
The Economic Base of Accra, Ghana

Advanced Issues
in Development
Planning

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Introduction

With more than three million inhabitants, Accra is among Africa's largest cities in a region undergoing one of the continent's fastest rates of urbanization. Rapid in-migration, both from the countryside and also from other West African nations, has brought a series of transformations to Accra's urban economy, and with them, new challenges that influence local policy makers' decisions.

This working paper gives a short overview of Ghana's recent economic performance as context for the analysis of Accra's urban economy. Following this section, the analysis breaks into three geographic levels – international, regional and local – to better capture the dimensions in which Accra is understood as a city.

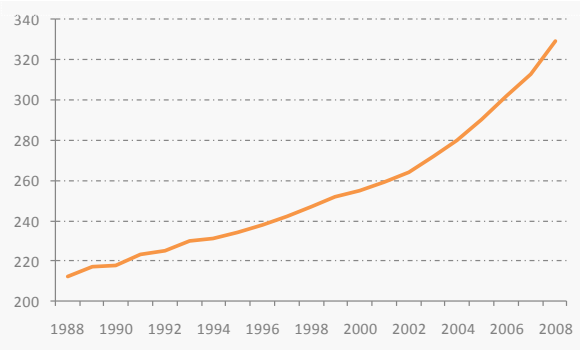
General policy recommendations are made at each level when possible, always emphasizing the information required to design proper policy. The information requirements listed in each section can be considered the first steps in addressing any vulnerabilities and enabling the city to benefit from its many strengths.

Given that this working paper intends to address policy-making, it is also important to analyze the financial base of the local government so as to identify potential areas for improvement. The subjects of analysis in this case are the revenue and expense budgets of the Accra Metropolitan Assembly (“AMA”). The report's last section offers some brief conclusions and highlights.

The Economic Base of Ghana: Context

Ghana, like many other sub-Saharan countries, has experienced a prolonged period of economic growth over the past 20 years, due to a series of internal and external factors that have influenced productivity and terms of trade.

Figure 1: Ghana - GDP Per Head, Constant 2000 USD



Source: World Bank Databank

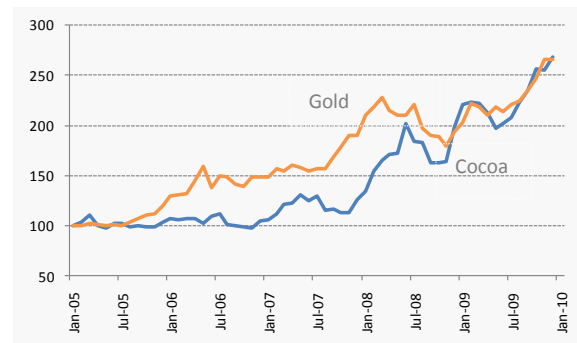
The effects of this growth can be seen in the overall improvement in the gross domestic product (GDP) per capita, even after adjusting for inflation (in constant USD). As shown in Figure 1, GDP per head went from USD 212 in 1988 to USD 329 in 2008, equaling a 55 percent real increase over 20 years, or an equivalent compounded annual growth rate of 2.22 percent. Economic growth has accelerated in the last five years, with a 20 percent increase, at current prices, in the GDP per capita, between 2003- 2008, equivalent to a compounded annual growth rate of 3.88 percent.

An important component of this rapid economic growth has been the price increase of two of Ghana's main exports – gold and cocoa. An increase in the demand for raw materials (also known as

commodities), by both developed and developing countries has raised their prices after years of depreciation.

In the specific cases of gold and cocoa, international prices for these commodities have risen almost threefold since 2005, increasing Ghana's export revenues considerably, and improving its overall terms of trade (the relationship between the prices of exports and imports). The increase is shown in Figure 2, where the values are shown as a percentage of the price at the beginning of 2005.

