

## ADVANCING THE CAUSE FOR A FAVOURABLE BUSINESS ENVIRONMENT THROUGH ADVOCACY

by

**Dr. John K. Kwakye\***

### Abstract

*The Business Sector Advocacy Challenge (BUSAC) Fund and its development partners (DFID, EU and USAID) supported IEA to carry out a project on the Ghanaian business environment. Under the project, 178 businesses based in Greater Accra, Ashanti, Western and Eastern regions and engaged in activities in agriculture, industry and services, were surveyed in February 2018. The survey identified several key constraints facing Ghanaian businesses, which had varying effects on their confidence and performance. Recommendations were made to address the identified constraints. Follow-up advocacy programmes were organised to bring the findings and recommendations to the attention of policymakers and other stakeholders to promote their buy-in and acceptance.*



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The Editor, The Institute of Economic Affairs, P.O. Box OS 1936, Accra.

Tel: +233-302244716/226333/226359 Email: [iea@ieagh.org](mailto:iea@ieagh.org) Website: [www.ieagh.org](http://www.ieagh.org)

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## I. INTRODUCTION

The IEA was supported by the BUSAC Fund and its development partners to carry out a project on constraints facing Ghanaian businesses and the effect on their confidence and performance, and to make recommendations to address the constraints. The survey was to be followed by advocacy programmes to disseminate the results and recommendations to policymakers and other stakeholders to promote their buy-in and acceptance. This report is a condensation of the findings and recommendations to inform policymakers and elicit remedial actions from them. The report also highlights some of the policy milestones already achieved under the project.

## II. SURVEY OF BUSINESS CONSTRAINTS AND THEIR EFFECT ON CONFIDENCE AND PERFORMANCE

A survey of business constraints was carried out in February 2018, a year into the administration of the new NPP Government. The survey was based on 178 randomly-selected businesses in the Greater Accra, Ashanti, Western and Eastern regions engaged in activities in agriculture, industry and services.

Fifteen constraints were used for the survey, informed by the theoretical and empirical literature, and businesses were given the option to pick their topmost one. The top ten most important constraints that emerged from the survey were: i) *High cost of raw materials*; ii) *High cost of credit*; iii) *Low/insufficient domestic demand*; iv) *High utility charges*; v) *Unstable exchange rate*; vi) *High government taxes and charges*; vii) *Excessive influx of imports*; viii) *Unfavourable regulatory environment*; ix) *Unreliable electricity supply*; and x) *Difficulty in obtaining licenses or permits*.

The constraints chosen by the businesses have appeared in other surveys for Ghana and other countries and regions. The order of importance, however, is expected to vary from country to

country in line with individual circumstances. Follow-up questions tried to find out how these constraints have affected the confidence and performance of businesses. Majority of respondents reported of improved business environment in the previous six months, while even a larger majority expected the overall business environment to improve in the next six months. Further, majority expected the macroeconomic environment as a whole to improve in the next six months. This sentiment was consistent with businesses' positive expectations about the business environment. Businesses were generally positive about the outlook for investment, sales, employment profit, and cost of operations. This expectation was also consistent with businesses' positive expectations about the business environment, which, must also have been influenced by their generally positive expectations about the macroeconomy. Majority of respondents expected not to hire or fire staff in the next six months. However, a higher proportion expected to add on staff compared to those that expected to lay off staff, implying a net expected increase in employment as a whole. The expected increase was, however, modest and was not expected to make any significant dent in the high unemployment rate in the country. Majority of respondents, again, indicated a freeze on their employment in the past six months, while a higher proportion hired compared to those who laid off staff. Majority of businesses surveyed were optimistic of better future business performance; majority attributed their optimism to expected increase in demand for their products. This expectation was against the backdrop of high hopes from possible effects of new policies to be implemented by the new NPP Government.

A smaller proportion of businesses reported better past performance than those that reported worse performance. For businesses reporting better past performance, they attributed it mainly to increased demand for their products. Ironically, businesses reporting worse past performance also attributed it largely to decreased demand for their products. While

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these responses may appear contradictory, they, all the same, point to the importance of demand to businesses performance generally.

### III. POLICY RECOMMENDATIONS

Based on the survey results, the following recommendations were made to address the identified business constraints and to improve the business environment as a whole:

- **High cost of raw materials:** Government policy should support the development of raw materials domestically for businesses to resort to costly imported raw materials. Government's 1 District-1 Factory policy, in particular, should ensure availability of adequate supply-chain for the factories planned across the country.
- **High cost of credit:** A multifaceted approach is required to improve operational and management efficiencies of banks, reduce lending risks, reinforce regulation and ensure durable macroeconomic stability so as to reduce the prevailing high cost of credit.
- **Low/insufficient domestic demand:** Government should promote demand for domestic products by supporting businesses to produce high-quality goods, educating and sensitizing consumers to utilize made-in-Ghana goods, and introducing trade policies that prevent "dumping" of cheap imports on Ghana
- **High utility tariffs:** The utility companies should be strengthened to improve their management efficiencies and reduce their operational costs and losses so as to ensure reasonably-affordable tariffs.
- **Unstable exchange rate:** Government should rigorously pursue policies to transform the economy to enable it produce high value-added exports, expand the domestic industrial base to reduce imports, and maintain lasting macroeconomic stability.
- **High taxes and charges:** Government should ensure moderate business taxes by addressing lapses in the tax system, including

by expanding the tax base, checking noncompliance, reducing exemptions and plugging the numerous tax leakages.

