Private Sector Assessment

A Pilot Exercise in Ghana

Samuel Paul

Reform of Ghana's macropolicies has helped to create a more favorable business environment and a "level playing field" for the private sector. At this point, instead of further refining its policies, Ghana should begin strengthening the institutions to implement them, and improving the channels of communication between government and the private sector.
This private sector assessment of Ghana — confined to Ghana’s industry sector because of limited data — concludes, among other things, that:

Reform of Ghana’s macropolicy environment has helped to create a more favorable business environment and a “level playing field” for the private sector. Reforms have reduced entry barriers (except in labor) and encouraged greater competition in the industry sector. Much remains to be done, but important steps have been taken toward improving communications and transport infrastructure.

Important institutional constraints remain, however. At this juncture, instead of further refining its policies, Ghana should establish a priority of strengthening its institutions and its capacity to support long-term private sector investment and production. Institutions to provide support services to the private sector — including credit, technology acquisition, investment promotion, adaptive research, training, and quality control — are weak in Ghana, and the policies to strengthen them must be thought through.

In particular, Ghana needs new institutional mechanisms for mobilizing resources and for improving the availability and allocation of credit. The current credit squeeze has favored short-term trading operations over long-term investment — and prospects for genuine long-term investment seem bleak. The lack of credit for new, small- and medium-scale entrepreneurs is the single most “felt” constraint on Ghana’s private sector.

Incentives for private investment have been strengthened but the investment approval process must be speeded up and prior laws and regulations must be revised and brought in line with the new code. The case for reducing the Investment Code’s bias toward capital-intensive investments, for example, should be reviewed.

The government must learn to communicate new policies and decisions fully to potential investors — whose confidence in Ghana’s stability and policies remains a problem, partly because of inadequate dialogue between the private sector and the government.

Donors should focus more on core support and on the long-term actions needed for institutions to grow and survive.

Several steps go into a full scale private sector assessment:

- An overview of the nature and scope of the country’s private sector.
- A review of the policies, laws, and regulations affecting the sector(s) to be assessed — and of the capacity of the public institutions responsible for planning and implementing them.
- An assessment of the operating legal system and practices that affect the private sector (this was omitted for this assessment).
- A review of the private sector’s common service institutions and of its channels for dialogue with the government.

This paper is a product of the Public Sector Management and Private Sector Development Division, Country Economics Department. Copies are available free from the World Bank, 1818 H Street NW, Washington DC 20433. Please contact Ernestina Madrona, room N9-061, extension 61712.

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SUMMARY OF FINDINGS AND RECOMMENDATIONS

* This paper reports the findings of an assessment of the constraints on the private sector and the directional changes required for its development in Ghana. The exercise was a pilot test of the approach proposed in the *Initiating Brief on Private Sector Assessment* (CECPS, 1987). It was planned as a low cost effort (17 staffweeks) to be completed in six months. In view of data limitations, the assessment was confined to the industry sector of Ghana.

* Judged by the criteria of the shares of GDP and employment, Ghana's economy is dominated by the private sector in spite of the rapid expansion of the public sector since the 1960s. Very little, however, is known about the performance of the private sector due to severe data limitations.

* Recent policy reforms in Ghana have created a more favorable business environment and the foundation for a "level playing field" for the private sector. Important steps have been taken to restore private sector confidence in the economy. The incentives for local and foreign private investment have been improved, and guarantees against expropriation have been put in place through a new investment code. Inspite of these improvements, however, government-private sector dialogue remains a weak spot in Ghana.
In general, the private sector in Ghana is likely to be held back more by institutional constraints than by policy inadequacies. While the Government has done much to remove the key policy constraints inhibiting overall private sector development, institutional constraints in the financial sector and the lack of support services to the private sector in important respects remain serious problems. It is also clear that new and small scale enterprises are hurt more severely by these constraints than established and large scale enterprises. At this juncture, Ghana's priority should be to strengthen its institutions and implementation capacity to support the private sector rather than to further refine its policies.

The most severe constraint on the private sector in Ghana pertains to **credit availability and allocation** to the formal manufacturing sector. To a large extent, this problem reflects the short-term conflict between the objectives of stabilization and growth. In terms of action, therefore, the first priority should be to reform the financial institutions and credit policy so as to augment the supply of resources for long-term investment and production. The small scale subsector whose access to the formal credit system remains limited deserves special attention in this regard. The speedy development of indigenous business enterprises will require new institutional mechanisms and facilities to ensure efficient and equitable access to credit for the small and medium scale local entrepreneurs.
The implementation of the new investment code has been hampered by a failure to realign existing laws, regulations and institutions with the provisions of the code. Complex regulations administered by multiple agencies are a particular constraint on the small and medium scale industries. Thus, a further priority is the earliest possible elimination of the regulatory impediments, both formal and informal, inhibiting new investments. The starting point here should be to review earlier sector-specific legislation governing certain ministries which continue to conflict with the Code. Based on this review, such legislation should be abrogated or amended so that the processing of investment approvals can proceed smoothly. Immediate steps should also be taken to strengthen the Ghana Investment Centre's (GIC) capacity for investment promotion both locally and abroad. The GIC should be encouraged to utilize the assistance offered by the Bank and the Irish Development Authority to meet these needs.

The new Investment Code has now been in operation for about three years. The third priority action in support of the private sector is to review its provisions and regulations together with those relating to relevant ministries (e.g., Industry, Agriculture including Fisheries, Trade, Transport, Tourism, NRS, etc.), in order (i) to identify the sections of the Code which require amendments or subsidiary legislation so as to improve the processing of investment proposals, and (ii) to revise the Code and its regulations in light of the findings. This review could
be used also for modifying the nature and scope of incentives.
For example, the case for reducing the Code's bias in favor of
capital intensive investments could be re-examined in the course
of the review; the relevance of some of the incentives in light of
the recent tax and tariff reforms also needs to be reviewed.

* The assessment of the individual institutions presented in this
report is based on existing documentation and very limited
fieldwork. Several public institutions are identified as critical
to private sector development. The next and very important step
is to assess their institutional capacities and to strengthen them
to play their redefined roles. The fourth priority, therefore, is
to complete a systematic assessment of the key public institutions
(building on existing studies where available), and to propose a
phased plan for their reform. The plan should include a
redefinition of the objectives of each institution, the redesign
of their tasks and organization structures, the elimination of
superfluous functions, and proposals for their staff development.

* The public institutions discussed in this report are unlikely to
become strong and useful aids to the private sector unless an
integrated view is taken of their long-term needs and the
strategies for their development are carefully planned and
supported. The fifth priority, therefore, is to encourage donors
to take a long-term view of the needs of the key public
institutions concerned. Sustainability of institutions should be
the primary criterion for donor assistance. In the past, donors, including the Bank, have offered piece-meal support to these agencies for activities of special interest to them. Donor strategy should now focus more sharply on the core support and long-term actions required for the survival and growth of the institutions.

* Barriers to entry and exit which stem from the less visible, "informal" regulatory constraints in Ghana deserves careful attention. There is evidence to show that the labor market, in particular, suffers from this malady in contrast to product markets which have moved more decisively towards liberalization. A systematic assessment of the impact of the labor market's regulatory framework on the private sector and of the reforms required to improve the functioning of this market is in order.

* The existing three private sector associations should be encouraged to set up suitable institutional mechanisms to undertake serious studies of their common problems and to use them to dialogue with the Government. There is a case for developing their capacity to play a proactive role in this area, especially in the absence of autonomous policy research institutions. One option is to set up a private foundation under the auspices of the associations and finance it through industry contributions. Research and publication activities could then be organized through the foundation. This will enable the associations to tap
the expertise available in the country and to undertake studies on current policy issues and disseminate or use their findings to influence policies of relevance to the private sector. Private sector-government dialogue should be seen as an important part of the process of building up private sector confidence in Ghana.

* Small scale industries should be encouraged to establish their own association for collaborative action and dialogue with the Government, and to provide information and advisory services to members in different regions. At present, there is no forum for the small scale entrepreneurs to get together and to make their voice heard by the Government. An association of small scale industries, as and when created, will also need to have a regional presence as its members will be located in different parts of the country.

* The Ghana exercise confirmed the usefulness of the approach and guidelines proposed in the *Initiating Brief*. Among its methodological implications for such assessments in other countries are the usefulness of separate working groups for different segments of the private sector if a comprehensive assessment is envisaged, the importance of the government's interest and cooperation in the exercise, and the key role of private entrepreneurs and managers as a source of data and ideas for action. The Bank's considerable economic and sector work on Ghana made it possible to complete the assessment at low cost in spite of the data limitations encountered in the field.
PRIVATE SECTOR ASSESSMENT:

A Pilot Exercise with Respect to Ghana

The purpose of this paper is to report on an assessment of the private sector in Ghana which was undertaken by the Public Sector Management and Private Sector Development Division (CECPS) during FY88. The rationale of this pilot exercise is twofold: First of all, given the vastness of the private sector in many countries, it is necessary to test the concept of private sector assessment in the field in order to set limits to its scope. Second, a pilot effort is useful to generate experience in conducting the assessment with speed and economy. In general, this exercise has followed the approach and methodological guidelines proposed in *Private Sector Assessment: An Initiating Brief* (See Annex 1 for details).

The first six sections of the paper deal with different aspects of the assessments of the private sector in Ghana and the findings of the exercise. Section I of the paper outlines the objectives and scope of the assessment exercise, and the reasons for the choice of Ghana for this pilot effort. Section II provides a brief overview of the private sector in Ghana based largely on the work of a local consultant commissioned for this
purpose. Ghana's policies, laws and regulations affecting the private sector, its public institutions relevant to private sector development, and its private sector institutions for collaborative action and dialogue are then assessed in Sections III, IV and V, respectively. All of these interrelated components are examined with special reference to the industry segment of the private sector which is the focus of the detailed assessment. The conclusions of the exercise are presented in Section VI. Some of the methodological lessons of this exercise and their implications for private sector assessments elsewhere are discussed in the last section which will be of special interest to those who wish to undertake or fine private sector assessment in other countries.

I. The Objectives and Scope of Private Sector Assessment

Private Sector Assessment (PSA) is a form of sector work which could provide useful insights to country governments with a strong interest in private sector development (PSD). If countries seek external assistance for PSD, the Bank's Country Departments may use PSA as a tool to assist interested governments in the formulation of country strategies for PSD. A strategy for PSD should be firmly grounded in a careful assessment of the constraints on the private sector and a sound understanding of the feasible options and the resources required to promote its development. In general, PSA is designed to achieve the following objectives: 1/ (1) to provide an overview of the nature and scope of the private sector in the selected

1/ PSA Initiating Brief (Annex 1) p. 6-7.
country, as a basis for choosing priority areas or issues pertaining to the private sector for detailed diagnosis; (2) to identify the strengths and weaknesses of the totality or selected segments of the private sector depending on the outcome of (1) above; and (3) to suggest the directions for change and possible approaches to strengthening PSD in light of the foregoing diagnosis. The extent to which each of these objectives is achieved through PSA will depend very much on the scope of the exercise and the resources, skills and time available to complete it.

Private Sector Development is sometimes viewed as pertaining to the realm of organized industry and commerce alone. From a national perspective, it is appropriate to broaden the scope of the exercise to include all areas or sectors of activity in which private initiative and participation have a useful role. In most countries, the private sector has relevance not only to industry, finance and trade but also to agriculture, education, health and other social services. All these large scale, organized activities may coexist in some countries with a wide range of informal activities which operate almost as an underground economy beyond the pale of law. While it is possible to limit the scope of private sector assessment to a single sector, subsector, or a sectoral issue (e.g., small industry sector, regulatory framework, infrastructure, etc.), there is considerable merit in starting with a broad overview of the private sector as a basis for prioritizing its constraints, needs and their linkages. Specific problems for in-depth diagnosis could then be chosen within this framework. In the absence of a systematic overview, the exercise could well be driven by pre-conceived notions of private sector constraints and needs.
Four elements were identified in the PSA Initiating Brief as the key factors influencing PSD in any country. These are the policies, laws and regulations affecting private sector activities, the capacity and quality of management of the public institutions implementing policies, laws and regulations, the quality and dynamism of the private sector institutions which provide common services to their constituents, and the operating legal system of the country. It was decided that the pilot PSA exercise in Ghana should explore these basic factors as further defined below, subject to the availability of data. At the conclusion of the general overview of the private sector, however, it was felt that the exercise should focus more on the first three factors. The fourth, namely, the operating legal system, called for more detailed fieldwork than the present exercise could provide or afford. Aspects of the legal system directly pertinent to PSD (e.g., investment laws, tax laws, etc.), however, have been examined here, but not the more basic and pervasive legal constraints (e.g., those pertaining to land tenure laws, criminal law, property rights, etc.).

Policies, Laws and Regulations

In the developing world, inappropriate policies pose two types of barriers to the progress of the private sector: (1) conventional barriers to entry and exit which tend to limit potential competition and protect the beneficiaries of the system at the expense of society at large; and (2) physical controls on the acquisition of technology, capital and raw
materials which tend to cause allocational and x-inefficiencies. The removal of such barriers inevitably calls for a reform of the country's basic economic policies. Furthermore, PSD may not occur without governments taking the initiative to provide positive incentives and assistance to local entrepreneurs. Thus stability of policies and a reasonable assurance of a fair return or reward for investment and labor tend to act as incentives for the private sector to perform better. For example, even when entry barriers are removed, but taxes are too high or a threat of expropriation of assets exists, incentives for PSD get weakened.

Similarly, PSD requires policies and programs that facilitate the provision of infrastructural facilities; development of the capital market and related institutions which provide funds and financial services, and the supply of skilled manpower. Needless to say, in extremely poor and small countries, private entrepreneurship and managerial capacity tend to be scarce resources and the removal of barriers or provision of incentives may not bring about indigenous PSD in the short run in such settings. In such cases, there is clearly a need for a longer term perspective on PSD, and a willingness to invest in the needed infrastructure and to create opportunities for learning through innovative forms of assistance and of partnership between countries and external donors or collaborators.

Public Sector Institutions

An important component of a supportive institutional framework is the capacity of the country's public institutions, both economic and
financial, to plan and implement the government's policies, programs and infrastructural services relevant to the private sector. Given the realities of the developing world, an exclusive focus on policy reform as a means to achieve PSD is an inadequate approach to PSD. In some countries, the liberalization of policies, has led to the lifting of entry barriers, deregulation of previously controlled activities including financial operations, and restructured public investment policies. But liberalization does not necessarily lead to an end of all regulations. For example, where market power is a problem, governments need to play a regulatory role. Public agencies may be required in almost all cases to monitor and assist the process of PSD. There is considerable evidence to show that even when policies are well conceived, the faulty design of laws, regulations, programs and procedures, and their poor implementation by public agencies, tend to have an adverse impact on PSD. Regulations and the procedures for their implementation may be so cumbersome and time consuming from the standpoint of entrepreneurs that they are frustrated and turn to the underground economy and other shortcuts which tend to breed corruption. It is for these reasons that attention should be paid not only to the adequacy of the policy and regulatory framework but also the capacity and incentives of the public institutions that implement it.

Private Sector Institutions

There are, of course, limits to the extent to which public sector institutions can be reformed. Established traditions and ways of doing business, vested interests of powerful groups and the lack of pressure from
users/clients for greater public accountability are factors which tend to delay the process of reform. On the other hand, where an organized private sector exists (e.g. industrial or commercial enterprises, NGOs, etc.), it is possible for its members to have an influence on the policy and institutional environments of their countries through collaborative action. Such collective endeavors may take the form of: (a) representative organizations such as chambers of commerce and small industry associations; (b) problem solving and policy advisory groups such as private foundations and consultancy organizations (such private organizations exist in several Latin American and Asian countries); (c) professional associations which uphold standards and educate their members (e.g., associations of accountants, auditors, engineers, managers, etc.); (d) resource mobilizing and allocating bodies such as stock exchanges and private financial institutions; and (e) consumer related movements which demand service and quality. The case for strengthening their role in LDCs is all the greater as they could be an important aid to PSD through their influence on the policy and institutional environment in which they operate and the sense of self reliance they help engender in the private sector through collaborative action. Needless to say, there is the risk that the organized private sector may use its influence against much needed policy reforms or to protect its sectional interests, and governments need to be alert to keep such tendencies in check.
The Operating Legal System

Inadequacies in the operating legal system of a country often prevent the effective implementation of its policies, laws and regulations. They have adverse effects on many sectors of private economic activity. Gaps in the basic legal framework necessary for PSD including property rights (ownership, transfer and bankruptcy), contractual rights, law of associations, criminal law, labor laws, problems of dispute settlement and enforcement of law, etc., can have adverse motivational effects on entrepreneurs, and impair the efficient operation of markets. Furthermore, inefficiencies in the administration and enforcement of the law tend to cause a crisis of public confidence as it is the observed administration of law that influences public behavior. Hence, gaps in the "operating" legal system may well shed light on the reasons for the poor performance of markets, the weak response of entrepreneurs and the failure to mobilize capital in a given country.

