



Policy Research Brief

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The Global Economic Crisis and Children: Effects and Policy Options in Ghana¹

by Theodore Antwi-Asare, John Cockburn, Edgar A. Cooke, Ismaël Fofana,
Luca Tiberti and Daniel K. Twerefou

Introduction

The global economic crisis that began in 2008 has set back much of the recent progress made in most sub-Saharan African countries. Economy-wide effects range from declining investment in public services to diminished access to credit, from growing unemployment and diminished consumption capacities to heightened social exclusion. Furthermore, reductions in fiscal resources and foreign aid available to governments have affected public service delivery, not just in education, health, sanitation and water, but also in areas such as social protection. Under these circumstances, children risk suffering most and longest from the consequences of the crisis. A timely understanding of the potential impacts on them is urgent to formulate appropriate policy responses.

Like many countries in sub-Saharan Africa, Ghana is experiencing the impact of the global crisis and the uncertain economic outlook. Indeed, as Ghana's economy is among the most open in Africa, it is expected that the country has been and will continue to be affected by the crisis, although strong export prices of its main exports (gold and cocoa) may at least partially counteract the effects associated with the crisis.

This brief summarizes the results of a research project promoted by the Ministry of Finance and Economic Planning and UNICEF in 2009 and carried out by a team of international and national researchers from the Poverty and Economic Policy (PEP) research network and UNICEF Innocenti Research Centre (IRC). A combined macro-micro economic model was developed to predict the impact of the global crisis in Western and Central Africa, including Ghana, on different dimensions of child well-being (monetary poverty, insufficient caloric consumption and risk of hunger, school participation, child labour and access to health services) and to provide recommendations on different policy responses over the period 2009-2011. Specifically, a simulated scenario with the crisis was compared to a simulated scenario without the crisis (or reference scenario), which assumes that the changes in variables linking developing economies to the global economy follow their respective pre-crisis historical trends. A third scenario simulates alternative policy options as a response to the crisis. The results of the simulations are extracted from Antwi-Asare et al. (2010) and summarized in the following sections.

¹ This study is the result of a research promoted by the Regional Office of UNICEF for West and Central Africa, in collaboration with the UNICEF Innocenti Research Centre and the UNICEF Division of Policy and Practice and aimed at the assessment of the potential effects of the global economic crisis on children in Burkina Faso, Cameroon and Ghana and the proposal of concrete policy responses to the policy makers. This research brief is intended for use by policymakers, academics, programme staff and the media.



Potential effects on the economy due to the crisis

The global economic crisis is having a direct impact on Ghana mainly through falling export demand, import price shocks, as well as reduced inflows of foreign direct investment, foreign aid and remittances. Simulations based on a computable general equilibrium model suggest that these shocks lead to a significant slowdown in economic growth, especially in 2010 (3.8 per cent, as opposed to 7.0 per cent forecast in the absence of the crisis), with a recovery beginning in 2011 although at a slower pace than in without the crisis (see table 1). As a consequence of the crisis, workers move into the informal market pushing wage rates down. An early (2010) predicted rebound in import prices and depreciation of the real exchange rate contribute to a marked increase in consumer prices that exacerbates the situation, whereas growth and employment levels only begin to recover in 2011. All these factors combine to significantly reduce real incomes.

Without the crisis, Government's primary budget balance is predicted to have remained in surplus and to have increased throughout 2009-2011. In contrast, the crisis is expected to put Government's primary balance in deficit in 2009 and 2010 with a surplus only re-emerging in 2011.

Table 1: Simulated changes in GDP and in its components (percent)

	GDP	Final consumption	Investment	Export	Import	Net export
Ratio to GDP	100.0	103.2	35.0	40.1	-77.0	-36.9
Without Crisis (Annual change)						
2009	7.0	7.5	13.1	12.3	13.1	13.9
2010	7.0	11.5	16.8	12.0	19.6	27.6
2011	7.0	13.8	17.5	11.4	21.7	31.3
With Crisis (Annual change)						
2009	5.1	0.4	-8.6	5.0	-7.2	-20.4
2010	3.8	-2.8	-1.7	0.0	-10.1	-24.5
2011	6.5	4.2	8.2	11.4	6.5	-2.8

Potential effects on children due to the crisis²

Based on data from the most recent household survey for Ghana (2005/6), the *monetary poverty* rate (figure 1) among children in Ghana was 33.7 per cent (corresponding to slightly more than three million children). There were also significant regional and socio-economic disparities with rates especially high for households living in the three northern regions, in rural areas and those with many children.

