GOVERNMENT OF GHANA

NATIONAL MEDIUM TERM PRIVATE SECTOR DEVELOPMENT STRATEGY

2004 – 2008

VOLUME 2: ACTION PLAN

“Developing effective markets for the golden age of business”

December 2003

NATIONAL MEDIUM TERM
PRIVATE SECTOR DEVELOPMENT STRATEGY

VOLUMES

NATIONAL MEDIUM TERM
PRIVATE SECTOR DEVELOPMENT STRATEGY

CONTENTS: VOLUME 2

Abbreviations

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
FINSSP	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	Integrated 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)

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[1].
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.

[1] 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
Taking the Strategy forward

1.1 Introduction

Volume 1 sets out Government's policy framework and strategic approach to private sector development in Ghana. Having considered where we are now, and where we want to be, Volume 2 answers the question "How do we get there?"

Government's vision for private sector development is to attain –

a world-class business environment for Ghana

Its policy framework to achieve this 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 Strategic framework (see Annex A) is designed to achieve four outputs or results -

Output 1	Output 2	Output 3	Output 4
Ghana's position in global and regional markets enhanced	***Efficiency and accessibility of national markets improved***	***Competence and capacity at the firm level increased***	***Government's private sector policy formulation, implementation and monitoring and evaluation strengthened***

Volume 2 – the Action Plan - now sets out how the Strategy will be implemented to deliver these results, as follows -

- the remainder of this Chapter describes the ***implementation principles*** which will guide the implementation of the Strategy;
- Chapter 2 sets out ***how interventions will be prioritised***, and how implementation will be ***integrated with other key PSD strategies and policies***;
- Chapters 3-7 set out the ***priority activities in each Output Area of the Strategy;***

- Chapter 8 describes the ***institutional structures*** for implementation;

- Chapter 9 describes ***monitoring and evaluation*** arrangements;

- Chapter 10 sets out proposed arrangements for ***financing and donor co-ordination;*** and finally;

- Annex B schedules all the activities identified in Chapters 3-7 in the ***Prioritised Action Plan*** and Annex C provides a timeline for the first year of implementation.

1.2 Implementation principles for the PSD Strategy

The following principles will guide the implementation of the PSD Strategy:

Tackling deep and systemic problems
The vision set out in the Strategy makes it clear that there is the political will to take forward the fundamental reforms needed to tackle the systemic problems with the functioning of markets in Ghana.

Identifying priorities for reform
Resources available for private sector development are highly constrained. Available financing, either through the Government budget or from development partners, is limited, with many competing priorities especially in the social sectors. Government officials are overburdened with a wide range of policy and management commitments; their time is scarce. It is essential that PSD interventions be prioritised so that available human and financial resources are used where they will achieve the best results, in terms of both impact and speed of delivery.

Using effective tools for reform
Reforms will utilise methodologies and tools that are practical and scaleable, to benefit from the learning curve and achieve economies of scale.

Linkages with on-going GoG processes and strategies
The Strategy will not duplicate or seek to replace existing GoG strategies. The Strategy will link with other relevant strategies and processes which are important to the private sector – for example, infrastructure and agricultural development – and ensure that these strategies effectively integrate private sector development priorities in their design, financing, implementation and monitoring. The approach to establishing these linkages is described in Chapter 2, paragraph 2.5 below.

Linking reforms to resource allocation
Reform interventions must be adequately financed. Financing will be integrated with, not parallel to, GoG's system of resource allocation through the Medium Term Expenditure Framework and budgetary process.

Undertaking effective monitoring and evaluation

The monitoring and evaluation framework will both mainstream private sector development performance indicators within existing sector plans, and provide a holistic assessment of progress towards the Strategy goal and purpose.

Ensuring accountability through effective dialogue with the private sector
The Government will be held accountable to the private sector for performance under this Strategy, with the private sector having an integral role in implementation, monitoring and evaluation.

Ensuring effective international development partner co-ordination
The Strategy will put in place mechanisms to ensure effective, coordinated, donor support to private sector development.

1.3 Dynamic process

The process for developing and implementing this Strategy is as important as the specific interventions which it contains. The active engagement of the Government and the private sector in the identification of constraints, formulation of strategies and monitoring of progress will help ensure a flexible, pragmatic and output oriented approach to reform.

The strategy will therefore be a living document that will be regularly updated to reflect the changing needs of the business environment.

1.4 Factors leading to the success of the Strategy

Taking this Strategy forward will be challenging. The activities in it cut across many Government MDAs and will involve careful co-ordination. However, the GoG believes that the Strategy is robust and will be successfully implemented for the following reasons –

- The commitment to the golden age of business has political endorsement at the highest level.

- The Strategy is linked into GoG resource allocation processes.

- The Strategy is not another private sector development project, but is designed to be entrenched in GoG processes and strategies. It works with, and doesn't cut across on-going GoG work.

- The Strategy introduces new tools (such as a PSD Policy Assessment Template[2], regulatory impact assessments, and a rapid response fund for private sector advocacy) that will enable private sector development to be mainstreamed within GoG policy making and activities.

- The Strategy has robust implementation arrangements which involve the private sector as key stakeholders.

[2] See Annex E.

- The Strategy has an effective monitoring and evaluation framework, with specific performance indicators and which involves not only the GoG, but also the private sector and development partners in monitoring implementation and ensuring accountability.

Chapter 2
Prioritisation & integration of existing strategies

2.1 Introduction

This Chapter explains the basis on which the GoG has prioritised activities for inclusion in the Strategy, and how these priorities are linked to other important private sector development-related policies and strategies in Ghana. It explains the prioritisation criteria that focus on activities which address key constraints; are realistically achievable; and which are in accordance with GoG's vision and policy framework.

2.2 Existing private sector strategies, policies & recommendations

Prioritisation does not start with a blank sheet of paper. The GoG, the private sector and donors have recently undertaken a number of exercises in which they have identified key interventions to achieve growth and enhance private sector development in Ghana. In effect – prioritisation exercises. In some cases, fully-fledged GoG policy documents have resulted: in others, recommendations.

This Strategy builds on this work, and benefits from the extensive analysis and consultation that has already taken place. To achieve this, the Strategy has identified 10 key crosscutting documents to inform the prioritisation process:

- Integrated Industrial Policy for Increased Competitiveness[3] (IIP)
- Trade Policy Framework[4] (TPF)
- GoG / UNDP/USAID/APDF Promoting Private Sector Development (PPSD)[5]
- Business Sector Programme Support[6] (BSPS)
- GIAC Matrix[7] (GIAC)
- National Economic Dialogue[8] (NED)

[3] Parts I (Industrial Development: an Analytical Framework), II (Industrial Policy and Framework) and III (Micro and Small Enterprise Policy Paper) Ministry of Trade and Industry, Sept 2002 assisted by UNIDO
[4] Prepared by Ministry of Trade, Industry and PSIs - as at Sept 2003 awaiting Cabinet consideration
[5] Programme Document - 2002-2005
[6] Proposed Danida Programme to support private sector development; currently awaiting approval. The Business Support Instruments Component (Support Programme for Enterprise Empowerment and Development) is funded jointly with GTZ
[7] Report on Progress made by the Ministries, Departments and Agencies Implementing the Recommendations of the GIAC (June – August 2003)

- Growth Workshop[9] (GW)
- Administrative Barriers to Investment[10] (ABI)
- "Elmina" Workshop[11] (EW)
- PRSC/MDBS Matrix [12] (PRSC)

The basis for selecting these documents was:

- They are recent (within the last 12 months);
- They are overarching – that is, they set out priorities across the entire private sector;
- They have been developed with broad-based inputs from GoG and the private sector, with in most cases support from academics and other specialists; and
- They have been either explicitly approved by GoG, or are in line with stated GoG policy.

There are many other important private sector development documents that deal in detail with specific sectors (e.g. agriculture or finance) and/or specific constraints (e.g. on investment). These documents have been taken into account in the design of specific interventions under this Strategy, as described in Chapters 3-7. Tools to ensure integration with these existing strategies are described in paragraph 2.5 below.

2.3 Prioritising existing interventions

The Prioritisation Matrix in Annex D demonstrates the huge range of interventions in these documents, identifying activities at the international, national, firm and policy-management levels.

It is very positive that there has been so much analysis of the constraints faced by the private sector in Ghana, and so much effort to identify possible solutions. It is encouraging that there is considerable consistency in the recommendations made across the 10 different documents.

---

[8] Action Plan 2002. Foreword by Minister of Economic Planning and Regional Cooperation states "This document represents our collective decisions, commitments and the actions required to achieve our objectives as a nation." The " top twelve" recommendations are included

[9] "How can Ghana achieve Growth and Prosperity?" organised by the GoG, Feb 28 – 2 March 2003

[10] Ghana Administrative Barriers to Investment Update, June 2003 – Foreign Investment Advisory Service. Study on behalf of the GoG

[11] Investments and Finance in the Golden Age of Business – Workshop at Elmina Beach Hotel, Dec 2002. Summaries of recommendations from teams of experts on investments, housing, ICT, energy, agriculture and finance

[12] Poverty Reduction Support Credit Policy Matrix, World Bank, 29 May 2003 – currently being developed to form the basis for joint PRSC/multi-donor budget support (MDBS)

However, as they stand, the policy and strategy documents do not provide a coherent basis to progress with private sector development initiatives. The initiatives are not prioritised across different documents, nor are they all consistent with regard to policy. Lines of responsibility are not always clear, and there is no common approach to implementation, monitoring and evaluation. Perhaps most seriously, there is no common framework for establishing and enforcing accountability for delivering results.

The Strategy provides the framework for a common approach to private sector development challenges, and hence enables these (and other) private sector development policies and strategies to be brought together in a coherent way. The first step is to "prioritise the priorities" and work out what should be included as priority interventions under this Strategy. For this purpose the GoG developed a set of prioritisation criteria, which are included in the Prioritisation Matrix. These are set out in box 2.1.

Box 2.1 Prioritisation criteria

Criterion	***Explanation***
Consistency with GoG PSD Policy Framework	Interventions must be consistent with the overall policy framework for private sector development set out in Volume 1 of this Strategy
Only Government Can Do	Interventions which can only be done by Government (i.e. there is no market based solution, hence a priority for Government)
Quick Wins	Interventions which can deliver a "quick win" in terms of demonstrable gain for the private sector
Address Identified Constraint	Interventions which address a constraint that has been identified by the private sector as serious
High Impact/ Low Cost	Interventions which are likely to deliver a large positive impact relative to their cost (i.e. value for money)
Non Distortionary	Interventions which are unlikely to distort the market (i.e. maintain a "level playing field")
Poverty Impact	Interventions which are likely to have a direct poverty reduction impact
Prospect of Success	Interventions which have a high prospect of succeeding

2.4 Results of prioritisation

The GoG has identified from the Prioritisation Matrix in Annex D the priorities for action over the next five years, in each output area as set out in box 2.2 below.

Box 2.2 PSD Strategy priority activities

Output	Priority Activities
International: ***Ghana's position in global and regional markets enhanced***	• Develop trade policy • Quality standards • Attracting investment • Strategic exports
National: ***Efficiency and accessibility of national markets improved***	• Pro-private sector macro economic policy • Financial sector reform • Infrastructure • Public sector reform (including ports/customs; business registration and MSME licensing; tax administration) • Commercial dispute resolution • Land system and property rights
Firm level: ***Competence and capacity at the firm level increased***	The GoG's approach to addressing priority firm level interventions is discussed in Chapter 6
Process: ***Government's private sector policy formulation, implementation and monitoring and evaluation strengthened***	• Strengthen Government decision making on issues affecting private sector development • Strengthen the quality and quantity of Government's dialogue with the private sector • Undertake strategic monitoring of the Private Sector Development Strategy

The following Chapters provide more detail on these priority activities for each Output Area, and the Action Plan (Annex B) and Year 1 Timeline (Annex C) provide the implementation schedule and costing.

2.5 Integration with existing strategies

Government, donors, NGOs and private sector organisations are already undertaking a wide variety of activities designed to address constraints on private sector development. There are over 150 initiatives, strategies, programmes and projects designed to address constraints on private sector development at the international, national and firm level. The GoG alone has over 100 such initiatives.

All the priority activities at the international and national level set out in box 2.2 above are being addressed through existing GoG sectoral strategies and other on-going processes. Key initiatives are summarised below -

Box 2.3 Summary of key existing GoG initiatives relating to international and national level priorities

Reform issue	GoG strategy /process
INTERNATIONAL LEVEL	
Trade	• Trade Policy Framework • Trade and Investment Gateway Project • Ghana Free Zones Program • Export Processing Zone Program • GIPC's Strategic Five-Year Corporate Plan • Ghana Export Promotion Council Strategic Plan
NATIONAL LEVEL	
Macroeconomic environment	• Medium term expenditure framework /budgetary processes • Public Financial Management Reform Program • Budget and Public Expenditure Management System
Public Service Reform	• National Institutional Renewal Programme • Civil Service Performance Improvement Program • Public Sector Management Reform Program • Public Sector Reinvention and Modernisation Strategy • National Governance Programme
Customs / port procedures	• Trade and Investment Gateway Project • Ghana Ports & Harbour Authority Business Plan
Commercial dispute resolution	• Legal Sector Reform Programme
Land reform	• National Land Policy and the Land Administration Project
Financial sector reform	• Financial Sector Strategic Plan
Infrastructure	• Road Sector Development Programme • Strategic Plan for the Ministry of Communications and Technology • National Communications Authority – Annual Plan • Ministry of Energy – Energy Sector Projects and Programmes • Water Sector Strategy

The Private Sector Development Strategy does not seek to replicate, cut across or replace these existing strategies and processes. Chapters 3 and 5 below set out how linkages between such existing initiatives and this Strategy will work in practice.

Some existing initiatives involve activities that have not been identified by the GoG as priorities in the Prioritisation Matrix in Annex D. Nearly all the activities in Annex D are desirable, but not all of them can be priorities. However, non-priority activities may continue in appropriate cases. Such on-going non-priority activities will be monitored and evaluated under this Strategy to the extent that they contribute to the four Strategic outputs. (See Chapter 9 on monitoring and evaluation.)

The PSD Strategy also has linkages with GoG's existing plans and strategies for key sectors of the economy, such as the Food and Agriculture Sector Development Policy (FASDEP)[13] and the National Tourism Development Plan[14]. And the GoG has other on-going initiatives which clearly impact on private sector development including -

[13] Ministry of Food and Agriculture – Sept 2002
[14] Ministry of Tourism; UNDP; World Tourism Organisation – August 1996

- Education (both to build human capital, and as a major market for private services provided by private schools and colleges);

- HIV/AIDS (the HIV/AIDS National Strategic Framework includes prevention programmes targeting the private sector, and work place policies for infected/affected people);

- Environmental protection (creation of the Environmental Protection Agency to regulate, inter alia, private companies);

- Initiatives related to labour policy and issues (including the Ministry of Manpower Development & Employment's Skills Training and Employment Placement Programme; and programmes undertaken in collaboration with the International Labour Organisation to eliminate the worst forms of child labour in Ghana [15]);

- Anti - corruption initiatives (such as the Ghana Anti-Corruption Coalition in which the GoG is involved through the Commission on Human Rights and Administrative Justice; the Serious Fraud Office; and the National Institutional Renewal Programme);

- GoG's on-going divestiture of State-owned enterprises;

- On-going initiatives to address safety and security issues in Ghana including security issues in Northern Ghana, and petty crime and armed robbery.