The recent report of the Review Group on Private Sector Development (World Bank, June 1988) has identified social and physical infrastructure as one of the seven factors which contribute to the enabling environment required for PSD. In the present exercise, the first round of interviews with private entrepreneurs did not identify that

2/ The PSA Initiating Brief treats infrastructure under two of the four factors, namely, policies, and public sector institutions.
infrastructure was a major constraint. This is not to say that infrastructure will not emerge as a barrier to PSD in Ghana in the future: however, a judgement was made, as explained in a later section, that it need not be assessed in depth at this stage.

Why Ghana?

Ghana was selected for the pilot exercise for several reasons. First of all, the Government of Ghana (GOG) had declared its intention to promote PSD. The Economic Recovery Program of Ghana therefore included a number of policy reforms and related actions to strengthen the private sector and to augment the incentives available to potential private investors, both foreign and indigenous. GOG was thus perceived to be supportive of PSD; it was also willing to collaborate in the PSA exercise. Second, the Bank Group had already done a fair amount of work relevant to PSD in Ghana. Though major information gaps still existed in Ghana, it was felt that more data and diagnostic evidence was available on different dimensions of the private sector in Ghana than in many other Sub-Saharan African countries. Third, when the PSA exercise was being planned in FY88, the Bank and GOG were in dialogue on Structural Adjustment Credit II (SAC II). Since both parties agreed that PSD should be a component in SAC II, the Country Department concerned (AF4) welcomed the opportunity to undertake the pilot PSA exercise and supported it by allocating the necessary resources jointly with CECPS. Thus the active interest and support of the Bank's Country Department and of GOG were major factors that led to the choice of Ghana for the pilot PSA exercise.
II. An Overview of Ghana’s Private Sector

Ghana had a gross domestic product (GDP) of $5720 million in 1986. Agriculture, livestock and fishing accounted for 51 percent of the GDP in 1986 followed by trade (11.1 percent) and manufacturing (9 percent). The distribution of GDP by major activity and by ownership (public vs. private) is given in Table 1. In 1986, for example, 64.3 percent of the GDP was generated by the private sector. This is admittedly a crude estimate based on certain assumptions and informed judgements about the economy which are explained in Table 1. According to The Census of 1984, Ghana’s population was 12.3 million and the private sector’s share of employment in that year was 89.7 percent of the 5.4 million gainfully employed labor force. The private sector’s share of employment was the highest in Agriculture (97.6 percent), followed by wholesale and retail trade (97 percent) and manufacturing (95 percent). Table 2 provides fuller details of the distribution of employment. Even when agriculture is excluded, the private sector accounted for 77.5 percent of the total employment in 1984.

An overview of the structure and relative importance of the private sector in the major segments of activity in Ghana is presented below. A systematic disaggregation of the economy to highlight the private

3/ The data reported in this section are based on the consultant report The Private Sector in the Economy of Ghana, May 1988.

4/ Employment data for 1986 were not available for the economy as a whole.
### TABLE 1
GROSS DOMESTIC PRODUCT AND RELATIVE SHARE OF MAJOR INDUSTRIES (ECONOMIC ACTIVITY) - IN MILLION CDS

<table>
<thead>
<tr>
<th>Industries</th>
<th>Total (At Constant Prices of 1975)</th>
<th>Public Sector</th>
<th>Private Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total GDP in Purchaser's Value</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Agriculture, Livestock</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>b. Fishing</td>
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<td></td>
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<tr>
<td>% Share in GDP</td>
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<td></td>
<td></td>
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<tr>
<td>c. Manufacturing</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>% Share in GDP</td>
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<td></td>
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<tr>
<td>d. Electricity, Water, Gas</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Share in GDP</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e. Transport, Storage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f. Construction</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Share in GDP</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>g. Wholesale &amp; Retail Trade, Restaurants</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>h. Finance, Insurance, Real Estate &amp; Business Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Share in GDP</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i. Community, Social &amp; Personal Services</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>% Share in GDP</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>j. Others</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Share in GDP</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>k. Private &amp; Public Sector's Relative Share in GDP</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Sources: 1. Total GDP figures were extracted from Table 74 of Quarterly Digest of Statistic, December 1987. Statistical Services, Accra. 2. Private and Public Sector figures were estimated by researcher based on the following assumptions which were derived from other statistical data: Private Sector's relative share in Agriculture = 80%; Mining, Quarrying = 25%; Manufacturing = 75%; Electricity, Water, Gas = 1%; Transport, Storage & Communication = 80%; Construction = 50%; Wholesale & Retail Trade = 80%; Finance, Insurance, Real Estate = 20%; Community, Social & Personal Services = 20%. Other Services = 10%. |
### Table 2

**Recorded Employment by Type of Industry and Relative Share of the Private Sector in 1984**

<table>
<thead>
<tr>
<th>Industries</th>
<th>Total</th>
<th>Public Sector</th>
<th>Private Sector</th>
<th>Cooperatives</th>
<th>Enterprises</th>
<th>Self Employed</th>
<th>Total</th>
<th>International Organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Industries</td>
<td>5,422,880 (100%)</td>
<td>552,280 (10.23%)</td>
<td>2,374</td>
<td>310,590; 4,545,578; 4,807,542 (80.78%)</td>
<td>2,640</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Agriculture</td>
<td>3,310,317 (61%)</td>
<td>200,365 (2.63%)</td>
<td>382</td>
<td>95,010; 3,135,176; 3,230,576 (97.68%)</td>
<td>26</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mining &amp; Quarrying</td>
<td>26,829 (0.5%)</td>
<td>23,440 (67.5%)</td>
<td>2,000</td>
<td>1,257; 3,117 (12.4%)</td>
<td>19</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>560,422 (10.5%)</td>
<td>27,075 (4.6%)</td>
<td>415</td>
<td>65,510; 405,315; 561,286 (95%)</td>
<td>97</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity, Gas &amp; Water</td>
<td>15,437 (0.3%)</td>
<td>14,610 (94.72%)</td>
<td>505</td>
<td>219; 814 (5.3%)</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>64,686 (1.2%)</td>
<td>25,534 (39.5%)</td>
<td>413</td>
<td>16,174; 22,922; 39,137 (60.5%)</td>
<td>15</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesale &amp; Retail Trade</td>
<td>792,147 (14.63%)</td>
<td>23,352 (2.9%)</td>
<td>219</td>
<td>30,174; 731,090; 768,758 (97%)</td>
<td>37</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restaurants &amp; Hotels</td>
<td>122,804 (2.3%)</td>
<td>39,750 (29%)</td>
<td>124</td>
<td>39,583; 47,193; 86,890 (71%)</td>
<td>166</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport, Storage &amp; Communication</td>
<td>792,147 (14.63%)</td>
<td>23,352 (2.9%)</td>
<td>219</td>
<td>30,174; 731,090; 768,758 (97%)</td>
<td>37</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance, Insurance, Real Estate &amp; Business Services</td>
<td>27,475 (0.5%)</td>
<td>20,011 (73.2%)</td>
<td>870</td>
<td>4,824; 1,592; 7,266 (28.5%)</td>
<td>78</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Community, Social &amp; Personal Services</td>
<td>473,716 (8.7%)</td>
<td>302,004 (63.82%)</td>
<td>317</td>
<td>59,179; 110,010; 160,511 (35.8%)</td>
<td>2,200</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relative Share of Private Sector in Employment leading Agriculture</td>
<td>2,111,513</td>
<td>1,933 (22.43%)</td>
<td>1,992</td>
<td>224,572; 4,418,602; 1,630,866 (77.58%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Extracted from 1984 Population Census Page 67-72
sector's role has not been possible mainly because of data limitations. The following account is therefore selective and deals with those segments and dimensions of the private sector for which data were readily available: A more detailed analysis of the subsectors is provided in Annex II.

The sectors of Ghana's economy which have varying degrees of private participation are agriculture, mining and quarrying, manufacturing, utilities, construction, trade, transport and communications, finance, insurance and related services, health, and education. The relative importance of the private sector in these activities could be judged by its share of the output, employment, number of units, investment, and foreign trade in each activity. Table 3 below provides a summary of this analysis though the data on investment and foreign trade are partial and qualitative for the most part. The major findings of the analysis are as follows:

(1) Trade, agriculture, manufacturing and transport are the activities in which the private sector accounts for over 50 percent of the output. In terms of the private sector share of employment and number of units, these four activities and construction dominate. In general, these three indicators tend to move together. A major exception is construction in which the private sector accounts for 99.8 percent of the number of units, but produces only 50 percent

5/ Health and education are subsectors of "community, social and personal services" (see Table 1, Row 1).
<table>
<thead>
<tr>
<th>Sector</th>
<th>Private Sector Share of Output(%)</th>
<th>Private Sector Share of No. of Units</th>
<th>Private Sector Share of Investment</th>
<th>Private Sector Share of Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Livestock, Forestry and Fishing</td>
<td>80.0</td>
<td>97.6</td>
<td>Crop, livestock poultry enterprises - 96%</td>
<td>Nearly 100% in private sector; pub. investment limited to a few plantations and five timber and fishery units.</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>25.0</td>
<td>12.4</td>
<td>Negligible in Mining (2 joint ventures)</td>
<td>Negligible in mining; substantial in quarrying.</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>75.0</td>
<td>95.0</td>
<td>Large and medium scale sector - 96% Small scale sector - 100%</td>
<td>No reliable data on large scale sector; 100% in the small scale sector</td>
</tr>
<tr>
<td>Utilities</td>
<td>1.0</td>
<td>5.3</td>
<td>One joint venture in gas; a few captive diesel generators in electricity; Rural communities and NGOs in water (10% of water supply)</td>
<td>Negligible; almost all utilities are state owned.</td>
</tr>
<tr>
<td>Construction</td>
<td>50.0</td>
<td>60.5</td>
<td>Construction enterprises and contractors - 99.8%</td>
<td>Substantial</td>
</tr>
<tr>
<td>Trade (retail and wholesale)</td>
<td>95.0</td>
<td>97.0</td>
<td>Nearly 100% of the trading firms registered with Chamber of Commerce - 91%</td>
<td>Probably close to 100%</td>
</tr>
<tr>
<td>Transport and Communications</td>
<td>60.0</td>
<td>71.0</td>
<td>Nearly 100% in Road Transport None in railway, air and water transport; negligible in communications.</td>
<td>Significant in road transport; negligible in communication.</td>
</tr>
<tr>
<td>Finance, Insurance and Related Services</td>
<td>20.0</td>
<td>25.0</td>
<td>Negligible in Banking; 8 out of 10 insurance companies private</td>
<td>Negligible except in the rural banks.</td>
</tr>
<tr>
<td>Health</td>
<td>30.0</td>
<td>35.0</td>
<td>31% of doctors in private practice; 45% of hospitals &amp; clinics private</td>
<td>Probably below a third of the total investment.</td>
</tr>
<tr>
<td>Education</td>
<td>5.0</td>
<td>7.0</td>
<td>38% of senior secondary and 74% of technical schools in private sector. Private sector share negligible in other sectors.</td>
<td>Relatively minor in the overall context.</td>
</tr>
</tbody>
</table>
of the output. This paradox is explained by the small scale operations of the vast majority of the private construction contractors and the dominance of a few large scale public sector construction enterprises.

(2) There are sectors whose overall private share of output does not fully reflect the private sector dominance of its segments (subsectors). Thus in mining and quarrying, the private sector share is only 25 percent, but quarrying is primarily a private sector activity (with 80 percent of the units in the private sector). Nearly 100 percent of the road transport enterprises (most of them small scale) are privately owned and operated, though the private output share of the transport and communications sector is only 60 percent.

(3) The private sector share of investment is the highest in agriculture. Public investment in agriculture, for example, is limited to a few plantations and timber and fishery units. Quantitative estimates of investments, however, are hard to come by. The assessments of private investment found in Table 3 are based on informed judgment and partial evidence.

(4) Similarly, the role of foreign trade by private sector activity is difficult to assess. As far as exports are concerned, the private sector is dominant in agriculture (e.g., cocoa, timber, fishing).
The private sector export share in non-traditional industries such as wood-based products, is also significant though the total volume of export is modest.

(5) The role of the private sector is the least significant in utilities (electricity, gas and water), education, finance, mining and health (see Table 4). These are sectors in which state ownership and management are dominant either because natural monopolies or public goods are involved or because the technological and financial resources required were considered beyond the means of the indigenous private sector. Joint ventures with foreign partners, however, now exist in the mining and finance sectors.

The performance, contribution, and growth of the private sector will depend not only on its relative importance in the economy, but also on the organizational features of its constituent units and the policy environment in which they operate. To assess these dimensions, the ten sectors of activity listed in Table 4 were examined in terms of the size of their operating units, their forms of organization, and the degree of competition and entry barriers facing them. The results are summarized in Table 4. Several important features of the private sector emerge from this analysis.
<table>
<thead>
<tr>
<th>Sector</th>
<th>Size of Units</th>
<th>Types of Organization</th>
<th>Degree of Competition</th>
<th>Entry Barriers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Livestock, Forestry and Fishing</td>
<td>Most are small, family farms/self-employed persons; enterprises are small or medium sized.</td>
<td>Dominant categories are self-employed persons, sole proprietorships, cooperatives, and corporate enterprises.</td>
<td>Highly competitive in production; monopoly in the marketing of crops like cocoa.</td>
<td>Free entry for Ghanaians; regulated entry for foreign investors.</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>Small units in diamond mining and small units in quarrying.</td>
<td>Sole proprietorships; Sole proprietorships; self-employed persons.</td>
<td>Highly competitive in quarrying; oligopolistic in mining.</td>
<td>Regulated entry in mining; free entry in quarrying.</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Majority are small scale units (5 workers on the average); in the modern sector, 600 small scale units and 420 large and medium units.</td>
<td>Sole proprietorships; Cooperatives; Limited liability companies.</td>
<td>Highly competitive in the small scale; limited competition in some large scale industries; import competition pervasive.</td>
<td>Nominally free entry in many industries; but regulatory barriers limit entry to both small scale and large scale industries.</td>
</tr>
<tr>
<td>Utilities</td>
<td>Private operations small in size; sector dominated by large scale public enterprises.</td>
<td>Limited liability companies; small community groups.</td>
<td>Oligopolistic or monopolistic tendencies strong.</td>
<td>Statutory entry barriers; Large scale financial and technology requirements further limit entry.</td>
</tr>
<tr>
<td>Construction</td>
<td>Majority are small scale units; a few large scale contractors (foreign).</td>
<td>Sole proprietorships Limited liability enterprises.</td>
<td>Highly competitive in the small scale sector; oligopolistic in the large scale sector.</td>
<td>Free entry for local entrepreneurs; regulated entry for foreign investors.</td>
</tr>
<tr>
<td>Trade (Retail and Wholesale)</td>
<td>Mostly small scale units except for trade by manufacturing firms.</td>
<td>Self-employed persons; Cooperatives; Limited liability companies.</td>
<td>Highly competitive.</td>
<td>Free entry for local entrepreneurs; restricted entry for foreigners based on volume of trade.</td>
</tr>
<tr>
<td>Transport and Communications</td>
<td>Predominantly small scale units in road transport; private sector’s role negligible in other areas of transport and communications.</td>
<td>Sole proprietorship, limited liability companies; self-employed persons.</td>
<td>Highly competitive in intra-city transport; less competitive in inter-city transport.</td>
<td>Free entry for Ghanaians in road transport; Regulated entry in other sub-sectors.</td>
</tr>
<tr>
<td>Finance, Insurance and Related Services</td>
<td>Small scale in rural banks; large scale in commercial &amp; insurance sectors.</td>
<td>Joint ventures; limited liability companies; informal money lenders.</td>
<td>Limited competition due to strong state control.</td>
<td>Regulated entry except in the informal sector.</td>
</tr>
<tr>
<td>Health</td>
<td>Small scale and medium scale operations.</td>
<td>Self-employed doctors; non-profit or church-related organisations.</td>
<td>Moderately competitive in urban areas.</td>
<td>Restricted entry through licensing; High costs also limit entry.</td>
</tr>
<tr>
<td>Education</td>
<td>Small and medium scale units.</td>
<td>Sole proprietorship: cooperatives; non-profit type; church related.</td>
<td>Moderately competitive.</td>
<td>Restricted entry; High costs also limit entry.</td>
</tr>
</tbody>
</table>
(1) Small-scale units dominate the private sector in agriculture, trade, manufacturing, construction and road transport.\(^6\)
Manufacturing is the only sector in which of the 1,016 registered establishments, about 40 percent are estimated to be large and medium-scale units. In all these activities, the informal sector plays a major role. (See Annex II for estimates of self-employed persons in different sectors).

