

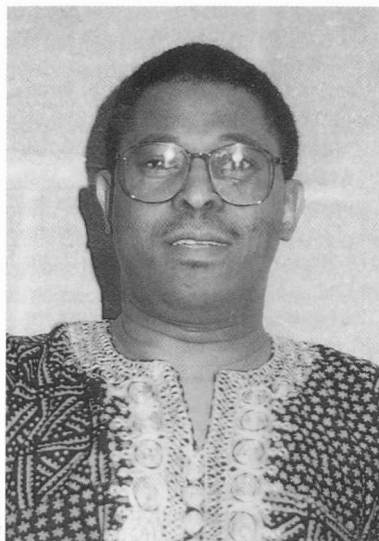
**W**hen political freedom is disturbed in Africa it is often because of economic issues. We find that most organisers of coup d'état give economic mismanagement as one of the main reasons why they take over governments. Other reasons are corruption and misuse of government power for economic benefit. Economic prosperity is therefore an issue for the maintenance of democracy since stability in the economy will leave disaffected army officers without a good enough reason to disrupt the democratic process.

The main premise of the article is that for African countries and Ghana in particular to ensure economic growth with stability the governments will need to encourage true entrepreneurial development. Governments should completely free the micro-economic from their control and meddling. Government has a role to play, but that role is not direct involvement in the productive sector.

I hope that this conceptual article will stimulate debate on the issues raised in it. It is being written by a Ghanaian abroad who is also looking for answers to the lack of entrepreneurial development in Ghana.

Private participation in the productive sectors of the Ghanaian economy has always been high. The abolition of exchange controls, import licences and export controls makes Ghana one of the freer economic regimes in Africa. These are recent achievements based on the conditions imposed by multilateral agencies who have given us money for development purposes. They expect that freeing of the economy will result in high economic growth rates for the country. Whether we will achieve the growth rates predicted merely because we have gone through the process of structural adjustment of our economy is an issue for debate.

My contention is that for us to achieve high growth rates the government must be pro-active in the encouragement of private entrepreneurs. Multilateral organisations and foreign donor countries should also contribute to the process.



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## Supporting Entrepreneurial Activity

### Structure of the economy

The structure of our economy shows that the agricultural sector accounts for 43% of GDP as against an average of 31% for developing countries and 12% for some newly industrialised countries. Industry's share of GDP is 14% of which 9% is in the manufacturing sector. The average shares for developing countries are 35% and 27% respectively and for some newly industrialised countries the shares are 39% for industry as a whole of which 26% is for manufacturing. Services account for the rest of GDP: this is 43% for Ghana, 34% on average for developing countries and 48% in the newly industrialised countries.

Private production in agriculture and services account for much of the GDP: approximately 83%. However, the informal sector where productivity is low, undertakes approximately 80% of this production.

To achieve accelerated economic growth we need to change the structure of the Ghanaian economy; to increase the industrial output especially within the manufacturing sector. We can only do this through the proper encouragement and nurturing of true entrepreneurs.

### State versus private

Freeing the economy in my definition involves the active encouragement of entrepreneurship and the divestment of the government from the active productive sectors.

The structure of aggregate demand shows that the economy is consumption oriented. Consumption accounts for 90% of aggregate demand, as against savings of 15%, of which 5% constitutes foreign savings. Investment is 15%; private investment account for 8% and government investment is 7% of GDP.

My argument here is that since the private sector generates the bulk of the national income and private investment in the economy is more efficient than state investment it is by raising the level of private investment that we can achieve accelerated growth.

The government must therefore actively encourage private entrepreneurs to contribute to the economy. Needless intervention discourages people from embarking on endeavours for fear of the government passing legislation to exclude them from those sectors.

Some may argue that government corporations can function efficiently if they receive protection and achieve higher growth rates, however our own experience of state corporations and the experience of the Eastern block countries show that this is a myth.

The grand theories of economic development however have failed because government investment was not able to provide for sustainable growth and Eastern European countries are now all adopting market economic systems to survive. Our experience with state corporations proves that they do not work very well; the experience of free enterprise however shows that have helped under developed economies to attain high levels of industrialisation. The per capita incomes of countries like Thailand, Malaysia and Indonesia has grown rapidly and their GNPs have moved in the league tables of economically developed countries

#### Formal versus Informal

A characteristic of the informal sector is that there are many operators with smallholdings and very little capital. It is virtually subsistence and therefore its productivity is low. Incorporating the informal sector into the formal sector will make it more efficient ultimately raise the level of productivity.

