

# **SME SUPPORT SERVICES STRATEGY (2015–2020)**

**PRODUCED FOR THE SME TASK FORCE**

**OCTOBER 2014**

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# ACRONYMS LIST

ASSI	Association of Small-Scale Industries
AGI	Association of Ghana Industries
BAS	Business advisory services
BUSAC	Business Sector Advocacy Challenge Fund
BoG	Bank of Ghana
DANIDA	Danish International Development Agency
FNGOs	Financial non-governmental organizations
EDAIF	Export Development and Agricultural Investment Fund
ECOWAS	Economic Community of West African States
ETLS	ECOWAS Trade Liberalization Scheme
GoG	Government of Ghana
GAX	Ghana Alternative Market
GCSCA	Ghana Cooperative Susu Collectors' Association
GDP	Gross domestic product
GHAMFIN	Ghana Microfinance Institutions Network
GNI	Gross national income
GIZ	German Development Cooperation
JCAP	Joint Country Action Plan
NBSSI	National Board for Small Scale Industries
OECD	Organization for Economic Cooperation and Development
PFG	Partnership for Growth
PEF	Private Enterprise Foundation
SBA	United States Small Business Administration
SBDC	Small Business Development Center
SME	Small and Medium Enterprises
GCUA	Ghana Cooperative Credit Unions Association
CUs	Credit unions
RIA	Regulatory Impact Analysis
MFIs	Microfinance institutions
NBFIs	Non-bank financial institutions
NGOs	Non-governmental organizations
RCBs	Rural and community banks
VCTF	Venture Capital Trust Fund
SPEED	Support Programme for Enterprise Empowerment and Development
USG	United States Government

# EXECUTIVE SUMMARY

Ghana was selected as one of four countries to participate in the Partnership for Growth program (PFG). As a result, USAID and the Government of Ghana (GoG) developed a Joint Country Action Plan (JCAP) to assist Ghana in sustaining and broadening its economic growth by addressing two key constraints: the unreliable and inadequate supply of electric power, and the lack of access to credit.

To support SMEs to have better access to finance, several other interconnected factors must also be addressed. These factors are tightly integrated with the challenges to financial accessibility and include: SME owners' limited managerial capacity, the level of existing adequate knowledge-based enterprises, technology used, standardizations knowledge, financial management, and other considerations. In response, USAID-FinGAP was requested to engage international and local consultants to assist the GoG SME Task Force in developing a strategy and work plan for a comprehensive and integrated system to support Ghanaian SMEs.

The strategy report encompasses six main chapters which respond to the tasks and objectives in the consultancy mission's scope of work, and covers all necessary steps for formulating an effective strategy document.

Chapter One describes the present state of SMEs in Ghana. Chapter Two is an assessment of the overall business enabling environment in Ghana, based on the Small Business Act (SBA) policy assessment framework that was developed by OECD.

Chapter Three describes the proposed strategy's mission, goals, objectives, strategic directions, and expected outcomes. The strategy includes strategic goals aimed at enhancing SMEs' competitiveness in specific, selected economic sectors with the highest potential for growth and recognized comparative advantages. The SME strategy aims to create more than 750,000 new job opportunities.

Chapter Four describes the structure of the proposed new SME development coordinating authority, as well as the roles and responsibilities of each of the proposed units/offices. Chapter Five describes the implementation arrangement, and Chapter Six is the proposed work plan for the strategy implementation.

The strategy's main mission and goals are as follows:

**Mission Statement:** *“Responsive, sustainable and effective support aimed at developing a competitive SME sector through the provision of comprehensive financial and non-financial services that are facilitated by an efficient national coordinating authority.”*

**Strategic Goal I:** Enhanced national capacity to develop, implement, monitor and evaluate SME development strategies and programs

- Strategic Objective 1.1: Improved national institutional setup for SME development in Ghana
- Strategic Objective 1.2: Enhanced policy formulation process that is more conducive to the development of a strong SME sector in Ghana

### **Expected Output Results:**

- I.1.1 New coordinating authority for SME support services established and equipped with human and financial resources, functioning and managing the implementation of the SME strategy
- I.1.2 Completed capacity-building plans, bylaws, and operating management system guide
- I.1.3 Completed and endorsed sustainable fund mechanism
- I.2.1 Established and operating SME policy formulation function under the SME coordinating authority
- I.2.2 Developed and tested Regulatory Impact Analysis (RIA) system
- I.2.3 Established new initiatives and programs aimed at empowering SMEs to have adequate representation in SME-related policy formulations

### **Strategic Goal 2:** Improved SME contribution to sustainable economic growth, and to job creation in Ghana

- Strategic Objective 2.1: Enhanced enabling business environment that is more conducive and responsive to the needs of startups and existing small and medium enterprises
- Strategic Objective 2.2: Improved SME competitiveness in selected economic sectors
- Strategic Objective 2.3: Increased entrepreneurship education by incorporating entrepreneurship training into all levels of educational system

### **Expected Output Results:**

- 2.1.1 Completed study report includes all regulatory barriers and recommended policy reforms
- 2.1.2 Web-based business registration platform designed and endorsed by related authorities
- 2.1.3 Study report of recommended and selected economic sectors developed
- 2.1.4 Policy formulation department of the new coordinating authority equipped with operating systems
- 2.2.1 Completed study of proposed incentive systems for SMEs in selected economic sectors
- 2.2.2 Completed project proposals for research and development linkages
- 2.2.3 Sustainable linkage system developed under the management of the new coordinating authority
- 2.2.4 Completed SME database development project
- 2.2.5 SME portal developed and maintenance system in place under the management of the new coordinating authority
- 2.2.6 New management unit developed under the VCTF and equipped with required human and financial resources
- 2.3.1 Selected entrepreneurship curricula developed and endorsed by the government authorities
- 2.3.2 Policies and related decrees developed and endorsed by the appropriate government authorities
- 2.3.3 Selected universities and vocational training institutes integrated entrepreneurship programs into their curricula
- 2.3.4 Information department under the new SME coordinating authority equipped with the required operational systems and human resources to monitor entrepreneurship development in Ghana
- 2.3.5 The information department's monitoring capacity enhanced through its cooperation with GEM authorities

### **Strategic Goal 3:** Improved access to financial and non-financial services that are demand-driven, sustainable and affordable, for female and male SME business owners in selected economic sectors

- Strategic Objective 3.1: Enhanced capacity of private and governmental institutions to provide demand-driven, sustainable services to SMEs
- Strategic Objective 3.2: Improved, sustainable, responsive and demand-driven SME support services in Ghana

**Expected Output Results:**

3.1.1 Completed institutional capacity-building plans for selected governmental and non-governmental support institutions

3.1.2 Selected institutions received technical and financial support to implement interventions for supporting SMEs in selected sectors

3.1.3 Proposals and plans developed for targeted and tailored financial services programs

3.1.4 Targeted SMEs received responsive and demand-driven technical and financial support during the pilot phase

3.2.1 Completed operational and management guide for the Ghanaian SME fund facility

3.2.2 Established and functioning SME fund management secretariat

3.2.3 Completed operational and management guide for SME BAS services

The implementation plan encompasses two phases. Phase One describes the setup stage for the SME coordinating authority. At this stage the SME task force should lead an effective consultation process with major SME stakeholders and other related ministry and governmental officials. The main purpose of the consultation process is to build a common understanding around the proposed strategic goals, objectives and strategic directions, and to develop the necessary commitments. The setup stage also includes laying out all regulatory requirements for establishing the coordinating authority for SME development.

Phase Two includes a proposed work plan for implementing the SME strategy within the recommended time frame. It also identifies the responsible parties for each major activity and the required technical and financial resources.

# BACKGROUND

The United States selected Ghana as one of four countries to participate in the Partnership for Growth (PFG) program. Through this program, the Government of Ghana (GoG) has engaged in extensive analysis and consultation with the U.S. Government (USG), leading to the development of a Joint Country Action Plan (JCAP). The JCAP works to assist Ghana in sustaining and broadening its economic growth by addressing key constraints that inhibit private sector development and participation in the Ghanaian economy. These constraints include the unreliable and inadequate supply of electric power and the lack of access to credit.

The two main goals of the PFG JCAP are:

1. To strengthen the power sector; and
2. To increase access to credit, especially for the small and medium enterprises (SME) sector, and strengthen the financial system.

A Joint Steering Committee, composed of members of the GoG and the USG, oversees PFG activities and monitors progress against the JCAP. Technical Working Groups (one on credit and one on power) organized by lead GoG and USG agencies are responsible for developing and implementing specific action plans and strategies to meet the goals set out in the JCAP.

## **USAID/Ghana Country Development Cooperation Strategy (2013–2017)**

*Development Objective 2: Sustainable and Broadly Shared Economic Growth*

- IR 2.1: Increased competitiveness of major food chains (Ref. FTF IR)
- IR 2.2: Improved enabling environment for private sector investment (Ref. FTF IR 1.3)
- IR 2.3: Improved resiliency of vulnerable households and communities and reduced under-nutrition
- IR 2.4: Increased government accountability and responsiveness

## GENESIS OF THE REPORT

In December 2013, the GoG's PFG JCAP task force met with the U.S. Small Business Administration (SBA) to discuss the SBA model and consider its applicability to Ghana's SME sector and PFG goals. One outcome of this discussion was a recommendation to extend the scope of PFG JCAP Goal 5 to include the development of alternative financing programs for SMEs.

Further discussions revealed that improving SMEs' access to finance requires addressing several related factors. Some of these factors are SME owners' limited managerial capacity; the level of existing knowledge-based enterprises; technology used; standardizations; and financial management. To respond to these constraints, USAID Ghana consulted with the GoG to determine the next steps for SME development work, and developed a Scope of Work (SOW) for a consultant to develop a strategy and work plan for an integrated support system for SMEs in Ghana. At the request of USAID Ghana and the GoG, the USAID Financing Ghanaian Agriculture Project (FinGAP) hired international and local consultants to carry out the SOW and develop this "PFG-SME Support Services Strategy Report" for the SME Task Force.

The mission statement for this assignment was to create responsive, sustainable and effective support system aimed at developing a competitive SME sector through the provision of comprehensive financial and non-financial services that are facilitated by an efficient national coordinating authority. To this end, the international PFG SME Advisor and the Ghanaian SME Secretariat (Task Force) engaged with the



GoG and the Ghanaian private sector in developing a strategy and work plan, and building consensus for a comprehensive and integrated SME support system.

This report is the deliverable of the PFG SME Advisor and includes the following per the consultant's SOW:

- Implementation Plan;
- Definition of SME in Ghana and support services they require;
- Currently available Ghanaian support services (detailing services provided, location, quality, etc.);
- Recommendations for upgrading and expanding SME support services; and
- Recommendations for management and oversight of SME services (including proposed budget, expected impact, etc.)

The PFG SME Advisor held a kick-off meeting with a supporting local consultant and the PFG SME Task Force in Ghana in September 2014. The consultants and task force agreed on the below processes and strategy for developing the Report:

1. **Framework:** Development of SME national strategy with clear vision, mission, strategic goals and target results. The strategy will have four main pillars:
  - a. Pillar I, sectorial focus on the most prosper economic sector with the highest potential for growth;
  - b. Pillar II, comprehensive supportive and responsive financial and non-financial services;
  - c. Pillar III, institutional capacity building; and
  - d. Pillar IV, conducive enabling environment.
2. **Management:** Establishment of a coordinating SME Authority/ body that involves all major SME supportive institutions' leaders with private sector representation in its board.
  - a. The main role of the SME Authority is to oversee the implementation of the SME strategy, facilitate the coordination of the implementing institution, monitor the progress towards achieving the strategy targets, provide capacity building to the implementing institutions, and formulate and recommend polices for a SME enabling environment.
  - b. The SME Authority will also be tasked with developing a governing legal framework with clear bylaws and guidelines that define its role and responsibility, and which is endorsed by the GoG and the Parliament of Ghana.
3. **Implementation:** All existing SME supportive institutions will be responsible for implementing the strategy and various components based on their mandates, i.e., Venture capital, Exim guaranty, NBSSI, EDAIF, GSE and others. They should provide periodical progress reports to the SME Authority Board.

The International PFG SME Advisor performed the following tasks in developing the deliverables for this Report:

- Task One: Develop an Implementation Plan
- Task Two: Aggregate information on SMEs and SME support services in Ghana
- Task Three: Map current Ghanaian SME support services
- Task Four: Develop recommendations for upgrading and expanding SME support services
- Task Five: Develop recommendations for management and oversight of SME support services

The report was prepared in close consultation with and under the guidance of the GoG SME Task Force. USAID-FinGAP supported the editing and revision of the consultant's report. Going forward, the GoG is tasked with implementing this strategy and work plan via Ghana's PFG SME Task Force.

# INTRODUCTION

Ghana has witnessed a significant expansion in output over the past several years, with real GDP growing steadily from 3.7 percent in 2000 to 8.8 percent in 2012 before declining slightly to 7.1 percent in 2013. Between 2007 and 2013, economy growth averaged 8.3 percent. The resulting significant improvement in per capita income from US\$1,292.50 in 2010 to US\$1,570 in 2012 has placed the country in a Lower Middle-Income Country (LMIC) status. The services sector recorded the highest growth at 8.9 percent, followed by industry at 7.0 percent, while agriculture recorded a growth rate of 5.2 percent (GoG, 2014).

The medium-term objective and strategic direction under the new Medium Term Development Policy Framework (MTDPF 2014–2016) is to expand opportunities for all and reinforce the foundation for the socio-economic transformation of the country, in partnership with the private sector (PwC, 2014). The MTDPF's objectives include:

- overall real GDP (including oil) growth of 8%;
- an inflation target of 9%;
- overall budget deficit of 6% of GDP by 2016; and
- gross international reserves to cover not less than 4 months of import goods and services by 2016.

Small and medium-sized enterprises (SME) account for the majority of private-sector activity in both advanced economies and emerging market economies. They are the main engine for creating jobs and developing value-added enterprises in many economic sectors. Globally, the SME sector's estimated contributions to employment and private sector output are 67 percent and 52 percent respectively (ACCA, 2010). SMEs make up over 90 percent of businesses worldwide.

The best way for any developing country to overcome poverty and inequality is to better integrate into the global economy through economic liberalization, deregulation and democratization. Crucial to this process is the development of a vibrant private sector, in which SMEs play a central part (Raynard and Forstater, 2002). In the global economy SMEs account for approximately 50 percent of local and national gross domestic product (GDP), 30 percent of export and 10 percent of foreign direct investment (FDI).

In Ghana, according to World Bank estimates, micro, small, and medium enterprises (MSMEs) contribute about 70 percent of Ghana's GDP and account more than 92 percent of enterprises (Kipnis, 2014). Data from the Social Security and National Insurance Trust (SSNIT) reflect that, by size classifications, the Ghanaian private sector is highly skewed, with an overwhelming majority (90%) of businesses employing less than 20 people, while only a small number of large-scale enterprises exist (Blekinge Institute of Technology, 2012). There are clear discrepancies between various resources that provide estimates of the size of the SME sector, due to a lack of reliable sources of (a) information on the size of the SME sector and (b) statistics to demonstrate growth rate, average personnel size, disaggregated gender data, and overall contribution of SMEs to the Ghanaian economy.

## Economy Overview

Region: Sub-Saharan Africa  
 Income category: Lower middle income  
 Population: 25,366,462  
 GNI per capita (US\$): 1,550  
 DB2014 rank: 67  
 DB2013 rank: 62  
 Change in rank: -5

Source: *Doing Business 2014 Ghana*

## SME SUPPORT SERVICES STRATEGY DEVELOPMENT PROCESS

The design of the SME support services strategy includes five main stages, the first three of which have now been completed as of the submission of this report: research, SME situation assessment, strategy development, stakeholder consultation, and final strategy development.

