The State, Private Sector Development, and Ghana's "Golden Age of Business"

Peter Arthur

Abstract: The promotion of the private sector has become an integral part of Ghana's economic development strategy since it embarked on its structural adjustment program (SAP) in 1983. Private sector development, which involves the improvement of the investment climate and the enhancing of basic service delivery, is considered one of the necessary factors for sustaining and expanding businesses, stimulating economic growth, and reducing poverty. This article examines the policies of Ghana's New Patriotic Party (NPP) government and its strategies for making the private sector the bedrock of economic development and for achieving what it calls the "Golden Age of Business." It argues that while the policies and initiatives being pursued have the potential to help in the development of the private sector in Ghana, the government has to play a more central role in this process, not only by creating the enabling environment for private businesses, but also by providing business with support and protection. While the "Golden Age of Business" is a neoliberal concept, its effective implementation requires a robust statist input.

Résumé: La promotion du secteur privé est devenue une part intégrale de la stratégie du développement économique du Ghana depuis que le pays s'est embarqué dans l'application de son programme d'ajustement structurel (PAS) en 1983. La raison en est que le développement du secteur privé, qui implique l'amélioration des conditions du climat d'investissement et de la qualité de service, est considéré comme l'un des facteurs nécessaires pour le maintien et l'expansion du secteur commercial, le fleurissement économique, et la diminution de la pauvreté. Cet article examine la politique du Nouveau Parti Patriotique du Ghana, le NPP, et ses stratégies pour faire du secteur privé la pierre d'angle du développement économique et pour achever ce qu'il appelle l' "Âge d'or économique." Il défend l'idée que même si les réglementations et initiatives présentement en place ont le pouvoir d'aider le développement du secteur privé au Ghana, le gouvernement doit jouer un rôle plus central dans ce processus, non seulement en créant les conditions propices pour le commerce privé, mais aussi en lui apportant son soutien et

African Studies Review, Volume 49, Number 1 (April 2006), pp. 31–50

Peter Arthur received a Ph.D. in political science at Queen's University, Canada. He currently is teaching courses in political economy and African politics at Dalhousie University, Canada.

sa protection. Alors même que l'"Âge d'or économique" est un concept néolibéral, son implémentation concrète nécessite une intervention vigoureuse de l'état.

Introduction

By the latter part of the 1970s and early 1980s, Ghana's economic conditions were deplorable, to say the least, and the economy was on the brink of collapse. Cocoa production had declined from 403,000 tons in 1970 to 179,000 tons in 1983, and 9 percent of government expenditure was devoted to nonperforming state-owned enterprises. Average growth rate of investment as percentage of gross domestic product (GDP) had by 1982 plummeted to 2 percent from the 1970 levels of 14 percent, and the domestic savings rate fell from 12 percent to 3 percent over the same period (Boafo-Arthur 1999:47–48). This economic state of affairs led the government of Flight Lieutenant J. J. Rawlings's Provisional National Defence Council (PNDC)—which came to power on December 31, 1981, through a military coup and later became the National Democratic Congress (NDC)—to embark on market reforms in 1983.[1] Under the direction of the International Monetary Fund (IMF) and the World Bank, these reforms, as in many developing countries, had at its core export promotion, a rolling back of the state, and vigorous promotion of the private sector. Ghana also eliminated foreign exchange controls and adopted a market-determined exchange rate system, which provided incentives for the private sector to attract foreign capital and to pay for imports. In addition, trade liberalization enabled businesses to carry on international trade without going through the cumbersome procedures required for securing import licenses (Boafo-Arthur 1999).

It is in these circumstances and this economic environment that the New Patriotic Party (NPP) government under the leadership of John Kufuor won democratic elections in December 2000 and took over the reins of power in January 2001. In his inaugural speech to the nation, President Kufuor announced the creation of a Ministry of Private Sector Development and promised to make the private sector the essential element in his government's economic development program (interview with senior economist, Private Enterprise Foundation, Accra, July 2, 2004). The ministry was charged with coordinating the more than seventy-five private-sector-related programs and projects within the government and thus facilitating the development and growth of a competitive private sector (interview with technical advisor, Public-Private Partnership, Ministry of Private Sector Development, Accra, June 29, 2004). The overall goal was to achieve what the NPP government called the "Golden Age of Business."[2] The NPP government's position was that private sector development, involving the improvement of the investment climate and the enhancing of basic service delivery, was essential for achieving economic growth and reducing poverty (interview with Deputy Director, Policy Planning, Monitoring and Evaluation, Ministry of Private Sector Development, Accra, June 30, 2004). This article discusses and analyzes the policy initiatives of the NPP government. It looks at the nature of these policies and initiatives, their impact on the private sector, the challenges bedeviling the private sector, and the measures that need to be put in place to address these challenges.

In exploring these issues, this article relies on methodological triangulation, that is, the use of several kinds of research methods and data sources (Denzin 1989:236). Primary written sources include academic journals and books, newspaper articles, annual reports, policy papers, and other documents from both private and public organizations involved in promoting the private sector.[3] Speeches by government officials and official publications of the government also provided relevant data and information. In addition, primary information and data were collected through in-depth interviews conducted in 1999 and updated during further fieldwork in the summer of 2004. Fifteen interviews were conducted with officials occupying various line, advisory, and executive positions in both private and public agencies promoting private sector development in Ghana.

The article is divided into four parts. The first section discusses various theoretical models of economic development and the paradigm that underpins this article. Section 2 examines the NPP government's policies in regard to private sector development. The third section analyzes the impact of these policies on businesses and the constraints facing the private sector. The final section suggests how the problems confronting the private sector in Ghana can be dealt with in order to make the "Golden Age of Business" a reality.

