GHANA

2014

Eline Okudzeto / e.okudzeto@afdb.org
Wilberforce Aminiel Mariki / a.mariki@afdb.org
Gregory De Paepe / gregory.depaepe@oecd.org
Kordzo Sedegah / kordzo.sedegah@undp.org

www.africaneconomicoutlook.org

GHANA

- **Ghana's economy is expected to maintain robust growth over the medium term, bolstered by improved oil and gas production, increased private-sector investment, improved public infrastructure development and sustained political stability.**
- **Promoting the integration of Ghana's industrial sector into regional value chains could underpin the country's structural transformation on condition that authorities take measures to improve agricultural productivity, and address challenges in infrastructure and in the business environment.**
- **With the exception of maternal and infant mortality, sanitation and employment, Ghana has made substantial progress in meeting the Millennium Development Goals (MDGs), as targets for the reduction of extreme poverty and access to safe drinking water have been achieved, while targets on hunger, education and gender are on track.**

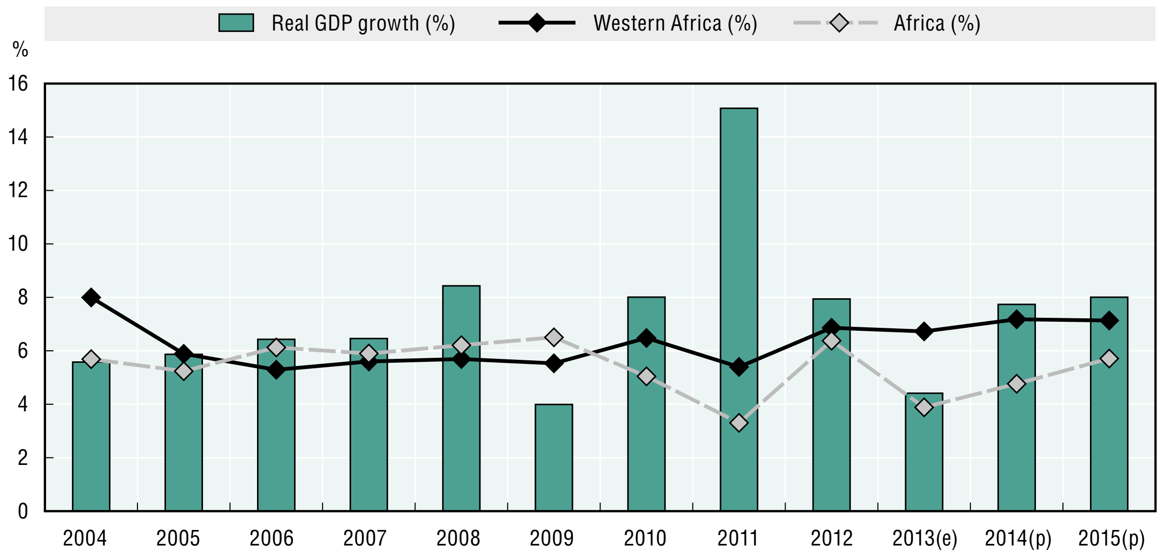
Overview

Ghana's economy has maintained commendable growth trajectory with an average annual growth of about 6.0% over the past six years. In 2013 growth decelerated to 4.4%, considerably lower than the growth of 7.9% achieved in 2012. Growth has, however, been broad-based, driven largely by service-oriented sectors and industry, which on average have been growing at a rate of 9.0% over the five years up to 2013. Over the medium term to 2015, the economy is expected to register robust growth of around 8%, bolstered by improved oil and gas production, increased private-sector investment, improved public infrastructure development and sustained political stability.

The continued widening budget deficit has been a major constraint to fiscal and debt sustainability. Following an expenditure overrun in 2012, marked by an unprecedented budget deficit of around 12% of GDP, the situation persisted in 2013, with about the same level of budget deficit (see Table1). Revenue enhancing and expenditure consolidation measures underway in 2014 are expected to ease the fiscal deficit to 9%. In conjunction with fiscal constraints, inflation has been on the rise resulting from a number of factors including the removal of subsidies on petroleum prices and a gradual rise in electricity and water tariffs. It is also worth noting the rise in public debt from 43% of GDP in 2011 to 48% in 2012, and further to 53.5% in September 2013, resulting from a widened budget deficit. The external sector will continue to experience a widened current-account deficit of around 12% of GDP in 2014, exacerbated by a decline in commodity prices of major export commodities, particularly on gold and cocoa.

With the exception of some food processing and significant exports of gold and unprocessed cocoa, Ghana is relatively less integrated into global value chains due to its infant industry. Yet, compared to its regional peers, Ghana has the industrial capabilities to export and drive regional value chains in Economic Community of West African States (ECOWAS) countries. Ghana's geographical proximity to ECOWAS markets, projected rise in consumption and lower standard requirements offer Ghanaian industrial firms opportunities to scale up and increase their productivity. For the industrial sector to grow, authorities need to tackle the constraints relating to the cost of credit and to the unreliable supply of energy, in order for leading industrial sectors in construction materials, textile, agro-processing, plastics and pharmaceuticals to expand. Non-tariff barriers also add a significant burden to the development of these regional value chains.

