For instance, gross enrolment rate at the primary school level which stood at 72% in the early 1990s increased to 95% in 2010, a 5 percentage point shy of the 100% target by 2015 (UNDP and NDPC, 2012), while the ratio at Junior High School (JHS) level reached 79.5% in 2010[4]. Enrolment at the secondary and tertiary level remains quite low in spite of effort by government to increase access to education at these levels. Available statistics at Ghana's Education Ministry indicate that between 2005 and 2010, about 112 new Senior High Schools were established to bring the number to 697.

In 2010, the country could boast of 7 public universities, 3 specialised tertiary institutions[5], 10 polytechnics, 38 colleges of education and 55 Accredited Private Tertiary Education Institutions. This is a vast improvement over the situation in the early 1990s when the country had only 4 public universities. Public expenditure on education in Ghana rose from 3.4% of GDP in 1988-90 to 5.3% in 2008; lower than Kenya and Senegal but higher than Uganda and Zambia (World Bank, 2013). Nonetheless, available statistics at the Ministry of Education show that Gross Enrolment Rate (GER) at the secondary level of education in the country increased from 25.5% in 2005/06 to 36.1% in 2010, while the ratio at the tertiary level was 9.7% in 2008/09. The gaps in the GER ratio from the basic level to the secondary and tertiary levels confirm the relatively lower proportion of Ghanaians with secondary or higher level qualification. The implication is that with secondary school certificate as the basic entry requirement into formal sector employment, the only source of livelihood for more than three-quarters of the working population is the informal sector where entry is flexible.

The quality of education also raises concern about how Ghana's education system could promote economic transformation of the economy. It does seem to suggest that the system of education and training is supply driven. In many instances, employers complain about the quality of products churned out by the educational institutions. Although the increase in the number of private tertiary educational institutions should be celebrated, the development presents serious concerns at the same time. Unbridled establishment of degree awarding institutions staffed by wholly unqualified and untrained academic staff, and inadequate evaluation of would be private tertiary institutions by the National Accreditation Board has led to the mushrooming of fly-by-night academic institutions in every nook and corner of the country. This development is somehow a reflection of the lousy mind-set of a populace seeking certificates over skills, and the emphasis on business and management training to the neglect of science and technology has opened a gaping hole in the set of skills required by industry and the genus of graduates produced by the tertiary institutions. This has been cited as one of the main sources of high unemployment among the educated (see Baah-Boateng, 2012). Boateng and Ofori-Sarpong (2002) attempted

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4 Ministry of Education, Ghana, www.moe.org.gh

5 Institute of Professional Studies (IPS), now University of Professional Studies, Accra (UPSA) Ghana Institute of Journalism (GIJ) currently affiliated to the University of Ghana, a degree awarding tertiary institution, and Ghana Institute of Languages (GIL).

to estimate graduate labour supply and demand gap and found deficits in the supply of medical and health, engineering and technical, and management and accounting compared with surplus in arts/social sciences and agriculture. Educational quality and attainment, both the private and social returns to education and the education-skills-employment nexus remain areas where research could be forthcoming.

A healthy population is a key ingredient for improved labour productivity, economic growth and social development. Access to health care in Ghana has been one of the major social concerns to government over the years. Ghana currently spends about 5% of its GDP on health while its per capita health expenditure has increased from US$45 in 2000 to US$85 in 2010, representing about 85% increase (WHO, 2012). The positive relationship between increased health expenditures and health outcomes is well documented with the exception of few caveats (Novignon et al. 2012; Gupta et al. 2002; Filmer and Pritchett, 1999). Since independence in 1957, the country has pursued a number of health policies and interventions to safeguard the health of its citizens. Prior to independence, Ghana practiced a 'free healthcare' model in which tax-financed health facilities directly delivered health care to the citizens. Nevertheless, the model predominantly benefited a small élite group of colonials and their African associates (Arhin-Tenkorang, 2001). The remaining citizens who worked in the informal sector and were relatively poor and predominantly lived in the countryside had to rely on health care services from a range of providers such as traditional healers and missionary health centres for which payment for healthcare was via out-of-pocket.