The mass of the Ghanaian people are by nature small business people; they engage in small petty trading activities, small farming and fishing units, small units for production of consumer as well as capital goods. Most of the productive effort is consumed internally. So at least we have a base of sorts as a starting point. One issue however is how to transform these small units who are in the informal sector into the formal sector and how to modernise their businesses in such a way that they can compete on world markets after satisfying local consumption.

We find in the formal sector a lot of supposedly successful business people who have set up in business solely to tender for government contracts because this is where they can make supernormal profits. Most of these businesses may not be sustainable in the long term because they depend on government contracts. Over the past few years the government has itself depended on externally acquired funds from international organisations

and foreign governments to fund its development programmes.

When this aid money dries up, these 'contract' business people will no longer be able to make the supernormal profits that they are used to because the government will have no contracts to award. The corruption which is a feature of aid dependant regimes will be minimised.

The types of private entrepreneurs we should encourage into the formal sector are those that will add value to the economy by producing goods and services that are demanded by the local private community, those who will transform our agricultural produce into semi finished or finished products for internal consumption and ultimately for export. These are the type of businesses that will be sustainable and eventually add more to the GNP and assist in the alleviation of poverty.

My assertion is that for accelerated growth to take place there is a need to bring the large number of private producers into the formal sector so that taxation can be effective.

#### Protectionism

The other types of entrepreneur we must encourage are those prepared to invest in the production of mass electronic and kitchen white goods that earn higher margins.

We must not do this through protectionism. We must do this by assisting them with capital formation to enable them to invest in capital equipment that will enable them to produce high quality goods at affordable prices. Protectionism is inefficient in the long run; the country needs cheap imports of consumer goods otherwise the Ghanaian public who have very little disposable income will subsidise inefficient producers by paying high prices for poor quality products thereby enabling these producers to earn supernormal profits in the short term.

Those people who can flood the Ghanaian market with cheap products can do so now because they produce for a mass market. They may have made losses in the past and are now only making profits because they have expanded from their captive markets of their home countries into world markets. The process is often painful but they have persevered till they can now earn low margin on huge outputs.

The key to the success of newly industrialised countries has been the capital that they have formed in their businesses. They have not consumed their profits; they have re-invested these profits in state of the art machinery which sometimes displaces labour.

Ghanaian entrepreneurs who decide to go into manufacturing will have to look at their businesses from a long term perspective.

We should not ignore the notion of competitive advantage. We need to be competitive in the production of things that people need at home and on the world markets; things that we can produce cheaper than any other country and which we can deliver to world markets at a higher quality than any other country.

The big question for Ghana is how we can accumulate this capital in a short space of time to start our accelerated growth.

#### Government involvement

Capital formation in a country like Ghana, where the per capita income is around \$400 per annum, is a problem when embarking on an ambitious programme of industrialisation. The poverty of the people has acted as a constraint to capital formation and therefore prevented modernisation of small businesses.

We tried State corporations during the early days of independence; these however did not help the country to accumulate enough capital to assist in development of the country. We eventually have had to go to external sources for development capital.

The government must actively develop enterprise in the private sector. The involvement should not be through joint ventures with foreign companies; that should be left to Ghanaians who have enough capital to invest in those projects. We are not looking here at the very big projects that need much capital, the emphasis here is in getting Ghanaians to start taking calculated risks in setting up small concerns that will form the basis of the future big industries.

The government should be involved because to date it has been the government in Ghana which has stifled the development of entrepreneurs through its policies which have favoured state corporations against small private entrepreneurs. The government should be involved because it is the actions of

previous governments which have favoured foreign nationals and multinationals in exploiting the resource base of Ghana. These together with state corporations have controlled exports and imports into Ghana for too long. This is perhaps the right time for the government to give the nod to all willing entrepreneurs that it will permit them to operate businesses without any government control. All that the government requires of them is that they pay their taxes due to the government.

Government involvement calls for the creation of an enabling environment; it also calls for the active provision of facilities to entrepreneurs that will prepare them to do business in a formal way. This may require some money, but my contention is that it will be money well spent; the returns in the future may outweigh the initial costs. The money the government spends will be an investment for the future prosperity of the country.