- (1) Identification and research:** this stage was comprised of thorough desk research in which various related reports and data were collected, analyzed, and assessed. This served as a basis to plan for the field mission in Accra and to assess the SME situation in Ghana.
- (2) SME situation assessment:** this stage covered field visit meetings with various SME support institutions, including GoG ministries and organizations, business associations, banks, non-governmental organizations (NGOs), microfinance institutions (MFIs), venture capital trust fund (VCTF), loan guarantees (Eximguaranty), and international development agencies. It included round-table discussions with the SME task force to get their inputs for strategy development, as well as a focus group discussion with a sample of SME owners to discuss their challenges, needs, and recommendations. The output of this stage was a field mission report that described the main mission activities and presented preliminary findings.
- (3) Strategy development:** this stage included in-depth data analysis of the fieldwork findings and collected reports, and further desk research on international best practice. The output of this stage is the present draft SME support services strategy<sup>1</sup>.
- (4) Consultation:** At this stage it is expected that the task force will conduct a series of workshops and meetings with all major SME stakeholders. The purpose of these meetings will be to build a common understanding, and to get the necessary support and commitments.
- (5) Final strategy development:** A finalization stage, during which comments and suggestions collected during the consultation stage will be incorporated into a final version of the strategy to be approved by USAID and GoG.

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<sup>1</sup> The consultant's mission ended at this stage, and there is a need to continue the strategy's development process.

# CHAPTER ONE – THE STATE OF SME IN GHANA

The lack of reliable data and statistics on the SME sector makes it difficult to draw an accurate picture of the sector's size and characteristics in Ghana. Despite that, the availability of some data at the microfinance institutions, and the World Bank's general estimated size of micro, small, medium, and large enterprises in emerging economies are helpful in estimating the size of SMEs in Ghana.

The purpose of defining SME is to recognize common characteristics of those enterprises of similar economic size and to assess their contribution to the economy and employment. It also helps agencies, for example, to assess their common challenges and needs in order to better plan for responsive interventions. In order to establish more accurate definitions, more information on SMEs in Ghana needs to be collected. The absence of reliable information on SMEs in Ghana makes it difficult to recommend specific definitions. If we choose, for example, to define SME as those enterprises with a maximum turnover of US\$1–2 million, is there any existing source that can give us an accurate number of such enterprises? To be able to get reliable information on SMEs, an effective system should be established to collect data on SMEs at different stages of their life cycle. Using a well-established database system, data could be gathered starting at the registration stage and updated regularly during the provision of services.

## DEFINITIONS OF MICRO, SMALL, AND MEDIUM-SIZED ENTERPRISES

International definitions of small and medium-sized enterprises (SME) tend to vary widely between various countries in the emerging economies and those in the most advanced economies. Most countries in emerging economies define a SME as an enterprise having a maximum number of employees anywhere from 20 to 100, while more advanced economies tend to set the cutoff for the maximum number of employees much higher, at 100 to 300. Annual sales turnover is another factor used to define SME. Furthermore, many countries define SME differently depending on the economic sector in question – services, industries, or trade, for example. The following table summarizes some of the definitions of SME used by multilateral institutions. All dollar values used throughout this report are USD.

**Table 1 – Definitions of SME used by multilateral institutions**

<b>Institution</b>	<b>Maximum # of employees</b>	<b>Maximum turnover (\$)</b>	<b>Maximum assets (\$)</b>
World Bank	300	15,000,000	15,000,000
MIF-IDB	100	3,000,000	none
African Development Bank	50	none	none
UNDP	200	none	none
IFC	300	15,000,000	none
USA-SBA	500	7,000,000	none

In Ghana and according to NBSSI, the following are the definitions of micro, small, and medium enterprises:

- **Micro enterprises:** those employing up to 5 employees, with fixed assets (excluding real estate) not exceeding \$10,000. A new definition currently under review by the GoG adds or modifies certain factors to incorporate, for example, a maximum turnover of \$25,000 and maximum assets of \$25,000.
- **Small enterprises:** those employing from 6 to 29 employees, with fixed assets of up to \$100,000. The revised definition increases the maximum number of employees to 30 from 29, and assets to \$1 million from \$100,000. It also recommends a turnover criterion of less than \$1 million.
- **Medium enterprises:** those employing from 30 to 99 employees, with fixed assets of up to \$1 million. The recently revised definition increases the maximum number of employees to 100 and the turnover and assets criteria to \$3 million each.

The other SME definition used by the VCTF is “an industry, project, undertaking or economic activity which employs not more than 100 persons and whose total asset base, excluding land and building, does not exceed the cedi equivalent of US\$1 million in value.”

The Korean Development Institute (KDI), in its study “Building the Foundations for the Development of SMEs in Ghana” (September 2008), found that over 80% of SMEs in Ghana reported having fewer than ten employees. This finding seems to justify the adoption of the proposed NBSSI definition of SME, which disaggregates micro, small, and medium enterprises, rather than grouping them all under SME as is the case with the definitions used by VCTF and other multinational organizations, such as USA-SBA. The proposed classifications of micro, small, and medium enterprises help policy makers to better understand the challenges and needs of each category and better target needed interventions. Furthermore, classifying small and medium enterprises separately from micro enterprises helps when designing strategies aimed at enhancing the competitiveness and value-added of the SME sector. The following table summarizes the proposed SME definitions.

**Table 2 – Proposed definitions of SME** (Hagan, 2013)

Criteria	Micro		Small		Medium	
	Existing	Revised	Existing	Revised	Existing	Revised
Employment	1–5	<b>1–5</b>	6–29	<b>6–30</b>	30–99	<b>31–100</b>
Turnover	N/A	<\$25,000	N/A	<\$1m	N/A	<\$3m
Assets	<\$10,000	<\$25,000	<\$100,000	<\$1m	<\$1m	<\$3m

## ESTIMATED SIZE OF THE SMALL AND MEDIUM ENTERPRISE (SME) SECTOR

According to the Ghana Microfinance Institution Network (GHAMFIN), the estimated number of micro enterprises is at least 1.7 million (GHAMFIN, 2014), accounting for 80 percent of all enterprises in Ghana. These enterprises employ at least 3.91 million people<sup>2</sup>, which represents approximately 36 percent of Ghana’s total labor force of 10,779,112 (World Bank data, 2012). The intensity of the micro enterprises sector in Ghana is significantly higher than the global average for emerging economies, which is 65–75% (World Bank, 2010). Figure 1 shows that only 1 percent of enterprises are large and/or multinational. Thus, it can be concluded that the SME sector represents around 19 percent of the

<sup>2</sup> Average employment per enterprise is 2.3 based on the 2013 World Bank micro enterprises survey findings.

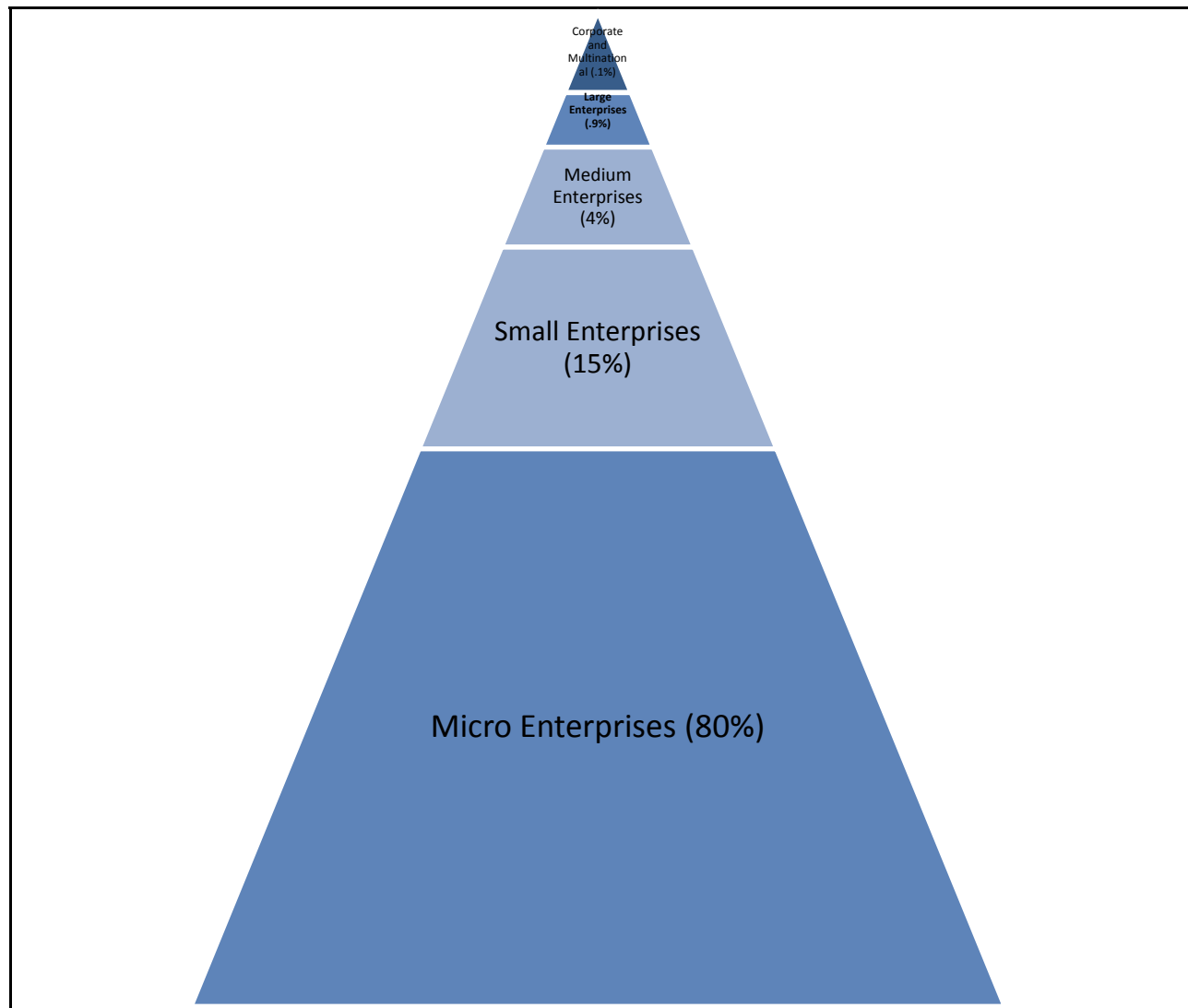
private sector in Ghana (approximately 402,800 enterprises)<sup>3</sup>, employing at least 4.45 million people, which represents approximately 41.3 percent of the total labor force.

**Table 3 – Estimated size of each segment of the SME sector in Ghana and its contribution to employment<sup>4</sup>**

SME category	Percentage	Estimated number of enterprises	Estimated employment
Micro enterprises	80%	1.7 million enterprises	3.91 million persons, representing 36% of the total labor force
Small enterprises	15%	318,000 enterprises	1.9 million persons, representing 17.7% of the total labor force
Medium enterprises	4%	84,800 enterprises	2.54 million persons, representing 23.6% of the total labor force

<sup>3</sup> If we estimate micro enterprises to be around 1.7 million and representing 80% of total enterprises in Ghana, then the estimated number of total enterprises is 2.12 million and SMEs will number around 402,800, representing 19%.

<sup>4</sup> The author's estimated figures based on desk and field research. Estimated employment number is based on an average employment of 2.3 persons for micro, 6 persons for small, and 30 persons for medium enterprises based on the NBSSI definition.



**Figure I – Breakdown of enterprises, by size, in Ghana’s private sector**

## MAIN CHARACTERISTICS OF MSMEs IN GHANA

The majority of micro, small, and medium enterprises (MSMEs) are micro enterprises, which are sole proprietorships that are in the informal economy. Annex Four includes a summary of the major economic sectors in Ghana, along with the estimated size of SME within each sector and the challenges and government development plans associated with each. The table covers the following economic sectors: cocoa processing; salt production; the oil palm industry; agribusiness and food processing; garment production; wood and wood products; building and construction; metals engineering and assembly; pharmaceutical; plastic and rubber; and handcrafts.

The World Bank Small and Medium Enterprise Surveys, conducted in 2013 by The Enterprise Analysis Unit (DECEA) and funded by GIZ, covered 218 registered firms with five or fewer employees. The survey included a representative sample from the industrial and services sectors and covered four geographical areas in the Accra region and outside Accra (Kumasi, Takoradi, and Tema). The second World Bank survey that was conducted in 2013 on SME firms (those with 5 to 100 employees) included 342 firms; 254 of these are small firms, with ten or fewer employees, and the remaining 88 are medium-

sized firms. Table 4 below summarizes the findings of the surveys and gives a good picture of the characteristics of SMEs in Ghana. The surveys looked at ten main factors:

1. Labor productivity or output per worker
2. Firms with female leadership, either as business owners or as top manager (gender issues)
3. Average working hours and enterprise aging
4. Innovation activity
5. Security
6. Power supply
7. Exporting
8. Technology licensed from foreign firms
9. Dealing with business regulations
10. Access to finance

The main findings of the surveys are:

- Average monthly sales per worker in formal micro enterprises is higher than in SMEs
- Labor productivity changes according to the gender of the top manager
- Percentage of female business owners is higher in the informal sector than in formal small and micro enterprises
- SMEs have longer average working hours than formal micro enterprises, but shorter hours than the informal sector
- SMEs are more likely to participate in innovation activities than micro enterprises
- SMEs have higher expenses and losses on security than micro enterprises
- Percentage of SMEs that depend on power supply from generators is higher than micro enterprises, and SMEs accordingly carry higher power costs
- SMEs have higher potential for export than micro enterprises
- SMEs are more likely to use foreign licensed technology than micro enterprises
- SMEs' managers spend more time resolving issues with government inspectors and auditors than micro enterprises
- Percentage of micro enterprises using credit from suppliers and micro finance institutions is much higher than SMEs
- Percentage of SMEs that have bank accounts is higher than formal micro enterprises.

The following table represents the author's analysis on the World Bank survey findings, which give a clear picture of MSMEs' main characteristics in Ghana.



**Table 4 – Characteristics of MSMEs in Ghana**

Main Characteristics	Formal Micro Enterprises	Small and Medium Enterprises	Enterprises in the Informal Sector
1. Labor productivity or output per worker	<ul style="list-style-type: none"> <li>• Average monthly sales per worker is higher (GHC 833)</li> <li>• Labor productivity is lower for firms with a female vs. male top manager in the full sample and also separately for the sample of manufacturing firms and service sector firms (average monthly sales per worker in female top manager enterprises is GHC 660, while average monthly sales per worker in male top manager enterprises is GHC 934)</li> </ul>	<ul style="list-style-type: none"> <li>• Average monthly sales per worker is less than micro (GHC 742)</li> <li>• Labor productivity is much higher in the service sector than the manufacturing sector</li> <li>• Labor productivity increases significantly with the level of employment</li> </ul>	<ul style="list-style-type: none"> <li>• Average monthly sales per worker is lower (GHC 400)</li> </ul>
2. Female firms	<ul style="list-style-type: none"> <li>• Female participation in ownership and management is lower among micro compared with informal firms</li> <li>• 23.9% of firms have female top manager</li> <li>• 29.5% of firms have one or more female owners</li> </ul>	<ul style="list-style-type: none"> <li>• 19.3% of firms have female top manager</li> <li>• 35.6% of firms have one or more female owners</li> </ul>	<ul style="list-style-type: none"> <li>• 62.4% of firms have female top manager</li> <li>• 64.8% of firms have one or more female owners</li> </ul>
3. Average working hours and enterprise aging	<ul style="list-style-type: none"> <li>• Micro firms are younger, have less experienced managers, and operate fewer hours in a given week (average micro firm in the sample is 10.6 years old)</li> <li>• Average number of working hours per week is 46.7</li> </ul>	<ul style="list-style-type: none"> <li>• Average SME firm in the sample is 15.2 years old</li> <li>• Average number of working hours per week is 54.6</li> </ul>	<ul style="list-style-type: none"> <li>• Average enterprise in the informal sector in the sample is 8.6 years old</li> <li>• Average number of working hours per week is 61.7</li> </ul>
4. Innovation activity	<ul style="list-style-type: none"> <li>• 9.2% of micro firms spent money on R&amp;D activity (in-house or contracted) during the three-year period prior to the survey</li> <li>• 54% introduced a new product or service; 53% introduced new or</li> </ul>	<ul style="list-style-type: none"> <li>• percentage of firms spending money on R&amp;D is much higher among SME than micro (25.2% vs. 9.2%)</li> <li>• 64.1% introduced a new product or service; 66.9% introduced new or significantly improved methods of</li> </ul>	N/A

