GLM | LIC
Growth and Labour Markets in Low Income Countries Programme

GLM | LIC Policy Brief No. 14 | August 2017

Policy Brief

Job Creation and Poverty Reduction: Lessons from Ghana

Researcher .... Francis Teal

This policy brief seeks to explain the mechanism by which poverty was reduced in Ghana over the period from 1991/92 to 2012/13. The data present us with a puzzle. Poverty was greatly reduced while employment in low labour productivity activities greatly expanded. Growth depended on the size of the resources boom. This directly increased agricultural incomes, through price rises and increased incomes from land, and indirectly urban incomes by an expansion in small scale urban wage employment opportunities not dependent on rises in labour productivity. The result was lower labour productivity and much lower poverty.

Introduction

This policy brief is to set out recent evidence as to how job creation has linked to poverty reduction in Ghana. In the period from 2005 to 2012 poverty reduction in Ghana continued. This note documents the role played by job creation in this process. Its applicability to other African countries and the limitations of this period of relative policy success are also discussed.

The note draws on censuses of population and manufacturing firms over the period from the 1960s to 2014 for the number of firms and employment in them. This data has been linked with aspects of the Ghana Living Standards Surveys (GLSS) data over the period from 1991/92 which have been used to monitor poverty reduction in Ghana. An appendix available at http://www.francisteal.com/ provides the details of the data underlying this policy brief.

Key findings

- The reduction in poverty over the period 2005 to 2012, documented in official reports, was not accompanied by a shift to larger scale enterprises either within the rural or urban sectors.
    - Increased incomes within the private urban sector occurred with a rapid expansion of the number of small scale enterprises. Such en-

terprises are shown to have much lower labour productivity than larger firms.
    - Increased incomes within the rural sector were due to increased prices for output as a result of the commodity price boom and land productivity growth associated with declining farm size and (probably) declining labour productivity.
- There has been a substantial shift in the occupation of working household heads.
    - From 1991/92 to 2012/13 there has been a monotonic rise in households headed by private wage employees from 9.0 to 20.0 per cent and a monotonic fall in those in public employment from 14.1 to 8.5 per cent.
    - From 2005/06 to 2012/13 the percentage of households headed by a farmer fell from 51.3 to 39.5 per cent.
- The growth in demand for the output of the urban non-traded sector was based on the massive resources boom Ghana enjoyed from 1991 to 2013 when merchandise exports in US$ terms increased from 1.0 billion to nearly 14 billion.
- Constraints on longer run growth and job creation
    - It is the low productivity of small scale enterprises, both in rural and urban sectors, that constrains the ability of the economy to generate growth in incomes not dependent on a resource boom.
    - The key policy issue is how the productivity of enterprises in which the relatively poor are employed can be increased. The evidence points strongly to that being linked to their size.

Policy issues for longer run, higher wage, growth

- The underlying policy issue, in terms of both longer run growth and higher wage job creation, is how the scaling up of enterprises within the economy can be achieved.
- At present the focus is on improving productivity for the small. The evidence presented in this policy brief suggests such policies will fail.
- The issue of scale is as relevant for the rural as the urban sector. Small scale farm plots have low labour productivity.
- Policies to enable a scaling up of enterprise are not well understood. Possible reasons for the prevalence of the small in countries in sub-Saharan Africa include:
    - The role of regulation and taxation in providing incentives to remain small.
    - The quality of management and the role of the 'family' firm.
    - Limited access to finance among the small limiting their growth options.
- The policy focus on the small scale has neglected the mechanisms that may constrain the growth of the large. The mechanisms that may constrain such enterprises include:
    - Labour market access to the relevant skills.
    - Upward sloping supply curves for labour.
    - Low returns on capital due to high labour costs relative to labour's productivity.
    - Limited opportunities to expand due to the size of the domestic market.
    - High costs of entering export markets.
    - Limited public sector infrastructure.
- In Ghana public sector wage growth has outpaced income growth in all other sectors. Such growth affects both employment choices and the investment available to the public sector.

Lessons for other African countries

Ghana seems to offer some important lessons for other African countries.

