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State-Business Relations and Economic Performance in Ghana

The relationship between the state and business community in Ghana has varied since independence. Though each government has had distinct relations with the business and private sector, civilian governments have generally promoted and enjoyed good rapport with the business community while military governments, especially in the 1980s, have tended to have confrontations with the private sector. This study used a multi-disciplinary approach that included both qualitative and quantitative aspects of the disciplines of political science, economics, history, sociology and organizational management. To seek to understand what constitutes effective state-business relations, and to assess how state-business relations are related to economic performance, the study relied on historical institutionalist inductive theories- comparative historical analysis and path-dependence, among others. For this analysis, the study relied on both primary data, from interviews with selected formal business associations and regulatory agencies within Ghana, and secondary data derived from a review of statutory literature such as the Constitution of Ghana, Acts of Parliament, Statutes, Codes, Contracts, rules and procedures and conventions establishing institutions. The purpose here was to examine the characteristics of formal and informal rules and regulations governing the establishment and operation of foreign and indigenous businesses, how these have evolved over time and how they may have impacted economic performance.

For the qualitative analysis, the study found that state-business relations in Ghana have gradually progressed from a largely informal relationship to a more formalised relationship since independence. However, the state has always been dominant with its relationship with the private sector. Variations in state dominance over businesses have depended on regime type, level of formality and the political ideology and economic policies pursued by each regime. Compared to military regimes which ruled by decrees, civilian governments have been relatively more receptive towards businesses by developing rules and regulations for SBRs. But the level of formality was often decisive in determining the actual relationship between each regime and the private sector as businesses closely associated to a regime relied on informal ties to make profits. Each regime on the other hand patronised some affiliated businesses and dealt harshly with businesses considered as belonging to its political opponents. Since 1960 when the Convention Peoples' Party (CPP) declared itself a socialist government that believed the state must be the largest employer, investor and provider of goods and services, political ideology became a determining factor of SBRs in Ghana. The CPP promoted businesses associated with the party and suppressed those it deemed as belonging to its political opponents. In retaliation, the Progress Party (PP), which had a liberal market orientation, promoted the private sector and divested many state owned enterprises. The corporate interest of military regimes was evident in the manner in

which retired army officers and bureaucrats were encouraged and supported to set up businesses in most sectors of the economy. With power concentrated in state authorities, collusive behaviours such as rent-seeking, corruption and the high cost of doing business characterised SBRs in Ghana from 1957 to 1991. Regime changes served as critical junctures which defined and redefined SBRs.

Globally, the resurgence of neo-liberalism found expression in SBRs in Ghana as the Provisional National Defence Committee (PNDC) regime gradually succumbed to external pressures from its development partners to return Ghana to democratic rule and allow the private sector to play a meaningful role in developing the economy. Under the auspices of the World Bank and the International Monetary Fund (IMF) a series of meetings and organisations were formed to help formalise SBRs in Ghana. By the time Ghana returned to constitutional rule in 1992, the 1992 Constitution of the Republic of Ghana had been so framed to reflect the formalisation and promotion of SBRs in the country. Hence from 1992, both the social democratic National Democratic Congress (NDC) and the liberal market New Patriotic Party (NPP) which have had turns ruling the country have worked to improve SBRs in Ghana. Both state regulators and business associations pegged at 7 points out of 10. From the perspective of state agencies and regulators, it appears that the relationship between state agencies and the private sector is gradually shifting from informal and often ad hoc towards more formal arrangements. The Internal Revenue Service (IRS) for example transformed its Public affairs unit into a client service division to address specific issues of the majority of its clients which includes the private sector. Over the years, the public sector reform has sustained the inter-agency meetings with the private sector. Through such meetings, IRS has reduced tax collection return forms from 8 to 4 pages and has generally reduced some bottlenecks of businesses when they file tax returns. In addition, key MDAs have instituted regular quarterly inter-agency meetings to coordinate and review their various dealings with the private sector. The private sector is often represented on these inter-agency meetings. Besides regular meetings, most MDAs have members of business associations representing and serving on public boards, committees, projects and programmes. For example both the IRS and VAT Services have private sector representation on appellate boards.

The private sector of Ghana represented in the study by the Private Enterprises Foundation (PEF) which is an amalgamation of six formal business associations indicated that interactions with the state takes place at different levels, ranging down from the presidency, to ministries, departments and agencies. The meetings are institutionalised and regularised. Staff and affiliates of PEF also serve on membership boards and committees that deal with the private sector. Also PEF staff renders consultancy services to state agencies, politicians and consultants hired by Ghana's development partners. The establishment of commercial courts, new labour law and commission, a stable investment climate and processes to reduce the cost of doing business are some of the significant developments that have helped improve SBRs.

