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Towards a Compact for Ghana's Political and Economic Transformation

Private Sector Development

Technical Background Paper: Executive Summary

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Introduction

Economic transformation requires a "market-oriented industrial policy" that strikes the right balance between the state and private enterprise with effective mechanisms for the two to collaborate and support each other in the pursuit of economic and technological learning while addressing bottlenecks in the economy (African Transformation Report, 2014).

Ghana's industrialization agenda was state-led right from immediate post-independence. However, the private sector continued to feature as prominent partners in the country's economic development agenda throughout successive governments. Although some reforms led to an increasing role for the private sector in the 1970s, it was not until the 1980s, through the Structural Adjustment Program (SAP), that the critical role of the private sector as an engine of growth was articulated in virtually all of Ghana's development strategies. The private sector's role featured prominently in the Poverty Reduction Strategy Paper (PRSP) and both the Ghana Poverty Reduction Strategy (GPRS I) and the Growth and Poverty Reduction Strategy (GPRS II). Some of the gains have been a clear political consensus when industrial policy was aligned with trade policy through the administration of two different political parties in the period from 2006 to 2010 . The increase of public-private partnerships (PPP) also led to some gains, especially in the power and infrastructure sectors. Other major initiatives by successive governments such as the revision of the Ghana Investment Promotion Centre (GIPC) Act in 2013 and the Ghana Companies Act of 2019 have been implemented to continue to streamline the business environment and pull in the needed investments.

However, the trend in Ghana's competitiveness as a destination for private capital to drive industrialization suggests there are key challenges reflecting the inefficiencies and weaknesses in the business environment. The challenges facing the private sector in Ghana include lack of access to and high cost of finance; weak legal and regulatory regimes; poor state of infrastructure; currency instability; lack of access to business development services and lack of access to market intelligence. Solutions proffered in this paper include de-risking the private sector to drive in much-needed cheap capital; digitalization and other reforms of government service delivery organizations to simplify service delivery to ordinary Ghanaians; enforcement of regulations; an investment plan for infrastructural development; and provision of unbridled access to business development services to help grow entrepreneurs and businesses. The solutions require strong collaboration between the government, private sector and development partners.

Key challenges

1. Access to and high cost of finance as well as lack of long-term financing for businesses remain major obstacles to the growth of the private sector in Ghana. Domestic credit to private sector by banks (as a proportion of gross domestic product) averaged only 13 percent between 2010 and 2020. Many domestic banks are reluctant to lend to small and medium enterprises (SMEs) because SMEs are considered high-risk businesses. The non-performing loan (NPL) ratios are significantly higher for SMEs than for other segments of the market. SMEs often do not have the collateral, and their financials are often not transparent. The risks associated with loans to SMEs therefore remains higher than with other investment opportunities. Ghana's credit bureau coverage is just about 33.2 percent of adults (World Bank, 2020).

2. Lack of inter-ministerial coordination, policy continuity and commitment to private sector development, especially on the basis of a sound industrial policy that elicits clear responses from investors and aims to boost private sector participation. The institutional locus for private sector engagement has been largely fragmented and spread across various institutions and programs. This has led to a lack of consistency within processes for the development of government policy on private sector issues. The disconnect between interventions implemented from industrial policy makes it difficult to consolidate benefits from the intended gains of industrial policy.

3. The poor state of business support infrastructure in Ghana – including working premises, good roads, cold stores, warehouses, power, water, industrial parks, and telecommunications infrastructure – adversely affects the development of micro, small and medium enterprises (MSMEs) in particular and the private sector in general. Even where these requirements are available, the supply is unreliable and costly. Serviced land and business premises are in short supply in most of the cities and towns, especially for industrial use. The poor state of infrastructure makes it difficult to attract even local investors to the rural areas where a good number of Ghanaians live.

4. Weak legal and regulatory regimes affect the growth of small firms more than that of large firms. The high start-up cost involved in properly registering a business in Ghana remains a challenge. Other challenges facing the private sector include land use planning; land and property rights; contract enforcement and dispute resolution; labor laws and regulations; tax administration; standards and quality regulations; and alternative dispute resolution. The institutions in charge of enforcing regulations tend to be weak and ineffective and sometimes subject to undue influence. Generally, the ease of doing business is heavily affected by weak and unfavorable regulatory regimes.

5. There is minimal access to business development services (BDS) and capacity development as well as lack of access to market intelligence. This is despite the existence of considerable entrepreneurial ability and willingness in Ghana that require equally vibrant BDS, coaching to set up/start businesses and accelerate the growth of these businesses for longevity. Most private BDS providers do not find rural areas profitable. The lack of reliable information for decision making about the private sector both on the macro and micro levels remains a longstanding concern for both policy makers and businesses. Keeping track of trends, changing tastes and preferences of consumers is critical to sustaining market share and gaining new markets. It allows both governments, businesses, and potential investors to stay abreast of changes in an environment where information is a highly perishable commodity.

Proposed solutions

1. **De-risking the private sector** to drive in the needed financing and to drive down the cost of funds is an example of the solutions to the problems of the private sector. For example, credit bureaux were set up to minimize defaults and track defaulters whose poor credit practices raise the risk profile of the private sector. There is continuing need to institute and implement measures to drive down country risk ratings through sound macro-economic practices to attract external capital. While the Ghana Incentive-Based Risk-Sharing System for Agricultural Lending Project (GIRSAL) is making good progress by de-risking agricultural financing for the financial institutions through issuing agricultural credit guarantee instruments, more such projects could be extended to other priority sectors of the economy. In addition to the above, combinations of innovative financing instruments could be developed to provide funding for start-ups, which in many cases lack collateral and have unfamiliar business models and are therefore unable to secure loans from financial institutions. It will be crucial to implement the much-needed reforms in the government-backed fund Venture Capital Trust Fund to enable it to provide investment funds to early-stage but promising start-ups.

