

AID-FOR-TRADE: CASE STORY

GHANA

CASE STUDY ON THE GHANA NATIONAL MEDIUM TERM PRIVATE SECTOR DEVELOPMENT STRATEGY

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Region:	West Africa- ECOWAS
Country:	Ghana
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Acronyms

CEPS	Customs, Exercise and Preventive Service
DANIDA	Danish International Development Agency
DFID	UK Department for International Development
DPs	Development Partners
EU	European Union
GCNET	Ghana Community Network
GOG	Government of Ghana
GPSDF	Ghana Private Sector Development Fund
IDA	International Development Assistance
IFC	International Financial Cooperation
MDAs	Ministries, Departments and Agencies
MASLOC	Micro and Small Loan Scheme
MIDA	Millennium Development Assistance
MOTI	Ministry of Trade and Industry
MSME	Micro-Small and Medium Enterprise
PSDS	Private Sector Development Strategy
TIPCEE	Trade and Investment Program for Competitive Export
VCF	Venture Capital Fund

EXECUTIVE SUMMARY

As part of Government's strategy on Accelerated and Shared Growth, the Private Sector Development Strategy (PSDS) was developed. The PSDS had an overall goal of achieving a sustainable, equitable and widespread private sector-led growth throughout Ghana through four main outputs:

1. Ghana's position in global and regional markets enhanced
2. Efficiency and accessibility of national markets improved
3. Competence and capacity at the firm level improved
4. Government's private sector policy formulation, implementation and monitoring and evaluation strengthened

Through the PSDS, the Government of Ghana introduced and implemented major pro-private sector national policy initiatives and sectoral programme interventions, which have significantly improved the climate for doing business in Ghana. These pro-business reform initiatives and programme interventions have contributed positive outcomes in terms of improving the key indicators for activities such as simplifying and reducing the time and cost for business registration, trading across borders, enforcing contracts, registering property and protecting investors.

The PSDS was financed jointly by the Government of Ghana and Development Partners according to a Memorandum of Understanding. DFID, IDA, and DANIDA agreed to pool some of their resources in a single Pooled fund, managed by Government in accordance with the arrangements specified in the MOU and procedures and regulations of Ghana's financial and legal framework.

The initial implementation of the PSDS was very slow as a result of planning and management challenges associated with the public procurement process and procedures for disbursement of donor funds. However, mainstreaming Aid for Trade into the country's growth agenda made monitoring and coordination less burdensome. The PSDS demonstrated that trade issues should be linked with sectoral and cross-cutting issues to ensure complete and consistent implementation of reforms with the objective of improving trade performance.

The policies and reforms that have been undertaken under the PSDS have recorded marked achievements in creating practical space and an opportunity for the private sector to contribute to policy and legislative processes. The PSDS Implementation process has made it possible to mainstreaming trade into the National Development plans of Ghana by integrating Trade into the GPRS I and II and in the Ghana Shared Growth and Development Agenda. The PSDS has enjoyed many successes as an Aid for Trade programme. This has led Government to design a successor programme, PSDS-II, to build on these achievements and correct some of the shortcomings of PSDS-I.

1. Issues Addressed

As part of Government's strategy on Accelerated and Shared Growth, the Private Sector Development Strategy (PSDS) was developed. The PSDS had an overall goal of achieving a sustainable, equitable and widespread private sector-led growth throughout Ghana through four main outputs:

5. Ghana's position in global and regional markets enhanced
6. Efficiency and accessibility of national markets improved
7. Competence and capacity at the firm level improved
8. Government's private sector policy formulation, implementation and monitoring and evaluation strengthened

Private sector development was therefore accorded special attention by the government and its partners, as it was expected to contribute to realizing the country's goals of accelerating growth, creating wealth and reducing poverty.

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2. Objectives Pursued

In 2000, with an ambition of creating a policy environment conducive for private sector-led growth in Ghana and to make the country the preferred investment destination for Ghanaians and foreign investors, the Government in consultation with the public and private sectors (both local and foreign), civil society and Development Partners developed the PSDS and Action Plan (2005-2008) with funding from DANIDA of Denmark and DFID of UK. The strategy was to effectively implement broad-based policy, regulatory and legal reforms in order to create a favourable business environment towards the "Golden Age of Business" and enhancing the international competitiveness of the private sector.