(2) Self-employed persons, sole proprietorships, cooperatives and limited liability companies are found in varying combinations in the foregoing sectors. Limited liability companies are found more in manufacturing, trade, construction and road transport. Cooperatives are found in agriculture, manufacturing, mining and education. Sole proprietorship are ubiquitous.

(3) Given the prevalence of small-scale units, it is not surprising that competition is strong in all the sectors in which the private sector is dominant. The major exception is manufacturing which has several product groups with a limited number of competing firms (e.g., cement, evaporated milk). On the other hand, import competition has increased in recent years, threatening the

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6/ According to the recent industrial census, a small-scale unit is one which employs not more than nine workers. A medium unit may employ between 10 and 29 workers. Large-scale units employ 30 or more workers.
protected markets enjoyed by the oligopolists. Whether the
government's procurement policies limit competition and put the
private sector at a disadvantage is an issue which deserves
further probing.

(4) The prevalent degree of competition in a sector is largely a
function of the entry and exit barriers that face enterprises. In
all activities dominated by the private sector, there is
relatively free entry for Ghanaian entrepreneurs except in
manufacturing where all entrepreneurs, both large and small, do
face regulatory barriers of varying severity. The Investment Code
of 1985 has a list of 20 activities to which entry is barred to
foreigners (see Annex III). Information on exit barriers,
however, is less readily available. For small-scale units, exit
is easy. However, it is reported that large-scale units need to
negotiate the conditions for exit and that some of the exit
conditions (e.g., retrenchment of labor) can be onerous.

(5) As noted earlier, systematic performance data on the private
sector are nonexistent in Ghana. The only available data on the
manufacturing subsector pertain to capacity utilization which was
estimated at 50 percent in 1987. This is an improvement from the
level of 21 percent in 1982. On the other hand, private
investment intentions as reflected in the project approvals by the
Ghana Investments Centre shows a slight decline between 1986 and
1987. Further details are given in Annex II.
Emerging Issues

The foregoing brief review of the private sector in Ghana shows how difficult it is to assess the structure, relative importance and performance of the private sector solely on the basis of published data. The major data gaps revealed by this review and which will influence the scope of the present assessment exercise are as follows:

(1) The basic data required to make reliable estimates of the output, employment, investment and productivity of enterprises even in the formal sector are not available in Ghana. Data on performance indicators such as profitability, costs, and measures of growth and productivity are non-existent. Disaggregated data by subsector and time series data essential for the analysis of trends are conspicuous by their absence. Sample surveys and studies of regions or selected aspects of the private sector by scholars or government agencies also do not seem to exist.

(2) Much less, of course, is known about the structure of individual industries and the small scale and informal segments of the private sector. Varying definitions of the small scale and large scale enterprises exist which render careful assessments of different sub-sectors difficult.

(3) Government is the primary source of data on the private sector. But most government data tend to lump private and public sector
data together. Private sector's own associations hardly gather any systematic data pertaining to the sector's operations, performance and problems. There is no evidence of any analysis of the private sector's recent problems (e.g. the factors underlying low capacity utilization, credit squeeze and its impact, problems with investment approvals) having been done by such associations or other academic or research groups.

(4) Though private entrepreneurs dominate sectors of the economy such as agriculture, manufacturing industries, transport, trade and related services, and construction, in relative terms, more information is available on the industry sector than on others. Agriculture and trade, for example, are more important sectors in terms of their GDP contribution. Yet the information available on their structure and performance is more scanty than on industry largely because of their highly informal and geographically decentralized nature.

In light of the findings of the general analysis of the private sector as reported above, it was decided to limit the scope of the PSA exercise to the industry sector. Here the basic information was relatively better organized and the potential for PSD seemed brighter in this sector in view of the actions already taken by GOG and the Bank through the Economic Recovery Program. For purposes of the pilot exercise, however, the mining sub-sector was excluded as it was dominated by the public sector. In effect, therefore, the detailed assessment reported below focuses on the private manufacturing sector.
III. The Private Industry Sector: Policies, Laws and Regulations

There is prima facie evidence to show that important steps have been taken by GOG since 1983 to reform its policies and laws so as to improve the private sector environment and stimulate private investment in Ghana. Furthermore, GOG through its new industrial policy, has articulated the role it envisages for the private sector. Several concrete steps have also been taken to restore general investor confidence and to encourage private sector-government dialogue on important issues.

1. Measures to Improve the Business Environment

The wide spectrum of policy reforms summarized below can be regarded as a major contribution to the improvement of the business environment in Ghana.

* The adoption of a flexible exchange rate policy and the introduction of foreign exchange auctions have eliminated major distortions in the market and minimized the need for cumbersome administrative controls. More than 50 percent of the foreign exchange at the auctions have gone to manufacturing enterprises. Trade and exchange rate reforms have thus improved the environment for efficient business planning and management and increased the autonomy of the private sector to some extent.
The tariff and tax reforms introduced in recent years have created a structure of protection more conducive to the development of efficient import substitution and export promotion. The restructuring of import duties, sales taxes and excise taxes has led to the unification of sales tax rates across most local and imported goods, reduction in import duty rates and the rationalization of sales tax rates. GOG has also reduced the company tax rates for certain activities and the marginal rates for personal income tax. The tax on dividends is proposed to be reduced to ten percent across the board. Taxation of capital gains may be so modified that only the real portion of the gains will be taxed. Capital gains arising from the sale of company shares are also likely be exempted. These policy reforms are expected to have a positive impact on the incentives of private entrepreneurs, investors and managers.

Through the revision of the Investment Code (1985), GOG has demonstrated its determination to encourage increased participation by both indigenous and foreign investors in Ghana's economic recovery. The Code has declared a wide spectrum of activities in agriculture, industry, tourism and real estate development as priority areas for private investment, and has provided guarantees against expropriation, and for the repatriation of foreign capital and dividends. Provisions exist in the Code for arbitration in case of investment disputes.
Fiscal incentives for priority industries include exemption from import duties, substantial investment and depreciation allowances, rebates for the use of local labor and foreign exchange retention accounts against export earnings. The Ghana Investments Centre (GIC) has been designated as the agency to approve investments under the Code. The revision of the Investment Code and the Tariff and Trade Reforms have in effect reduced entry barriers significantly for potential private investors. Needless to say, administrative discretion plays a decisive role in the interpretation and implementation of the Code. The influence of political interference, corruption and favoritism cannot be ruled out in these matters.

* GOG has taken steps to reduce the coverage of price and distribution controls on commodities. The number of goods under price control are currently limited to eight and the controls are administered more flexibly and approvals granted more speedily. GOG has also removed distribution controls on the items whose prices have been decontrolled. As supply conditions improve, the remaining price controls are to be phased out. The incentives for private investment specified in the Code have thus been further reinforced by these decontrol measures.

* On the labor front, a more cooperative relationship is being encouraged between workers and management through the activation of the Tripartite Committee (with representation from workers,
management and government) to advise on wages, salaries and labor relations. Private entrepreneurs report that the mechanism works, though delays are unavoidable. While unions continue to be strong, it is also reported that a more flexible approach to retrenchment in enterprises is being encouraged by GOG compared to its position in 1982. Exit barriers have thus been softened somewhat although the cost of retrenchment of workers to the companies has been set at an unreasonably high level (seven times a worker's annual emoluments in some cases, according to private sector sources). Despite this positive directional change in respect of labor policy, labor laws, the role of trade unions and the current hiring and firing practices deserve a careful look as labor mobility and productivity are important issues for the private sector.

* Industrial finance and credit policies represent an area in which the formal private sector continues to face serious difficulties. In part, this reflects the short-term conflict between the goals of stabilization and structural adjustment. Since 1987, GOG has liberalized all interest rates and removed all sectoral credit ceilings except for agriculture. It is reported that the banks still tend to lend short term, chiefly to their established clients in the trade sector. The flow of financial resources to private investment seems to have been hampered in the process. At present, excess liquidity in the banking system coexists with a
shortage of liquidity in parts of the manufacturing sector. The latter's demand for credit has risen sharply due to rising import costs after devaluation and the 100 percent deposit requirements for participation in the exchange auctions. The failure of the banking system to intermediate between the resource rich cocoa and mining sectors and the credit-starved manufacturing sector has led to a severe financial squeeze on the latter. This is a problem that goes beyond policy and signals the need to devise new institutional mechanisms in the financial sector to cope with the crisis.

2. **GOG Statement on Industrial Policy**

GOG's industrial policy statement of 1985 is significant in that it articulates the objectives and strategy of the country's industrial development with special reference to the future role of the private and public sectors of the economy. It argues for a more limited direct public sector participation in industry aimed at making the most effective use of scarce public, financial and managerial resources. The overall strategy, according to the new policy, will be to limit the direct participation of the state in industry to critical areas in which there is a gap in the availability of private investment or some other special reason for direct public intervention. There is a clear recognition in the statement that industrialization requires an active partnership between the private and public sectors. It also declares that GOG will continue to take steps to enhance the business climate through consultation, improved worker-management relations, and encouragement of positive worker attitudes toward improved productivity.
3. **Policies to Build Investor Confidence**

Apart from the revision of the Investment Code and the industrial policy statement, three other actions taken in the recent past must be noted as relevant to the creation of private sector confidence in Ghana.

(a) One of the negative factors that has hurt Ghana's business environment is GOG’s past expropriation of foreign assets and its failure to repatriate the foreign capital involved. GOG has now begun to repatriate the blocked capital and dividend arrears due to foreign private investors. Payments are being made on a "first-in, first-out" basis.⁷ The total amount to be repatriated is estimated at $43 million. There has, however, been no declared policy on this subject. While a major criticism of Ghana's investment climate will thus lose its force as a result of the ongoing repatriation, much more positive impact could have been gained from this action if the policy was made known internationally. The IFC mission which examined this issue suspects that all blocked funds have not perhaps been included within the current program of repatriation.

(b) Public confidence in the banking system was shaken in the early 1980s by measures such as the demonetization of 50 cedi notes, the

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⁷/ As confirmed by the Bank of Ghana in a personal interview of the author with the Deputy Governor.
freezing of bank deposit accounts in excess of 50,000 cedis, and the requirement of the compulsory payment by checks for all business transactions in excess of 1,000 cedis. In order to restore public confidence, GOG has recently announced that it would compensate those affected by the demonetization of the 50 cedi notes. This, however, is no guarantee that undue governmental interference in financial transactions will not occur in the future.

(c) In order to increase public confidence in the banking system, GOG is considering the repeal of the Banking and Financial Institutions Decree in order to ensure that all disclosures of information from banks are consistent with the Banking Act of 1970. GOG also intends to amend the Banking Act of 1970 to incorporate new provisions requiring secrecy in respect of customers' accounts by the Banks' directors, officers, staff and auditors. In order to instill public confidence in banks, a public education campaign on the new laws is also proposed to be mounted.

4. Informal Regulatory Barriers

While the positive developments on the industrial policy and regulatory front are encouraging, a number of important regulatory constraints still remain. It is useful to distinguish between formal and informal regulatory barriers in this context. The formal barriers are relatively easy to identify as the underlying laws, regulations and
procedures are generally publicized or are accessible to the public. This category of barriers is discussed below in the context of the relevant public regulatory agencies. The informal regulatory barriers, on the other hand, are less visible and their legitimacy cannot be easily probed or determined by outside observers. The fact, however, is that such barriers do exist in Ghana and that they are a constraint on private sector development. Some examples are given below both to underline their significance and to highlight the need to explore them in greater depth.

(1) While the Investment Code offers a reasonably fair treatment to foreign investors and clarifies what the latter can expect in terms of incentives and benefits, it is reported that there is an informal procedure whereby individual foreign investors are cleared or approved for entry prior to the application to the provisions of the Code. This is probably part of the political process and is completed well before the formal regulatory process takes over. The fact remains, however, that it is an invisible, but effective entry barrier as far as foreign investors are concerned.

(2) Potential investors (foreign and domestic) are required to go through the Ministry of Labor for the recruitment of labor (skilled and unskilled). It is not clear as to whether this restriction stems from a formal legal requirement or is a carry over from an old convention. It is claimed by some observers that well connected investors circumvent this barrier effectively. But for potential foreign investors, this will be a deterrent as it adds to their uncertainty and limits their managerial autonomy.
(3) While according to law, enterprises can be closed and workers retrenched, in effect, retrenchments are conditional on the approval of powerful political groups such as the Committee for the Defence of the Revolution. The terms of retrenchment are negotiated by the management with the latter though there is nothing in the law that requires it. Exit barriers for private firms are raised in the process since the negotiations typically lead to fairly costly settlements. It is interesting that this pattern coexists with GOG's declared policy to liquidate several state-owned enterprises and retrench their workers. The operation of the labor market thus seems to be hamstrung by a multiplicity of formal and informal regulatory barriers.

(4) In the fields of banking and taxation also, informal regulatory barriers are reported to be at work. A careful assessment of these barriers is in order as the normal tendency is to focus on the explicit and formal constraints and to ignore the less visible and informal ones.

Furthermore, in spite of GOG's explicit policy to encourage consultation, government-private sector dialogue remains a weak spot in Ghana. This probably is one of the barriers to the restoration of private sector confidence in GOG's policies and institutions. Most of the private sector representatives interviewed were of the view that much more remained to be done in this area and that actions like the appointment of a few
private sector members on the National Economic Commission were more symbolic than real in terms of their significance and impact. More effective ways to deal with informal regulatory constraints, for example, could have been developed through feedback from consultations with the private sector.

IV. Public Institutions: Constraints on Policy Implementation

The policies, laws and regulations discussed in the preceding section are being implemented in Ghana through the ministries and other agencies of GOG. In some cases, recent policy reforms have resulted in a diminished role for the relevant public institutions as far as implementation is concerned. In other cases, policy reforms may not have reduced the responsibilities of the public institutions, but have caused them to streamline their operations. As part of the PSA exercise, an attempt has been made to evaluate the extent to which constraints continue to be imposed on the private sector by the public institutions which formulate and implement important policies and laws or provide support services.

Key Institutions

The public institutions which have a direct impact on PSD in Ghana fall into three categories: (1) ministries and other public agencies primarily engaged in policy making and implementation which affect the private sector; (2) financial institutions (almost all of them wholly or
partly state owned) which provide credit (term loans and working capital) to the private sector; and (3) specialized public agencies which offer support services and advice to the private sector. A partial list of the public institutions in three categories is given below:

1. **Policymaking and Regulatory Agencies**

   - Ministry of Industries, Science and Technology
   - Ministry of Trade
   - Ministry of the Interior
   - Other Sector Ministries (e.g., Agriculture, Transport)
   - The Bank of Ghana
   - The National Revenue Service
   - The Ghana Investments Centre
   - The Registrar General of Ghana
   - Tripartite Committees on Wages and Salaries
   - The Prices and Incomes Board

2. **Financial Institutions**

   - Ghana Commercial Bank
   - Barclays Bank
   - Standard Bank
   - Social Security Bank
   - Bank for Housing and Construction
3. Specialized Service Institutions

* Ghana Standards Board
* Export Promotion Council
* National Board for Small Scale Industries
* Council for Scientific and Industrial Research
* Management Development and Productivity Institute
* Universities

Institutional Implications of Policy Reforms

Recent policy reforms have redefined the roles of the policymaking and regulatory institutions described above. Viewed from the standpoint of the constraints they impose on the private sector, these public institutions vary a great deal. New investors who wish to benefit from the incentives offered by the Investment Code must get their proposals approved by the GIC. If the GIC functions according to design, the dependence of
investors on sector ministries for getting clearances should decline. All entrepreneurs, foreign and local, must deal with the National Revenue Service on taxation and import matters. Enterprises which have an immigrant quota must get their clearances from the Ministry of the Interior. Policy reforms will not produce the expected results unless the implementing institutions are suitably restructured and enabled to play their changed roles effectively. In Ghana's case, the severity of the constraints associated with some of these agencies has declined, whereas in other agencies, improvements are not yet in sight. Several examples of the progress of institutional reform relevant to PSD are given below. Special attention is given to the GIC in view of the importance of promoting private investment.

