

Opinion

Industrial transformation for growth, development

By Dr Bjorn Lomborg and
Prof. Peter Quartey

EVEN with Ghana's impressive economic growth in recent times, the country's industries still lag behind the services sector in its contribution to both Gross Domestic Product (GDP) and employment.

Ghanaian manufacturers struggle to overcome the difficulties posed by infrastructure problems, informality and the lack of skilled labour and good management practices.

Financial constraints, high cost of doing business and difficulties to access credit also make growth harder for companies of all sizes.

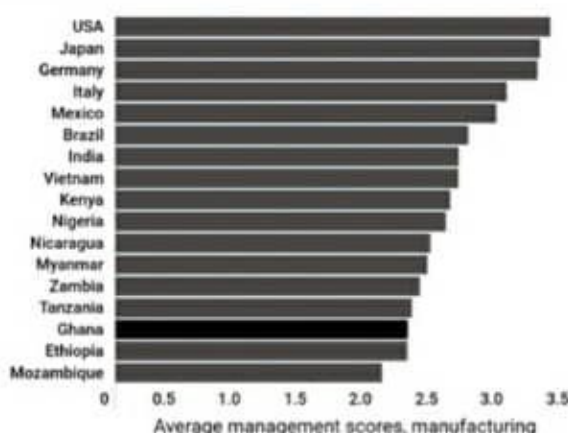
Ghana needs to build up its industry to promote overall growth for the long term. The government can help catalyse this transformation, but public resources are limited, and it is often difficult to assess where increased spending will do the most for overall development and well-being.

Ghana Priorities

Ghana Priorities, a collaboration between the National Development Planning Commission and the award-winning think tank Copenhagen Consensus, commissioned 28 teams of renowned economists to find out which policy proposals will do the most good for every cedi spent.

With the support of numerous experts across all levels of society and government, the researchers studied the most cost-effective measures to improve lives and boost growth. The

International comparison of management quality



Source: Author's paper (Bloom, Sadon and Van Reenen)

results of this project are now published for all Ghanaians.

To transform Ghana's industrial sector, Prof. Peter Quartey, Dr Festus Ebo Turkson, Daniel Chachu and Muvuenyega Makafui Butu from the University of Ghana, together with Emmanuel Abbey from the African Universities Alliance analysed a series of interventions designed to improve profitability, economic growth and employment.

Management practices

Improving management is one solution. A survey of 33 nations finds

Ghana's average managerial score close to the bottom.

But several studies show that if the government pays for consulting services, it can significantly improve factory operations and processes in areas such as quality control, human resources, inventory and sales.

The average costs and benefits for medium-sized companies are based on a randomised controlled study in Kumasi, and for large companies it relies on similar data from India.

The cost for management consulting is GH¢1.6 million per large company and GH¢7,000 for medium-sized companies.

But such management training can help businesses grow and become more profitable. It can increase Ghanaian profits in larger companies by GH¢10.5 million for the initial six years.

For medium-sized companies, the benefits of consulting in the first year alone were estimated at GH¢7,000.

Every cedi spent by the government on improving management practices would, thus, bring a return six times higher than the original investment for large enterprises, and almost 10 times higher for medium-sized companies.

Consulting could also have a spillover effect on other local firms that would see their growth and productivity increase by implementing these improved management practices.

Finance for companies

Access to credit is another crucial factor for private businesses and

economies.

Financing for companies could be promoted in Ghana by ensuring better surveillance of the credit referencing system, better address systems, improving the quality of information available to lenders and enforcing a rewards and sanctions regime.

Better information reduces risks for lenders, and as a result more credit becomes available at a lower interest rate. This will help Ghanaian companies make the necessary investments to grow and improve.

The researchers discovered that the provision of better information in the credit system would cost GH¢6 million per year, but the benefits in credit availability and cost could reach GH¢70 million per year. Every cedi spent would create nearly GH¢12 worth of benefits to society.

Research and development

The researchers also looked at doubling public spending dedicated to research and development (R & D) from 0.4 per cent to 0.8 per cent of GDP, or by GH¢1.2 billion.

Investment in R & D has been one of the most important sources of economic growth in many developed countries in recent times, and it could have a big impact on Ghana's industrial sector.

Every cedi spent could generate benefits worth GH¢1.5 to 1.75, boosting economic growth by at least 0.6 percentage points per year if spending on R & D is doubled.

Manufacturing sector

The manufacturing sector could also receive a significant boost from grants to small businesses and from reducing the cost of electricity for industries.

The researchers found that subsidies for electricity could create profits for the companies worth 1.8 times the original investment, while providing capital grants to selected micro-enterprises were estimated to generate a benefit of GH¢7 for every cedi spent.

Industrial transformation has been the main source of growth and employment creation for many advanced economies.

In order to maintain and increase the promising levels of growth of recent years and provide well-being for all its citizens, Ghana needs to transform its industrial sector structurally.

These interventions could point the way to the implementation of Ghana's current 10-Point Industrialisation Strategy which when well implemented, could provide the much-needed development for the long term.

The writers are President of the Copenhagen Consensus and Professor in the Institute of Statistical, Social and Economic Research at the University of Ghana, respectively.

BCR Summary Table

Interventions	Benefit per firm (GH¢)	Cost per firm (GH¢)	BCR
Management consultants for large manufacturing enterprises	9,581,100	1,613,400	5.9
Management training for medium-sized firms	65,726	6,876	9.6
Capital grant for micro enterprises	5,263	752	7.0
	Benefit per year (GH¢, millions)	Cost per year (GH¢, millions)	
Doubled general R&D Spending	1800	1200	1.5
Credit reference bureau	69	5.9	11.7
Reduce industrial electricity tariff	988	534	1.8

Note: All figures assume an eight per cent discount rate

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