The PSDS also sought to improve the capacity of the Private Sector to assume the challenging role of the engine of growth and the generator of the resource wherewithal for improving living standards of the people. The Strategy specifically targeted the following priority measures/reforms:

- Stabilizing macroeconomic environment
- Financial sector reforms
- Business Registration reforms
- Infrastructure Development

- Public Sector Reform
- Justice sector reform
- Land and property rights reforms

3. Design and Implementation

The implementation of the PSDS started with an institutional review of 42 Ministries, Departments and Agencies (MDAs) for their readiness in the five PSDS priority areas, namely: (a) business regulation (registration, licensing, and taxation); (b) access to justice, (c) infrastructure, (d) access to finance and investment, and (e) customer charters and public service delivery standards. The purpose was to identify issues and gaps in the MDAs' existence and operations militating against their capacity to facilitate private sector development.

Recommendations from the review informed government in carrying out the following priority measures/reforms to achieve the four main outputs:

- Stabilizing macroeconomic environment
- Financial sector reforms
- Business Registration reforms
- Infrastructure Development
- Public Sector Reform
- Justice sector reform
- Land and property rights reforms

In respect to the institutionalization of PSDS, it was initially coordinated by the President's Office (PO) through the then Ministry for Private Sector Development, which at the time was part of PO. Following a ministerial restructuring in 2005, however, PSDS was moved to the Ministry of Trade and Industry (MOTI) which became the coordinator of the strategy.

The approved management arrangements for the implementation, monitoring and evaluation and oversight of the PSDS were as follows:

- Cabinet has over all responsibility for the implementation of the PSDS. The Minister for Trade and Industry presented recommendations shared by the Oversight Committee and Inter Agency Implementation- Review Committee to Cabinet for discussion/approval.
- A PSDS Oversight Committee was instituted to enable high-level monitoring by the Private Sector and government of the implementation of the strategy. The Committee was a partnership between government, civil society and the private sector with a nominated private sector as chairperson.
- The Oversight committee was supported by the PSDS Policy Support Bureau of the Ministry of Trade and Industry.

- An Inter-Agency Implementation Review Committee as an operational committee for the PSDS was also established. It was comprised of focal persons of MDAs, which met monthly to peer review progress, share experiences and lessons
- MDA Implementation Task teams were in addition formed at implementing MDA level and were responsible for the implementation of specific activities
- The PSDS Sector Group was put in place. It provided forum for harmonized development partner support for private sector development aligned with government systems in accordance with the Paris Declaration. The Sector Group met with the Oversight Committee twice in a year at a Joint Review.

The initial implementation of the PSDS was very slow as a result of, process planning and management challenges associated with the public procurement process and procedures for disbursement of donor funds. Due to these set backs, the year 2005 marked the beginning of implementation of the PSD Strategy Action Plan and the establishment of processes and procedures to guide the implementation which was the reason for the extension of the implementation period to the end of December 2010.

In relation to the financing of the PSDS a Memorandum of Understanding (MOU) was signed between the Government of Ghana and DPs on June 9th, 2005. The DPs were DFID, DANIDA, IDA, GTZ, AfDB, IFC, EU, Government of France, Government of Japan, Switzerland and USAID. In all, \$30million US Dollars was committed by DANIDA, DFID, World Bank and GTZ. However, actual DPs disbursement totalled \$18.57million in Aid for Trade.

DFID, IDA, and DANIDA agreed to pool their resources in a single Pooled fund, managed by Government in accordance with the arrangements specified in the MOU and procedures and regulations of Ghana's financial and legal framework.

In all, 18 MDAs including the Energy Foundation (a non-public institution) collaborated and participated in the implementation of the PSDS due to the cross sectoral nature of the private sector. Direct PSDS funding was, however, provided to only 12 MDAs.

4. Problems Encountered

- Possible lack of appreciation of critical linkages between reform initiatives and overall sector development objectives, i.e. the big picture coupled with ineffective internal coordination of decision-making within some MDAs, with implementation responsibility either left to few officers or over-centralized.
- Changes in leadership (political) and lack of continuity in focal lead personnel at the MDAs affected the implementation process.
- Inadequate provision of MDA/GOG budgets to cover critical costs not eligible for financing with DP Pooled Funds, e.g. local taxes (VAT) and in some cases extra duty incentives.
- The choice of the DPs, including the core donors to the PSDS, to keep the larger share of their resources in support of the PSDS outside the pooled funds meant

that the alignment and harmonization were not properly coordinated, defeating the idea of a Pooled Fund.