Following Ghana's independence in 1957, the government of Kwame Nkrumah introduced a universal tax-funded free healthcare system for all citizens. After two decades of operation, the sustainability of this model was called into question as a result of the stagnation in the economy. In particular, tax revenue among other macroeconomic variables experienced a sharp downturn in the early 1980s leading to the introduction of user-fees in 1972 (Osei *et al*, 2007). Due to the dwindling tax revenues, the budgetary allocation to the health sector suffered greatly culminating in shortages of essential drugs, supplies and equipment, and poor quality of health care. In order to improve healthcare financing, Ghana initiated a health sector reform in 1985 as part of broader structural adjustment programmes aimed at maintaining fiscal discipline, introducing cost recovery mechanisms through user fees also known as "cash and carry", and liberalising health services to allow private sector participation. In July 1985, the government of Ghana enacted the Hospital Fees Regulation as a cost-sharing measure for the use of the Ministry of Health (MOH) facilities with the intention to recover at least 15% of operating expenses. This system was initiated in response to the Structural Adjustment Program (SAP) laid out by the International Monetary Fund (IMF). Though the financial aims of the reform were achieved and shortages of essential medicines and some supplies improved, these achievements were accompanied by inequities in financial access to basic and essential clinical services (Waddington and Enyimayew,1990). The use of Out-of-Pocket Payment (OOP) mechanism for financing healthcare in the 1980's resulted in low utilization of healthcare services which contributed to high maternal and infant mortalities and worsened health seeking behaviour of individuals and households (Mensah, 2012; Mensah et al. 2010; Arhinful, 2003).

During the user-fee regime, it was estimated that only 40% of Ghanaians who needed healthcare were able to afford it in the 1990s (Ghana Statistical Service, 2000). Ghana's health care system during this era was chronically under-staffed, under-stocked and generally failed to meet the basic health needs of the populace that it set out to address in the first place (Waddington and Enyimayew, 1990; Anyinam, 1989; Asenso-Okyere et al. 1995; Konadu Agyemang, 2000). Although exemptions were granted to certain categories of people in 1987, it did not achieve its intended purpose of providing a safety net for the vulnerable who could not afford healthcare services due to delays in reimbursement of the health facilities by the government, abuse of the system and institutional bottlenecks. In 1997, another exemption policy was implemented under which the cost for basic services for children aged under-five years, women seeking antenatal care, the elderly over 75 years of age, and victims of snakebites were waived. Again, these exemptions were not clearly defined and funded, and thus, could not achieve its aim (Government of Ghana, 2007).

On the whole**,** user-fees, which require individuals to make out-of-pocket payments at point of service usage is a regressive system which retards utilization of health services (De Allegri et al, 2011). On the contrary, social insurance schemes lead to increased utilization of health services including antenatal care and delivery at health facilities (Ensor & Ronoh, 2005). Frimpong (2013) shows that on balance, while the health care reforms have been able to curtail some of the intractable disease burdens in the country the results have not been uniform. For instance, while the reforms have had a pernicious effect on infant mortality and life expectancy, they have been quite benign on the crude mortality rate.

The search for alternative health care policies and programmes to achieve universal coverage through a sustainable healthcare financing scheme necessitated the implementation of health financing options including piloting of Mutual Health Insurance Schemes (MHIS) in the mid-1990s with some schemes receiving external financial and technical support. Most of these MHISs focused on providing financial protection against the potentially catastrophic costs of a limited range of inpatient services. Ghana's National Health Insurance Scheme (NHIS), a form of social protection, was passed into law in 2003 (Act 650) and implemented in 2005 as a fulfilment of an election campaign by the New Patriotic Party (NPP) during the 2000 elections. It is a 'pro-poor' healthcare financing scheme, and has since made progress in enrolling members of the population. In 2012, Act 650 was replaced by Act 852 that seeks to among other things consolidate the NHIS, remove administrative bottlenecks, introduce transparency, and reduce opportunities for corruption and to strengthen the governance of the schemes.

The NHIS is financed through a National Health Insurance Fund (NHIF) which is sourced from the National Health Insurance Levy (NHIL) -- 2.5% tax on VAT-rated goods and services; 2.5% of Social Security and National Insurance Trust (SSNIT) contributions, largely by formal sector workers; payment of premiums by subscribers in the informal sector and donor funds. Individuals who are employed in the formal sector and contribute to SSNIT are exempted from premium payment. As at 2011, over 70% of the NHIS financial inflows came from the NHIL; 17.4% from SSNIT contributions and 4.5% from premium payments (Agyepong and Nagaib, 2011). In addition, a free maternal care programme (FMCP) was launched under the Ghana National Health Insurance Scheme (NHIS) in 2008 with a start-up grant from the British Government.

