WIDER Working Paper 2015/099

Ghana's experiments with business–government co-ordination

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October 2015

Abstract: The article explores the various co-ordination mechanisms between the state and the business community in Ghana, and the implications for economic growth in the country. We focus on three periods in the economic history of state–business relations: the immediate post-independence period and the adoption of a statist approach to development where the state was the main engine for development; the period of military rule that was characterized by some semblance of civility in the relations between the state and the private sector; and the post-military regime, where positive relationships with the private sector were deliberately developed and cultivated.

Keywords: state–business relations, private sector, economic growth, Ghana
JEL classification: L00, N1, H11, P16

Acknowledgements: An earlier version of this paper was presented at the UNU-WIDER authors' workshop on 'The Practice of Industrial Policy: Lessons for Africa', in Helsinki, Finland. We are grateful to the meeting participants for their feedback. John Page and Finn Tarp both provided comments, support, and direction, which contributed greatly towards this paper. The usual caveats apply.

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This study has been prepared within the UNU-WIDER project 'Jobs, Poverty, and Structural Change in Africa' as part of a series of studies on 'The Practice of Industrial Policy – Lessons for Africa', directed by John Page and Finn Tarp and implemented in partnership with Korea International Cooperation Agency (KOICA).

ISSN 1798-7237 ISBN 978-92-9230-988-6 https://doi.org/10.35188/UNU-WIDER/2015/988-6

Typescript prepared by Anna-Mari Vesterinen at UNU-WIDER.

UNU-WIDER acknowledges specific programme contribution from KOICA for the series of studies on 'The Practice of Industrial Policy – Lessons for Africa' and core financial support to its work programme for the governments of Denmark, Finland, Sweden, and the United Kingdom.

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1 Introduction

In Ghana, business–government collaboration has tended to be dependent on the political ideologies of the reigning political regime in addition to state institutions and organizations such as the Constitution, existing laws, ministries, departments, and agencies (Ackah et al. 2010).These state institutions are responsible for the formulation and implementation of policies that are aimed at regulating the activities of the private sector. The private sector in Ghana typically refers to institutions and organizations such as the informal sector, privately-owned local and foreign businesses, business associations, and financial institutions.

The nature of business–government co-ordination may be expected to be an important component of a country's economic growth. Indeed, effective co-ordination mechanisms that exist between the state and private businesses could contribute significantly to the growth and development of a country for a number of reasons. An effective state–business relationship is characterized by a high level of trust between the government and the private sector. This implies that entrepreneurs and business people should have significant confidence in the government and its policy directives, especially when these are directed at addressing market failures in the economy and enhancing private sector performance. The presence of mutual trust also implies that there are positive reactions from the private sector in response to policies set up by the government to assist the former. For example, where government sets up a fund to encourage research and development or export activities, firms respond by taking advantage of these opportunities to enhance their own output. There should also be a high degree of transparency in the operations of the state and the private sector, and an appropriate and effective channel of information flow between these two parties.

Sen and te Velde (2009) state that there are four ways to measure the effectiveness of state–business relations. First, the degree of private sector participation is a crucial determinant of the state of state–business co-operation. In Ghana, the presence of strong private sector participation is a necessary condition for effective business–state collaboration. Where a large number of firms is involved in the dialogue and collaborative mechanisms between businesses and the state, it is more likely to lead to mutually beneficial outcomes. This is because firms are able to channel accurate information to government about their positions on relevant issues and the challenges they face and be involved in formulation policies to address these issues. Where there is adequate buy-in, firms are also crucial in the implementation of formulated policies and are also able to provide useful feedback to government on the success, or otherwise, of the enacted policies.

The second approach suggested by Sen and te Velde (2009) is the manner in which the state organizes itself in its interaction with the private sector, particularly with respect to the presence of an investment promotion agency and a governing unit for the private sector. The Ghana Investment Promotion Centre (GIPC) was established in 1994, and has been in existence for over 20 years to encourage investment in the country. With respect to a governing unit for the private sector, the Exporter's Forum, established in 2001, which organizes forums twice a year, where the private sector has the opportunity to interact with government. Other opportunities for public–private dialogue have been advanced by various governments and the private sector over time in the country. Third, there should be effective mechanisms for public–private dialogue that encourages continuous and transparent communication between the state and the private sector. Finally, there should be mechanisms to prevent rent-seeking and harmful collusive behaviour between the state and some special-interest groups of the private sector.

In the following sections, we will critically examine the nature of state–business collaborations, with particular emphasis on the mechanisms created over time to foster an effective relationship between the state and the private sector. Based on the criteria developed by Sen and te Velde (2009), Ghana appears to satisfy some of the criteria for effective state–business relations as pertains to the participation of the private sector in the decision-making process, and the degree of dialogue between the government and the business community. Nonetheless, issues of corruption and general rent-seeking activities remain prevalent. Additionally, although there are pieces of legislation aimed at regulating competitive behaviour, such as the Public Utilities Regulatory Commission Act 1997 (Act 538) and the Protection against Unfair Competition Act 2000 (Act 589), there are currently no comprehensive competitive laws to monitor general competition in the economy and address the incidence of malpractice that affects the competitive process. The presence of competitive laws to protect the interests of consumers and producers is crucial. In the ensuing section, an attempt will be made to establish some correlations between the evolving state–business mechanisms that exist in various points of Ghana's history and various macroeconomic indicators, with specific focus on industry and the manufacturing sector.

2 A review of the historical nature of business–government co-ordination in Ghana

The relationship between the state and the private sector has varied over the years, and over different political regimes. There is a prevailing perception that businesses have tended to benefit more in terms of relations under civilian governments compared to military rule. In the former, the interests of the private sector have been better recognized and accepted, and the state has demonstrated greater concern for the integration of the private sector as the main driver of economic growth.

The establishment of a number of business associations such as the Association of Ghana Industries (AGI), the Ghana Employers' Association (GEA), Ghana National Chamber of Commerce and Industry (GNCCI), the Private Enterprise Federation (PEF), among others, has also transformed the nature of state–business relations in the country, and has led to increased dialogue and engagement between the state and business community over time. The role of international influences in response to macroeconomic pressures experienced by the country is another significant contributor to the degree of business–government collaboration in Ghana.

