



ESID Briefing No. 14

Ghana's political settlement and constraints to structural transformation

KEY FINDINGS:

- Ghana has experienced sustained growth without structural transformation. The agriculture sector has declined and the manufacturing sector has stagnated. There has been growth in the services sector, but it is characterised by low productivity and low wages.
- Ghana's export products have changed, but are still dominated by primary products.
- Political patronage and personalisation remain rife in the political settlement. Public institutions are weak and there are widespread perceptions of corruption.
- Weak public sector capacity hampers the production of quality public goods and management of the macroeconomy to facilitate growth.
- Although most firms in Ghana are small and medium-sized enterprises in the manufacturing sector, mining firms have closed relationships with the political elite, and more power lies with them. The relationship between the state and business remains closed to new firms, especially those in the manufacturing sector.

This research uses the ESID political settlements framework to explain how Ghana's politically competitive and highly personalised settlement affects the business environment and growth processes. It analyses the ways in which the current political settlement and the structure of the domestic economy shape the relationship between the state and the business sector. This political economy understanding is used to explain why Ghana's sustained growth has occurred without a corresponding transformation of the economy towards more high productivity sectors.

FINDINGS

Ghana has experienced sustained growth without structural transformation

Since 1983 Ghana has experienced sustained growth. It recorded annual average growth of 4.4% between 1983 and 1999. Growth then accelerated to an average of 6.5% per annum between 2000 and 2013. However, this has not been accompanied by transformation of the economy towards more productive activities.

As Figure 1 shows, although agriculture has in recent times contributed less than 30% to GDP, its employment share of 40% was the same as the services sector, which contributed approximately 50% to GDP, in 2010. This means that the productive returns for labour in the agriculture sector are low compared with the services sector. Meanwhile, the share of employment in the manufacturing sector has stagnated at 15%. Moreover, labour from the declining agriculture sector has moved to those parts of the service sector that have relatively low productivity and low wages.

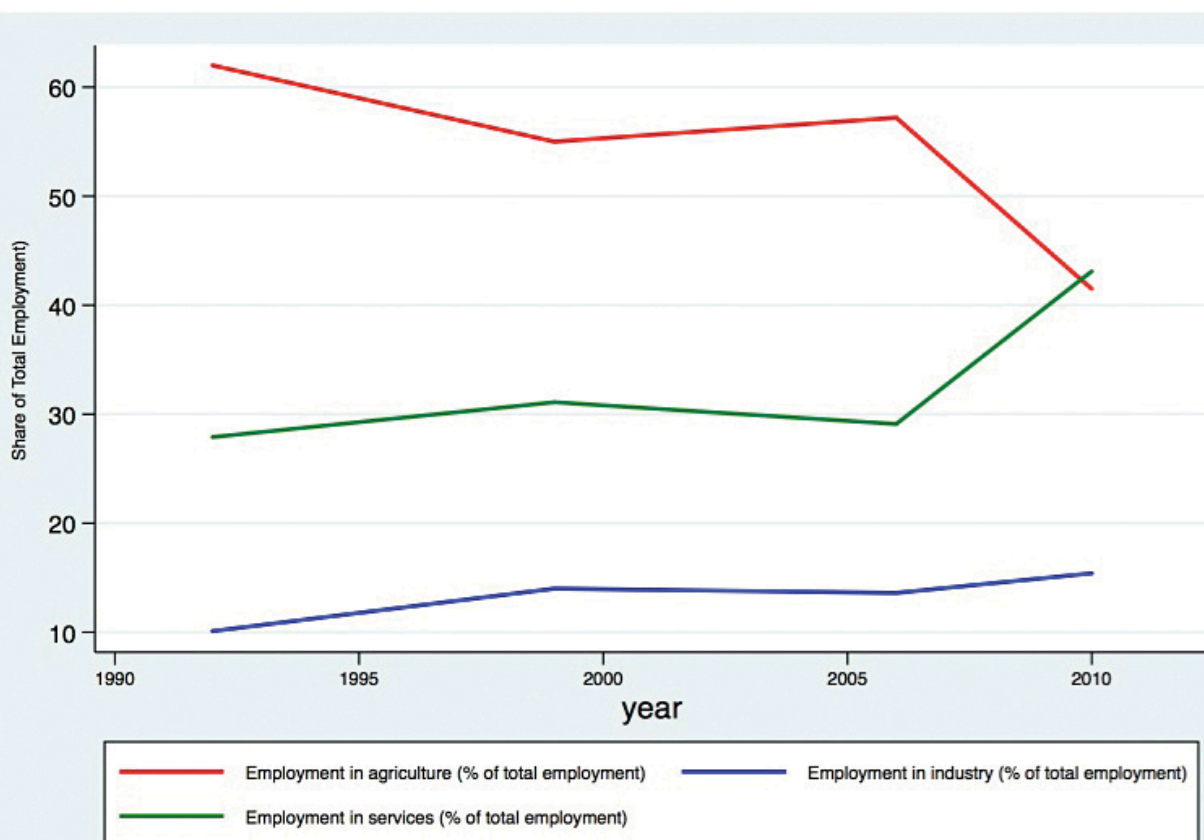
“Despite changes in Ghana's output composition, true structural transformation has yet to occur.”

