Private Sector Development in Ghana: An Overview

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Abstract

The development of the private sector has been recognized as the means to accelerate the rapid industrialization desired by developing countries. In this light, Ghana embarked on the Structural Adjustment Programme in the late 1980s which gave prominence to the private sector as an engine of growth in the country. Since then, other policies and programmes have been instituted by successive governments to make the private sector flourish and drive the country's economic prosperity. Against this backdrop, this paper aims to bring to light the policies that have been geared towards the private sector in Ghana over the years as well as the evolution of development thinking on private sector development. The paper also highlights the contributions of the private sector to Ghana's development and the challenges that stifle the development of the private sector in the country. This paper is relevant for policy makers as it draws attention to both what has been done and what still needs to be done to make the private sector viable.

Key Words: Private sector, Ghana, privatization, structural adjustment, structuralism

JEL codes: L33, N87, O29, Z18

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Acronyms

AfDB	-	African Development Bank
ADF	-	African Development Foundation
CPP	-	Convention People's Party
Danida	-	Danish International Development Agency
DFID	-	Department for International Development
GDP	-	Gross Domestic Product
GOG	-	Government of Ghana
GPRS I	-	Ghana Poverty Reduction strategy I
GPRS	-	Growth and Poverty Reduction Strategy
GSGDA	-	Ghana Shared Growth and Development Agenda
IBES	-	Integrated Business Establishment Survey
IMF	-	International Monetary Fund
ISI	-	Import Substitution Industrialization
LAN	-	Latin American Neo-structuralism
NDPC	-	National Development Planning Commission
NTP	-	National Trade Policy
OECD	-	Organization for Economic Co-operation and Development
PEF	-	Private Enterprises Foundation
PPP	-	Public Private Partnerships
PSAC	-	Private Sector Advisory Committee
PSD	-	Private Sector Development
PSDS	-	Private Sector Development Strategy
SAP	-	Structural Adjustment Programme
Sida	-	Swedish International Development Cooperation Agency
SOE	-	State Owned Enterprises
USAID	-	United States Agency for International Development

1. *Introduction*

Before independence, Ghana's economy was highly dependent on manufactured products from its colonial masters, the British (Ackah et al., 2014). As a result, the development of local enterprises was relegated to the background. Indeed Stein (2000:18) asserts that "colonialism in Africa impeded the expansion of indigenous private sectors" due to such a dependence. It is therefore not surprising that at independence in 1957, Ghana had an underdeveloped industrial sector. In fact, Stein (2000:18) opines that, "the state in post-colonial Africa was instinctively opposed to private sector development and did not recognize the private sector as a crucial development player". This was the case in Ghana. Hence, public enterprises dominated the business space. The lack of incentive for private investments therefore crowded out the private sector. However, there has been a shift towards the private sector due in part to the poor performance of the public sector and its inability to generate jobs and cause the desired economic prosperity needed in the country.

Initially the industrialization agenda of Ghana was to be attained through the efforts of both the private and state enterprises. Following this, there were measures geared at the promotion of Ghanaian entrepreneurs with a committee tasked in 1958 to assess how best business challenges could be overcome by Ghanaian enterprises. Indeed, Killick (2010) asserts that publicly owned enterprises were established with the aim of transferring them over to private hands when they had become viable. Such a strategy was possibly motivated by William Arthur Lewis, an economic advisor to Kwame Nkrumah[1] at the time who believed that domestic entrepreneurs lacked the necessary experience. Consequently, he advocated for the state to play the major role of setting up industries it thought would be successful that could later be transferred to the private sector once they were successfully established (Lewis, 1953). Nevertheless, this idea never materialized because the private sector fell out with the government as early as 1960, and the promotion of state enterprises were deemed as the best strategy to drive Ghana's industrialization. Indeed, the words of Nkrumah alludes to this, "the domestic policy of my government is the complete ownership of the economy by the state…" (Killick, 2010:42). Subsequently, state-owned enterprises expanded, reaching about 280 enterprises by 1980 (Brownbridge et al., 2000) from 4 at independence (Killick, 2010). The preference for state led enterprises also meant that the public sector had much easier access to finance and foreign exchange than the private sector.

As a result, the publicly owned enterprises established by the industrial development corporation were never transferred to private entrepreneurs, instead private Ghanaian enterprises were to develop on their own (Ghanaian Times, 1960). In fact, some small manufacturers were even nationalized in 1979 (Brownbridge et al., 2000). According to Killick (2010), Nkrumah preferred foreign investors whom he had no love for than to encourage local entrepreneurship. Therefore, his CPP government "starved the private sector of imported raw materials, spares and equipment" (Killick, 2010:42).

The private sector was neglected for reasons that can be attributed to the following three key factors. Firstly, domestic private entrepreneurs were deemed to have inadequate capital and know-how to lead the industrialization of the country at the speed Nkrumah wanted. Indeed, Lewis (1953) argued that entrepreneurs lacked experience and therefore the state should take the lead in pioneering industries. Also, there was a "paucity of viable private sectors in many countries in the early stages of post-colonialism" which required that states fill the vacuum (Stein, 2000:11). Secondly, the private sector was not promoted becuase of political power. Nkrumah believed that encouraging a domestic private sector meant making some

[1] Kwame Nkrumah is the first president of post-independent Ghana.

families/businessmen wealthy and too powerful, which he thought could pose a threat to his political power (West Africa, 1966).

Lastly, ideology played a key role in the neglect of the private sector in the immediate post-independent Ghana. Nkrumah was of the view that promoting Ghanaian private capitalism will hamper the advancement of his socialism ideology, which he sought to use to transform the economy via the rapid development of state and cooperative sectors (National Assembly Debates, 1964). As a result, enterprises established and operated by government were recognized as the path to the country's economic prosperity. In so doing, Nkrumah adopted a centrally planned economy driven by state enterprises and backed by import substitution strategies which was also meant to reduce overdependence on colonial powers and foreign products. He justified his state enterprises strategy with the argument that, there were no alternatives if industrialization was to proceed because the indigenous private enterprises in his view could not do it alone and leaving it to foreign investors meant that the country will be left at the mercy of neo-colonialist (Killick, 2010).

However, such import substitution strategies backed by state-owned enterprises proved to be unsustainable (AfDB African Development Report, 2011) in a number of African countries including Ghana. Consequently, there was a shift to private sector led development in the 1980s in Ghana through structural reforms spearheaded and sponsored by the Bretton Woods institutions. In fact, the Structural Adjustment Programme (SAP) ushered in the focus and growing importance of the private sector in Ghana. Hence, the once neglected private sector was to take center stage with the introduction of SAP that sought to promote manufacturing industries and an outward looking economy backed by the private sector. In this regard, this paper highlights the contributions of the Ghanaian private sector. Indeed, Ghana was one of the early reformers in the sub-region and has been touted as a success story in Africa by both the World Bank, IMF and aid donors (Herbst, 1993; Loxley, 1990).

The rest of the paper is organized as follows: the next pages discuss the general concept of private sector and private sector development. In section 2, an overview of policies by successive governments in the promotion of the private sector in Ghana are briefly highlighted. Section 3 presents the evolution of private sector development in the development discourse. These have mainly been focused on three key approaches: structuralism, neoliberal approach and neo-structuralism. After which the rationale for the development of the private sector is discussed in section 4. In section 5, the contributions and challenges of the private sector in Ghana are highlighted and section 6 concludes.