Figure 1. **Real GDP growth**



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p)

Table 1. **Macroeconomic indicators**

	2012	2013(e)	2014(p)	2015(p)
Real GDP growth	7.9	4.4	7.7	8.0
Real GDP per capita growth	5.8	2.3	5.7	6.0
CPI inflation	9.2	11.7	9.9	8.6
Budget balance % GDP	-5.8	-7.8	-8.7	-6.9
Current account balance % GDP	-12.4	-12.3	-12.5	-16.9

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Recent developments and prospects

Ghana's economy has maintained a commendable growth trajectory with an average annual growth rate of about 6.0% over the five years up to 2010, reaching a record high of 15% in 2011, following Ghana's joining the league of oil-producing countries. Growth declined to 7.9% in 2012 and to less than 5% in 2013, owing largely to poor performance in the agricultural and industrial sectors. In particular, the mining sector decelerated due to sharp falls in gold prices, while oil production was below targets. Growth has however, been broad-based, driven largely by the service-oriented sectors, which account for around 50% of GDP overall. Industry, comprising mining, manufacturing and construction, ranks second at 27% of GDP. Power rationing experienced from September 2012 until the first half of 2013, following the shutdown of the West African Gas Pipeline, has slowed down the performance of various sectors especially in manufacturing, with provisional growth estimated at 6.3% in 2013, down from the growth of 6.9% in 2012.

Because of the broad-based nature of Ghanaian economic growth, the country has a low rate of unemployment benefiting from jobs created across sectors, especially in service and agriculture. Although agriculture accounts for around 20% of GDP, it remains the mainstay of the economy in terms of crop production and employment. In 2012 crop production accounted for about 16.4% of GDP, after declining from 19% in 2008, but remains a major source of employment estimated at 40% of the total labour force[1]. Cocoa, an important crop for Ghana, accounts for about 10% of total agricultural-sector production and contributes around 20% of total value of export receipts. The initiative aiming at exporting at least 50% of total production as processed cocoa is among measures to add value to this important crop. In 2012, processed cocoa accounted for about 25% of total cocoa exports and prospects for increased processing are high in view of increased world demand for powder and paste cocoa. Key risks to agricultural production in Ghana are high dependence on weather conditions, world market prices and the depletion of natural resources, especially forestry stock.

Following Ghana's joining the league of oil producers, the petroleum sector is expected to be among the main drivers of economic growth over the medium term. Oil reserves are estimated at around 2.0 billion barrels and there have been 23 new oil and gas discoveries since the Jubilee discovery in 2007. Oil production increased gradually from between 70-80 thousand barrels per day (b/d) in 2012 to near full capacity of around 110 000 b/d in September 2013. In 2012, oil production earned the country about USD 3.0 billion, accounting for about 22% of total value of exports and around 5% of total government revenue. In 2014 oil production is estimated at around 120 000 b/d. Besides oil, gold production remains the largest source of income to the country, with Ghana ranking 2nd to South Africa in gold production in Africa. In 2012, gold production rose by 17% to 4.2 million ounces from 3.6 million ounces in 2011. This was bolstered by a gradual rise in world prices to USD 1 666 per ounce in 2012. In 2013, gold production and earnings were highly affected by a substantial fall in price by 28% to around USD 1 300 in December 2013. Given limited prospects for higher prices in 2014, Ghana will continue experiencing lower levels of gold production and consequently lower export earnings.

Assessment of Ghana's economic growth from the demand side indicates substantial growth in both final consumption expenditure and gross capital formation. Although consumption contracted in 2013, largely on account fiscal restraints as the government phases out subsidies to utility companies and petroleum firms and tries to contain the wage bill, consumption is expected to recover in 2014 and 2015, bolstered by private consumption, thanks to an overall improvement in disposable income in line with robust economic growth. Capital formation is also expected to maintain robust growth of around 10% per annum over the medium term, stemming from improved private-sector investments targeting emerging opportunities in the oil and gas sub-sectors. Growth for the period ahead will be driven by continued increase in private sector investment, especially in the energy, oil and gas, and by an improved macroeconomic environment. Overall, economic growth over the medium term to 2015 is expected to be robust at around 8%.

Table 2. **GDP by sector (percentage)**

	2008	2013
Agriculture, hunting, forestry, fishing	31.0	21.3
of which fishing	2.7	1.5
Mining	2.4	7.9
of which oil	0.0	6.1
Manufacturing	7.9	6.3
Electricity, gas and water	1.3	1.4
Construction	8.7	12.6
Wholesale and retail trade, hotels and restaurants	12.0	10.7
of which hotels and restaurants	6.0	5.3
Transport, storage and communication	13.6	14.3
Finance, real estate and business services	7.9	9.9
Public administration, education, health and social work, community, social and personal services	6.3	6.6
Other services	8.9	9.0
Gross domestic product at basic prices / factor cost	**100**	**100**

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

The government of Ghana is committed to fiscal consolidation with the ultimate objective of reducing the budget deficit to around 5% of GDP by 2016. However, trend performance of government operations continues to register widened budget deficit. Following an expenditure overrun in 2012, marked by a significant budget deficit of around 6% of GDP, the situation persisted in 2013 with a deficit of 7.8% (see Table 3). Fiscal measures implemented in the second half of 2013 are expected to yield dividends in 2014. Key contributors to widened budget deficit have been increased spending on wages and salaries, interest payments, subsidies and arrear payments.

For the government of Ghana to address fiscal constraints effectively, efforts should aim to raise tax revenue, in view of its substantial share (80%) of total domestic revenue. Oil revenue is still low, accounting for just 0.2% of total revenue. Grants from development partners are marginal and have maintained a diminishing trend, accounting for only 7% of total revenues in 2013, down from around 14% in 2010. Despite the marginal contribution of oil receipts, it is worth noting the distribution formula of such receipts. In compliance with the Ghana Petroleum Revenue Management Act, about 30% of total oil revenue to government is retained by the Ghana National Petroleum Commission (GNPC) for the development of the oil and gas industry, while the remaining 70% is appropriated through the Annual Budget Funding Amount (ABFA) and Ghana Petroleum Funds (GPF) at around 40% and 60% respectively. While resources under ABFA are reserved for funding priority projects, petroleum funds (GPF) are partly invested for future generations through the established Ghana Heritage Fund.

