



Issues on Wages & Labour Market Competitiveness in Ghana



**ISSUES ON WAGES AND LABOUR
MARKET COMPETITIVENESS IN GHANA**

PREPARED BY
RESEARCH DEPARTMENT
BANK OF GHANA

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1. BACKGROUND

Standard economic theory suggests that markets are often the most efficient institutions for the allocation of scarce resources, because they clear to adjust demand and supply, and hence any rent opportunities would be arbitrated away. However in reality, there are frictions, unobservable characteristics, adjustment costs, different expectations, and probably discrimination in markets that tend to drive market equilibrium away from efficient allocation.

In the case of well-functioning labour markets, these markets are expected to match workers with firms and set wages to clear the labour market. However, labour markets particularly in developing countries tend to suffer from frictions and other rigidities that prevent it from achieving market equilibrium. A number of recent studies have suggested that labour markets especially in Africa tend to be less efficient in this regard as they possess features different from labour markets in other regions. For example, a recent study by Kingdom, Sandefur and Teal (2005)¹ dwelt on three types of labour market outcomes – structural unemployment in South Africa; search unemployment in Ethiopia; and a large informal sector serving as the employer of last resort in Ghana, Tanzania and Uganda.

The authors explored reasons for these outcomes in each case, and reported that flexibility of wages and employment in African labour markets was a bit different from other markets. In terms of the main attributes of a flexible labour market - ability of real wages to decline over time; ability of wages to adjust to

¹Geeta Kingdom, Justin Sandefur, Teal Francis, (2005), "Labour Market Flexibility, Wages and Incomes in Sub-Saharan Africa in the 1990s", mimeo

increasing unemployment, and the extent of wage differentials between sectors and/or firms of various sizes, the authors argued that labour markets in Africa seemed quite flexible in the first two cases as evidence points to instances of rising and falling real wages particularly in the last decade, and also the fact that these markets exhibited a “wage curve”² relationship in relation to unemployment rates. On the third attribute, the authors argued that there seemed to be rigidity in terms of wage differentials across sectors and firms:

“...this third sense of the term inflexibility can explain the common factor across African economies – the high income divide between those working in large firms and those not. Those working in the thriving self-employment sector in Ghana have something in common with the unemployed in South Africa – both have very low income opportunities relative to those in large firms. In the case of Ghana, this process of ‘informalization’ implies a shift within wage employment to lower paid jobs so average wage earnings may be falling even if wage rates for given types of jobs are not(p.2)”

There is evidence that observed country differences in output per worker (or labour productivity) across countries arise mainly from differences in capital accumulation, skill acquisition, invention, and technology transfer³ which are the main drivers of globalisation.

Moreover, globalization has made the world a more competitive place, and as a country opens up to free-trade and competition, it becomes more efficient as it attracts technology, managerial skills and achieves higher productivity levels. Clearly, Ghana currently distinguishes itself as the hub of macroeconomic stability and economic growth within the sub-region.

²The lower is unemployment, the fewer labourers are available, and the higher is the wages and vice versa.

³Hall and Jones, 1998

This notwithstanding, the labour sector is one that has remained on the policy agenda for some time now. In this study, we seek to provide answers to the following research questions:

- How do wage structures in Ghana's labour market compare with peers?
- How competitive are Ghana's labour market indicators in relation to her peers in the sub-region?
- How does Ghana's entire labour market structure (e.g. wage structure, employment conditions, productivity levels, employment regulation, etc) compare with its peers particularly in the manufacturing sector?

This type of research could support policy formulation as regards the quest to reposition Ghana's labour market towards increased productivity, higher wages, and growth. The study highlights a number of issues regarding the competitiveness of the labour market in Ghana. This includes the fact that even though Ghana's labour productivity compares favourably with peers in Sub-Saharan Africa, the level of labour productivity based on output per worker falls far below countries such as Malaysia and South Africa.

Secondly, value added in manufacturing which measures labour productivity in manufacturing shows that Ghana lags significantly behind most peer countries such as Kenya, Zambia, Tanzania and Cameroon. The arguments in Collier (2007) may be relevant for policies to boost the manufacturing sector in Ghana. The author argued that trade preferences may be able to act as a catalyst for manufacturing exports in countries such as Ghana, leading to

rapid growth in exports and employment. However, such trade preferences should be based on international trade in fragmented tasks (rather than complete products) which will require skills and infrastructure development⁴.

Thus, in the case of Ghana, policy emphasis should be on training for the middle level labour force to support high value-addition sectors such as light manufacturing and information technology-based products. This echoes the need for the establishment of centres of excellence in areas such as electronics, industrial consumables, semi-conductors, textiles and garments with the specific objective of building capacity for export markets.

Finally, the World Bank's Doing Business 2007 Report shows that Ghana still has a long way to go in terms of employment regulation reforms in order to catch up with its peers. The report considered areas such as; hiring and firing, rigidity of hours worked, rigidity of employment, and nonwage labour costs. **Clearly, Ghana stands out particularly in terms of the cost of hiring and firing employees**, and this makes it uncompetitive. Thus the current framework of employment regulation in Ghana needs to be reviewed accordingly in order to boost the country's international competitiveness.

⁴The author cites the example of the African Growth and Opportunities Act and argues that European countries must implement a similar scheme on a larger scale since these countries trade more with Europe.

The paper is structured in five sections. The next section focuses on a comparative review of the labour market in Ghana in terms of wage structures in the public, private formal and private informal markets and discusses employment regulation in Ghana in relation to other countries in the sub-region. Section 3 reviews trends in labour costs, productivity and international competitiveness using various measures. Section 4 explores these issues from the perspective of the manufacturing sector and highlights some key policy issues. Finally, section 5 summarizes the study and concludes with policy recommendations.

2. THE LABOUR MARKET IN GHANA

There are usually several indicators of the labour market in an economy that can be used for analysis. Some of these that are also used by the International Labour Organisation (ILO) include, the labour force participation rate, employment-to-population ratio, status in employment, employment by sector, part-time workers, hours of work, employment in the informal economy, unemployment, youth unemployment, long-term unemployment, unemployment by educational attainment, time-related underemployment, inactivity rate, educational attainment and illiteracy, manufacturing wage indices, occupational wage and earning indices, hourly compensation costs, labour productivity and unit labour costs, employment elasticities, poverty, working poverty and income distribution. As a result of unavailability of data on each of the above, the paper focuses on data on selected segments of the labour market – public sector employees, formal private employees, and the informal private employees such as farmers and non-farm self employees.

Table 1: Ghana - Labour Force by Employment (% of total labour force)

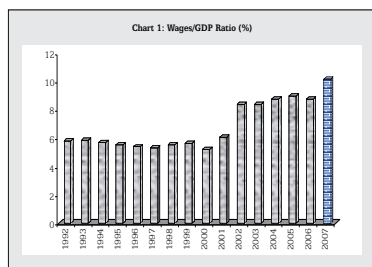
Labor Category	1987/88 GLSS I	1989 GLSS II	1991/1992 GLSS III	1998/1999 GLSS IV
Wage Employees	17.3	18.1	15.4	13.2
Government Employees	8.0	7.9	7.8	5.9
State Enterprises Employees	1.9	2.3	1.2	0.6
Private Employees	7.4	7.9	6.4	6.7
Farmers	58.7	54.6	56.7	55.7
Non-Agric Self Employment	19.5	24.2	23.5	27.3
Unpaid Family Labour	2.2	1.1	1.3	0.3
Unemployed Labour	2.2	1.9	3.2	3.5
Total	100	100	100	100
Labour Force Participation Ratio	0.57	0.89	0.89	0.86
Population in Millions	13.4	13.8	14.9	17.7

Source: Ghana Living Standards Surveys - Ghana Statistical Service.

It is clear in Table 1 that the Non-Agric Self employed category has recorded consistent growth since 1987, as it recorded 27.3 per cent of the labour force in 1999 compared to 19.5 per cent in 1988. This might be an indication of the growth in the informal sector over the period since most informal sector activity takes place in the non-farm sector. Hence, the fact that the informal sector is absorbing a significant share of the otherwise “unemployed” may also explain why Ghana’s recorded unemployment and under-employment rates are reported to be 5.4 per cent⁵ and 13.6 per cent respectively in 2003, compared with unemployment rates of 42 per cent in South Africa and 40 per cent in Kenya for example.