	significantly improved methods of production or delivery; about 33% introduced new or significantly improved marketing methods; and 25.3% introduced new or significantly improved organizational or management methods	production or delivery; about 57% percent introduced new or significantly improved marketing methods; and 52% introduced new or significantly improved organizational or management methods	
5. Security	<ul style="list-style-type: none"> <li>• Micro firms suffer fewer losses due to crime but spend more on security (15% suffered losses due to crime during the year prior to the survey; 27.7% incurred security expenses)</li> <li>• Crime and security together resulted in losses of 2.34% of annual sales</li> </ul>	<ul style="list-style-type: none"> <li>• 21.4% of SMEs in the sample suffered losses due to crime</li> <li>• 54.7% of SMEs incurred security expenses</li> <li>• SME firms have higher expenses due to crime losses and security, equaling 3.69% of total annual sales</li> </ul>	<ul style="list-style-type: none"> <li>• Losses due to crime equal 4.09%, and expenses on security equal 0.55%, of annual sales</li> </ul>
6. Power supply	<ul style="list-style-type: none"> <li>• Micro firms seem to enjoy better power supply than informal and SME firms</li> <li>• Only 4.2% rely on generators, and 20% own or share generators</li> <li>• Losses due to power supply average about 7.4% of annual total sales</li> <li>• Micro firms are less likely to report electricity as their most important obstacle than SME firms</li> </ul>	<ul style="list-style-type: none"> <li>• Losses due to power supply equal 14 % of annual total sales</li> <li>• 10.3% rely heavily on generators, and 51.3% own or share generators</li> </ul>	<ul style="list-style-type: none"> <li>• Only 2% of the informal sector enterprises in the sample rely on generators</li> </ul>
7. Exporting	<ul style="list-style-type: none"> <li>• Only 3.2% of the sample firms have export activities</li> <li>• Less common among micro compared with SME firms</li> </ul>	<ul style="list-style-type: none"> <li>• 16.1% have export activities</li> <li>• Exporting activities exist in export-led industries</li> </ul>	N/A
8. Technology licensed from foreign firms	<ul style="list-style-type: none"> <li>• 14.3% of firms in the sample use technology licensed from foreign companies</li> <li>• 45% use imported inputs (which represent 39.1% of all material inputs used)</li> <li>• 1.4% of a typical micro firm's output is</li> </ul>	<ul style="list-style-type: none"> <li>• 17.6% use technology licensed from foreign companies</li> <li>• 58.7% use imported inputs (which represent 39.5% of all material inputs used)</li> <li>• 6.6% of a typical SME firm's output is exported</li> </ul>	N/A

	exported		
9. Dealing with business regulations	<ul style="list-style-type: none"> <li>• Less among micro compared with SME firms (2.5% of their time is spent dealing with government regulations)</li> <li>• Micro firms are less likely to have had a meeting with tax officials (4.8% of the sample)</li> </ul>	<ul style="list-style-type: none"> <li>• 6.7% of managers' time spent in dealing with government regulations</li> <li>• SMEs likely to have had a meeting with tax officials (11.1%)</li> </ul>	N/A
10. Access to finance	<ul style="list-style-type: none"> <li>• 92.2% have a bank account</li> <li>• Micro firms are more likely to use credit from suppliers, MFIs, and advances from customers for their working capital (57.4%)</li> <li>• Banks finance working capital (15.7%)</li> <li>• Firms have a business loan (18%)</li> </ul>	<ul style="list-style-type: none"> <li>• 97.1% have a bank account</li> <li>• 39.3% of the sample use credit from suppliers, MFIs, and advances from customers for their working capital</li> <li>• Banks finance working capital (26.9%)</li> <li>• Firms have a business loan (25.2%)</li> </ul>	<ul style="list-style-type: none"> <li>• 40.7% have a bank account</li> <li>• 11.2% of the sample use credit from suppliers, MFIs, and advances from customers for their working capital</li> <li>• Banks finance working capital (4% of the sample)</li> <li>• Firms have a business loan (10.4%)</li> </ul>

## CHALLENGES FACING SMES IN GHANA

The first step in developing a responsive strategy for SME development is recognizing the internal and external factors that affect their operations. A typical SME operator, in any economic sector or in a certain value chain, interacts with suppliers, customers, employees, service providers, inspectors, and many others on a daily basis. Furthermore, they have to manage all aspects of their business including sales, inventory, finance, marketing, and human resources. The World Bank survey findings (Table 4), and the conclusions of the field mission in Accra, both recommend classifying the challenges faced by SMEs into two main categories: challenges due to the overall business enabling environment, and challenges due to business operations management.

The first category, challenges that are related to the overall business enabling environment, can be further classified into two levels: (1) at the macro level, determined by government policies and regulations that establish the rules within which SMEs must operate; and (2) at the micro level, determined by the available local financial and non-financial service providers.

The second category of challenges is related to the business operator's capacity to manage a business. In most cases, business operators lack the necessary management skills to deal with various business management functions and to plan for expansion. The following summarizes the SMEs' challenges under the above-mentioned categories.

### *AT THE MACRO LEVEL:*

The World Bank report *Doing Business 2014* ranks Ghana 128th out of 189 economies in terms of the ease of starting a business. In 2012 Ghana increased the cost of registering a business by 70 percent (to 0.5 percent of the stated capital), and in 2014 Ghana made starting a business more difficult by requiring entrepreneurs to obtain a tax identification number prior to company incorporation. It is worth noting that Ghana stands in 67th position out of 189 economies in the overall ranking of how easy it is for a local entrepreneur to run a small to medium-sized business when complying with relevant regulations. The challenges faced SME at the macro level can be summarized as following

1. Lack of an enabling environment that recognizes the sector's challenges and formulates responsive policies,
2. Lack of incentive schemes such as tax exemption or an allocated share of the GoG's procurement budget
3. Educational system that does not incorporate entrepreneurship development into its various education levels
4. Lack of coordination between various government facilitators, at the levels of the ministry and the municipality, of support services to SMEs.

### *AT THE MICRO LEVEL:*

1. Lack of responsive financial products, such as long-term capital
2. High cost of available credit, and unresponsive loan terms and conditions
3. Lack of responsive and demand-driven business development services (BDS) that are tailored to SMEs' technical and managerial needs.

### *AT THE OPERATIONAL LEVEL:*

1. High cost of inputs, especially energy and imported materials
2. Lack of skilled labor and competitive productivity
3. Lack of efficient internal structures and corporate governance

4. Lack of adequate internal management and operational systems, such as operational plans, accounting, and record keeping.
5. Lack of management capability, as well as separation between ownership and management.
6. Low product quality and poor packaging
7. Lack of marketing knowledge and strategies
8. Lack of knowledge on international and domestic standard requirements for products and services
9. Lack of access to responsive credit facilities
10. Lack of innovation and knowledge-base operations
11. A high degree of competition from imported products (for SMEs selling domestically) and the global market (for SMEs selling internationally)
12. Difficulty in accessing effective BDS, technology, and the market (World Bank, *Doing Business* Ghana 2014).

Despite the fact that the GoG has initiated development programs and a number of supportive services to assist SMEs in overcoming the above-mentioned challenges, these programs were targeted more toward the micro enterprise sector. Those programs that actually targeted the SME sector have had insufficient capacity, resources, and outreach to make a tangible impact on SME sector growth. The GoG has been providing support services to SMEs for more than ten years, but only a small percentage of SMEs have benefitted.

## CHALLENGES FACING FEMALE-LED SMES

According to the International Finance Corporation (IFC), a significant improvement in gender equity in Ghana will improve national economic growth rates by an estimated 2.5 percent a year. The Global Gender Gap Report 2013 developed an index which benchmarks national gender gaps on economic, political, education, and health criteria. The report ranked Ghana as 76th in the world out of 136 surveyed countries in terms of its gender gap. Table 5 shows annual changes in the ranking; of particular note are the rankings since 2010, as Ghana's rank has declined from the 70th to the 76th position. Table 6 shows that Ghana ranks well for economic participation and opportunity (24th), but ranks closer to the bottom on educational attainment (111th), health (104th), and political empowerment (95th). These results highlight the facts that economic participation of women in Ghana is high due to their prevalence in low-skilled work, while large gender gaps remain in education and health.

**Table 5 – The Global Gender Gap Report 2013 – Ghana**

Year	2013	2012	2011	2010	2009	2008	2007	2006
Rank	76	71	70	70	80	77	63	58
Score	0.6811	0.6778	0.6811	0.6782	0.6704	0.6679	0.6725	0.6653

**Table 6 – Ranking category – The Global Gender Gap Report – Ghana**

Category	ECONOMIC PARTICIPATION AND OPPORTUNITY	EDUCATIONAL ATTAINMENT	HEALTH AND SURVIVAL	POLITICAL EMPOWERMENT
Rank	24	111	104	95
Score	0.7662	0.8970	0.9674	0.0937

The Women Entrepreneurs study conducted in 2008 by the Australian Graduate School of Entrepreneurship included a field survey on 241 women-owned SME firms (84 percent sole proprietorship and 16 percent joint ownership). The survey covered major business sectors: trading, services, agro-processing, manufacturing, textiles and fabrics, agriculture, education, and construction.

The study revealed that one of the major obstacles facing women's enterprises is access to finance: 97 percent of the respondents rated access to finance as a major challenge due to lack of collateral such as land and buildings<sup>5</sup>. Female business owners also gave high scores to the following challenges: management experience, 91 percent; getting enough customers, 47 percent; keeping customer contact, 72 percent; financial planning, 88 percent; hiring competent staff, 63 percent; and business or strategic planning, 86 percent.

According to the findings of another recent study on women-owned SMEs in Ghana (Kipnis, 2013), there are specific challenges facing women-owned SME firms<sup>6</sup>:

1. land tenure issues stemming from their treatment under existing land tenure customs,
2. low awareness of business laws,
3. lack of education and skills in financial transactions and sound business practices,
4. lack of risk-taking in transitioning from micro to small and medium-sized enterprises, and
5. lack of access to finance.

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<sup>5</sup> Dzisi, S. (2008). WOMEN ENTREPRENEURS IN SMALL AND MEDIUM ENTERPRISES (SMEs) IN GHANA. Victoria, Australia: Swinburne University of Technology.

<sup>6</sup> Kipnis, H. (2013). Financing Women-Owned SMEs in Private Education: A Case Study in Ghana. Washington, D.C.: The QED Group, LLC.

# CHAPTER TWO – SME BUSINESS ENABLING ENVIRONMENT

The Organization for Economic Cooperation and Development of the European Union (OECD) has set criteria to determine the relevance of government policies for creating a more conducive environment for SME growth. The following criteria are adapted from the ten principles of the Small Business Act (SBA), which identifies strong and weak points in policy design and implementation and is considered to be one of the most effective available assessment tools. The assessment is based on the methodology of the SME policy index, a set of policy indicators covering the following dimensions<sup>7</sup>, each of which will be covered in detail below.

1. Education and training for entrepreneurship, including women's entrepreneurship
2. Efficient bankruptcy procedures and a "second chance" for entrepreneurs
3. Institutional and regulatory framework for SME policy making
4. Operational environment for business creation
5. Supportive system for SMEs and public procurement
6. Access to finance for SMEs
7. Standards and technical regulations
8. Enterprise skills and innovation
9. SMEs in the green economy
10. Internationalizations of SMEs

## I. EDUCATION AND TRAINING FOR ENTREPRENEURSHIP, INCLUDING WOMEN'S ENTREPRENEURSHIP

Entrepreneurship study has become better represented in the curricula of some of the higher education institutions in Ghana. Topics such as financial planning, creativity, business start-up issues, marketing, business management, and business planning have taken their place as part of specialized entrepreneurship courses. However, most of these courses are taught in a strictly theoretical manner, with little or no practical work.

In the period from 2005 to 2010, a survey was conducted on 100 graduates who had undertaken both PBBA 302 Entrepreneurship and PBBA 413 Entrepreneurship and Innovation Management Courses at the University of Professional Studies, Accra (UPSA). The research evaluated the graduates' perceptions of the effect of entrepreneurial courses on the economic development of a nation through job creation. The results showed that 80 percent of the respondents perceived the entrepreneurship education they received at the university to be "very important," and 20 percent as "important," for economic development.

A large majority of respondents acknowledged that entrepreneurship in Ghana was in its preliminary stage. The study recommended that in order to improve entrepreneurship education for the country as a whole, there should be a national policy making the course mandatory in both public and private

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<sup>7</sup> "The assessment focuses on policy making rather than policy implementation". OECD. (2014). Implementation of the Small Business Act in the Middle East and North Africa. Paris, France: OECD.

institutions. The entrepreneurship course should be added to the curriculum of all business-related institutions, and should be run from the third year through the final year of all undergraduate programs. The study recommended that instructors use case studies to help students analyze problems pertaining to venture creation and management.

The Global Entrepreneurship Monitor report (GEM) provides a comprehensive view of entrepreneurship across the globe by measuring the attitudes of a population, and the activities and characteristics of individuals involved in various phases and types of entrepreneurial activity. Research teams in each participating economy administer an Adult Population Survey (APS) of at least 2,000 adults annually. Complementing the APS is a National Expert Survey (NES), which provides in-depth opinions from selected national experts on the factors that impact the nature and level of entrepreneurship in each economy.

The Total Early Stage Entrepreneurial Activity (TEA) rate is defined as the percentage of individuals in the working age population who are actively involved in business start-ups, either in the phase in advance of the birth of the firm or the phase spanning 42 months after the birth of the firm. The 2013 Global Entrepreneurship Monitor report (GEM) assigned Ghana an overall TEA rate of 25.8, with 23 percent of the adult male population and 28 percent of the adult female population actively involved in business start-ups. Such findings confirm that the percentage of female entrepreneurship is higher than male. The overall average TEA rate for sub-Saharan countries was 26.6, while the average for advanced economies ranged between 8 and 11.

Table 7 highlights the extensive entrepreneurship that exists in Ghana based on the GEM report. Ghana rated high with respect to perceived capabilities, entrepreneurship as a good career choice, status awarded to successful entrepreneurs, and media attention factors. As indicated in the GEM report, necessity motives can be impacted by economic conditions. The insufficient job opportunities in emerging economies force many people into creating a source of income via starting up their own businesses. This phenomenon is widespread in Ghana, as confirmed by the millions of micro enterprises and thousands of small and medium enterprises that exist.

The Graduate Business Support Scheme (GBSS) is a recent private-public sector support scheme aimed at equipping 10,000 unemployed graduates nationwide with business-focused skills, experiences and exposures to enhance their chances of employability. The scheme aims to provide sponsorship for acquisition of practical experience for the attainment of knowledge in international best practices and also to aid graduates to set up 100 trans-generational businesses in Ghana.

GBSS was established in collaboration with the Ministry of Employment and Social Welfare and the Graduate Business Support Scheme Limited (GBSSL). The scheme is supported by the Management Development and Productivity Institute (MDPI), Ministry of Finance, Ministry of Local Government and the Ministry of Youth and Sports.

*Source: Ghana government website.*



**Table 7 – Entrepreneurial Attitudes and Perception in the GEM Economies, 2013<sup>8</sup>**

Region	Perceived opportunities	Perceived capabilities	Fear of failure	Entrepreneurial intention	Entrepreneurship as good career choice	High status to successful entrepreneurs	Media attention to successful entrepreneurs
Angola	56.7	56.3	63.7	38.3	66.8	72.6	62.1
Botswana	65.9	67.4	18.6	59.2	80.7	83.7	85.6
Ghana	69.3	85.8	24.6	45.6	81.6	94.1	82.4
Malawi	78.9	89.5	15.1	66.7	N/A	N/A	N/A
Nigeria	84.7	87	16.3	46.8	81.2	61.9	76.5
South Africa	37.9	42.7	27.3	12.8	74	74.7	78.4
Uganda	81.1	83.8	15	60.7	88.3	95.3	87.5
Zambia	76.8	79.6	15.4	44.5	66.5	71.2	69
Average	68.9	74	24.5	46.8	77	79.1	77.4

## 2. EFFICIENT BANKRUPTCY PROCEDURES AND A “SECOND CHANCE” FOR ENTREPRENEURS

Efficient bankruptcy procedures are an important condition for facilitating businesses’ exit from and re-entry into the market. This criterion examines GoG actions toward implementing well-structured bankruptcy laws and simplifying bankruptcy procedures, and the government’s policies in identifying the right approach to supporting market re-entry of honest entrepreneurs who have previously failed in their business activities.

