



Private Sector Development and Governance in Ghana

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Growth Week 2012, London, September 24-26

Motivation and research agenda

- Governance (institutions) important for economic development
- Within governance area, relevance of business regulations (i.e., for private sector development PSD)
- But what are the determinants of regulations and the drivers of change in regulations ?
 - Impact of the private sector on business regulations ?

Hypothesis 1:

The private sector has a positive influence on the quality of government regulations and that this influence can be sustainable in the long run

Hypothesis 2:

The private sector has to reach a critical size to have any influence on policy makers

Hypothesis 3:

The impact of the private sector on regulatory quality could well be negative, depending on

- the particular sector and the type of product
- profit margins and
- competition intensity

Trade: positive impact of trade openness on *institutions* (Rodrik et al. JEG 2004, Acemoglu et al. AER 2005, Levchenko NBER 2011, Puga & Trefler NBER 2012):

- Learning from other countries
- Openness to ideas
- Competition

Aid: Heckelman & Knack (2008): aid slowed economic reforms (depends on reform/governance area and period)

Reform Spillovers from other countries (Gassebner, Gaston & Lamla IER 2011), but no impact of trade or aid on governance

1. Econometric analysis
2. Case study Ghana

(1) Econometric analysis

- Econometric analysis for a large number of countries to find out impact of private sector activities on governance:
 - Levels of regulations
 - **Changes in regulations**

How do we measure regulations that are relevant for firms?

Regulation indicator compiled by World Economic Forum:

- regulation of credit and labour markets and business
- period: 1970-2010
- coverage: up to 141 countries
- scale: 1 (low) to 10 (high quality regulations)
- use of subjective and objective indicators

Regulation indicator

Area 5: Regulation of Credit, Labour, and Business

A Credit market regulations

- i. Ownership of banks
- ii Interest rate controls
- iii. Foreign bank competition

B Labour market regulations

- i Minimum wage
- ii Hiring and firing regulations
- iii Centralized collective bargaining
- iv Mandated cost of worker dismissal

C Business Regulations

- i Price controls
- ii Administrative requirements
- iii Bureaucracy costs
- iv Extra payments/Bribes
- v Licensing restrictions

Country sample

141 countries with EFW data, but not all countries can be included
some 90-100 developing countries with sufficient data

Time period

1970 to 2010

data points every 5 years (1970, 1975, 1980, ... , 2010)

unbalanced panel dataset

Controlling for revers causality:

regulations ↔ private sector development

Measuring Private Sector Development

Domestic credit to the private sector (in % of GDP)

Gross fixed capital formation of the private sector (in % of GDP)

(Trade, Manufactured Exports, FDI Inflows)

We have some evidence for feedback effects (PSD => regulations), but they are not strong

Evidence for positive impact of highly targeted aid on regulations

Testing the impact of many more private sector variables (and other determinants of changes in regulations)

(2) Case study Ghana

Economics: comprehensive reforms in 1980s (partly in 1990s)

- Trade and investment liberalisation
- Deregulation of price controls and exchange rate liberalisation
- Privatisation of state-owned enterprises

Politics: reforms in early 1990s

- Introduction of multi-party democratic system in 1992
- Press freedom
- Free elections (and peaceful political transitions in 2000 and 2008)

Drivers of change in Ghana

Potentially, we have:

Political drivers, e.g.

