TRADE POLICY AND DOMESTIC MANUFACTURING IN GHANA

SAPRI RESEARCH REPORT
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EXECUTIVE SUMMARY

0.1 Background

For Ghana and most African states, the 1970s and early 1980s represented a period of socio-economic crisis. The causes have been attributed to domestic policy mismanagement and natural calamities, exacerbated by a severe deterioration in international trade relations. Many African economies have undergone structural adjustment reforms aimed at correcting their anomalies. The policy reforms have had two premises: free markets and sound money. The monetary policy centred primarily on fiscal austerity to balance the aggregate budget and attain a realistically valued exchange rate. The route to free markets took the form of trade liberalisation and the elimination of government controls on relative prices within the economy (Briggs and Srivastava, 1992: p.1).

The assumptions underlying the reforms were based on the neoclassical notion of high relative supply elasticities that would elicit speedy and sizeable responses in investment and output under improved price incentives and free markets. Unfortunately, it has been observed that the growth impact of the policies has been much lower than expected. The supply response of the manufacturing sector, in particular, has been uniformly inelastic in almost all African nations

that implemented adjustment programmes.

This study examines the impact of trade policy reform on domestic manufacturing in Ghana. The Ghanaian economy has had one of the longest experiences with structural adjustment in Africa and is regarded, therefore, as an excellent case study for impact assessment.

0.2 Ghana: The Empirical Domain

After more than a decade of unprecedented economic decline caused by external shocks, adverse macro-economic policies and natural disasters, Ghana launched an Economic Recovery Programme (ERP) in 1983. The programme sought to implement the prescriptions of the World Bank and the International Monetary Fund (IMF) for structurally adjusting developing country economies towards increased efficiency. The first phase of the programme covered four years, 1983-1986. Then, the second phase (ERP II) started and proceeded to 1991.

The first phase of the programme focused on stabilisation and liberalisation. It.aimed to establish a new macro-economic policy framework to reverse the

downward trend of the economy and to put it back on the path of growth. The programme centred on monetary and fiscal reform to reduce the level of inflation, rationalisation of exchange rate to stimulate exports, and "getting the prices right" in order to redirect resources towards the more productive sectors of the economy. The rehabilitation of dilapidated productive and social infrastructure was high on the agenda.

After nearly two decades of this stabilization and adjustment, there is great concern in some quarters about the impact of structural adjustment programme on Ghana's economy. The growth of this concern, particularly since the mid-1990s, brought together key stakeholders – namely, the World Bank, the government of Ghana and Ghanaian civil society organisations – in a consultative process that was formalised as the Structural Adjustment Programme Review Initiative (SAPRI).

In the eyes of the World Bank, Ghana is one of the most successful among those African countries implementing structural adjustment. It asserted that Ghana made rapid progress and was poised for sustained growth by 1989. The Bank attributed this progress to the diligence and commitment with which the government implemented the programme. However, it took note of the fact that much as natural disasters (drought and bush fires) exacerbated the economic crisis in 1981-83, the turnaround was in turn aided by natural causes (good rains and good harvests) in 1984. On account of improved macro-economic management, Ghana regained external credibility and enjoyed continued support and assistance from the Bank and other multilateral and bilateral creditors. Indeed, Ghana tended to receive higher commitments of aid than it requested at meetings of its major creditors in the Consultative Group organised by the World Bank.

Over the years, the Ghana government has emphasised the positive performance and impact of the structural adjustment programme (SAP), arguing that it helped reverse a steep economic decline that could have led to the anarchy experienced by some sub-regional neighbours (Liberia and Sierra Leone, for example). While taking a very positive overall view of the SAP, the government has acknowledged some inherent weaknesses of the programme and has had extensive discussions with the World Bank, the International Monetary Fund and other donors about what corrective actions should be taken.

Civil society in Ghana comprises the various segments of the population that have experienced the beneficial and adverse effects of the SAP. Many people do not dispute the reversal of economic decline or the growth in economic output. Nevertheless, many people are also sceptical about the assertions of the World

Bank and Ghana government as to the extent of success and positive impact of SAP on the welfare of ordinary Ghanaians. This view has been vindicated to some extent by developments in the 1990s that saw a drop in private investment and a decline of the average growth rate of manufacturing.

The Structural Adjustment Programme Review Initiative (SAPRI) brings together civil society, the World Bank and the Ghana government in a consultative process of investigation to review structural adjustment policies. It allows for the full participation of those traditionally excluded from decision-making, assessment, deliberation and research. Areas of concern for SAPRI research focus on the impact of SAP on various disadvantaged groups in Ghana. Within the SAPRI framework, a number of key issues have been identified for research, including the impact of trade liberalisation and domestic manufacturing, which is the thrust of this study.

Ghana undertook reforms to correct the critical distortions that contributed to the stagnation and decline of the economy in the 1970s and early 1980s. The reforms included trade and industrial policy measures that aimed to increase the dynamism and efficiency of the industrial sector. The government had looked to industry to lead the economic recovery but was disillusioned to see some large firms stagnating without visible signs of new investment to replace them (William E. Steel & Leila M. Webster, 1991: P.1).

0.3The Issues Investigated

Trade policy reform has been central to the adjustment process in Ghana. The reforms include such policies as tariff adjustments, import liberalisation, liberalisation of the foreign exchange, deregulation of domestic market prices and controls and institutional reforms that particularly affected revenue-generating bodies such as Customs and Excise.

The reforms have had substantial impact on the overall availability of goods and services in the local markets. Bureaucratic and cumbersome foreign exchange rationing is a thing of the past, easing access to foreign exchange for local businesses. Some people argue that these reforms have contributed positively to export performance and may have enhanced technology transfer. Exposure of local firms to international competition is said to have improved their efficiency and the quality of their products, all to the benefit of the consumer. To a large degree therefore trade policy reforms have been successful in placing Ghana, and its firms, on a path to global competitiveness.

Other people question this picture. They believe that the sequencing of the trade reforms resulted in unnecessary damage to the local manufacturing sector. Radical import liberalisation was implemented at a time when local manufacturers faced severe resource and management constraints. When these factors are combined with the exchange rate losses suffered by many firms and the increasingly high cost of credit, it is clear that local firms were unable to adjust promptly to face external competition. The result was that many local firms -- especially small and medium-sized enterprises, went out of business.

The decline in Ghana's manufacturing sector is reflected in the decline of its share in GDP and of its contribution to employment, compared to the growing preponderance of the service sector. Many local firms remain unable to gain access capital, technology and managerial expertise and continue, therefore, to face unfair competition. It is believed that some firms that survived only did so by becoming capital intensive. Furthermore, the cessation of support for state-owned industries and their eventual divestiture or liquidation cannot be justified for all such firms on grounds other than those of ideology.

The manufacturing sector (which adds value to goods) is crucial for the international competitiveness of countries such as Ghana. Therefore, the perceived demise of the local manufacturing sector -- especially firms in the medium-scale category that is crucial for employment generation and innovation -- is a matter of great concern. Substantiating or disproving the claim by civil society groups that trade reforms have caused the demise of Ghana's manufacturing sector therefore constitutes the main task of this report.

0.4Terms of Reference

The term of reference for the study of the impact of trade reforms on domestic manufacturing in Ghana spelt out three basic elements that constitute the fabric or framework for the investment. These comprised the key issue methodology and certain information for inclusion in the report.

The researchers were to note that the central issue was the extent to which the decline in the rate of growth of domestic manufacturing has been due to the trade reforms (in other words what has been the impact of trade liberalisation on domestic manufacturing?).

(a) There has been a decline in the rate of growth of domestic manufacturing (this could be further established with figures). Evidence was to be provided in terms of volumes of output, employment and income of manufacturing establishments, as well as expansions (if any) of existing companies and establishment of new ones.

(b) The causes of this decline in growth of manufacturing were to be investigated. Were the policy influenced? (indicate what policies were responsible).

(c) The micro-economic survival strategies of domestic manufacturing firms throughout the adjustment period were also to be studied.

The report was to include information on:-

(a) Collection firm histories for enterprises that had stayed in operation throughout the entire period,

(b) Charges in employment policies, input sources, pricing and market strategies, sources of finance (equity and debt), choice of technology, and

(c) Identification of any hidden biases in adjustment related trade policies.

The section of the analysis should included:-

(a) ownership of distressed industries under SAP by gender and type
(b) ownership of successful industries under SAP by gender and type
(c) employment of some industries by gender and type.
(d) Impact of collapse of industries on women who sell food and beverages to workers in affected industries.

0.5The Aim and Objectives of the Study

This research report aims to establish whether or not the manufacturing sector has declined, and/or is in a decline as a result of trade policy; whether there is structural transformation of the sector in terms of capital intensity, size composition of firms. It will examine the actual and potential contribution of the sector to employment (in terms of numbers, quality and security of jobs, etc.), to technology transfer and to value-added exports. It will also examine whether trade policies are biased against local industry and whether there is scope for effective support for domestic manufacturing within the constraints of World Trade Organisation (WTO) undertakings. Finally it will explore the arguments for and against a special policy focus on the manufacturing sector.

In line with the above objectives, the study sought to:

1. Review the existing literature on trade policy reforms and manufacturing industries in order to establish correlations in terms of causes and effects;

2. Appraise trade and industry policies in Ghana before and after the introduction of the structural adjustment programme, setting this out as the empirical domain of the study;

3. Illustrate with evidence the changes in the growth rate of domestic manufacturing in the country;

4. Disaggregate domestic manufacturing firms by size, sub-sector and gender, and indicate the extent to which their characteristics may reflect trade policy; and

5. Examine the macro-economic survival strategies adopted by the various categories of domestic manufacturing firms throughout the structural adjustment era.

0.6Findings from the Literature Review

Examining what was expected of trade policy reform for the manufacturing sector, Killick summarised the Ghanaian experience as one of clear, overall improvement but a mixed record of performance, with the economy remaining aid dependent (Killick, 1995: P. 101).

After 1983, the manufacturing sector bounced back from decline to growth in response to the economic reforms. By 1987, domestic manufacturing accounted for 9.4 per cent of real gross domestic product (GDP). Since them, however, the sector's performance has been rather unimpressive in terms of growth, share of real GDP and industrial output. Capacity utilisation in the sector increased from a low level of 18 per cent in 1984, to 40 per cent in 1988 and then 38 per cent in 1989, levels still deemed unacceptably low.

After the launch of the Economic Recovery Programme in 1983, the performance of the domestic manufacturing sector improved rather sharply in good part due to the availability of imported inputs. The real annual growth rate of manufacturing value added rose sharply from 12.9 per cent in 1984 to 24.3 per cent in 1985, but then fell back to 11.0 per cent in 1986 and 10.0 per cent in 1987.

Contribution of Manufacturing Sub-sector to National Output: The sub-sector's contribution to national output has shown an upward trend since 1995. Having recorded 1.8 per cent in 1995, it picked up to 3 per cent in 1996 and accelerated to 5.4 per cent in 1997 before falling back to 3 per cent in 1998. It is pertinent to note, however, that the sub-sector has experienced fluctuations in growth rate roughly every other year.

After the existing usable capacity had been brought into production, the enhanced pace could not be maintained. Further growth in manufacturing activity required more investment to refurbish and modernise run-down facilities. A significant proportion of production capacity had been run down to such an extent that it could no longer be used. The need to improve technical efficiency became particularly pressing as the trade regime became more liberalised. New capacities had to be built in order for domestic manufacturing sector to cope with the competition from imports induced by the reduction in tariff barriers.

But the fiscal and monetary policies put in place did not encourage the investment needed to revamp existing capacity, let alone fuel and expansion of capacity. Since such investment was slow to materialise, the rate of growth of manufacturing value added fell to 5.1 per cent in 1988, 3.1 per cent in 1989 and 2.5 per cent in 1990.

This broad presentation of trends conceals variations in the performance of individual activities. For instance, the cement and non-ferrous basic metal sub-sectors attained their earlier peaks. Petroleum, beverages and wood products also fared relatively well, reaching as much as 70 per cent of their volume in 1977.

The firms that fared well were those with a strong local resource base (wood and beverages), cheap input sources (aluminium) and high, "natural" protection from transport costs (cement). Also included were firms that the government considered core industries and benefited from public investment in upgrading equipment (the petroleum refinery).

0.6.1 Manufactured Exports

The state of domestic manufacturing may also be assessed in terms of its export performance. Available information from the Ghana Export Promotion Council relating to non-traditional exports shows that the absolute values involved were extremely small. At the exchange rates of the time, Ghana’s manufactured exports earned US$3.5 million in 1986. The trade policy reforms did offer incentives and better returns to exporters and revenue from manufactured

exports increased to US$14.7 million in 1991. This tends to suggest that there was dynamic growth of manufacturing in a more competitive environment in which, as expected, there was a shift of resources from inefficient to efficient enterprises.

However, disaggregated data show that the growth came mainly from domestic resource-based firms that already had established markets. Besides, the rates of expansion must be treated with caution because of the very low base from which they started. The leading performers were the wood and aluminium firms that already had long experience in international trade.

There is hardly any sign of local enterprises entering new areas even within the category of local resource-based manufacturing for export. It had been anticipated that the natural cost advantage would stimulate local entrepreneurs to invest in this export sub-sector.

Ghana's export performance in manufactured goods has been rather unimpressive, particularly when compared with imported manufactures. Even the substantial realignment of nominal exchange rates, a critical component of the structural adjustment programme, has not had a significant impact on export volumes (Briggs and Srivastava, 1994: p. 54). The export response of Ghana's manufacturing sector apparently depended on factors additional to exchange rates.

A number of constraints have been identified to explain the lack of export competitiveness of domestic manufacturing firms. They include:

- poor infrastructure;
- high transaction costs of entering the international market;
- lack of technical experience in competitive marketing;
- difficulties in obtaining export finance;
- restrictive policies occasioned by the business environment; and
- lack of competence to take advantage of the trade regime of the World Trade Organisation.

Among the notable constraints that severely limited the development of Ghanaian exports was the restricted access to working capital to cover ex-ante and post-ante export costs. Inexperience within the community of exporters and the banking system often led to ineffective timing of trade credits. Terms of trade also tended to favour importers, to the disadvantage of exporting firms.

0.6.2 Small Manufacturing Firms

Dawson (1988) and Sowa et al. (1992) wrote that structural adjustment policies had a depressing effect on urban, small manufacturing enterprises. Steel and Webster ( ) observed a higher growth rate for more technologically complex, small manufacturing firms in Ghana. In an altogether different study, Kessous and Lessard noted that the firms involved were also more export-oriented.

The scope for the expansion and growth in the small manufacturing sector was hampered by demand and supply-side constraints. The sector was characterised by a high degree of heterogeneity and the impact of structural adjustment policies was differentiated (Dawson, 1993; Mumbengegwi, 1993). On the demand side, constraints developed because manufacturers produced for the rather unsophisticated and limited domestic market.

The supply-side constraints related to access to finance, imported inputs, foreign exchange, and technical and entrepreneurial training. Fisher-Quincke noted that small manufacturing firms lacked support from the banking system. Aryeetey (1993) attributed this to uncertainty factors that led banks to reduce the risk of lending -- interest rates -- to commercial ventures but not to manufacturing firms.

0.6.3 Medium- and Large-Scale Firms

In view of Ghana's limited industrial structure and range of production for export, Stein (1992) expressed skepticism about the World Bank-IMF model and it implications for industrialization. He argued that acknowledging the structural problems of industry and allowing them to sort themselves out was no substitute for an industrial development policy.

On the issue of trade reforms, Peter de Valk (1994: P. 230) indicated that liberalization had gone too fast and too far. The tight monetary regime of the structural adjustment programme led to credit constraints that affected most enterprises. For domestic manufacturing firms, the reforms were introduced too abruptly for them to face up to the intense competition. Even the most successful firms suffered during the adjustment process.

0.7Findings from Empirical Study

0.7.1 Performance by Firm Size

Employment

Out of the entire sample, 51 per cent of the firms experienced an increase in job creation since the inception of the structural adjustment programme. The increase was most pronounced in large-scale manufacturing. Most (62 per cent) of the firms in the medium-sized category experienced a decline in employment generation.

Production

For all firms, 55 per cent recorded increases in production output while 29 per cent saw decreases during the period under review. Whilst remarkable increases in output were recorded by small manufacturing enterprises, medium-sized firms experienced an appreciable decline. This was the case for half the firms established prior to the structural adjustment era and 60 per cent of firms that emerged during the SAP era. Most (67 per cent) of the large enterprises experienced an increase in production output.

Market

The majority (52 per cent) of small-scale manufacturing firms produce for the local market. Up to 54 per cent of medium-sized firms complained about a contraction in market size. There was no appreciable change in the market situation for large-scale manufacturing enterprises.

0.7.2 Performance by Sub-sector Categories

The sub-sectors involved in the study comprise food, textile, wood and chemical product enterprises. The indicators involving changes in employment, production output, market and enterprise growth were used to assess the sectoral performance. Production and employment is quite impressive for all these sub-sectors, except that of textiles.

Wood product firms performed creditably showing increases in employment, production and market size expansion. These firms use domestic inputs and have benefited from trade liberalisation through increased exports of value-added lumber and knocked-down furniture.

In terms of growth in numbers of enterprises, the textile and chemical products firms were found to be more or less stable. The food and wood sub-sectors witnessed a considerable increase and decrease respectively.

0.7.3 Performance of Firms by Gender Ownership Categories

While the ownership of small, medium and large firms was found to be predominantly male, the situation differed across sub-sectors. Many women were in the food and textile product sub-sectors, while wood and chemical products firms were in the domain of the masculine gender.

In terms of employment, all firms suffered some job losses but this was pronounced in female-owned firms. The trend was the same for production output and market size. Over 50 per cent of the female-owned firms suffered a contraction of production during the period under review. About the same proportion of male-owned firms increased their output. A majority of the firms did not experience changes in market size. However, for those firms that did experience contraction, most were female-owned. It could be said that female-owned firms were more sensitive and vulnerable to the forces that brought about change in employment, production output and market size.

0.7.4 Causes of Decline

For all sizes of firms, limited access to credit stood out as the single most important problem, followed by insufficient demand or markets for their products. For the small firms, the other important problems were the high cost of utilities and of domestic raw materials, and competition from imported products. The medium-sized firms suffered the high cost of imported raw materials, competition from imports and high interest rates. The large firms had to grapple with high costs of imports, high interest rates, inflation and competition from imports.

Access all sector categories, limited access to credit and insufficient demand, in that order, were the dominant problems that caused a decline in performance. The textile sector was overwhelmed by competition from imports. The wood industry faced supply problems with regard to domestic and imported inputs. The food and chemical firms suffered from limited access to credit and inadequate demand. The problems were found to be more severe for women than for men.

The years of protection and attendant lack of competition and import strangulation had weakened the manufacturing sector to such an extent that it had become difficult for it to recover in the newly liberalised regime. Differential effects were identified. Firms that were able to adjust and adapt to the environment were able to get on to the path of growth and even flourish. The weaker ones stagnated or closed down.

The sector most severely affected was the textile products sector, followed by that of food. The size group most adversely affected was the medium-sized category. It lacked the flexibility of the small firms sector and the economies of scale that go with the operations of large enterprise.

0.7.5 Perceptions at the Macro-Level

The decline in domestic manufacturing was attributed to low investment, outdated technology and low skills. The broader situation included macro-economic uncertainty, financial constraints, lack of adjustment support, constrained demand, inadequate infrastructure and the paucity of co-ordination of the overall policy environment.