The issue for this Strategy is how to ensure that private sector concerns identified as priorities are integrated into existing sector strategies and processes; and that the Private Sector Development Strategy is in turn responsive to the priorities identified in other strategies which affect the private sector. This integration will be achieved through -

- enhanced private sector involvement in GoG policy development, by sensitising sectoral ministries on the appropriate role for the private sector in a market economy, and creating and supporting fora for public/private dialogue;

- private sector involvement in on-going monitoring and evaluation of sectoral programmes, at the national and local level;

- including explicitly pro-private sector performance indicators in the monitoring and evaluation frameworks for sectoral programmes;

[15] The GoG has recently enacted the Labour Act, 2003 (Act 651).

- ensuring that the potential impact on private sector development is a key criteria in allocating resources to sectoral initiatives through the medium term expenditure framework process; and

- ensuring that the PSD Strategy is itself flexible and responsive to priorities identified in other national strategies.

This approach to integration is illustrated for the agricultural sector in box 2.4 below.

Box 2.4 FASDEP & Private Sector Development

The Food and Agricultural Sector Development Policy (FASDEP) will provide the strategic framework for all GoG support to the agriculture sector. Agriculture and agro-processing form the largest component of the Ghanaian private sector; hence it is essential that FASDEP is effectively linked with the PSD Strategy.

This linkage will be achieved by -

- Inclusion of the Ministry of Food and Agriculture, and private sector agriculture sector representatives (both small and large scale) in the PSDS Technical Working Group dealing with the efficiency and accessibility of national markets (e.g. the Ghana National Farmers and Fishermen Association).

- Establishing specific pro-private sector targets and monitoring indicators for FASDEP, including: ratio of farm gate prices to final market/export price (a measure of the efficiency of the market and distribution systems); availability and quality of extension advice from both public and private suppliers; availability and cost of key agricultural inputs.

- MPSD and the Ministry of Food and Agriculture working together to ensure that the FASDEP framework reflects the priorities of the private sector; and enhances the enabling environment for agricultural development, while minimising market distortions and maximising opportunities for market forces to determine the most efficient allocation of resources within the sector.

Chapter 3
Output 1: Ghana's position in global and regional markets enhanced – broad-based measures

3.1 Introduction

This Chapter sets out the priority broad-based actions that the GoG will take in the medium term to enhance Ghana's position in global and regional markets. Chapter 4 which follows, sets out more focused, sector-specific interventions designed to promote Ghana's strategic exports.

3.2 Background

The GoG believes that increasing Ghana's openness to global and regional markets (to imports as well as exports) is good for Ghana's growth. Increased freedom in trade involves lower trade barriers, leading to lower costs and greater efficiency as entrepreneurs determine the activities in which they have a global or regional competitive advantage. Increased fair competition ensures that domestic production is competitive and will allow Ghana to specialise in doing what it can do well.

Increased openness however implies that there will be losers as well as winners. Integration with the global economy can potentially reduce poverty through the creation of new jobs in export industries. But openness also brings increased competition from imports, and overall gains may not be immediate.

There are already a number of initiatives in Ghana designed to enhance export orientation and access to global and regional markets. These include –

- The Trade and Investment Gateway Project;
- The Ghana Free Zones Programme;
- Export Processing Zones;
- The Ghana Export Promotion Council's Trade Information and Facilitation Support Services; and
- The Joint Integrated Technical Assistance Programme

This Chapter sets out the priority actions that the GoG will take in the medium term to build on these initiatives and to enhance Ghana's position in global and regional markets. This Chapter addresses three critical issues that are facing Ghana in this respect –

- trade policy;

- quality standards; and
- foreign direct investment.

The emphasis is on bringing about broad-based reform that will benefit all sections of the private sector in Ghana. The activities described below are reflected in the Action Plan in Annex B.

3.3 Trade policy

Ghana has a clear opportunity to take advantage of trade agreements and arrangements in place or being negotiated to give Ghana's products access to regional and international markets, as well as a need to respond to the opening up of its domestic markets. Key initiatives include -

- The Africa Growth and Opportunity Act;
- ACP-EU Cotonou Partnership Agreement;
- WTO Uruguay Round Agreements;
- New Partnership for African Development;
- ECOWAS Protocols and Conventions, including the ECOWAS Trade Liberalisation Scheme;
- West African Economic and Monetary Union.

These Agreements provide for new trade arrangements characterised by the elimination of obstacles and restrictions to trade between the parties or Members; speeding up regional integration initiatives; harmonisation of economic and industrial policies and promotion of joint development projects in Member States; and assisting countries with their gradual, harmonious insertion into the world economy.

However, there remain a number of challenges to Ghana's ability to take full advantage of global and regional trading opportunities. These include –

- Limited technical capacity to participate and negotiate as effectively as possible in on-going trade negotiations;
- Limited involvement of the private sector (and of other key stakeholders) in on-going trade negotiations;
- Limited effective dissemination to the private sector of information about opportunities and threats offered by these agreements/arrangements.

In order to address these challenges, the GoG is in the process of developing an over-arching Trade Policy. This will provide a coherent framework for on-going initiatives; prioritise key actions; and identify gaps in the on-going work. In order to take this forward, the GoG has developed, with input from key private sector stakeholders, a Trade Policy Framework Document. The priority now is to move forward and develop this into a fully-fledged Trade Policy document.

Key issues that will be addressed in Ghana's Trade Policy are outlined in box 3.1 below.

Box 3.1 Key issues to be addressed in Ghana's Trade Policy

- Implementation of existing international and regional obligations;
- Mechanisms for co-ordinating with existing GoG sector strategies so that they support the Trade Policy;
- Streamlining responsibility for implementation of GoG's trade policy;
- Effective participation in trade negotiations (to address e.g. the reduction of tariff and non-tariff barriers for Ghanaian products; and appropriate opening up of the Ghanaian market);
- Involving the private sector and other key stakeholders in such negotiations;
- Anti-dumping issues;
- Building mechanisms to ensure that there is effective dissemination about opportunities and threats offered by global and regional markets to the private sector; and
- Enhancing export promotion.

Despite the importance of the trade policy in achieving growth, the GoG recognises that an effective trade regime must be accompanied by sound pro-market policies at the national level. Measures to address such national level issues are described in Chapter 5 below.

Summary of activities relating to trade policy

The GoG will –

- **Urgently develop a fully-fledged GoG Trade Policy to address the issues outlined in box 3.1 above**
- **Commence implementation of priority activities under the Trade Policy**

3.4 Quality standards

Competition on the world market demands from exporters' greater attention to quality, price, productivity and reliability. These are potential non-tariff barriers for the entry into the global market. Key issues include Sanitary and Phytosanitary[16] barriers, Rules of Origin and minimum volume requirements – see box 3.2 below.

[16] Animal and plant health

Box 3.2 Barriers to international markets[17]

Sanitary and Phytosanitary Regulations have been used by EU governments to block Ghanaian exports of fish and palm oil to Europe.
Rules of Origin have been used to block exports of canned fish subject to initial processing on foreign-owned vessels fishing within Ghanaian waters.
From 2005 new EU food safety regulations will require "farm to table" traceability for all food/beverages and ingredients entering the EU food chain.
EU and US minimum volume requirements are difficult for small Ghanaian firms to comply with.

The Ghana Standards Board (GSB), in collaboration with some international development partners, has been educating the private sector on obtaining quality standard certification, ISO 9000 and 14000 series etc, to enable products from Ghana have access to global markets. However, key challenges include –

- Limited awareness amongst the private sector of quality standards issues;
- Limited capacity of key institutions including the Ministry of Trade and Industry (Trade Policy Committee); the Ghana Standards Board; the Food and Drugs Board; the Plant Protection and Regulatory Services; and the Ghana Export Promotion Council; and
- Limited capacity and international accreditation of GoG laboratories.

There is an urgent need to develop cost effective, responsive and efficient mechanisms for delivering quality standards services to the private sector. Existing capacity is limited, and spread around a number of institutions (including MoTI; the Ghana Standards Board; the Food and Drugs Board; the Plant Protection and Regulatory Services; and the Ghana Export Promotion Council). There is scope for streamlining and focusing efforts.

In this context, the efficient and cost effective provision of testing laboratories also needs to be considered. Currently these services are provided by both GSB and by commercial laboratories. The GoG will review whether its role in this respect should be that of a regulator, or if it is appropriate for it to continue to provide this service. Whichever option is preferable, there is an urgent need for laboratories to gain international accreditation. This would give laboratories operating in Ghana international recognition for their quality test reports.

Summary of activities relating to quality standards

The GoG will –

- **Undertake fundamental review of existing GoG institutions tasked to provide quality standards services to the private sector. Consider scope for**

[17] Source: Final Draft Report Component of Danida BSPS Component 4: Better Access to Markets

streamlining and providing more efficient services more cost-effectively in line with international best practice

- **Undertake institutional reforms recommended**
- **Undertake a “best practice” review of the provision of laboratories for quality standards in Ghana.**
- **Undertake reforms recommended**
- **Provide technical assistance to enable laboratories in Ghana to attain international accreditation**

3.5 Attracting investment

The GoG believes that attracting increased flows of foreign direct investment (FDI) has significant advantages for the country. Ghana’s net foreign direct investment inflow currently stands at only 2 % of GDP[18]. Attracting enhanced levels of FDI has a number of significant advantages for Ghana, summarised below -

- Research suggests that FDI tends to be a broadly resilient and stable capital inflow[19].
- FDI allows for the transfer of technology that cannot be achieved through financial investment or trade in goods and services.
- FDI can lead to enhanced domestic investment. Research suggests that FDI brings about a one for one increase in domestic investment[20].
- Foreign firms can provide critical support to local businesses. A recent UNCTAD and Empretec conducted survey in 2001 of 50 small and medium size enterprises in Ghana having linkages with a foreign firm[21] discovered that the direct support provided by foreign firms to local small and medium size enterprises (SMEs) included product improvement and training. Most local SMEs surveyed believed they would benefit from closer relationship with foreign firms. In addition local SMEs supplied goods or services to foreign firms, as well as acquiring goods from them.
- FDI can promote competition and thus enhanced efficiency for local firms. The UNCTAD / Empretec study suggested that local SMEs were competing with foreign firms.
- Profits generated by FDI can contribute to Ghana’s corporate tax revenues.

---

[18] Figure for 2000. Source: Nationmaster.com - calculated on the basis of data on foreign direct investment and GDP from World Bank 2002 World Development Indicators 2002

[19] In East Asian countries, FDI was remarkably stable during the global financial crises of 1997-98. The same is true for the Mexican crisis of 1994-95 and the Latin American debt crisis of the 1990’s. Source: How Beneficial is Foreign Direct Investment for Developing Countries? Prakash Loungami and Assaf Razin, Finance and Development, June 2001 Vol 38 no 2

[20] Bosworth & Collins 1999.

[21] Ghana Survey on Small and Medium Firms in Ghana : Annex II of UNCTAD Investment Policy Review of Ghana, Aug 2002

The most effective way for Ghana to achieve enhanced levels of foreign investment is to improve its investment climate. Measures to do this are described in Chapter 5 below. In addition, there is a role for investment promotion (see box 3.3 below).

Box 3.3 Investment promotion - international experience[22]:

Using data from a new survey on 58 countries a recent study on the role of investment promotion agencies concludes that –

- Greater investment promotion is associated with higher cross-country FDI flows.
- Agencies in poor investment climates have little effect in attracting investment.
- Agencies devoting more resources to policy advocacy are more effective - because such activity is not only beneficial to foreign, but also to domestic investors.
- Investment generation or targeting strategies appear expensive and risky, especially in countries with poor investment climates.
- Agencies that have established reporting mechanisms to the highest policy makers or to the private sector have been most efficient at attracting FDI

The Ghana Investment Promotion Centre has developed a comprehensive five-year strategic plan (2003-2008) that reflects this international experience. The GIPC strategic plan identifies a range of investment promotion initiatives, including:

- Creating a "one stop shop" for both international and national investor approvals;
- Reforming investment regulations, and advocating for an enhanced investment climate;
- Developing partnerships and networks between potential and actual investors and policymakers; and
- Targeting overseas investment promotion initiatives.

Summary of activities relating to attracting investment

The GoG will –

- **Undertake priority measures at the national level to improve the investment climate in Ghana as specified in Chapter 5.**
- **Support the implementation of the GIPC 5-year strategic plan, subject to satisfactory performance and timely delivery of plan results (including inward and national investment targets) by GIPC.**

[22] "Does a Country Need a Promotion Agency to Attract Foreign Direct Investment? A Small Analytical Model Applied to 58 Countries" Morisset, Jacques; April 2003.

Chapter 4
Output 1: Ghana's position in global and regional markets enhanced – support to strategic exports

4.1 Introduction

Chapter 3 above describes the broad-based priority measures that the GoG will take in order to enhance Ghana's position in global and regional markets. In accordance with its policy framework set out in Volume 1, the GoG will also undertake specific and focused measures - designed to address specific constraints in sectors that the GoG believes have the potential to become strategic exports. This Chapter outlines the scope of these measures, and sets out a framework for their implementation, monitoring and evaluation.

4.2 Strategic exports – Presidential Special Initiatives

Under the Presidential Special Initiatives (PSI), the GoG has already identified strategic exports where it believes such a focused approach is merited. The sectors that are proposed are -

- oil palm;
- cassava starch;
- salt; and
- textiles and garments.

The criteria for selecting these special initiatives are the potential for –

- mass employment generation;
- significant export revenue generation;
- value-added manufacturing activity;
- multiplier effect on the economy with forward and backward linkages;
- strong technical orientation; and
- use of local resource inputs.

An outline of the Cassava Starch PSI is provided in box 4.1 below.

Box 4.1 Summary of Cassava Starch PSI

Objectives include –

- Establishing 10 cassava starch processing plants by 2006
- Bringing 50,000 farmers into mainstream economic activity by 2006

Strategy includes –

- Establishing medium-scale farmer-owned companies using the Corporate Village Enterprise Concept.

Government inputs –

- Professional extension services
- Supply of high yielding plant material
- Credit facilities
- Guaranteed market
- Education of farmers
- Construction /upgrading of roads to farms and factory sites
- Communication facilities within the operational zone
- Adequate power to the processing plant and surrounding communities
- Treated water to factory and surrounding communities.

Source: Ministry of Trade, Industry and PSI - Donor Roundtable Meeting on PSIs, 20 June 2003

4.3 Market-based approach to PSIs

PSIs will be implemented in accordance with the policy framework articulated in Volume 1. This means that the focus will be on pro-market measures – specifically focused on the sector in question. The starting point will be detailed market-oriented studies on each sector. The aim will be to identify key constraints at the international and national market level on the development of these sectors. Key issues to be addressed will include –

- Impact of changes in the global and regional trading regimes;
- Dissemination of information to private sector operators about threat and opportunities of changes in trading regimes;
- Quality standard certification;
- Legal and regulatory issues;
- Import / export procedures;
- Sector-specific research and training.