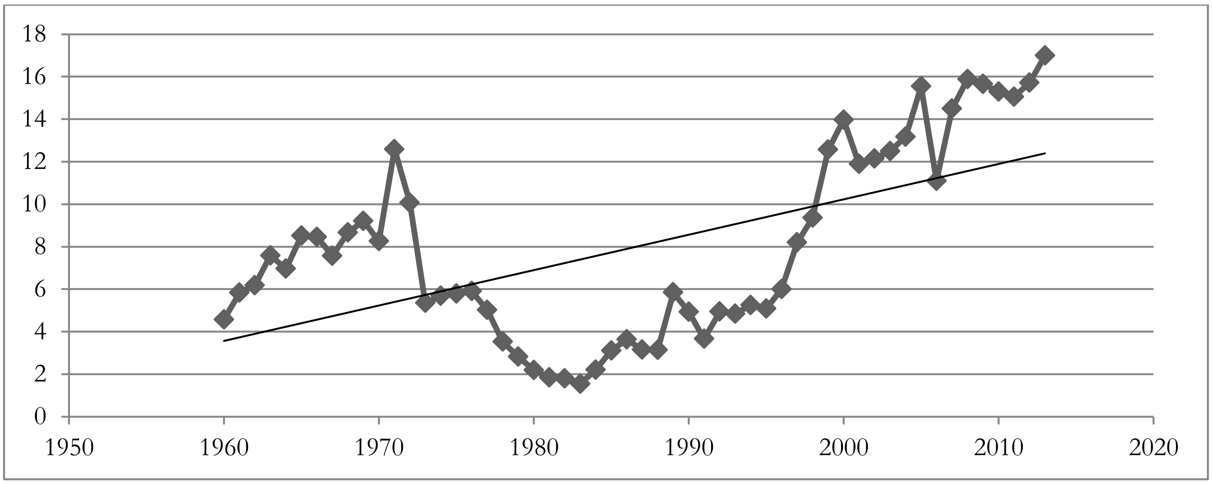
This section of the paper reviews the defining moments of business–government co-ordination mechanisms in Ghana, from independence to the present period. The analysis focuses on three periods in the economic history of state–business relations in Ghana: 1) the immediate post-independence period and the adoption of a statist approach to development where the state was the main engine for development; 2) the period of military rule that was characterized by some semblance of civility in the relations between the state and the private sector; and 3) the post-military regime, where positive relationships with the private sector were deliberately developed and cultivated and the private sector was declared as the main engine of growth for Ghana's development.

2.1 The immediate post-independence era and the pursuit of statism as a development approach

The immediate post-independence era from 1957 to 1966 emphasized a period of dominance of the state in economic activities in the country. There are diverging reasons attributed to the lower involvement of the private sector around this period. One school of thought states that private businesses were less involved in the development process due to a general distrust of private entrepreneurs by the ruling government. Proponents of this theory assert that there was some concern by the state that the emergence and success of a capitalist class that was independent of government might be politically threatening (Opoku 2014). According to Weber (1978), in the interest of continued supremacy therefore, the state tended to oppose the economic independence of the bourgeoisie. The thriving private businesses at the time were those with close ties to the government, who could contribute towards the fortunes of the government and would not pose a threat to state control.

A second school of thought, however, proposes that the lack of a well-defined private sector and the greater participation of the state in economic activities was a result of the lower capacity of the private sector to provide the necessary impetus to spear-head rapid economic growth in the country, despite the efforts of the state to build capacity in the sector. Initially, the private sector was deemed crucial to the success of the import substitution policy at the time of independence and therefore, local entrepreneurs were frequently sent abroad to be trained in the areas of shoe-making, laundry services, and other relevant productive activities, so that they could return and contribute towards the development of the Ghanaian economy. Unfortunately, a number of these entrepreneurs did not return to Ghana but remained in the developed countries to which they had been sent.[1] Identifying the importance of credit to the development of private businesses, the state also established institutions, such as the Industrial Development Organization, to provide access to credit to businessmen. Indeed, according to macroeconomic indicators, domestic credit to the private sector as a percentage of GDP increased during the period from 1960 (See Figure 1).

Figure 1: Domestic credit to private sector as a % of GDP, 1960–2013



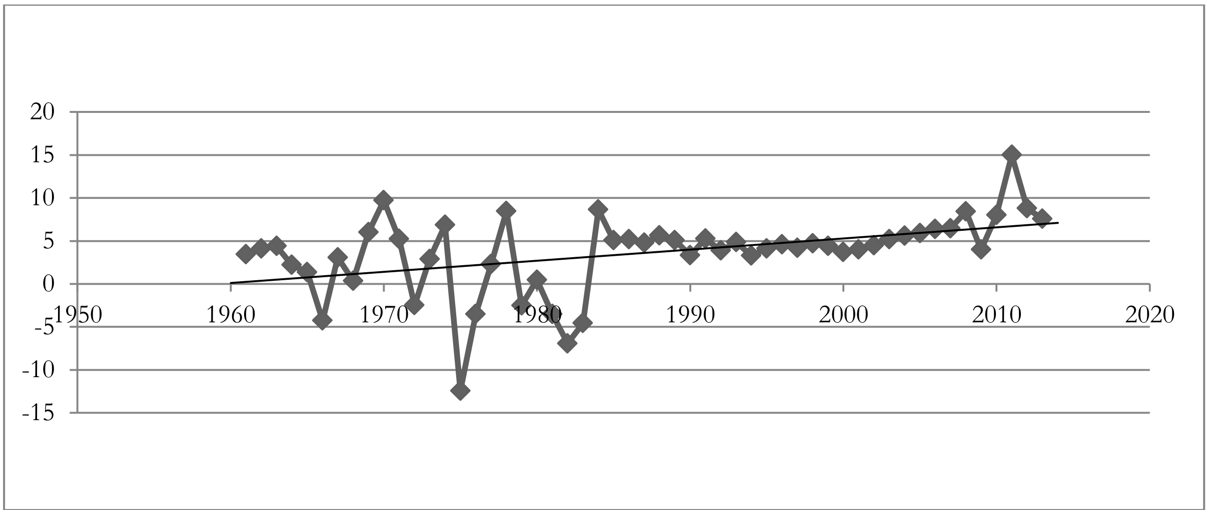
Source: World Bank World Development Indicators (WDI), 1960–2013.

Additionally, legislations such as the Industrial Relations Act of 1958 (to harmonize relations between employers and employees); the Companies Code of 1960 (to regulate profit and non-profit companies); and the Capital Investment Act of 1963 (to provide guidance on the allocations of concessions to investors) were introduced to further regulate the conditions of businesses in the country. Despite the state's attempts, however, the pace of development was deemed too slow, and efforts at a private sector-led growth were therefore abandoned in favour of a more socialist approach to economic development.

[1] Interview with K.B. Asante in December 2008.

Ghana's development path immediately after independence was characterized by statism, where the government played a dominant role with respect to economic activity within the economy. Although there were some attempts by the state to encourage participation by the private sector, the pace of growth by this sector was slower than anticipated as investments made in raising the capacity of indigenous businessmen did not appear to yield the anticipated results. This resulted in the state taking up the core mandate of development, with the private sector playing a less-pronounced role within the economy. Therefore, in the post-independence period, the largest state-owned enterprises (SOEs) were created, including cocoa marketing and mining enterprises. The number of SOEs increased from four in 1957 to about 53, a few years after independence (Appiah-Kubi 2001). Additionally, employment levels also rose from 11,052 in 1957 to 115,826 in 1966 (Adda 1996). According to Appiah-Kubi (2001), the public sector accounted for about 86 per cent of total employment during the Nkrumah regime. Although increases in growth rates were observed between 1960 and 1963, economic growth however began to fall after 1963 and reached a low of -4.3 per cent in 1966, the year of overthrow of the Nkrumah regime (see Figure 2).

Figure 2: Ghana GDP growth rate (annual %), 1960–2013



Source: World Bank WDI, 1960–2013.

There appears to have been very little participation by the business community in decision-making processes in the early post-independence era. Additionally, there were no structured avenues for continued and structured dialogue between the state and the private sector, all of which led to a less-vibrant private sector. The state led the development process and the businesses that flourished were those that were closely affiliated with the state.

