

Globalisation employment and poverty in Ghana

- Following economic reforms beginning in 1983, globalization has been a major aspect of the economy and society. Its influence has been observed not only in the area of external trade; it is seen also in terms of capital flows, aid, technology transfer, international migration and other aspects of openness.
- While poverty has always been generally closely associated with the condition of African states, its link with globalization is a more recent development, and is much less understood. The relationship between globalization and poverty is obscured by the fact that for long poverty was more generally associated with rural economies and societies than urban ones.

- Globalization introduces new risks to the local environment.
- In Ghana the issue of economic reform and its ability to generate growth has been a major issue for a long time.
- How that growth is shared, and the relationship between that growth and productivity linked to foreign direct investment, foreign technologies, aid, debt, international migration, remittances, etc., are issues that are currently being debated.

Theoretical Framework

- The main theoretical framework that guides research on the link between international trade and the labour market is the Heckscher-Ohlin model.
- Alternative theoretical views have been developed, which argue that international trade may have adverse effects on the wages and employment of unskilled workers by inducing technological change which leads to a displacement of unskilled workers (Wood, 1994, 1997).
- Another argument is that international trade may reduce the demand for unskilled labour at any wage rate (Rodrik(1997)).
- The theoretical link between trade and income distribution is provided by the Stolper-Samuelson model. That is, free trade will eventually benefit the relatively abundant factor and hurt the relatively scarce factor of production in a given country.
- There have been many arguments which suggest that the S-S model may provide limited help in analysing poverty (Winters, 2001), because of its 'extreme' assumptions. The theory does not say by how much poverty will decline with a country's openness over time.
- Studies by Dollar and Kraay (2001) and Bourguignon et al (2002) on openness to trade and income distribution have concluded that there is no strong evidence that openness to trade observed over the last two decades in developing countries has had any significant impact on within-country income inequality

Hypotheses tested

- Openness has increased the share of trade in national output
- Openness has raised the level of employment
- Openness has resulted in a rise of real wages for unskilled labour and reduced income inequality
- Openness has led to a decline in poverty levels

POLITICAL AND ECONOMIC PROFILE

1957-2005

- 1952- 6th March 1957: Colonial but increasing indigenous rule, Dr K. Nkrumah-Prime Minister under Colonial Government; Market-oriented; Massive investment in infrastructure projects.
- 1957-1966: Dr. Kwame Nkrumah; Convention Peoples Party (Civilian Parliamentary) until July 1 1960, when Ghana became a republic with Socialist Orientation; Economic Stance:- Import Substitution strategy; Promotion of SOEs; Protectionist; Massive investment in infrastructure projects High level of Government Spending; Large external debt built up; Import and Price controls imposed. Ghana leaves West African Currency Board in 1957, Cedi tied to US dollar, replaces Ghana Pound in 1965
- 24th Feb. 1966-68: National Liberation Council (Military); Economic Stance - Austere; Retrenchment in SOEs; Some Liberalisation; Political reforms to hand over to civilian rule.

1969-1972: Prime Minister K.A. Busia; Progress Party (Civilian); Market-oriented; Strong Moves towards liberalisation; Implemented a large devaluation from \$1=¢1.02 to \$1=¢1.82 in Dec. 1971.

1972-1975: Gen. I.K. Acheampong; National Redemption Council (Military) Partial Reversal of Busia Devaluation; Repudiation of most external debt; Inward Looking policies; Protectionist; Re-imposition of Import and Price controls.

1975-1978: Gen. I.K. Acheampong; Supreme Military Council (Military) Inward Looking; Protectionist; Price Controls. After 1974, poorer economic management, rising inflation. Increasing political tensions.

1978-1979 Gen. F.W.K. Akuffo; Supreme Military Council II (Military) General tightening of price and import Controls; Political reforms to hand over to civilian rule. Currency demonetisation exercise.

