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The Africa Regional Program on Enterprise Development
The World Bank

Economic Reform and the Manufacturing Sector in Ghana

FINAL REPORT

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This Report has been edited by Professor Amoah Baah-Nuakoh and Dr Francis Teal. The views expressed are those of the authors. Some of the data analysis presented is still in the process of being developed. It is also possible that revisions will be required in the light of the re-survey of firms planned for August/September 1993.

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SUMMARY

The RPED Project

The Regional Program on Enterprise Development (RPED) is designed to provide an overall picture of the dynamics of the manufacturing sector in Africa. The Project Design has involved the establishment of a comparative framework of studies across the African continent. Each country study will contribute to the policy issues of importance for that country and provide an input into a comparative study across all the countries. As part of this Project a panel data set of firms within the manufacturing sector is being collected for each country. This Report provides information on the First Wave of the Ghana survey and is thus intended as one component of this overall study.

Background for Ghana

Ghana has adopted a comprehensive set of economic reform measures. In broad terms these policies have involved substantial degrees of trade liberalisation so that market prices are close to world prices. Financial reform has greatly limited, if not abolished, formal credit controls in the economy. Labour legislation restricting hiring and firing and minimum wage laws remain in place but they are widely regarded as ineffectual. Ghana is close to being a free trade economy with minimal degrees of government intervention. The objectives of the government in respect to the manufacturing sector has been to promote the growth of efficient exporting firms.

Policy Issues

Three policy issues are of central importance for this study.

First, how have firms in the manufacturing sector responded to the Economic Reform program begun in 1983 and accelerated in 1987/88 with both trade and financial liberalisation?

Second, what can policy makers do to improve the performance of the manufacturing sector?

Third, what policies are required to accelerate the growth of the Ghana economy?

Policy makers wish to know if the policies set in place since 1983 have been a success and, if they have not met the objectives set, the reasons for the outcome. The second of these policy questions focuses on policies specific to the manufacturing sector. The third policy question raises the issue of the relationship between the growth of the manufacturing sector

and that of the whole economy. In this Report it is intended to address both the broad policy issue of how firms in Ghana have responded to the reforms, the specific problems of the manufacturing sector and the wider question of the constraints on exporting facing Ghanaian manufacturing.

The Response of Manufacturing Firms to the Structural Adjustment Program

There has been little private sector investment in Ghanaian manufacturing. Firms have been able to grow but these have been mainly small firms. Larger firms which account for most exports have, in general, been badly hit by the Reform Program. In the following Report we show which sectors of Ghanaian manufacturing have been able to export and we can document the growth rates of the sectors covered by the Survey which are, food, garments, textiles, furniture, metal and wood working.. There is evidence from the Survey that the wood sector, which has been the most successful sector in exporting, has also grown the fastest of any of the sectors. Thus one central aspect of the Reform Program, the intention to shift manufacturing growth to efficient exporting, may be working. The Report also shows that investment responds to profits. Thus policy changes that bring about increased prices for manufacturing export goods will promote investment in those sector. In assessing the limited investment response so far the relatively short time period since full reform was implemented needs to be kept in mind. The Report also documents that firms continue to be constrained by a range of factors. While government regulations and controls now do not affect most firms the Report finds that they remain of concern in the Wood sector, which is identified as the major potential exporting sector. Firms regard both credit and demand as major problems for them and there is no evidence from the Report that these problems are perceived as less constraining than has been the case in the past.

Policy Issues for the Manufacturing Sector

The Study has found that productivity is low in Ghanaian manufacturing and has been declining over a very long period. Recent rises in capacity utilisation have not removed the problem. Real wage levels in the recent past have also been falling. Reversing this pattern is the major policy problem facing the manufacturing sector.

In the analysis of the following chapters it will be shown that wage costs are much higher for large than for small firms. This is not due to large firms employing more skilled labour,

it is due to the presence of pressures which raise wages as firm size rises. Such relatively high wage costs may be affecting the ability of large firms to invest. The need is to link wages to productivity so that large firms, which are important for exporting, are not disadvantaged. For small firms the Report argues that high capital costs limit investment and growth. However, as already noted, some small firms are shown to grow rapidly so the problems posed by credit and capital constraints need to be seen in context.

A major finding of the Study is that the returns from training are low and the training provided by the apprenticeship system is of poor quality. Developing initiatives that will improve the quality of training is a central issue for developing the skill base of the Ghanaian economy.

The issue of labour skills is linked to the question of the potential complementarity between foreign investment skills and those within the Ghanaian manufacturing sector. It is shown in the Report that despite major problems with now cheaper imports some garment firms have been able to grow. They have not however been able to export. The ban on foreign investment in the garment sector may act to deprive this sector of the complementary skills it needs to move from domestic sales to exports.

Manufacturing and the Ghanaian Economy

An important finding in the Report is that the sector which is most important for Ghana's manufacturing exports, the wood sector, is among the most skill intensive sector of the economy. Thus the policy of promoting the growth of efficient manufacturing will lead to an increase in the demand for skilled labour. The other skill intensive sector is textiles which has probably contracted the most as a result of the Reform Program. In assessing the consequences of the Reforms it needs to be noted that the net effect of shifting demand to exports may be to increase skill demand but to change is allocation. The problems this poses for the industries involved need to be assessed. The shifts that are occurring within the manufacturing sector are only just beginning and it is clearly of major policy importance to ensure that these shifts occur at as low a cost as possible.

The Ghanaian manufacturing sector is able to sell products in the wood and metal working industries which are competitively priced. Their success in this area needs to be noted. The furniture sector has a particularly high relative rate of investment. The problem remains of their costs being too high for most of them to be successful exporters. Lowering costs by

means of more efficient use of labour and raising the rate of investment are the instruments necessary to reduce costs to this sector. The findings of the Report indicate that this is ultimately a problem of raising profits in those sectors as profits finance the investment and changes to training and labour use that ensure large firms do not face higher wage costs without higher productivity.

Policies are required which will reverse the substantial fall in the demand for labour that has occurred within the manufacturing sector. There are two elements in this policy problem. The first is investment, which has already been noted, the second relates to the issue of the size of firms. Small firms do grow rapidly in Ghana but do not export. Thus promoting the growth of exports requires a rise in the number of larger firms.

Finally the government of Ghana has noted the need to use its natural resources efficiently within the context of developing its manufacturing export base. The finding of this Report that the wood sector regards regulatory controls as still limiting its performance implies that the range of issues posed by the processing of raw materials remains a major policy problem for the government.