2.2 State–business co-ordination under military regimes

Statism was not pursued during the various military regimes, and indeed there were concerted efforts to erase the effects of statism in earlier military regimes. According to Ackah et al. (2010), the National Liberation Council (NLC) and National Redemption Council (NRC) regimes (and later, the Progress Party) undid the socialist machinery of the state and attempted to forge a new relationship between the state and the private business community. For instance, a number of boards were set up to review the nature of state–business relations in the country, and some of these were responsible for the privatization of many of the SOEs that had been set up in the immediate pre-independence era. A reason for the unpopularity of statism was that it was generally considered to have failed and there was some attempt by subsequent governments to distance themselves from this ideology. For example, the NLC, between 1966 and 1969, deliberately privatized a number of SOEs that had been established under the statism development programme. Additionally, given the lower attention given to business people (particularly non-party affiliates)[2] during the era of statism, earlier military regimes were eager to forge a new relationship with the private sector which gave more prominence to the business community. It is important to note, however, that these business people were often individuals who had close political ties to the ruling government.

The NLC therefore instituted a number of liberal market reforms in order to achieve this goal of closer state–business relations. For example, the Ghana Business Act was established in 1969 to encourage local business start-ups, with restrictions set on foreign nationals to prevent them from engaging in certain sectors of the economy. The import licencing regime was also modified to better favour local business people. Additionally, in order to better underscore the importance of the private sector, business people were often consulted in major policy decisions. This nature of dialogue was further encouraged with the emergence of a number of business groups such as the Association of Ghanaian Businessmen, the Crusade for the Protection of Ghanaian Enterprises, the Indigenous Ghana Manufacturers' Association, among others. A number of prominent business people were also appointed to lead major public ventures (Esseks 1975). There was also the introduction of the policy of Economic Ghanaianization through the Ghanaian Enterprises Decree (GED) of 1968, which reserved particular enterprises for Ghanaians in areas of retail, wholesale, transport, and extractive businesses, among others. Interestingly, however, despite the attempts by early military regimes to distance themselves from Nkrumah's ideologies, this policy of Economic Ghanaianization that was initiated by the NLC was among Nkrumah's chief policy objectives that were aimed at attaining greater economic independence and control of the economy by indigenous Ghanaians (Killick 2010).

The policy of Ghananizaton was continued by the NRC between 1972 and 1979.[3] There were deliberate attempts by the state to instil some semblance of law and order in the execution of economic activities in the economy. For instance, in 1973, the NRC set up the Regional Development Corporation in all regions of the country to spearhead development in these regions, based on their unique resource endowments and the needs of the regions. Development in the regions was to be accelerated through the promotion of agriculture, industry, and commercial businesses. The main economic policy that was adopted under this regime was one of Indigenization, which encouraged the participation of the private sector in economic activity. To achieve these goals, entrepreneurial skills of indigenous business people were developed and decrees, such as the Investment Policy decree of 1975 and Ghana Enterprises Development Decree of 1975, were enacted to encourage investment activities by the private sector. Similar to the activities undertaken by its predecessor, the NRC engaged in dialogue with business leaders and attended inauguration ceremonies of new businesses in order to further promote the activities of the private sector (Opoku 2014). From 1972 to 1974, the economy recovered somewhat from the world-wide economic stagnation that had been caused by the oil crisis of 1973 with growth rates rising from -2.5 per cent in 1972 to 6.85 per cent by 1974 (see Figure 2). More significantly, the growth of the industry sector and manufacturing sub-sector (as a proportion of GDP) increased from 19.9 per cent and 12.18 per cent respectively in 1972, to 23.4 per cent and 15.5 per cent by 1975.

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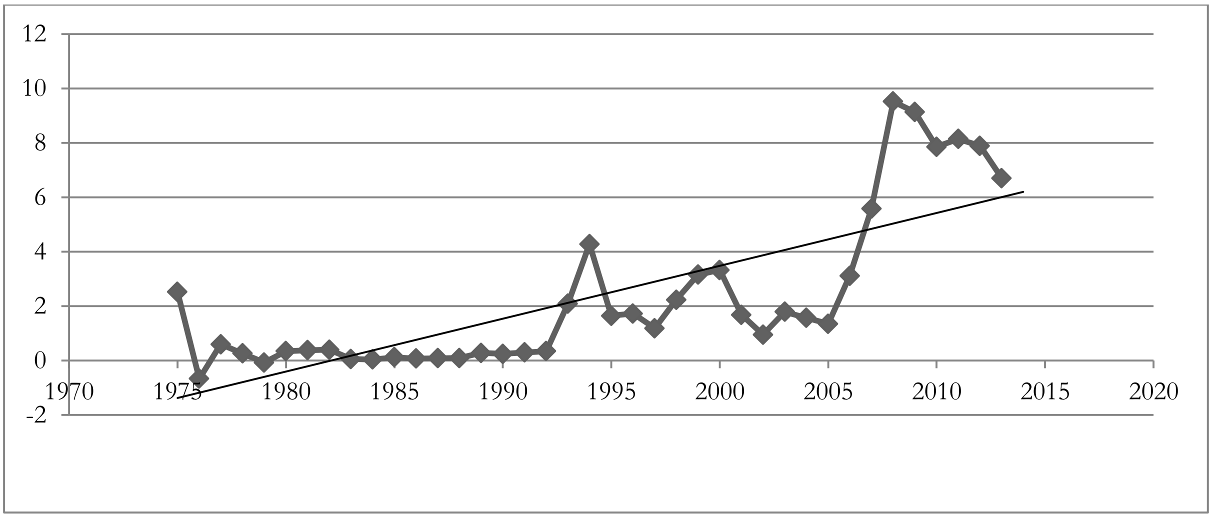
[2] It is argued that this preferential treatment of party affiliated businesses was also present during the NLC regime, and indeed characterized the operations of the various political regimes, both civilian and military.

[3] Although the period between these military regimes was characterized by civilian rule, the civilian government did not stay long enough in power to effect significant changes on the nature of business–government co-ordination. Additionally, the OPEC oil crisis of the 1970s also presented macroeconomic challenges around this period that the state struggled to bring under control.

Despite the positive macroeconomic developments, closer relations with the state inadvertently contributed to higher incidences of rent-seeking and corruption. For instance, indigenous businessmen felt that foreigners were being given preferential treatment in the allocation of import licences. Foreign businesses were also concerned with certain unfavourable actions undertaken by the government. For example, a number of foreign-owned firms, such as the Ashanti Goldfields Corporation, were nationalized against the will of foreign owners. Additionally, the government refused to settle external debts that it considered to be dubious (Ackah et al. 2010). Net foreign direct investment (FDI) (per cent of GDP) into the country therefore declined to an all-time low of -0.66 per cent by 1976 (Figure 3), and growth in the manufacturing sector fell. Furthermore, despite its initial impressive trend, economic growth rates plummeted from 6.85 per cent in 1974 to an all-time low of -12.43 per cent in 1975, to -2.5 per cent by the end of the NRC regime.

