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Ghana CETO

Country Economic Transformation Outlook

POLICY PAPER **FEBRUARY 2025**



This policy paper derives from the ***Ghana Country Economic Transformation Outlook (CETO) 2024*** research study, published by ACET and produced in collaboration with the Institute of Statistical Social and Economic Research (ISSER) and a team including Prof. Peter Quartey (Lead), Prof. Ebo Turkson, Dr. Nana Amma Asante Poku, and Dr. Emmanuel Abbey. The team was assisted by Oswin Annan, Alice Nubuor, and other staff at ISSER.

I. Introduction

Background: Ghana's economy in context

The last two decades have been a revealing period in Ghana's industrialization regime. The various policies introduced after the economic recovery sparked hopes of growth acceleration, suggesting that sustainable development was finally in sight. However, such hopes were soon dashed. Economic growth has come with only limited opportunities, mostly propelled by a boom in the global demand for primary commodities that remain the backbone of the Ghanaian economy, and little synergy with the rest of the economy. The country's path since independence has largely been shaped by untransformed colonial economic structures and unsustainable development policies.

The industrial sector is plagued with a notably diminishing share of manufacturing in gross domestic product (GDP). Exports are mainly dominated by the extractives sector, which accounts for the largest share of foreign direct investment (FDI). Productivity in the agriculture sector is set back by the predominance of low technology use, the impact of climate change, and limited market value chains. Patchy progress on technology upgrading reflects technologies in goods often from large-scale FDI project enclaves in technologically weak economies.

From a structural transformation perspective, the industrial strategy has failed to diversify the economy away from production and export of primary commodities with little domestic value addition. Moreover, it did not promote adequate backward and forward linkages between sectors and industries. The policies failed to develop innovation capabilities through synergies between industry and universities to propel research for industrialization. They also failed productivity increases needed to support sustained growth in average incomes.

Economic shocks including the global financial crisis, collapse of the commodity supercycle, COVID-19 pandemic, and Ukraine-Russia war created further setbacks, revealing the fragility of Ghana's health, education, and economic systems as well as of its infrastructure. The measures used to curb the spread of the pandemic and mitigate its impact aggravated economic hardships. Fiscal deficit and exchange rate depreciation have further deteriorated, pushing the country to the brink of debt distress. Consequently, unemployment, particularly youth unemployment, is at a historically high level. The effects of climate change and environmental risks, including air and water pollution from "galamsey" (illegal mining) activities and desertification, are visible to everyone.

Ghana's job transformation process has not been favorable to women, particularly in terms of their representation in formal employment. High informality and low education among the female population are reflected in their disproportionate representation in the lower echelons of economic sectors like agriculture and services, with women often facing significant barriers in accessing essential economic resources such as credit, land, and education. These constraints and the lack of access to decent employment opportunities not only hamper women's economic empowerment but also reduce their influence in policy decisions.

Therefore, Ghana, like most African economies, must devise coping mechanisms and adaptation strategies to build and enhance economic resilience in readiness for future shocks.

Objectives of the CETO

The Ghana Country Economic Transformation Outlook (CETO) aims to assess progress and identify challenges impeding Ghana's economic transformation by providing targeted, gender-responsive, and actionable recommendations for sustainable economic growth. Its analysis uses the African Transformation Index (ATI), developed by the African Center for Economic Transformation (ACET).

The ATI tracks key economic outcomes that characterize a transformed economy over time, using ACET's "Growth with DEPTH" framework, which comprises five dimensions:

- *Diversification* measures the capacity to produce and export a broad array of goods and services.
- *Export competitiveness* measures the share of nonextractive exports in the country's GDP relative to the share of global nonextractive exports in global GDP.
- *Productivity increases* measure the value added per unit of labor.
- *Technology upgrading* measures the medium- and high-technology content in manufactured goods and services.
- *Human well-being* measures economic and social outcomes and enablers in terms of incomes and equality, the ratio of formal employment, and female participation in formal labor markets.