0.7.6 Survival Strategies

The survival strategies adopted by firms in the domestic manufacturing firms included the following:

Survival Strategies of Firms after the Launch of the Structural Adjustment Programme

Strategic Components	Strategic Measures
Raw material availability Access and affordability	- collective purchase - reduced imported proportion - developed local raw material sources
Labour force input fine-tuning	- staff training - reduction of numerical strength - intensification of supervision - sought foreign participation
Capital input Fiscal and plant	- rehabilitation/replacement - foreign participation sought for investment - ploughed back returns - established clusters to secure credit - relied on personal savings/relations
Marketing production, Promotion	- product mix and diversification - exploration of export avenues

	- opened up distribution channels/networks - improved product quality - advertisement, packaging, incentives
Business environment Collective bargaining dumping	- established associations to influence policy; fight against unfair competition and of cheap imports. - used foreign exchange to anchored inflation - used social channels to get access to credit (acquaintances and friends in advantaged positions) -unauthorised methods to circumvent or reduce taxes.

About one-quarter of the firms were in decline whilst another quarter were already in a situation of distress. The textile and food product firms were on the decline and distress lists respectively.

In terms of performance, firms in the domestic manufacturing sector were classified in four categories and designated as growing, reviving, declining and distressed. Considering size categories, the medium-sized group was the most disadvantaged since it registered the highest number of distressed firms. The next sub-sector was that of textile manufacturing firms, followed by that of food.

According to gender, female-owned firms suffered adversely. Small manufacturing firms fared very well, most probably due to their ability to adjust. Wood products did comparatively better while the performance of large-scale manufacturing firms was not impressive.

0.8Conclusion

Both macro- and micro-level information provide evidence that trade reforms did reverse the decline in the domestic manufacturing sector. The manner in which the trade reform was conducted, "too fast and too far", has had an adverse effect on the sustainable growth of firms in the sector. Other structural adjustment policies and the role of the government in the liberalized trade environment restrained investment and growth in the sector. The response could only be described as modest and aid-dependent. To this must be added the external shocks from the international market and natural disasters.

1. INTRODUCTION

1.1 Crisis in the Ghanaian Economy

For Ghana, the 1970s and 1980s were marked by bitter and persistent socio-economic crisis. The causes have been attributed to two sets of factors, internal and external. The internal causes included inappropriate domestic policies and natural disasters, a combination of which resulted in the rapid decline of the productive sectors of the economy. This was exacerbated by the severe deterioration in the international terms of trade and an escalation of world interest rates.

Ghana's economic fortunes deteriorated rather steadily from the 1960s onwards (Kwodwo Ewusi, 1987: p. 15). Agricultural performance weakened dramatically with low producer prices and chronically inefficient systems for delivery of inputs and credit.

From independence in 1957, Ghana adopted an import-substitution industrialisation strategy centred on the promotion of large-scale, capital-intensive manufacturing enterprises. Against the background of the inadequate domestic market, private capital formation and the international trading systems, the substitution of private enterprise by direct state intervention was advocated as the best practice. The strategy was implemented behind high tariff walls and heavy reliance on short-to medium-term foreign borrowing.

The economic policies pursued in support of the import substitution industrialisation included the maintenance of over-valued exchange rates, declining real producer prices for exports, low public utility prices, negative real interest rates, greater reliance on administered distribution controls than relative prices, an over-extended parastatal sector especially state monopolies and the prevalence of sellers' markets that provided limited inducement for productivity advances.

Consequent upon the implementation of these policy measures:

(a) the effective exchange rate was allowed to appreciate by 816 per cent by 1981 from a relatively undistorted rate in 1973;
(b) interest rates were, on average, negative in real terms by 30 per cent and budgetary deficits in a range of 10 to 12 per cent of GDP were tolerated year after year;
(c) GDP declined on an annual basis of about 0.5 per cent per annum;
(d) real per capita income fell by over 30 per cent; and
(e) real export earnings declined by over 50 per cent between 1970 to 1982.

A study ranking developing nations according to the nature and intensity of distortions (in exchange rate, interest rate, inflation and its growth and energy) prevailing in the 1970-80 decade recorded Ghana with a top score of 2.9 out of the maximum distortion index of 3.0 per cent. Associated with the deterioration in the basic indicators of economic performance were high levels of public deficits, a dwindling tax base and extensive growth in money supply. The over-valued exchange rate undermined the competitiveness of traditional exports and stimulated imports.

Available data as set out in table 1 demonstrates the perverse and pervasive economic decline in Ghana from 1970 to 1983. Per capita GDP as well as domestic savings and investment declined throughout the period. The fall in export earnings was occasioned by a shrinking cocoa sub-sector compounded by a decline in the production of other exportables. The output of gold and diamonds and other minerals fell by 55 per cent whilst that of timber did so by 57 per cent. To keep balance of payment deficits at manageable levels, foreign exchange was rationed. The continued rapid inflation in a stagnant economy had a debilitating impact on real wage levels and most employees were coerced into adopting survival strategies outside of and in addition to their regular jobs.

Notwithstanding the substantial public deficits and falling overall economic performance, public employment continued to grow at around 14 per cent per annum for the period 1975-1982. This led to chronic overstaffing coupled with inappropriate manpower composition in government and public agencies. With severe wage compression, high marginal tax rates and a decline in real wages, a continued deterioration in institutional performance ensued.

Table 1: Key indicators of the pre-adjustment period

	1970	**1975**	**1980**	**1983**
Real GDP/capita (1975 = 100)	114	100	92	73
Balance of payments				
(Current account US$m.)	-81	-51	-55	-230
Debit servicing (% of exports)	5.4	5.0	7.7	20.9
Government expenditure as % of GDP	-	27	18	8
Development expenditure as % of total	-	31	18	8
Government deficit as % of GDP	-	16	11	3
Cocoa production ('000 tons)	413	396	258	159
Real cocoa production price (1972	106	90	45	34

= 100)				
Official exchange rate (Cedis per $)	1.02	1.15	2.75	3.45
Ratio of parallel/official rates	1.6	1.7	5.8	22.2
Monetary growth (% p.a.)	10	39	34	38
Rate of inflation (% p.a.)	9	30	50	122
Real minimum wage (1977 = 100)	183	225	44	42

Source: Richard Pearce, 19… P.15

Food self-sufficiency had also been falling throughout the period 1970 to 1983. But the situation in 1981-83 was the worst, for the country was hard hit by drought that led to disastrous bush fires which left the nation bereft of food supplies and abject famine in certain parts of it.

The external factors which combined with the internal elements of domestic mismanagement and natural disasters included oil price increases, the deterioration in country's international terms of trade and the forced repatriation of over one million Ghanaians who were living in Nigeria. The net effect imposed a tremendous burden on already overstretched resources. Consequent upon the limited viability of the Ghanaian economy, the international community loss confidence in it and this was reflected in the sharp decline in foreign assistance.

1.2 Structural Adjustment Programme and Disagreements over its Impact

Ghana launched an Economic Recovery Programme (EPR) in 1983 that sought to implement the prescriptions of the World Bank and the International Monetary Fund (IMF). The first phase of the programme covered four years, 1983-1986, followed by a second phase (ERP II) that proceeded to 1991.

The first phase of the programme focussed on stabilisation and liberalisation and aimed to establish a new macro-economic policy framework to reverse the downward trend of the economy and to put it back on the path of growth. The programme centred on monetary and fiscal reform to reduce the level of inflation, rationalisation of exchange rates to stimulate exports, "getting the prices right" in order to redirect resources towards the more productive sectors of the economy. The rehabilitation of the ruined productive and social infrastructure was high on the agenda. .

The second phase was meant to consolidate the gains and maintain the progress towards sustained growth. The structural adjustment policies could therefore be categorised into two broad groups:

(a) policies for the promotion of economic efficiency and resource allocation; and
(b) policies for the expansion of the productive capacity of the economy (Kwadwo Ewusi, 1987: p.9).

After more than a decade of stabilization and adjustment in Ghana, there is much concern in some quarters about the impact of the structural adjustment programme.

(a)

1.4.2 Methodology

Sampling

Restrict sample to companies in Accra, Tema and Kumasi. From a register of manufacturing companies in these areas, a categorization of small, medium and large-scale companies could be made and a sample chosen. The likelihood is that some enterprises owned or operated by women in the manufacturing sector will be included. From the list of enterprises so compiled, an appropriate sample size and selection criteria can be used to obtain a sample of not more than 50 enterprises.

Organisation of the Report

Section One of the report comprises background material on the crisis in the Ghanaian economy that culminated in the institution of the structural adjustment programme. The second section is devoted to the conceptual framework and the research process. The latter involves a review of existing concepts and empirical observations on the subject matter. The methodological approach includes a political economy perspective, participatory mechanisms and gender consideration. Surveys, interviews and focus group discussion techniques have been outlined. The basic analytical framework is the input-output model.

The third section provides an outline of the changes in trade policy and the structure of the domestic manufacturing sector. Section four is a detailed

analysis of the data assembled through the study. It is followed by a summary of the findings in section five.

Limitations

To collect data from manufacturers was difficult. They felt that it was a waste of their productive time and they could not be convinced about what the information assembled was going to be used for. The problem was overcome by engaging the field operations staff of the Ministry of Trade and Industry. These people are well known to the manufacturers since they go to collect information from them on a regular basis. Furthermore, a letter was written by the office of the Minister of Trade and Industry, a copy of which was attached to each questionnaire, to instil confidence that there was no hidden agenda.

I. CONCEPTUAL FRAMEWORK AND THE RESEARCH PROCESS

2.1.0 An Overview of Existing Literature

2.1.1 Trade Policy Reform

Since the early 1950s, there has been debate over the appropriate trade policy for developing countries (Todaro, 1992). The contention has been between free market advocates and trade protectionists. While the free market proponents support an outward- looking, export-oriented trade regime, the trade protectionists settle for an inward-looking system. They both nevertheless agree that industrialisation should be the dominant economic development strategy.

Adherents of free trade strongly believe that it encourages the free movement and allocation of factors of production. In such a society, the principal actors are individuals who have unrestricted access to and power to dispose of the key factors of production (land, labour and capital) and the goods and services thereby produced. There are efficiency and growth benefits of free trade for both primary and manufactured goods. The successes of the outward-looking East Asian economies (South Korea, Taiwan, Singapore and Hong Kong) bear witness to the benefits of free trade policies.

The protectionists or inward-looking trade advocates on the other hand, stress the need for policies that encourage indigenous manufacturing that is relevant to a country's resource endowment. They believe that greater self-reliance can be achieved only if the movement of goods, people and information are restricted and multinational enterprises are kept out in order to allow domestic infant industries to grow (Streeten, 1973).

Developing countries, within the context of unfavourable terms of trade in the world market for their primary products and balance of payments deficits, turned to import substitution industrialisation. The strategy sought to replace commodities that hitherto were imported by using domestic sources of production and distribution. The strategy was sustained by the erection of tariff barriers, quotas, subsidies, exchange control, import licensing, export tax and administrative restrictions.

The collapse of the Soviet economy and the triumph of the South Eastern Asian industrial tigers strengthened the position of the free market economy and made the arguments in its favour more emphatic. Since the early 1980s, trade liberalisation has been employed in many developing countries as an instrument to redress the adverse effects of restrictive trade regimes. This was done under the auspices of structural adjustment programmes worked out by the individual

countries in collaboration with the World Bank and the International Monetary Fund.

Richman (1988) refers to trade liberalisation as an environment in which individuals are left at liberty -- neither helped nor hindered by the state to buy from and sell to whosoever they wish, regardless of whether their trading partners live near or far. Trade liberalisation (including export promotion, currency devaluation, removal of trade restrictions and "getting the prices right") leads to efficiency and growth. Trade liberalisation promotes:

- competition which generates pressure for increased efficiencies;
- product improvement and technical change;
- productivity and lowering costs of production;
- overall economic growth by raising profits which stimulate growth;
- foreign capital investment and inflow of expertise; and
- more and equal access to scarce resources which improves overall resource allocation and eliminates corruption in the system.

It is acknowledged that although the policy does face initial difficulties and limited gains, the benefits tend to build up in the long run. An open-trade strategy represents a country's willingness to accept the outcomes of international market forces.

2.1.2 Trade Reform

The crisis that struck Ghana and most African nations in the 1970s and 1980s had many underlying causes. The fall in the prices of the major export commodities made foreign exchange scarce and very expensive, which induced and sustained a widespread black market. Procurement of imports became increasingly difficult and essential goods could not be produced domestically. African countries turned to the World Bank and the International Monetary Fund for financial assistance because they could not get financial assistance anywhere due mainly to their low credit worthiness (Adebayo Adedeji, 1991: P. 11).

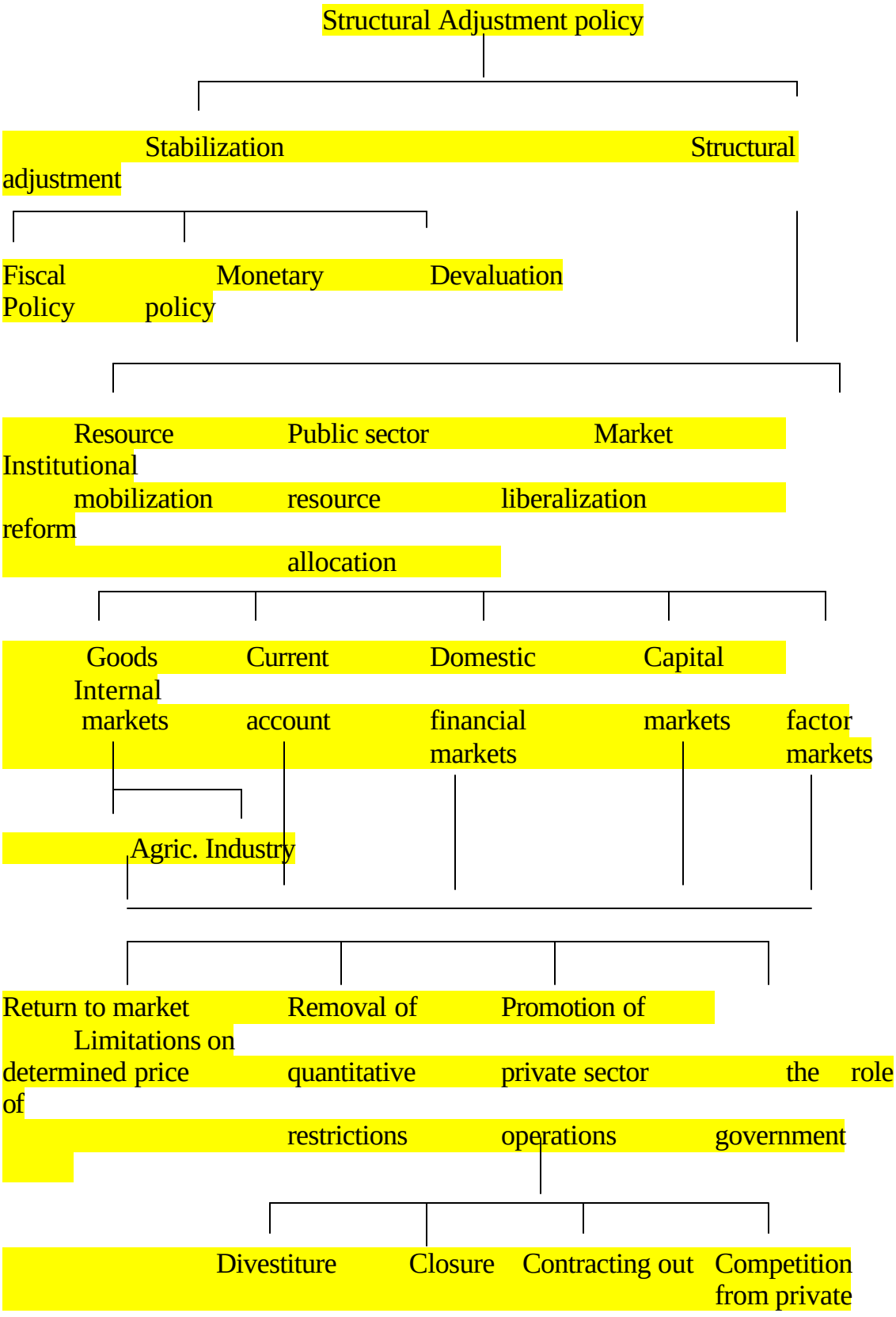
The World Bank and the International Monetary Fund gave the assistance to most African countries, but naturally on the basis of their own terms and condtions. From their standpoint, the economies of those countries were facing structural disadvantages that prevented them from becoming industrialised and able to compete in the international market. The countries were producing a narrow set of commodities and faced very serious problems of infrastructure (Charles Abugre, 1998: P. 62).

In terms of policy reorientation, the Bretton Woods institutions prescribed the classical free-market system. In such a system, prices would be set by demand and supply and profitable enterprises would constitute the engine of growth. Among the local conditions that were at odds with free-market mechanisms, many of the large industries were state- owned and a high percentage of them were making losses.

The prescription was informed by the belief that economies work better when there is much less state intervention. Restructuring the state constituted the most significant decision of economic policy formulation. Its role in resource allocation and in the regulation of markets was to be minimised whilst its role in opening up markets and transferring public assets into private ownership were to be strengthened (Ibid p. 63).

The World Bank and the IMF regarded as unacceptable large budgets deficits that originated from dwindling export earnings. Achieving a balance was seen as a necessity, even at the expense of crucial sectors in the African context such as education and health. The large number of civil servants on government payrolls was unproductive and placed a burden on budgets. To qualify for any type of loan, the two institutions and bilateral donors ensured that borrowing countries adopted structural adjustment programmes. Within the context of SAP, several measures were taken to free the economy and for that matter the domestic manufacturing sector from controls. These included exchange rate adjustment, the rationalisation of tariffs, domestic market deregulation involving the abolition of price and distributive controls, privatization (to diminish the dominant role of the state), export promotion and institutional reforms affecting the key revenue collection sectors (Figure 2).

Figure 2: A Schematic Representation of Structural Adjustment Policy



sector

Source: Rolph Van Der Hoeven and Fred Van Der Kraaij (eds), 1994: P.34.

2.1.3 The Basic Elements of SAP

This section surveys the literature on the impact of structural adjustment policies on domestic manufacturing in African countries. Structural adjustment programmes dominated economic policy in the 1980s. A considerable number of authors have shown concern about the paucity of research on the impact of structural adjustment on industry in Africa (Mkandawire, 1988; Pack, 1988; Helleines, 1990; Stein, 1992). The observation is also true for firm-level as well as sector-wide performance.

The specific agreements negotiated with the international financial institutions varied, but had a family resemblance (John Toye, 1994: p.29). Generally, they included the following:

(a) Cuts in government expenditure, especially in the service sector;
(b) Removal of import controls and subsidies to allow the free market to determine prices;
(c) Devaluation of local currencies which were deemed to be maintained at artificially high exchange rates;
(d) Tight monetary control to burn out inflation;
(e) High interest rates to encourage savings; and
(f) Privatisation of government enterprises.

These measures were meant to solve the fiscal and trade imbalances and improve the capacity of the governments to service their debt obligations. Government spending and intervention in the economy was to decrease sharply, leaving t a re-invigorated private sector to push development forward.

Industry, especially manufacturing, has been seriously affected by the direct and indirect, intended and unintended effects of these polices. Apart from the general policies of trade liberalisation and privatisation, the development of explicit and coherent industrial policies received little attention in the SAP. The manufacturing sector seemed to be a forgotten dimension in African development and was merely expected to adjust to the increased competition in the liberalized markets (Peter de Valk, 1994: P. 227).

There is evidence that structural adjustment policies directly and negatively affected the industrial sector through trade liberalisation, devaluation, and

restrictive monetary policies. The cost of imported inputs and servicing of foreign debts shot up in line with devaluation. Trade liberalisation increased competition and reduced the margin for passing on increased costs to the consumer.