Figure 3: Net FDI as a % of GDP, 1975–2013



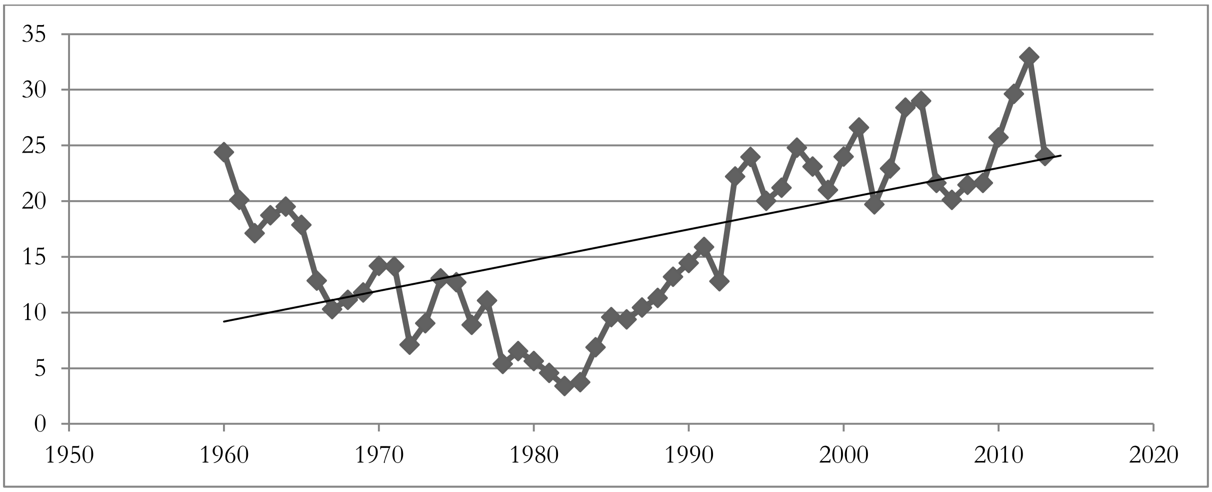
Source: World Bank WDI, 1975–2013.

Although the earlier military regimes of the NLC and NRC made some attempts to include the private sector in investment initiatives, they were not always successful as the process of selection for private sectors was not transparent and or guided by any clear policies. There was perceived to be a high incidence of corruption in the relationship between the state and the private sector, particularly with respect to the securing of import licences and other rent sources. This was believed to have prompted the more radical and ideologically minded military interventions of 1981 and 1992 of the Armed Forces Revolutionary Council and the Provisional National Defence Council (PNDC), respectively. The private sector had been identified as the root of all things corrupt; it was generally felt that the activities of corrupt and self-seeking businessmen were largely to blame for the hardships that the country had experienced in the 1970s. The subsequent policies that were adopted and the manner in which these policies were implemented resulted in several actions that had devastating effects on business people in the country. For example, prominent business people were continually questioned by the state under its belief that corruption was endemic in the business community. Under the PNDC, the private sector was initially excluded from major policy- and decision-making processes—a deviation from policies practiced in the earlier military rule regimes. The state did not engage in dialogue and discussion with long-standing business organizations, such as the AGI and the Ghana National Chamber of Commerce (GNCC), which had been formed under earlier military regimes, thereby weakening their advocacy functions. This was because the ruling government believed that these institutions themselves may have been part of the culture of corruption that was endemic to the country. The general strategy of business people around this period was therefore to maintain a low profile for fear of being investigated, tried for offences in a court of law, or have their businesses confiscated.

The initial limited contact under the PNDC regime with the private sector between 1981 and 1983 saw industry grow at a negative rate of -12.5 per cent and the manufacturing sub-sector grow at -15.6 per cent. Manufacturing exports as a percentage of total exports was about 5.65 per cent between 1980 and 1984. The turning point in the state–business relations between the PNDC government and the private sector came later in the 1980s, with the adoption of the economic reforms, including privatization and trade liberalization. There was some speculation by the international community that the market reforms, in response to the debilitating state of the economy, were not yielding much success due to the limited response and commitment on the part of the private sector. This led to pressures on the state by international donors including the World Bank and the International Monetary Fund (IMF), to open discussions with the private sector in order to increase the acceptance and success rate of these reforms. In response to these pressures for increased dialogue with private businesses, the first consultative body, the Private Sector Consultative Committee (PSCC), was established in 1988, but it collapsed a year later without any significant impact due to continuing distrust between PNDC officials and business leaders (Hart 1996). In 1991, a second consultative body, the Private Sector Advisory Group (PSAG), was formed, but it also collapsed after a year due to frustrations in the business community that their opinions were not being taken into consideration by the government.

The state continued to tentatively dialogue with members of the private sector with continued encouragement from international donors. Macroeconomic indicators show some improvement in the performance of the economy with the adoption of the economic recovery packages from the IMF. For example, gross investment had increased steadily from 3.75 per cent in 1983 to 15.88 per cent in 1991 (see Figure 4).

Figure 4: Gross capital formation as a % of GDP, 1960–2013

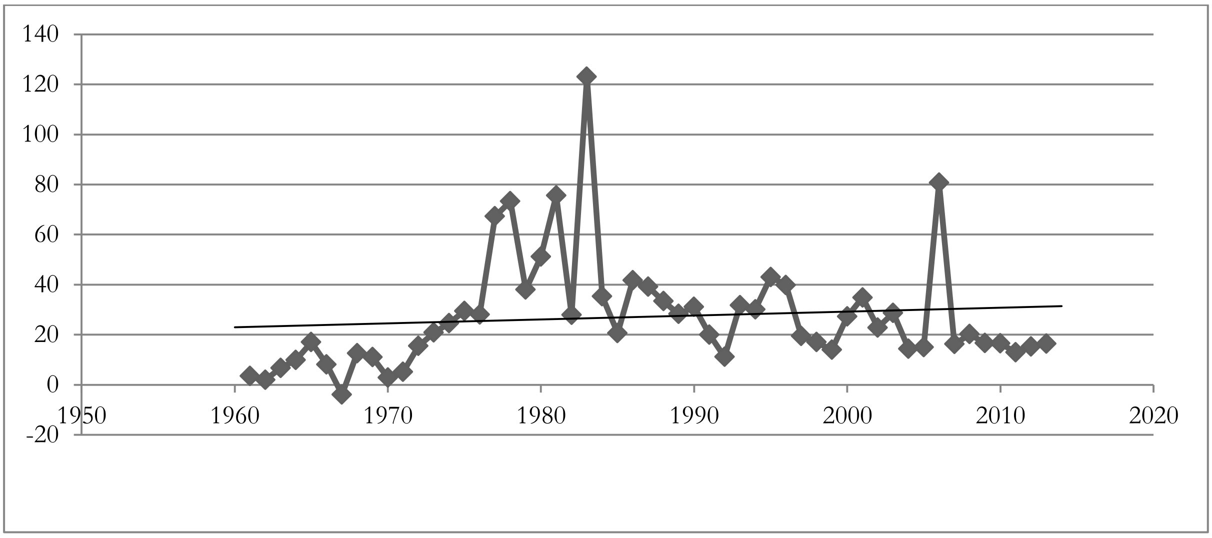


Source: World Bank WDI, 1960–2013.

Inflation had also fallen from an all-time high of 123.06 per cent in 1983 to 11.15 per cent by 1992, as indicated in Figure 5. With respect to the industry sector, the sector experienced positive growth rates of 9.7 per cent between 1984 and 1989, with the manufacturing sub-sector growing at about 10.6 per cent. Within the period, manufacturing exports as a percentage of total exports rose from 5.65 per cent to 8.77 per cent (see Figure 6).