- While successful poverty reduction in Ghana has depended, at least in part, on a resources boom the boom has been managed well enough to convert resources rents into incomes for the poor. How this was done hold lessons for other resource based economies.
- The key to the beneficial effect for the poor of the boom was its agricultural base and the pricing policy of cocoa and its link to a rising world price.
- These effects point to the need to manage resource booms based on minerals so that any adverse effects on agriculture are minimized.
- The failure to address the scale issue is a common

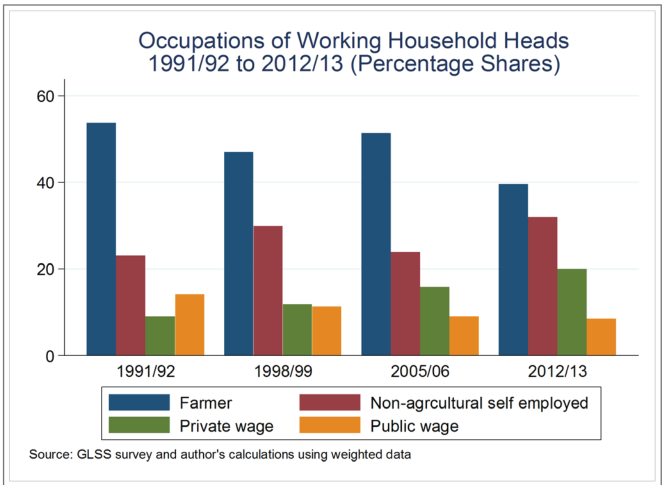
one across sub-Saharan Africa so there are longer run limitations on higher growth irrespective of the resource base and commodity prices.

Evidence for the Key Findings

There has been a substantial shift in the occupation of household heads out of agriculture in the period from 2005/06 to 2012/13. From 1991/92 to 2012/13 there has been a monotonic rise in households headed by private wage employees and a fall in those in public employment.

Figure 1 shows a breakdown of occupations of working household heads (those classified in the data as inactive have been excluded). Four occupations are identified: farmers, non-agricultural self-employed and private and public sector wage employees. The breakdown is given for the four round of the GLSS surveys after 1991/92. While the share of household heads engaged in farming has declined over this period that decline has been modest. In 2012/13 the share of those in farming was still some 40 per cent. The most sustained change in occupational structure over the period was the monotonic rise in private wage employment and the fall, in relative terms, of public sector employment.

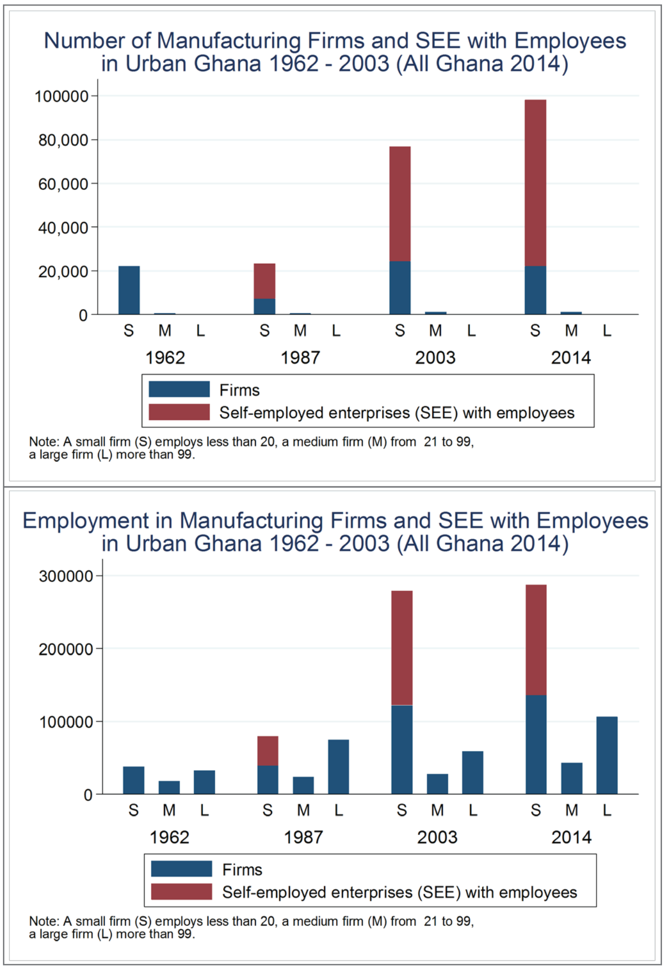
Figure 1



The poverty decline occurred while employment in small scale urban enterprises expanded rapidly