2.1.4 Small Manufacturing Firms

Meier and Steel (1989) put together a collection of papers covering a wide range of issues on Africa industrial development and structural adjustment. Much attention had been paid to small manufacturing enterprises and research on various aspects of them has been more widely available (Peter de Valk, 1994: 228). Small manufacturing enterprises are characterised by such a high degree of heterogeneity that the impact of structural adjustment policies on the sector would tend to be differentiated (Dawson, 1993; Mumbengegwi, 1993).

Small manufacturing enterprises had to deal with demand- and supply-side constraints. On the demand side, constraints developed because they were producing mostly for the domestic market. Different shades of demand-oriented problems occurred due to declining agricultural and formal sector income (Peter de Valk, 1994: P.231). Dawson (1988) and Sowa et. al. (1992) found out that structural adjustment policies had a depressing effect on urban small manufacturing enterprises in Ghana.

Steel and Webster observed a higher growth rate for more technologically complex small manufacturing firms in Ghana. Kessous and Lessard (1993) also confirmed this in Mali. They added that the enterprises involved were also more export-oriented.

The supply-side constraints relate to access to finance, imported inputs, foreign exchange, and training in technical and entrepreneurial skills. In countries under structural adjustment, access to foreign exchange improved, and with it the supply of imported inputs. Fischer-Quincke (1990: P. 243) noted that small manufacturing enterprises had lacked support from the banking system. Oyejide (1991) found the opposite in Nigeria where, after financial liberalisation the volume of credit to small firms increased.

Mwarania (1993) anticipated that the Nigeria situation would be short-lived, as happened in Kenya with many banks running into trouble. Aryeetey (1993) observed that banks in Ghana reduced the risk by lending to commercial ventures instead of small manufacturing concerns. Aredo (1990) believes savings and lending clubs would be able to sustain the provision of credit to small manufacturing.

2.1.5 Medium- and Large-Scale Manufacturing

Tracing the history of industrialisation in Africa, Mkandawire observed that the continent's industrial sector had failed to grow in strength and that Africa simply had no industrial products to export (Mkandawire, 1988: P. 22).

Riddell did a country-by-country assessment of industry under structural adjustment in seven countries. He observed the absence of adequate, export-oriented trade policies and the prevalence of very poor and even declining export performance of the manufacturing sector which had been depressed by structural adjustment policies (Peter de Valk, 1994: 229).

On the issue of trade reforms, Peter de Valk (1994: P. 230) indicated that liberalisation had gone too fast and too far. The tight monetary regime of the structural adjustment programme led to credit constraints that affected most enterprises. For domestic manufacturing firms, the timing was too abrupt for them to face up to the intense competition. Even the most successful firms suffered during the structural adjustment process.

2.1.6 Shortfalls and the need for Impact Assessment

Available literature does not account for the incompatibility of trade reform and industrial sector policies under structural adjustment. Investigations of the subject have treated the domestic manufacturing sector as if it is homogeneous. It ought to have been segmented into three, namely: (a) exporting firms, (b) import-competing firms and (c) firms producing non-tradables - products that are purely for domestic use and not international trade.

Despite the implementation of structural adjustment programmes in the 1980s, the economic fortunes (and notably those of the domestic manufacturing sector) of most African nations have declined. However, studies by the World Bank and IMF have tended to assert that structural adjustment programmes have been successful.

A number of results regarding the macro-economic impact of the programmes do stand out. SAPs have not had a significant, positive effect on overall growth. Furthermore, the disturbing decline in investment in the domestic manufacturing sector is not only worrisome but also casts a doubt on future prospects.

2.2.0 The Research Process

2.2.1 Ghana - The Empirical Domain of the Study

Ghana's trade liberalisation under SAP was necessitated by the existence of import licence and over-valued exchange rate regimes, rigid price control mechanisms and over-protected domestic manufacturing. The essential aims of trade liberalisation were to:-

- correct the distortions that had contributed to the prolonged period of stagnation of the domestic manufacturing sector;
- remove distortions in relative prices and thereby resource allocation to existing and emerging, dynamic and vibrant manufacturing ventures;
- improve the export incentive system to promote sustainable development of the export sector; and
- make the otherwise previously over-protected domestic manufacturing sector more efficient, dynamic and competitive.

One of the major objectives of the SAP therefore was to stimulate the Ghanaian economy so that it could effectively utilise its scarce productive resources in a manner that its industries could be internationally competitive. To correct the distortions and instability that had developed in the economy, the government took a number of policy measures. In addition to the restructuring of fiscal and monetary policies, the liberalisation of trade and exchange rate regimes were very significant for the trade and manufacturing sector.

The attitude of trade policy to the domestic manufacturing sector was motivated by the belief that its performance was determined solely by the distortions emanating from the exchange rate policy and trade regime. It was argued that the protective trade regime had encouraged inefficiency and once increased competition was introduced through trade liberalisation, the sector would shed inefficient firms, accommodate those that adequately adjusted and witness the emergence of new and vibrant ventures.

The aim of trade policy reform was to rationalise the incentive system and improve the competitiveness of domestic manufacturers. In the initial stage, the extensive quantitative restrictions and domestic price controls were removed and the exchange rate was adjusted. Following that, price distortions arising from tariffs and protective taxes were reduced and finally phased out in 1989. Meant to work to the advantage of local manufacturers, a series of massive currency devaluations were implemented. Along with the liberalisation of imports, tacit efforts had been made to promote exports. A variety of export duties were removed, export licensing was abolished in 1990 and export procedures were made less cumbersome. New export incentives were

introduced, including duty-free imports of machinery and income tax rebates based on export sales.

2.2.2 Sample Survey of Domestic Manufacturing Firms

From a register of manufacturing firms in Accra, Tema and Kumasi, a categorisation of small, medium and large-scale industries was made on the basis of the number of persons employed. Small-scale industries refer to manufacturing enterprises with 1-29 workers, while medium-sized industries are those with 30-99 workers. Large-scale manufacturing industries comprise firms with over 100 workers.

Having compiled such a list of manufacturing enterprises for the three research centres, a random sample size of 70 firms was chosen with probability proportional to size. Although the use of a sample size of not more than 50 firms was specified in the team's terms of reference, the addition of 20 firms was made purposely to take care of an anticipated level of non-responses detected during the pre-testing of the questionnaires. The number of manufacturing firms comprising the sampling frame and the distribution of sample units surveyed is as set out on Table 2 below. The final list of firms to be subjected to analysis and study was selected in terms of ownership by gender, firm size and material resource base.

Table 2: Sampling Frame and Sample Units

Research Centres	**No. of Manufacturing Firms in Categories**			
	Small	**Medium**	**Large**	**Total/sample**
Accra	266 (28)	129 (13)	71 (7)	466 (48)
Tema	23 (2)	17 (2)	22 (3)	62 (7)
Kumasi	88 (9)	32 (3)	30 (3)	150 (15)
Total	377 (39)	178 (18)	123 (13)	678 (70)

Note: Figures in brackets represent the sample units

In all, 51 manufacturing firms were covered in the survey of the three locations of Accra (34), Tema (6) and Kumasi (11). Following the industrial statistical divisions used in Ghana, the sample of manufacturing enterprises contained 29 small-scale firms (employing 29 or less persons), 13 medium-sized firms (with 30 to 99 workers) and 9 large-scale firms (with 100 or more workers). They fall into the five selected sub-sectors of food processing (31), textiles (15), wood (12) and chemicals (8). The distribution of the sample of firm size and sub-

sector categories is illustrated in Table 3. The survey of the manufacturing firms was conducted using a structured questionnaire.

Table 3: Domestic Manufacturing Firm by size Group and Sub-sector Categories

(Percentages of Respondents in each Category

Firm	Firm size categories				
Sub-sectors	**Small**	**Medium**	**Large**	**All Firms**	**%**
Food	9	4	3	16	31
Textiles	10	4	1	15	29
Wood	6	3	3	12	24
Chemicals	4	2	2	8	16
All firms	29	13	9	51	100
%	57	25	18	100	-

2.2.3 The Survey of Public Institutions and Private Organisations

The pertinent public institutions consisted of the Ministry of Finance, Ministry of Trade and Industry, Ghana Export Promotion Council, National Board for Small-Scale Industries, Ghana Standards Board, Ghana Gateway Project, Ghana Free Zones Project, Customs, Excise and Preventive Service. The others included the Ghana National Chamber of Commerce, Ghana Institute of Management and Public Administration, the Institute of Statistical, Social and Economic Research, the Management Development and Productivity Institute, the Centre for Economic Policy Analysis, the Registrar General's Department, the Ghana Statistical Service, the National Council on Women and Development, the 31st December Women's Movement and the Ghana Enterprises Commission.

The private organisations comprised the Private Enterprise Foundation, the Association of Ghana Industries, the Association of Ghanaian Exporters, the Export Finance Company, the Ghana Association of Women Entrepreneurs, the Enterprises Support Services of Africa, the Association of Small-Scale Industries, the Empresario Technologicas (EMPRETEC), the Ghana Union of Traders Associations and the Women's World Banking of Ghana Limited.

After the assembly of the list of relevant public institutions and private organisation was completed, the next step was to identify for each one a contact person that would assist in the collection of the required data. The field

operations staff of the Ministry of Trade and Industry played a significantly helpful role in this respect.

Based on the information provided on the contact persons in the public and private organisations, care was taken to select those in positions of policy significance. This was after conducting personal meetings with them to judge their willingness to provide information for the research project.

Two workshops were held for them. The one in Accra was attended by 18 people, comprising 12 men and 6 women. The second one in Accra recorded 14 participants, with 10 men and 4 women. The workshop deliberations centred on the impact of the trade reforms on domestic manufacturing.

2.2.4 Focus Group Discussions

The survey of public institutions and private organisations was conducted within the framework of workshops that adopted participatory and consultative approaches to gather information and interpretation from the participant-informants. Gender balance in terms of participation and disaggregation of data was sought. The participants were divided into smaller groups of six or seven persons for focal group discussions to amass information. Focus group discussions were also held with entrepreneurs and employees of manufacturing firms in the research centres (Accra, Kumasi and Tema).

The deliberations focussed on their problems, the causes and the survival strategies. Group formation took into account firm size, sub-sector and gender considerations.

The qualitative data assembled through the use of the participatory research methods complemented the quantitative data collected through the use of the structured questionnaire guidelines. This effort was meant to maximise the wealth of the results by combining the strengths of the quantitative and qualitative methods and, in so doing, minimise their weaknesses.

2.3.0 The Analytical Framework

2.3.1 Background

An extensive body of literature now exists on the impact of structural adjustment in Africa. Some studies are very specific in dealing with the impact of the many aspects of structural adjustment polices. For the most part, the various studies have come to conclusions that are mutually contradictory. To an

extent, the differences in the research output arise from the methodologies used (Simeon Ibi Ajayi, 1994: P. 56). Classified in accordance with the institutional origin of the research, the studies fall into two main groups: World Bank-IMF studies conducted by their staff, and independent work carried out by other scholars.

The World Bank-IMF type studies rely heavily on quantitative and complex statistical methods, employing aggregated macro-economic data and indicators. Aggregate trends and phenomena tend to mask the dynamics and structural characteristics of the micro-economic scene. These studies, until recently, tended to indicate that structural adjustment programmes were successful.

The second category of studies came up with issues on "adjustment with human face", "growth-oriented adjustment" and the social dimensions of adjustment in order to point out the disparity between outcomes and expectations. Their methods tend to be a juxtaposition of qualitative and quantitative methods.

2.3.2 The Underlying Principles

The methodological framework employed in this study is the one that SAPRI has evolved on its own through deliberations at a series of workshops. The exercise, which is anchored to a participatory philosophy, seeks to facilitate the full participation of all those sections of society that have traditionally been excluded from the decision-making processes connected with the institution and implementation of SAP in Ghana. In doing so, it combined quantitative and qualitative methods of research, giving equal respect to each. It adopted a political economy approach as the overarching framework that incorporates gender issues and the participation of civil society as essential ingredients. The essence of this approach was to establish a basis upon which serious consideration could be given by all parties to policy design in future economic reform processes. The assessment focussed on the determination of the impact of trade policy reforms on domestic manufacturing in the country within the context of SAP.

2.3.3 The Political Economy Approach

The underlying assumption of the political economy approach was that the impact of a policy instrument is derived from a deliberate process involving specific expectations. The expectations were that: (i) all policies had a transmission mechanism, which were institutions; (ii) the importance of a policy depended on the extent to which the transmission institutions were sensitive to policy goals; (iii) institutions were sources of power distribution and were not

neutral in as much as they transmitted incentives for cost and benefits; and (iv) participation, inclusion and exclusion are all outcomes of power relations.

By the adoption of the political economy approach, the key goal of the research was to analyse the political and institutional structures as well as the processes that shaped policy decisions and impact. The main interest lay in understanding the complex relationship between policies, the intermediating institutions and the outcomes at the level of the firm and, to the extent possible, establish direct causality. To reach such a full understanding, the study sought to cover a full range of manufacturing firms -- by size and sector categories and disaggregated by gender -- which were favourably and unfavourably affected by the trade reform policies.

The aim of linking the evidence of policy impact at the macro level with that at the micro level was to help facilitate the identification of those institutional mechanisms, processes, as well as other intervening structures that shape policies and their outcomes at each level, across sectors and among groups.

The study sought to link explicitly macro-, meso- and micro-level changes with a focus on outcomes and behaviour at the level of the manufacturing firm, since this an area where systematic research, data collection and incorporation of results has been deficient in policy development. The study looked not only at specific elements of trade liberalisation policy design but also their immediate and longer term impact on the well-being of individual manufacturing enterprises, categories and sectors and the conditions that were thus created and their implications for the viability of future reform efforts.

The main concern of the research was to find out:

1. Whether or not the trade policy objectives outlined in SAP documents were achieved with reference to domestic manufacturing and thereby validate the claims of success and failures;
2. For whom the policies were beneficial, neutral or negative and thereby characterise the individual entrepreneurs, firms and sectors;
3. Any secondary or unanticipated effects, for instance on productive capacity or gender distribution of labour;
4. The socio-economic and political factors that contributed to the success or otherwise of trade reform policies at the global level and for specific groups or sectors; and
5. The appropriateness of the objectives and the desirability of their outcomes in combating de-industrialisation, ensuring the survival of firms and generating sustained industrial growth and development.

2.3.4 Participatory Approach

The participatory approach was reflected in the inclusion of all segments of society by SAPRI in the discussion of the effects of economic policies.. SAPRI is unique in terms of the opportunity it affords the government, World Bank and civil society to review the adjustment programme in a framework of equal partnership and mutual respect. The breadth of the participation was meant to ensure that practically all, relevant economic and social issues that could reasonably be attributed to the structural adjustment policies were identified and analysed.

2.3.5 The Gender Dimension

The gender dimension was brought into the research in order to explore the premise that women had been ignored in the SAP although they were critical to development. In the event, two concepts have evolved: "women *in* development" and "women *and* development". Both of them aim to improve women's status, participation and benefits but the processes through which these goals can be achieved have a differing emphasis. The concept of women *in* development focused on the effects of women's disadvantages, treating them as a separate group, and never targeting men. Women and development focused on the causes of women's disadvantage, treating them in relationship to men within society. Women's needs were viewed within the overall social and cultural context.

These concepts were derived from the neo-liberal perspective. The culprit for the neglect of women was identified as the discriminatory practices of officialdom and the effort to correct the imbalances was seen as one of the ways of ensuring that the benefits of modernisation reached women. Although women have limited access to and control over resources, SAP was designed and implemented on the mistaken assumption that women could benefit equally from economic reforms.

However, civil society advocates argued that women were suffering disproportionately from SAP. The damaging impact on women and other vulnerable groups required compensatory measures as well as safety nets. On the basis of these concerns, it became clear that a "gendered" analysis of the impact of SAP was indispensable.

Gender analysis centres on the systematic examination of the differing impact of development policy on men and women. It requires the disaggreation of data by sex and an understanding of how labour is divided and valued according to gender at all stages of the development process. The central question that must always be asked is how a particular activity, decision or plan affects men and women in relation to each other.

Specific policy approaches to women tend to recognise their triple role (production, reproduction and community service) and inequality of access to resources and social status and to factor in the need for women to overcome their disadvantages relative to men in the traditional gender division of labour . Through a combination of efforts by development practitioners and academics to integrate women into the development process, five approaches have been identified as follows:

- Welfare Approach: Women have specific problems because of their productive, reproductive and community roles. They need help on grounds of welfare.

- Equity Approach: Women have the right to be treated as equals of men in terms of status and responsibilities.

- Poverty Approach: The economic exploitation and social domination of members of one sex by the other -- specifically of women by men -- make women vulnerable. The basic needs of poor women must be met.

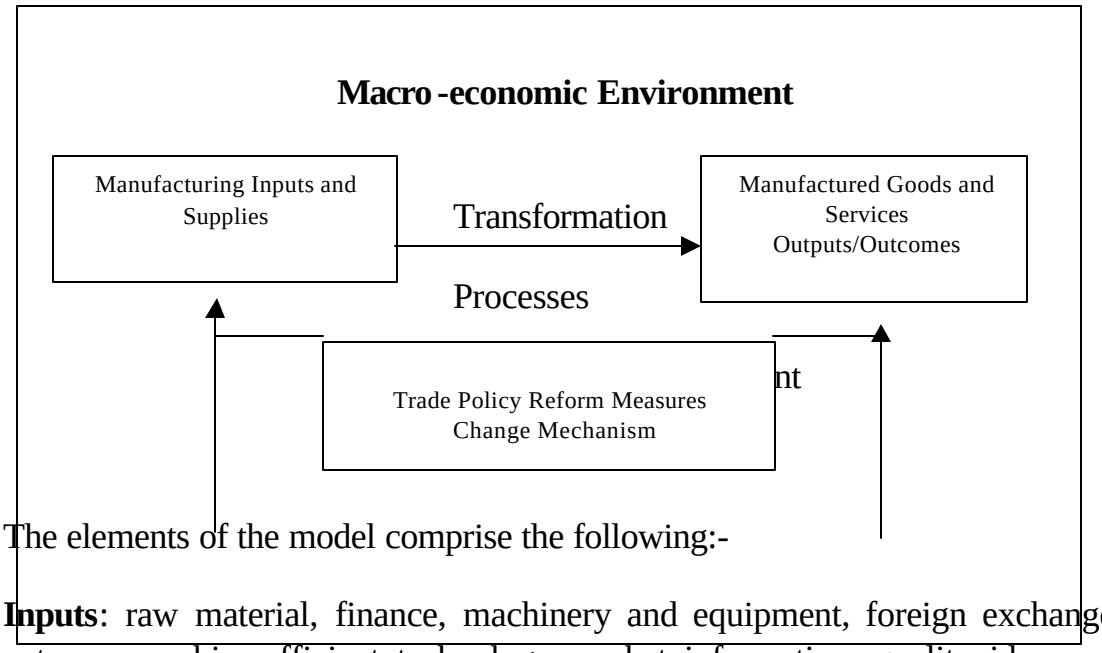
- Efficiency Approach: The involvement of women will enhance the success of policies, programmes and projects.

- Gendered Approach: Women's needs are to be met by ending the unequal distribution of power and benefits between men and women. Women want empowerment in order to do it themselves. If men are allies they will also benefit.

2.3.6 The Analytical Model

The simple input-output model was adopted as the scheme for the analysis of the impact of the trade policy reform on domestic manufacturing in Ghana.