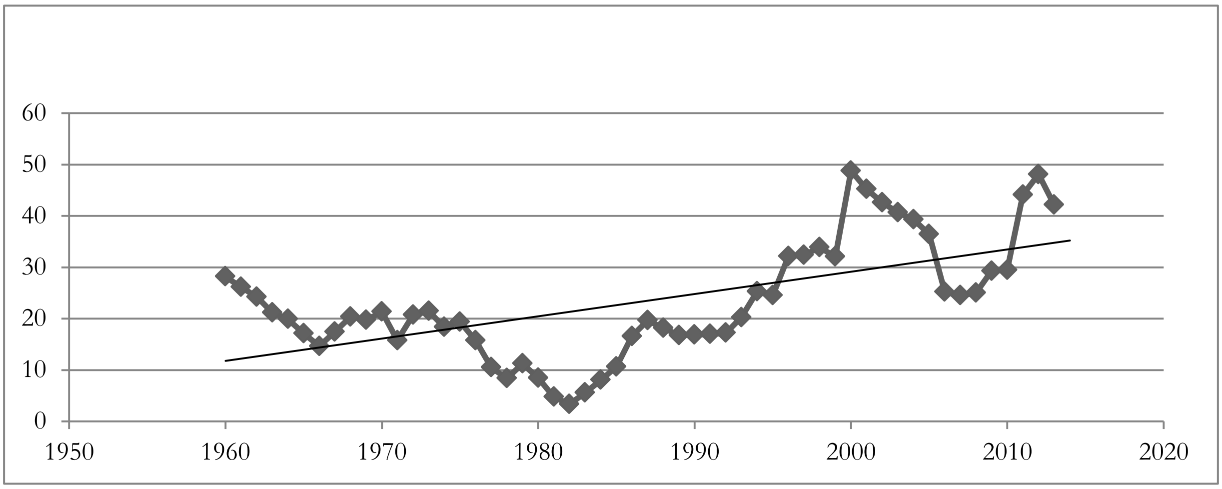
The adoption of liberal market policies also steadily increased exports from 5.6 per cent in 1993 to 17.2 per cent by 1992, and to 48.8 per cent by 2000. And, finally, economic growth rates rose from -6.2 per cent in 1982 to 5.3 per cent by 1991.

Figure 5: Annual Inflation, GDP deflator (annual %), 1961–2013



Source: World Bank WDI, 1961–2013.

Figure 6: Exports of goods and services (% of GDP), 1960–2013



Source: World Bank WDI, 1960–2013.

2.3 State–business co-ordination mechanisms in post-military regimes

Post-military regimes have tended to be more engaging and accommodating of the private sector. This is most evident particularly from 2000 to 2008, where a 'golden age of business' was declared by the state and the private sector was affirmed as the engine for growth and development of the economy. This was not so much the case in the earlier civilian regime from 1992 to 2000, where the state was, at best, tolerant of the private sector. The conversion of the military regime of the PNDC to a civilian one in 1992 did not do much to dampen the government's perception of the private sector as corrupt and the source of the nation's slow growth. Between 1992 and 2000, although more effort was made by the state to collaborate with the private sector, this was under continued pressure from the international community such as the World Bank.

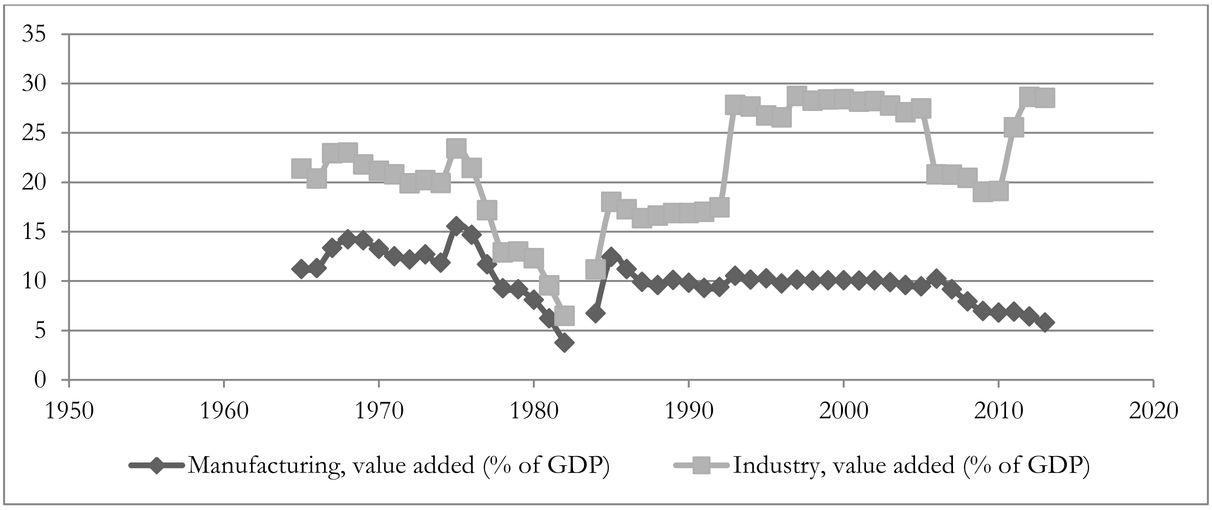
Although relations with big businesses remained strained, better relations existed between the state and small-scale entrepreneurs as the state perceived these smaller groups to be less corrupt (Opoku 2014). For example, the Council of Indigenous Business Associations (CIBA) was established in 1993, which was consisted of small and medium scale enterprises (SMEs). Although CIBA received a good amount of financial support for their activities, due to poor administration and inefficient personnel, it collapsed by 1996. Another consultative group, the Private Sector Roundtable (PSR), was also formed in 1993 for the aggregation and expression of private sector opinions about lingering impediments to private sector growth (Ayee, 1999). The PSR made some recommendations on the conduct of policy, such as the need for reduced government borrowing in order to prevent crowding out of the private sector, instituting government-business consultation, among others. Although government endorsed these recommendations, it did not act on them (Opoku 2014), and the PSR eventually collapsed in 1995.

It is interesting to note that the newly-formed civilian government seemed to engage the private sector primarily through the establishment of new business organizations, despite the presence of already-existing associations such as the AGI and GNCC. The state appeared to deliberately ignore these prior-existing organizations and excluded them from deliberations on relevant policies. In 1995, the Private Enterprise Foundation (now Private Enterprise *Federation*) (PEF), was founded under the initiative of the private sector and made up of a large representation from the private sector in order to increase dialogue and collaboration with government on development of the private sector. The organization carried out its mandate successfully for a period until it was determined to be too critical of government. Around the 1990s, there were continued efforts to open up channels of communication between the government and the general public with the setting up of a number of policy think tanks, such as the Institute of Economic Affairs (IEA), Centre for Democracy and Development (CDD), Third World Network (TWN), among others, with funding from international donors. Additionally, the introduction of several private television and radio services further widened the platform for discourse between the government and the private sector, and restructured the decision-making process in the country to a degree.

The Ghana Investment Promotion Centre (GIPC) was also established by an act of Parliament in 1994 (Act 478) to encourage investments in the county. Despite its mandate for promoting investments in the country, there have not been impressive gains in this area. According to Aryeetey (1994), there was decreasing investment in the manufacturing sector so that by 1996, manufacturing accounted for only about 4.8 per cent of GDP, from 7 per cent in 1993. Foreign direct inflows (as a percentage of GDP) also decreased from 4.3 per cent in 1994 to 3.3 per cent by 2000. Reasons often given for this dismal performance included unfavourable macroeconomic conditions such as high inflation rates and exchange rate volatility (Gyebi et al. 2013), lack of reliable and up-to-date information on costs of investment and the investment opportunities within the country, due to the low capacity levels of the personnel and a lack of proper co-ordination between the GIPC and the MDAs. Additionally, there were significant delays in the registration of local and foreign investment firms through the GIPC. In 2013, the GIPC Act was revised—a major component of this revision was to raise the capital requirements for investments within the country, in order to steer foreign investments to more capital-intensive and technologically advanced sectors. This amendment however had the unintended consequence of reducing domestic investments as local investors faced some difficulties in raising enough capital to meet the requirements stipulated by the new Act.

