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Towards a Compact for Ghana's Political and Economic Transformation

PRIVATE SECTOR DEVELOPMENT:
Enabling the Private Sector to Drive Economic Transformation

Technical Background Paper

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Executive summary

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 (ATR, 2014).

Although Ghana's industrialization was state-led right from immediately after independence, the private sector continued to feature as prominent partners on the economic development agenda. Some reforms led to a growing role for the private sector in the 1970s, but 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 and the Growth and Poverty Reduction Strategy (GPRS I and GPRS II). Some of the gains have been an industrial policy drafted and adopted over the course of two different political parties in government – between 2006 and 2010 – that was also in line with Ghana's trade policy and evidence of a clear political consensus. The era 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 Act, 2013 (Act 865) in 2013 and recently the Companies Act, 2019 (Act 992) have been implemented to continue to streamline the business environment and drive in the needed investments.

However, the trends in Ghana's competitiveness as a destination for private capital to drive industrialization indicate key challenges reflecting the inefficiencies and weaknesses in the business environment. The challenges include: lack of access to and high cost of finance; weak legal and regulatory regimes; poor infrastructure; currency instability; lack of access to business development services; and lack of access to market intelligence. Some of the solutions proffered in this paper include de-risking the private sector to drive in much-needed cheap capital; reforms including digitalization of government service delivery organizations; enforcement of regulations; an investment plan for infrastructural development. These are components of a much-needed dynamic environment that helps grow entrepreneurs and businesses. The solutions require a strong collaboration between the government, private sector and development partners.

Although 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 due to past engagements with the government that barely yield any results; (c) Ill-defined ownership and management; and (d) A disconnect between vision and action.

A successful Economic Compact will require a shared vision for the private sector that all stakeholders such as the government, Association of Ghana Industries (AGI), 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 and these are as follows:

- To increase the number of businesses by ensuring that entrepreneurs have the opportunity and suitable environment (e.g. market access, market linkages, infrastructure and stable utility services, business development services, incubation, and acceleration support) to start and grow businesses;
- To update and strengthen Ghana's industrial policy through a political consensus to drive an industrialization 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 for industries;
- To nurture and grow big private sector winners whose operations and markets will drive growth along 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 on this Compact include a political consensus on solutions to private sector issues; a strategic vision and role for strengthening the private sector; an effective high-level platform for engagement in dialogue and for driving reforms, transparency and fairness; and one voice to represent private sector interests.

In conclusion, Ghana must answer key questions in order to promote 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 expand access to appropriate financing for the private sector?
2. How can we strengthen institutions to effectively implement well-crafted regulations 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 investment in strategic and anchor sectors?
4. What should be the role of technology and innovation and how do we give it prominence in our 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 in Ghana?
7. How do we ensure businesses and entrepreneurs are protected from undue political interference and vendetta, given the history of alleged attacks on businesses tagged to have political affiliations?

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 progress while addressing bottlenecks in the economy (ATR, 2014). The immediate post-independence period saw most African states pursuing state-led economic development strategies with governments heavily investing in all sectors, especially in industry. Ghana was no different as public enterprises dominated the business space with major industries and firms established to drive economic development and provide jobs. It was even argued at the time that Africa was instinctively opposed to private sector development and did not recognize the private sector as a crucial development player.

The lack of incentives for private investment among other structural challenges therefore crowded out the private sector. Nevertheless, the role and contribution of the private sector to the country’s economic development soon became apparent due in part to the poor performance of the public sector and its inability to generate jobs and promote the desired economic prosperity. The state-owned enterprises (SOEs), backed by import-substitution policies, also proved to be unsustainable in several African countries including Ghana.

The critical role of the private sector as an engine of growth has been well articulated in Ghana’s development strategies since the structural adjustment programs (SAPs) of the 1980s. Since then, policies and programs instituted by successive governments have attempted to make the private sector flourish and drive the country’s economic prosperity. Despite the improvement in the private sector and the general business environment in Ghana since the early 2000s, there still exist major challenges that stifle the private sector’s capacity to expand and create opportunities for employment and reduce poverty and spatial inequalities.

A review of the trends articulated in the Global Competitiveness Index report of the World Economic Forum, the Business Barometer (BB) of the Association of Ghana Industries (AGI) and Doing Business index of the World Bank all identify major inefficiencies and weaknesses in Ghana’s business environment. The country’s performance on the World’s Bank’s Doing Business index keeps worsening with each passing year. Having ranked 64th and 63rd positions (out of 183 countries) in 2013 and 2012 respectively, the country’s ranking dropped to 67th out of 183 countries in 2014. By 2019, the country had dropped to 118th out of 190 economies around the world and retained that spot in the 2020 edition of the report. The country’s best rankings are in “protecting minority investors," "getting electricity" and "getting credit", ranking 72nd, 79th and 80th respectively. The country's competitiveness has, however, been severely hampered by bottlenecks in the business environment. The World Economic Forum's Competitiveness Index for 2019 saw Ghana at 111th out of 141 countries.

