# Advancing the Cause for a Favourable Business Environment through Advocacy

IEA Ghana
The Institute of Economic Affairs
*A Public Policy Institute*

www.busac.org
BUSAC Fund
*Advocacy for the Private Sector*

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# EXECUTIVE SUMMARY

The BUSAC Fund and its development partners (DANIDA, USAID and European Union) supported IEA to carry out this project whose goal is to study key constraints facing Ghanaian businesses and the effect on their confidence and performance, and to make recommendations to address the constraints. This part of the project took the form of a survey. The survey was followed by a series of advocacy programmes to bring the results of the survey to policymakers and other stakeholders to promote their buy-in and acceptance. This report discusses the results of the survey and the recommendations derived therefrom, advocacy activities and some of the milestones achieved.

**Survey on Business Constraints and their Effect on Confidence and Performance**

The survey was carried out in February 2018, a year into the administration of the NPP Government. It was based on 200 randomly-selected businesses in the Greater Accra, Ashanti, Western and Eastern regions. The businesses were engaged in activities in the three sectors of the economy—viz. 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 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 as elaborated in the Literature Review below (Section 2). The ranking of these constraints, however, is expected to vary from situation to situation in line with country and regional circumstances. The ranking of constraints in this particular list reflects long-standing fundamental challenges to Ghanaian businesses along with peculiar problems that may have existed at the time of the survey.

Follow-up questions tried to find out how these constraints have affected the confidence and performance of businesses, with the following results:

Majority reported of improved business environment in the past six months while even a larger majority expected the overall business environment to improve in the next six months. Majority expected the macroeconomic environment as a whole to improve in the next six months. This sentiment is 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 is 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 expected not to hire additional staff in the next six months. However, a higher proportion expected to add on compared to those that would lay off, implying a net expected increase in employment as a whole. The expected increase was, however, modest and was not expected to make a significant dent in the high unemployment level in the country. Majority, again, indicated a freeze on employment in the past six months, while a higher proportion hired compared to those who laid off staff. Majority were optimist 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 one-year old 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. Businesses reporting worse past performance also attributed it largely to decreased demand for their products. Demand for products has appeared consistently in businesses' responses, suggesting that it is an important challenge that needs urgent policy attention.

## Policy Recommendations

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

*High cost of raw materials:* Introduce policies to support production of raw materials and other inputs domestically to feed businesses.

*High cost of credit:* Adopt a multifaceted approach involving policies to improve operational and management efficiencies of banks, reduce lending risks, reinforce regulation and ensure durable macroeconomic stability.

*Low/insufficient domestic demand:* Improve the quality of domestic goods; educate and sensitize consumers to utilize made-in-Ghana goods; introduce trade policy interventions to avoid "dumping" of imports on Ghana.

*High utility tariffs:* Restructure utility companies to improve their management efficiencies and reduce their operational losses.

*Unstable exchange rate:* Transform the economy to enable it produce high value-added exports; reduce demand for imports through expansion of the domestic industrial base.
High taxes and charges: Address 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:* Revisit overly-liberal trade policy and introduce interventions as necessary, including in the form of appropriately-structured tariffs and quotas to check dumping and to ease the burden on domestic companies to allow them to grow.

*Poor regulatory environment:* Improve regulatory environment by shortening required time and streamlining registration process, including use of more automation.

*Unstable power supply:* Overhaul the power sector, including by ensuring availability of adequate capacity, improved management, and generation diversification to ensure more stable power for both businesses and households.

*Acquisition of licenses and permit:* Streamline the process in the context of reforms to ease the regulatory burden and the associated transactions costs to businesses.

## Advocacy Programmes

The next stage of the project was to carry out business advocacy to sensitize the public and get policymakers to accept and implement the recommendations aimed at addressing the constraints facing businesses and improving the business environment as a whole. The advocacy was planned around the ten top constraints facing businesses. Since these are numerous, the advocacy was to be carried out in phases and this report presents the first phase.

The first vehicle of business advocacy was roundtables/seminars. Four events were organised in this regard:

**Event 1:** *Theme: Engendering Low Cost of Credit by Using a Fiscal Council to Promote Fiscal Discipline.* High cost of credit was identified in this project as a major constraint facing Ghanaian businesses and had been a subject of extensive research and advocacy by the IEA based on its prevalence in the empirical literature on Ghana. The Institute had identified persistent high fiscal deficits as a major contributor to prevalence of high interest rates in Ghana. The event featured a presentation by the IEA of a paper recommending the institution of a Fiscal Council to check high deficits and promote fiscal discipline as a vehicle for engendering low interest rates.

**Event 2:** *Theme: Addressing the Problem of High Interest Rates through an Effective Monetary Policy Framework.* The roundtable involved a presentation by the IEA of a paper seeking to link the prevalence of high interest rates to the Inflation Targeting (IT) monetary policy framework used by Bank of Ghana to control inflation, which is a major determinant of interest rates. The presentation argued that the IT framework could not be effective in the presence of fiscal indiscipline, exchange rate fluctuations and weak productive structures. It called for a "re-think of the monetary policy" regime with concrete proposals. The forum agreed on alternative policies to reduce inflation in Ghana so as to ensure affordable interest rates for business.

**Event 3:** *IEA's 2018 Survey on Business Constraints and Their Effect on Business Confidence and Performance.* The event involved the presentation by IEA of the results of the survey presented in this report to a forum of stakeholders. The presentation highlighted the key business constraints, their effects on business confidence and performance, and recommendations to address the constraints so as to improve Ghana's business environment.

**Event 4:** *Theme: The Private Sector as the Engine of Growth.* It involved a presentation by the IEA of a paper focusing on the private sector as the engine of growth and to highlight the need to address the constraints facing businesses so as to unleash the potential of the private sector. This forum was necessary to ensure sustained advocacy to drum home the importance of the matters raised in the Institute's surveys and research and to get their buy-in and acceptance by policymakers.

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

# Table of Contents

# Glossary

| | |
|---|---|
| AGI | Association of Ghana Industries |
| BOG | Bank of Ghana |
| BCI | Business Confidence Index |
| BCS | Business Confidence Survey |
| CSO | Civil Society Organization |
| ECOWAS | Economic Community of West African States |
| GDP | Gross Domestic Product |
| MSME | Micro-Small and Medium Enterprise |
| MENA ES | Middle East and North Africa Enterprise Survey |
| MPR | Monetary Policy Rate |
| NPL | Non-Performing Loans |
| PPP | Public-Private Partnership |
| VC | Venture Capital |

# 1. INTRODUCTION

The Ghanaian private sector has faced numerous constraints that have stifled its development and contribution to the economy. The presence of the constraints have been confirmed by various studies, including periodic surveys conducted by the Association of Ghana Industries (AGI), Bank of Ghana (BoG) and the IEA, and in the World Bank's annual Ease of Doing Business Reports.

The BUSAC Fund and its partners supported IEA to undertake a further study of the key constraints facing businesses in Ghana and their effects on business confidence and performance. The study was to make recommendations for addressing the identified constraints, disseminate the findings to policymakers and push for the adoption of the proposed recommendations. The study involved a survey of Ghanaian businesses in the Greater Accra, Ashanti, Western and Eastern regions. The businesses were engaged in activities in the three sectors of the economy—viz. agriculture, industry and services. This study is different from the others in terms of the geographical and sectoral distribution of the businesses surveyed and its extensive advocacy component. The timing of the study will also imply that different results would be obtained from the others.

This paper reports the study and its findings and is structured as follows: Following this introductory Chapter, Chapter 2 reviews the theoretical and empirical literature on business constraints; Chapter 3 presents the methodology for the study; Chapter 4 presents the results and analysis; Chapter 5 presents the policy recommendations emanating from the study; Chapter 6 reports on the advocacy activities to disseminate the findings of the study and policy recommendations to policymakers and other stakeholders; and Chapter 7 presents the conclusion.

*IEA conducted a study on the key constraints within Ghana's business environment*

# 2. LITERATURE REVIEW

The private sector is considered to be the engine of growth in the economy. The state has a role to play in generating growth, but it must normally exercise this role by creating the conditions that allow private businesses to thrive—and lead growth. It is known that business growth can be constrained in a number of ways. Key among the constraints cited in the literature are: *regulation; finance; competition; size of market; growth and economic environment.* Businesses must be subject to regulation to ensure that they operate in an orderly manner and in conformity with rules and guidelines. Growing businesses and winning significant market share may come to the attention of the competition authorities who may introduce business-limiting regulations. Regulation may, however, be overbearing and impede business growth. Many small- and medium-sized businesses run up against *finance* constraints, including access to loans from commercial banks and also the risks of raising fresh equity in capital markets. In contestable markets, there is always *competition* emanating from entry from rival firms; technological change may reduce entry barriers. Businesses achieving success in niche markets may find limits to scalability. Others successfully leverage a brand to enter new markets. New and emerging technologies can be a major barrier to the continued growth and profits of established firms. Business growth can be held back by a period of *macroeconomic uncertainty;* the *size of the market* demand and revenues can be negatively affected by an economic recession or prolonged slowdown in demand.

Studies on Russia, African countries generally, Bangladesh, Nigeria, Venezuela, Ghana and on a global scale, are reviewed hereunder. They generally confirm the presence of business constraints in every case, subject to country and regional variations.

In 1995, Lieberman & Nellis (Lieberman & Nellis 1995) carried out a study on the problems facing Russian businesses. They identified "systematic constraints" foremost among which was the volatile political and economic environment, particularly inflation. They quoted one businessman who encapsulated the general sentiment that "Inflation, ruble instability and unpredictable price rises all lead to the absence of any idea of what tomorrow brings and inability to plan for the future." Regulatory constraints also ranked high, with taxation being the most costly. Others are: sources of commercial property, access to information, dispute resolution and business registration. The authors found it interesting that a few entrepreneurs considered lack of management skills as a constraint. However, this should not be surprising since few business managers would want to admit to their own inadequacies. While a few of these constraints may be peculiar to Russia, as expected, many of them run through the list found for other countries as the subsequent studies show.

In 2003, Bigsten and others (Bigsten et al., 2003) investigated the question of whether firms in Africa's manufacturing sector were credit constrained. They note that the fact that few firms obtain credit may not be sufficient to prove constraints, since certain firms may not have a demand for credit while others may be refused credit as part of profit-maximising behaviour by banks. To investigate this question, they used direct evidence on whether firms had a demand for credit and whether their demand was satisfied in the formal credit market, based on panel data on firms in the manufacturing sector from six African countries. Of those firms with a demand for credit, only a quarter obtained a formal sector loan. Their analysis suggested that while banks allocate credit on the basis of expected profits, micro or small firms are much less likely to get a loan than large firms. This finding has been found to be true in many other African countries where finance is a general challenge facing firms but is more acute for small- and medium-scaled enterprises (SMEs). The authors also found that outstanding debt was positively related with obtaining further lending. They noted that the role of outstanding debt was likely to be a reflection of inefficiency in credit markets, while the fact that size matters was consistent with a bias as well, although they could not totally exclude that they reflected transactions costs on the part of banks.

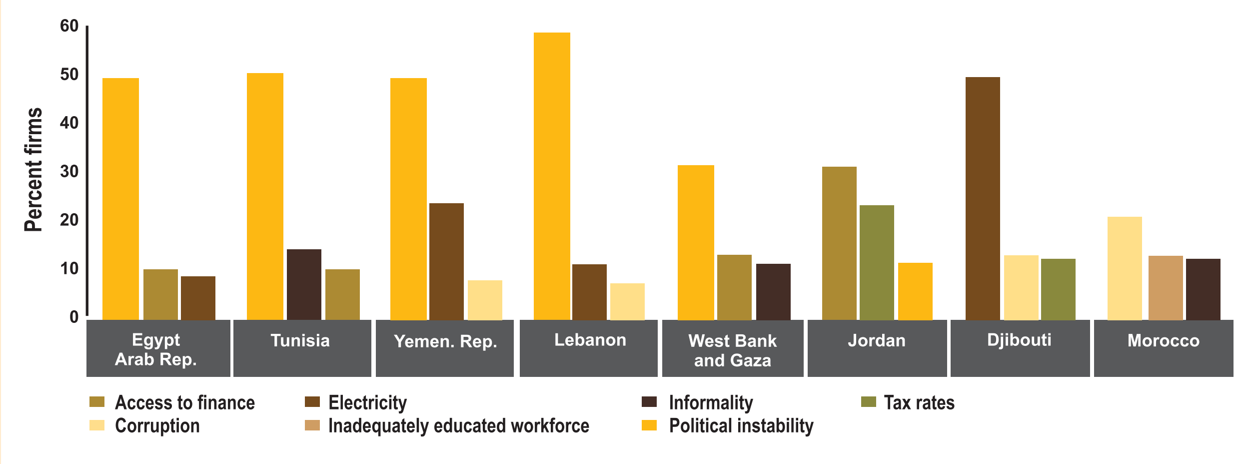
In 2007, Okpara and Wynn (Okpara and Wynn, 2007) carried out a study of the constraints facing SMEs in Bangladesh. They observed that there was little doubt that SMEs play a vital role in development of an underdeveloped economy, but still this sector faced "multifarious problems" relating to raw materials, power, land, marketing, transport, technical facilities, and finance, etc. and that due to these constraints it was getting more difficult for them to contribute to a nation's GDP as expected. They selected their SME sample from five sub-sectors of the economy using varimax normalization method based on a primary questionnaire survey and ranking the factor constraints according to their level of severity. They identified seven major factors comprised of 12 variables working as impediments to SME growth and development. On top of the list of factors were: i) high lending rate, ii) government regulatory constraint, iii) small domestic market size, iv) collateral requirement for financing, and v) lack of technically skilled workers. These are factors that recur throughout the empirical literature on business constraints in developing countries, but for which no solutions have been found by policymakers.

In 2013, Nwibo & Okorie (Nwibo & Okorie, 2013) carried out a study on the constraints facing agribusinesses in Southeast Nigeria. They noted that despite the role entrepreneurs play in the development of any economy, there seemed to exist a dearth of empirical knowledge on what constrains entrepreneurs in taking effective entrepreneurial and investment decisions in Southeast Nigeria. They used a combination of purposive and multistage sampling techniques in the selection of 360 agribusiness investors in the study area. They collected data by using structured questionnaire and interview schedule and analysed it using descriptive and inferential statistics. The results showed that lack of start-up capital, lack of market information, crime, theft and social disorder, corruption and bad legal system, poor infrastructural facilities, multiple taxation, tedious registration and licensing procedure, and poor access to formal credit facilities were the main constraints to entrepreneurship and investment decisions by agribusiness entrepreneurs in Southeast Nigeria The results further showed that starting enterprises without proper feasibility, high taxation, inadequate supply of power, inconsistency in government policy, inability to withstand competition, management inexperience, poor knowledge in the line of business, and joint ownership of enterprises were the major causes of enterprise failure in Southeast Nigeria. However, despite the varying constraints to entrepreneurship and investment decisions in the area, agribusiness ventures "performed at levels acceptable to the entrepreneurs." The authors recommended the formulation and implementation of policies targeted at removal of the identified constraints. Such policies should include improvement on access to credit for agribusiness entrepreneurs, even when they may not possess prime assets that are currently being accepted by financial institutions as collateral. The authors also indicated the importance of making agribusiness investors always carry out a thorough market research and feasibility to ensure that there is adequate demand for the products or services being offered. Obviously, the constraints facing these business are so numerous and multifaceted, while some may also be due to the peculiar geographical circumstances in which they operate, so that addressing them was going to be very challenging.

In 2016, Obuchi and others (Obuchi et al., 2016) carried out a study on Venezuela's business environment. To identify binding microeconomic constraints for investment in Venezuela, the authors reviewed international rankings and experiences about key elements of the business environment and conducted interviews with members of guilds and managers at large companies in the country. They found Venezuela's business environment "as one of the worst in the world." Producing and investing in the country imposes costs and risks arising from macroeconomic instability. Beyond the problems of inflation, fiscal deficit and trade balance, firms and entrepreneurs also faced enormous difficulties and discouragement going from the uncertainty about property rights to lack of electricity. The authors also found that the most biding constraints to investment were "within the functioning of institutions," including weak property rights, and arbitrary, unbalanced and unpredictable enforcement of the law. They discovered flawed functioning of markets, including access to inputs and price controls to be important binding constraints. Again, some of these factors may be peculiar to Venezuela's circumstances. However, many of them are shared with Bangladesh, Nigeria and other African countries as seen above.