It is important to stress that these measures will be aimed at strengthening the operation of the market for firms, rather than at strengthening the firms themselves. The advantages of such a focused approach include –

- the ability to deal with specific problems which affect a particular strategic export e.g. compliance with a particular quality standard;

- the ability to ensure that interventions are "joined up" and address the constraints at every level on the operation of markets; and

- the potential for some of these more focused measures to have welcome spin-off side effects on private sector development across the board.

4.4 "Smart" direct interventions fo r PSIs

In conjunction with the pro-market approach to PSI sectors, the GoG will also, where appropriate, provide explicit or implicit subsidies to PSI enterprises. This will include for example - the underwriting by Government of commercial credit lines extended to these sectors and providing subsidised inputs. The benefits of such direct interventions include the potential to reap rapid results and social benefits. (The benefits are discussed in more detail in Chapter 4 of Volume 1).

However, international experience suggests that, although there is some success stories, Government direct interventions in particular sectors are inherently risky, and can be unduly costly. The potential risks and costs of direct interventions are fully recognised by the GoG (and are discussed in Chapter 4 of Volume 1). The GoG will put in place a framework for "smart" interventions - to ensure that the potential risks and costs are minimised, and that the expected benefits are reaped. The framework for "smart" direct interventions is outlined in box 4.2 below.

Box 4.2 Framework for "smart" direct interventions for PSIs

The GoG will -

- ***Undertake proper analysis of proposed interventions***
  The GoG will ensure that specific interventions are –

  - *well selected* - according to market-driven, not production-driven, criteria

  - *focused* – on sectors where Government has identified comparative advantage with the potential for competitive advantage for firms, after careful analysis of the costs and benefits;

  - *fair* – with decisions about the nature of the support made transparently, where possible on a competitive basis, and in a manner that allows the costs to be clear; and

  - *flexible* – in the light of the changing global economy, with clear exit strategies to avoid costly support to uneconomic and uncompetitive enterprises.

  Analysis will be undertaken using the PSD Policy Assessment Template in Annex E (described in Chapter 7)

- ***Put in place a clear and public monitoring framework for interventions***
  The monitoring framework will explicitly identify the benefits, costs and risks of the

intervention. The private sector and civil society will be involved in the monitoring process, which will be carried out by the relevant PSDS Technical Working Group[23] (see Chapters 8 and 9). The GoG recognises that such direct interventions are inherently more risky than the pro-market broad-based approach generally adopted in this Strategy. It is therefore important that the effectiveness of such interventions is closely monitored and their impact assessed on a regular basis.

- ***Clearly define State decision making powers and processes in relation to interventions***
  It is important that the decision-making process in relation to direct interventions is made in the public interest, and kept separate from private sector influence. The GoG will develop a publicly available code of conduct in relation to direct intervention decision-making.

- ***Ensure effective oversight, appeal and enforcement systems***
  In view of the inherent risks of direct intervention, it is important that there are checks and balances to ensure the GoG is held to account for the implementation of direct interventions. The Parliamentary Public Accounts Committee will have a key role in this respect.

Summary of activities relating to strategic exports - PSIs

The GoG will –

- **Undertake market-based studies of the constraints operating on each of the PSI sectors**
- **Where appropriate, address the constraints identified in the market-based studies**
- **Undertake studies to assess proposed direct interventions / subsidies for PSI enterprises in accordance with the PSD Policy Assessment Template in Annex E.**
- **Where appropriate, provide direct interventions / subsidies for PSI enterprises.**
- **Develop and publish a rational, transparent and accountable procedure for PSI decision-making for direct interventions, including mandatory use of the Policy Assessment Template**
- **Develop a clear monitoring and evaluation framework for each PSI enterprise including outcome-orientated performance indicators and on-going cost benefit analysis.**
- **Undertake monitoring and evaluation and oversight through the relevant PSDS Technical Working Group and the Parliamentary Public Accounts Committee**
- **Submit quarterly reports on PSIs to the PSDS Technical Working Group and annually to the Parliamentary Public Accounts Committee in relation to progress against performance indicators and on-going cost-benefit analysis.**

[23] This will be the Technical Working Group on enhancing Ghana's position in global and regional markets.

Chapter 5
Output 2: Efficiency and accessibility of national markets improved

5.1 Introduction

This Chapter describes the priority actions that the GoG will take in order to improve the efficiency and accessibility of the market system in Ghana.

Some of these priority actions are most appropriately dealt with under existing and on-going GoG processes and strategies. These are measures in relation to the ***macroeconomic environment***; the ***financial sector***; and ***infrastructure***. This Chapter outlines key issues for the operation of markets for private sector development in each of these areas. The reform process will be taken forward through establishing linkages between the PSD Strategy and the on–going processes to ensure that the vision and objectives of the PSD Strategy are taken on board in their implementation.

In the case of three priority areas – ***public sector reform***; ***commercial dispute resolution***; and the ***land system and property rights*** - the GoG has developed specific activities under the PSD Strategy in order to "fill gaps" in existing processes. This Chapter outlines the scope of the activities in these three specific areas.

5.2 Importance of improving Ghana's market system

The key to achieving the GoG's vision of a world-class business environment is to improve the functioning and accessibility of the market system in Ghana. It is notable that national level constraints (as opposed to international constraints or firm level constraints) come out as high priorities across the board in the GoG's prioritisation matrix in Annex D. This is not surprising - effective national markets have a vital impact on the competitiveness of firms in regional and global markets, and even competent and capable firms need effective markets in which to operate.

The GoG recognises that there are currently a number of very significant across-the board constraints on the operation of markets in Ghana. While it is the case that some local market systems in Ghana function relatively well, the unduly high proportion of entrepreneurial activity that takes place on an informal or semi-informal basis is an indicator of the significance of problems that remain.

The GoG has placed emphasis on broad-based reforms to improve the market system in Ghana for a number of reasons -

To achieve a significant impact on growth

Macroeconomic research suggests that factors that affect the operation of market systems have a direct and significant impact on GDP growth. For example-

- Macroeconomic analysis of cross-country evidence over significant time periods suggests that improved macroeconomic policies have contributed an average of 2.5% to GDP growth per annum, and improved property rights and contract enforcement systems have together contributed an average of 1.5% per annum [24]. Similar research suggests that investment of each additional 1% of GDP in transport and communications increases growth by 0.6% points [25].

- It has been suggested that if countries in Africa had adopted the same broad-based policies as South East Asia just in relation to budget deficits; more market-oriented financial sector policies; and the black market premium in foreign exchange over the period 1960-1988, then Africa would be US$2,000 per person a year richer than it is [26].

- It has been estimated that recent reform of the business licensing system in Kenya added 1% to GDP. All businesses in Kenya benefited from the vastly improved and simplified system; the benefits were not limited to businesses in a particular sector. Similarly, the mal-functioning of Ghana's commercial justice system is likely to be costing Ghana in the region of 2% of GDP (based on estimates in other African countries with similar justice systems)[27].

Across the board reforms of this type clearly have the potential to make a much greater contribution to Ghana's growth than direct GoG interventions in specific enterprises.

To address Ghana's unsatisfactory ratings in international competitiveness and investment climate ratings

Well-known and reputable international country-level competitiveness indices such as the Global Competitiveness Index of the World Economic Forum, and the Heritage Index of Economic Freedom assess national competitiveness by considering the national business environment within which firms operate. Key criteria are economic policies, government efficiency and infrastructure development. Ghana's performance in international competitiveness indices is currently well below that of many African countries (see box 5.1)

Box 5.1 Ghana's performance in international competitiveness and investment climate ratings

Global Competitiveness Index: Ghana's current growth competitiveness ranking is 71st, behind for example Botswana and Tanzania

Heritage Index of Economic Freedom: Ghana's current ranking is 115th, behind for example Botswana (which is 35th); Uganda and Kenya

[24] Keefer, 2000 from William Easterly, The Elusive Quest for Growth, 2001

[25] Easterly and Tebelo, 1993 "Fiscal Policy and Economic Growth: An Empirical Investigation" Journal of Monetary Economics 32 no 2 (Dec)

[26] Easterly and Levine (1997, World Bank) - Quoted in William Easterly, The Elusive Quest for Growth.

[27] Data from DFID for Kenya and Uganda.

To address constraints on the manufacturing sector

It has been suggested that high transaction costs due to the mal-functioning of the market system have a particularly significant impact on the manufacturing sector. This reflects the fact that manufacturing operations involve more inputs and transactions – for example unreliable transport systems mean that factories need to maintain large stocks of inputs to maintain continuity of production[28]. These high transaction costs have a negative impact on the productivity of Ghanaian manufacturing firms.

To address constraints on small businesses

The mal-functioning of the market system in Ghana may have a disproportionate effect on smaller businesses. They are less well placed than larger ones to absorb the additional costs imposed, or to get round the constraint.

5.3 Priority issues

The GoG has identified six priority issues that have a critical impact on the operation of Ghana's market system. These are –

- The macroeconomic environment;
- Financial sector reform;
- Infrastructure development;
- Public sector reform;
- Commercial dispute resolution; and
- Land system and property rights.

As box 2.3 in Chapter 2 above shows, all the priority areas fall under the auspices of existing GoG strategies / ongoing processes.

As has been noted above, it is not the role of the Private Sector Strategy to cut across existing GoG processes and strategies. But the Strategy can provide coherence to GoG's pro-private sector reform process, by ensuring that private sector concerns are mainstreamed in the outworking of processes and strategies.

In addition to taking measures to mainstream private sector development within on-going GoG processes, the GoG has identified three "gaps", where priority issues for private sector development are currently not being addressed by existing processes. These are –

[28] Why has Africa Grown Slowly? Collier and Gunning; Journal of Economic Perspectives, Vol 13, No3 p 3-22 1999

- ***Public Sector Reform*** - need to embed private sector development as a core concern of the public sector reform process, including changing the culture of the public service towards service provision; and focus on core institutions at the front line of service delivery to the private sector;

- ***Commercial dispute resolution*** – need to strengthen access to commercial justice for all businesses; and

- ***Land system and property rights*** – need to strengthen the Land Administration Project to put more emphasis on land rights for small-scale operators; and urgently address key bottlenecks in relation to access to land and site development identified in the recent FIAS Administrative Barriers to Investment Update.

Key issues in relation to each of the six priority areas are outlined below, together with specific activities to be undertaken by the GoG to address them. Fuller consideration of the issues is given where the related activities are designed to "fill gaps", rather than link in with existing strategies. The activities are also contained in the Action Plan in Annex B.

5.4 Macroeconomic environment

Macroeconomic stability is the foundation for private sector development, because it provides a key incentive for entrepreneurs to take risks and invest in their businesses. Private sector stakeholders have recognised that macroeconomic performance has improved in Ghana in recent years. A recent survey of investor perceptions[29] suggested that both domestic and foreign investors in Ghana had generally positive perceptions in relation to Ghana's economic policy.

However, there are a number of critical issues which impact adversely on private sector development.

After serious deficit spending by the previous government, the budget deficit has been reduced – although improvement is still needed. The GoG is fully aware that the current high budget deficits, together with high levels of inflation (currently about 27%) create poor incentives for growth. In addition, excessive levels of Government debt have the effect of crowding out private sector borrowing - one of the key causes of the rationing of credit in Ghana. Addressing this issue is fundamental to addressing the private sector's demand for better access to affordable finance.

Specific fiscal issues for private sector development in Ghana include the desirability of shifting the tax burden away from taxes on knowledge accumulation. (in 2001 taxes on imports – which embody knowledge - accounted for 35% of total tax revenue) and reviewing the costs and benefits of tax incentives.

The PSD Strategy is not an appropriate tool for macroeconomic policy making. This is carried out by way of ongoing fiscal, monetary and exchange rate processes.

[29] Draft Project Report for Comments – National Task Force of the Government of Ghana (funded by DFID and GoG) 13 May 2003

However, under this Strategy, the GoG will take measures to encourage more effective dialogue with the private sector in relation to its macro economic policy-making, especially in the context of the budget process. The GoG recognises that private sector advocacy in this respect can be problematic. Private sector representations can turn into lobbying by larger and more powerful interest groups for special concessions, incentives or tax breaks, rather than on broader issues that would benefit the private sector as a whole. It is important that the GoG structures the discussions with the private sector so that they focus on strategic policy issues.

Summary of activities relating to improving the macroeconomic environment for private sector development

The GoG will –

- **Issue and disseminate widely a pre-budget discussion paper highlighting key macroeconomic issues for private sector development**
- **Form a budget working group with private sector stakeholders (including representatives of small enterprises) for the purpose of consulting within the framework of the discussion paper**
- **Regularly benchmark Ghana's macroeconomic policy environment against other successful developing countries, with regard to its impact on private sector development, and incorporate lessons where appropriate in Ghana's policies.**

5.5 Financial sector reform

Lack of access to finance and high interest rates are identified in nearly all private sector surveys as key constraints on their operations.

The rationing of credit in Ghana must be seen in the light of high levels of GoG borrowing that have the effect of crowding out the private sector. The issues of insecure property rights and weak debt recovery systems (discussed below) substantially increase the risks for lending by financial institutions. Weak debt recovery mechanisms mean that credit information on judgment debtors is very limited. These types of systemic constraints on the operation of markets in Ghana are reflected in the high costs of lending (seen in the large spread between bank saving and lending rates – currently around 20 percentage points) and limited access to finance.

There are also important issues in relation to the structure of the financial sector in Ghana. The financial sector is small in relation to the size of Ghana's economy, and financial deepening is low.

The GoG is addressing many of these issues in its Financial Sector Strategic Plan[30] (FINSSP). Key initiatives in FINSSP include strengthening regulation, supervision and enforcement; liberalisation of the pension industry; promotion of development financing; and restructuring of the Ghana Stock Exchange. FINSSP sets up an implementation framework, which includes a FINSSP Secretariat and working

[30] Ministry of Finance 31 March 2003

committees established within the various regulatory agencies concerned with implementing the Strategy. Performance indicators have been developed and there is provision for consultations with the private sector.

Summary of activities relating to financial sector reform

The GoG will –

- **Continue with implementation, monitoring and evaluation of FINSSP**
- **Include Bank of Ghana and the Association of Bankers in the PSDS technical working group responsible for improving the efficiency and accessibility of national markets.**
- **Identify and agree on a small number of key private sector development targets within the FINSPP programme, which will be jointly monitored under FINSPP and the PSD Strategy.**

5.6 Access to markets: infrastructure

There are significant infrastructure constraints on private sector development in Ghana. A national telecommunications policy is yet to be implemented and inadequate regulation by the National Communications Authority remains a key issue[31]; there are inadequate and inefficient storage facilities at the ports for exports and transhipment goods; a number of feeder roads and some major roads are in unsatisfactory condition; and energy services remain unreliable.

In view of the impact that these infrastructure sectors have on businesses in Ghana, it is vital that private sector development is mainstreamed in the implementation and in the monitoring and evaluation of their Sector Strategies (listed in box 2.3 in Chapter 2 above).

