



**GOVERNMENT OF GHANA**

**NATIONAL MEDIUM TERM  
PRIVATE SECTOR DEVELOPMENT  
STRATEGY**

**2004 – 2008**

**VOLUME 1: STRATEGY**

*“Developing effective markets for the  
golden age of business”*

December 2003

**NATIONAL MEDIUM TERM  
PRIVATE SECTOR DEVELOPMENT STRATEGY**

**VOLUMES**

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Volume 1: Strategy

Volume 2: Action Plan

# NATIONAL MEDIUM TERM PRIVATE SECTOR DEVELOPMENT STRATEGY

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# Executive Summary

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## Introduction

This Strategy is designed to take forward progress toward the Government of Ghana's (GoG's) aim of achieving the **Golden Age of Business**.

In a free market economy such as Ghana's, businesses grow, develop and become competitive through markets. These include labour markets, land markets, markets for multi-nationals to buy and sell, and open-air markets for informal traders. Markets are where and how private sector development takes place. The Government of Ghana's Private Sector Development Strategy is therefore about making the market system for the private sector work better.

The GoG's vision for the golden age of business is for Ghana to have a world-class business environment. Three key targets are -

- Ghana is objectively rated as having one of the best investment climates in Africa;
- Businesses perceive the investment climate in Ghana to be favourable; and
- Key barriers to doing business in Ghana are eliminated.

The Strategy sets out a course for Government to facilitate private sector development in Ghana by asking – “Where are we now?” “Where do we want to be?” and finally, “How do we get there?”

## Where are we now?

### *Weak and undeveloped private sector*

The structure of Ghana's economy has changed little since independence. Ghana continues to rely on traditional agricultural and mineral commodities (mainly cocoa, gold and timber), which are subject to fierce international competition. There has been limited diversification into manufactured goods and traded services, or movement to adding value to primary products. Ghana has low levels of productivity, investment, technology and innovation.

Most firms are micro or small enterprises, and much private sector activity takes place informally or semi-informally. It is notable that the vast majority of households in Ghana are engaged in some form of private sector activity.

### *Poorly functioning markets*

The market system in Ghana is currently malfunctioning. International and regional competitiveness benchmarking makes it clear that Ghana has a long way to go to develop the kind of markets in which the private sector can thrive and become competitive. Key systemic issues which have been identified include - weaknesses in the financial sector; underdeveloped infrastructure including utility connections and services; weak public service including problems with corruption and unpredictable

and uncertain laws and policies; inefficient customs clearance; weak tax administration; poor systems for business registration; limited access to timely and effective commercial dispute resolution; and limited access to land due to problems with property titling.

Most of the constraints on the efficient operations of markets in Ghana are caused by Government. They are due either to poor service, or to the imposition of undue costs on the private sector. Weak, inefficient administration by the public service translates into time, money, risk and inefficiency for individual businesses. This in turn affects Ghana's competitiveness in global and regional markets.

### **Where do we want to be?**

Ghana's endowment-based comparative advantage lies in traditional agricultural and mineral commodities. New areas into which Ghana may be able to profitably diversify have been identified as including non-traditional agricultural exports; agro-processing; tourism; e-commerce; and low-skill manufacturing (especially garments and textiles).

The GoG will undertake broad-based pro-market reforms in order to create an environment where all businesses can operate competitively, and where the private sector has the incentive to take risks, innovate and diversify. The GoG will facilitate the free and fair operation of markets - enhancing access to new entrants, reducing distortions and inefficiencies, and reducing the risks and costs of doing business in Ghana. This means addressing the systemic constraints on the operation of the market system described above.

Recognising that it can take time for such broad-based reforms to produce demonstrable benefits for Ghanaians, the GoG will provide direct support to specific export industries through the Presidential Special Initiatives. This will take place within a carefully designed framework to minimise the potential risks and costs involved.

### **How do we get there?**

Four Strategic Outputs (or results) have been developed in the light of the GoG's vision for private sector development as follows -

<p>Output 1:</p> <p><b><i>Ghana's position in global and regional markets enhanced</i></b></p>	<p>Output 2:</p> <p><b><i>Efficiency and accessibility of national markets improved</i></b></p>	<p>Output 3:</p> <p><b><i>Competence and capacity at the firm level increased</i></b></p>	<p>Output 4:</p> <p><b><i>Government's private sector policy formulation, implementation and monitoring and evaluation strengthened</i></b></p>
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The following priorities in each output area have been identified for action over the next five years -

***Output 1: Ghana's position in global and regional markets enhanced***

To enable Ghanaian firms to become more competitive in international and regional markets, the GoG will take action to address priority constraints on private sector operations as described under output 2 below. In addition, the GoG will take the following measures specifically aimed at enabling the private sector to take greater advantage of global and regional trading opportunities –

- Urgently develop a fully-fledged GoG Trade Policy.
- Enhance quality standards by undertaking a fundamental review of existing GoG institutions tasked to provide quality standards services in the light of international best practice.
- Implement the Ghana Investment Promotion Centre's 5-year strategic plan.
- Undertake sector-specific pro-market measures for strategic exports, focusing initially on the Presidential Special Initiative areas of palm oil, cassava starch, salt and textiles. These will address in a structured way the constraints on the operation of markets as they affect particular key export sectors.
- Undertake limited 'smart' direct interventions in the form of explicit or implicit subsidies for Presidential Special Initiative strategic exports.

***Output 2: Efficiency and accessibility of national markets improved***

The heart of the Private Sector Development Strategy lies in broad-based measures designed to facilitate the operation of markets for all businesses in Ghana. The advantages of this approach include the potential for achieving high nationwide visibility; high across the board returns; and maximum impact on poverty reduction. Under this Private Sector Development Strategy the GoG will undertake measures in the following priority areas -

*Macroeconomic environment*

- Enhance the quality of its dialogue with the private sector on macro economic policy. (Macroeconomic policy-making will continue to take place under existing processes).

*Financial sector reform*

- Continue with financial sector reform under the Financial Sector Strategic Plan and undertake monitoring and evaluation of key indicators.

*Infrastructure development*

- Continue with existing infrastructure programmes. Ensure private sector involvement in their monitoring and evaluation – especially development of pro-private sector performance indicators.

### *Public sector reform*

- Mainstream private sector development priorities into the developing re-tooled Public Sector Reform Programme.
- Develop pro-private sector tools within the Public Sector Reform Programme including - pro-private sector culture change training programmes for public servants; regulatory impact assessments to ensure regulatory burdens on private sector are appropriate and proportionate; and pro-private sector “customer charters” and anti-corruption action plans for key private sector-related Ministries, Departments and Agencies (MDAs).
- Rationalise the 77 GoG MDAs involved in private sector development.
- Improve the service delivery of Customs, Excise and Preventive Service and the Internal Revenue Service in accordance with FIAS Report on Administrative Barriers to Investment<sup>1</sup>.
- Conduct a fundamental review of the business registration and local licensing regimes with a view to producing streamlined systems funded on a cost-recovery basis.

### *Contract enforcement / debt recovery*

- Develop appropriate structures within the developing Justice Sector Reform Programme to ensure that commercial dispute resolution is mainstreamed within the developing process. Review access to justice for micro and small businesses, considering the scope for enhancing alternative dispute resolution

### *Land system and property rights*

- Strengthen the Land Administration Project in relation to micro and small enterprise property rights, and implement the FIAS Report recommendations in relation to site development and land administration.

### ***Output 3: Competence and capacity at the firm level increased***

Firms in Ghana are constrained in their ability to participate in markets because of weak competence and capacity. Key issues include low skill levels; poor production methods; lack of marketing know-how; and lack of access to capital. Initiatives to enhance competence and capacity at the firm level include business support and training; provision of micro credit, venture capital and export credit. The express or implicit justification for such initiatives is market failure.

Based on international experience, there is now a great deal of consensus on best practice in provision of these types of services. Key issues include – (a) the desirability of supporting viable and sustainable local markets in service and capital provision; (b) minimising market distortions caused by the provision of subsidised services or capital; and (c) not crowding out private sector provision.

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<sup>1</sup> Foreign Investment and Advisory Service – Update 2003

To enhance the competence and capacity of firms, the Government of Ghana will –

- Develop and implement an action plan to phase-out GoG provision of subsidised finance to firms, and re-allocate the savings made.
- Develop a “best practice framework” against which firm level initiatives may be judged; undertake an audit of existing initiatives to assess the extent to which they comply with best practice and assess proposed new firm level initiatives against the best practice framework
- Develop and publish league tables of firm level initiatives based on the extent to which they comply with best practice.