Figure 2: Diagrammatic Representation of the Input-Output Analytical Model



The elements of the model comprise the following:-

Inputs: raw material, finance, machinery and equipment, foreign exchange, entrepreneurship, efficient technology market information, quality ideas and skills.

Outputs: Increased access to production inputs, increased output level, increased employment, increased profits, increased market opportunities, increased efficiency and competitiveness.

Reform Measures: removal of import restrictions, import licence, price and distribution controls, export promotion, tariff rationalisation, quality promotion, improved business extension services.

Environment: Monetary and fiscal policies, institutional reorientation, political stability free market system.

The primary variables used in the assessment of impact were employment, production output, market expansion, enterprise growth, gender of ownership and enterprise constraints.

Employment: One of the essential benefits of any economic policy is job creation. It was anticipated that the trade policy reforms would enhance job creation in the manufacturing sector. Changes in numbers of people hired were used as a measure of the policy impact.

Output Growth: The trade policy reforms were intended to make domestic manufacturing firms efficient in production. Differences in output growth (in terms of volume) before and after the reforms therefore constituted a viable measure of policy impact.

Market: The degree of market expansion or penetration provided a good indication of the competitiveness of domestic manufacturers. Entry into the export market was taken as an indicator of competitiveness and market expansion.

Enterprise growth: The trade policy reform was meant to stimulate investment and the creation of new firms, and the expansion or upgrading of existing ones. The number of firms before and after the reforms was considered as a measure of enterprise growth.

Gender ownership: the trade policy reform was adjudged to have differential effects on different groups of people. One way of assessing this was on gender basis. This provided an indication of the level of participation of women. Changes in firm ownership prior to and after the reforms constituted one way of measuring the impact of policy reform on the manufacturing sector.

In line with the above variables, the study sought to answer the following questions:

(a) What is the effect of the trade reforms on the volume of employment in the domestic manufacturing sector?

(b) To what extent have the trade reforms strengthened or weakened the productive capacity of domestic manufacturing firms? How have the dynamics of the internal processes of production and factor accumulation been affected?

(c) Has trade liberalisation strengthened or weakened the export capacities of domestic manufacturing firms? What types of exporters have benefited and which ones have not?

(d) What impact have the reforms had on the lives of women? Have they fared badly or very well?

II. THE POLITICAL ECONOMY OF TRADE POLICY AND DOMESTIC MANUFACTURING IN GHANA

3.1 The Period Prior to Structural Adjustment in 1983

3.2 The Era of Manufacturing Growth (1960-1970)

The principal objectives of post-independence development policies in Ghana were to: diversify the predominantly agricultural economy; create employment for the rapidly growing population, raise per capita incomes, improve the balance of payments and achieve rapid economic growth.

Based on the then fashionable modernisation paradigm, and the drive to catch up with the advanced industrialised nations, development through massive industrialisation constituted the main policy thrust.

The all-out industrialisation strategy that Ghana undertook involved import substitution (the domestic manufacture of goods that would otherwise have to be imported). The operational framework did not require any extensive information and technical capacity for the analysis of net benefits of alternative industrial investments. The magnitude and pattern of the demand for outputs was easily determinable through previous import statistics, enabling entrepreneurs to assess the market potential.

Complete plants were imported for the establishment and operation of industries. The focus was on the development of large-scale, capital-intensive manufacturing industries owned and managed by the state. These modern industries were protected from foreign competition through a restrictive trade policy regime, complemented by an array of subsidies serving as incentives. Trade policy instruments included quantitative import restrictions, foreign exchange rationing, high tariffs on imported consumer goods, import licensing and domestic price controls. Other measures included the administrative fixing of minimum wages, rents and interest rates.

The Industrial Review Series of the United Nations Industrial Development Organisation described the immediate post-independence era as one of industrial growth (UNIDO, 1986: p.14). A number of indicators are necessary to illustrate the growth as follows (Boapeah, 1994: p. 18):

- While gross national product was growing at around 2.5 per cent annually, constant price manufacturing value added grew at 8.8 per cent;
- The growth rate of manufacturing output rose from 10 per cent in 1960 to 13.0 per cent between 1963 and 1970;

- The share of manufacturing in total industrial output grew from 10 per cent in 1960 to 14 per cent in 1970;
- Total employment in the manufacturing sector increased by nearly 90.0 per cent between 1962 and 1970; and
- The volume of imported manufactured goods fell from 50.0 per cent of total imports in 1960 to about 32.0 per cent in 1970.

3.3 The Period of De-industrialisation (1970-1983)

The achievements in growth of domestic manufacturing could not be sustained beyond 1970. Although the Nkrumah government was overthrown in 1966, no major changes were subsequently effected in the country's trade and industrial policies. It is necessary to point out, however, that the successor regimes between 1966 and 1972 were more liberal but nonetheless did not make structural changes of any significance.

3.3.1The Performance of the Manufacturing Sector

The performance of industry in Ghana during the period 1970 to 1983 could be described in two words; stagnation and decline. This can be seen in Table 4, which presents the sectoral composition of the country's gross domestic product (GDP) for selected years from 1965-1984.

Table 4: Sectoral Composition of GDP, 1965-1984 at Current Prices in percentage a/

	1965	1970	1975	1977	1982	1983	1984
Agriculture							
Agric & Livestock		48.2	46	48	53	58	56	51
Cocoa	-	28	29	44	50	49	43	
Forestry	-	4	11	4	1	3		4
Fishing	-	3	6	4	4	2	2	
Industries	18.0	18	21	16	7	5	9	
Mining	2.7	2	2	1	0	1	1	
Manufacturing	9.7	11	14	11	4	3	5	
Electricity & Water		0.3	1	1	0	1	0	1
Construction		5.3	4	4	4	2	1	2
Services	33.8	36	31	31	35	39	40	

Source: U.N.I.D.O., Regional and Country Studies Branch, Industrial Development Review Series-Ghana, Vienna, 1986, p.5.

a/ Totals do not add up to a hundred because of omissions and rounding.

During the 1960s, manufacturing was one of the sub-sectors that recorded sustained growth. In the 1970s and early 1980s, however, there was a significant level of de-industrialisation. De-industrialisation manifested itself in the form of stagnation between 1970 and 1977. The share of total industrial production in GDP was 18 per cent, 21 per cent and 16 per cent for the years 1970, 1975 and 1977 respectively.. The manufacturing sub-sector followed a similar trend recording 11 per cent, 14 per cent and 11 per cent respectively for the years 1970, 1975 and 1977. From 1977 onwards, the share of total industrial production in GDP declined from 16 per cent to 7 per cent in 1982 and 5 per cent in 1983. The share of manufacturing in GDP also declined, from 11 per cent in 1977 to 4 per cent in 1982 and 3 per cent in 1983.

3.3.2 Political Instability and its Impact on Development Policy

The frequency of political instability during the period 1970-1983 can be cited as one of the key factors responsible for the failure of Ghana to formulate and implement a consistent policy for industrial development.

Briefly, Colonel I.K. Acheampong overthrew the government of Dr. K.A. Busia in 1972 and set up the National Redemption Council (NRC), which ruled until 1975. In that year, internal power struggles led to some new personnel at the top as the NRC was changed into a Supreme Military Council (SMC), still chaired by Col. Acheampong. In 1978, General F.W.K. Akuffo replaced Col. Acheampong as head of state and chaired a reconstituted Supreme military Council (SM.C II). In June 1979, Flight-Lieutenant J.J. Rawlings overthrew that government and ruled as Chairman of the Armed Forces Revolutionary Council (AFRC) for a few months and handed over in October 1979 to an elected civilian government with Dr. Hilla Limann as President. On December 31, 1981, Rawlings came to power again through a coup and ruled as Chairman of the Provisional National Defence Council (PNDC).

During this period of political instability, only two development plans were formulated and launched. These were the One-Year Development Plan, 1970-1971 and the Five-year Development Plan 1975/76-1979/80. Over the period, government development policies were presented in the form of white papers and budgets.

3.3.3 The Inability to Move Towards Export Diversification

In the 1960s, Ghana's industrialisation efforts manifested itself in the stage of closed economy, easy import substitution. This type of import substitution involved the importation of complete industrial plants to produce goods that were previously being imported. The closed nature of the economy in terms of the manufacturing sector was reflected in a system of trade controls administered by the government for the promotion of domestic industries. The control system involved:

- a licensing system for the allocation of foreign exchange resources;

- the maintenance of an overvalued currency to cheapen the importation of capital and intermediate goods although this made exports less profitable; and

- high tariffs on imported finished consumer items to protect the domestic market for the established import-substitution industries.

The system of incentives included:

- a tax holiday of up to 10 years for newly established industries;
- reduction of or exemption from taxes on imported inputs;
- tax concessions of 40 per cent on assets for owners of industrial plants;
- exemption from property taxes on construction, capital and other fees such as scientific research deductions; and
- subsidies on investments by borrowing from the Ghana Government at rates below the domestic and internal market rates.

For most of the 1960s, import substitution industrialisation led to high rates of growth and additional employment opportunities. There was a growing independence from imported items especially with respect to consumer goods. By the end of the 1960s, however, growth rates slowed down and gains of the strategy started dwindling.

By the 1970s, it had become clear that Ghana was in the stage of a closed economy, difficult import substitution. Since the domestic market was limited, most of the demand for manufactured goods could be satisfied by local manufactures. New opportunities for standard import substitution (that is manufacturing essentially for the domestic market), according to Grayson, were rapidly diminishing. The rate of savings was relatively low and there was heavy

reliance on the importation of capital equipment, machinery, and semi-processed materials as well as expatriate technical and managerial skills. Other problems included the excessive utilization of suppliers' credits, ignorance at the purchasing end and deliberate malpractices (United Nations, 1970: pp. 9-10; M.B.K. Darkoh, 1977: p.33).

The most crucial of all the difficulties connected with the strategy was that the system of controls administered by the government in effecting the import substitution strategy was under severe and unmanageable strain. It was obvious that a change in industrial policy direction was inevitable.

The necessity for the change was correctly seen in the One-Year Development Plan, 1970-71 (Republic of Ghana, 1970; pp. 79-81) and the Five-Year Development Plan, 1975/76 – 1979/80 (Republic of Ghana, 1977: pp. 188-200). It was recognized that the prospects of the manufacturing sector lay in the expansion of its export performance and the adoption of export promotion. The change however did not occur. A number of reasons were responsible for the failure. They can be outlined as follows:

- First and foremost was the political instability that characterised the period. Any time plans were set for policy reorientation and implementation, the political instability disrupted the programmes;

- Since no plans succeeded, the problems that beset the industrial sector in the 1960s persisted and even worsened year by year;

- The dramatic decline in the production of cocoa in the 1970s and early 1980s played a big role in the deepening balance of payments deficit (UNIDO, 1986: p.4);

- Ghana's population grew at a compound rate of growth of 2.6 per cent per annum in the period 1970-83 culminating in higher consumption and low savings for investment. The rate of growth of the country's GDP for most of this period was negative;

- Inflation was rampant during most of the period reaching an estimated peak of 145 per cent in 1982-83 (Republic of Ghana, 1985: p.3). Consequently, government revenue fell and limited its development budgets;

- Socio-economic infrastructure had deteriorated rapidly; and

- Drought not only brought hunger but also caused the quality and quantity of agricultural export produce to diminish.

These factors reflect the internal structural difficulties that restrained industrial growth. Adverse developments in the international economic environment hit Ghana's economy as a whole and the manufacturing sector in particular.

- The oil crisis of the 1970s took much of the country's foreign exchange earnings leaving very little for industry and other areas of investment;

- Protectionist barriers in industrialised countries left little opportunity for Ghanaian exports in the world market;

- The instability of world prices for primary exports not only brought limited earnings but also disrupted financial management in the country and had an adverse impact on industrialization;

- Inflows of financial assistance and capital from external sources diminished considerably;

- External debt service became increasingly heavy and swallowed resources that could otherwise have gone into vigorous industrialisation geared towards exports; and

The slow pace of regional and sub-regional integration meant that export opportunities to other African countries remained limited.

3.4 The Era Immediately Prior to Structural Adjustment

By 1982, the profile of its domestic manufacturing sector was characterised by:

(a) Serious under-utilisation of installed capacity;
(b) Obsolete machinery which was performing inefficiently;
(c) Over-dependence on imported raw materials for industrial operations;
(d) High and uncompetitive prices of products;
(e) Poor quality products;
(f) Low labour productivity;
(g) Low valued-added;
(h) Low contributions to GDP growth;
(i) Haphazard location of industries leading to over- concentration in some urban areas, particularly Accra, Kumasi and Takoradi; and

(j) Lack of horizontal and vertical integration in the industrial sector for comprehensive industrial development.

The poor performance of the domestic manufacturing sector during the mid-1970s and early 1980s was due principally to inappropriate economic policies pursued by various governments since the 1960s. These policies made the Ghanaian economy unable to cope with the changing external economic environment and the inter-related problems of capacity utilization, high unit costs, low productivity, widespread inefficiency and uncompetitive position in international markets.

On the issue of job creation, employment in the large scale manufacturing enterprises did double during the 1960s but then did not match or bear a reflection on the massive investments made in that sector. Of an estimated 3.5 million work force in 1970, only 1.6 per cent was engaged in large-scale manufacturing although the sector took up to 10 per cent of capital formation.

As at the time of independence, the ownership and management of most manufacturing establishments in Ghana were in private hands, with the largest and most important under foreign domain. With independence, the government moved swiftly to develop new industries under state ownership and management. After 1972 the government shifted its emphasis from the establishment of new industries to the nationalisation of existing foreign concerns. The state acquired up to 55 equity holdings and allowed for continued foreign management. These developments are shown in Table 5 in terms of value-added and employment by type of ownership.

Table 5: Manufacturing establishments.
Shares in value-added and employment, by type of ownership.

Value-added	1964	1967	1973	1977	1979
State-owned	13.3	17.6	17.2	29.4	27.1
Joint-ownership	7.9	14.6	18.0	19.5	25.6
Private	78.9	67.8	64.8	51.1	47.3
	100.0	100.0	100.0	100.0	100.0
Employment					
State-owned	29.4	32.6	23.2	18.0	23.0
Joint-ownership	3.2	7.6	19.5	26.0	29.5
Private	64.4	59.8	57.3	56.0	46.5

	100.0	100.0	100.0	100.0	100.0

Source: UNIDO Industrial Statistics Programme (1973)
Central Bureau of Statistics, (Ghana) 1975-79.

3.5 Trade Liberalisation under Structural Adjustment and its Aftermath (1983-2000)

The aim of the trade policy reform was to rationalise the incentive system and improve the competitiveness of domestic manufacturers. In the initial stage, the extensive quantitative restrictions and domestic price controls were removed and the exchange rate was allowed to float with market forces. Price distortions arising from tariffs and protective taxes were reduced and finally phased out in 1989. Along with the liberalisation of imports, export duties were removed and export licensing abolished in 1990. Export incentives were introduced, including duty-free imports of machinery and income tax rebates based on export sales.

After 1983, the manufacturing sector bounced back in response to the economic reforms, hitherto, made. By 1987, domestic manufacturing accounted for 9.4 per cent of real GDP. Since then, however, performance has been rather unimpressive in terms of growth, share of real GDP and industrial output. In the manufacturing sub-sector, capacity utilisation increased from its low level of 18 per cent in 1984 to 40 per cent in 1988, a level deemed unacceptably low and indeed it is still on a decline since then registering 38 per cent in 1989 Development in Output: The rate of growth in output slowed down from 25 per cent recorded in 1985 to 0.6 per cent in 1989(Table 6).

Table 6: Development in Output, 1984-1997 (%)

Year	GDP	Industry	Manufacturing	Industry	Manufacturing
1984	8.6	11.9	12.9	11.62	7.18
1985	5.1	17.6	24.3	13.00	8.49
1986	5.2	7.6	11.0	13.30	8.95
1987	4.8	11.5	10.0	14.14	9.40
1988	5.6	7.3	5.1	14.36	9.35
1989	5.1	2.6	0.6	14.03	8.95
1990	3.1	6.9	5.9	14.52	9.17
1991	5.3	3.7	1.1	14.29	8.80
1992	3.9	5.8	2.7	14.55	8.70
1993	5.0	4.3	2.2	14.46	8.49
1994	3.8	1.3	1.5	14.30	8.30
1995	4.5	3.3	1.8	14.30	8.30
1996	5.2	4.2	3.0	14.20	8.10
1997	4.2	6.4	5.4	16.10	9.10
1998	4.6	2.5	3.0	NA	NA
Average annual growth rate					
1984-88	11.2	12.7			
1989-98	4.1	2.7			

Source: Calculated from National Accounts Data in ISSER, 1998: P. 125.
* % of GDP at current prices

Table 7: Growth Rates of Industry and its Sub-Sectors 1981-1998, (%)

Year	Industry	Manufacturing	Mining & Quarrying	Electricity & Water	Construction
1981	-3.39	0.78	-8.48	24.41	9.72
1982	-22.89	-36.31	-7.90	-16.60	35.10
1983	-14.94	-11.17	-14.36	38.91	-14.49
1984	11.94	12.90	13.49	42.96	2.33
1985	17.60	24.32	6.45	20.73	2.81
1986	7.56	10.95	-3.03	18.03	-2.66
1987	11.49	10.01	7.89	18.73	5.86
1988	7.25	5.06	17.84	12.86	8.38
1989	2.63	0.59	9.96	7.73	4.17
1990	6.93	5.88	6.35	14.61	7.31
1991	3.19	1.05	6.75	6.59	7.03

1992	5.80	2.70	10.36	12.02	10.10
1993	4.30	2.21	9.11	8.18	6.25
1994	1.30	1.50	5.08	5.30	4.20
1995	3.30	1.80	5.50	6.00	5.20
1996	4.20	3.00	4.20	6.50	6.10
1997	6.40	5.40	5.60	4.80	4.40
1998	2.50	3.00	4.00	-10.0	5.50
Average annual growth rates					
1984-88	11.2	12.7	8.5	22.7	5.3
1989-98	4.1	2.7	6.7	6.2	6.2

Source: Calculated from National Accounts Data in ISSER, 1998: p. 126.

Table 8: Share of Industry and its Sub-Sectors in Real GDP, 1981-1997 (%)*

Year	Industry	Manufacturing	Mining & Quarrying	Elect. & Water	Construction
1981	15.2	10.9	1.0	1.0	2.1
1982	12.6	7.4	1.2	0.9	3.0
1983	11.3	6.9	1.1	0.6	2.7
1984	11.6	7.2	1.1	0.8	2.6
1985	13.0	8.5	1.2	0.9	2.5
1986	13.3	9.0	1.1	1.0	2.3
1987	14.1	9.4	1.1	1.1	2.6
1988	14.4	9.4	1.2	1.2	2.6
1989	14.0	9.0	1.3	1.2	2.6
1990	14.5	9.2	1.3	1.3	2.7
1991	14.3	8.8	1.3	1.4	2.8
1992	14.6	8.7	1.4	1.5	3.0
1993	14.5	8.5	1.5	1.5	3.0
1994	14.3	8.3	1.5	1.5	3.0
1995	14.2	8.3	1.5	1.6	2.9
1996	14.2	8.1	1.5	1.6	31
1997*	16.5	9.3	1.7	2.0	35

Source: Calculated from National Accounts Data

* Data based on current prices

Table 9: Shares of Sub-Sectors in Real Industrial Output, 1981-1997 (%)

Year	Manufacturing	Mining & Quarrying	Electricity & Water	Construction
1981	71.6	8.1	6.6	13.8
1982	59.1	9.7	7.1	24.1
1983	61.2	9.7	5.0	24.0
1984	61.8	9.8	6.4	22.0
1985	65.3	8.9	6.6	19.2
1986	67.3	8.0	7.3	17.4
1987	66.5	7.8	7.7	18.1
1988	65.1	8.5	8.1	18.3
1989	63.8	9.1	8.5	18.5
1990	63.2	9.1	9.2	18.6
1991	61.9	9.4	9.5	19.3
1992	59.8	9.8	10.1	20.4
1993	58.6	10.2	10.5	20.8
1994	57.6	10.4	10.7	21.0
1995	57.0	10.6	10.6	21.1
1996	56.9	10.5	11.1	21.5
1997	56.1	10.6	12.1	21.2

Source: Calculated from National Accounts Data

* Data based on current purchasers values

Growth Rate of Manufacturing:
As seen in Table 5, the manufacturing sub-sector's contribution to national output has shown an upward trend since 1995. Having recorded 1.8 per cent in 1995, it picked up to 3 per cent in 1996 and accelerated to 5.4 per cent in 1997 before falling back to 3 per cent in 1998, reflecting its longstanding volatility.