Theoretical Models of Economic Development

While the importance and benefits of private sector development are widely recognized and acknowledged, what is less clear is the right approach for promoting private enterprise and investment. Among the questions that have bedeviled writers are the following: Should governments adopt a state-centered as opposed to a market-driven style of socioeconomic development? Should import-substitution industries be abandoned in favor of export-driven measures? Should governments promote large-scale and foreign-owned industries as opposed to domestic investments? Do the contexts within which the development of the private sector occurs matter? Can small-scale industries become engines of industrial development in developing countries? Attempts to come up with answers have not been easy, given the differences in opinions and experiences. The literature on development, which discusses the ability of countries to achieve rapid economic growth, can be placed in various theoretical categories: modernization, structuralist, dependency, and neoliberal.

Modernization theory, with its emphasis on scientific knowledge and technology transfer from the West to developing countries, was the hegemonic development theory of the 1950s. As Parpart (1995:224–25) notes, development theorists believed that economic laws, bolstered by development experts and qualified scientific expertise, could solve the problems of third world countries. Modernization theory assumed that economic growth would be accompanied by the adoption of Western cultural and institutional practices and would be led by states and other functionaries in the South and North (Parpart & Veltmeyer 2004:42). Thus what developing countries needed in their quest to accelerate economic development was the wholesale transfer of Western expertise. However, as a result of its underlying Eurocentric and teleological assumptions, and the failures that accompanied the modernization development enterprise, the theory came under increasing attack in the 1960s, especially from structuralist and dependency theorists.

The ideas embodied in structuralist theory can be traced to Raul Prebisch and other social scientists of the Economic Commission for Latin America (ECLA) who were charged by the United Nations with analyzing the economic problems of Latin America in the 1940s and 1950s. For structuralists, developing countries face long-term trends of deteriorating terms of trade with the developed world because they have to sell greater quantities of their products in order to acquire the same export income. Accordingly, Prebisch and other structuralists were of the view that the developing countries had no option but to deepen their process of industrialization and produce their own manufactured goods. Given the weak position of private capital, structuralists asserted that state intervention and comprehensive investment planning are necessary means to accomplish the most rational exploitation of the scarce resources in the developing world (Martinussen 1997:50–104). The structuralist position was that states and governments have to step in to correct the imperfections in the market system, for "without adequate political intervention, market forces are bound to generate inequalities, dislocations and exploitation, which will have devastating effects on the integrity of society as a whole" (Brett 1988:64). Hence structuralists advocated the establishment of import substitution industries (ISIs) and protection of infant industries from competition. However, the establishment of ISIs as instruments of economic development was not without problems. According to the United Nations Development Programme, the "anti-export bias inherent in the import-substitution strategies discouraged exports, exacerbated the foreign exchange constraints, and reduced the capacity to import, thereby stifling production" (UNDP 1997:10). Moreover, the operations of the ISIs in countries like Ghana were characterized by corruption and rent-seeking behavior on the part of government officials, shortages of competent middle-level managers, and overhiring of lower-level personnel (Stein 1992:20).

Another theory that relates directly to the question of industrial and economic development comes from the works of theorists like Andre Gunder Frank (1969) and Fernando Cardoso and Enzo Faletto (1979). Dependency theory, which emerged as an alternative to modernization theory, was also elucidated in reaction to the inequalities of wealth and opportunity inherent in development that derives from capitalist expansion and imperialism (Cardoso & Faletto 1979:vii–ix; Handelman 2003:17). According to Andre Gunder Frank (1969), underdevelopment in the developing countries stemmed from Western imperialism and hegemony because Africa and Latin America were incorporated into the world capitalist economy as subordinate partners. In the global system of trade and exchange, which was designed to serve the West, the metropolis exploits the resources of the satellite countries. While demand for manufactured goods produced by the metropolis has increased, the prices and demand for primary products produced by the satellite countries have fallen. Furthermore, the metropolis appropriates capital and economic surplus from the satellites and channels this surplus to itself (Frank 1969). Because satellite countries have to borrow financial capital and purchase advanced technology from the metropolis, they are dependent on external economic forces and their development is constrained (Handelman 2003:18).

The overall result of this state of affairs has been the underdevelopment of the satellite, since surplus is transferred to the metropolis. Therefore, for Frank and other dependency theorists, the capitalist global system, largely but not exclusively through transnational corporations, operates actively to underdevelop the third world (Sklair 2002:32). In addition, Frank (1969) argues that the class structure created and perpetuated by global capitalism works to the detriment of the satellite. The production process imposed on the peripheral countries gives rise to a small domestic bourgeoisie, which directs the process and shares the benefits with the metropolis. In the resulting class structure, the small commercial and productive bourgeois class enjoys the fruits of the labor of the working class. In effect, the majority of the people in the peripheral economies are deprived of adequate purchasing power, while only a small degree of enclave development takes place within the developing countries, thus reproducing first world–third world exploitation within third world cities and rural areas (Sklair 2002:33). In this vein, Frank (1969) believes that reducing the ties to the metropolis and to the capitalist world market offers satellite countries the best chances to realize economic growth and development.

The structuralist and state-led framework, as well as dependency theory, were in vogue and served as models for promoting economic development in the 1960s and 1970s. But from the 1980s on, the pervasive inefficiencies of ISIs, the decline in the global economy, and increasing external debts led to the rise of neoliberalism as the prescription for economic development. The neoliberal reforms in the developing world, including Africa, were also related to contemporary trends in international political economy following by the end of the cold war. According to MacEwan (1999:31), the underlying philosophy of neoliberalism is that economic growth is most rapid when the movement of goods and services and capital is unimpeded by government regulations. As Culpeper et al. (2003:676) point out, neoliberal theorists suggest that not only do trade liberalization, privatization, and deregulation policies facilitate the integration of the economies of developing countries into global trade and capital markets, but trade liberalization in theory also means greater openness to the rest of the world's exports in return for greater market access, particularly to industrial countries. Similarly, capital market liberalization means fewer barriers to inflows and outflows of finance, giving developing countries access to the huge pools of savings in the North. Therefore, through neoliberal policies, advocates contend, economic benefits will "trickle-down" to all sectors of society. Fukuyama (1992:103–7), for example, asserts that Asia's postwar economic miracle is ample demonstration that capitalism as a path of economic and industrial development is potentially available to all countries, and that economic liberalism allows late modernizers to catch up with and even overtake early industrializers. As a result of such arguments, Structural Adjustment Programs (SAPs) were implemented in developing countries under the direction of the IMF and World Bank.