***Output 4: Government’s private sector policy formulation, implementation and monitoring and evaluation strengthened***

To enhance its capacity to make effective pro-private sector and pro-market decisions, the Government of Ghana will undertake measures in the following areas –

*Strengthen GoG decision-making on issues affecting private sector development*

- Develop a Private Sector Development Policy Template to assist it to assess proposed pro-private sector initiatives in the light of their benefits; costs; value for money and risks.
- Develop and implement a training programme for key decision makers and policy formulators in major sector ministries on the role of the private sector in Ghana.
- Identify entry points for the private sector in sector policy making.

*Strengthen the quality and quantity of GoG’s dialogue with the private sector*

- Support the development of private sector advocacy challenge funds, and put in place mechanisms to enable it to respond to such advocacy.

*Undertake strategic monitoring of the Private Sector Development Strategy*

- Staff, train, equip and resource the Policy Planning, Monitoring & Evaluation Division of the Ministry of Private Sector Development, in accordance with the MPSD capacity building plan.
- Undertake a baseline survey for the PSD Strategy, using existing data sources where possible
- Identify and support “private sector champions” to monitor implementation of the Strategy, and hold GoG accountable for delivering results



## Abbreviations

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ABI	Administrative Barriers to Investment
ACP	Africa, Caribbean & Pacific
AGI	Association of Ghanaian Industries
AG	Attorney General
AGOA	Africa Growth and Opportunity Act
AMA	Accra Metropolitan Authority
APDF	Africa Project Development Facility
ASSJ & FM	Association of Small Scale Carpenters Joinery & Furniture Manufacturers
ASSI	Association of Small Scale Industries
BDS	Business Development Services
BSPS	Business Sector Programme Support
BUSAC	Business Advocacy Challenge Fund
CAS	Country Assistance Strategy
CEPS	Customs, Excise and Preventive Service
CIDA	Canadian International Development Agency
CISPIP	Civil Service Performance Improvement Programme
DFID	Department for International Development
ECOWAS	Economic Community of West African States
EU	European Union
EW	Elmina Workshop
FAGE	Federation of Association of Ghanaian Exporters
FASDEP	Food & Agriculture Sector Development Policy
FDB	Food & Drugs Board
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
FINSPP	Financial Sector Strategic Plan
FOB	Free on board
GDP	Gross Domestic Product
GEA	Ghana Employers Association
GEPC	Ghana Export Promotion Council
GFZB	Ghana Free Zones Board
GHACOE	Ghana Congress on Evangelism
GIPC	Ghana Investment Promotion Centre
GLSS	Ghana Living Standards Survey
GNCCI	Ghana National Chamber of Commerce and Industry
GNI	Gross National Income
GoG	Government of Ghana
GPRS	Ghana Poverty Reduction Strategy
GSB	Ghana Standards Board
GTZ	Gesellschaft für Technische Zusammenarbeit
GW	Growth Workshop
HIV / AIDS	Human Immune Virus / Acquired Immune Deficiency Syndrome
ICT	Information Communication Technology
IIP	Inte grated Industrial Policy for Increased Competitiveness
IRS	Internal Revenue Service
JITAP	Joint Integrated Technical Assistance Programme

JSRP	Justice Sector Reform Programme
LC	Land Commission
LTR	Land Title Registry
M&E	Monitoring & Evaluation
MDAs	Ministries, Departments and Agencies
MDBS	Multi Donor Budget Support
MFI	Micro Finance Institution
MFEP	Ministry of Finance and Economic Planning
MLGRD	Ministry of Local Government & Rural Development
MoJ	Ministry of Justice
MoTI	Ministry of Trade, Industry and PSIs
MPSD	Ministry of Private Sector Development
MSEs	Micro and Small Enterprises
MSMEs	Micro, Small and Medium-sized Enterprises
MTEF	Medium Term Expenditure Framework
NBSSI	National Board for Small-Scale Industries
NDPC	National Development Planning Commission
NED	National Economic Dialogue
NEPAD	New Partnership for African Development
NGO	Non-Governmental Organisation
NGP	National Governance Programme
NIRP	National Institutional Renewal Programme
NTRU	Non Tax Revenue Unit of the MFEP
OASL	Office of the Administrator of Stool Lands
OECD	Organisation for Economic Co-operation and Development
PAC	Parliamentary Public Accounts Committee
PEF	Private Enterprise Foundation
PPP	Public-Private Partnership
PPSD	Promoting Private Sector Development
PRSC	Poverty Reduction Support Credit
PSD	Private Sector Development
PSDS	Private Sector Development Strategy
PPMED	Policy Planning, Monitoring & Evaluation Division
PSMRP	Public Sector Management Reform Programme
PSI	Presidential Special Initiative
PSPC	Private Sector Presidential Council
PSR	Public Sector Reform
R&D	Research & Development
RIA	Regulatory Impact Assessments
SIRF	Service Improvement Responsive Fund
SMEN	SME Network
SMEs	Small and Medium-sized Enterprises
SMO	Senior Minister's Office
SSNIT	Social Security and National Insurance Trust
TCP	Town & Country Planning Department
TPF	Trade Policy Framework
TWG	Technical Working Group
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

US	United States of America
US\$	United States Dollars
WTO	World Trade Organisation

## Glossary (for Volumes 1 & 2)

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Businesses	Enterprises engaged in commercial activity on any scale, ranging from large multi-national companies to street traders. Includes agricultural activity, service provision, extraction of raw materials and manufacturing.
Business sector	All businesses in Ghana.
Comparative advantage	The activities a country is most efficient at. Comparative advantage governs the activities of countries (compare with competitive advantage).
Competitive advantage	The activities a firm can perform better than other firms - which give it an “edge” over its rivals. Competitive advantage governs the activities of firms (compare with comparative advantage).
Firms	Used interchangeably with “businesses”. Includes companies, partnerships and sole traders.
Markets / the market system	The organising principle of economic activity. Ranging from international commodity markets to local open-air markets, markets are where and how private sector development takes place <sup>2</sup> .
Private sector	Shorthand for the system of the operation of markets. Also used interchangeably with “business sector”. Often used in contrast to the public sector i.e. Government.

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<sup>2</sup> A more formal definition could be the system in which the allocation and exchange of resources is determined in a decentralised way by those who control them, based on price signals.

# Chapter 1

## Introduction

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### 1.1 Towards the golden age of business

This Strategy is about achieving the Presidential imperative of the **Golden Age of Business**.

Achieving such a golden age is not an end in itself. It is critical for Ghana to achieve the 8% p.a. growth it needs in order to meet its poverty reduction targets for 2009. The Government of Ghana's (GoG's) commitment to achieving the golden age of business is not in doubt. The place of private sector-led economic growth as a key tool to achieve poverty reduction in Ghana is enshrined in Ghana's over-arching policy documents, the Coordinated Programme for Economic and Social Development<sup>3</sup> and the Ghana Poverty Reduction Strategy<sup>4</sup>. It has been articulated in Presidential and Ministerial statements as well as in GoG policy documents and strategies.

The purpose of this Medium Term Private Sector Development Strategy is threefold -

- To clarify the respective roles of the State and of the private sector<sup>5</sup> in achieving the golden age of business;
- To set out a prioritised, costed and sequenced Action Plan with clear targets and milestones, setting out the steps to be undertaken by Government and private sector stakeholders in order to continue to move towards the golden age of business; and
- To present a coherent institutional framework for implementing the Strategy, to ensure effective and efficient use of resources through effective monitoring and evaluation.

### 1.2 What is the golden age of business and how do we know when we've achieved it?

What is the golden age of business? How will we know when we've achieved it? The GoG's vision for the golden age of business presented in this Strategy can be summarised in this way<sup>6</sup> –

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<sup>3</sup> 2003-2012

<sup>4</sup> 2003-2005: An Agenda for Growth and Prosperity.

<sup>5</sup> See definition of "the private sector" in the Glossary.

<sup>6</sup> The vision for the golden age of business is reflected in the Strategy Purpose as set out in the Strategic Framework in Annex A.

***The golden age of business will have arrived when  
Ghana has a world-class business environment***

The vision is thus to have a business environment so attractive that foreign and local investors are bound to respond to it. How will we know when we've got there? Box 1.1 below sets out three key targets and their means of verification.