Public expenditure is largely made up of recurrent expenditure (around 80%), coupled with a high level of salaries and wages (36%) and interest payments of (16%) in 2013. Of particular concern is the rising level of interest payments, exacerbated by widened budget deficit. In aggregate, over 50% of budget allocation is destined for social services (largely education and health), followed by administration, public safety and economic sectors at 16.0%, 16.0% and 12% respectively, while spending on infrastructure ranks the least at around 5%.

Despite several new tax measures[2] announced in 2012 and 2013, for Ghana to tackle the challenges of a widened budget deficit, there should be decisive initiatives to widen the tax base. The country has among the lowest levels of revenue mobilisation efforts in Africa, as tax revenue is well below 20% of GDP, far lower than in the case of its peers such as Kenya and South Africa, where tax is around 24% of GDP.

Table 3. **Public finances (percentage of GDP)**

	2005	2010	2011	2012	2013(e)	2014(p)	2015(p)
Total revenue and grants	**17.5**	**19.1**	**21.7**	**22.8**	**21.9**	**21.2**	**21.4**
Tax revenue	12.5	12.1	14.5	17.1	16.3	15.9	15.8
Oil revenue	0.7	2.0	2.2	0.2	0.2	0.2	0.2
Total expenditure and net lending (a)	**18.7**	**26.5**	**25.6**	**28.6**	**29.7**	**29.8**	**28.3**
Current expenditure	11.4	19	19.5	23.7	24.4	24.0	22.4
Excluding interest	9.3	15.8	16.8	20.4	19.2	17.9	16.7
Wages and salaries	4.9	6.9	7.6	9.8	8.9	8.0	7.3
Interest	2.2	3.1	2.7	3.3	5.2	6.1	5.7
Capital expenditure	6.0	7.6	6.1	4.9	5.2	5.9	5.9
Primary balance	**1.0**	**-4.3**	**-1.2**	**-2.5**	**-2.6**	**-2.6**	**-1.2**
Overall balance	**-1.2**	**-7.4**	**-3.9**	**-5.8**	**-7.8**	**-8.7**	**-6.9**

Note: a. Only major items are reported.
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Monetary policy

In 2013 the Bank of Ghana pursued a tight monetary policy to contain rising inflation and depreciation of the Cedi. In May 2013 the Bank raised its policy rate by 100 basis points to 16% in an effort to limit liquidity, as inflation expectations heightened. The pace of expansion in monetary aggregates moderated in 2013 as broad money (M2+) grew by 20.8% by October 2013, compared with 21.9% in the same period in 2012, largely on account of a slowdown in foreign-currency deposits. The credit-condition survey by the Bank of Ghana as of October 2013 showed net tightening of the credit stance for all categories of loans, exacerbated largely by expected risks to the macroeconomic environment. To this end, the pace of annual growth in private-sector credit slowed to 25.0% at the end of October 2013, compared to 44.3% during the same period in 2012.

Despite the tightened credit stance, Ghana's banking sector continued to record strong growth. The sector remained relatively stable, benefiting from healthy capitalisation, as well as sound liquidity and profitability. Total assets of the banking industry at the end of September 2013 rose to GHS 33.9 billion (about 40% of GDP), from GHS 25.1 billion in September 2012 (or 34% of GDP). The sector is however, experiencing a high non-performing loan (NPL) ratio of 12.3% as of September 2013, though slightly lower compared with the ratio of 13.1% in September 2012. Furthermore, lending rates are relatively high as the spread between lending and deposit saving rates was over 20% in December 2013. In an effort to ensure transparency in the pricing of credit, the Bank of Ghana introduced a base rate formula, effective 2nd July, 2013, for commercial banks' lending.

The impact of the moderate monetary expansion on inflation has, however, been muted by the removal of the subsidy on petroleum prices and upward adjustments of water and electricity tariffs. In addition the re-basing of the CPI from 2002 to 2012 including the revision of its basket and structural changes in CPI weights across expenditure categories has had an impact on the level of inflation. Inflation thus rose from a single digit of 9% in 2012 to a double digit of 13.5% in December 2013. Key inflationary risks include the underlying pressures in government expenditure, further elimination of electricity subsidies, slow economic performance, especially in agriculture and risks associated with global demand.

Economic co-operation, regional integration and trade

Ghana continues to be a strong advocate of regional co-operation and integration, especially in respect to initiatives relating to the Economic Community of West African States (ECOWAS). The country initialled the European Partnership Agreement (EPA) in 2008, but negotiations are still underway jointly under ECOWAS.

Increased regional co-operation has had a positive impact on Ghanaian external trade. While trade continues to rely on the European markets, trade with the ECOWAS sub-region has been rising; accounting for a substantial share of non-traditional exports. For instance in 2012, out of non-traditional exports of USD 2.36 billion, exports to ECOWAS and to other African countries accounted for 31.7% and 3.9% respectively. Most exports were destined for Togo, Burkina Faso, Nigeria and Côte D'Ivoire. Also the structure of external trade has substantially changed following Ghana's joining the league of oil-producing countries in 2011. The share of oil at 22%, of total exports overtook cocoa at 20.9%. However, gold exports continue to have the largest share at around 40%.