- 4th June 1979-1980: J.J. Rawlings AFRC (Military)
General tightening of price and import controls;
Repressive; Allowed elections
- Jan 1980-31st Dec.1981: Hilla. Liman PNP (Civilian)
Some liberalisation of Imports; No real change in
economic stance; political tensions.
- 1981-April 1983: J.J. Rawlings; PNDC (Military)
Repressive; Serious tightening of price controls, Socialist
populist policies
- 1983-1991: J.J. Rawlings; PNDC (Military) Market-
Oriented; Economic Recovery Programme; privatisation
of SOES; removal of price and import controls;
decentralisation through district assemblies; political
reforms to handover

- 1992-1996: J.J. Rawlings; NDC (Civilian) Market-Oriented; Continued Liberalisation of Economy; Poor fiscal performance in election years.
- 1996-2000: J.J. Rawlings; NDC (Civilian) Market-Oriented; Continued Liberalisation of Economy; Poor fiscal performance in election years
- 2001- 2006: J.A. Kuffour NPP (Civilian) Market-Oriented; Ghana joined HIPC group; Improved economic management; Real GDP growth > 5%; Continued Liberalisation of Economy; Bilateral and Multilateral Debt Relief

6. Sectoral Overview

Table 2: Sectoral Distribution of Real GDP (Period Averages (%))

Sector	1970-75	1976-82	1983-86	1987-90	1991-95	1995-00*	2000-05*
Agriculture	52	51	52	46	42	40	42
Industry	19	17	12	14	14	27	26
Services	29	32	36	40	44	33	34

Source: Calculated from Ghana Statistical Services data in *Quarterly Digest of Statistics*, various issues, ISSER (1996).

*The drastic change in the figures after 1995 for industry and services are a consequence of a major data rebasing exercise in 1994 which reclassified a number of service activities as industrial activities

- Among the factors contributing to the upsurge in economic growth since 2001 are the recovery in agricultural production and general improvement in economic management, especially in the areas of fiscal and monetary policies
- The absence of structural change may be linked to the pattern of savings and investment experienced. Growth in savings and investment remains slow. So far the level of domestic savings as a percentage of GDP has generally been below 8%.
- One of the most interesting issues that have come out from Ghana's reform effort of the last two decades has been the rather slow growth of formal employment. This has often been linked to the slow growth in investment and the absence of employment-generating investment.

Developments in Trade Policy, Institutions and Outcomes

- The broad approach to the external sector of the economy has been to maintain a flexible exchange rate while building up reserves. Liberal trade policies have also been pursued to ensure that imported inputs could come in easily to facilitate industrial production.
- considerable effort was made in the 1990s to expand the production of non-traditional exports. Prominent in the effort was the Trade and Investment Programme (TIP) sponsored by the United States Agency for International Development (USAID). Some achievements made included the removal of foreign exchange control measures that required non-traditional exporters to surrender most of their foreign exchange earnings to the monetary authorities and the removal of restrictions on what could be exported.
- creation of the Private Enterprise and Export Development Programme (PEED) which was designed to provide export financing in foreign exchange. The Ghana Export Promotion Council (GEPC) was reformed to become more of a promotional agency rather than a regulatory one. The Private Enterprise Foundation (PEF) was also established to consolidate and strengthen private sector associations
- In 2001 a President's Special Initiative on Accelerated Export Development was launched. The aim of the Initiative was to target areas which were deemed to have significant potential.

- the cocoa sub-sector has been the share of the proceeds paid to farmers. One of the policy objectives of the structural adjustment programme was to raise this percentage. From levels of around 20% in the early 1980s there was a gradual increase to 46% in 1992. This proportion however fell in the mid-1990s as world market price increases were not transferred to farmers. Over the past two years the aim of policy has been to raise this percentage to 70%.
- A new and more comprehensive investment code was enacted in 1994. Under this code investment by foreign concerns which had earlier been liberalized was further liberalized. At the time of its enactment, it was hailed as the best in Africa (UNCTAD, 2003). Under this new code the Ghana Investment Promotion Centre was established with the express aim of encouraging and promoting investment in the Ghanaian economy. It eliminated the need for prior approval, eased the establishment of companies and provided incentives and guarantees to investors.
- For mining, a code was enacted in 1983. Under the code government retained a 10% free share in any mining venture with the option of acquiring an additional 20%, which conferred on it a managerial share.
- the Ghana Free Zones Board was set up in August 1995 under the Free Zone Act of 1995.

