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COUNTRY BRIEF GHANA

Leveraging industrialization for inclusive growth

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COUNTRY BRIEF GHANA

Over the last decades, Ghana has achieved sustained growth without accelerating industrialization. While the country has met with remarkable success in reducing extreme poverty, the adverse consequences of the service- and resource-led growth can be seen in rising inequality and unemployment. Aiming to redress the imbalance, the Government of Ghana is leveraging industrial development to build a more inclusive economy. Ambitious industrial policy initiatives are mobilizing investment to expand manufacturing capacity with a strong focus on mitigating existing inequalities.

With an average GDP growth rate of over six per cent per annum between 2000 and 2019, and not a single year of negative growth recorded since 1983, Ghana's economic development has been significant.[1] Posting GDP growth figures of twice the world average and pushing ahead of other sub-Saharan economies, Ghana became a lower middle-income economy in 2010 and cut its national poverty levels in half between 1992 and 2013.[2] However, these macro-level indicators do not show the deep structural changes that have occurred at the sectoral level over the past decades. Services now generate the majority of total revenue, while agriculture–the driver of growth since the country's independence–is losing ground, and manufacturing remains only of limited importance to growth performance.[3] By contrast, non-manufacturing industry exhibited strong growth after the start of oil production in December 2010.[4]

Manufacturing is of minor significance to the Ghanaian economy

The Ghanaian economy has defied the traditional model of development by jumping straight from being agriculture-led to services- driven, supported by a natural resources boom. The fact that Ghana has not experienced strong industrialization in the past could have negative consequences for its prospects in the medium to long term. The announcement of the ten-point Industrial Transformation Agenda by the government in 2017, however, shows that the country stands ready to give industrial development another push in the coming years.

Ghana currently ranks 109th out of 128 countries in the SDG-9 Industry Index (Figure 1). In two out of five indicators–share of manufacturing value added in GDP and share of manufacturing employment in total employment–the country outperforms both the African average and that of Nigeria, the selected comparator country in Western Africa. Regarding CO_2 efficiency of production, Ghana is more successful in the Index than the average African country, but does not reach the level achieved by Nigeria. With respect to manufacturing value added per capita and the share of medium- and high-technology (MHT) industries,[5] the levels attained by Ghana fall below both Nigeria and the African average.