**Box 1.1 Key targets for the golden age of business<sup>7</sup>**

Target	Means of verification
Ghana is objectively rated as having one of the best investment climates in Africa	Objective international competitiveness ratings
Businesses perceive the investment climate in Ghana to be favourable	Business perception surveys
Key barriers to doing business in Ghana are eliminated	Cost of Doing Business Surveys

The targets reflect the GoG's key role of strengthening the business environment in Ghana. But the golden age of business will only be achieved through partnership with the private sector. Success will be measured by the response of the private sector to the improved business environment (for example by private sector investment and growth / productivity performance indicators in the Strategic Framework in Annex A). As businesses become confident that their investments will not be mired in bureaucracy; that their incomes will not be eaten up by taxes or arbitrary fees; that the costs and risks imposed by the business environment are reduced – then there is an incentive for increased private sector investment. As transaction costs are lowered, resources are freed up, and there is scope for productivity to rise. As the business environment is made less risky, businesses are more likely to innovate and diversify into non-traditional exports and find new markets<sup>8</sup>.

The golden age of business does not set out a vision based on production targets, nor on a Governmental determination about which sector of the economy growth will come from. This does not mean that Government shirks its responsibility to make strategic choices and to prioritise its efforts. But its main focus is on getting the basics

<sup>7</sup> These targets are reflected in the performance indicators in the Strategic Framework in Annex A, where additional performance indicators are also provided.

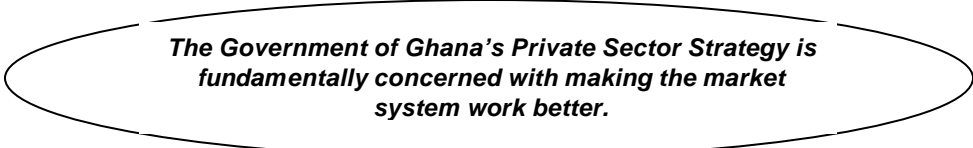
<sup>8</sup> The GoG has specific targets for the private sector response. Eg – GIAC foreign direct investment target: US\$ 400 million a year (up from US\$65 million in 2002) (source: GIPC Strategic Plan 2003-08, April 2003). The GoG has sectoral targets eg to increase tourism foreign earnings from the current US\$500 million to US1.5 billion by 2007 (source: Ministry of Tourism and Modernisation of the Capital).

right. It is about broad-based reforms designed to create a favourable environment in which entrepreneurs have the incentive to take the risk to invest, and so through trial (and sometimes error) build competitive and thriving businesses.

### **1.3 The golden age of business is about the operation of markets**

The private sector is not like other sectors (such as health or education). The private sector is about the operation of markets. Markets for land, capital and labour (inputs for businesses), as well as markets for the products sold by them, are the organising principle of economic activity. They range from a local open-air market selling fruit and vegetables to global capital markets. All these markets are important, because they are where and how private sector development takes place.

Developing an effective market system is the key to delivering the golden age of business.



*The Government of Ghana's Private Sector Strategy is fundamentally concerned with making the market system work better.*

### **1.4 Who is the Strategy for?**

The Strategy is for people who are participating in the market system. This includes all kinds of business activity – agriculture, manufacturing, and service providers. These can range from the micro to the multi-national.

As well as existing businesses, the Strategy is also for people who are not currently participating in the market. These include potential foreign direct investors, who look at Ghana's international competitiveness ratings and decide whether to invest; and marginalized / excluded groups such as women or the poorest subsistence farmers who lack access to markets to sell their surpluses.

Many businesses in Ghana operate wholly or partially outside the formal rules that govern the operation of markets. The Strategy considers the operation of this informal market system and its linkages with the formal economy.

### **1.5 Agriculture**

Most Ghanaians are involved in agriculture. It employs 60% of the workforce and accounts for over 30% of GDP. Currently most agricultural activity is subsistence, based on smallholder farming. The modernisation of the agricultural sector is critical for Ghana's economic development -

- Ghana's endowment based comparative advantage lies in agriculture (and in other natural resources such as minerals). This includes both traditional crops (especially cocoa) and non-traditional crops (such as pineapples).

- Agricultural modernisation and improved agricultural productivity will have a direct impact on rural incomes, increasing disposable incomes and thus stimulating a demand for manufactured products.
- Agricultural modernisation (“the Green Revolution”) and associated increases in agricultural productivity are considered<sup>9</sup> to have been a prerequisite for the sustained export-oriented growth experienced by many South East Asian economies during the 1980’s and 1990’s.

GoG’s Strategy for agricultural development is contained in the Food and Agriculture Sector Development Policy (FASDEP)<sup>10</sup>. For this reason, agricultural modernisation is not specifically focused on in this Private Sector Development Strategy. However, the agricultural sector is likely to benefit from its broad-based pro-market reforms. Operational linkages between FASDEP and this Strategy are developed in the Action Plan<sup>11</sup>.

## **1.6 Private sector development and the poor**

### ***Poverty in Ghana***

The ultimate goal of the Private Sector Development Strategy is poverty reduction. 80% of poverty in Ghana is in rural areas. It is concentrated amongst subsistence farmers. Geographically, poverty is focused in the north of the country, where there is limited non-agricultural private sector economic activity. Over 40% of Ghana’s population<sup>12</sup> live in the urban centres of Accra, Kumasi, Sekondi-Takoradi and Tamale. It is here that most non-household, non-agricultural private sector activity is centred.

### ***How will the Private Sector Development Strategy contribute to poverty reduction?***

The GPRS makes the clear linkages between private sector development, economic growth and poverty reduction. The GoG wishes to see equitable and widespread private sector-led growth throughout Ghana. The desire is for the pattern of growth to be broad based, and of benefit to all the people of Ghana, particularly the poor, by enabling them to improve their livelihoods.

The Private Sector Development Strategy will contribute to poverty reduction in Ghana in two key ways - (1) through enhanced social expenditure made possible because of economic growth; and (2) through improved livelihoods.

Without economic growth the Government of Ghana will not have the resources to support investment in education, health and other social areas, which are of direct benefit to poor people. In addition strengthened private sector development will enable poor people to benefit from increased employment and income earning opportunities – both through waged and self-employment. (Unemployment in Ghana

<sup>9</sup> See for example – The East Asian Miracle, World Bank 1993

<sup>10</sup> Ministry of Food and Agriculture, Sept 2002

<sup>11</sup> Volume 2 – Chapter 2 paragraph 2.5

<sup>12</sup> The total population of Ghana is just under 20 million.



currently stands at 20%<sup>13</sup>). The Strategy is designed specifically to address constraints faced by micro and small enterprises, many of which are at least partially in the informal sector, and are operated by poor people.

The aim therefore is to make markets in Ghana work better for poor people. Poor people participate in a wide range of markets in Ghana – ranging from the labour market, to global commodity markets, to local open-air markets. Improving the way these markets operate can result in direct gains for poor people. For example, at the level of the local market, initial research for the development of this Strategy suggests that harassment by local government officials resulting in the need to pay bribes is a key constraint for roadside stallholders in Accra. For labour markets - a modern and properly enforced regime can enable poor people to move from the casual to the formal labour market.

## **1.7 Sustainable economic growth**

Ghana has achieved high levels of growth in recent years<sup>14</sup>. However, the experience in Africa over the past 20 years has been that initial high growth (often attributed to recovery) is difficult to maintain in the longer term. A key concern of the Strategy therefore is to take forward the necessary reforms to enable high levels of growth to become entrenched in Ghana - beyond the next few years. The Strategy sets out reforms that go deep, and address real underlying constraints that affect competitiveness. Although this Strategy is for the medium term, it has been developed with a long-term perspective in mind. It does not promote “quick fixes”, but tackles the systemic problems that have for too long constrained private sector development in Ghana.

## **1.8 Policy parameters**

Ghana’s over-arching policy statements – the long term Coordinated Programme of Economic and Social Development, and the medium term Ghana Poverty Reduction Strategy Paper give the broad policy parameters for the Private Sector Development Strategy. In addition, Ghana has agreed to international principles in relation to private sector development, including the New Partnership for African Development; the Commonwealth Principles for Action on Investment; and the London Principles of Partnerships for Poverty Reduction<sup>15</sup>. Key principles under these international agreements include commitments to –

- free markets and to increasing integration with the global economy;
- private-sector led growth with the role of the State as a facilitator, rather than a participant in markets;

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<sup>13</sup> Source: GoG website. 1996 estimate. However, this figure should be considered as indicative in view of the informal nature of much economic activity in Ghana.

