

AFRICAN ASSOCIATION FOR PUBLIC  
ADMINISTRATION AND MANAGEMENT

31<sup>ST</sup> AAPAM ANNUAL ROUNDTABLE CONFERENCE,  
KENYA INSTITUTE OF ADMINISTRATION (KIA),  
NAIROBI, KENYA

21<sup>ST</sup> – 25<sup>TH</sup> SEPTEMBER 2009

THEME: THE WORLD ECONOMIC CRISIS: CHALLENGES TO THE  
AFRICAN PUBLIC ADMINISTRATION SYSTEMS



TOPIC: THE WORLD ECONOMIC CRISIS CHALLENGES TO  
AFRICAN PUBLIC ADMINISTRATIONS SYSTEMS  
COUNTRY CASE STUDY OF GHANA

PROF. BEN C. EGHAN  
SECRETARY TO CABINET  
GOVERNMENT OF THE REPUBLIC OF GHANA

## **TABLE OF CONTENTS**

1. Introduction
2. Background
3. Manifestation Of The Problem In The Advanced Countries
4. Manifestation Of The Problem In The Developing Countries
5. Common Trends In The Manifestation Of The Problem
6. Proposals For Containing/Resolving The Problem
  - The Role of The Public Sector
7. Concluding Remarks

## **ABSTRACT**

Most discussions on the prevailing Global Economic Crisis zero into the roles and impact of the global crisis on the private sector and how it has been able to survive the turbulence or how it is trying to manage the crisis and whether corporations and businesses could come out of it or become submerged into liquidation or takeovers.

However, it is important to realize that most of the issues about the economic downturn relate to regulatory issues and this ultimately has an enormous bearing on governance and government institutions. It also has public policy connotations. In many African countries and Ghana for that matter, much emphasis or perhaps, no emphasis or highlights have been laid in the doorstep of public administration systems so far. The point appears to be lost.

This “Country Case Study of Ghana” in relation to the World Economic Crisis and the Challenges To African Public Administration Systems” endeavours to bring out the critical leadership / management issues, new approaches to policy development and management under the new approach to public sector reform, policy implications and lessons that should be learned from various international best practices.

## **1.0 Introduction**

The economic crisis seems to have taken most people by surprise. However, some emerging literature successfully contests this. A recent publication of the Bank of Ghana, shows that even in Ghana, the problem was anticipated, and a whole major forum was organised to consider what to do if the signs of coming difficulty materialize.

From hindsight, the problems encountered appear to have arisen from negligence on the part of public administration as seen in the failure of governmental and regulatory institutions to supervise all aspects of national life including activities of the banking sector.

In this paper, an attempt is made to highlight the role of public administration systems in averting future occurrence. Specifically, it is recommended that top bureaucrats should organize themselves so as to be able to secure adequate knowledge and experience to acknowledge signals of approaching danger.

The point is made further, that, the idea of having systems in place to be able to identify policy shortcomings and implementation hurdles can succeed depending on the quality of public servants and the investments made in them to scale-up to the complexities of managing the state.

## **2.0 Origin of the Problem**

### **2.1 The Origin of the Crisis**

Economic crises usually refer to a long-term economic state characterized by slow growth or setback in economic activity; rising unemployment; low prices; and low levels of trade and investment.

The current global financial crisis became palpable in 2008–2009. Its origins can, however, be traced back to July 2007. It all begun with a loss of confidence by investors in the value of securitized mortgages in the United States which brought about a liquidity crisis. In September 2008, the crisis deepened with stock markets worldwide crashing and becoming highly volatile, and a considerable number of banks, mortgage lenders and insurance companies failing in following weeks.

The reasons for this financial crisis are varied and complex. Some of them include:

- (a) uncontrolled lending to customers with poor credit history,
- (b) the inability of house owners to make their mortgage payments,
- (c) poor judgment by the borrowers and/or lenders,
- (d) speculation and overbuilding during the boom period,
- (e) risky mortgage products,
- (f) high personal and corporate debt levels, and
- (g) breaches in central bank policies and lack of regulations.