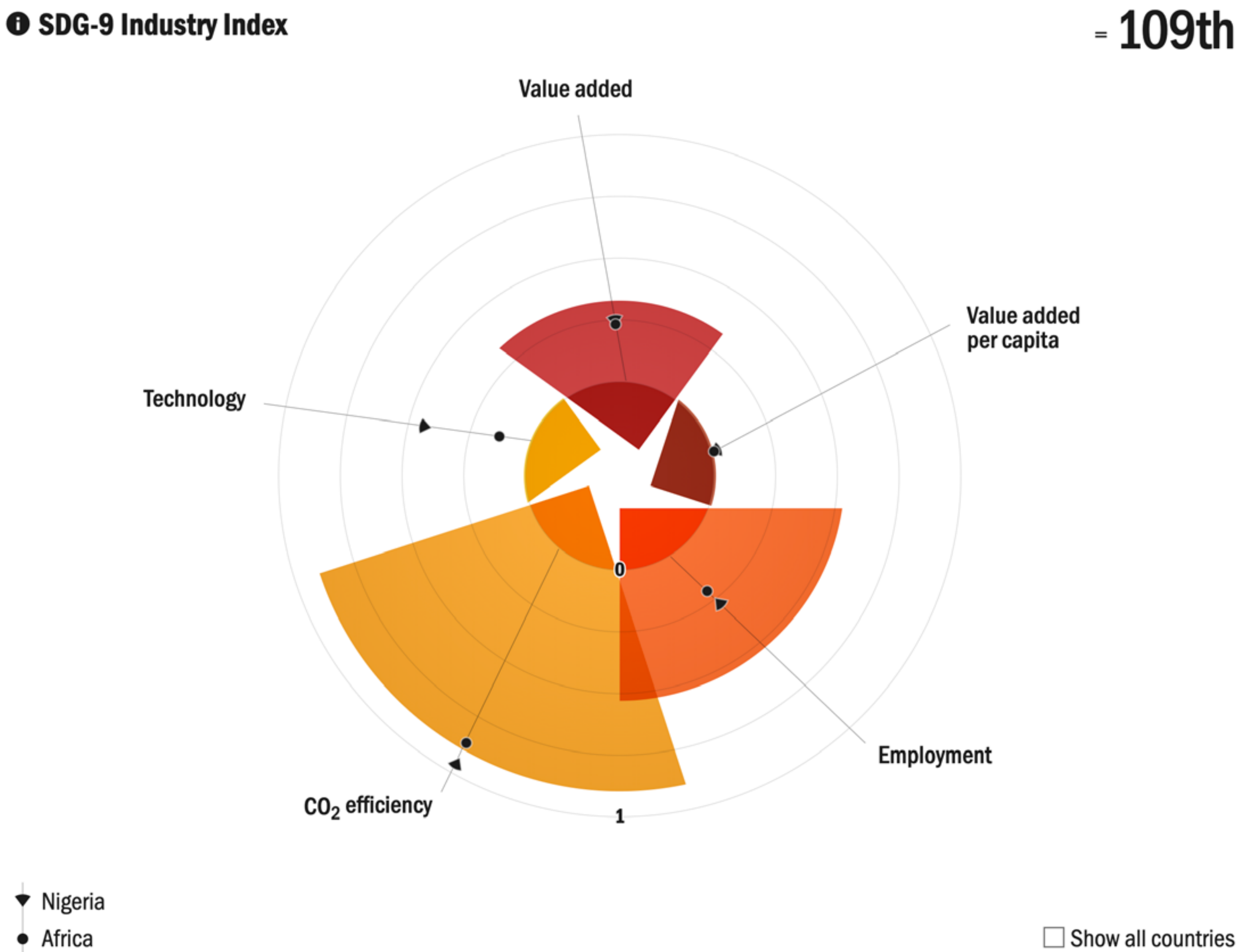

Figure 1: SDG-9 Industry Index for Ghana in comparison to Nigeria and Africa (UNIDO IAP)

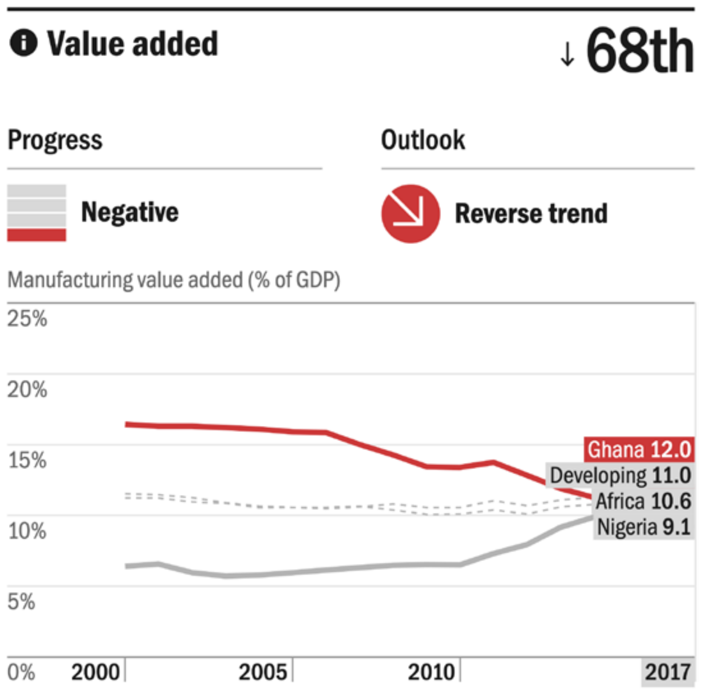

Figure 2: Manufacturing value added, 2000-2017 (UNIDO IAP)