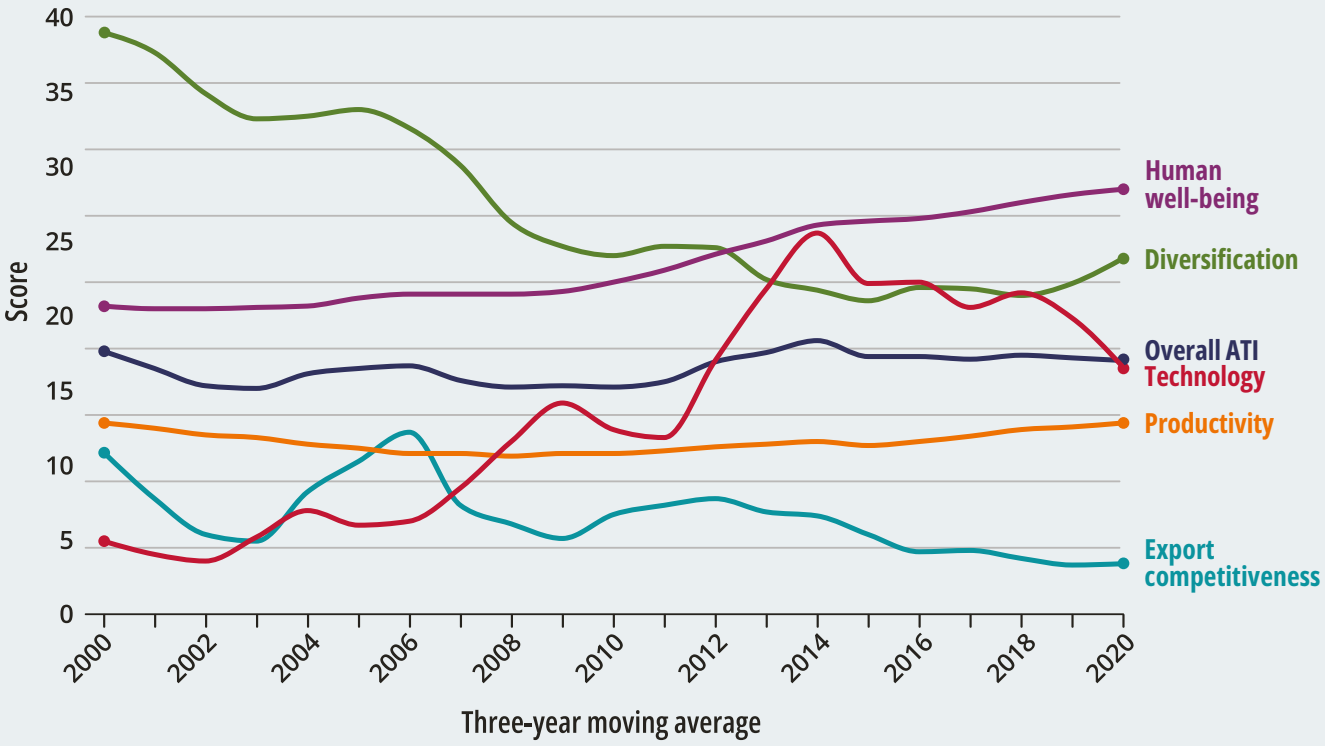
In this context, the CETO seeks to influence policy debates and shape the country's development agenda by leveraging gender-responsive policymaking in both macroeconomic and microeconomic policy development.

II. Transformation outlook

Despite efforts to adopt more outward-oriented industrial policies, with a focus on manufacturing as a driver of economic change, Ghana's growth acceleration has not been sufficient to achieve meaningful economic transformation. The country has grown without DEPTH—diversification, export competitiveness, productivity increases, technological upgrading, and human well-being. The latest ATI ranks Ghana as a low transformer, with an overall score of just 19.1 out of 100 in 2020 (Figure 1). Since 2000, the country's transformation score has hovered far below the African average of 30.3, reaching a high of only 20.6 in 2014. A lack of synergy with higher-productivity sectors and insufficient investment in strategic sectors offer limited growth potential, affecting job creation and overall economic transformation.

Diversification, a crucial catalyst for economic transformation, remains weak and is on a declining path. Over the last two decades, Ghana's economy has become less diversified, despite a shift from subsistence agriculture to services, driven by banking sector restructuring and advancements in information and communication technology and financial technology. Despite some developments in economic activities and export markets, the country has largely failed to diversify or attract sophisticated production and value chain linkages.