International research studies have proved that the investment share of GDP is higher in those countries that adopt highly efficient bankruptcy systems. The investment share of GDP is also positively associated with the degree of sophistication of a nation’s bankruptcy law (Succurro, 2010).

Ghana ranks 116th among global economies for the ease of resolving insolvency, far below more advanced economies such as the United Kingdom, ranked 7th, and even comparing unfavorably with neighboring countries such as Côte d’Ivoire in the 95th position (*Doing Business Ghana 2014*).

Policy recommendations are:

- Strengthen the monitoring of insolvency and bankruptcy cases, in order to better assess the efficiency of the legal and procedural framework
- Modernize bankruptcy laws and procedures and step up efforts to enhance their implementation
- Establish one-stop shops for insolvency procedures
- Establish training programs for judges
- Establish specialized courts and adopt international practices that are proven effective

<sup>8</sup> Distributed by geographic regions (percentage of population aged 18–64)

- Launch information campaigns to promote a “second chance” for entrepreneurs starting afresh, and assess the extent to which they face difficulties such as accessing bank credit (OECD, 2014).

### 3. INSTITUTIONAL AND REGULATORY FRAMEWORK FOR SME POLICY MAKING

The Ministry of Trade and Industry is considered to be the godfather of SME development in Ghana. The National Board for Small Scale Industries (NBSSI) is the apex governmental body housed under the Ministry of Trade and Industry for the promotion and development of the Micro and Small Enterprises (MSE) sector in Ghana. Based on Parliamentary Act 434, NBSSI aims to: create an enabling environment for small-scale enterprise development and development of an enterprise culture; facilitate MSEs’ access to credit and to BAS services; promote MSE sector associations; and facilitate access to credit for small enterprises.

The structure of NBSSI organizes its activities and operations into two main categories: (1) Operations and (2) Finance and Administration, with a third (Audit, Legal, and Public Relations) providing advisory services. The operational departments are: Policy Planning, Monitoring, and Evaluation (PPME); Investment and Credit (I & C); Entrepreneurship Development; and Women’s Enterprise Development (WED). The NBSSI Board of Directors is comprised of eight members representing three subcommittees: Finance, Technical, and Appointments and Promotions.

NBSSI provides its services through 170 Business Advisory Centers (BAC) covering 110 district capitals. The BACs provide local micro and small enterprises with information, training, counseling, access to market, and access to financial services. Each BAC has a team of 4–5 staff including business advisors, administration, and an office manager. Since the inception of the program, the total average number of clients served by each BAC is around 300 enterprises. NBSSI/BACs provide their services based on available financial resources, and they mainly target micro enterprises.

The SEEP Guide to Business Advisory Services identified seven main BAS categories: market access, input supply, technology and product development, training and technical assistance, infrastructure, policy/advocacy, and alternative financing mechanisms. Measuring the degree to which adapting these major BAS services to NBSSI/BAC indicates that many of these services have not yet been tapped into, either due to limited demand from the targeted SMEs segment or due to lack of capacity (financial and human resources). The current study’s field-mission findings and desk research analysis both indicate that NBSSI/BAC tends to target the micro enterprises segment more than small or medium enterprises. Micro enterprises tend to demand short-term interventions such as technical skills training and access to market and finance; SMEs, however, tend to require more strategic interventions such as product development, technology upgrading, long-term capital finance, and access to export markets.

In conclusion, the NBSSI institutional setup seems to be better equipped to respond to the micro enterprise sector’s needs, not to small and medium enterprises’ needs. To be able to effectively respond to SMEs’ various challenges and provide them with more efficient demand-driven strategic interventions, a different institutional setup should be considered. International experience indicates that providing strategic services to SMEs should be done using a businesslike approach. BAS services providers should be able to design and deliver responsive services and be able to interact with market dynamics. They need to apply more efficient and effective financial and technical models. As a public sector entity, NBSSI lacks the necessary human capacity, operational systems, and strategies to provide strategic services to SMEs.

The business advisory service mapping assessment conducted by the USAID-FinGAP project in 2013 highlighted the fact that the BAS market in Ghana is developing, and the SME market is ready for a BAS incentive system that is transactions-oriented, pays for performance (in the case of USAID-FinGAP this would encompass facilitating financing for the target SMEs), and requires beneficiaries to pay both at the beginning of the consultancy and upon successfully obtaining financing. In an effort to address some of the gender gaps in accessing financing, USAID-FinGAP plans to identify and include female BAS providers in its network. It is expected that those providers will provide specialized BAS for women-owned SMEs. The BAS assessment report also recommends also addressing issues of property rights at the policy level, developing less collateral-intensive financial products with banks and NBFIs, and providing more support earlier in their development to create more women-owned SMEs.

The policy formulation mechanism in Ghana seems not to be fully responsive to the challenges and needs of SMEs. As mentioned earlier, the World Bank report *Doing Business 2014* ranks Ghana 128th out of 189 economies in terms of the ease of starting a business. In 2012 Ghana increased the cost of registering a business by 70 percent (to 0.5 percent of the stated capital), and in 2014 Ghana made starting a business more difficult by requiring entrepreneurs to obtain a tax identification number prior to company incorporation. There is a need (a) to develop a policy formulation process that is more participatory and involves better consultation with the private sector, in order to allow SMEs to influence policy so that it is more responsive to their needs; and (b) to establish a Regulatory Impact Assessment system that can help in studying and flagging any new proposed policy impact on SMEs so that policy decision makers can take the necessary corrective actions.

#### 4. OPERATIONAL ENVIRONMENT FOR BUSINESS CREATION

The administrative procedures to create a business can be divided into three main phases: registration, notification, and compliance with licensing and permit requirements.

Regarding the indicator of ease of starting a business, Ghana (128<sup>th</sup> out of 189 countries) ranked lower than the regional average for sub-Saharan Countries (whose average position is 124<sup>th</sup> out of 189). Furthermore, in 2012 Ghana increased the cost of registering a business by 70 percent, and in 2014 it began requiring entrepreneurs to obtain a tax identification number prior to company incorporation.

There is a need to streamline the business registration process, and introducing an online registration system could be the entry point. The same database that holds registration data for SMEs could then provide viable information on entrepreneurs and SME characteristics (employment, business size, economic sector, gender and level of education of entrepreneurs, geographical distribution of SMEs, etc.).

#### 5. SUPPORT SYSTEM FOR SME AND PUBLIC PROCUREMENTS

In Ghana, the main SME support institutions are GoG ministries and organizations, business associations, banks, non-governmental organizations (NGOs), microfinance institutions (MFIs), Venture Capital Trust Fund (VCTF), loan guarantees, universities, and private business-consulting firms. The following table summarizes the main SME support institutions and highlights the key issues identified based on the current study's field mission and desk research. Table 8 indicates that most of the supportive services are geared towards micro enterprises, and those supportive services that are targeting SMEs are challenged by limited resources and reach.

**Table 8 – Summary of main SME support institutions in Ghana**

Institution	Support services	Main clients	Main issues
National Board for Small Scale Industries (NBSSI)	Services offered by the NBSSI/BACs include technical and business management training, business counseling, and facilitating access to market and finance. The services are of minimal charge to the micro enterprises, with the charge being a contribution equivalent to 20% of the total service cost.	Micro enterprises	<ul style="list-style-type: none"> <li>Limited financial resources</li> <li>Limited human resource capacity</li> <li>Lack of accredited program for qualified business advisors</li> </ul>
The Export Development and Investment Fund (EDAIF)	Short-term loans up to 2 years, medium-term loans up to 5 years, and long-term loans up to 10 years. Loans are processed by partner banks, who apply their own appraisal systems. The loans provided to SME through the fund are at lower interest rates; the current rate is 12.5%.	Small and medium enterprises	<ul style="list-style-type: none"> <li>Focus only on export-led industries</li> <li>Work through financial intermediaries who apply their own credit appraisal systems</li> </ul>
Venture Capital Trust Fund (VCTF)	Long-term finance and BAS services; 47 SME in healthcare, agribusiness, and hospitality sectors have received capital funds from VCTF since its inception in 2006. The average size of fund per enterprise is between US\$29,000 and US\$500,000. Three enterprises have already graduated from the scheme. Start-up businesses represent 60% of the total supported enterprises.	Small and medium enterprises	<ul style="list-style-type: none"> <li>Limited resources and reach (47 enterprises since inception in 2006)</li> <li>Lack of qualified fund managers</li> </ul>
Ghana Alternative Market (GAX)	Provision of technical assistance to SME seeking long-term capital to help them list themselves on GAX. Listing requirements include a minimum stated capital of GHS 250,000, a minimum of 25% of the total number of issued shares, and at least 20 public shareholders.	Small and medium enterprises	<ul style="list-style-type: none"> <li>Very limited outreach (three enterprises in the listing process since inception in 2012)</li> </ul>
The Association of Ghana Industries (AGI)	Policy advocacy, research, business service information generation and dissemination (Business Barometer), and organization of industry exhibitions.	Small enterprises	<ul style="list-style-type: none"> <li>Limited financial and human resources</li> </ul>
The Private Enterprise Federation (PEF)	The main services provided to association members include advocacy campaigns, consultancy services, project management, research, and publications.	Small and medium enterprises	<ul style="list-style-type: none"> <li>Limited financial and human resources</li> </ul>
Association for Small Scale Industries (ASSI)	The association provides capacity-building and advocacy to its 26 member associations in cooperation with Council for Vocational Association, NBSSI,	Micro enterprises	<ul style="list-style-type: none"> <li>Good outreach to micro enterprises</li> <li>Limited financial resources</li> </ul>

	BUSAC, and GIZ.		<ul style="list-style-type: none"> <li>Limited institutional capacity</li> </ul>
The Empretec Ghana Foundation (EGF)	Business development services (mainly entrepreneurship development training; 6 days long), business management, business linkages, counseling, and business consulting services.	Small and medium enterprises	<ul style="list-style-type: none"> <li>Depends mainly on donor funding</li> <li>Limited outreach</li> </ul>
EcoBank – SME Department	SME loans for working capital (up to one year) and for capital finance (up to three years). The average interest rate is between 25.9 and 29%.	Small and medium enterprises	<ul style="list-style-type: none"> <li>Loan terms and conditions (collateral requirements)</li> <li>Absent of responsive long-term loans</li> </ul>
Eximguaranty	Provision of loan guarantees, with the maximum per guarantee being 75% of the loan size. Guarantee processing fees range between 3.5 and 5.5%.	Small and medium enterprises	<ul style="list-style-type: none"> <li>Limited outreach</li> <li>Work through intermediary financial institutions (banks)</li> </ul>
Rural Enterprises Programme (REP)	Overseen by the Ministry of Trade and Industry, the \$185 million REP has three core components: access to BAS through a district-based Business Advisory Center (BAC); technology transfer through technical skills training and demonstrations, mainly delivered by Rural Technology Facilities (RTFs); and access of micro enterprises to rural finance through linkages with Participating Financial Institutions (PFIs), including Rural Community Banks (RCBs) and their ARB Apex.	Micro enterprises	The first two phases of REP successfully supported enterprise development in their respective districts, providing low-interest on-lending facilities to rural banks that facilitated access to finance for micro enterprises.
MFIs	Provision of short-term loans, with the loan size commonly ranging between \$50 and \$1000. Interest rates range between 4% and 6% per month. More than 90% of loans are used for working capital.	Micro enterprises	<ul style="list-style-type: none"> <li>Good outreach</li> <li>Expensive finance</li> <li>90% of loans are short-term loans for working capital</li> </ul>

## Policy recommendations include:

- Improving access to information on services for enterprises, which is currently scattered across different sources. The creation of a single SME web portal and better institutional coordination can improve the quality and availability of such information.
- Establishing business development support services in a comprehensive way, including tailor-made support services for SMEs
- Initiating new policies and regulations to facilitate SME access to public procurement by effectively enforcing regulations on late payments, cutting tenders into lots, implementing e-procurement systems, and allocating a percentage of total government procurements to SMEs
- Strengthening VCTF capacity and allocating the necessary financial resources to increase its outreach

- Introducing new legislation and incentive systems to encourage banks to allocate a percentage of their total lending portfolio to SMEs
- Creating a new, specialized fund for financing SMEs in selected economic sectors.

## 6. ACCESS TO FINANCE FOR SMES

There are 26 universal banks in Ghana and over 50 rural banks spread all over the country<sup>9</sup>. Bank loans should be the main source of external finance for SMEs, yet access to bank credit remains very limited in Ghana due to collateral requirements (115% of loan size) and cost of funding (29%), and in the absence of responsive long-term loan products.

Other reasons for the exclusion of SMEs from access to bank loans are: bank capital and associated expectations of shareholder returns, risk management needs, prudential requirements of the regulator, and SMEs' internal structural weaknesses (PwC, 2013).

The percentage of Ghanaian SMEs that access credit from a commercial bank is low, at around 13 percent of small enterprises and 37 percent of medium firms. This is line with the average for Sub-Saharan Africa (17 percent and 33 respectively) but is lower than for high-income OECD countries, where about 45 percent of firms have bank credit (A2F Consulting, 2012).

Furthermore, alternative sources of finance (leasing and equity capital) are still marginal and their outreach is very limited. VCTF has provided equity finance to only 47 SMEs since its inception in 2006.

Specialized microfinance institutions (MFIs) have played an important role in increasing financial inclusion in Ghana over the last decade. In 2011, the Bank of Ghana (BoG) established regulations that require some MFIs to register and others to become licensed, depending on the types of financial services they provide. The government has been providing capacity-building and logistics to the microfinance sector under some bilateral and multilateral programs. Currently, the Rural and Agricultural Finance Programme (RAFiP) supports rural and community banks (RCBs) and other categories of MFIs, as well as their apex organizations. GHAMFIN was formed in 1998 as a network of all types of microfinance institutions in Ghana, including service providers (as associate members). Microfinance institutions in Ghana have succeeded in providing short-term loans and savings products to a massive number of clients, and they have more than seven million active clients in their present portfolio.

The microfinance sector is regulated on a four-tier basis by the BoG. Under this arrangement, all microfinance providers are required to be licensed, either under the BoG Act or the Non-Bank Financial Institutions Act, 2008 (Act 673), and must fulfill various requirements with respect to minimum capital, business form, and permissible activities (CDC Consult Ltd., 2013). There are 1481 registered MFIs in Ghana, divided into four tiers based on their capital.

Policy recommendations for increasing access to finance for SMEs include:

- Strengthening legislation on secured transactions and creditor rights; improving the reliability and access to registries of movable assets
- Strengthening public and private credit bureaus
- Upgrading the regulatory framework and promoting the development of alternative financial products, such as leasing and equity funds, including business angel networks for firms with high growth potential, seed funds for innovative enterprises, and equity financing for more established SMEs

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<sup>9</sup> Banks are classified as universal banks because they have met the minimum capital requirement for effective operation of GHS60 million.

- Enhancing the SME owners' financial knowledge to help them effectively assess their financing needs and better understand the financial institutions' lending requirements
- Establishing a specialized SME funding facility or SME bank to provide demand-driven financial services in response to the particular financial needs of specific economic sectors.

## 7. STANDARDS AND TECHNICAL REGULATIONS

According to a policy note published by the World Bank in 2012, there is still no agreement at the ECOWAS level on the precise structure of the common external tariff. It also indicates that the existing scheme for regional free trade faces significant challenges. Under the ETLS, preferential tariffs for intra-regional trade are set at zero percent, and products should not face any quantitative restriction. The ETLS covers all products of community origin, and aims to ensure free movement of goods and persons within ECOWAS. Despite that, the ETLS still faces a substantial number of challenges and lacks implementation.

Ghana has great potential for expanding its share of global trade, the national export strategy report suggests, with the following industries having the highest potential for competing in international markets: shea and shea products, textiles and clothing, horticultural products, wood manufactures, and processed cocoa products (Stamp, 2008).

Policy recommendations include: simplifying trading procedures at the border; establishing registration requirements for products to meet national standards; and, especially, registration under the ETLS. This last process would mean reviewing existing laws and taxes, and increasing collaboration between standards and other agencies over the medium term.