Although the establishment of the GIPC did not significantly improve investments in the economy, the greater effort at state–business co-ordination by the state, in general, was correlated with some positive macroeconomic indicators within the country. For example, between 1990 and 1996, industry grew at 4 per cent, with the manufacturing sub-sector growing at about 2.6 per cent. The electricity and water sub-sector experienced the greatest growth of 8.5 per cent within the period. Additionally, manufacturing exports as a share of total exports was approximately 18 per cent between 1990 and 1996. Value added by industry as a percentage of GDP increased from 17.5 per cent in 1992 to 28 per cent by 2000, although there was little growth in the manufacturing sub-sector within the period.

Figure 7: Industry and manufacturing, value-added (% of GDP), 1960–2013



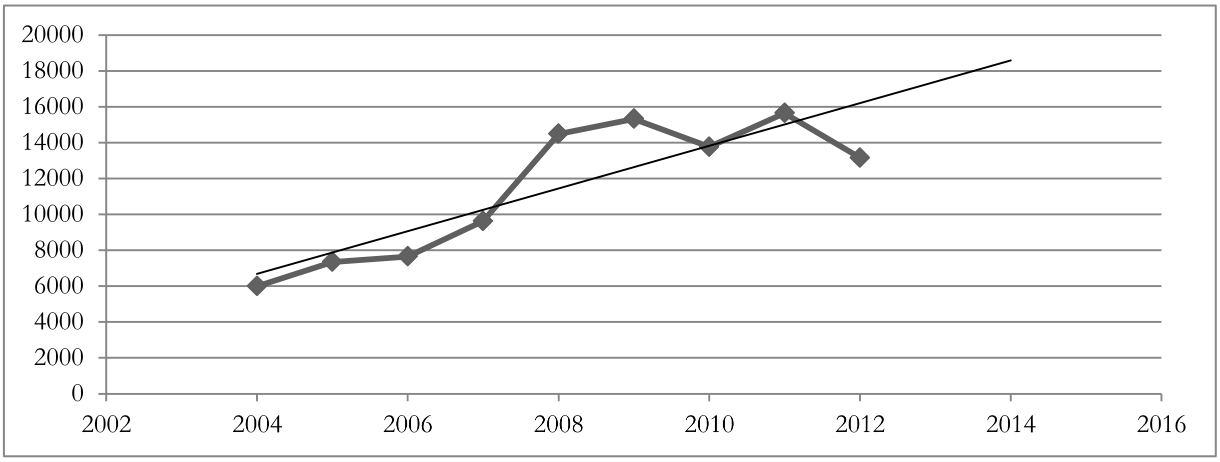
Source: World Bank WDI, 1960–2013.

The New Patriotic Party and a golden age of business

The New Patriotic Party (NPP) assumed office in 2001 and given its pro-business orientation, there were high expectations of a radical transformation of the private sector and a corresponding marked improvement in economic performance. Indeed, in the first week of office, the NPP proclaimed a golden age of business and set up a Ministry for Private Sector Development to oversee and promote business development. Additionally, liberal market reforms continued to be pursued.

The main factor driving the NPP government's approach to state–business relations was its ideology, which was largely pro-market. Many of the key actors in this new civilian regime and the business sector had endured a difficult relationship with government under Rawlings in both military and civilian regimes (Opoku 2014). President Kuffour was himself a businessman, as were indeed a large number of NPP supporters and affiliates. The private sector generally expected to do better under the NPP administration. It was therefore not surprising that the number of new business grew significantly in the period. Between 2004 and 2008, the number of new businesses emerging in the private sector more than doubled from about 5,989 to 14,485 (see Figure 8). Additionally, the growth in the industry sector was sustained from 2000 to 2006 at about 28 per cent, as percentage of GDP.

Figure 8: Number of new businesses registered, 2004–12



Source: World Bank WDI, 2004–13.

The main approach to defining the relationship between the state and the private sector under the NPP was the pursuit of an industrial policy embodied in what were described as Presidential Special Initiatives (PSIs). The PSIs were mainly centred on five pillars including the mobilization of private initiative, expansion of the industrial and export base, and a fruitful partnership between government and the private sector. The proposed policy had a number of similarities with models of development adopted by the East Asian countries. For example, the state pledged not only to protect local industries, but also to assist in identifying strategic opportunities and redirecting resources appropriately. Additionally, the attempt to foster closer relations between owners of capital and the state is also a feature of the East Asian model. The NPP expected that the adoption of a liberalized trade, investment, and industrial policy would attract both local and foreign investors and eventually lead to an expansion of the export industry (Arthur 2006). Indeed, net FDI flows as a percentage of GDP tripled from about 3 per cent in 1999 to about 9.5 per cent by 2008. Due to the rigorous adoption of liberal market reforms and pro-business inclinations, there were some positive changes in the economic growth of the country: between 1999 and 2008, the growth rate increased from about 4.4 per cent to about 8 per cent.

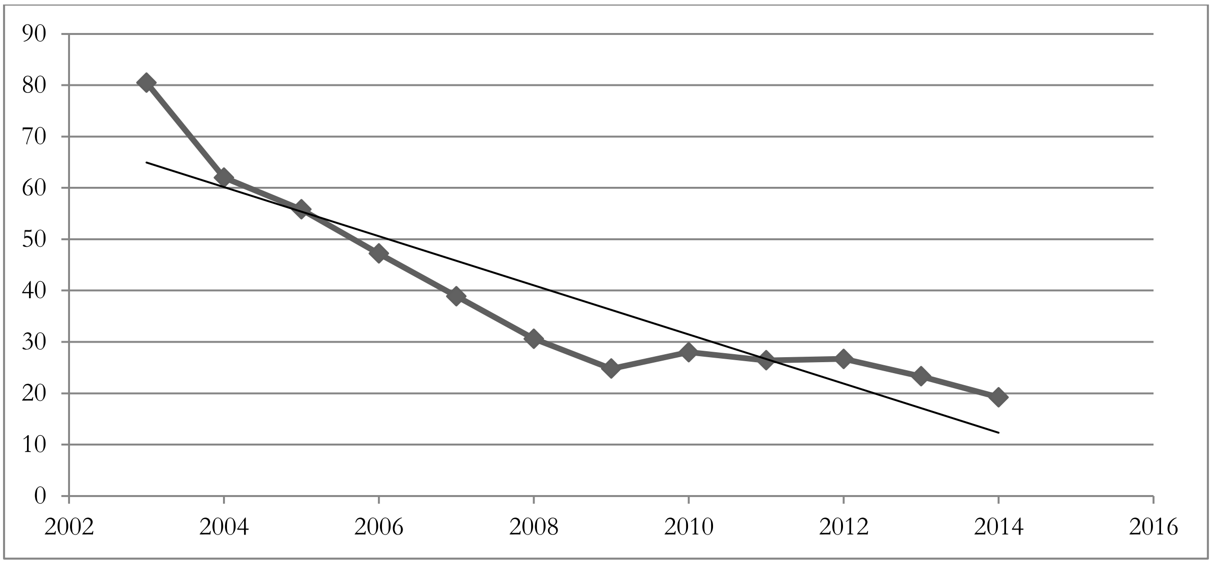
The PSIs were aimed at identifying and lending support to potential business opportunities in Ghana in the areas of salt, cassava, starch, textiles and garments, where Ghana was considered to have a comparative and competitive advantage over other neighbouring countries. This was done in an effort to promote diversity and wealth creation in the productive sector of rural areas. Other priority areas included Cotton and Distance Learning initiatives. These initiatives were couched within the President's vision of creating a golden age of business that would place the private sector at the forefront of growth and development.