The World Bank conducts surveys that gauge obstacles facing enterprises or the ease of doing business in countries, regions and globally. A comprehensive survey the Bank conducted in 2016 for the middle-eastern and north African (MENA ES) region, for example, found political instability, corruption, and electricity as the "top obstacles" (De Lima et al., 2016). As shown in figure 1.0 below, political instability is the most commonly chosen top obstacle in five of the eight economies surveyed.

*Figure 1.0: Political instability is most commonly chosen as the top obstacle in the MENA ES economies*

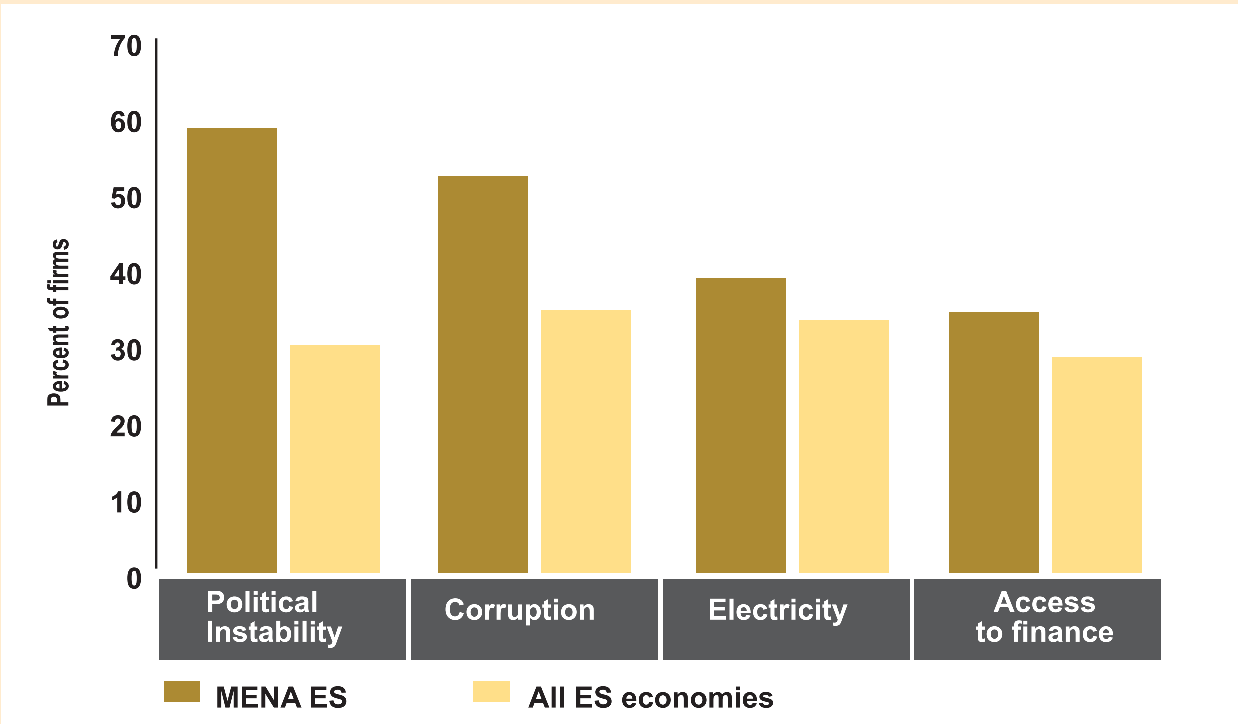



*Source* Enterprise Surveys
*Note:* For each economy the three obstacles most frequently chosen as the top obstacle forms are shown.

Figure 1.1 also shows that political instability and corruption stand out: they are considered severe by a much larger share of firms than in all MENA ES economies. Electricity and access to finance are also above the average of all economies with MENA ES data, but the difference is not as large.

The authors argued that future growth of the formal private sector requires reforms aimed at addressing the specific concerns of firms about electricity, corruption, and access to finance, all of which contribute to and are fed by the overarching political instability.

*Figure 1.1: Political instability, corruption and unreliable electricity supply are considered severe obstacles more frequently in the MENA ES region*




***Source:*** **Enterprise Surveys**

Countries covered included: Egypt, Djibouti, Jordan, Lebanon, Morocco, Syria, West Bank and Gaza, and Yemen.

Since 2003, the World Bank has been publishing annual Ease of Doing Business Reports and rankings for around 190 countries. The report is based on a survey of businesses in the countries involved. The factors on which the report and rankings are based include: *starting a business, dealing with construction permits, getting credit, getting electricity, paying taxes, enforcing contracts, resolving insolvency, trading across borders, protecting minority rights, and labor market regulation.* It can be seen that some of the factors cut across national borders and this is because the World Bank surveys both local and foreign businesses. On the contrary, our survey will cover only local businesses and, as such, the factors involved may be described as "local." Some of the factors will, of course, overlap those used by the World Bank. The World Bank's survey on the ease of doing business, which is the flip side to ours that is based on constraints to doing business is of considerable relevance and it is worthy of note.

Ghana has consistently fared poorly in the World Bank rankings, falling short of most of the factors used for the rankings. In the latest 2019 Report, for instance, **Ghana was ranked 114 out of 190 countries.**

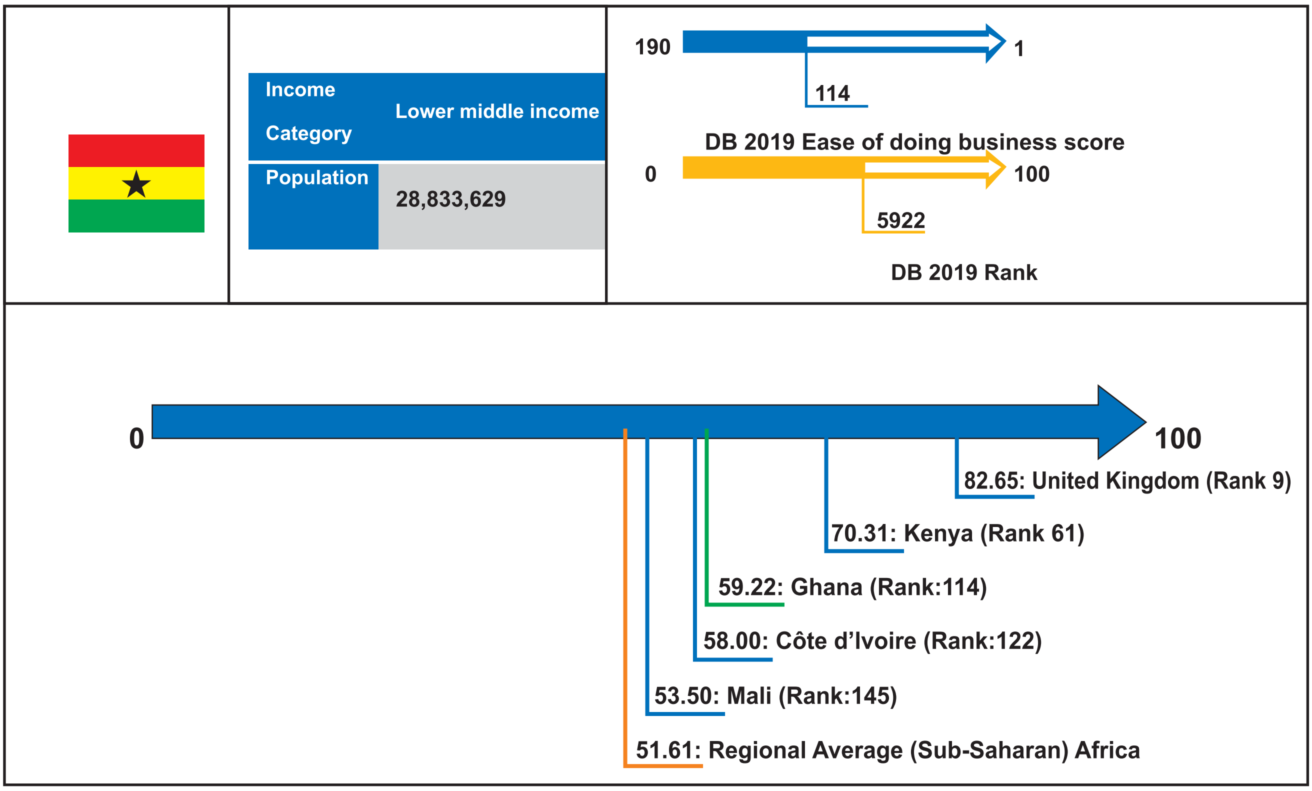
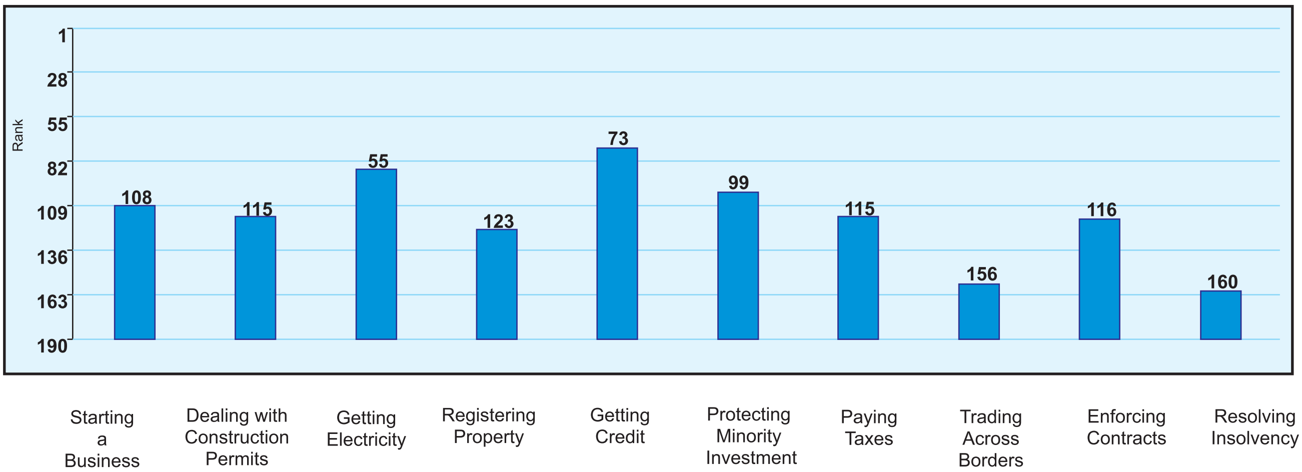



Figure 1.2 Rankings on Doing Business topics - Ghana



In Africa, Ghana ranked for below Kenya (61) but above Cote d'Ivoire (122) and Mali (145). Ghana also ranked above SSA average.

Ghana's lowest ranking was for resolving insolvency (160) followed by trading across borders (156) and getting electricity (123) (Figure 1.2).

Ghana's highest ranking was for registering property (73) followed by getting credit (56) and by protecting minority rights (99).

***Note: Full World Bank rankings can be found in Table 2.0 in Appendix***

In Ghana, the Association of Ghana Industries (AGI) investigates the constraints facing its members quarterly in the context of a business confidence survey. The Association publishes a Business Barometer Report (BBR) based on the surveys. The Report compiles a Business Barometer Indicator (BBI) or [Business Confidence Index] that measures the level of confidence in the business environment and predicts short-term business trends. The BBI is based on the business community's assessment of current and economic conditions and their perceptions. The BBI expresses the state of the business climate numerically in a single figure (or index) with 100 as the base index. The index is calculated out of “current” business mood and “expectation” of businesses for the future. In addition to the BBI, AGI also publishes information on what the business community considers to be the key challenges or constraints facing them.

**Evidence from the AGI surveys over the last ten years, 2009-19, points to the factors in Table 1.0 as the key constraints confronting businesses in Ghana:**

**Table 1.0: Constraints Facing Businesses in Ghana, 2009-19**

| | |
|---|---|
| **i.** | **High cost of electricity (or poor power supply)** |
| **ii.** | **Cedi depreciation** |
| **iii.** | **High cost of credit** |
| **iv.** | **Difficulty in accessing credit** |
| **v.** | **High or multiplicity of taxes** |
| **vi.** | **Competition from imported goods** |
| | **High cost of raw materials** |
| **vii.** | **High inflation** |
| **viii.** | **High utility prices** |
| **ix.** | **Delays in government payment to contracts** |
| **x.** | **Poor infrastructure** |
| **xi.** | **Lack of market** |
| **xii.** | **Cumbersome port procedures** |

***Source:*** Compiled from AGI Business Barometer Reports, 2009-19

The factors in the Table have been aggregated over the period 2009-19. They are not arranged in any particular order and, as such, their relative importance varies from quarter to quarter and from year to year in line with the intensity of the problem involved. For example, high cost of electricity (or poor power supply) featured prominently during 2014-16 at the height of the power crisis that saw the escalation of shortages and cost of power to businesses, leading, in some instances, to business closures and job lay-offs. Also, in periods of rapid cedi depreciation, such as occurred in 2014 due to the introduction of administrative measures by Bank of Ghana, that factor featured prominently in the surveys. The high cost of credit was a common feature in the surveys, as the problem seems to have persisted for a long time. What Table 1 also reveals is that, businesses have faced wide-ranging constraints that must have affected their confidence and performance. The AGI repeatedly called for policy actions to address the constraints so as to relieve the burden they imposed on businesses. However, official response to these pleas remained muted, and the AGI repeatedly expressed frustration about the continued inactions.

The Bank of Ghana (BoG) also conducts quarterly business confidence surveys. However, the details of the surveys are not published; they are made available only to the Monetary Policy Committee (MPC) to help the Committee in its deliberations towards setting its benchmark Policy Rate. The Governor communicates only trends in the Business Confidence Index (BCI) to the public in his post-MPC Meeting statements. The BCI varies from time to time reflecting largely business expectations regarding the general economic outlook. Unlike the AGI surveys that look at constraints confronting businesses, the BoG surveys only focus on the economic factors that influence business expectations and performance.

The IEA has been conducting semi-annual surveys of Ghanaian businesses since 2015. The surveys aim to gauge business confidence and performance and also identify the key constraints facing them. The range and relative importance of the constraints varied from survey to survey. On the aggregate, the key constraints identified for the period 2015-17 included: unreliable power supply, exchange rate volatility, high cost of raw materials, high cost of credit, high government taxes, insufficient demand, competition from imports, poor infrastructure, difficulty in acquiring licenses/permits, and lack of skilled labour. These constraints are, by and large, similar to those identified in the studies for Russia, Bangladesh, Nigeria, and MENA ES as well as some of those used by the World Bank Ease of Doing Business reports mentioned above. Every IEA survey was disseminated to policymakers and other stakeholders through roundtable discussions as well as the print and electronic media.

The focus of this particular study is to investigate the key constraints facing Ghanaian businesses and the effect on business confidence and performance in order to obtain a more complete picture of the dilemma facing Ghanaian businesses so as to be able to recommend appropriate remedial measures. In that respect, the focus of this study is more diverse and comprehensive than IEA's previous business surveys or even those of the AGI and BoG. Further, as noted above (Section 1) this study is different in terms of the broader range and geographical coverage of the businesses involved. However, equally importantly, this study does not just stop at the investigative stage, but it includes a more elaborate and intensive follow–up advocacy on some of the key constraints that emerge from the study to promote policies that would enhance the business climate and thereby enable the private sector to flourish and spearhead economic growth.