<sup>14</sup> GDP growth in the 1980’s averaged 3%; in the 1990’s 3.7%. Growth in 2001 was 4.2%; in 2002 4.5% and in 2003 4.4% (source: World Markets Resource Centre, Oct 2003)

<sup>15</sup> January 2003

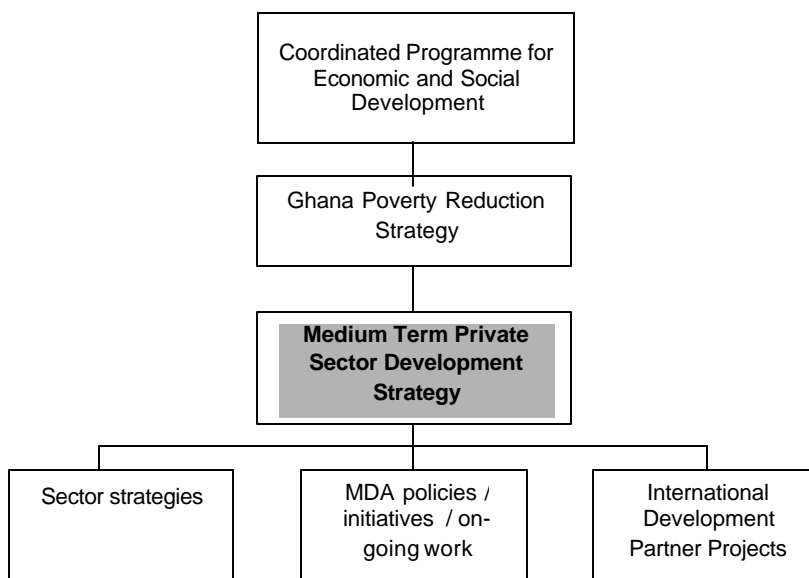
- investment by Government in infrastructure for private sector development; and
- development of a modern, facilitative pro-business public service through public sector reform.

These commitments form the over-arching policy parameters for this Strategy.

## 1.9 Positioning of the Strategy

The Strategy develops the policy commitments made in the Ghana Poverty Reduction Strategy in relation to private sector development, and the Presidential commitment to the golden age of business. It develops the policies set out in broad terms in the Ministry for Private Sector Development’s Policies Strategies and Action Plan 2002-2004 and in other existing private sector strategy documents.

Policies relating to private sector development will be delivered primarily by line Ministries, Departments and Agencies (MDAs) – by way of on-going and new initiatives and projects, as well as through their routine work (as well as through International Development Partner projects). The Strategy is therefore positioned thus –



The Private Sector Development Strategy will both inform, and be informed by existing sector strategies, policies, initiatives and projects. It adds value to the existing policy and initiative framework by -

- bringing a greater degree of focus and co-ordination to private sector development efforts than has hitherto been achieved through a clear articulation of Government’s policy framework on private sector development;
- “mainstreaming” private sector development within the on-going work of line Ministries, Departments and Agencies (supported by a monitoring and

evaluation framework that measures the impact of their work on private sector development); and

- identifying and filling “gaps” where key private sector development challenges are currently not being met.

### **1.10 Structure of Strategy documents**

The Strategy is in three parts –

- The first part (in Volume 1) asks “Where are we now?” and considers key constraints facing private sector development in Ghana today.
- The second part (in Volume 1) asks “Where do we want to be?” It presents a policy framework for the way forward for private sector development.
- The third and final part is the Action Plan in Volume 2. It looks at “How do we get there?” and outlines a costed, prioritised medium term action plan, together with arrangements for implementing, monitoring and evaluating the Strategy.

**Where are we now?**

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## Chapter 2

# Constraints on private sector development in Ghana

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### 2.1 Introduction

This Chapter provides an overview of the private sector in Ghana and of the nature of the constraints on its operations.

### 2.2 Overview of the private sector in Ghana

#### *Reliance on traditional agricultural and mineral commodities with low value added*

As has already been noted, agriculture dominates the Ghanaian economy – both in terms of its contribution to GDP – over 30%<sup>16</sup>, and the fact that it involves over 60% of the working Ghanaian population. The predominance of the rural economy also holds as far as its exports are concerned. Cocoa beans, timber and pineapples are the main export crops. In addition, mining (mainly gold) is one of the biggest sources of foreign exchange.

85% of Ghana's exports are of primary products (mainly to markets in Europe and the US). There is still only limited value added to primary products (through agro-processing for example) and thus movement up the value added chain.

#### *Limited diversification*

Ghana's revealed endowment-based comparative advantage is clearly based on its natural resources and lies in traditional agricultural and mineral commodities - agriculture (especially cocoa), timber and gold. There is potential for more effective exploitation of these endowments. But continued reliance on a few commodities with low prices and wages, and which are subject to fierce international competition in slow growing markets have left the country vulnerable to global commodity price fluctuations. There has been very limited diversification into fast growing markets - in manufactured goods and traded services for example. Non-traditional exports such as tuna and pineapples trebled in the 1990's but they still only make up one-fifth of total exports.

Where may Ghana's as yet un-revealed comparative advantage lie? A great deal of analysis has already been done on this subject -

#### **Box 2.1 Possible sectors suggested in which Ghana might have an as yet un-revealed comparative advantage<sup>17</sup>**

- non-traditional agricultural exports
- agro-processing (e.g. palm oil, cassava)
- timber products

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<sup>16</sup> Agriculture, livestock, fishing and cocoa. Source: GoG website 2000 (est)

<sup>17</sup> It should be noted that there may be regional variations in Ghana's comparative advantage: the coastal areas between Tema and Cape Coast are relatively labour rich, while central and northern belts are relatively resource rich.

- salt
- tourism
- e-commerce
- low skill manufacturing (especially garments and textiles).

Sources: GPRS; Ghana Industrial Policy for Increased Competitiveness<sup>18</sup>; Workshop on How Can Ghana Achieve Growth and Prosperity<sup>19</sup>; “Could Africa Be Like America”<sup>20</sup>; Presidential Special Initiatives; World Bank World Markets Resource Centre Ghana Country Report<sup>21</sup>

### ***Limited industrial development and structural transformation***

Industry still makes a relatively insignificant contribution to the Ghanaian economy (contributing 25% to GDP and accounting for 10% of employment). Main industries are mining, lumbering, light manufacturing, aluminium, agro-processing (cassava starch, fruits and cocoa by-products).

### ***Orientation to domestic markets***

Exports of primary products aside, Ghanaian firms (except for large ones) tend to focus on domestic markets. Annual exports are less than US\$150 per capita, compared with US\$1,000 per capita for Mauritius, for example.

### ***Low levels of productivity, investment, technology and innovation***

The domestic orientation of many firms in Ghana means that they have only limited exposure to competition. This in turn means that there is little incentive to invest and increase levels of productivity – through technology or innovation for example. Firms in Mauritius for example are on average 4 times more efficient than even large firms in Ghana (despite much lower wage rates in Ghana)<sup>22</sup>.

### ***Preponderance of informal micro and small enterprises***

In common with most economies, Ghana has many more small firms than large ones. 70% of enterprises are micro (i.e. employ less than 5 people). It is a striking fact that about half of Ghana’s households are engaged in non-farm productive enterprises<sup>23</sup>. When farm productive enterprises (including small scale agro-processing activities) are taken into account, it is clear that the vast majority of households in Ghana are engaged in some form of private sector activity, albeit on a very small scale. Growth can come from small firms, but a key issue in Ghana is that many micro and small enterprises (MSEs) operate, at least in part, in the informal sector. It is estimated that nearly 40% of Ghana’s GNI is attributable to informal sector activity. This compares with an average of 18% in European OECD countries.

A typical business operating in the informal sector in Ghana will be operating extra legally in that it will not be registered, will not have title to land or access to other property rights that can be used as collateral, and will not have a bank account.