Figure 2: Gold and Cocoa Int. Prices, 2005=100



Source: Bloomberg

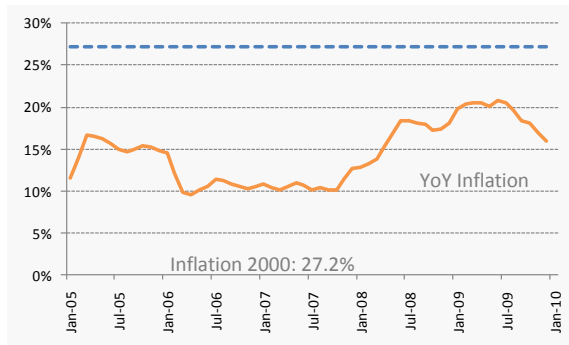
Ghana's Growth and Poverty Reduction Strategy I (GPRS I), launched by the government in 2003, was formulated to enable the country to benefit from debt reduction under the Highly Indebted Poor Countries Initiative (HIPC). GPRS I attempted to improve macroeconomic fundamentals and to significantly stabilize the economy, thereby improving the general framework for the implementation of poverty-reduction policies.

Although significant achievements have been made as a result of these strategies, important indicators – such as inflation – remain high by international standards. High inflation, with its significant cost for

those possessing cash, can also result in important distortions to the decision-making and hedging processes of both individuals and companies, with regard to investment, setting prices and wages, hiring and foreign currency holdings.

Between 2005 and 2010 year-over-year (“YoY”) inflation has fluctuated between 10- 20 percent, as indicated in Figure 3.

Figure 3: Inflation Rate (YoY)

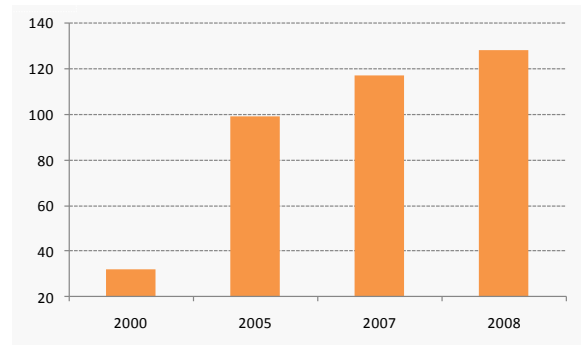


Source: Bank of Ghana

These figures, though high, have managed to remain below the dramatic 27 percent that characterized the year 2000. It is interesting to note that inflation tends to increase every four years as national elections approach, due to the marked depreciation of the Ghana Cedi during these years. This was the case in 2000, 2004 and 2008.

Remittances of Ghanaians working abroad, another important source of foreign currency for the country, have also increased significantly since 2000. Although remittances are naturally difficult to measure due to the informal means of transmission, the World Bank estimates that Ghana received USD125 million in remittances in 2008, equivalent to .8 percent of that year’s GDP.

Figure 4: Remittances in Million US\$



Source: World Bank

International Accra

The World Cup Final celebrated in Germany in 2006 was the Ghanaian national team's debut in a world cup. With distinguished Ghanaians playing in some of the main football clubs in Europe, the event was a landmark in Ghana's history. Out of all of the players participating in the World Cup Final, only one was playing in a Ghanaian club at the time, and he was transferred to a Russian team soon after the contest. This colloquial example should help illustrate the strong ties between Ghana and the rest of the world.

Grant (2009) describes three movements globalizing Accra. The first of these movements is "globalizing from above," in which international organizations, the government and other institutions attempt to harness international capital. This movement started in the last part of the 20th century.

During the 1980s, Ghana, as well as many other developing countries, adopted a large number of structural adjustments, with the intention of transforming its economy by granting the private sector a more important role. This policy shift allowed international companies to increase their activities in Ghana, and also fostered the development of local companies.

The second globalizing movement involves a process of "globalization from below," in which locals seek to benefit from new economic activity. The term refers to the links forged by civil society in its interactions with the broader global environment; in general, this movement has been led by nongovernmental organizations (NGOs) and other

grassroots organizations; international agencies have begun to work closely with and listen seriously to this community.

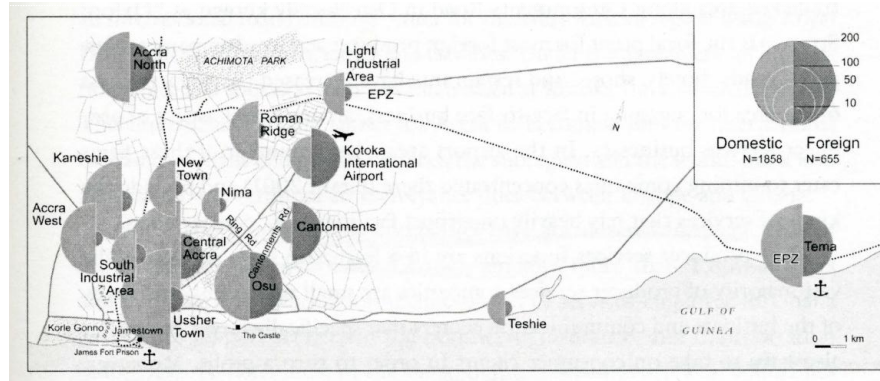
The third movement, "globalizing from in-between," includes all those individuals who are neither entirely foreign nor entirely local. The clearest example of this in Accra is the large number of return migrants who remain part of important transnational business and social networks, combining traditional practices with other "global" practices and associations adopted while abroad. Some three million individuals fit in this category, including an estimated third of all highly educated Ghanaians living abroad (The Economist 2003).