*The challenges in the business environment need to be addressed for businesses to flourish*

# 3. METHODOLOGY

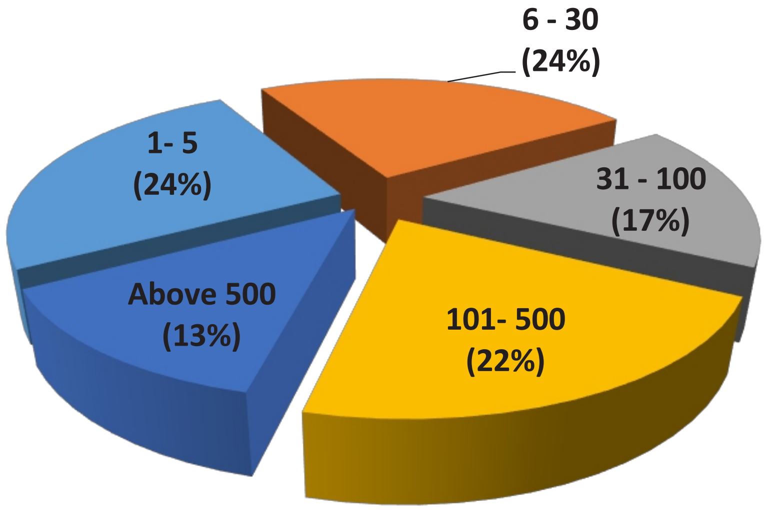
As explained above, the project involved two parts: a survey part and an advocacy part and this section discusses the methodology used.

## 3.1 Survey

This part involved a survey of selected businesses to identify the key constraints facing them and the effects of the constraints on their confidence and performance. The survey was conducted in February 2018 and was based on a sample of 200 companies selected randomly. A stratified sample design methodology was used, whereby the sample was organized into sub-groupings so that the selection was "spread" appropriately across the sectors and regional divide. The study covered the three sectors of the economy—viz. agriculture, industry and services. The companies used in the study were obtained from the Ghana Statistical Service (GSS) Integrated Business Establishment Survey. The number of companies selected from each sector was based on the sector's contribution to GDP in 2016 based on data published by the GSS, i.e. Services (56%), industry (25%) and agriculture (19%). The sample covered small, medium and large scale enterprises.

Employee numbers were used to proxy for size in this study. The companies had employment ranging from 1 to over 500, a range that is also used by GSS. The distribution of companies according to size of employment is shown in Figure 2.1. The small-scale enterprises with 1-30 employment were dominant with 48% of the sample share, while the large-scale enterprises with over 500 employments accounted for only 13% share.

**Figure 1.3: Distribution Of Enterprises by Employment (July-December 2017)**




***Source: IEA Business Confidence Survey, 2018***

The survey was conducted in the Greater Accra, Ashanti, Western and Eastern regions, regions that accounted for more than 80% of the output of all registered companies in the country. Out of the targeted sample of 200 companies, 178 were successfully interviewed. This represented a response rate of 89%. Out of the 22 unsuccessful interviews, thirteen (13) businesses indicated that individuals who were to respond to the survey questions were unavailable; they had either travelled out of town on official assignment or were on leave. The remaining nine (9) businesses simply declined participation although they had earlier indicated their interest in the survey. The distribution of successfully-interviewed companies per sector and per region is shown in Table 1.1 below.

**Table 1.1: Responses per Sector and per Region**

| Region | Agriculture | Industry | Services | Total |
|---|---|---|---|---|
| **Ashanti** | 9 | 7 | 10 | 26 |
| **Eastern** | 10 | 3 | 10 | 23 |
| **Western** | 0 | 8 | 9 | 17 |
| **Greater Accra** | 4 | 40 | 68 | 112 |
| **Total** | **23** | **58** | **97** | **178** |

***Source: IEA Business Confidence Survey, 2018***

Sector-wise, the respondents were overwhelmingly dominated by Services, while Agriculture was the least. On the other hand, region-wise, the respondents were overwhelmingly dominated by Greater Accra, with Western accounting for the least.

To get an accurate picture of business sentiments, the Chief Executive Officers (CEOs) and/or Finance Officers of the selected enterprises were interviewed; these officers tend to be more abreast with company operations and thinking. Indeed, they are better placed to provide information on constraints, sentiment and performance, the subject matters of the survey. To make them well aware of the broad aims of the survey and to ensure that a high response rate was attained, selected businesses were contacted by the IEA before the actual data collection exercise commenced. This contributed to the high response rate (89%) recorded.

The study involved inputting, processing, collation and analysis of the data collected using SPSS software. The processed data were presented in the form of tables and exported to Microsoft excel for further analysis, which included transforming the data into graphs. Statistically, weights were assigned to responses on the basis of the number of people engaged to work. The size of businesses based on the number of employees in the business was used as a measure of relative importance of an enterprise. Businesses with employees within the range of '1-30' were assigned a weight of 1; 31-100, a weight of 2; '101-250' a weight of 3; '251-500', a weight of 4; and above 500, a weight of 5. This technique has been widely used in other studies and reports as an indicator for firm size. It is reliable and can be used to make comparisons across different categories of enterprises. The analysis also involved disaggregation of the companies into three broad economic sectors in some instances, and in other instances the disaggregation was made for financial versus non-financial sector enterprises. This mode of categorization of the enterprises was meant to assess the relative sentiments of these categories of enterprises, and to determine any existing differences in major constraints faced by businesses in the different sectors.

A number of measures were put in place in terms of quality control to ensure the integrity of the data collected. Recruited field workers, supervisors and interviewers had a minimum qualification of a tertiary level education and were adequately prepared for the actual field work, which included an in-depth training regime. Quality control measures, for instance effective supervision of the teams and editing of questionnaires after data collection to ensure accuracy and completeness, was also established during the field work. In situations where discrepancies were detected, interviewers were made to track respondents concerned in order to rectify the problem. This approach ensured a high degree of accuracy during the data gathering process.

## 3.2 Business Advocacy

The advocacy involved two legs. One leg involved a series of roundtable meetings to disseminate key results to policymakers and other stakeholders. The other leg involved the use of the print and electronic media to disseminate the results to a wider public audience.

# 4. SURVEY RESULTS AND ANALYSIS

## 4.1 Business Characteristics

The results indicated that 55.2% of the companies surveyed (representing 98 enterprises) belonged to the services sector, 34.3% (representing 61 enterprises) to the industrial sector and the remaining 10.7% (representing 19 enterprises) to the agricultural sector. The services sector was dominated by wholesale and retail companies, followed by financial services and then hotels and restaurants. The industrial sector was dominated by manufacturing companies followed by construction. The agricultural sector was dominated by livestock companies followed by fishing and then crops. A further disaggregation was made between financial-sector and non-financial sector companies in order to investigate the differences in constraints facing these important but markedly different sectors of the economy. This division showed the overwhelming dominance of non-financial sector companies (159 in number and accounting for 89.3%) as against 19 financial sector companies (accounting for 10.7%) (Table 1.2).

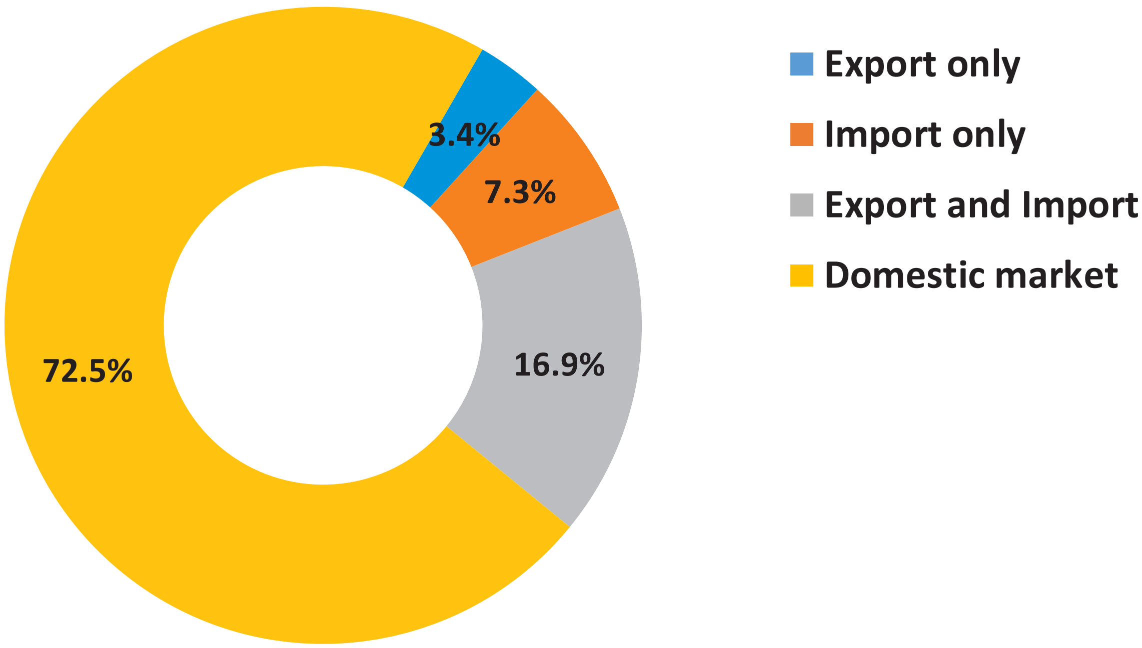
**Table 1.2: Distribution of Companies by Sector**

| Sector | Number | Percent |
|---|---|---|
| Crops | 3.0 | 1.7 |
| Livestock | 10.0 | 5.6 |
| Fishing | 5.0 | 2.8 |
| Forestry/Logging | 1.0 | 0.6 |
| TOTAL AGRICULTURE | **19.0** | **10.7** |
| Manufacturing | 46.0 | 25.8 |
| Mining and Quarrying | 3.0 | 1.7 |
| Constr uction | 11.0 | 6.2 |
| Electricity/Water Supply | 1.0 | 0.6 |
| TOTAL INDUSTRY | **61.0** | **34.3** |
| Waste Management | 1.0 | 0.6 |
| Financial Service (eg. Banking and Insurance) | 19.0 | 10.7 |
| Transportation | 3.0 | 1.7 |
| Telecommunication | 6.0 | 3.4 |
| Trade (Wholesale and Retail) | 35.0 | 19.7 |
| Hotel and Restaurants | 18.0 | 10.1 |
| Education | 3.0 | 1.7 |
| Printing Services | 4.0 | 2.2 |
| Health Services | 6.0 | 3.4 |
| Saloon | 3.0 | 1.7 |
| TOTAL SERVICES | **98.0** | **55.2** |
| OVERALL TOTAL | **178.0** | **100** |
| | | |
| Financial Sector | **19** | **10.7** |
| Non-Financial Sector | **159** | **89.3** |

***Source: IEA Business Confidence Survey, 2018***

Figure 1.4 further shows that 72.5% of the companies produced for the Ghanaian market, 16.9% were engaged in both exports and imports and 7.3% and 3.4% were engaged solely in imports or exports respectively. These findings confirm the study by the Centre for the Study of African Economies, which noted that most businesses in Ghana had failed to break into export markets in spite of the policies and reforms pursued to that end.

**Figure 1.4: Nature of Business Activity**




*Source: IEA Business Confidence Survey, 2018*

## 4.2 Business Constraints and Their Effects on Confidence and Performance

### 4.2.1 Business Constraints

Businesses were presented with a list of 14 specific constraints plus "other" factor that is supposed to capture everything else outside the 14 options and the businesses were asked to choose the one most binding constraint to their business. The list of options presented to the businesses was informed by surveys conducted by the AGI, the World Bank, IEA and others as indicated in the literature review above. The results of the survey are presented in Table 1.3.

**Table 1.3: Binding Constraints to Business**

| Major Constraints | Agriculture | Industry | Services | All Sectors |
|---|---|---|---|---|
| 1. High cost of raw materials | 30.4 | 29.3 | 13.4 | 20.8 |
| 2. High cost of credit | 30.4 | 22.4 | 12.4 | 18.0 |
| 3. Low/insufficient domestic demand | 4.3 | 12.1 | 15.5 | 12.9 |
| 4. High utility charges | 8.7 | 10.3 | 14.4 | 12.4 |
| 5. Unstable exchange rate | 8.7 | 5.2 | 15.5 | 11.2 |
| 6. High taxes and government charges | 0.0 | 1.7 | 9.3 | 5.6 |
| 7. Excessive influx of imports | 4.3 | 10.3 | 2.1 | 5.1 |
| 8. Unfavourable regulatory environment | 0.0 | 3.4 | 6.2 | 4.5 |
| 9. Unreliable electricity supply | 0.0 | 3.4 | 4.1 | 3.4 |
| 10. Difficulty in obtaining lincenses or permits | 0.0 | 1.7 | 2.1 | 1.7 |
| 11. Inadequate infrastructure | 4.3 | 0.0 | 2.1 | 1.7 |
| 12. Lack of skilled workers | 4.3 | 0.0 | 1.0 | 1.1 |
| 13. Low/insufficient demand | 0.0 | 0.0 | 1.0 | 0.6 |
| 14. High rate of corruption in public institutions | 0.0 | 0.0 | 1.0 | 0.6 |
| 15. Other | 4.3 | 0.0 | 0.0 | 0.6 |

***Source: IEA Business Confidence Survey, 2018***

The business responses have been ranked in order of importance based on their frequency of occurrence in the responses. The constraints have also been broken into sectors so as to discern any differences in their relative importance by sector.

*From the Table, the top 10 most binding constraints to business as per the responses were:*

1. High cost of raw materials
2. High cost of credit
3. Low/insufficient domestic demand
4. High utility charges
5. Unstable exchange rate
6. High government taxes and charges
7. Excessive influx of imports
8. Unfavourable regulatory environment
9. Unreliable electricity supply, and
10. Difficulty in obtaining licenses or permits.

The factors have their own stories behind them as discerned in the literature review. Further, some of them are interrelated.

**<u>1. High cost of raw materials:</u>** Ghanaian businesses lack raw material support base domestically due to inadequate policies in that respect, and given an ever-depreciating cedi, the cost of imported raw materials has become a major headache for businesses. The AGI, World Bank and IEA's surveys all confirmed the importance of this problem. It is, therefore, not surprising that the high cost of raw materials is mentioned as the topmost constraint by the businesses surveyed. This problem has to be addressed through a comprehensive set of policies to ensure availability of raw materials and other imports domestically to feed companies and reduce their operational costs.

**2. High cost of credit:** With structural inefficiencies in the banking system, borrower risks and persistent inflation, among others, interest rates have been persistently high in Ghana. Businesses face lending rates of beyond 30% in many instances. The high cost of borrowing has featured prominently among the major constraints facing Ghanaian businesses in previous studies. In fact, IEA had widely highlighted in its previous work the importance of the high cost of credit as a constraint to doing business in Ghana and reducing the country's competitiveness generally. It does not come as a surprise to us, therefore, that the factor occupies an equally high position in the businesses responses in this study. Reducing the cost of credit will require multifaceted approach involving policies to improve operational and management efficiencies of banks, reduce lending risks, reinforce regulation and ensure durable macroeconomic stability.

**3. Low/insufficient domestic demand:** The Ghanaian consumer has low purchasing power due to the low levels of income. Businesses, therefore, constantly face low demand for their goods and services. Inadequate demand has the effect of stifling investment and production and the businesses surveyed, expectedly, cited this factor among the important constraints facing them. This will require improvements in the quality of domestic goods, education and sensitization of consumers to utilize made-in-Ghana goods and trade policy interventions to avoid “dumping” of imports on Ghana.

**4. High utility charges:** Inefficiencies in utility companies, leading to high operational costs and losses, high inflation and currency instability have resulted in prohibitively high utility tariffs. This has increased businesses costs and dented their profits. Businesses, therefore, rightly cite it as an important constraint facing them. The way to abate this problem is to restructure the utility companies to improve their management efficiencies and reduce their operational losses so as to ensure reasonable tariffs. A stable macroeconomic environment will also contribute to keep their costs—and therefore tariffs—down.