According to the simulations, in the absence of the crisis, monetary poverty would have fallen substantially across all regions in Ghana, up to four percentage points nationwide in 2011 (i.e. around 376,000 children would have escaped poverty). Particularly strong reductions were forecast for rural areas – indeed, monetary poverty would have actually slightly increased in urban areas – and in households with many children.

In marked contrast, simulation results indicate that the global crisis will increase monetary poverty across all regions, eroding many of the gains made over the past few years. Indeed, the model predicts a 6.6 percentage points increase by 2011 in the child poverty rate (around 630,000 additional children in poverty), with a continuous increasing pattern over the period of study.

² The base year corresponds to the year of the latest household survey carried out in Ghana, 2005/6.



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The Eastern, Volta and Greater Accra are predicted to be the hardest hit, while primarily rural regions – Northern and Upper West – are least affected over the three year simulation period. More generally, children living in urban areas are forecast to be significantly more affected than those residing in rural areas, possibly because rural households are more likely to be subsistence farmers and thus more insulated from market shocks. Indeed, the increase in child monetary poverty is primarily driven by a reduction in consumer purchasing power and a large drop in income in the non-agriculture sector, partly offset by the increase in agricultural incomes (from the value of both sales and own-production) resulting from the increase in food prices. Government interventions are thus urgently needed in order to limit the damage.

Before the crisis, 58.5 per cent of children aged 0 to 14 suffered from an *insufficient caloric intake* and were at risk of hunger (figure 2), which corresponded to around 5.3 million children. In absence of the crisis, their numbers were predicted to remain substantially unchanged over the period 2009-2011. This result actually masks some differences within the country. Rural and northern regions (Northern, Upper East and Upper West regions) would have experienced significant decreases by 2011 while, in urban areas and the Eastern region, hunger rates would have increased by 3.5 and 5.7 percentage points, respectively. These results mirror the increase in urban monetary poverty predicted in the absence of the crisis.

The global crisis is also predicted to severely deepen hunger among children, which is simulated to increase up to 6.6 percentage points (620,000 children) in 2011, beginning with a sharp increase already in 2009. According to the simulations, all regions will experience an increase, with the single exception of the Northern region where a slight reduction (0.8 percentage points) by 2011 is forecasted. In order, Eastern, Greater Accra and Volta regions are simulated to be the worst affected regions by 2011 while, as for the monetary poverty, the rural Northern regions are the least affected. The crisis is expected to dramatically reduce the urban/rural hunger gap as urban areas are hit hardest (here an increase of 12.8 percentage points by 2011 is forecasted, compared to 3.7 percentage points in rural areas).

According to the 2005/6 household survey, the average estimated *school participation* (measured by attendance) rate (figure 3) for children aged 6-14 is 84.1 per cent. There were no significant gender differences, but substantial regional and urban/rural gaps are noted. The overall child *labor participation* rate was 34.4 per cent with wide regional differences and a 11.9 percentage point higher rate among 6-10 year olds as compared to the 11-14 age group.

In the absence of the crisis, school participation would have increased by around 0.5 percentage points by 2011. A similar decrease in the percentage of working children is not predicted, as the increase in school participation would have been shared equally between children who only go to school and those who combine school and work. In contrast, the crisis is predicted to reduce school participation – by more than 0.7 percentage points (i.e. around 9000 children) among 6-10 year olds relative to the scenario without crisis – and increase child labor by 0.1 percentage points. The pattern of results is similar in the case of older children to those just discussed for younger children, although the variations are smaller.

As for *access to health services* (figure 4), in 2005/6, 61 per cent of ill children (1 million children) aged 0 to 14 years old consulted a health facility with the following distribution in terms of the type of health facility accessed: hospitals (29.9 per cent), clinics (32.5 per cent), pharmacy (32.1 per cent) and traditional healers (5.6 per cent).



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Substantial regional and urban-rural variations are observed. According to the simulations, consultation rates would have increased in the absence of the crisis. In addition, households would have had greater recourse to hospitals and clinics and reduced their use of pharmacy and other categories of lower quality health service providers. Once again, the crisis would invert this progress. A decline in health consultation rates of nearly one percentage point (equivalent to around 6000 children), together with a substitution from hospitals and clinics toward pharmacies (traditional healing remaining marginal), is predicted due to falling incomes and difficulty in meeting health costs.