We need a Small Business Administration in Ghana that will have direct responsibility for the development of small formal Ghanaian businesses. This Department should operate under the Ministry Of Trade And Industry and be the main instrument for the stimulation of formal businesses in the country. It should not be located in Accra but somewhere where potentially real business activity takes place. It should have branches in the rural areas, mainly dependent on the potential level of business activity

#### Research and sectorial studies

The Small Business Administration should have as its initial brief the mapping out of business activity in the country. This includes the types and sizes of business activity in the country, the growth potential of these businesses and the sectors that are likely to benefit from assistance. The research will also show the representation rate of people in business and will help in the development of policy towards formalising business activity.

The Department will also carry out industry sector studies that will be available to prospective entrepreneurs who wish to invest in sectors that are to be targeted as priority sectors.

#### Management assistance

The next issue of importance is the management assistance that can be

provided to these existing business units and to potential entrepreneurs. This mainly involves the organisation and delivery of business skills training programmes to make the business people aware of how formal methods of doing business can assist them in their survival, growth and profitability. It has often been argued that you cannot teach people how to go into business. This is a fallacy; whilst the decision to go into business comes from the entrepreneur, management of the business often requires some amount of formal instruction. Many Western countries do this and research has shown that exposure to some form of pre-business training is more likely to ensure survival in business.

The issue at stake in Ghana is that there are several people involved in informal business activity as a supplement to their income. Often these people work in strategic government departments where they can use their influence and power to engage in business activity for which they pay no taxes. These people are not prepared to forgo their regular income to embark on an activity for which their incomes could be irregular.

Formal business instruction should be accompanied by some form of counselling and consultancy to ensure that the business ideas have been thought through properly and, if given a chance, will provide the proprietors with sustainable income. If they are looking for external finance then they should be encouraged to prepare a business plan. The counselling and consultancy being proposed here should not only be provided at the start of the enterprise, the businesses should be monitored on a quarterly basis, especially if they have received funds from external sources. Apart from the formal instruction the Department should prepare and distribute tracts and pamphlets on topical business issues as well as on a variety of business related subjects that should be available to registered business people.

#### Assistance with capital

The most contentious issue however in business development led by the government is whether the government should provide funds for people to use in setting up in business. The problem is how the use of these funds can be monitored and evaluated from the perspective of its contribution to the economic development of the country.

I would advocate the provision of loans and the use of bank guarantees to enable this initial investment to be achieved. However, the loans and guarantees will be based on matched funds from the prospective business person. In a sense what is being suggested is that the willingness to introduce capital into a venture is seen as an indicator of the likely success of the venture and prospective business people should be made aware of the importance of capital in businesses. What this means is that rather than preventing people to set up because they have little or no capital, it will encourage prospective business people to team up with others in a formal way to find equity before the establishment of their businesses. Investors or potential partners are also more likely to be rigorous in their assessment of the success of the ventures that they are being asked to invest in. This in turn strengthens the chances of attracting external funds.

How much more money should be provided in the form of loans and grants will depend on the scale of the business and the collateral that the proprietors are prepared to find to secure the loans.

The government needs to persuade the banks to lend to private entrepreneurs. The present credit extended to private productive sectors is too low to fuel accelerated economic growth; 4.3% of GDP as against 18.1% in Thailand.

The government may consider providing guarantees to encourage the banks to lend to entrepreneurs. The banks can also investigate the use of insurance and trade indemnity policies as collateral for riskier lending.

Business people will have to find collateral to receive grants and loans.

Businesses that are to be assisted should be capable of returning relatively higher rates; certainly higher than those the banks now earn from their treasury bills operations.

#### Selective support

There is a strong case for supporting businesses that create employment, though this is not to say that businesses that create employment are the most profitable. But that should form some sort of basis for the government being willing to support them by providing seed capital in the form of guarantees or grants.

Not all businesses should be supported in this way. While it is desirable to increase



the number of businesses in the country, it is preferable to modernise existing businesses that are capable of adding real value to the economy. Businesses that are solely trading in nature should be left to the deal makers. Ghanaians are already very proficient in trading or acting as agents of manufacturers' representatives and such like. Businesses that are supported should be making use of the raw materials of Ghana and adding value to these materials. We should earmark the manufacturing sector for special attention under this scheme especially those that are able to turn raw materials into finished goods for home consumption.