**5. Unstable exchange rate:** The Ghanaian cedi has been on a constant declining path as a result of the persistent gap between foreign exchange supply and demand. The gap is in turn due to low earnings from exports and heavy dependence on imports. The persistent exchange rate depreciation creates uncertainties for businesses while also increasing their input costs. AGI surveys consistently picked up depreciation as a major business constraint, as did IEA's own surveys. This evidence is confirmed by this survey, whereby companies cited it as a major problem for them. The way to ensure durable stability of the exchange rate—and thereby relieve the burden on businesses—is to transform the Ghanaian economy to be able to produce high value-added exports and to reduce demand for imports through expansion of the domestic industrial base.

**6. High government taxes and charges:** In Ghana, both personal and corporate taxes are relatively high, yet the tax effort in terms of GDP is low. This is due to the narrow tax base amid a large untaxed informal sector, weak tax administration, low tax compliance, high level of tax exemptions, and tax losses through trade mis-invoicing, transfer pricing, other illicit financial flows, fraud and corruption. Companies face not only high income taxes, but several other taxes, some of which are difficult to justify. This has placed a heavy burden on companies, increased their costs and rendered them uncompetitive. High and multiplicity of taxes have consistently appeared on the list of business constraints cited by companies in surveys, as it has in this particular survey. The way to ease this problem is to address the lapses in the tax system mentioned above, including expanding the tax base and plugging the numerous tax leakages.

**7. Excessive inflow of imports:** Under Ghana's liberal trade policy, and in light of low domestic capacity to produce goods at home, the country is flooded with imported goods. Many of these goods are “dumped” on the country through unfair trade practices, including subsidizing the goods in home countries to keep their prices low. The effect of the excessive inflow of much cheaper imports is to render our domestic companies uncompetitive, thereby stifling their growth. It was, therefore, expected that businesses will include this problem among their major constraints, as they had done in other surveys. Ghana's overly-liberal trade policy needs to be revisited and the necessary interventions introduced, including in the form of appropriately-structured tariffs and quotas, to check import dumping and to ease the burden on domestic companies to allow them to grow. Trade liberalization had clearly created a market failure that needed official intervention to correct.

**8. Unfavorable regulatory environment:** Ghana's business regulatory environment remains difficult despite previous efforts to ease it. The persisting problems include difficulties in registering businesses and in obtaining licenses and permits (which appears as a separate factor hereunder). The regulatory burden, which increases business transaction costs, has featured regularly in other surveys. It will be important to improve the regulatory environment to ease the burden on businesses. This requires shortening the time and streamlining the process to register businesses, including more automation.

**9. Unreliable electricity supply:** Inadequate and unstable power have plagued the Ghanaian economy for a long time. This has been the result of inadequate installation and generations capacity and operational and management inefficiencies in the power sector. The persistence of the problem has been quite destructive of business operations and increased business costs. Businesses have mentioned it consistently as one of their major constraints, which, in acute situations, has forced business closures, labour layoffs, and relocations outside the country. The survey was conducted in February of 2018. The NPP government had then been in power for a year then and it had been able to stabilize somewhat the energy crisis that had plagued the country for almost four years under the previous NDC administration. Therefore, although the problem had not completely gone away, the situation was much better. This is probably the reason why even though the businesses surveyed considered unreliable electricity supply among their constraints, it was not uppermost in the list of the ten constraints. Having said that, there is still work to do to ensure uninterrupted power supply. This will require, among others, a complete overhaul of the power sector, including ensuring availability of adequate capacity, improved management and generation diversification to ensure more stable power for both businesses and households.

**10. Difficulty in obtaining licenses or permits:** Difficulty in obtaining licenses and permits is among the regulatory burdens mentioned above. As noted, this problem increases business transaction costs. The problem needs to be addressed along with other reforms to ease the regulatory burden and the associated transactions costs.

The order of importance of the foregoing constraints was not expected to be the same for businesses operating in the different sectors of the economy—agriculture, industry and services. A sectoral analysis of the importance of the constraints in Table 1.3 above reveals the following:

In the agricultural sector, the four most binding constraints to business growth were:

1. High cost of credit
2. High cost of raw materials
3. High utility charges, and
4. Unstable exchange rate

The placement of the high cost of credit at the top of the constraints facing the agricultural sector should not be surprising. It is a fact that financial institutions not only shun businesses in the agricultural sector, but also charge them relatively higher lending rates. This is because of the perceived relatively higher risks in the sector given its vulnerability to weather and other shocks. Mitigating this problem will require interventions to ensure affordable credit to the sector including through specialized agricultural development financial institutions.

It is a bit surprising that the high cost of raw materials is cited as an important constraint even to businesses in the agricultural sector. This is probably more related to high cost of farm inputs and other materials used by agri-businesses, which is a threat to production. Ghana is reported to produce less than 30% of raw materials required for agricultural and other businesses. It appears agricultural policies have neglected development of the raw materials subsector. As mentioned above, this is a problem that cuts across all businesses and needs to be tackled through a comprehensive set of policies to develop raw-material supply chain in the country.

High utility charges and unstable exchange rate, which occupy high positions in the list of binding constraints facing agricultural businesses, cut across almost businesses in all sectors. As mentioned above, the former is due to inefficiencies in the operations of utility companies and the latter to fundamental structural weaknesses that need to be addressed by the policy interventions suggested above.

In the industrial sector, the five most binding constraints to business growth were:

1. High cost of raw materials
2. High cost of credit
3. Low/insufficient domestic demand
4. High utility charges, and
5. Excessive influx of imports

The high position occupied by the high cost of raw materials among the constraints in the industrial sector was to be expected. Again, this is due to policy failure in developing adequate raw material base to support Ghanaian industries, leaving them at the mercy of high-cost imported raw materials, whose prices are vulnerable to perennial cedi depreciation. Expanding the raw material base will be important to support domestic industries to maintain production at reasonable costs.

The high cost of credit again appears uppermost in the constraints facing industrial businesses. This is a persistent problem, which as mentioned, cuts across all businesses. It requires interventions suggested above to address the problem holistically. But specific to industrial companies, affordable credit could be provided through a state-supported specialized industrial development financial institution.

Low and insufficient demand cited among the five major constraints reflects low purchasing power and diversion of demand to imports as noted above. Domestic demand may be boosted in the context of economic growth buttressed by interventions to limit imports and divert demand to local-produced goods.

High utility tariffs are known to have led to escalation of the costs of industries, which face higher tariffs than domestic utility consumers. It is necessary to addresses lapses in the utility generation and distribution systems so as to ensure affordable tariffs for industries in particular and all consumers in general.

Excessive influx of imports due to an over-liberalized trade policy and lack of import substitutes domestically has been quite hurtful to local industries, rendering them uncompetitive. This problem has to be addressed through trade policy reforms and domestic industrialization to correct an obvious market failure.

In the services sector, the five leading binding constraints to business growth were:

1. Low/insufficient domestic demand
2. Unstable exchange rate
3. High utility charges
4. High cost of raw materials, and
5. High cost of credit.

Services sector businesses share 4 factors in common with industrial sector businesses among the top 5 binding constraints, viz. high cost of raw materials, high cost of credit, low/insufficient demand and high cost of utilities. However, as expected, the ordering of the constraints differs between the two sets of businesses. Significantly, industrial businesses place high cost of raw materials uppermost in their list of constraints, whereas for services, the most important factor is low/insufficient demand. It is easy to understand this difference. For industrial businesses, raw material inputs represent basically their lifeline and, therefore, not getting the inputs at affordable prices should be their main worry. On the other hand, services businesses may not require the same raw material inputs that industrial businesses do given the nature of their activities. To those companies, low/insufficient demand for their products and services seems to be their primary constraint and concern. The other significant difference relates to the remaining constraint. For industries, it is excessive influx of imports, whereas for services, it is unstable exchange rate. Here also, it is understandable that competition from cheaper imports should be a major source of worry for industries, given the effect on their sales and production. However, services may not face the same keen competition from imports. For them, their main worry seems to be the unstable exchange rate probably because of the high value of their international operations.

As to the solutions to all of these constraints, we have provided an elaborate menu of them above that need to be repeated here. It will suffice to add that, in almost all cases, direct policy interventions would be required to correct what appear to be problems emanating, in part, from market failures associated with over-liberalized economic policies.

## 4.2.2 Effects of the Constraints on Business Confidence and Performance

### 4.2.2.1 Assessment of Past Business Environment

Businesses were asked to assess the business environment in the last six months of 2017 compared to the first six months. A relatively higher proportion (44.9%) reported of improved business environment, 37.1% reported no change in the environment, whilst 18% indicated worsened environment (Table 1.4).

**Table 1.4: Overall assessment of the business environment in the last six months of 2017**

| Change | Numbers | Percent |
|---|---|---|
| **Improved** | 80 | 44.9 |
| **No Change** | 66 | 37.1 |
| **Worsened** | 32 | 18.0 |
| **TOTAL** | **178** | **100** |

***Source: IEA Business Confidence Survey, 2018***

According to statistics from the Ghana Statistical Service (GSS), the last six months of 2017 recorded moderate rate of inflation, decline in interest rates, and higher economic growth, suggesting a more favourable macroeconomic environment. A favorable macroeconomic environment should be favourable for businesses and must have influenced their largely positive response.

### 4.2.2.2 Expectations of Future Business Environment

Businesses were asked to look forward and indicate their expectations about the business environment in the next six months. A large majority (73%) of the businesses interviewed indicated that they expected the overall business environment to improve, while 23.6% said they did not anticipate any change in the business environment, and a small minority (3.4%) indicated that they expected the business environment to worsen ((Table 1.5). The expectations of businesses of an improved business environment could partially be due to their expectations of an improved macroeconomic environment reported below (Fig 3.11).

**Table 1.5: Expectation of Business Environment in the Next 6 Months**

| Expectation | Number of Companies | Percent |
|---|---|---|
| **Improve** | 130 | 73.0 |
| **No Change** | 42 | 23.6 |
| **Worse** | 6 | 3.4 |
| **TOTAL** | **178** | **100** |

***Source: IEA Business Confidence Survey, 2018***

*A vast majority of Ghanaian businesses expect an improvement in the business environment*

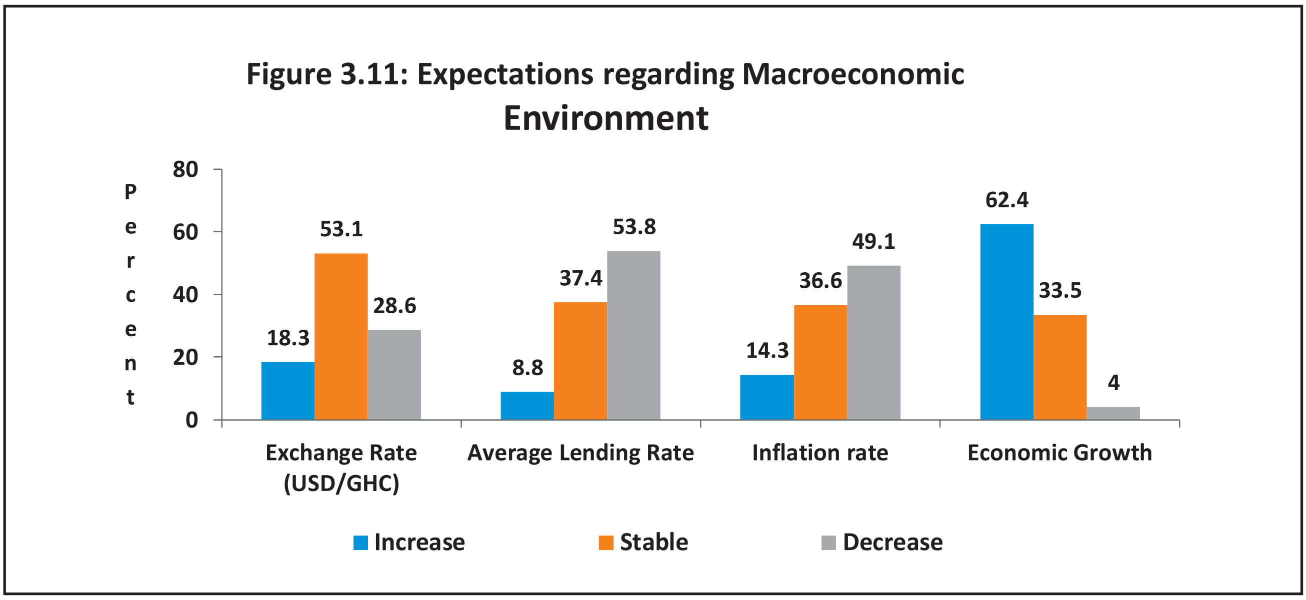
### 4.2.2.3 Expectations about the Macroeconomic Environment

Businesses were asked about their expectations about the macroeconomic environment in the next six months represented by: the exchange rate, average lending rate, inflation rate and economic growth, which might likely impact their businesses. On the exchange rate, majority (53.1%) were optimistic it would become stable, while 28.6% expected it to decrease and 18.3%, to increase. On the average lending rate, majority (53.8%) of enterprises expected it to fall, while 37.4% expected it to be stable and 8.8% expected an increase. Regarding inflation rate, 49.1% of businesses had hopes that the inflation rate would decline, while 36.6% expected a stable inflation rate and 14.3% expected the rate to increase. For economic growth, a large majority (62.4%) of the businesses expected it to increase, while 33.5% expected it to remain the same and a small minority (4.0%) expected it to decrease (Figure 3.11). Thus, on the whole, majority of businesses expected the macroeconomy to improve in the following six months with a stable exchange rate, a decline in average lending rate, a decline in inflation rate and an increase in economic growth. As noted above, the positive expectations of business about the macroeconomy must have influenced their equally positive expectations about the business environment stated above. What was driving their positive macroeconomic expectations was elicited in a follow-up question below (See Section 4.2.2.4).

### 4.2.2.4 Future Business Outlook and Expectations

Businesses were asked about their forecast of key business indicators in the next six months. These indicators were: physical capital expenditure, sales, employment, profit, and cost of operations. The results are depicted in Figure 3.7 below. Their responses show that the overall net physical investments, sales, employment and profits were expected to increase. About 52% of the businesses expected to increase their physical capital expenditures compared to 5.1% who indicated they would reduce their physical capital expenditures. Also, a large majority of businesses (73%) indicated that their sales would increase whilst 5.1% were pessimistic about their future sales. About 32.2% expected to increase their staff numbers compared to 10.2% who indicated they would reduce their staff numbers. On the whole, the responses reflected a positive outlook for these leading indicators. This outlook seems consistent with the businesses positive expectations about the business environment, which, as we noted, must have been influenced by their generally positive expectations about the macroeconomy. However, the question as to what must be driving the positive macroeconomic expectations remains unanswered.

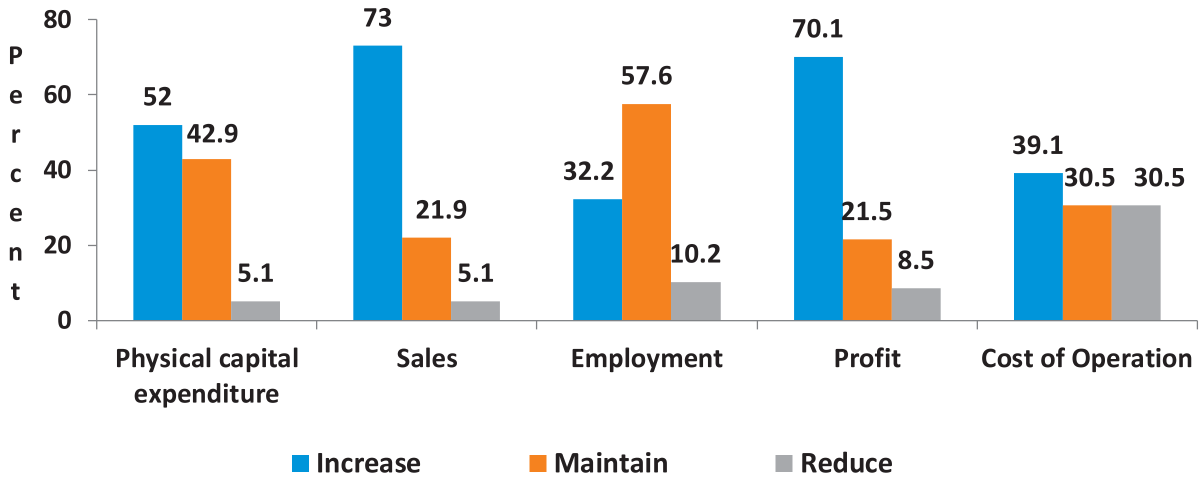
Regarding employment, which is a major concern in Ghana, however, it is noted that majority (57.6%) indicated they would maintain their staff




***Source: IEA Business Confidence Survey, 2018***

numbers, while 32.2% said they would add on and 10.2% said they would reduce. The implication of this finding is that businesses as a whole expected a net increase in employment in the following six months. The expected increase was, however, modest and was not expected to make a significant dent in the high unemployment level in the country.