Figure 1. Economic transformation in Ghana, 2000–2020



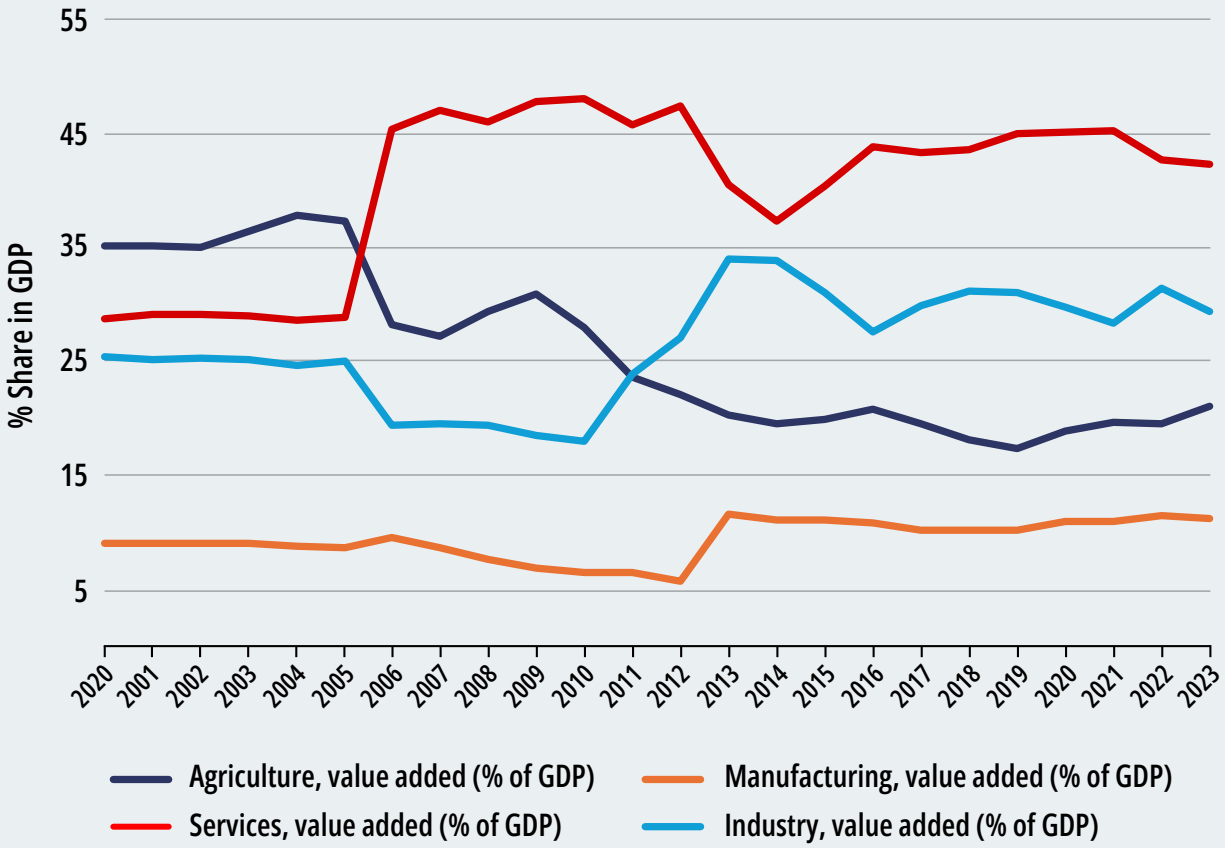
Source: African Transformation Index, 2023.

The services sector has been the largest contributor to Ghana's GDP, accounting for about two-fifths of total GDP in 2023 (Figure 2) and driven by the growth of the financial sector, telecommunications, and other service-oriented subsectors. The industrial sector has been a smaller but still important contributor, accounting for about one-fourth of total GDP in 2023. Agriculture, although declining, remains a significant sector in Ghana's economy, contributing almost one-fifth of GDP. The sector has been driven by the production of cocoa, one of Ghana's main exports.

The country has become reliant on primary exports, with the share of the top five products rising from 70 percent in 2000 to 89 percent in 2020. Ghana's poor progress in export competitiveness reflects the country's limited integration into global and regional value chains. A lack of product diversification and export sophistication constrains Ghana's global competitiveness. The Revealed Comparative Advantage (RCA), which measures the importance of a product in a country's export basket relative to the world, increased from 75 products with an RCA greater than 1 in 2000 to 93 products in 2018. This concentration on a few key commodities makes Ghana vulnerable to fluctuations in global commodity prices (Figure 3).