According to the World Bank (1989), more than half of African countries that embarked on SAPs and persisted with the reforms began to show signs of improvement by the end of the 1980s, thereby giving grounds for believing that recovery had started. Similarly, Hope (2002:172) has argued that beginning in the early 1990s there was marked improvement in the economic performance of the majority of the African countries that implemented neoliberal SAPs. Despite such a viewpoint, however, the general consensus is that after more than two decades of SAPs, much of Africa is still characterized by precipitous economic decline, lack of access to social services, environmental degradation, high levels of external debt, and increasing rates of poverty. As Cheru (2002:19–21) has noted, a careful review of the literature points to the conclusion that while there are significant gains to be derived from SAPs, such reforms do not provide the best outcome for all. The evidence of the last twenty years shows that although there were some economic successes and improvements in countries such as Ghana, Uganda, and Gambia, neoliberal policies generally entail huge socioeconomic costs and constraints for countries that implement them and are not consistent with long-term development goals. For example, as a result of trade liberalization and import competition, Ghana's local soap, rice mill, and textile and garment industries were severely undermined. With the export boom generated by Ghana's liberalized economic environment, local manufacturers lost the advantage they had enjoyed on the local market. Hence neoliberal policies have the potential of stifling local business development (Arthur 2002:726–27).

Although neoliberal growth theorists officially support a minimal role for government in economic affairs, it is still the case that economic growth in the private sector generally depends upon a strong government and also relies on the state to construct and organize markets (MacEwan 1999:2–19). As Brett (1988:54) notes, capitalist economic development of the Asian Newly Industrializing Countries (NICs) resulted from a "different mix of state and market. The states remained strongly protectionist and [imposed] direct controls over a wide array of resources generally in the hands of central agencies, and notably the central bank." Similarly, the World Bank Report of 1997 acknowledged the important role of both the state and market, saying that "an effective state is vital for the provision of the goods and services that allow markets to flourish and people to lead healthier, happier lives" (World Bank 1997:1). It is in this regard that this article espouses the statist model as a necessary additive to the neoliberal regime advanced by the Ghana government under its "Golden Age of Business." While the "Golden Age of Business" is a neoliberal concept, its effective implementation requires a robust statist input.

Policies and Initiatives Under NPP Government

As we noted earlier, as part of its economic development efforts in the 1980s and 1990s, Ghana, under the NDC government, adopted and implemented neoliberal SAPs and market reforms. Apart from pursuing a vigorous free-market economic, industrial, and trade policy, it also adopted a liberalized investment policy, with the goal of attracting foreign investment as well as promoting joint ventures between foreign and local investors (Arthur 2002:722). The NPP government has continued the market-friendly approach to economic development initiated by the NDC government. Therefore, the major industrial policy thrust of the NPP government has been the development and promotion of trade and industry that is outwardly oriented and globally competitive. The NPP government envisages that a liberalized trade, investment, and industrial policy will attract manufacturers, entrepreneurs, and traders and encourage them to establish value-added job-creation facilities in Ghana. This, in turn, will encourage further foreign investment in Ghana and pave the way for a significant growth in labor-intensive export industries.

To realize its private-sector development goals, the NPP government launched the President's Special Initiative (PSI) in August 2001 with the aim of identifying and developing potential business opportunities in the country. As Kofi Apraku, the NPP government minister responsible for Regional Integration noted, a result of the PSI has been the initiation of projects designed to boost investment in salt, cassava starch, and textiles and garments—areas in which Ghana has comparative and competitive advantage in the subregion (Apraku 2002). By choosing a crop like cassava—which is grown by over 90 percent of Ghanaian farmers as either a main or secondary crop, is highly labor-intensive, and accounts for about 22 percent of the country's agricultural gross domestic product (GDP)—the government hopes that the PSI initiative on cassava (Integrated Action Programme for Cassava Starch Production and Export) will contribute to job creation. Thus, under the cassava program, about twenty-five thousand farmers from ten selected districts will be identified and assisted technically and financially to grow and process cassava into high-grade industrial starch. The starch itself can be used in the paper, textile, food, pharmaceutical, oil drilling, and petrochemical industries, while two by-products, pulp and juice, can be used as cattle fodder and fertilizer. Similarly, under the PSI initiative on textiles (Export Action Programme for Garments and Textiles in Ghana), the government expects that about seventy thousand jobs will be created, while about $3.4 billion in export revenue is also expected to be generated over a four-year period based on the country's ability to take advantage of the new U. S. African Growth and Opportunity Act (AGOA).[4]

This PSI strategy, the NPP government believes, will give the country the critical supply mass to enable Ghana to become a significant player in the world garment and textile trade. These ventures will uplift the most vulnerable and disadvantaged in the society, while also reenergizing the country's economy to give real meaning to the positive change pledge of the government. To realize the PSI vision, an Export Roundtable of key service providers in the export sector has been established to support selected entrepreneurs and enterprises with services ranging from credit facilitation to market identification, product development, production management assistance, and quality assurance.[5]

The NPP government's support of business has also included commitments and pledges to promote, develop, and sustain the growth of small-scale enterprises (SSEs), defined as enterprises with fewer than thirty employees. The government maintains that if positive interventions are adopted, not only will the unemployment level in the country be reduced considerably, but the private and small-scale sectors will also be able to assist in Ghana's economic recovery (interview with deputy director, Policy Planning, Monitoring and Evaluation, Ministry of Private Sector Development, Accra, June 30, 2004). The small-scale enterprise sector is made up largely of family-owned businesses and individual artisans and apprentices who engage primarily in activities involving soap and detergents, clothing and tailoring, beverages, food processing, wood furniture, and mechanics (Quartey & Kayanula 2000). In developing countries in general, at least one-third of new entrants into the labor force are employed by such micro- and small enterprises, which are thus a major source of employment and income (Mead & Liedholm 1998:61–71; Tripp 1997). Since the 1990s,

https://doi.org/10.1353/arw.2006.0053 Published online by Cambridge University Press