The PSIs were intended to identify new sources of growth through added value to non-traditional export and domestic commodities and through this channel increase job creation and rural incomes, thereby alleviating poverty. The PSIs were based on a public–private partnership in which the state mobilized financial and technical resources. When the businesses became viable, the entrepreneurs had the option of full ownership, thereby empowering smallholder private businesses and farmers to organize production to raise investment and promote exports (Asante 2012). The collaboration between the state and private entrepreneurs should have been wholly successful, particularly because these were projects that were of particular significance to the President. Indeed an entire Ministry (Ministry for Trade and Industry, Private Sector Development, and PSIs) was set up and dedicated to the management of the President's initiatives and private sector-led growth.

Asante (2012) has reported that despite the PSI projects carrying the President's special seal of approval, they collapsed soon after introduction for a number of reasons. First, planning of the PSIs was not done in continued consultation with local entrepreneurs and the industry. The government's strategy had been to select a few winning sectors of the economy and direct support to them. The choice of which sectors or sub-sectors to invest in, and what policies to adopt were decided by the President's Special Advisors and other party functionaries. Stakeholders were consulted only *after* the final drafts of the project details had been put together, for example as in the case of the Oil Palm PSI (Asante 2012) . This led to disagreements between the industry participants and government on details of the implementation. For example, the Corporate Village Enterprise (COVE) model to expand and finance the industry was a major object of disagreement (Asante 2012). Nonetheless, this model was still included in the final project design, despite negative reactions from some industry participants. Second, these initiatives were based mostly in southern Ghana and would therefore not be expected to benefit the poor citizens of the country. Third, there was also a shortfall with respect to technical, financial, and material support for the initiatives, which led to their eventual collapse. This included requisite human capital and managerial competencies. Finally, it is also argued that political imperatives had a role to play in the eventual failure of the PSIs through the lack of consensus among a number of political elites on the objectives, management, and procedural legitimacy of the initiatives (Asante 2012).

Other areas of interest in the NPP administration followed a number of studies commissioned by public organizations including Bank of Ghana and the Ministry of Trade and Industry. They often indicated that access to credit facilities was of prime concern to the private sector. This therefore culminated in the setting up of a number of financial interventions to increase credit access to private businesses. Indeed, with the setting up of a Venture Capital Fund and the Business Assistance Fund, domestic credit to the private sector increased from 12.56 per cent to 15.89 per cent between 1999 and 2008. The Microfinance and Small Loans Centre (MASLOC) was also established in 2006 to implement the Government of Ghana's microfinance programmes targeted at reducing poverty, creating jobs and wealth. Among its functions included the disbursement of micro and small loans to low-capital entrepreneurs and the provision of business advisory services, training and capacity building for SMEs. These were aimed at providing the required skills and knowledge for the efficient management of entrepreneurs' respective businesses. Some recent research indicates that the programme has produced some positive outcomes among loan beneficiaries such as expansion of business activities, increases in profit margins, and general increases in livelihoods (Quansah et al. 2012). Despite its positive outcomes, a major challenge of the programme was the high loan default rates. Currently, MASLOC has a default rate of over 90 per cent, a situation which undermines the very purpose of the credit and loans scheme. A number of other financial support schemes were provided to businesses, for example, the Export Development and Investment Fund (EDIF) was established in 2001 to provide funds for the development and promotion of business activity and export in the country. There does not appear to have been significant effects on exports, however, as the exports to GDP ratio increased from about 32 per cent in 1999 to an all-time high of 48 per cent in 2000, but fell to 25.05 per cent by 2008. Corporate tax cuts were also extended to businesses in the NPP era and the general costs of doing business in the country were reduced. For example, the costs of business start-up procedure as a percentage of GNI per capita reduced significantly from about 80.5 per cent in 2003 to about 30.6 per cent by 2008 (see Figure 9).

Figure 9: Cost of business start-up procedures as a % of GNI per capita, 2003–14



Source: World Bank WDI, 2004–14.

Increased dialogue with the private sector was encouraged and the government organized regular highly visible bi-annual meetings with business leaders such as the Private Enterprise Federation (PEF), where opinions and feedback from the business community were solicited. The Ghana Investors Advisory Council (GIAC)[4] was also founded by former President J.A. Kuffour in 2002 with encouragement from the IMF and World Bank. This was a public–private collaboration mechanism aimed at creating a platform for dialogue between the government and the business sector, where governments could have access to the opinions of matured business people. Additionally, such a forum would help to identify certain challenges faced by the business community and propose useful solutions for resolving these difficulties. Although the President of Ghana acted as the Chair of this council, the lack of commitment on the part of the members of this council dwindled and the Council collapsed. It may be surmised that the NPP era was one of the periods where considerable open attention was paid to the private sector and the state made attempts, not only to include them in the development process, but outlined the development strategy of the country with private businesses and entrepreneurs as the main engine of growth for the country.

It is important to note that even though the performance of the economy under the NPP government improved significantly, it would be difficult to attribute this to the policies on the private sector. GDP growth increased from 3.7 per cent in 2000 to 8.4 per cent by 2008; the level of FDI in the country also rose from 3.3 per cent to 9.5 per cent as a percentage of GDP within the period. There were several other things happening at the same time, including increased assistance as a result of a Heavily Indebted Poor Countries (HIPC) status, rising commodity prices, and a generally improved macroeconomic environment. There is the widely held view that the performance of the economy encouraged more private initiatives (ISSER 2008). While the private sector initiatives were generally seen to be positive, they are also assessed to have been inconsistent in their delivery and therefore limited in their impact

[4] No longer in existence.

The state and its relations with business after 2008

There was a change in government in 2008 after democratic elections. There was some intention on the part of the new NDC government to engage and promote the activities of the private sector in a new period through, for example, the creation of a Private Sector Advisory Council (PSAC), and the promotion of Public–Private Partnerships (PPP). The PSAC was inaugurated in 2012 and is made up of a nine-member council with the President as the Chairman, aimed at addressing strategic issues regarding private sector development, in an effort to accelerate the growth and transformation of the economy. In a recent PSAC meeting on February 2015, the Chairman re-emphasized a commitment to executing relevant private sector policy to develop a thriving, productive, and competitive private sector, in order to transform the sources of the country's growth and provide greater economic opportunity to all Ghanaians. It was noted that certain steps had been taken towards the achievement of this goal: direct financial support to certain segments of the private sector including the pharmaceutical industry, agri-business, and the non-traditional export sector. Concerns relating to the ensuing energy crisis were discussed, as part of the President's 2014 'agenda for transformation', which focuses on diversification and value-additions to primary products.

The National Policy on PPP was launched in 2011 and is intended to serve as a framework for carrying out PPP projects in the country. The aim of this policy is to address the infrastructure gap in the country through partnerships between businesses and the government, spanning projects from transport to health and business to community development. The PPP policy was developed with about USD30 million in aid from the World Bank in the preparation of the legal framework, systems, and capacities of relevant institutions for the adoption of the policy. The policy was expected to increase economic growth and employment in the economy. Nonetheless, there have been concerns of low local entrepreneurs' capacity, resulting in a number of PPP projects being undertaken by some foreign firms—sometimes in partnership with some local firms—and the state. Additionally, the large capital investments required for these projects often discourage investments by the private sector as they are often unable to mobilize the required resources. These challenges have led to limited uptake of this policy as a whole from local entrepreneurs.