Similarly, the Business Barometer of the Association of Ghana Industries and the World Bank Enterprise Surveys report the following as the major constraints on the operations of the private sector over the past decade: access to finance; electricity; Customs and trade regulations; access to land; tax rates; corruption; lack of raw materials; delays in payment; poor infrastructure; lack of markets; depreciation; inflation; weak managerial and entrepreneurial skills; and competition from foreign goods.

Despite Ghana's falling ranking on the Doing Business index, the confidence of both foreign and local investors in Ghana has never waned. The country remains the leading destination for FDI in the region and more can be done to harness the potential of the private sector to drive economic growth and transformation.

Policy overview of Ghana's private sector

Ghana's early attempts at industrialization was driven by the efforts of both private and state enterprises. There were measures geared at promoting Ghanaian entrepreneurs, with a committee appointed in 1958 to assess how best business challenges could be overcome by Ghanaian enterprises. Some assert that state-owned enterprises were established with the aim of transferring them to private hands when they became viable. At the time, some argued that domestic entrepreneurs lacked the necessary experience. Consequently, the state played the major role of setting up industries it thought would be successful and later to be transferred to the private sector once they were established.

In the 1980s, the SAPs supported by the Bretton Woods institutions shifted the focus to private sector-led growth and a phase of market liberalization was ushered in, spearheaded by the privatization of state-owned enterprises. Private local manufacturers were expected to compete in the global export markets but increased borrowing costs and the influx of cheaper and more popular goods from Asia and other markets inadvertently led to a boom in the non-manufacturing sector. Indeed, Ghana was not spared from the challenges of globalization.

Between 2000 and 2015, the government focused its efforts on poverty reduction through private sector development. Micro, small and medium-sized enterprises (MSMEs) were central to the government's economic transformation agenda. This is evident in the Poverty Reduction Strategy Paper (PRSP), the Ghana Poverty Reduction Strategy (GPRS I) and the Growth and Poverty Reduction Strategy (GPRS II). The government prioritized policies that sought to improve the investment climate and ensure a conducive business environment for the private sector to grow and thrive.

However there has been limited progress only. Despite the successful implementation of the Private Sector Development Strategy (PSDS II, 2005-2010), which was led by the Ministry of Trade and Industry with an Oversight Committee composed of captains of industry and private sector associations, the implementation of the PSDS II stalled following the lack of clarity about its governance and links to the Ministry of Trade and industry. This eventually affected funding for the initiative. A 2016 World Bank study highlighted the following as major impediments to private sector growth, particularly the industrial sector: (a) Fragmentation of the stakeholder landscape; (b) Lack of trust as previous engagements with government barely yield any results; (c) Ill-defined ownership and management; and (d) Disconnect between vision and action. The Presidential Special Initiatives to boost private sector investment and transformation centered on the mobilization of private initiatives, expansion of the industrial and export base, and a fruitful public-private partnership. This was to promote industrial production through the application of science and technology. The aim was to encourage agro-processing, development of commercially viable export and domestic market-oriented enterprises in the rural areas; improvement of agricultural marketing and access to export markets; and increasing the competitiveness of domestic industrial products. Despite these private sector initiatives being generally positive, there were inconsistencies in delivery that limited their impact.

This era of public-private partnership also attempted to attract private capital and expertise to partner with the government in delivering the development agenda. Ghana saw gains, particularly in infrastructure and energy.

Since 2017, the current government's Ten-Point Plan (TPP) has been designed to offer a holistic approach to deal with the structural deficiencies within Ghana's industrial landscape which create uncertainties for the kind of catalytic long-term investment needed in strategic sectors to expand and diversify the economy in an inclusive way. The TPP for Industrialization includes a National Export

Development Strategy); an industrial sub-contracting exchange; business regulatory reforms; development of SMEs and strategic anchor industries. Others are industrial parks and special economic zones, enhancing domestic retail infrastructure, improving public-private sector dialogue and national industrial revitalization program.

Each component of the TPP addresses a specific gap or deficiency identified in the government's policy approach for supporting the private sector to accelerate industrial development. The TPP also aims at promoting growth and developing domestic and international trade and industry. Industrial parks and special economic zones are being established around strategic anchor industries being promoted by the government. A National Plan for Entrepreneurship and Innovation is providing integrated financial and technical support for startups and small businesses. The government is currently pursuing a digitalization drive to improve the efficiency of government service delivery, improve access, enhance transparency and accountability, and curb corruption. Initiatives include the National Identification System, Digital Postal Address System, Paperless Port Systems, E-Justice Systems, pensions and insurance data, digitized Land Registry and a Mobile Money Interoperability System. Other programs include the One District-One Factory (1D1F) initiative, which seeks to establish at least one factory in each district to create economic growth poles, accelerate development in the districts and create jobs. The Planting for Food and Jobs program provides integrated support like improved seeds and fertilizer at subsidized prices, free extension services, technology and markets access to farmers to boost food production.

In 2018, Ghana signed and ratified the African Continental Free Trade Agreement (AfCFTA) as part of measures to create a single market for goods and services and expand intra-African trade. It is expected to have a positive impact on the country's growth through increased markets and trade, investment, production efficiency, higher value-added jobs and exports, technological specialization and investment in infrastructure while providing limitless opportunities to the private sector in Ghana. The strategic location of the AfCFTA secretariat in Accra could increase the country's international exposure while boosting the commitment of successive governments to the initiative.