Ghana's small-scale enterprise sector has become the main source of economic activity and the fastest growing sector in terms of employment, providing jobs for 15.5 percent of Ghana's labor force and contributing about 6 percent of the country's GDP. The NPP government believes that by providing comprehensive training and counseling to indigenous entrepreneurs and by making credit available to them, this sector of the economy will continue to thrive (interview with business development support advisor, Support Programme for Enterprise Empowerment and Development [SPEED], Accra, July 15, 2004). Among other programs sponsored by the Ministry of Private Sector Development is the "Captains of Industry Programme," introduced in 2003 to arrange mentorships between students in tertiary institutions and Ghanaian businessmen and women. Also, the Ministry of Private Sector Development, in conjunction with the Ministry of Education, has introduced business education into the school curriculum. In September 2003 it launched an annual "Growing the Young Entrepreneur Competition" for final-year students in the country's tertiary institutions, who are invited to design and submit business plans and proposals. Those judged to be excellent, well-packaged, and innovative are subsequently funded by the government (interview with deputy director, Policy Planning, Monitoring and Evaluation, Ministry of Private Sector Development, Accra, June 30, 2004).

In much of the developing world, microenterprise finance and development have become crucial to poverty alleviation, with literally hundreds of programs implemented by a wide range of institutions across the globe (Fairley 1998:339; Vargas 2000:11–12). Small-scale enterprise has generated enormous enthusiasm among aid donors not only because it serves as an instrument for reducing poverty, but also because it does so in a manner that is financially self-sustaining (Mosley & Hulme 1998:783). Since the effective and efficient use of resources depends heavily on entrepreneurial skills, the government of Ghana hopes that microfinance services and training programs will advance the entrepreneurial, managerial, and technical competence of the unemployed and that graduates from tertiary and vocational institutions will be able to establish viable enterprises (interviews with program co-coordinator, National Development Planning Commission [NDPC], Accra, March 23, 1999, and with project officer, NBSSI, Accra, July 14, 2004). In addition, these programs have the potential to help develop the entrepreneurial class, which is needed as the basis for more efficient indigenous investment in and management of large-scale industries (Steel & Webster 1991).

According to Fairley (1998:349), the activities of small-scale enterprises also encourage saving as a regular habit, both in savings-group funds and individual accounts. Group savings funds are often invested as capital, resulting in a stable income source for the members and contributing to business sustainability and long-term economic confidence. In the broad scheme of national economic development, therefore, facilitation of the small-scale sector not only fits well with the international financial institutions' focus upon market-friendly intervention, but is also increasingly seen as the effective and efficient way of responding to the vacuum created by the gradual stripping back of the state's ability to provide social services to its citizens (Brown 2000:172).

With the notable exception of the PSI, the initiatives that embody the NPP government's strategy to support the private sector have been around for quite some time, largely as offshoots of the reform program begun by the Rawlings administration in 1983 as part of its structural adjustment. The difference, however, is one of attitude; while the Rawlings administration was somewhat ambivalent and sometimes openly hostile to the private sector (Arthur 2002:728), the NPP government seems to be showing greater commitment to helping local entrepreneurs spearhead the economic development process. Besides continuing the policy initiatives of the Rawlings administration and introducing new ones like the "Presidential Special Initiatives," the NPP government has protected private property and ended the Rawlings administration's practice of confiscating private businesses. Since 2002 President Kufuor has also held biannual meetings with the Ghana Investors Advisory Council (GIAC), a body made up of executives and members of various business associations, to discuss the economic direction of the country. The meetings allow businesspeople to provide feedback on the impact of current policy reforms on the investor climate, identify priority areas for change, and offer solutions based on practical investor experience (interview with senior economist, Private Enterprise Foundation, Accra, July 2, 2004).

Impact of Government Policies on the Private Sector

As a result of the policies and specific initiatives and projects pursued by the NPP government, it is possible to say that strides have been made toward the realization of the "Golden Age of Business." First, progress has been made toward relieving the private sector of one of its major problems, the access to long-term funds for both business startup and expansion. For example, the government of Ghana, together with the United States government, through the African Development Fund (ADF), has agreed to provide US$2 million every year for the next five years (2004–8) to support small- and medium-scale enterprises. This is in addition to the Italian credit of 10 million that was finalized in 2004 and approved by the Ghana parliament to assist small-scale enterprises, especially those in manufacturing and agribusiness, to import equipment (interview with deputy director, Policy Planning, Monitoring and Evaluation, Ministry of Private Sector Development, Accra, June 30, 2004). In 2001, 609 individual operators of small-scale industries were assisted with loans under financial arrangements supported by the National Board for Small-Scale Industries (NBSSI). Similarly,

https://doi.org/10.1353/arw.2006.0053 Published online by Cambridge University Press

in 2002, 104 enterprises were provided with credit totaling 100.2 million cedis ($12,500) by NBSSI (Government of Ghana 2003).[6] The capacity-building programs and other activities of the NBSSI have led to the creation of 767 new businesses in the areas of textile design, bakeries, shoemaking, honey production, and bead making (ISSER 2002:139). Cassava production increased by 10.6 percent in 2001 (ISSER 2002) as a result of the PSI on cassava, the distribution of improved seeds, planting materials, fertilizers, and other agrochemicals to farmers, and improved water management and harvesting techniques. As a result of the "Growing the Young Entrepreneur" competition, three selected business plans were awarded 70 million cedis as a startup capital and training grant in 2004 (interview with deputy director, Policy Planning, Monitoring and Evaluation, Ministry of Private Sector Development, Accra, June 30, 2004). Finally, one outcome of meetings between the president and the GIAC was the reduction of corporate taxes in 2003 from 32 percent to 25 percent (interview with senior economist, Private Enterprise Foundation, Accra, July 2, 2004).