Does Increasing Openness Generate Employment?

Table 4: Formal Sector Employment by Industry and Activity ('000)

Sector	1980	1985	1991
Agriculture, Hunting, Forestry and Fishing	54.9	56.4	14.7
%	16.3	12.1	7.9
Industrial	87.9	108.1	47.2
%	26.1	23.3	25.3
Manufacturing	35.1	51.7	20.6
%	10.4	11.1	11.1
Mining and Quarrying	23.8	25.2	17.1
%	7.1	5.4	9.2
Construction	22.4	23.2	7.8
%	6.6	5.0	4.2
Electricity, Water and Gas	6.6	8	1.7
%	1.9	1.7	0.9
Services	194.4	299.8	124.4
%	57.7	64.6	66.8
Total for Agric., Industrial and Services Sectors (excluding sub-sectors)	337.2	464.3	186.3

Source: Quarterly Digest of Statistics, Various Issues

Indices of Poverty by economic activity in the 1990s

Indices of poverty by main economic activity

Group	Population share 1991/92	P ₀ (1991/92)	P ₀ (1998/99)	Population share 1998/99
Public Sector	13.5	0.347	0.227	10.7
Private Formal	3.9	0.303	0.113	4.9
Private informal	3.1	0.386	0.252	2.9
Export Farmers	3.1	0.64	0.387	7
Food Crop Farmers	43.6	0.681	0.594	38.6
Non-Farm self - Empl.	27.6	0.384	0.286	33.8
Non-working	2	0.188	0.204	2.1
All	100	0.517	0.395	100

Source: Ghana Living Standards Survey, 1991/92

Note: Poverty line of 900000 cedis in 1999 Cedis; Po-poverty incidence index

- A cumulative total of 37,145 jobs were created through the Export Processing Zones for 1995-2003, while 1,692 jobs were created through export-oriented companies registered through the GIPC by 2002.

Table 6: Employment in the Export Processing Zones

	1996/97	1998	1999	2000	2001	2002	2003*
Production (millions)	800	158.5	167.2	134.4	103.6	222.5	42.3
Exports (million\$)	550	145.4	184.1	165.1	291	174.3	36.5
Employment	3500	4000	5500	6900	7745	9500	4300

Source: Data from Ghana Free Zones Board (2003) Note: * - 2003 data is for only the first two quarters.

Table 7: Employment Creation by Foreign and Joint Ghanaian-Foreign Enterprises involved in Export Trade

Type	1994	1995	1996	1997	1998	1999	2000	2001	2002
Ghanaian	86	285	297	130	120	121	250	140	66
Foreign	6	30	39	23	16	18	14	52	3
Annual Total	88	315	336	153	136	139	264	192	69
Cumulative Total	88	403	739	892	1028	1167	1431	1623	1692

Source: Ghana Investment Promotion Centre (various reports)

- To provide further analytical insights to the broad picture emerging we estimate a labour demand equation for the formal sector using aggregate data for the period 1964-1990 for which data is available. Then we use correlation methods for the period 1991-2000 for which limited data is available.
- We estimate the following equation:
- $$L_t = a_1 + a_2 W_t + a_3 Y_t + a_4 X_t$$
- where L is total formal sector employment; W is the real minimum wage; Y is the real GDP; and X is represents degree of openness of Ghana to other countries. A priori, $L_W < 0$, $L_Y > 0$, $L_X > ?$
- We capture the degree of openness with the Trade Intensity ratio (Exports +Imports)/GDP for which the variable used is TINDEX. WAGE is an index representing the minimum wage for the period. The equation is estimated using data from several sources so measurement errors and heteroscedasticity were anticipated. To reduce their effects all variables were converted to indices based on 1977 values and WLS used for estimation.