The establishment of Free Zones for exports, effective in 1996, has led to 260 companies being registered and exporting at least 70% of their produce. Moreover, the Ghana Export Promotion Authority (GEPA) established since 1969 and the Export Development and Agricultural Investment Fund (EDAIF) introduced in 2000, have provided a broad range of facilitations and credit facilities for exports, especially agricultural produce. In line with these investment promotion initiatives, Ghana has been the centre for Foreign Direct Investment (FDI) in West Africa. FDI inflows have been on the rise, increasing from USD 855 million in 2007 to USD 3.2 billion in 2012, accounting for around 20% of total FDI inflows to the ECOWAS region[3]. Most of the FDIs are destined for telecommunications, transport and logistics, financial services and food and beverages subsectors. FDI inflows to Ghana are quite substantial, as the share of FDI to gross fixed capital formation averages around 40%.

External trade performance in 2013 experienced declining export earnings resulting from continued falls in commodity prices of gold and cocoa at 12% and 33% respectively over the past ten months of 2013 as compared to the same period in 2012. Nonetheless, the trade deficit eased, aided by improved crude oil production to over 100 000 b/d in 2013, continued robust performance in non-traditional exports and reduced demand for imports, influenced partly by a gradual depreciation of the domestic currency against major foreign currencies. Nonetheless, the current-account balance continued to experience a double digit deficit of around 12.4% of GDP in 2013, owing to a deterioration in services, income and transfers accounts (see Table 4). In 2014 and 2015 the current account balance will continue showing a widened deficit of around 17% of GDP in 2015, resulting mostly from widened trade deficit, exacerbated by an increased demand for imports. Gross international reserves have moderated, slightly below three months of import cover, owing to lower than expected export earnings. Reserves stood at USD 5.6 billion by end October 2013, slightly lower compared to USD 5.3 billion in December 2012. Although Ghana has been classified as a middle-income country, Overseas Development Assistance (ODA) inflows still amount to around 5% of GDP as of 2012, the level maintained since 2007[4].

Table 4. **Current account (percentage of GDP)**

	2005	2010	2011	2012	2013(e)	2014(p)	2015(p)
Trade balance	-14.3	-9.2	-7.9	-10.7	-7.9	-8.9	-13.1
Exports of goods (f.o.b.)	15.7	24.8	33.1	34.3	34.9	37.1	35.8
Imports of goods (f.o.b.)	30.0	34.0	41.0	45.0	42.8	46.0	48.9
Services	-0.9	-5.0	-4.8	-2.5	-8.4	-8.2	-7.4
Factor income	-1.1	-1.7	-3.2	-5.4	-2.8	-2.4	-2.6
Current transfers	10.1	7.2	6.7	6.1	6.7	7.0	6.1
Current account balance	**-6.2**	**-8.6**	**-9.1**	**-12.4**	**-12.3**	**-12.5**	**-16.9**

Source: Data from the Central Bank and domestic authorities; estimates (e) and projections (p) based on authors' calculations.

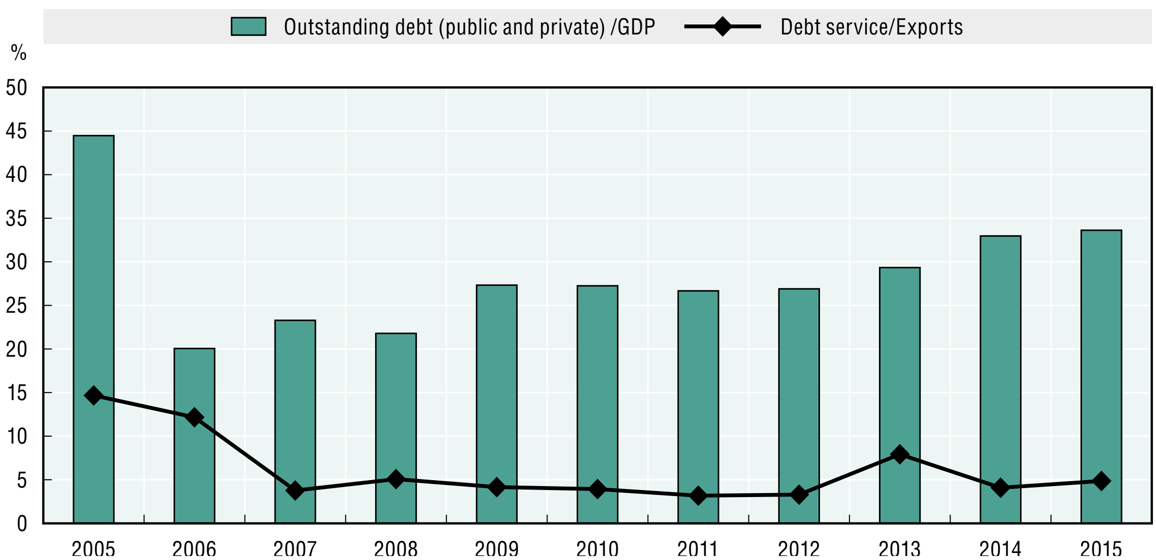
Debt policy

Ghana has made some progress in its debt-management skills, following the reorganisation of the Debt-Management Division of the Ministry of Finance with functional units specialised according to functional areas so as to enhance debt-management skills and policies. Debt management is expected to be further strengthened by new the Debt Management Strategy (DMS) in 2014.