(1) As mentioned, some of the policy reforms have had the impact of reducing the administrative control and discretion exercised by certain key agencies of GOG. For example, exchange rate and foreign exchange allocation reforms have led to the replacement of specific import licensing involving firm level allocation by sector ministries through the automatic issue of "A-licenses by the Ministry of Trade. Special import licenses are readily issued to importers who require official foreign exchange. Conservative demand management, as well as the introduction of the foreign exchange auction, has narrowed the gap between the parallel and official exchange rates. The liberal import policy of GOG has considerably eased the dependence of the private sector on sector ministries and BOG for approvals and thus reduced the severity of a much maligned constraint. In order to encourage the flow of additional resources through legal channels
and to improve the operation of the exchange system, particularly the process of obtaining small amounts of currency on a daily basis, the Government permitted the establishment of foreign exchange bureaus in February 1988. These are licensed by the Bank of Ghana and are subject to certain rules and regulations. Foreign exchange arising from retention accounts (except cocoa and mining), interest earnings, commissions and remittances, and that held by the public may be sold to the bureaus. Similarly, the reduction in the scope of price and distribution controls has weakened another constraint on the private sector imposed by the Prices and Incomes Board. These are examples of how deregulation has been used to minimize the constraints of public institutions on the private sector.

There is, of course, scope for further reform in this area as formal and informal price controls on several commodities still remain. For example, manufacturers of some mass consumption goods such as clothing, beer, cigarettes, etc. are periodically asked by GOG to meet and informally agree on a schedule of prices often in light of a review of costs. A case exists for the continuing review and elimination of these controls as the economic situation improves.

(2) Ghana’s tariff structure has been rationalized to provide for a relatively uniform and moderate level of protection, with duty rates ranging between 0 and 25 percent. Special import taxes had raised nominal protection to 25-90 percent. In order to determine the distortions caused by the incidence of other taxes on domestic production and imports, the Government reviewed trade taxes and tariffs in 1987. On the basis of this review, GOG has unified the sales tax on imports to the duty-inclusive
value, and simplified the tariff structure to four rates—exempt, 10 percent (concessionary), 25 percent (standard), and 35 percent (luxury). In addition, the nominal tariff rate was reduced by a uniform 5 percentage points for the bulk of goods bearing a customs duty of 15 percent or higher. In order to provide temporary protection to selected industries, a 10 percent special tax was levied on some import categories including: selected drugs, garments, cosmetics, mineral waters, juice, rubber sandals, soaps, and some food products. The excise tax was extended to imports and the specific rate of special tax on imports of excisable products was replaced with a lower rate of 40 percent ad valorem. A similar rate of special tax was imposed on textile imports. The net impact of these changes was generally to leave nominal rates of protection unchanged for most products.

(3) Tax reform did not materially divest NRS of its administrative functions. The private sector has to interact with NRS as in the pre-reform days. But NRS has endeavored to improve its institutional capacity and services to the public. It has gone through an internal restructuring and an active recruitment phase aided by the creation of a separate remuneration structure. It has initiated a review of its administrative tasks, tax laws and procedures in line with the new tax policies. Though NRS continues to be a powerful regulatory and enforcement institution as far as the private sector is concerned, there is evidence to show that steps have been taken to minimize its negative image and to improve its services. Among the actions taken are the following:
Bringing the National Revenue Secretariat (NRS) under a PNDC secretary (minister) to coordinate improvements in revenue generation and effect a restructuring of the Internal Revenue Service (IRS) and the Customs, Excise and Preventive Service (CEPS);

Implementing an active recruitment program, facilitated by the creation of a separate remuneration structure, to upgrade the number and quality of personnel in the services;

Initiating a review of administration in the two services and a review of tax laws to bring them into line with changes in the tax structure;

Increasing the logistical support available to the revenue institutions.

Among other measures which GOG may adopt to strengthen tax administration to encourage compliance and improve the capacity for effective policy implementation are:

Strengthening the operational planning and management functions in IRS and CEPS, preparing long term institutional development plans and annual work programs to facilitate decisions about the appropriate allocation of resources, and identify training needs;
o Training, both of new and existing staff, and at managerial and technical levels;

o Continuing the process of functionalizing the organizational structures of the IRS and the CEPS;

o Implementing effective programs for enforcement of filing of returns and payment of arrears;

(4) The Ghana Investments Centre (GIC) is also an important regulatory and promotional agency for the private sector. Unlike NRS, however, GIC has not yet articulated a strategy for institutional improvement. Under Ghana's Investment Code (1985), the GIC is entrusted with the responsibility for promoting, approving and overseeing the implementation of all new investments (indigenous and foreign) in Ghana, excluding those in the mining and petroleum sectors. Its mandate is to be a "one stop shop" for investment approval. The GIC today has a total staff of 147 of whom 36 are professionals. Implementation of the organizational structure as proposed by an earlier IFC mission is under way, though all departments are not yet fully staffed. GIC's progress in following up on the IFC recommendations in other areas has been slower.

First of all, the streamlining of GIC procedures for approval has made only limited progress. The sector ministry clearance for new investments is now obtained before GIC approval occurs. In order to reduce processing delays, the GIC has introduced a two-stage approval system
whereby an investor can get an initial clearance in two weeks to enable him to start his work with other agencies such as banks, NRS, etc. The second stage will then be devoted to a detailed review of the investment approval. On the other hand, clearances or approvals by the Bank of Ghana, Immigration, Customs, NRS, Lands, Labor, etc., are left to the investor to obtain after GIC approval takes place. There is inertia in the system and GIC staff resources seem to be too inadequate to speed up the process or work out better coordination mechanisms. Second, some duplication of efforts by other departments in performing functions assigned to GIC under the code continues. In some cases like the Fisheries Department, the conflict arises from the existence of prior legislation which they continue to implement. The resolution of these conflicts through subsidiary legislation and appropriate regulations is yet to take place. The net result is that the GIC is unable to act as a one stop shop for potential investors. The GIC feels that amendments to the code should be taken up only after a reasonable trial period. Third, the GIC has not yet taken up the task of preparing an indicative priorities schedule for investment which will also be in harmony with the priorities of the Bank of Ghana.

The lack of progress on the part of the GIC in following up on the IFC recommendations reflects its limited staff resources and infrastructure facilities coupled with the relative inexperience of many of the professional staff. As the number and complexity of investment proposals increase, staff will be preoccupied with regulatory and approval functions at the cost of their promotional and advisory functions. The broader managerial functions of streamlining procedures, improving coordination,
evolving promotional strategies and support services are left to the Chief Executive who does not have any expert staff to provide advice or assistance to accomplish these tasks at present. Above all, there is the continuing problem that the GIC faces in attracting and retaining high quality staff in view of the low civil service salaries and incentives. In this regard, the GIC is clearly behind NRS.

As part of the PSA exercise, a proposal for technical assistance to the GIC was prepared and the GOG and the Bank agreed that the proposed assistance should be provided through the Industrial Sector Adjustment Credit. Simultaneously, the IFC had arranged for additional assistance from the Irish Development Authority to the GIC to initiate its promotional activities. But no formal action has been taken by the GIC so far which in turn is a reflection of its limited institutional capacity. The delay may have been caused also by the recent change in the top leadership of the GIC.

5) Reforms in monetary and credit policies should normally have been followed by a vigorous and competitive response by the banks to serve the private sector. But the banks in Ghana have in recent years experienced a steady decline in performance and institutional resilience. They have large non-performing loan portfolios, high operational costs, capital inadequacy and poor accounting systems, management information and controls. They find it difficult to improve efficiency because of the antiquated systems and procedures in vogue and a severe shortage of qualified and trained staff. Central Bank regulations are such that
competition among the banks is discouraged and incentives to improve efficiency are reduced. A comprehensive diagnosis of these ills is currently under way and measures to reform and restructure the financial sector have been proposed under the recently approved financial sector adjustment credit of the World Bank. Meanwhile the credit squeeze resulting from the tight credit policy of BOG and the institutional weaknesses of the banking system will continue to be a critical constraint on the operation of the private sector. The line of credit available to local entrepreneurs through the Industrial Sector Adjustment Credit (ISEC) remains largely unutilized. Small scale enterprises have been enabled to take delivery of the imported machine tools ordered by them through a bilateral credit arrangement. In both cases, entrepreneurs have been unable to arrange local currency resources to finance their investments. It is reported, however, that the informal sector has no shortage of credit for which it pays higher interest rates than those of the banking system. The formal manufacturing sector appears to be the hardest hit by the current credit squeeze. It does not, however, seem to tap the informal sector for credit.

An important gap in the financial sector is the relatively undeveloped state of the advisory support and services banks provide to their clients. Information services, studies of market and investment opportunities, advisory services for small enterprises, etc., are seldom offered by most banks to their clients. By and large, the banks stay with their established customers who are not often in need of such services.
The support service institutions in the third category, on the whole, lack the basic capacity, manpower and facilities required to perform their functions. An exception is the Export Promotion Council which is perhaps the best organized among this set of institutions. In this pilot PSA exercise, it has not been possible to examine each of these institutions in depth. A few examples, however, will highlight the basic problem. The National Board for Small Scale Industries (NBSSI) which is meant to promote and service small scale enterprises has a small office in Accra with four professional staff. It has no regional presence whatsoever though small scale enterprises are scattered throughout the country and cannot possibly go to the capital for assistance and information. NBSSI's resources are limited and its knowledge of the sector it is supposed to serve is scanty. The MDPI, the lead management training institution, has inadequate physical facilities, library and teaching materials and faculty. It has been unable to move to its new campus because of the lack of funds to complete its half finished buildings. MDPI again has no regional centers. A modest program of support has been proposed for NBSSI and MDPI in the Bank's Small and Medium Enterprise Development (SME) Project which is under preparation. It is doubtful that such limited assistance for short periods will lead to sustainable institutional development. The problem is that the core support and long term actions required for their survival and growth have not received the attention they receive from any quarter. This, more than anything else, will be the key barrier to the development of such public institutions which admittedly have major role to play in support of PSD.
Infrastructure and Public Institutions

There are several public institutions in Ghana which are responsible for the provision of infrastructural facilities and services. Such institutions and the policies governing them have not been examined in this exercise chiefly because infrastructure was not identified as a major constraint for the industrial sector by most of the entrepreneurs interviewed. This is not to say that infrastructure is satisfactory in all respects, but to emphasize that other more severe constraints exist. A brief assessment of the infrastructure relevant to PSD is given below.

Ghana's energy resources, which consist chiefly of hydropower and fuelwood, are quite substantial. Its total installed public generating capacity is about 1,122 MW. Of this capacity, 95 percent is hydroelectric. Ghana is an important exporter of electricity through its sales to neighboring countries. No capacity constraint is envisaged for the next decade. It is expected that thermal capacity will be needed in the 1990s to complement hydro generation as the domestic load grows. The

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8/ This, of course, can be misleading especially when investment is stagnant or severe underutilization of capacity exists. Educated manpower may seem adequate to entrepreneurs. Yet an expansion of private investment may bring to light shortages of technical and managerial manpower. Education is one aspect of infrastructure which could not be assessed in this exercise.
rehabilitation of the distribution system remains an unfinished task, but is being tackled through a series of projects which also provide technical assistance to the power authority.

The 1970s witnessed a steady deterioration in transport, communications and other infrastructure essential for PSD. There has, however, been a significant improvement on the transport front by 1987 mainly as a result of the high priority attached to infrastructure by the Economic Recovery Program (ERP) which began in 1984. Under the 1984-86 ERP, nearly 50 percent of the available foreign exchange resources were allocated to physical infrastructure, mainly transport.

The 1986-88 program has also given a similarly high allocation to infrastructure. As a result, the rehabilitation of roads, railways, ports, lake transport and air transport has made considerable progress with the assistance of the Bank and other donors, though continued high priority needs to be given to catch up with rehabilitation needs particularly in the roads sector. The improved railway and port facilities under ongoing port and railway rehabilitation projects would generally provide facilities adequate for the next decade or so. In the case of roads, however, only about 30 percent of the network is in good condition; roads in the Northern Region and those serving agricultural areas need further rehabilitation and expansion. Agro-based industries and other new ventures in rural areas will, therefore, continue to face transport bottlenecks. Air transport capacity appears to be adequate except for the facilities for handling air cargo at Accra.
Unlike transport, the communications subsector has experienced a decline in its services and facilities in the 1980s. Congestion and frequent breakdowns in the network, inadequate international facilities for switching and transmission, lack of spares, and severe skilled manpower shortages are among the major reasons for the deterioration. A recent Bank project is expected to address these problems and provide substantial technical and financial support to GOG for the rehabilitation and modernization of the communications subsector. Thus, the infrastructural constraints that remain are in telecommunications and road transport in the northern region. While a number of current projects are coping with the rehabilitation of these facilities, it is not clear that adequate attention is being given to the planning of the country's long-term requirements of infrastructure (beyond the next decade).

V. Private Sector Institutions: Collective Action and Dialogue

A quick review of the private sector institutions for collective action in Ghana shows that representative organizations are the best organized and visible entities in this field. There are also a few professional associations concerned with standards, education, etc., in Ghana, but they are not as well established or active as the representative bodies of business enterprises. Private sector organizations which offer policy advice, undertake policy research or champion consumer interests do not seem to exist.
The major private sector representative bodies serving the private sector in Ghana are:

1. the Ghana Chamber of Commerce
2. the Ghana Employers' Association
3. the Association of Ghana Manufacturing Industries

The Chamber of Commerce and Employers' Association both have a membership of about six hundred each. The Association of Manufacturing Industries is larger with nearly a thousand members. There are more traders and small and medium enterprises in the Chamber than in the Association of Manufacturing Industries. The Employers' Association is primarily concerned with labor and wage related issues whereas the Chamber of Commerce takes greater interest in trade and tax related matters. The Association of Manufacturing Industries is more concerned with industrial and technology policies than the other two. There is clearly considerable overlap among these institutions with respect to membership and areas and issues of concern. But their contacts with GOG are through different ministries which minimizes the problem of duplication. Thus the Chamber deals with the Ministry of Trade, the Employers' Association with the Ministry of Labor and the Association of Manufacturing Industries with the Ministry of Industries, Science and Technology. There is a Chamber of Mines too which links up with the Ministry of Lands and Natural Resources. All these associations have their elected boards and headquarters in Accra managed by full time staff. Membership fees are their chief source of income.
Among the professional associations relevant to private sector industry are the Institute of Chartered Accountants, the Management Association and the Institution of Engineers. These are patterned largely on the model of their U.K. counterparts. Though these organizations could potentially play a major role in the education of their members and the upgrading of professional standards, it is fair to say that at present their capacity is too weak to permit them to do so. The Institute of Chartered Accountants for example, has a serious lack of qualified faculty, books and teaching materials and funds. The recently approved financial sector adjustment credit includes a modest provision for technical assistance to this Institute. Support programs for other professional bodies are not in evidence.

The primary function of the representative associations is to look after the interests of their members and to take collective action that promotes their well being. Towards this end, they maintain close contacts with the relevant ministries and other agencies of GOG, international agencies, the press and the public at large. They nominate representatives to serve on government committees and meet with ministers and senior officials occasionally to resolve outstanding issues and to influence government policies and decisions affecting them. Of the three bodies, the Association of Manufacturing Industries appears to be the most active. They have internal working groups for different industries, and hold meetings periodically to discuss matters of interest to their membership.

In brief, these associations act as a lobby for the private business interests in Ghana. While they do have opportunities to meet with
GOG officials at high levels, their overall assessment is that the private sector-government dialogue could be better. The only meeting business leaders have had with the Finance Secretary (minister), for example, was when President Conable of the World Bank visited Ghana over a year ago. Fiscal and monetary policies have serious implications for the private sector. Yet, there is no opportunity for business leaders to meet with the Finance Secretary or the Central Bank Governor for an exchange of views. Senior government officials could use such meetings to assess the business environment and the key issues that concern the private sector.