## 8. ENTERPRISE SKILLS AND INNOVATION

NBSSI, with its network of 170 business advisory centers covering all of Ghana, is generally considered to be the only institution in Ghana providing well-established and specialized business support services. These support services are geared to supporting the needs of micro enterprises, and due to its present limited human capacity NBSSI cannot respond to SMEs' technical and managerial capacity-development needs. The outcomes of the field mission in Ghana, and the focus group discussions with representatives of SMEs, revealed that businesses owners' limited managerial capacity is one of the major challenges facing SME growth. Despite the fact that there are thousands of private BAS services providers in Ghana, as indicated in the FinGAP BAS assessment report, their scope of services is mainly limited to supporting businesses to have access to finance through developing business plans and feasibility studies. There are few accredited business advisors capable of providing effective strategic and technical advisory services to the SME sector. There is a need to initiate responsive policies aimed at increasing SME competitiveness and growth through the provision of responsive business advisory services to SMEs.

The SME sector in Ghana has great potential to flourish if enterprises get the opportunity to receive responsive business-advisory services. Successful interventions should start with a comprehensive needs assessment and business diagnosis on SMEs in selected economic sectors. The interventions should be tailored to respond to identified needs, and be provided through qualified business advisors. There is an immediate need to resolve the shortage in qualified business-advisory services providers on the supply side. On the demand side, SME owners should realize their limited capacities through an effective business-assessment process that encompasses all aspects of business including production, marketing, management, and human resources. As mentioned before, access to finance is not the only challenge to SMEs' growth, but also the SMEs owners' capacity to manage and operate a successful business, as both of these factors carry equal weight. The World Bank SME enterprise survey in Ghana indicated that

SMEs are more likely to use technology and to have some innovation activities than micro enterprises. SME owners need to have access to information regarding new technologies, production lines, market opportunities, and more. There is a need to build an e-services portal for SMEs in Ghana that can provide them with knowledge and information needed to improve their businesses.

## 9. SMES IN THE GREEN ECONOMY

Principle 9 of the Small Business Act assesses the approaches of governments toward fostering green growth and strengthening the absorptive capacities of SMEs. It assesses current strategies for greening concepts, the availability of expertise on environmental issues to SMEs, the use of environmental management system (EMS) and standards, and governments' efforts to promote EMS. SMEs will be able to benefit from green growth opportunities if they adjust their business models accordingly (OECD, 2012).

UNEP's Green Economy Scoping Study (GESS) identified the electricity sub-sector in Ghana as an important driver of the national economy, with implications for poverty reduction and environmental protection. In September 2013, the Government of Ghana, The Energy Centre (TEC), and the United Nations Environment Program (UNEP) launched the Green Economy and Trade Opportunities Project (GE-TOP). The GE-TOP project aims to foster solar energy exports (electricity and manufactured components) from Ghana to other members of the West African Power Pool (WAPP). The GE-TOP project is implemented by UNEP, in partnership with The Energy Center (TEC) (Moltke, 2014). The project's implementation approach and plans should take into consideration SMEs' technical and financial needs in order to get them interested and equipped to compete in this prosperous new economic sector.

## 10. INTERNATIONALIZATION OF SMES

The Export Development and Investment Fund (EDAIF), established by Act 582 on October 4, 2000, provides financial resources for the development and promotion of Ghana's export trade. Act 582 was amended by the Export Development and Agricultural Investment Fund Act 823 on October 25, 2001 to include the provision of financial resources for the development and promotion of agriculture relating to agro-processing and the agro-processing industry (EDAIF, 2012).

The fund is managed by a thirteen-member board and supported by the executive management team. The fund provides grants for trade missions, business associations, and the free zone and provides loans to SMEs through its 28 partner banks. Since July 2002 and up to July 2012, EDAIF had provided financial services to 800 SMEs, with a total fund of GHS 650,000,000 (Mr. Frank Obeng, Manager, Export Development and Promotion, personal communication, August 2014).

### **The Ghana Export Promotion Council:**

An autonomous body set up in 1969, the Council works under the aegis of the Ministry of Trade and Industry. The Council has a wide range of activities:

- Create an awareness about export in the country
- Identify products suitable for export and locate appropriate markets for them
- Organize exhibitions and trade fairs in and outside the country to create a goodwill for products made in Ghana
- Provide Ghanaian exporters with all the required help, so that they can enter competitive markets abroad
- Organization market missions to facilitate meetings between exporters and prospective buyers from abroad
- Offer advice to exporters on export marketing
- Train exporters and staff from export institutions to enhance their export marketing skills
- Recommend to the government the assistance and/or incentives that Ghanaian exporters need
- Provide businessmen and exporters travelling overseas from Ghana with relevant information and knowledge about target markets

Source: Official website of Ghana Export Promotion Council – "www.gepcghana.com"



SME support services include short-term loans up to 2 years, medium-term loans up to 5 years, and long-term loans up to 10 years. Loans are processed by partner banks, who apply their own appraisal system. The loans provided to SMEs through the fund are at lower interest rates; the current rate is 12.5 percent.

Despite the existence of such supportive schemes, their reach to SMEs is still limited, either due to the challenge of securing funds through banks who impose their own unresponsive credit conditions, or due to limited resources. In order to achieve tangible social and economic impact, there is a need to design more responsive support programs capable of providing comprehensive services to targeted SMEs in selected economic sectors.

## SME POLICY ASSESSMENT CONCLUSION

For each of the ten SBA policy dimensions described in the above analysis, Table 9 gives a score from 1 (lack of specific policy or measure) to 5 (full compliance with good policy practice). Table 9, and Figure 2 below, clearly show that Ghana has partially adopted some policies for enhancing the SME enabling environment. In order to provide a more enabling environment for SME growth in Ghana, it is necessary to consider these standards and constantly measure the current situation against them. This is an important exercise to determine the extent of progress towards creating an atmosphere that is conducive to the growth of the SME sector.

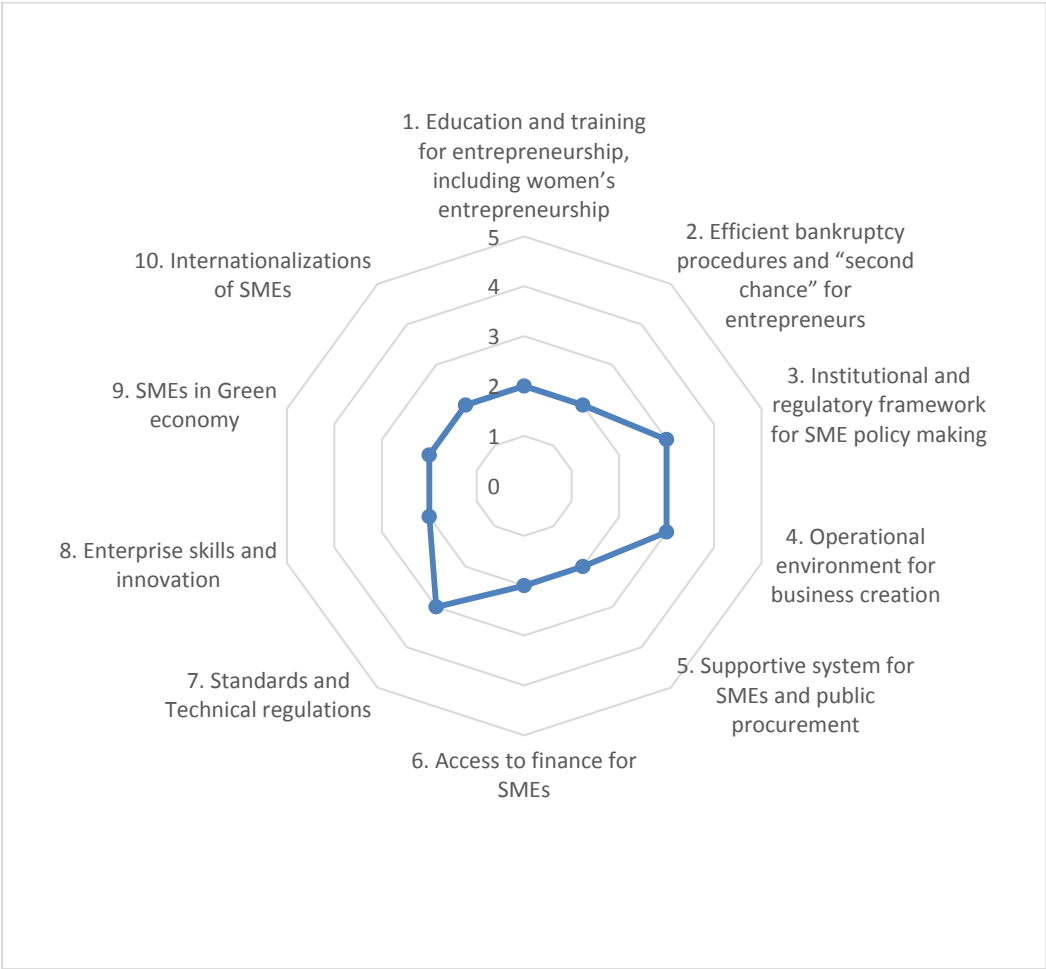
**Table 9 – SME enabling environment in Ghana<sup>10</sup>**

Criteria/Score	1	2	3	4	5
1. Education and training for entrepreneurship, including women's entrepreneurship		X			
2. Efficient bankruptcy procedures and a "second chance" for entrepreneurs		X			
3. Institutional and regulatory framework for SME policy making			X		
4. Operational environment for business creation			X		
5. Supportive system for SME and public procurement		X			
6. Access to finance for SME		X			
7. Standards and technical regulations			X		
8. Enterprise skills and innovation		X			

<sup>10</sup> Assessment tool taken and adapted from OECD. (2012). SME policy index, Eastern partner countries: Progress in the implementation of the Small Business Act for Europe. Paris, France: OECD.

9. SME in the green economy		X			
10. Internationalizations of SME		X			

Figure 2 – SBA Dimensions in Ghana – Assessment of business enabling environment



# CHAPTER THREE – RATIONALE FOR SME DEVELOPMENT STRATEGY

## THE GOVERNMENT OF GHANA'S EXISTING PLANS FOR SME DEVELOPMENT

The Government of Ghana (GoG) recognizes the importance of the SME sector to the economy and has been active in reforming policies to create a more enabling environment for private sector growth<sup>11</sup>. The key outputs of Ghana's Private Sector Development Strategy, Phase I (PSDS I, 2004–2009) were to: improve competence and capacity at firm level; improve efficiency and accessibility of national markets; increase competitiveness of Ghanaian products in global and regional markets; and strengthen the GoG's private sector policy formulation, implementation, monitoring, and evaluation.

Despite that, PSDS I contributed only minimally to improving the private sector's competitiveness and productivity, especially among small and medium enterprises, because it did not address the other determinants of private sector competitiveness. These determinants include the efficiency of business support markets (e.g., finance, business development, and information) and the firms' own competences to innovate or adopt business models, technologies, and management methods in order to grow (Nemo and Hellyer, 2012).

The medium-term national development framework (GSGDA, 2010–2013) described its key policy objectives as follows: improve private sector competitiveness domestically and globally; reform the financial sector; attract private capital from both domestic and international sources; pursue and expand market access; make the private sector work for Ghana and Ghanaians; ensure the health, safety, and economic interest of consumers; and expand opportunities for job creation.

In addition, the key principles under Ghana's international agreements include: commitments to the operation of the market system and increasing integration with the global economy; private sector-led growth with the state in the role of facilitator, rather than an active participant in markets; investment by government in infrastructure for private sector development; and the development of a modern, facilitative pro-business public service through the public sector.

The Private Sector Development Strategy, Phase II (PSDS II, 2010–2015) includes five output results and strategic actions summarized as follows:

- I. Developing an investment climate that broadens investment and encourages greater enterprise development and innovation. This will be achieved through reducing the cost and risk of doing business, accelerating the rate of infrastructure development, and making the financial sector more efficient and relevant to the needs of the private sector.

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<sup>11</sup> Examples: In 2009 and 2010 the requirement to register employment vacancies and the seal requirement were abolished, reducing the number of business startup procedures, and in 2010 registration procedures were streamlined via the creation of a customer services desk at the one-stop shop.

2. Creating a more supportive basis for transformation into a diversified efficiency-driven economy through support for industries and the promotion of innovation;
3. Increasing productivity, especially amongst small businesses, by building stronger supply chains and BASs, and strengthening clusters;
4. Providing stronger incentives for creating formal jobs by making the education system more responsive to private sector needs and increasing labor market efficiency;
5. Increasing economic opportunity for the poor, especially in underdeveloped regions, by improving the investment climate, increasing the productivity of agriculture, and promoting non-farm enterprises and employment.

## SWOT ANALYSIS OF THE GHANAIAN SME SECTOR

### STRENGTHS

#### *AT THE MACRO LEVEL:*

- a. Political and economic stability
- b. Adequate growth of GDP
- c. Improvement in the legal system (commercial court)
- d. Improvement in the financial system infrastructure
- e. Existing private sector development strategy
- f. High Total Early Stage Entrepreneurial Activity (TEA). The 2013 Global Entrepreneurship Monitor report (GEM) assigned Ghana an overall TEA rate of 25.8, with 23% of the adult male population and 28% of the adult female population involved in start-ups.
- g. Flexible labor market with lower labor costs
- h. The global gender gap report 2013 ranks Ghana fairly high (24<sup>th</sup>) for women's economic participation and opportunity

#### *AT THE MICRO LEVEL:*

- a. Existing financial and non-financial services providers
- b. Well-established microfinance sector
- c. Various existing pilots and working models for provision of services to SME

#### *AT THE SME OPERATIONAL LEVEL:*

- a. Large pool of micro and small enterprises that have potential to grow, especially among informal enterprises and women-owned firms
- b. Existing successful business models within the SME sector

### WEAKNESSES

#### *AT THE MACRO LEVEL:*

- a. Lack of reliable data and statistics on SME sector
- b. Lack of conducive enabling environment that recognizes the sector's challenges and formulates responsive policies
- c. Lack of incentive schemes, such as tax exemption and allocated share of government procurement
- d. Educational system does not incorporate entrepreneurship development into its various education levels
- e. Lack of coordination between various government facilitators, at the levels of the ministry and the municipality, of support services to SMEs
- f. Absence of a clear strategic framework for the development of SME
- g. Absence of unified and clearly endorsed SME definitions
- h. Large informal sector

- i. Dealing with construction permits: Ghana ranked 159th of 189 (World Bank –*Doing Business* 2014)
- j. Land tenure issues for women, stemming from women’s treatment under existing land tenure customs

*AT THE MICRO LEVEL:*

- a. Limited range of financial products available to SME
- b. High cost of finance
- c. Unresponsive credit conditions, especially for women-owned enterprises due to collateral requirements
- d. Limited business development services

*AT THE SME OPERATIONAL LEVEL:*

- a. Lack of SME managerial capacity and corporate governance
- b. Lack of SME knowledge about quality assurance and international standards
- c. SME operators have limited formal education
- d. Lack of access to and use of new technologies
- e. Lack of access to market information
- f. High business operating costs due to power and energy prices

**OPPORTUNITIES**

- a. Growing market for Ghanaian products and services (domestically and internationally)
- b. Existence of large base of natural resources
- c. Entrepreneurship culture within Ghanaian population
- d. Potential financial and technical support from international community
- e. Increasing attention on the importance of SME sector among top leaders and policy makers
- f. Increased support from government and international development agencies for private sector development, with special focus on SMEs
- g. According to the International Finance Corporation (IFC), a significant improvement in gender equity in Ghana will increase national economic growth rates by an estimated 2.5 percent a year

**THREATS**

- a. Competition, both from imported products and in export markets
- b. Ghanaian tendency of not passing their business to their children via succession plans
- c. Negative changes in macroeconomic policies leading to depreciation of currency
- d. Sudden drops in the prices of major exported commodities

## **RATIONALE FOR STRATEGIC APPROACH TO SME DEVELOPMENT IN GHANA**

Micro, small, and medium-sized enterprises are the backbone of most global emerging and advanced economies, and Ghana is not an exception. In Ghana, small and medium enterprises are estimated to represent more than 19 percent of total private sector economic activity, while micro enterprises represent 80 percent. The SME sector provides employment to around 41.3 percent of the total labor force, more than the micro enterprises sector, which provides employment to around 36 percent. Excessive competition, rapid technological advances, market dynamics, and consumer desires mean that SMEs have to be innovative and ready to successfully manage the challenges of the global, regional, and

domestic markets. The lessons learned from the international experience in SME development can be summarized as follows:

1. Malaysia's success in achieving high sustained growth and rapid development can be summed up as "getting the basics right" through long-term planning, visionary leadership, instituting sound development policies, good economic management, promoting private investment, developing human resources, and providing good physical and institutional infrastructure (EBI, 2011);
2. The importance of developing a specialized governmental body to take on the overall responsibilities of SME sector development;
3. Leadership. Part of providing leadership is "walking the talk" and being available. SBA top management confirmed the importance of getting involved with staff and maintaining a high-caliber workforce, both of which have contributed to moving the SBA agency forward (Tom Fox, 2012);
4. The importance of developing effective national SME strategies;
5. The importance of developing responsive financial services tailored to the various financial product needs of SMEs<sup>12</sup>.