When such a thing happens, one needs to go back to the drawing table and find the problems and solve it. It would seem that the problem came about because of inadequacy of supervision.

In the US, it was eventually admitted that the crisis came about because the financial actions at the banks were not adequately regulated or properly supervised. Human greed had taken over.

For us in Africa and other developing countries, the economic crisis is partly the spinoff of what happened in the big metropolises, coupled with food shortages and astronomical upsurges in crude oil prices.

## **2.2 The Root Causes Of The Crises**

In the final analysis, it could be realized that some people have not done their work in monitoring as should have been the case. Could this have resulted from individual failures or that those systems were not allow to work.

Whatever the cause of failure, the blame should be put at the doorstep of leadership. Even if it had to do with the failure of systems, leadership cannot be absolved from ultimate responsibility because they should have anticipated the emerging problems and stepped in at the right time to address them.

## **3.0 Manifestation Of The Crises In Advanced Countries**

The world economic crisis had America at the centre. The American banking sector began the abuse of credit in the housing and financial sectors. The problems created have caused the American tax payer over \$3 trillion of write-offs to save the banks.

Over the years, mortgage lenders in America were happy to lend money to people who upon regular conscientious assessment could have been perceived as unlikely to afford their mortgages. But the banks loaned the them money anyway because there was nothing to lose. These lenders were able to charge higher interest rates and make more money on sub-prime loans. When the borrowers defaulted, they simply seized the house sand put them back on the market. On top of that, they were able to pass the risk off to mortgage insurer or package these mortgages as mortgage-backed securities. In short, they were making a lot of easy money motivated, essentially, by greed.

There was bound to be a limit to the inordinate greed, as eventually slowed as companies, lost confidence that new investments in plants and equipment could produce profits. The nightmare was worsened by unprecedented job losses as certain manufacturing and other job-creating industries moved to emerging markets like China, India and Brazil where the returns are handsome.

The rider to this has been that America and Europe are no longer attracting the world's most talented people as job opportunities and research activities to improve technology continue to shrink there, while expanding in the newer economies of China, India and Brazil.

Until then, developed nations had been able to anticipate such problems through monitoring and other governance mechanisms in place. When the American system failed, it was because they have failed to realize that human greed could sink that low and cause such devastation. If they had known that, they would have averted it.

It was that element of greed at work which President Barack H. Obama aptly identified and defined so eloquently. In the midst of the crisis, business leaders and corporate executives, rather than taking the appropriate corrective actions, were still finding ways of paying themselves huge and fantastic salaries and benefits.

#### **4.0 Manifestation Of The Crisis In Developing Countries**

##### **4.1 -----**

The global financial crisis is taking its toll on Africa despite initial attempts to downplay the continent's interdependence with the world economy. Unfortunately, the responses of Africa's leadership to this have been

inconsistent, ranging from denial, ignoring the debate, opportunity and threat.

A visit to the web page of the Bank Information Centre shows that the financial crisis has had a greater impact on the continent than was earlier feared. It also notes that most African countries are looking to the African Development Bank (AfDB) for help. As such, the Bank's lending capacity for 2010 is nearly exhausted due to the frontloading of resources in response to the crisis. The Bank is now exploring new ways to sustain its lending levels.

The International Financial Institutions (IFIs) also estimate that the African economy will shrink significantly and have revised the economic growth projections from 6% to 3.25% for 2009. The International Labour Organization (ILO) has also revised its unemployment figures downwards to estimates between 210 to 239 million (globally) in the current year. In a recent press release, the organisation also highlighted that at least 73% of the workforce in Sub-Saharan Africa is in 'vulnerable employment'.

This leaves nearly all Africans vulnerable, bearing in mind that an employed African can have an average of 5 to 10 dependents. Socio-economic impacts are heaviest on the African citizens because of either weak or non-existent social security welfare systems in place to cushion them against the harsh impacts.