1.1 Concepts of Private Sector and Private Sector Development (PSD)

The private sector is broadly defined by the OECD (2004:17) as "a basic organizing principle of economic activity where ownership is an important factor, where markets and competition drive production and where private initiative and risk-taking set activities in motion". The term therefore encompasses all private actors, be it poor or rich, individuals and businesses that undertake risky activities in order to make profits and income via market exchange. It also applies to multinational corporations as well as smallholder farmers (OECD, 2004). Di Bella et al. (2013:9) also defined private sector as "Organizations that have a core strategy and mission to engage in profit-seeking activities through the production of goods, provision of services, and/or commercialization. Includes financial institutions and intermediaries, large corporations, micro, small, and medium-sized enterprises, co-operatives, individual entrepreneurs, and farmers which operate in the formal and informal sectors". Thus, the private sector is simply made up of individuals and or organizations engaged in rent seeking activities that relies on governments or states to create an enabling business environment for their successful operations. In this respect, interdependence between the private sector and state or government is created since governments need the private sector to complement its efforts in the creation of jobs, revenue generation, provision of infrastructure and other services to its citizenry.

Private sector development has been defined by Di Bella et al. (2013:9) as: “Activities carried out by governments and development organizations geared toward creating an enabling environment for business to flourish. Includes activities by development cooperation actors aimed at increasing private sector investment in developing countries.” Another definition by Sida (2004:4) states that: “private sector development is the interplay between the state as formulator of the rules of the game, players in the private sector and civil society” (Sida, 2004:4). On this basis, different types of market players, be it formal or informal sector, multinational or domestic companies irrespective of size are included in the sector. It also encompasses all sectors of the economy including trade, infrastructure and social services (Sida, 2004). In a nutshell, the private sector includes all economic activities of production not undertaken by the public sector. The sector is highly diverse, ranging from individuals to big multinational corporations that are engaged in different forms of activities at the local, national or international level either as part of the formal or informal sectors. Its potential to impact development in various ways is thus enormous.

The development of the private sector is said to be underpinned by four fundamental elements and the absence or neglect of any limits such a development. These are: competitive markets, entrepreneurship, property rights, and decent work conditions (Sida, 2004). A competitive market where a level playing field exists sets the stage for a prosperous private sector. Hence, the rules of the game must be clear to all. Also, property rights that are fair and non-discriminatory are a prerequisite for the development of the private sector. Above all, entrepreneurship is important since it serves as a source of innovation and change. To put it differently, people should be willing to take up the risks and challenges associated with entrepreneurship and are expected to consistently generate new ideas irrespective of the costs and benefits. For a productive labour force, decent working conditions must be in place. All these elements should be backed by a legal framework that addresses the challenges and disputes arising thereof. This ensures that all players are treated fairly.

2. *The Private Sector in Ghana: Policy Overview*

The recognition of the Ghanaian private sector as an engine of growth commenced with the introduction of the Structural Adjustment Programme (SAP) sponsored by the World Bank and International Monetary Fund (IMF). The program began in 1986 and was aimed at moving away from the government/state-controlled economy into one that is shaped by the forces of the market. This involved structural and institutional reforms with the aim to privatize state-owned enterprises and promote private enterprises. Thus, the private sector was to take center stage in making the country’s industrial sector competitive internationally through local resource-based industries that have the capacity for exports and efficient import substitution (Ackah et al., 2014).

The basic objective of the SAP (1986/7 – 1989) was to lay a firm foundation for the development of a buoyant, self-reliant and increasingly integrated economy (World Bank, 1987). To achieve this, private sector response was recognized as key to the success of the program. Therefore, incentive policies were put in place to stimulate growth and investments. These included the maintenance of a stable and attractive environment for the private sector as well as seeking joint ventures for selected public enterprises with foreign and local private investors. It also involved the creation of opportunities that allow for dialogue between the government, business and labour. Institutional measures were also put in place to back such policies (GOG, 1987). The role of the state was therefore limited to the formulation of policies that are conducive for mobilizing private enterprises and initiatives (Sawyer, 1988). In this regard, the direct involvement of the state in the productive and distributive sectors of the economy were reduced or removed. This led to the rationalization and privatization of a substantial number of State-Owned Enterprises (SOE). Indeed, "over 70 percent of some 324 SOEs were divested" (Appiah-Kubi, 2001:198).

A key contribution of the 1980 reforms was its focus on the private sector as the prime mover of the country's industrialization agenda. Although the private sector response to the economic reforms were slow due to "the protracted economic decline prior to 1983 which left the private sector in a state of virtual devastations from which it was difficult to recover within a short time" (Kapur et al., 1991:15), nevertheless, some gains were made to the private sector. For instance, credit to the private sector increased from 5% of GDP in 1984 to 8% in 1986. In addition, a new investment code designed to encourage both domestic and foreign investment as well as protecting investors was approved. Also, a sustained gain in real private national disposal income per capital of about 2.8% per year was recorded for the first time in two decades (Kapur et al., 1991). Furthermore, the private sector environment improved as decisions that affect the sector were now brought before a tripartite committee of government, trade unions and employers. Moreover, the private sector was recognized as a key stakeholder in development, such that it was involved in higher levels of economic policy formulation and had a representation on the National Economic Commission (World Bank, 1987). More so, an equivalence of about 14% of GDP in revenue was generated for government through the privatization programme in Ghana between 1987 and 1999 (Appiah-Kubi, 2001).

Furthermore, the Private Sector Advisory Committee (PSAC) was formed in 1991 to advice government on how the business enabling environment could be improved for the private sector to strive. Hence, it examined regulations impeding private sector investments and development. In other words, it was meant to increase private sector investments. In fact, its main recommendations for reform were implemented by the government and was therefore seen to be successful (Ackah et al., 2010). Also, in order to have a stronger voice and to be heard, the Private Enterprises Foundation (PEF)[2] was set up in 1994 as an advocacy group for the private sector in Ghana. The foundation was established as an initiative of a number of business groups such as the Association of Ghana Industries, the Federation of Associations of Ghanaian Exporters and the Ghana Employers' Association with support from the United States Agency for International Development (USAID). Its membership stood at about 11 as of 2016.

To sustain the gains of the SAP which marked the beginning of the private sector as a central partner in the development of the country, Ghana has and continues to implement other policies and programmes meant to promote the private sector. Key among them are the: (i) Ghana Poverty Reduction Strategy I (2003 – 2005); (ii) Growth and Poverty Reduction Strategy II (2006 – 2009); (iii) National Policy on Public Private Partnerships (2011); (iv) Ghana Shared Growth and Development Agenda I (2010 – 2013); (v) Ghana Shared Growth and Development Agenda II (2014 – 2017). With respect to the private sector, strategies of the Ghana Poverty Reduction Strategy I (GPRS I) included strengthening the sector as well as enhancing it to play its key role as an engine of growth and prosperity in the country. In this light, a vibrant private sector was to be developed via medium term measures such as: the facilitation of private sector access to long term financing at affordable prices; reduction of the institutional and legal bottlenecks that hamper the development of the private sector and finally

[2] Now known as Private Enterprises Federation.

the promotion of modern entrepreneurship especially among the youth, women and vulnerable groups (NDPC[3], 2005). As part of the GPRS I, the "Government in 2003 facilitated private sector access to credit sourced from the African Development Foundation (ADF), an Italian Credit facility of 10,000,000 Euros and a $17 million facility from the SOFITEL BANK of the USA" (NDPC, 2005:29). Nevertheless, there were still some constraints within the private sector that needed to be urgently addressed. These included weak institutional and regulatory framework for small business administration; inadequate access to finance; high interest rates etc. Therefore, some policies were pursued in the Growth and Poverty Reduction Strategy II (GPRS II) with the aim of overcoming such challenges affecting the development of the private sector.