Despite this progress, Ghana's private sector still faces daunting constraints and challenges. The lack of access to information on external markets and an inadequate physical infrastructure hamper the private sector. The regular power outages from the Volta River Authority (VRA) and the Electricity Company of Ghana (ECG), for example, place a burden on industry, especially the manufacturing subsector (ISSER 2002:121). Although corporate taxes have been reduced, rising tax burdens in the form of levies, tariffs, import duties, and national and local taxes, coupled with the availability of cheap foreign imports, have all combined to undermine the development of the private sector. Utility tariff rates, which have increased by over 300 percent since the NPP came to power, make the production cost of doing business in Ghana very expensive. Regulatory constraints in the form of cumbersome bureaucratic procedures for registering and starting up business, the high cost of settling legal claims, and the excessive delays in court procedures all affect the operations of small-scale businesses (interviews with research officer, Institute of Economic Affairs, Accra, July 7, 2003, and with marketing specialist, Ghana National Chamber of Commerce and Industry, August 24, 1999).

Ghana's businesses are also burdened by a very high cost of credit (ISSER 2002:126–27). Lending rates by commercial banks to private businesses stood at 38.5 percent at the end of 2002, although the inflation rate during that same period was 15.2 percent (ISSER 2003:40–41). As Chamlee-Wright (1997:133–35) points out, while the existence of Western-type banking institutions in the larger cities of Ghana might give one cause for optimism, the majority of small- and medium-scale entrepreneurs never enter the doors of such institutions, and the banks are also reluctant to serve their needs. The inability of small-scale entrepreneurs to raise the initial funds required to open savings accounts within the formal sector, coupled with the substantial collateral that is demanded by the banks as security before loans are granted, serve as deterrents to bank credit for small entrepreneurs. Indigenous financial arrangements, including the mutual assistance networks mentioned above, provide the alternative to the formal banking system for small-scale entrepreneurs. Also, while various microcredit schemes provide some financial support to the private sector, especially small-scale manufacturers, they do not, according to a Research Officer at Ghana's Institute of Economic Affairs (interview, Accra, July 7, 2003), come with "micro-interest rates." For example, the interest rate charged by the NBSSI on its microcredit loan is 20 percent.[7]

In addition, the venture capital market has yet to be fully developed in Ghana. As Evans (1999) points out, the few venture capital firms in existence have stringent criteria that make it virtually impossible for private businesses, especially small-scale entrepreneurs, to access these funds. According to Berman (2003), "apart from a good management team, most venture capital fund operators consider factors such as growth potential, competitive position of the enterprise and market served, technology, research and development, capital resources, and profit margins, as well as returns on investments" before assisting businesses. Unfortunately, few businesses in Ghana can meet even the first of these requirements, since most private businesses, especially small-scale enterprises, are characterized by sole ownership and lack well-articulated management structures.

Finally, the PSI, while a laudable idea, has also been beset with problems. According to a research officer at Ghana's Institute of Economic Affairs, although farmers all over the country have been encouraged to cultivate cassava for starch manufacturing, only one starch factory has been set up (at Bawjiase, in the Central Region). Meanwhile, once uprooted, cassava has to be sent to the factory within twenty-four hours, a requirement many farmers have not been able to meet because of poor road conditions and the lack of an effective railway infrastructure. This has resulted not only in the littering of Ghana's roadside with cultivated cassava, but also in frustration and disappointment for the farmers. More ominous is the inadequate marketing of the products and the fact that the government has not signed any agreement with any company to buy the starch, textiles, or garments (interview with research officer, Institute of Economic Affairs, Accra, July 7, 2003).

The "Golden Age of Business": The Way Forward

All of the problems discussed in the previous section have in essence undermined the government's efforts to realize its "Golden Age of Business." The argument being put forth here is that this goal is unlikely to be realized without support from the state and the wider political process (Berman 2003:41), a point of view directly in line with the structuralist theoretical perspective. The role of the state cannot be overlooked in explain-

https://doi.org/10.1353/arw.2006.0053 Published online by Cambridge University Press

ing rapid growth, since it plays a crucial role in reinventing and enhancing the economies of developing countries and the process of private sector business development (Shapiro & Taylor 1990:876). Hence the government of Ghana should have a dual focus of attracting new industries as well as encouraging and assisting preexisting ones, especially local manufacturers (interview with research officer, Institute of Economic Affairs, Accra, July 7, 2003). The government of Ghana, therefore, needs to play a more interventionist role in the country's private-sector development efforts, although not necessarily by means of government-owned enterprises.

The government should first ensure that finance and credit are made easily accessible to private businesses, since their access to funds from banks and other financial institutions is scanty. The NPP government has taken the right step with the introduction of the various financial support arrangements discussed above, but in order to operate at international levels of productivity, business owners need a sizeable working capital to import up-to-date technology, buy machines and raw materials in quantity, access local expertise, and manage their enterprises efficiently and effectively (interviews with project officer, NBSSI, Accra, July 14, 2004, and with assistant director, Investment and Credit Department, NBSSI, Accra, March 11, 1999). In 1994 the NDC government established a revolving fund, the Business Assistance Fund [BAF], to alleviate the problems local industries face in accessing funds from the banks and to help small and micro-enterprises access financial and advisory services (interview with project officer, Business Assistance Fund [BAF] Secretariat, Accra, April 29, 1999). However, the BAF was suspended in 2000 because of a lack of transparency in its disbursements, the distribution of funds in the form of benefits and individual patronage to government supporters, and the concomitant high default rates (Arthur 2002:737). In its place, an Export Development and Investment Fund (EDIF) has been established to provide long-term investment finance for industry and also support the expansion of nontraditional exports, with particular emphasis on increasing earnings from that sector (ISSER 2000:128). In 2002, the EDIF provided about 60 billion cedis in credit to firms in Ghana, contributing to the creation of about two thousand jobs (ISSER 2003:111).