Policy responses to the crisis

The alternative policy responses explored in this study are shown to significantly reduce monetary poverty and hunger, yet have much more modest impacts on schooling, labour and health access among children (see figures 1 to 4). This is due to the fact that cash transfers and food subsidies translate directly into increased real income and food consumption (57 per cent of total household expenditure), whereas they only indirectly affect school, labor and health decisions that depend on many factors other than income. Supply-side policies (for example, investments in school infrastructure – namely, higher quality for the existing facilities and/or construction of new facilities) may be much more effective for the latter. Indeed, over the past 2-3 years the government of Ghana has started to implement or design various health and education policies such as a school feeding programme, a capitation grant, health insurance, free maternal care and direct transfers to households. These have to some extent increased social protection in the country, especially in the area of health and education.

This study simulated the effectiveness of four alternative policy responses: (1) food subsidies and (2) targeted cash transfers for poor children, both with a total budget of 1 per cent of 2008 GDP financed through external aid; targeted cash transfers for poor children with a total budget of 0.5 per cent of 2008 GDP domestically funded through (3) a 20 per cent increase in tariffs on rice imports and an endogenous increase in tariffs on non-food manufacturing goods imports and (4) an endogenous increase in the property tax. As for targeted transfer programmes, a *proxy-means* based approach was developed to identify poor children; however, this method produces targeting errors that are unavoidable (inclusion of non-poor and exclusion of poor).

The targeted cash transfer programme is found to be generally more effective in protecting children than are food subsidies. Indeed, with a total budget equivalent to 1 per cent of 2008 GDP (response 2), a cash transfer – equivalent to an individual annual amount of 19.8 *Cedis* – would cut the predicted increase in monetary poverty by a third – over two percentage points (corresponding to around 200,000 children) – in 2011.

The impact of cash transfers on hunger rate is slightly smaller (-1.4 percentage points in 2009 and at less than one percentage point in 2011) and is similar to those obtained with food subsidies (that is, in 2011, around 80,000 fewer children suffering from hunger). Indeed, by targeting food, the subsidies are more effective in terms of reducing hunger than in terms of reducing monetary poverty.

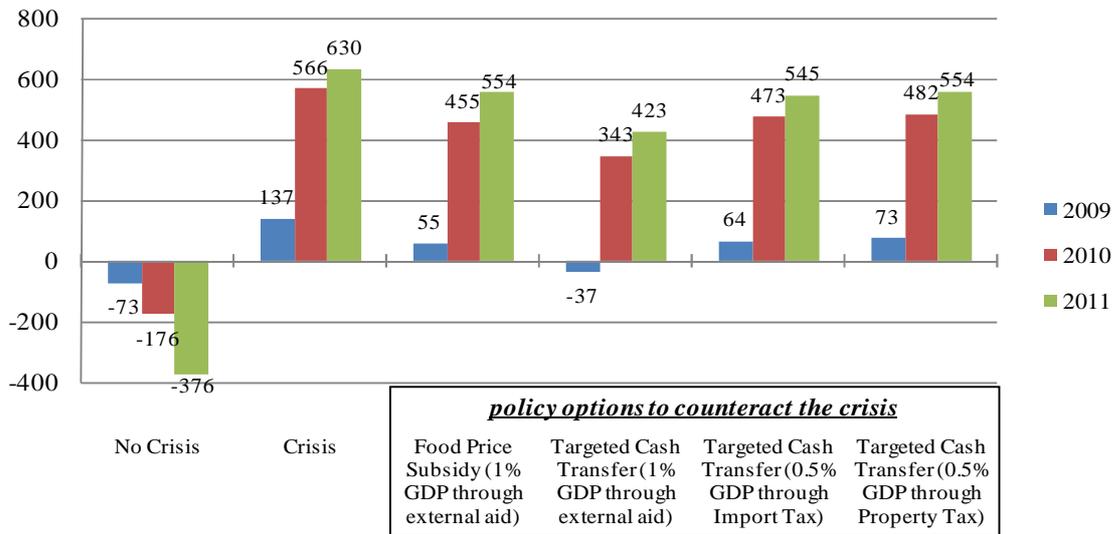
The four policies simulated generally cut the decline in schooling and increase in child labor resulting from the crisis, although not enough to totally offset them. In the same way, they slightly reduce the crisis-led fall in health consultations and the substitution toward less-modern types of health services.