Currently, the NHIS covers over 90% of the disease burden of Ghanaians including medical emergencies and accidents. Services rendered to NHIS members are reimbursed through claims submitted by accredited health facilities using the tariff system. As at 2011, a total of 3,344 public and private health facilities were accredited out of which 1,804 were owned by the government; 202 by faith-based organizations; 1,315 by private-for-profit organizations and 23 by quasi-government institutions (NHIA, 2011).

The NHIS' total active membership has increased from 1,348,160 in 2005 to 18,031,366 in 2010 representing an increase of about 1,237% over the 2005 figure. This increase could be partly attributed to special registrations that took place for the poor and the under-privileged in addition to the mass educational campaigns embarked upon by the NHIA. Table 3 shows the membership trend from 2005 to 2011. Owing to some challenges associated with the initial method used in computing the active membership, a new and improved method was introduced in 2010. Figures from the new methodology also confirm that the number of active members in 2011 increased by 0.8% over the 2010 figure (Table 3).

**Table 3**: NHIS Membership Trend (2005 – 2011)

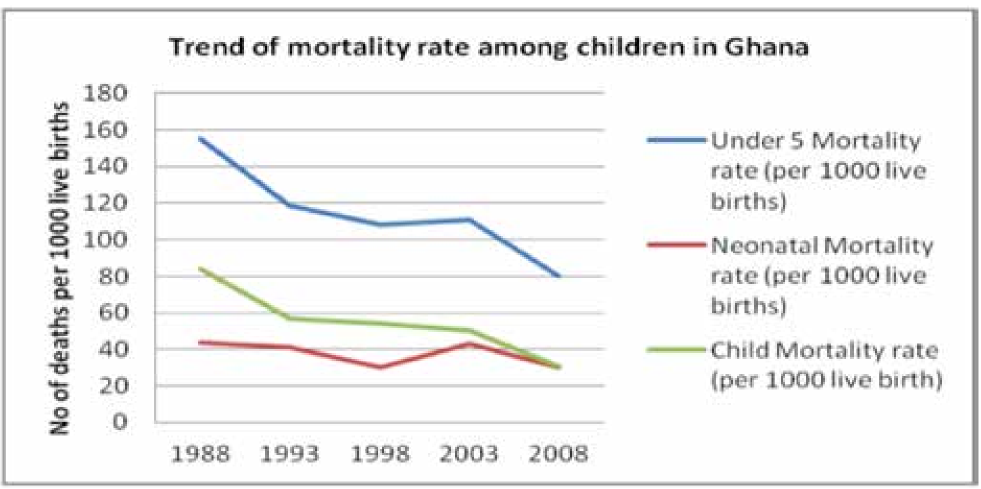
| Year | Registered Members (cumulative) | Active Members (Old Methodology) | Active Members (New Methodology) |
|---|---|---|---|
| 2005 | 1,348,160 | 1,348,160 | n/a |
| 2006 | 3,867,862 | 2,521,372 | n/a |
| 2007 | 8,184,294 | 6,643,371 | n/a |
| 2008 | 12,518,560 | 9,914,256 | n/a |
| 2009 | 14,511,777 | 10,638,119 | n/a |
| 2010 | 18,031,366 | 14,157,708 | 8,163,714 |
| 2011 | 21,392,402 | 17,518,744 | 8,227,823* |

**Figure is provisional.* ***Source:*** *NHIS, 2011*

Despite the increased enrolment, active membership is not evenly distributed among the various regions and socio-economic groups. Available data indicates that by the end of 2011, active membership (as a percentage of the population) was highest in the Upper West region where 50.9% of the population were active NHIS members followed by the Brong Ahafo Region with 45.9% active membership and Central Region with the least active membership of 24.6% (NHIA, 2011). Active membership is also not the same among the various registered members. As at December 2011, children under 18 years constituted 49.7% of NHIS active members followed by the informal sector of 36.4% with the SSNIT Pensioners being the least, 0.3%.

Consistent with the increases in the NHIS active membership over the years, healthcare utilization has also been increasing after the introduction of the NHIS. For instance, outpatient visits per capita increased from 0.37 in 1997 to 1.07 in 2011; likewise, the percentage of skilled deliveries improved from 44.5% in 2006 to 52.2% in 2011. The increase in healthcare utilization implies a gradual removal of financial barriers to access to healthcare in the country. In addition, institutional maternal mortality ratio improved from 239 per 100,000 live births in 1997 to 173.8 per 100,000 live births in 2011 (GHS, 2011). At the national level, maternal mortality declined from 740/100,000 in 1990 to 350/100,000 in 2011, though the current pace is inadequate to realize the MDG target of 185/100,000 by 2015. Nevertheless, the introduction of the NHIS might have contributed significantly to the current gains.