Clearly, the crisis has direct and severe impacts to whatever efforts have so far been made to reduce poverty and bring about sustainable development. As such, the continent is likely to witness growing poverty, hunger, disease, illiteracy and vulnerability in the coming years as a direct impact of the current crisis. The Millennium Development Goals (MDGs),

although minimal in nature, face fresh and more serious challenges which may derail hopes of achieving them.

#### **4.2 Impact of Global Economic Crisis on Ghana:**

The crisis has already started impacting negatively on Ghana's economic performance. A few illustrations of the negative effects are stated below.

##### **4.2.1. Resource Flow to Ghana and External Debt Burden**

About 40% of Ghana's budget and the implementation of development plans are dependent on foreign inflows. Currently;

- (a) there is a significant reduction in the quantum of foreign direct investments to Ghana
- (b) levels of remittances have declined / reduced
- (c) the number of tourists to the country have reduced / declined
- (d) banks are unable to lend as much as in the past
- (e) the amount of foreign exchange and capital reserves have been cut down

The forelisted conditions have cut down available resources and stall edmajor development projects in the country.

##### **4.2.2. Impact On Food And Other Commodity Prices**

Inflation rose alarmingly in 2008 with corresponding rises in commodity prices. There have been lower trade volumes. In addition, trade stocks have fallen drastically.

The Return Analysis Sheets on the performance of the Ghana Stock Exchange paints a dismal picture of how poorly Ghana's stock market is doing. In August 2009, the market recorded a year to date change ranging between negative 20.56% and negative 71.11% in stock prices.

### **4.2.3. Impact On Other Areas Of The Economy**

The impact of the global recession is being felt in the non-traditional export (NTE) sector in Ghana in terms of declines in export markets, in both volumes and prices. The Ghana Volta Aluminium Company (VALCO), the aluminum smelter has been forced to shut down, and the Benso Oil Palm Plantation (BOPP) a vegetable oil processor and exporter has witnessed substantial decline in profits in the first quarter of this year.

*According to Ghana's Centre For Policy Analysis (CEPA), a private sector think tank, external private inflows of cocoa and equity funded about 58.4 of the total deficit of GHC 2,557,5 million in 2008. **To be rechecked***

On account of the international financial crises, external private inflows of loans and equity as well as loans (projects and programmes and debt relief from Development Partners appear to be seriously affected.

Lower remittances from Ghanaians working abroad have reduced inflows of Foreign Direct Investment (FDI) coupled with the high wage bill which is expected to reach 69.4% tax revenue could gravely affect the provision of social services like health delivery and education.

The trial in Nigeria of senior banking executives for engaging in multibillion dollar banking scandals, resulting in Government rescue plan amounting to 400 billion Naira(\$2.6bn) should serve as a wake-up call to the Bank of Ghana to strengthen its regulatory machinery in the financial sector.

## **5.0 Common Trends In The Manifestation Of The Crisis**

### **5.1 Emerging Common Trends Arising From The Crisis**

There are some common trends emerging from the crisis, globally, which well identified and defined will help in adoption of measures to overcome the crises and also help forestall recurrence in future.

## **5.2 The Greed Factor In The Crisis In Advanced Countries**

As previously established, but for new dimensions of greed in the manifestation of the crisis, the emerging problems could have been diagnosed earlier and deal with. Measures taken in America and Europe have therefore focussed on the character of leadership of business

Illustration to be provide

## **5.3 Leadership Competence As The Emerging Factor In Developing Countries**

In Ghana, as part of the developing world, competence of the leadership appears to be the main phenomenon as to what has allowed the crisis and hence dictates what measures to take.

Bureaucrats working with politicians themselves would have to keep up acquisition of competence through training. They would be the ones to lessen the impacts of the crisis if not eliminate it.

The recent selection of District Chief Executives (DCEs) illustrates the point about competence. For the first time, there was a welcome realization that DCEs have to work with a lot of professionals, including doctors, engineers, lawyers, bankers, etc highlighted by expansions of local level activities arising from decentralization systems and processes of our country. In this regard, DCEs whether political or not, need to have some level of competence to be able to supervise these professionals other than that how can they supervise such calibre of persons of high

intellectual capacity. So even if the systems in place cannot support you, then the role of District Coordinating Directors who have such capacity to coordinate the work of these people could step in and provide the balance.