These globalization movements have had a deep impact on the economic and urban face of Accra. The first has led to a large number of foreign companies establishing operations there. While some of these international companies have established themselves in the traditional business areas, in what was long considered "the European Town," others have triggered the development of new business markets more closely located to the international economy, both geographically – with closer access to the airport – and ideologically, with areas almost exclusively occupied by international companies. This is certainly the case of companies established along Cantonments Road to the airport, a phenomenon better appreciated in Map 1, which depicts the geographic distribution of all corporate activity in Accra in 1999, according to the companies' national origins.

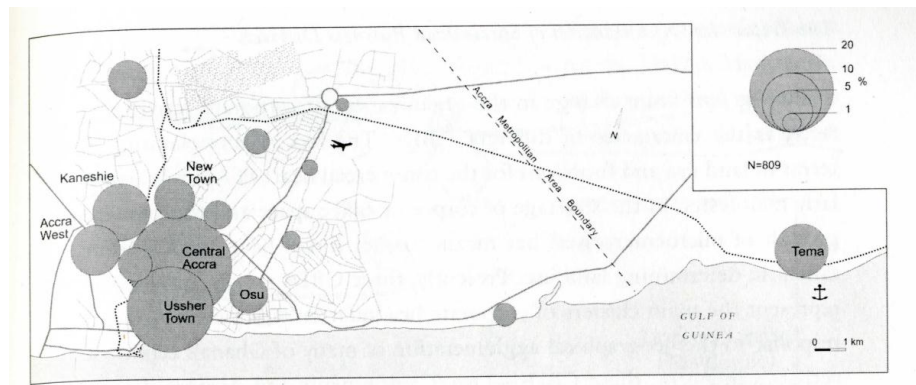
Two particularly interesting sectors to analyze are finance and the domestic import and export businesses. While domestically-owned import and

export shops rely heavily on networks abroad and maintain transnational strategies in the post-structural adjustment period, more global financial companies seem comfortable positioning corporate offices in-country.

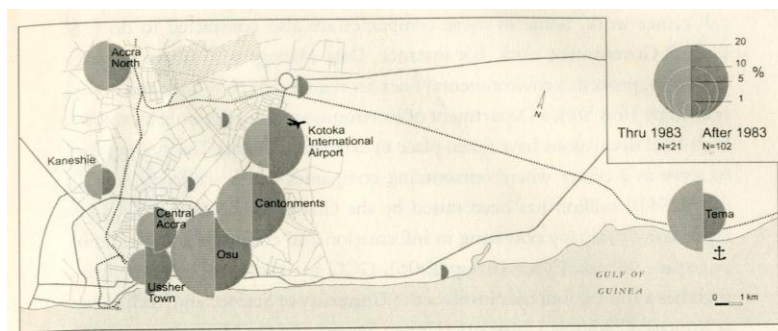
Map 2: Geographic Distribution of all Corporate Activity in Accra in 1999



Map 2: Geographic Distribution of Domestic Companies in the Export and Import Sector in Accra in 1999



Map 3: Geographic Distribution of Financial Companies in Accra by Period of Establishment



Source of three maps: Grant (2009)

But who own these import/export businesses, and where are their networks? In interviews conducted