Table 10: Index of Manufacturing Production (1977=100)[1]

Sector	Weight	1984	1986	1988	1989	1990
Food processing	15	29	41	54	48	58
Beverages	8.1	60	75	89	98	94
Tobacco	7.8	63	58	58	51	57
Textiles, clothing, leather	13.7	16	23	29	24	38
Wood	7.2	60	80	98	80	74
Paper, printing	1.9	72	71	53	48	54
Petroleum refining	19	63	77	68	87	71
Other chemical	6.6	40	38	68	62	58
Cement	3	42	47	73	100	117
Iron and steel products	3.3	26	39	18	12	5
Basic non-ferrous metals	9.6	n.a	73	97	101	104
Non-ferrous metal products	0.5	10	55	46	48	55
Electrical equipment	1.5	19	51	47	14	26
Transport equipment	3	-	-	-	-	-
All manufacturing	100	39	54	62	63	64

Source: Quarterly Digest of Statistics , Republic of Ghana, December 1991.

3.6.1 Manufactured Exports

Ghana's manufactured exports earned US$3.5 million in 1986. The trade policy reforms offered new incentives and better returns and manufactured exports fetched US$14.7 million in 1991.

Disaggregated data nevertheless show that the growth came mainly from domestic resource-based firms that already had established markets. Furthermore, the rate of growth must be treated with caution because of the

rather low base from which it started. The leading performers were the wood and aluminium firms that already had long experience in international trade.

As set out in figure 3, the major non-traditional manufactured export products in 1991 were: aluminium US$5.5 million; wood US$6.2 million (of which furniture accounted for US$3.6 million and other wood products for US$2.6 million; canned foods US$0.3 million; tobacco US$0.4 million; soap US$0.6 million; machets and iron rods US$0.8 million, and others US$1.3 million.

The growth in manufactured exports did not meet the modest targets set by the Ghana Export Promotion Council. There was little sign of local enterprises entering new areas even within the category of domestic resource-based exports. It had been anticipated that the natural cost advantage would stimulate local entrepreneurs to invest in manufactured exports.

Fig. 3 (??)

Even the substantial realignment of nominal exchange rates, a critical component of the SAP, did not have a significant impact on export volumes (Briggs and Srivastava, 1994: P. 54). The limited export response of the country's manufacturing apparently depended upon factors additional to exchange rates.

3.6.2 Reasons for Poor Performance

The SAP was based on the assumption that "getting the prices right" constituted the necessary and sufficient condition for the achievement of sustained industrial and export development. But this ignored the costs, difficulties and market failures involved in enterprises becoming efficient. At Ghana's stage of development, all these problems loomed much larger than anticipated, even for restructuring the relatively simple, labour-intensive firms.

An analysis of the technological capacity-building process would have led to a better understanding of the difficulties and impediments involved in the transformation of firms into viable international competitors. A considerable period of leaming and even re-learning ought to have been set up, prior to the full onslaught of trade liberalisation. The learning process and adjustment within firms also required an appreciable amount of external institutional assistance and domestic support before price liberalisation did its work.

The present predicament of the domestic manufacturing sector has its roots in the restrictive trade framework pursued over the two decades prior to the SAP. While the manufacturing sector generally benefited form the high protective barriers, it nonetheless suffered from periodic cuts in production due to the scarcity of foreign exchange and imported inputs. Consequently, there was gross under-utilisation of capacity. The uncertainties became entrenched in the political economy. Furthermore, the decline in demand and the general socio-economic malaise compounded the disincentives to investment.

The problems created by the country's restrictive trade regime were exacerbated by the paucity of its industrial skills base as well as policy mistakes. Like other countries that pursued unselective industrialisation policies behind high barriers of protection, Ghana has been unable to develop sufficient industrial capabilities and infrastructure. Manufacturing has, therefore, failed to respond adequately to the changes in the range of incentives.

To speed up industrialisation and establish socialism, the immediate post-independence government strongly promoted state ownership in industry. The military regime of 1972-1979 extended the scope of the state in production,

marketing, distribution, pricing and resource allocation. However, it was unable to suppress the private economy that emerged and took advantage of the growing distortions introduced by administrative controls. The reform policies under the Structural Adjustment Policies introduced much freedom to the private sector. Table 11 illustrate the pattern of firm ownership in Ghana 1986.

Table 11: Ownership of Ghanaian Enterprises, 1986 (percentage shares)

Ownership	Wholly foreign	Joint foreign/local	State/local private venture	Wholly state
% Share of Total	9	39	22	30
[1]This includes joint ventures with both public and private sector firms				

The policy reforms under the SAP have significantly enhanced the environment for private enterprise in Ghana. An essential reform now in place is the liberalisation of entry for all local and foreign private investors. There has been a considerable spurt of interest and approvals of foreign direct investment between 1986 and 1990. However, approvals are only indicative and do not constitute real investment. However, Ghana lacks the skill base to attract higher levels of foreign direct investment.

A study conducted by the Council for Scientific and Industrial Research in 1990 noted that the shortage of skilled and technical manpower, especially at the middle level, was the major cause of Ghana's technological backwardness. This backwardness is reflected in the lack of training programmes for employees and the widespread use of obsolete, inappropriate technologies that are poorly mastered and rarely improved.

Almost all formal technological research and development in Ghana, is conducted by public institutions rather than manufacturing firms. The relevance of the results to manufacturing is well below the critical mass needed to make a significant impact in terms of the absorption, adaptation and creation of technology. It has been said that too much emphasis seems to be laid on developing indigenous technologies rather than on the assimilation and diffusion of technologies available in developed and the more industrialised developing nations.

Product quality is one of the primary determinants of the competitiveness of manufacturing firms. However, there is a widespread lack of appreciation of standards in Ghanaian industry. In part, this is rooted in the previous regime of

protective barriers, and reinforced by the lack of qualified personnel able to understand and implement the technicalities of standardisation.

The Ghana Standards Board is the national institution for drafting and implementing standards. It, however, lacks the financial and human resources to live up to its mandate of encouraging industry to observe a set of standards. With little capacity for enforcement, its attitude towards the promotion of standards is, therefore, passive.

In principle, the Standards Board operates a system under which all manufacturers are required by law to have their products certified as being of acceptable quality. In practice, however, the Board's lack of resources does not allow for a satisfactory check on the range of manufactures. This undermines the reliability of certification by the Ghana Standards Board in terms of international standards. Meanwhile, no enterprise with export ambitions can ignore the demands of the International Standards for Quality Management Series put in place by the International Standards Organisation.

Manufacturing continues to be the largest sub-sector in the industrial sector, contributing more than half to the sector's output (Table 7). This comes construction (21.2%), electricity and water (12.1%) and mining and quarrying (10.6%).

For Ghana, the very structure of its domestic manufacturing sector is a primary, underlying cause of its persistent crisis. There is enough evidence (Dinye, 1991: P.31-32) that it has

- placed emphasis on the production of consumer goods and primary processing, paying little attention to the fabrication of intermediate and capital goods which normally constitute the nucleus of a strong industrial base.

- failed to promote inter-sectoral and inter-regional linkages. Limited inter-sectoral linkages resulted in an insignificant flow and interchange of factors of production in the economy. Failure to foster inter-regional linkages led to lopsided spatial development in the country. The result is the gross disparity in industrial development between the northern and southern parts of the country because of the undue concentration of industries in a few large urban and metropolitan centres in the south.

- encouraged the use of large-scale, capital-intensive technology which limited the possibilities of job creation. This also worsened the balance of payments situation because machinery, equipment, technical personnel and

management had to be imported. Within the limited domestic market, installed capacity in most cases was far beyond what the local market could absorb, resulting in the under-utilization of industrial capacity. Small-scale industry was not accorded the attention it required to enable it to play its proper role in economic development.

- promoted industries which depended largely on the domestic market for distribution of their output. Most of them competed with imports and had limited scope for expansion because of the limited size of the domestic market.

- allowed foreign capital investment to dominate the manufacturing sector. This resulted in losses of capital that would otherwise have been re-invested but repatriation of profits.

- accorded excessive protection to domestic industries that allowed inefficient enterprises to operate. Inefficiency resulted in high prices and the inadequacy of quality control on industrial products limited export opportunities for Ghanaian manufactured goods.

- allowed for heavy involvement of the government thereby limiting the scope of the growth of indigenous entrepreneurship.

There is an obvious cause-and-effect relationship between the structural characteristics of the domestic manufacturing sector and its performance. Furthermore, it has been argued (United Nations Economic Commission for Africa, 1991: p.15) that the trade policy reform measures addressed the symptoms rather than the fundamental causes of the problems of the domestic manufacturing sector. .

IV. THE PERFORMANCE OF THE DOMESTIC MANUFACTURING SECTOR UNDER STRUCTURAL ADJUSTMENT

4.0 Background to Analysis

Trade liberalisation was meant to introduce greater competition and open up export opportunities to domestic manufacturing firms in Ghana. It was expected to yield a more efficient and dynamic industrial production base and inefficient firms would die out. Since the manufacturing sector was characterised by inefficient, large-scale firms under heavy protection, a negative impact could be anticipated. It was, nevertheless, also expected that the negative effects of the policy would be mitigated by the fact that viable firms would take advantage of the incentives provided by the exchange rate liberalisation.

The government of the Provisional National Defence Council called in the World Bank and the International Monetary Fund, and they obliged the government to:

- reduce operational and investment expenditure;
- increase indirect taxes and reduce subsidies;
- decrease wages and retrench civil servants;
- devalue the currency; and
- enact a more restrictive monetary policy.

In all, fifty-one (51) manufacturing firms were covered in the research survey of the three locations of Accra (34), Tema (6) and Kumasi (11). Following the industrial statistical divisions used in Ghana, the sample of manufacturing enterprises contained 29 small-scale firms (employing 29 or less people), 13 medium-sized firms (with 30 to 100 workers) and 9 large-scale firms (with 100 or more workers). They fall into the five selected sub-sectors of food processing, textiles, wood and chemicals (Table 10).

Table 12: Domestic Manufacturing Firm by Size Group and Sub-sector Categories (Percentage of Respondents in each Category

Firm	Firm size categories				
Sub-sectors	**Small**	**Medium**	**Large**	**All Firms**	**%**
Food	9	4	3	16	31
Textiles	10	4	1	15	29
Wood	6	3	3	12	24
Chemicals	4	2	2	8	16
All firms	29	13	9	51	100
%	57	25	18	100	-

It is impossible to find information for a historical baseline for the different cross-sections of the manufacturing firms to assess the impact of the trade liberalisation policy. The oldest firm covered by the survey started up in 1969. It was therefore found convenient to represent the periods "before" and "after" the trade policy reform using the 1969-1983 and 1984-2000 periods.

4.1Micro-Level Analysis

4.1.1 Performance of Domestic Manufacturing Firms by Size Group

Employment

Table 13 shows the results of the survey of the effect of trade liberalisation on employment in the domestic manufacturing sector. For the entire sample, 51 per cent of the firms experienced an increase in job creation since their establishment. Whilst 24 per cent experienced job losses, about the same proportion (25 per cent) stagnated in terms of employment during the period. When analysed on the basis of size and period of establishment, the major decline (62 per cent) and increase (67 per cent) occurred among the medium- and large-scale firms for firms established prior to 1983. During the post-1983 era, most (61 per cent) of the jobs created were in the small-scale manufacturing sector. Job losses (60 per cent) plagued the medium-sized firms. No large-scale manufacturing firm established during the post-1983 era was captured in the survey.

Table 13: Change in Employment by Firm Size Categories (Percentage of Respondents in Each Category)

Impact	Size categories of firms	
	Pre-1983	**Post 1983**

Change in employment	All firms	Small	Medium	Large	Small	Medium	Large
Increase	51	55	13	67	61	40	-
Same	25	18	25	33	33	-	-
Decrease	24	27	62	-	6	60	-
(Number of firms)	(51)	(11)	(8)	(9)	(18)	(5)	-

Note: All firms for the period 1983-2000.

Production

During the period 1983-2000, there was an increase in the volume of output for 55 per cent of the firms studied (Table 14). Decreases in output were observed for 25 per cent of them and 16 per cent maintained their production levels. For firms that started up before 1983, production increases were observed in the small-scale (73 per cent) and large-scale (67 per cent) manufacturing sectors. A decline in output volumes occurred in as much as 50 per cent of the medium-sized manufacturing firms. For the post-1983 period, small-scale manufacturers still dominated among firms with increases in output. Some 60 per cent of the medium-sized firms established in the post-1983 period experienced a decline in output.

Table 14: Change in Production Output by Firm Size (Percentage of respondents in each category)

Impact	Size categories of firms						
	Pre-1983				Post 1983		
Change in production	All firms	Small	Medium	Large	Small	Medium	Large
Increase	55	73	37	67	50	40	-
Same	16	9	13	11	28	-	-
Decrease	29	18	50	22	22	60	-
(Number of firms)	(51)	(11)	(8)	(9)	(18)	(5)	-

Note: All firms for the period 1983-2000.

Market

The survey revealed that for the majority (52 per cent) of small-scale manufacturing enterprises, the market did not change during the reference

period (1983-2000). However, a severe contraction in market size occurred for 54 per cent of the medium-sized category. The scale of expansion (44 per cent) and contraction (45 per cent) in market size for the large firms is more or less the same. A similar trend is observed for all the firms investigated (Table 14). An expansion in market size was recorded for a significant number of medium-sized firms established in the post-1983 era.

Table 15: Changes in Market by Firm size Categories (Percentage of Respondents in Each Group)

Impact	Size categories of firms						
	1983-2000		Pre-1983		Post 1983		
Change in market	All firms	Small	Medium	Large	Small	Medium	Large
Increase	39	31	23	44	44	60	-
Same	29	52	23	11	28	20	-
Decrease	32	17	54	45	28	10	-
(Number of firms)	(51)	(11)	(8)	(9)	(18)	(5)	-

Note: All firms for the period 1983-2000.

Enterprise Growth

Within the sample, 28 (55 per cent) firms were established before the adoption of the trade liberalisation policy. Of that number, 39 per cent and 29 per cent were small- and medium-sized firms respectively. Large-scale firms constituted 32 per cent. The distribution of firms that have emerged since 1983 was 79 per cent small-scale and 21 per cent medium-sized. No large-scale firm was recorded in the sample as having been established after 1983, so no growth could be observed in that category.. In the medium-sized group, the increase in number of firms after 1983 was 62 per cent over those established before that year. For the small-scale group, the increase in the number of firms established after 1983 represented a 164 per cent change from the previous period. The overall percentage change in the total number of firms is 82 per cent.

Table 16: Growth in Number of Firms

Size group	Pre-1983		Post-1983		Change in total	
	No.	%	No.	%	No.	%
Small	11	39	18	79	29	164
Medium	8	29	5	21	13	62
Large	9	32	-	-	9	-
Total	28	100	23	100	51	82

It was anticipated that small firms would take up growth opportunities in the liberalised regime and graduate into medium- and even large-scale firms. The reverse could also not be ruled out as larger firms could also contract and become smaller firms. However, no observation of such dynamics was made in the context of this study. So the increase or decrease in number of firms was due the emergence or demise of enterprises in a particular size group.

On the basis of the above analysis, the net performance of the domestic manufacturing sector before and after the inception of the trade liberalisation policy can be assessed. The basic indicators considered are employment, production output, market size and growth in numbers of enterprises. For each size category, the score in lieu of a negative performance is subtracted from the score of an aggregate positive performance to give the net impact. For instance, 55 per cent of the small-scale firms reported job gains after 1983 whilst 27 per cent registered job losses. Thus, the net performance of the small-scale manufacturing sub-sector stood at 28 with regard to employment (Table 10). In another instance, 54 per cent of the medium-scale enterprises experienced a decrease in terms of marketing their produce while 23 per cent of them expanded. The net performance of the medium-sized manufacturing firms regarding the market for their produce was to 21 per cent (Table 13). Similarly, the net performance of all the different size groups in respect of the four indicators of employment, production output, market size and enterprise growth are set out in Table 17.

Table 17: Net performance of firms by size groups (Percentage)

Indicators of performance	Category of firms by size groups			
	All Firms	Small	Medium	Large
Employment	27	24	28	67
Production output	26	55	-13	45
Market	0	14	-21	1
Enterprise growth	50	24	-24	-
Total net performance	103	117	-30	113

It can be deduced from the total net performance of all the firms that since the inception of trade liberalisation, the entire domestic manufacturing sector has fared well. Nevertheless, reference to the different size categories reveals what is masked by the aggregation. The overall net performance of medium-sized firms was negative. The performance of the small- and large-scale was positive, with the former doing better than the latter.

4.1.2 Performance of Domestic Manufacturing Firms by Sub-sector Categories

The unevenness in the performance of domestic manufacturing firms since the inception of the SAP can also be illustrated through sectoral analysis. The same indicators involving changes in employment, production output, market size and enterprise growth were used in the analysis. The sub-sectors involved are food, textiles, wood and chemicals.

Table 18 shows significant differences in performance between sectors. Wood product firms had the highest performance, showing increases in employment (58 per cent), production (58 per cent) and market size (66 per cent). Wood product firms are domestically resourced and benefited from trade liberalisation through increased exports of value-added lumber and knocked-down furniture. On the whole the increases in employment and production are quite remarkable for all categories except that of textile firms (Table 18).

Table 18: Firms Performance by Subsector (Percentages)

Change since 1983 or start up	All firms surveyed	Food products	Textile products	Wood products	Chemical products
Change in Employment					
Increase	51	50	46	58	50
Same	25	25	27	25	25
Decrease	24	25	27	17	25
Change in Production					
Increase	55	56	53	58	50
Same	16	19	14	14	13
Decrease	29	25	33	33	17
Change in Market Size					
Increase	39	38	27	66	25
Same	29	38	33	17	25
Decrease	32	25	40	17	50
Total Number of Firms (N)	(51)	(16)	(15)	(12)	(8)

The situation regarding changes in market size shows chemical product firms experiencing a market contraction of 50 per cent while the textile product market went down by 40 per cent. This is partly due to the importation of cheaper chemical and textile products as a result of trade liberalisation. The inability of the firms to adjust and expand their market through promotion and product diversification is also a major factor. Added to that is the demand constraint arising from the considerably reduced purchasing power of local customers.

Table 19 shows the shares of the various sub-sectors in terms of firms established prior to and after 1983 respectively. While the shares of the textile and chemical products sub-sectors are more or less stable, those of food and wood have witnessed a considerable increase (39 per cent) and decrease (14 per cent) respectively.