- In the estimation, dummies are introduced to control for political and economic shocks to Ghana during the sample period. The regression results are presented in Table 8. In Column 1, we present results of the formal sector labour demand equation with a dummy SAP representing the period since the commencement of the structural adjustment programme (1983-1990). In column 2, we add to this equation a dummy variable TRADEREF to capture the period since trade reforms started (1987-1990).
- Column 2, shows similar results except, that the openness variable is marginally not significant at the 10 percent level.[1] At the same time the trade reform dummy shows a negative sign though it is not significant at the 10 percent level. Thus there is weak non-robust statistical evidence that increased openness led to an increase in formal sector employment.

[1] It's P-value is 10.1%.

Table 8

Regression Results for 27 observations from 1964 to 1990

Variables	1	2
Real GDP	0.333* (2.853)	0.335*(2.829)
TINDEX	0.138* (1.804)	0.134 (1.714)
WAGE	-0.104*(-2.030)	-0.102* (-1.934)
SAP	1.086* (2.289)	1.364* (1.942)
TRADEREF	-	-0.543 (-0.554)
R2	0.999	0.999
F	191683*	247392*

Note: a) Labour is the dependent variable. b) * denotes statistical significance at the 10 percent level. c) Figures in parentheses are t-statistics

Does Increasing Openness Generate Employment?

- For the period after 1990, data is not available on an annual basis for formal sector employment. We use the results of the GLSS round 3 and 4 together with the 2000 population census to make our observations.
- public sector employment declined from 30.3 percent in 1991/92 to 15.3 percent in 1998/99 from the GLSS data , and to 9.1 percent in 2000 census data(out of the economically active population 15 years and older).
- Comparable results for private sector employment are 11 percent, 11.9 percent and 8.7 percent respectively. For the same period the trade intensity index (openness index) increased from 53.4 percent in 1992 to 84.9 percent in 1999 and then to 94.5 percent in 2000.
- For the same period the trade intensity index (openness index) increased from 53.4 percent in 1992 to 84.9 percent in 1999 and then to 94.5 percent in 2000. The correlation coefficient between total formal sector employment and openness is -0.98, showing that the opening of the economy was associated with declining formal sector employment.

- Similar correlation results were obtained between openness and private sector formal employment which was -0.48 and public sector employment which was -0.998 respectively. Thus, all categories of formal sector employment were associated with more openness of the Ghanaian economy. Indeed the 2000 census report puts informal sector employment at 80.4 percent of the working population.
- In summary, the impact of trade was positive on formal sector employment in Ghana prior to 1991. Since then it has been negative when the formal sector is considered, despite the success in job creation from specific programmes related to the export sector and some non-mining FDI.
- These results mean that after 1990 the FDI has been associated with a decline in formal sector employment (Table 9).

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Table 9: FDI and Employment

Period	FDI/GDP %	Private Employment*	Formal Employment*
1991/92	0.101	11.1	41.4
1998/99	0.215	11.9	27.2
2000	0.575	8.7	17.8

Source: GLSS 3 and 4; National Accounts from data base. Note: * = share of economically active population.

Does Openness Influence Poverty and Inequality ?

- The results show that estimated income poverty fell from 51.7% of the population in 1991/92 to 39.5% in 1998/99[1]. But there are strong geographic patterns to this, with almost all the poverty reduction having occurred in Accra or in the urban and rural areas of the forest zone. Elsewhere poverty has fallen little, or even increased, especially when more attention is placed on the depth of poverty (the severity index) or when a lower extreme poverty line is used. Unfortunately data is not yet available to be able to project the trend since 1999. [1] These results are taken from GSS (1999) and Coulombe and McKay (2004).