Ghana's public-debt performance indicates a rising trend from 25% of GDP in 2006, following debt relief under the HIPC initiative, to 48% of GDP in 2012, and further to 52% in 2013. Private-sector external debt has on the contrary maintained a downward trend, declining by nearly a half from 7.8% of GDP in 2010 to around 4% in 2012. The share of domestic debt to total public debt rose from 20% in 2005 to 56% in 2012 in line with the thrust of the Medium-Term Debt Management Strategy of ensuring a prudent level of risk and development in the domestic debt market. The rising level of domestic debt has, however, become detrimental to public finances in view of increased reliance on short-term borrowing at around 60% of total domestic borrowing. Outturn as at end September 2013, indicated total public-sector debt of GHS 46.1 billion (about 53.5% of GDP), up from GHS 35.1 billion (48.4% GDP) in December 2012.

The total (public and private) debt level in 2013 was around 57% of GDP, driven by a continued wide budget deficit. The level of total debt to GDP is however, within the debt sustainability threshold of 60% of GDP as ascribed by the Ghana's DMS and in line with Debt Sustainability Assessment (DSA) where the risks of debt distress are regarded moderate. The DSA indicates that debt to GDP ratio will stabilise around 50% of GDP under baseline scenario, with the main vulnerabilities to debt distress being the prevailing high public-debt service-to-revenue ratio of around 40% and continuing risks to the fiscal outlook.

Figure 2. **Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)**



Source: IMF (WEO & Article IV)

Economic and political governance

Private sector

Economic activity in the private sector, especially the manufacturing sector, slowed down in the first half of 2013 due to power rationing that began in September 2012, as a result of the shutdown of the West African Gas Pipeline. The disruptions led to shortfalls in production and revenue losses as businesses had to resort to more expensive forms of power generation for production. For Ghana to improve on its power provision, it is critical that the government implement measures to improve the reliability, pricing and efficiency, as well as the expansion of the energy sector.

The Association of Ghana Industries notes that for the first two quarters of the year the announcement of an increase of respectively 78.2% and 59.8% in electricity and water tariffs, as well as the increase of 5% in corporate taxes and 2.5% in the VAT rate, are expected to raise the cost of doing business in the country. Despite government's continuing to implement several polices including strategies to the National Export Strategy (2013), Industrial Policy and the Private Sector Development Strategy (PSDS II), Financial Sector Strategic Plan II, Revenue and Energy reform amongst others, the impact of these reforms has been mixed as a result of a lack of policy coherence in the different strategies. This is reflected in Ghana's ranking in the World Bank report *Doing Business 2014*, where the rating for electricity supply and paying taxes improved significantly by 24 and 3 points respectively. However the report noted a decline in scores for 6 other sub-criteria.

Government continues to implement policies and programmes to promote private-sector development, especially to address challenges relating to access to credit. The 2014 budget announced the establishment of a Small and Medium Enterprise (SME) fund in addition to the extension of the Export Development Investment Fund to include agriculture. The announcement in the 2014 budget for the establishment of a Ghana Infrastructure Fund, coupled with the Public Investment Programme (PIP) and Public Private Partnership (PPP) Policy is expected to speed up the development and financing of infrastructure to address some of the challenges of the private sector. In addition, these initiatives would assist in guiding both future private capital and public sector investment activities.

Financial sector

The Ghanaian financial sector is considered stable and robust, benefiting from a number of financial reforms dating back to 1990s. On average banks are well capitalised, above the 10% of worldwide standard, with a capital adequacy ratio of 18.6% of weighted capital to risk-weighted assets in 2012 and returns on assets and on equity (before tax) of 5.1% and 27.3% respectively. The banking industry is highly diversified comprising 26 commercial banks, 14 of them foreign banks, accounting for 55% of total industry assets in 2012. Besides commercial banks, the sector has 133 Rural and Community Banks, which accounted for 3.2% of total financial sector assets. In 2013 reform measures introduced to further enhance financial stability include the adoption of a national strategy on money laundering, accompanying laws and guidelines for financial-sector practitioners.

The financial sector in Ghana is, however, shallow, as total deposits account for around 26% of GDP and it is characterised by a persistent high non-performing loans (NPLs) ratio (13.2% in 2012). Access to credit is limited by the high lending interest rate of over 25%, with an interest-rate spread of around 20%. Excessive government borrowing from the domestic sector (25% of total lending by commercial banks), has been the major factor leading to the high interest rate. Perceived high country risk for lending is among key impediments, owing to limited information on borrowers, as only 5.7% of adults and firms are registered by credit reference bureaus. Nonetheless, the rural and community banks have become the main channel for financial inclusion as such banks serve over 600 micro-finance companies covering around 500 000 customers countrywide. Despite these shortcomings, Ghana's financial market is regarded relatively well developed. According to the Africa Competitiveness Report 2013, Ghana was ranked 59th out of 148 countries worldwide and 8th out of 37 rated African countries.

The Ghana Stock Exchange (GSE) with 36 listed companies and market capitalisation of GHS 58.2 billion as of 4 December 2013, has generally witnessed bullish performance, driven mainly by performance of financial stocks, although high yields on government securities constitute a downside risk for the market. In an effort to promote small-scale enterprises, in May 2013 the GSE introduced Ghana Alternative Market (GAX), focusing on businesses with potential for growth at various stages of their development, including start-ups and existing enterprises, both small and medium.