Essential elements of the market reforms instituted by both the NDC and NPP governments have been trade liberalization and efforts to attract foreign investors. There is general agreement that trade liberalization often increases access to inputs and raw materials, gives consumers a wide range of options to choose from, reduces the price of goods, and compels manufacturers to improve the quality of their products. However, trade liberalization also acts as a serious constraint on the development of local manufacturing, since businesses face increased competition from established producers on both the local and international scene (interview with marketing specialist, Ghana National Chamber of Commerce and Industry, Accra, August 24, 1999). Thus the government can support local industries by deliberately "getting the prices wrong" in the form of subsidies provision and other protective measures to prevent the country from becoming the dumping ground for all types of imported goods without regard for the development of local manufacturing. A step in the right direction is the Public Procurement Law (Act 663) of December 2003, which grants concessions to local businesses in the public procurement system. This is currently the largest domestic market in Ghana, accounting for 60 to 70 percent of annual imports. This legislation gives preference to local enterprises over foreign ones and allows local businesses to forge partnerships with one another or with foreign enterprises for the purpose of bidding for and executing the government contracts (interviews with senior economist, Private Enterprise Foundation [PEF], Accra, July 2, 2004; public relations officer, Association of Ghana Industries [AGI], July 9, 2004, July 12, 2004; communications and policy director, Association of Ghana Industries [AGI], July 12, 2004).

Such a policy initiative is similar to the structuralist and state-led economic development strategy of the "Asian Tigers," which achieved high levels of economic growth after their governments played crucial and interventionist roles in the process of enterprise development. While the success of the Asian Tigers can be understood only in the context of international geopolitics and the enormous financial support of the United States, Lall (1997:18–21) is correct in pointing out that Asian Tigers such as South Korea and Taiwan had a clear preference for state intervention, for promoting and supporting indigenous enterprises, and for deepening local technological capabilities.[8] Not only did government intervention in the form of tariff and nontariff protection give "infant industries" in the Asian Tigers the "space" to develop their capabilities, but the deleterious effects of government protection were also offset by strong incentives to export. In other words, in order for Ghana and developing countries to achieve comparable industrial growth rates, they need to survive on their own initiatives and not rely solely on foreign imports and investors. Where the government favors and supports local entrepreneurs through appropriate policy and institutional conditions, their prospects of success become greater (Berman 1994:254).

Good governance—including clean and fair political practices, the transparent and accountable exercise of power, an independent, impartial, efficient, and nonpartisan judiciary, and a weeding out of corruption—is also crucial to promoting the private sector. Good governance also involves the enforcement of commercial contracts and establishment of commercial courts to adjudicate business and contract disputes. Such practices generate confidence, especially in investors and the private sector (Kwaku 2002). [9] On this issue, Ghana seems to have made significant strides, as epitomized by the peaceful conduct of democratic elections in 2000 and the smooth handing over of power from the NDC to the government of the NPP. However, the country still has a long way to go, especially when it comes to the role of the judiciary. As Ghana's new chief justice, Justice George Kingsley Acquah, stated at his swearing-in ceremony in July 2003, the public's perception of the judiciary is colored by allegations of corruption, incompetence, unreasonable delay, and other instances of malpractice. The factors that have led to these perceptions range from outdated rules and procedures to lack of physical facilities, obsolete equipment, low morale due to poor conditions of service, and understaffing of magistrates, stenographers, and interpreters. In response to these concerns, the Judiciary Service, with the assistance of donors, has embarked since 2002 on major projects aimed at modernizing and reforming the system, including automating operations of the Supreme Court and of regional High Courts. However, it is also incumbent upon the judiciary to work closely with other law enforcement institutions in the country to redeem its image and reestablish its integrity (Ghana News Agency 2003). In order to encourage private enterprise, attract private investors, and instill confidence in the public, the judiciary needs to enforce the rule of law, promote transparency, ensure the speedy administration of justice, and uphold fundamental human rights (interview with marketing specialist, Ghana National Chamber of Commerce and Industry [GNCCI], Accra, August 24, 1999).

Another ongoing challenge to business development in Ghana involves the private sector's relative lack of marketing sophistication and resources. Government agencies, as well as various business associations such as the AGI, do organize trade fairs and engage in other promotional activities. However, local businesses, especially those in the small-scale sector, generally do not have access to large, profitable international markets because they operate by means of what Berman calls "a precapitalist orientation" toward production, meaning that they lack advertising, salesperson expertise, and inventory control (Berman 2003:37). More significantly, manufacturing standards—including quality control and product safety—were for a long time ignored in Ghana because of a general assumption that consumers would purchase anything manufacturers produced (interview with marketing specialist, Private Enterprise Foundation, Accra, September 1, 1999). A welcome development is the establishment by the Ghana Standards Board (GSB) of quality information centers to provide technical information on product standards and specifications to local industries. This initiative should lead to increased quality of locally manufactured goods and also make manufacturers aware of what is acceptable in the markets (Arthur 2002:733). However, the government also should make a long-term commitment to supporting firms in a wide range of areas including business planning, technology choice and adaptation, production management and labor practices, and the packaging and marketing of finished products (see Berman 2003:40). This position is shared by an official of the Ministry of Private Sector Development who argues that the government of Ghana should take the lead in creating access to markets for local businesses through the branding of Ghanaian products, as well as participation in various international trade agreements and protocols (interview with director, Institutional and Legal Reforms, Ministry of Private Sector, Accra, July 6, 2004).

Ghana also needs to move quickly to address the problem of poor infrastructure. As Kwaku (2002) notes, infrastructure services such as telecommunications, power, railway transport, roads, water, and sanitation are at the core of economic growth and private-sector investment. As illustrated by the case of the PSI on cassava, Ghana pays a high price for its inadequate infrastructure in lost opportunities for growth and poverty reduction and for access to services that could improve the manufacturing sector and the lives of citizens. Inadequate infrastructure lessens competitiveness, impedes market integration, and compromises the effectiveness of other programs. One positive development is that the government has assumed a central role in the construction and rehabilitation of major roads, highways, and bridges. According to ISSER (2002:131), in 2001, 729.4 kilometers of feeder roads to and from Ghana's hinterlands were regraveled and resurfaced, and spot improvements were made to another 613 kilometers of roads. In the same year, 453 kilometers of highway and 120 kilometers of urban roads were constructed or rehabilitated and fifteen bridges were constructed. Ghana is striving to modernize its telecommunications infrastructure as well. By the end of 2001 the main telecommunications provider, Ghana Telecom, had installed 200,000 fixed telephone lines and more than 4,000 payphones. These projects were continued in 2002, with particular emphasis on improving access in the rural parts of the country (ISSER 2003:142–43).

