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UNIVERSITY OF GHANA.

'the
private sector :
a case'

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“THE PRIVATE SECTOR: A CASE”

In these modern times, decisions as to what industries or services will be within the public or private sector or joint public and private sector are matters for Governments. This country can be quite accurately described as one that has adopted Mixed Economy as the basis for its development, but with emphasis on encouraging the people of Ghana to be more active participants in the economic life of the country. Government has further clearly indicated areas reserved for the Private Sector, which for the purposes of my talk include the areas reserved for the public/private sector.

Conditions for investments

The first consideration for investment must be the attitude and policies of Governments. The Private Sector must naturally be interested in what Governments do and think, because they have it in their power to either throttle business or conversely allow it to flourish and make its full potential contribution to national development. And in this connection, I have earlier said that the Government has indicated quite clearly areas where private capital is welcome. The policies of Government towards the private sector are quite complex, and I will attempt to comment on some of the issues involved in this talk.

Secondly, decisions to invest and in which enterprise, be it commercial, agricultural or industrial, are made in expectation of profit. In this day and age, the only viable option open to investors is the decision to invest or not to invest. They cannot be compelled to spend their money on projects which they do not believe will bring a reasonable return, i.e. reasonable profit. This must be so, as investment in an industrial or commercial undertaking is taken on the basis of a balancing of the returns likely to be forthcoming against the risks involved. The nearest that is possible to get to a definition of “reasonable” profit is perhaps to say that it is the minimum return required to induce investors to put their money into a particular project in the light of circumstances, present and future, as they see them. To say this in no way absolves private enterprise from recognising its moral as well as its commercial and creative obligations, or from seeking to render service while working for profit. I am sure, I need not remind this distinguished audience, that

while political mistakes cause national headaches and at times disasters, the consequences of errors in the private sector are borne by the enterprise itself.

Thirdly, there must be a reasonable tax structure (the long-term being more important than the short-term).

What is the Private Sector?

The Private Sector does not and should not be limited only to organised enterprises with risk money. Let us not forget the farmer – be he a cocoa, rice, cassava or maize farmer; the fisherman, the market trader, the peddler of boot polish, the storekeeper all belong to the private sector.

I would like to deal with three broad areas of the private sector, namely agricultural, industrial and commercial.

Agriculture

Under agriculture, I propose to concentrate on the farmer.

We have throughout the ages relied on the small farmer to produce our food and our foreign exchange. Times was, when he was able to satisfy both needs. Even now, we are told that about two-thirds of the population live in the rural areas, and we must safely presume most of them are involved in one form or another of agricultural activity. In our present stage of economic development, this is as it should be.

It ought to be said, however, that the tree crop farmer, especially the cocoa farmer, has in the recent past also relied on migrant labour to make and maintain his farms. Combination of the Aliens Compliance Order and the fixing of the minimum wage has practically deprived the farmer of this source of support. The migrant labour was mainly alien and the implementation of the Order, forced most of them out of the country. Its subsequent revocation, I do not believe, has made any appreciable difference. A minimum national wage which is fixed principally to help the urban worker, still has its rippled effect on the rural community. The farmer, whose income is not really substantial nor regular finds it extremely difficult to start or maintain a large farm, because of his inability to pay the urban wages. I am told that payment in kind, especially for the tree crop labour, which was so much a part of our traditional system, does not work so well now.

A situation has, therefore, developed over the years whereby the majority of our people live in the rural areas, but ironically not many are engaged in producing for the market. The old farmer still continues his effort but it is unhappily an industry whose future is gloomy in the extreme, in that it is unable to attract and retain the young.

The effect of the money economy does not stop short at the boundaries of the urban centres. It is as much keenly felt in the urban as in the rural areas. How then has the farmer come out of it all? For annual crops such as maize, rice, millet, etc. certain inputs such as fertilizers and improved seedlings are provided at subsidised prices; and extension services, such as they are, are provided almost free. In addition, support prices are announced each year for the purchase of their crops, in case the farmers are unable to sell these on the open market.

In view of the relatively small quantities available, sale on the open market has not been difficult, and the farmers have not yet begun to look to governmental agencies to purchase their crops at the support prices.

The tree crop farmer also is provided with insecticides, fertilizers, improved seedlings and extension services almost to the extent as that enjoyed by the annual crop farmer.