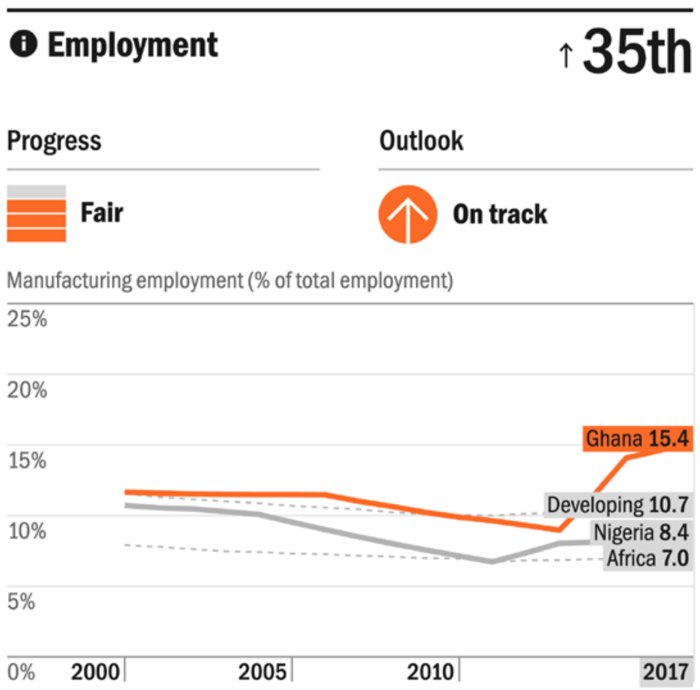

Figure 3: Manufacturing employment, 2000-2017 (UNIDO IAP)

Taking a closer look at two of the indicators used in the SDG-9 Industry Index, a mixed picture of Ghana's industrial performance emerges. According to data based on the National Accounts Main Aggregates Database maintained by the UN Statistical Division, the share of manufacturing value added in Ghana's GDP has been sinking, from 16.4 per cent in 2000 to 12 per cent in 2017 (Figure 2).[6] Starting out with a significant edge over other developing economies and the African average, the country lost most of its advantage over this period. The case of Nigeria shows that this negative trend was not common to all countries in Western Africa.

For most of this period, data based on ILO modelled estimates suggest a similar negative trend for the share of manufacturing in total employment (Figure 3). Since 2014, however, Ghana has recorded a higher manufacturing employment share, accounting for 15.4 per cent of total employment in 2017.[7]

A glance at the structure of Ghana's manufacturing exports shows the dominance of one particular industry: basic metals. In 2018, more than 80 per cent of all manufactured goods exported were produced by the metals industry (Figure 4). The importance of metals (such as aluminium and steel) in the country's exports has increased steadily during the past years. This demonstrates that Ghana's strong reliance on its favourable natural resource base expands beyond gold, oil and gas production, deep into the manufacturing sector.

A long history of experiments in industrial policy

Historically, Ghana has faced many difficulties in developing its manufacturing sector, which have led to frequent changes in strategy direction – alongside corresponding changes in political power and broader trends in industrial policy.

Briefly after the country's independence in 1957, the new leadership under President Kwame Nkrumah started an initiative for the industrialization of the country by supporting the establishment of a local manufacturing sector through import substitution policies. These efforts led to a moderate expansion of manufacturing's share in the economy, with Ghanaian firms starting to produce simple consumer goods for the domestic market. These achievements, however, turned out to be relatively short-lived.

Due to declining revenues from cocoa exports and considerable increases in government spending, the country soon faced macroeconomic instability. Political turmoil followed as Ghana experienced multiple military coups between the mid-1960s and early 1980s. In this difficult environment, and suffering the impact of disinflationary policies implemented in an attempt to stabilize the economy, Ghana's structural transformation came to a halt. Between 1960 and 1983, labour productivity recorded negative growth rates.[8]

The structural adjustment programmes Ghana had entered into by the mid-1980s helped stabilize the macroeconomic environment, but presented a challenge for the manufacturing sector. In a complete reversal of the state-led import substitution strategy for industrialization, Ghana entered a phase of market liberalization and the privatization of state-owned enterprises. Freed from the constraints imposed by the public sector, Ghanaian firms were expected to operate successfully in global export markets.

