



Industrialization Experience in Ghana

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Overview

- Introduction
- Evolution of Industry
- The Structure of the Industrial Sector
- Emerging Policy issues



Introduction

- Ghana's economic growth over the last decade has been among the most rapid in Africa and faster than in some high investment emerging market economies.
- The economy of Ghana has experienced moderate but consistent growth over the past 25 years, with growth rate between 1990 and 2010 averaging 5 percent.
- With oil and gas coming on stream, Ghana is well positioned to become one of Africa's leading 'commodities powerhouses'.
 - Oil revenue is expected to eventually contribute an equivalent of about 20% of total national revenue.



Introduction

- Currently, it is estimated that the average medium-term real GDP growth rate in Ghana would be at least 8% per annum.
- When the impact of oil and gas development is taken into consideration, the average real GDP is projected to grow at 11.3% per annum over the medium-term.
- For the attainment of economic transformation the industrial sector, which is expected to play a pivotal role, is projected to grow at an average annual growth rate of 20.3% over the medium-term.



Evolution of Industry

Historical Development – Pre-ERP (1960s)

- Prior to 1957, the industrial sector was a small sector (mainly manufacturing) that contributed very little to economic growth.
- The sector had been under-developed mainly because the colonial rulers were interested in
 - extracting raw materials from the Gold Coast; and
 - creating an economic system heavily dependent on manufactured products from Britain.



Evolution of Industry

Historical Development – Pre-ERP (1960s)

- Nkrumah led government viewed industrialization as a key factor to the modernization and development of the country.
- The extensive industrialization programme based on ISI was pursued to transform the industrial structure and reduce dependence on colonial powers and other foreign economies.
- Priority to ISI because it was believed that it will help get rid of the distorting effect of the colonial system, escape from dependence on primary exports and break the vicious circle of poverty (Killick 2010).



Evolution of Industry

- The ISI strategy involved:
 - development of large-scale, capital-intensive manufacturing industries owned and managed by the state.
 - SOEs were involved in domestic production of previously imported consumer goods, processing of exports of primary products (agricultural and mining), and the expansion and development of building materials and electrical, electronic and machinery industries.
- heavy investment in infrastructure.



Success of the ISI strategy

- The success of the ISI strategy during the 1960s was evident in the significant growth of the domestic manufacturing sector.
- It also shifted the import structure away from consumer goods to intermediate and more importantly capital goods.
 - The manufacturing sector grew from a 2% share of real GDP in 1957 to 9% in 1969;
 - Over the period (i.e. during the 1960s) manufacturing output grew at a rate of 13% per annum;
 - The share of manufacturing in total industrial output grew from 10% in 1960 to 14% in 1970;
 - Industrial sector employment grew by an average of 8% per annum, with total employment in the manufacturing sector alone increasing by nearly 90% between 1962 and 1970.

Success of the ISI strategy

Table 1:

Share and Growth Rate in Gross Manufacturing Output by Ownership (1960s)

<i>Ownership Type</i>	<i>% Share</i>			<i>Average Annual Growth rate (%)</i>	
	<i>1962</i>	<i>1966</i>	<i>1967</i>	<i>1963-1964</i>	<i>1965-1966</i>
Wholly State-Owned	11.8	19.5	24.1	34.4	36.6
Joint State-Private Ownership	7.1	12.7	17.5	24.9	51.4
Private Ownership	80.9	67.6	58.2	20.5	7.1

Source: Adapted from Steel (1972; Table I, page 214)



Problems with the ISI Strategy (1970s)

- By the beginning of the 1970s, the ISI strategy had begun to face structural bottlenecks.
- The economy began to face severe BoP problems which led to the cedi being devalued by about 90%.
- As a result of BoP problems, production and capacity utilisation in most of the import substituting industries fell over the period from the mid-1970s to 1983.



Problems with the ISI Strategy (1970s)

- For instance, the average capacity utilization over the period from 1970 to 1977 was in the range of about 43-52 percent.
- It became worse in 1979 and 1980 at 33 percent and 25 percent respectively.
- By the close of 1982 average capacity utilization had further declined to 21 percent.