2.1 PUBLIC SECTOR WAGES

In this study, government employment is defined as the number of people on government payroll, which in the case of Ghana includes the Civil Service, Ghana Education Service, Judiciary, the law enforcement agencies, the Article 71 employees, the Foreign Missions, and Subvented Agencies.



According to Table 2, public sector wages per worker have clearly been rising both in nominal and real terms. Both the highest paid and the lowest paid experienced a slight dip in 2001, and then started to rise consistently.

⁵According to the Ghana Statistical Service, the unemployment rate is measured as the proportion of the population aged 15 years and older who are unemployed. The under-employment rate on the other hand is measured as the proportion of persons aged 15 years and older who worked 35 hours or less in the seven days prior to the enumeration, and sought to increase earnings.

In 2002, the lowest and highest real wages rose by 11.6 per cent and 12.9 per cent respectively. In 2003, the increase was 13.4 per cent and 11.7 per cent respectively. Then in 2004, real wage rates climbed even higher by 22.5 per cent and 34.9 per cent respectively. The year 2005 was the best year for real wages as they rose by more than 28 per cent respectively.

At the same time, the tax-free threshold was adjusted upwards. Even in dollar terms, basic monthly public sector wage rates have risen from \$17 in 2000 to reach the one-dollar-a-day benchmark in 2003, and then rising to as high as \$41 in 2005. Monthly basic public sector pay for 2006 is estimated at \$49. Thus, it can be inferred that between 2000 and 2006, the nominal value of the basic (minimum) public sector wage on the Ghana Universal Salary Structure (GUSS) increased in dollar terms by about 188 per cent. This is clearly significant.

Table 2: Basic Monthly Public Sector Pay vrs National Minimum Wage (2000-2006)

Year	Basic Monthly Public Sector Pay (GHC)	Monthly Basic Public Sector Pay (USD)	Minimum Wage €	Minimum Wage (\$)	Monthly Wage/Min Wage
2000	114,750	17	113,400	17	1.012
2001	150,323	22	148,500	21	1.012
2002	195,419	24	193,050	24	1.012
2003	251,505	30	248,400	29	1.013
2004	306,081	34	302,400	34	1.012
2005	368,937	41	364,500	40	1.012
2006	442,724	49	432,000	49	1.025

The public sector wage bill in Ghana has risen sharply from 5.8 per cent of GDP in 1992, to more than 8.8 per cent of GDP in 2006, and projected to rise further to 9.6 per cent in 2007. The reason this is of great concern is that high government wage bills are often a source of macroeconomic imbalance in many countries, and problems associated with wages and employment tend to be persistent, reflecting deep-seated weaknesses in public policy making and institutions.

Generally, the government wage bill can be defined as all budgetary expenditures on wages and salaries in cash, but not in kind, to employees in return for services rendered, before deduction of withholding taxes. The budgetary figures on the overall government wage bill in principle includes monetary allowances captured in the budget and, if necessary, reclassified under wages and salaries.

Table 3: Comparing Ghana's Wage Bill with SSA countries

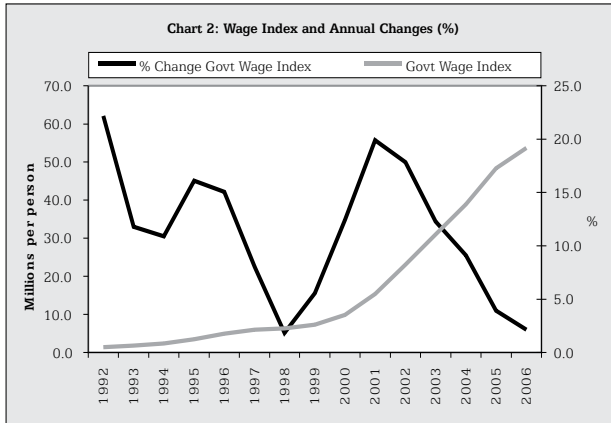
%	1990-99	2000	2001	2002	2003	2004	2005	2006
Wage bill-to-GDP ratio								
Ghana	5.3	5.2	6.1	8.5	8.4	8.7		
ECOWAS	4.2	5.7	5.6	6.3	5.4	5.2	8.9	8.8
Sub-Saharan Africa	8.0	8.4	8.0	8.3	8.1	8.0		
Wage bill-to-government expenditure								
Ghana	20.6	18.9	18.6	32.5	29.2	26.3		
ECOWAS	20.9	24.9	21.8	25.8	24.5	26.1	27.8	33.3
Sub-Saharan Africa	31.0	30.8	29.2	30.3	30.4	30.1		
Wage bill-to-revenue (excluding grants) ratio								
Ghana	33.0	29.6	33.6	47.1	40.5	36.8		
ECOWAS	37.7	37.0	36.0	37.4	37.3	34.0	36.0	36.2
Sub-Saharan Africa	39.4	36.1	35.9	38.5	37.3	34.3		

IMF Statistical Appendix, 2005

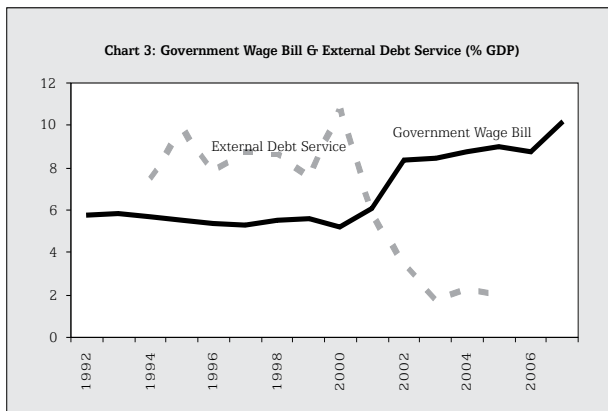
However, some benefits and allowances including pensions and other transfers are not included in the wage bill.

Ghana's wage bill has risen sharply in relation to GDP since 2002, on account of increased recruitment into the public service as the number of government employees rose from 422,000 in 2001 to 503,000 in 2002. Thus, the wage packet rose in relation to government expenditures from 18.6 per cent of government total expenditures in 2001 to 32.7 per cent in 2002 and has remained

high since. Also in relation to total revenues excluding grants, the ratio increased from 33.6 per cent in 2001 to 49.6 per cent of total revenues in 2002 and has also remained high since.



The rise in the government wage bill in Ghana occurred as its external debt service ratio was declining subsequent to opting for the Highly Indebted Poor Country Initiative (HIPC).



In comparing Ghana's wage bill to that of peer African countries, data limitations restricted the study to the period between 1998 and 2003/2004. As seen in Table 4, the countries that have a high wage ratio in the sample are – Botswana, Lesotho, Namibia, Swaziland, and Zimbabwe. Thus, the simple average wage bill relative to GDP for the 24 countries increased modestly from 6.7 per cent of GDP in 1998 to 7.7 per cent of GDP in 2003. It is seen that Ghana's wage bill was stable from 1998 to 2001 as it rose marginally from 5.5 per cent of GDP in 1998 to 6.1 per cent of GDP in 2001.

Table 4: Government Wages and Salaries (In Percentage of GDP)

	1998	1999	2000	2001	2002	2003	2004	2005
Benin	4.7	4.5	4.7	4.6	4.8	4.7	3.3	5.7
Botswana	9.2	9.8	9.2	10.8	12.8	13.1		
Burkina Faso	4.9	5.4	5.4	5.4	5.2	5.1	3.5	5
Burundi	6.8	6.6	6.6	7.3	7.9	8.7		
Cameroun	4.9	5.1	5	5.3	5.9	5.6		
Congo,D.R.	5.3	4	2.5	1.6	2.2	2.5		
Cote D'voire	5.5	5.5	6	6.1	6.4	6.7	6.7	6.6
Ethiopia	5.2	5.9	6.6	6.6	7.3	7.8		
Ghana	5.5	5.6	5.2	6.1	8.7	8.6	8.8	8.9
Kenya	9.1	8.7	8.2	8.1	8.6	8.9		
Lesotho	16.5	14.7	15.1	14.7	13.8	13.3		
Madagascar	4.1	4.3	4	4.4	4.5	5.3		
Malawi	5.1	4.9	5	5.7	6.8	7		
Mali	3.8	3.9	4.2	4.2	4.1	4.3	4.7	5
Mozambique	4.5	5.8	6.5	6.6	6.5	7.1		
Namibia	15.5	15.8	15.2	14.7	14.3	13.5		
Rwanda	4.7	5.3	5.2	5.2	5.1	4.7		
Senegal	5.8	5.7	5.6	5.2	5.6	5.4	5.4	5.7
Sierra Leone	4.8	6	6.7	7.5	8.6	8.4		
Swaziland	11.1	12.1	11.1	10.4	11.6	12		
Tanzania	4	4.4	4.2	4.2	4.6	4.8		
Uganda	3.4	4.2	4.2	4.3	5.3	5.3		
Zambia	5.4	5.4	5.3	6.8	8	10.3		
Zimbabwe	11.7	12.7	15.7	14.2	11.7	11		
SSA Average	6.7	6.9	7.0	7.1	7.5	7.7	5.4	6.2