Local manufacturers now had to compete with cheaper and more productive firms from Asia, which ultimately proved impossible for many companies. Moreover, liberalization of the financial sector resulted in higher borrowing costs.[9,10] Therefore, after some initial expansion following the adoption of structural adjustments, manufacturing growth dropped once again. In its place rose the services sector, together with non-manufacturing industry, providing the boost that has led the country on the steady growth path it has tread ever since.

Another change in policy direction occurred in the early 2000s. The three Poverty Reduction Strategies initiated at that time with generous support from international financial institutions– the Poverty Reduction Strategy Paper (PRSP), the Ghana Poverty Reduction Strategy (GPRS I) and the Growth and Poverty Reduction Strategy (GPRS II)– have all focused on poverty reduction via private sector development, with a focus on micro-, small- and medium-sized enterprises (MSMEs). Industrial policy measures that targeted larger-scale companies to enhance industrial capacity received little attention compared to those reforms aimed at improving the investment climate.[11]

The oil-fuelled economic boom of the 2010s again shifted the economic policy agenda in favour of supporting oil production and related industries, such as the petrochemical industry. The latest blow to Ghana's manufacturing sector was dealt by the 2012-2015 electricity crisis, during which regular blackouts and energy rationing disrupted production and pushed many companies to the brink of collapse.

Industry share of total manufactured exports (%)

Ghana				Share % ▼	Change
1	=	M	Basic metals	81.2	+44.8
2	↑	L	Food & beverages	12.3	-11.0
3	↓	L	Wood products	1.3	-31.6
4	↑	M	Rubber & plastics	1.1	+1.0
5	↑	H	Chemicals	0.9	+0.6

Show all +

2018

(CEPII)

Figure 4: Industry share of total manufacturing exports (%), 2018 (UNIDO IAP)

EXAMINING THE CHALLENGES OF GHANA'S GROWTH MODEL

Since Ghana has managed to generate impressive growth without major progress on industrialization, one could be easily tempted to disavow the importance of industrial development for sustainable economic growth. However, when analysing the performance of the Ghanaian economy in greater detail, several problems become readily apparent:

Increasing dependency on resource-based exports

While gold and cocoa have always comprised a large share of Ghana's exports, petroleum has joined the group of key exports (since the beginning of oil production in the country in 2010). Taken together, these three commodities made up over 80 per cent of all exports in 2018.[12] While the boom in oil exports has generated valuable income for the national economy, it has also heightened Ghana's susceptibility to the ebb and flow of globally determined commodity prices. With Ghana attempting to use the oil boom to develop related industries such as petrochemicals, diversification of the economy—particularly of exports—is still a work in progress. A growing, competitive manufacturing sector could support this endeavour by broadening the country's export base.

Limited job creation and high informality

While Ghana's growth in economic output over the past decades has been impressive, the country's limited job creation is more sobering. The sectors behind the economic boom exhibit either low average productivity (services) or are capital-intensive (mining, construction). As a result, these activities have proven unable to generate enough jobs for a growing population. Consequently, Ghana's unemployment rate has been rising, from 4.2 per cent in 2010 to 5.8 per cent in 2017—even against the backdrop of a growing economy.[13]

Due to the lack of industrialization as a driver of growth, low-skilled workers from the declining agricultural sector have not been able to switch to an expanding manufacturing sector, often only finding employment in the informal services sector. Informality is a pressing challenge in Ghana and has been on the rise throughout the boom. From 1988 to 2013, the informal sector's share of the working population increased from 80.5 per cent to 88 per cent. In 2015, an astounding 90.5 per cent of all enterprises were found to be informal.[14] This hampers productivity growth, while limiting the potential for enterprises to upscale.