Problems with the ISI Strategy (1970s)

Sector	1970	1975	1980	1984
Agriculture	50.7	47.7	54.5	55.6
Of which Cocoa	(16.8)	(10.9)	(10.0)	(8.6)
Industry	19.3	21.0	14.8	11.1
Of which Manufacturing	(12.7)	(13.9)	(10.6)	(7.6)
Services	27.4	31.0	32.3	35.8
Of which Trade	(11.8)	(12.2)	(10.2)	(10.5)

Source: World Bank (1985)



Evolution of Industry

Historical Development – Post-ERP (1983-2000)

- The main policy initiatives under the ERP for the industrial sector included
 - restructuring of the industrial and allied sectors;
 - addressing the constraints faced under the ISI strategy;
 - increasing the production of manufactured goods through greater use of existing capacity; and
 - removal of production bottlenecks in the efficient industries.
- These initiatives were based on a new industrialisation strategy that placed emphasis on development of a more internationally competitive industrial sector.

Historical Development – Post-ERP (1983-2000)

- As shown in Table 3, the industrial sector in general and the manufacturing sector in particular responded positively and strongly to the reforms.

Table 3:

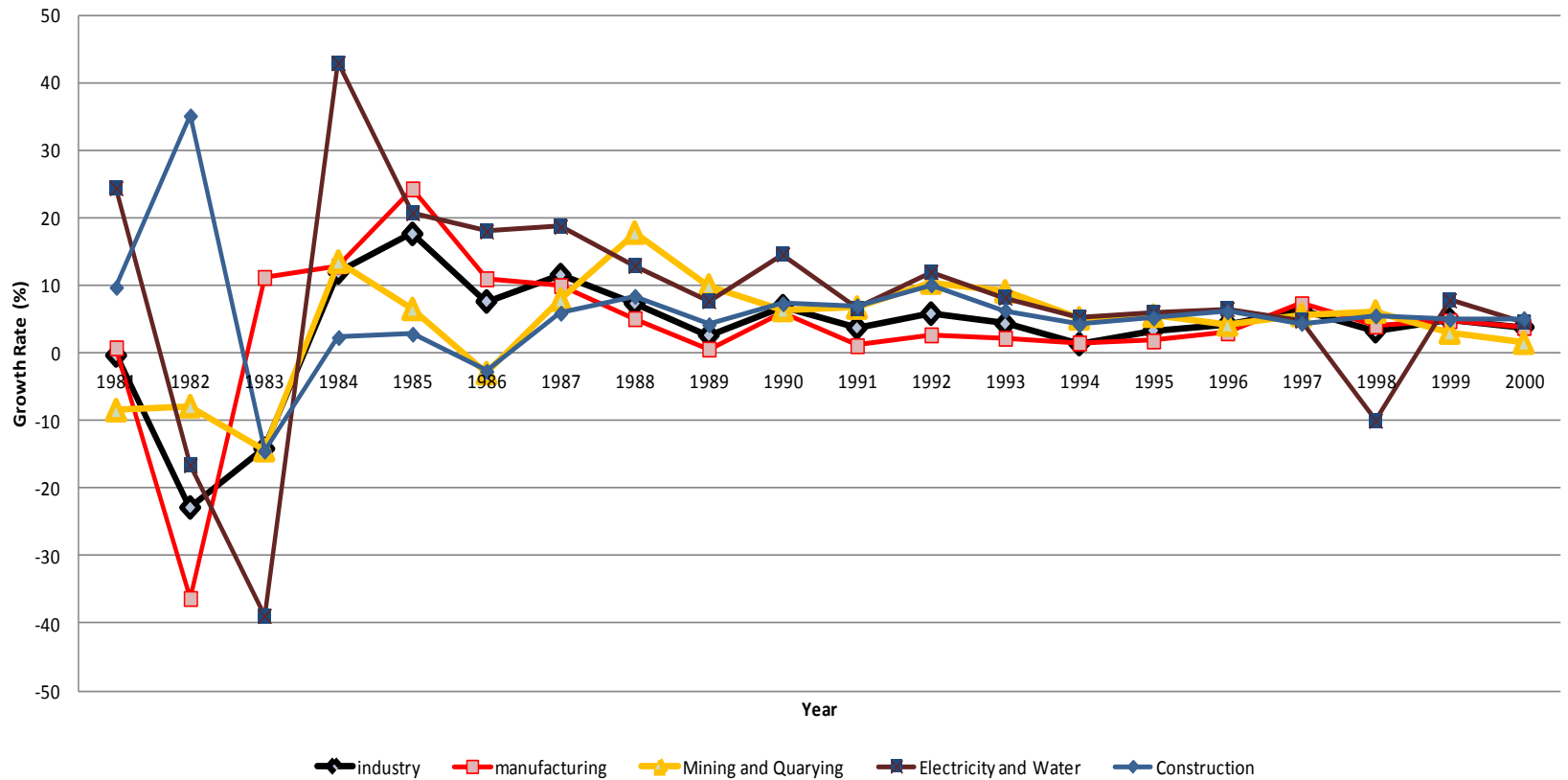
Period Average Growth Rate (%) of Industry and Sub-Sectors (1981-2000)