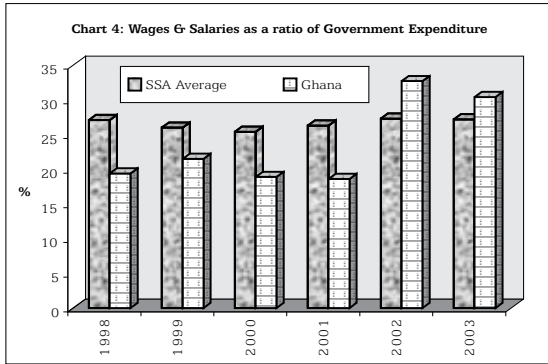
Source: IMF Statistical Appendix

However from 2002, the wage ratio in Ghana rose to 8.7 per cent of GDP and remained relatively high at 8.9 per cent of GDP up to 2005.

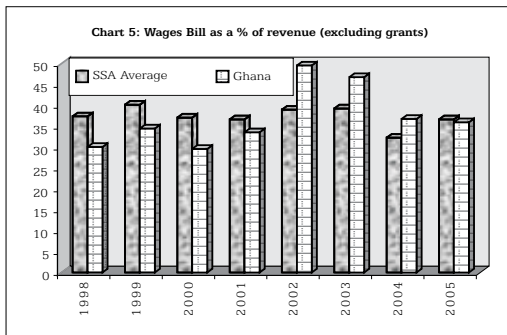
Table 5: Government Wages and Salaries (In Percent of gov. exp.)

	1998	1999	2000	2001	2002	2003
Benin	28.7	25.7	23.2	22.9	23	21.9
Botswana	23.6	23.4	22.6	25.6	27.8	27.4
Burkina Faso	19.8	18.8	21.1	21.5	23.2	22
Burundi	28.7	26	27.4	26.7	30.8	31.9
Cameroun	27.7	26.9	29	28.7	33.7	32.8
Congo, D.R.	42.8	42.1	22.1	20.4	21.3	16.4
Cote D'voire	46	21.8	32.8	37	32.8	35.6
Ethiopia	20.5	18.7	20.5	22.8	21.5	20
Ghana	19.4	21.5	18.9	18.6	32.7	30.4
Kenya	32	34.5	32.8	31.7	32.4	31.8
Lesotho	29.6	24.8	31.9	33.8	30	30.8
Madagascar	20.4	24	21.9	24.4	30.3	29.4
Malawi	17.4	16.7	15.9	17.4	21.8	24.6
Mali	16.8	16.6	17.6	16.2	16	16.9
Mozambique	20.7	23.4	23	21.1	20.2	24.8
Namibia	45.8	46.1	46.3	43.6	42.6	43.3
Rwanda	24.6	27.2	27.8	24.6	22.8	21.1
Senegal	29	27.3	28.2	24.2	27.7	23.5
Sierra Leone	23.8	27.3	23.4	25.3	26.6	21.3
Swaziland	38.5	38.5	36.7	43.5	38.2	39.4
Tanzania	21.6	22.1	23	22	19.5	21.3
Uganda	20	26.1	15.6	22	21.4	22.4
Zambia	17.8	18.3	17.3	21.3	25.4	29.2
Zimbabwe	35.5	25.1	30.6	36.6	34.4	34.5
SSA Average	27.1	26.0	25.4	26.3	27.3	27.2

The wage bill for 2007 is projected to be €13.2 trillion (or 9.6 % of GDP), and this could increase further in subsequent years as government addresses persistent wage demands from different segments of the public service.



As seen in Table 5 (and Chart 4)⁶ the average wage bill in Sub-Saharan Africa as a per cent of total government expenditure showed no significant increase during the period 1998-2003. This notwithstanding, the wage ratio in Ghana in relation to total government expenditures rose from 19.4 per cent to as high as 30.4 per cent in 2003. This was the highest increase among the sample of countries apart from Zambia whose wage to expenditure ratio also moved sharply upwards from 17.8 per cent in 1998 to 29.2 per cent in 2003.



In terms of the wage bill as a percentage of revenue excluding grants (Table 6), Ghana and Zambia again led the countries that experienced a significant increase between 1998 and 2003. While Zambia's ratio for example had been significantly lower than the average for the sample of countries in 1998, it rose much higher than the average as it absorbed about 54.3 per cent of domestic revenues in 2003.

⁶Data on more recent years was not available for other SSA countries.

Table 6: Government Wages & Salaries (in percent of revenue excluding grant)

	1998	1999	2000	2001	2002	2003	2004	2005
Benin	30.6	28.2	28.1	28.7	28	27.8	23	38.2
Botswana	25.4	19.3	19.6	25.9	27.2	29.1		
Burkina Faso	33.4	34.9	40.4	43.1	39.8	37.4	29.6	40
Burundi	39.7	40.5	34.5	36.4	39.4	44.9		
Cameroun	30.6	32.8	26.8	26	31.1	32		
Congo, D.R.	83.3	91.3	48.3	27.7	27.8	30.3		
Cote D'voire	29.9	33.4	36.2	36.2	36.7	40.2	44	44.3
Ethiopia	28.6	32.9	37.2	35.3	36.4	36		
Ghana	30.1	34.5	29.6	33.6	49.6	46.8	36.8	36
Kenya	33.8	34.9	36.3	37.6	40	41		
Lesotho	38.5	36.1	35.1	35.6	35.7	36.5		
Madagascar	38.1	36.8	34	44.2	62.2	50.2		
Malawi	30.6	26.9	28.8	31.1	33.9	45		
Mali	26.2	26.4	29.8	28.8	26.1	25	30.9	32
Mozambique	39.4	48.2	51.5	50.9	48.8	49.1		
Namibia	51	51.4	49	46.4	49.2	50		
Rwanda	43.8	54.1	53.3	45.2	41.4	36.8		
Senegal	34.7	32.9	31.3	29.4	30.1	28.5	29.5	29.5
Sierra Leone	65.1	85.1	58.8	53.9	59.8	46.7		
Swaziland	37.8	41.3	40.2	39.2	45.8	48.1		
Tanzania	32	36.9	33.1	32.8	35.1	35.9		
Uganda	27.8	26.3	24.5	22.8	24.9	23		
Zambia	27.9	30.4	27.6	35.5	44.7	54.3		
Zimbabwe	40.2	48.1	55.7	53.6	41.2	47.7		
SSA Average	37.4	40.2	37.1	36.7	39.0	39.3	32.3	36.7

Source: IMF Statistical Appendix

The case for Ghana is similar, as the ratio of government wages and salaries in 1998 was below the average for our sample of countries, but turned the opposite by 2003 as the latter absorbed about 47 per cent of domestic revenues compared to a sample average of 39.3 per cent.

Although Ghana's ratio fell back to 36.8 per cent in 2004 and settled at about 36 per cent in 2005, the projections are that the ratio would be much higher for 2006 and indeed in 2007, for reasons already mentioned.

In terms of the relationship between the size of government employment and average remuneration in our sample of countries, the relatively high wage bill in the case of Ghana is in part due to the above average employment level in government. Ghana ranked fourth behind Botswana, Namibia, and Swaziland. It is significant to know that these three countries with higher levels of govern-

ment employment as a percent of the total population (Table 7) have much lower populations of 2.5 million or less, and therefore tend naturally to have relatively larger government payrolls. This means that in reality, Ghana stands out among its peers in Africa in terms of the number of government employees in relation to the population size. On the other hand, the ratio of average civil servant wage to per capita GDP (Table 8) is among the lowest in Sub-Saharan Africa.

