Sectoral Outlook of the Economy

Industry

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Introduction

- Ghana’s industrial sector comprises of:
  1. Mining and Quarrying;
  2. Manufacturing;
  3. Electricity;
  4. Water and Sewerage;
  5. Construction; and
  6. Petroleum sub-sectors
- It has been an important growth source for the economy although it is the least contributor to national income when compared to agriculture and services
- It has been constrained by problems of finance, supply of inputs and macroeconomic instability

Pre-Independence Industrial Development

- Industrial development in Ghana is largely a phenomenon in the second half of the 20th century. Many of the industrial firms in the country were established after 1950.
- The colonial government had more interest in the production of primary commodities and made little attempts at industrialisation
- The setting up of the Industrial Development Corporation in 1947 by the colonial administration was the initiation of an idea to industrialise

Pre-Independence Industrial Development

- The IDC was established to investigate, formulate and carry out projects for developing industries in the Gold Coast
- The IDC was responsible for all government investment in manufacturing and offering small loans to individual proprietors or industries
- The 5-year development plan of 1951 aimed to develop manufacturing as a means to reduce imports and diversify the economy

Pre-Independence Industrial Development

- However, the allocation of funds for manufacturing as a percentage of total funds was just 4% of total expenditure for the 5-year plan.
- Available data shows that the annual rate of growth of manufacturing output between 1950 and 1960 averaged 4.6% of GDP
- Thus concrete attempts were not made in the first half of the century to put the country on the industrial map of the world. This forced the country to remain import dependent and exporter of primary commodities

Pre-Independence Industrial Development

- In 1952 Arthur Lewis was commissioned to make recommendations for Ghana’s future industrialisation policy
- Lewis’s report looked at what manufacturing industries were likely to succeed in the Gold Coast having regard to markets and raw materials

Pre-Independence Industrial Development

- Lewis concluded that based on the conditions in the Gold Coast Import substitution industrialisation was the best option rather than an export oriented industrialisation policy.
- He also concluded that there was a binding constraint of capital, technical knowledge and managerial capacity and rather advocated for attracting foreign investments

Pre-Independence Industrial Development

- He proposed two categories of incentives to attract foreign capital namely:
  – Creating favourable internal conditions which included an agricultural policy to raise output and income per capita as well as adequate public services
  – Creation of inducement mechanisms such as tax holidays and tax exemptions on imported industrial inputs

Pre-Independence Industrial Development

- The Lewis Report became the guideline for manufacturing development
- The report’s advice on the non-participatory role of government was followed till the end of the fifties, leaving growth of the manufacturing sector almost entirely to the private sector
- It was after 1960 that most of this caution was discarded for full scale government involvement in industrialisation

Pre-Independence Industrial Development

- The 2nd 5-year development Plan of 1958-64 ushered in the era of state intervention in industrialisation
- The plan was to provide for the establishment of "not less than 600 factories of varying size producing a range of over 100 different products"
- The 7-year Development Plan 1963/64 – 1969/70 also gave prominence to the strategy of import substituting industrialisation

Post-Independence Industrialisation

- The post-independence policy was one of rapid industrialisation to provide more productive employment and offer a potential for self-sustained growth
- Industrialisation was also expected to provide backward and forward linkages to stimulate production in other sectors of the economy that feed manufacturing with inputs or use manufacturing products

Post-Independence Industrialisation

- Rapid industrialisation was also expected to help the country break out of the poverty trap and transform the colonial structure of production
- Additionally, industrialisation was to help reduce economic dependence as well as reduce unemployment

Post-Independence Industrialisation

- There was a tendency towards increased diversification in Ghanaian manufacturing, reflecting Nkrumah's desire to establish all types of manufacturing industries instead of concentrating on a few
- Strategies to promote industrialisation
  – Tariffs and import licensing
  – Subsidized investment loans
  – Public investment in Industry

Post-Independence Industrialisation

- Industrial policy strategy after independence followed three major patterns
  - First there was a strong emphasis on import substitution
  - Secondly administrative controls were used to determine incentives and resource allocation instead of market forces. Government licensing controlled the imports of equipment and industrial inputs

Post-Independence Industrialisation

- Tax holidays, import duty exemptions and subsidized credit determined the investment incentives of the industrial firms while import licensing restricted competition
- Thirdly there was dependence on large-scale public sector investment for industrial development. The rationale for this was to provide sufficient investment to move to a high growth trajectory

Post-Independence Industrialisation

- By 1958 the manufacturing industry was dominated by wood and weed products (39%)
- There were also such industries as food, beverages and tobacco
- By 1975 this structure had changed. Such industries as chemicals, petroleum, textiles, basic metals and paper products had emerged as important contributors to manufacturing

Policies & Development 1957 - 1982

- Emphasis on import substitution through high levels of effective protection
- Reliance on administrative controls rather than market mechanisms to determine incentives and resource allocation
- Reliance on large scale, public sector investment as the leading edge in industrial development

Achievements & Constraints during the period

- The policies adopted stimulated rapid growth of manufacturing output and employment. By 1970, manufacturing as a share of GDP had risen to 13%
- However, from 1977, the industrial sector began to experience decline.
- Between 1971 – 1982, the rate of growth of the industrial sector decline annually by an average of 3.5%
- Between 1975-82, total formal industrial employment decreased from 158,500 to 68,000