Period	Industry	Manufacturing	Mining and Quarrying	Electricity and Water	Construction
1981-1983	-12.49	-8.11	-10.26	-10.36	10.11
1984-1988	11.18	12.66	8.54	22.64	3.34
1989-1994	4.10	2.33	7.94	9.07	6.52
1995-2000	4.30	4.12	4.32	3.27	5.22

Source: National Accounts and ISSER SGER, various issues.

Historical Development – Post-ERP (1983-2000)

Chart 1: Growth Rate of Industry and Sub-sectors (1981-2000)





Historical Development – Post-ERP (2000-05)

- During the first half of the 2000s, there was a shift in the focus of Ghana's industrialization strategy.
- The policy strategies within the industrial sector that were adopted were aimed at
 - promoting agro-processing;
 - facilitating the development of commercially viable export and domestic market-oriented enterprises in the rural areas;
 - improving agricultural marketing and enhancing access to export markets;
 - improving the competitiveness of domestic industrial products;
 - promoting industrial sub-contracting and partnership exchange; and promoting the development of the craft industry for export.

Historical Development – Post-ERP (2000-05)

- The industrial sector responded positively to these initiatives.
- Industrial growth was buoyant in 2002, increasing from 2.9% in 2001 to 4.7% in 2002, and to 5.1% in 2004.

Table 4:
Growth Rates of Industry and its Sub-Sectors, 2001-2005 (%)

Year	Industry	Industry Sub-Sectors			
		Manufacturing	Mining & Quarrying	Electricity & Water	Construction
2001	2.9	3.7	-1.6	4.0	4.8
2002	4.7	4.8	4.5	4.1	5.1
2003	5.1	4.6	4.7	4.2	6.1
2004	5.1	4.7	4.5	3.7	6.6
2005	7.6	5.0	6.3	12.3	9.9

Source: National Accounts and ISSER SGER, various issues

Historical Development – Post-ERP (2000-05)

- Interestingly, the relatively stronger growth experienced by the sub-sectors did not transform to a higher contribution of industry to GDP.

Table 5:

Relative Contribution of the Industry and Sub-Sectors to GDP, 2001-2005 (%)

Year	Industry (% of Total GDP)	Industry Sub-Sectors			
		Manufacturing	Mining & Quarrying	Electricity & Water	Construction
2001	24.90	36.69	21.11	10.34	31.86
2002	24.93	36.71	21.06	10.28	31.95
2003	24.90	36.57	20.96	10.19	32.28
2004	24.73	36.37	20.86	10.06	32.72
2005	24.70	36.30	20.40	10.20	33.20
2001-2005	20.69	36.53	20.88	10.21	32.40

Source: National Accounts and ISSER SGER, various issues



The Current Structure of the Industrial Sector

- Currently, Ghana's industrial sector after the rebasing of the national account estimates in November 2010 consists of five sub-sectors namely;
 - Manufacturing, construction, mining and quarrying, electricity and water and sewerage sub-sectors.
 - Prior to the rebasing, the electricity and water and sewerage sub-sectors had been lumped together.