**Figure 3.7: Leading indicators: Expectations for the next six months (July-December 2017)**

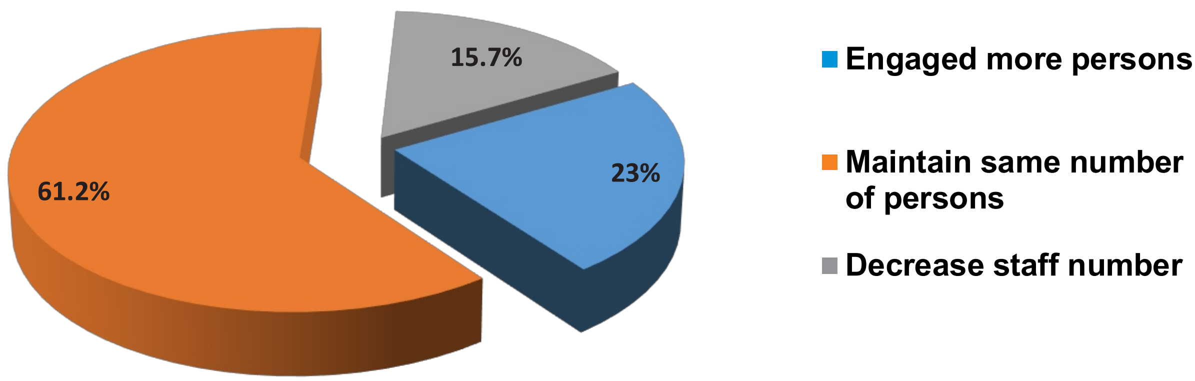



***Source: IEA Business Confidence Survey, 2018***

## 4.2.2.5 Employment in the Past Six Months

Knowing the future employment expectations of businesses, our interest turned to changes in their actual employment in the previous six months. The findings of the survey indicate that while 61.2% of all businesses interviewed maintained their staff numbers, 23% recruited new workers and 15.7% laid off workers. It can be inferred from the analysis that, a comparatively smaller proportion of the businesses cut down on employment in the first six months of 2017 whilst most of the businesses either maintained or increased their staff strength (Figure 1.5).

**Figure 1.5: Overall Employment over the past six months**



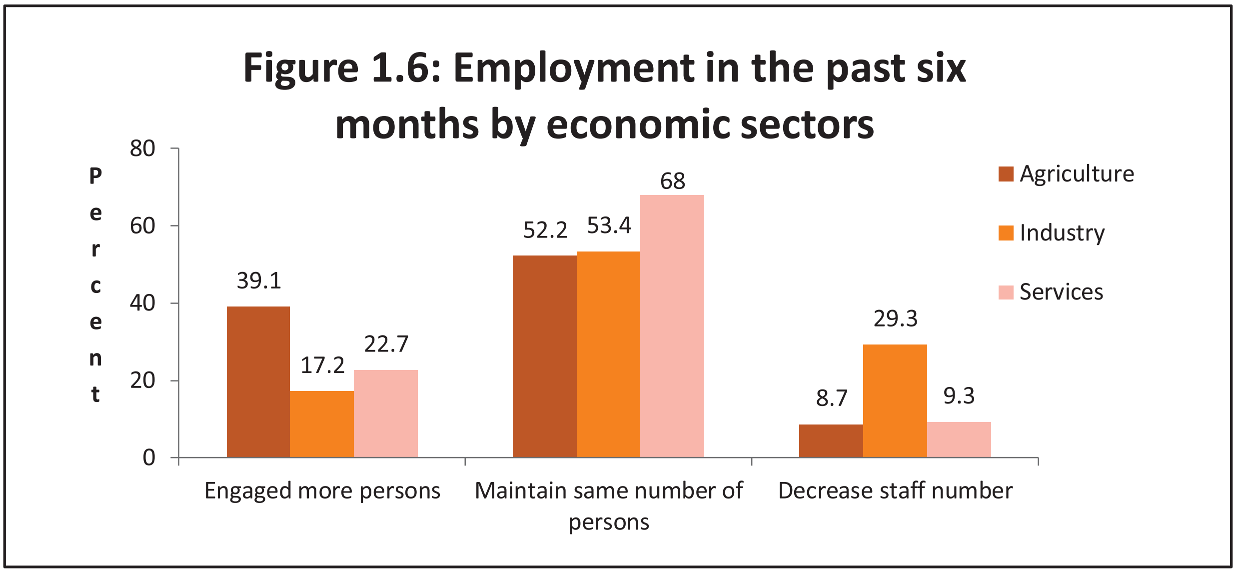

***Source: IEA Business Confidence Survey, 2018***

### 4.2.2.6 Employment in the Past Six Months by Sector

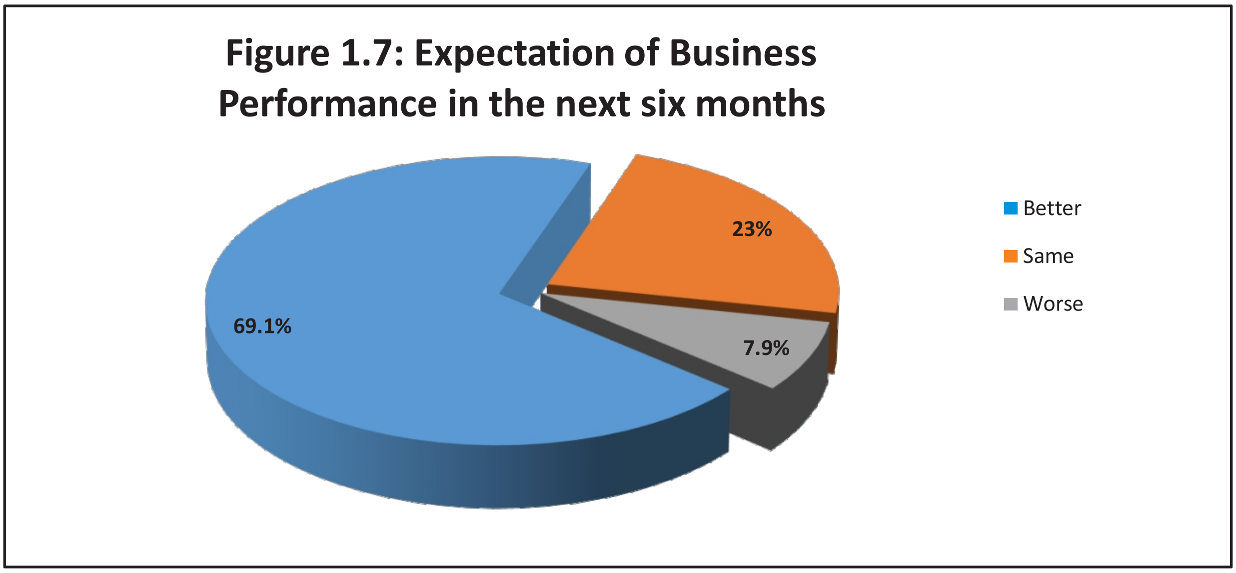
Similarly, at the disaggregated level (Figure 1.6), majority of businesses in the three main sectors surveyed maintained their staff strength: 52.2% for agriculture, 53.4% for industry and 68% for services. In the industrial sector, the proportion of businesses that reported a reduction in their staff strength (29.3%) is greater than the proportion that reported an increase in their staff strength (17.2%). The data indicates that businesses in industry have not been employment-friendly as compared to businesses in agriculture and services. The analysis also provides evidence that supports the assertion that most activities in industry (particularly the mining subsector) have been capital-intensive whilst most activities in agriculture remain labour-intensive.

### 4.2.2.7 Expectations of Business Performance in the Next Six Months

Businesses were asked about their expectations of their business performance in the next six months. Generally, businesses were very optimistic about their future performance. An overall majority (69.1%) of businesses predicted better performance in the next six months; 23% had unchanged expectations; and only 7.9% indicated their performance could worsen in the next six months. What was driving this general positive expectations about business performance are revealed in Section 4.2.2.8 below




*Source: IEA Business Confidence Survey, 2018*




*Source: IEA Business Confidence Survey, 2018*

### 4.2.2.8 Reasons for Optimism about Future Business Performance

Businesses that indicated positive expectations about future business performance were asked for reasons for their optimism and were given the option to select from: increased demand for products and services, favourable government policy, favourable tax regime, improving energy supply, improved state infrastructure and stable macroeconomic environment. Majority (53.7%) of businesses chose increased demand for their products and services, 17.1%, favourable government policy, 14.6%, stable macroeconomic environment, and 8.9% improving energy supply (Table 1.6). Again, these positive expectations must be viewed against the backdrop of having a new one-year old government in power when hopes were high regarding the implementation of new policies with potential favourable effects on businesses and the economy as a whole.

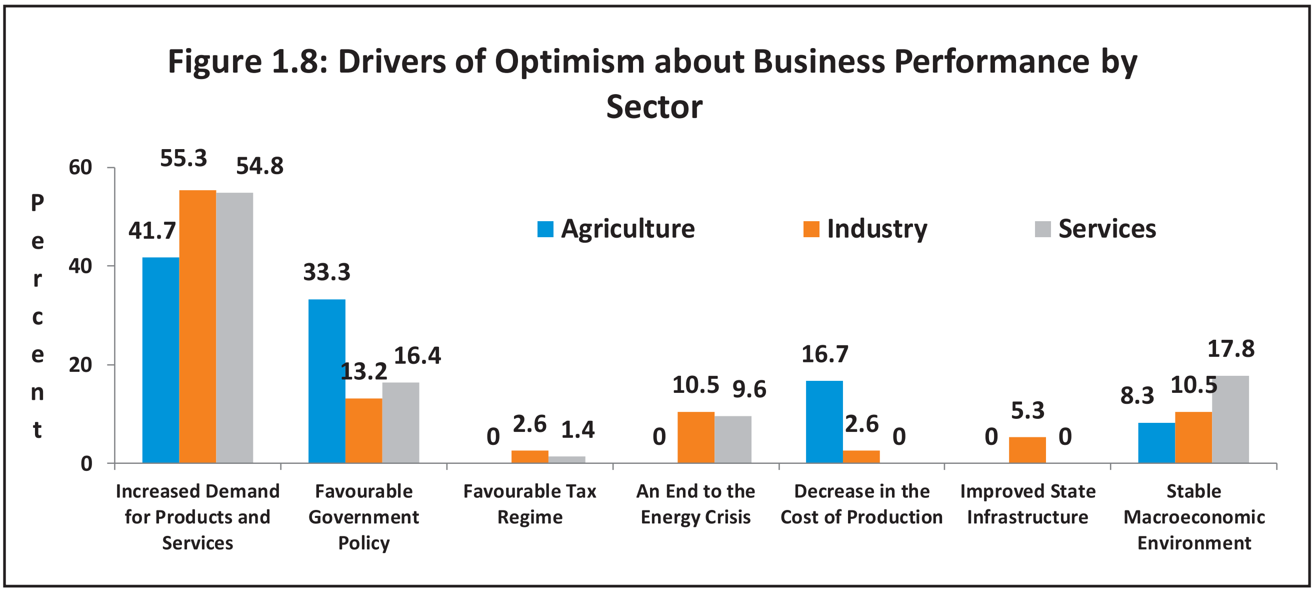
**Table 1.6: Drivers of Optimism about Future Business Performance**

| Reasons | Percent |
|---|---|
| Increased demand for products and services | 53.7 |
| Favourable government policy | 17.1 |
| Favourable tax regime | 1.6 |
| Improving energy supply | 8.9 |
| Decrease in the cost of production | 2.4 |
| Improved state infrastructure | 1.6 |
| Stable macroeconomic environment | 14.6 |

***Source: IEA Business Confidence Survey, 2018***

### 4.2.2.9 Expectations of Business Performance in the Next Six Months by Sector

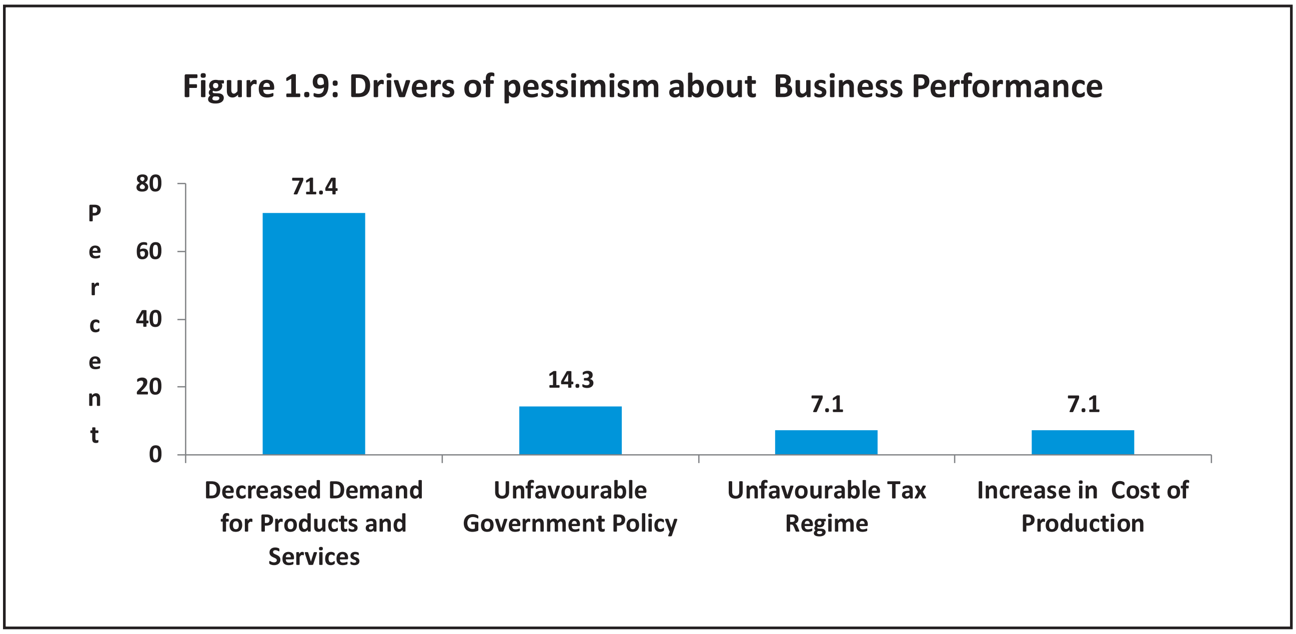
Expectations of business performance and the drivers were, naturally, expected to vary from sector to sector. The data was therefore disaggregated sectorally to bring forth these differences. It was found that 41.7% of businesses in agriculture, 55.3 % in industry and 54.8% in services were optimistic about their performance in the next six months (Table 3.9) due to increased demand for their products and services. Here, it is noted that industry and services were more optimistic about this factor than agriculture. The next most important driver of business optimism was favourable government policy. About 33.3% of agriculture businesses, 13.2% of industry businesses and 16.4% of services sector businesses cited favourable government policy as the reason for being optimistic about their future performance. Here, it is not immediately clear as to why agriculture businesses were more optimistic about government policy than industry and services businesses. A follow-up question would have clarified the situation, and this will be considered in future surveys. We can only guess that may be the new Government had announced or intended to implement a new favourable agricultural policy, including the Planting for Food and Jobs policy initiative. Down the line, about 8.3% of agriculture businesses, 10.5% of industry businesses and 17.8% of services sector businesses cited stabilization of the macroeconomic environment as an important reason for being optimistic about their future performance. Most significantly, agricultural businesses appeared not to be quite optimistic about the tax regime, the energy situation and state of infrastructure in the next six months; a position adopted by services businesses with respect to possible reduction in their cost of production and improvement in state infrastructure in the next six months




*Source: IEA Business Confidence Survey, 2018*

## 4.2.2.10 Reasons for Pessimism about Future Business Performance

We discussed in Section 4.2.29 above drivers of optimism for future performance for businesses that expressed such optimism. For the businesses that were pessimistic about their future performance, an overwhelming 71.4% attributed this pessimism to expected decrease in the demand for their products and services (Figure 1.9). When it is recalled from Section 4.2.29 that majority of the optimists (53.7%) also cited expected increase in the demand for their goods and services as the main driver of their optimism, one can only surmise that these businesses must be operating under different circumstances, with sectoral differences being a possible reason. Here, however, that level of disaggregation was not carried out. It could be a subject of future surveys. It is noted that expectations of unfavourable government policy, unfavourable tax regime and increase in cost of production were also reasons for pessimistic future business performance, although to lesser degrees.