The GPRS II in terms of PSD focused on the improvement of private sector access to global and regional markets and to strengthen the competencies and capacities of firms to be able to operate effectively and efficiently. In this vein, the National Trade Policy (NTP) was to be fully implemented since it aims at promoting Ghana's integration into global and regional markets (NDPC, 2005). Also, to address the numerous challenges that still persisted in the private sector in spite of GPRS I, GPRS II was meant to enhance the capacity of government with respect to the formulation, implementation, and monitoring and evaluation of private sector policies (NDPC, 2005). Furthermore, strategies of the GPRS II regarding the private sector involved increasing private sector access to capital, the removal of any institutional and legal bottlenecks hindering PSD and the facilitation of innovation and entrepreneurship (NDPC, 2005). In this light, a national medium-term Private Sector Development Strategy (PSDS) was developed as part of the GPRS II and centered on realizing the PSD goals within the broader context of the GPRS II. Phase I of the PSDS (PSDS I) covered the periods 2004 to 2008 and its ultimate goal was to reduce poverty in Ghana (GOG, 2003). Under PSDS I, effective markets were to be developed for Ghana's golden age of business. However, there were some challenges with respect to PSDS I because of changes in leadership (Danida, 2018).

A PSDS II was then developed for the periods 2010 – 2015 with a vision of a "Thriving Private Sector – creating jobs and enhancing livelihoods for all" (Danida, 2018:41) and was to be implemented as part of GSGDA II. Regarding the private sector, the GSGDA II was meant to achieve a long-term goal of enhancing the competitiveness of the private sector in Ghana. Hence, the policy interventions that were to be implemented in this regard were meant to result in: (1) an improvement in productivity and competitiveness of the private sector in the domestic and global markets; (2) increasing the opportunities of the private sector to be able to participate in infrastructure development; (3) putting in place an efficient financial sector that can adequately respond to the needs of the private sector; (4) expanding private sector access to domestic and global markets and ultimately expanding the opportunities for accelerated job creation (GOG, 2014). However, PSDS II was never implemented as planned due to the change in leadership following the 2012 national elections. This is because the implementation of PSDS II was moved from the Ministry of Trade and Industry to the newly created Ministry for Private Sector Development in the Office of the President, a ministry that had no budget on its own and therefore could not contribute much. Hence, supporting donors had to shift their focus to municipal and district assemblies instead (Danida, 2018).

In 2011, a national policy on Public Private Partnerships (PPP) was developed to encourage private sector participation in infrastructure and services delivery, an area that has had very little or no private sector involvement over the years. Traditionally, the provision of

[3] NDPC refers to National Development Planning Commission

infrastructure and other public services has predominantly been the responsibility of government. However, with the introduction of the PPP, government sought to encourage and promote Ghanaian indigenous private sector to engage in the delivery of public infrastructure and services. The policy therefore aims at encouraging such private sector investments by providing an enabling environment that is conducive for PPPs (GOG, 2011).

3. *Evolution of Development Discourse on Private Sector Development*

A number of approaches to PSD has sufficed since World War II, generating intense debates in the development cycle as to which approach is the best. These approaches have sought to identify how the private sector can be established and developed. In this regard, key elements necessary for PSD have been enumerated with some approaches in favour of certain sectors deemed to be more productive and competitive, hence, most beneficial. On the contrary, others argue for a level playing field for all, hence an all-inclusive approach. In general, the different approaches have been inspired by mainstream development thinking, thus, the discussions are situated within the broader development discourse. In the next pages, we present the approaches with the accompanying arguments in a chronological order. We begin with the structural approach, which ignored the role of the private sector. After which the neoliberal approach that took supremacy and marked the beginning of developing the private sector is explored and conclude with the neo-structural approach.

3.1 Structural Approach

Structuralism emerged in the development discourse after World War II and became especially prominent in Latin America. It advocates structural change as an extremely important driver and result of economic development (Reiner and Staritz, 2013). Hence, structuralism emphasizes the need to transform a country's economy from subsistence agriculture to modern manufacturing based on the thinking that "the transition out-of-agriculture is a key aspect of economic development" (Teignier, 2018:45). In other words, sustained growth is seen to be underpinned by fundamental structural change (IMF, 2013), which requires a shift from largely agrarian economy to one based on services or industry. The main idea is therefore modernization through industrialization with the state playing the major role of developing key industrial sectors (Leiva, 2008). In fact, Stimson and Stough (2009:174) assert that this was the time "national governments played an exceptionally active role in establishing national industries".

The structural approach is clearly captured in the words of Rodrik (2004:1): "Once upon a time, economists believed the developing world was full of market failures, and the only way in which poor countries could escape from their poverty traps was through forceful government interventions". Hence, the economy was said to be subordinate to politics (Leiva, 2008). Proponents of this school of thought believe that resources should be allocated by government and are therefore seen as skeptics of price mechanism (Jayanthakumaran, 2016).

Structural approach as a development strategy was adopted by most post-colonial African countries because of the belief that third world countries can develop only with active roles of the state. This was because "Development was seen as something which could be purposefully managed and rationally planned, by the state and within the framework of the state" (Koponen, 2004:8). Thus, the approach lists the state as the core engine of development. It therefore emphasizes state-controlled planning and public enterprises. It favours protectionism through Import Substitution Industrialization (ISI), highlighting its preference for domestic enterprises (Küblböck and Staritz, 2013). In this regard, advocates of structuralism opine that richer countries benefit most from trade, implying an unequal distribution of trade gains (Jayanthakumaran, 2016). As a result, developing countries via the structural approach were to reduce dependency on the first world and rather pursue inward oriented development. Therefore, interactions with the global world were highly minimized under this approach in order to promote the growth of domestic economies that will be self-sustaining in the longer term.

Generally, the structural approach falls within the wider context of neoclassical and Keynesian economic discourse, which gained ascendancy, post-World War II. At the time, "Development was seen as an economic process but its main agent, or main vehicle, was to be the nation state" (Koponen, 2004:8). As such, most economic policies then were grounded on neoclassical economic theory and Keynesian theory (Stimson and Stough, 2009). As a result, development economists were very much involved in development planning and therefore served as advisers to world leaders. A leading name among this class of economists was John Maynard Keynes, who favoured government interventions in the promotion of investments (Willis, 2005). In the case of Ghana, Nkrumah engaged the internationally renowned economist, Arthur Lewis as his economic advisor in post independent Ghana. Structural approach to development lost out in the late 1970s due to its failure to cause the industrialization of developing countries as well as improve their position in the global market. This gave rise to the emergence of the neoliberal approach in the early 1980s.

3.2 Neoliberal approach

With the advent of the neoliberal approach, the state became a passive actor in development from its initial active role. It therefore marked the beginning of the private sector as a key instrument of development for reasons of government failure as described by Rodrik (2004:1) "… Then there came a time when economists started to believe government failure was by far the bigger evil, and that the best thing that government could do was to give up any pretense of steering the economy." Hence, a new world view, as Skildesky (2010) posits, was defined that believed in efficient and self-regulating markets. Therefore, the neoliberal approach focusses much on a free market, where government must refrain from direct involvement in economic activities. In other words, politics was deemed to be subordinate to the economy (Leiva, 2008). Neoliberals therefore argue that the costs of market failures are lower in comparison to costs associated with government interventions that are meant to remedy market failures (Reiner and Staritz, 2013). For instance, Skidelsky (2010:100) opines that "free markets would deliver better results than fettered ones". Additionally, Harvey (2005) posits that poverty, be it on the domestic or worldwide stage will be eliminated when free markets and free trade are secured. Thus, it is believed that a free market is beneficial to all.