Rising inequality

Simply put, Ghana's economy has worked better for those able to profit from the booming industries (i.e. the high-productivity end of the services sector, mining) than for other groups of workers. While major achievements have been made in reducing extreme poverty, income inequality has been rising since the early 1990s, as documented by a study from 2016.[15] A more recent study, from March 2020, reports the correlation between rising income inequality during the period 1990 to 2010 and falling shares of manufacturing in total value added and employment.[16] Meanwhile, rising shares for non-business services were associated with higher inequality.

Inequality in Ghana also has a geographic dimension, which is closely connected to the economy's regional structure. The 2015 Integrated Business Establishment Survey found that over 70 per cent of all revenues are generated by businesses in the Greater Accra Region.[17] Stimulating economic activity and creating jobs in other parts of the country is therefore important to ensuring equal opportunity across the country and mitigating social tensions.

Industrialization as a means to achieve inclusive growth

Given these trends, it is encouraging that ensuring inclusive growth has been placed at the top of the Ghanaian government agenda, as demonstrated in key policy documents such as the Medium-Term National Development Policy Framework (2018-2021) and the Ministry of Trade and Industry's Industrial Transformation Agenda. Industrial development is seen as a key enabler of national prosperity that is shared more equally.

The Medium-Term National Development Policy Framework recognizes that the government plays a crucial role in addressing bottlenecks reported by the country's manufacturers:

One District, One Factory (1D1F) initiative

Under the slogan "One District, One Factory", the Ghanaian government aims to establish at least one medium- to large-scale factory in each administrative district of the country, taking into account respective comparative advantages and resource endowment.[23] By providing opportunities in rural areas, Ghana is attempting to slow down rural-urban migration and raise living standards outside the country's economic centres.

Ideally, these initial investments should trigger further investments at the selected locations and help the country boost its export performance. With a view to attracting private sector participation, the government is offering special incentives such as tax holidays, preferential interest rates and exemptions from import duties.[24] The government estimates that over 350,000 jobs will directly or indirectly be created through the initiative.[25]

Access to land and finance

Low levels of land title registration generally present a challenge for commerce. If a large share of landowners (estimated at around 61 per cent in 2011[18]) do not formally own their property, tensions arise whenever transactions take place, e.g. when land must be acquired for larger investments. These create unnecessary costs and slow down economic dynamism in the country.[19] Intensifying already existing efforts to simplify bureaucratic procedures and improving centralized management can free up important resources for productive activities.

For industrial development, the efforts required to secure larger tracts of land are particularly problematic. The government therefore aims to designate land in each region of the country for the establishment of large industrial parks. This should motivate foreign investors to enter Ghana's manufacturing sector and provide much needed capital and know-how. To optimize resource mobilization, the Ministry of Trade and Industry has defined strategic anchor industries, among them both established and new potential industries that should feature at the centre of investment attraction. To alleviate funding problems for small and medium enterprises, the government aims to leverage existing institutions, such as the National Investment Bank, as well as new sources of funding, including a more targeted Industrial Development Fund.

Besides these measures mainly targeting the business environment for existing and new manufacturing enterprises, Ghana is also conducting more activist forms of industrial policy that directly address existing inequalities, such as the One District, One Factory (1D1F) initiative. Leveraging the potential of manufacturing to create inclusive and sustainable growth,[20] Ghana can modernize its economic structure to thrive under the challenges posed by new technologies and the accelerating transition to renewable energies.

Skills development

The limited skill base provided by the domestic labour market is another challenge that needs to be addressed. A significant number of working-age Ghanaians lack the skills required by employers, such as technical training. Under the new strategic framework, the government aims to reorganize the technical and vocational education and training (TVET) infrastructure, currently dispersed over a plethora of private and public providers. To move away from the current status quo whereby young people often acquire skills in the informal economy, new apprenticeship and skills development centres are foreseen to complement training offered by private sector enterprises.[21]

Electricity supply

One major issue in the recent past has been the continuous problems with electricity supply. Although some efforts to improve the reliability of supply have been made, more investment in power transmission and distribution is necessary to alleviate this constraint. A 2017 study estimated that reducing the average number of days per month without electricity from ten to zero could boost the productivity of small and medium manufacturing firms by 10 per cent.[22]

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