Summary of activities relating to infrastructure development

The GoG will –

- **Include all relevant infrastructure ministries in the PSDS technical working group on improving efficiency and accessibility of national markets**
- **Identify and agree pro-private sector targets and monitoring indicators for each infrastructure programme**
- **Review infrastructure programmes to ensure adequate opportunities exist for private sector engagement in design, implementation and monitoring**

[31] See - Telecommunication Reform in Ghana, Jaggarty, Shirley and Wallsten, World Bank working paper no 2983, Feb 2003

5.7 Public sector performance – Public Service Reform Programme

The success of the GoG's reform programme aimed at creating a market system to facilitate competitive businesses in Ghana is dependant on the performance of the public sector. Almost all the constraints on private sector development identified in almost all private sector surveys and analyses have at their heart Government's administrative system and the performance of the public servants who administer it. Problems exist both at central and local Government level. The unsatisfactory performance of Ghana's public sector has been recently highlighted in the 2003 World Economic Forum's Public Institutions Index[32] for 21 African countries, which ranked Ghana only eighth, behind Tanzania and Botswana.

The GoG recognises the need both to reduce the burden imposed on the private sector by inefficient and inappropriate administrative systems, and to improve service delivery to the private sector. The modernisation of Ghana's public sector and the creation of a facilitative, customer service ethos, with the private sector regarded as key customers, are vital for private sector development. Two particularly important issues in this respect are corruption and the businesses licensing regime, briefly discussed below.

Corruption

Corruption in the public service remains a critical issue in Ghana, despite the GoG's declared policy of zero tolerance. A recent investor perception survey found that two thirds of respondents across almost all sectors felt their activities were negatively affected by corruption. This is consistent with a corruption survey in 2000, which found that unofficial payments regularly consumed 10% of household income, and up to 40% of revenue for many firms[33].

Business licensing

The business licensing regime, particularly at the local level, imposes another key constraint on private sector operations. The issue is both the number and complexity of the system of fees, fines and business operating permits (licences). Although there is limited information readily available about the effects of this regime, it would appear that they combine to form a considerable burden, especially for struggling small-scale enterprises.

For example, the Accra Metropolitan Authority (AMA) 2002 budget lists a total of 43 different fees and fines. Not all operators pay all of these, but they may be subject to several fee categories depending on the nature of their business, such as market fees, road crossing fees, market refuse collection, public toilets, building permits, and night toll collections. There are a total of 90 categories of business operating licenses, which are paid annually. For food outlets alone, there are over eight categories (they include restaurants A&B, chop bars, beer and wine bar, akpeteshie bars, snack, mineral and iced water, and distributors of drinks). AMA's total revenue for 2002 was almost cedi 105 billion, of which approximately half was derived from rates, lands,

[32] World Economic Forum Public Institutions Index Rankings for Africa 2003: World Economic Forum website.
[33] Corruption Survey, 2000 Ghana Centre for Democratic Development (World Bank, CIDA and DFID)

fees and fines, business operating permits and rent on assembly property. There is evidence that the collection of these fees and their non-transparent nature creates rent-seeking opportunities for local authority officials.

The way forward

Over the past decade, Ghana has embarked on a range of public sector reform initiatives intended to improve the efficiency and effectiveness of public service delivery and, *inter alia,* to create a more enabling environment for the private sector. These programmes have included the National Institutional Renewal Programme (NIRP), the Civil Service Performance Improvement Programme (CSPIP), Public Sector Management Reform Programme (PSMRP), National Governance Programme (NGP) and the Decentralisation Programme.

Although these programmes have brought about some positive change, the overall impact has been disappointing, particularly with regard to the quality, value-for-money and scope of services provided by Government, including those provided to the private sector. The Ghana Poverty Reduction Strategy notes that despite a number of significant improvements, empirical observation suggests that the public service overall has no more capacity and is no more effective than it was five years ago[34].

GoG has recognised this shortfall, and has initiated a fundamental review of all public sector reform programmes under the newly formed Public Sector Reform Secretariat in the Senior Minister's Office. The objective of the review is to design and launch a "retooled" PSR programme that will enable a more coordinated, holistic approach to reforms, with a greater emphasis on enhancing service delivery – including service to the private sector.

The review and re-launch of the public sector reform process presents an opportunity to ensure that enhancing the enabling environment for private sector development is one of the core themes of the process. The culture of many public servants needs to change so that they understand that providing an enabling and facilitative environment for private sector development is one of their core roles. Renewing efforts to tackle corruption will be part of this drive.

Mainstreaming private sector development as a key issue in the public sector reform process will involve –

- Ensuring that pro-private sector issues and concerns are properly understood by public servants – particularly those at the "front line" of interactions with businesses. This will involve ensuring that pro private sector service improvement is at the heart of the public service's training programme – and that it is directed at public servants at all levels – from high-level policy makers to clerks who deal with private sector "customers" on a daily basis.

- Using tools such as "customer charters" which clearly set out the service that business (and other) customers of a particular public sector institution can expect – and setting out clear means of redress when things go wrong.

[34] GPRS paragraph 9.1.4.

- Developing and implementing anti-corruption action plans for key private-sector related MDAs;

- Streamlining the public bodies currently involved in promoting private sector development in Ghana on a cost / benefit basis. There are currently 77 Government MDAs involved in private sector development in Ghana. Consideration should be given to whether all the functions performed are priorities and should be continued. If a function is required, it may be that it need not be performed by Government, and may be more appropriately carried out by private sector organisations. At the very least, with 77 organisations involved, it is highly likely that there is scope for savings and more efficient operations by rationalising the number of institutions and by streamlining and focusing these institutions.

- Undertaking a process to reduce "red tape" and bureaucracy – at the national and the local level. Only limited information is currently available about the multiplicity of business licenses, operating permits and fines faced by small-scale operators. The priority is to assess the nature and extent of the problem – and the effect that it is having on the operations of businesses. Reform in this area has the potential for high returns. An initiative in Kenya to reduce the multiplicity of business licences into a single business licence is estimated to have added 1% to Kenya's GDP[35].

- Introducing tools - such as regulatory impact assessments - to ensure that proposed new laws or regulations do not inadvertently impose undue burdens on the private sector. The GoG has a major legislative programme underway. It is important that the impact (e.g. time and cost) of proposed new laws and regulatory regimes on the private sector is understood – before they reach the statute book.

- Undertaking a fundamental review of the on-going commercial law reform effort. It is clear that the commercial law regime in Ghana is far from international best practice[36]. Ghana's legislative framework still dates largely from colonial times. However, there is little understanding of the extent to which this is a real constraint on private sector operations. This may be because enforcement of the laws is weak, so in practice they have limited impact on the operations of business in Ghana. Anecdotal evidence would suggest that key problems in the legal sector relate more to the performance of the courts, and to the difficulties businesses have collecting their debts and enforcing their contractual obligations, than with any fundamental defect in commercial laws. An exception to this may be in relation to "moveable" (non-land) property rights - where complex and outdated procedures make it difficult to use assets – such as stock or machinery – as collateral.

[35] Estimate from DFID.
[36] See for example Update of the Commonwealth Secretariat Report of 1996 entitled "A diagnostic survey of laws affecting private sector development in Ghana: a selective analysis", Feb 2003

Summary of activities relating to the Public Service Reform programme

The GoG will, within the context of the developing "retooled Public Sector Reform Programme –

- **Ensure that private sector development is mainstreamed within the Public Sector Reform programme, and that the "retooled" Public Sector Reform programme to be launched in early 2004 specifically addresses key constraints identified in the PSD Strategy.**
- **Establish clear institutional linkages at the technical level, between the Public Sector Reform programme and the PSD Strategy, through the Legal and Institutional Reform Division of the MPSD.**
- **Design and implement a pro-private sector culture change training programme for public servants (including high level policy makers and "front line" clerks) within the context of the Public Sector Reform Programme training plans.**
- **Develop pro-private sector "customer charters" and anti-corruption action plans for key private sector related MDAs.**
- **Undertake a rationalisation review of all 77+ MDAs involved in private sector development in Ghana, while taking forward priority reforms of key institutions already identified (see below).**
- **Undertake a study to assess the nature and effect of the current business licensing regime on businesses in Ghana, especially MSMEs and develop proposals for streamlining and rationalisation.**
- **Implement the recommendations of the business licensing study.**
- **Develop regulatory impact assessment (RIA) methodology and begin undertaking RIAs for proposed new laws and regulations with a significant private sector impact.**
- **Undertake a fundamental review of the on-going commercial law reform effort and develop proposals for focusing and prioritising efforts.**

5.8 Reform of key public sector institutions

There are a number of specific areas of public sector operations that cause particular problems for the private sector. The GoG has prioritised institutions which require urgent action as -

- The Customs, Excise and Preventive Service;
- The Registrar General's Department; and
- The Internal Revenue Service.

Customs, Excise and Preventive Service

As Ghana seeks to position itself as the gateway to trade and investment in Western Africa, port and customs procedures become critical issues. There have been significant improvements in the operations of the Customs, Excise and Preventive Service (CEPS). Under the Trade and Investment Gateway Project, progress has been made in reducing the number of inspections at the port. The number of intermediate checkpoints on trade routes has been reduced, although not to the target level. Also, an Export Processing Zone unit has been set up at the CEPS headquarters. Despite these encouragements, the GoG recognises that a number of serious issues remain to be addressed. A detailed analysis of the key problems and recommendations for addressing them is contained in the recent FIAS Administrative Barriers to Investment update[37]. Key areas to be addressed include –

- Continued modernisation and improved administrative procedures for CEPS;
- Simplification of destination inspection procedures;
- Comprehensive review of import procedures and information requirements in accordance with best practice;
- Extension of the Ghana Customs Management System to cover exports, warehousing, temporary admissions and transit operations;
- Adoption of appropriate inspection thresholds and risk-based inspections;
- Effective enforcement of rules and penalties;
- Streamlining of export procedures; and
- Reform of the duty drawback system.

The FIAS Report contains detailed recommendations in relation to each of these issues, which the GoG will implement under the PSD Strategy.

Registrar General's Department

The Registrar General's Department administers initial business registrations (business name licensing and company formation), as well as certain on-going filing requirements (in particular under the Companies Code). The challenges facing the Registrar General's Department have been most recently described in detail in the recent FIAS Administrative Barriers to Investment Update[38]. It is clear that there is an urgent need to modernise the Registry. This is important because the functions of the Registrar General's Department have a critical impact on the business environment in Ghana in at least three respects -

- Inefficiencies and delays in initial registration of businesses create unnecessary costs for those businesses wishing to formalise;
- Ensuring proper compliance with on-going disclosure is important for transparency in the business environment. For example, the requirement to file regular returns about a company's status is generally considered to be part of

[37] June 2003
[38] June 2003

the price a company pays for limited liability status[39]. In particular the non-enforcement of the requirement for companies to keep proper books of account has implications for revenue collection – see below;

- Lenders have difficulty finding out information about borrowers. This creates a barrier both to the provision of secured lending and equity finance.

Initial registration is unduly bureaucratic, and can take between 2 and 4 weeks. Co-ordination between the Registrar General's Department and other departments (in particular the Internal Revenue Service) is a key problem. As well as initial registration, an investor requires approvals (or needs to interact with) a variety of other GoG institutions including the GIPC, the Ghana Immigration Service and the Bank of Ghana. Taking all these procedures into account, entry regulation in Ghana takes an average of 126 days (compared with 36 days in Uganda for example)[40].

The effects of the problems in the Registrar General's Department extend far beyond the initial barriers to entry. They impact adversely on the general business climate in Ghana by perpetuating a general climate of non-compliance and non-transparent operations by businesses. The Department is the repository of vital financial and other information about companies. The reality, however, is that in practice the requirement to file much of the information is not enforced, and rarely complied with. Moreover, the process of searching the records to ascertain such information as there is about the status and credibility of potential business partners is time consuming and the outcome is uncertain. Unofficial and extra-legal registration and information retrieval systems have emerged in the Registrar General's office, often supporting the vested interests of individual employees and facilitating corruption.

The GoG will undertake a fundamental review of the current business registration regime in Ghana, and of the most appropriate delivery mechanism for it. The review will consider what is registered and why. It will consider initial registration, as well as the on-going (and almost totally unenforced) obligation to continue making annual registrations and disclosures. It will consider business registration regimes in other jurisdictions - and identify international best practice. Some other countries with initially similar business registration regimes to Ghana's have undertaken fundamental reform in the light of the need to balance appropriate disclosure requirements against the need for transparency. A core theme of these reform efforts has been to reduce the administrative burden particularly on small and medium-sized enterprises. In the light of the findings of this review, the GoG will implement appropriate recommendations of the FIAS report as they relate to business registration.

[39] Which grants individual shareholders protection from the company's creditors.

[40] World Bank Doing Business website. Data set benchmarked to January 2002. The entry data are derived from surveys of the required procedures that an average small-medium sized company needs to go through before starting operation legally The survey examined commercial or industrial firms with up to 50 employees and start-up capital of 10 times the economy's per capita GNI. It counted all procedures (defined as a legal requirement that involve a separate interaction between the firm and an outside entity) required to register a firm. Data also included screening procedures by a set of overseeing government entities – tax, labour related registration procedures; health and safety procedures and environment related procedures.

A review of delivery mechanisms will consider whether registration service could be efficiently and cost effectively supplied by the private sector, or by a semi-autonomous agency. In any event, registration services should be self-financing.

Internal Revenue Service

The tax administration system is a major cause of complaint of businesses. The recent Cost of Doing Business Survey[41] found that the major source of complaint relates to the implementation of the new Tax Code in 2000, which is perceived as having been subject to frequent and unpredictable changes. Clearly, it is necessary to minimize the frequency of changes and to provide clear documentation and explanation to the affected taxpayers. This situation is exacerbated since the Internal Revenue Service (IRS) does not systematically publish and disseminate interpretations of the Code.

Many small-scale operators pay tax to the IRS. Box 5.2 below illustrates some of the problems they face. Small-scale businesses are less well placed than large ones to deal with problems encountered.

It is also clearly the case that many small-scale operators fall outside the IRS system. A recent IRS initiative to widen the tax net found that, on average, only three out of nine small businesses were paying tax in Accra. Many businesses were registered but in arrears on tax payments. During April to June 2003, the number of taxpayers in the Makola area (including the market) increased from 118 to 348. However, the potential for increasing the overall revenue take from informal and formal small-scale operators is unclear. The IRS is currently reviewing its active policy to recruit trade associations to act as tax collectors for their members.

Box 5.2 Paying tax in Ghana

- Miscalculations and 'double taxation' are perceived as common, especially among small-scale businesses.
- Tax assessments are made by IRS staff, but due to incomplete records and lack of receipts, assessments are subject to wide error margins. (Note: This relates to the informal status of many businesses in Ghana and to the lack of enforcement of the requirement on companies to keep proper books of account by the Registrar General's Department).
- Larger operators and the better educated are in a stronger position to reduce their tax bill during interview with the IRS. Smaller operators frequently have a poor idea of their profits and operating costs.
- For those who submit tax returns, the IRS calculates a percentage increase on the previous year's return, which is more closely related to factors such as annual inflation rather than to the details of a specific business's performance.