The following are some of the policy gains:

A clearly articulated industry policy in 2010 that is aligned with trade policy and on which there is political consensus. The government developed a clearly articulated industrial policy. Following broad consultations with major stakeholders since 2006, the Ghana Industrial Policy was finally formulated and launched in 2010. This policy has the objective of spurring economic growth, diversifying the economy, and improving the manufacturing competitiveness of the country. The contents of the policy are well aligned with the country's Trade Policy which also seeks to boost accelerated industrial development. The interesting thing about this policy is that it was nursed by one political administration but completed and launched by a different political administration – a rare occurrence in a country where it is far too common to find policies discontinued following a change in political administration. This perhaps points to the fact that there is a political consensus around rapid industrialization. Prior to the Industrial Policy in 2010, efforts at industrialization through various policy initiatives such as the Ghana Free Zones attracted both foreign and local investment into specific sectors. For example, the Export Processing Zones under the management of the Ghana Free Zones, set up to increase manufacturing for export, have raked in more US$4 billion since inception. Additional review of these industrialization efforts are found further below in this paper.

The Ghana Investment Promotion Centre Act**, 2013 (Act 865) and a new policy allowing the duty-free import of technology and machinery for manufacturing enabled the government to provide a set of incentives and subsidies for export-facing companies.** The Act mandated GIPC as a one-stop-shop for all investments into the country, including petroleum and mining[1]. The new law expanded the list of economic activities reserved for Ghanaians, increased the minimum capital requirements for wholly-owned foreign ventures, and joint ventures. Following this, the industrial sector has attracted a significant share of FDI inflows between 2010 to 2019, averaging 6.4% of GDP. From just US$10 bn in 2010, by 2018, the country had an FDI inward stock of US$36 bn. In 2018 alone, it attracted more than US$3 bn in FDI, making Ghana West Africa's leading recipient of FDI. It is worth noting that the manufacturing sub-sector is a major recipient of FDI over the past few years. Out of the total US$11.7 bn in FDI to Ghana between 2015 and 2018, about US$3.8 billion was channeled to the manufacturing sector and this continued in 2019 and 2020. [1]

An increase in industrialization through export processing zones, currently hosting over 300 enterprises in four enclaves. Over the past decade the country's few exports processing zones has been central to the growth of the industrial sector. More than 300 enterprises operate within the free zone enclaves. Out of the four EPZs and parks (Tema, Sekondi, Shama EPZs and the Ashanti technology park), the Tema Export Processing Zone has been the most successful in attracting major international manufacturing firms. This includes the likes of Barry Callebaut, Cargill and Cocoa Touton, which are significant players in the global cocoa industry. This was largely due to the current industrialization and export strategy of encouraging agro-processing. Plans are underway to

[1] The Petroleum and Mineral Commissions continue to regulate FDI into the petroleum and mining sectors respectively. GIPC is yet to harmonize and practicalize the provisions of the new GIPC Act, 2013 that gives GIPC a mandate over FDI into the petroleum and mining sectors.

operationalize the two other parks in the Western Region and in 2019, LMI Holdings opened a new industrial park, the Dawa Industrial Zone, close to Tema, Ghana's industrial hub. Despite the above, access to well located, well serviced, and affordable industrial land remains a binding constraint to FDI inflows. According to the World Bank, at US$350,000 per acre, the Tema enclave has about the highest cost of land in West Africa.

Ghana has developed a public-private partnerships (PPPs) policy with the objective of attracting private sector investments and expertise into the provision and management of economic infrastructure. Adopted in 2011, the National Policy on Public-Private Partnerships defines a PPP as "a contractual arrangement between a public entity and a private sector party, with clear agreement on shared objectives for the provision of public infrastructure and services traditionally provided by the public sector".

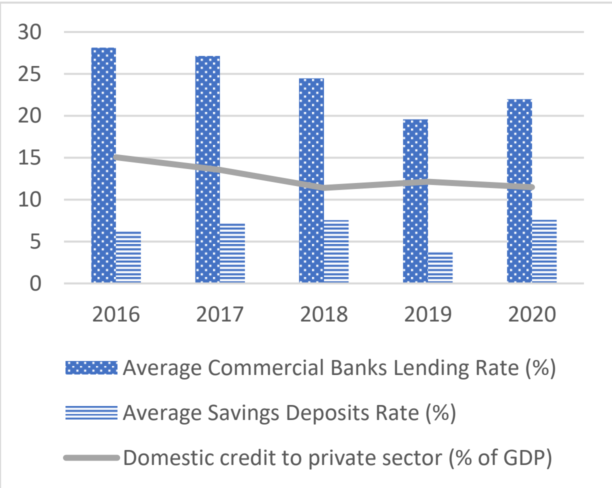
Stimulation of industrialization across the country through the One District-One Factory (1D1F) initiative (2017), establishing at least one factory in each district to create economic growth poles, accelerate development in the districts and create jobs. The 1D1F is a bold step to boost the industrial sectors of the economy by leveraging resources at the district level while creating jobs. However, it is important that such a policy clearly articulates the conditions in which a factory can emerge and how that relates to the competitiveness of the district in creating jobs along specific operations of the factory within the district. Some have argued that the fate of these factories under the 1D1F may be in jeopardy if their establishment and investments are not anchored in sound economic and competitive analysis to make them sustainable.