According to Harvey (2005:2), "neoliberalism is a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade". Therefore, the neoliberal approach abhors state interventions, arguing that the private sector will develop better when it responds to the forces of the market, with the state guaranteeing a free competitive market and property rights (Küblböck and Staritz, 2013). Indeed, advocates of neoliberalism opine that private enterprises and entrepreneurial initiatives are the keys to innovation and wealth creation (Harvey, 2005). The role of the state was therefore to enforce contracts, maintain order and generally put in place conditions that allow markets to function (Leiva, 2008; Harvey, 2005). In that regard, the purpose of the approach was modernization through privatization, which meant shifting the engine of growth from the state to the private sector, marking the rise and significance of the private sector in development.

As such, the main distinguishing feature of neoliberalism from neoclassical thinking and structuralism is its emphasis on free markets. Other key tenets of neoliberal thinking are the promotion of free trade, privatization and the elimination of government regulations and protectionism (Chant and McIlwaine, 2009). Thanks to the neoliberal school of thought, trade liberalization became prominent in the developing world. Indeed, the introduction of Structural Adjustment Programmes in developing countries in the 1980s which entailed opening up, privatizing state-owned enterprises, and spearheaded by the World Bank and IMF was founded on neoliberal approach. It was on this basis, that the SAP was introduced in Ghana in 1983 together with the massive privatization of state enterprises. In fact, SAP was one of the main conditions for developing countries in order to access IMF and World Bank loans (Chant and McIlwaine, 2009). Another key virtue of neoliberalism is competition, which together with privatization and deregulation is said to "eliminate bureaucratic red tape, increase efficiency and productivity, improve quality and reduce costs" (Harvey, 2005:65). Crucial to competition however in the view of Harvey (2005) is the free mobility of capital across borders and sectors and the removal of any barriers such as tariffs that limit such mobility.

Neoliberal policies later came to be known as the Washington Consensus, a term coined by John Williamson in 1989 that captures policies advocated by the United States of America for developing countries, and relating to free trade, deregulation, privatization, floating exchange rates, etc. (Skidelsky, 2010). Neoliberal policies, favourable as they may be per the arguments of its proponents, have not been without criticisms though. Critics of neoliberal reforms believe that it rather succeeded in creating new forms of poverty and inequality as well as favoring wealthy and powerful countries and classes whilst neglecting the poor (Murray and Overton, 2011). According to Murray and Overton (2011), the elimination of poverty was not an explicit concern of neoliberalism; rather the focus was to promote aggregate economic growth, which eventually will trickle down to the poor. Even though neoliberal thinking persists in the development discourse up to date, its failure to bring about high economic growth rates (Leiva, 2008) has caused some attention to shift to newer approaches.

3.3 Neo-structural approach

In recent times, the neo-structuralist approach has gained prominence in academia and development policy discourse. The concept of neo-structuralism "builds upon the legacy of structuralist analysis written in the 1950s and led particularly by Paul Prebisch" (Murray and Overton, 2011:309). Nevertheless, significant differences exist between structuralism and neo-structuralism as the prefix neo suggests. Neo-structuralism calls for the transformation to an industrial sector driven economy from subsistence agriculture just like the structuralist approach but with a changing role of government. This approach talks about the existence of substantial market coordination and system failures and the need for government to shape the economy by introducing selective policies that favour certain sectors considered to be more productive (Amsden, 1992). It suggests that economic growth and development requires that productive factors are shifted through government policy from low-productivity to high – productivity activities to allow for learning, externalities and higher profits and wages (Reiner and Staritz, 2013). Even though neo-structural thinking diverges from a "blind neoliberal faith in the market" as Murray and Overton (2011:309) notes, it however shares the common goal of moving towards globalized modernity. The neo-structural approach also acknowledges the need for a business enabling environment, but it argues that, that alone is insufficient to bring about sustainable private sector and economic development. In other words, even though markets are central to the success of any economy, markets by themselves alone do not necessarily work well, and so government is needed in creating climates that make businesses thrive and create jobs, as well as providing infrastructure and ensuring the functioning of laws and regulations (Stiglitz, 2007).

Neo-structuralism therefore advocates selective interventions to correct the inherent market failures (Küblböck and Staritz, 2013), with the public sector playing a critical role of ensuring a healthy business environment that boosts private investments and business activity. This signals that both the public and private sectors will be most effective if they work together. In the same vein, public-private partnerships are encouraged with this approach. For instance, in Ghana, much attention is paid to public-private partnerships in recent times. As such, neo-structuralism can be a development theory that promotes a "mixed model of state direction and market accumulation" (Murray and Overton, 2011:308).

Neo-structuralism in Latin America is known as Latin American Neo-structuralism (LAN) and it is understood as what "makes it possible to fashion a new 'globalization with a human face'" (Leiva, 2008: 5). The neo-structural idea is thus modernization through internationalization, whereby the state plays the role of increasing the competitiveness of exports (Leiva, 2008). This suggests that, developing countries need to end their reliance on the exports of primary goods with low levels of processing, made by low wage labour, and rather focus on higher value-added exports. As Leiva (2008:4) asserts, this requires that "social and political energies are focused in support of export drive and achieving dynamic entry into world economic flows". In addition, governments must create avenues for the skills of the labour force to be upgraded, to match the capabilities and requirements needed for such a higher value-added export driven development.

The main tenets of neo-structuralism, especially as emerged in Latin America is expressed as:

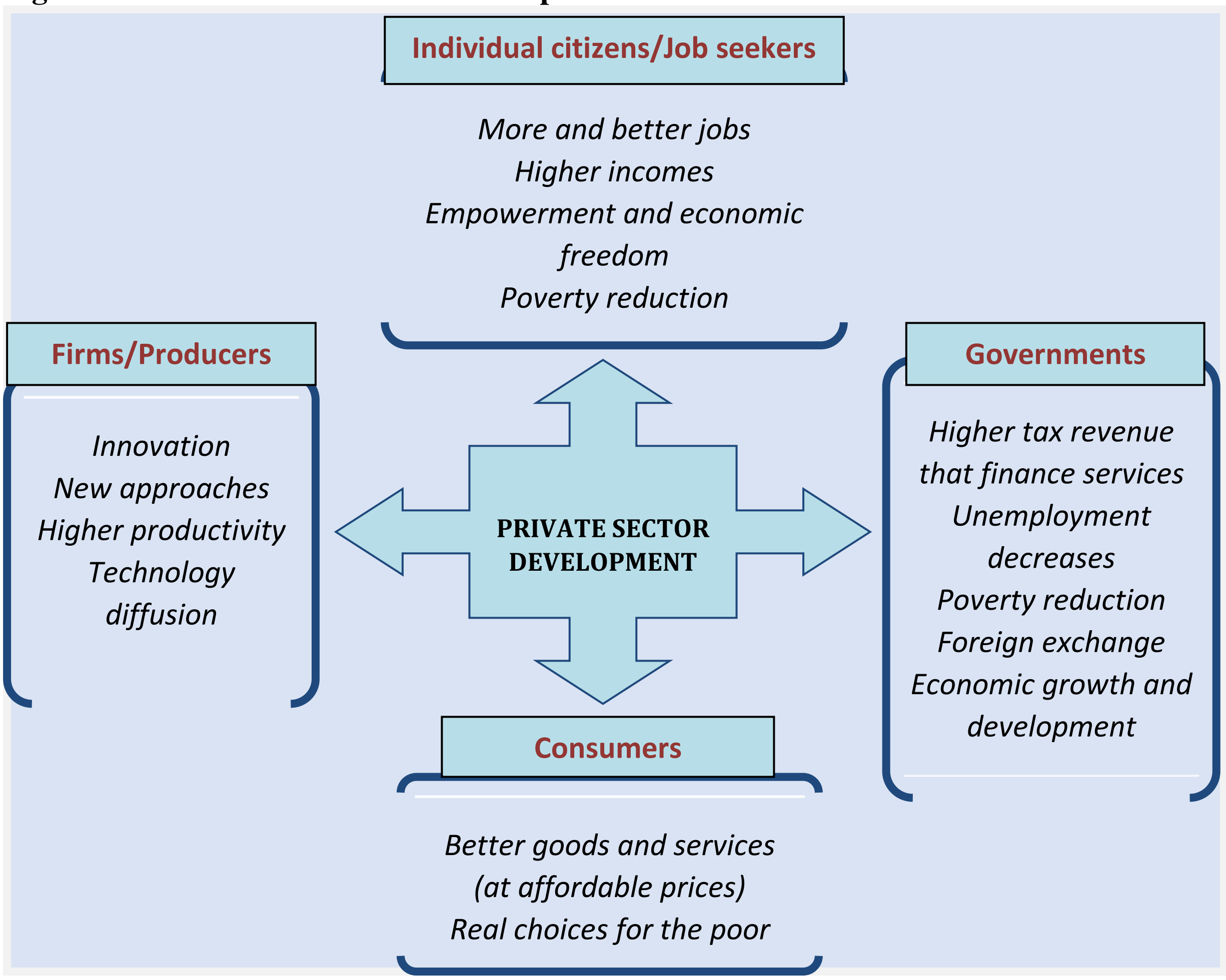
> In terms of economic policies, neo-structuralists believe that without active export promotion policies, exports would tend to concentrate on a few firms and a few products vulnerable to fluctuations in international demand, trapping a country's exports in a tranche of raw materials with low levels of processing. Among policies considered in this area, neo-structuralists call for supporting technical innovation through partial subsidies and the promotion of strategic alliances between local and transnational firms, along with programs aimed at training the labour force and improving its skills through firm-specific training programs (Leiva, 2008:7).