In addition, although Ghana's export basket has changed over the years, it is still dominated by primary products. As Figure 2 shows, in the 1960s, over 85% of all exports came from primary products – cocoa (65%), crude minerals (11%) and timber (8%). In 2013, primary products still figured prominently in the export basket, such as gold (25%), petroleum (27%), cocoa (14%), cocoa butter and paste (4%). This suggests that, despite changes in Ghana's output composition, true structural transformation has yet to occur.

The political settlement in Ghana

In Ghana, years after Jerry Rawlings left power in 2000, and with elections becoming competitive, political patronage and personalisation remain high. Public institutions are weak and there are widespread perceptions of corruption. A winner-takes-all approach to governance, implicitly brought about by the 1992 constitution, has taken hold. Ruling parties rarely share power and work to satisfy their supporters, who expect to be rewarded for mobilising votes for their party. The polity is polarised between the New Patriotic Party and the National Democratic Congress, the two dominant political parties since 1992, and all issues within the public and civic space are politicised.

Figure 1. Transitions between different growth regimes



Source: World Development Indicators 2015

Within the policymaking arena, political elites of the ruling government exert the most influence, together with traditional authorities, bureaucrats and security agencies. Increasingly, ‘foot soldiers’ of the ruling political party have also gained power and are able to influence policy decisions. These powerful groups are incentivised to maintain the status quo. Groups with influence and who are pushing for change include the private media, trade unions and the clergy. Less powerful groups, such as private sector organisations, have less influence.

“ All issues within the public and civic space are politicised. ”

Economy dominated by small and medium-sized firms but power lies with the natural resource sector

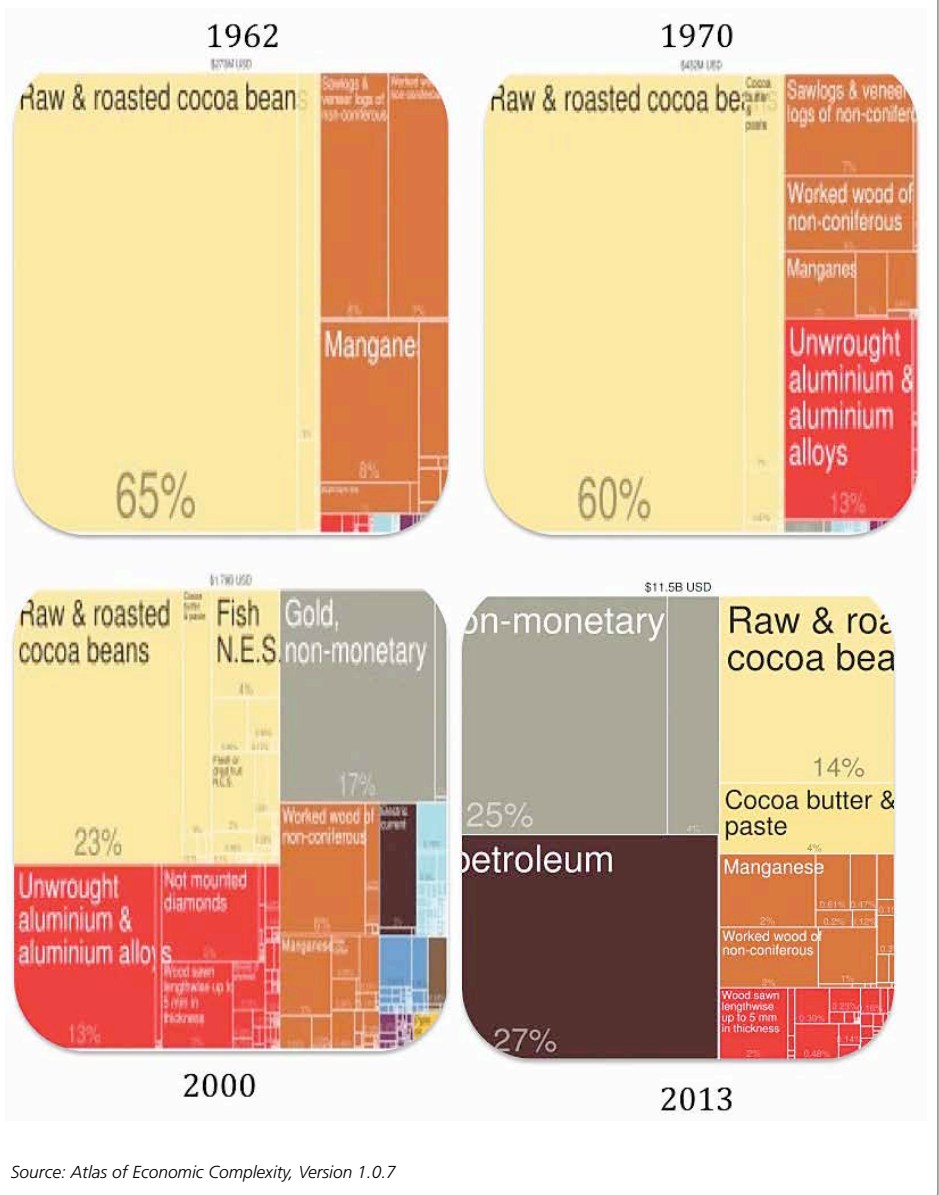
Most firms in Ghana are small and medium-sized enterprises, household businesses and smallholder agriculture producing for the domestic market. There are few exporting manufacturing firms. However, due to the nature of the political settlement, which leads to short-termism among political elites, neither domestically oriented nor exporting firms have long-standing predictable relationships with the upper echelons of government. Relationships that do exist often only last until the next election, and as such are not conducive to long-term investment and productivity growth. In contrast, mining firms have closed relationships with the political elite.