Historical Development – Post-ERP (2006-12)

Table 6:
Industry and Sub-Sectors Share of GDP, 2006-2012

Year	Industry (% of GDP)	Share of Industrial Sub-Sectors of GDP (%)				
		Manufacturing	Mining & Quarrying++	Electricity	Water & sewerage	Construction
2006	20.8	10.2	2.8(0.0)	0.8	1.3	5.7
2007	20.7	9.1	2.8(0.0)	0.6	1.0	7.2
2008	20.4	7.9	2.4(0.0)	0.5	0.8	8.7
2009	19.0	6.9	2.1(0.0)	0.5	0.7	8.8
2010	19.1	6.8	2.3(0.4)	0.6	0.8	8.5
2011	25.9	6.7	8.5(6.8)	0.6	0.8	9.2
2012*	27.6	6.7	8.8(6.9)	0.5	0.7	10.9

++: Figures in parenthesis under mining and quarrying refers to contribution of crude oil

Source: SGER (2010) and Ghana Statistical Service (2012).

Historical Development – Post-ERP (2006-12)

Table 7:
Growth Rates of Industry and its Sub-Sectors, 2006-2012 (%) ⁺⁺

Year	Industry	Industry Sub-Sectors				
		Manufacturing	Mining & Quarrying	Electricity	Water & Sewerage	Construction
2006	9.5	4.2	13.3	24.2 ^{\$}	n.a	8.2
2007	6.1	-1.2	6.9	-17.2	1.2	23.1
2008	15.1	3.7	2.4	19.4	0.8	39.0
2009	4.5	-1.3	6.8	7.5	7.7	9.3
2010	6.9	7.6	18.8	12.3	5.3	2.5
2011	41.1	13.0	206.5	-0.8	2.9	20.0
2012*	7.0	4.3	5.0	12.0	0.0	11.8
2007-2010	7.8	2.2	5.9	5.5	3.8	18.5

* Provisional \$ Figure relates to both Electricity and Water and Sewerage sub-sectors.

++ Year 2006 Growth Rates at 1993 Constant Prices. All others at 2006 Constant Prices

Source: SGER (2009 and 2010) and Ghana Statistical Service (2012).

Historical Development – Post-ERP (2006-12)

Table 8:
Relative Contribution of Sub-Sectors to Industrial GDP, 2006-2010 (%)

Year	Industrial Sub-Sectors (%)				
	Manufacturing	Mining & Quarrying	Electricity	Water & sewerage	Construction
2006	49.0	13.5	3.8	6.3	27.4
2007	44.0	13.5	2.9	4.8	34.8
2008	38.9	11.8	2.6	3.9	42.7
2009	36.6	10.9	2.5	3.6	46.4
2010	35.5	12.2	3.2	4.4	44.7
2011	25.9	32.8	2.3	3.3	35.7
2012*	24.2	32.0	1.8	2.7	39.4