**Government-Private Sector Dialogue**

The GOG Task force on Private Sector Development has recommended that the Finance Secretary should meet twice a year with private sector representatives (before and after the budget). It has also proposed that ministries and other public agencies should invite the relevant private sector representative groups for regular discussions instead of waiting for a problem or complaint to arise. Another suggestion is that GOG should appoint private sector leaders and experts to the advisory councils of ministries and the boards of public institutions. Institutions such as NBSSI and CSIR today have boards composed solely of government officials. If users of their services are also represented on these boards, their client orientation and the relevance of their services are likely to improve. The Task force has also appealed to the private sector to strengthen their associations and to offer professional and specialized assistance to member companies in need.
Even if the private sector is limited in its capacity to influence policy, one would expect private sector associations to undertake studies to inform, advise and educate their members on appropriate responses to new developments and policy shifts. There is hardly any evidence that associations provide such advisory and information services to their members today. For example, what members might do to counter import competition, to exploit new investment opportunities or to improve productivity are issues of interest to all. Yet, the associations seem to have done little to address such issues, if necessary, with external assistance and to advise members on how to deal with them. It is reasonable to conclude that the private sector institutions in Ghana have not gone beyond the limited advocacy function characteristic of representative bodies. This indeed is a major gap especially in view of the absence of other autonomous private sector policy research and advisory institutions in the country.

VI. Conclusion: Strengths, Weaknesses and Directions for Change

This pilot exercise has assessed the strengths and weaknesses of the private sector in Ghana with special reference to the policies, laws and regulations affecting the sector, the public institutions critical to PSD, and the private sector institutions for collaborative action and dialogue. The assessment was carried out within the framework proposed in the PSA Initiating Brief (CECPS, 1988). Of the five components proposed in the framework, the last, namely, the operating legal system, was excluded
from the present exercise for lack of time and resources. While the overview of the private sector in Ghana covers all segments of the economy, the focus of the exercise has been on the private industry sector excluding mining.

Judged by the criteria of the shares of GDP and employment, the economy of Ghana is dominated by the private sector in spite of the considerable expansion of the public sector since the 1960s. In the absence of reliable data, it is difficult to comment on the growth, profitability and productivity of the private sector in recent years. Private sector representatives believe that recent policy reforms have begun to create an enabling environment for private entrepreneurs. But many policy and institutional constraints and gaps in infrastructure still remain. This exercise shows that a dynamic supply response from the private sector will emerge only when adequate steps are taken to deal with these constraints.

Positive Developments

It is important to start with an inventory of the positive developments conducive to PSD which have occurred in Ghana. Policies and institutions have impacts which go well beyond the private sector. But here we shall confine our attention only to those policy and institutional reforms or features which are likely to facilitate PSD. These provide a measure of the commitment and the priorities of GOG in creating an enabling environment for the private sector.
GOG has reformed the country's macro-policy environment in important respects (e.g., exchange rate and trade reforms, decontrol of the prices and distribution of selected commodities, reform of the investment code, tax and tariff reforms, and the liberalization of interest rates and credit ceilings which have been noted in earlier sections). In general, these reforms have reduced entry barriers and encouraged greater competition in the industry sector. Though most of the policy reforms have multiple objectives which go beyond PSD, they have in fact created a more favorable business environment and a level playing field for the private sector.

Important steps have been taken to restore the confidence of the private sector in the GOG's policies and long-term commitment to PSD. These include the decision to repatriate blocked capital and dividend arrears to foreign investors, the decision to compensate individuals who were hurt by the demonetization of 50 cedi notes, and the decision to modify existing banking decrees to protect the secrecy of information pertaining to customers.

Policy reforms pertaining to foreign exchange rate, trade and price decontrol have considerably eased the intensity of administrative control and associated delays in important public agencies with which the private sector has to deal on a continuing basis. Deregulation in some areas has thus reduced the role of public institutions and minimized an important institutional constraint facing the private sector.
* Significant progress has been made in the past three years in improving infrastructural facilities such as roads, railways, ports and power. The communications subsector and the road system in the northern region are inadequate; but steps are being taken to improve them. The fact that the entrepreneurs and managers interviewed hardly complained about infrastructural problems speaks for itself.

* The dialogue and consultation between the private sector and GOG have begun to increase, though at a slow pace. A recent positive development is the appointment of the Task force on PSD by GOG consisting of private sector representatives and GOG officials.

**Weaknesses**

What are the constraints on PSD that remain? The assessment exercise shows that more steps beneficial to the private sector have been made on the policy reform front than on the institutional front. It is not surprising, therefore, that the list of constraints below is dominated by institutional issues.

* The single most "felt-constraint" on the private sector pertains to credit availability and allocation. The impact of the tight credit policy which makes sense in a period of high inflation has been exacerbated by the institutional weaknesses of the banks and their poor supervision. The slow pace of private investment and
the inability of entrepreneurs to carry out their investment, import and production plans stem to a large extent from the current credit squeeze which has favored short term trading operations rather than long term investment. The prospects for genuine long-term investment seem rather bleak under these conditions. New and smaller scale manufacturing enterprises have been hurt more by this constraint than the established and larger enterprises simply because banks know them better.

* The focus of most of the recent reforms has been on policies designed to create a level playing field for the private sector. The discrimination in favor of public enterprises has steadily declined in recent years. The latter compete for foreign exchange at the auctions along with private firms. In matters of credit, however, public enterprises continue to be more favorably treated by banks because of government guarantees. Policies to provide support services to the private sector have lagged behind. Credit is a case in point. But there are several others such as support for the acquisition of technology, investment promotion, adaptive research, training and quality control which require active public intervention or at least policy support. Such policies are invariably dependent on the capacity of certain institutions to deliver the services. These institutions are weak in Ghana and the policies to strengthen them are yet to be thought through.
While the incentives for private investment have been strengthened, much remains to be done to speed up the investment approval process and to realign the prior laws and regulations which govern the working of sector ministries with the provisions of the new Investment Code. The GIC's capacity to serve as a "one stop shop" for investment approval remains limited in view of its legal and regulatory constraints and coordination problems with other ministries. Complex regulations by multiple agencies are a problem for small scale entrepreneurs too. As long as these institutional constraints exist, the supply response of private investors will remain weak though the incentive policies are in place. NRS is the only public agency which has made some progress on both the policy and institutional fronts.

Private sector confidence in GOG policies and their stability continues to be a problem. Long-term political stability is a key determinant of confidence. But even if stability improves, lack of information could aggravate the situation as, for example, when a government fails to communicate new policies and decisions adequately to potential investors. A case in point is the policy decision to repatriate blocked funds. GOG has been implementing this policy, but without making a public statement which would have eliminated much uncertainty in the minds of potential investors. Even with a public information campaign, it is not easy to restore confidence in the short run. This problem will be even more serious if there are gaps in the basic legal framework
and uncertainties about the enforcement of the law. As noted earlier, an assessment of the operating legal system from this standpoint was not attempted in this study.

The private sector associations for collaborative action in Ghana are primarily of the representative type. Their capacity to dialogue with GOG and influence policies that affect the private sector is extremely limited. They do not undertake serious studies relevant to PSD nor tap local experts and institutions for criticizing policies. Professional associations relevant to PSD also have limited capacity to assist members in their growth and to upgrade standards. The small scale segment of the private sector has no association of its own for representative and developmental purposes. There is no forum for small scale entrepreneurs to express their views, to influence policy or to promote collaborative action.

An important gap in the government-private sector dialogue is the lack of institutional arrangements for the private sector leaders to meet with the senior GOG officials concerned with the macroeconomic policies which impinge on private sector performance. There is no formal contact between the private sector and the Finance Secretary and the Central Bank Governor who are most concerned with the fiscal, monetary and credit policies of the country. Private sector leaders and experts are also not found on the boards and councils of many public agencies whose
functions and services are critical to PSD. An important opportunity for these agencies to improve their services and relevance through the feedback and advice of user groups has thus been missed. These weaknesses generally tend to make the adaptation and implementation of policies more difficult and to limit the prospects for improving private sector confidence in the country's policies and institutions.

Directions for Change

An important finding of the assessment is that at the present juncture the private sector in Ghana is likely to be held back more by institutional constraints than by policy inadequacies. This is not to say that further policy reforms are not required or that the need for policy changes will not once again become a high priority for GOG. The point is that in general further refinements of policy are likely to yield much less for PSD at this stage than reforms on the institutional front simply because adequate attention to institutional issues has not yet been given. The recommendations offered below reflect this assessment.

1) The first priority in terms of action by GOG should be given to the reform of the financial sector and of credit policy so as to augment the supply of resources for long-term investment and production. The small scale subsector whose access to the formal credit system remains limited deserves special attention in this regard. The speedy development of indigenous business enterprises will require new institutional mechanisms
for resource mobilization and intermediation, and facilities to ensure efficient and equitable access to credit to the small and medium local entrepreneurs.

2) The effective functioning of the GIC is critical to PSD in Ghana. The second priority should, therefore, be to remove the impediments which prevent the GIC from being a "one stop shop" for potential entrepreneurs, both for investment promotion and approval. The starting point here should be the review of the sector specific legislation (prior to the Investment Code) governing certain ministries which still seem to conflict with the Code. This review should be used to abrogate or amend such legislation so that the processing of investment approvals can proceed smoothly. Immediate steps must be taken also for strengthening the GIC's capacity for investment promotion both locally and abroad. These are tasks in which the GIC will require specialized external assistance. Expert advice with respect to promotional strategies and regulatory and procedural improvements, staff training and exposure to country experiences elsewhere, and financial support for studies of investment opportunities are among its priority needs. The GIC should be encouraged to utilize the assistance offered by the Bank and the Irish Development Authority to meet these needs.

3) The Investment Code of Ghana has now been in operation for about three years. The third priority action in support of PSD is to review its provisions and regulations together with other relevant ministries (e.g., Industry, Agriculture including Fisheries, Trade, Transport, Tourism, NRS,
etc.), to identify the sections of the Code which require amendments or subsidiary legislation to improve the processing of investment proposals and to revise the Code and its regulations in light of the findings. This review could be used also for modifying the nature and scope of incentives. For example, the case for reducing the Code's bias in favor of capital intensive investments could be examined in the course of the review. The relevance of some of the incentives in light of the recent tax and tariff reforms also needs to be reviewed. Similarly, the Companies Code of 1963 must be reviewed and updated in tune with the new policy regime.

4) The assessment of the individual institutions presented in this report is based on existing documentation and very limited fieldwork. Since several public institutions have been identified as critical to PSD, an important task is to assess the institutional capacities and needs of the key agencies and to strengthen them to play their redefined roles. The fourth priority, therefore, is to complete a systematic assessment of, and to offer proposals for the reform of the key public institutions (building on existing studies where available) in a phased manner so that they can be of greater service to the private sector. This exercise should consist of the following steps:

   a. agreement on the institutions to be assessed;

   b. redefinition of the objectives of the institution in relation to the private sector and in light of the recent policy, legal and regulatory reforms;
c. redesign of the basic tasks and activities of the institution in relation to the private sector and the elimination of irrelevant functions in light of the analysis;

d. reform of the procedures necessary to serve the private sector better;

e. realignment of the structure of its organization, if necessary, to perform the proposed set of functions;

f. mechanisms for client linkages (promotional and advisory role) and for feedback from client groups;

g. training to equip the staff to perform their functions effectively;

h. design of internal information and control systems;

i. creation of boards or advisory councils to oversee its performance or occasional review groups to assess its progress; and

j. allocation of resources to do all of the above and to recruit staff as required in light of the assessment.

This indeed is a detailed and time-consuming task. There exists, however, a fairly good diagnosis of the needs of a few agencies such as the GIC and
NRS. Hopefully, the Bank's financial sector adjustment operation will provide a better understanding of the needs of the key financial institutions. What remain to be assessed then are NBSSI, research and training institutions and the functions and bureaus of the relevant sector ministries which have most to do with the private sector. In all cases, it is important at the outset to adopt policies which will minimize the dependence of the private sector on public institutions wherever appropriate. It is only thus that superfluous institutions can be eliminated and the functions, regulations and procedures of the essential ones made simpler and more efficient.

5) The public institutions discussed in this report are unlikely to become strong and useful aids to PSD unless an integrated view of their long-term needs is taken and the strategies for their development are carefully planned and supported. The fifth priority, therefore, is to encourage donors to take a long-term view of the needs of the key public institutions in Ghana. Sustainability of institutions should be the major rationale for donor assistance. In the past, donors, including the Bank, have offered short-term support to these agencies in relation to activities of special interest to them. While this meets immediate donor concerns, it is doubtful that such limited short-term assistance will bring about sustainable institutional development. Donor support should focus more on the core support and long-term actions required for the survival and growth of the institutions.
6) The existing private sector associations should be encouraged to set up suitable institutional mechanisms to undertake serious studies of their common problems and to use them to dialogue with GOG. There is a case for developing their capacity to play a proactive role in this area especially in the absence of other autonomous policy research institutions. One option is to set up a private foundation under the auspices of the three associations and finance it through industry contributions. Research and publication activities could then be organized through the foundation. This will enable the associations to tap the expertise available in the country and to undertake studies on current policy issues and disseminate or use their findings to influence policies of relevance to the private sector. Similarly, as proposed by the GOG Task force on PSD, private sector representatives should be enabled to discuss their problems and policy concerns with senior GOG officials. Their participation in government committees and in the boards of public institutions also deserves to be increased. Private sector-government dialogue should be seen as an important part of the process of building up private sector confidence in Ghana.

7) Small scale industries should be encouraged to establish their own association for collaborative action and dialogue with GOG, and to provide information and advisory services to members in different regions. At present, there is no forum for the small scale entrepreneurs to get together and to make their voice heard by the GOG. It is too much to expect that associations dominated by large scale enterprises will adequately champion the cause of the small scale sector or allocate
resources to study and deal with its problems. The NBSSI is a government body with no representation from entrepreneurs. It is certainly no substitute for a proper industry association. To begin with, an association of small scale industries may be created in a major center to be followed by similar groups in other industry centers. A national association should really be a federation of active local groups.

VII. Methodological Implications for PSA in Other Countries

This pilot exercise was planned as a low cost effort to be completed in a period of six months. The 17 staffweeks spent on the exercise consisted of seven weeks of a local consultant in Accra and ten weeks of a staff member who spent six of the ten weeks in Ghana for fieldwork and to participate in SAL II activities. The consultant cost came to $2,000. The staff member visited Ghana three times in the course of the assessment. This low cost effort was made possible by the prior work that had already been done on several aspects of the private sector in Ghana. No large-scale surveys or interviews, for example, were undertaken in Ghana for this exercise. In countries where such prior work by the Bank or governments has not been done, more time and resources will have to be provided for a comparable PSA exercise.

The basic approach and guidelines proposed in the PSA Initiating Brief were found useful in the conduct of the pilot exercise. The overview paper on the private sector based chiefly on published data was completed
in four months. The early findings of this paper were used to narrow the scope of the assessment to the industry sector. The availability of data relevant to industry from the ongoing Bank economic and sector work and lending operations facilitated the fieldwork and analysis immensely.

Sources of Data and Methods

Even though they are more available than in most of its neighboring countries, published data on the private sector are extremely scarce in Ghana. The statistical system is weak and available data are often out of date. It was therefore necessary to generate the basic data for PSA in Ghana from a variety of sources:

(1) The data for the general overview of the private sector in Ghana were assembled by a local consultant from published sources, unpublished government reports and through interviews with government officials and private sector leaders, representatives and experts.9

(2) A second and an extremely important source was the Bank/IFC Group whose economic and sector work and studies undertaken for specific lending operations constituted a rich repository of data on different dimensions of the private sector. Thus, the Bank's studies in connection with its

9/ Local consultants are more efficient for this purpose than any other alternative in view of their local knowledge and contacts and relatively low cost.
adjustment operations (structural adjustment, industrial sector adjustment, and financial sector adjustment, and the preparatory work done for the small and medium industries project) were an important and timely source of data for the PSA exercise. None of these focussed exclusively on the private sector; but it was not difficult to sift out the key issues and insights relevant to PSD. IFC's reports on the investment climate and on the Ghana Investments Centre (GIC) was a useful supplement to the Bank's work.10

(3) Two studies done by local institutions in Ghana on some aspects of PSD were the third source of data for the PSA exercise. Firstly, in 1988, GOG appointed a task force on PSD consisting of government officials and private sector leaders and representatives to assess the problems being faced by the private sector and to recommend actions to resolve them and to improve the dialogue between the private sector and the Government. The motivation for the appointment of the task force was the need to articulate GOG's position on this subject as a basis for subsequent discussion with the Bank on the SAC II program. The report of the task force is significant both for its proposals on PSD and for the process used by GOG to generate them. The second study drawn on was Small Scale Industries and

Decentralization in Ghana (1985), prepared by the University of Ghana; this is the only fairly recent and systematic survey of the small scale sector available in Ghana.