Since the rise of neo-structuralism in Latin America, it has become prominent among center-left governments, "who have pedaled it as a viable alternative to the market orthodoxy of neoliberalism that is palatable to the voting public" (Murray and Overton, 2011:309). In general, the neo-structuralist approach corresponds to the consensus in development thinking: that the basic rationale for PSD is economic development which is argued to take place in the presence of economic growth; and that the private sector is needed to cause such growth, which can take place, only when government plays a key role to make the private sector flourish (Schulpen and Gibbon, 2002). In other words, economic growth is necessary for development, and sustainable growth can best be attained via the private sector, which needs to be promoted by policy makers. In effect, the combined roles of both government and the private sector are therefore essential determinants of development.

4. Rationale for Private Sector Development: An Overview of the Literature

According to the DFID (2008), poor countries need stronger private sector development in order to generate jobs, increase tax revenues and reduce poverty. Therefore, the promotion of the private sector has been championed in recent times for various reasons as summarized in Figure 4.1 and discussed under four themes. Figure 4.1 depicts that a developed private sector is beneficial not only to firms, but also to individual job seekers, consumers and the government. As a result, it offers a range of gains to a wide spectrum of actors in the society.

Figure 4.1: What Private Sector Development offers.



Source: adopted from DFID (2008).

4.1 Economic Growth and Development via PSD

A major reason for the development and promotion of the private sector is its ability to deliver economic growth as reported in Figure 4.1. Wealth is generated through economic growth, which is a prerequisite for improvements in income and an increase in job prospects especially in developing countries. However, public sector initiatives alone cannot result in economic growth and development. As Sir Suma Chakrabarti[4] rightly puts it, growth cannot be achieved without a vibrant, competitive and innovative private sector (Harvard EO Dialogue, 2007). Hence, the private sector has been recognized as the main engine of economic growth and worth developing. Therefore, the development of the private sector is necessary in increasing the pace of growth. According to the African Development Bank (AfDB, 2013:IV), "the future of African economic growth – and the futures of millions of Africans and thousands of African communities – is closely tied to the private sector". As a matter of fact, the private sector in Africa contributes three-quarters of the continent's economic output (AfDB, 2013) and it's expected to be the main force that backs African economies.

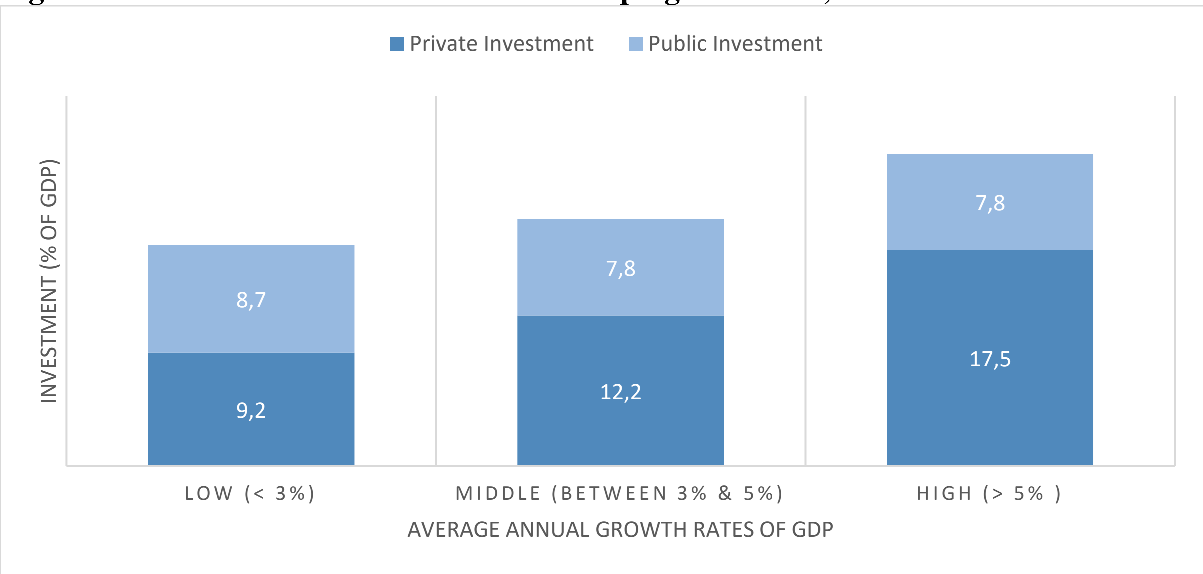
Also, private business activity drives economic growth in both poor and rich countries. Thus, activities of private businesses are said to add value to a nation's resources through the introduction of new ideas and how best to combine such resources (Bonaglia and Fukasaku,

[4] former permanent secretary of the UK's Department for International Development.

2007). This has the potential to increase the productive capacities of an economy. The OECD (2004:18) asserts that "the greater the capability of private actors, including the poor, to add value and create wealth, the faster will be the pace of growth". Indeed, empirical evidence from Bouton and Sumlinski (2000) alludes to the fact that private sector investments lead to growth. That is, there is a positive relationship between growth and private sector investment. In other words, growth increases with higher private investments and vice versa. Hence, the need to develop the private sector.

Furthermore, private investments in the view of Pfeffermann (2000) often embody newer technologies and capital as compared to public investments, thus playing a critical role in economic growth. This is evident in the growth witnessed by most developing countries after the 1990s, a period that saw an increase in private investments due to liberalization and market reforms in the developing world. On the other hand, public investments declined during this period because of budget constraints and the privatization of state enterprises (Bouton and Sumlinski, 2000). Indeed, a study by Bouton and Sumlinski (2000) regarding the investments and growth of 50 developing countries revealed a positive relationship between private investments and growth as depicted in Figure 4.2. For instance, Figure 4.2 shows that countries that had increased private investments witnessed higher average growth rates of more than 5% per annum. On the other hand, growth was slower (i.e. less than 3% per annum) in countries where private investment was minimal, suggesting that private investment is a key determinant of growth. Also, via competition and innovation of private enterprises, productivity is enhanced which is a driver of economic growth. Moreover, the development of the private sector is promoted not only for reasons of economic growth but also for social and economic development. This is because activities of the private sector create and sustain livelihoods as well as foster inclusive society.