The existing SME initiatives and support programs are scattered and have limited reach. Most of these programs are geared more towards supporting the micro enterprises sector. SMEs need more responsive financial products and strategic business development services, which are not being made available to them. The overall business enabling environment, the challenges facing SMEs, and the shortage of responsive supporting services all point to the importance of initiating a SME development strategy.

Furthermore, there is a pressing need to develop a national SME strategy that can address all the identified challenges using a more holistic approach. Partnership for Growth (PFG) and the recently developed action plan (JCAP) have identified access to finance as one of the major obstacles facing private sector and SME growth. To support SMEs to have better access to finance, several other interconnected factors must also be addressed. These factors are tightly integrated with the challenges to financial accessibility and include: SME owners' limited managerial capacity, the level of existing adequate knowledge-based enterprises, technology used, standardizations knowledge, financial management, and other considerations.

An analysis of all the challenges facing SMEs suggests the importance of developing a national SME strategy that can apply a more holistic approach in implementing interventions, provide more comprehensive services, and remove all the identified obstacles. The SME strategy should provide a clear vision, mission, and strategic goals for SME development in Ghana. The following are some of the economic and social gains expected from the implementation of a SME development strategy in Ghana.

## ECONOMIC BENEFITS

- The growth of SMEs has a positive effect on GDP growth since output, value-added, export revenues, and profits will increase.
- The growth of SMEs increases government revenue from trade and taxation (provided that SMEs are taxed appropriately).
- Also, a strong SME sector helps to diversify the economy, which in turn builds the country's resilience to global shocks and capital flow fluctuations in particular sectors (Shafiq, 2014).

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<sup>12</sup> More details on the international experience in SME development can be found in Annex III.

- Supporting SME growth supports the buildup of systemic productive capacities which will help to absorb productive resources at all levels of the economy and contribute to the creation of resilient economic systems in which small and large firms are interlinked.
- SMEs provide the foundation for long-term growth dynamics and the transition towards larger enterprises, as they are the seedbed for entrepreneurship development and innovation.

## SOCIAL BENEFITS

- SME development helps to create new jobs: the minimum average employment by new small and medium enterprises is estimated at 18 jobs. An annual SME growth rate of just 2% can result in the creation of at least 145,000 new jobs annually<sup>13</sup>.
- The success of the national coordinating authority in achieving SME-strategy goals and objectives will help in developing an enabling environment for SME growth, which will result in more than 725,000 new jobs by 2020.
- Supporting the SME sector will ensure the fulfillment of Ghana's domestic market needs of commodities and services via domestic enterprises, in many cases supplementing or reducing the need for imported ones. This will also have an economic impact by enhancing the trade balance and increasing investment.
- Improving women's positions in society and their contributions to the economy. The World Bank enterprise survey that was conducted in 2013 on a sample of 342 SMEs indicated that the percentage of SMEs that have female owners is 35.6 percent. Only 19.3 percent of the sampled enterprises had female top managers. The survey also revealed that the proportion of females among temporary and permanent workers is significantly higher for firms with a female vs. male top manager. The SME strategy aims at targeting selected economic sectors such as textile, agribusinesses, and handcrafts. Such economic sectors involve mainly women, but they often have marginalized roles as workers or administration. The planned responsive interventions will support women to compete for leadership positions and to become business owners and top managers.
- Growth in SMEs is key to the transition from agriculture-led to industrial economies, as they provide simple opportunities for value-added activities which can generate sustainable livelihoods for women and others economically active poor.

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<sup>13</sup> 2% of 402,800 SME multiplied by a minimum average of 18 jobs/enterprise

# CHAPTER FOUR – SME SUPPORT SERVICES STRATEGY

The SME support services strategy aims to strengthen the Ghanaian SME sector and increase its social and economic impact. The strategy defines the medium-term targets for SME sector development and includes specific goals, strategic directions, and objectives.

The strategy includes four main pillars:

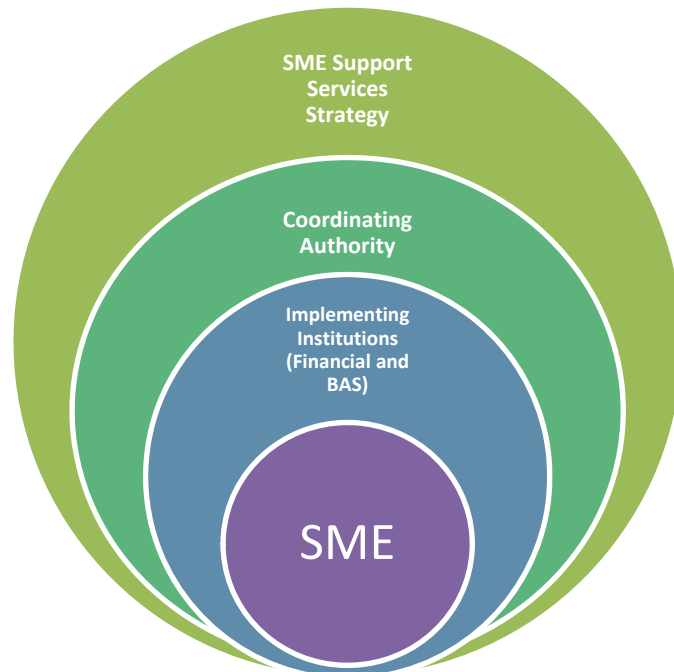
- Pillar I – sectorial focus on the most prosperous economic sector with the highest potential for growth;
- Pillar II – comprehensive supportive and responsive financial and non-financial services;
- Pillar III – institutions capacity building;
- Pillar IV – enabling environment.

It also includes the establishment of a SME coordinating authority whose main roles will be to oversee the implementation of the SME strategy, facilitate coordination between the implementing institutions, monitor progress towards achieving the strategic targets, provide capacity building to the implementing institutions, and formulate and recommend policies for a SME-enabling environment.

The coordinating authority will include a SME-specialized policy function that will help ensure consistency in government policy and a high level of representation of the SME sector in policy formulation. The strategy includes strategic goals aimed at enhancing SME competitiveness in specific selected economic sectors that have the highest potential for growth and recognized comparative advantages.

Most existing SME support institutions, including Venture Capital, Eximguaranty, NBSSI, EDAIF, and GSE, will be responsible for implementing the strategy's various components based on their mandates. The coordinating authority will be responsible for facilitating the provision of the required financial and technical resources for implementing the SMEs' strategic plans. The coordinating authority will initiate development programs and new funding facilities that will require the setup of new specialized institutions. The coordinating authority will facilitate the establishment of such new institutions to be able to engage in implementing the strategy plans.





**Figure 3 – SME Strategy Framework**

The strategy should be approved by the government after a comprehensive consultation process involving all stakeholders.

### Vision Statement

Ghanaian SMEs are the engine for economic growth, and are the main source for employment for all economically active citizens, both female and male.

### Mission statement

Responsive, sustainable, and effective support aimed at developing a competitive SME sector through the provision of comprehensive financial and non-financial services that are facilitated by an efficient national coordinating authority.

### SME Support Services Strategy – Main Targets

- Annual support services provisions (financial and non-financial) to 1000 SME business owners, with equal opportunities to women-owned enterprises
- At least 2 percent annual growth rate of new businesses (startups)
- Create 750,000 new jobs, with equal opportunities for women
- Increase SME export revenues by at least 50%
- Increase SME contribution to GDP by at least 50%.

## STRATEGIC GOAL I: ENHANCED NATIONAL CAPACITY TO DEVELOP, IMPLEMENT, MONITOR, AND EVALUATE SME STRATEGY AND PROGRAMS

### Strategic objective I.1: Improved national institutional setup for SME development in Ghana.

#### Strategies:

The Small Business Administration (SBA) in the United States of America, KOSGEB in Turkey, and SME Corp in Malaysia are effective working models for establishing an independent public sector body for SME development. These bodies are coordinated closely with the Ministry of Industry and Trade, Ministry of Finance, and many other SME stakeholders, and are granted certain policy-making, enforcement, and delegation powers in accordance with endorsed legislation or a decree. An SME authority serves as a lead agency which defines SME needs, develops SME-enabling policies, and oversees and coordinates the provision of responsive and demand-driven services and programs to the sector.

Well-structured coordination can be achieved through: (a) a coordinating authority governed by a highly representative and high-caliber board; (b) the support of a secretariat which ensures effective coordination, achievement of strategic objectives, and the responsiveness and sustainability of the provided financial and non-financial services; (c) a well-established public–private consultation mechanism; and (d) an effective sustainable funding mechanism. The following strategic actions are aimed at establishing a Ghanaian SME coordinating authority in accordance with international best practice and experience.

1. **Establish new national SME coordinating authority.** The SME coordinating authority will be responsible for leading the implementation of the SME development strategy at the national level, while collaborating with selected implementing institutions which will be working directly with SMEs at the micro level. The next chapter explains in further detail the proposed organizational structure, roles, and responsibilities.
2. **Strengthen the capacity of the new SME coordinating authority to effectively manage the SME development strategy in Ghana.** The new coordinating authority will need an intensive capacity-building plan to be able to effectively manage the SME strategy. The capacity-building plan should include efficient corporate governance, management operating systems, bylaws, and regulations.
3. **Establishment of sustainable funding mechanism.** The coordinating authority will need both an operational fund and a support systems fund. The support systems fund will provide implementing institutions with the required financial resources to implement the target SME programs. The operational fund will cover the national coordinating authority's expenses.

#### Expected Output Results:

- 1.1.1 New SME support services coordinating authority established, equipped with human and financial resources, functioning, and managing the implementation of the SME strategy
- 1.1.2 Completed capacity-building plans, bylaws, and operating management system guide
- 1.1.3 Completed and endorsed sustainable fund mechanism

Key Performance Indicators:

1. SME perceptions towards the new SME coordinating authority
2. Level of SME satisfaction with the coordinating authority's support services and performance
3. Annual growth rate of the number of SME served
4. Annual growth rate of SME contribution to GDP
5. Level of sustainability of services provision

Strategic objective 1.2: Enhanced policy formulation process that is more conducive to the development of a strong SME sector in Ghana.

Strategies:

1. **Improve SME policy formulation system.** The SME coordinating authority will incorporate a policy formulation function. This function will be responsible for establishing a Regulatory Impact Assessment (RIA) system. This system should help the coordinating authority to address SME concerns in all proposed economic legislation before any item is endorsed and enacted.
2. **Develop public-private sector consultation mechanisms:** Well-developed public-private sector consultation mechanisms are essential for ensuring the quality of the overall SME-related policy. The SME policy unit that will be formed under the coordinating authority should be responsible for promoting effective synergies and networks between SME owners/managers and policy makers. It will develop initiatives and programs aimed at empowering SME owners to advocate for their own rights and concerns. The developed programs will be implemented by participating related institutions.

Expected Output Results:

- 1.2.1 Established and operating SME policy formulation function under the SME coordinating authority
- 1.2.2 Developed and tested RIA system
- 1.2.3 Established new initiatives and programs aimed at empowering SMEs to have adequate representation in SME-related policy formulations

Key Performance Indicators:

1. Level of new policies' impact on SME sector
2. Level of SME satisfaction with the new policies
3. Number of new initiatives and programs implemented
4. Number of SME participating in policy formulation and advocacy events
5. Number of SME issues that are incorporated into revised policies

## STRATEGIC GOAL 2: IMPROVED SME CONTRIBUTION TO SUSTAINABLE ECONOMIC GROWTH, AND TO JOB CREATION IN GHANA

### Strategic Objective 2.1: Enhanced enabling business environment that is more conducive and responsive to the needs of startups and existing SMEs

#### Strategies

The World Bank's Ease of Doing Business rankings for Ghana and the SME situations assessment covered in Chapter Two of this report clearly identify the legal barriers confronting startups and existing businesses in Ghana. To create a more enabling environment, these barriers need to be removed. Furthermore, policy makers formulating new policies and regulations need to be more sensitive and aware of their potential impact on the SME sector. This strategic objective will also contribute to the achievement of the first output result from Ghana's Private Sector Development Strategy, Phase II: "Developing an investment climate that broadens investment and encourages greater enterprise development and innovation."

1. **Assess the overall regulatory environment:** Comprehensive review of all laws and regulations governing the SME sector in Ghana. The results should clearly identify all regulatory bottlenecks.
2. **Streamline the business registration process and introduce e-governance business registration services:** Introduce an online business registration system and simplify the registration process to improve its efficiency. Reduce registration costs or eliminate the fees requirement on stated capital, especially for SMEs working in the selected economic sectors, as an incentive for encouraging business startups and formality.
3. **Increased responsiveness of the policy framework in order to meet the needs of SME.** As mentioned under strategic objective 1.2, the new SME coordinating authority should include a specialized department for SME policy formulation. The SME policy department should monitor all new related proposed policies, study their impact on SME growth, and provide recommendations.

#### Expected Output Results:

- 2.1.1 Completed study report includes all regulatory barriers and recommended policy reforms
- 2.1.2 Web-based business registration platform designed and endorsed by related authorities
- 2.1.3 Study report of recommended and selected economic sectors
- 2.1.4 Policy formulation department under the new coordinating authority equipped with efficient operating systems and high-caliber human resources, and ready to function

#### Performance Indicators:

1. Level of SME satisfaction with the new business registration legislation system
2. Annual growth rate of new registered businesses
3. Number of newly proposed and accepted SME policies
4. Percentage of SME moving from the informal sector to the formal sector

## Strategic objective 2.2: Improved SME competitiveness in selected economic sectors

### Strategies:

Globalization might impose limitations on the government's freedom to set their policy responses, but their role in developing appropriate regulation, incentives, and institutional learning is vital in encouraging SMEs to compete and to implement the strategic actions required to effectively meet the globalization challenge (OECD, 2004). Ghana's national export strategy report suggests that the following sectors have the highest potential for competing in international markets: shea and shea products, textiles and clothing, horticultural products, wood manufactures, and processed cocoa products (Stamp, 2008).

Competitiveness within the industrial sector is hindered by the high cost of capital and power. The factories established within the free zone enjoy several incentives, while those manufacturing for the domestic market are not receiving any support despite the fact that they generate jobs. The meetings conducted as part of this study with officials from the Ministry of Industry and Trade revealed that the main potential economic sectors for growth are textiles, agribusiness, and nontraditional exports, such as handcrafts. There should be further discussion among SME task force members and subject matter experts to select the most prosperous economic sectors in Ghana. The strategy should facilitate the provision of responsive support services to SMEs within these selected economic sectors and their value chains. This strategic objective will contribute to the achievement of the second output result from Ghana's Private Sector Development Strategy, Phase II: "Creating a more supportive basis for transformation into a diversified efficiency-driven economy by supporting industries and promoting innovation."