Table 19: Enterprise Growth by Sub-sector (Percentages)

Sub-sector	Pre-1983	Post-1983	All Firms

Food	23	39	31
Textiles	29	30	29
Wood	34	14	24
Chemical	14	17	16
No. of Firms (N)	28	23	51

4.1.3 Firm Performance by Gender Ownership

By design and by implication, implementation of the structural adjustment programme was gender blind. It operated somewhat on the assumption that men and women would automatically benefit and bear the inherent burdens equally. However, contrary to claims of the World Bank and the International Monetary Fund, the condition of the poor and vulnerable sections of Ghanaian society, especially that of women and children, has been grossly undermined by the SAP. Women have suffered in extreme forms under the deregulation of the labour market and the erosion of social welfare provision. Their burdens increased due to falling real wages and rising unemployment. In the following section, an attempt is made to assess the performance of domestic manufacturing firms by gender under the SAP.

The performance is assessed with reference to employment, production, market size and enterprise growth for which primary data has been collected. The exercise covers firms established prior to and after the inception of the SAP in 1983.

Table 20: Distribution of Firms by Size and Sub-sector Categories on Gender Ownership Basis (Percentages)

Subsectors	Small-scale Firms			Medium-sized Firms			Total	
	Male	Female	Both sex	Male	Female	Both sex	Male	Female
Food	18	63	37	21	33	26	20	47
Textile	18	25	21	29	67	44	24	47
Wood	5	-	26	29	-	17	36	-
Chemical	2	12	16	21	-	13	20	6
No. of Firm (N)	(11)	(8)	(19)	(14)	(9)	(23)	(25)	(17)

Note: The nine large-scale firms under corporate ownership are not included here.

Subjected to performance assessment based on the criteria of changes in employment, production and market size, the results obtained from the responses of 19 small-scale enterprises and 23 medium-sized concerns were as set out in Table 20.

Table 21: Performance of Firms by Gender Ownership Categories (Percentages)

Change in Employment	1983-2000	Pre-1983		Post-1983	
	All firms	Male	Female	Male	Female
Increase	48	55	12	64	45
Same	24	18	25	29	22
Decrease	28	27	63	7	33
Change in production					
Increase	52	73	38	65	22
Same	17	9	12	21	22
Decrease	41	18	50	14	56
Change in Market					
Increase	29	27	25	36	22
Same	42	55	25	50	33
Decrease	29	18	50	14	45
(No. of firms = N)	(42)	(11)	(8)	(14)	(9)

Note: The nine large-scale firms under corporate ownership are not included here.

On employment, the data shows considerable gains in job creation in the male-owned enterprises for both before and after 1983 compared to those of the female-owned firms. The job losses (63 per cent) of the female-owned firms established prior to 1983 are particularly noteworthy. There is an appreciable amount of rigidity or inflexibility amongst firms ranging between 18 per cent to 29 per cent amongst the male-owned firms and 22 per cent to 25 per cent amongst the female-owned ventures respectively.

In terms of changes in production, male-owned firms dominate in increased output, recording 52 per cent for all firms, 73 per cent for firms established before 1983 and 65 per cent of those which started up in the post-1983 era. Over 50 per cent of the female-owned firms in each case suffered production contraction for the periods prior to and after 1983.

Market response by male firms in all cases is low considering that the larger proportion of the firms ranging from 50 per cent to 55 per cent did not register any changes in terms of market expansion or contraction. The female-owned firms even performed worse with 25 per cent and 22 increases for the two periods considered as against 27 per cent and 36 per cent for the male-owned

firms respectively. As much as 50 per cent and 45 per cent of the female-owned firms recorded decreases in market size for the period prior to and after 1983.

4.2.0 Macro-Level Analysis

4.2.1 The Causes of Decline in Growth Rates of Domestic Manufacturing in Ghana

In this context, manufacturing sector decline is understood to involve:

- a decrease in the volume of product output;
- the excess of business deaths over births;
- the contraction of product markets; and
- the limited emergence of new enterprises.

The small size of Ghana's manufacturing base indicates that trade expansion ought to have been accompanied by production expansion to develop the sector. However, trade liberalisation has tended to let industrial policy be subsumed by trade policy.

The investigation of the factors underlying the decline in the growth rate of the domestic manufacturing sector was based on three strands of experience and opinion: (i) the perception of the sampled entrepreneurs drawn from their experience at the firm level; (ii) the members of private sector organisations with a broader perspective beyond the firm level; and (iii) the officials of the Ministry of Trade and Industry and its component institutions which are associated with all the policy issues concerned with the development of trade and industry in the country.

Box 1 contains an amalgamation of all the responses from entrepreneurs regarding the biggest problem facing their business. The problems range from the lack of access to credit to purchase equipment and machinery as well as to finance working capital through the acquisition of raw materials and supplies. Entrepreneurs mentioned the high prices of inputs, both local and imported as well as the availability of these inputs. Some entrepreneurs complained of the old age of their equipment and machinery and the high cost of replacement. They acknowledged that their methods of production are outmoded, resulting in poor quality products that cannot compete with imported goods. There is also a demand constraint as many consumers complain that they do not have enough money to buy things. Production costs are high because interest rates are high, along with utility prices, exchange rates and inflation.

To isolate the most crucial problems underlying the decline in the growth rate of the domestic manufacturing sector, entrepreneurs were asked to list up to three problems they felt were the major constraints to the well being of their business. Table 22 presents the responses of the firms by size groups. For all size groups, limited access to credit stood out as the single most serious problem cited by entrepreneurs. This was followed by insufficient demand. For small firms, the other most significant problems were high utility costs, the cost of domestic raw materials, competition from imports and local firms and inadequate infrastructure.

For medium-sized enterprises, the outstanding problems were high costs of imported raw materials, high utility prices, the competition from imports, high interest rates and high exchange rates, in addition to credit and demand constraints. Large-scale firms also cited the high cost of imported and domestic raw materials, inflation, competition from imports and inadequate infrastructure. Limited access to credit and constrained demand were the problems most frequently cited.

Box 1: Combined Results of Sessions in the three Research Centres

Problems mentioned by respondents	Accra	Kumasi	Tema	Frequency
Access to imported inputs	✓	✓	✓	3
Access to domestic inputs	✓	✓	✓	3
High cost of imported inputs	✓	✓	✓	3
High cost of domestic inputs	✓	x	✓	2
Access to credit	✓	✓	✓	3
High interest rates	X	✓	✓	2
High inflation	✓	x	✓	2
High exchange rates	✓	✓	✓	3
Access to foreign exchange	X	✓	x	1
Competition from imports	✓	✓	✓	3
Competition from local products	X	✓	x	2
Insufficient demand	✓	✓	✓	3
Uncertainty of government policy	X	✓	x	2
Lack of skilled labour	X	✓	x	1
Lack of business support	X	✓	x	1
High utility prices	✓	✓	✓	3
Services cost recovery	X	✓	x	1
Inadequate infrastructure	X	✓	x	1

Difficulties in obtaining licenses	✓	✓	x	2
Ownership regulation	✓	x	x	1
Inconsistent taxation	✓	✓	✓	3

Legend: Problem mentioned
Problem not mentioned

Note: The survey covered six entrepreneurs (three male, three female) in each research centre.

The same list of problems by firm size group has been set out in line with sub-sector categories in Table 21. Across all sub-sectors, limited access to credit and inadequate demand constitute the overarching problems. Credit was needed to finance not only working capital but also to replace the outmoded equipment and machinery. Food product firms faced competition from fresh foods on the market as well as imports. The firms faced high prices for raw materials as demand for fresh foods was hardly met. As a result of the inadequate supply of raw materials, the industries tended to operate below installed capacity.

For the textile sub-sector, both domestic and imported raw materials were expensive. Credit was required to replace dilapidated and obsolete plant and machinery but was costly to get. Competition from imported textiles was intense and the sector was overwhelmed by imported second-hand clothing. Demand for locally produced textiles is really low as they tended to be of lower quality and where they met the standards, they were costly.

The wood products industry had problems with supplies of both domestic and foreign inputs. Utility prices and exchange rates were high. There were complaints of inadequate demand but not to the same magnitude as the other sub-sectors studied. Wood products firms seemed to face no problems regarding competition. Chemical product industries listed the high prices domestic and imported raw materials as their major problems. They also had to grapple with credit scarcity and insufficient demand.

Table 22: Problems cited by Size Groups (2000): Percentage in each Size Category)

Problems	Small		Medium		Large	
	No.	%	No.	%	No.	%
Cost of imported raw materials	1	4	3	26	5	56
Cost of domestic raw materials	6	20	2	16	4	44
Limited access to credit	20	68	10	73	5	56

High utility prices	8	28	3	26	1	1
High interest rates	4	12	2	16	1	1
High exchange rates	3	10	2	16	1	1
Competition from imports	7	24	3	26	3	33
Competition from local firms	5	16	1	8	3	33
Insufficient demand	10	34	2	16	8	88
High inflation	2	8	1	8	2	22
Limited infrastructure	5	16	1	8	3	33

N = 29 for small; 13 for medium; 9 for large and 51 for total.

The severity of the problems experienced was assessed according to ownership by gender. While Table 23 shows the analysis according to gender ownership by size groups, Table 24 depicts gender ownership by sub-sector circumstances.

Table 23: The Severity of Constraints According to Gender Ownership by Size Groups

Problems	Small		Medium		Large	
	Male	Female	Male	Female	Male	Female
Cost of imported raw materials	*	*	+	x	+	-
Cost of domestic raw materials	*	*	*	+	+	-
Limited access to credit	X	x	x	x	x	-
High utility prices	X	x	*	*	+	-
High interest rates	*	*	+	+	x	-
High exchange rates	+	+	+	x	x	-
Competition from imports	x	x	x	x	x	-
Competition from local firms	+	+	*	*	+	-
Insufficient demand	x	x	x	x	x	-
High inflation	*	+	*	*	*	-
Limited infrastructure	+	+	+	+	*	-

Combined results of two focus group discussions with 12 entrepreneurs (six male and six female) in Accra and Kumasi.

* = Somewhat manageable
+ = Moderately severe
x = Very severe

The experience of male and female firms regarding the set of problems identified is more less the same. It is notable that there are no female entrepreneurs in large-scale manufacturing. It may be inferred that the listed problems play a role in the absence of women in the ownership of large firms in the domestic manufacturing sector. There was no indication of any group (male or female) attributing any of the problems to gender differentiation.

Table 24: The Severity of the Problems according to Gender Ownership, by Sub-sector

	Foods		Textiles		Wood		Chemical	
	Male	Female	Male	Female	Male	Female	Male	Female
Cost of imported raw materials	x	x	x	x	*	*	x	-
Cost of domestic raw materials	+	+	*	+	*	*	+	-
Limited access to credit	+	x	+	x	+	+	x	-
High utility prices	+	+	+	+	+	+	+	-
High interest rates	+	+	+	+	+	+	+	-
High exchange rates	x	x	x	x	+	+	+	-
Competition from imports	x	x	x	x	*	*	+	-
Competition from domestic firms	+	+	+	+	*	*	+	-
Insufficient demand	x	x	x	x	*	*	+	-
Limited infrastructure	*	*	*	*	*	*	*	

Combined Results of two focus group discussions with 12 entrepreneurs (six male and six female), one each in Accra and Kumasi.

* = Somewhat manageable
+ = Moderately severe
x = Very severe

As can be deduced from Table 24, the textile and food product sub-sectors have the most problems. The male and female dimensions are more or less the same. However, the women have more problems with regard to credit than the men. Women in Ghana do not have many claims to assets that can serve as security for credit acquisition. More particularly, married women have to seek clearance from their husbands before they can obtain credit.

4.2.2 Growth Constraints Before and After Reforms

It needs to be recalled at this point that out of the total sample of 51 firms subjected to the investigation, 19 (37 per cent) of them were already in existence prior to the reforms. Of the 19 firms, 11(58 per cent) and 8 (42 per cent) were owned and operated by male and female entrepreneurs respectively.

The list of the biggest problems mentioned by all firms centres on raw materials, credit, utility services, interest rates, exchange rates, competition, demand, inflation and infrastructure.

One way to discern the impact of trade liberalisation policies on domestic manufacturers was to find out the degree of persistence of the problems. Table 25 shows the major problems listed by the firms that existed prior to the reforms.

Table 25: Problems Prior to Macro-Economic Reforms (by gender)

Problems	Male		Female	
	No.	%	No.	%
Shortage of imported raw materials	7	64	5	63
Shortage of domestic raw materials	6	55	4	50
Lack of access to credit facilities	4	36	5	63
Poor utility services	3	27	1	13
Lack of foreign exchange facilities	7	64	3	39
High inflation	4	36	3	39
Regulated interest rates	4	36	1	13
Constrained supply of manufactured products	8	73	8	100
Difficulties in getting licenses	5	45	5	65
Poor infrastructure	4	36	2	26
High taxation	8	73	5	63
Total Number (%) of entrepreneurs (N)	(11)	(58)	(8)	(42)

It must be noted that the era prior to the macro-economic reforms was marked by shortages of domestic and imported raw materials, paucity of utility services and infrastructure, lack of foreign exchange and scarcity of credit. Entrepreneurs also had to grapple with difficulties in getting import licenses, high inflation and high taxation. All these constrained the supply of products from the domestic manufacturing sector and resulted in a situation where demand outstripped supply.

After the macro-economic reforms, various cost factors became a major problem. Both domestic and imported raw materials are available, utility services and infrastructure services have considerably improved but the costs to access them are high. Financial sector liberalisation has opened up opportunities for credit acquisition but then interest rates have gone up. Even after the massive devaluation of the currency in the 1980s, it is still not stable but continues to depreciate. Imports continue to increase, outstripping the country's ability to earn foreign exchange. High inflation makes it difficult for households and other consumers to sustain their demand for domestic manufactured goods. Today, supply seems to outstrip demand.

4.2.3 The Impact of Trade Liberalisation on Domestic Manufacturing Firms

Trade liberalisation has two components, import liberalisation and price liberalisation. Import liberalisation made it possible for domestic manufacturing firms to gain access to otherwise scarce material inputs and equipment. However, it also intensified competition from imported products. The removal of government controls on consumer prices was a major component of the SAP. The high inflation and falling real incomes experienced in the 1980s meant that prices were beyond the reach of most households. Nevertheless, price liberalisation allowed firms to pass their higher costs of production to consumers.

Trade liberalisation was meant to favour increased production and exports. However, production levels (arising from augmented capacity utilization) have not increased as envisaged. As a result, there is little or no export expansion in certain areas of domestic manufacturing. Firms have not been able to perform creditably in the new liberalised environment because of obsolete machinery, outmoded production practices and inadequate management techniques. As stated earlier, however, performance has not been uniform among the manufacturing sub-sectors and there is evidence of growing dynamism in some firms while others experience constraints on their growth and competitiveness.

It is apparent that the inflow of imports has adversely affected medium-size firms. This was, however, not strange since the textile industry is the sub-sector that has been most overwhelmed by competition from imports and it is also well represented in the sample of firms in that size group. Small-scale manufacturing recorded notable growth rates, probably due to the response of women to the decline in real family income in the 1980s. Female labour participation rose after 1983 relative to that of males. But this was for the most part in the small-scale caegory, one that is characterised by self-employment and easy entry as well as exit. A lot of the retrenched labour force at the time sought job opportunities in the small industry sector.

Entrepreneurs do not object to the trade liberalisation policy as a matter of principle. But among their worries is the dumping in Ghana of subsidised goods from South East Asian countries. The Association of Ghana Industries, therefore, calls for adjustment support and government assistance commensurate with the help granted to their competitors in other countries, in the absence of which, they argue, they are facing unfair competition.

4.2.5 Exchange Rate Realignment

The highly overvalued exchange rate of the local currency (the cedi) was adjusted in order to stimulate a supply response through export expansion and import substitution. The devaluation also aimed to reduce drastically the excess profits of importers and to greatly improve the prospects for firms manufacturing for export. But may firms have been adversely affected by the sharp rise in the price of imported inputs and the cost of financing them.

Among those industries using domestic resources, food and wood products firms have recorded high growth rates. In contrast, the performance of import-dependent firms has been somewhat unstable and unimpressive.. Problems such as a low capital and equity base as well as inadequate working capital seriously affected their import capacity resulting in low utilisation of both capital and labour. The firms badly affected are in the textile and chemical product sub-sectors. There are, nevertheless, clear cases of positive recovery and growth of some firms in these sub-sectors.

4.2.6 Interest Rate Liberalisation

Interest rate policy has aimed to move further towards complete deregulation and the promotion of competitiveness in banking business. Positive real interest rates are meant to bring aggregate demand and supply into balance, reduce inflation and discourage capital flight. No longer are commercial interest rates to be regulated nor sectoral lending requirements applied. Each commercial bank is free to determine all its borrowing and lending rates. However, interest rates have tended to be discouragingly high for borrowers. With high interest rates and cumbersome procedures for obtaining credit, operating costs and production levels have not measured up to expectation. As a result, the potential benefits from heightened competition and increased exports have not materialised.

4.2.7 Lending Policy and Credit Control

Manufacturers require medium-to-long term credit to retool and expand. The higher risk associated with the high default rates in the country makes bankers reluctant to extend medium- and long-term credit to manufacturers. They prefer to extend short-term credit to commerce The Business Assistance Fund (BAF) was set up to help firms in distress But it failed to do so partly because it has taken too long to process applications for credit. The amounts granted have, in most cases, been inadequate and both the moratorium period (six months) and the period of repayment (18 months) are too short.

The financial system in Ghana remains fragile. Financial resource mobilisation is limited and constrains lending. Many firms cannot raise equity capital by selling shares on the Ghana Stock Exchange Market because they cannot meet the stringent listing requirements of regular records, adequate capitalization and proper management. There is also limited knowledge and experience of partnership and limited liability firms Among wealthy and resourceful Ghanaians which makes them reluctant to invest in business and this undermines the growth of equity finance. Added to that is the non-enforcement of rules and regulations by the public sector and the slow pace of courts in dealing with business issues.

There is hardly any consensus on the effect of trade reforms on domestic manufacturing in Ghana. The evidence is of both negative and positive effects. The results of a participatory assessment of the impact of trade reforms on domestic manufacturing are set out in Table 26. The assessment is based on the perceptions of four categories of people - entrepreneurs, employees, members of public institutions and private organisations, all in the domestic manufacturing sector. A gender perspective was sought by using both male and female respondents.

Table 26: Impact of Trade Reforms on Domestic Manufacturing by Size Group

Groups of Respondents	No.	Size Categories of Firms			
		Small-Scale	Medium Size	Larger Scale	All Firms
Male entrepreneurs	3	+2	-2	+1	+1
Female entrepreneurs	3	+1	-2	N.A	-1
Male employees	3	+1	1	-1	-1
Female employees	3	+1	-2	-2	-2
Public inst. (male Rep.)	3	+1	-1	+1	+1
Public Inst. (female Respondents)	3	+1	-1	-2	-2
Private Org. (male respondents)	3	+1	-2	+1	+1
Private Org. (female Resppondents)	3	+1	-2	-2	-2
Net impact		+1	-2	+1	-1

Matrix Scoring: combined scores of two focus group of different respondent in Accra and in Kumasi

A: Not Applicable = NA Highly Beneficial = +2 Highly Adverse = -2
No effect = 0 Moderately Beneficial = +1 Moderately Adverse = -1

From the responses, the group most adversely affected was the medium-sized category. The overriding reasons assigned are that the medium-sized firms lack the flexibility to adapt or adjust that is characteristic of small firms on the ond hand, and on the other, the economies of scale inherent in large-scale manufacturing firms. Small-scale firms appeared to be better off than the other two size categories. On gender basis, the female perception of the impact of the trade reforms has been negative, probably in consonance with personal experience. Males gave a varied assessment, suggesting that firms under male ownership fared better than those owned or operated by women.