*Source: IEA Business Confidence Survey, 2018*

It has to be said that it is important that the views of these “pessimistic businesses” are taken seriously and not brushed aside. In particular, policies are needed to address their concerns, including relating to boosting demand for goods and services, improving the tax regime and reducing the cost of production.

## 4.2.2.11 Actual Business Performance in the Last Six Months

The foregoing discussions have been largely on business confidence, using largely forward-looking indicators. From this Section, we begin to take a look at actual business performance, based on backward-looking indicators. It needs to be stressed that good business performance is crucial for, and is an indicator of, a healthy economy. Sluggish business performance may likely reflect lack of confidence and obstacles in the business environment, and may be a precursor for economic recession with adverse consequences for employment. On the other hand, buoyant business performance would reflect a friendly environment and could presage an upturn in the economy with positive consequences for employment.

The survey examined the performance of businesses in the past six months (June-December, 2017) compared to the previous six months (January-June 2017). Disaggregations were made based on agricultural/industrial/services sectors, on the one hand, and on financial/nonfinancial sectors, on the other hand, to bring forth the causes and possible reasons for the relative differences in performance. The following were the findings (as depicted in Table 1.7):

a) Overall, a smaller proportion of businesses (30.9%) reported better performance in the last six months of 2017 when compared to the previous six months than those that reported worse performance (39.3%). The remaining 29.8% indicated no change in their performance;

b) The businesses that reported better performance were led by services (34.0%), followed by industry (31.0%) and then agriculture (17.4%). On the flip side, it is also noted that businesses that reported worse performance were led by agriculture (43.5%), followed by services (39.2%) and then by industry (37.9%). When the two set of results is put together, agriculture's relative poor performance becomes patent. This information is, however, not

*IEA's study also examined the performance of businesses*

surprising for it is generally known that Ghana's agricultural sector as a whole has not been performing very well and this is due, in part, to the myriad of constraints facing the sector that we encountered above (Section 4.2), including high cost of credit, high cost of raw materials, high utility charges and unstable exchange rate. The poor performance of agriculture would certainly affect agricultural businesses as well. Policy interventions are needed as indicated under Section 4.2 above to turn the agricultural sector around, which in turn would boost agricultural businesses.

c) As far as the financial sector-non financial sector business divide is concerned, more of the former (57.9%) reported better performance than the latter (27.7%). On the flip side, less of the former (21.1%) reported worse performance than the latter (41.5%). This result is consistent with previous surveys by the IEA that showed that financial sector businesses consistently performed better than non-financial sector businesses. The reason seems to be that financial sector businesses may not face many of the constraints that are finance-related, like high cost of credit, as the industry and services businesses do. They may also be insulated, somewhat, from some of the non-finance-related constraints, like high cost of raw materials, inadequate infrastructure and excessive influx of imports. The reported better performance of the financial sector is also consistent with the relatively better performance of the services sector, of which they form a component. It must also be noted that financial sector businesses formed less than 11% of the surveyed sample (Table 1.7). Therefore, they are not quite representative of the entire sample.

### Table 1.7: Business Performance

| Sector | | Performance in the last six months of 2017 | | |
|---|---|---|---|---|
| | | Better | Same | Worse |
| Financial vs. Non-Financial Businesses | Non-Financial | 27.7 | 30.8 | 41.5 |
| | Financial | 57.9 | 21.1 | 21.1 |
| Key Economic Sectors | Agriculture | 17.4 | 39.1 | 43.5 |
| | Industry | 31.0 | 31.0 | 37.9 |
| | Services | 34.0 | 26.8 | 39.2 |
| Overall Business Performance (Total) | | 30.9 | 29.8 | 39.3 |

***Source: IEA Business Confidence Survey, 2018***

### 4.2.2.12 Reasons for Reported Better Performance of Businesses

Businesses that reported better performance in the last six months of 2017 were asked to choose from the reasons offered in Table 1.8. Overall, they attributed their better performance mainly to increased demand for their products and services (61.4%). Demand for products and services has appeared frequently in businesses responses, but for various reasons: i) for optimism about future business performance (Section 4.2.2.8), ii) for pessimism about future business performance (4.2.2.10), and iii) here, for better performance of businesses in the last six months of the year.

Nowthstanding that some of the reasons may appear conflicting, the recurrence of the factor suggests that it needs to be taken seriously. The fact is that businesses thrive on demand for their products, because that is what motivates them to invest and produce more. It is important therefore that conditions are created as suggested above that would boost consumer demand for domestic goods and services. Favourable government policy (12.3%), improving energy supply and stable macreconomic environment (10.5%) were also mentioned in that order of importance as reasons for better business performance, whereas decrease in the cost of production was reported to be the least influencing factor (5.3%).

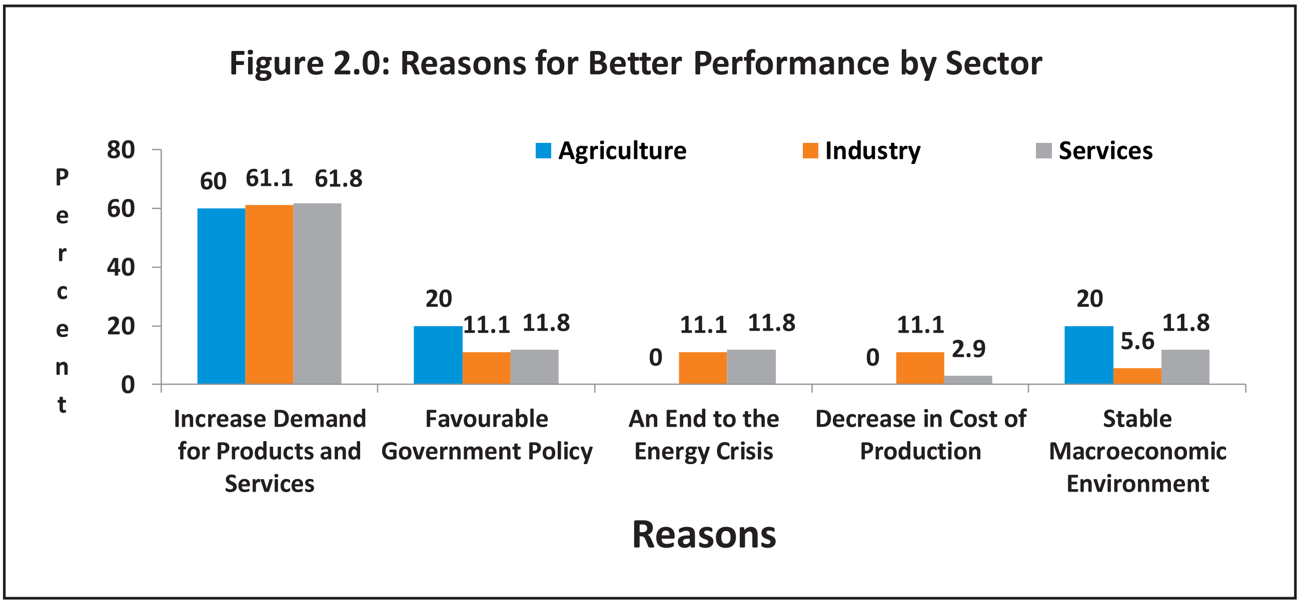
### Table 1.8: Reasons for Better Performance

| Reasons | Percent |
|---|---|
| Increased demand for your product and services | 61.4 |
| Favourable government policy | 12.3 |
| Improving energy supply | 10.5 |
| Decrease in cost of production | 5.3 |
| Stable macroeconomic environment | 10.5 |

***Source: IEA Business Confidence Survey, 2018***

### 4.2.2.13 Reasons for Better Performance of Businesses by Sector

As expected, reasons for better performance in the last six months of 2017 vary from sector to sector. Majority of businesses in all three economic sectors: agriculture (60%); industry (61.1%); and services (61.8%) that reported better performance credited their performance to increased demand for their products and services. This is in line with the global picture reported above. Additionally, 20% of businesses in agriculture; 11.1% in industry and another 11.8% in services mentioned favourable government policy as another important reason for their better performance in the second half of 2017. There are also some sector differences in reasons given for the better performance recorded. For instance, only businesses in industry (11.1%) and services (11.8%) mentioned improved energy supply as an important reason for their better performance. Also, only businesses in agriculture and services considered a stable macroeconomic environment as an important reason for their better performance. Furthermore, only companies in the industrial sector (11.1%) attribute their better performance to reduction in cost of production (Figure 2.0).




***Source: IEA Business Confidence Survey, 2018***

### 4.2.2.14 Reasons for Worse Performance of Businesses

On the other hand, businesses that reported worse performance in the last half of 2017 attributed their declined performance to: (i) decreased demand for their products and services (56.5%); (ii) unstable macroeconomic environment (14.5%); (iii) increased costs of production (13%); and (iv) unfavourable government policy (10.1%) (Table 1.9).

| Reasons | Percent |
|---|---|
| Decreased demand for products and services | 56.5 |
| Unfavourable government policy | 10.1 |
| Unfavourable tax regime | 4.3 |
| Worsening energy crisis | 1.4 |
| Increase in cost of production | 13.0 |
| Unstable macroeconomic environment | 14.5 |

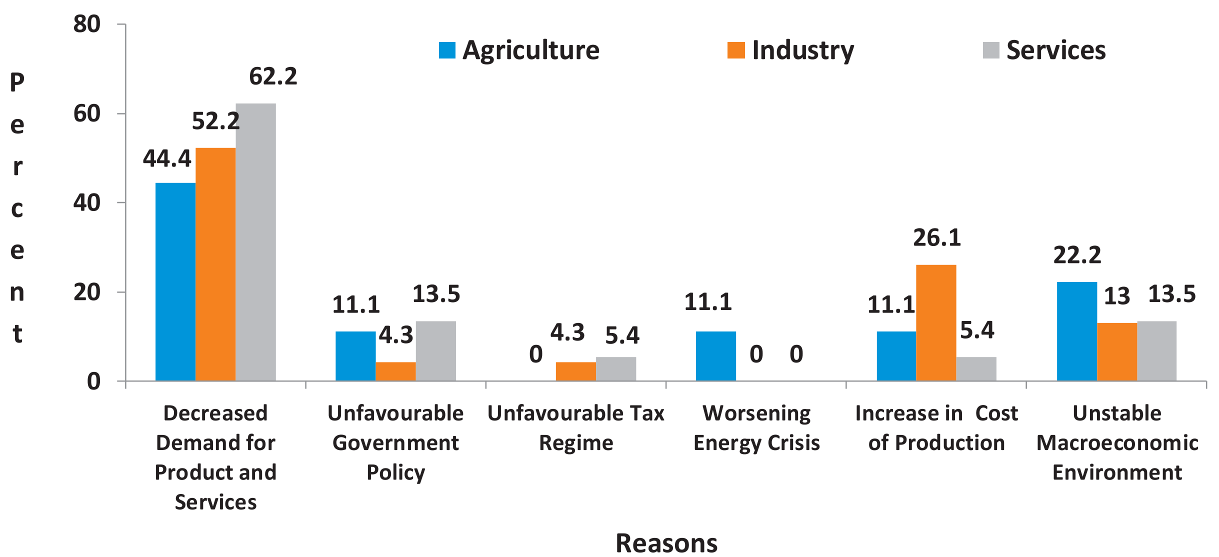
***Source: IEA Business Confidence Survey, 2018***

*A few businesses reported a deterioration of the business environment*

## 4.2.2.15 Reasons for Reported Worsened Performance of Businesses by Sector

There were also some sector differences in the reasons provided for the recorded worsened performance. For instance, 11.1% of agriculture businesses and 13.5% of services businesses, compared to a lesser proportion (4.3%) of industry businesses attributed their worsened performance to unfavourable government policy. Additionally, fewer firms in services (5.4%), compared to 11.1% of agricultural businesses and 26.1% of industry businesses attributed their worsened performance to increased cost of production. Businesses in agriculture are the only businesses that mentioned worsening energy situation as an important reason for their worsened performance (Figure 2.1).

**Figure 2.1: Reasons for Worsened Performance by Sector**




***Source: IEA Business Confidence Survey, 2018***

# 5. POLICY RECOMMENDATIONS

Based on the survey results we make the following recommendations to address the business constraints identified and to improve the business environment as a whole:

1. The problem of **high cost of raw materials** has to be addressed through a comprehensive set of policies supporting production of raw materials and other inputs domestically to feed companies and reduce their operational costs.

2. The **high cost of credit** needs to be addressed through a multifaceted approach involving policies to improve operational and management efficiencies of banks, reduce lending risks, reinforce regulation and ensure durable macroeconomic stability.

3. The problem of **low/insufficient domestic demand** needs to be addressed through improvements in the quality of domestic goods, education and sensitization of consumers to utilize made in Ghana goods and trade policy interventions to check "dumping" of imports on Ghana.

4. **High utility tariffs** could be abated by restructuring the utility companies to improve their management efficiencies and reduce their operational losses. A stable macroeconomic environment will also contribute to keep their costs—and therefore tariffs—down.

5. The way to ensure **durable stability of the exchange rate**—and thereby relieve the burden on businesses—is to transform the Ghanaian economy to be able to produce high value-added exports and to reduce demand for imports through expansion of the domestic industrial base.

6. The way to ease the burden of **high taxes and charges** on businesses is to address the lapses in the tax system, including by expanding the tax base, checking noncompliance, reducing exemptions and plugging the numerous tax leakages.

7. **Excessive influx of imports** must be checked by revisiting Ghana's overly-liberal trade policy needs and introduce interventions as necessary, including in the form of appropriately-structured tariffs and quotas to check dumping and to ease the burden on domestic companies to allow them to grow. Trade liberalization had created a market failure that clearly needed official intervention to correct.

8. Ghana's **regulatory environment** needs to be improved to ease the burden on businesses. This requires shortening the time and streamlining the process to register businesses, including use of more automation.

9. There is a need to ensure **stable power supply** to support business activities. This will require, among others, a complete overhaul of the power sector, including by ensuring availability of adequate generation capacity, improved management, and generation diversification to ensure more stable power for both businesses and households.

10. There is a need to streamline the acquisition of **licenses and permits** in the context of overall reforms to ease the regulatory burden and the associated transactions costs to businesses.