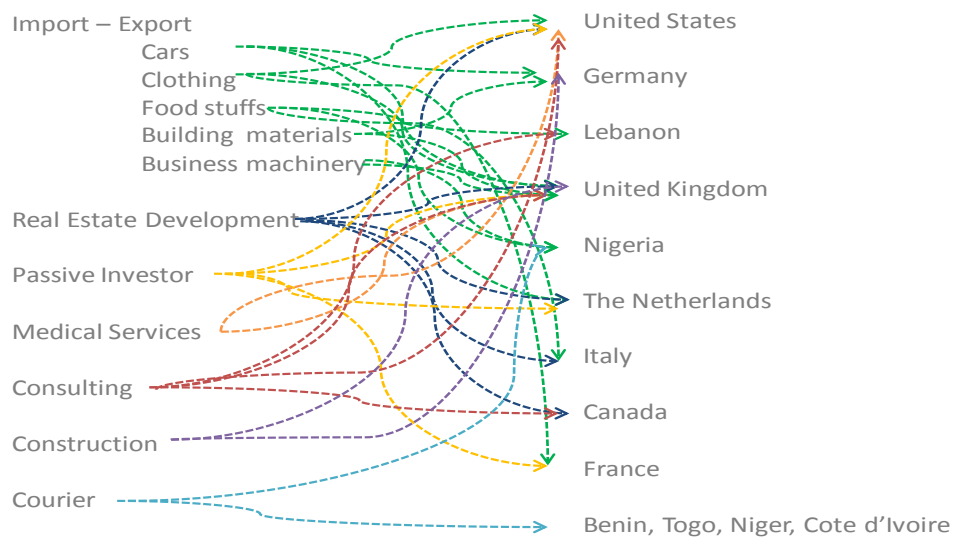
by Grant (2009) with 68 returnees, 50 percent of these business owners reported themselves as self-employed, and 30 percent of the total returnees operated as international entrepreneurs. The specific businesses they reported managing appear in Figure 5, which also includes those countries with which the companies run by international entrepreneurs in had links.

This should give a less colloquial representation of the strong linkages between Accra and the rest of the international community, one of Accra’s greatest strengths. National, regional and municipal government should consider taking this into account when generating policy, for instance, through collaboration with these groups for mutual benefit. Such examples exist in other countries, where remittances and returnees play key roles in economic development.

For a number of years, the Mexican government has entered into projects of common investment called “3x1 Tres por Uno (Three for One),” which triples every remittance dollar from migrants (or their families), and commits the match to infrastructure and/or cultural projects in the migrants’ home communities. These projects not only favor investment, but also create a sense of transnational community, and consolidate efforts by different migrant organizations, thereby increasing their efficiency.

For such a program to be created in Ghana, more detailed information on migrants and returnees needs to be generated; while data from Grant (2009) is valuable, it only represents a small fraction of all returnees. Determining the income distribution of this group, the specific neighborhoods to which they are tied and their respective agendas is fundamental for policy design. The program would also require the allocation of matching funds, and an environment of clear accountability, to foster voluntary contributions.

Figure 5: Transnational Entrepreneurs in Accra and Countries for which Links were Stated



Source: Based on interviews in 2004 reported by Grant (2009)

Regional Accra

As the national capital and one of the largest cities in West Africa, Accra has a significant capacity to attract migrants and business activity from across the region. Kessides (2006) describes the potentially positive cycles for economic development that can emerge between urban and rural economies. Access to urban markets and services for non-farm production stimulates agricultural productivity and rural income, which in turn generates demand and labor supply for more goods and services. In cities, individuals and families benefit from improved access to different markets, including the labor market, which allows for wider income diversification. Migration and remittances allow individuals to escape areas of low economic growth and enter into more dynamic sectors, increasing their potential income and reducing the overall poverty level. This mobility played a major role in Ghana's poverty reduction through the 1990s, most impressively among rural forest residents, whose progress has been directly attributed to their receipt of remittances (McKay and Aryeetey 2004).

To understand the importance of migration in Accra's urban and economic profile, it is useful to look at the composition of its population. According to the Ghana Statistical Service, "migrants" are defined as individuals who have spent more than one year in the city in which they were interviewed. In 2008, 39 percent of the population of Accra were in-migrants, and 16 percent were returning migrants; adding these two groups together, it can be said that according to the above definition, migrants constitute 55 percent of the total population of Accra.

Individuals have mostly migrated to Accra seeking jobs, or due to job transfers (35 percent), to accompany their partners or for marriage (27 percent), or to pursue their studies (9 percent). This underscores the importance of Accra as a regional center of economic activity and for the formation of human capital. While playing a major role in the economic development of their original regions, migrants also represent a large fraction of Accra's economic base, in terms of labor supply, housing, service requirements and consumption. (All data is from Ghana Statistical Service (GSS), 2008).