Table 27: Impact of Trade Reforms on Domestic Manufacturing by Sub-sector Categories

Groups of Respondents	No.	Size Categories of Firms			
		Textile	Food	Wood	Chemical
Male entrepreneurs	3	-2	-1	+1	+1
Female entrepreneurs	3	-2	-1	N.A	+1
Male workers	3	-1	-1	+1	+2
Female workers	3	-2	-2	NA	+1
Public Institution (male respondents)	3	-1	-2	+2	+2
Public Institution (female respondents)	3	-2	-1	NA	+1
Private Organisation (male respondents)	3	-1	-1	+2	+1
Private Organisation (female respondents)	3	-1	-1	NA	+1
Net Impact		-2	-1	+1	+1

Matrix Scoring: Combined scores of the same size groups of different respondents in Accra and in Kumasi

A: Not Applicable = NA Highly Beneficial = +2 Highly Adverse = -2
No effect = 0 Moderately Beneficial = +1 Moderately Adverse = -1

The most adversely affected sub-sector is the textile products group, followed by that of food. The sub-sector that has largely benefited from the trade reforms is the wood products sector. The chemical products category has also fared well with the trade reforms (Table 27). Reasons for these performances will be explained later on in the report.

4.3 Impact of other Structural Adjustment Policy Measures

Upon further discussions and probing, the research group indicated that the current circumstances of the domestic manufacturing sector cannot be assessed in reference to the trade reforms alone. They need to be understood within the overall context of the structural adjustment programme and the entire economic environment.

In a series of brainstorming sessions, the groups listed the other significant factors as exchange rates, interest rates, lending policy, foreign exchange retention and repatriation. Other elements included tariff adjustments, excise duty and sales tax, along with the divestiture of state owned enterprises.

This called for a closer examination of the entire gamut of macro-economic policy measures introduced by Ghana's SAP. This typical, World Bank-sponsored scheme comprises two basic policy components: (i) demand-side policies, purported to moderate the growth rate of domestic demand; (ii) supply-side policies intended to increase the supply of goods and services. Table 28 sets out of the typology, the phasing and sequencing of the adjustment process.

The main plank on the demand side was the monetary policy. The lending policy and credit control that was instituted was meant to lower the public sector share of total credit availability and thereby release a greater proportion of credit to the private sector and safeguard the solvency of the financial system. Interest rates were liberalised to make real interest rates commensurate with the rate of inflation. The price reform package adjusted wages and utility prices to levels deemed to reflect their economic costs.

Table 28: Structural Adjustment Reform Policies in their Sequence and Phases

Policy Reform	Stabilization phase	Rehabilitation phase	Liberalisation and growth phase
(a) Pricing Reform Package			

	X	o	+
1. Exchange rate	X	x	o
2. Interest rate	X	0	+
3. Wage rate	X	0	+
4. Energy prices		0	+
5. Infrastructure			
(b) Trade and Industrial Policy Package			
		x	O
6. Industrial Incentives			
7. Non-traditiona l export promotion			X
		x	0
8. Price controls		x	x
9. Trade restrictions			
(c) Investment Package			
10. Public investment programme			X
			X
11. Private sector initiatives			
(d) Taxation and Subsidy Package			
12. Tax reform	X	o	+
13. Consumer subsidies	X	o	+
14. Producer subsidies	X	o	+

Legend: x = Initiate Action o = Continue Action, Evaluate and Adjust
+ = Sustain

Source: World Bank, 1986: p. 73)

The supply-side measures associated with trade and domestic manufacturing included the elimination of price controls, the dismantling of the import licensing system and the promulgation of a revised investment code to provide industrial incentives. The investment code guarantees repatriation of profits and capital accruing to foreign investors and provides protection from expropriation.

The measures included fiscal policies that tended to eliminate tariff schedules that implied protection for domestic manufacturing firms. other fiscal changes included the streamlining of income taxes, corporate tax rates, customs and excise duties and sales tax. Institutional reforms involved the strengthening of the State Enterprises Commission and the setting up of the Divestiture Implementation Committee. The State Enterprises Commission was

restructured to enable it to revive and boost the performance of the 18 core state-owned enterprises that were identified as viable but in distress.

The entrepreneurs were asked to indicate which aspects of their operations were affected by the policy measures. They mentioned operational costs, production levels, market competition, product quality, export volume, employment levels and business management. These were set in a matrix with the policy measures and then subjected to entrepreneur group discussion. Gender-specific perceptions were sought by constituting male-entrepreneur and female-entrepreneur groups. Table 29 shows the groups' assessment of the impact of structural adjustment policies on the performance of domestic manufacturing firms. The female entrepreneurs were unable to address the impact of repatriation of foreign exchange and export retention because they had no relevant experience. They had also not been involved with the divestiture of state-owned enterprises. In these areas, their responses have been indicated as non-applicable (NA).

Table 29: The Impact of Structural Adjustment Policy Measures on Domestic Manufacturing in Ghana

Policy Measures	Areas of impact on firms														
	Production		Employment		Competition		Quality		Exports		Operational cost		Management		Overall Impact
	M	F	M	F	M	F	M	F	M	F	M	F	M	F	
Interest rates	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2
Lending policy	-2	-2	-2	-2	-2	-2	-1	-2	-2	-2	-2	-2	+1	-2	-2
Credit control	-1	-2	-1	-2	-1	-1	+1	-1	-1	-2	-1	-2	-1	-2	-1
Exchange rate	+1	+1	+1	+1	-2	-2	+1	-1	+1	-1	-2	-1	-2	-1	-1
Export retention	+1	NA	+1	NA	+1	NA	+1	NA	+1	NA	+1	NA	-1	NA	+1
Profit repatriation	+1	NA	-1	NA	+1	NA	-1	NA	+1	NA	_1	NA	-1	NA	-1
Tariffs	+1	+1	+1	+1	+1	+1	+1	+1	-1	+1	+2	+1	+1	+1	+1
Excise duty	-1	-1	-1	-1-1	-1	-1	-1	+1	-1	-1	-1	-1	-1	-1	-1
Sales tax	-1	-1	-1	-1-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1
Divestiture	*1	NA	-1	NA	+1	NA	+1	NA	+1	NA	+1	NA	+2	NA	+1
Utility services	-1	-2	-1	-1	-1	-2	-1	-1	-1	-1	-2	-2	-1	-2	-1
Cost recovery	-1	-2	-2	-2	-1	-2	-1	-1	-1	-1	-1	-2	-1	-2	-1

Matrix Scoring: Combined scores of the same size groups in Accra and Kumasi

M: Male — Highly beneficial: +2 — Highly adverse: -2 — Non-Applicable: NA
F : Female — Moderately beneficial: +1 — Moderately adverse: -1

Combined scores of two focus group discussions, one in Kumasi, one in Accra.

Number of people in each group: six female, six male.

It can be deduced from Table 29 that the policy measures have had a mixed impact on domestic manufacturing. It is the extreme cases of highly beneficial and highly adverse effects that call for appreciation and concern respectively. As can be discerned from Table 29, the moderately beneficial and moderately adverse effects dominate, indicating that the impact of SAP is one that deserves neither outright condemnation nor acclamation.

The above observations were discussed with officials of the component institutions of the Ministry of Trade and Industry. The emerging consensus on the causes of the decline in the growth rate of domestic manufacturing may be summed as follows:

1. Macro-economic environment

The negative impact of the macro-economic reform package does not augur well for growth in the manufacturing sector. The present macro-economic environment is characterised by high inflation, a highly depreciated local currency (the cedi) and high interest rates. This tends to discourage investment inflows in view of the low returns to existing industrial investment.

2. Lack of Access to Finance and Credit

It is hard for domestic manufacturers to obtain credit from financial institutions due to collateral and security requirements that they can hardly meet. Where credit is available, it comes with high interest rates. Unable to meet their working capital l requirements, firms cannot obtain financial assistance to rehabilitate and re-tool their plants since they need long-term finance in an environment of high uncertainty. Burdened with obsolete machinery, equipment and technology in a liberalised market regime, local manufacturing firms are not competitive with their foreign counterparts.

3. Poor managerial skills and lack of technical know-how

Empirical research in Ghana provided the following results (Frimpong-Ansah, 1996: p. 73):

- a firm with an educated workforce is more efficient and more productive;
- vocational and technical training at lower levels is more common in Ghana;
- there is greater emphasis on apprenticeship-type training;
- training is limited to existing machinery; training on new techniques and state-of-the-art procedures is virtually unavailable;
- for entrepreneurs, there is little education and training in managerial and technical skills at the upper end of the technology spectrum .

These are primitive conditions that discourage the introduction of advanced technology and explain, at least partly, the overall stagnation of Ghana's manufacturing sector

4. Inadequate Knowledge and Information about Export Market Requirements, Procedures and Techniques

There are five broad areas in which firms of all sizes are affected in the area of constraints to exports. These include:

(i) An inadequate policy framework;
(ii) Inadequate financial mechanisms and incentives;
(iii) Inadequate knowledge of markets and product quality;
(iv) Inadequate institutional support; and
(v) Inadequate investment.

The procedures and requirements within export markets are different from those of the domestic market, most notably in terms of dictates such as the appropriate packaging of products and delivery according to agreed schedules.

5. Lack of Research and Development Information

There is an absence of emphasis on research and development in most establishments. This is due to the fact that the benefits of research are of a long-term nature. Most establishments are interested in quick results (profits) and are not prepared to invest in research that delivers benefits at a later date. The main sources of research information are the Statistical Services of Ghana, the research centres of the Ghanaian Universities, the Bank of Ghana, the World Bank and the occasional local or foreign research group. These sources are for the most part impeachable. But the main constraint lies in the reduction of the value of information to economic agents through lateness, inaccessibility, unreliability, irrelevance and dissemination problems.

The domestic manufacturing sector, especially the small- and medium-sized firms are yet to become responsive to the immense benefits of information technology. The obvious benefits are the opportunity for greater diversity, complexity and flexibility which modern technology demands. Information technology also enables easier response to new opportunities and access to new and higher quality standards at low cost. New information technology also reduces ignorance about the changes in market conditions to which a firm needs to adjust.

6. The State of Physical Infrastructure

Although there have been improvements in infrastructural, manufacturers still run into a lot of problems with energy due to electricity outages, uncertain water supply and transport bottlenecks.

7. Weak Inter-Linkages

There is inadequate linkage between small, medium and large firms. One result is limited sub-contracting and high operating costs, particularly for smaller firms. There appears to be too little or no linkage between agriculture and industry, a connection that has long been seen as a readily available impetus for the growth of the manufacturing sector. Whilst agriculture ought to provide the raw material base, industry is to provide inputs for agricultural development.

8. Business Associations

Business associations that are active in the government's programme for private sector support tend to bring together the medium- and large-scale manufacturing firms. The major ones are the Private Enterprise Foundation, the Association of Ghana Industries, the Ghana National Chamber of Commerce and the Federation of Associations of Ghanaian Entrepreneurs. Others are the Association of Small-Scale Industries and the Ghana Association of Women Entrepreneurs. All the associations have problems in mobilising and motivating members and establishing their credibility.

9. The Role of the State

The political economy analysis indicates that when the government of the day acts as a promoter of the private sector, there is economic progress. When there is a culture of administrative controls and restrictions, about the result is stagnation and decline. The state is expected to be a facilitator of growth led by the private sector. It is supposed to consume less of the national resources and allow the productive sectors to grow. It needs to pursue policies that stimulate growth while tackling factors that constrain growth. The private sector expansion expected to occur in response to economic liberalisation has begun in Ghana but has not moved in step with the rate of market re-orientation. The contraction of the state has also been slow due to the rent-seeking interest groups inherent in the country's political democratisation process. These interest groups are city dwellers, organised associations such unionised workers, students, bureaucrats, the security forces, professional bodies and consumer associations.

10.Institutional Constraints

The Ministry of Trade and its component agencies face several institutional constraints that affect their performance and that of domestic manufacturing. These may be summarised as follows:

- Limited staff strength arising from ceilings on staff recruitment aggravated by the loss of skilled personnel due to low remuneration, incentive and motivation;
- Inadequate logistical support due to budgetary constraints;
- Poor inter-agency linkage;
- Inadequate overseas representation to serve as promotion outlets;
- Absence of a sound enterprise culture which hinders the promotion of entrepreneurship;
- Lack of corporate planning for manpower training and development; and
- Low level of research as a continuous ministerial activity both in-house and through the use of consultants.

The composite agencies of the Ministry of Trade and Industry are the Ghana Free Zones Board, the Ghana Standards Board, the National Board for Small-Scale Industries and the Ghana Export Promotion Council. The results of a workshop organised by the Ministry of Trade and Industry further gave credence to the theory that the decline in the growth rate of domestic manufacturing is policy-induced.

In matters of development, the government of the democratic regime seeks to have a high degree of national consensus so that development policies can be stable, consistent and sustained over time, irrespective of changes in political leadership. In this context, the Ministry of Trade and Industry organised a workshop on 22-24 August 2000 in Accra to evaluate the performance of the domestic manufacturing sector to serve as a basis for policy design. Amongst the participants were officials of the ministry 's component agencies, research institutions, consultants, entrepreneurs, politicians and members of business associations.

One of the key issues discussed at the workshop was the decline of the manufacturing sector. The general consensus was that the trade and industry component of the government policy document, Ghana: Vision 2020, constitutes a thorough policy framework. It was agreed that the government understands the requirements of industrial development and that the industrial policy framework is consistent with international best practice. However, little had been implemented, hence the need to identify the causes.

The outcome of the deliberations (which our research team recorded for our needs) can be put in the form of a problem tree (Figure 4). The manifestation of the decline in the growth rate of the manufacturing sector takes the form of low levels of production, low job creation, little or no expansion of existing enterprises and constrained entry of new enterprises. The basic causes of the decline were summed up as low investment, outdated technology and low skills, which are not mutually exclusive. Further disaggregation of the root causes revealed factors such as macro-economic uncertainty, financial constraints, adjustment constraints, demand constraints and infrastructure constraints. Cutting across these elements is the problem of poor policy co-ordination and implementation. At the base of the problem tree are the problems experienced at the firm level (which have, in fact, also been stated by entrepreneurs in our field survey).

Participants identified the macro-economic uncertainties as insufficient access to foreign exchange, exchange rate overvaluation, inadequate fiscal controls and high inflation. The financial constraints comprise low access to credit, high interest rates, tight lending policy and currency problems. Demand is constrained by low incomes, high costs (inflation), unsophisticated consumers and lack of aggressive marketing skills. The inability of firms to adjust is attributed to lack of inputs and their high cost, high local market concentration, low productivity, limited exports and high competition. The infrastructure constraints relate to government support services and facilities including transport, electronic communication, education, research and development.

4.3.1 Gender and the Reform Policy Measures

It is argued in some quarters that the economic reform measures have adversely affected women more than men. Gender issues connected with policy elements are normally analysed in terms of:

- the welfare needs of women in relation to those of men, since the former are more vulnerable and require specific support;
- equity criteria, since women have the right to equality with men;
- poverty reduction, since even poor women will be able to meet basic family needs and domestic obligations if granted access to the means;
- efficiency, where greater participation by women will greatly engender project success;
- empowerment, because of the unequal distribution of power and benefits between men and women; and
- gender balance, in which circumstances men and women are allies.

These fundamental dimensions have been placed in a compatibility matrix with the reform policy measures. Table 30 is a summary of the results of the compatibility assessment of the policy reform measures and the gender elements made by combined groups, selected in the three research centres of Accra, Kumasi and Tema. In each case, the selected group comprised three men and three women as this was found to be the convenient group size for the exercise.

The results in Table 30 are useful on the simple grounds that the policy reform measures did not take into account gender-related problems, needs and priorities. As a result, there is insufficient information for an appropriate policy orientation with regard to welfare needs, equity issues, anti-poverty, programmes, empowerment and the overall gender dimension of development. Consequently, there are no clear organisational and administrative structures in place to ensure equal access (gender balance) to the benefits accruing from these policies for both men and women.

Table 30: Genders Issues and Reform Policy Measures Compatibility Matrix

Reform Policy Measures	Gender Issues					
	Welfare	**Equity**	**Anti-Poverty**	**Efficiency**	**Empowerment**	**GAD**
Interest rate liberalisation	X		x	x	x	x
Lending policy	X	x	x	x	x	x
Credit control	X	x	x	x	x	x
Exchange rate	X	✓	✗ *	✗ *	✗ *	✗ *
Export retention	✗ *	✓	✗ *	✓	✓	✓
Tariffs	✓	✓	✓	✓	✓	✓
Excise duty	✓	✓	✓	✓	✓	✓
Sales tax	✓	✓	✓	✓	✓	✓
Divestiture	✗ *	✗ *	✗ *	✗ *	✓	✓
Utility costs (prices)	x	x	x	x	x	x
Cost recovery	x	x	x	x	x	x

Compatibility Matrix: Combined results of three group assessments. One group each from Accra, Kumasi and Tema. Each group comprised three men and three women.

Legend: Compatible = ✓
Incompatible = x
Mixed = ✗ *

The question that needs to be asked is: "did the reform policy measures really restrain any of the gender variables from actively participating in domestic manufacturing or in any sector of the economy?" The answer was both "yes" and "no" because the implications are indirect and so are the repercussions. There are hardly any clauses in the policy reform documentation that seek to restrain men or women in terms of the participation and subsequent performance in domestic manufacturing.

Nevertheless, the participation of women in domestic manufacturing follows the same limited pattern (especially in large-scale manufacturing) as in the entire national economy. The limited participation is the outcome of what can be described as "social construction or norm". The participation, performance and contribution of women were subject to relevant education. But the majority of

women are denied education, which automatically limits their roles. Basic education is a significant requirement for entrepreneurship. Those who pursue specialised forms of education such as vocational, technical and commercial schools, end up as entrepreneurs. The significance of education to industrial development can be assessed in relation to skills development and innovation. With limited education, women are forced to go into prescribed roles such as housewives, food processors, garment weavers or makers, petty traders and some combination of such roles. Women in there settings train their daughters to follow in their footsteps.

V. MACRO-ECONOMIC SURVIVAL STRATEGIES OF DOMESTIC MANUFACTURING FIRMS IN GHANA

5.1 Before the Launch of Structural Adjustment Programme

The poor performance of the domestic manufacturing firms prior to the SAP was principally due to inappropriate economic policies pursued by successive governments since the 1960s. But it is pertinent to note that whilst the domestic manufacturing sector was undergoing the traumatic experience of stagnation and decline, some firms adopted certain survival strategies to cope.

With the exception of a few industrialists who received import quotas and licenses and were inclined to follow the regulatory processes, hardly any entrepreneur complied with the administrative or controlled price mechanism. Business transactions were carried outside the confines of official circles, which resulted in the emergence of what was referred to as the informal market and later to be known as the "parallel or real" market. Entrepreneurs circumvented the restrictive economic regime by liberalising the economy according to their own operational convenience. The government naturally classified their activities as illegitimate and criminal and sought to punish them. Those who fell victim forfeited their savings, working capital, their businesses or were maligned, disgraced or incarcerated (Frimpong-Ansah, 1996: p. 41).

But from conventional neo-classical economic standpoint, they were not engaged in any wrongdoing. Their activities rather represented a rational response to state economic illegitimacy. This is in line with the contention that the state erodes it legitimacy by making laws, rules and regulations that are inimical to their welfare. The survival strategies adopted by the domestic manufacturing firms during the period were as follows:

- Illicit cross-border trade (or smuggling), which was a rational response to the unnecessarily rigid trade barriers erected by the state;

- Pricing without reference to the administratively fixed and controlled prices, which, in reality, represented the proper market rates;

- Hoarding of commodities, which in fact constituted a stock management technique in response to market and price conditions; and

- Illicit trading in currency, which amounted to rational buying and selling of currency at market rates. These rates were more realistic than those

posted by banks that could not, in any case, supply the currency at those official rates.