Public sector management, institutions and reform

Ghana's implementation of its public sector reform is constrained by the size of the wage bill, which has tripled from GHS 2.9 billion to 9.0 billion between 2009 and 2013, as a result of the implementation of the pay reform and is estimated at 72.3% of total domestic revenue. Trends show that failure to tackle the ballooning wage bill would pose significant risks to fiscal sustainability unless it is addressed holistically, so as to avoid recurring labour agitation. To improve efficiency of the pay reforms, the biometric registration carried out in 2012 has been linked to the Integrated Personnel Payroll Database (IPPD). Government intends to link this to a comprehensive human resources management database and an electronic payment system. The 2014 budget has announced some additional measures to address the wage bill, including the discontinuation of 12 subsidised agencies, a review of the market premium and multi-year wage negotiations.

The implementation of the decentralisation reforms continued in 2013, with the development and dissemination of the generic guidelines for the establishment of the departments of Metropolitan, Municipal and District Assemblies (MMDAs) including an organigram, reporting relationship and guidelines. Key challenges to the implementation of the decentralisation policy include insufficient physical structures in newly created districts (46 new districts were created in 2012) and the resourcing of the MMDA sub-structures. The delays in disbursement by central government to the Assemblies' Common Fund of district development funds compounds the challenges.

Government continued to implement its Public Financial Management Reforms through the Ghana Integrated Financial Management System (GIFMIS) with the introduction of programme-based budgeting for the 2014 budget. In order to ensure revenue measures meet the challenges of the high fiscal deficit, the government has introduced several new taxes including a Fiscal Stabilisation Levy, an increase in the VAT rate by 2.5%, and windfall levy for the mining sector.

Natural resource management and environment

Ghana's National Climate Change Policy Framework (NCCPF, 2010) has three objectives: low carbon growth, effective adaptation to climate change and social development. Ghana aims to generate 10% of its energy through renewable resources by 2020.

With access to sanitation at 15% of the population, Ghana is not on track to reach the MDGs with a target of 54% sanitation coverage by 2015. The country is confronted by a number of environmental challenges including land degradation, coastal erosion, pollution of rivers and lagoons especially due to recent illegal mining activities, deforestation, desertification and waste management. The cost of Ghana's environmental degradation is estimated at 10% of its GDP. Over 80% of disasters in Ghana are estimated to be climate-related. The forestry sector, which provides a livelihood for approximately 2.5 million people, is in particular being depleted as 70% of Ghana's land is prone to soil erosion and slash-and-burn has converted over 50% of Ghana's forest into agricultural land.

Ghana's discovery of oil and gas in 2007 offers new opportunities for raising the country's energy capacity and increasing resource-related revenues. Ghana's Petroleum Management Act (2011) is considered fair and balanced, aided by the established Public Interest and Accountability Committee (PIAC) to monitor compliance with the law. The PIAC's authority is limited by the failure of public authorities to provide financial support. The Extractive Industries Transparency Initiative (EITI) reports indicate Ghana's revenues from natural resources to have quadrupled in 2011-13. Government revenues from natural resources in 2013 are estimated at 8.3%[5] of domestic revenue, of which revenues from oil and gas was GHS 1.6 billion and mining GHS 389.17 billion, including 4.977 million barrels of oil in-kind.

Political context

Ghana is considered one of West Africa's most resilient democracies, holding six elections and peaceful transfers of power between the country's two main political parties since 1992. In a turbulent region, Ghana's political stability has been a fundamental asset to foreign investors. Ghana boasts of one of Africa's most dynamic press industries, and improved its ranking in the 2013 Reports without Borders' World Press Freedom Index from 41st in 2012 to 30th position. Although several high-level corruption cases were publicised in 2013, corruption continues to be a significant problem.

The peaceful adjudication of the election petition by the High Courts and the fact that both political parties abide by the ruling has further consolidated Ghana's democracy. The December 2012 election was won by the ruling party, the National Democratic Congress (NDC) under the leadership of President John Dramani Mahama, by a narrow margin of less than 1% (325 000 votes out of 11 million). The election results were challenged by the opposition New Patriotic People's

Party (NPP), which alleged election irregularities and the cancellation of over 1 million votes. Ghana's Supreme Court, on 29 August 2013, dismissed the case and upheld John Mahama as the legitimate elected President. The court case divided the country not on ethnic, but on political lines. Despite this, the risk of instability was muted by calls from Civil Society, the clergy and the Peace Council for peace to be maintained in the country. The outcome of the petition has highlighted the need for electoral reforms especially in regards to the appointment and supervision of electoral officers.

Social context and human development

Building human resources

Ghana's progress towards the attainment of the MDGs is mixed. Targets on extreme poverty and access to safe drinking water have been achieved, while targets on hunger, education and gender are on track to be achieved; but targets on employment, child mortality, maternal health and sanitation are lagging behind. Extreme poverty has been reduced from 51.1% in 1990 to 18.2% in 2010 against a target of 18.3%, though regional and gender disparities still exist. The Employment Population Ratio (67.4% for 2010) has increased over time (2000-10) though marginally by 0.5%. The Employment Population Ratio is higher in rural areas (73.3%) than in urban areas (62.3%).

The Gross Enrolment Rate (GER) at the primary level was 105.0% in 2012/13 academic year. However the Net Enrolment Ratio (NER) for the same period is lower at 84.1% as a sign of over-aged enrolments. Gender parity at the primary level was 0.99. GER at the senior secondary level for the same period was at 37.1%, whilst the NER was 23.6% indicative of the fact that as pupils climb up the educational ladder most drop out. Gender parity at secondary-school level was 0.86.