However, challenges still persist in SBRs relationship as both state regulators and PEF observed some shortcomings which have direct bearings on firm performance in Ghana. The PEF identifies imbalances in SBRs power relations which is heavily skewed in favour of the state and its agencies as a big bottleneck. The state still retains some desire to be the main employer, investor and provider of goods and services and this implies that the state is comfortable to see business firms remaining small, fragmented and dependent on the state.

On the other hand, the state agencies also identify a number of challenges in dealing with the private sector. These include general issues like low literacy or the level of education of

owners of businesses, poor working culture and practices and the high cost of doing business among several others. The National Board for Small Scale Industries (NBSSI), VAT and IRS Services also identify coordination challenges among the state MDAs ranging from duplication of roles, lack of information, waste of resources and low cooperation in carrying out similar tasks. In some instances too, notably the NBSSI and IRS, inadequate resources such as logistics and well-motivated personnel adversely affect performance of state agencies. Another source of challenge that the state organisations face in dealing with the private sector is that of the poor attitude of public servants towards businesses. Some unduly delay in doing their jobs or take bribes. Between the state organisations and the private sector, the following challenges were identified. Some BAs and other private firms fail to cooperate fully with state organisations especially the revenue generating ones. Participation in programmes organised for the private sector is sometimes undesirable. Many BAs are weakly organised in the country. A lot of firms show low awareness of requirements for doing business in Ghana.

Organisational restructuring, training of staff and the review of procedures with private sector cooperation are some of the processes to address challenges enumerated above by the state. The private sector is addressing the problems by formalising BAs and maintaining a united front in its dealings with the state. Also, research informed decision-making processes are taking roots among BAs. Moreover, both state agencies and the private sector have increasingly relied on the print and electronic media to educate the public and business firms in the country.

For the quantitative economic analysis, the study used a panel of 256 Ghanaian manufacturing firms over the period 1991-2002 to analyse the extent to which an effective state-business relationship is beneficial to economic performance. Focusing on total factor productivity, we have found that an effective SBR or a sound investment climate correlates positively with better firm performance, possibly channelled via a more optimal allocation of resources in the economy. Concerning the effect of the investment climate indicators, our results show that an 'unfriendly' investment climate illustrated through firms' perceptions about economic and regulatory policy uncertainty affecting their operations and growth are negatively correlated with productivity. With regards to the SBR measures, we find that social networks, as indicated through the extent to which firms or their managers have close contacts within the government or bureaucracy, have a statistically positive correlation with firm performance. These results indicate that being well connected with those who make and implement government policy increases the chances of being able to lobby to overcome some of the difficulties confronting normal business enterprises, such as the number of procedures it takes to obtain licenses and permits and the number of days it takes to clear imported goods from the port.

The narrative analysis of state agencies and PEF's perceptions of SBRs in Ghana from 1992 to 2008 which also coincides and extends beyond the period of econometric analysis of SBRs on firm performance confirms the results discussed above. Both state and BAs agree on a shift from a predominantly ad hoc and informal clientelistic relationship to a more formal and synergistic SBRs in Ghana since 1992. Formal and regularised meetings between state agencies and businesses have positively impacted on firm productivity. For instance, PEF's formal advocacy role and function resulted in the use of GCNET to expedite clearing of imported goods. Business concerns of firms are channelled more often through formal means by BAs to state agencies. Firms through their BAs make inputs into budget and other policy on a formalised basis. Moreover, a strong formal relationship between the executive and BAs such as the investors advisory council have helped firms stay close to the government and bureaucracy.

Overall, our findings contribute to understanding the link between an effective state-business relations and economic performance. This paper adds to the work done by Qureshi and te Velde (2007) by investigating the key determinants of firm performance and also assessing the relationship between an effective SBR and firm productivity in Ghana. The results of the study stress the need for an enabling environment for the private sector. Experiences from East and Southeast Asian economies have also shown that investment and productivity growth critically hinges on an effective and vibrant private sector underpinned by a sound investment climate. Promoting a sound investment climate is one of the core responsibilities of the state in both developed and developing countries to achieve rapid capital accumulation and sustained growth and poverty reduction. Markets are good but are not without flaws. Thus, in order for inequalities in incomes and opportunities not to be exacerbated by the markets, it is important that the many constraints that inhibit the private sector from responding effectively to market incentives are removed, complemented with an increased effectiveness of government involvement in supporting private sector activities. Apart from the positive effect of SBRs on economic performance, the other lesson which can be drawn from the paper is that even though successive governments in Ghana have shown some commitment to supporting a viable private sector that commitment has, at the same time, been undermined by the governments' own fear of a strong private sector acting as a countervailing force and thereby weakening their monopoly over neo-patrimonialism. Consequently, the commitment may be seen as a public relations hoax. An effective SBR in Ghana requires sustained formalised political commitment to policies that see the private sector as a catalyst and an initiator of pro-poor growth and development.

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