Source: IRS and interviews with SMEs during June 2003

The GoG will take forward the recommendations in relation to tax administration contained in the recent FIAS report. In addition, it will consider a rationalisation of the tax regime for micro and small entrepreneurs (formal and informal) – including

[41] Bruks Associates, 2002

considering the extent to which it is appropriate to bring informal operators further into the tax regime.

Summary of activities relating to reform of key public sector institutions

The GoG will –

- **Take forward the recommendations in Annex B of the FIAS Administrative Barriers to Investment Update in relation to the CEPS and the IRS.**
- **Undertake a fundamental review of tax policy and administration in relation to micro and small enterprises - especially those operating on a semi-formal basis.**
- **Take forward appropriate recommendations.**
- **Conduct a fundamental review of the business 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.**
- **Take forward appropriate recommendations.**

5.9 Commercial dispute resolution

It is a fundamental proposition in economics that security of property and the enforcement of contracts are essential for investment, trade and ultimately economic growth[42]. These are the basics that must be in place for the market system to operate properly.

Problems in relation to contract enforcement and debt recovery in Ghana have been well described in a recently updated analysis by FIAS and the Commonwealth Secretariat[43]. They include backlogs, delays, the granting of unwarranted injunctions, adjournments, unethical practices, and inefficiencies such as lost files. The problems are not limited to obtaining judgment. Effective enforcement of a judgement is a key problem.

Recent international research[44] suggests that the time taken for a simple debt collection in Ghana is acceptable by international standards, but that slightly more complex cases (such as eviction of a tenant) run into more severe problems. Problems with more complex cases may affect insolvency proceedings in Ghana. Insolvency[45] is the ultimate sanction in debt collection. It occurs when a firm's liabilities exceed its assets. Efficient procedures for insolvency are important because they allow non-viable companies to be closed down, and thus ensure the efficient use of resource. If insolvency procedures are weak and inefficient, non-viable businesses simply linger

[42] Adam Smith – An Inquiry into the Nature and Causes of the Wealth of Nations 1776 (quoted in Courts – Simeon Djankov, Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer, Quarterly Journal of Economics 2003, p 453)
[43] A Diagnostic Survey of Laws Affecting Private Sector Development in Ghana - updated 2003
[44] Courts – Simeon Djankov, Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer, Quarterly Journal of Economics 2003, p 453
[45] Termed "bankruptcy" in the case of individuals and "liquidation" in the case of corporate entities

around, tying up assets as well as human capital, and preventing them from being used productively.

Problems in recovering debts act as a deterrent to both rural and micro finance, as well as for banking and capital markets. A key problem is foreclosing on property pledged as collateral - particularly with enforcing judgements obtained. Banks often prefer personal guarantors, because this has proved a fairly effective and enforceable form of security for loans. However, people have become increasingly wary of signing as guarantors.

As well as affecting both the cost of lending and the availability of credit, poor contractual enforcement procedures are a disincentive to investment and impose additional costs on the private sector. It is likely that the effects of this (as with many constraints on the operation of markets) are felt disproportionately by small enterprises, which are less well placed to absorb the additional costs imposed, or to use their influence to get round the system. There is also important evidence that weak commercial contract systems are restricting business networks in Ghana[46]. This means that people are only prepared to do business with people they trust, because they are worried about the possibility of default. This in turn is a disincentive to firms specialising and growing.

Steps are already being taken under the Legal Sector Reform Programme to address constraints on commercial dispute resolution in Ghana. The most significant of these is the development of plans for a new Commercial Court (part of the High Court) in Accra. This will serve as a "flagship" for the rest of the justice system. Improving debt recovery in the higher courts (the High Court and above) will in particular be of benefit to banks and other formal lending institutions – and will contribute to reducing the costs and risks of lending.

Despite this encouraging development, the GoG recognises that there is an urgent need to consider how to enhance access to commercial dispute resolution procedures for all businesses in Ghana, including those outside Accra. This will include considering appropriate alternative dispute resolution mechanisms and linkages between the formal and informal justice systems.

These initiatives will be taken forward within the context of the developing Justice Sector Reform Programme (which involves the development of cross-cutting reforms to enhance performance of the justice system as a whole, including the Police, Prisons and Courts).

Summary of activities relating to commercial dispute resolution

The GoG will –

- **Develop appropriate structures within the developing Justice Sector Reform Programme to ensure that commercial dispute resolution is mainstreamed within the developing process. This will include involving the private sector in the reform process.**

[46] The Enforcement of Commercial Contracts in Ghana - Marcal Fafchamps, World Development Vol 24 no 3 p 427, 1996

- **Conduct a study on the level of access to justice for businesses in Ghana focusing on MSMEs and develop cost effective solutions to enhance access to justice**

- **Take forward appropriate recommendations within the context of the developing Justice Sector Reform Programme**

5.10 The land system and property rights

The role of land policy in relation to growth and poverty reduction has recently been highlighted in a major international report which concludes that strengthening poor people's land rights and easing barriers to land transactions can result in a wide range of social and economic benefits - including empowerment of women and marginalised groups, and increased private investment[47]. Ghana's comprehensive approach to land policy is identified as an example of best practice (see box 5.3).

Box 5.3 Summary of issues addressed in Ghana's land policy[48]

Reviewing the legal situation with a view to endorsing pluralism
Customary owners control about 78% of the land with the remaining area owned by the State either directly or indirectly. Need to deal with customary land

Weak State administration
The State does not have the institutional presence or resources to assume land administration fully. Implementation is therefore through customary institutions.

Privatising government land that is not required
Government owns urban and peri-urban land that it is unable to develop.

Ensuring security of tenure
Precondition for secure title are systematic registration of allodial (root) title, education of communities, and registration of group members holding a beneficial interest in the land.

Ensuring access to the land
In urban areas the power of compulsory acquisition needs to be curtailed

Restructuring land institutions
Streamlining the current institutional structure.

Implementation of the land policy has commenced under the Land Administration Project. However, land-related issues remain a major constraint on private sector development. Key concerns are well documented (including most recently in detail in the FIAS Administrative Barriers to Investment Update[49]). Key factors that contribute to the slow, expensive and uncertain process for acquiring non-government owned land include -

- Land acquisition procedures are cumbersome and fraudulent resulting in numerous land litigation cases.

[47] National Land Policy, Ministry of Lands and Forestry, June 1999. Summarised in World Bank report Land Policies for Growth and Poverty Reduction – Klaus Deininger, 2003
[48] Draws on Kasanga and Kotey 2001 as described in World Bank Land Report p 180
[49] June 2003

- Poor enforcement of land rights. While multiple sales of the same land are reportedly common, fraud in land dealings is infrequently prosecuted;

- The system of dispute resolution for land rights is inadequate. The adjudication board of the Land Title Registry is not operational. The main recourse is the High Court where extensive procedural delays are the norm. Parties acting in bad faith sometimes file suit or seek injunctions against legitimate holders of land as a means of extortion. However, with the recent introduction of the Fast Track Court, it appears that some land cases are being expedited.

- The dispersion of responsibilities with respect to the administration of land among six distinct departments poses another problem. For example, the Lands Commission has been established for the registration of deeds supporting the ownership of land. There is also a Land Title Registry to certify records on the ownership of surveyed land.

- Inefficiencies in issuing development and building permits by the Town and Country Planning Department. As a result of the delays in issuing permits and poor enforcement of the development and building codes, structures are often erected without permission. The Town and Country Planning department estimates that less than 40 percent of the building projects in Accra have been properly licensed.

These issues have fundamental implications for private sector activity including –

- Lack of formal title to land means that the access of many businesses in Ghana to credit is restricted, as they cannot offer collateral. In practice, particularly in peri-urban locations, informal land sales take place. Although long-term transactions may be recognised by the community, failure to formalise leads to uncertainty, and land acquired in this way is not acceptable collateral.

- The difficulty (length of time, cost and uncertainty) in acquiring clear title to land is a disincentive to investment. (It can take as much as 1 year (average 3 months) to identify a suitable plot of land (outside of the industrial/free zones) and up to 1 year (average 83 days) to obtain land use permission or to rezone.)

- Micro enterprises operating in urban areas without legal title or secure rights to land are sometimes vulnerable to municipal authority actions (for instance, for purposes of using public land, or reducing congestion on roads near markets). "Those operating outside market stalls are the most vulnerable – no doubt the majority of the micro enterprise sector."[50]

Land issues are identified as particularly high priorities in the prioritisation matrix in Annex D. The Land Administration Project has successfully begun implementation of

[50] Steel and Andoh, 2003, p 31

the GoG's National Land Policy. Modernising the system and procedures for registering ownership and securing interest in land (as well as in other forms of property) will be essential for the growth of rural lending and micro credit (as well as for the banking system). In view of the importance of land rights, particularly to small-scale operators, the GoG will consider strengthening the Project so that it has a stronger emphasis on enabling operators in the informal sector to use their assets to grow their businesses and improve their livelihoods. Key issues for further consideration include

- Security of tenure in rental markets;
- Security of title to land in peri-urban areas;
- Strengthening access to justice in relation to land disputes for poor people whose interests may be threatened by the land reform process; and
- Innovative approaches to enhancing access to land titles (see box 5.4 below for an example).

Box 5.4 Access to land title for farmers in India

In Karnataka State in India 200 million land titles pertaining to 67 million farmers have been computerised into an online database accessible from Internet Kiosks throughout the state. Ready access to land titles makes it easier for farmers to obtain credit. The kiosks also provide information about fertilizer use and other agricultural techniques.

Rajeev Chawlla, Special Secretary of Karnataka's Revenue Department presentation to 15th Annual World Bank Conference on Development Economics, May 2003

In addition, it is clear from the recent FIAS report on Administrative Barriers to Investment that there are some critical issues relating to site development and land administration that need to be addressed as a matter of urgency.

Summary of activities relating to strengthening the Land Administration Project

The GoG will -

- **Review the Land Administration Project in the light of the importance of property rights to MSMEs**
- **If appropriate develop new initiatives under the Project, possibly on a pilot basis, to address key issues**
- **Implement the recommendations of the FIAS report in relation to site development and land administration.**

Chapter 6
Output 3: Competence and capacity at the firm level increased

6.1 Introduction

The measures described in Chapters 3-5 above are designed to strengthen the operation of the market system in Ghana at the international and the national level. If the benefits of these measures are to be reaped, the private sector must respond - by enhancing productivity and investment; improving management, technical capacity, and marketing of its products; increasing specialisation; and improving business ethics and corporate governance.

This Chapter addresses the constraints on the competence and capacity of firms in Ghana that may inhibit them from responding in this way, and outlines the GoG's approach to addressing them.

6.2 Nature of firm-level constraints

The fact that many firms in Ghana are very small and are operating at least partially on an informal or extralegal basis means that firm-level constraints are significant. They can broadly be divided into two types –

- constraints due to limited access to finance; and
- constraints due to limited business and technical skills.

6.3 Limited access to finance

Limited access to finance (loan capital and equity) has been identified as one of the major constraints facing Ghana's private sector. The problem is frequently perceived as particularly severe for smaller businesses. In 1995, there was a 2:1 probability that a SME application for a bank loan would be rejected, but a 3:1 possibility for micro-enterprises[51].

However, a study commissioned by NBSSI (1993) found that many small entrepreneurs began with very small amounts of capital and steadily built up their enterprises with only occasional injections of external finance. It may be that the lack of credit is overstated as a constraint, because entrepreneurs tend not to perceive their own internal management constraints.

There is a tiered system of finance institutions in Ghana (described in box 6.1 below), operating under a tiered regulatory system[52]. The commercial banking system reaches only 5 per cent of households in Ghana. With 60 per cent of the money

[51] Aryeetey, 1995
[52] The Banking Act 1989 and the Financial Institutions (Non Banking) Act 1993.

supply outside the commercial banking system, the rural banks, savings and loans companies and semi formal and informal financial systems have an important role to play in the development of many businesses in Ghana.[53]. There is evidence[54] that borrowers who start in the micro finance system and reach the upper loan limit graduate to loans from commercial banks.

Box 6.1 Structure of the Finance Industry in Ghana

Formal financial institutions – as well as banks, these include discount houses, building societies, mortgage finance companies, leasing and hire-purchase companies. These target mostly urban middle income and high net worth clients.

Rural and Community Banks operate as commercial banks; some collaborate with NGOs using microfinance methodologies. Among nine categories of non-banking financial institutions, Savings and Loans Companies are most active in micro and small-scale financial intermediation, using microfinance. Rural and micro finance institutions are considered to be reasonably robust, with relatively little cost in terms of outright failed institutions and lost deposits. However, a key problem is their failure to achieve impressive outreach, especially to the rural poor.

Semi-formal systems include NGOs and Credit Unions. They are registered by the Bank of Ghana. NGOs provide micro finance to poor clients, but mostly on a limited scale.

Informal financial system - this covers a range of activities, known as susu, including individual savings collectors, rotating savings and credit associations, and savings and credit clubs. It also includes moneylenders, self-help groups and personal loans from friends and family.

Source: Rural and Micro Finance Regulation in Ghana – Implications for Development and Performance of the Industry – William Steel and David Andah June 2001 – the World Bank Africa Regional Working Paper Series Number 49

6.4 Limited business and technical skills

The managerial and technical capacity of many entrepreneurs in Ghana remains weak. Key issues include the growing technological gap (including the digital divide), and low rates of productivity. The problems are particularly acute amongst small-scale operators, especially in the informal sector where there are low levels of business skills. There is evidence that many micro operators fail to keep basic records, or understand whether they are making a profit[55].

As is clear from the Prioritisation Matrix in Annex D, there are many on-going initiatives or proposals to address these types of firm level issues. Box 6.2 below highlights some of them.

[53] Steel and Andah, 'Rural and Micro Finance Regulation in Ghana: Implications for Development and Performance of the Industry', Africa Region Working Paper Series no. 49, World Bank, June 2003, p 4
[54] Suggested by the City Savings and Loans Bank
[55] GLSS data shows that the large majority of households give estimates of profits that are negative, and often highly negative (Coulombe and McKay). Although these losses are too large to be credible, the information provided by respondents does at least suggest that they have very little idea of how to estimate profit, even a minimal 'credible' level of profit for the purposes of the survey interviewers.

Box 6.2 Proposed /on-going firm-level initiatives

General business support services
- Provide technical assistance with marketing
- Provide technical and managerial assistance
- Provide training and skills development to enhance human resources

Training / extension
- Link R&D research institutions, universities and training institutions to the private sector
- Assist firms to take advantage of ethical markets
- Provide training on benefits of cleaner production methods and their potential to provide firm-level savings
- Training on quality standards, including weights and measures

Technology development
- Provide incentives / subsidies for R&D
- Review potential for ICT and identify areas for support
- Enhance innovation capacity

Information and networks
- Provide information and advisory services to SMEs on subcontracting and partnerships
- Encourage cluster development
- Encourage linkages between firms, especially primary producers and processing operations

Business ethics
- Develop codes of best business practice for private and State-owned enterprises
- Educate on benefits of good corporate governance

6.5 Firm level issues – the way forward

The traditional response to firm-level constraints has been for the GoG to address them directly. Nearly 40% of existing private sector initiatives addresses private sector issues in this way. Typical interventions include provision of export credit, venture capital, and micro credit, export credit and business support services (including training, consultancy and advisory services, marketing assistance, information, technology development and transfer).