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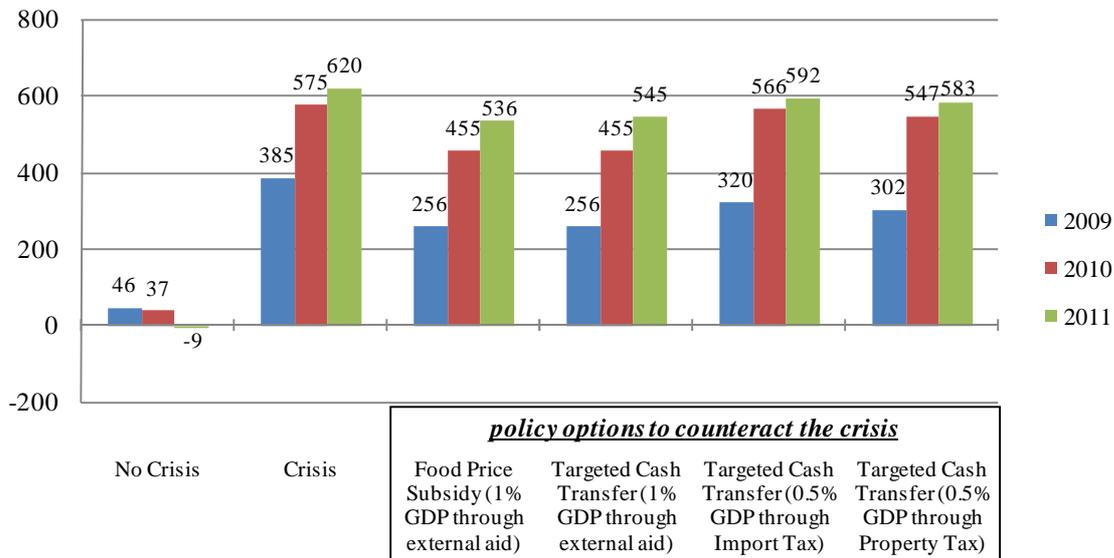
As the domestically funded policy responses – through specific import tariffs or property taxes – do not have significant implications at the macro level, similar outcomes to those financed through external aid are predicted. However, given that the budget is half as big (0.5 per cent of GDP), the impacts are proportionally smaller.

Figure 1: Absolute change in monetary poverty (in '000) compared to base year, children 0 to 14 yrs



Note: The absolute number of poor children in the base-year (2008) is 3.126 million. The absolute changes already take into account the growth in the child population (0-14 years old) and the average annual value observed between 2004 and 2008 (=1.3%) has been used

Figure 2: Absolute change in child hunger (in '000) compared to base year

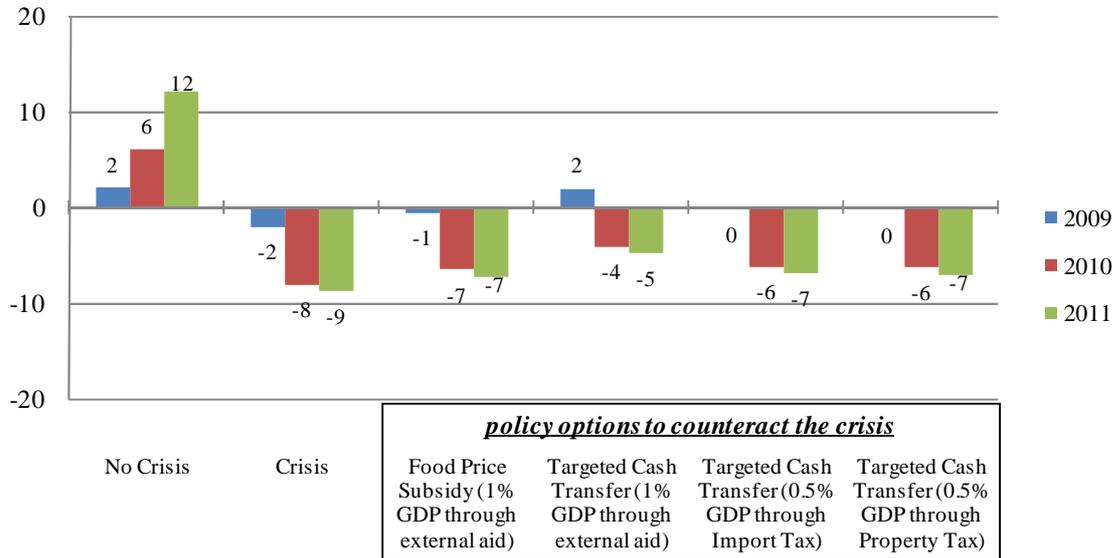


Note: The absolute number of children suffering of hunger in the base-year (2008) 5.426 million. The absolute changes already take into account the growth in the child population (0-14 years old) and the average annual value observed between 2004 and 2008 (=1.3%) has been used