This said relationship could bring about a form of symbiotic relationship with the politicians, and whose effort can bring or easily make up the effort in supervising these politicians or professionals.

Hence, in our context, would seem that the economic crisis is an off-shoot of leadership crisis.

## **6.0 Proposals For Containing/Resolving The Problem**

### **6.1 The Return Of The Leadership And Role Of The State**

The nature of provisions made in periods of crisis management depends on the resources that an organization has. Across the world, everyone plans towards certain foreseen or unforeseen crises. In Africa, our resources are limited which means that our preparations are also limited.

This crisis is quite complicated and it took one by surprise. Together with, our worsened situation of inadequate resources makes it become more imperative for African governments and public administrators to take their roles ever more seriously. Indeed, we do not have the luxury of making mistakes that could easily have been avoided.

The severity of the impact of the crisis varies at global, regional and various national levels.

The literature on the subject has converged on the conviction that the state has to provide the lead on all affairs of the state.

To be expanded

It is the role of public administrators to work towards softening the impact of this crisis and to lay the foundations for a stronger global economy for the generations to come.

In Ghana the resolve is to make the administrative infrastructure work. In a paper delivered at the 30<sup>th</sup> Annual Roundtable Conference last year, I had argued, particularly, that Ghana since 1993 had restored its administrative infrastructure to be able to perform as a developmental state along side Singapore, Hong Kong, Malaysia, Indonesia, Botswana, Mauritius.

It will be recalled that the term “developmental states” applied to countries which have managed to organize themselves from low levels of development for a swift take off onto sustainable development with the following defined characteristics.

The developmental state has **regulatory capacity** to establish and enforce laws, rules and regulations in a manner that ensures that obligations are met without undue evasions.

It also has **administrative capacity** through which the state is able to manage all its resources, including human resources, in a transparent competitive environment. The state is also **able to exact accountability**.

The developmental state also has **technical capacity** for all developmental activities ranging from policy formulation to engineering designs and project management and on to impact assessment. More than all other characteristics, the developmental state must have **extractive, and consumption capacity**, by which is meant **capacity for revenue mobilization, resource allocation, utilization as well as capacity for accounting for the use of resources**.

This has to be done in such a transparent manner that it becomes relatively easier for the state to continue to attract increasing levels of tax revenue which induce development assistance, going from one year to the next.

That paper emphasized that Ghana had enjoyed conditions which were conducive for accelerated and sustainable growth and development. The measures recorded for dealing with the financial crisis and any other crises seek to activate all the characteristics of the developmental state and have been styled as the new approach to public sector reform.

## **6.2 The Role of The Public Services In The Economy**

In thus activating the provisions of a developmental state, the role of the public services have had to be re-emphasised.

First and foremost functional responsibility of the public services / servants is wide-ranging and covers, among others, the under-listed;

- (a) Public policy formulation, planning and coordination
- (b) Administrative legislation, i.e. setting/developing the rules, regulations, procedural guidelines i.e. the parameters for the framework/environment within which players will operate.
- (c) regulation and control, i.e.
  - (i) developing the legal and operational framework for economic and non-economic activities of private sectors
  - (ii) regulating business operations, behaviours and activities of private individuals and organizations to ensure conformity
  - (iii) licensing and issuance of permits
- (d) provision of services, including infrastructure, public utilities, and
- (e) supervision, monitoring and evaluation

### **6.3 A New Approach To Public Sector Reforms**

I wish to state that Ghana is in the process of solving the problem by carefully re-asserting the roles of leadership by emphasising the role of Ministers assuming responsibility over policies and setting clear achievable goals and targets for their sectors which can in turn avert such crisis or similar ones or minimize the effects of such problems and its related impacts.