Migrants to urban areas do not, in general, simply add to the ranks of the urban poor, despite commonly held beliefs. Montgomery et al. (2003) found through demographic and health surveys in different developing countries that migrants are only slightly more likely to be defined as poor.

For Accra's urban economy to benefit from the city's regional positioning, a focused policy environment needs to be put in place. However, data that could help design specific policies – regarding migrants' employment, income, savings, remittances, expenditure patterns and spatial distribution within Accra – does not exist, making it less likely that policy-makers will be able to make use of this vital human capital to strengthen Accra's regional position.

Local Accra

The analysis here regarding the local strengths and vulnerabilities of Accra's urban economy is focused on two main areas: employment and housing. These areas were selected because of their importance to the general population, their dynamic nature and their relevance for the urban planning process and economic development.

According to GSS (2008), workforce employment in Accra by sector is:

- 12.8% Public
- 15.3% Private Formal
- 69.7% Private Informal
- 0.7% Para-statal
- 1.5% Other

While no data exists specifically for Accra at the national level, Farvatcque-Vitkovic (2008) estimates that while the share of the informal sector in employment is 85 percent, its share of the national income is only 40 percent. While these figures highlight the extreme income inequality between the two sectors, and the under-utilization of the human resources allocated to the informal sector, this is not to suggest that the informal sector implies a burden on the overall economy. To the contrary: as highlighted by Owusu (2007), the informal sector is fundamental in the livelihood strategies of many households, including those with formal employment, since informal entrepreneurial activities usually complement low salary income. Indeed, the significant difference between the informal sector's share of overall employment, and of the national income, should allow us to hypothesize as to the

tremendous potential of the informal sector with regard to the overall urban economy. Assuming the proportions of income and employment in Accra are the same as the national level figures, this would mean that the informal sector has a share of around 32 percent of the total local income. If productivity in the informal sector could be doubled, raising it to about 25 percent of the per-capita productivity of the formal sector, this would imply an increase in overall income of close to 40 percent – the equivalent of the 15-year growth seen in per-capita value. Such a change in productivity would also have an important redistributive effect, since individuals currently employed in the informal sector tend to be those with lower income and living standards.

It is important to acknowledge that the development of a large informal sector in Accra is in itself only a manifestation of other phenomena, including the lack of formal employment, training, education and credit, among other factors. Government policy, addressing these factors has been shown to be much more effective in turning informal economic activity into formal enterprises, as opposed to imposing simple prohibitions or acts of coercion. As part of its city profile for Accra, UN-Habitat (2009) generated a series of recommendations to increase informal sector productivity as a means to fight urban poverty. These recommendations primarily tackle the long process involved in registering a business, the availability of credit and the lack of training for small producers and service providers.

Information on the income and the specific areas of activity of individuals employed in the informal sector in Accra is difficult to come by, except through original field-based research. This makes