1. **Develop incentive systems for startup business and export-led enterprises in selected economic sectors.** Identify economic sectors that have potential for growth, and that provide more opportunities for participation by women, either as business owner or employee, such as agribusiness, textiles, and handcrafts. Develop incentive systems to attract and support new startup businesses as they begin to invest in these sectors. Incentive systems might include tax holidays and reductions, access to more flexible loans, and tailored BAS services.
2. **Improve research and development services for SMEs.** On the demand side, SMEs might lack the capacity to manage research and development functions on their products. On the supply side, scientific institutions and universities have the capacity to provide the required development facilities for SMEs through their available human resources and physical infrastructure (such as lab facilities and equipment). Introduce new initiatives and an efficient system aimed at building synergies between universities, scientific and research institutions, and the SME sector. Such initiatives should result in the formulation of specific projects and interventions aimed at building sustainable interactions between the SME sector and the identified research institutions. Enhance the capacity of research and innovation institutions through tailored institutional capacity-building programs.
3. **Facilitate SME access to technology and reliable information systems.** Knowledge-based enterprises have more comparative advantages with which to compete in the global market. Ghanaian SMEs need to have better access to reliable information regarding market trends and technology upgrades. Under the new SME coordinating authority there will be a specialized department that functions as an SME information warehouse. The information department will be responsible for collecting all relevant market and technology information for

specific economic sectors/industries and making it available on a web portal. The information department will introduce initiatives that support and encourage SMEs to use electronic commerce, and internet-based access to operational tools such as accounting and inventory-management software systems, in order to enhance their business management capabilities.

4. **Integrate support services to SMEs into selected economic sectors.** Establish sectorial focus unit within the Venture Capital Trust Fund (VCTF) structure to be responsible for providing targeted and tailored financial and non-financial services to SMEs in selected economic sectors. The sector selection process should be gender sensitive, and priority should be given to economic sectors that have potential for more participation by women. Provide the new established unit with the required human and financial resources to play such a role. The resource requirements should include a financial facility fund, operational and management systems, and selected high-caliber professional fund managers.

#### Expected Output Results:

- 2.2.1 Completed study of proposed incentive systems for SMEs in selected economic sectors
- 2.2.2 Completed project proposals for research and development linkages
- 2.2.3 Sustainable linkage system developed under the management of the new coordinating authority
- 2.2.4 Completed SME database development project
- 2.2.5 SME portal developed and maintenance system in place under the management of the new coordinating authority
- 2.2.6 New management unit developed under the VCTF and equipped with required human and financial resources

#### Performance Indicators:

1. Annual growth rate of SMEs in selected economic sectors, and contributions to GDP
2. Number of linkage agreements established between research institutions and targeted SMEs
3. Number of SME fund applications processed
4. Number of SME fund applications accepted
5. Number of SME that have received equity funds
6. Number of SME that have received technical and management services
7. Level of SME satisfaction with the provided services
8. Annual growth rate of new SMEs in the selected economic sectors
9. Annual growth rate of new export-led businesses
10. Annual growth rate of export revenue in selected economic sectors

### Strategic objective 2.3: Increased entrepreneurship education by incorporating entrepreneurship training into all levels of educational system

#### Strategies

Entrepreneurship in Ghana is in its introductory stage. To improve entrepreneurship education, a national policy should be established making an entrepreneurship course mandatory for both public and private institutions. The entrepreneurship course should be added to the curriculum of all business-related institutions, and should be run from the third year through the final year of all undergraduate programs. This strategic objective will contribute to the achievement of the fourth output result of Ghana's Private Sector Development Strategy, Phase II: "Providing greater incentives for creating formal jobs by making the education system more responsive to private sector needs and increasing labor market efficiency."

1. **Facilitate the integration of entrepreneurship programs, such as Know About Business (KAB-ILO), into undergraduate education and vocational and technical training.** This strategic direction will build on ILO initiatives indicated in their Ghana Decent Work Country Program II (2011–2014), under strategies for Outcome 1.3: “A culture of entrepreneurship will be encouraged by integrating available tools like Know About Business (KAB) into school syllabi at all levels of education.”
2. **Enhance Ghana’s national capacity for monitoring and measuring the attitudes, activities, and characteristics of individuals who participate in various phases of entrepreneurship.** To add this function to the information department of the coordinating authority, the information department might explore alliance-building with specialized international groups such as Global Entrepreneurship Monitor (GEM) to get the necessary technical support. This function will help in assessing the impact of entrepreneurship education on enhancing the overall entrepreneurship culture and on increasing the number of business startups.

Expected Output Results:

- 2.3.1 Selected entrepreneurship curricula developed and endorsed by government authorities
- 2.3.2 Policies and related decrees developed and endorsed by related government authorities
- 2.3.3 Selected universities and vocational training institutes have integrated entrepreneurship programs into their curricula
- 2.3.4 Information department under the new SME coordinating authority equipped with the required operational systems and human resources to monitor entrepreneurship development in Ghana
- 2.3.5 Information department’s monitoring capacity enhanced through its cooperation with GEM authorities

Performance Indicators:

1. Growth rate of number of universities and training institutions that have integrated entrepreneurship education into their curricula
2. Growth rate of the number of students taking entrepreneurship courses
3. Level of graduates’ satisfaction with entrepreneurship courses
4. Growth rate of the number of new startups resulting from entrepreneurship education
5. Growth rate of the international Total Early Stage Entrepreneurial Activity (TEA) rate

## **STRATEGIC GOAL 3: IMPROVED ACCESS TO FINANCIAL AND NON-FINANCIAL SERVICES THAT ARE DEMAND-DRIVEN, SUSTAINABLE, AND AFFORDABLE FOR BOTH FEMALE AND MALE SME OWNERS IN SELECTED ECONOMIC SECTORS**

### Strategic objective 3.1: Enhanced capacity of private and governmental institutions to provide demand-driven and sustainable services to SMEs.

Strategies

The existing SME supportive financial and non-financial services infrastructure is geared mainly toward serving the micro enterprise sector. Those dedicated institutions and programs that aim to support SMEs have limited reach and impact due to limited human and financial capacity.

1. **Institutional capacity-development programs for selected governmental and non-governmental institutions:** The capacity-building department of the new coordinating authority should develop a capacity development plan for selected targeted institutions that have active support programs for SME development. The capacity development plan will include: institutions capacity assessment, technical and financial support needed, and implementation plans. The selected institutions should include VCTF, Eximguaranty, PEF, AGI, EDAIF, and others.
2. **Pilot a targeted initiative for supporting SME in selected economic sectors:** The new coordinating authority, in partnership with selected institutions, should design pilot programs to support SMEs in selected economic sectors. These pilot programs should be aimed at increasing the competitiveness of a target number of SMEs through tailored financial and non-financial services. Recommended pilot initiatives might include: technical support for enhancing product quality to meet international standards, a subsidized fund to upgrade lines of production, and grants to apply for quality assurance certifications such as ISO and HACCP<sup>14</sup>. These specialized services can be provided by qualified private BAS firms; alternatively, selected Ghanaian business associations could be supported to develop business advisory units and begin piloting the provision of these services using a business-style approach.

### Output Results

- 3.1.1 Completed institutional capacity-building plans for selected governmental and non-governmental support institutions
- 3.1.2 Selected institutions have received technical and financial support to implement interventions for supporting SMEs in selected sectors
- 3.1.3 Proposals and plans developed for targeted and tailored financial services programs
- 3.1.3 250–300 SMEs have received responsive and demand-driven technical and financial support during the pilot phase

### Key Performance Indicators

1. Progress in reaching targets of capacity-building plans
2. Level of satisfaction of participating institutions' staff with the received technical support
3. Percentage growth of the participating institutions' performance in serving SME sector
4. Percentage utilization of allocated funds by the recipient participating institutions
5. Number of SME that have received technical services
6. Number of SME that have received financial services
7. Level of satisfaction of SMEs with services provided
8. Change in SME performance resulting from the provided services

## Strategic objective 3.2: Improved, sustainable, responsive and demand-driven SME support services in Ghana

### Strategies

All recent studies and surveys on SMEs conducted by various specialized institutions have highlighted access to finance as the major obstacle facing Ghanaian SMEs. The existing financial services are expensive, their terms and conditions are not responsive to SMEs, and there is a lack of long-term capital financial products. This strategic objective is aimed at enhancing the provision of services in Ghana through the following strategic actions.

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<sup>14</sup> Hazard Analysis and Critical Control Point (HACCP)



1. **Develop as a pilot project a specialized SME funding facility with the potential to be developed into a specialized SME Bank.** The SME facility fund's main objective is to overcome the major constraint facing SMEs in Ghana, which is access to finance. The fund will provide responsive, long-term credit facilities to SMEs in selected economic sectors. The coordinating authority will develop the SME facility fund in collaboration with specialized technical support firms, and the fund will be managed by a specialized executive secretariat under the supervision of the SME coordinating authority. The fund's bylaws and regulations should define its operational mechanism. The proposed total budget for creating this fund facility is US\$150 million, to be allocated gradually on an annual basis (refer to the proposed budget for more details).

The administrative mechanism of this specialized SME fund facility will include a highly qualified credit appraisal team to verify the feasibility of the macro- and microeconomic implications of borrowers' enterprises. The potential criteria for SME funding should include:

- a) Adequate level of return on investment
  - b) A suitable added value
  - c) Replacement of imports by local products
  - d) Expectation of potential linkages and integration
  - e) Creation of employment opportunities
  - f) Exploitation of Ghana's natural resources and raw materials.
  - g) The level of transferred technology.
2. **Develop an infrastructure of business development services that is capable of providing strategic and operational interventions to Ghana's SME.** The new coordinating authority, in collaboration with business associations such as AGI and PEF, should develop specialized BAS centers distributed across those major cities that have the highest SME intensity in selected economic sectors. The BAS centers should be equipped with high-caliber specialized staff and consultants. The BAS centers will provide tailored technical and managerial services in quality assurance, standardization requirements, readiness for global markets, corporate governance, financial planning, and other specializations. As mentioned earlier, such services should be provided to SMEs on a fees-for-services basis. Initially there will be a need to subsidize the provision of services in order to build trust and create the necessary demand for the services. Once SMEs appreciate the value of these services, the provision of services will be financially sustainable and driven fully by market dynamics.

### Expected Output Results

- 3.2.1 Completed operational and management guide for the Ghanaian SME fund facility
- 3.2.2 Established and functioning SME fund management secretariat
- 3.2.3 Completed operational and management guide for SME BAS services
- 3.2.4 Established and functioning BAS centers in selected cities

### Key Performance Indicators

1. Number of SME that have received responsive financial services
2. Number of SME that have received responsive BAS services
3. Number of SME that have applied international quality assurance standards
4. Growth rate of SME contributions to international trade
5. Level of SME satisfaction with services provided
6. Growth rate of SMEs sales as a result of the provided interventions
7. Changes in SME performance resulting from the provided services
8. Growth rate of SME contribution to GDP in selected economic sectors

**TABLE 10 – SUMMARY OF THE STRATEGIC GOALS, OBJECTIVES, AND STRATEGIES**

<b>Strategic Goals</b>	<b>Objectives</b>	<b>Strategies</b>	<b>Expected output results</b>	<b>Performance Indicators</b>
Strategic Goal 1: Enhanced national capacity to develop, implement, monitor, and evaluate SME development strategies and programs	Strategic Objective 1.1: Improved national institutional setup for SME development in Ghana	<ol style="list-style-type: none"> <li>1. Establish new national coordinating authority for SME development</li> <li>2. Strengthen the capacity of the new SME coordinating authority to effectively manage the SME development strategy in Ghana</li> <li>3. Establish a sustainable funding mechanism</li> </ol>	<p>1.1.1 New SME support services coordinating authority established, equipped with human and financial resources, functioning, and managing the implementation of the SME strategy</p> <p>1.1.2 Completed capacity-building plans, bylaws, and operating management system guide</p> <p>1.1.3 Completed and endorsed sustainable fund mechanism</p>	<ol style="list-style-type: none"> <li>1. SME perceptions towards the new SME coordinating authority</li> <li>2. Level of SME satisfaction with the coordinating authority's support services and performance</li> <li>3. Annual growth rate of the number of SME served</li> <li>4. Annual growth rate of SME contribution to GDP</li> <li>5. Level of sustainability of services provision</li> </ol>
	Strategic Objective 1.2: Enhanced policy formulation process that is more conducive to the development of a strong SME sector in Ghana	<ol style="list-style-type: none"> <li>1. Improve SME policy formulation system.</li> <li>2. Develop public-private sector consultation mechanisms</li> </ol>	<p>1.2.1 Established and operating SME policy formulation function under the SME coordinating authority</p> <p>1.2.2 Developed and tested RIA system</p> <p>1.2.3 Established new initiatives and programs aimed at empowering SME to have adequate representation in SME-related policy formulations</p>	<ol style="list-style-type: none"> <li>1. Level of new policies' impact on SME sector</li> <li>2. Level of SME satisfaction with the new policies</li> <li>3. Number of new initiatives and programs implemented</li> <li>4. Number of SME participating in policy formulation and advocacy events</li> <li>5. Number of SME issues that are incorporated into revised policies</li> </ol>
Strategic Goal 2: Improved SME contribution to sustainable economic growth, and to job creation in Ghana	Strategic Objective 2.1: Enhanced enabling business environment that is more conducive and responsive to the needs of startups and existing small and	<ol style="list-style-type: none"> <li>1. Assess the overall regulatory environment</li> <li>2. Streamline business registration process and introduce e-governance business registration services</li> <li>3. Increase responsiveness of the policy framework to</li> </ol>	<p>2.1.1 Completed study report includes all regulatory barriers and recommended policy reforms</p> <p>2.1.2 Web-based business registration platform designed and endorsed by related authorities</p>	<ol style="list-style-type: none"> <li>1. Level of SME satisfaction with the new legislation system</li> <li>2. Annual growth rate of new registered businesses</li> <li>3. Number of newly proposed and accepted SME policies</li> <li>4. Percentage of SME moving from the informal sector to the formal sector</li> </ol>

	medium enterprises	meet the needs of SME	<p>2.1.3 Study report of recommended and selected economic sectors</p> <p>2.1.4 Policy formulation department of the new coordinating authority equipped with operating systems and human resources, and ready to function.</p>	
	Strategic Objective 2.2: Improved SME competitiveness in selected economic sectors	<ol style="list-style-type: none"> <li>1. Develop incentive systems for startup business and export-led enterprises in selected economic sectors</li> <li>2. Improve research and development services for SME</li> <li>3. Facilitate SME access to technology and reliable information systems</li> <li>4. Integrate support services to SME into selected economic sectors</li> </ol>	<p>2.2.1 Completed study of proposed incentive systems for SME in selected economic sectors</p> <p>2.2.2 Completed project proposals for research and development linkages</p> <p>2.2.3 Sustainable linkage system developed under the management of the new coordinating authority</p> <p>2.2.4 Completed SME database development project</p> <p>2.2.5 SME portal developed and maintenance system in place under the management of the new coordinating authority</p> <p>2.2.6 New management unit developed under the VCTF and equipped with required human and financial resources.</p>	<ol style="list-style-type: none"> <li>1. Annual growth rate of SME in selected economic sectors, and contributions to GDP</li> <li>2. Number of linkage agreements established between research institutions and targeted SME</li> <li>3. Number of SME fund applications processed</li> <li>4. Number of SME fund applications accepted</li> <li>5. Number of SME that have received equity funds</li> <li>6. Number of SME that have received technical and management services</li> <li>7. Level of SME satisfaction with the provided services</li> <li>8. Annual growth rate of new SME in the selected economic sectors</li> <li>9. Annual growth rate of new export-led businesses</li> <li>10. Annual growth rate of export revenue in selected economic sectors</li> </ol>
	Strategic Objective 2.3: Increased entrepreneurship education by incorporating entrepreneurship	<ol style="list-style-type: none"> <li>1. Facilitate the integration of entrepreneurship programs, such as Know About Business (KAB-ILO), into undergraduate education, and vocational and technical</li> </ol>	<p>2.3.1 Selected entrepreneurship curricula developed and endorsed by government authorities</p> <p>2.3.2 Policies and related</p>	<ol style="list-style-type: none"> <li>1. Growth rate of number of universities and training institutions that have integrated entrepreneurship education into their curricula</li> <li>2. Growth rate of the number of students taking entrepreneurship</li> </ol>

