AGOA: Market Opportunity and Supply Capacity in Ghana

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Ghana has enjoyed access to the U.S. market under the African Growth and Opportunity Act since its inception in 2000. AGOA presents a significant opportunity for Ghana to increase its manufacturing capacity and diversify its exports. However, after 11 years, it has become apparent that despite early success, Ghana has not been able to exploit the trading opportunities afforded by AGOA. Ghana's exports to the U.S. increased from $116 million in 2002 to $222 million by 2008.[1] The majority of the country's exports to the U.S. are raw materials, with cocoa, wood and ores being among the top export products. A lack of supply capacity, lack of financial resources and AGOA's ad hoc implementation has led to its underutilization.

AGOA Opportunities: Free Access to U.S. Markets

In the last two decades, Ghana has recorded growth of about 4.6 percent, and much of this growth has been driven by price increases in the country's two key commodity exports, cocoa and gold, as well as by donor inflows to the country. Over the years, these sources of growth have suffered sharp variations such that the economy has oscillated between crises largely determined by the world prices of cocoa and gold, and variable and unpredictable donor support. Ghana has therefore been challenged to find new pillars of growth while protecting and expanding its current main sources.

The generous preferences offered to African countries under AGOA were initiated at a crucial time of stiff global industrial competition and productive efficiency. The removal of import tariffs and quotas on a large variety of local products presented a great opportunity for Ghana to expand its exports to the United States. AGOA had the positive effect of encouraging the different sectors of the Ghanaian economy to collaborate. AGOA was expected to trigger industrialization as domestic firms expanded and diversified in order to add value to local products for export. It was also anticipated that the ensuing industrialization would increase employment by absorbing surplus labor. To date, however, these expectations have not been met.

Approaches to Implementing AGOA

Upon the enactment of AGOA, the government of Ghana, under the leadership of the New Patriotic Party, promptly began to lay groundwork to position the country to exploit the benefits extended by the act. Specific products were identified for preferential access under_AGOA, and structures were put in place to enhance private sector export capacity for the selected products. Public institutional support included the establishment of an AGOA Secretariat at the Ministry of Trade and Industry and a Ghana AGOA Committee.

The Secretariat provided the main administrative framework to facilitate AGOA's implementation and consisted mainly of temporarily reassigned Ministry of Trade and Industry personnel. The Ghana AGOA Committee composed of representatives from both the government of Ghana and the private sector. Ghana focused attention on the textiles/garment industry and obtained export certification visas in 2002. The AGOA Committee embarked on study tours to other African countries to learn lessons from their successful experiences, especially in the textiles/garments industries, and sought to initiate regional collaborative partnerships. The activities of the AGOA committee, among other factors, contributed to increased textile/garment exports to the U.S. market that peaked in 2007.

Capacity development and education on AGOA and its benefits formed an important aspect of the measures adopted by the state. It embarked on free intensive training of tailors and seamstresses on how to sew to U.S. standards. However, there was no additional capacity to absorb those who had been trained, nor were there regional linkages that would have facilitated the absorption of the trained labor. Eventually, the training centers set up by the government closed down and currently, only one in the Light Industrial Area of Accra remains active. Nationwide awareness of efforts related to the creation of employment initiatives based on AGOA has long stalled. The West African Trade Hub–Accra is continuing this educational role, but can only reach exporters able to attend their workshops or visit their office or Web site.

The government also established the Presidential Special Initiatives (PSIs) which were public–private partnerships whereby the state mobilized financial and technical resources to empower smallholder private sector businesses and farmers to increase their production capacity for exporting purposes. In design and objective, the PSIs had the potential to help the country attain the diversified industrialization levels needed to meet U.S. market demand. However, the four PSIs, despite their excellent program designs and potential, are no longer functioning—mainly because of a lack of adequate financing.[2]

Challenges of Meeting the Demands of a Global Market

The inability of Ghana to benefit significantly from AGOA can be explained by looking briefly at its difficulties with respect to three main challenges: its lack of supply capacity, the result of low industrialization; its lack of financial resources; and its lack of a national strategy on AGOA.