# 6. BUSINESS ADVOCACY TO DISSEMINATE RESULTS

The next stage of the project was to carry out business advocacy to sensitize the public and get policymakers to accept and implement the recommendations aimed at addressing the constraints facing businesses and improving the business environment as a whole. The advocacy was planned around the ten top constraints facing businesses. It will be recalled from Section 4.2 that these were:

1. High cost of raw materials
2. High cost of credit
3. Low/insufficient domestic demand
4. High utility charges
5. Unstable exchange rate
6. High government taxes and charges
7. Excessive influx of imports
8. Unfavourable regulatory environment
9. Unreliable electricity supply
10. Difficulty in obtaining licenses or permits

## 6.1 Advocacy Through Roundtables/Seminars

6.1.2 **Event 1**: Engendering Low Cost of Credit (Low Interest Rates) by Using a Fiscal Council to Promote Fiscal Discipline

High cost of credit, which was identified in this project as a major constraint facing Ghanaian businesses, had actually been a subject of intense research and advocacy by the IEA based on its prevalence in the empirical literature on Ghana. The Institute had identified persistent high fiscal deficits as a major contributor to prevalence of high interest rates in Ghana, which in turn was a key obstacle to doing business in the country. Fiscal indiscipline which often results from the lack of adherence to fiscal rules has for a long time been the biggest cause of persistent macroeconomic instability and mounting public debt stock in Ghana. It was felt that the persistence of high fiscal deficits and fiscal indiscipline in general in Ghana was partly due to the lack a strong agency of fiscal restraint. In other jurisdictions, Fiscal Councils have been established to play this role. There is growing interest in the establishment of an Independent Fiscal Policy Council to promote fiscal discipline, enhance the quality of budget discussions and foster greater transparency in Ghana. To learn from best practices in this regard, the Institute hosted an advocacy roundtable on the 9th of May 2017 on the theme, *"Making Fiscal Council Work for Ghana: Country Experiences and Best Practice*". The discussion was led by Dr. Eric Osei-Assibey (Adjunct Research Fellow, IEA) and chaired by Hon. Dr. Mark Assibey – Yeboah (Chairman, Finance Committee of Parliament). Dr. Osei-Assibey argued that the establishment of a Fiscal Council in Ghana was long overdue given our fiscal balance and public debt. He outlined critical ingredients for an effective and successful Fiscal Council in Ghana. Among these were:

- Legal/Statutory backing for the council
- Autonomy/ Independence of the council
- Clear mandate
- Adequate funding guaranteed in the constitution
- Political commitment to the analysis and advice of the council

The Roundtable Discussion was well attended by guests from Parliament, Government, Academia, Development Partners, Civil Society and the Media among others. Most of Dr. Assibey's recommendations were adopted


***Figure 2.2: Dr. Eric Osei-Assibey addressing participants at the roundtable discussion on Fiscal Council to check government expenditure, the budget deficit and crowding- out of the private sector.***

***Figure 2.3: Hon. Kojo Oppong Nkrumah, Minister of Information (Ghana) at the roundtable discussion on check on government expenditure, budget deficit and high interest rates through the formation of a Fiscal Council***

The roundtable endorsed the recommendation to set up an independent Fiscal Council to check government expenditure and the budget deficit. This would help entrench fiscal discipline in and reduce the pressure on interest rates or the cost of credit to businesses.

### 6.1.2 Event 2: Addressing the Problem of High Interest Rates through an Effective Monetary Policy Framework

Still on the subject of the high cost of credit (high interest rates) and the effect on businesses, the IEA organized another roundtable on 13th February, 2018, on the theme, "Inflation Targeting under Weak Macroeconomic Fundamentals: Does Ghana Need a Monetary Policy Re-Direction." The roundtable sought to link the prevalence of high interest rates to the Inflation Targeting (IT) monetary policy framework used by Bank of Ghana to control inflation, which is a major determinant of interest rates. Dr. Eric Osei-Assibey (Sen Adjunct Fellow), who led discussion, argued that the IT framework could not be effective in the presence of fiscal indiscipline, exchange rate fluctuations and weak productive structures. He called for a "re-think of monetary policy" regime.

Dr. Osei-Assibey began his presentation by giving participants an overview of inflation targeting in Ghana. This was followed by a look at Ghana's monetary policy regime and the impact of inflation targeting on macro-economic indicators comparing pre and post inflation outturns. He argued that, although inflation targeting had helped in reducing inflation over the period of its implementation, he believed that this had come at a huge economic cost to the country. He also added that while the inflation targeting framework has been found to be associated with high macroeconomic performance, the over fixation on price stability without recourse to real economic outcomes such as growth and employment raises a major concern. Dr. Osei-Assibey referred to the country's oil growth stating that, the country's non-oil growth had been flat when it could have done better, interest rates remained one of the highest in Africa and unemployment was still high. He also pointed out that inflation targeting was not suitable for every country as it needed a strong economic fundamental to thrive because, globally, there are only 30 countries that are pursuing inflation targeting and about 90 per cent of these countries are developed and industrial countries with very strong economic and productive structures less sensitive to commodity prices. However in the developing world, our economy, institutions and the transmission mechanism are weak as we depend so much on commodity prices, exchange


***Figure 2.4: A cross-section of participants at the Inflation-Targeting Roundtable Discussion. INSET: Dr. Eric Osei-Assibey addressing the participants on reducing inflation and interest rates through alternative policies***


***Figure 2.5: Dr. Johnson Asiamah, Former 2nd Deputy Governor of BOG, addressing participants at the Inflation-Targeting Roundtable***

rates fluctuate every now and then so the fundamentals are too weak to support an otherwise good regime. He further explained that for Ghana to be able to achieve its goals and for the economy to be able to expand rapidly and accelerate development, it is time to rethink the inflation-targeting regime. In his recommendations, Dr. Osei-Assibey suggested that it was time the government took into account alternative policies that support the country's national priorities. One alternative is for the central bank to consider the dual mandate approach which combines both the real gross domestic product (GDP) growth and inflation, as this combines both inflation and economic growth.

The event was well attended by key stakeholders including senior government officials, academics, representatives of civil society organisations, officials of the main political parties, traditional leaders, members of diplomatic corps and the media. It was chaired by a former Deputy Governor of the Bank of Ghana, Dr. Johnson Asiamah, who provided considerable insight into the IT framework. The forum endorsed Dr. Osei-Assibey's proposed alternative policies to reduce inflation in Ghana so as to ensure affordable interest rates for businesses.

### 6.1.3 Event 3: IEA's 2018 Survey on Business Constraints and Their Effect on Business Confidence and Performance

The next advocacy event was the presentation of the results of IEA's 2018 Business Survey on the 4th of April, 2018. The presentation was made jointly by Drs. Eric Osei-Assibey and William Brafu-Insaidoo, both Senior Fellows of the Institute. This survey is the one whose results have been reported extensively in this report. It will be recalled that the survey has identified the ten topmost constraints facing Ghanaian businesses and investigated the effects of the constraints on business confidence and performance. Further, the survey has suggested recommendations to address the constraints so as to improve Ghana's business environment.

*Figure 2.6: Main Speakers during the Roundtable discussion on Business Constraints Survey (BCS) 2018 results.*


*Figure 2.7: Dr. William Brafu-Insaidoo (Research Fellow, IEA) presenting the results at the roundtable discussion on Business Constraints Survey (BCS) 2018*


*Figure 2.8: Mr. Nicolas Gebara, Fund Manager of BUSAC, giving his remarks at the roundtable discussion.*

*Figure 2.9: Mr. Errol Graham, Lead Economist at the World Bank (Ghana) giving his remarks at the roundtable discussion*

***Figure 3.0: A cross section of participants at the roundtable discussion on business environment and constraints***

## 6.1.4 Event 4: The Private Sector as the Engine of Growth

On the 15th of August 2018, four months following the last roundtable, the IEA organized yet another roundtable forum, this time to focus attention on the private sector as the engine of growth and to highlight the need to address the constraints facing businesses so as to unleash the potential of the private sector. It has to be stressed that sustained advocacy was necessary under the BUSAC project to drum home the importance of the matters raised in the Institute's surveys and research and to get the buy-in and acceptance of policymakers. The theme of this roundtable was: A Thriving Private Sector: The Key to Sustainable Socio-Economic Growth".

The discussions were led by Dr. William Brafu-Insaidoo (and chaired by Dr. Eric Osei-Assibey). Dr. Insaidoo's presentation highlighted the role of the private sector in sustainable socio-economic growth. He called for strong state support to enable the private sector thrive and play its expected role in the economy. After the presentation and discussion, recommendations were made to support the private sector to unleash its potential, including the following:

i. Long-term financing: Although the establishment of the Venture Capital Trust Fund in 2004 was meant to provide low cost longer term financing to MSMEs and has chalked some successes since then, the Fund has been confronted with a number of challenges that need to be addressed. These include: the dearth of knowledge and understanding of the operations and benefits of the Fund; preference for debt financing as compared to equity financing by most MSMEs due to their unwillingness to forfeit a part of their ownership; overly concentration of the Fund and most of its Finance Companies in the capital city; and the perception by most entrepreneurs that conditions for accessing venture capital funds are stringent. Addressing the challenges confronting the Fund will enhance its positive impact on investments in MSMEs.

As such, the following policy measures are recommended to tackle the challenge of inadequate access to long term financing by MSMEs:

- The Ministry of Trade and Industry should make concerted efforts to educate the business community on the operations of venture capital funds, how to access the funds and benefits from using equity capital. The channels of education could be workshops, seminars, conferences and use of the media in a persistent and consistent manner;

- Government must spearhead the formulation and implementation of a coherent policy to create a conducive and enabling environment for the venture capital industry to thrive;

- There is also need to encourage venture capital finance companies to extend their operations and services to other regional capitals and satellite towns nationwide for the benefit of MSMEs in other regions of the country;

- Instead of relaxing conditions for accessing venture capital (VC) funds, business owners must be given the needed managerial and technical support to position their businesses to meet the conditions for accessing the VC funds.

ii. Supporting infrastructure: More financing resource is required to close the deficit in infrastructure supply, coverage, quality and reliability. This includes transport and energy infrastructure. Successive governments have failed to mobilize sufficient resources to meet the infrastructure needs of the country. At present, not less than U.S. $7.3 billion is needed to improve the country's infrastructure gap. The Public-Private Partnership (PPP) arrangement is expected to help government to fully access private capital for investment in infrastructure projects. Experience has shown that using short term loans at very high interest rates to finance infrastructure projects which have long gestation periods is obviously not helpful, since the consequence of such an action is the enormous pressure that comes to bear on government budget.

The following policy measures are recommended to bridge the infrastructure gap and as such, attract more direct investments (both domestic and foreign) into businesses in the country:

- The current state of infrastructure in the country requires that urgent attention is given to the passing of the 2016 Public-Private Partnership Bill to help improve sourcing of funds from the private sector for infrastructure development in the country;

- The scope of the Ghana Infrastructure Investment Fund should be widened to incorporate accessing of long-term funds from all possible international sources since that will allow for ample time for government to complete infrastructure projects and be able to repay debts;

iii. High utility charges and erratic energy supply: Despite having a sustainable electricity generation mix, 68% of electricity is still produced from hydro-electricity whilst the remaining 32% comes from a blend of thermal plants that feed on light crude oil, gas and diesel, and imports. This energy mix accounts for the high volatility in electricity generation and supply particularly as a result of fluctuations in rainfall. This presents an important obstacle to growth of local businesses, particularly those in the informal sector.

As such, a key policy recommendation is to increase gas-based power generation to reduce costs and volatility in electricity production and supply. Additionally, to be able to ensure adequate and regular supply of water and electricity, Government must find ways of helping to make water and electricity generation operationally and financially more efficient. There is need for institutional measures to ensure effective monitoring of installations and reduce leakages. Also, further reductions in water and electricity tariffs for industry may be necessary to spur production whilst ensuring that quality of utility service delivery is not compromised.

iv. Dealing with limited managerial, technical and entrepreneurial skills: Employment initiatives such as the development of entrepreneurial skills among high and tertiary school leavers must be considered. Emphasis of the curricula of formal educational system at the secondary and tertiary levels should be placed on the provision of entrepreneurial, technical and managerial skills and exposure. Courses in our technical and general universities must be structured in way that allows students to share their time between acquiring theory and operating a simulated enterprise. The content of the curricula must be fashioned to take into consideration theoretical knowledge on entrepreneurship and practical guidance on preparation of business plans. Some degree of interpersonal and managerial skills and capabilities must also be taught and should cover not only business and technical students but also students in other fields of academic disciplines. Ancillary programs aimed at inculcating the culture of entrepreneurship in students at the tertiary level should be supported and extended. Also, national policy should consider the development of skills among the labour force corresponding to the economic and technological needs of the country.

v. High cost of raw materials: The absence of adequate raw materials from local sources and the high costs of importing them threaten the sustainability and continued operations of the local businesses. Many local manufacturing businesses have been compelled to underutilize their respective installed capacities as a result of the challenge of unavailability of raw materials from local sources and the high cost of importing same. The high costs of raw materials are the result of, not only exchange rate movements, but also high transportation costs. One important means of solving this problem in the case of agro-processing firms could be for them to directly invest in the value chain from the farmers to their firms. The following are some other specific means by which the challenge of high cost of raw materials could be tackled:

- Local firms must be encouraged to source for a greater percentage of their raw materials locally for their production activities. This could be done by providing some kind of incentive for local firms that at least source a given proportion of their raw material from local sources. Another specific measure could be to reduce the exportation of raw materials and thereby improve their availability locally to feed local industries. Ghana could follow the example of South Africa and Botswana by using their natural resources to push for industrialization by restricting the export of minerals in their raw state;

- There is need for agricultural transformation to give credence to the development of the raw materials subsector. This means that the government should quicken the implementation of the One District One Factory and One Village One Dam initiatives to create the necessary backward and forward linkages with industry;

- Government should further ensure the full implementation of the ECOWAS Common External Tariff that grants zero percent tariffs on imported raw-materials;

v. High cost of credit: The high cost of credit faced by local businesses has remained an important constraint to doing business in the country. This major constraining factor reduces the country's competitiveness and is mainly caused by high lending rates on commercial bank loans. Additionally, the central bank's monetary policy rate has not proven to be an effective tool for managing commercial bank lending rates and as such calls for some urgency in dealing with the situation. The following are measures that could be taken to reduce cost of credit to local businesses

- There is a need to deal with the high non-performing loans (NPLs) to reduce high lending rate and forestall declining credit to the private sector. Financial institutions whose NPLs exceed a given threshold could be subjected to a more intensive oversight regime;
- Incentives should be created to make financial savings attractive to reduce cost of funds to the banks;

- The Central Bank should encourage the banks to make transparent the formula used to determine the base /reference rate.

## 6.2 Advocacy through Print and Electronic Media

Another major advocacy strategy has been the use of print and electronic media. Among the captions captured in the print and electronic media in connection with the BUSAC project advocacy were:

- ✓ "Scrap inflation targeting policy" (Business Finder, February 15, 2018);
- ✓ "Rethink Inflation Targeting Regime" (Daily Guide, February 15, 2018);
- ✓ "Government urged to take steps to reduce the cost of doing business" (The Finder, August 22, 2018),
- ✓ "BoG asked to review inflation-targeting regime" (Daily Graphic, February 14, 2018),
- ✓ "Fiscal Council must be non-partisan – IEA" (Business Finder, May 11, 2017), "Financial sector stakeholders call for Fiscal Council" (Daily Graphic www.graphic.com.gh);
- ✓ "Strong Political Will Needed To make Fiscal Council Succeed – IEA" (Business News, Peacefmonline.com, 5/11/2017);
- ✓ " IEA Pushes For PPP Bill Passage", (Daily Guide);
  IEA lauds government decision to establish Fiscal Council (Business News , 3news.com)
- ✓ "Business Confidence High – IEA" (The Finder, April 9, 2018)
  Improving fiscal management in Ghana: The role of fiscal policy rules (Daily Graphic,)
- ✓ "IEA Applauds Government for Adopting Recommendation to Establish Fiscal Council in "Asempa" Budget" (Business Ghana, Peace fm).

## 6.3 Research and Advocacy Milestone Achievements

The IEA's research and advocacy programs under the BUSAC Project have chalked important public policy milestones of which two stand out and are worthy of mention here. These relate to high interest rates (high cost of credit) and fiscal responsibility, which was also linked to the first problem in Advocacy Event 1 (Section 6.1.1).