<sup>18</sup> MoTI 2001

<sup>19</sup> 28 Feb – 2 March 2003

<sup>20</sup> Adrian Wood, DFID May 2002

<sup>21</sup> Oct 2003

<sup>22</sup> Why can Mauritius export Manufactures and Ghana not? Frances Teal, 1999

<sup>23</sup> Source: Ghana Living Standards Survey, Bureau of Statistics, 2000

Informal or semi-informal status has disadvantages. For the State's point of view it is very likely that such enterprises are paying less tax than they should (although the same claim may be made for formal sector firms). From the point of view of the enterprise – lack of formalisation can be a disadvantage particularly in relation to lack of property rights. The GoG's policy is to remove barriers to formalisation and to address constraints that have a particular impact on informal enterprises. Government will carefully review the extent to which it is appropriate to bring informal operators into the tax system, in the light of poverty reduction issues<sup>24</sup>.

### **2.3 Women involved in business**

Women are concentrated in the lower end of the business spectrum, especially micro-enterprises. They operate two thirds of non-agricultural household businesses<sup>25</sup>. 7% of medium sized enterprises are managed by women (of whom half are managed in partnership with a spouse). Female MSE operators themselves do not perceive that the business environment makes it difficult for women to do business. A comparative study of African countries found that Ghanaian women did not face particular barriers to running businesses. However, higher illiteracy levels than among men may be a constraint. It should be noted that this Strategy is designed to enhance the environment for all businesses in Ghana and will not impact adversely on gender equity.

### **2.4 Historical background: post independence private sector development in Ghana**

Ghana enjoyed the highest per capita income in the region at independence in 1957. However, during the 1970's the economy went into crisis. Per capita income fell by a third and inflation stood at 100%. The private sector became peripheral to the Ghanaian economy: by the late 1970's, the public sector accounted for ¾ of formal wage employment<sup>26</sup>. (It still accounts for nearly half).

The effect of Government policies on the private sector in Ghana are well illustrated by the decline of the cocoa sector. In 1957 cocoa accounted for 19% of Ghana's GDP, and cocoa producers received nearly 90% of the world price. But by the 1980's cocoa accounted for only 3% of GDP, and cocoa producers were receiving only 6% of the world price. This collapse can be largely attributed to Government policies - excessive levels of effective taxation on cocoa producers, exacerbated by a high black market premium on foreign exchange. In addition, at the end of the 1990's falling prices for cocoa (coupled with a similar situation for gold) contributed to a major term of trade shock.

### **2.5 Constraints on private sector development**

This Strategy is based on the premise that the deficiencies in the private sector in Ghana (outlined in paragraph 2.2 above) are symptoms rather than the cause of a weak private sector. As the collapse of the cocoa industry illustrates, the history of

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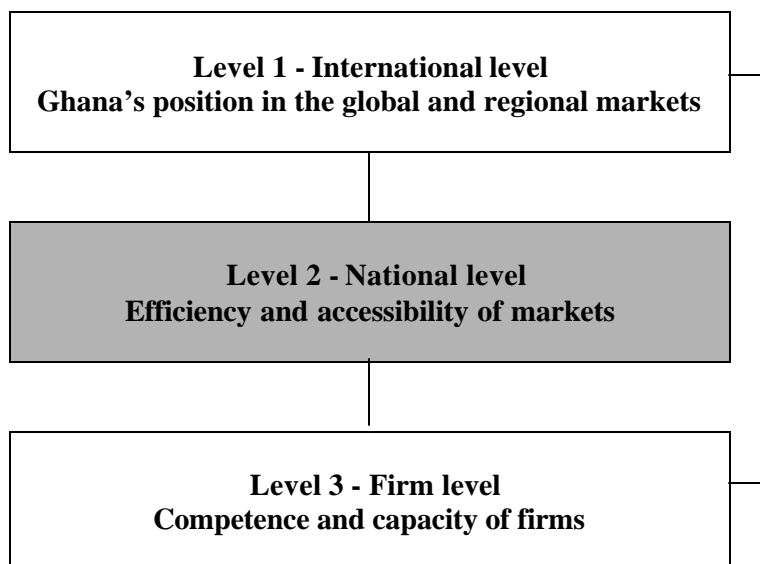
<sup>24</sup> See Volume 2, Chapter 5 paragraph 5.8

<sup>25</sup> Source: Ghana Living Standards Survey, Bureau of Statistics, 2000

<sup>26</sup> Source: Bureau of Statistics

private sector development in Ghana is of a policy environment that has created poor incentives for entrepreneurs to grow and develop their businesses.

Diagram 2.1 at the end of this Chapter is a summary of factors that affect private sector development in Ghana. As the diagram illustrates, factors affecting the operation of markets and thus private sector development can be categorised as working at three, dynamic and inter-related levels –



Government, donors and private sector organisations have already undertaken a great deal of detailed analysis on what the key issues for private sector development are in Ghana. Box 2.2 below contains a sample of the resulting studies, reports and strategies.

**Box 2.2 Recent views on key constraints on private sector development in Ghana**

<p><b>Issues the private sector are lobbying Government on (PEF survey)<sup>27</sup> -</b></p> <p><b>National level constraints -</b></p> <ul style="list-style-type: none"> <li>• Taxes, levies and fees</li> <li>• Business practices</li> </ul> <p><b>Firm level constraints -</b></p> <ul style="list-style-type: none"> <li>• Access to finance</li> </ul>
<p><b>Small businesses' views on why they don't grow (PEF Survey)<sup>28</sup> -</b></p> <p><b>Firm level constraints -</b></p> <ul style="list-style-type: none"> <li>• Informal nature of businesses</li> <li>• Lack of trust</li> <li>• Access to finance</li> <li>• Limited managerial skills</li> </ul>

<sup>27</sup> Supporting an inclusive Private Sector engagement in public policy formulation and implementation in Ghana - David Irwin, Aug 2003



## Small and medium sized businesses' views on key constraints<sup>29</sup> -

### International level constraints -

- Lack of export promotion

### National level constraints -

- High taxes
- Land acquisition
- Ineffective incentives

### Firm level constraints -

- Lack of finance
- Limited training

## Perceptions of investors in Ghana<sup>30</sup>

### International level constraints

- Terms of trade conditions

### National level constraints

- Corruption (key constraint)
- Bureaucracy (key constraint)
- Macroeconomic environment
- Tax policy - corporation tax and tax incentives
- Exchange rates
- Interest rates
- Crime and security
- Electricity supply
- Non availability of good health and environmental standards
- Ineffective incentives

### Firm level

- Access to finance

## Firms' (mainly manufacturing, agro-processing and forestry) views on the costs of doing business in Ghana<sup>31</sup>

### National level constraints (based on an index of severity) –

- Interest rates and bank loan regulations (access to credit)
- Utility connections and services
- Customs clearance
- Tax rates and administration
- Corruption
- Complexity and non-transparency of regulations
- Unpredictability and uncertainty of laws and policies
- Access to land and construction
- Currency/foreign exchange regulations

## Survey of Regulatory and Administrative Costs<sup>32</sup>

<sup>28</sup> Study on forming larger business units in Ghana - Final Report to PEF by Management and Economic Development Consultants Limited, May 2003

<sup>29</sup> UNCTAD / Empretec Ghana Survey on Small and Medium Firms in Ghana Annex II of UNCTAD Investment Policy Review of Ghana, Aug 2002

<sup>30</sup> Foreign Assets and Liabilities and Investor Perception in Ghana - Draft Project Report for Comments – National Task Force of the Government of Ghana (funded by DFID and GoG) 13 May 2003

<sup>31</sup> A survey of nearly 400 firms undertaken in 2002. Sponsored by the Government of Ghana in collaboration with the Ghana Investment Promotion Centre and the Foreign Investment Advisory Service of the World Bank and undertaken by Bruks Associates

**National level constraints –**

- Business registration and approvals
- Access to land and site development
- Tax administration
- Customs administration

**Views of senior politicians, MPs, the private sector, national and international academics, research institutions and think tanks<sup>33</sup>****International level constraints**

- Limited identification of key markets

**National level constraints**

- Infrastructure – especially maintenance
- Clearing of goods from ports
- Registering new businesses
- Public service performance
- Lack of co-ordination
- Limited application of scientific technology to country's natural resource base
- Need for improved education
- Need to focus on limited areas where Ghana has comparative advantage
- Labour laws
- Land title and land use

**Firm level**

- Investments in production– agricultural and industrial research and extension
- Restricted access to credit

**Views revealed in detailed Government policy document<sup>34</sup>****National level -**

- Exchange rate
- Infrastructure e.g. energy shortages, high transport costs
- Weak public service
- High cost of finance

**Firm level -**

- Inadequate access to finance
- Low labour productivity
- Lack of raw materials
- Marketing constraints

## 2.6 Sector specific constraints

The constraints identified in box 2.2 above operate across the board. But are there specific constraints that impact more severely on some sectors than others? A recent survey of investor perception in Ghana across various sectors<sup>35</sup> suggests that perceptions of domestic and international investors across all sectors about the

<sup>32</sup> Administrative Barriers to Investment (Update), June 2003 - FIAS

<sup>33</sup> GoG Workshop - How can Ghana achieve Growth and Prosperity? 28Feb – 2 March 2003

<sup>34</sup> Integrated Industrial Policy for increased Competitiveness - MOTI July 2002

<sup>35</sup> Foreign Assets and Liabilities and Investor Perception in Ghana - Draft Project Report for Comments – National Task Force of the Government of Ghana (funded by DFID and GoG) 13 May 2003

constraints on their businesses are broadly similar. However, there are of course some issues that are sector-specific - as box 2.3 illustrates in relation to a key sector of the economy – agribusiness.