But the financial benefits enjoyed by the two types of farmers are widely different. The annual crop farmer is predominantly in control of his operations, especially in respect of pricing and marketing. He enjoys considerable fiscal concessions and by the use of modern methods, his yields per acre are considerably more.

The tree crop farmer rightly feels that his financial rewards are not so great, given the country's reliance on his earnings for the substantial foreign exchange earned for the country. True there have been series of producer price adjustments but these generally do not appear in the main to have motivated these farmers to produce more. A lot ought to be done in this area. The farmer when the time for harvest and sales arrives, and as expected, completely ignores all the subsidized inputs and services that are provided. He simply uses as his yardstick, his actual earnings and what they could buy and compares them with what other farmers earn as well as is being offered across our borders. Some consideration should be given to evaluating the pricing policy of the inputs, with a view to reducing over a period the subsidy, and at the same time paying the farmer an adequate price for his crops.

The need to encourage more people to undertake the cultivation of tree crop is recognised. But I wonder whether the gestation period between planting and maturity and the financial burden it imposes on such farmers is appreciated. The days when the cocoa farmer also managed to produce annual crops to feed himself and sell the surplus seem to be over. In any case, it may not be possible to do this for all crops. Nevertheless, the farmer should be able to maintain himself and his family during this period. There is a case for some financial support during this time. Naturally, this would require a lot of investigating and policing, but it can and must be done by extension workers. I am not suggesting free grant but simply some financial support by way of advance, with guarantees that such receipts are paid off by the farmers when their tree crops mature and are harvested and sold.

Plantations are now being encouraged and this is as it should be. Plantations could generate employment opportunities, could certainly be efficient and generally introduce improved cultural practices and proper farm management. They could also provide farmers with improved seedlings or cuttings; the right kind of fertilizers and probably help improve the cultural practices of the farmers around to improve on their performance.

Owners of plantations are expected to help with outgrowers' scheme. Desirable though this is, not a great deal should be expected unless certain conditions exist. Surely the proximity of several small holdings to each plantation is essential. Further, Government agencies should accept responsibility for infrastructural works, especially road construction. It may very well be necessary to help with acquisition of land and its allocation. Extension services must be available and there must be proper liaison between the Extension Officers and the plantations.

It is only when these conditions are satisfied that a meaningful partnership can exist. The plantation will then provide the improved seedlings and fertilizers, offer to train such extension officers as need it and be ready to purchase for processing where this is possible the produce of the outgrowers at acceptable prices.

For the scheme to work, it must be possible for some form of authority to eject farmers whose performance is unacceptably inefficient and who do not respond to training. This will require some effort but it is something that cannot be simply brushed aside as being too difficult to face up to.

Plantations should not be developed at too fast a pace. For we still have to face and solve the burning problem of what to do with a substantial number of rural dwellers who will thereby be displaced. It certainly will take considerable time to provide them with alternative employment, and this can only come when there is corresponding increase in industrial activity to attract and retain them and thereby give them gainful employment.

This brings me therefore to the burning issue of waste on our farms due to evacuation problems and the perishable nature of our farm products. I would like to quote from the Five-Year Development Plan 1975/76 — 1979/80 (pp.1. 263) “Much peasant farming is traditional and for subsistence so that no more than 50 per cent of agricultural output enters the distribution system. The ideal position for an economy is to have such close interconnection between sectors that success and development in one reinforces performance in others. In developed countries of reasonable size, intermediate sales, i.e. exchange of goods between sectors amount to as much as over 50 per cent of gross domestic output. In Ghana, there is reason to believe that intermediate sales do not amount to much more than 20 per cent, an indication of weak linkages between the sectors of the economy. Thus input – output data for 1968 indicate that domestic agriculture provided only about 14 per cent of the total material inputs purchased by the manufacturing sector”.

Perhaps, one of the major shortcomings of the industrialisation efforts of the 1960's was the lack of serious attempts to base the establishment of manufacturing enterprises in the processing of local resources and produce from the agricultural sector”.