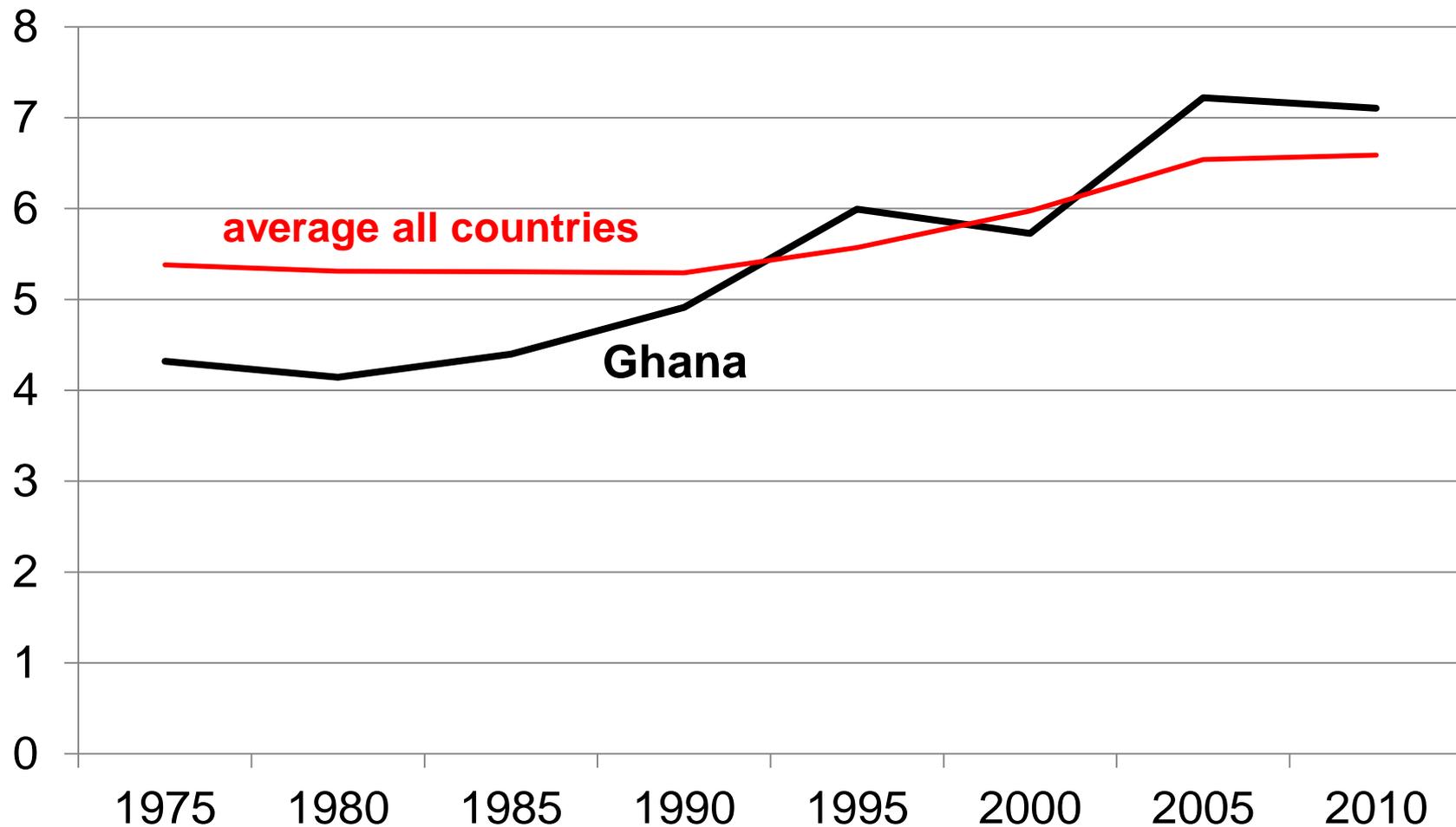
- Foreign aid
- IMF or World Bank programmes
- Democracy (political competition)
- Press freedom (free flow of information)

Economic drivers, e.g.