### Box 2.3 Specific constraints on agri-business in Ghana

	International level issues	National level issues	Firm level issues
<b>Agribusiness in general<sup>36</sup></b>			
	Lack of access to markets  Quality standards	Land tenure system - limited access to land  Inadequate infrastructure e.g. storage and warehousing  Contract enforcement  Rural infrastructure – roads, ports etc  Inadequate licensing and patenting	Lack of raw materials / inputs  Limited research and development  Limited technology  Low yields  Limited access to finance  Inadequate entrepreneurial skills
<b>Pineapple export industry in particular<sup>37</sup></b>			
		<b>Post harvest –</b> Lack of cold chain facilities  Lack of appropriate product standards and reliable inspection /testing system  Poor condition of roads causes costly damage to goods being transported  Lack of bulk loading facilities at the Tema Port  Lack of availability of air cargo space and rapid transit refrigerated sea freight	<b>Production stage -</b> Small production units  Poor production planning and forecasting  Limited supply of high-grade planning material  Reluctance to adopt modern technologies  Difficulties of accessing credit  <b>Post harvest –</b> Poor post harvesting handling practices  <b>Marketing –</b> No brand name or quality seal.  Too many exporters with no common standards of quality or business practice.

\* Note: Pineapple production accounts for a little under 50% of the horticultural exports from Ghana

<sup>36</sup> Source: Financing agriculture and agribusiness to make Ghana a leading agro-based industrial economy in Africa - “Elmina” Workshop, Dec 2002 Report of Technical Team and paper on Agribusiness – Problems and Constraints, New Direction

<sup>37</sup> Source: Challenges and opportunities in the Agribusiness sector – Problems and Constraints, New Direction, Matthew Armah, Amex International/ USAID

## **2.7 Overview of constraints: too little service delivery and too much bureaucracy**

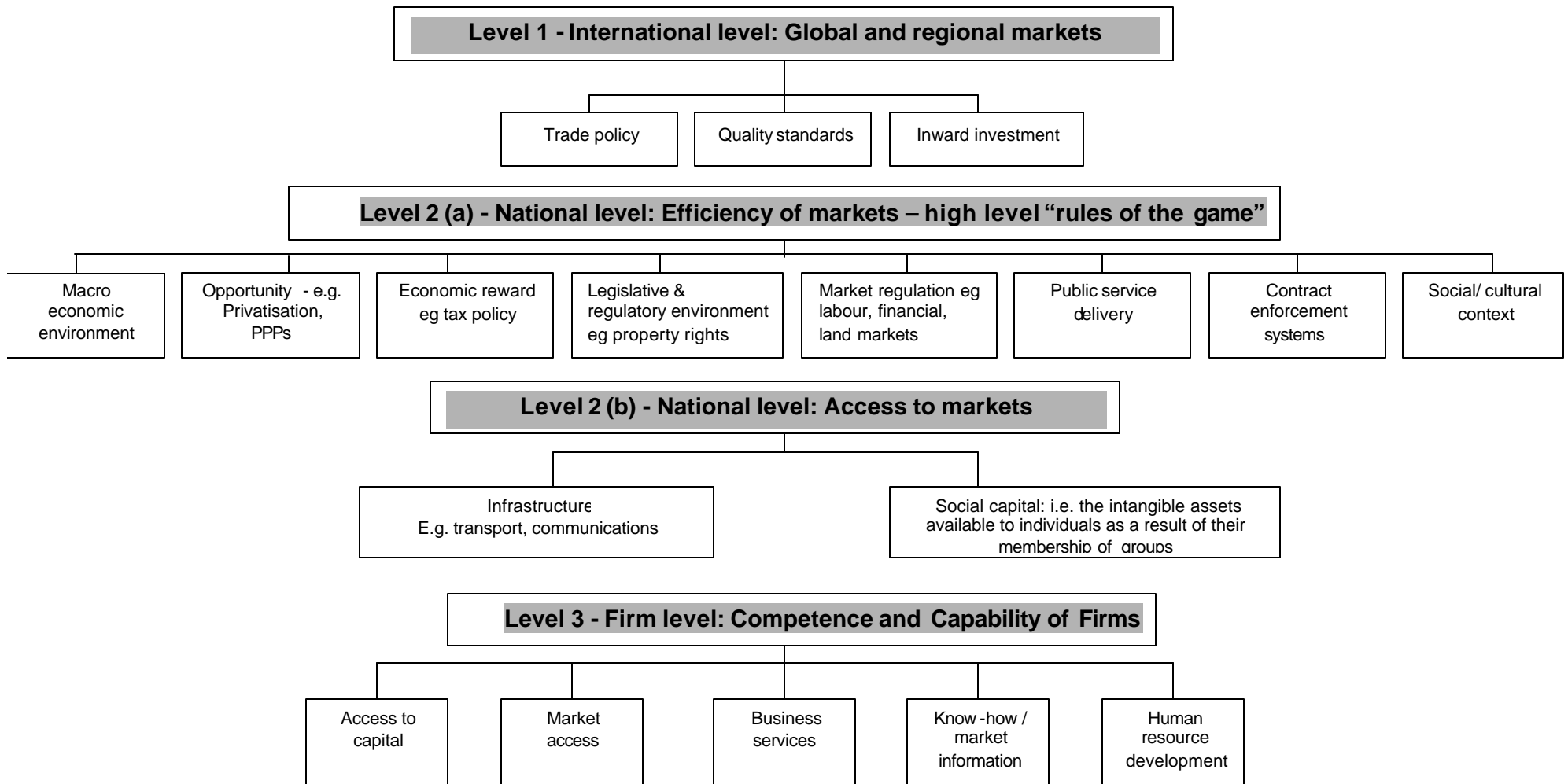
There are serious and fundamental constraints on the operation of markets in Ghana at all levels. The vast majority of the constraints at the national level arise because of costs imposed on businesses by Government. Weak, inefficient administration by the public service translates into time, money, risk and inefficiency for individual businesses. This in turn affects Ghana's competitiveness in global and regional markets.

The issues can be categorised as -

- poor service delivery to the private sector (for example poor road maintenance resulting in delicate crops for export being damaged on their way to the airport); and
- too much bureaucracy (for example at the ports or when registering a business).

Addressing constraints on the operation of markets at the national level is a critical area for Government intervention. Improving the operation of the market at a national level will improve competitiveness and thus enhance access to global and regional markets. Tackling constraints at the firm level, although important, will be of limited effect without at the same time tackling the systemic issues of the mal-functioning of national markets.

**Diagram 3.1 Map of factors that affect the operation of markets in Ghana<sup>38</sup>**



<sup>38</sup> Summarised and developed from – Approach and Organisation of Sida Support to Private Sector Development, Emerging Market Economics and AF-Swedish Management Group, 2001

**Where do we want to be?**

## Chapter 3

### Policy framework and output areas

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#### 3.1 Introduction

The GoG's vision for the golden age of business is for Ghana to achieve a world-class business environment. This Chapter sets out the policy framework associated with this vision, and presents the four strategic outputs that this Strategy is designed to achieve.

#### 3.2 Policy framework

The GoG's policy framework is –

*To embrace the key role of the State in undertaking broad-based pro-market reforms for private sector development, in conjunction with undertaking some sector-specific measures for strategic exports, all in the context of a constructive dialogue with the private sector.*

The various elements of and rationale behind this policy framework are described in more detail below.