(4) The fourth source of data was the fieldwork undertaken by CECPS as part of the PSA exercise. In all, six staffweeks (one staff member only) were devoted to this work in Ghana over a period of eight months. The endeavor was to build on the available work of the Bank Group; to refine the diagnosis and fill in the gaps through fieldwork, and to generate actionable ideas on PSD for inclusion in the SAC II program. An important feature of this part of the exercise was the substantial amount of field mission time allocated to interviews with private entrepreneurs, managers and association representatives with a view to understanding the problems from their perspective. Both individual and "focus group" interviews were held for this purpose. Field missions were used also to initiate the overview of the private sector by a local consultant and to supervise the progress of his work.

The sequence of steps adopted in the pilot PSA exercise were as follows:

(1) Review of the existing studies relevant to PSD done by the Bank Group, and discussions with the concerned staff;

(2) Assessment of the private sector in Ghana based on available data on the economy;
(3) Field interviews to identify and assess the constraints on PSD and to generate ideas for action in support of PSD; and

(4) Discussions with relevant GOG officials on the adequacy of the diagnosis and the feasibility and appropriateness of the proposed actions and directions for change.

**Major Lessons**

A number of lessons have been learned from this exercise which might be useful for similar work in other countries.

1) A comprehensive private sector assessment that covers all segments of the economy will require separate working groups for each segment. This clearly will entail more time and money, but will be difficult to complete if the ministries and other agencies concerned with each and every sector activity do not cooperate with equal enthusiasm. If one or two sectors lag behind, timely completion of the exercise will be in jeopardy. Hence a phased approach may have some merit if several sectors are to be assessed.

2) The five components in the assessment exercise are interrelated. Hence it is important that they are undertaken simultaneously to the extent possible. The judgement on the components to be assessed must take into account the views expressed by the private
entrepreneurs who have considerable local knowledge. In the present case, policies and institutions pertaining to infrastructure were not examined mainly because private entrepreneurs did not raise them as a serious issue. On the other hand, the operating legal system was not assessed for lack of time and resources. In retrospect, it appears that the inclusion of the legal system might have been beneficial to the exercise since it is not now certain whether entrepreneurs are also constrained by more basic legal impediments beyond the laws and regulations referred to in this report. Similarly, an assessment of policies alone does not go far as institutional constraints may well limit their influence on private sector response. There is merit, therefore, in considering the five components as an interrelated set.

3) **The PSA Initiating Brief** treated infrastructure under two components, namely, policies and public institutions. In countries where infrastructure appears to be a major constraint prima facie, there is merit in investigating it as a separate component. If basic data do not exist, this will be a difficult task. Private entrepreneurs may point out the problems, but will seldom have much information or an overview of the requirements and gaps.

4) In this type of exercise, the key institutions should be assessed, but it is too much to expect that every relevant institution can
be examined in depth. A detailed assessment should emerge as a recommendation of the exercise. On the other hand, the broad exercise should map out the relevant range of institutions, categorize them and set priorities for detailed work based on a preliminary diagnosis. Invariably, specialists will be required to complete the detailed assessment of individual institutions, their laws and regulations.

5) An assessment exercise of this scope cannot be done without the host government's commitment and cooperation. The preparatory work should be used to make an assessment of the government's interest and the role it is willing to play in this endeavor. In the Ghana case, the government was seriously interested and played an active role at least in some respects. Linking up the exercise with the SAL preparatory work reinforced GOG's interest. The creation of the Task force on PSD by GOG is a case in point and was motivated by the SAL operation. The very process of bringing government officials and private sector leaders was a supportive move of some significance. It will be useful also to have private sector's own associations contribute ideas through ad hoc working groups set up for this purpose. This, however, was not done in the Ghana exercise.

6) Interviews with private sector participants should play a major role in PSA. It is possible to learn much from reports and meetings with government officials. But the present exercise
shows clearly that the constraints facing the private sector and some of the answers to deal with them are best articulated by private entrepreneurs themselves. Interviews with individual entrepreneurs and managers should therefore be an essential part of the PSA methodology. However, since this can be time consuming and costly, good use should be made of the technique of "focus group" interviews. In Ghana, focus groups drawn from different industry segments were interviewed. This helped the interviewer to assess a cross section of views and to sense whether consensus existed on certain key issues. Intermediaries such as association officials are also useful sources of information, but are not a substitute for what entrepreneurs can offer, individually and in small groups. An "assessment launch" workshop with selected businessmen may be a useful approach.

7) In countries where much prior knowledge of the private sector does not exist, a single person could initiate PSA with a field mission to ascertain the scope of the work and the components which deserve priority. This initial assessment should be used to decide on the type of team that should be organized to undertake PSA. The team should preferably be headed by a generalist and consist of two other members who have some expertise in assessing policies and institutions. If the legal system and infrastructure are perceived to be priority problems, specialists may be added to examine the relevant dimensions. The initial mission could be
used also to identify a local consultant to review the readily available data on the private sector. In Ghana, a PSA team was not deployed mainly because the Bank’s prior work relevant to PSA was considerable. The composition and size of the team should be adapted to the extent of knowledge on the private sector that exists in a given country.
ANNEX I

REVISED DRAFT

PRIVATE SECTOR ASSESSMENT:

INITIATING BRIEF

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November 1987
PRIVATE SECTOR ASSESSMENT: INITIATING BRIEF

Private sector development (PSD) ranks high among the tasks of the World Bank today. The Bank's ability to contribute to PSD in countries interested in the subject will depend not only on its financial resources, but also on its understanding of the problems and constraints which inhibit the private sector in LDCs, and its strategies to overcome these impediments in collaboration with the governments of the countries concerned. As part of country economic and sector work, some of these issues are dealt with by the Bank staff, especially the constraints imposed by the macro-policy environment on the private sector. To the extent that there are constraints other than policies and regulations which inhibit PSD in some countries, there is a case for undertaking a more comprehensive analysis of the private sector's problems and their interrelationships than is normally done. The approach to private sector assessment proposed below will not only build on the ongoing economic and sector work of country departments, but also fill the gaps in our knowledge about the private sector and provide a basis for identifying a strategy and specific Bank activities to promote PSD. The purpose of this initiating brief is to outline the nature, scope and methodology of private sector assessment. The preconditions for the development of the private sector in LDCs and a menu of approaches to PSD are briefly discussed as a backdrop against which a framework for private sector assessment is presented.

I. Nature and Scope of the Private Sector

There is a growing realization in many governments that the complex tasks of development cannot be achieved through an exclusive reliance on public enterprises or other public entities, and that the potential of the private sector should be harnessed more fully in meeting the development needs of society. The dilemma of many LDCs, however, is that the size, competence and institutional capacity of their private sector are not equal to the demands of this task. Governments' capacity to plan and manage policies which affect the private sector continues to be limited in many countries.

On the other hand, the private sector inherited by the LDC governments on the eve of their independence have undergone changes over the past two or three decades. Entrepreneurs have become more numerous and have gained in experience. The supply of educated manpower has increased. Infrastructure facilities have been expanded. Though the pace of progress may have been slow, the capacities created and the learning that has
occurred in the private sector, and the problems and constraints that remain, deserve to be assessed systematically as a basis for designing a strategy for accelerated private sector development. In fact, this should be an essential component of the country strategy in all cases where private sector development is perceived to be a priority.

Private Sector Development (PSD) is often viewed as pertaining to the realm of organized industry and commerce alone. From a national perspective, it is appropriate to broaden the scope of concern to include all areas or sectors of activity in which private initiative and participation have a useful role. In most countries, the private sector has relevance not only to industry, finance and trade, but also agriculture, education, health and other social services. All these large scale, organized activities may co-exist with a wide range of informal activities which operate almost as an underground economy beyond the pale of law. There are several countries where the private sector plays a non-trivial role in the fields of education, health and infrastructural services such as transport.

The indigenous and ethnic dimensions of the private sector also need to be noted. Some governments give priority to their "indigenous" private sector, thus excluding or offering a limited role to the "foreign" private sector. Within the indigenous private sector, some ethnic groups may be regarded by the governments concerned as more deserving of support than others. Irrespective of the merits of the case, the point is that the foreign-indigenous dichotomy of the private sector is also a relevant issue in this context. In its broadest sense, then, private sector refers to a wide spectrum of organized (indigenous and foreign), and unorganized (informal), small scale activities operating in markets with varying degrees of competition. The scope and specific mix of such private sector activities tend to vary widely from one country to another. Policies and programs for PSD will therefore have to be adapted to meet their unique needs.

II. Requirements of PSD

In recent years, privatization of public enterprises has been advocated as an important means to augment the role of the private sector in LDCs. However, the limited capacity and resources of the private sector in many LDCs, the absence of well developed capital markets, political sensitivity to the sale of public enterprises to foreign or minority private interests, opposition to divestiture by powerful domestic interest groups such as trade unions and the bureaucracy, the lack of attention of many LDC governments to prepare the ground adequately for divestiture and their limited capacity to negotiate privatization deals effectively are among the major factors for the slow pace of privatization in the developing world. For all these reasons, while the privatization of public enterprises could make a modest contribution to enlarging the role of the private sector in a number of LDCs, there is no doubt that a more comprehensive set of actions on other fronts will be necessary to achieve PSD of a broad based nature.
The size, resources and vigor of the private sector vary considerably from one LDC to another. Nevertheless, the basic elements which influence PSD are common to all countries. These are: competitive markets, an adequate supply of entrepreneurs, availability of capital, efficient infrastructural facilities, and a supportive legal and institutional framework.

The policies, laws and regulations of country have, in general, a direct effect on all the basic elements listed above. The capacity and quality of management of the public institutions implementing laws and regulations, the quality of the private sector institutions which provide common services to their constituents, and the operating legal system of the country also tend to impact on all or most of these elements. An analysis of these factors will, therefore, provide useful insights into the barriers that constrain PSD in LDCs.

Policies, Laws and Regulations

Inappropriate policies, laws and regulations affecting private activities tend to create two types of barriers to the development of the private sector: (1) conventional barriers to entry and exit which tend to limit potential competition and protect the beneficiaries of the system at the expense of society at large; and (2) physical controls on the acquisition of technology, capital and raw materials which tend to cause allocational and x-inefficiencies. Even if these barriers are removed, PSD may not occur without governments taking the initiative to provide positive incentives and assistance to local entrepreneurs. Thus a reasonable assurance of a fair return or reward for investment and labor, and stability of policies tend to act as incentives for the private sector to perform better. Even when entry barriers are removed, for example, if taxes are too high or a threat of expropriation of assets exists, incentives for PSD get weakened. Similarly, policies that facilitate the provision of infrastructural facilities, development of the capital market and related institutions which provide funds and financial services, and the supply of skilled manpower are an essential requirement of PSD. Needless to say, in extremely poor and small countries, private entrepreneurship and managerial capacity tend to be scarce resources and the removal of barriers or provision of incentives may not bring about indigenous PSD in the short run in such settings. There is clearly a need for a longer term perspective on PSD in such cases and a willingness to create opportunities for learning through innovative forms of assistance and partnership between countries and external donors or collaborators.

Public Sector Institutions

An important component of a supportive institutional framework is the capacity of the country's public institutions, both economic and financial, to plan and implement the policies, laws and regulations affecting the private sector. An exclusive focus on policy reform as a
means to achieve PSD is an inadequate approach to PSD given the realities of the developing world. The liberalization of policies in some countries has led to the lifting of entry barriers, deregulation of previously controlled activities including financial operations, and restructured public investment policies. But liberalization does not necessarily lead to an end of all regulations. For example, where market power is a problem, governments need to play a regulatory role. Public agencies may be required in almost all cases to monitor and assist the process of PSD. Regulatory agencies (e.g. monopoly commissions, departments of company law, industrial licensing agencies, etc.), and developmental and promotional institutions (e.g. investment promotion centers, development banks, trade development agencies, industrial extension bureaus, etc.) are examples of such public institutions. There is considerable evidence to show that even when policies are well conceived, the faulty design of laws, regulations and procedures, and their poor implementation by public agencies tend to have an adverse impact on PSD. Regulations and the procedures for their implementation may be so cumbersome and time consuming from the standpoint of entrepreneurs that they are frustrated and turn to the underground economy and other shortcuts which tend to breed corruption. The information and advice required by private entrepreneurs to respond to opportunities and constraints in the economy may not be readily available to all, especially when the capacity of the country's public and private sector institutions is limited. It is for these reasons that attention should be paid not only to the adequacy of the policy and regulatory framework but also the capacity and incentives of the public institutions relevant to PSD.

Private Sector Institutions

There are, of course, limits to the extent to which public sector institutions can be reformed. Established traditions and ways of doing business, vested interests of powerful groups and the lack of pressure from users/clients for greater public accountability are factors which tend to delay the process of reform. On the other hand, where an organized private sector exists (e.g. industrial or commercial enterprises, NGOs, etc.), it is possible for its members to have an influence on the policy and institutional environments of their countries through collaborative action. Such collective endeavours may take the form of: (a) representative organizations such as chambers of commerce, and small industry associations; (b) problem solving and policy advisory groups such as private foundations and consultancy organizations (such private organizations exist in several Latin American and Asian countries); (c) professional associations which uphold standards and educate their members (e.g., associations of accountants, auditors, engineers, managers, etc.); (d) resource mobilizing and allocating bodies such as stock exchanges and private financial institutions; and (e) consumer related movements which demand service and quality. The creation and sustenance of such common service organizations require much time, resources and team effort. The case for strengthening their role in LDCs is all the greater...
as they could be an important aid to PSD through their influence on the policy and institutional environment in which they operate and the sense of self-reliance they help engender in the private sector through collaborative action. Needless to say, there is the risk that organized private sector may use its influence against much needed policy reforms or to protect its sectional interests, and governments need to be alert to keep such tendencies in check.

The Operating Legal System

Inadequacies in the operating legal system of a country often prevent the effective implementation of its policies, laws and regulations. Needless to add, they have adverse effects on many sectors of private economic activity. Gaps in the basic legal framework necessary for PSD including property rights (ownership, transfer and bankruptcy), contractual rights, law of associations, criminal law, labor laws, problems of dispute settlement and enforcement of law, etc., can have adverse motivational effects on entrepreneurs, and impair the efficient operation of markets. Furthermore, inefficiencies in the administration and enforcement of the law tend to cause a crisis of public confidence as it is the observed administration of law that influences public behavior. Hence, gaps in the "operating" legal system may well shed light on the reasons for the poor performance of markets, the weak response of entrepreneurs and the failure to mobilize capital in a given country.

III. A Menu of PSD Approaches

The requirements of PSD in different LDCs will vary according to the relative importance and severity of problems facing the private sector. Within the private sector, some segments may be weaker and less organized than others. In many LDCs, overregulation of the economy has been recognized as a major constraint on the working of the private sector. Deregulation has therefore been proposed as an approach to deal with this problem. While deregulation may be an effective remedy in many countries, it is an oversimplification to assume that this approach by itself will quicken the pace of PSD. It is possible that some segments of the private sector are so undeveloped that information and advice on market opportunities and assistance in terms of capital and infrastructure may have to be provided to encourage entrepreneurship and new investment. In countries with relatively more developed private sectors, the need may be for closer collaboration and trust between the private sector and government.

Given the variations in the levels of development of LDCs, it is appropriate to present a "menu" of approaches to PSD from which a government could choose a mix that fits its special needs. Four approaches are proposed below:

- **The deregulatory approach** is a response to the excessive controls which constrain the private sector. The elimination
of unnecessary laws and regulations, simplification of those that must remain, and the rationalization of the procedures for their implementation are important dimensions of this approach. The assumption here is that excessive or inappropriate laws, regulations and procedures are the primary barriers to PSD.

- **The promotional approach** is designed to encourage PSD through the provision of information and advisory services. These services act as an incentive to entrepreneurs, both local and foreign, especially in the early stages of their ventures and may cover the entire gamut of marketing, finance, technology and trade.

- **The developmental approach** focuses on assistance to PSD through the creation of the infrastructure that private entrepreneurs require. The resource requirements of this approach will be substantially larger than those of the deregulatory and promotional approaches listed above.

- **The partnership approach** highlights collaboration and mutual trust between the private sector and government. This approach is particularly relevant to countries whose private sectors are reasonably well developed and the potential for deregulation has been substantially realized. The partnership approach is designed to further improve private sector performance through mutual consultation and institutional mechanisms which foster joint decision making and collaboration action.

These four approaches should not be treated as mutually exclusive. Rather, they focus on the thrust and the varying mix of elements that PSD requires under different conditions. Thus some governments, for example, may adopt a deregulatory approach to PSD along with a limited emphasis on developmental and partnership roles. Others, however, may opt for a promotional approach in view of the infancy of their private sectors. The progression in terms of approaches is linked to the levels of development of countries and the maturity of their governments and private sectors.