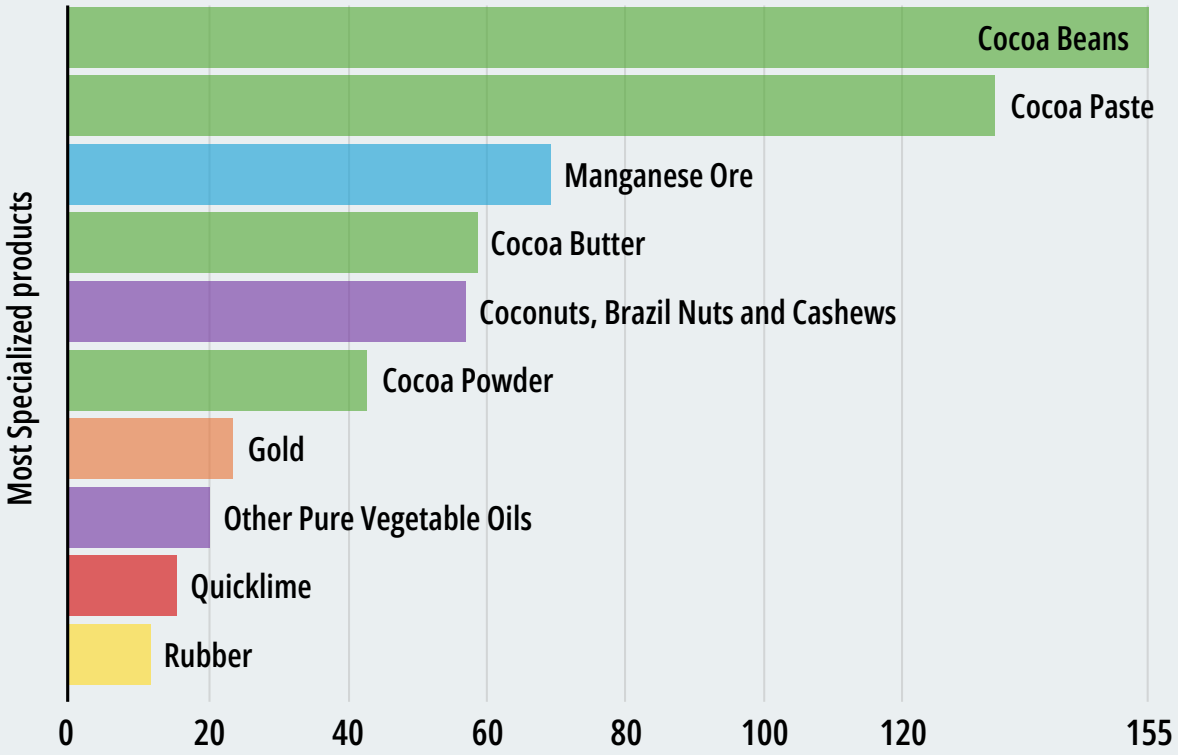
The country's exports are predominantly in moderate- and low-complexity products. The lack of significant processing and value addition in the export sector has resulted in minimal transformation into technology-intensive and competitively priced sectors, highlighting the need for diversification.

Figure 2. GDP shares of key sectors



Source: African Transformation Index, 2023.