Table 7: Number of Employers on the Government Payroll per 1000 Population

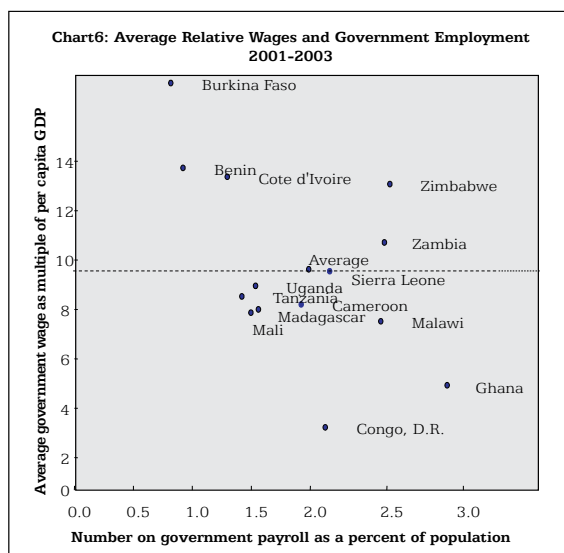
	1998	1999	2000	2001	2002	2003
Benin	5.3	5.1	5.0	4.8	5.0	4.8
Botswana	53.3	54.7	53.3	53.5	52.3	...
Burkina Faso	4.4	4.3	4.3	4.3	4.3	...
Burundi	...	...	...	...	...	...
Cameroon	11.2	10.8	10.6	10.5	10.1	9.8
Congo, D.R.	...	...	...	11.4	11.3	10.9
Cote d'Ivoire	6.5	6.6	6.3	6.1	7.0	7.3
Ethiopia	...	...	...	...	...	...
Ghana	24.2	24.7	21.9	22.3	26.0	25.3
Kenya	...	...	...	...	...	...
Lesotho	16.1	15.7	14.1	13.6	...	...
Madagascar	8.6	9.0	8.5	8.4	8.1	0.0
Malawi	...	...	...	...	...	13.7
Mali	7.3	7.4	7.9	7.9	7.9	7.9
Mozambique	...	...	6.3	...	...	...
Namibia	38.7	39.2	40.1	40.4	38.8	38.5
Rwanda	...	...	5.3	...	...	...
Senegal	...	...	...	...	...	...
Sierra Leone	...	...	...	11.4	...	...
Swaziland	29.0	29.2	29.0	28.8	...	...
Tanzania	8.4	8.1	7.7	7.5	7.5	...
Uganda	7.7	7.8	7.8	7.7	8.1	8.5
Zambia	...	...	10.2	...	...	13.8
Zimbabwe	14.2	13.6	13.6	13.8	14.4	...

Sources: National authorities and IMF staff estimates

Table 8: The Ratio of Average Civil Servant Wage to Per Capita GDP

	1998	1999	2000	2001	2002	2003
Benin	8.8	8.9	9.2	9.7	9.6	9.8
Botswana	1.7	1.8	1.7	2.0	2.5	...
Burkina Faso	11.2	12.8	12.6	12.5	12.0	...
Burundi	...	...	...	...	...	...
Cameroon	4.4	4.7	4.8	5.1	5.8	5.9
Congo, D.R.	...	...	...	1.4	2.0	2.3
Cote d'Ivoire	8.5	8.3	9.5	10.0	9.1	9.2
Ethiopia	...	...	...	...	...	...
Ghana	2.3	2.3	2.4	2.7	3.3	3.4
Kenya	...	...	...	...	...	...
Lesotho	10.3	9.4	10.7	10.8	...	...
Madagascar	4.7	4.7	4.7	5.3	5.6	...
Malawi	...	...	...	...	...	5.1
Mali	5.2	5.3	5.3	5.4	5.1	5.5
Mozambique	...	...	10.4	...	...	...
Namibia	4.0	4.0	3.8	3.5	3.7	3.5
Rwanda	...	...	9.8	...	...	...
Senegal	8.1	8.2	8.3	8.0	...	...
Sierra Leone	...	...	...	6.6	...	...
Swaziland	3.8	4.1	3.8	3.6	...	...
Tanzania	4.7	5.5	5.5	5.6	6.0	...
Uganda	4.4	5.4	5.4	5.6	6.6	6.2
Zambia	...	...	5.3	...	...	7.5
Zimbabwe	8.3	9.3	11.5	10.3	8.1	...

Sources: IMF Staff estimates



2.2 THE PRIVATE SECTOR – FORMAL AND INFORMAL

The private sector in Ghana can indeed be a key initiator, facilitator and accelerator of development by generating jobs and growth, meeting consumer needs and creating wealth. However, there remain a number of structural constraints in developing countries that limit the private sector in this regard.

Table 9: Ghana – Average Monthly Earnings per Employee, December 2000 - 2006

	Dec. 2000	Dec. 2001	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006
Government (€' per month)	333,924	545,825	796,675	1,061,106	1,122,653	1,187,770	1256664
Private Sector (€' month)	524,603	722,301	950,306	1,249,183	1,429,807	1,636,548	1873183
Minimum Wage (€' month)	4,200	5,500	7,150	9,200	11,200	13,500	16,000
Ratio of government to private sector wages (%)	63.7	75.6	83.8	84.9	78.5	72.5	68.1

Source: IMF Statistical Appendix and authors' calculations

Policy-makers often describe the private sector as the engine of growth and the prime mover of the Ghanaian economy. With the dominance of the neo-liberal paradigm in economic activity, the role of the private sector has become even more crucial as more people lose their jobs in the public sector and relocate to the private sector.

There is no doubt that the political history of Ghana has had an adverse effect on the private sector. Thus, the public sector did not only become the sole provider of all essential services but also became the main source of formal employment. However, the role of the state in employment creation has reduced considerably since the introduction of the economic reforms in Ghana. The private Sector has gradually become the sector of attraction for the teeming jobseekers, some of whom were retrenched from the public sector.

The Formal Private Sector

The private sector encompasses a wide range of economic activities. Among these activities are; banking & non-banking financial services, mining, construction, agriculture, forestry & logging, manufacturing, transport, trade, social & personal sectors. The sector has indeed, received considerable attention from both government and development partners particularly in recent years. The aim has been to develop and position the sector to support the public sector as a major source of formal employment. However, available employment data suggest that the share of the formal private sector in total employment remains small despite the increase in its share in employment over the past decade. According to the Ghana Living Standards Survey III and IV, wage employment in the private sector increased from 480,000 in 1987 to 592,000 in 1999, representing a 23 per cent growth. This meant that employment in the private sector grew at an average of about 2 per cent per annum over the period compared to annual growth in the labour force of about 3 per cent.

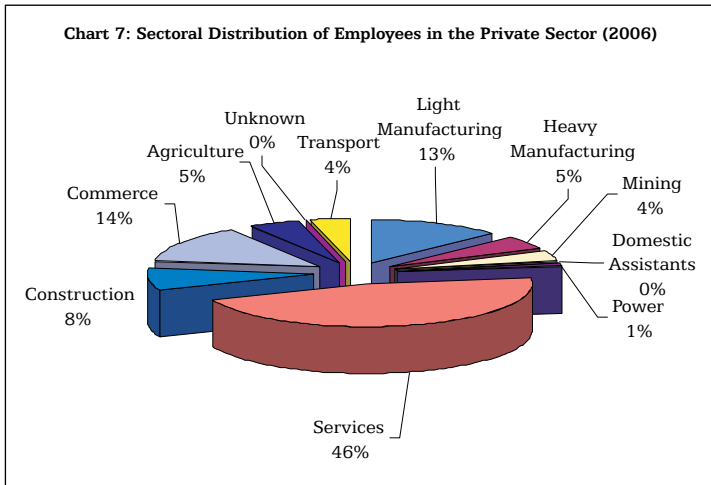
According to data on social security contributions, current private sector employment in Ghana is estimated at 396,701 employees as at the end of 2006. Out of this number, the Services sector accounts for about half with 180,342 employees. This is followed by the Commerce and Light Manufacturing sectors, accounting for 56,924 and 50,877 employees respectively. The construction sector also employs a sizable 32,852 people, while the heavy manufacturing sector accounts for 18,685 employees.