Initiatives to enhance competence and capacity at the firm level can be distinguished from the strategic export-focused direct interventions described in Chapter 4 above. They are more broadly based, and are not necessarily targeted at specific strategic exports.

It is notable that these types of firm-level initiatives do not score well against the criteria set out in the prioritisation matrix in Annex D. In particular the matrix highlights the fact that the provision of finance and other forms of direct business support to entrepreneurs is something that does not have to be done by Government. In fact, there is a risk that by providing these services directly, Government can crowd out provision by the private sector. Box 6.3 below illustrates the fact that highly effective firm-level training and technological transfer can occur without any intervention from Government at all -

Box 6.3 Transfer of garment manufacturing technology from Korea to Bangladesh

In 1979 there were only forty garment workers in Bangladesh. By 1985 there were over 700 Bangladeshi garment companies. Today Bangladesh produces and exports nearly US$2 billion worth of shirts and other ready-made garments each year – 54% of all Bangladesh exports.

The starting point for the development of the garment industry in Bangladesh was the opening of Desh Garments Ltd in Bangladesh in 1980. Desh was locally owned, but entered into a collaborative agreement with the Daewoo Corporation of South Korea, a major world textile producer. Daewoo was looking for a new base to evade garment import quotas imposed on Korea by the US and EU. The quotas did not cover Bangladesh.

Under the agreement between Desh and Daewoo, Daewoo took 130 Desh workers to Korea for training at one of Daewoo's plants. In return Desh agreed to pay significant royalties and sales commissions to Daewoo. The initial training provided to Desh workers was so successful that Desh soon had no further need of the arrangement. They cancelled it after the first year. Production levels increased from 43,000 shirts in 1980 to 2.3 million in 1987.

The benefits extended beyond Desh. Of the 130 Desh workers trained by Daewoo, 115 of them left Desh during the 1980's to set up their own garment export firms. They diversified into gloves, coats, and trousers. This explosion of garment companies started by ex-Desh workers brought Bangladesh its US$ 2 billion in garment sales today.

Source: Summarised from William Easterly, The Elusive Quest for Growth 2001

International experience suggests that there are clear risks of addressing constraints on the operation of firms by intervening directly to address them. Such interventions are frequently not subjected to sufficiently systematic and transparent analysis and justification. They are often perceived as inequitable and inefficient; and can create a climate of lobbying, rather than entrepreneurship

6.6 GoG's approach to firm-level interventions

Market-based approach

The express or implicit justification for governments providing subsidised credit and business support services is often market failure. A market-oriented approach to private sector development assumes that the private sector will respond to business opportunities. However, in some circumstances the market will be so distorted that the response is wholly inadequate or far too slow to be effective. In such circumstances, Government interventions may be able to address market distortions over the short term until broader based reforms can take effect.

In addition, Government clearly has a role to play in relation to public goods such as research and development, and creation and dissemination of knowledge, where it may be appropriate for Government to provide subsidies or other forms of incentives.

Government provision of subsidised finance is a key issue. Access to capital is a major constraint on private sector development in Ghana, especially for medium and smaller businesses. Private sector providers of capital have failed to respond to this need for a variety of reasons, including concerns over debt recovery, underdeveloped capital markets and distortions created by the very high levels of Government borrowing. The sustainable, longer term, solution is to strengthen the legal and administrative framework for debt recovery, develop capital markets and reduce the level of Government borrowing through more prudent public financial management. The argument is that in the mean time, interventions by the State can facilitate access to capital for businesses in priority sectors.

Theory and practice suggests that provision of subsidised credit by governments is highly risky and very unlikely to be effective. Even worse – they can have unintended consequences and create perverse incentives. For example, when loans are provided at below market rate, and become grants because of poor repayment, business and entrepreneurial behaviour and attitudes can be undermined.

There is evidence that government-run credit schemes in which credit is provided at subsidised interest rates has the effect of undermining good repayment performance and sustainability among rural and microfinance institutions. A recent study of small enterprise credit in West Africa found that these kind of supply-led (rather than demand driven) approaches to lending have not worked well.

Based on international experience, there is now a great deal of consensus on best practice in provision of business support services. Key issues include -

- the desirability of supporting viable and sustainable local markets in service provision (e.g. training);
- minimising market distortions caused by the provision of subsidised services; ;
- not crowding out private sector provision; and
- providing clear exit strategies.

By way of example, box 6.4 below summarises some principles of best practice that have been identified from international experience in relation to business development services.

Box 6.4 Business Development Services

The Committee of Donor Agencies for Small Enterprise Development has developed guiding principles for the provision of Business Development Services (BDS) (non financial services).

The ultimate vision for BDS is of a well-functioning market with a diverse array of high-quality services that meet the needs of small enterprises effectively. They are based on a private-sector led, market economy framework that reflects –

- a fundamental belief in the principles of the market economy, where the State has a role in providing an enabling environment, in correcting or compensating for market failures and in the provision of public goods, but not in the direct provision of private goods that can be more efficiently provided by the market;
- the assumption that the majority of BDS are private goods and are thus similar in nature to any other service, so market rules apply; and
- the expectation that with appropriate product design, delivery and payment mechanisms, BDS can be provided on a commercial basis even for the lowest-

income segments of the entrepreneurial small enterprise sector.

The guiding principles include –

- the need for thorough analysis of the market in the service (in terms of market development constraints and opportunities);
- an appropriate choice of demand-side and supply-side interventions in the light of the market assessment;
- avoidance of long term subsidies to the demand or supply of BDS which are likely to distort BDS markets and crowd out the commercial provision of such services: subsidies should be time-bound with clear exit strategies;
- the importance of effective performance measurement and assessment, including on the development of the market in the service.

Effective monitoring and evaluation and impact assessment

Despite the large number of initiatives taking place at the firm level, there is a lack of co-ordinated impact assessment which makes systematic monitoring and evaluation of them difficult. Within the wide variety of schemes developed by donors, NGOs and the private sector there is likely to be scope for lesson learning and identification of best practice. In particular, there is scope for identification and analysis of successful new approaches to addressing constraints at the firm level. Examples may include initiatives to promote ethically certified products; and cleaner production through environmental audits (the latter building on work by UNIDO in Ghana).

Dissemination of information about firm level assistance

There is need for greater dissemination to potential customers about successful initiatives at the firm level. Women especially, possibly due to higher levels of illiteracy and cultural constraints, may be unaware of what services are available.

Summary of activities relating to firm-level interventions

The GoG will –

- **Develop an action plan to phase-out GoG provision of subsidised finance to firms (excepting PSIs).**
- **Implement the action plan - including re-allocating savings.**
- **Develop a "best practice framework" against which firm-level initiatives may be judged including identifying priority interventions where there are market failures.**
- **Undertake an audit of existing initiatives to assess the extent to which they comply with best practice.**
- **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.**
- **Develop a strategy to ensure effective monitoring and evaluation of and dissemination of information about firm level interventions (whether provided by Government, donors, NGOs or the private sector).**

- **Implement the strategy - including identifying an effective provider of monitoring and evaluation and outreach services.**

Chapter 7
Output 4: Government's private sector policy formulation, implementation, monitoring and evaluation strengthened

7.1 Introduction

This Strategy is a major step forward in terms of coordinating the approach of Government, the private sector and development partners towards private sector development. However, private sector development is inherently dynamic. Priorities change over time; new technologies create new opportunities, while changes in international markets and terms of trade can dramatically alter the environment in which the private sector must operate.

In addition to the specific interventions described in the previous three Chapters, the PSD Strategy also supports the systemic strengthening of Government to respond to these challenges. This Chapter sets out the priority actions that the GoG will take in the medium term to strengthen Government capacity to formulate, implement, monitor and evaluate private sector development policy.

The activities described below are reflected in the Action Plan in Annex B.

7.2 Strengthen Government decision making on issues affecting private sector development

Private sector development is a crosscutting and complex issue. There is a vast range of possible actions that Government could take to support private sector development, but there are only sufficient resources for a very limited number. It is important to choose the right actions: Government interventions intended to support private sector development can all too easily have unintended consequences - distorting the market and crowding out profitable, competitive enterprises.

The GoG will -

- develop and implement a PSD Policy Template to screen and prioritise future private sector development policy initiatives; and

- strengthen the private sector focus of Government sector policies

PSD Policy Template

In order to enhance the Government of Ghana's capacity to make effective, pro-private sector and pro-market decisions, there is a need for effective assessment of possible policy initiatives before they become operational. Assessment is needed in the light of their effect on market development, on growth, poverty reduction and social impact. There is also the need to assess their cost, value for money, opportunity cost and the risks associated with them. Policy initiatives may include -

- ***direct Government intervention in a particular sector*** - as in Chapters 4, such interventions are inherently risky, and international experience suggests that success can only be achieved through carefully designed ***"smart interventions"*** as outlined in box 4.2 in Chapter 4 above.

- ***interventions designed to address constraints at the firm level*** – for example provision of micro-finance, or business development services: there are many such interventions already underway, with rather limited overall impact; as discussed in Chapter 6, it is essential to ensure that any future interventions at this level accord with international best practice; and

- ***interventions deriving from donor financed projects*** - it is important to ensure that such interventions are driven by, or at least are consistent with, GoG private sector development policy.

In order to assist the Government of Ghana in this complex decision-making process, a "template" will be used as a tool to assist Government to assess possible initiatives. The aim is to ensure that only those initiatives which are most likely to succeed, and which are affordable go forward.

A draft of the proposed template is presented in Annex E. The template identifies a series of assessment criteria regarding expected benefits, costs, value for money and risks. The template also assesses the level of private sector involvement in the design of the intervention. For each criterion a range of indicators are given which can be used to quantify the extent to which the proposed intervention meets the assessment criteria, and enable an overall assessment score to be awarded.

The template is not intended to be used as a mechanical "checklist", but rather as a guide in the design and development of successful private sector interventions. The template is intended to encourage interventions which as far as possible mimic market based solutions, and therefore minimise market distortions. It can be used iteratively, so that interventions which fail to meet all criteria when first assessed can be modified and then reassessed.

Summary of activities to take forward development of PSD Policy Template

The GoG will -

- **Confirm and agree the format with relevant MDAs.**
- **Establish guidelines and procedures for using the template.**
- **Evaluate the potential cost/benefit of using the template to ensure that it will not impose an unacceptable administrative burden and excessive delay in Government decision making**
- **Test the template by "retro-fitting" against recent interventions – such as**

PSIs – and assess whether the more objective template based decision matches the historical decision taken

- **Pilot the template during a trial period (six months) with 5-10 new policy initiatives from a limited number of MDAs.**

- **Based on experience with the pilot, refine format and procedures, and roll out across Government.**

Strengthen the private sector focus of Government sector policies

The role of the private sector cuts across many other sectors for which Government is wholly or primarily responsible. Government is the largest single purchaser of private sector goods and services in Ghana. The private sector are significant suppliers of health and education services, and Government is seeking opportunities to expand the role of the private sector as a supplier of public services in these and other sectors (including power and roads) through public-private partnerships (PPPs).

PPPs are becoming an increasingly widely used technique internationally for harnessing private sector resources (including capital, technical expertise, and entrepreneurial ability) to the provision of public services. The primary objective of PPPs is to improve the delivery of services to the public, not to develop the private sector - although this may be an incidental result. Generally, PPPs have succeeded where they have drawn on proven, existing, private sector capabilities (for example, private financing for public works in the UK), rather than rely on the creation of new businesses.

The private sector development Strategy will itself play a major role in ensuring that the interests of the private sector are a priority within Government. However, policies and strategies are constantly being developed in other sectors which could have important implications for the private sector. In order to ensure that the priorities set out in the PSD Strategy – and more broadly, the interests of the private sector in Ghana – are adequately represented in this policy development process, the following actions will be taken -

Summary of activities to strengthen private sector focus of GoG sector policies

The GoG will -

- **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, and agreement and monitoring of specific targets for pro-private sector policy formulation.**

- **Undertake regulatory impact assessment for proposed new laws and regulations to ensure they do not inhibit legitimate business activity (further discussed in Chapter 5).**

In addition, the private sector will be given a much more substantial role in developing and monitoring the implementation of Government policies, as discussed in detail below.

7.3 Strengthening the quality and quantity of Government's dialogue with the private sector

The Government of Ghana has established structures for public / private sector policy dialogue. For example, it is a key role of the Ministry for Private Sector Development to take on board private sector issues, and to advocate for the private sector within Government. The Ghana Investment Advisory Council and regular meetings between the Private Enterprise Foundation and Government at the highest level are other examples of important tools in the development of effective, pro-market and pro-private sector government.

These initiatives will be strengthened to ensure that –

- The views of the broad sweep of the private sector are represented to Government (including local Government) as effectively as possible (including the informal sector and micro, small and medium-sized enterprises);

- Private sector advocacy capacity is enhanced (particularly for the informal sector, and currently marginalised groups);

- The dialogue between Government and the private sector is mature – focusing on the development of effective markets, rather than lobbying for direct interventions to support particular firms or sectors.

These objectives will largely be taken forward through integration of the private sector in the institutional structure for the implementation of the PSD Strategy as described in Chapter 8. However, it is not sufficient merely to create openings for the private sector. Experience in Ghana suggests that the private sector often lacks an effective voice, and is unable to advocate effectively. The problem is most acute with the smaller, less well represented business sectors. As a result there is the risk that private sector engagement will be weak or ineffectual, and/or dominated by more powerful, better resourced, large businesses.

To address these constraints, the PSD Strategy will –

- support the creation of **Private Sector Advocacy Challenge Funds** to strengthen private sector advocacy for policy change and service improvement; and

- create a **Service Improvement Responsiveness Fund**, to respond to private sector demands for service improvement.

Private Sector Advocacy Challenge Funds

These advocacy funds will be managed by independent fund managers, and will invite applications from private sector groups for grants for specific advocacy activities. Fund managers would be expected to pro-actively seek and encourage applications from under-represented and marginal groups. Funded activities could include policy studies, seminars, public information campaigns, training and capacity building for business associations, and direct budget support to establish representative groups in sectors or areas where businesses are currently unable to finance such groups from their own resources. Provision of direct budget support would be strictly limited to avoid an unsustainable growth in non-viable representative groups.

A pilot scheme for such a challenge fund is already planned under the BSPS project.

Summary of activities to support private sector advocacy

The GoG will -

- **Support the development and launch of the BSPS challenge fund.**
- **Monitor implementation of the fund and assess impact.**
- **Develop/expand challenge funds based on experience.**

Service Improvement Responsiveness Fund

More effective private sector advocacy should ultimately result in more pro-private sector policies and greater private sector satisfaction with the enabling environment in Ghana. However, it will take some time for advocacy to feed through into tangible results, by which time the credibility of the Government's response to private sector demands may have suffered, and the private sector disengaged from the private sector development process. To address this problem and to build "positive feedback" between advocacy and Government response, it is proposed to establish a quick disbursing Service Improvement Responsiveness Fund (SIRF). The SIRF would provide direct financing on a demand-driven basis to achieve "quick wins", in the delivery of services by the public sector to the private sector, according to private sector identified priorities. A pilot scheme for such a fund is also included in the BSPS project.