Launch of Social Partnership Council (SPC) of government, employers and labor (2019) as a platform to deliberate and work together to accelerate the country's development, and to reach national consensus on transformation and development issues. A Memorandum of Understanding was signed in April 2019 with the main partners to the SPC – the Ghana Employers Association (GEA); Trades Union Congress (TUC); and the Ministry of Finance and Ministry Employment and Labour Relations. The Social Partnership Council is expected to forge a strong partnership for development, working to achieve Ghana's key development goals of economic competitiveness, diversification, and structural transformation. Unlocking barriers to rapid industrialization remains one of the key objectives of this arrangement.

Key challenges

While there have been some major gains over the years, key structural and fundamental challenges remain, usually affecting the MSMEs that are largely Ghanaian and represent about 90% of the entire private sector. The other 10% are multinationals whose challenges are peculiar and are able to negotiate with the government for solutions.

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. The importance of credit to the private sector cannot be overemphasized as it enables businesses, especially SMEs and startups, to cater for various costs, produce goods and services and grow. Yet access to and cost of credit remain a lingering challenge for the private sector in Ghana. This factor consistently appeared in the top five most pressing concerns of the private sector noted in the Association of Ghana Industries' Business Barometer and is further confirmed by the World Bank's Doing Business report and databases. Domestic credit to the private sector by banks averaged only 13% of GDP between 2010 and 2020. Many domestic banks are reluctant to lend to SMEs because SMEs are considered high-risk businesses. Non-performing loan 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 to other investment opportunities. Ghana's credit bureau coverage is just about 33.2% of adults (World Bank, 2020).



Even where SMEs have access to loans, the cost of servicing the loan is prohibitively expensive. Despite declining in recent years, the spread between the average deposit interest rate at commercial banks and the average industry lending rate remains high. Between 2016 and 2020, the spread dropped from 21.8% to 14.3%. Commercial banks still charge up to 30% per annum while other non-bank financial institutions charge between 48% to 120% per annum on loans. Crowding out by the government has also partially led to these high spreads, but as noted early on, the situation seems to have improved over the past few years with the fall in policy rates and implementation of the banking sector clean up, recapitalization, and other regulatory reforms in 2017 and 2018. The Bank of Ghana notes that one of the positive outturns from the reforms has been the repositioning of the banking sector to support economic growth through intermediation. In addition to the above, recent research suggests that financial products available to businesses fail to recognize that a great number of MSMEs are in the start-up phase and hence heavily undercapitalized. Loan repayment terms in the country are usually short term, while MSMEs need long-term finance and working capital. The incentive for lending on long-term basis to businesses that needed such financing schemes was reduced if not completely removed as the risks and constraints in the private sector continued to linger. Perhaps in addition to the banking sector reforms, the successful implementation of the National Digital Property Addressing System (NDPAS), and National Identification Project (NIP) will help create a robust credit database which will reduce the cost involved in obtaining financing from financial institutions. Additionally, the establishment of the National Development Bank, could help provide cheaper and long-term funding for the growth and expansion of key companies operating in the agriculture and industry sectors. The recent establishment of the Ghana Incentives-based Risk-Sharing System for Agriculture Lending (GIRSAL), a non-bank financial institution incorporated as a private company to de-risk agricultural financing by the financial institutions by issuing agricultural credit guarantee instruments could also enhance access to credit for the agricultural and agribusiness sectors.

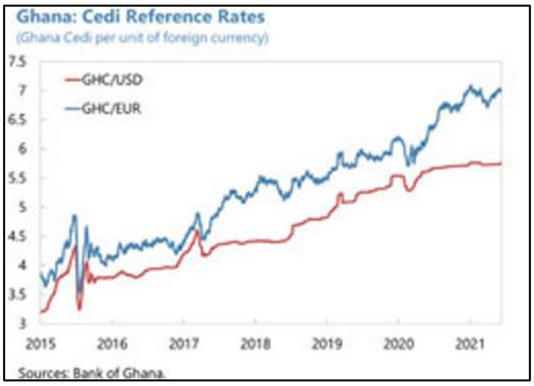
Weak legal and regulatory regimes affect the growth of small firms more than that of large firms. High start-up costs involved in properly registering a business in Ghana remain a challenge. Other challenges of the sector include land use planning, land and property rights, contract enforcement and dispute resolution, labor laws and regulations, tax administration, standards and quality regulation and alternative dispute resolution. The institutions in charge of enforcing regulations tend to be weak and ineffective and usually manipulated. Generally, the ease of doing business is heavily affected by weak and unfavorable regulatory regimes.