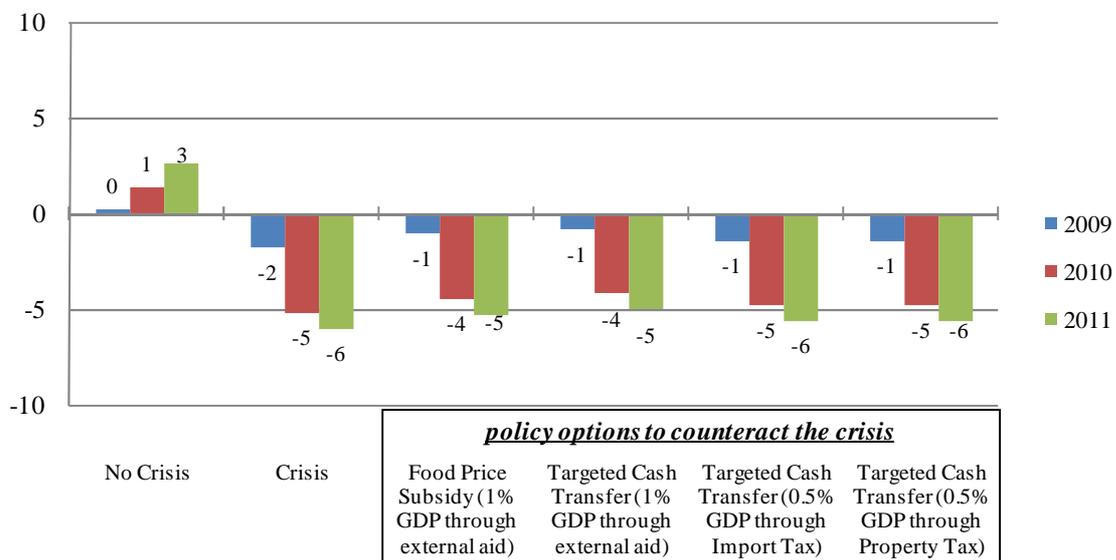
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Figure 3: Absolute change in school participation (in '000) compared to base year, 6-10 yrs



Note: The absolute number of children (6 to 10 years old) attending school in the base-year (2008) is 2.744 million. The absolute changes already take into account the growth in the child population (0-14 years old) and the average annual value observed between 2004 and 2008 (=1.3%) has been used

Figure 4: Absolute change in health consultation (in '000) among ill children compared to base year



Note: The absolute number of children asking for health consultation in the base-year (2008) is 1.050 million. The absolute changes already take into account the growth in the child population (0-14 years old) and the average annual value observed between 2004 and 2008 (=1.3%) has been used



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Although Ghana may be able to build on the existing Livelihood Empowerment against Poverty (LEAP) intervention to rapidly implement a cash transfer programme in response to the crisis, other interventions (or a mix of policies) might be more cost-effective in the short run. A combination of a universal or regionally targeted (starting with those regions where child poverty is most widespread) cash transfer programme for children aged 0 to 5 years old, together with a school-feeding programme, might represent an effective way to intervene quickly to improve child well-being. With the same overall budget and with the same hypothesis that the transfer is given to eligible children and then shared equitably among all household members, a cash transfer provided universally to all children aged 0 to 5 is estimated to lead to child monetary poverty rates that are substantially similar to the case in which a cash transfer is targeted to all children (0 to 14 years old) predicted as poor, while actually improving the situation of the youngest, and most vulnerable, children. This result is basically due to the higher individual amount transferred under a universal approach (30.6 vs 19.8 *Cedis*) and the universal coverage of poor children in the 0 to 5 age group. Under a targeted scheme, some poor children are always missed as they are identified as poor solely on the basis of a small number of observable characteristics that are linked to household consumption.

This policy brief is the result of a research project promoted by the Regional Office of UNICEF for West and Central Africa and led by the African office of the Poverty and Economic Policy (PEP) research network, in collaboration with the UNICEF Innocenti Research Centre and the UNICEF Division of Policy and Practice. PEP is financed by the Government of Canada through the International Development Research Centre (IDRC) and the Canadian International Development Agency (CIDA), and by the Australian Agency for International Development (AusAID). PEP's African office (PEP-Africa) is based at the Consortium pour la recherche économique et sociale (CRES, Dakar).