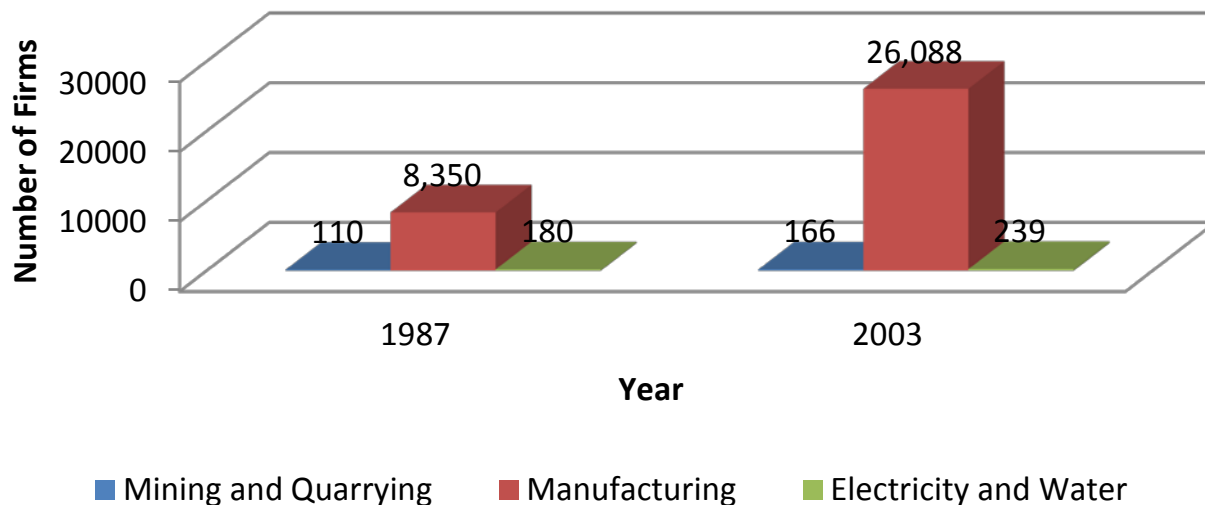
*Provisional

Source: SGER (2010) and Ghana Statistical Service (2012).

Size Distribution

- The number of establishments within the industrial sector has increased significantly between 1987 and 2003 from 8,640 in 1987 to 26,493 firms.
- This represents an increase of over 200%. Of total number of firms in both years over 90% were into manufacturing.

Chart 2: Number of Firms in the Industrial Sector by Sub-sectors, 1987 and 2003



Size Distribution

- The Ghanaian industrial sector appears to be primarily comprised of micro and small firms who make up close to 94% of the total number of firms in the industrial sector.
- Medium firms on the other hand make up only 4.0 percent with the remaining 2.3 per cent being large firms

Table 9:
Size Distribution of Establishments in Industrial and Sub-Sectors, 2003

Establishment Size	Industry Sub-Sectors						All Industry	
	Manufacturing		Mining & Quarrying		Electricity & Water			
	Number	%	Number	%	Number	%	Number	%
Micro (1-4)	14,352	55.0	26	15.7	60	25.1	14,438	54.5
Small (5-19)	10,256	39.3	64	38.6	73	30.5	10,393	39.2
Medium (20-49)	942	3.6	27	16.2	70	29.3	1,039	4.0
Large (50+)	538	2.1	49	29.4	36	15.1	623	2.3
Sub-Sector Shares	26,088	98.5	166	0.6	239	0.9	26,493	100.0

Source: Ghana Statistical Service, 2003 Industrial Census (2006)

Employment

Table 10:
Employment in Industry and Sub-Sectors, 2000 and 2006

Industry/Sub-Sectors	2000	2006
Total Number Employed – All Industry	1,151,394	1,296,407
Share of Industry in Total Employment (%)	15.5	14.2
<i>Sub-Sectors Share of Total Industry Employment (%)</i>		
Manufacturing	69.0	80.1
Mining and Quarrying	9.0	5.2
Electricity and Water	2.6	1.5
Construction	19.4	13.2
Total	100.0	100.0

Source: Ghana Living Standards Survey (GLSS) IV and V

Spatial Distribution

**Table 11:
Spatial Distribution of Establishments in Industry and Sub-Sectors, 2003**

Region	Industry Sub-Sectors (%)			ALL %
	Manufacturing	Mining & Quarrying	Electricity & Water	
Greater Accra	25.7	23.5	7.1	25.5
Western	7.4	13.3	13.4	7.5
Central	9.6	23.5	10.5	9.7
Volta	5.0	12.7	15.5	5.2
Eastern	5.0	9.6	14.6	11.4
Ashanti	24.7	14.5	9.6	24.5
Brong-Ahafo	6.7	2.4	13.8	6.8
Northern	4.7	--	5.4	4.7
Upper East	3.2	0.6	3.8	3.2
Upper West	1.6	--	6.3	1.6
Total	100.0	100.0	100.0	100.0

Source: Ghana Statistical Service, 2003 Industrial Census (2006)



Emerging Policy issues

- The “top three” issues that emerge from the current industrial policy debate relate to the key developmental objectives of the current industrial policy. These include;
 - How to empower the private sector, especially small and medium enterprises, to expand productive employment and technological capacity within a highly competitive manufacturing sector;
 - How to promote agro-based industrial development to ensure value-addition to manufactures and Ghana’s traditional and non-traditional exports; and
 - How to promote the spatial distribution of industries away from the current situation of over-concentration of industries within urban areas?



Thank you