Industrialisation

This leads naturally to the question of industrialisation, and I would like to begin by referring to a view expressed by Professor Sir Arthur W. A. Lewis in a Report on “Industrialisation and the Gold Coast” presented to the Government of the day in 1953 – and I quote: “Industrialisation starts usually in one of three ways: (1) with the processing for export of primary products (agricultural or mineral) which were previously exported in a crude state or (2) with manufacturing for an expanding home market, or (3) with the manufacture for export of light manufactures, often based on imported raw materials”.

But his advice to the country was concluded in these terms and

here I also quote:

“Measures to increase the manufacture of commodities for the home market deserve support, but are not of number one priority. A small programme is justified, but a major programme in this sphere should wait until the country is better prepared to carry it. The main obstacle is the fact that agricultural productivity per man is stagnant. This has three effects. Firstly, the market for manufacture is small, and it is not expanding year by year, except to the extent of population growth; consequently it would take large subsidies to make possible the employment of a large number of people in manufacturing. Secondly, it is not possible to get even larger savings out of the farmers, year by year, to finance industrialisation, without at the same time reducing their standard of living;..... And thirdly, agriculture, because it is stagnant, does not release labour year by year; there is a shortage of labour in the Gold Coast which rapid industrialisation would aggravate”.

Local manufacture essentially for the home market began, but not in accordance with the advice of Professor Lewis. The reason, with the benefit of hindsight not wholly satisfactory, was to pursue a policy of import substitution. Industries have now been established which depend wholly or very substantially on imported raw materials for survival.

For well over a decade, foreign exchange resources have been difficult to manage, because of their inadequacy and demands made on them. Industry has, therefore, had to cope with considerable degree of controls. But the fact of the matter is that most, if not all, have operated well below capacity, and have faced from time to time occasional shut-downs. In the prevailing circumstances, unit costs have been high and inefficiencies are wide spread. As a country, we appear to have chosen the superficially attractive path of maximum and indiscriminate expansion, and we are paying very dearly for that. Both the Government and the private sector must share the blame for this state of affairs.

We at least have now accepted there is a problem, know what it is, and even more importantly are now doing something about it. The answer is to integrate backwards and encourage the cultivation of raw materials to feed our industries. Caution is necessary, if we are to avoid monumental mistakes. I think that a policy that requires each industry itself to go into agricultural production of its raw materials or invest in agriculture, is not a viable proposition. In an attempt to feed our factories, let us not forget that skills and exper-

tise are as essential in agriculture as they are in industry. An enterprise engaged in industry may have no skills nor expertise in agriculture, and in my opinion, it is a waste of resources to compel any such enterprise to go into agriculture. It is no answer to say in that case they should invest in agriculture. For it must seriously consider conditions for investment and take a long and not short-term view of the prospects. If and only if it is satisfied that investment is prudent must it do this.

This is not to say that no effort should be made to ensure success of this very welcome change of policy. I think that with right inducements and encouragement, there will be many others, who will be prepared to produce raw materials for our industries. Let these together with industries that have the necessary skills go into agriculture. Let us not be deflected by those, who all too readily and quickly embrace any new policy that is formulated by Government, like in this case getting large tracts of land, undertaking agriculture of sort, but abandoning the venture as soon as it is convenient so to do. This does not help the country, themselves or for that matter contribute meaningfully to agricultural development. It is indeed a cynical approach to fundamental problems of the country. This policy must be pursued in a way such as to attract the steady investor, who hopes to make a lasting contribution to national growth.

Distributive Trade

Distribution has been and even more so now, a national pastime. Most people, if they can lay their hands on merchandise, have an irresistible urge to get involved in the distributive trade. Let us not forget that in those competitive days, traders performed an essential service. One only had to go into the market to realise how much competition was alive, or to measure the benefits of the situation to the consumer.

If life should go on, distributive trade must, of course, be encouraged so as to ensure that all our people have access to the merchandise or products they need or want. This calls for adequate availability of merchandise or products. In the context of Ghana, now, it is for the foreseeable future an unattainable objective, desirable though it is. Stock gaps and, in some cases, near unavailability of merchandise are pretty common.

Conditions are very ripe for the get-rich-quick and then get out man. We now find that a serious distortion exists in the distributive

trade. What ought to be a service on a national scale has become a nightmare. Those who can get away with it have become traders overnight. The element of service has disappeared and many traders believe themselves to be doing the customers favours by selling to them, at very high prices. This poses great danger to the network of distributive trade so carefully built up over very many years, in that, for short-term expediency, it certainly is tempting for the authorities to intervene and disrupt the proper and equitable national distributive network.