Summary of activities to support GoG service delivery in response to private sector advocacy

The GoG will -

- **Support the development and launch of the pilot BSPS SIRF fund.**
- **Monitor implementation of the fund and assess impact; and**
- **Develop/expand the fund based on experience.**

7.4 Undertake strategic monitoring of the Private Sector Development Strategy

To be effective in promoting private sector development in Ghana, the Private Sector Development Strategy must incorporate tools to analyse linkages between inputs, outputs and outcomes. The Strategy therefore includes a strategic framework (Annex A) that will allow this analysis to be made, and be fed through into resource allocation through the medium term expenditure framework and budget processes.

A key element of this framework will be the involvement of the private sector in the monitoring and evaluation process, in order to enhance accountability and transparency.

The framework for monitoring and evaluating the Strategy is discussed in more detail in Chapter 9 below.

Summary of activities for capacity building in relation to monitoring and evaluating the Strategy

The GoG will -

- **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.**
- **With the Private Enterprise Foundation, design and launch a communication strategy for the PSD Strategy, including a simplified popular version of the Strategy, to encourage private sector buy-in, advocacy, and pro-active, effective monitoring.**
- **With the Private Enterprise Foundation, identify and support "private sector champions" to monitor implementation of the Strategy, and hold GoG accountable for delivering results.**

Chapter 8
Structures for implementing the Strategy

8.1 Introduction

This Chapter sets out the institutional structures that will be established to implement, monitor and evaluate the PSD Strategy. The Chapter is structured as follows:

- design principles;
- the institutional structure for initial implementation and proposed enhancements during the medium term implementation of the Strategy; and
- marketing the strategy.

8.2 Institutional design principles

The following principles have guided the design of the institutional structure for the PSD strategy -

Rationalised structures

Ghana suffers from a multiplicity of institutional structures for overseeing and implementing strategies. The PSD Strategy should not add to these unnecessarily. Wherever possible, the PSD Strategy will use existing GoG and private sector structures. Where it is essential to create new structures, effective linkages with existing structures and systems will be put in place, and responsibilities will be carefully defined to avoid duplication.

Linkages to resource allocation

Implementation of the PSD Strategy will only be possible if resources are allocated to deliver PSD outputs. The GoG system for resource allocation comprises the GPRS for setting overall priorities, the medium term expenditure framework (MTEF), which establishes the public expenditure framework for three years ahead based on these priorities, and the GoG budget process which determines detailed annual expenditures for each MDA within the MTEF framework.

The institutional structure for the PSD Strategy must be effectively linked to, and be able to influence, this resource allocation process.

Representation, advocacy and accountability

There must be effective representation of all key private sector development stakeholders, especially the poor and smaller scale enterprises who tend to lack an effective voice in influencing private sector policy. Structures should be receptive to private sector advocacy from a broad range of interest groups, and should enable stakeholders to hold GoG accountable for the implementation of the strategy.

Policy & technical capacity

Structures should provide for sufficient capacity at both policy and technical levels. At the policy level, structures should include key decision makers in GoG and the private sector, with the authority to make and enforce substantive policy decisions, including over resource allocation.

At the technical level, structures should provide for effective consultation between key MDAs and private sector representatives regarding the detailed design and implementation of the strategy.

Clarity of responsibility

Structures should provide clear and unambiguous lines of responsibility for planning, delivery, monitoring and evaluation of the strategy. Structures should reflect the crosscutting nature of private sector development, which will involve multiple responsibility centres for implementation of the strategy, while requiring a common approach to co-ordination and monitoring

Linkages with on-going GoG strategies and processes

Structures will provide for effective linkages with institutions responsible for implementing other GoG strategies which affect the private sector, such as infrastructure and agricultural development, as described in Chapter 2, paragraph 2.5 above.

Dynamic nature of Strategy

As the Strategy is implemented, new issues will come to light, and new priorities will need to be set. Although policy-making is ultimately the responsibility of Government, the implementation structure provides a framework for the private sector to have a key role in on-going policy-making through dialogue with GoG. This will enable the private sector to have an impact on determining key future priorities for action.

8.3 Proposed Institutional Structure

Tackling the huge range of systemic problems on operation of the market system in Ghana will be complex, difficult and costly. Reforms will go to the heart of the way in which Government operates, and will affect the work of nearly every Ministry, Department and Agency.

The proposed institutional structures for the PSD Strategy are set out in Chart 8.1 on the following page. The key features are described below.

Cabinet

Leadership and overall responsibility for the PSD Strategy will lie with the Cabinet.

Private Enterprise Foundation/ "Private Sector Presidential Council"

It is essential that the PSD Strategy is effectively monitored at the highest level, and that the private sector is able to hold the Government accountable for delivering outputs and results. Monitoring and accountability should be as open, transparent and public as possible to clearly demonstrate progress (or lack of it) and ensure full commitment from all stakeholders.

Currently, the most effective joint GoG/private sector structure for providing high level monitoring and accountability is the Private Enterprise Foundation (PEF). In the first instance, it is proposed that the PEF serves this function for the PSD Strategy: i.e. the PSD Strategic framework is to be adopted at PEF sessions as the matrix for assessing whether GoG has delivered on its commitments to creating the Golden Age of Business.

To strengthen monitoring and accountability further, it is proposed that the PEF will be developed into an overarching "Private Sector Presidential Council" (PSPC) which will be the major national forum for GoG/private sector engagement at the strategic and policy level. The PSPC would have a wider ranging representation from all levels of the private sector in Ghana, and the proceedings, decisions and commitments of the PSPC would be open to the public and widely disseminated to encourage commitment and accountability.

The Action Plan in Annex B includes strengthening and capacity building for the PEF.

Private Sector Business Associations

Private sector business associations will be encouraged through their membership of Technical Working Groups (see below) to sensitise their members on the objectives and content of the Strategy, secure their commitment and increase their understanding of their roles and responsibilities. For the PSD Strategy to succeed, the private sector will need to respond to Government initiatives by increasing firm level investment, and improving productivity and competitiveness.

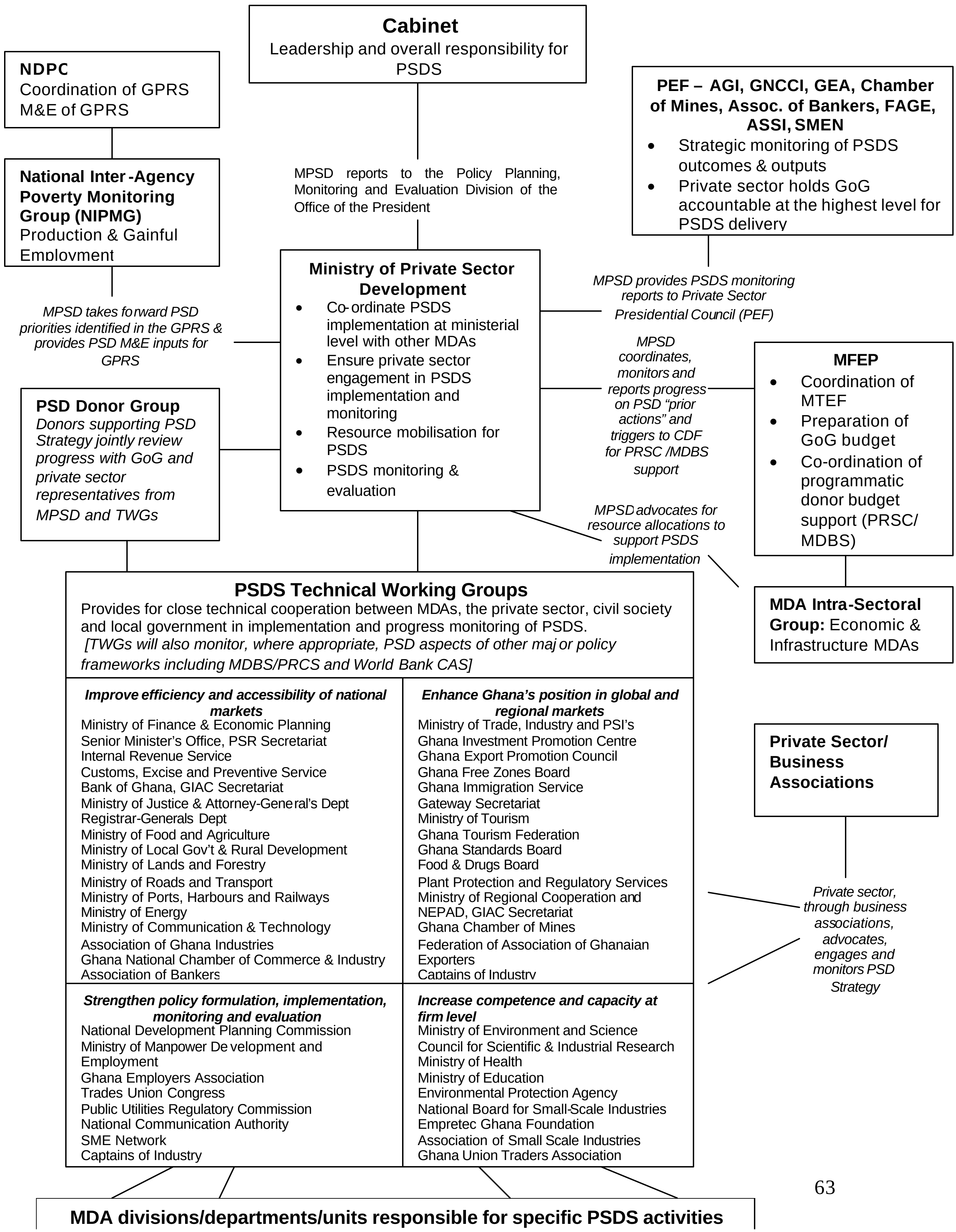
Ministry of Private Sector Development

Reporting to the Cabinet, the Ministry of Private Sector Development will coordinate implementation of the Strategy.

The main functions of MPSD will be:

- communication of PSD Strategy objectives and tasks to implementing agencies, and follow up on progress;
- ensuring effective engagement of key stakeholders, including MDAs, the private sector and civil society in implementation and monitoring;
- mobilising resources for PSD Strategy priorities in the MTEF and annual budget process, through membership of the Economic & Infrastructure MDA Intra-Sectoral Group;
- monitoring and evaluation of the PSD Strategy by the MPSD Policy Planning, Monitoring & Evaluation Division (PPMED), using the strategic

Chart 8.1: Institutional Structures for the PSD Strategy



- framework and PSD outcome and output indicators (see Annex A), including baseline study and impact assessments;
- linking the PSD Strategy to the GPRS, through membership of the National inter-Agency Poverty Monitoring Group, to ensure that developing GPRS priorities are reflected in the Strategy, and to provide monitoring and evaluation reports to NDPC on private sector development aspects of the GPRS;
- linking the PSD Strategy, through the MPSD Institutional and Legal Reforms Unit, with other governance and institutional reforms necessary for an enabling environment for the private sector, including: public sector reforms (the PSR Secretariat, Office of the Senior Minister) and judicial sector reforms (the JSDP Secretariat, the Business Law Division of the Ministry of Justice, National Governance Programme, Office of the President); and
- provide progress reports as necessary to satisfy PSD-related "prior actions" and "triggers" for programmatic donor budget support.

MPSD will require significant institutional strengthening to enable it to deliver these functions successfully. The Action Plan at Annex B sets out specific capacity building interventions.

PSDS Technical Working Groups

The PSD Strategy Technical Working Groups (TWGs) will ensure the engagement in the PSD Strategy of all relevant MDAs, local government, the private sector and civil society. The MPSD will be a member of each of the four groups, in view of its key role in implementing the Strategy. The membership specified in chart 8.1 is preliminary at this stage. As the Strategy develops it may desirable for the membership to alter. For example, as links between the PSD Strategy and FASDEP are strengthened, private sector agriculture representatives will be included (see box 2.4 in Chapter 2).

TWGs will meet monthly or more frequently if required, to monitor progress with each component of the PSD Strategy work plan and to ensure implementation stays on track.

Effective representation from the private sector at the technical level will be essential to the success of the Strategy. Efforts will be made in the initial stages of the Strategy to enhance private sector representation, and strengthen private sector advocacy (details in Chapter 7)

The inclusion of the Senior Minister's Office, PSR Secretariat, is important to ensure that private sector development initiatives are coordinated with public sector reforms. A central objective of the public sector reform programme is to create an enabling environment for the private sector; hence the Public Sector Reform Programme will have a key role in implementing the PSD Strategy.

The Ministry of Local Government and Rural Development will also have a key role in facilitating and coordinating consultation on the Strategy between Government and the private sector at regional and district levels. This will occur through formalised dialogue platforms, which will enable ownership of the Strategy to be consolidated and dialogue to be on-going.

Implementation by MDA divisions/departments/units

The implementation of PSD Strategy activities will be the responsibility of the relevant MDA division, department or unit – as identified in the Action Plan in Annex B.

Implementation may take place as part of normal operations, or within a specific project or programme. In either case, existing structures and reporting lines will remain unchanged, except that the relevant MDA will be required to report through the PSD Strategy Technical Working Group on progress with PSD Strategy activities.

The key step will be to ensure that private sector development priorities are incorporated into MDA strategies and sector programmes, and progress is effectively monitored.

PSD Strategy Donor Coordination Group

Donors supporting the PSD Strategy will be encouraged to form a PSD Strategy Donor Coordination Group to review jointly with GoG and private sector representatives' progress with implementation of the Strategy. This Group is discussed further in Chapter 10.

8.4 Marketing the Strategy

For these institutional structures to be effective, all stakeholders will need to understand the objectives of the strategy, and be committed to its success. They will need to be clear as to their roles and responsibilities, and the processes by which they can successfully bring about change.

For this reason, it will be necessary to market the Strategy during the launch phase. A key tool for doing this will be the dissemination of a "popular" version of the Strategy[56]. As noted above[57], business associations will have a key role to play in marketing to their members, as will traditional chiefs and the media, who can address cultural and attitudinal problems that hinder growth of the private sector. Within Government, the Cabinet will lead by making a public commitment to the Strategy, and MPSD will back this up with a series of presentations to key Ministries.

The Action Plan in Annex B contains activities in relation to marketing the Strategy.

[56] Discussed at paragraph 7.4 in Chapter 7.
[57] In paragraph 8.3 in Chapter 8.

Chapter 9
Monitoring & Evaluation

9.1 Introduction

Monitoring and evaluation (M&E) are essential processes in the implementation of any strategy or programme. Monitoring involves setting targets, and measuring progress towards these targets. Evaluation assesses whether the progress made is achieving the desired objectives. These disciplines enable all stakeholders - implementers, financiers and beneficiaries – to share a common vision of the strategy and objectively assess its impact.