MDG 4 and 5 indicators are not likely to be achieved by 2015. Under-five mortality has reduced from 167/1 000 in 2000 to 90/1 000 in 2010 live births against the target of 40 per 1 000 live births. Maternal mortality ratio has been reduced by 40% between 1990 and 2011. Institutional maternal mortality ratio improved from 216/100 000 in 1990 to 164/100 000 live births in 2010, as against the target of 54/100 000 live births. Regional disparities exist, however, with the Upper East region recording maternal mortality of 802/100 000 live births. The highest incidence of maternal deaths is evident amongst women aged 12 to 14. The Ministry of Health has developed an MDG Acceleration Framework to speed up delivery on maternal and child health. The national average of family planning acceptors increased from 16.6% in 2008 to 23.4% in 2012, while the proportion of deliveries by trained health workers increased from 55.8% to 77.9%; and coverage of pregnant women that received at least four antenatal care visits increased slightly to 72.3%. The HIV goal, which is likely to be achieved, had a prevalence rate of 1.2% in 2012, a decline from 3.2% in 2006. Due to the administration of anti-retroviral medications, the number of AIDS deaths has declined from 20 313 in 2009, to 16 319 in 2010, of which 16% were children. In 2010 the incidence of malaria increased to 108.3 per 1 000 and the deaths associated with malaria amounted to 3 859 incidents. Overall, the country's Human Development Index (HDI) stood at 0.588 in 2013, slightly higher compared to 0.533 in 2012.

Poverty reduction, social protection and labour

Over the past two decades, the overall poverty rate has declined substantially from 51.7% in 1991/92 to 28.5% in 2005/06. This is confirmed by the Multi-dimensional Poverty Index (MPI) of 0.179, derived from the 2010 Population and Housing census data. The MPI is lowest in Greater Accra Region (0.072) compared to other regions, especially to the three northern regions – Upper West (0.341), Upper East (0.335) and Northern (0.371)[6]. Poverty has decreased in urban areas as compared to the rural areas with food-crop farmers remaining the poorest occupational group, while the situation of women as compared to men has not significantly changed[7]. The poor state of rural infrastructure, rural livelihoods and youth employment, limited access to quality education and high child labour are all key drivers of rural poverty and by extension, the drivers of inequalities in Ghana[8]. Despite the significant progress in combating poverty at the national level, there are some manifestations of both vertical and horizontal inequalities. The inequality measure, using the Gini Index for consumption per adult equivalent, for instance, continued to increase from 0.353 in 1991/92 to 0.378 in 1998/99 and 0.394 in 2005/06[9] and further to 0.438, averaging for the period 2000-10[10].

The Livelihood Empowerment Against Poverty (LEAP) programme appears to be strengthening social networks as the pattern of impacts suggest that the programme is allowing beneficiaries to re-establish or strengthen social networks. In 2012 the cash grant to individual households under the programme tripled, with beneficiaries eligible for the free National Health Insurance Scheme. As of June 2013, the LEAP programme covered over 70 000 households and provided benefits to 177 500 individuals across the ten regions and is projected to reach 150 000 households by 2014. The programme, with the aid of other government interventions, has been noted for reducing grade repetition among school children. It has increased school enrolment among secondary-school-aged children and reduced absenteeism by 10% among primary aged children.

The increase in the Employment-to-Population Ratio from 66.9% in 2000 to 67.4% 2010[11] is indicative of the fact that significant employment opportunities have not been created over the last decade, despite Ghana's sustained economic growth and interventions by government and the private sector. In 2010, 42.7% of the unemployed population were aged 15-24 years, 46.2% aged 25-44 years, 9.9% aged 45-64 years and 13% aged 65 years and older. The private sector is the largest source of employment in the country, accounting for 93.1% of the economically active persons (private informal, 86.1% and private formal, 7.0%). The public sector, which is the second largest employer, accounts for only 6.3%. The year 2013 saw major labour agitations from doctors, pharmacists and teachers demanding payment of salary arrears from government. This has largely been attributed to the implementation of the Single Spine Salary Structure policy.

Gender equality

Ghana's performance in ensuring gender equality requires a stronger commitment through affirmative action, especially in the area of education and political appointments. The 2013 Human Development Report indicates a stagnated low performance of Ghana's Gender Inequality Index (GII) at 0.556, rating the country 121st out of 186 countries. Despite an overall improvement in the Gender Parity Index (GPI), it reduces as one moves higher up the educational ladder. At the primary level GPI is 1.01, while secondary is 0.92.

Although the number of women seeking political appointments has increased over the years, the trend of women's share in major political positions has not changed since 2008. Female representation in parliament stands at only 8.7%, in addition, only 19% and 20% respectively of ministers and deputy ministers are women. In the Judicial Service, 29% of Supreme Court and 25% of High Court Judges are women. Similarly, only 24% of Chief Directors in the Civil Service are women.

About 8% of women as compared to 17% of men aged 15-59 are exposed to all three forms of media i.e. newspaper, radio and TV.

Thematic analysis: Global value chains and industrialisation in Africa

Strategic and selective integration in global and, in particular, regional value chains offer opportunities to Ghana to develop its industrial capabilities and diversify its sources of growth. Ghana's economy has not undergone a significant structural transformation, despite a sustained annual average economic growth of 5% since 1990. Indeed, agriculture still provides over 60% of total employment and primary commodities, mainly oil, gold and cocoa, correspond to over 80%

of total exports. For Ghana to sustain this high growth rate and create sufficient employment will likely depend on its capacity to develop its industrial sector and on the linkages it creates with its emerging oil and gas sector.