- **Excessive influx of imports:** Ghana's overly-liberal trade policy should be revisited and appropriate interventions introduced, including in the form of well-structured tariffs and quotas to check dumping and thereby allow domestic businesses to grow.
- **Poor regulatory environment:** The business regulatory environment should be improved to ease transactions costs. In particular, the registration process should be streamlined to save time and cost, and acquisition of other operating permits should also be eased.
- **Unstable power supply:** Stable power supply should be ensured to support business activities. This will require the provision of adequate generation capacity, diversification of generation sources and improvement in the management of the energy sector.

### IV. ADVOCACY PROGRAMMES

The project carried out advocacy to sensitize the public and get policymakers to accept and implement the recommendations. The advocacy was planned around the identified ten top business onstraints. In view of the large number of constraints, the advocacy was planned in phases. The first phase, which is reported here, involved four roundtables centered on the high cost of credit, given its prominence as a business constraint, and through publications in the print and electronic media.

The first roundtable was organised to present the results of the *IEA's 2018 Survey on Business Constraints and Their Effect on Business Confidence and Performance*. The presentation included recommendations to address the identified constraints so as to improve Ghana's business environment. The second roundtable had the theme: *Reducing the High Cost of Credit by Using a Fiscal Council to Promote Fiscal Discipline*. A paper presented by IEA linked the high cost of credit to high fiscal deficits and the attendant borrowing to finance them. The paper made a recommendation for

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the institution of a Fiscal Council in Ghana to monitor the budget and help rein in deficits. The third roundtable had the theme: *Addressing the Problem of High Interest Rates through an Effective Monetary Policy Framework*. A paper presented by the IEA sought to link the prevalence of high interest rates/high cost of credit to lapses in the Inflation Targeting (IT) framework used by Bank of Ghana. It argued that the IT could not be effective in the presence of fiscal indiscipline, exchange rate fluctuations and weak productive structures. It called for, among others, a dual mandate for BoG by adding economic growth to the primary inflation mandate to ensure effective control of inflation and affordable interest rates for businesses. The fourth roundtable was under the theme: *The Private Sector as the Engine of Growth*. A paper was presented by the IEA focusing on the private sector as the engine of growth and highlighting the need to address the constraints facing businesses so as to unleash the potential of the private sector.

The second vehicle that was used for advocacy was the print and electronic media. The IEA provided the electronic media with the research results, which were extensively published. The Institute also used its website as well as social media platforms (Facebook, Youtube, Twitter) and blogs to publicize the results in order to reach the widest public audience possible.

## V. MILESTONE ACHIEVEMENTS

The IEA's research and advocacy programs under the BUSAC Project have chalked important public policy milestones of which two stand out. These relate to high interest rates (high cost of credit) and fiscal responsibility, which was also linked to the first problem.

Establishment of the New Ghana Reference Rate: The IEA led a long and intense crusade to bring interest rates down in Ghana. The crusade included publication of a policy brief on the subject and organisation of two small lunch meetings with government officials to highlight the problem and calling on BoG to regulate interest rates. The crusade finally led to BoG to establish the Ghana Reference Rate (GRR), akin to the London Inter Bank Offer Rate (LIBOR). Since the inception of the GRR in April 2018, interest rates have dropped by 10-15 percentage points, which is a remarkable achievement.

Passing of the Fiscal Responsibility Act and Establishment of the Fiscal Council: Following the IEA's call for the establishment of an independent Fiscal Council to monitor the budget and help to entrench fiscal discipline in Ghana and thereby engender low interest rates, Government announced its intention to set up the Fiscal Council in the 2018 Budget Statement. The first step in the process to entrench fiscal discipline involved the passage of a Fiscal Responsibility Law (FRL). The Law is meant to ensure prudent spending by Government. Further, it is expected to ensure fiscal responsibility, macroeconomic stability and debt sustainability. In February 2019, Government also constituted a Fiscal Responsibility Advisory Council (FRAC) to monitor the performance of the Government's budget to ensure that it complies with fiscal rules and targets. But, above all, the IEA is pleased that the FRL and FRAC frameworks, by keeping government deficit and borrowing in check, would contribute to engender moderate interest rates to the benefit of Ghanaian businesses, which is a key goal of the BUSAC project.

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\*Dr. John K. Kwakye is the Director of Research at the Institute of Economic Affairs and a former Advisor to the Executive Director in charge of Ghana at the International Monetary Fund (IMF), Washington DC, USA.

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