The substantial reduction in poverty, documented in official reports, has been achieved without any change in the share of manufacturing in total employment which was exactly the same in the 2010 population census as the 1984 census at 10.8 per cent of total employment. Data from the manufacturing censuses set out in Figure 2 show that within this constant overall share there was a large increase in the share of employment in small firms.

Figure 2



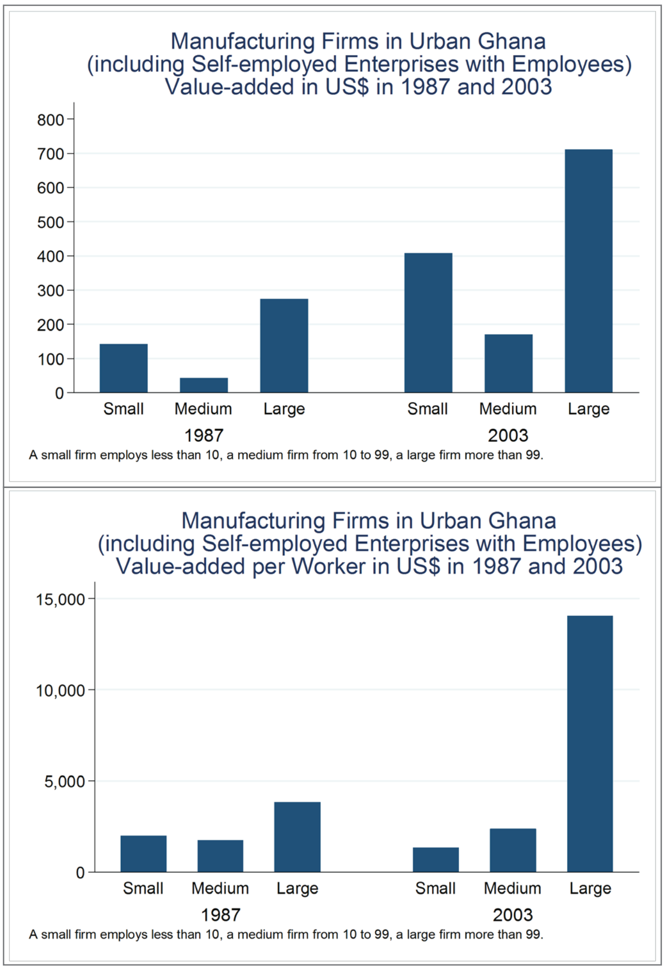
The data shown in Figure 2 is confined to urban Ghana, except for 2014, as this is the only basis that it is possible to construct a consistent series from 1962 to 2003. Further to ensure consistency across the rounds of the manufacturing censuses it is necessary to include in the data for employment in self-employed enterprises. Such enterprises were included in the 1962 and 2014 round of the census but not in those for 1987 and 2003. The data in

Figure 2 shows that the small scale enterprises expanded very rapidly in importance between 1987 and 2003. The much more modest growth shown between 2003 and 2014 may reflect a change in geographical coverage of the surveys. The share of employment in small firms, which averaged some 43 per cent in 1962 and 1987, increased to about 70 per cent in the period 2003 to 2014.

Increased incomes not due to productivity growth in the manufacturing sector

Figure 2 showed that, where we have data on a comparable basis over time in the manufacturing sector, small scale enterprises had become increasingly important. There is data for the period from 1987 to 2003 which allows a comparison of productivity both across the size distribution and how productivity changed by firm size between 1987 and 2003 which is presented in Figure 3.