- Non-Use of Country Systems in Aid Delivery.
- Fragmentation in Sourcing and Managing Aid funds.
- Inadequate Capacity at the MDA level for Aid Delivery.
- Conditionality and Unpredictability of Aid funds. During the implementation of the PSDS, some of the TORs and Contracts had to go back to the DPs for no objection and approval, causing unnecessary delays.
- Inadequate Coordination of Aid among Stakeholders.
- The multiple PSDS monitoring hierarchies made coordination difficult as reports were made to: the Oversight Committee, Inter Agency Review Committees, Joint reviews, Sector PSD Group, MDBS, APR of the GPRS and even in the Budget.

5. Factors for Success/Failure

- Mainstreaming Aid for Trade into the country's growth agenda made monitoring and coordination less burdensome
- Staffing numbers and capacity limitations in most implementing MDAs hampered implementation.
- Irregular meetings of Entity Tender Committees in some MDAs, ineffective procurement planning processes and issues of sequencing in the implementation of activities, and unwillingness on the part of some MDAs to heed to the advice of Tender Committees led to procurement delays, thus delaying implementation.
- Public-private sector networking has been enhanced under the PSDS as a result of constant collaboration and consultations.
- The participatory approach during design, implementation made it possible for all stakeholders to own the strategy.
- In Ghana there appears to be an emerging donor consensus on aspects of Aid for Trade harmonization.

6. Results Achieved

The results of PSDS include:

- A fundamental review of existing institutions tasked with providing quality standards services to the private sector has begun and the capacity of laboratories have been enhanced to enable them to attain international accreditation.
- Competition and Consumer Protection policies are in the final stages of completion.
- Customs Declarations at all major ports and frontier stations are now on-line and Declarants access GCMS remotely from their premises.
- A satellite tracking mechanism for monitoring transit cargo has also been activated and this facility enables CEPS to monitor cargo in transit along Ghana's corridor.

- Training in the Business French language for government officials and private sector operators to ease communication across borders has commenced and is being operated in Accra, Kumasi and Takoradi.
- The on-going financial sector reform has enhanced the performance of the Ghanaian economy and promoted efficiency and accessibility to national markets.
- To reduce administrative cost and burden of paying taxes by private sector operators, Internal Revenue Service has introduced an electronic tax administration system in their operations and efforts are being taken to harmonize the multiple tax system in the country.
- The establishment of the Commercial Court with the objective of ensuring speedy dispute resolution of commercial disputes and the enforcement of contracts made significant progress in the adjudication of business and commercial disputes as ADR mechanism has been made part of the court procedures for the dispute resolution process. Commercial courts system had also be extended to the regions and more circuit courts have been automated This has in one way or the other help in the reduction in the number of days it takes to hear and dispose of commercial cases where hitherto, took years to resolve.
- Under the Business Registration Reform, the Registrar Generals Department has undergone extensive computerization and commissioned a customer friendly front office, making it possible to reduce the time taken to register a limited liability company from 10 days to 5 days and that of sole proprietorship from 5 to 3 days. In addition as part of its decentralization process, regional offices have been opened in Sekondi-Takoradi, Kumasi and Tamale.

7. Lessons Learned

- Mainstream trading should also be accompanied by complementary policies, especially those addressing supply-side constraints (e.g. infrastructure) to increase the productive capacity of the economy. Without the implementation of a broad set of mutually supportive policies, the benefits of trade reform will not be fully realized.
- Mainstreaming Aid for Trade into the country's growth agenda made monitoring and coordination less burdensome.
- Trade issues should be linked with sectoral and cross-cutting issues to ensure complete and consistent implementation of reforms with the objective of improving trade performance.
- It is important to ensure that the new emphasis on “high-impact aid” and “leverage” doesn’t undermine some of the existing ways of delivering aid that can also be effective, such as budget support.
- Aid for trade should be truly in support of a country's priorities and aligned with national development plans.
- It is also important that increased use of partnerships doesn’t mean de facto conditionality will be attached to everything.

8. Conclusion

The policies and reforms that have been undertaken under the PSDS have recorded marked achievements in creating practical space and an opportunity for the private sector to contribute to policy and legislative processes. The PSDS Implementation process has made it possible to mainstreaming trade into the National Development plans of Ghana by integrating Trade into the GPRS I and II and in the Ghana Shared Growth and Development Agenda. The PSDS has enjoyed many successes as an Aid for Trade programme. This has led Government to design a successor programme, PSDS-II, to build on these achievements and correct some of the shortcomings of PSDS-I.