



# PBBS 206: Economy of Ghana

## Lecture 3

### Industrial Sector

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# Preamble

- A discussion on the industrial sector in Ghana is motivated by the general notion that industrialization is necessary but not sufficient condition for the rapid and sustained development of the poor countries
- The industrial sector in Ghana comprises
  - Mining & Quarrying
  - Manufacturing
  - Electricity generation & distribution
  - Water & Sewerage
  - Construction

Courtesy:

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## Preamble cont....

- The mining & quarrying sub-sector grew at a rate of 5% in 2012; this rate was significantly less than the record-breaking growth rate of 206.5% in 2011 which was due to the start of exports of significant levels of crude oil
- The construction sub-sector was the leading component of the industrial sector in 2012
- Construction was the third largest sub-sector contributor to Ghana's GDP in 2012, it accounted for 10.5%, behind crops other than cocoa sub-sector's contribution of 16.9% and transport and storage sub-sector's 11.3%

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# Preamble Cont.....

- Sub-sectors in manufacturing include the iron and steel sub-sector (largest), cement sub-sector (second largest) and beverages sub-sector
- The industrial sector could further be sub-divided into groups such as:
  - Food processing – meat, dairy product, vegetable oil, canned fruits, breweries, soft drinks, tobacco etc
  - Chemical Industries – pharmaceuticals, perfume and cosmetics, paint, soap and bitumen and plastic product
  - Processing of raw materials – saw milling, furniture, typing and printing

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# Preamble Cont.....

- Light machinery – non-electric and metals
- Vehicle or motor bicycle assemblies
- Construction including brick and tiles, cement concrete products
- The major public and private institutions involved in industrial development include: Ministry of Trade and Industry; Council for Scientific and Industrial Research; National Development Planning Commission; Ghana Export Promotion Council; State Enterprises Commission; Divestiture Secretariat; Private Enterprise Foundation; Association of Ghana Industries etc

# Learning Objectives

*After completing this lecture, you will:*

- Identify the basic features of Industrial sector activities in Ghana
- State the importance of industry to economic activities in Ghana
- Identify problems and challenges faced in the industrial sector and
- Outline some major decisions taken by Government to help industry.

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# Features/Characteristics of the Industrial Sector

- The key sub-sectors are highly import-intensive – an average of 45% dependence on imported inputs for production
- Ghana is a low savings country (due to weak and fragile financial intermediation system) and hence has low investment levels. Industrial sector depends on foreign sources for investments in the sector particularly foreign direct investment (FDI). Consequently, the sector experiences very low levels of investment.
- There is low utilization of installed capacity as a result of obsolete plant and machinery, inadequate raw material inputs and high cost of locally produced raw materials

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# Features/Characteristics of the Industrial Sector Cont.....

- Most of Ghanaian industries are urban centered primarily due to factors like easy access to market centres, ready availability of skilled labour and the provision of infrastructural facilities.
- Additionally, most of them are small scale or at best medium sized industries employing in most cases a handful of workers
- As a result, they are not able to enjoy economies associated with large-scale production
- With regards to technology, there is high labour usage as compared to capital utilization since many of them were established as avenues for employment

Courtesy:

[www.cameroonopeningsvolasite.com](http://www.cameroonopeningsvolasite.com)



# Features/Characteristics of the Industrial Sector Cont.....

- Low level of indigenous ownership and controls, because of difficulties of financing employment in Ghana
- Four sub-sectors (food, metals, textiles & garment and woodwork & furniture) account for 77% of manufacturing enterprises
- Enterprises in this sector depend heavily on what is termed as apprentices – these firms have apprentices with no purely wage earning employees
- Low levels of applied research and training of entrepreneurial staff as well as lack of qualified managerial staff.

Courtesy:

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# Importance/Contributions of Industrial Sector

- The sector plays an important role in the Ghanaian economy in spite of the numerous problems faced by industrialists
- The industrial sector plays a leading role in adding value to Ghana's exports and consequently increased exports earnings in the country
- In 2011, Ghana earned US\$842.9m from exporting processed cocoa whilst it would have earned US\$727.9m from unprocessed cocoa
- By way of contribution to total economic activities, total industrial output as a percentage of GDP peaked at 27.3

# Importance/Contributions of Industrial Sector Cont.....

percent in 2012 surpassing the agriculture sector's contribution of 22.7 percent in the same year

- The sector attracts a lot of foreign direct investment (FDI), of the cumulative FDI of US\$21b received by Ghana from Sept. 1994 to Dec. 2011, about US\$16b was invested in the Construction and Manufacturing sub-sectors which falls under the industrial sector
- For employment, the sector plays an important role. 1,592,683 Ghanaians are employed by this sector, with manufacturing sub-sector absorbing 1,120,122 followed by construction with 317,525 workers

# Constraints of the Industrial Sector

- Inadequate finance for working capital, rehabilitation and modernisation. Most of the small and micro businesses find it difficult to meet the collateral requirements from financial institutions.
- Even where loans are readily accessible, they are obtained at high interest rates thereby increasing cost of doing business
- The large depreciation of the cedi have eroded the liquid resources, which could have helped firms to undertake necessary investment. In other cases, the depreciation have inflated the cedi value of debts related to past imports of machinery and equipment

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# Constraints of the Industrial Sector Cont...

- The tight monetary policy pursued has increased the cost of credit. A tight monetary policy refers to the use of government policy to reduce money supply.
- When money available to the public is reduced, interest rates also rise. Thus the limited availability of credit and its related high costs makes it difficult to finance businesses in the country
- Some of the enterprises operating under high protective barriers are now finding it difficult to cope with the liberalized and more competitive market environment

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# Constraints of the Industrial Sector Cont...

- Significant fraction of industrial establishments are operating far below their installed capacity as a result of the following:
  - Obsolete plant and machinery
  - Inadequate raw material inputs eg. Steel industries operating under 40% capacity—export of metal scrap ban
  - Increased competition from imports associated with trade liberalisation
  - Low levels of aggregate demand associated with economic restraint measures
  - Lack of infrastructure, power, transport, harbours etc.

Courtesy:

[www.carlorosario.org/yolasite.com](http://www.carlorosario.org/yolasite.com)

# Constraints of the Industrial Sector Cont...

- Technical Knowledge – lack of managerial skill both from the point of view of top management and middle-level executive is a well known constraint on industrial growth in Ghana.
- Raw materials – Too many of the existing industries in Ghana, spend to much foreign exchange in importing their raw materials. The result is often that the cost of the locally finished product is far too expensive, sometimes more than the same product imported
- Maintenance-Industrialists sometimes overlook the question of regular and adequate maintenance of plant and equipment

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