Figure 3. Most specialized products by RCA index, 2000–2022

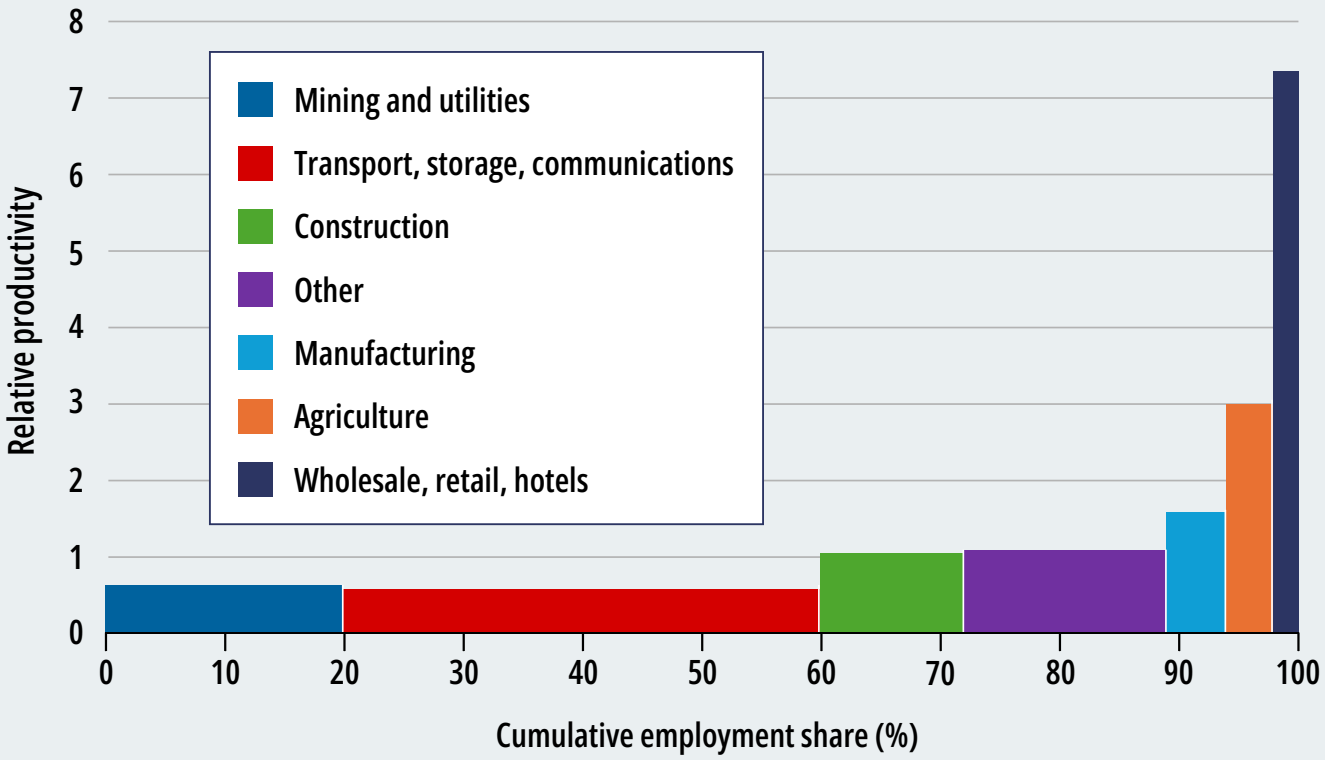


Source: Observatory of Economic Complexity, 2024.

Structural transformation has historically driven growth and improved living standards in developing countries. In Ghana, although the economy has undergone significant structural changes over the past two decades, these changes have not sufficiently spurred growth or enhanced productivity. In fact, the contribution of structural change to productivity has decreased over the past decade, partly because of a shift of employment from agriculture to low-productivity, often informal services. Productivity has been driven mainly by improvements within sectors rather than by shifts between sectors. The poor performance in productivity suggests that Ghana has not adequately transformed in terms of labor productivity.

Overall, large but narrowing productivity gaps exist between sectors. Mining and utilities are over seven times more productive than agriculture; transportation, storage, and communications are over three times more productive than agriculture; and construction is more than twice as productive as agriculture (Figure 4). These productivity gaps reveal the low level of development in the agriculture sector. The shift from agriculture to employment in low-productivity services, coupled with the slow expansion of manufacturing and limited productivity gains, has created a gap in mid-productivity job opportunities for workers transitioning from agriculture.

Figure 4. Productivity gaps, 1991–2021



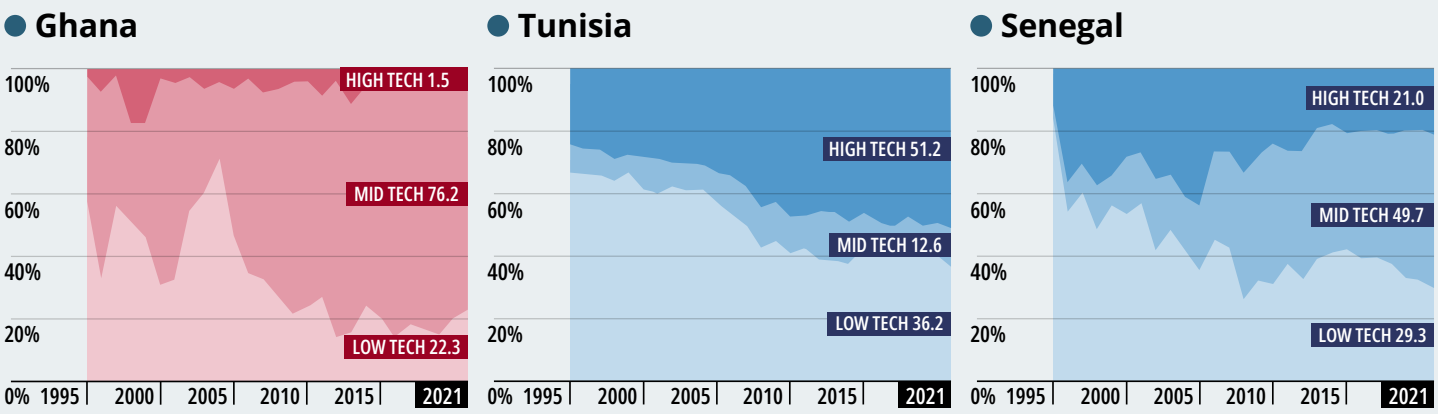
Source: African Transformation Index, 2023.