Figure 4.2: Investment and Growth in Developing Countries, 1990 – 1998.



Source: Bouton and Sumlinski (2000).

4.2 Innovation and Employment Generation through PSD

The private sector serves as a long-term source of jobs and incomes for most people worldwide. Thus, a major foundation upon which the development of the private sector is supported is its ability to generate decent jobs and higher incomes. The logic is that, increased and better employment opportunities via the private sector serve as a motivation for people to invest in their education and skills, thereby charting a promising path out of future poverty. This is particularly relevant for African countries, where there is a persistent high level of unemployment especially among the youth, which make them vulnerable to be easily swayed into violent activities resulting into increased crime/violence, higher levels of poverty and political instability. This in turn can create a climate that is unattractive to businesses (Stiglitz, 2007), the rippling effects of which are disastrous to nation building. In other words, the social unrest and likely increase in crime due to unemployment can be minimized through the job avenues created by the private sector, making it critical to the development of a country.

In developing countries for instance, it is believed that about 9 out of 10 jobs are in the private sector (Kurokawa et al., 2008). In fact, most new jobs in these countries are created by the private sector (World Bank, 2002). Therefore, the private sector is an important avenue for the demand of higher skills levels and jobs. According to Pfeffermann (2000), large-scale job creation in government and public enterprises is expected to decline in many developing and transition economies due to fiscal constraints and inefficiency of state enterprises. Consequently, the private sector is expected to provide more jobs coupled with better wages. Indeed, the OECD (1995:6) opines that the "jobs and incomes created by private enterprises lead to a more equitable diffusion of the benefits of growth to more people." Nonetheless, this is achievable only with a developed private sector that can create highly competitive, profitable and growing private businesses.

Fundamental to development is technology generation and diffusion, which the private sector drives via competition, the absence of which stifles growth. The private sector also enables technology transfer in a competitive environment as other firms emulate the behaviour of highly successful firms to remain competitive. In the process, human capital is built and upgraded, productivity is enhanced, and incomes rise. Through technological innovation and advancing it thereof, the private sector offers a variety of innovative products and services to both the poor and rich consumers, thereby expanding the choices available to them. Therefore, the private sector is deemed to have the most efficient means in identifying and capitalizing on new technologies that boosts productivity. The development of the private sector is thus promoted with the aim of bringing about innovation.

4.3 Poverty Reduction Effects of PSD

It is believed that a competitive private sector will empower the poor through the provision of better goods and services to them at very affordable prices (OECD, 2007). Therefore, competition is deemed as driving markets to serve the needs of the poor (OECD, 2004). Also, the development of the private sector is key in giving poor people opportunities to employment, thereby providing them with a source of income, subsequently taking them out of poverty. Indeed, most poor people in developing countries are said to be engaged in the private sector, be it formal or informal (World Bank, 2002). According to Ravallion (2001), a 2% increase in household income resulted in about 7% decrease in poverty which is twice as much decline in poverty rates on the average.

Moreover, the poor themselves according to the World Bank study, Voices of the poor, have acknowledged that the private sector is "reasonably important to them and that private firms are quite effective" (Klein and Hadjimichael, 2003:2). It has been suggested that an inverse relationship exist between private investment and poverty reduction. Hence, poverty reduces as private investments increases. Furthermore, the pace and quality of economic growth brought about by a private sector led growth directly plays a major role in the reduction of poverty. In other words, the growth of the private sector leads to more growth to the entire economy, which is deemed as the biggest element in poverty reduction (World Bank, 2002).

For example, the OECD (2004) asserts that growth in GDP led to growth in the incomes of the poor in Ghana and resulted in a decrease in inequality between the poor and non-poor in the country.

4.4 Efficiency and Domestic Revenue Mobilization from PSD

A major underlying factor for the development of the private sector is the ability of private markets to allocate resources efficiently in a way that is beneficial to all levels of society; a target that state enterprises have often failed to achieve. It is believed that there is greater efficiency through private investments and initiatives. The OECD (1995) asserts that the combination of competition and market forces coupled with profit motivations of the private sector stimulates the better use of both human and material resources, thereby reducing resource depletion. To this end, the private sector is known to ensure the efficient flow of capital.

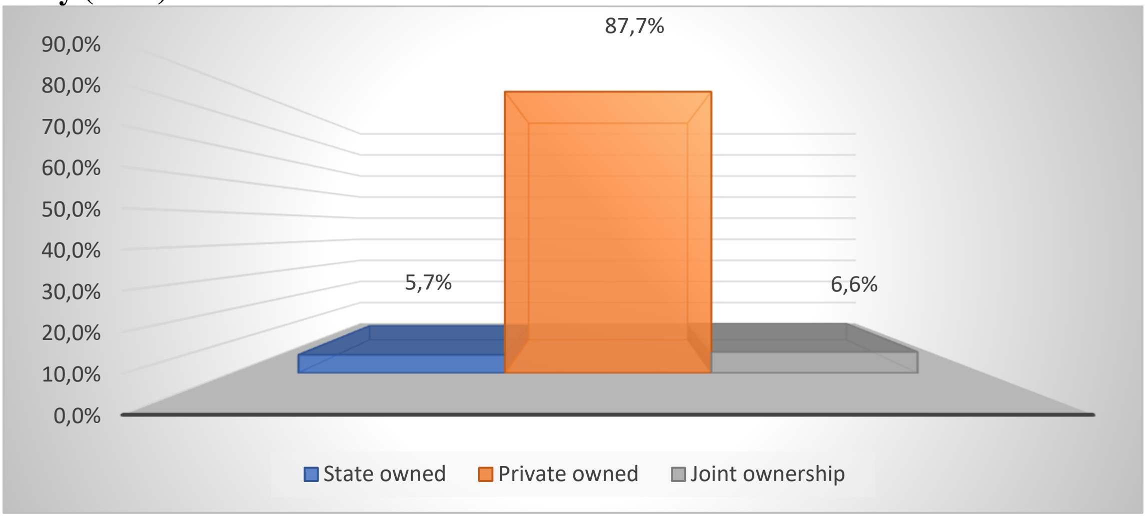
Then again, private companies are a key source of tax revenue for governments which is used in financing services. The existence of a vibrant, competitive, and growth induced private sector does serve as a sustainable means of financing government operations. Without such revenues, governments in developing countries are unable to provide public goods such as health, infrastructure, social safety nets and education to their citizenry. Also, the pace of growth that ensues due to the development of the private sector brings about higher and sustained revenue to governments which is needed for the provision of basic social amenities to the poor to enable them to live productive lives. In addition, the development of the private sector has been promoted in order to foster a broad and stable tax base which has the potential to contribute to improved governance, accountability and economic growth (Leo et al., 2012).

The arguments discussed above on what PSD offer are well summarized in the statement of Mike Foster: "If we want people in developing countries to have the chance to get a job and earn a decent living, if we want parents to be able to provide for their children, if we want families to have access to affordable goods and services, and if we want to make poverty history for millions of people around the world – we need to put the private sector at the heart of the way we work" (DFID, 2008:1).

