

Social Contract for Ghana's Political and Economic Transformation

Article IV

Private Sector Development

*The **Citizens' Convention for Ghana's Political and Economic Transformation** took place in Accra on June 18-19, 2024, drawing 510 participants representing numerous stakeholder groups from civil society, government and business. Building on 18 months of research and nationwide engagements, participants agreed on specific goals and targets for the seven key issue areas underpinning the Compact and **Citizens' Declaration for a Social Contract with the Government of Ghana**, which the convention adopted by acclamation. The issue areas are: gender equality, youth employment and skills, vision and planning, fiscal responsibility, private sector development, climate change, and health.*

Background

Ghana has made some progress in fostering a favorable environment for the private sector since the 1980s. Economic reforms have transitioned the economy from state controls to market-oriented trade liberalization and reductions in some tariffs and other regulations. Key institutions such as the Ghana Venture Capital Trust Fund and the Ghana Investment Promotion Centre were established to facilitate private sector access to finance. Initiatives such as the Ghana Export Promotion Authority and the Ghana Free Zones Authority have worked to increase exports and attract foreign investment. Nevertheless, challenges persist, particularly for small and medium enterprises (SMEs), which represent around 90 percent of businesses and employ over 60 percent of the workforce.

Limited access to finance is a significant challenge for SMEs. The reasons include high lending rates averaging 33 percent over the past five years, stringent lending criteria and a high non-performing loans ratio of 24.6 percent as of February 2024. Domestic credit to the private sector amounts to 12.3 percent, much lower than the sub-Saharan Africa average of 35.8 percent, highlighting a notable financing shortfall that hampers the ability of businesses to expand, invest in new technologies, and create jobs. Additionally, only 68 percent of Ghanaian adults have access to formal financial services, below the global average of 76 percent (Global Findex 2021).

Ghana's private sector also suffers from infrastructure deficits, especially in rural areas. According to the World Economic Forum Global Competitiveness Report 2022, Ghana ranks 117th out of 140 economies in infrastructure quality. This low ranking reflects challenges such as insufficient transportation networks and unreliable power supply. For instance, only 25 percent of the rural population in Ghana has access to roads, compared to the African average of 34 percent. These infrastructure gaps hinder business activities, affecting supply chains, distribution networks and overall operational efficiency for businesses.

Another key issue is the regulatory environment, characterized by bureaucratic red tape, inconsistent policies, and corruption. Despite recent reforms such as adopting policies and enacting laws like the Micro,

Small and Medium Enterprises Policy, National Quality Policy, and the Companies Act, along with initiatives like the Business Regulatory Reforms portal and public-private dialogues, there are still hurdles to overcome. One example is the overlap between key agencies such as the Ghana Standards Authority (GSA) and the Food and Drugs Authority (FDA), leading to inefficiencies and burdens on businesses. Corruption is also a continuing concern in Ghana, affecting business confidence and investment decisions.

Furthermore, workforce quality remains a pressing challenge, with employers struggling to find skilled workers who meet industry standards. There is often a mismatch between the skills possessed by job seekers and those demanded by employers, particularly in emerging sectors such as technology and digital innovation. The Ghana Statistical Service reports that in 2021 the unemployment rate of people aged between 15 and 35 was 19.7 percent, highlighting the need for targeted skills development programs.

Actions and targets for private sector development in Ghana

1. Small and medium enterprise (SME) growth and access to finance

Issue: SMEs account for around 90 percent of the private sector but have low access to credit and other support for growth and development.

- **Action:** Increase low-interest, and long-term finance to help SMEs grow in stronger local value chains that diversify Ghana's exports by adding value to the top traditional exports (gold, cocoa, and oil) as well as promoting non-traditional exports through research and development (R&D).
- **Target 1:** By 2029, raise the proportion of SMEs receiving bank loans from 30 percent to 50 percent.
- **Target 2:** By 2029, double the number of SMEs listed on the Ghana Alternative Market (GAX) by creating incentives for SMEs to go public.
- **Target 3:** By 2029, increase the share of manufactured goods in total exports from 10 percent to 25 percent.
- **Target 4:** By 2029, raise R&D expenditure to 2 percent of GDP.

2. Ease of doing business

Issue: Although national tax collection rates are relatively low, businesses believe their growth is hampered by too many regulations, onerous taxes and in some cases, unfair exemptions.

- **Action:** Increase the ease of doing business by facilitating registration and licensing, simplifying the tax code, providing tax education, and implementing electronic tax filing.
- **Target 1:** By 2026, reduce the average time to register a new business to fewer than five days.
- **Target 2:** By 2029, increase the tax compliance rate from 50 percent to 75 percent.
- **Target 3:** By 2027, digitize licensing and permit applications to reduce processes by 40 percent.
- **Target 4:** By 2026, reduce the turnaround time for dispute resolution by one third.

3. Infrastructure development

Issue: Plans for transport corridors have not been fully implemented and road maintenance targets not been met, leaving Ghana with major telecommunications and other infrastructure deficits.

- **Action:** Complete major roads (e.g. Accra-Kumasi, Accra-Cape Coast, Kumasi-Sunyani) and rail projects (e.g. Kumasi-Paga), expand renewable energy projects and improve the reliability of the national grid while ensuring adequate returns on investment.
- **Target 1:** Before 2029, reduce transportation costs by 20 percent with multimodal networks.
- **Target 2:** Before 2034, achieve 100 percent electricity access nationwide with a diversified and renewable energy mix.
- **Target 3:** Before 2029, establish at least five new industrial parks or special economic zones.
- **Target 4:** Before 2029, increase internet penetration to 75 percent by investing in high-speed internet and ICT infrastructure, particularly in rural areas.

4. Skills gaps and workforce development

Issue: Workforce quality is low and employers struggle to find skilled workers who meet industry standards, particularly in emerging sectors such as technology and digital innovation.

- **Action:** Improve coordination between industry and the school system and technical and vocational education and training (TVET) institutions to boost the varying workforce skills needed in all sectors.
- **Target 1:** By 2026, upgrade the Ghana Skills Development Fund to an Authority to oversee and coordinate all skills development initiatives.
- **Target 2:** By 2029, double the proportion of the workforce with TVET to 40 percent.
- **Target 3:** By 2029, increase the number of students pursuing science, technology, engineering, and mathematics (STEM) courses by 50 percent.

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