**Figure 5:** Trend of mortality rate among children aged under-five in Ghana.




***Sources:*** *GDHS 1988, 1993, 1998, 2003, 2008*

The NHIS has significantly contributed to improved health outcomes, health services utilization (including maternal-child health) and financial accessibility to basic healthcare (Jehu-Appiah, 2011; Blanchet et al. 2012; Dzapasu et al. 2012; Nguyen et al. 2011; Ansah et al. 2009; Frimpong, 2013). Specifically, Figure 2 shows the trends of under-five mortality, neonatal mortality and child mortality in Ghana as measured by the last five demographic and health surveys. It is obvious that there were significant declines in under-five mortality, neonatal mortality and child mortality in 2008 which coincided with the introduction of the NHIS since the Ghana Demographic and Health Survey (GDHS) captures data five years preceding the survey. Similarly, gains have been made in the area of life expectancy with life expectancy for both sexes increasing by about 13 years between 1990 and 2011 (World Bank, 2013).

Although the NHIS has resulted in an upsurge of healthcare utilization and improved health outcomes, one major challenge is financial sustainability (Abiiro and Mclyntyre, 2012; Macha et al. 2012). This is because the main source of funding is the NHIL (70%) with payments of premiums constituting only 4.5%. Besides, donation from foreign partners albeit negligible, is drying up following Ghana's reclassification as a middle-income country. With the increasing utilization of healthcare services, sustainable funding remains a challenge.

Odame et al. (2013) opine that while the free maternal health services policy encapsulated under the NHIS is a laudable one, its sustainability remains a major challenge. The paper revealed that of the total claim payments made by the National Health Insurance Authority (NHIA) to healthcare providers, the free maternal health services accounted for 23% of the entire claim in 2011. In fact, the NHIS expenditure on the MCHP for the entire country in 2009 was US$49.25 million, exceeding the British grant of US$10.00 million given for that year, implying that the programme has been entirely financed by the National Health Insurance Fund. Unless the NHIA finds innovative ways of funding the free maternal healthcare programme including targeting expectant women who are really in need, the rapidly increasing recurrent demands on this fund from the maternal delivery exemption poses increasing threat to the sustainability of the fund. While the study by Odame et al. (2013) provides some insight into the financial sustainability of the scheme especially with regard to MCHP, further research is needed to explore other potential sources of funding in addition to ensuring judicious use of current resources. Another problem prevalent in the NHIS is that the scheme is not that pro-poor as envisaged (Dixon et al. 2011; Jehu-Appiah, 2011), thus there is the need to improve the coverage and targeting of the poor through informed research.

There is also the problem of perceived differences in quality of care rendered to NHIS card bearers and those paying out-of-pocket where the latter reportedly receive better services compared to the policy holders (Dalinjong and Laar, 2012). SEND (2010) attributes the perceived poor quality care being received by NHIS card holders to the increasing OPD attendance and inpatient admissions. The increased utilization has exacerbated the doctor-patient and nurse-patient ratios in some parts of the country with doctor- patient- ratio in the Northern region increasing from 1:8,805 in 2006 to 1:31,877 in 2008.

In health insurance, the type of provider payment mechanism being practiced has serious implications for the reduction in corruption and fraud in the processing of claims. Capitating providers have the tendency to increase efficiency although it could engender low quality care in the absence of effective monitoring on the part of the insurance provider, NHIA. After almost two years of piloting the capitation in the Ashanti Region, the NHIA ought to put in place the necessary logistics to implement it countrywide. The removal of user-fees has increased the utilization of healthcare services with improved population health outcome. Nevertheless, sustainability remains a major threat which ought to be tackled head-on.

## 7. Conclusion

This paper presented a review of recent developments in the Ghanaian economy with special focus on macroeconomic trends, health and education outcomes and shifts in the financial and monetary systems. We surveyed some of the emerging literature from several angles: employment and developments in the labour market; health care reform; stock market development and efficiency; fiscal sustainability and agricultural sector policies. This review, necessarily brief and selective, hopefully, provides the reader with a sense of the wealth of the literature, and the considerable advances made in our understanding of the Ghanaian economy. It is hoped that future researchers would seize on the opportunity presented in this article to address some of the many questions that have been opened up, and the many questions that are to emerge from key debates on the economy to push the frontiers of research forward.

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