While every attempt should be made to curb the excesses of traders, it should not be overlooked that basically the distributive network is good and must be preserved and that the small trader is a necessary and vital link in the chain. It has recently been announced that new arrangements are to be made for the distribution of certain commodities. Although the details of the plans are not sufficiently well known, it is fair to say that the arrangements such as they are will be at the expense of the recognised channels of distribution. In these difficult days, I ought to say that any arrangements that do not exploit to the full the existing distributive channels will create more problems. I only hope that before any plans are implemented some dialogue between the private sector and the authorities takes place with a view to ensuring that the consumer that all of us must serve does not suffer in the process. Changes can create some inconvenience but the kind that I foresee, should the distributive channels be excluded, be avoided or substantially modified.

Efficiency

As far as business is concerned, it should be efficient and honest. That it should not attempt to buy favours is obvious. But what is meant by being "efficient"? I suggest that it means applying in its own sphere of activities the very best and the very latest techniques of operation employed anywhere in the world. Being efficient means being a trail-blazer in methods of selling and buying and manufacturing, and in cost-consciousness and internal accounting methods, and in man-management, that is, in the art of getting employees to give happily the best of themselves to the business. While the search for efficiency should be the driving motive, I do not suggest that there are not occasions where new techniques should be restrained in the interest of human or social welfare. We can all think of cases where one machine can displace scores of workers; in due course, that

machine must come if there is to be economic progress, but it may be that its introduction should be delayed just long enough to try to find new jobs for the redundant employees. This sort of situation is occurring all the time, even where we suspect it the least, and the faster a country develops the more these strains and stresses become acute.

Competition

Another very important point in the whole field of business expansion is the need to preserve carefully conditions of competition. This can perhaps be described as a requirement to avoid the worst features of monopoly. I suggest, however, that in determining what is or not a monopoly, the substantive question is not whether a company, or indeed a governmental organisation, is or is not a monopoly; what matters is whether it behaves in a monopolistic fashion, and I would define monopolistic behaviour as one which either tries to shut out competition or which attempts to use its exclusive or eminent position to soak the customer. Though outside circumstances may sometimes perforce impose some limitation, the basic principles are quite clear; competition is the soul of economic and business life and the interests of the consumer should always be paramount. What is good for the consumer is good for the nation, because everyone is a consumer.

Combination

Ghana, and indeed West Africa, has long been renowned for the skill of its traders. But I think it is fair comment to say the businessman or businesswoman has tended to operate too much on an individualistic basis, and has frequently failed to secure for himself or for the community the full advantages which might have accrued from larger scale operations, which would have been possible if he had joined forces with other traders to form a larger trading unit or company.

For the long-term health of the country and its economic development, this is not entirely satisfactory. There is the need for some large scale operations, if the desirable objective of Ghanaians playing a substantial role in the economic development of this country is to be realised. It is sometimes said that businessmen have been

inhibited from forming, through a process of amalgamation, larger and stronger trading companies because of lack of finance. I certainly do not want to suggest that there are not occasions where finance or credit has not been harder to obtain. But if individual traders pooled their skills and resources to form a company, they surely ought to be more credit-worthy and would have easier access to finance than if they operated on a smaller scale individually.

Of course, I know that some companies are now being formed and properly registered. But one does not need to take a hard look at the details to satisfy oneself that it is either essentially a one-man company or at best a family concern. Can I venture to say that finance, or lack of it, is only one of the factors (and now with all the various agencies established to help with finance – not a very critical factor). I guess that basically it is a crisis of confidence. When business is run on individual basis, the owner is in complete charge, is answerable to no one, hardly employs outside labour, and retains all the profit. No cadre of managers are trained this way and this country needs professional managers to manage properly the resources of the country and provide efficiency.

Growth and continuation suffer considerably, and it is all too common to find business, modestly successful in the life-time of its owner, either completely folding up, or at best incompetently run after his death. We must realise that individual failures are not merely dramas in the life of one man. They are also highly discouraging to the rest of society. We must remember a business' primary obligation and the main reason for its existence is to give the best possible service to the consumer, and if this is so, it must be efficiently led at all times.