##### *Key role of the State....*

Ghana's vision for private sector development puts the onus on the State to create a well-functioning market system. The scope of the current constraints on the operation of the market system serves to emphasise the challenge facing the Government of Ghana in creating a truly competitive market system. Reform is necessary at all levels – at the level of Ghana's position in global and regional markets; at the level of the operation of and access to the national market; and at the level of the competence and capacity of firms.

##### *... broad-based pro-market reforms...*

In the medium term, the Government of Ghana believes that the most efficient and effective reforms to achieve its vision are likely to be those that are broad-based, intended to have as wide an effect as possible and address the systemic constraints on market operations in Ghana. By facilitating better functioning markets across the board, the Government of Ghana will have maximum impact on private sector development at all levels across Ghana. Advantages of such a broad-based approach, as opposed to a highly focused, sector specific approach include -

- **High visibility** : The potential to reach more people, rather than a selected group involved in a particular business sector;
- **High across the board returns**: The potential to make substantial across-the-board gains and significant and demonstrable increases in growth; and
- **High impact on poverty reduction**: Broad-based reforms are likely to have a greater impact on poverty reduction, as it is poor people who are less well placed to deal with current systemic constraint on market operations – for

example complex business licensing systems, or access to commercial justice.

In summary, across the board reforms will create an environment in which –

- the investment climate is improved for both foreign and local investors;
- businesses can turn areas in which Ghana has a comparative advantage into competitive advantage;
- businesses can “discover” new activities in which Ghana has a comparative advantage; and
- businesses currently in the informal sector will be more able to enter the formal sector and thus use their assets to grow and develop.

As well as having maximum impact, the advantage of a broad-based approach is that it minimises the risk of ineffective use of Government of Ghana funds. Broad-based measures minimise the risk that Government will make wrong decisions and end up funding expensive “lame ducks”.

#### *... sector- specific measures for strategic exports.....*

The Government has identified strategic export sectors in which Ghana has the potential to export competitively. In order to facilitate the development of these strategic exports, the Government will undertake sector-specific pro-market measures to address in a structured way the constraints on the operation of markets as they affect these particular export sectors.

In addition, the Government of Ghana believes that there are circumstances in which direct intervention through explicit or implicit subsidies to strategic export sectors is merited. GoG’s approach to such direct interventions is discussed in Chapter 4 below.

#### *... constructive dialogue with the private sector*

It is clear that the reform process will be complex. There will be choices to be made about the nature of Government’s approach to private sector development on an on-going basis. International experience strongly suggests that a strong dialogue between public and private sectors is vital for effective private sector policy development, implementation, monitoring and evaluation.

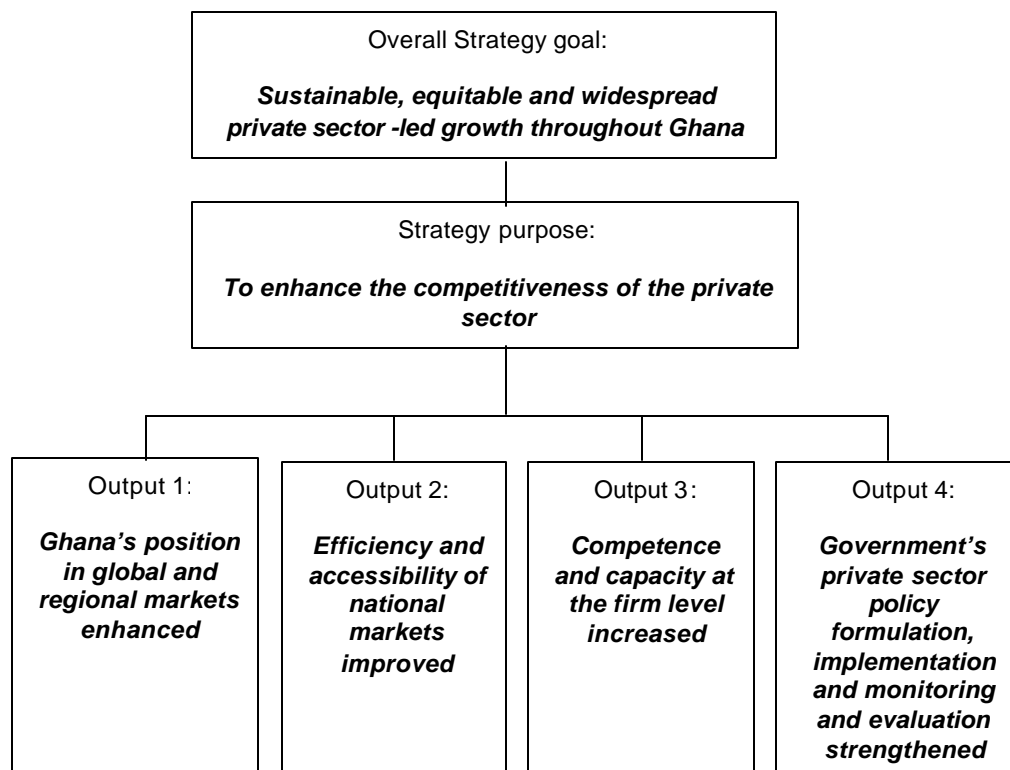
### **3.3 Outputs**

The vision and policy framework articulated so far in this Strategy document are encapsulated in the Private Sector Strategic Framework<sup>39</sup> in Annex A. This can be summarised as follows –

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<sup>39</sup> Sometimes referred to as a logical framework.





The Strategy *goal* provides the overall justification for the Strategy. It reflects the goals of the GPRS and the desire of the GoG for entrenched growth, which is broad-based and of benefit to all the people of Ghana. The Strategy *purpose* reflects the GoG’s view that Ghana’s competitiveness is a product of the business environment (or market system) within which Ghanaian businesses operate<sup>40</sup>. It summarises the intended impact of the Strategy.

The Strategy Outputs summarise the results the Private Sector Strategy is designed to achieve. The first three Outputs relate directly to the various levels of constraints on the operation of markets identified in Chapter 2 and summarised in diagram 2.1. Output 4 is a “process” output, designed to enhance Government’s on-going role in private sector development. In particular it reflects the Government’s desire to build on and strengthen the policy dialogue it has already begun with the private sector.

The activities to be undertaken under each of the Outputs are briefly outlined in Chapter 5 below and considered more fully in the Action Plan in Volume 2.

<sup>40</sup> Based on methodology used by leading international indices of competitiveness - the Global Competitiveness Index of the World Economic Forum and the Competitiveness Scoreboard of the Institute for Management Development.

## Chapter 4

### Approach to direct interventions

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#### 4.1 Introduction

As described above, the main thrust of the Private Sector Development Strategy is to enhance Ghana's competitiveness by removing physical and regulatory constraints on the operation of markets. However, such broad reforms can take some time to produce visible benefits for Ghanaians. In order for the Government to clearly demonstrate progress in developing the private sector within the short term, the Strategy also includes direct, targeted, State support to specific export industries under the Presidential Special Initiatives programme.

This Chapter describes the rationale for direct intervention, and identifies the risks and costs involved.

#### 4.2 Challenges of direct intervention

Economic theory, international and historical experience provides us with a number of important lessons concerning direct interventions by Governments in specific sectors. There are clear challenges for the GoG as it "picks winners" by identifying in advance where Ghana's as yet unrevealed comparative advantage may lie -

***Comparative advantage is not easily predictable:*** it is not predestined or predictable, particularly in a modern global economy where businesses and capital are mobile and can move across borders.

***Comparative advantage is not necessarily static:*** changes in a country's circumstances, for example improvements in education or infrastructure may result in comparative advantage in as yet unidentified activities.

***The effect of picking winners is uncertain:*** The success of the South East Asian tiger economies is often attributed to direct interventions (in the form of subsidies and protection) by their Governments. However, there is disagreement amongst economic analysts about what the impact of these measures was - ranging from considering them to be highly effective - to ineffectual - to positively harmful<sup>41</sup>.

#### 4.3 Rationale for direct intervention

The potential benefits of an interventionist approach in Ghana are briefly described below.

##### ***Rapid results***

Intervention can produce rapid results, by using the coercive power of the State to concentrate effort and resources on a particular undertaking. The rapid creation of

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<sup>41</sup> See for example - The East Asian Miracle, 1993 World Bank; and Picking Winners: The East Asian Experience - Ian Little Social Market Foundation Occasional Paper, 1996

jobs and capital investment can provide a concrete demonstration that the Government is delivering on its commitments to the electorate.