Table 13: Indices of Poverty in Ghana by locality, 1991/92 and 1998/99

Poverty Line = 900,000 Cedis

	1991/92			1998/99		
	Populatio n share	Incidence of poverty (P ₀)	Severity of poverty (P ₂)	Populati on share	Incidence of poverty (P ₀)	Severity of poverty (P ₂)
Accra	8.2	0.231	0.017	8.8	0.038	0.002
Urban	8.7	0.283	0.024	7.8	0.242	0.028
Coastal						
Urban Forest	11.0	0.258	0.022	11.8	0.182	0.020
Urban Savannah	5.3	0.378	0.069	4.8	0.430	0.042
Rural Coastal	14.2	0.525	0.067	14.6	0.452	0.061
Rural Forest	29.6	0.616	0.106	31.6	0.380	0.044
Rural Savannah	23.1	0.730	0.161	20.6	0.700	0.178
All	100.0	0.517	0.088	100.0	0.395	0.066

Source: Coulombe and McKay (2004)

Notes: sample share is expressed in percent. P₀, P₂ denote values of the P_a poverty indices for a=0, 2 respectively.

Table 14: Changes in Income Poverty and Inequality, National Level

	1991/92	1998/99	Changes, 1991/92 to 1998/99
Average value of income standard of living measure (from survey; millions of cedis per person per year, constant prices)	1.44	1.78	3.1% p.a.
Change in real consumption per capita (national accounts)			2.9% p.a.
Gini coefficient	0.373	0.388	
Poverty headcount index (per cent)	51.7	39.5	-12.2

Source: Aryeetey and McKay (2004)

- Table 14, which focuses on changes in income, shows a large increase in the average value of the consumption measure over period 1992-1998. When this is annualised it is slightly higher but broadly consistent with estimates of the growth of private consumption expenditure in the national accounts. The national accounts show that much of the increase in income occurred towards the end of the 1992-98 period.
- Over the same period, the estimated headcount income poverty fell from 51.7% of the population in 1992 to 39.5% in 1998, despite the strong geographic and other patterns. Inequality as measured by the Gini coefficient increased slightly over this period.

- , the link between openness to trade[1], income distribution and poverty shows that trade openness deteriorated sharply between the 1960s and 1980s as a result of the very restrictive trade and exchange rate regime pursued during that period, except for a short period (1969-1972) when the Busia administration pursued some trade liberalisation. As a result the per capita income of Ghanaians (used here as a proxy for poverty) also fell drastically from about US\$500 in 1960 to US\$340 in 1983.
[1] Measured as the ratio of exports plus imports to Gross Domestic Product (GDP)
- In the wake of reform, openness to trade has risen steeply from an index of 0.11 in 1984 to 0.34 in 1987, 0.33 in 1989, 0.36 in 1992, 0.57 in 1998 and further to 0.78 in 2001. We saw earlier how poverty also increased and then fell between 1992 and 1998. It may be noted that this period also saw improvements as well as a worsening of inequality.
- between the periods 1987 and 1998/1999 income distribution has been relatively egalitarian (despite the marginal increase) in the midst of a tremendous improvement in trade openness. This is confirmed by the simple correlation coefficient of -0.84 between trade openness and the Gini coefficient.

Table 15: Correlation Indices¹ between Trade Openness, FDI, Income Distribution and Poverty.