Ghana's industries are characterised by a small number of leading firms dominating the sector. Five sub-sectors – metal products, wood products, fats and oils, plastics and rubber and pharmaceuticals – represent over 50% of Ghana's non-primary commodity exports. Since 2000 the industrial sector's share of GDP has remained stable at around 25%. Construction, driven by an urban housing boom and infrastructure development, became the largest sub-sector, while manufacturing's share in industrial GDP has declined from 36% to below 30%.

Energy provision and access to finance are the two most pressing hurdles facing Ghana's manufacturing sector. The rising cost of energy has eroded manufacturers' profit margins, while erratic energy supply results in expensive loss of production and the need to use fuel for electricity generators. The high cost of credit and the inadequacy of Ghana's financial sector to provide financing adapted to the needs of the manufacturing sector makes it hard for SMEs to scale up production, modernise their machinery and raise their competitiveness. As a result most natural-resource-based manufacturers (wood, metals, agri-business) prefer to be fully integrated, so as to control and ensure the quality and reliability of their inputs, ancillary services, logistics and distribution channels.

The Ghanaian government has launched several strategies to promote Ghana's industrialisation process: the Industrial Policy (2010), the Industrial Sector Support Programme (2010), the Trade Sector Support Programme and the Export Promotion Strategy (2013). These strategies are very broad based and their design process was inclusive, yet, the lack of clear priorities and low implementation capacity due to financial challenges has limited their impact. This absence of decisive government action, combined with a difficult business environment and poor transport infrastructure render most of Ghana's manufacturing sector uncompetitive on international markets, which complicates its integration into global value chains (GVCs) or its ability to compete against imported products.

In 2013 the government started to develop a strategy, which it aims to implement in 2014, to promote the integration of specific sectors into GVCs, including aluminium, textile, agri-business, plastics and pharmaceuticals. So far Ghana's integration into GVCs has been limited and is largely driven by the existence of preferential trade agreements (ECOWAS, AGOA) or its natural resource endowments (bauxite, tropical wood, cocoa, fresh fruits and gold). Ghana's relative low labour productivity is not sufficiently offset by the relatively lower wages in Ghana to attract efficiency-seeking industries on a large scale.

Rising consumer demand in regional markets (Togo, Burkina Faso, Nigeria, Côte d'Ivoire, etc.) offer significant export potential to Ghanaian manufactures and could facilitate their insertion into GVCs over the medium term. By eliminating tariffs the ECOWAS export-liberalisation trade system (ELTS) offers Ghanaian exporters a competitive advantage over cheaper imports in regional markets. Additionally, regional markets typically require lower and more accessible standards than EU or US markets. Most Ghanaian manufacturers cannot bear the costs of adapting to frequently changing and increasingly demanding standards and consumer preferences of US and EU markets. For instance, the AGOA trade agreement spurred a revival of Ghana's garment industry in the early 2000s, exporting shirts, trousers and scrubs to large US retailers. However, the recent energy crises have severely impacted the viability of the sector and forced most small-scale producers out of business.

Additionally, the longstanding presence of some of Ghana's leading firms, in some cases since the country's independence, has enabled the country to develop Ghanaian brands in textiles and pharmaceuticals that are recognised and valued by consumers in the sub-region. Also, in comparison to cheaper imports, "Made in Ghana" is considered to be of premium quality for construction material (aluminium, steel, plastics and wood). This quality premium compensates for the higher price of the product and targets middle-class consumers and formal entrepreneurs in ECOWAS countries. Yet, for most African citizens "low price" remains the decisive factor in the decision to purchase, resulting in the rising popularity of cheaper Chinese (light tools, construction material, furniture, plastics, etc.) and Indian (pharmaceuticals) imported and counterfeited products. This trend threatens existing brands and local production capacity.

Ghana's comparative advantage in integrating GVCs resides in its natural resources, including cocoa, tropical wood, fisheries, fresh fruits and bauxite. Yet, poor infrastructure, unreliable agricultural production and lack of clear land-tenure rights constrain the development of competitive agro-processing for the potential domestic market that is currently met from imports. Ghana's wood-processing industry, once exporting tropical wood to the EU and regional markets, is threatened by resource depletion and insufficient reforestation. Antiquated machinery and unskilled labour render processing lower value wood uncompetitive, compared to cheaper processed wood from Asia. Ghana exports bauxite to Central America for processing into Alumina, which it then re-imports as inputs for the Aluminium smelter VALCO. VALCO's output serves as inputs to Aluworks, West-Africa's only rolling mill and producer of aluminium ingots.

Government provides incentives to attract foreign investors as well as to ensure the competitiveness and survival of most of the nation's leading firms. The Ghana Free Zone Board offers significant tax incentives to 260 companies that export at least 70% of their total production. These companies do not need to be located in an enclave, which enables agri-businesses and mining companies to benefit from free-zone incentives while being located close to their raw inputs. Other policies include import duties to protect local industries, including plastics, aluminium and alcoholic beverages or export bans on round logs and metal scrap to ensure the provision of raw materials for the wood and metal processing industry.

Notes

1. Housing and Population Census 2010
2. Increase of 2.5% VAT rate to 17.5%, environmental tax, stabilisation tax, communication tax etc.
3. UNCTAD Stat (2013)
4. AfDB Database
5. Refer to Government of Ghana 2014 budget
6. Non-Monetary Poverty in Ghana, GSS 2013
7. UNECA, 2010
8. Ghana's MDG Report, 2012
9. *Ibid.*
10. Human Development Report, 2013
11. Ghana Housing and Population Census, 2010