As the services and manufacturing sectors become more interconnected, enhancing the competitiveness of the services sector is increasingly crucial for economic performance. Improvements in services productivity could also benefit manufacturing competitiveness. Despite its significant role in employment, the services sector faces challenges due to high levels of informality. Furthermore, globalization and the discovery of new resources have made Ghana a more attractive location for business services and tourism.

A major policy focus has been on empowering micro, small, and medium enterprises to expand their productive capacity and technological capabilities in a competitive environment. Recognizing the importance of foreign investments in facilitating technology transfer and innovation, Ghana has implemented policies aimed at attracting FDI to support technology transfer and learning for local firms. It has also made efforts to strengthen science, technology, and innovation capabilities in both the public and private sectors. These efforts include increasing research and development funding, upgrading technical training institutions, and providing incentives for technological advancement. Despite these efforts, research and development expenditure remains relatively low, with only a modest increase from 0.37 percent of GDP in 2010 to 0.38 percent of GDP in 2022.

Some vulnerabilities persist, such as ongoing concerns about the extent to which industry leverages technology to enhance growth and productivity. The generally poor technology content in production and mechanized exports partly reflects the limitations of the country's industrial policy and the challenges faced by the small and declining manufacturing sector in accessing highly skilled and innovative workers capable of applying advanced production technologies. A closer look at the technology intensity of the country's manufactured exports reveals a significant gap in comparison to other top transformers. Ghana has a relatively weak comparative advantage in the use of high-intensity technology in manufacturing production and exports, particularly when compared to countries like Senegal and Tunisia (Figure 5).

Figure 5. Comparison of levels of technological intensity of manufactured exports, 1995–2021



Source: United Nations Industrial Development Organization, 2024.

The only dimension of transformation that has seen significant and steady improvement over time is human well-being, mostly because of favorable market outcomes. Robust growth saw the country nearly doubling its GDP per capita in 2014. The significant increase in real incomes from $852 in 1990 to $2040 in 2022 (constant 2015 US dollars) contributed to a substantial reduction in poverty from 51.7 percent in 1990 to 23.4 percent in 2016. Nonetheless, income inequality has been relatively high and rising, increasing from 38.4 to 43.5 over the same period. The income share held by the top 10 percent has marginally decreased from 32.7 percent in 2005 to 32.2 percent, whereas the income share held by the bottom 10 percent declined from 1.9 percent in 2005 to 1.6 percent in 2016.

Despite the positive performance of the Ghanaian economy over time, employment patterns have not significantly changed. Formal sector employment showed notable progress—doubling from 15.9 percent in 2000 to 31.4 percent in 2020—but the vast majority of workers, particularly female workers, remains in the informal sector. According to the 2015 Labor Force Survey, 67.9 percent of the working-age population is employed, with 71.4 percent of males and 64.7 percent of females in employment. As of 2020, however, only 18.9 percent of the female labor force was employed in the formal sector. This gender disparity in employment appears across all regions in the country, with males consistently having a higher employment-to-population ratio than females.

Female labor force participation rates have shown significant growth over the decades, largely driven by the increasing participation of married women; however, this trend has slowed in recent years. Despite advancements in qualifications and labor force experience, gender inequality in earnings persists, highlighting ongoing challenges in achieving income equality. Contributing factors include discrimination, unmeasured characteristics, shifts in labor demand, and selection processes. The gender wage gap remains particularly pronounced at the top of the wage distribution, indicating the presence of a “glass ceiling” that continues to hinder women from attaining top-level positions.