The poor state of business-support infrastructure in Ghana, including working premises, roads, cold rooms, warehouses, power, water, industrial parks, and telecommunications infrastructure, adversely affects the development of MSMEs and the private sector. Even where these services are available, the supply is unreliable and costly. Serviced land or 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. Over the past two decades, inadequate and unreliable power supply has plagued Ghanaian businesses and has partially dampened investor confidence in the economy. Until 2018, both the Private Enterprise Survey of the World Bank and the AGI Business Barometer reports consistently ranked inadequate power supply as one of the two top constraints to their operations. The World Bank reports note that in 2013, the situation was so bad that the number of monthly power outages averaged 8.4 and lasted 6.6 hours on the average. This resulted in losses of about 15.8% of gross annual sales for private businesses. The electricity supply challenges during that period were largely due to inadequate generation capacity caused by overdependence on thermal and hydro sources for electricity generation since independence; high level of losses in the distribution system; a poor tariff structure which made it difficult to recover the cost of electricity production. In a bid to address the crisis which led to *dumsor* (erratic off-on power), with electricity rationing in 2014-2015, the country ramped up public and private investments into the sector to expand and diversify supply-sources to reduce the hydrological risk. An amount of GH¢75.7 million was spent on energy infrastructure, mainly in respect of the supply of electrical materials and equipment for the emergency power project and the Self-Help Electrification Programme (SHEP) National Electrification Projects (Budget, 2016). Also, the government attracted more independent power producers to enter the electricity generation market, which was hitherto dominated by the public sector. Having attracted a number of emergency power producers, the situation has improved significantly over the past few years. The country now has a fairly balanced mix of thermal generation assets and hydro generation assets.

According to the last edition of the World Bank Doing Business report, Ghana's electricity supply is now relatively more reliable than in the rest of sub-Saharan Africa (World Bank, 2020). Ghana's rank of 79th out of 190 countries under "Getting electricity" remains one of the country's best rankings on the index. That notwithstanding, significant challenges within the sector could easily erode the gains made over the past few years. These include demand outstripping supply; the poor state of transmission and distribution; constraints of distribution companies to recover costs through tariffs; corruption and governance issues. These eventually led to the cessation of reforms in the sector, and contracting of IPPs. In less than five years, the country has turned from a country with significant shortages in generating capacity, to one with excess power production and burdened with a massive energy bill. [2]

Currency instability consistently threaten the competitiveness and planning of businesses. Like many other African countries, since the implementation of the Financial Sector Adjustment Programme (FINSAP) – a component of the Economic Recovery Programme (ERP) when Ghana adopted the free-floating exchange rate regime – the protracted periods of currency depreciation since have resulted in the transmission and increase in the foreign exchange risks for transacting business in Ghana. The depreciation of the cedi over the past two decades can be simply attributed to the high demand for foreign currency to undertake domestic transactions denominated foreign currencies. This has outstripped supply of foreign currency generated through economic activity, exports, foreign remittances, grants, and loans as well as speculative activity in the foreign exchange markets. Increased demand for imports and foreign exchange for loan repayments led to further demand pressures.

Save for the period between 2002 and 2007 where the Ghanaian cedi (GH¢) recorded some appreciable level of stability, the cedi has depreciated significantly against major currencies, especially the US dollar since the 1980s. The currency redenomination exercise in 2007 was not enough to stabilize the cedi.



The seasonal depreciation of the cedi is usually at its worst between February to March. This directly affects businesses involved in imports and indirectly, businesses dependent on imported raw material. In a country, that is highly exposed to shocks in the international market and import-dependent, high rates of depreciation increase the cost of production for these firms and generally lead to inflation. The volatile nature of the cedi also posed risks to businesses within the private sector as planning became challenging for most importers and exporters but for financial-hedging instruments from the banking system. In several AGI Business Barometer reports, exchange rate volatility was consistently one of the top challenges for business. In 2020, the Ministry of Finance inaugurated a bi-partisan FX Development Committee to look into the causes of the depreciation of the cedi and propose solutions. Among its functions, the committee was to review the current forex regime, identify the constraints in the system and offer workable policy alternatives to curb the forex risks in the economy. It is still unclear what the output of the committee has been since it was set up.

Access to business development services and capacity development. There is considerable entrepreneurial ability and willingness in Ghana that requires equally vibrant services and coaching to start businesses and accelerate the growth of these businesses for longevity. Most private service providers do not find rural areas profitable. To provide integrated, national support for early-stage startups, small business incubators and funding for youth-owned businesses, the National Entrepreneurship and Innovation Programme was established in 2017. As of 2019, the program, which started with seed capital of US$10 million, had provided financial support to 4,350 entrepreneurs nationwide, trained businesses, provided business advisory services, technical support, and access to market to about 19,000 businesses. The institution also runs the Presidential Pitch initiative, an entrepreneurship competition for persons between the ages of 18 and 35 years where all contestants receive comprehensive, structured training to help build their business management capabilities, and are equipped with skills in areas such as finance, marketing, pitching, procurement, and risks. Work is ongoing to mainstream entrepreneurship education in the national education curriculum at the secondary and tertiary level.

Besides the government, over the past decade, the private sector has acted through institutions like the Meltwater Entrepreneurial School of Technology, ImpactHub, iSpace, etc. to support private businesses, and in extreme cases develop new business models in agribusiness, agritech, fintech and other services. This has seen the emergence of a number of startups operating in the agriculture, financial services, transport, telecommunications and technology industries. In August 2020, a technical working committee was inaugurated to draft Ghana's version of a Startup Act. Currently, a pending Startup Bill is expected to provide a framework that defines what a startup is, provide the legal backing for starting businesses as a startup while creating specific incentives and a clear framework for the startup ecosystem in Ghana. The committee is made up of representatives of the National Entrepreneurship and Innovation Program (NEIP), Ghana Hubs Network, Young Entrepreneurs Chamber, Ghana Startup Network, i4policy, Accra Digital Center (ADC), and the Private Enterprise Federation.