Figure 3

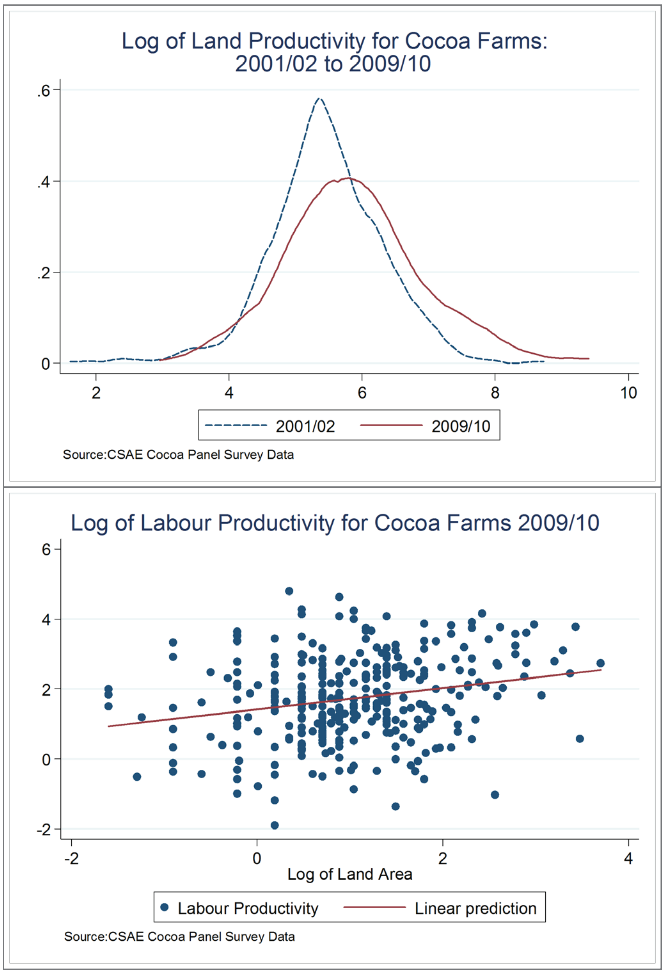


While small firms dominate in terms of number that is not true once attention is focused on value-added. As the left hand part of Figure 3 shows the value-added produced by the large firms sector is more than that produced by all the small and medium sized firms combined. The right hand part of Figure 3 shows that the gap in labour productivity is even greater and has markedly increased over the period from 1987 to 2003.

There is evidence for land productivity growth in the cocoa sector

Evidence is also available for productivity within the cocoa sector shown in Figure 4.

Figure 4

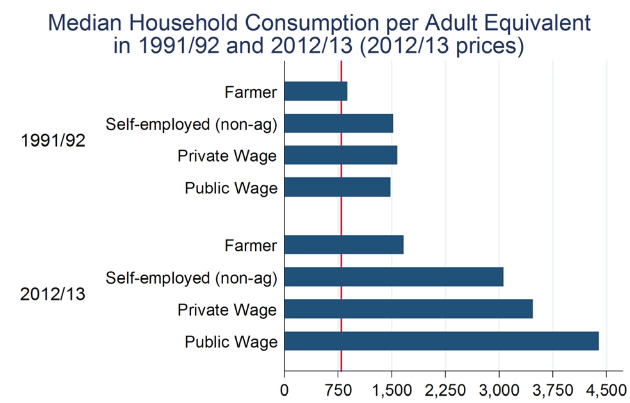


The left hand part of Figure 4 shows a doubling of land productivity between 2001/02 and 2009/10 partly due to a decrease in the average size of plots which were worked more intensively. As the right hand part of Figure 4 shows labour productivity rises with farm size. Any decrease in farm size will be associated with lower labour productivity.

In summary the evidence points to growth in private wage employment in smaller firms within the manufacturing sector and substantial growth in land productivity in the most important agricultural export sector, cocoa. Labour productivity is relatively low in both small firms and small farms.

Who benefited from growth?

Figure 5



Note: The vertical ine is the lower poverty line from GLSS6 in 2012/13 prices.
In 2012/13 the Cedis US$ exchange rate was 1.87.
Source: GLSS surveys and author's calculations.