- International competition (trade)
- Foreign direct investment (FDI)
- Increased (internal) competition intensity

(According to David Booth, Tony Killick and others (2005))

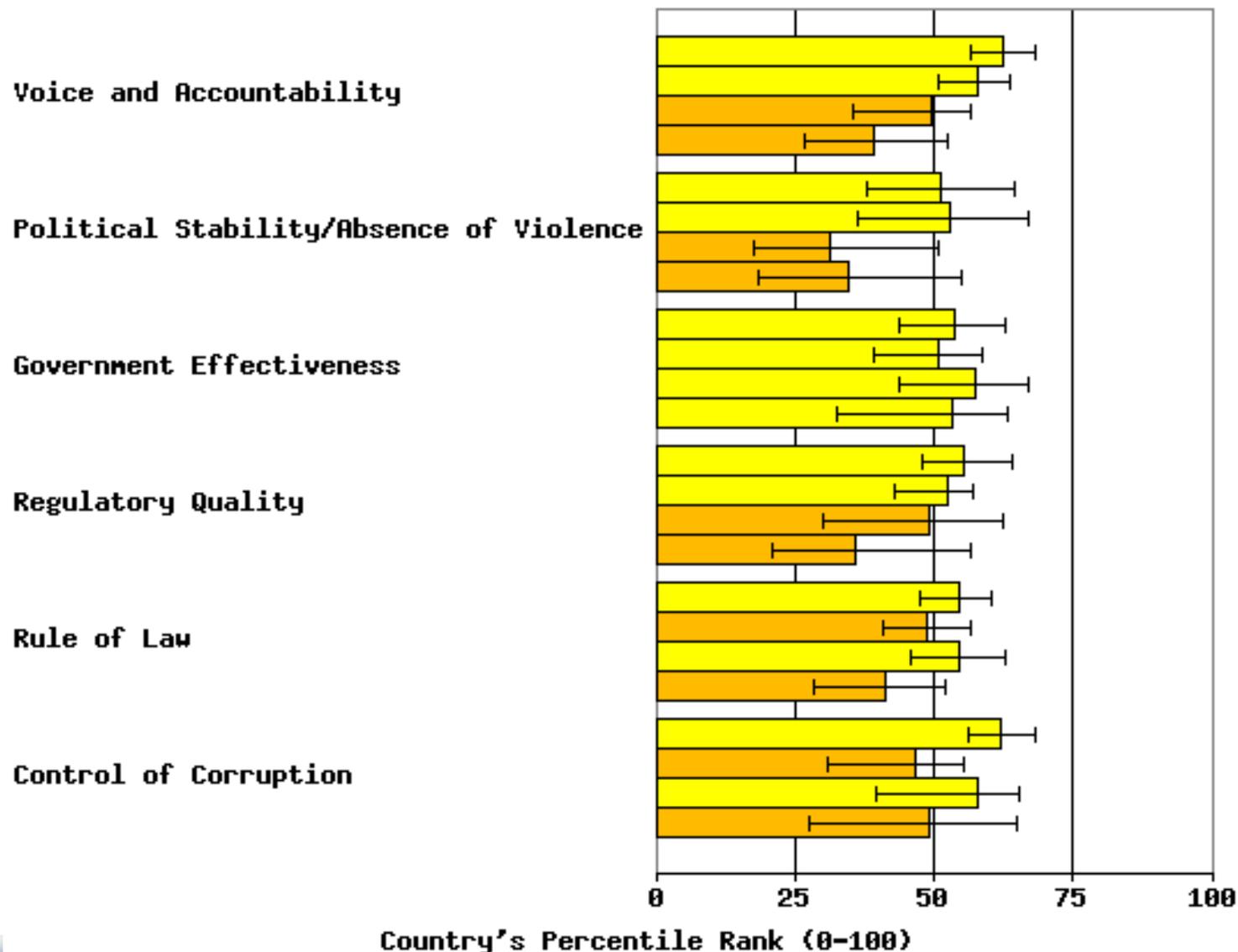
Quality of Business Regulations in Ghana, 1975-2010



Good Governance Data for Ghana, 1996-2011

GHANA

Comparison between 2011,2005,2000,1996 (top-bottom order)



For the Ghana case study, we intend to

- describe changes in the regulatory environment (over the last 30 years)
- analyse the likely reasons for that change, that is
 - role of private sector, e.g., business associations and/or large/influential companies
 - impact of changes in political environment to facilitate influence of private sector on regulations
- Method: qualitative approach (interviews, literature review)



Thank you very much for your attention !