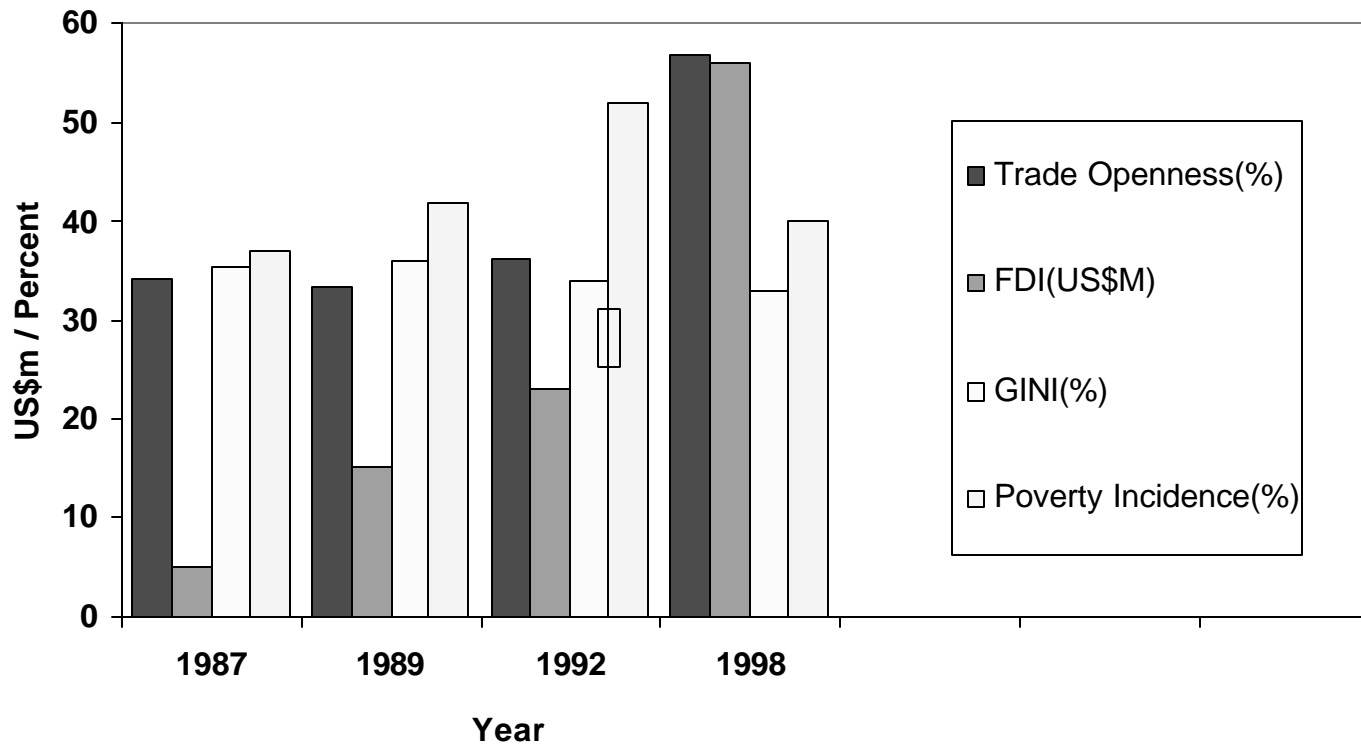
	Trade Openness	FDI(US\$m)	Gini	Poverty Index
Trade Openness	1.0	0.96	-0.84	-0.2
FDI(US\$m)	0.96	1.0	-0.87	0.05
Gini	-0.84	-0.87	1.0	-0.25
Poverty Index	-0.2	0.05	-0.25	1.0

Source: Calculated from data sourced from GLSS I, II, III, and IV and IFS Yearbooks

¹ The use of simple correlation indexes in favour of the more preferred multivariate regression analysis is due to lack of adequate time series data especially on the Gini Coefficient and poverty index.

- This could possibly be explained by the fact that between 1991/1992 and 1998/1999 export farmers (not necessarily the poorest) experienced the largest reductions in poverty (i.e. from about 64% to 39%) whilst food crop farmers experienced the least reduction in poverty (i.e. 68% to 59%). This was so because changes in relative prices through exchange rate devaluations, the opening of domestic markets, and changes in the structure of production were certain to lead to shifts in income distribution, with producers of tradable goods (mostly exportables) benefiting from the economic policy reforms.
 - Two-fifths of the population are food-producing farmers, of whom about two-thirds were poor in the early 1990s. In 1998, poverty fell among food producers, but the decline was not as great as that experienced by export crop producers. Most of the rural poor benefited somewhat from growth, but those producing export crops benefited the most. Ghana experienced significant reductions in poverty incidence among cash (export) crop producers during the 1990s from 64 percent to 38.7 percent^[1] as a result of more favourable producer prices of cocoa and an increase in cocoa production and Non Traditional Exports.
 - With respect to the impact of trade openness on poverty in Ghana, Figure 3 shows that between 1987 and 1998, whilst there was a steep improvement in trade openness, the incidence of poverty fluctuated. For instance between 1987 and 1992 poverty incidence increased, whereas between the periods 1992 – 1998 poverty incidence reduced significantly. This seems to suggest that trade openness had a negative impact on poverty reduction in Ghana from the late 1980s to early 1990s and a positive impact in the later part of the 1990s. This explains the low correlation coefficient of -0.2 between trade openness and poverty (see Table 15), indicating a low association between trade openness and poverty reduction.
 - According to Christiaensen, Demery and Paternostro (2002) the potential pathways through which trade openness impacts on poverty reduction include rural labour markets, where higher export crop prices stimulate export crop production leading to increased demand for agricultural wage labour, and ultimately higher agricultural real wages.
- ^[1] Based on the Upper Poverty Line €900,000 per capita per annum.