The transport and mining sectors follow with 15,959 and 16,543 employees respectively, while the Power sector employs 5,941 people. Even though the private sector in Ghana remains vibrant, and continues to expand steadily, it is clear that **the growth of the sector has been too slow to absorb significant amounts of the labour force**. This may be due to inappropriate policies that inhibit

the growth of the sector or lack of the necessary labour market policies, or inadequate support for the sector.

According to social security data on the highest and lowest remuneration of employees in the private sector, the Light Manufacturing industry has the lowest salary even though such figures tend to be under-declared⁷. On the other hand, the data suggests that the Mining sector has the highest upper bound annual salary of nearly ϕ 1.5 billion a year. This is followed by the Services sector with ϕ 1.4 billion annually, and the Commerce sector with ϕ 1.2 billion a year.

The Agricultural sector has the least upper annual salary of ϕ 267 million, even though this is still considered high relative to its lower bound of ϕ 264,000. The Mining sector is probably the most lucrative since it has the highest lower-bound salary of ϕ 1 million per annum, and a highest upper-bound salary of ϕ 1.5 billion.



⁷Employment in the informal sector for example is often not known since most of these firms are not registered. Hence these figures have to be interpreted with caution.

A comparison of private sector salaries with those of the subvented government agencies and the self-financing government agencies shows that the private sector contains the lowest minimum salary but also quite a relatively high maximum salary. One other major characteristic of the private sector in Ghana is that most of the employees in the sector earn between $\text{¢}1$ million and $\text{¢}50$ million a year based on social security contributions. Another feature is that about 96,331 employees in the private sector, representing nearly a quarter of the work force in the private sector are probably earning below the current minimum wage.

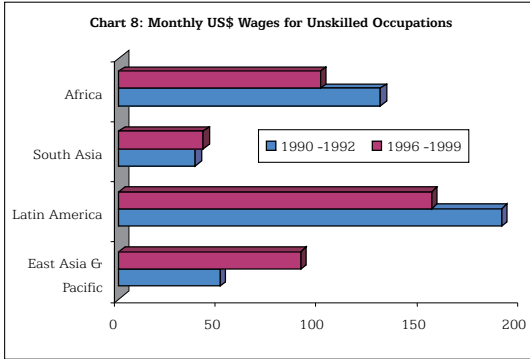
It is apparent that wages in the private sector in Ghana are rather widely distributed both within sectors and across sectors. There is therefore the need to understand the mechanism behind wage setting behavior in the private sector, and to ascertain the effect of the minimum wage on the latter. If there is no strong relationship, then this might be an indication of the need for greater flexibility in the labour market through sectoral minimum wage negotiation rather than uniform minimum wage legislation.

The Informal Sector

The growing importance of the private sector in employment creation is in line with government's policy to develop the entire private sector to be able to absorb the growing numbers of new entrants to the labour market. However, it is estimated that nearly 80 per cent of Ghana's economically active population are employed in the informal private sector leaving about a fifth of the workforce in the public and private formal sectors.

The informal sector could be described as the segment of the economy which is unorganized or unregistered and unregulated. This covers a whole spectrum of economic activities in agriculture, commerce, manufacturing, construction and so on. Participants in the sector are normally grouped into four: namely, self-

employed with employees, self-employed with no employees, paid workers and unpaid workers. The rapid expansion of the informal sector is probably a reflection of the reforms implemented over the years and the nature of the labour market it has created in the country.



The main feature of the informal private sector in Ghana include the domination of self-employment, pervasive use of apprenticeships in lieu of paid work, and excessive low wages. This is a

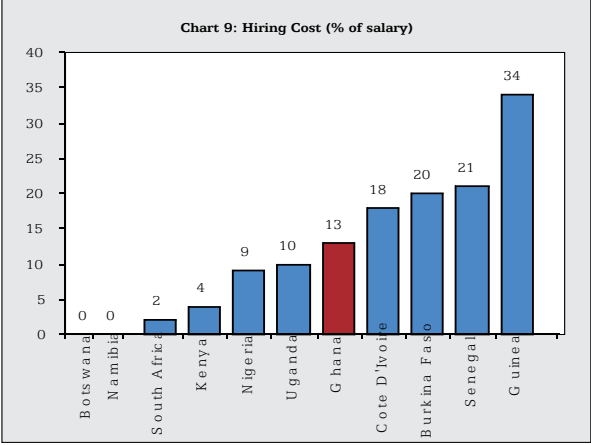
clear indication that the informal sector cannot be relied upon to create jobs for the teeming masses seeking to enter the job market. Essentially, the informal sector as we know it, provide few paid jobs. The typical informal private sector in Ghana is owner-managed enterprise. The size of the workforce in informal sector enterprises does not appear to change and may remain so for a long time to come. Despite the inherent weaknesses in the informal sector in terms of its ability to create decent jobs, the sector has been described as vibrant. However, it is clear that, the economy cannot rely on the informal sector for the desired growth of the economy. The greatest challenge facing the country now is to formalize the economy or at least halt the growing tide of informality.

2.3 EMPLOYMENT REGULATION

A good regulatory framework for any sector is a **sine qua non** for its stability, predictability and growth. Ghana's labour market has been strengthened by the passage of the Labour Act 2003, Act 651 with the main objective to promote fairness, equity and mutual trust among market players and ensure industrial harmony. These are essential characteristics for labour market stability and economic development.

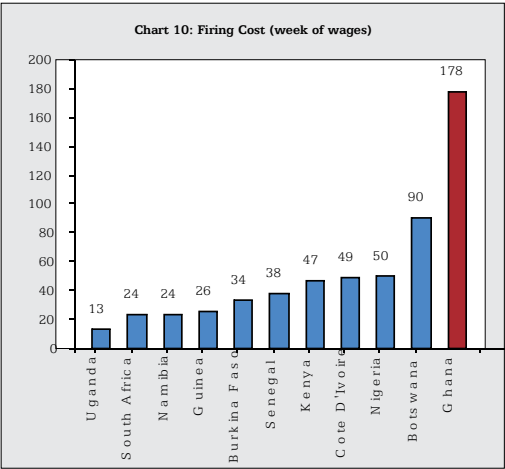
However, as already reviewed, employment avenues in Ghana remain highly tilted toward the formal sector⁸ which largely comprises civil and public services. Attempts to induce a deployment of labour from the formal sector towards the private sector in the past have achieved very little success due to labour inflexibility in the sector. Inflexibility is evidenced by the unresponsiveness of formal wages to high levels of unemployment and excess labor supply. In a competitive and flexible labour market, formal sector wages should adjust to an 'equilibrium' level in case of excess supply of labour. We next review the extent to which such persistent rigidity could be attributed to the nature of regulation that is in place. We compare different regimes of employment regulation (hiring, firing and flexibility in terms of hours worked) particularly in the manufacturing sector across countries in Sub-Saharan Africa. We draw on the 2007 Doing Business Report (DBR) to also determine how Ghana compares with selected SSA countries in terms of selected employment indicators. Specifically, we focus on four main indicators—hiring and firing, rigidity of hours worked and employment regulation.

⁸Formal sector employment defined as those having a legally enforceable contract with employee and contributing to the Social Security and National Insurance Trust (SSNIT) or both. ⁹Doing Business Report 2007: How to Reform, A compilation by the World Bank and International Finance Corporation (IFC)

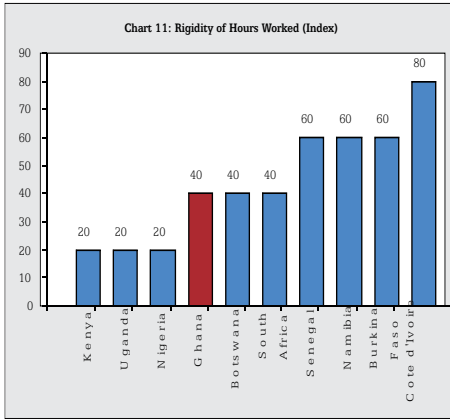


According to the 2007 DBR, higher indices indicate more rigid regulation of a country's employment laws. The 'difficulty of hiring' index collates three sub-indices (i) whether

term contracts are applicable to temporary tasks, (ii) maximum cumulative duration of term contracts and (iii) ratio of minimum wage for a trainee or first-time employee to the average value added per worker and sums it up to 100.