Unemployment remains a significant socioeconomic issue in Ghana, despite appearing less severe when compared to averages for Sub-Saharan Africa and lower-middle-income countries. Unemployment disproportionately affects youth, posing both a socioeconomic challenge and a security threat. Between 1992 and 2013, youth unemployment more than doubled, from 5.2 percent to 10.9 percent (Figure 6). By 2017, approximately 810,000 Ghanaians ages 15 and older were unemployed; about 625,000 (or 77.2 percent) of this group were young people ages 15–35. Women also have consistently faced higher unemployment rates than men (5.7 percent vs. 4.5 percent in 2017), and urban dwellers have experienced higher unemployment compared to rural dwellers (7.8 percent vs. 3.5 percent).

Figure 6. Trends in unemployment, Ghana, 1992–2017

	PERCENT OF LABOR FORCE						
	GLSS 3	GLSS 4	GLSS 5	GLSS 6	GLSS 7	Population Census	Population Census
	1992	1999	2006	2013	2017	2000	2010
Total unemployment	2.3	2.7	3.1	5.2	5.1	10.4	5.8
Male unemployment	2.2	3.4	3.2	4.8	4.5	10.1	5.4
Female unemployment	2.4	2.2	3.0	5.5	5.7	10.7	6.3
Urban unemployment	6.7	5.8	6.1	6.5	7.8	12.8	8.0
Rural unemployment	0.5	1.2	1.3	3.9	3.5	8.6	3.5
Youth unemployment (15–24)	5.2	5.0	6.6	10.9	7.1	16.7	12.9
Adult unemployment (25+)	1.4	2.1	1.9	3.4	4.1	8.6	4.0

Source: Calculations based on data from Ghana Living Standard Survey (GLSS) 3, 4, 5, 6, and 7; Population and Housing Census 2000 and 2010.

III. Key challenges and lessons

Ghana's economic transformation has lagged since independence. Despite heavy attention, the industrial sector, especially manufacturing, has not met expectations. Because of the intense focus on industrialization, economic transformation has not only been slow but also not produced the desired results. Careful study reveals several fundamental challenges with the country's structural transformation agenda that can serve as lessons for future approaches.

- **Private sector empowerment.** Previous industrial policies generally overlooked the needs of the private sector, resulting in challenges such as weak innovation capabilities, inadequate managerial capacity, and an increase in unskilled or insufficiently trained workers. These issues, compounded by poor policy decisions, external factors, and institutional obstacles—such as an unfavorable international economic environment and a distorted domestic incentive and policy framework—have adversely affected private sector development.
- **Agro-based industrial development.** Promoting agro-based industrial development is crucial for adding value to Ghana's exports. Currently, the economy is heavily concentrated in low-productivity sectors, such as natural resources, agriculture, and services, with limited diversification into higher-productivity manufacturing. Poor policies, external factors, and institutional barriers have hindered economic transformation within the agriculture sector and its integration with higher-productivity sectors. Additionally, the manufacturing sector faces several supply-side challenges, including limited access to raw materials, ineffective supply chains, and inadequate physical infrastructure—such as insufficient rail systems and unreliable electricity. These obstacles impede the conversion of agricultural output into value-added products, limiting the sector's potential for growth and development.

- **Income inequality.** Promoting spatial distribution of industries away from urban areas is essential for achieving poverty reduction and reducing income inequality. Uneven infrastructure development, however, has benefited urban regions more than rural ones. Despite advancements in water utilities, ports, roads, and information and communication technology, the lack of decent employment opportunities is increasing the risk of poverty, especially among youth and women.
- **Women's economic participation.** Despite their strong involvement in economic activities, women are disproportionately concentrated in the lower strata of economic sectors like agriculture and services. They often face significant barriers in accessing essential economic resources such as credit, land, and education. These constraints hinder women's economic empowerment and policymaking influence.
- **Macroeconomic policies.** Persistent fiscal deficits and exchange rate depreciation have created a challenging macroeconomic environment in Ghana, resulting in unsustainable national debt and weakening the country's financial credibility. The intense competition for funds has driven up interest rates, thereby increasing the cost of doing business for the private sector. Additionally, businesses face a high tax burden and elevated import bills, which further strain the private sector's access to resources for the manufacturing sector.
- **Environmental sustainability.** Ghana is grappling with significant environmental and climate challenges, despite the presence of various policies aimed at addressing these issues. Key environmental risks include air and water pollution from illegal mining and smokestack industries, inadequate waste management, and desertification. These challenges threaten the sustainability of vital environmental resources, such as open spaces, nature reserves, flood plains, water resources, and public parks. Climate change is likely to exacerbate droughts and heat waves, increase the intensity of rainstorms and flash floods, and contribute to rising temperatures, all of which will have a detrimental impact on the sustainability of the country's agricultural development and natural capital.