“ the nature of the political settlement ... leads to short-termism among political elites. ”

Relationship between state and business remains closed to new firms, especially in manufacturing

Between 2001 and 2012, there was an incremental shift from a closed to a more inclusive relationship between the state and business. This was largely driven by donors, with some influence from the private sector. The advent of oil appears to have halted this advance, with the power of donors dwindling and an increasing dominance of the natural resource sector.

Figure 2. Trends in the composition of exports from Ghana, 1962-2013



The relationship between the state and business in Ghana today is largely restricted to a few large mining firms, and does not include small and medium-sized firms in the manufacturing sector. The business environment has also not changed significantly for exporting manufacturing firms, in spite of several decades of economic reforms. Major constraints on growth of these firms are a lack of infrastructure provision and mis-management of the macroeconomy, due to lack of public sector capacity in these areas.

“ The closed nature of the relationship between the state and business in Ghana has harmed innovation. ”

POLICY IMPLICATIONS

State capacity for managing the macroeconomy and providing public goods is essential for growth of businesses

Businesses in Ghana, particularly small-scale and export-oriented businesses, can grow if the government implements strategic policies aimed at improving the business environment. This requires commitment by the political elite to invest in a much better performing public sector that enables the production of quality public goods, and management of the macroeconomy to facilitate growth.

The state-business relationship has to be more inclusive of small and medium-sized manufacturing firms if the economy is to shift towards more productive sectors

The closed nature of the relationship between the state and business in Ghana has harmed innovation by not being conducive to greater entry by more productive firms. State-business relations should be “opened up” to new business actors so that, ahead of a more rules-based system being developed, these firms have access to state patronage. This would lead to greater competition and innovation and the economy would move towards more productive sectors.

Civil society and donors need to push for a more inclusive, rules-based political settlement

The closed nature of the relationship between the state and business is a product of the political settlement. This has led to patronage-based relationships between politicians and select firms, whilst the majority of manufacturing firms have been excluded. More inclusivity in state-business relations can occur with a shift to a political settlement that is less based on patronage and short-termist policies and more rules-based. Donors and civil society need to take an interest in a more rules-based system.

ABOUT THIS BRIEFING

This briefing was produced from an ESID project examining economic growth and structural transformation in Ghana. It draws on a new line of research which demonstrates that a country's political settlement and the structure of its domestic economy affects the productivity of firms, growth and structural transformation. It was drafted by Kojo Asante, adapted from ESID Working Paper 53, with inputs from Kunal Sen. The research was undertaken by Robert Darko Osei, Charles Ackah, George Domfe and Michael Danquah (Institute of Statistical, Social and Economic Research, University of Ghana), and coordinated by Professor Kunal Sen (The University of Manchester).

FURTHER READING

ESID Briefing 4. ‘Why state capacity matters for the post-2015 development agenda and how we should measure it’.

ESID Briefing 10. ‘Researching the political economy determinants of economic growth: A new conceptual and methodological approach’.

ESID Working Paper 5: ‘The political dynamics of economic growth’, by Kunal Sen.

ESID Working Paper 16: ‘Developing the guts of a GUT (Grand Unified Theory): Elite commitment and inclusive growth’, by Lant Pritchett and Eric Werker.

ESID Working Paper 26: ‘Trillions gained and lost. Estimating the magnitude of growth episodes’, by Lant Pritchett, Kunal Sen, Sabyasachi Kar and Selim Raihan.

ESID Working Paper 53: ‘Political settlements, the deals environment and economic growth: the case of Ghana’, by Robert Darko Osei, Charles Ackah, George Domfe and Michael Danquah.

S. Kar, L. Pritchett, S. Raihan and K. Sen (2013). *The Dynamics of Economic Growth: A Visual Handbook of Growth Rates, Regimes, Transitions and Volatility*. ESID, The University of Manchester, UK.

All available at: www.effective-states.org

WIDER Working Paper 140 (2015): ‘Understanding Ghana's growth success story and job creation challenges’, by Ernest Aryeetey and William Baah-Boateng, UNU-WIDER.

DW3095.03.16



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March 2016.

This document is an output from a project funded by the UK Aid from UK Government for the benefit of developing countries. However, the views expressed and information contained in it are not necessarily those of or endorsed by the UK Government, which can accept no responsibility for such views or information or for any reliance placed on them.