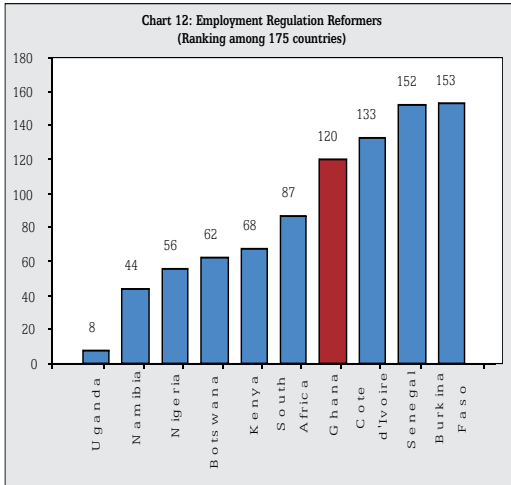
Among the fourteen selected Sub-Saharan African countries selected, Ghana ranked fourth in terms of rigidity of hiring compared with an index of 11 for the year 2007. This is significant indicating the relative ease with which employees are hired. Overall, most of the sampled countries such as Namibia, Zambia,



Uganda and Botswana recorded either no rigidities or minimum difficulties in hiring of employment. Burkina Faso, Mozambique, Senegal and Tanzania recorded very high regulatory rigidities in hiring. For instance in Burkina Faso, employers cannot write term contracts unless the job is seasonal or requires special skills.

In terms of hiring cost of employment, countries such as Botswana and Namibia had no costs associated with hiring. South Africa's cost of hiring was a mere 2 per cent of salary as compared to Ghana's 13 per cent. Hiring costs are also high in Senegal and Guinea (Chart 6).

The difficulty of firing index comprises sub-components such as redundancy through termination, notification to a higher authority (possibly government) before redundancy is declared and options for reassignment or retraining of redundant workers. Ghana ranked 10th on this score with an index of 50 compared with Uganda (0); Cote d'Ivoire (10); and Nigeria (20).



The labour law in Ghana protects workers from unlawful termination of contract and redundancies. In the case of the latter for instance, the law requires that an employer must inform both the Chief Labour Officer and the Trades Union Congress three months

prior to such a decision with reasons for any termination and indicate measures taken to minimize the adverse effects on workers to be affected. In countries such as Tanzania and Senegal, the indices showed that it was both difficult to hire and fire in 2007. Both countries ranked amongst the most difficult to hire and fire groups. Uganda ranked as the country with least firing cost per weeks of wages in 2007 followed by South Africa and Namibia. Ghana recorded the highest firing costs among the sampled countries constituting 178 weeks of wages far higher than the SSA average of 71.2 weeks. This may be associated with the high compensatory rewards often demanded from employers in cases of termination of appointment or redundancy.

The 'number of hours worked' sought to investigate restrictions on night work, weekend work, working for 50 hours or more for 2 months a year and whether paid annual vacation is 21 working days or fewer. Averaging the scores placed Ghana at par with South Africa, Botswana, Zambia and Namibia. Results for this index reflected relative rigid hours of work conditions across the region and adherence to global trends of 8 hours a day (40 hours a week). Comparatively, for South Africa, the labour law allows for not more than 45 hours in a week or 9 hours in a day and 8 hours a day for those who work 6 days a week. Those who work for a minimum of 35 hours per week are categorized as temporary or part-time employees.

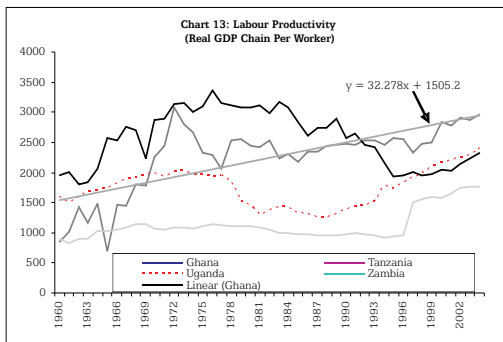
Comparative employment regulation and reforms across all 175 countries surveyed by the DBR 2007 report ranked Ghana at the 120th position compared to Uganda's 8th, Nigeria's 56th, Botswana's 62nd and South Africa's 87th. This suggests that Ghana needs further regulatory reforms in her employment sector to bring her at par with her peers in the sub-region.

Table 10: Who Regulates Employment* the Least and who the Most?

Difficulty of Hiring Index				Difficulty of Firing Index			
Least		Most		Least		Most	
Namibia	0	Senegal	72	Uganda	0	Ghana	50
Zambia	0	Burkina Faso	83	Cote d'Ivoire	10	Senegal	50
Uganda	0	Mozambique	83	Namibia	20	Tanzania	60
Botswana	0	Tanzania	100	Mozambique	20	Cameroon	80
Ghana	11			Nigeria	20		
Nigeria	22			Zambia	30		
Cameroon	28			Kenya	30		
Kenya	33			Botswana	40		
Cote d'Ivoire	44			South Africa	40		
South Africa	44						
Rigidity of Hours Index				Rigidity of Employment Index			
Least		Most		Least		Most	
Kenya	20	Cameroon	60	Uganda	13	Mozambique	54
Uganda	20	Senegal	60	Zambia	23	Cameroon	56
Nigeria	20	Namibia	60	Namibia	27	Senegal	61
Ghana	40	Mozambique	60	Kenya	28	Burkina Faso	64
Botswana	40	Burkina Faso	60	Botswana	30	Tanzania	67
South Africa	40	Cote d'Ivoire	80	Ghana	34		
Zambia	40			Nigeria	38		
Tanzania	40			South Africa	41		
<p>* Refers to employment in the Manufacturing sector Indices range from 0 – 100; higher values indicate higher rigid regulations Source: Doing Business Report 2007</p>							

3. LABOUR PRODUCTIVITY AND INTERNATIONAL COMPETITIVENESS

The International Labour Organization (ILO) defines productivity as the ratio between output and total input of factors required to achieve it, otherwise known as total factor productivity. Productivity is different from production in the sense that production is a measure of total output whereas productivity is output per factor of production. In practice, because of measurement difficulties most analyses of productivity have rather confined themselves to a single factor or partial measure. There are for instance land productivity (or land yield), capital productivity and labour productivity. The most common and popular measure of productivity is labour productivity which has remained the center of interest on productivity measures primarily because human labour is a universal key resource.



Labor productivity is of critical importance to firms as they struggle to survive and thrive in an increasingly competitive global environment. If more can be produced with less, it could affect the profitability as well as the long-term survival of firms.

Labour unions also have a keen interest in the performance of their organizations to enable them ensure that their members benefit from any perceived gain in productivity. At the macro-economic level, increasing productivity is likely to cause a fall in unit labour cost, opening the possibility of a price fall with the resultant effect on lower inflation. By the same reasoning, the fall in unit labour cost will improve the international competitiveness of the country.

The opposite argument holds true. Improvements in productivity could result in higher business profit and engender stock market gains thereby increasing household wealth. The possible effect is a rise in consumer spending. Further higher productivity growth could stimulate business spending by increasing the prospective return to capital. The determinants of labour productivity are varied and their relationship with one another complex. These range from; organizational and technological change, reforms in the workplace, training, economic incentives, industrial relations, downsizing of labour force, and the degree of competition.

These are briefly explained below:

Organizational and Technological Change

Major reorganization of the structure of the workplace and new work practices may deliver higher productivity. Technological improvements are also important determinants of productivity growth. Recent strong productivity growth in major industrial countries has been attributed to computer and ICT revolution. This notwithstanding, there may be a long learning lag between their adoption and improved productivity growth.

Reforms in the Workplace

Improvements in institutional arrangements have been identified in the longer term to have reduced the cost of transacting business. Such reforms could complement technological advances by providing working arrangements conducive to higher productivity.

Training

Although technological improvements on their own raise productivity, innovation combined with training results in even stronger productivity growth as human capital development is crucial in today's competitive business world. There is little to be gained in introducing new office technology if workers are not given the skills to implement that new technology.

Economic Incentives

Performance based payment schemes, including profit sharing and share ownership schemes are considered important elements in improving productivity growth.

Industrial Relations

There is a large literature examining the effects of unions on productivity with results largely remaining inconclusive. According to economic theory, unions may exert both positive and negative effects on productivity outcomes (Freeman and Mefoff, 1979, 1984). The monopoly model of union behavior postulates that unions use their industrial muscle to extract higher wages and by so doing cause misallocation of resources, and hamper productivity growth. The alternative view suggests that dissatisfied workers may remain in the company and via unions voice their grievances to management enabling the company to overcome inefficient work practices and thereby result in improving productivity levels.