Lack of access to market intelligence. The lack of reliable information for decision making about the private sector both on a macro level as well as a micro level 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 the government, businesses, and potential investors to stay abreast of changes in an environment where information is a highly perishable commodity. Unfortunately, most MSMEs in Ghana have limited access to the latest market information. Quality industry information is mostly unregistered, considered classified or only available through networks of people who are well placed or are in positions of power to extract reliable information that can support foreign investment decisions. Most of the widely accessible information on markets is available only as secondary data and from foreign market research firms that have an interest in the country. Even for this secondary information, one has to carefully evaluate sources, as there is often a problem in the way market research is conducted and the issues raised hardly appreciate the nuances of operating businesses in this environment.

Minimal sophistication of business processes due to low utilization of technology and innovation in MSME puts the economy at a lower equilibrium. This is evidenced in the low value-added products for domestic and export markets. The share of medium-and high-technology products in Ghana's total production increased from 21.2% in 2000 to 24.8% in 2010 but slipped to 19.5% in 2015-2017. The share of medium- and high- technology exports in total commodity exports also increased, from 1.29% in 2000 to 1.90% in 2015 before slipping to 0.95% in 2017. The uptake of technology has been greatly hindered by the recurrent power shortages bedeviling the country and the dearth of managerial and technological skills in the private sector. The fact that in recent times FDI inflows have been concentrated in the oil and gas industry, which has weak linkages with the rest of the economy, also affects technology transfer.

Lack of inter-ministerial coordination, policy continuity and real commitment to private sector development. Over the past decade, 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 in processes for the development of government policy on private sector issues. Also, the private sector's trust in the government's ability to support the development of the sector has significantly waned. The situation presents a challenge for the consistent and effective implementation of the private sector engagement strategy over a reasonable period of time. For instance, while the implementation of the first phase of the Private Sector Development Strategy (PSDS I) was under the remit of the Ministry of Trade and Industry, the implementation of PSDS II was placed under the Office the President and this ultimately affected the governance and funding for the project as donors did not trust the effectiveness of the new arrangement. Additionally, there is a perceived lack of policy continuity, which often happens with a change in government and sometimes within the same political administration. This creates a lot of uncertainties and makes it difficult for businesses to commit to long-term investment decisions based on policy-relevant sectors.

Political interference and victimization in the private sector. Past and recent history of governments closing down businesses in both military and civilian regimes has generated fear in businessmen in growing their businesses and coming into the limelight. In fact, recent interviews with SMEs under an accelerator program and some members of the AGI suggest that Ghanaian businessmen prefer to grow their businesses modestly for fear of being victimized by politicians to the point of losing their businesses. These fears are not born out of mere speculation. In the 1980s, the private sector witnessed horrendous treatment from the then military government. Businessmen and industrialist lost their businesses and some even lost their lives due to allegations of business malpractices. It was not until the early 2000s when the country was ushered into “the golden age of business” that full confidence to set up and grow businesses was rekindled in some quarters. Again, in recent past, the banking sector clean-up, which led to some businessmen losing their banks, was fraught with allegations of political vendetta towards banks that were seen to have affiliations with the opposition party.

Proposed solutions

Over the years, the government and other stakeholders have implemented many initiatives for private sector development. These initiatives include cross-cutting solutions to improve the general business environment. Various progressive regulatory regimes have sought to improve the ease of doing business in Ghana. An example is the Companies Act, 2019 (Act 992). Other examples included approval of incentive regimes to draw investments into Ghana and the use of technology to enhance business registration and engagement with regulatory bodies, all in a bid to attract both internal and external investments to drive private sector growth.

On access to and high cost of finance, the government should consider designing programs and initiatives that could help de-risk the private sector to draw in the needed financing and to drive down the cost of funds. 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. Efforts aimed at de-risking the business environment included macro-economic practices to drive down country risk ratings. The Ghana Incentive-Based Risk-Sharing System for Agricultural Lending (GIRSAL) project is making good progress in de-risking agricultural financing by issuing agricultural credit guarantee instruments. However, more such projects could be extended to other priority sectors of the economy. In addition to the above, a combination of innovative financing could be developed to provide funding for startups, which in many cases lack collateral, 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 Venture Capital Trust Fund to enable it to provide investment funds to early-stage but promising startups.

Addressing the weak legal and regulatory regimes which have affected the growth of small firms will require massive reforms in government service delivery systems. These reforms should make government service delivery systems more responsive to the needs and imperatives of the private sector. The ongoing digitalization efforts could help resolve some of the service delivery challenges, but the government has to intensify efforts to improve access for the ordinary Ghanaian, build the capacity of the public sector to efficiently use these services while instituting accountability measures to ensure that the use of the E-System is not sabotaged for parochial interests.