### ***Overcoming the “entrepreneurial deficit”***

The Government of Ghana considers that the private sector has not fully taken advantage of the opportunities for investment and business expansion that Ghana offers. If the Government is able to identify accurately where Ghana’s comparative advantage lies, it can play an additional role by directing or stimulating private sector investment in those areas.

### ***Social objectives***

The ability of Ghanaians to participate effectively in the private sector is constrained by inequalities arising from educational background, literacy, malnutrition, regional imbalances and marginalised groups. In the longer term, investments in education and infrastructure should redress these problems and enable equitably distributed market-oriented growth. However, in the mean time, Government has a responsibility to intervene to direct growth towards those groups that would not otherwise benefit.

## **4.4 Costs of intervention**

State intervention in the private sector incurs direct and indirect costs (which must be met from public finances), often carry significant opportunity costs, and can also impose broader costs on the economy.

### ***Direct & indirect costs***

The direct costs are the most straightforward to quantify and will usually be included in the national budget allocations approved by Parliament annually, and may include donor supported expenditures. Indirect costs may be harder to quantify, but can be very significant and an important factor in assessing the viability of a proposed intervention. For example, Government guarantees for loans to businesses are not reflected as expenditure in the national budget, but could result in a major drain on public finances in the event of default.

### ***Opportunity costs***

For major interventions it is also important to assess the *opportunity cost*: i.e. the possible benefits foregone as a result of utilising resources for the particular intervention. For example, if Government uses tax revenue to provide capital for business investment, then these revenues cannot be used for other purposes, such as reducing the Government’s borrowing requirement (and hence interest rates) or reducing the tax rate on businesses. The value of these foregone benefits – the opportunity cost of the intervention – may exceed the benefits that the intervention generates. Opportunity costs do not include only cash costs: any scarce resource that is utilised by an intervention will carry an opportunity cost. Complex, direct State interventions often require substantial inputs of time from senior civil servants over an extended period. These staff are often in high demand for other public sector priorities and hence carry a high opportunity cost.

### ***Broader economic and social costs***

Interventions can impose economic costs that extend far beyond their impact on public finances. For example, tariffs or other barriers intended to protect local industries can increase costs for local consumers, and can have a particularly severe impact on the poor. Restricting commodity exports to encourage local value added production could result in lost export revenues, and encourage inefficient production methods.

## **4.5 Risks of intervention**

State intervention in the private sector is risky. It is important that risks are clearly identified, and strategies developed to manage them.

### ***Market distortion***

Intervening in a market will always give rise to distortions: the risk is that these distortions will be significant and damaging. To minimise market distortions, interventions will as far as possible mimic market-based solutions (for example by using a system where firms bid for the benefit of an intervention and by using private sector intermediaries where possible).

### ***Uncertain benefits and costs***

The benefits and costs arising from private sector activity are inherently risky, and difficult to forecast. For Government to intervene successfully in the private sector by identifying and supporting specific strategic exports and to avoid “picking losers”, it must ensure that its analysis of the likely benefits and costs is comprehensive and high quality. The analysis should reflect the whole value chain from production through to marketing; Governments typically tend to be better at planning for production than for the successful marketing of the product.

### ***Supporting lame ducks***

There is a significant risk that Government will become committed to open-ended support of loss making enterprises when (as is inevitable) some export businesses fail to fulfil their potential. It is essential that all direct interventions have a clearly set out and credible exit strategy, which will enable Government to disengage. The exit strategy should identify “triggers” for exit, and how the exit should take place. Triggers should include both positive and negative scenarios: Government needs to leave successful businesses as well as failing ones.

### ***Creating opportunities for corruption***

Throughout the world, direct intervention by governments in the private sector creates opportunities for collusive, dishonest and rent-seeking behaviour from both businessmen and public officials. For example, the close relationship between Governments and the financial sector in the SE Asian economies resulted in insufficient regulatory control over the financial sector, and has been blamed as a major factor in the setbacks suffered by these economies in the 1990s.

## 4.6 “Smart” interventions

The GoG recognises that undertaking direct intervention as a route to private sector development carries potential costs and risks. In order to address these, and ensure that direct interventions reap their intended benefits, the GoG has developed a framework for “smart” direct interventions. The framework is described in Chapter 4 of the Action Plan in Volume 2. It is designed to ensure that direct interventions –

- are undertaken after proper analysis;
- have clearly defined State decision making powers and processes associated with them;
- are subject to clear and public monitoring; and
- are subject to effective oversight, appeal and enforcement systems.

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**How do we get there?**

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## Chapter 5

### Activity outline

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The activities under each of the four Output areas specified in Chapter 3 are detailed in the Action Plan in Volume 2. Key activities are presented in outline below.

#### **Output 1: Ghana’s position in global and regional markets enhanced**

Government will undertake pro-market activities designed to enhance Ghana’s international competitiveness by -

- Urgently developing a fully-fledged GoG Trade Policy to promote the integration of Ghana into global and regional markets – including reducing tariff and non-tariff barriers to trade.
- Enhancing quality standards by undertaking a fundamental review of existing GoG institutions tasked to provide quality standards services to the private sector, undertaking a “best practice” review of the provision of laboratories for quality standards in Ghana and providing technical assistance to enable laboratories in Ghana to attain international accreditation.
- Attracting investment by undertaking measures at the national level to improve the investment climate in Ghana and supporting the implementation of the GIPC 5-year strategic plan
- Undertaking sector-specific measures for strategic exports, focusing initially on the Presidential Special Initiative areas of palm oil, cassava starch, salt and textiles.

#### **Output 2: Efficiency and accessibility of national markets improved**

The Government of Ghana will undertake broad-based measures to improve the efficiency and accessibility of national markets. In respect of three key areas – the *macroeconomic environment*; *the financial sector* and *infrastructure development*, the GoG will continue with activities under existing processes and strategies, but will take measures to ensure that private sector concerns are mainstreamed in their implementation, monitoring and evaluation.

In addition, the GoG has identified three areas where there are “gaps” and where it is appropriate to take forward activities under this Strategy. These are public sector reform; contract enforcement / debt recovery; and land /property rights. Key activities in relation to these three areas are -

##### ***Public sector reform***

- Developing pro-private sector tools within the developing “retooled” Public Sector Reform Programme including - pro-private sector culture change training programmes for public servants; regulatory impact assessments to ensure regulatory burdens on private sector are appropriate and proportionate; and pro-

private sector “customer charters” for key private sector-related Ministries, Departments and Agencies (MDAs).

- Rationalising the 77 GoG MDAs involved in private sector development.
- Taking forward FIAS recommendations to improve the service delivery of the CEPS and the IRS. Undertaking a fundamental review of tax policy and administration in relation to micro and small enterprises - especially those operating on a semi-formal basis.
- Conducting a fundamental review of the business-licensing and registration regime in Ghana in the light of international best practice, including a review of delivery mechanisms, with a view to ensuring that they are customer-focused and provided on a cost-recovery basis.

#### ***Contract enforcement / debt recovery***

- Enhancing access to justice for businesses – especially micro and small businesses and considering the scope for enhancing alternative dispute resolution within the context of the developing Justice Sector Reform Programme.

#### ***Land system and property rights***

- Reforming land administration by reviewing the Land Administration Project in the light of the importance of property rights to micro, small and medium-sized enterprises, and taking forward recommendations by FIAS to improve the site development and land administration system.

### **Output 3: Competence and capacity at the firm level increased**

The GoG will enhance the competence and capacity of firms by -

- Developing and implementing an action plan to phase-out GoG provision of subsidised finance to firms.
- Developing a “best practice framework” against which firm level initiatives may be judged

### **Output 4: Government’s private sector policy formulation, implementation and monitoring and evaluation strengthened**

The GoG will enhance its capacity to make effective pro-private sector and pro-market decisions by -

- Developing a Private Sector Development Policy Template to assist it to assess proposed pro-private sector initiatives in the light of their benefits; costs; value for money and risks.
- Developing and implementing a training programme for key decision makers and policy formulators in major sector ministries on the role of the private sector in Ghana.



- Encouraging private sector advocacy.
- Strengthening the Policy Planning, Monitoring & Evaluation Division of the Ministry of Private Sector Development, in accordance with the MPSD capacity building plan.
- Undertaking a baseline survey for the PSD Strategy, using existing data sources where possible