**IV. Private Sector Assessment: A Framework**

It is within this perspective that the scope and methodology of private sector assessment should be examined. The objectives of the assessment which is a form of sector work are threefold: (1) to provide an overview of the nature and scope of the private sector in the selected country, as a basis for choosing priority areas or issues for detailed diagnosis; (2) to identify the strengths and weaknesses of the totality or selected segments of the private sector depending on the outcome of (1) above; and (3) to suggest the directions for change and possible approaches
to strengthening PSD in light of the foregoing diagnosis. If these objectives are met, the exercise may contribute to the process of country strategy formulation and help identify Bank activities for PSD. Such activities may include policy dialogue with governments, technical assistance for PSD and policy-based lending operations in support of PSD. For example, governments may require technical assistance to promote private investment or strengthen certain public institutions in the wake of regulatory reform. The exercise should supplement and build on the ongoing country economic and sector work drawing upon the different components and phases discussed below.

A full scale private sector assessment exercise in an LDC may consist of the following five components:

(1) An overview of the nature and scope of the country's private sector. It is essential to have a broad understanding of the relative importance and key features of a country's private sector before a detailed assessment of its various dimensions is attempted. This overview may draw upon data on the following:

a. Share of the private sector in the country's output, employment and investment;

b. Shares of large scale and small scale and informal activities by sector, gender or region, as appropriate;

c. Indigenous vs foreign ownership by sector;

d. Relative importance of different types of organizations (corporations, cooperatives, NGOs, family enterprises, etc.);

e. Measures of competition in different segments of the private sector; extent of monetization in the economy;

f. Major gaps in the infrastructure facilities available to the private sector; and

g. Performance and problems of the different segments of the private sector.

If data are readily available, it should be easy to attempt a rapid assessment of the nature and scope of a country's private sector as part of an economic mission and in a fairly short period (8-12 weeks). On some of the indicators listed above such as extent of competition, inferences may have to be made based on the data on market concentration or the degree of protection enjoyed by the sectors involved. If documentation is a problem, the
endeavor should be to build up as much evidence on these dimensions as possible through interviews so as to get a rough and ready assessment of the state of the private sector and its problems. This is a useful first step towards understanding the strengths and weaknesses of a country's private sector. It is in light of this first cut that a decision should be made on the sectors to be selected for in-depth assessment. A preliminary analysis may indicate that the key sector to study further is industry, the operating legal system or the informal sector. It is possible that some sectors are more ready for development or assigned greater priority than others. A comprehensive assessment of the entire private sector will then be phased over time. Alternatively, it might be appropriate to go for a detailed assessment of the economy (especially for small countries) as a whole. The time and resource requirements of the exercise will vary depending on the scope of the assessment.

(2) A review of the policies, laws and regulations affecting the sector(s) selected for assessment. First of all, it is important to find out whether there are declared policies which specify or limit the role of the private sector in different areas of activity and lay down directions for private sector operations. Laws and regulations are usually enacted in furtherance of such policies. The major areas for assessment here are of policies, laws and regulations affecting investment, ownership, output, pricing, distribution, access to technology, information and other inputs (domestic and foreign), financing, taxation and employment, and their actual vs. nominal impact on the private sector. Clearly, this is a vast area which needs to be assessed selectively in order to identify the key constraints in the policy environment. It is possible that review of these problems are readily available in some countries. If so, the endeavor should be to sharpen the assessment through interactions with clients (private sector), local consultants and implementors (civil servants). The questions to explore in this area are the following:

a. Of the policies, laws and regulations affecting the private segment of the selected sector(s), which pose the most severe constraints? To what extent can the growth of the informal (underground) sector, if any, be attributed to these policies and regulations?

b. Which among the policies, laws and regulations are the most institutionally intensive?

c. Has the government attempted a systematic review of these policies, laws and regulations? If yes, what actions have been taken by the government? What has been the impact on the private sector?
d. If no action has been taken, what are the views of private entrepreneurs and civil servants on what the key problems are and what the priorities should be for reform?

e. Which are the major interest groups for and against reform in this area? What are their strengths, weaknesses and capacity to induce or block change?

(3) A review of the common service institutions of the private sector. The range of such institutions (representative, policy advisory, professional, etc.), the client feedback on their services, and resources required to strengthen them are the main areas to be investigated. In general, they are more open institutions and hence easier to assess. The assessment will have to be done primarily through interviews with important private sector actors. Since there is a priori evidence that this is a weak area in many LDCs, special attention has to be given to the identification of gaps and the priorities to be established to remedy them. Here again, the issues and types of institutional needs will vary depending on the sectors being assessed. Some of the issues to be probed further are the following:

a. What are the different types of institutions which the private sector has set up to meet its common needs?

b. In which areas are these institutions the weakest in serving the private sector?

c. What are the major constraints on their capacity to service the private sector?

d. What are the areas in which no private sector service institution exists? Are these areas regarded as serious gaps by the private sector?

e. Will the private sector be able to fill these gaps on its own? How should the government assist in this effort?

(4) An assessment of the capacity of the public institutions responsible for planning and implementing the laws and regulations referred to in (2) above. Here again, it will be best to examine these institutions (which regulate or assist the private sector and/or purchase goods and services from private suppliers) after a review has determined the tasks or functions they are supposed to perform. For example, deregulation may cause a deletion of some of their functions, and addition of others. It is also possible that policy and regulatory reforms have brought about a reduction in their
institutional intensity thus preparing the ground better for public institutions to cope with their tasks. An assessment of their needs in terms of capacity building or reorientation must therefore take into account their changed or redefined roles and functions. The following questions are pertinent to this component:

a. What are the regulatory institutions which have the most adverse effect on PSD? Will policy reforms with reduced institutional intensity eliminate these adverse effects?

b. In light of the private sector feedback, what are the problem areas (roles and functions, structure, access, procedures etc.) in these institutions? Which are most in need of reform?

c. What are the major public institutions providing support services of different types to the private sector? Which agencies buy goods and services from the private sector?

d. What is the private sector's feedback on their services, accessibility, responsiveness to clients? Do the contracting agencies pay the private suppliers promptly? What are the major constraints on their capacity to serve the private sector?

e. Has the private sector or government identified the directions for restructuring both types of the institutions?

(5) An assessment of the operating legal system and practices affecting the private sector. Elements here will include property rights, contractual rights, law of associations, criminal law, labor laws, cost and delays in legal redress, etc. In some LDCs, for instance, there may be elements of the legal system which inhibit and constrain private initiatives. Property rights with respect to land or other assets are an example. Farmers may not have the incentive to cultivate or invest in new assets when there is no assurance that they will receive the rewards both in the short and long run. In other cases, gaps in the operating legal system may be a handicap to private entrepreneurs. If there is no contract law or it is faulty, for example, enforcement of contracts will be a problem. Entrepreneurs will be reluctant to invest or undertake risks under these circumstances. Issues to be probed in this area are the following:

a. What aspects of the operating legal system of the country cause the most difficulties for private sector operations? Do they adversely affect some sectors of
activity more than others (e.g., legal barriers which inhibit the mobilization of savings, enforcement of contracts, informal and small scale sector activities, financial intermediation)?

b. Do they hinder some private sector segments more than others (e.g., foreign vs. indigenous, men vs. women)?

c. Of the identified problem areas, which are the most amenable to change?

d. Who are the major actors to be mobilized to initiate reform?

e. In the more difficult problem areas, what action should be taken now to prepare the ground for change eventually? If that is difficult, what other options are available to compensate for these handicaps?

V. Planning for Private Sector Assessment

There is no doubt that many of the questions posed above are being explored today in some form or another as part of the ongoing country economic and sector work of the regions. What the foregoing framework does is to treat them more systematically and integrate them under a set of components which are closely linked to each other. It is possible, for example, that the policies and regulations affecting PSD in a country have been examined, but the implications of the proposed reforms for the public institutions implementing them have not been analyzed. In other cases, policies and public institutional issues may have been assessed, but the basic gaps in the legal framework which inhibit private entrepreneurs may have been ignored. Thus the synergy that a systematic assessment of these components and their linkages would have bestowed on the strategy formulation process for PSD remains underutilized in the absence of the framework outlined above. As explained below, this does not imply that Bank activities in a country should cover all components simultaneously. Rather, the focus is on the use of the framework in planning a coherent country strategy for PSD with the clear understanding that Bank activities for PSD will be sequenced to suit the specific country context.

The methodology for private sector assessment may incorporate and synthesize all five components described above or only a subset of them depending on the country context and the priority to be given to PSD in the country strategy. The first three components, for example, could be completed more quickly than the last two. In countries which require action on PSD in the short term, it may be advisable to begin the assessment with the first three components and limited segments of the others. It is possible to make an impact in the short or medium term by reforming laws and regulations or improving private sector common service institutions. Effecting changes in the operating legal system of a country
or reforming its public sector institutions, on the other hand, tend to be long drawn out tasks. This is because policy reforms are generally easier to achieve than institutional changes, especially in the public sector. Among institutions, private institutions are likely to be more responsive to the call for reform than their public counterparts given the greater autonomy and incentives enjoyed by the former. If, however, long-term impact through PSD is the objective, it is imperative that the long-term components (the last two) are also adequately dealt with as part of an ongoing assessment exercise.

Since private sector assessment as discussed above is a new concept and yet to be tested in the field, it is important that it first goes through a pilot phase before being replicated in a variety of country contexts. Countries selected for the pilot phase should have a strong interest in the exercise and be supported by Bank country departments committed to the incorporation of PSD into their country strategies. The sequence of steps to be followed in the exercise are the following:

a. Selection of countries for the pilot phase, and further development of the components of the exercise.

b. Completion of the overview component.

c. Selection of one or more sectors for detailed assessment.

d. Field assessment.

e. Review of findings.

f. Identification of the directions for reform/action.

g. Internal (Bank) discussions on the outcome of the exercise.

h. Discussions of outcome with governments (if considered appropriate).

i. Development of a PSD strategy component as part of the country strategy and determination of priorities for Bank activities.
ANNEX II

Ghana's Private Sector: A Disaggregated Analysis

There is an overall paucity of reliable data on the private sector's operations, performance and problems in Ghana. Thus, there is hardly any data on the investment, growth and other dimensions of the private sector as a whole or of its sub-sectors. Data on performance indicators such as costs and profitability are scanty. Limitations of data thus make it exceedingly difficult to provide an overview of Ghana's private sector against a historical perspective and to disaggregate the performance and prospects of the sub-sectors of private sector activity with any reasonable measure of accuracy. The account of the private sector presented below is therefore incomplete in many respects and focuses on the broad categories of private sector activity for which data were available for some recent period. These include agriculture, industry (manufacturing, mining, construction and utilities), wholesale and retail trade, transport and communications, finance, health and education.

1. Agriculture

Agricultural production in Ghana consists of cash and food crops, livestock and poultry, timber and forestry, and fishing. Crop production is dominated by the cocoa subsector with its numerous smallholder farmers. Estate production is limited to oil palm and rubber. Over three million
self-employed persons accounting for 95 percent of the agricultural labor force were engaged in crop, livestock and poultry production in 1984. Forestry and fishing were also dominated by the private sector. Of the 86 establishments in forestry, all but four were private; of the 60 fishery enterprises, all but one were privately owned. In addition, the informal fishing sub-sector employed nearly 50,000 persons in 1984.

Though small farmers and self-employed persons dominate agriculture, they function not only as individuals but also in many cases through cooperatives. In 1985, 4,476 agriculture-related cooperatives existed in Ghana (See Table 1).

Table 1

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<tr>
<th>AGRICULTURAL COOPERATIVE SOCIETIES (1985)</th>
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<tr>
<td><strong>Type of Cooperative</strong></td>
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<tr>
<td>Multi-purpose</td>
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<tr>
<td>Food farming</td>
</tr>
<tr>
<td>Fishing</td>
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<tr>
<td>Maize growers</td>
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<td>Collective farming</td>
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<td>Produce marketing</td>
</tr>
<tr>
<td>Fish mongers</td>
</tr>
<tr>
<td>Sugarcane growers</td>
</tr>
<tr>
<td>Rice farmers</td>
</tr>
<tr>
<td>Vegetable growers</td>
</tr>
<tr>
<td>Oil palm growers</td>
</tr>
<tr>
<td>Agricultural Societies</td>
</tr>
</tbody>
</table>

In brief, Ghana’s agriculture is virtually in the hands of the private sector though GOG owns some plantations. It is reasonable to conclude that the bulk of the investment in this activity is also by the
private sector. The Government's role in agriculture is primarily the provision of extension, research and marketing; thus state agencies such as the Departments of Crop Protection and Quarantine, Fisheries, and Animal Health and Production, Cocoa Board, Cocoa Research Institute, Soil Research Institute, Crop Research Institute, Institute of Aquatic Biology, and Water Resources Research Institute are expected to provide these and other services to farmers and the agricultural sector in general.

2. Industry

The industry sector which accounted for 13.4 percent of GDP in 1986 consists of the subsectors of manufacturing, mining and quarrying, construction, electricity, water and gas. Of these, the largest subsector is the manufacturing subsector (9 percent GDP). The roles of the private and public sectors in manufacturing and mining have varied over time in Ghana. In general, GOG has dominated the relatively heavier industries whereas most of the private sector consists of the medium and small scale industries. The distribution of the registered industrial establishments in the country in 1987 and their ownership structure are given in Table 2. While the number of private establishments is clearly by far the larger in all subsectors except mining and utilities, data limitations make it difficult to judge their relative importance in terms of output and investment. The informal sector is active in all subsectors except utilities. If informal production is added, the private sector certainly dominates industry in terms of employment.
### TABLE 2
REGISTERED INDUSTRIAL ESTABLISHMENTS AND THEIR OWNERSHIP STRUCTURE AS OF 1987

<table>
<thead>
<tr>
<th>Industry Type</th>
<th>1987</th>
<th>Privately Owned</th>
<th>Wholly State Owned</th>
<th>Joint-State Private</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>1,016</td>
<td>921</td>
<td>54</td>
<td>41</td>
</tr>
<tr>
<td>Mining</td>
<td>8</td>
<td>1</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Quarrying</td>
<td>10</td>
<td>8</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>1,911</td>
<td>1,905</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Electricity, Gas &amp; Water</td>
<td>5</td>
<td></td>
<td>4</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>2,950</td>
<td>2,835</td>
<td>70</td>
<td>44</td>
</tr>
</tbody>
</table>


(a) **The Manufacturing Subsector**

The growth of manufacturing output in Ghana reached its peak rate of 14 percent per annum in the mid-1970s and then declined steadily to about seven percent by 1985. The private sector share of manufacturing output is currently estimated at 75 percent. Nearly half of manufacturing output comes from the following six industries:
1. Processing of agricultural and food materials
2. Wood-based products
3. Energy-related products
4. Non-metallic products
5. Textile products
6. Basic metal processing.

Of the 1,016 registered manufacturing establishments, 420 are estimated to be large and medium scale units and the remainder small scale units. Sixty percent of the enterprises are registered as limited liability companies while 40 percent are sole proprietorships. The informal sector in manufacturing is large in terms of employment with nearly a half million persons reported to be engaged in this activity; however, its output is estimated at 20 percent of total manufacturing output. A 1984 survey of small scale industries showed that the largest number of units were in agro-based industries and in textiles and leather.\(^1\) Repairs were the next most popular subsector. For starting new enterprises, only seven percent of those surveyed obtained bank financing; nearly 88 percent depended on families and friends for the initial capital. For existing small enterprises, banks provided nearly 50 percent of the credit. A majority of entrepreneurs (61 percent) identified credit as their single most important problem. Problems such as lack of skilled manpower and low demand were perceived to be minor issues compared to the credit problem.

Capacity utilization has been a persistent problem in the modern manufacturing sector. The average utilization rate was in the 43-52 percent range during 1970-77, but fell to 21 percent by 1982. With the improved supply of raw materials and electric power in 1983-86, capacity utilization has picked up again and is currently around 50 percent. No information is available on capacity utilization in the small scale industry sector.

Private Investment

Trends in investment are an important indicator of the health and vigor of the private sector in a country. As noted above, there is no systematic information on private sector investment in Ghana. The Ghana Investments Centre (GIC), however, is an important repository of data on that major segment of the private sector which is entitled to the benefits specified in the Investment Code of 1985. The GIC data does not cover the investment in the mining and minerals sectors, agriculture (except large scale, commercial) and small enterprises. GIC maintains data on investment proposals received and proposals approved classified by industry. Unfortunately, GIC has only just begun its monitoring activities and therefore has no useful data available on the implementation of the approved projects.