To encourage investors in these small scale industries may need a different set of policies; policies that will waive import duty for capital goods needed for production, provide capital allowances for investment in plant and equipment, provide for a system of price maintenance especially for export oriented manufactured goods.

What I am advocating here is that those who intend to set up in business should be encouraged to do so as their primary activity and wherever possible should be encouraged to set up in sectors which will have a direct benefit in the economy.

### Encouraging Ghanaians abroad

The Government should be interested in Ghanaians abroad who are involved in independent business activity. These business people who have worked abroad and done business in Western countries may be in a better position to pull investors into Ghana, at worst they may be the foreign investors that Ghana requires, especially if they are able to borrow money in the West to purchase plant and equipment needed for their businesses in Ghana

### Developing the financial sector

To attract investors the financial services system in Ghana will need a complete overhaul. The system will need to be developed to a level of sophistication capable of handling all the intricacies of modern financial transactions. While some may argue that there may not be enough volume to warrant this development, my view is that a strong financial system could be used to turn Accra into the financial Centre for Africa

much in the same way as countries like the Cayman Islands, Liechtenstein and other earn a substantial amount of money from international company transaction. Of course, the Companies Code will need to be redrafted to comply with the modern day world of financial transactions.

### Protecting against exploitation

My view of capitalists is that they are risk takers and that they will be involved in enterprise only when there is profit at the end of the day. Government on the other hand should concern itself with providing for the well-being of the state in areas where capitalists do not envisage profit in the long term. Good bureaucracy yields good government and therefore the government should be concerned with instituting a good bureaucratic system that will check the excesses of exploitative capitalists.

This means the streamlining of all our acts and investment codes to permit foreign involvement in all sectors of the economy. We probably do not need an investment code at all! No sector of the economy should be earmarked solely for Ghanaian participation. The conditions for operation are that the proprietors should be ordinarily resident in the country and pay Ghanaian taxes on their profits. We cannot attract foreign capital into the country if we prevent foreigners from operating in some sectors especially since we know that there is very little capital formation in the country. Some projects may require a lot more capital than Ghanaian investors can deploy to make them viable. Ghanaian business people who have made huge short term profits arising out of trading activities on government contracts may be unwilling to invest in activities for which they may need more managerial experience.

The government can control the investment climate in the control by fiscal and monetary mechanisms. However, the government will need to set up several regulatory agencies that will oversee the operation of private enterprise in the country. In some industries, self regulation may be preferable. I have used the word regulatory as against control. This is because control has the connotation of curbing the operation of private industry.

Exploitation of an economy will happen whether or not there is state control over the means of production; exploitation will happen because of corruption arising

out of low wages, low wages arising out of the state not being able to provide an equitable wage because productivity is low. In the private sector pay is normally linked to productivity; therefore the traditional role of the Trades Union movement changes from one of being strike agitators and bargaining barons on behalf of their members to one of seeking their welfare and other conditions of employment. Even in Britain there are fewer strikes now that the state is not actively involved in the productive sectors. What prevents capitalists from exploiting the labour are the low productivity that will eventually affect their output and their profits. If there is no Prices and Incomes Board there will be no constraint on prices and therefore labour can be better paid.

The labour in Ghana is ripe for exploitation; it has not been properly utilised to date, there is a lot of under-employment and the state for too long has had to pay people just for coming to Accra to get a job. The country has not benefited from such job creation exercises.

It is only by the exploitation of the labour and the resources of the country, to make them more productive, that we will get enough taxes to fund our modest development programme

### Multilateral agencies and donor countries

Multilateral agencies have some interest in the development of a vibrant private sector in Ghana. Their interest should not stop with privatisation or the establishment of non-governmental agencies that may create employment using appropriate technology in the rural areas. The whole purpose of their investment in Ghana to assist the macro-economy is to ensure that the rehabilitation of the infrastructure and the structural adjustment to the economy will make Ghana more attractive to foreign private investment. This investment will not take place if there are no Ghanaian partners for these firms, partners with equity participation as opposed to partners who will walk the corridors of power to chase contracts on their behalf or bribe government officials into signing away the country's birthright.

Another reason why multilateral agencies should be interested in such a programme is that their encouragement of foreign private investors in Ghana will not

be successful if there are no Ghanaian entrepreneurs with the capability to do business with these foreigners. It is important that Ghanaians should be involved in the commanding heights of the economy. The existence of Ghanaian entrepreneur will give more confidence to private foreign investors to venture into Ghana.