A major economic occurrence in the country around 2010 was the production of oil in the country after its discovery in 2007. The government took some steps to design policies that would be inclusive of both state and private interests. After a nation-wide consultation process, a policy framework to address local content issues was put forward. Following further deliberation, the Local Content Petroleum Bill was passed in 2013.

Local content generally refers to a set of rules established by the Government of Ghana to ensure that local companies are active participants in on-going petroleum operations in the country in order to ensure some transfer of knowledge from the foreign investors to the host country, build the capacity of local companies, create local jobs, and finally, accelerate the growth and development of the local economy. According to the policy objectives, 90 per cent local content and local participation in all petroleum activities was to be achieved by 2020. There are a number of concerns and challenges with this Bill, however. The delay in the establishment of the local content law has been identified as a major challenge to the achievement of the policy objectives by local NGO Africa Centre for Energy Policy (ACEP). Although the local content law was passed in 2013, it had been in consideration since 2007, and oil production began around 2010. The delay in the passing of the local content bill was met with a large degree of concern by policy think tanks and other concerned groups because first, delays would likely lead to a compromise in the transparency with which contracts would be awarded; and second, oil contracts that were negotiated before the bill was passed, for example between AGM Petroleum and the Republic of Ghana, provided only 2.5 per cent for the participating Ghanaian company, despite the draft regulations of 5 per cent equity for Ghanaians in every oil contract, representing a lost opportunity. Other contracts that do not involve any indigenous Ghanaians will also be hard to revoke when the law finally comes into force. Third, there were additional concerns that some recently discovered oil fields were sold in the absence of the local content bill, and did not confer any positive benefits on indigenous companies.

Additional concerns were raised by the indigenous business community and foreign investors as well after the passing of the law in 2013. First, despite the law stipulating that at least 5 per cent equity participation by Ghanaians, a sub-regulation of the bill gave wide discretionary powers to the Minister of Energy to determine the persons who qualify for this minimum equity, therefore creating room for subjective contract allocations and abuse of power. Another concern with the domestic content law was the low capacity of local companies that made it challenging to collaborate on petroleum operations with higher-capacity foreign companies. The low capacity and capability of the local entrepreneurs posed a challenge for the implementation and enforcement of the law. For example, the abrogation of the contract between a foreign company, Tullow Oil, and a local Ghanaian company, City Link, on the grounds of low standards, is a case in point. Therefore, the low competence of local entrepreneurs made it difficult to secure effective partnership between international and local enterprises. Furthermore, it was noted that there was some lack of communication between businesses and government on exploitable opportunities for local business growth. For example, despite the passing of the law on Local content, it appeared that there was not much awareness of contract opportunities by local entrepreneurs. These entrepreneurs often did not know where and how to access relevant information on upcoming tendering opportunities and even when they were able to obtain the information, the information was late and therefore entrepreneurs did not have adequate time to prepare and submit a tender.

The introduction of a financial tax on financial transactions in 2014, given the existing macroeconomic challenges, did not do much to foster favourable relations between state and the private sector. In July 2014, the Ghana Revenue Authority introduced a 17.5 per cent levy on financial services in the country in order to boost revenues. This was met with some resistance by the private sector. Despite the higher costs of business that entrepreneurs would have to incur with the implementation of this levy, it appears that insufficient stake-holder consultations were carried out before its intended introduction. Amid challenges with implementation, the policy was therefore suspended a short while after. The decision to suspend the policy was taken in consultation with relevant stakeholders after it was noted that greater public education would be necessary in order to implement the policy directive effectively. The suspension was supported by the AGI and other business organizations as it was deemed necessary to adapt and tailor the tax policy to be less harmful to the private sector. The tax policy was reintroduced in early 2015, without immediately apparent considerations for the private sector.

One observes that even though both the NPP and NDC governments have maintained some interest in the role of the private sector in national development, the approaches have been strongly influenced by the exigencies of current politics. As a result there is the perception that although the state continued to maintain the private sector as the engine of growth between 2008 and 2014, there was not much commitment to the private sector with respect to its empowerment to lead the country's development agenda. This has been despite sustained pressures from international development partners such as the World Bank and bi-lateral development agencies. Business activity has been negatively affected, and the gains from earlier macroeconomic progress have not been sustained. For example, the export–GDP ratio raised from 25 per cent in 2008 to 48 per cent in 2012 but reduced to 42 per cent by 2013. Despite the production of oil in the country, economic growth fell from a high of 15 per cent in 2011 to 7.6

per cent by 2013 and about 5 per cent in 2014. Furthermore, the number of new businesses registered fell between 2008 and 2013, while a substantial number of companies went out of business owing to a number of challenges in the energy sector and an inadequate supply of electricity to businesses. With respect to the industry sector, the sector witnessed a large jump in growth from 20.8 per cent in 2006 to 25.6 per cent in 2011, although the manufacturing sector continued to experience decreases in growth rates. The increase in the industry sectors growth is a result of the production of oil in Ghana.

3 Conclusions

Literature has tended to emphasize the strong linkages between state–business relations and the economic growth of a country. Indeed effective business–state collaborations which are underscored by trust, transparency, credibility, and reciprocity between both parties can influence the performance of the private sector. This may be achieved through the design and implementation of good policies and institutions.

As we have highlighted, the nature and forms of business–state collaborations in Ghana have tended to change with changing political landscapes and regimes in the country. They have been underpinned by unclear and inconsistent ideologies at times. Business–government relationships have ranged from distrust and tension to modest co-operation and consensus building. Generally, it is observed that there are more cordial relations under civilian, than military, regimes. Despite its best attempts, however, the various political regimes do not appear to have fully addressed the key needs of the private sector, i.e. strengthening the sector to become a key actor and independent. Its needs in relation to access to credit, skills, and entrepreneurial training, export promotion, technological development, among others, have been responded to with not very consistent and adequately designed programmes.

A number of challenges are noted in the continued sustainability of positive state–business relations. First, it seems that there remains some distrust between the state and the business community with regards to favouritism and the award of contracts. This appears to be an unintended outcome of closer collaborations between the state and the private sector. There is some concern that the rent-seeking activities of party affiliates lead to non-equitable treatment by the government and a lack of transparency in the operations of the state and the private sector. Although there have been some attempts by the state to reduce the level of these rent-seeking and corrupt practices, they remain endemic in state–business operations within the country. Second, the efforts to formally institutionalize state–business relationships appear to be primarily driven by efforts by international organizations such as the World Bank. This raises questions and concerns of sustainability once the supporting structures from these donor organizations are removed. The presence of a long-term development plan with clearly stated functions of the state and the private sector in the development process, in addition to well-developed mechanisms for co-ordinating these relations, would be beneficial to both the state and the private sector. The absence of such a framework results in the varied experiences discussed above; where the private sector's engagement with the state tends to reflect the personal sentiments and political ideology of the ruling government. This contributes towards feelings of uncertainty on the part of the business community, and hampers developmental processes.

Third, there is the need to pay special attention to the building of local capacity so that the private sector may be able to take advantage of a number of pro-business policies put forward by the state.

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