GIC data, however, could be regarded as a partial index of private investment intentions. In 1986, GIC received a total of 163 investment
proposals with a total cost of ₡49.9 billion (at current prices). Of these, 154 proposals were approved with a total cost of ₡33.8 billion. In 1987, GIC received 177 proposals with a total cost of ₡37.4 billion. The total cost of the 146 projects approved in 1987 was ₡31.7 billion after adjusting for changes in the exchange rate and inflation. During the first half of 1988, GIC has received 70 proposals.

There is a significant decline in terms of private investment intentions between 1986 and 1987. The total cost of planned projects in real terms fell by 25 percent and that of approved projects by 6.3 percent during this period. The backlog of project proposals has declined from ₡16.1 billion at the end of 1986 to ₡5.7 billion at the end of 1987. The number of proposals received by GIC in the first half of 1988 has fallen by 20 percent compared to the trend in 1987. The reasons for this decline are not clear at this stage though there is speculation that the credit constraints (cedi resources) imposed by the banking system have contributed to it. There have been some changes in the composition of planned investments too. In 1986, the subsectors which led in terms of the volume of investment were projects related to agriculture, food and food products, wood and wood products and tourism. In 1987, wood and wood products, agriculture, metal and metal products and rubber and plastics ranked above all others.

2/ Cedi (₵), the Ghana currency was devalued several times since 1983. The exchange rates in 1986 and 1987 were 90 cedis and 150 cedis per US Dollar respectively. By July 1988, the rate had depreciated to 211 cedis per dollar.

3/ The data referred to here were furnished to the author by the GIC.
Competition

It is difficult to judge the degree of competition in the manufacturing sector. Some products such as cement and evaporated milk are characterized by monopoly. On the other hand, textiles, leather goods, plastics and food and beverages are produced by several firms and hence face a fair measure of market competition. Irrespective of the number of domestic producers, foreign exchange auctions and imports liberalization have had the effect of increasing the competition in the market place.

The extent of competition may also be limited by government policies which discriminate in favor of public sector enterprises. Government's procurement policies, for instance, may require that preference should be given to public enterprises in the purchase of goods and services required by ministries and other public agencies. Similarly, public enterprises are reported to have been asked to buy goods and services from each other rather than from the open market thus excluding the private sector. Systematic information on this subject does not exist in Ghana. It is reported, however, that current GOG procurement policies do give preference to public enterprises in the matter of purchases. On the other hand, there is some evidence to show that these policies are in fact not being enforced. To the extent such restrictive policies are enforced, opportunities for the private sector to compete in the market will undoubtedly decrease.4

4/ The Bank has recently proposed that a study of GOG procurement policies be undertaken.
(b) **Mining and Quarrying**

Mining in Ghana dates back to the 1920s. There are eight mining companies of which five are in gold mining and one each in diamond, bauxite and manganese mining. Private foreign investors were responsible for the development of mining in Ghana. But their role declined significantly by 1980 when GOG nationalized most of these companies. Two mining companies (one gold and one bauxite) are currently owned jointly by GOG and private foreign investors. A third public sector company is operated under foreign management. Though there is no private Ghanaian participation in the formal mining subsector, over a thousand self employed Ghanaians are engaged in informal diamond mining.

The mining sector is the second largest foreign exchange earner after cocoa, accounting for 25 percent of Ghana's export earnings. Though mining output had declined since 1975, its share of GDP was 1.1 percent in 1986 and its rate of growth since 1983 has averaged around 10 percent. Extensive rehabilitation and modernization and improved incentives through devaluation are the primary factors responsible for the recovery.

(c) **Construction**

The construction subsector consists of civil construction and electrical engineering and plumbing works. There are presently 1,911 registered civil, electrical and building construction firms in Ghana. In terms of numbers, this subsector is virtually controlled by private
entrepreneurs (99.8 percent). Their share of output, however, is only 50 percent. In addition, there are 23,000 self employed contractors operating in the informal construction subsector. Of the 1,911 registered firms, one third are limited liability companies and two thirds are sole proprietorships.

Some of the public construction including maintenance is done through the Ghana Construction Corporation and other public infrastructure agencies. Most of them have in-house facilities for maintenance. When new construction is limited, maintenance is the dominant activity. This may explain the rather low share of the private sector in construction output.

**TABLE 3**

**REGISTERED CIVIL, ELECTRICAL, BUILDING AND PLUMBING CONTRACTORS (1988)**

<table>
<thead>
<tr>
<th>Category of Business</th>
<th>Type of Business</th>
<th>Type of Ownership</th>
<th>Nationality</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Sole</td>
<td>Joint</td>
</tr>
<tr>
<td>Building Construction</td>
<td>1425</td>
<td>410</td>
<td>1015</td>
</tr>
<tr>
<td>Firms</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electrical Construction</td>
<td>256</td>
<td>64</td>
<td>192</td>
</tr>
<tr>
<td>Firms</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plumbing</td>
<td>33</td>
<td>11</td>
<td>22</td>
</tr>
<tr>
<td>Firms</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Road Construction</td>
<td>197</td>
<td>154</td>
<td>43</td>
</tr>
<tr>
<td>Firms</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1911</td>
<td>639</td>
<td>1272</td>
</tr>
<tr>
<td>Percentage</td>
<td>100.0</td>
<td>33.0</td>
<td>67.0</td>
</tr>
</tbody>
</table>

Sources: Ministry of Works and Housing
Ministry of Roads and Highways
Architectural & Engineering Services Corporation (AESC)
(d) **Utilities**

Utility industries are dominated by the public sector. The Volta River Authority and the Ghana Electricity Corporation, both owned by GOG, are responsible for electricity generation and distribution in the country. Another public enterprise, Ghana Water and Sewerage Corporation, is responsible for most of the water supply. Two other public enterprises, of which one is a joint public-private venture, meet the gas requirements of the country. These capital intensive enterprises operate under monopoly conditions but are regulated by GOG. Private sector participation in this subsector is negligible. A modest role is played by rural communities in the provision of drinking water. A few private companies produce power through the use of diesel generators. These, however, are too insignificant to make any dent on the monopolistic utility industries.

3. **Wholesale and Retail Trade**

This sector is the third largest contributor to Ghana’s GDP and the second largest employer. The private sector’s share of GDP in trade was 95 percent in 1986 and its share of employment was 97 percent. There are 644 trading enterprises registered with the Ghana Chamber of Commerce. In addition, there are an estimated 691,000 self-employed persons also engaged in commerce. Apart from the trading enterprises which conduct wholesale and retail trading, most of the manufacturers are also engaged in wholesale trade. Private foreign participation in trading is also reported
to be significant, though lack of data precludes a quantitative assessment of its scope and relative importance.

4. The Financial Sector

Financial intermediation in the economy is provided by a number of bank and non-bank financial institutions which make up the financial system. In addition, there are a large number of private money lenders operating in the rural and urban areas in the informal financial sector.

The financial system of the country is still in an early stage of development. The financial institutions are virtually all owned by GOG. There is only one private bank and five other commercial banks which are jointly owned by the private sector and GOG (See Table 4).

The small rural banks are also jointly owned by the private and public sectors. Of the ten insurance companies, six are owned by the private sector. However, two public sector insurance companies alone account for over 50 percent of the total business. It is estimated that of the five percent GDP share of the financial sector, the contribution of the private sector institutions is 20 percent.

5. Transport and Communications

The transport subsector in Ghana consists of the four principal modes of transportation, namely, road, rail, air and water. Of these, road transport alone accounts for 94 percent of the national freight traffic and 97 percent of the total passenger miles.
### TABLE 4

**PRIMARY AND SECONDARY BANKS AND THEIR OWNERSHIP STRUCTURE (1988)**

<table>
<thead>
<tr>
<th>Name</th>
<th>No. of Branches</th>
<th>Wholly State-Owned:</th>
<th>Private State-Owned:</th>
<th>Joint State-Owned:</th>
<th>Private</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ghana Commercial Bank</td>
<td>152</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Barclays Bank</td>
<td>29</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Standard Bank</td>
<td>24</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Social Security Bank</td>
<td>52</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank for Housing &amp; Construction</td>
<td>10</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Investment Bank</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>National Savings &amp; Credit Bank</td>
<td>18</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture Development Bank</td>
<td>34</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Merchant Bank (GH) Ltd.</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Cooperative Bank Ltd.</td>
<td>50</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Bank for Credit and Commerce</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rural Banks</td>
<td>101</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>483</strong></td>
<td><strong>5</strong></td>
<td><strong>1</strong></td>
<td><strong>106</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Research Department, Bank of Ghana.
While rail, air and water transport are monopolized by GOG, nearly 90 percent of road transport is in the hands of the private sector. Except for three state owned road transport companies, all other vehicle operators are small scale entrepreneurs who own 4-5 vehicles each. Entry into the road transport business is virtually free. Competition in this subsector is, therefore, quite strong and more so in intra urban transport than in inter urban and rural transport.

The vehicular utilization in the private sector is reported to be significantly higher than in the public sector though the latter has a more modern fleet. Road transport services are concentrated in the southern half of the country where the road conditions are comparatively better.

GOG is the main investor in the communications subsector. The state-owned Posts and Telecommunications Corporation is a monopoly. There is, however, a modest role for the private sector in the operation of the courier and telex services in which a few foreign and Ghanaian companies are active. The private sector's participation in transport and communications can be increased only through the divestiture of the state-owned corporations and the contracting out of some of their activities if divestiture is ruled out.

6. Health

GOG is the largest provider of health services in the country. The state-owned facilities include two teaching hospitals, eight district
hospitals and 139 clinics, 11 specialist hospitals, 15 urban health centers and 25 rural health stations. Together, these facilities account for 70 percent of all health services. The private sector which accounts for 30 percent of health services delivery owns 35 mission hospitals, 34 mission clinics, and 101 clinics run by private industrialists and medical practitioners. The private sector's share of employment in the health sector was 35 percent in 1984. There are 965 registered doctors and dentists in Ghana of whom 31 percent are private practitioners. In addition, there are numerous traditional medical practitioners whose number is unknown. The practice of modern medicine is confined largely to the urban areas of the country.

7. Education

Ghana has a literacy rate in excess of 50 percent. Its skilled manpower accounts for nearly a third of the economically active population. Ghana has a three-tier system of education consisting of primary schools and junior secondary schools (Tier 1), secondary, technical and vocational schools (Tier 2) and universities and specialized research and training centers (Tier 3). Of the nearly 14,000 educational institutions, GOG owned 95 percent in 1988. Private sector participation in education accounts for only five percent of the total and is confined to tiers 1 and 2. Its role is dominant in the technical and vocational category with 74 percent of the 108 schools being operated privately. The private sector used to play a notable role in primary education too, but this has declined since the advent of the public junior secondary schools in 1987. The private sector owns 38 percent of senior secondary schools too (see Table 5 below).
TABLE 5
PROVISIONAL LIST OF INSTITUTIONS IN THE DIFFERENT LEVELS OF EDUCATION AND THE RELATIVE SHARE OF THE PRIVATE SECTOR (MAY 1988)

<table>
<thead>
<tr>
<th>Level</th>
<th>Total</th>
<th>Publicly Owned</th>
<th>Privately Owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nursery/Kindergarten</td>
<td>3,003</td>
<td>2,758 (92%)</td>
<td>245 (8%)</td>
</tr>
<tr>
<td>Primary</td>
<td>6,000</td>
<td>5,790 (96.5%)</td>
<td>210 (1.5%)</td>
</tr>
<tr>
<td>Junior Secondary Sch.</td>
<td>4,356</td>
<td>4,356 (100%)</td>
<td></td>
</tr>
<tr>
<td>Senior Sec/Commercial</td>
<td>379</td>
<td>236 (62%)</td>
<td>143 (38%)</td>
</tr>
<tr>
<td>Technical/Vocational</td>
<td>108</td>
<td>28 (26%)</td>
<td>80 (74%)</td>
</tr>
<tr>
<td>Teacher Training</td>
<td>35</td>
<td>35 (100%)</td>
<td></td>
</tr>
<tr>
<td>Special Education</td>
<td>10</td>
<td>10 (100%)</td>
<td></td>
</tr>
<tr>
<td>Universities &amp; Diploma Awarding Institutions</td>
<td>11</td>
<td>11 (100%)</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>13,902</td>
<td>13,224 (95%)</td>
<td>678 (5%)</td>
</tr>
</tbody>
</table>

Source: Ministry of Education and Culture

It is estimated that 85 percent of the privately owned institutions are located in the more developed southern region. The private sector accounted for seven percent of the employment in education. The private sector's role in formal education activities, however, does not take into account the significant role being played by rural communities in setting up informal local schools through self help. Churches and other nongovernmental organizations (NGOs) are active in this endeavor, but no data are available on the size and spread of such voluntary educational efforts in the country.
1. Any enterprise concerned with retail or wholesale trade, unless such business is carried on by or within a department store or a supermarket which has an employed capital of not less than US$500,000.00.

2. The sale of anything whatsoever in any market, petty trading, hawking or selling from a kiosk at any place.

3. Business representation for foreign companies unless the enterprise has an employed capital of not less than five hundred thousand United States dollars (US$500,000.00) or its equivalent.

4. Operation of taxi service and car hire service.

5. The sale under hire-purchase contract of motor vehicles including taxis or vehicles intended to be used in the operation of taxi service or a car hire service.

6. Produce brokerage unless the employed capital of the enterprise is not less than US$500,000.00.

7. Advertising agencies and public relations business.

8. All aspects of pool betting business and lotteries.

9. Estate agency.

10. Travel agency.

11. Lighterage services.


15. Operation of beauty saloons or ‘barbers’ shops.
17. Manufacture of tailoring or both of garments other than for export.
18. Textile screen hand printing (including tie and dye).
19. Tyre retreading.
20. Manufacture of suitcases, briefcases, portfolios, handbags, shopping bags, purses, wallets other than for export.
<table>
<thead>
<tr>
<th>Title</th>
<th>Author</th>
<th>Date</th>
<th>Contact</th>
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</thead>
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<td>WPS176 Credit Rationing, Tenancy, Productivity, and the Dynamics of Inequality</td>
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</tr>
<tr>
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<td>April 1989</td>
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<td>WPS186 The Uruguay Negotiations on Subsidies and Countervailing Measures: Past and Future Constraints</td>
<td>Patrick A. Mesarlin</td>
<td>April 1989</td>
<td>S. Torrijos 33709</td>
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<tr>
<td>WPS187 The Flexibility of Wages When the Output Price Changes: An Empirical Study of 13 Industrial Countries*</td>
<td>Menahem Prywes</td>
<td>April 1989</td>
<td>J. Israel 31285</td>
</tr>
<tr>
<td>Title</td>
<td>Author</td>
<td>Date</td>
<td>Contact</td>
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<tr>
<td>----------------------------------------------------------------------</td>
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<tr>
<td>International Comparisons of Wage and Non-Wage Costs of Labor</td>
<td>Luis A. Riveros</td>
<td>April 1</td>
<td>R. Luz</td>
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<tr>
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<td>Sebastian Edwards</td>
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<tr>
<td>Inflation, Price Controls and Fiscal Adjustment: The Case of Zimbabwe</td>
<td>Ajay Chhibber</td>
<td>April 1989</td>
<td>A. Bhalla</td>
</tr>
<tr>
<td>Bank Lending to Developing Countries in the 1980s: An Empirical Test of Major Hypotheses on Voluntary and Involuntary Lending</td>
<td>Peter Nunnenkamp</td>
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<td>Efficient Debt Reduction</td>
<td>Jeffrey Sachs</td>
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<td>Commercial Bank Claims on Developing Countries: How Have Banks Been Affected?</td>
<td>Harry Huizinga</td>
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</tr>
<tr>
<td>A Review of Alternative Debt Proposals</td>
<td>Eugene L. Versluysen</td>
<td></td>
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</tr>
<tr>
<td>Cyclical and Secular Income Elasticities of Import Demand for Developing Countries</td>
<td>Fernando Clavijo</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity in Unequal Deductions: Implications of Income Tax Rules in Ghana and Nigeria</td>
<td>Chad Leechor</td>
<td>May 1989</td>
<td>A. Bhalla</td>
</tr>
<tr>
<td>Private Sector Assessment: A Pilot Exercise in Ghana</td>
<td>Samuel Paul</td>
<td>May 1989</td>
<td>E. Madrona</td>
</tr>
</tbody>
</table>