Recent World Bank projections are that if private investment could be doubled this will result in GDP growth rates of between 8 to 10 % by the year 2000. To achieve this level of growth we will also need to increase the level of foreign savings as well as to double the level of national savings as a proportion of GDP.

Foreign savings earmarked for investment in Ghana can only be increased through the participation of a productive private sector.

Supporting the small business administration

The international agencies should be encouraged to provide the funding for the Small Business Administration. Funds can also be obtained from Trusts and Charities and other non-governmental organisations who are involved in similar schemes in the Western world. The task for the Administration can be achieved if enough business consultants, counsellors and trainers can be found within the country to administer the scheme on contract basis. The desired targets are set for business development and the contracted consultants are proactive in delivering to the set targets.

Encouraging their nationals to set up in Ghana

In talking about foreign private investment let us not forget that Ghana has not had a history of private foreign investment. The big trading firms where mostly all involved in selling to us goods manufactured from their parent countries and taking away our raw materials for processing. The foreign investors we require in Ghana are investors who are interested in transforming our raw materials into finished goods for home consumption and for export. Ghana should also be interested in investors who want to take advantage of the cheap albeit unskilled labour; thus providing employment which until recently has been the government's responsibility. They will provide training for their employees and for this reason they should be allowed to

repatriate all their profits after they have paid their taxes. Instead of tax concessions or holidays we should find a system whereby investors in some industrial activities or in some parts of the country should be provided with grants to attract them to set up in Ghana.

New foreign investors should be encouraged by their host countries to exploit investment opportunities in Ghana. Western countries are at present spending a lot of money in Eastern European countries. They are organising trade missions and helping to identify investment opportunities for private organisations in these countries. They can help by underwriting the costs of feasibility studies into potential projects in Ghana.

Multilateral agencies and foreign donor countries have provided Ghana with a lot of money to assist in our economic recovery programme and it will be a shame if they do get involved in enterprise development to achieve growth which is the only sure way of their loans being repaid.

#### Political risks

The political considerations in freeing up the economy are numerous; the challenges are many, but what is at stake is the prosperity of the country and this should be the guiding objective in any programme to privatise the economy.

A commitment to the philosophy of enabling private entrepreneurs to make positive contributions to the economy higher than what state corporations can make may have its political risks, but capitalism rules the world today. If Ghana is to be a major player on the world economic scene it must adopt capitalism now without any sentimental debates about the welfare of the people. Free market economies have benefited the people; the people have attained higher standards of living.

Traditionally the government has been involved in the export sectors that provide the country with the foreign exchange needed to embark on developmental projects. While the state has discharged its duties here with the best intentions, it has not provided the country with all the money we need for development. Now is the time to change course to allow the private people involved in production to do their own marketing.

Freeing up of the economy does not necessarily mean that the government will

lose control of the macro economy, it will rather allow the government to devote its energies to the provision of quality services that will augur well for more business development to take place.

With the political will in place, the faster it is done the better a place Ghana will be for all of us.

#### Conclusion

Ghanaians will derive much benefit from the active encouragement of entrepreneurs because it is by raising the investment in the private sector that accelerated economic growth will happen. We will no longer be looking up to the government to provide us with plum jobs that carry status as well as discretionary powers that enable us to make a lot of money on the side. Ghanaians will participate in an enterprising culture knowing fully well that someone working in the government ministry or in the state corporation is not making a lot of money for very little work done. The experience of most Ghanaians abroad shows that a lot of us who would have aspired to state jobs will now do any job so long as it pays the bills.

Private enterprise has not been accorded the respect it deserves in Ghana as being the main contributor to the economy. The government's active encouragement of private enterprise will spur people on to release their creativity and expertise in more productive entrepreneurial activity. Many small businesses will be set up and the national cake will grow as a result of this encouragement. So long as people in the private sector are not branded as thieves or exploiters of the economy, many people will see that starting up in business as an option that is respectable.

We are faced with the global recession which is affecting us in Ghana as well. The trends in employment patterns show that people can no longer look forward to life time employment with a particular department or firm and it is this knowledge that will spur us to engage in entrepreneurial activity for the good of the country.

Encouragement of entrepreneurial activity in Ghana should be the logical step on the road to accelerated and sustainable economic growth. It is the only way in which we can develop as a country. It is the only way in which we can eliminate poverty and achieve the equitable redistribution of our national cake.