IV. Policy recommendations

Given the challenges with Ghana's economic transformation process—and following the close study of its outcomes related to diversification, exports, productivity, technology, and human well-being—the following recommendations are offered to promote high-productivity activities and, in turn, accelerate transformation.

Develop a coherent and modern industrial policy.

Ghana must revisit the development of a coherent and modern industrial policy hinged on agro-processing, light manufacturing (textiles and garments, pharmaceuticals, automobiles, and cosmetics), digitalization, and tourism. This policy should seek to strengthen the coordination, management, and financing of key industrial policy organizations in both the public and the private sectors.

Promote more transformative policies.

A conscious effort must be made to promote policies in areas of DEPTH where the country lags, such as diversifying exports and enhancing productivity. Among other things, the country should encourage the reallocation of resources to activities with higher relative productivity—such as moving from agriculture to agro-industry, manufacturing, and modern services—to raise economic productivity, generate better jobs, and increase incomes.

Prioritize digital transformation.

The government should promote investment in digital infrastructure like broadband networks to provide reliable, affordable, and widespread access to digital networks and services that meet the needs of industry.

Establish a sound fiscal environment.

A strong fiscal environment is needed to promote high-productivity industries and structural transformation. The various possibilities include creating effective fiscal policies to ensure fiscal restraint, which is essential for macroeconomic stability and long-term structural transformation. Improving budget preparation, execution, and reporting could make public spending more efficient and transparent, which encourages resource reallocation to beneficial structural transformation initiatives.

Address the financing gap.

To address the many challenges business owners face with financing, the government should establish a well-governed national development finance institution that provides long-term private sector financing for industry. To avoid political involvement, this institution should balance commercial and noncommercial goals, have a strong board of directors, and be transparent.

Identify new approaches to drive gender equality and women's empowerment.

Gender-based economic transformation requires new approaches to encourage women's economic empowerment through education, awareness, and community leadership. These approaches include addressing gender-based violence, challenging discriminatory social conventions, and reassessing ideals; ensuring access to health care and social safety systems; improving market circumstances, national budget priorities, and macroeconomic assumptions to enable women's economic participation; and enacting pro-women laws and removing discriminatory laws and legal frameworks. All plans and policies should include specific indicators for measuring gender equality and women's empowerment in the implementation and monitoring and evaluation phases.

Reform the business environment.

Ghana can strengthen its business environment, lower compliance costs, and boost private sector investment and growth through business reforms such as creating a one-stop registry of business regulations. This registry would make all Ghanaian company legislation easily available and up to date, minimizing corruption and encouraging long-term investment in productive industries. Stimulating higher levels of entrepreneurship and job creation in strategic sectors will require implementing a regulatory process that enables ministries, departments and agencies to systematically review and reduce the cost of compliance with business regulations, especially for small and medium enterprises.

Develop skills to meet industry demands.

The government must analyze the skills needed in different industries and fill labor force gaps. The country must establish specialized authorities to supervise industry-specific skill development and market alignment. Options include enhancing technical and vocational education and training institutions to provide relevant and high-quality skills training for the workforce, building new institutions to meet the growing demand for skilled workers, and promoting free apprenticeship programs to enable more people to learn practical skills and enter the workforce with experience.

Invest in technology innovation.

The country must support technical innovation in manufacturing. Specific actions could include providing youth skills development, establishing technology-focused industrial parks, and strengthening institutions like the Council for Scientific and Industrial Research.

Harness the benefits of the AfCFTA.

Ghana can position itself to realize the benefits of the African Continental Free Trade Area (AfCFTA) by ensuring that the country's regulatory agencies and trade institutions are prepared to implement AfCFTA-related trade facilitation measures. The country must also focus on developing its infrastructure, including ports, roads, airports, and railways, to support the increased trade activity expected under the AfCFTA. For instance, full implementation of the Ghana Railway Master Plan is nonnegotiable; the government must also identify specific phases of the master plan as priority projects, particularly for industry. Furthermore, Ghana should leverage its hosting of the AfCFTA Secretariat to promote itself as an attractive investment destination and facilitate FDI.

The African Center for Economic Transformation (ACET) is a Pan-African economic policy institute supporting Africa's long-term growth through transformation. We produce research, offer policy advice, and convene key stakeholders so that African countries are better positioned for smart, inclusive, and sustainable development that improves lives.

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