Urgently needed is a long-term plan that will ensure consistent and strategic investment in major infrastructure that will facilitate ease of doing business. The current approach of discontinuing or stalling strategic infrastructure projects with each next change in political administration will only stunt the growth of the country, with adverse effects on the development of MSMEs and the private sector. Resolving the longstanding energy crisis should be top priority. 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 which 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. Also, roads linking the various corridors of the country should be prioritized instead of politically expedient ones. The potential of the Free Zones enclaves and other industrial sites to boost export growth and industrialization could be realized if the government would prioritize the provision of reliable and cost-effective infrastructure and utility services in these enclaves.

Currency instability consistently undermines businesses planning and competitiveness. A sustainable long-term solution to this will require the government to significantly boost exports through industrialization, modernizing the agricultural sector, boosting domestic production while cutting down on imports. The government will have to improve and fast-track the delivery of the One District, One Factory program as well as the Planting for Food and Jobs program to help reduce the level of imports. In the short and medium term, the government has to boost its capacity to mobilize more domestic revenue to be able to service its debts and finance development projects with limited reliance on borrowing. This will require rationalizing tax exemptions, improving revenue administration, Customs reforms, harnessing the potential of property tax, and building capacity to effectively tax the extraction of natural resources.

Encourage and promote young entrepreneurs by providing unbridled access to Business Development Services 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 that the National Entrepreneurship and Innovation Program (NEIP), Accra Digital Center (ADC) and other related programs meant to provide support to startups, which are often run by young entrepreneurs, are professionally and fairly executed. 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.

Improve coordination, policy continuity and revamp commitment to private sector development. Based on trends in development conversations over the decades, the above solutions will continue to feature in future conversations. As much as there is some level of proven effectiveness in their implementation, the government must consider a new way of looking at private sector development. Future conversations should consider the following suggestions for a more systematic and integrated approach 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 for 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. For example, to develop an export-oriented program like the Free Zones, the program should link with the overall export processing capabilities of the country, harmonizing documentation, quality standards, marketing, etc. This will require a multi-stakeholder approach involving all the relevant agencies such as the Ghana Export Promotion Authority, Ports and Harbours Authority, private sector associations and many others whose agenda must necessarily include the overall export development program.

Another way to harmonize and integrate interventions is to take a sectoral approach to developing the private sector. For example, agriculture has been a priority for all governments since independence, but Ghana still generally operates at a lower equilibrium. Developing agriculture needs robust and sophisticated systems thinking that understands how all the elements within the supply chain work together and to be deliberate about integration and harmonization of the various layers. This integrated approach should include a favorable fiscal and incentive regime that attracts investors, bespoke financing (development finance in this regard) for the sector, skills and entrepreneurial development (implemented by academic and vocational training institutions), strong market access (championed by the export development and related institutions), quality business development support services, etc.

Ghana should also 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.

Ghana's transformation experience reaffirms the need to proactively engage and support the private sector. Failed attempts to implement private sector development initiatives and lack of proactive engagement of the sector remains one of the biggest failures of the country in its quest to pursue transformation. Successive government policies for private sector development aimed at creating a conducive business environment for the private sector to grow and thrive have made limited progress. A 2016 study undertaken by the World Bank, highlighted the following as major impediments to proactive private sector engagement, which has largely affected the growth of the industrial sector: (a) Fragmentation of the stakeholder landscape; (b) Lack of trust because previous engagements with the government barely yielded any results; (c) Ill-defined ownership and management; and (d) Disconnect between vision and action. [3]

In summary, enabling the private sector to drive economic transformation requires broad consultation among the public and private sectors, academia, skills development institutes and development actors whose activities, driven by a common policy agenda, must necessarily converge to consolidate efforts for economic development. Ghana needs to support its thriving private sector and completely protect it from all attempts at political vendetta and victimization.

Measuring success: goals and targets

For Ghana to mobilize for an Economic Compact, there should be a common vision for the private sector that is executed, guided and protected through a political and economic consensus and further enshrined in regulatory and policy regimes. The critical priority is for the private sector to have a stable and suitable business environment that enables it to thrive and create wealth and jobs.

Goal 1 of Ghana's draft 40-Year National Development Plan, which is "Build an industrialized, inclusive and resilient economy", is designed to harness the efforts of the private sector to drive economic growth and transformation. Key to the achievement of this goal is a vibrant private sector supported with initiatives, regulations and infrastructural development driven by a sound industrial policy.

Vision for the private sector in Ghana

A proposed vision for the private sector in Ghana 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".

Goals and targets

The following goals are designed to help Ghana's private sector flourish:

1. Goal – To increase the number of businesses by ensuring that entrepreneurs have the opportunity and suitable environment (e.g. market access, market linkages, infrastructure and stable utility services, business development services, incubation, and acceleration support) to start and grow businesses.
   In Ghana, data from the Registrar-General's Department for the last 10 years indicate that about 90,000 MSMEs on average are registered per annum. Further analysis of these companies regarding job creation potential indicates that they are expected to provide about 300,000 jobs on average per annum.

   Target – To reach this goal of increasing the number of businesses in a vibrant private sector, the target is to directly support at least 20% of these new businesses every year to flourish and contribute to building a vibrant private sector.