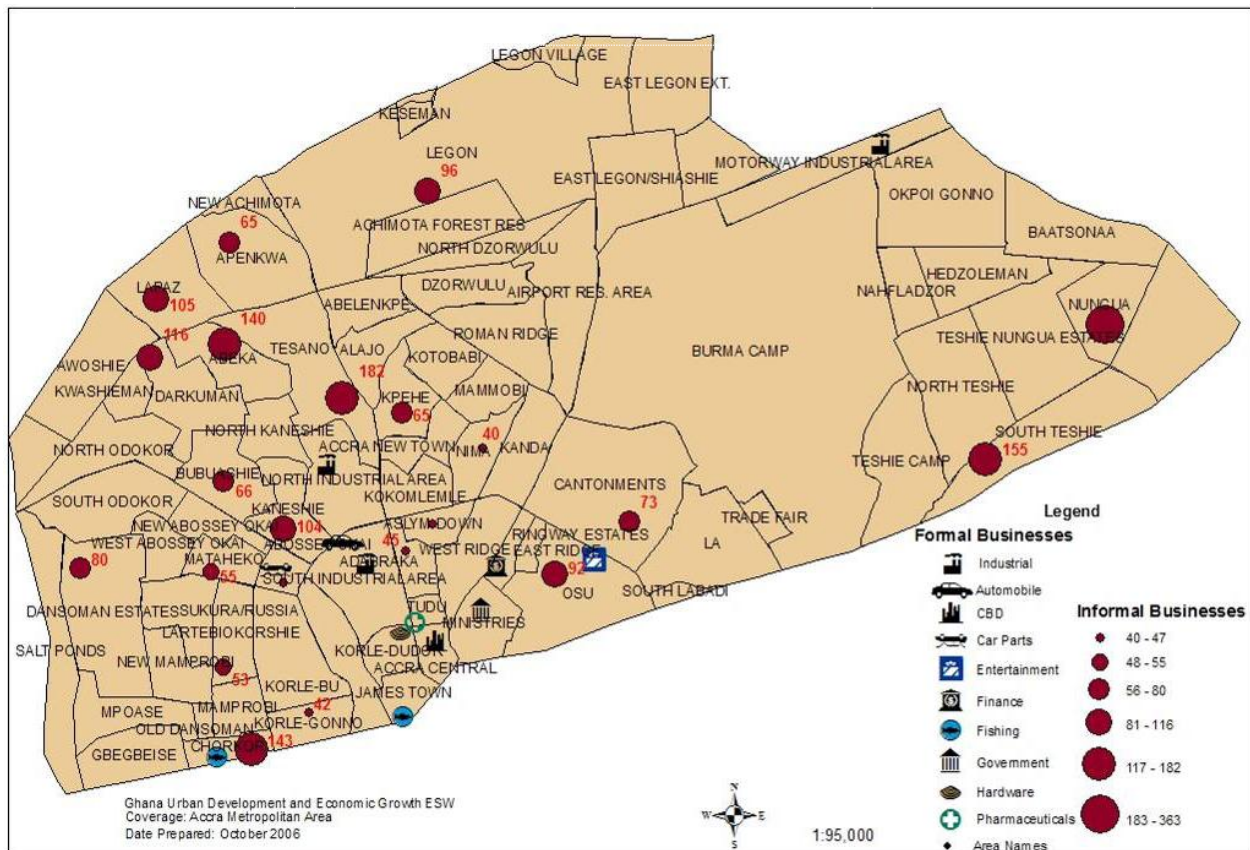
any analysis of the potential for industry and decisions regarding consumption, investment and migration difficult. Income information would allow a comparison of the options of urban informality as opposed to rural work and afford a better picture of the overall poverty rate of individuals in the informal sector.

Map 4 shows the geographical distribution of formal and informal businesses according to the inventory performed by Farvatcque-Vitkovic (2008). The map highlights the important concentration of informal businesses in the peripheries of Accra and the Korle lagoon area.

However, few sectors seem to pose such a conundrum in Accra’s urban landscape. Within the last decade, Accra has seen a building boom of luxury housing in the form of condos and gated communities. Foreign and national companies have also participated in the building boom, targeting the higher income segments of the population with “western” style units, as opposed to the traditional compound or family houses.

An inventory analysis conducted in 2004 and reported by Grant (2009) shows the location and price range of close to 4,000 units in gated communities in Accra.

Map 4: Formal and Informal Businesses in Accra



Source: Farvatcque-Vitkovic (2008).

Housing is most likely one of the main areas of interest for planners, city authorities and developers.

With units ranging in price from USD 25,000 to USD 400,000, it is safe to say that the building boom

has come hand-in-hand with soaring real estate prices in the higher-end developments. This increase in prices has not been limited to units targeted to the higher-income segments of the population. Traditional compound housing is priced at more than USD 8,800 per unit; earlier research on housing in Accra already revealed that home ownership is largely available only to the wealthy (Konadu-Agyemang 2001).

This increase in price and the existing constraints in supply of more affordable units has led basic housing conditions in Accra to deteriorate, to the point of situating it among the more inequitable cities, with a house price-to-income ratio of 14: 1 and a rent-to-income ratio of 21:1 in 2001 (UN Habitat 2003), pushing many to opt for informal housing solutions.

Informal settlements have grown in different areas of the city, either relying on traditional titles to land, or building in spite of them. Policies designed to succeed in large informal settlements will likely have to come from a discussion among the current residents and other stakeholders, through different dwellers organizations and different levels of government.

UN-Habitat estimates (2009) indicate that 58 percent of Accra's population lives in informal housing. UN-HABITAT recommends a series of "slum" upgrading programs, either through self-improvement or joint investment. Although a large proportion of the population would no doubt benefit from such programs, official GSS figures recognize only 15 percent of the total population of Accra as living in informal housing. GSS also

reports, as part of its Living Standard Survey 2008, that 40 percent of households live in rented units, but that only 5-10 percent of these households' income is spent on housing. These figures seem inconsistent with the cost of housing estimates made by researchers and international agencies.