The other mechanisms of survival included the production of sub-standard quality goods, the use of domestic raw material substitutes, domestic fabrication and use of spare parts, machinery, equipment and the laying-off of workers. Marginal firms decided to shut down pending the return of better economic conditions.

5.2 After the Launch of Structural Adjustment

By the early 1980s, the modernisation model that the protectionist industrial policies were meant to promote in Ghana had come to a grief. The model had to some extent helped to finance the state effort to overcome internal blockages to industrialisation and development. One such bottleneck was the absence of a local, entrepreneur class. That necessitated a state-led approach with government interventions in both internal and external markets far beyond the country's financial capacity.

The model was in part derived from the theory of late development and implied the need to "leap frog" in order to catch up with the industrialised West. The model was authored, acclaimed and financed by the international donor community and had an underlying political agenda which sought to keep Africa ad other developing regions in the capitalist camp. The hard realities of the failure were evident by the 1980s. By then, Ghana was unable to raise productivity to earn enough foreign exchange to pay for the debts incurred during the “developmentalist” or modernisation extravaganza.

The structural adjustment programme was designed to promote an open and competitive economy with minimum state intervention. Despite the accolade of a "model adjuster" by the international financial institutions, Ghana's economic performance has since been up and down again with a tendency to finish on the same line or even below it.

The growth of gross national product (GNP), when averaged over the period, does not quite match the rate of population growth. After an initial recovery, private investment has remained weak and uneven since 1986. This narrative of general economic performance applies to the domestic manufacturing sector.

This section of the study is devoted to a discussion of the survival strategies employed by the firms throughout the adjustment period.

Brainstorming sessions with selected groups of 10 entrepreneurs in each of the three study areas (Accra, Tema and Kumasi) generated a catalogue of survival strategies employed by firms in the domestic manufacturing sector. The strategies can be classified as raw material acquisition, labour input management, capital investment, marketing strategies and coping with the environment (Box 2).

Box 2: Survival Strategies of Firms after the Launch of the Structural Adjustment Programme

Strategic Components

Raw material availability Access and affordability	- collective purchase - reduction of imported components - development of local raw material sources
Labour force	- staff training - reduction of numerical strength - intensification of supervision -
Capital Input Fiscal and plant	- rehabilitation/replacement - foreign participation sought for investment - ploughing back of returns - group effort to secure credit - reliance on personal savings/relations
Marketing production, Promotion	- new product mix and diversification - exploration of export avenues - opening up of distribution channels/networks - improved product quality - advertising, packaging, incentives
Business environment	- establish associations to influence policy
Collective bargaining	-fight against unfair competition and dumping of cheap imports. - use of foreign exchange to hold down inflation

- use of social channels to get access to credit (acquaintances and friends in advantaged positions)
-unauthorised methods to circumvent or reduce taxes.

5.2.1 Raw Material Acquisition

To ensure availability and access to imported raw materials at a reasonable cost, some firms have arranged to purchase imported or local raw materials on collective basis. The tariff system appears to favour importers of finished products as against manufacturers who use imported raw materials. Bulk importation of raw materials is more economical and rewarding than individual firm efforts.

Other firms have tended to solve the raw material input problems by reducing the proportion of imported inputs and relying on domestic substitutes. In that vein, they have entered into the development of the local raw material sources. Seeking partnership with foreign investors constitutes another survival strategy explored by firms to ensure the flow of raw material inputs for sustained operation.

5.2.2 Labour Inputs

To survive, some of the firms have reduced their workforce. Training of workers has become a crucial element of survival strategy. Formal training is given to refresh, improve or adjust the skills of employees. Most of the training offered by firms seems to be in management courses rather than technical ones and they tend to be sporadic rather than sustained. Management training is given to enhance rigorous staff supervision for maximum output. In the case of privatised firms, many employees are made redundant. A limited number with intimate knowledge of the machinery, equipment, processes and contacts are kept. Foreign participation is sought by certain firms to boost their technical capabilities.

5.2.3 Capital Inputs

Capital inputs include machinery and equipment as well as the physical cash required for their purchase and operation. For firms to survive, investment must take place. Contrary to the perception of certain local observers, investment is taking place. Both foreign and domestic competition serves as a stimulus to

investment in capability acquisition. To survive, some firms have invested in rehabilitation and replacement of equipment. Foreign participation is sought to support capital investment and provide the necessary foreign exchange inputs. Firms mostly rely on the ploughing back of revenue into investment in view of the prevailing high interest rates charged by the financial institutions. However, some small firms are forming clusters to meet the credit conditions laid down by the financial houses. Credit from relatives and friends is an important source of working capital for the survival of many small firms.

5.2.4 Marketing

Against the background of acute demand constraints, firm try to survive by opening up several distribution outlets and networks, exploring export avenues and niches in the sub-regional, continental and international markets and consolidating themselves on the domestic market. Strategies adopted include the development of a diversified product mix, improvement in product quality and strengthening of promotional methods. These include aggressive advertisement, packaging improved customer service and incentives.

5.2.5 Battling the Business Environment

Both men and women entrepreneurs have singly or jointly in certain cases formed associations to fight for their interests in the business environment. This led to the creation of the Association of Small-Scale Industries, the Ghana Association of Women Entrepreneurs, the Federation of Associations of Women Entrepreneurs, the Private Enterprise Foundation and the Association of Ghana Industries amongst others. These associations have been formed to deal with issues beyond the capability of individual firms. These include adverse policy measures and their outcomes such as high interest rates, inflation, taxes, utility prices and poor infrastructure. Individual firms also use their own initiative to battle with the high inflation, limited access to credit, taxes and high costs of utilities.

5.3 Classification of Firms According to Growth Performance

In the absence of an adequate single measure to gauge the performance of the individual firm, synthetic indicators was constructed and used in the assessment. This involved a combination of changes in employment, production output and market size with impressionistic deductions from the interviews. By the criteria, four categories of individual firms were identified and comprised the following:

Growing Firms

These are firms that have recorded growth in employment, production output and market size since the launch of the SAP in 1983.

Reviving Firms

Initially, these firms stagnated or emerged from decline in one or more of the categories (employment, production output, market size) and have picked up and are now growing;

Declining Firms

These have stagnated, they are unable to revitalise and are tending towards decline. They are in fact shrinking in terms of employment, production output and market size.

Distressed Firms

These firms have shown a downward trend in employment, production output and market size throughout the SAP period. They have virtually lost their viability and are just waiting to die out.

Table 31 below shows the distribution of the firms studied in terms of their performance (growth or decline) by size groups. The worst performance is in the medium-size category where as many as six out of the 12 firms are distressed and four are on a decline.

Table 31: Performance by Size Group Categories

Performance	Size Categories				
	Small	Medium	Large	Total	%
Growing	17	1	2	20	39
Reviving	5	1	2	8	16
Declining	5	4	3	12	23
Distressed	2	6	2	11	21
Total (N)	29	12	9	51	100

Table 32 depicts the distribution of the individual firms by performance according to sub-sector categories. The worst performance is discernible in the textile and food manufacturing sub-sectors. The best performance is in the wood products sub-sector.

Table 32: Distribution of Firms according to Performance (by sub-sector categories)

Performance	Sub-sector Categories					%
	Food	Textiles	Wood	Chemicals	Total	
Growing	6	4	8	2	20	39
Reviving	3	2	2	1	8	16
Declining	4	4	2	2	12	24
Distressed	3	5	0	3	11	21
Total (N)	16	15	12	8	51	100

The performance of domestic manufacturing firms was also assessed according to ownership by gender. The results are presented in Table 33.

Table 33: Distribution of Firms according to performance by gender

Performance	Distribution by Gender			%
	Male	Female	Both sexes	
Growing	14	4	18	43
Reviving	4	2	6	15
Declining	3	6	9	21
Distressed	4	5	9	21
Total (N)	25	17	42	100

Note: 9 Large-scale firms under corporate ownership not included.

Male-owned enterprises are performing better in terms of growth (14) than those owned by females (4). There are twice as many male-owned firms in the reviving group (4) than those owned by females. In terms of those stranded in net decline, those owned by females (6) are double the number of enterprises owned by men (3).

5.3.1 Small-Sized Firms with Sustained Growth

These are firms that belong to the category of "growing firms" as classified earlier , based on their performance in terms of changes in employment, production output and market size. The firms in this category fall into two sub-groups. Both groups have made significant and remarkable efforts to adapt their businesses to the dynamic economic environment. One group comprises firms that have survived the fierce mainstream competition and have carved out market niches through relatively modest investment. Such investments have been innovative in product diversification and their reliance on local material inputs. Technology is low and labour is intensive and the market is domestic in orientation. Small volumes of output are produced and sold to individuals. Most of these firms existed before SAP as informal enterprises that have seized opportunities and benefited from the advantages of trade liberalisation. They have benefited from the wider access to imported material inputs and equipment; information and technology.

Their labour force composition and technologies have been upgraded towards increasing sophistication. Product quality has improved considerably. Their reliance on apprentices and family labour in the early 1980s diminished by the close of the decade. Many of the firms needed more technically skilled workers and therefore took on wage employees. The shift reflected the use of technologies more advanced than apprentices and family workers could cope with.

The second group of firms involves enterprises that started up after the launch of the SAP and were described by Dawson as "an injection of new blood". The entrepreneurs in this category of manufacturing firms are well educated. They have access to capital and good connections with large firms and some financial leverage, be it local or foreign. They are endowed with skilled, technical personnel who help to increase the diversification of their products. They started at a relatively high level of technical capability and worked their way into product areas that had been occupied by larger firms and imports. The main

ingredients of their dynamism are their technical skill, financial capability and their contacts with influential individuals, groups and institutions.

5.3.1.1 Ownership of Successful Firms by Gender

The Case of a Successful, (Small-Scale), Female Entrepreneur.

Both male and female-owned enterprises are included among the firms that survived the storm of policy reforms, revitalised themselves and are experiencing sustained growth. The following text presents the experience of Anti Kate, a successful seamstress found in the sample of small firms in Kumasi. She said the following:

> *"I am married to a lecturer and I am 58 years of age, blessed with eight children. In terms of education, I am a secondary school graduate. I learned to do the design of clothing in the United Kingdom where my husband spent a three-year study leave with me. On our return to Kumasi in 1977, things were hard because of high inflation and the scarcity of marketable goods in the country. I had to practice the trade I had learnt in order to earn an income to support the family. I started with four manual sewing machines and recruited six female apprentices who each brought her machine. At the time, inputs including the textile materials, thread and even needles were scarce. I relied on supplier and customer credit to finance the operational costs.*
>
> *The female students at the University of Science and Technology, where I lived and worked in the house, are my customers. My products have been very appealing and affordable to them. Old customers introduce new ones to me as they complete their courses and leave. With trade liberalisation in the 1980s, access to material inputs improved beyond expectation. But then, there has been a considerable influx of already made clothing and second-hand goods that are cheaper than my products. A portion of my market has been lost. Against this background also are the cash and carry system of the health sector and the cost- sharing scheme of the education sector. This has made it difficult to cope with the household budget.*
>
> *To increase my efficiency (and) in order to increase my income, I bought five motor-driven sewing machines, one of which is for mapping out artistic designs on the clothing with coloured thread. The university student population has also been on the increase and*

so has been my market therefore. Earlier on, I made only dresses for female students but now I also make male clothing. I make a profit of about one and a half million cedis each month. At this age, I am getting weak and for each year I have decided to employ one graduate from my stock of apprentices to enhance my work. I am doing well in my business".

5.3.1.2 The Case of a Successful (Small-Scale) Male Entrepreneur

Tony Appiah is a tailor located at Adum in the Kumasi Central Business District. His firm has 28 employees and constituted part of the sample taken for the survey conducted for this study. He is an alumnus of Kumasi Polytechnic but before that, he had apprenticeship training to become a qualified tailor. He started his business in 1980 with a foot-driven sewing machine. He made clothing, basically shirts and trousers, for men. Access to textiles was difficult and he relied on his customers to bring their own material. he purchased thread and other inputs from businessmen and women who brought them from Nigeria. He did not make much profit but it was enough to keep him in business.

Initially, he recruited two apprentices to help him. After three and a half years, they graduated and decided to work with him as "journeymen". He took on four more apprentices because business became brisk after 1983 with the Structural Adjustment Programme underway. Material inputs became easily available and customer as well as supplier credits were accessed. He had to, however, deal with the fierce competition that ensued from already made clothing as well as second-hand clothing that started of flood the market. Some were cheaper than his products and still are.

He decided to specialise in the production of "up and down" suits (political suits) for men. The style and quality of his products have been such that they are appealing to his customers. Over the years, he became known for these suits. He declared the identity of his products by sewing his trademark on them to differentiate them from those of his colleagues who saw his success and started copying. His products are now called "genuine" and any other work, even if similar, is declared an imitation. He has made his mark and his business is growing, enabling him to employ more workers. He is planning to change his location because he wants to expand. He has also purchased 15 power-driven sewing machines and plans to enter the sub-regional market with exports. At the moment, he said his annual turnover is 35 million cedis. He said he is doing well with his work.

5.3.2 Depressed Small-Scale Manufacturing Firms

These are firms that have not been able to modify or purchase equipment to upgrade their technology. They complain about inadequate access to credit at the same time as they are not sure whether or not when given a loan, they would be able to repay it. Profit margins are only occasionally and negligible. Most of the time, they are below break-even point and when asked why they were still in business, they had this to say in the twi language "a ye sin Kuranuu" "e ye sin kronfu", meaning it is better than stealing. The sources of their income include fees received through the recruitment of new apprentices and on their graduation. They are unable to hire labour, both skilled and unskilled. They are constrained by low demand, low productivity and their income levels are low.

In the main, these firms have not been able to purchase or modify their equipment, change their product mix and cannot go beyond the local segment of the domestic market. It is hard for them to access both domestic and foreign inputs. They are reluctant to seek credit for they foresee repayment difficulties. They do not adequately compete in the domestic market because the quality of their products is suspect and besides the volume of output is negligible. The chances of survival of these firms are very slim.

5.3.3 Medium-Sized Firms with Sustained Growth

Medium-sized firms in the sample that exhibited sustained growth were those that had invested in the rehabilitation of their equipment and/or in the purchase of new plant. Their level of technology is higher than that of even the small firms with sustained growth. The proprietors and their production supervisors have sound educational backgrounds. Their labour force is for the most part technically skilled. They do little on-the-job training and the use of family labour is not apparent.

These firms rely on retained earnings, supplier and customer credit, loans and bank overdrafts to finance their operations. They use both local and foreign material inputs, the prices of which they complain are high. They tend to tap into foreign exchange reserves from personal links abroad to cope with inflation. Others enter into the export market and earn foreign exchange to support their operation. The quality of their products is quite high but they face tacit competition from imports.

5.3.4 Depressed Medium-Sized Enterprises

Some private investment did take place in the post-independence period of massive state presence in the economy. For the most part, such investment was in the medium-size group. Entrepreneurs did not have the resources to set up large-scale firms comparable to those of the state. Most of them started with used machinery and equipment and did well under the protective barriers of the restrictive regime. By the time the SAP was put in place, the machinery and equipment of these firms was obsolete and required expensive spare parts for maintenance and repair.

With the inception of the SAP, the uncertainties associated with the sustainability of the reforms made these entrepreneurs reluctant to invest in the modernisation of their old and obsolete plant. Medium- and long-term loans needed to finance the maintenance, modification or replacement of the machinery and equipment are not easy to come by in the country generally. The entrepreneurs complain about the high interest rates of between 32 to 45 per cent as against the world's maximum rate of about 8 per cent. Coming on top of the difficult access to credit, these interest rates render some medium-sized firms uncompetitive.

The demand for their products has been constrained by the influx of imported goods under trade liberalisation. Their inability to change their product mix and improve product quality greatly worsened their performance and led to their depression. Because of the dismal performance, their management ran into difficulties and their administrative control became very weak. Attempts to lay off their workers have resulted in widespread dissatisfaction. Workers have gone several months without pay and these firms are unable to terminate their appointments because the labour law stipulates that terminal benefits must be paid. This, the firms can hardly afford. There is much unrest and workers strikes have become more common.

The medium-sized group of firms is the most hard- hit by the decline in the domestic manufacturing sector. Unlike the large firms that are able to get official back up services, many medium-sized firms wallow in distress. They cannot easily adjust because they have many workers to cater for and the investment in plant machinery is too substantial to be left to rot. They cannot proceed in the manner of small firms with limited assets that can easily close down.

A Depressed Medium-Sized Furniture Firm owned by a Male Entrepreneur

Box 4: Depressed Medium-Sized Furniture Firm in Kumasi

The company was established in 1984. It now has 80 employees, 40 skilled and 40 unskilled. The material it uses as its inputs include solid wood, particle board, plywood, foam, chemicals and upholstery material. It produces general furniture and kitchen cabinets. Its main plant includes a narrow bandsaw, combined surface and ripsaw, spindle mower, circular saw, surfacer, thickener, grinding machine and sharpener.

Maintenance of the equipment has only been fair, given that it was second-hand when acquired. Management has generally been poor because the educational background of both the proprietor and production manager are rather low, both of them having completed only vocational school with no further training. The factory layout, work arrangement and plant operations have been anything but desirable. The manner of operation is artisanal instead of in line with the modern industrial principles required of a medium-sized firm.

Management has run into problems getting inputs and has resorted to the use of inferior wood and sub-standard foam products. Ventilation is poor in the machine and spraying rooms because there are no extractors. The management complains about lack of credit but no financial institution will lend to a firm with such a poor operation. There is a lot of absenteeism among the skilled workers and production has gone down to such an extent that returns to operational capital do not break even. It has not been possible to lay off workers because they must be paid terminal benefits that the firm cannot afford.

There is also competition from other local, furniture firms and cheap foreign pieces are also being brought into the market. In the face of all these problems, the firm is distressed.

5.3.5 Large-Scale Firms with Sustained Growth

The large-scale firms with sustained growth are those that have been committed to investment in technological capacity development. Some of these firms are affiliates of multinational companies. This gives them easy access to foreign exchange. They are, therefore, not susceptible to the high inflationary trends and the concomitant high costs of production. Formal credit lines are even biased in favour of the large firms. Some have developed their own sources of domestic raw materials. In terms of labour, they have employed personnel with

competent managerial and technical skills. They have been able to adjust and change their product mix, change and improve their market size and are competitive. They have the competence to access business information and the vision that allows them to seek the right business strategies.

5.3.6 Distressed Large-Scale Firms

These firms have had their inefficiencies exposed by trade liberalisation. They have been unable to respond to the supply incentives offered by the SAP policy reforms. They are in serious trouble and could easily close down since they have not enhanced their technological capabilities. Diseconomies of scale have set in because they have not been able to upgrade their physical and human capital. They have been overwhelmed by the speed of liberalisation, the scarcity and cost of resources for investment, the extra risk and uncertainty created by the change in policy regime, the lack of information and knowledge about feasible strategies, deficiencies in the supply of the necessary skill in their labour market and poor institutional support for restructuring and the inability of the financial system to support worthwhile technological effort.

For these firms, lifting the protectionist barriers or implementing the trade liberalisation policy implied the need to change the composition of their products or close down. They are therefore in distress because they have neither changed their product mix nor improved the quality of their products to internationally competitive standards. They have laid off most of their labour force and the conditions of service of their remaining staff have become ad hoc and debilitating.

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