Another positive development, especially in light of Ghana's 1998 energy crisis and subsequent power shortages and outages, is the government's strategy for increasing the thermal power supply at Aboadze in the Western Region of the country to complement the availability of hydropower. However, as ISSER (2003:129) points out, Ghana cannot rely forever on the thermal plant for power, since the economy—given the country's foreign exchange constraints—cannot sustain importation of fuel oil. Hence the government needs to formulate a long-term energy policy to avoid a power crisis and to take steps to modernize Ghana's electricity grid and delivery system.

Finally, the government of Ghana needs to ensure that private enterprise is not hampered by cumbersome bureaucratic procedures and administrative bottlenecks that have bedeviled the operations of the private sector (until recently it took about 128 days to register a business in Ghana, and this was undertaken only in Accra, the nation's capital). As a step in the right direction, the NPP government is opening registration centers in all the regions, while Ghana's Ports and Harbours Authority (GPHA) and other revenue collecting agencies are being computerized to facilitate the clearing of goods (interview with research officer, Institute of Economic Affairs, Accra, July 7, 2003).

Conclusion

The main focus of this article is the efforts of Ghana's NPP government to promote the private sector and realize what it calls the "Golden Age of Business" by means of a liberalized trade, investment, and industrial policy and the promotion of small-scale entrepreneurial activities. Employing the state-led and structuralist perspective, the article argues that although the NPP government has acted wisely in providing support to the private sector, it still has a long way to go not only to make Ghana the gateway to the subregion, but also to achieve its economic objectives. Although major strides have been made, the "Golden Age of Business" has yet to materialize because Ghana's indigenous private sector is bedeviled and constrained by problems including lack of funds, poorly developed infrastructure services, and various marketing and regulatory problems. The analysis and findings of the article strongly support the structuralist position that the state must play a central role in private sector development in Ghana, through measures such as improving infrastructure services, promoting good governance, and protecting local businesses against foreign competition. While the decision to make private sector enterprise the engine of growth is a step in the right direction, the government must also create an enabling environment and provide businesses with support and protection. As Alemayehu (2000:156–57) notes, although the capitalist and industrial culture is relatively new to indigenous African entrepreneurs in the private sector, when assisted and given the opportunities and incentives, they demonstrate, against the odds, their drive, initiative, and capability.

References

Alemayehu, M. 2000. *Industrializing Africa: Development Options and Challenges for the 21st Century.* Trenton, N.J.: African World Press.

Apraku, Kofi. 2002. "Ghana's Competitiveness in the Region." Speech delivered at Commonwealth-Ghana Investment Conference, Accra, November 27–29.

Arthur, Peter. 2002. "Ghana: Industrial Development in the Post Structural Adjustment Period," *Canadian Journal of Development Studies* 23 (4): 717–42.

Berman, Bruce. 2003. "Capitalism Incomplete: State, Culture and the Politics of Industrialization." In Wisdom Tettey, Korbla Puplampu, and Bruce Berman, eds., *Critical Perspectives on Politics and Socio-Economic Development in Ghana,* 21–44. Leiden: Brill Publishers.

Berman, Bruce. 1994. "African Capitalism and the Paradigm of Modernity: Culture, Technology and Modernity." In Bruce Berman and Colin Leys, eds., *African Capitalists in African Development,* 235–61. London: Lynne Rienner Publishers.

Brett, E. 1988. "States, Market and Private Power: Problems and Possibilities." In Paul Cook and Colin Kirkpatrick, eds., *Privatization in Less Developed Countries,* 47–67. Sussex: Wheatsheaf Books.

Boafo-Arthur, Kwame. 1999. "Ghana: Structural Adjustment, Democratization, and the Politics of Continuity." *African Studies Review* 42 (2): 41–72.

Brown, Ed. 2000. "Social Movements, State and Civil Society." In Giles Mohan et al., eds., *Structural Adjustment: Theory, Practice and Impacts,* 171–90. London: Routledge.

Cardoso, Fernando, and Faletto Enzo. 1979. *Dependency and Development in Latin America.* Los Angeles: University of California Press.

Chamlee-Wright, Emily. 1997. *The Cultural Foundations of Economic Development.* London: Routledge.

Cheru, Fantu. 2002. *African Renaissance: Roadmaps to the Challenges of Globalization.* London: Zed Books.

Culpeper, Roy, et al. 2003. "Architecture without Blueprints: Opportunities and Challenges for the New Prime Minister in International Development Policy." *International Journal* 58 (4): 667–98.

Daily Graphic (Ghana). 1999. "Default in Loan Repayment." June 14.

Denzin, N. K. 1989. *The Research Act.* New Jersey: Prentice-Hall.

Evans, Lloyd. 1999. "Financing the Private Sector." *Daily Graphic* (Ghana), October 18.

Fairley, Joanne. 1998. "New Strategy for Micro-Enterprise Development: Innovation, Integration and the Trickle-Up Approach." *Journal of International Affairs* 52 (1): 339–50.

Frank, Andre Gunder. 1969. *Latin America: Underdevelopment or Revolution.* New York: Monthly Review Press.

Fukuyama, Francis. 1992. *The End of History and the Last Man.* London: Heinemann.

Ghana News Agency. 2003. "New Chief Justice Sworn In to Office," July 4. www.ghanaweb.com.

Government of Ghana. 2003. Budget Statement for the 2003 Fiscal Year.

Handelman, Howard. 2003. *The Challenge of Third World Development.* 3rd edition. Upper Saddle River, N.J.: Prentice Hall.