### **6.3 Key Features Of The New Approach**

The new approach to work in the public services as coordinators of the economy are characterised by the following;

- (a) capacity for supervision
- (b) improvement of problem analysis which will help improve the range of resources to be utilized and how effectively and efficiently they are put to use
- (c) improvement of the specificity of actions to be taken
- (d) improvement of feedback and sharing of information (team building)
- (e) capacity for implementation
- (f) improvement of measurement for evaluation through the use of score cards
- (g) improving the capacity for managing deviations and pitfalls.

The key principle is that very good policies should be accompanied with clear implementation plans and timetables; and signified by specifics on monitoring and evaluation bringing up information to avoid crisis.

To aid Ministers to succeed, H.E the President has set up a two part Policy Unit in the Presidency. The Unit comprises, the;

- (a) Policy Harmonization and Coordination wing, and

(b) Policy Evaluation and Oversight wing

To be expanded

All the measures are aimed at clarifying responsibilities to respond to age-old principles in public administration and management that there should never be a time where a responsibility appears to belong to more than one person.

For instance, inside sectors, we sometimes have situations of turf wars between the sectors and their implementing agencies, for example, the Ministry of Health and the Ghana Health Services as well as the Ministry of Education and the Ghana Education Service.

Across sectors, we have difficulties between the Ministry of Lands and Forestry, and the Ministry of Environment, Science and Technology when it comes to reporting on negative impacts arising from mining.

The ultimate objective is to clarify the **singular** leadership role of Ministers for each sector with the expectation that they, in turn, will make their sectors have equally indisputable leadership and therefore can be held accountable for everything under their supervision, Hence as, indisputable heads, the Ministers will in turn ensure that each sub sector has equally indisputable leadership.

It is anticipated that these reforms will build strong institutions by encouraging and developing leaders to imbue their sense of responsibilities to the organizations such that their organizations become institutions in the right sense of the word, and to be able to transform and become functional outside persons of the said leaders.

The institutionalization of capacity for development must be placed in sustainable settings. This requires that the institutions can, and do aim at sub-regional and regional integration of economies. This must lead to interdependence of economies of neighbouring countries.

The institutions which will emerge would then respond to those of developmental states. In their state of maturity they will;

- (a) improve regulation, monitoring and review
- (b) strengthen governance systems and institutions
- (c) foster innovation
- (d) promote trade, investment and competition
- (e) promote transparency and integrity
- (f) fight corruption and money-laundering
- (g) combat tax evasion
- (h) boost employment and social inclusion
- (i) foster development
- (j) provide adequate education and healthcare

Public administrators should provide technical advice and guidance to their political leadership regarding the most appropriate means to contain the crisis. They must come out with ideas and resources to save the private sector from collapsing under the pressure of the global credit crunch.

## **7.0 Concluding Remarks**

### **7.1 Management Of The Crisis**

It is imperative that Ghana succeeds with the measures being undertaken to acquire the leadership and administrative capacity to lead the nation out of this financial crisis and any other crises that could arise.

It will be recalled that on his first official visit to Africa, United States President Barack Obama emphasised in a speech to the Ghanaian parliament that Africa needs to forge its own future and solve its own problems, and most importantly that Africa's future is up to the Africans. This has been said by number of prominent African leaders in times past. It is indeed time Africans came up with internal solutions to Africa's problems rather than looking to a diminishing pool of external sources of aid. This emphasises the need for African Governments to review and upgrade their national policies and improve **continental/regional coordination** in order to stimulate conditions for accelerated growth.

Indeed Africa should develop growth-enhancing structural policies that could potentially enhance short term, as well as long-term growth. Beyond this, there is the need to re-think how the world economy operates. The goal must be a **comprehensive regional economy** that is not only **stronger** but also **cleaner** and **fairer**.

Only if these conditions are met will public administrators have done their work as public administrators and be able to look forward to stable growth and increasing prosperity. **The long term begins now**. This calls for us to put in more efforts towards a stronger regional integration. This must be done quickly as part of the response to the World Economic Crisis.

## 7.2

To be inserted