5. Contributions and Challenges of the Private Sector in Ghana

The private sector in Ghana was championed due to the poor performance of state enterprises that failed to deliver the country's industrialization dream. Hence, the private sector was meant to revamp and revitalize the weak economy, create jobs and speed up the turn around to a sustainable economic development. In terms of job creation, the private sector has lived up to expectations, as it accounts for about 87.7% of jobs in Ghana's industry (see Figure 5.1). For instance, in Figure 5.1, private sector employment in industry greatly outnumber that of the public sector. Whilst the private sector accounts for a whopping 87% of employment in industry, the state employs a meagre 5.7%. Hence, as in many other African countries, majority of jobs in Ghana's industry are created by the private sector.

Figure 5.1: Persons Engaged by Type of Ownership of Establishment in Ghana's Industry (2003).



Source: Ghana Statistical Service (2003), National Industrial Census, 2003 – Phase I Results.

Generally, as many as 85.3% of persons engaged[5] in Ghana are found in the private sector as depicted in Table 5.1. In contrast, state owned enterprises engage only about 14.7%. Indeed, between 1984 and the year 2000, employment in the formal private sector increased by 48% whereas public sector jobs decreased by 29% in Ghana (Aryeetey and Baah-Boateng, 2015). Such a decline in public sector jobs fall in line with the assertion of Pfeffermann (2000) that in many developing and transition economies, job creation by government and public enterprises would decline because of fiscal constraints and inefficiency of state enterprises. In terms of firm size, Table 5.1 shows that close to 100% of all jobs created by micro enterprises are in the private sector. In addition, more than 75% of persons engaged by small, medium and large enterprises in Ghana are privately owned. Thus, the private sector is a major source of employment in Ghana as in many developing countries. For instance, about 90% of jobs in developing countries are said to be found in the private sector (European Commission Communication, 2014; Kurokawa et al., 2008).

Table 5.1: Persons Engaged by Size and Type of Ownership in Ghana.

Size/Ownership	State Owned	Privately Owned	Total	% of Privately Owned
Micro	23033	1083938	1106971	97,9%
Small	191467	802928	994395	80,7%
Medium	85215	338372	423587	79,9%
Large	197363	660890	858253	77,0%
Total	497078	2886128	3383206	85,3%

Source: Ghana Statistical Service (2015), IBES[6]: National Employment Report.

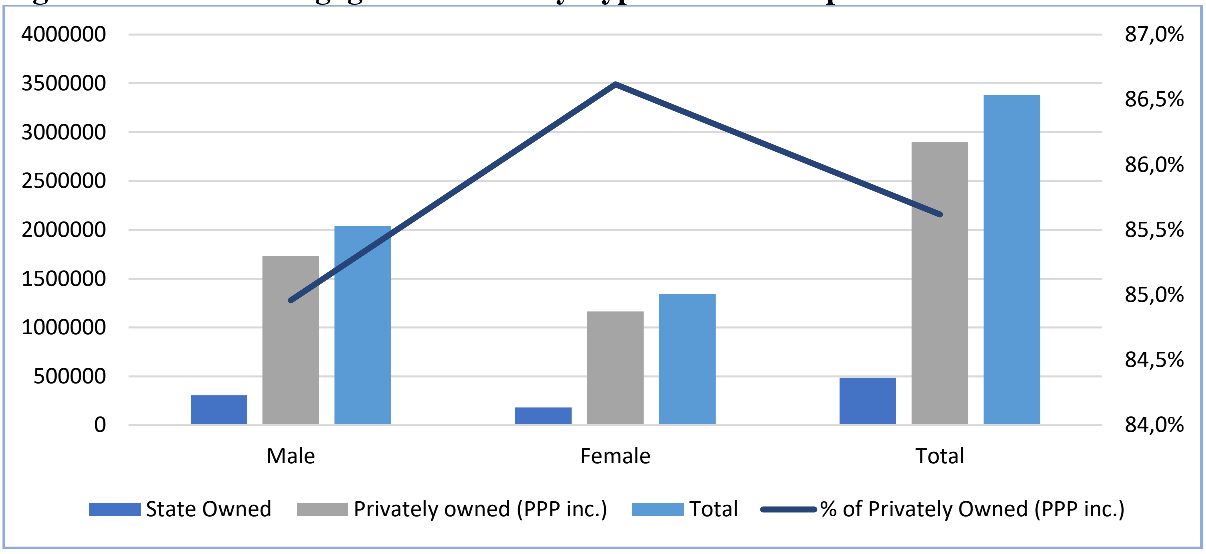
Gender wise, the private sector serves as the main source of employment for both male and female population in Ghana as reported in Figure 5.2. In fact, more males are engaged in both

[5] Persons engaged refers to the total number of persons who work in an establishment. i.e. operatives, employees, working proprietors, active business partners, learners (including unpaid apprentices) and unpaid family workers (Ghana Statistical Service, 2015).

[6] Integrated Business Establishment Survey. The survey covers all non-household establishments in Ghana irrespective of size and type of economic activity. The reference year is 2014 (Ghana Statistical Service, 2015).

the private and state-owned establishments than females. Nevertheless, the share of private sector employment for females relative to the state is about 86.5%, close to about 2% higher than that of males. Indeed, female employment in state owned enterprises is quite low. Hence, by serving as the major source of employment for majority of women, the private sector is the key means to a source of income for women who are mostly vulnerable in society especially within the African context.

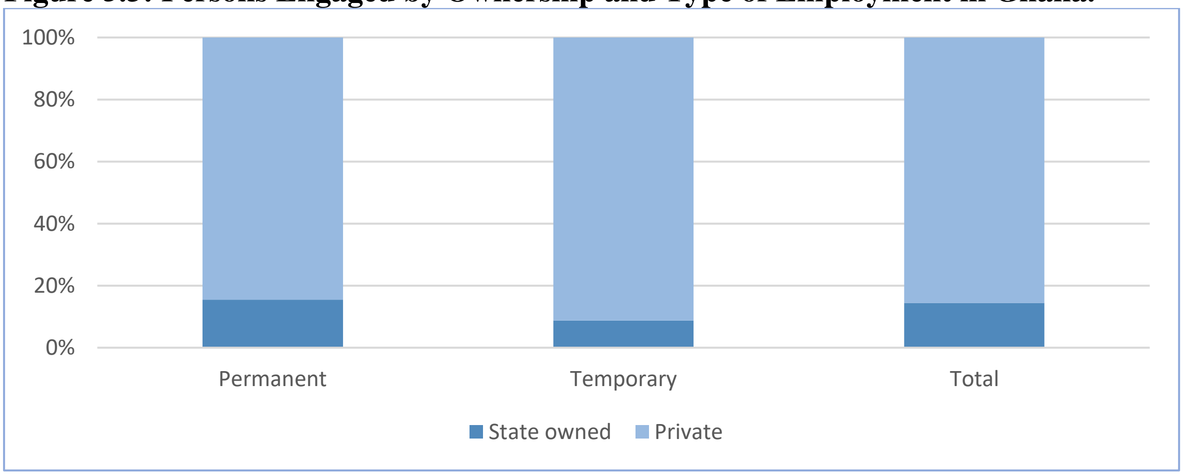
Figure 5.2: Persons Engaged in Ghana by Type of Ownership and Sex.



Source: Ghana Statistical Service (2015), IBES: National Employment Report.

In terms of job security, the private sector stands out as well. For example, in Figure 5.3, about 85% of jobs created in the private sector are permanent as against about 15% by state owned enterprises. This implies that jobs in the private sector are probably more stable, and in the absence of such job insecurities, employees are therefore likely to be better positioned to give up their bests in the execution of their duties. As a matter of fact, the literature suggests that job insecurity has a negative effect on workers job satisfaction, work behavior and emotions (Reisel et al., 2010; Ashford et al. 1989). On the other hand, job security is associated with job satisfaction (Artz and Kaya, 2014).