A series of reports have been issued by the Ghana Statistical Service giving poverty profiles in Ghana. The most recent provides a comparison between poverty outcomes in 2005/06 and 2012/13. The poverty measures are based on household consumption per adult equivalent. In Figure 5 we provide a longer run comparison of a constant price series of median household consumption per adult equivalent comparing 1991/92 with the most recent data for 2012/13. We also provide a breakdown by the occupation of the household head (the data is confined to working households). The vertical line in the Figure reports the lower poverty line from the GSS (2014) report. The increase in consumption per adult equivalent has occurred for all the occupations identified in Figure 5 and by 2012/13 there was a clear ranking with public sector wage headed households more than twice as well off as farmer headed households. While all occupations have seen substantial increase in consumption the largest increase have been for the better off so there will clearly have been a rise in inequality. For the poorest households – farmers – median consumption by 2012/13 was twice the lower poverty line. In 1991/92 it had been at that poverty line.

How was growth and poverty reduction achieved?

The data present us with a puzzle. How was the growth in consumption and poverty reduction achieved when growth in employment was concentrated in the small scale, low productivity sector? To answer that question we need to consider the constraints that limit income and consumption growth in the small scale sector which are overwhelmingly in agricultural and urban self-employment.

In the agricultural sector there was a substantial income gain from the size of the resources boom which impacted on cocoa the most important agricultural export from Ghana. Between 1991/92 and 2012/13 the volume of cocoa exports more than tripled as did the world price. Unlike the price boom that occurred in the 1970s a substantial part of this price gain was passed on to producers. The implication is that lower labour productivity is consistent with rising incomes for the poorest within agriculture as the (implicit) return to land increases as the producer price of the product rises.

The evidence strongly suggests that within the urban sector that growth in income was not due to labour productivity growth. To understand the sources of that growth it is necessary to recognize the constraints on the growth of incomes in the small scale urban sector, both self-employed and wage employed. As numerous surveys have shown the primary constraints are regarded as credit and demand. The evidence is consistent with the demand constraint facing small scale urban based enterprise being relaxed due to the size of the resource rents available to the economy over this period.

The size of the resources boom as a source of income gains

The resource boom, which laid the basis for increases in demand in the non-traded sector, was by far the most important shock to the Ghanaian economy since independence. The boom had three sources. The first was in its cocoa sector where between 1991/92 and 2012/13 the volume of cocoa more than tripled as did the world price. The second aspect of the boom was in its mineral sector. Over this period the volume of gold exports also more than tripled while the world gold price increased four times. The third element was the discovery of oil which came on stream during 2010 and by 2013 supplied 28 per cent of Ghana's merchandise exports.

The implications of the boom in gold and oil can be seen in the data for exports. In 1991/92 merchandise exports per capita were some US$65, this number doubled by 1998/99 to US$112, by 2005/06 it had increased to US$150 and then increased more than three times to US$526 per capita. Another metric for the scale of the boom is the share of exports in GDP available from the PENN World Tables (version 9.0). This averaged 6-7 per cent in the period from 1991/92 to 1998/99. In 2005/06 the share had increased to 10 per cent and then doubled to 20 per cent in 2012/13.

That the income gains from this resources boom fed into demand in the non-traded sector for both wage and urban self-employment is by far the most likely explanation for the rapid rises in consumption per capita seen within these sectors. The continuing dominance within both wage and urban self-employment of small scale activity, where capital is very limited, implies that the income rises that occurred must have come from increases in hours of employment rather than from any rises in labour productivity.

UKaid from the British people

I Z A Institute of Labor Economics
Initiated by Deutsche Post Foundation

This document is an output funded by the UK Department for International Development (DFID) and IZA – Institute of Labor Economics (IZA) for the benefit of developing countries. The views expressed are not necessarily those of DFID or IZA.

The Growth and Labour Markets in Low Income Countries Programme (GLM | LIC) is a joint collaboration between IZA and DFID which aims to improve worldwide knowledge on labor market issues in low-income countries and provide a solid basis for capacity building and development of future labor market policies.

Based in Bonn, Germany, IZA is a local and virtual international research center and a place of communication between science, politics and society. IZA is an independent non-profit organization supported by the Deutsche Post Foundation.

The IZA research network is committed to the IZA Guiding Principles of Research Integrity. Research published in this series may include views on policy, but IZA itself takes no institutional policy positions.