Well-designed and implemented M&E processes will make a major contribution to the success of the PSD Strategy, and will help overcome institutional bottlenecks and administrative delays by enabling problems to be clearly identified at an early stage and remedial action taken. More fundamentally, M&E will enable Ghana's investment in private sector development to be justified in terms of the results achieved, and should create a "virtuous circle" of further pro-private sector reforms.

This Chapter sets out:

- the objectives of ***monitoring & evaluation*** for the PSD Strategy;
- the proposed ***institutional framework for M&E*** for the PSD Strategy;
- ***monitoring indicators and monitoring instruments*** for the Strategic goal, purpose and outputs, designed to provide feedback on the economic, financial and poverty impact of PSD Strategy interventions; and
- proposals to ***enhance private sector PSD Strategy monitoring***

Activities in relation to monitoring and evaluation are set out in the Action Plan in Annex B.

9.2 Objectives of Monitoring and Evaluation

The objectives of monitoring and evaluation of the PSD Strategy are to:

- measure progress towards the goal, purpose and outputs of the Strategy;
- evaluate progress against specific time bound targets;
- provide timely, accurate and useful information to stakeholders on the status of implementation;
- provide a basis for making informed decisions on the future direction of the Strategy, and in the development of private sector development policy;
- provide a consistent framework within which progress on all key private sector development initiatives can be assessed, compared and coordinated;

- reduce the potential for overlap and duplication through parallel monitoring of private sector development initiatives (including donor projects), and enable economies of scale to be achieved e.g. private sector surveys addressing all private sector development constraints rather than separate surveys addressing specific issues such as corruption or commercial justice;
- provide an entry point for private sector involvement in monitoring and therefore in prioritisation and resource allocation;
- assess the impact of specific private sector development interventions, and provide data for the design of new interventions; and
- establish and monitor pro-private sector indicators in programmes which are not primarily focused on private sector development but which have a major role to play in creating an enabling environment (e.g. public sector reforms).

9.3 Institutional Framework for Monitoring & Evaluation

Monitoring and evaluation is integral to the institutional structure for implementation of the PSD Strategy, which is described in Chapter 8. The key M&E institutions are:

Policy Planning, Monitoring & Evaluation Division (PPME) of MPSD

MPSD/PPME will be responsible for coordinating all M&E processes for the PSD Strategy, including:

- development of monitoring indicators and identification of suitable monitoring instruments (based on those set out in the Strategic Framework in Annex A);
- commissioning baseline and follow up studies;
- commissioning impact assessments of specific interventions;
- ensuring sufficient and appropriate pro-private sector indicators are included in other relevant projects and programmes, and that these feed into private sector development monitoring;
- ensuring engagement by key stakeholders – including the private sector and other relevant MDAs – in the private sector development M&E process;
- providing M&E reports to key policy and strategy fora, in particular the GIAC, programmatic budget support (PRSC/MDBS) reviews and donor private sector development projects; and
- providing M&E inputs for all private sector development aspects of the GPRS.

The Private Enterprise Foundation

The Private Enterprise Foundation (PEF) will provide strategic and policy level monitoring of the Strategy, bringing together Government and the private sector at the highest level to assess progress against key private sector development indicators every six months. The role of the PEF will be developed to enhance the openness and transparency of its proceedings, to foster greater public accountability for progress towards PSD Strategy objectives.

Private sector representation on the PEF will also be reviewed to ensure that it is fully representative of all levels of the private sector in Ghana, including informal and small scale enterprises as well as large businesses and international investors.

Over the medium term, it is proposed that the PEF is transformed into a broader based "Private Sector Presidential Council" which would be the overarching joint GoG/private sector body for developing and monitoring private sector development policies.

The PSDS Technical Working Groups

The PSD Strategy Technical Working Groups (TWGs) will bring together representatives of all private sector development stakeholders at the technical level from MDAs, the private sector and civil society. As well as coordinating the implementation of the PSD Strategy, the TWGs will play a key role in monitoring progress with specific private sector development activities. The business association members of the TWGs will have a particularly important role in ensuring that the Government is held accountable to the private sector for progress with the Strategy.

The TWGs will be the main fora at which the MPSD Policy Planning, Monitoring and Evaluation Division co-ordinates private sector development M&E activities, including development of indicators and monitoring instruments, with other MDAs and programmes.

MDAs/Other programmes

Many PSD Strategy activities will be implemented by other MDAs, as part of their routine activities or under other programmes. M&E indicators should already exist for all such activities, though they may not be specifically pro-private sector. Working with the Ministry of Private Sector Development, through the Technical Working Groups, suitable indicators will be identified and/or developed as necessary. Existing monitoring instruments will be used wherever possible; for example, by adding private sector development related questions to an existing monitoring questionnaire.

In this way, MDAs and other programmes should be able to provide M&E inputs for the Strategy with minimum additional work and disruption.

9.4 Performance indicators and monitoring instruments

The key to successful monitoring is to have a clear understanding of the intended goals and objectives of the programme. These are the verifiable basis for evaluating success; for assessing the reasons for any over or under achievement; and for developing changes to objectives or to implementation priorities. A Strategic Framework for the PSD Strategy, which explicitly sets out its goal, purpose and outputs, has therefore been developed (Annex A).

The Strategic Framework also sets out the performance indicators which will be used to assess progress towards the goal, purpose and outputs, and the monitoring instruments which will be used to gather performance data.

Performance indicators

The performance indicators elaborate the PSD Strategy objectives in terms of quantity, quality, time and place. They focus on important characteristics, defining performance standards, specifying evidence of achievement and providing the basis for monitoring and evaluation.

Many of the activities essential for the success of the PSD Strategy will be implemented under other programmes; in particular key infrastructure reforms (such as roads, energy, communications, financial services) under Output 2. While not detracting from the established sector responsibilities for implementing these other programmes, the PSD Strategy provides a holistic pro-private sector framework within which they can be prioritised, coordinated and monitored. A critical element of this framework will be the development, together with sector MDAs and the private sector, of pro-private sector monitoring indicators which are common to the PSD Strategy and the sector programmes.

The methodology for developing the indicators needs to be flexible, to reflect the fact that the PSD Strategy is a living document, that priorities under it are likely to change through time, and to build on successful interventions and modify less successful ones. The development and validation of monitoring instruments will be a key task of the MPSD Policy, Planning, Monitoring and Evaluation Department -

- **Development of indicators** – this strategy document proposes indicators for the PSD Strategy goal, purpose and outputs. Once these are validated and adopted, the development of process indicators in relation to the activities under each output area should be considered.
- **Validation of indicators** – this stage is essentially about political buy-in. Ownership of the goal and purpose of the Strategy by implementing MDAs and programmes will lay the foundations for its successful implementation. Consolidating ownership and understanding of the linkages between poverty reduction (and the achievement of GPRS goals) and private sector development will be a critical part of this buy-in. At the output level, the indicators developed for the PSD Strategy will need to be "sold" to implementing bodies and existing programmes and agreement secured both to incorporate the pro-private sector indicators into existing monitoring programmes, and to participate in the PSD Strategy monitoring process (through the PSD Strategy Technical Working Group).
- **Adoption of indicators -** Existing programmes and initiatives will in some cases need to be amended and re-focused to take on board new pro-private sector indicators.

Monitoring instruments

Proposed monitoring instruments in relation to each performance indicator are set out in the logical framework. Identification of monitoring instruments is important, because to be useable, indicators must be based on obtainable data. Means of verification must exist that are available, reliable, practical and affordable.

The aim has been to rely on more than one data source for each indicator. Relying on just one type of information – for example, national statistics - may give a distorted picture. Where possible, a variety of sources, such as user surveys and third party reports have been included. Third party reports have the advantage of giving additional credibility to the monitoring process.

As far as possible, in order to ensure cost-effective data collection, it is proposed that monitoring instruments that are already in existence should be used for PSD Strategy monitoring. The aim should not be to impose a new monitoring regime, but to link in with on-going processes.

9.5 Enhancing the role of the private sector in monitoring & evaluation

Private sector involvement is critical for the successful monitoring of the outcomes and impact of the PSD Strategy. The proposed institutional framework (see Chapter 8) therefore entrenches the role of the private sector through the Private Enterprise Foundation and the PSD Strategy Technical Working Groups. The Action Plan (Annex B) includes the institutional strengthening of the PEF to enable it to fulfil this role.

However, there are serious, more general, constraints on the ability of the private sector to engage effectively in monitoring the implementation of private sector development policies. These include -

- limited awareness about the aims and intended impact of private sector development policies amongst the private sector: policies are perceived as too abstract, unfocused and un-prioritised;
- limited capacity of the private sector to participate in the monitoring process;
- a perceived lack of commitment by GoG to genuine, meaningful, reform;
- multiple, overlapping structures for policy debate and monitoring;
- problems with the lack of developed policy or appropriate activities under some components (e.g. trade policy);
- lack of sufficient developed monitoring indicators or targets against which to measure progress;
- very limited ability to enforce implementation of private sector development policies, or to take action where there is no implementation – therefore perceived lack of any tangible gain to the private sector;
- lack of sufficient linkage to budgeting processes and therefore inability to influence resource allocations.

The institutional structure for implementing and monitoring the PSD Strategy will address many of these constraints. In addition the measures described in paragraphs 7.3 (Chapter 7) in relation to private sector advocacy; and paragraph 8.4 (Chapter 8) in relation to marketing the Strategy will have the effect of -

- raising awareness of the PSDS amongst private sector stakeholders;
- strengthening the confidence of the private sector in the efficacy of the PSD Strategy process; and
- augmenting the private sector's capacity to effectively participate in the M&E process.

Chapter 10
Financing the Strategy & ensuring effective development partner coordination

10.1 Introduction

The PSD Strategy incorporates a wide range of activities that cut across many sectors. Many of these activities have financing arrangements in place under existing programmes, for example in the roads and energy sectors. The PSD Strategy will not provide direct financing for these programmes[58], but will seek to influence resource allocation towards private sector priorities in sector programmes through the MTEF and annual budget process.

Financing is required under the PSD Strategy for "core" PSD Strategy activities which are not financed under other programmes; these activities are costed in the Action Plan in Annex B.

This Chapter sets out –

- how the PSD Strategy will be financed; and
- how development partner support to all PSD Strategy activities - both core and those financed under other programmes - will be coordinated.

10.2 Need for Development Partner Financial Support

The Government of Ghana is committed to implementing the package of reforms contained within the PSD Strategy, which it is expected will make a substantial contribution to improving the environment for the private sector in Ghana and result in increased economic growth.

However, the severe resource constraints faced by Government mean that these reforms can only be implemented with external support.

10.3 Level of Support Required

Annex B sets out the costed action plan for the PSDS over a 5 year period, commencing 1 January 2004. The total projected cost of the Strategy, in excess of recurrent financing support provided by GoG, is estimated to be US$20million. However, it should be noted that, although activities have been costed in detail for the first two years of the plan, estimates for the latter years are very approximate. To a large extent, the scope of activities in the second half of the plan will depend on the

[58] Except possibly to a limited extent through the proposed Private Sector Service Improvement Fund – see Chapter 16

success of the reforms launched earlier, and in particular the extent to which policy reforms are adopted and implemented by Government. There is therefore considerable scope for expansion of the budget to broaden the range and depth of reforms implemented in the latter stages of the plan, if initial successes are achieved and additional donor support is available.

10.4 A Programme Approach

Historically, donor support for PSD has been provided through donor-financed projects. Although such projects have successfully addressed some specific institutional problems, the approach suffers from several drawbacks –

- it is difficult or impossible to prioritise reforms supported by a multitude of separate projects;

- it is very difficult to schedule project activities to take into account inter-dependencies, and prevent overlapping or even conflicting interventions;

- different donors have different project management and reporting requirements which impose an excessive administrative burden on Government; and

- parallel management and financing arrangements for donor projects divert resources away from Government systems and undermine attempts to strengthen Public Service management structures.

Because of these drawbacks there is a general movement towards a "programme level" approach to the provision of donor support. The programme approach is being developed in several sectors in Ghana, and offers major advantages in terms of better co-ordination of donor and Government inputs, clearer and more effective prioritisation of interventions, and simplification and greater clarity of management and reporting arrangements.

The Government wishes to adopt a programme approach with donors interested in supporting the PSD Strategy, rather than develop a series of separate projects. In order to adopt a programme approach it will be necessary for donors and Government to share a common understanding of programme objectives, and agree upon the prioritisation of planned interventions. The PSD Strategy document should provide the basis for this understanding and agreement.

10.5 Financing Options

There are basically three options for providing donor financing under a programme approach.

The first option is for the various donors involved in supporting the Strategy to finance activities or components on a bi-lateral basis. Financing would thus be on the basis of the GoG's agenda, as set out in the Strategy document, and co-ordination of donor funding would be provided through the implementation structure set out in Chapter 8. However, this approach has many of the disadvantages set out above, in particular the need for the GoG to comply with multiple reporting and accounting procedures.

The second option is for donors to contribute to a donor "basket fund" in which donor contributions are pooled, and used to finance Strategy activities. Special unified accounting and reporting arrangements would need to be established for the basket fund, which must be agreed upon by all donors supporting the fund.

The third option is for funds to be routed through the Government system as budget support, using the Multi-Donor Budget Support (MDBS) approach. Under this option, donor financing is provided directly to the Government as budget support, on the understanding that specific Government expenditures will take place. Programme expenditures are budgeted, disbursed and reported under regular GoG systems, although additional auditing and reporting requirements may be agreed by Government and supporting donors. Some donors may be prevented by their own rules and regulations from adopting this budget support approach.

10.6 Preferred Approach: Phased Transition to Budget Support

Ultimately, it is the Government's intention that all development partner support should be provided as budget support to minimise disruption to the Government's own systems, and enable prioritisation of expenditures across all sectors within a single budget.

However it is recognised that there will need to be a phased transition towards budget support. Although they are being substantially strengthened, Government systems for allocating resources and controlling expenditures are still imperfect. Budget commitments to finance complex, cross-cutting interventions such as those necessary for private sector development may go unfulfilled, when more immediate demands – such as salaries for teachers – have to be met. In addition, there are certain activities within the strategy – for example support to private sector advocacy – where it might not be appropriate for Government to be the main financing channel even if robust budget support systems were in place.

It is therefore proposed that "basket funding" is adopted as the main financing mechanism for the PSDS over the medium term. Transition to full budget support can take place when private sector development priorities are mainstreamed in GoG policies, and can therefore be reliably financed through the regular budget process.

In the short term, a limited amount of direct donor project support will be necessary to launch the PSD Strategy, and set up basket funding arrangements. Existing donor private sector development projects will continue using established financing mechanisms, but management and coordination of these interventions will be brought within the PSD Strategy framework. When projects are reviewed, donors will be encouraged to route future support through the basket funding mechanism.

10.7 Co-ordination of Development Partner Support

Regardless of the financing method, all donor supported private sector development activities should henceforth be coordinated within the framework of the PSD Strategy. It is proposed that a PSD Strategy donor coordination group be established, for all donors supporting or planning to support PSD activities, regardless of the financing method. This Group would have the mandate to develop basket funding arrangements for those members who wish to use this financing route, within a common coordination framework for all development partners (see diagram 8.1 showing institutional structures for the PSD Strategy, including PSD donor group).