Figure 5.3: Persons Engaged by Ownership and Type of Employment in Ghana.



Source: Ghana Statistical Service (2015), IBES: National Employment Report.

Not only is the private sector dominant in job creation, but also, earnings in the Ghanaian private sector have been relatively higher compared to the public sector as displayed in Table 5.2. The average monthly earnings in the private sector was about 63.7 % higher than monthly earnings in government jobs as of December 2000 and as much as 83.8 % higher by the end of 2002. This suggests that a vibrant private sector has the potential to increase the incomes of people employed in that sector and by extension their standard of living.

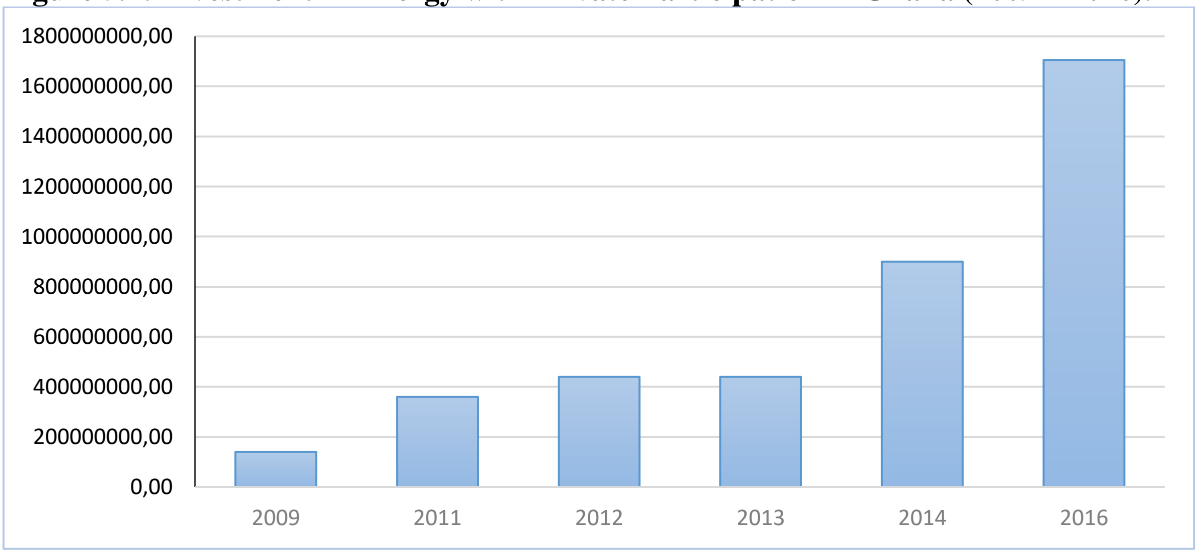
Table 5.2: Average Monthly Earnings per Employee (Government and Private), December 2000 – 2002.

	Dec. 2000	Dec. 2001	Dec. 2002
Government (¢ per month)	333,924	545,825	796,675
Private Sector (¢ per month)	524,603	722,301	950,306
Minimum Wage (¢ per month)	4,200	5,500	7,150
Ratio of government to private sector wages (%)	63.7	75.6	83.8

Source: Bank of Ghana (2007).

Furthermore, good infrastructure in the form of roads, rail, water and sanitation, power, sea and airports among others is necessary to ensure economic growth and development. It is therefore not surprising that the private sector is increasingly getting involved in the delivery of such infrastructural services. For example, Figure 5.4 shows that investment in public services delivery such as energy by the private sector has been on the ascendancy since 2009. The private sector is therefore assisting with the delivery of better public services to the citizenry. Perhaps also the national policy on PPP meant to increase private sector investment in infrastructure and services is yielding some results.

Figure 5.4: Investment in Energy with Private Participation in Ghana (2009 – 2016).



Source: World Bank (2019), World Development Indicators.

In spite of the significant strides made by the private sector in Ghana over the years, it is also bedeviled with some challenges. Key among them are the lack of access to information on external markets and inadequate physical infrastructure (Arthur, 2006). A lack of infrastructure means higher transportation costs, unreliable and expensive supply of electricity and communications services, this hampers the growth of the private sector. High utility rates increase the cost of production, making it very expensive to do business in any country. Likewise, frequent power outages pose a major challenge to the growth and productivity of firms especially those in the manufacturing subsector. However, Ghana's private sector is highly constrained by high utility rates and frequent power outages. In the World Bank's doing business report, Ghana scored zero on the reliability of power supply and transparency of tariff index, an index that ranges from 0 – 8 where higher values indicate greater reliability of supply and transparency (World Bank, 2017). Additionally, Ghana's score on total duration and frequency of outages per customer (scores are from 0 – 3) from the same 2017 report was zero. These zero scores in such key indexes signal the high extent to which power supply and outages hamper the production of firms especially those in manufacturing in the country. Therefore, to improve the performance of the private sector, firms' accessibility to reliable and uninterrupted power supply must be a major priority for policy makers.

Another obstacle that negatively affects the performance of Ghana's private sector is inadequate managerial expertise. As an example, the 2003 industrial census in Ghana revealed that about 12, 010 persons representing only 4.93% in industry had skills at the managerial level (Ghana Statistical Service, 2006). This is woefully inadequate to lead and drive the private sector to play its key role as an engine of development. Other challenges of the private sector in Ghana that limits its competitiveness as outlined in the GSGDA II include: inadequate access to long-term finance; the high informal nature of the private sector; low skilled and poor corporate management and inadequate infrastructure support among others (GOG, 2014).

Then also, service delivery to the private sector in Ghana is quite poor. For instance, delicate crops for exports get damaged along the way to the airport because of poor rood maintenance (GOG, 2003). The woos of the private sector is also compounded by bureaucratic systems in the country. For example, too much bureaucracy regarding business registration and at the ports among others hamper the growth of the private sector. There is therefore the need for policy makers to address such challenges.

6. Conclusion

The private sector has been identified as a key player in delivering economic, social and environmental development in both developed and developing countries. It has been recognized as a means to accelerate the growth of economies globally and as a catalyst for helping developing countries achieve rapid industrialization as well as poverty alleviation and other developmental goals, they so much desire. In view of this, PSD became an integral part of Ghana's economic development strategy beginning with the structural adjustment programme and has since been seen as the bedrock necessary for the development of the country. To this end, a number of initiatives meant to promote the private sector has been in place since the 1980s. In this light, this paper sought to discuss such policies and to highlight the contributions and challenges of the private sector in Ghana.

In general, the private sector in Ghana is characterized by micro, small and medium enterprises that are highly informal. In this vein, policy makers must make the removal of barriers to growth of micro and small enterprises a topmost priority. Also, the formal private sector in Ghana is relatively small. There is therefore the need to increase the size of the formal private sector by making the documentation and registration processes less cumbersome.

Moreover, the acute shortage of managerial personnel in local firms pose a severe constraint to the performance of the private sector in Ghana. Hence, management training should be a topmost priority of local firms. In addition, policy makers must also offer opportunities for private Ghanaian firms to build and improve the capacities of their human resources since there are very few people with managerial expertise.

Considering the contributions of the private sector to Ghana's development as discussed above coupled with the critical role that PSD is generally envisaged to play, the paper is relevant for policy makers in Ghana. Indeed, this paper is very timely especially with the ever-growing calls to continue to assist the private sector grow and cause the modernization of the country. The paper also contributes to the development literature with respect to the private sector by highlighting the contributions and challenges of the private sector in Ghana. Finally, it brings to light the need to have a well-functioning private sector and to pay attention to the performance of the sector, since it serves as the means to the sustainable development of the country.

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