2. **Improve coordination and policy continuity and revamp the commitment to private sector development.** There is a strong need to join the dots when it comes to interventions. In Ghana, most interventions in general and specifically related to private sector development are disconnected in design and implementation. The government must harmonize private sector development regimes in order to align interventions and draw out inherent synergies from key actors. Another way to harmonize and integrate interventions is to take a sectoral or value-chain approach to developing the private sector. An integrated approach should include a favorable fiscal and incentive regime that attracts investors, bespoke financing (development finance in this regard) for priority sectors, skills and entrepreneurial development (rallied through a common vision implemented by academic and vocational training institutions), strong market access (championed by the export development and related institutions), and quality business development support services.

3. **A long-term plan** is urgently needed to ensure consistent and strategic investment into major infrastructure that will facilitate doing business. The government should be more committed to the expansion of cheaper sources of energy supply while introducing reforms to deal effectively with the issues of corruption and illegal connections to the grid that result in losses to the power distributor and contracting of independent power producers. There is also a need to expand capacity and introduce a new, simpler tariff system that facilitates the growth of SMEs. Roads linking the major transport corridors of the country should also be prioritized. The potential of the Free Zones enclave and other industrial sites to boost export growth and industrialization could be realized if the government prioritizes the provision of reliable and cost-effective infrastructure and utility services in these enclaves.

4. **Ghana should develop a mechanism to nurture and grow winners.** Ghana needs to be deliberate and strategic about nurturing and growing private sector players to go regional and possibly global. The process should be completely devoid of partisan or political interference. These potential winners should be players within anchor and priority sectors that have shown potential in their business models as well as management and leadership capabilities. Ghana must set an agenda to grow a number of big winners every decade and these winners should be protected and supported to consolidate their growth. The value chains of these big winners create sustainable business and market opportunities for other players within the private sector. There is an enormous impact on any value chain when an anchor player scales up its business. While doing this, there is the need to protect the integrity (minimize government/political interference) of the private sector to encourage the players to be more confident about doing business. Alternatively, a focus on growing specific value chains such as that for cocoa could also lead to the rise of national champions who could be supported to go regional and improve the fortunes of the value chain.

5. **Encourage and promote young entrepreneurs by providing unbridled access to business development services (BDS**) and capacity development. Young entrepreneurs are catalysts for modernization and healthy competition. They are more versatile at navigating the dynamic demands of the business environment. They take competition to the next level by introducing viable business models driven by technology. They disrupt existing business models and push the industry to think differently, usually leading to explosive growth. The government should ensure the professional and equitable implementation of the National Entrepreneurship and Innovation Programme, the Accra Digital Center and related programs meant to provide support to start-ups which are often run by young entrepreneurs. It will also be crucial to ensure the speedy approval of the Startup Bill in order to define and provide legitimacy to the operations of these nascent industries.

Towards a Private Sector Development Compact

While the government and private sector have collaborated over the years, a 2016 World Bank study highlighted major impediments to proactive private sector engagement: (a) Fragmentation of the stakeholder landscape; (b) Lack of trust as previous engagements with the government barely yielded any results; (c) Ill-defined ownership and management; and (d) A disconnect between vision and action.

A successful economic compact will require a vision for the private sector around which all stakeholders such as the government, the Association of Ghana Industries, the Ghana National Chamber of Commerce and Industry (GNCCI) and development partners will collaborate to deliver. The proposed vision for the private sector for this compact is,

"A strong, vibrant, stable and progressive private sector that is driving economic development in partnership with the state in a free and fair business environment".

A number of goals have been formulated to drive this vision, as follows:

- To increase the number of businesses by ensuring that entrepreneurs have the opportunity and suitable environment (market access, market linkages, infrastructure and stable utility services, business development services, incubation, and acceleration support etc.) to start and grow businesses;
- To update and strengthen Ghana's industrial policy through political consensus to drive an industrialisation agenda supported by successive governments.
- To make government service delivery systems more responsive to the needs and imperatives of the private sector and to equip service delivery actors to enforce regulatory regimes.
- To invest in appropriate infrastructure to support the business environment, especially around industries.
- To nurture and grow big private sector winners whose operations and markets will drive growth within their value chains.
- To create a free and fair business environment devoid of political interference and victimization.

Key principles to guide effective engagement between the government and the private sector around this Compact include a political consensus around solutions to private sector issues; strategic vision and role for advancing the private sector; an effective high-level platform for engagement in dialogue and driving reforms; transparency and fairness; and a singular voice to represent private-sector interests.

In conclusion, Ghana must answer key questions to achieve inclusive and sustainable economic growth and transformation. The questions to guide the conversations include:

1. How do we de-risk the business environment to drive down high interest rates and enhance access to appropriate financing for the private sector?
2. How can we strengthen institutions to effectively and better implement well-crafted regulations meant for the collective good of the private sector?
3. What should be the consensus on infrastructural development and incentive regimes that allow holistic private sector participation through investments into strategic and anchor sectors?
4. What should be the role of technology and innovation and how can they gain suitable prominence in national development planning?
5. How can businesses be supported to transition from small scale to large, as seen in other parts of the world?
6. What political process is required to nurture and grow winners (winning value chains) in Ghana?
7. How do we ensure businesses and entrepreneurs are protected from undue political interference given the history of vendettas and alleged attacks on businesses tagged to have political affiliations?