Consistent data and revisited notions regarding informal housing are needed to quantify the number of people living in informal housing and their geographical distribution. As of today, the population of informal settlements is unknown, due to the large "floating population," that is, the tremendous fluctuations and movement of residents during the day and night. Information regarding informal dwellers' sources of income and employment is also unknown, making it difficult to assess the potential of self-help programs, the required housing needs, and the linkages between location and livelihood strategies. Location becomes particularly relevant for informal housing settlers, whose mobility is generally limited to locations within walking-distance. This renders forced relocations, for instance, an effective termination of their sources of income.

Another relevant factor not discussed in this working paper is land tenure, which places a high cost on most urban dwellers, limiting the potential availability of credit, incentives for investment, potential for taxation and overall behavior.

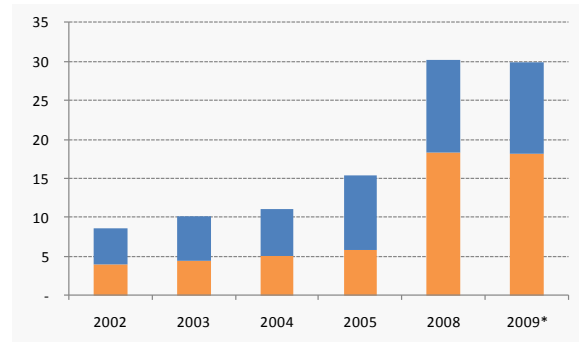
Accra Metropolitan Assembly’s Financial Background

While a large number of policy recommendations can be carried out with no additional economic resources, large public projects can rarely succeed without financing. Therefore, it is essential to analyze the financial base of the local government, in order to identify potential areas for improvement. The subjects of analysis in this case are the revenue and expense budgets of the Accra Metropolitan Assembly (AMA).

The AMA classifies its revenues by origin: internally generated revenues and foreign resources. The latter come from the national government or other institutions through 1) the recurrent expenditure transfers program, which fully covers salaries and other remuneration of AMA staff, within the limit of an assigned manpower-ceiling, and 2) the Common Fund, which allocates a portion of the stool land royalties (from the tribal chiefs) and other sources of national revenues, to a fund to be distributed among the different metropolitan assemblies.

As indicated in Figure 6, AMA revenues have significantly increased in the last decade. However, it is important to consider that this is at current prices in Cedis. Although total revenues almost doubled between 2005 and 2008, the real increase after adjustment by inflation is closer to 30%, a substantial raise nevertheless.

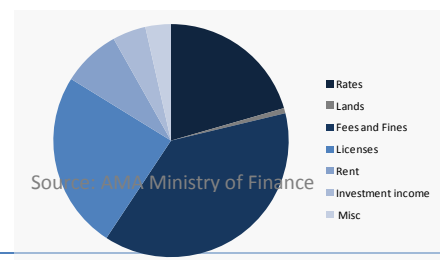
Figure 6: AMA’s Revenue: Internally Generated (IG) and Foreign Resources (FR) – Million Cedis



Source: AMA Ministry of Finance

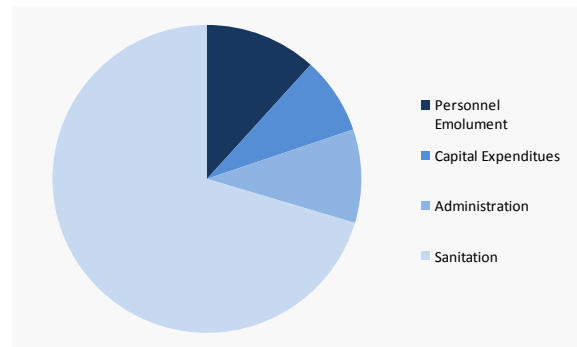
Historically, the balance between internally generated revenues and foreign resources is about 1:1, although recent improvements in local tax collection have increased the percentage of internally generated revenues to about 60 percent of the total. Internally generated revenue comes mainly from three sources: 1) property rates and a poll tax on every person aged 18 years or older; 2) fees, including those on slaughterhouses, markets stalls, trading kiosks and other commercial facilities; and 3) licenses, including those issued on dogs, beer and wine sales, artisanal and other vendor sales, gas stations and lorry parks. Together, these three sources represent close to 80 percent of the total internally generated revenues. Estimates by UN-Habitat (2009) indicate that AMA is only utilizing close to 30 percent of its total taxable base.