Downsizing

Downsizing defined as workforce reduction has been a dominant feature of firm behavior and its effects on productivity growth continue to be an issue in the workplace environment. Cameron et al (1993) define downsizing in terms of an internally instituted set of activities designed to improve organizational efficiency and performance, which affect the size of the organization's workforce, cost and work processes. This could encompass technological change, organizational restructuring, financial problems, government initiated restructuring among other factors.

Competitive Environment

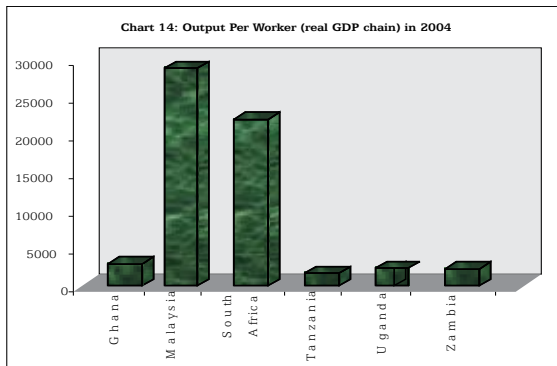
From a theoretical perspective, firms operating in a less competitive environment have less incentive to innovate and thus experience slower productivity growth. By contrast, firms operating in highly competitive markets innovate to maintain market share and in the process develop efficient and productive production techniques (Caves, Ward, Williams and Wright, 1987). Competitive domestic market could also lead to the development of firms, which are internationally competitive. Firms in the tradable sector who faced external competition were more likely to implement organization and technical change. Private sector firms that face higher competitive pressure are more likely to introduce workplace reforms at a faster pace than those in the public sector.

The counter argument is that market power allows firms the luxury of R&D investment and can support experimentation with different technologies and innovation. Blandy et al (1985) suggest that competitive markets characterized by many small sized firms are unable to influence the market, rarely engender the competitive rivalry necessary for the dynamic efficiency gains. Having said these it should be appreciated that the impact of these theoretical determinants on productivity in Ghana remains empirical.

The purpose of this paper is to initiate the process of analyzing labour productivity and other related concepts in Ghana in the face of immensely inadequate labour statistics

3.1 MEASURING LABOUR PRODUCTIVITY AND INTERNATIONAL COMPETITIVENESS

Generally, productivity and unit labour costs, in combination with hourly compensation costs, could be used to assess the international competitiveness of a labour market. The growth of an economy can either be due to increased employment or to more effective work by those who are employed, and this can be described through data on labour productivity. Thus, labour productivity as a variable, is a key measure of economic performance. Consequently, a clear understanding of the driving forces behind it, in particular the accumulation of machinery and equipment, improvements in organization as well as physical and institutional infrastructures, improved health and skills of workers and the generation of new technology, is important in formulating policies to support economic growth. Labour productivity can be defined as output per unit of labour input, and unit labour cost is the labour cost per unit of output.

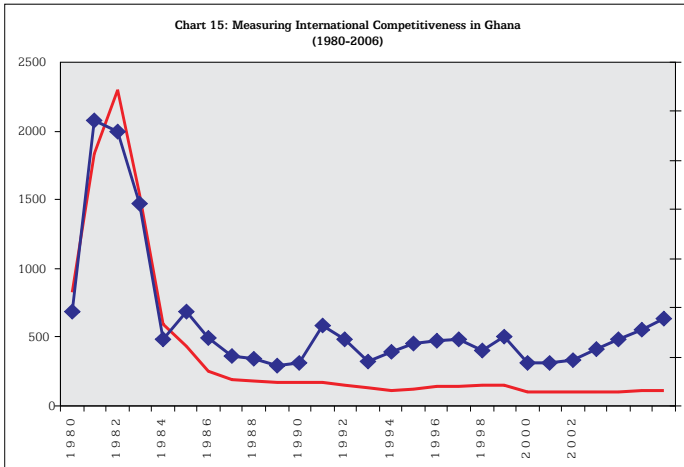


In other words, unit labour cost measures labour compensation relative to labour productivity. It is the cost of labour in producing one item (unit) of production otherwise known as compensation per unit of real output. It thus reflects the net effect of changes in worker compensation and changes in worker productivity. Unit labor costs rise when compensation and benefits rise faster than labor productivity.

Conversely, if labor productivity rises faster than worker compensation and benefits then unit labor costs will fall. This means that a sustained rise in unit labour cost could jeopardize business competitiveness, as labour compensation is not matched by commensurate productivity gains thus helping to reveal whether an increased cost of labour is justified or not. Labour is usually the single largest component of production costs. Accordingly, unit labor cost is an important indicator of trends in production costs, share prices, and inflation¹⁰. For example, a sustained rise in unit labour cost will cause production cost to raise leading to a decline in profits with possible effect of a fall in equity prices. Firms confronted with rising unit labor costs will be pressured to raise prices, which can trigger accelerating inflation. Consequently, unit labor cost is closely watched by monetary policy authorities.

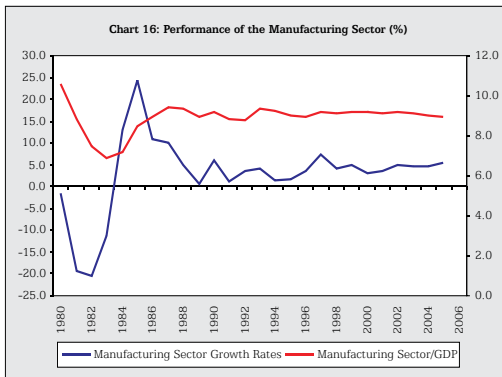
It is obvious from Chart 14 that Ghana's international competitiveness has been under strain since the year 2000 as seen in a steady rise in unit labour costs. One way out is to emphasise measures that would increase labour productivity in order to preserve or enhance the country's international competitiveness.

¹⁰As a competitiveness indicator, unit labour cost is particularly relevant for the manufacturing industry, which produces many internationally tradable products.



4. LABOUR PRODUCTIVITY IN THE MANUFACTURING SECTOR

There is no gainsay that trade liberalization has exposed Ghana to greater international competition. This raises a key issue, particularly on the productivity and competitiveness of the country's manufacturing sector. For over two decades, growth in Ghana's manufacturing sector has averaged a mere 5.8 per cent. This compares unfavourably with those recorded for the East Asian tigers where high labour-intensive industrial growth was the main driver of growth in the early stages of their economic development. Countries such as Malaysia and Thailand recorded growth rates of more than 10 per cent annually in their manufacturing sectors between 1990 and 2004.



The weak performance of Ghana's manufacturing sector has over the years been characterized by financial constraints, high borrowing costs; outdated technology and lack of modern inputs; lack of skills; poor management practices; lack of innovation; poor infrastructure including energy supply etc. These have been adjudged as contributory factors to the sectors' poor growth and low productivity over the years.

Barring these constraints (some of which have been addressed by the current stable macro environment); the manufacturing sector in Ghana currently operates in a market driven economy with increased competition. We examine some Ghanaian manufacturing sector indicators and compare them with a few countries in the region.

Capital Intensity

The capital to labour ratio provides an indicator of how many units of capital are invested in the manufacturing sector in comparison with labour input. Table 11 shows that Ghana has the least capital to labour ratio among the countries compared. With such a low median capital to labour ratio of US\$948, there is every indication that most of the manufacturing companies are not capital intensive. Thus, growth in the sector is tilted in favour of labour productivity and not total factor productivity¹¹. This could be one of the major weaknesses affecting the growth of the sector. Without taking advantage of recent technological advances and innovations by employing capital intensive options, labour productivity cannot instigate higher competitiveness and higher growth in the manufacturing sector.

The ratio by size measures capital per worker in each size category relative to the median of the country. Thus, for small enterprises in Ghana, for every single input of labour, there is a capital input of just 0.29. This is relatively low when compared with 0.79 in Eritrea, 0.42 in Cote d'Ivoire and 0.77 for Cameroon. The situation improves with the medium to very large firms but still relatively low in comparison with the other countries. For instance large firms in Eritrea and Cameroon recorded 2.13 and 2.15 capital to labour ratios respectively.