Profit

I have already made the point that decisions to invest are made in expectation of profit. For if one is not in business for fun or profit, then it is difficult to see what he really wants. A business that makes a loss can only continue in existence by using up its capital, and this has social consequences, some of which are:

1. A possible break-up of the business, as the shareholders see a better use for their money elsewhere, and sell their shares or voluntarily agree to wind up the business.
2. The loss of employment.

3. The loss of Government revenue from taxation, both direct and indirect.
4. Failure to supply the market with goods or services the provision of which the original investors placed their capital at risk and
5. The wastage of scarce resources.

Profit also provides the incentive for virtually every kind of business activity, and the measure of its success. No one would invest capital in business undertakings if he did not expect a return commensurate with the risk. I am not here advocating that an economic venture which, measured by profitability, is an unqualified success, is necessarily beneficial to society as a whole. Profits made out of illegal transactions or illicit trade are obviously unacceptable.

Taxation

I believe that the rate of economic growth, depends not so much on Government expenditure, as it does on whether farmers plant more, businessmen build more factories and the mines increase their investments. If conditions are favourable to the expansion of such activities, the economy will grow rapidly whether there is a development plan or not. The five-year development plan 1975/76–1979/80 expects the private sector to make substantial contributions towards the financing of the plan, not only with savings made in this sector and lent to Government but also the mobilisation of resources in the sector for financing its own investment expenditure.

The private sector should be able to use its savings to finance a substantial part of its investments. Savings are simply net after tax profit. This brings me to the very important question of the level of taxation both corporate and personal. I am sure most people know that Ghana is a high-tax country. Although some attempt was made last year to reduce the level of tax, it still is a long way off from being satisfactory. Unless the private sector can retain a substantial net after tax profit, it cannot contribute to the realisation of the target set out in the development plan. The development plan aims at economic development in the fullest sense, i.e. there must be substantial investment and re-investment to improve on economic activity and also generate employment opportunities and the usual spin-offs. At the present level of activity, the private sector is very hard

put to maintaining employments at the existing level let alone increase them. Reasonable economic activity combined with fair and equitable level of taxation both corporate and personal will contribute to further investments and re-investments and the creation of job opportunities. Further, high personal tax is in my view a drag on good performance. This country needs highly motivated men and women, and a way of ensuring this is to evolve a tax system that leaves a fair portion of remuneration in the hands of the people.

Government must still collect revenue to finance its own expenditure and this can be done by widening the tax net to reduce the incidence of evasion. It is also the duty of tax payers to endeavour to pay their tax. I sometimes wonder whether Government might not do better by reducing taxation to levels which most people would regard as fair, and then initiating a public relations exercise to encourage people to do their civic duty and to pay taxes.

The Responsibilities of the Private Sector

It must not be assumed that the only objective of those who have the duty of directing a business enterprise is the pursuit of profit and that, in consequence, the private sector is insensitive to social and moral demands. I know this assumption does not represent the true position. Any business enterprise which pursues profit to the exclusion of all other considerations is clearly asking for trouble; the secret of long-term industrial and commercial achievement lies in the capacity to observe and pursue other important objectives as well.

For a business to live and grow, it has to serve the needs of its customers – and serve them well; it has constantly to have regard to the interests of its employees; it has to understand, and react to, its responsibility to society at large, both local and national; and it certainly has to show investors that it is looking after their present and long-term interests. There is no basic conflict here; and I strongly believe that unless a business seeks to observe all these goals, it will end up letting everybody down: customers, creditors, investors, employees and society as a whole.

It certainly is unbecoming for those of us in the private sector to be so presumptuous as to accept an invitation to speak on an occasion such as this. But Mr. Chairman, when you invited me, you did so in a way that could brook no refusal. I, therefore, accepted to

speaking this evening. Let me express my warm appreciation to the University of Ghana Alumni Association for the honour you have done me and the private sector, by enabling me to say something about the private sector – its trials, tribulations and opportunities and our reaction to them. Let me also thank you most sincerely for your kind words about me. Lastly, my thanks go to the distinguished audience, who have sat patiently and listened to me. And now Mr. Chairman, Mr. Vice-Chancellor, Members of Government, Your Excellencies, distinguished guests, ladies and gentlemen – I am done.

Thank you.

Accra – March 1st, 1978



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