The Lack of Supply Capacity

A low rate of industrialization and an associated lack of supply are among the primary reasons why Ghana was unable to meet the demand of the U.S. market. Ghanaian firms were not able to make the necessary adjustments—upgrading equipment, expansion, retooling production processes—that were necessary for them to meet the demands of U.S. market. Many lacked the machinery to add value or bring output up to acceptable standards for exporting. With limited cash reserves, firms had to wait for importers to receive/accept products and then pay, which resulted in irregular production and difficulties dealing with contractors and labor force. Many Ghanaian firms quickly lost contracts from U.S. businesses. Today, few firms process products for export to the American market.

The Lack of Financing

One of the main constraints on Ghana vis-à-vis AGOA has been a relative inability to finance investments for industrial production. Although the government established a fund—the Ghana Export Development and Investment Fund (EDIF)—its effectiveness has been limited. EDIF was established in October 2000 to provide financial resources for the development and promotion of Ghana's export trade. EDIF was widely advertised as part of the national AGOA sensitization process, and would-be exporters were educated about EDIF and encouraged to access either its grant or credit components. Though EDIF's credit component had the lowest interest rate among commercial banks rates in Ghana, access of the fund has been very low. Evidence shows that the modus operandi for accessing EDIF—through designated commercial banks in Ghana—had produced a conflict of interest for these banks. Those commercial banks that were mandated to administer EDIF appeared to be more interested in selling their own loan programs to exporters than that of EDIF. Applicants for EDIF were therefore subjected to strategic administrative delay tactics to the point where these exporters simply gave up in despair. The temporary nature of AGOA has also been cited as hindering many firms and exporters from taking the risk to borrow non-EDIF loans because many do not think that it is possible to both pay back loans and recoup their initial investment within the time frame of AGOA.

The Lack of a National Strategic Plan for Benefiting from AGOA

Ghana has lacked a clear-cut AGOA implementation strategy to maximize the act's benefits for national development. Implementation has been carried out in an ad hoc manner, with no reference to national development targets. The transient government arrangement that has characterized the institutionalization of AGOA has been due to the lack of a national strategic plan. The National Development Planning Commission, which is responsible for setting national goals, objectives and targets, has not been up to the task of incorporating the AGOA program into the national development framework. This has been demonstrated by the lack of coordination between the relevant institutions involved in the export business.

Policy Recommendations

From the backdrop of Ghana's experiences and challenges under AGOA, the following policy recommendations are advanced to both the Ghanaian and U.S. governments.

Policy Prescriptions for the Government of Ghana

These policy prescriptions for the government of Ghana follow from the problems identified above:

- Develop a national implementation strategy for AGOA that establishes targets for national development.
- Invest in intensive industrialization with revenues from Ghana's oil production and exporting. The country's newly discovered oil resources should be utilized to diversify and increase manufacturing capacity in other sectors of the economy.
- Review existing arrangements for EDIF. Its inaccessibility could be eliminated by establishing a separate Bank for Export Development, which could be decentralized by setting up regional branches.
- Continue to collaborate with other countries to intensify regional integration in order to protect and increase Africa's shared trade interests.

Policy Proposals for the U.S. Government

Proposals for the U.S. government also follow from the identified problems:

- Readdress the temporary nature of AGOA. A longer time horizon would give governments the incentive to integrate AGOA into their national development planning.
- Improve the communication of new U.S. customs laws and do more training of U.S. customs officers on AGOA to eliminate the hindrances faced by African exporters at U.S. ports.
- Create more intermediary and technical supports—more trade hub offices.
- AGOA's bias toward energy-related products should be addressed by adjusting it to require a certain a percentage of agricultural products. This will

encourage the development of a more systematic industrialization strategy for Ghana and other nations, and AGOA thus could begin to play the important role of generating and strengthening productive interactions between agriculture (the foundation of Ghana's economy) and the rest of the economy.

Endnotes

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[1] Foreign Trade Division, U.S. Census Bureau, "Trade in Goods with Ghana," 2011.

[2] Elizabeth A. Asante, "Evaluative Research on the PSIs," Institute of Statistical, Social, and Economic Research, University of Ghana, 2010.