¹¹*This productivity measure encompasses capital, labour and technological progress.*

	Cameroon	Cote d'Ivoire	Ghana	Kenya	Tanzania	Zambia	Eritrea
Median	11,496	5,469	946	4,511	4,065	4,417	21,288
Ratio by size							
Micro	8,771	2,319	279	1,669	1,852	2,309	16,818
Small	9,289	4,884	731	4,055	3,309	4,064	20,011
Medium	13,197	9,511	1,279	3,848	3,480	4,201	34,061
Large	24,785	8,964	1,401	5,427	3,671	4,554	45,556
Very large	15,956	8,340	1,893	4,782	7,431	4,987	–
Ratio by sector							
Food	13,301	9,565	1,907	4,534	4,191	4,174	26,610
Metal	13,450	5,114	1,650	2,643	3,032	3,905	25,971
Textile	8,220	2,237	805	2,314	2,638	3,419	16,179
Furniture	9,760	4,578	1,115	4,128	4,411	2,460	3,832
<p>Note: In all instances, the mean was greater than the median, and due to the skewed distribution, the median is a more appropriate measure of central tendency. Source: World Bank, RPED Eritrea, 2002.</p>							

The low capital to labour ratio recorded for the textile sector indicates deeper sectoral problems. Faced with increased competition from cheaper imports from Asia and high operations costs over the years, the sector in Ghana is barely surviving¹². The evidence presented here indicates that Ghana's manufacturing sector is not competitive in relation to peer African countries. A high capital – labour ratio is likely to result into a better price competitiveness because of a lower unit labour cost. Thus, what is needed to boost growth in the manufacturing sector is increased access to capital, improved skills of the labour force to work more efficiently and technological innovations¹³.

¹²Quartey, Peter (2006), 'The Textiles and Clothing Industry in Ghana' in Herbert Jauch / Rudolf Traub-Merz (Eds.) *The Future of the Textile and Clothing Industry in Sub-Saharan Africa*, Bonn: Friedrich-Ebert-Stiftung

¹³Biggs and Raturi, (1997) *Productiveness and Competitiveness of African Manufacturing*, RPED Paper, World Bank

Measuring Labour Productivity in the Manufacturing Sector

One of the ways to compare competitiveness by sector and across countries is to gauge the value-added per worker. This is often used as an indicator of labour productivity and measures the competitiveness of the labour market. It provides information on the level of improvement in human capital, organizational and institutional structures.

In the manufacturing sector, the value-added per worker in Ghana was higher than that of Cote d'Ivoire but lower than Tanzania and Kenya. Cameroon recorded the highest labour productivity of US\$9,656. By sectors and firms sizes, large manufacturing firms exhibited higher levels of labour productivity compared to the small and micro enterprises. Although the textile sector recorded low capital to labour ratio, its labour productivity was higher at US\$1,008 per worker than the furniture sector (US\$917).

	Cameroon	Cote d'Ivoire	Ghana	Kenya	Tanzania	Zambia	Eritrea
Median	9,656	1,122	1,304	3,337	1,862	2,962	1,786
Ratio by size							
Micro	4,838	272	767	1,595	1,460	1,780	1,857
Small	7,059	1,076	1,198	3,337	1,411	3,110	1,340
Medium	19,196	1,404	1,132	3,374	2,272	3,012	2,518
Large	19,418	2,087	2,476	4,655	2,080	4,123	1,804
Very large	17,226	2,025	3,463	2,830	3,754	4,668	n.a.
Ratio by sector							
Food	14,088	1,652	2,628	5,349	3,441	3,415	2,697
Metal	8,922	1,361	1,438	1,929	1,940	4,404	3,233
Textile	6,363	376	1,008	1,832	1,030	1,973	1,072
Furniture	7,705	997	917	2,676	890	1,582	2,840

Note: In all instances, the mean was greater than the median, and due to the skewed distribution, the median is a more appropriate measure of central tendency. For Eritrea, other sectors were also included in the survey. Source: World Bank, RPED Eritrea, 2002.

Capacity Utilization Rates

The efficiency with which firms utilize the capital stock available is often dependent on supply or demand side bottlenecks. In a number of developing countries, firms are constrained by lack of inputs such as capital, raw materials, labour, or market access. Large firms with higher access to these, have higher capacity utilization rates.

Ghanaian manufacturing firms use just about 54 per cent of their capacity. This is low when compared to peer countries such as Cote d'Ivoire (70.7 %) and Kenya (63 %) but higher than rates in Cameroon and Tanzania. Large firms in Ghana utilize higher rates - about 60 percent of their installed capacity as compared to small firms. This could be attributed to limited market shares sizes and limited access to inputs. By sector, capital intensive food and metal sector recorded higher capacity utilization rates relative to the other manufacturing sectors.

	Cameroon	Cote d'Ivoire	Ghana	Kenya	Tanzania	Zambia	Uganda
Mean	46.9	70.7	54.3	63.3	51.1	48.4	58.4
Standard Deviation	28.5	25.3	27.4	28.2	27.2	30.3	22.6
Size (employees)							
Micro (< 10)	40.5	66.6	52.5	56.3	58.8	50.4	50.6
Small (10 – 49)	44.3	68.4	55.7	65.6	48.5	50.2	58.1
Medium (50 – 100)	47.0	67.9	48.4	67.3	38.8	42.9	60.8
Large (100+)	60.6	78.5	59.6	69.3	42.3	46.4	65
Sector							
Food	50.7	70.8	57.4	67.3	46.2	50.1	58.8
Textile	38.0	67.9	51.1	59.9	47.3	43.4	54.4
Wood	55.0	68.8	52.3	67.1	55.2	53.4	55.7
Metal	41.3	77.3	57.0	59.5	53	47.7	61.2

Note: All values are in percentages. Data for all countries are for the early 1990s, except Uganda and Zambia which are from 2003. Source: RPED, 2003

5. SUMMARY AND POLICY RECOMMENDATIONS

The objective of this paper is to review Ghana's wage structure and labour market competitiveness in comparison with other countries in the sub region. A number of issues have been highlighted as regards wages in the public and private sectors as well as the trend in labour productivity especially in the manufacturing sector. Below are a number of policy issues and recommendations for consideration.

- Ghana needs to establish a sound public sector devoid of worker agitations. Increasing public sector productivity, effectiveness and efficiency will aid the government to meet its broad economic objectives. To achieve public sector industrial harmony, the critical issues of pay and salary structure must be addressed. The Government is embarking on a comprehensive public sector pay reform that emphasizes 'equal pay for work of equal value' across the public sector spectrum. The Fair Wages Commission (FWC) is undertaking job content evaluation and analysis of the entire public sector to define the terms and conditions of payment structures. Overall, the expectation is that the new pay structure will link wages to productivity and the challenge is for the FWC to deliver.
- The national minimum wage currently is about ₵513,000¹⁴ (\$55) per month however, many workers especially in the informal sector earn below the minimum wage.

¹⁴ Currently ₵19,000 a day

In this regard, sectoral minimum wages could be considered as a way of introducing more flexibility into the labour market.

- Even though returns to schooling generally have a direct relationship with school years, the educational system must be tailored in line with the agenda for growth and development. The emphasis must be on training middle level labour force to support high value-added sectors such as light manufacturing and information technology-based services. This calls for the establishment of centres of excellence in areas such as electronics, industrial consumables, semi-conductors, textiles and garments etc.
- Workplace training could improve capacity building at the firm level and productivity improvements in the various organizations.
- Ghana's wage bill as a ratio of GDP is increasing gradually towards one of the highest in Sub-Saharan Africa. Considering the fact that countries with higher wage bills such as Botswana, Lesotho, Namibia, and Swaziland have relatively much smaller populations and more robust economies, there is the need to pursue measures that could scale up economic growth as a sustainable way of dealing with public sector remuneration.
- The increasing trend in the government wage bill as a ratio of GDP (and as a ratio of government expenditure and domestic revenues) suggests that fiscal space from debt relief was used to raise workers' salaries. This means that if the country's debt profile should return

to previous levels of high debt service, the government wage bill would begin to exert a lot of pressure on domestic revenues in the future unless the revenue base could be enhanced.

- The number of employees on the government payroll related to the population suggests that Ghana is way above its peers in Sub-Saharan Africa. This situation got worse in 2002, and needs to be addressed.
- Even though Ghana's labour productivity compares favourably with peers in Sub-Saharan Africa, the level of labour productivity based on output per worker falls far below countries such as Malaysia and South Africa.