Hope, Kempe R. 2002. *From Crisis to Renewal: Development Policy and Management in Africa.* Leiden: Brill.

ISSER. 2000. *The State of the Ghanaian Economy in 1999.* Legon: ISSER.

______. 2001. *The State of the Ghanaian Economy in 2000.* Legon: ISSER.

______. 2002. *The State of the Ghanaian Economy in 2001.* Legon: ISSER.

______. 2003. *The State of the Ghanaian Economy in 2002.* Legon: ISSER.

Kiely, Ray 1994. "Development Theory and Industrialization: Beyond the Impasse." *Journal of Contemporary Asia* 24 (2): 133–60.

Kwaku, K. 2002. *Acting on the Challenges of Attracting Private Investment in Africa: A Focus on Ghana.* Paper presented at Commonwealth-Ghana Investment Conference, November 27–29, Accra.

Lall, Sanjay. 1997. *Learning from the Asian Tigers: Studies in Technology and Industrial Policy.* New York: St. Martin's Press.

MacEwan, Arthur. 1999. *Neo-liberalism or Democracy? Economic Strategy, Markets and Alternatives for 21st Century.* London: Zed Books.

Martinussen, John. 1997. *Society, State and Market: A Guide to Competing Theories of Development.* London: Zed Books.

Mead, Donald, and Carl Liedholm. 1998. "Dynamics of Micro and Small-Scale Enterprises in Developing Countries." *World Development* 26 (1): 61–74.

Mosley, Paul, and David Hulme. 1998. "Micro-Enterprise Finance: Is There Conflict between Growth and Poverty Alleviation?" *World Development* 26 (5): 783–90.

Parpart, Jane. 1995. "Deconstructing the Development Expert." In M. Marchand and J. Parpart, eds., *Feminism/Post Modernism/Development Theory,* 221–43. London: Routledge.

Parpart, Jane, and Henry Veltmeyer. 2004. "The Development Project in Theory and Practice: A Review of the Shifting Dynamics." *Canadian Journal of Development Studies* 25 (1) 39–59.

Quartey, Peter, and Dalitso Kayanula. 2000. *The Policy Environment for Promoting Small-Scale and Medium-Sized Enterprises in Ghana and Malawi.* Finance and Development Research Programme, Working Paper Series No. 15. Manchester: Institute for Development Policy and Management.

Shapiro, H., and L. Taylor. 1990. "The State and Industrial Strategy." *World Development* 18 (6): 861–78.

Sklair, Leslie. 2002. *Globalization, Capitalism and Its Alternatives.* Oxford: Oxford University Press.

Steel, William, and Gerald Meier. 1989. "Overview." In William Steel and Gerald Meier, eds., *Industrial Adjustment in Sub-Saharan Africa.* Washington, D.C.: World Bank.

Steel, William, and L. Webster. 1991. *Small Enterprises Under Adjustment in Ghana.* World Bank Technical Paper 138, Industry and Finance Series. Washington, D.C.: World Bank.

Stein, Howard. 1992. "De-industrialization, Adjustment and the World Bank and IMF in Ghana." *World Development* 20 (1): 83–95.

Tripp, Aili Mari. 1997. *Changing the Rules: The Politics of Liberalization and the Urban Informal Economy in Tanzania.* Berkeley: University of California Press.

United Nations Development Programme (UNDP). 1997. Ghana Human Development Report. Accra: UNDP.

Vargas, Claudia. 2000. "Community Development and Micro-enterprises: Fostering Sustainable Development." *Sustainable Development* 8: 11–26.

World Bank. 1989. *World Bank, Sub-Saharan Africa—From Crisis to Sustainable Growth: A Long-Term Perspective Study.* Washington, D.C.: World Bank.

_______. 1997. *World Development Report 1997: The State in a Changing World.* Oxford: Oxford University Press.

_______. 1998. World Bank Supports Ghana's Gateway Project. News Release No. 99/1874/AFR.

Notes

1. Ghana embarked on a democratic process in 1992 following pressures for democratic change from both domestic and international sources. Bowing to these pressures, Rawlings formed a democratic party, the National Democratic Congress (NDC), which he led to election victories in December 1992 and December 1996.
2. The "Golden Age of Business" is a term coined by the NPP government to indicate its commitment to assist the indigenous private sector in spearheading Ghana's economic development process. It is also part of the government's efforts to attract direct foreign investment and overcome the huge problem of underdevelopment and unemployment in Ghana.
3. The agencies included the Association of Ghana Industries (AGI), the Private Enterprise Foundation (PEF), the Ghana National Chamber of Commerce and Industry (GNCCI), and the National Board for Small-Scale Industries (NBSSI).
4. See "President Kufuor Launches Two Project Initiatives" (www.newsinghana.com /economy/archive/kufuor-launch.htm). The AGOA was passed by the Clinton

administration to enable African countries to export products to the U.S. market without elaborate trade barriers. However, besides requiring massive liberalization, the AGOA trade act requires beneficiaries to guarantee intellectual property rights, protect foreign investment, and ensure internationally recognized workers' rights, as well as adhering to U.S.-style democratic governance (Cheru 2002:28).

5. "President Kufuor Launches Two Project Initiatives."
6. The U.S. dollar equivalence is based on the exchange rate, which stood at the end of 2002 at an estimated $US1 to 8,000 cedis.
7. Loans of up to 80 million cedis are be provided by the NBSSI. With an exchange rate of $US1 to 8,000 cedis as of the end of 2000, it means that successful loan applicants can be granted up to $10,000.
8. Western governments, especially the United States, provided aid and military protection to countries such as Taiwan and South Korea to prevent the spread of communism in Asia. These aid packages, together with other foreign investments, helped propel the state-led industrialization of the Asian NICs (Kiely 1994:154).
9. Good governance, and the concomitant peer review process, constitutes a core element of the New Partnership for African Development (NEPAD). Introduced in 2001 by some African leaders, the good governance initiative aims to promote socioeconomic develop

https://doi.org/10.1353/arw.2006.0053 Published online by Cambridge University Press