   How – Access new businesses through the registry. Assess their business models and reach out to those with viable business models to provide them with incubation and business development services to ensure not only their survival but their success as well. This has to be deliberate. Government agencies such as the Ghana Enterprise Agency, Ministry of Trade and Industry, and National Entrepreneurship and Innovation Programme as well as other private and development actors within the SME support ecosystem are key players to make this happen.

2. **Goal** – To update and strengthen Ghana's Industrial Policy through a political consensus to drive an industrialization agenda supported by successive governments. This policy must outline initiatives and interventions to elicit appropriate responses from investors from within and outside of Ghana.

   Target/How – To set up a multi-partisan, multi-stakeholder committee to review and update Ghana's Industrial Policy in the short-to-medium term.

3. **Goal** – 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.
   A number of excellent reforms and initiatives have been implemented but most businesses remain informal or quasi-informal institutions, making them unable to access incentives and other opportunities to help them grow and become significant players in the economy.

   Target – To simplify regulatory and business support and service delivery processes (business registration, tax registration and payment, permit and license acquisitions, etc.) in ways that enhance transparency and avoid rent seeking by government service delivery personnel.

   How – Support the implementation of various ongoing digitalization reforms to streamline and simplify government service delivery and provide easier access to businesses in the short-to-medium term.

4. **Goal** – To invest in appropriate infrastructure to support the business environment, particularly for industries. Special economic zones such as those under the Ghana

Free Zones and the private Dawa Industrial Zone are examples that need to be replicated to provide more industrial zones serviced with both internal and access roads, power and other utilities as well as service providers such as banks, insurance, freight forwarding and clearing.

Target – To establish additional industrial zones of not less than 20,000 acres in total in strategic locations for businesses in the medium-to-long term.

How – To attract and partner with private industrial zone developers and provide them with incentives designed to yield mutual benefits for the investors on one hand and the private sector and the government on another hand.

5. **Goal** – To nurture and grow big private sector winners whose operations and markets will drive growth within their value chains.

   Target – 10 homegrown champions in the next 5-10 years.

   How – Develop a transparent mechanism for selecting, nurturing and growing potential champions from the private sector.

6. **Goal** – To create a free and fair business environment devoid of political interference and victimization.

   Target – Constitutional/legislative reviews that entrench clauses to protect the private sector from undue interference and victimization from politicians.

   How – Build a multi-party consensus to protect constitutional/legislative provisions that prevent undue interference from the government of the day in the operations of private sector.

Principles for engagement and successful delivery

A strong, vibrant and progressive private sector remains the cornerstone for transformation. Indeed, the government and development partners have over the years rolled out numerous programs, projects, and policies to effectively engage with and promote the private sector. Unfortunately, the narrative above recounts the major failures of these efforts. Like the long-term goals of development, the principles of engagement between the private and public sector have been shifting with every change in government and change in geopolitical issues. For economic transformation with the private sector as a key player, it is critical that the principles of engagement for success are defined from the outset.

We provide the following as the key principles that should guide effective engagement between the government and the private sector on this Compact:

- Political consensus on solutions to private sector issues: Political consensus and commitment at the highest levels of governance to address the needs of the private sector – this should transcend political administrations;
- Strategic vision and role: A clearly articulated vision and plan for private sector development with a clearly articulated role for the public sector in advancing private sector initiatives;
- An effective high-level platform for engagement for dialogue and driving reforms: Develop a clear plan and effective platforms for continuous dialogue to drive much-needed results-oriented reforms.
- Engage early and often and follow through on decisions: Harness the strengths of the private sector through early, frequent, and effective consultations through established platforms so that actors can “own” the solution.
- Transparency and fairness: Transparent and fair criteria for identifying private sector champions and direct beneficiaries of priority projects and programs.
- Risk management and due diligence: Adopt an objective process to identify and manage risk and potential conflicts of interest.
- One voice to represent private sector interests: Private sector development and engagement can only be sustained by identifying, mobilizing, and rallying all private actors to have one voice and a united front for engaging with the government.
- Build and act upon quality evidence of what works: Make room to collect lessons learned across private development policies, programs, and projects to generate evidence of impact based on key performance indicators (KPIs).

- Leverage influence and resources: Identify business and development partner influencers to leverage their networks and resources to advance private sector development.
- Sustainability awareness: Shared value partnerships that are sensitive to climate change, social and environmental safeguards.
- Mutual trust and accountability: Mutual trust, openness and accountability between government and private sector stakeholders.

Questions for consultation and public dialogue

To deepen gains and reduce the challenges, Ghana must answer key questions to drive inclusive and sustainable economic growth and transformation.

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 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 in strategic and anchor sectors?
4. What should be the role of technology and innovation and how do we give it prominence in our 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 in Ghana?
7. How do we ensure businesses and entrepreneurs are protected from undue political interference and vendetta given the history of alleged attacks on businesses tagged to have political affiliations?

[1] https://oxfordbusinessgroup.com/country/ghana/industry
[2] https://theconversation.com/lessons-to-be-learnt-from-ghanas-excess-electricity-shambles-121257
[3] Enhancing Effectiveness of Ghana's Private Sector Policy and Strategy. World Bank Group. December 2016