Figure 3: Trends in Trade Openness, FDI, Income Distribution and Poverty Incidence in Ghana (1987, 1989, 1992 and 1998).



CASE STUDIES

1. Mining Sector

- Employment in formal mining sector fell from 26.1% to 11.1% of total labour force between 1980 and 1991. While the average annual growth for 1994-2002 in employment of Ghanaian senior and junior staff has decreased by 2.95 and 4.67 percent respectively, that for expatriates indicated an increase of 1.33 percent.
- 1994-2002 was a period of privatisation of mines and large FDI inflows into the sector
- Larger rate of retrenchment of junior staff was an indication of more skill-intensity in the sector
- Between the GLSS surveys of 1991/92 and 1998/99 minimum real wage in mining grew by 4.3% annually, by 2003 it was 600% higher than the national minimum wage.
- Most inputs for mining were imported, while workers were recruited from outside the mining areas – typical enclaves with little backward linkages
- For 1998/99 the Poverty incidence in the Western Region of Ghana which has a concentration of mines was 27.3%, which was lower than the national average of 39.5%. However the most mined community Wassa West had a higher poverty incidence of 27.8%. Previously the Western Region had a poverty incidence of 59.6% in 1991/92.

CASE STUDIES

2. Oil Palm Sector two major oil palm plantations (GOPDC and TOPP)

- GODPC privatised in 1995, TOPP in 1991
- Wages for lowest paid workers has been on average at least 250% higher than minimum wage after privatisation.
- Exports of palm oil have risen from virtually zero after privatisation.
- TOPP shed of 66% of workforce after Unilever took over and engaged private contractors to provide services.
- On average, GOPDC engaged casual labour of 23.4% of total workforce in 5 years prior to privatisation and since then casuals outnumber permanent workers by about 3 times.
- The GOPDC has within eight years of privatisation gone ahead to invest in an oil palm refinery and fractionation plant to produce refined deodorised palm oil and other secondary products from the crude palm oil.

- The inception of the reforms meant an outward orientation in the approach to trade policy.
- Ghana's exports composition has continually revealed its comparative advantage in agricultural products as a result of geography, minerals and low cost labour skills.
- Notwithstanding the problems, the country has attracted quite substantial inflows of aid and investment. FDI flows which had remained particularly low in the 1980s began to pick up from the early 1990s. The significant inflows of investment were channelled to the mining, plantations, telecommunications, foods and drinks and banking sectors.
- A number of projects have been initiated to facilitate openness especially to expand the production of non traditional exports. These include the Trade Investment Programme, the Private Enterprise and Export Development programme, Export Development and Investment Fund, and more recently Presidential Initiatives to take advantage of AGOA and other such schemes.
- A clear situation in Ghana after several years is that greater openness and reform have not led to significant growth in employment. Agriculture remains the largest source of employment growth, but a slow down in agricultural performance in the 1990s meant a slow down in employment growth. Also, while the incidence of poverty has declined, this has not been uniform across the country.
- Faster economic growth has been followed by a greater inequality for at least parts of the reform period. This is obviously contrary to what received theory would expect. Indeed, while there is no clear consensus on the effect of trade openness and increased capital flows on poverty reduction and income distribution, evidence from Ghana suggests that those engaged in export farming, for example, have witnessed the greatest fall in poverty incidence, compared to those engaged in other sectors, especially food crop farmers. This has not reflected broadly on all households. One of the sectors attracting the most FDI, mining, does not generate directly significant employment.

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