Figure 7:AMA’s Internally Generated by Source – Percentage for 2005 IG revenues



AMA's expenditures are distributed between personnel emolument, capital expenditures, administrative expenses and sanitation services. Figure 8 shows the distribution of expenditures among these categories.

Figure 8: AMA's Expenditure – Percentages for 2009 total expenditures



While the dominance of sanitation is overwhelming, it is interesting to analyze the capital expenditure allocation and its implications for the overall policy-making process. Capital expenditure represents 8 percent of the total expenses budget, or around 1.8 million Cedis, the equivalent of USD 1.2 million. Given the size of the city, this is equivalent to only USD 0.60 per person. The inability of the AMA to allocate more resources to investment not only prevents the creation of much-needed infrastructure, but also acts to the detriment of the existing infrastructure.

The low level of investment capacity will definitely become a burden for any policy action desired by the AMA. Therefore, it should be a priority to increase the local investment capacity, either by increasing

overall revenues, or decreasing expenditures in other areas.

Pilot projects involving naming streets and numbering homes, now being undertaken by the current AMA leadership, have increased land fees revenues up to 80 percent in neighboring Ivory Coast. (See Farvacque-Vitkovic et al. (2005) for specific details regarding this program.) Working together with Ghanaians living abroad could also significantly improve investment capabilities if the local government could attract one percent of remittances for capital investment, which would increase its overall investment budget by close to 100 percent.¹

¹ The World Bank estimates the remittances to Ghana as close to USD120 million in 2008, the Central Bank of Ghana estimates remittances to be closer to USD1 billion for the same period.

Conclusions

While important economic growth has taken place in Ghana and in Accra during the last decade, this growth has not alleviated the poverty of many of Accra's residents. The improvement of these conditions should be the goal of local policy-makers, who, in order to succeed, will need to take advantage of the local strengths and attend to the existing vulnerabilities of this population.

One of Accra's main strengths is its links to the international economy, at the corporate, individual and family levels. These links manifest themselves in high transnational entrepreneurship, remittances from abroad and an overall increase in productivity due to the regular contact with other business practices. Currently, there is little data regarding the specific patterns and profiles of this transnational group. Policy-makers should make efforts to gather such data, which can help to guide them in their attempts to build bridges of cooperation and co-investment with this community.

On a local level, although migrants represent 55 percent of the total population of Accra, there is no specific policy to attend to their needs or to reap the benefits of their production capacity. That individuals come to Accra mainly for work or to study suggests the importance of Accra as a regional center of economic activity and for the formation of human capital. Specific policies are now required to allow Accra's urban economy to benefit from the city's privileged regional position. The collection of relevant data that could help design these specific

policies should be among the first steps in strengthening Accra's regional position.

On a local level, nearly 70 percent of all workers are in the private informal sector. It is important to acknowledge that the development of a large informal sector in Accra is in itself only a manifestation of other phenomena, including the lack of formal employment, training, education and credit, among other factors. Addressing these factors, incorporating the informal, will be the only way to enable the population and the city to benefit from this vast economic activity. Doubling the productivity of the informal sector, raising it to about 25 percent of formal sector's per-capita productivity, would increase overall income by close to 40 percent, the equivalent of 15 years of growth in per-capita value.

Housing remains one of Accra's main challenges. The increases in housing prices, along with existing constraints in supply for more affordable units, has led basic housing fundamentals in Accra to strongly deteriorate, making ownership a reality only for the wealthy and condemning an estimated 58 percent of the population to live in informal housing. Consistent data and revised concepts of informal housing are needed to give some concrete dimensions to the numbers living in informal housing, their geographical distribution, and economic profile.

While many policy recommendations can be carried out with no significant additional economic resources, large public undertakings can rarely succeed without financing. Capital expenditure represents 8 percent of the total expenses budget, or USD 0.60 per person. The low level of investment

capacity will certainly turn into a burden for any policy action commissioned by the AMA, opening the door for dangerous cycles of poverty and investment. Programs to increase the potential capital expenditure by the AMA should be a priority, as they will fuel the accomplishment of Accra's future ambitions.

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