### 6.3.1 Establishment of the New Ghana Reference Rate

Emerging as one of the important business constraints, high interest rates has been a major target of IEA research and advocacy meant to influence policy change to address the problem. The IEA/BUSAC project published a policy brief on the persistence of high interest rates and its causes in Ghana and suggested ways of reducing the rates to acceptable levels. The brief was captioned "The Problem of High Interest Rates-Don't Control but Please Regulate". After that, the project re-published an IEA policy brief on the persistence of high interest rates and its causes in Ghana and suggested ways of reducing the rate to acceptable levels. In addition, the IEA under the auspices of BUSAC held two small lunch meetings with government officials to discuss the high interest rate and the need for the Central Bank to regulate interest rates as mentioned in the IEA policy briefs. The Central Bank followed the issues and discussed with other stakeholders such as the Ghana Association of Bankers to establish the new framework which is a signal to what commercial bank rates should be. This led to the setting up of the Ghana Reference Rate GRR by Bank of Ghana akin to the London Inter Bank Offer Rate (LIBOR). Since the inauguration of the GRR in April 2018, interest rates have dropped from an average of 35% to 21% in recent times, which is a remarkable achievement

### 6.3.2 Passing of the Fiscal Responsibility Act and Establishment of the Fiscal Council

Through its research, the IEA had linked fiscal indiscipline manifested by persistent high deficits to the prevalence of high interest rates in the country. The issue was given renewed attention under the BUSAC project as high interest rates emerged as one of the major constraints facing Ghanaian businesses. In Advocacy Event 1 (Section 6.1.1), a strong call was made to Government to establish an independent Fiscal Council to monitor the budget and help to entrench fiscal disciple in Ghana. The IEA is pleased to note that Government heeded this call and announced its intention to set up the Fiscal Council in the 2018 Budget Statement. The first step in the process to entrench fiscal disciple involved the passage by Parliament in December 2018 of a Fiscal Responsibility Bill submitted by Government under a certificate of urgency. The Fiscal Responsibility Act (FRA) will ensure prudent spending by Government. Further, it will 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 FRA 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 in the main goal of the BUSAC project.

***Figure 3.1: Governor of the Central Bank, Dr Ernest Yedu Addison addressing the press on the establishment of the Ghana Reference Rate (GRR)***

*Figure 3.2: President Akufo-Addo in a group picture with the members of the Fiscal Advisory Council.*

*Figure 3.3: Members of the Fiscal Council in their swearing in session.*

# 7. CONCLUSION

The study surveyed 200 businesses in the Greater Accra, Ashanti, Western and Eastern regions operating in the agriculture, industry and services sectors on their key constraints and the effect on their confidence and performance.

*The top 10 most binding constraints that emerged were:*

1. High cost of raw materials;
2. High cost of credit;
3. Low/insufficient domestic demand;
4. High utility charges;
5. Unstable exchange rate;
6. High government taxes and charges;
7. Excessive influx of imports;
8. Unfavourable regulatory environment;
9. Unreliable electricity supply; and
10. Difficulty in obtaining licenses or permits.

These constraints are not peculiar to Ghanaian businesses, but are generally common to those that appear in the theoretical literature as well as in many of the empirical studies that have been conducted for countries, regions and on a global scale.

Regarding their confidence and performance, the businesses were generally bullish, in spite of the constraints facing them. Their bullishness seems to reflect hopes that the new NPP government would implement new policies that would improve the economy as a whole and have a positive impact on businesses. The businesses generally had positive future expectations. They had also generally performed well in the past six months and were confident about their future performance.

The study suggested direct policy interventions to address the constraints facing businesses, some of which were due to market failures that needed to be corrected. The study also involved advocacy to sensitize policymakers and other stakeholders on the need to act on the policy recommendations.

The issues that received most attention in what was regarded as a first round of advocacy, which needed to be expanded and sustained, included:

1. The need to rein in the high cost of credit;

2. The need to entrench fiscal discipline through formation of an oversight Fiscal Council to engender low interest rates and macroeconomic stability;

3. The need to reform monetary policy to avoid the inherent pressure on interest rates; and

4. The need to generally support, empower and unleash the potential of the private sector to become the engine of growth by addressing the myriad of constraints facing businesses.

The advocacy was critical to drum home the importance of the matters raised in the Institute's surveys and research and to get their buy-in and acceptance by policymakers.

*Businesses expect policy interventions to address challenges in the business environment*

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# APPENDIX

## Policy Papers for the Advocacy

In addition to seminars, the IEA/BUSAC project conducted advocacy through dissemination of publications in the forms of Policy Brief papers and Newspaper Articles and the use of electronic media - radio and television discussions. The publications included the following topics:

- Making Fiscal Council work for Ghana: Country experience and best practices (Legislative Alert by Prof. Eric Osei-Assibey);
- Improving Fiscal Management in Ghana: The role of fiscal policy rules (Legislative Alert by Dr. Charles Amo-Yartey);
- Urgent Policy Interventions are needed to foster financial intermediation and reduce the high cost of credit in Ghana (Legislative Alert, by Dr. J. K. Kwakye);
- High Interest Rates in Ghana, A Critical Analysis (Monograph, by Dr. J. K. Kwakye);

The Problem of High Interest Rates – Don't Control But Please Regulate (Legislative Alert by Dr. J. K. Kwakye).

**Table 2.0 : Ease of doing business ranking**

| Rank | Economy | EODB score | EODB score change | Rank | Economy | EODB score | EODB score change | Rank | Economy | EODB score | EODB score change |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | New Zealand | 86.59 | 0.00 | 65 | Colombia | 69.24 | +0.20 | 129 | Barbados | 56.78 | 0.00 |
| 2 | Singapore | 85.24 | +0.27 | 66 | Luxembourg | 69.01 | 0.00 | 130 | St. Vincent and the Grenadines | 56.35 | +0.01 |
| 3 | Denmark | 84.64 | +0.59 | 67 | Costa Rica | 68.89 | -0.47 | 131 | Cabo Verde | 55.95 | +0.02 |
| 4 | Hong Kong SAR, China | 84.22 | +0.04 | 68 | Peru | 68.83 | +0.56 | 132 | Nicaragua | 55.64 | +0.37 |
| 5 | Korea, Rep | 84.14 | -0.01 | 69 | Vietnam | 68.36 | +1.59 | 133 | Palau | 55.59 | +0.01 |
| 6 | Georgia | 83.28 | +0.48 | 70 | Kyrgyz Republic | 68.33 | +2.57 | 134 | Guyana | 55.57 | -1.21 |
| 7 | Norway | 82.95 | +0.25 | 71 | Ukraine | 68.25 | +0.94 | 135 | Mozambique | 55.53 | +1.78 |
| 8 | United States | 82.75 | -0.01 | 72 | Greece | 68.08 | -0.12 | 136 | Pakistan | 55.31 | +2.53 |
| 9 | United Kingdom | 82.65 | +0.33 | 73 | Indonesia | 67.96 | +1.42 | 137 | Togo | 55.20 | +6.32 |
| 10 | Macedonia, FYR | 81.55 | +0.32 | 74 | Mongolia | 67.74 | +0.27 | 138 | Cambodia | 54.80 | +0.41 |
| 11 | United Arab Emirates | 81.28 | +2.37 | 75 | Jamaica | 67.47 | +0.55 | 139 | Maldives | 54.43 | +0.10 |
| 12 | Sweden | 81.27 | 0.00 | 76 | Uzbekistan | 67.40 | +1.08 | 140 | St. Kitts and Nevis | 54.36 | +0.01 |
| 13 | Taiwan, China | 80.90 | +0.24 | 77 | India | 67.23 | +6.63 | 141 | Senegal | 54.15 | +0.37 |
| 14 | Lithuania | 80.83 | +0.29 | 78 | Oman | 67.19 | -0.02 | 142 | Lebanon | 54.04 | +0.07 |
| 15 | Malaysia | 80.60 | +2.57 | 79 | Panama | 66.12 | +0.41 | 143 | Niger | 53.72 | +1.24 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **16** | Estonia | 80.50 | +0.01 | **80** | Tunisia | 66.11 | +1.51 | **144** | Tanzania | 53.63 | +0.34 |
| **17** | Finland | 80.35 | +0.05 | **81** | Bhutan | 66.08 | +0.20 | **145** | Mali | 53.50 | +0.23 |
| **18** | Australia | 80.13 | -0.01 | **82** | South Africa | 66.03 | +1.37 | **146** | Nigeria | 52.89 | +1.37 |
| **19** | Latvia | 79.58 | +0.33 | **83** | Qatar | 65.89 | +0.64 | **147** | Grenada | 52.71 | +0.07 |
| **20** | Mauritius | 79.58 | +1.29 | **84** | Malta | 65.43 | +0.28 | **148** | Mauritania | 51.99 | +0.92 |
| **21** | Iceland | 78.35 | +0.05 | **85** | El Salvador | 65.41 | +0.21 | **149** | Gambia, The | 51.72 | +0.23 |
| **22** | Canada | 79.26 | +0.38 | **86** | Botswana | 65.40 | +0.46 | **150** | Marshall Islands | 51.62 | +0.01 |
| **23** | Ireland | 78.91 | +0.05 | **87** | Zambia | 65.08 | +1.48 | **151** | Burkina Faso | 51.57 | +0.12 |
| **24** | Germany | 78.90 | 0.00 | **88** | San Marino | 64.74 | +2.27 | **152** | Guinea | 51.51 | +2.02 |
| **25** | Azerbaijan | 78.64 | +7.10 | **89** | Bosnia and Herzegovina | 63.82 | +0.27 | **153** | Benin | 51.42 | +0.13 |
| **26** | Austria | 78.57 | +0.03 | **90** | Samoa | 63.77 | +0.01 | **154** | Lao PDR | 51.26 | +0.11 |
| **27** | Thailand | 78.45 | +1.06 | **91** | Tonga | 63.59 | +0.03 | **155** | Zimbabwe | 50.44 | +1.92 |
| **28** | Kazakhstan | 77.89 | +0.73 | **92** | Saudi Arabia | 63.50 | +1.62 | **156** | Bolivia | 50.32 | +0.15 |
| **29** | Rwanda | 77.88 | +4.15 | **93** | St. Lucia | 63.02 | +0.06 | **157** | Algeria | 49.65 | +2.06 |
| **30** | Spain | 77.68 | +0.07 | **94** | Vanuatu | 62.87 | -0.21 | **158** | Kiribati | 49.07 | +0.33 |
| **31** | Russian Federation | 77.37 | +0.61 | **95** | Uruguay | 62.60 | +0.34 | **159** | Ethiopia | 49.06 | +0.91 |
| **32** | France | 77.29 | +0.99 | **96** | Seychelles | 62.41 | -0.01 | **160** | Micronesia, Fred. Sts | 48.99 | 0.00 |
| **33** | Poland | 76.95 | -0.36 | **97** | Kuwait | 62.20 | +0.03 | **161** | Madagascar | 48.89 | +0.71 |
| **34** | Portugal | 76.55 | -0.07 | **98** | Guatemala | 62.17 | +1.62 | **162** | Sudan | 48.84 | +3.75 |
| **35** | Czech Republic | 76.10 | +0.05 | **99** | Djibouti | 62.02 | +0.06 | **163** | Sierra Leone | 48.74 | +0.15 |
| **36** | Netherlands | 76.04 | +0.01 | **100** | Sri Lanka | 61.22 | +1.80 | **164** | Comoros | 48.66 | +0.14 |
| **37** | Belarus | 75.77 | +0.72 | **101** | Fiji | 61.15 | +0.04 | **165** | Suriname | 48.05 | -0.05 |
| **38** | Switzerland | 75.69 | +0.01 | **102** | Dominican Republic | 61.12 | +0.55 | **166** | Cameroon | 47.78 | +0.83 |
| **39** | Japan | 75.65 | +0.05 | **103** | Dominica | 61.07 | +0.04 | **167** | Afghanistan | 47.77 | +10.64 |
| **40** | Slovenia | 75.61 | +0.02 | **104** | Jordan | 60.98 | +0.55 | **168** | Burundi | 47.41 | +0.73 |
| **41** | Armenia | 75.37 | +2.06 | **105** | Trinidad and Tobago | 60.81 | -0.12 | **169** | Gabon | 45.58 | -0.23 |
| **42** | Slovak Republic | 75.17 | +0.29 | **106** | Lesotho | 60.60 | +0.19 | **1770** | Sao Tome and Principe | 45.14 | +0.30 |
| **43** | Turkey | 74.33 | +4.34 | **107** | Namibia | 60.53 | +0.24 | **171** | Iraq | 44.72 | +0.04 |
| **44** | Kosovo | 74.15 | +0.44 | **108** | Papua New Guinea | 60.12 | +1.19 | **172** | Myanmar | 44.72 | +0.51 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **45** | Belgium | 73.95 | +2.24 | **109** | Brazil | 60.01 | +2.96 | **173** | Angola | 43.86 | +2.16 |
| **46** | China | 73.64 | +8.64 | **110** | Nepal | 59.63 | -0.32 | **174** | Liberia | 43.51 | -0.04 |
| **47** | Moldova | 73.54 | +0.38 | **111** | Malawi | 59.59 | +0.84 | **175** | Guinea-Bissau | 42.85 | +0.27 |
| **48** | Serbia | 73.49 | +0.17 | **112** | Antigua and Barbuda | 59.48 | +0.06 | **176** | Bangladesh | 41.97 | +0.91 |
| **49** | Israel | 73.23 | +0.64 | **113** | Paraguay | 59.40 | +0.41 | **177** | Equatorial Guinea | 41.94 | +0.28 |
| **50** | Montenegro | 72.73 | +0.20 | **114** | Ghana | 59.22 | +2.06 | **178** | Timor-Leste | 41.60 | +1.71 |
| **51** | Italy | 72.56 | -0.15 | **115** | Solomon Islands | 59.17 | +0.33 | **179** | Syrian Arab Republic | 41.57 | +0.02 |
| **52** | Romania | 72.30 | -0.53 | **116** | West Bank and Gaza | 59.11 | +0.39 | **180** | Congo, Rep | 39.83 | +0.36 |
| **53** | Hungary | 72.28 | +0.34 | **117** | Eswatini | 58.95 | +0.13 | **181** | Chad | 39.36 | +1.15 |
| **54** | Mexico | 72.09 | -0.18 | **118** | Bahamas, The | 58.90 | +0.77 | **182** | Haiti | 38.52 | +0.11 |
| **55** | Brunei Darussalam | 72.03 | +1.85 | **119** | Argentina | 58.80 | +0.87 | **183** | Central African Republic | 36.90 | +2.67 |
| **56** | Chile | 71.81 | +0.37 | **120** | Egypt, Arab Rep. | 58.56 | +2.74 | **184** | Congo, Dem. Rep. | 36.85 | +0.67 |
| **57** | Cyprus | 71.71 | +0.44 | **121** | Honduras | 58.22 | +0.09 | **185** | South Sudan | 35.34 | +2.04 |
| **58** | Croatia | 71.40 | +0.34 | **122** | Cote d'Ivoire | 58.00 | +4.94 | **186** | Libya | 33.44 | +0.23 |
| **59** | Bulgaria | 71.24 | +0.11 | **123** | Ecuador | 57.94 | +0.12 | **187** | Yemen, Rep. | 32.41 | -0.59 |
| **60** | Morocco | 71.02 | +2.46 | **124** | Philippines | 57.68 | +1.36 | **188** | Venezuela, RB | 30.61 | -0.24 |
| **61** | Kenya | 70.31 | +5.25 | **125** | Belize | 57.13 | +0.02 | **189** | Eritrea | 23.07 | +0.13 |
| **62** | Bahrain | 69.85 | +1.82 | **126** | Tajikistan | 57.11 | +0.08 | **190** | Somalia | 20.04 | +0.06 |
| **63** | Albania | 69.85 | +0.50 | **127** | Uganda | 57.06 | +0.65 | | | | |
| **64** | Puerto Rico (U.S.) | 69.46 | +0.20 | **128** | Iran, Islamic Rep. | 56.98 | +2.34 | | | | |

**Source: Doing Business database.**

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