Achievements & Constraints during the period

- The overall industrial sector decline was on account of a decline in manufacturing and mining & quarrying sub-sectors which could not be offset by positive growth rates achieved by the other two sub-sectors
- The manufacturing and mining & quarrying sub-sectors experienced an average decline of 3.9% and 6.04% respectively (from 1971-82) whilst construction and electricity & water sub-sectors registered 0.08& and 11.5% average annual growth over the same period

Achievements & Constraints during the period

- The main reason for the decline was the balance of payments difficulties beginning in the mid-1970s.
- Import capacity during this period was determined mainly be the level of exports, since capital inflows were negligible
- Export earnings on the other hand relied predominantly on cocoa and to a lesser extent on timber, gold and diamonds all of which experienced a decline

Achievements & Constraints during the period

- Severe droughts in 1975-77 affected the exports of primary goods and the oil price shocks of the mid-1970s also affected the balance of payments and the availability of foreign exchange
- The shortage of foreign exchange made it difficult for import dependent manufacturing firms to obtain the needed raw materials and spare parts for production

Achievements & Constraints during the period

- The foreign exchange shortage reduced import capacity and due to high dependence on imports of raw materials, spare parts and equipment, manufacturing industries suffered heavily from the decline in import capacity
- The domestic incentive structure did not encourage industrialisation for exports but rather for import substitutes du to the high protectionism

Achievements & Constraints during the period

- Although the strategy was based on import substitution, the resultant production structure was heavily import-dependent
- For example in 19777-79, the value of imported raw materials accounted for about 70% of the total value of raw materials used by the manufacturing sector

Post- ERP Industrial Development

- The ERP brought a shift in industrial policy as Ghana moved from import substitution and over protected industrial strategy to a liberalized and outward oriented strategy
- Under the ERP, emphasis also shifted from government as the main vehicle for industrial development to the private sector as the engine of industrialisation

Post- ERP Industrial Development

- The Objectives of the liberalised strategy was:
  - The development of more internationally competitive industrial sector with emphasis on local resource based industries with capacity for export and efficient import substitution
  - Generation of employment with emphasis on job creation in SMEs
- Policies
  - Reconstruction of the industrial sector and rehabilitating major industries

Post- ERP Industrial Development

- Promoting the establishment of new industrial capacities and environmentally sound industrial operations
- Promoting the local indigenous private sector and involving both local and foreign private enterprises to a greater degree in industrial development of the economy

Impact of ERP measures

- With the ERP measures, the manufacturing sub-sector grew annually on average at 114.6% from 1983-1987.
- The sub-sectors contribution to real GDP which declined continuously from 12.7% in 1970 to 6.9% in 1983 rose to 9.4% in 1984.
- As far as employment was concerned, formal employment in the industrial sector rose from 91,700 in 1983 to 131,600 in 1987.
- The high growth recorded in the manufacturing sub-sector, which drove up the industrial sector on the whole in the early phase of the ERP was due primarily to the improved utilisation of installed capacity.
- The construction, mining and quarrying sub-sectors were also responsive to the ERP by registering output growth of 5.9%, 13.5% and 43% respectively in 1984 compared with -14.5%, -14.4% and -28.9% in 1983.

Post- ERP Industrial Development

- The positive response to the ERP was short-lived.
- From 1986 onwards when exchange rate, trade and financial sector liberalisation was pursued, the manufacturing sub-sector was faced with rapid depreciation of the cedi, high cost of credit and inflation which had the effect of increasing production costs

Post- ERP Industrial Development

- Most importantly, the manufactured goods had to compete with the influx of cheap imported goods
- Additionally the import-substitution industries were not efficient enough and there was also lack of effective linkages between manufacturing and other sectors especially agriculture

Post- ERP Industrial Development

- However, performance in the other sub-sectors, namely: mining and quarrying, construction as well as electricity and water continued to respond strongly to the programme

Industrial Development and the GPRS

- Promotion of economically beneficial linkages along production and supply chains
- Increase agro-processing by supporting the processing, preservation and utilization of crops, animal and fish products
- Develop and promote the use of standardized packaging materials and institutionalize the use of weights and measures
- Facilitate establishment of small-scale agro-processing industries for export

Industrial Development and the GPRS

- Improve the competitiveness of domestic industrial products by:
  - Enhanced accessibility to productive infrastructure (e.g. road, water, telecommunication, electricity)
  - Promote the use of local products and services in government procurement
  - Actively promote Made in Ghana products within domestic and international markets
  - Assist exporters to comply with international standards required by selected export markets

Industrial Development and the GPRS

- Facilitate development of commercially viable export and domestic market oriented enterprises in the rural areas
- Promote industrial sub-contracting and partnership exchange through a mechanisms for large companies to outsource some activities to SMEs
- Identify areas of interface and linkages between large and small scale enterprises
- Promote development of craft industry, particularly those with potential for export

Industrial Development and the GPRS

- An additional Science & technology policy has been identified to promote the adoption of appropriate technologies, both local and foreign with the capacity to improve productivity and efficiency in industry
- Science and technology policy initiatives will also be used to promote research and development, build linkages between research and production to ensure that research outputs are utilized

Industrial Development and the GPRS

- With regards to the mining sub-sector the policy is to promote value addition to mineral resources such as bauxite and limestone and the exploitation of lesser known minerals such as salt

The Industrial Sector Support Programme

Industrial Policy