	training into all levels of educational system	<p>2. Enhance Ghana’s national capacity for monitoring and measuring the attitudes, activities, and characteristics of individuals who participate in various phases of entrepreneurship</p>	<p>decrees developed and endorsed by related government authorities</p> <p>2.3.3 Selected universities and vocational training institutes have integrated entrepreneurship programs in their curricula</p> <p>2.3.4 Information department under the new SME coordinating authority equipped with the required operational systems and human resources to monitor entrepreneurship development in Ghana</p> <p>2.3.5 Information department’s monitoring capacity enhanced through its cooperation with GEM authorities</p>	<p>3. Level of graduates’ satisfactions with entrepreneurship courses</p> <p>4. Growth rate of the number of new startups resulting from entrepreneurship education</p> <p>5. Growth rate of the international Total Early Stage Entrepreneurial Activity (TEA) rate</p>
Strategic Goal 3: Improved access to financial and non-financial services that are demand-driven, sustainable and affordable for both female and male SME owners in selected economic sectors	Strategic Objective 3.1: Enhanced capacity of private and governmental institutions to provide demand-driven and sustainable services to SME	<p>1. Institutional capacity-development programs for selected governmental and non-governmental institutions</p> <p>2. Pilot a targeted initiative for supporting SME in selected economic sectors</p>	<p>3.1.1 Completed institutional capacity-building plans for selected governmental and non-governmental supportive institutions</p> <p>3.1.2 Selected institutions have received technical and financial support to implement interventions for supporting SME in selected sectors</p> <p>3.1.3 Proposals and plans developed for targeted and tailored financial services programs</p> <p>3.1.4 250–300 SME have received responsive and demand-driven technical and</p>	<p>1. Progress in reaching targets of capacity-building plans</p> <p>2. Level of satisfaction of participating institutions’ staff with the received technical support</p> <p>3. Percentage growth of the participating institutions’ performance in serving SME sector</p> <p>4. Percentage utilization of allocated funds by the recipient participating institutions</p> <p>5. Number of SME that have received technical services</p> <p>6. Number of SME that have received financial services</p> <p>7. Level of satisfaction of SME with services provided</p> <p>8. Change in SME performance resulting from the provided services</p>

			financial support during the pilot phase	
	Strategic Objective 3.2: Improved, sustainable, responsive and demand-driven SME support services in Ghana	<ol style="list-style-type: none"> <li>1. Develop as a pilot project a specialized SME fund with the potential to be developed into specialized SME Bank</li> <li>2. Develop an infrastructure of business development services that is capable of providing strategic and operational interventions to Ghana's SME</li> </ol>	<ol style="list-style-type: none"> <li>3.2.1 Completed operational and management guide for the Ghanaian SME fund facility</li> <li>3.2.2 Established and functioning SME fund management secretariat</li> <li>3.2.3 Completed operational and management guide for SME BAS services</li> <li>3.2.4 Established and functioning BAS centers in selected cities</li> </ol>	<ol style="list-style-type: none"> <li>1. Number of SME that have received responsive financial services</li> <li>2. Number of SME that have received responsive BAS services</li> <li>3. Number of SME that have applied international quality assurance standards</li> <li>4. Growth rate of SME contributions to international trade</li> <li>5. Level of SME satisfaction with services provided</li> <li>6. Growth rate of SME's sales as a result of the provided interventions</li> <li>7. Changes in SME performance resulting from the provided services</li> <li>8. Growth rate of SME contribution to GDP in selected economic sectors</li> </ol>

# CHAPTER FIVE – STRUCTURE OF THE SME COORDINATING AUTHORITY

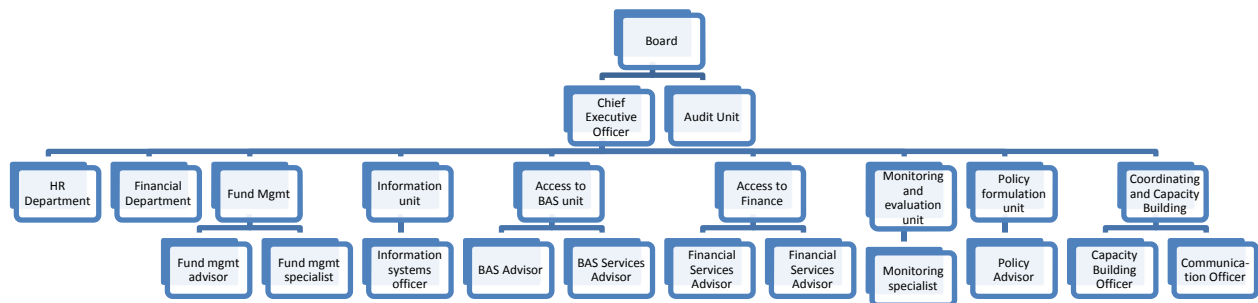
The proposed main roles of the SME coordinating authority are:

- a) to oversee the implementation of the SME strategy
- b) to facilitate coordination between the implementing institutions
- c) to monitor progress toward achieving the SME strategy's targets
- d) to facilitate provision of institutional capacity-building services to the implementing institutions
- e) to facilitate the development of policies that encourage SME sector growth
- f) to develop and maintain a reliable database for SME in Ghana
- g) to support the sustainability plans of those institutions providing responsive services to SME
- h) to advocate for SME interests at the national level
- i) to mobilize the required financial resources for SME programs and support service plan implementations
- j) to evaluate the impact of the SME strategy on the sector and the economy and provide recommendations and remedy plans
- k) to conduct periodic strategic-planning initiatives with SME stakeholders
- l) to participate in and contribute to the Private Sector Development Strategy, Phase II, and all other related economic planning activities at the national level.

## ORGANIZATION STRUCTURE

The proposed coordinating authority should be governed by an appointed board of directors consisting of 13–15 members who will be selected from the leaders of the main supporting SME governmental and non-governmental organizations. The Board should have a good representation of women among its members. The Board will be assisted by an executive secretariat that includes a high-caliber Chief Executive Officer and managers from each of the nine technical units and support departments. The hiring process should be gender sensitive and should aim at achieving adequate gender balance at all management levels of employment.

The technical units are business advisory services, financial services, policy, capacity building, research and information, fund management, and monitoring and evaluation. The supportive functions are finance, and human resources and administration.

**Figure 4 – SME Coordinating Authority Structure**

## OFFICES OF THE AUTHORITY SUPPORT SECRETARIAT STRUCTURE

### Coordinating and capacity-building unit/office

- Develop capacity-building plans for strengthening the institutional capacity of the implementing institutions. This should be done in partnership with the implementing institutions and specialized service providers.
- Manage and facilitate the implementing of the capacity-building plans
- Monitor and assess the impact of the capacity-building plans on the overall performance of the participating institutions
- Organize periodic meetings with SME stakeholders, SME owners, and the coordinating authority board
- Develop an effective harmony between all participated implementing institutions through well-structured meetings and the exchange of periodic progress reports, publications, and newsletters

### Fund Management unit/office

- Review and appraise implementing institutions' funding proposals and provide recommendations to the CEO and the board
- Develop funding agreements in cooperation with the selected implementing institutions and based on board-approved plans
- Monitor the implementation of the approved funding proposals, and in line with the SME strategy, generate periodic reports to the CEO and the board
- Maintain adequate financial and technical documentation of the disbursement of allocated funds
- Prepare annual budgets and financial reports

### Policy facilitation unit/office

- Conduct periodic assessments of the regulatory environment

- Participate in the government policy formulation committee and represent SME perspectives in these meetings
- Review policy proposals, study their potential impact on SME sector growth, and provide recommendations
- Propose policy reform proposals for enhancing the overall regulatory environment for SMEs based on an effective private–public consultation process.

#### Access to Finance unit/office

- Monitor the implementation of all SME strategic activities pertaining to financial services and access to finance
- Monitor progress toward achieving the SME strategy's financial services objectives
- Conduct periodic assessments of SME financial needs
- Recommend new responsive and demand-driven financial products
- Facilitate SME access to finance through the implementing financial institutions
- Facilitate the establishment of proposed SME development funds
- Coordinate between business development services and access to finance to ensure the provision of integrated services to targeted SMEs in the selected economic sectors

#### Access to Business Development unit/office

- Conduct periodic assessments of SMEs' BAS needs
- Facilitate the development of responsive business development services
- Facilitate SME access to BAS services through effective coordination with implementing institutions and service providers
- Facilitate the establishment of the proposed SME-specialized BAS centers
- Coordinate between business development services and access to finance to ensure the provision of integrated services to targeted SMEs in the selected economic sectors

#### Research and Information unit/office

- Assess SME information gaps and design an effective database
- Develop SME information-collecting mechanism
- Facilitate the development of e-governance services for business registration
- Develop and maintain an SME information services web portal
- Conduct periodic research on SME sector challenges, levels of satisfaction with services provided, and further unmet needs
- Develop periodic specialized reports on SME sector development and contribution to employment and economic growth

#### Monitoring and Evaluation

- Periodic review and development of key performance indicators
- Monitor progress of the implementation of the SME strategy to measure progress toward achieving the objectives and results, based on an approved set of performance indicators
- Facilitate the performance of evaluations of the implemented interventions to measure their relevance, effectiveness, efficiency, coverage, and impact on the targeted SME sector
- Maintain an efficient electronic web-based monitoring system to capture and compile data from the implementing institutions
- Develop periodic progress reports and present them to the CEO and the board



## SUSTAINABILITY OF THE SME STRATEGY

The main aspects to be considered for sustaining the national SME strategy's support services are:

- a. The level of the SME coordinating authority's (i) efficiency in managing the overall implementation process of the SME strategy, and (ii) effectiveness in achieving the expected results. The appointed board should give sufficient attention to the executive secretariat's efficiency in managing its human and financial resources. The board should look for innovative solutions to generate revenues for sustaining its operations. One of the recommended options is to invest in large enterprises that have the potential to drive selected economic value chains and create opportunities for SMEs as potential suppliers and service providers.
- b. The level of the participating implementing institutions' commitment to achieving the strategic goals and objectives. The SME coordinating authority should periodically assess the implementing agencies' performance in terms of their effectiveness and efficiency in providing sustainable services to SMEs. One of the main roles of the coordinating authority is to facilitate the capacity building of the implementing institutions. An effective institutional capacity-building plan should result in the development of more efficient systems for providing support services to SMEs.
- c. The participating SME service providers should introduce a fees-for-services concept. The cost of technical and advisory services should be calculated and priced. The implementation of fees for services should be introduced gradually; one option is to establish subsidized fees in the beginning, with gradual fee increases as SMEs begin to appreciate the quality of the received services and become motivated to pay for them.

# CHAPTER SIX – SME STRATEGY IMPLEMENTATION

## STRATEGIC CONSULTATION PROCESS AND GOVERNMENT APPROVAL

The strategic consultation process is crucial for ensuring a common understanding of the strategy's goals among all SME stakeholders and for achieving the necessary buy-in and commitment to the strategy's implementation. The following are the major steps required for achieving a good consultation process:

1. The task force members should conduct several workshops to further study and discuss the strategy among themselves.
2. The task force's feedback and inputs to the draft strategy should be shared with USAID-FinGAP for their consideration in producing a revised version incorporating all agreed-upon inputs.
3. The task force members should organize several workshops with a larger group of SME stakeholders to present and discuss the revised version of the SME strategy.
4. The inputs and feedback collected from these workshops should be presented to USAID-FinGAP for their consideration in producing a second revised version.
5. The final SME support services strategy will be presented to the Government of Ghana for approval.
6. After endorsement of the strategy by the Government of Ghana, the SME strategy should be broadcast in all Ghana regions.

## DEVELOPING THE AUTHORITY'S ARTICLES, BYLAWS, AND REGULATIONS

The strategy's implementation will depend on the establishment of the national coordinating authority for SME development. The following are the major steps required to establish this coordinating authority.

1. The SME task force should discuss the coordinating authority's title – for example, the Ghanaian SME Coordinating Authority, or National SME Development Authority – and propose a title to the government.
2. The task force members will work with a specialized legal agency to develop the authority's articles, bylaws, and regulations – the USA-SBA's articles are attached as an Annex to be used as a model.
3. The SME development coordinating authority's articles should be presented to the government to facilitate the development of any laws necessary for the authority's establishment.
4. The proposed laws will be discussed by the Ghanaian Parliament for endorsement based on Ghana's legal reforms process.

## BOARD AND CHIEF OF PARTY APPOINTMENTS

1. Once the legal process for establishing the coordinating authority has been finalized, the Government of Ghana should appoint the members of the authority's board of directors, chosen from the leaders of selected SME support institutions.
2. The appointed board will elect from among themselves an executive committee which will include the chairperson, deputy, and treasurer.
3. The board will appoint a high-caliber chief executive officer to lead the authority's executive secretariat.
4. The board and the CEO should work together to appoint to the secretariat a team of very competent executive managers for all proposed offices/units.

## FUNDING MECHANISM

1. The articles for the SME development coordinating authority should clearly define the authority's funding mechanism and its financial resources.
2. The members of the task force, in cooperation with USAID-PFG and the Government of Ghana, should discuss the required parameters for ensuring the incorporation of a sustainable mechanism for financing the SME national authority's operational and programming expenses.
3. International development agencies such as DANIDA, GIZ, The World Bank, USAID, UNIDO, and many others have planned programs and allocated financial resources for Ghanaian private sector development. The SME task force, with the support of USAID-PFG, can tap into these programs' allocated funds for assistance with implementing the SME strategy.

## IMPLEMENTATION PLAN

The proposed strategy's implementation plan is divided into two stages.

Stage One covers the main setup activities required in order to establish the SME coordinating authority. The newly established coordinating authority will be responsible for leading the SME strategy's implementation process.

The SME task force, with technical and financial support from USAID-PFG, should oversee the strategy's consultation process and the initial setup arrangement for the coordinating authority. The schedule for Stage One of the implementation plan explains clearly the main activities and the technical and financial resources needed for implementation.

Stage Two of the implementation plan explains the main activities required in order to implement the SME strategy and to achieve its goals, objectives, and expected results. The implementation plan's schedule also indicates the required technical and financial resources and recommended time frame for implementation.

The proposed implementation plans should be discussed with the SME task force and with other government officials involved with USAID-PFG. This can be done during the consultation process, and all approved inputs should be incorporated into finalized plans.

Below is the proposed schedule for the implementation plan.

## IMPLEMENTATION PLAN SCHEDULE

### Phase One: Establishment Of Coordinating Authority

Main activities	Responsible party	Resources required		Starting date	Ending date
		Technical	Financial		
Consultation process for the proposed SME development strategy (4–5 workshops)	SME task force with support from USAID	Professional facilitator	Budget of US\$20,000 to cover facilitator fees and workshop expenses	November 3, 2014	December 15, 2014
Developing the authority's articles, bylaws, and regulations	SME task force with support from USAID	Legal advisors (national and international)	\$100,000 to cover advisor fees	November 17, 2014	January 31, 2014
Coordinating authority endorsement process	GoG with support from SME task force and USAID	Publicity advisor	\$5,000 to cover advisor fees	January 5, 2015	March 2, 2015
Coordinating authority setup arrangement( physical and human resources)	GoG with support from SMA task force and USAID	Consulting firms and contractors	\$ to cover setup costs – see budget	March 9, 2015	May 30, 2015
Select 2–3 economic sectors that have the highest potential for growth, and conduct SME needs assessment	Board and CEO of SME coordinating authority	Technical services providers – consulting firms	\$ to cover the associated costs – see budget	March 9, 2015	May 30, 2015

## Phase Two: Strategy Implementation

Strategic Activities	Responsible party	Resources required		Starting date	Ending date
		Technical	Financial		
Strengthen the capacity of the new SME coordinating authority to effectively manage the SME development strategy in Ghana	Board and CEO of SME coordinating authority	Technical services providers – consulting firms	\$ to cover associated costs	July 6, 2015	September 30, 2015 for the inception stage, and then ongoing
Establish sustainable funding mechanism	SME task force with support from USAID	Financial and fund management advisor	\$ to cover advisor fees	March 9, 2015	April 20, 2015
Establish new initiatives and programs aimed at empowering SME to have adequate representation in SME-related policy formulation	SME coordinating authority board and executive secretariat, and implementing institutions	Technical consulting firms	\$ to cover associated costs	October 5, 2015	Ongoing until 2020
Assess the overall business environment in Ghana	SME coordinating authority board and executive secretariat, and implementing institutions	Technical consulting firms	\$ to cover associated costs	October 5, 2015	January 15, 2015
Develop public–private sector consultation mechanisms	SME coordinating authority board and executive secretariat, and implementing institutions	Consulting firms	\$ to cover associated costs	October 5, 2015	December 15, 2015
Streamline business registration process and introduce e-governance business registration services	SME coordinating authority board and executive secretariat, and implementing institutions	Consulting firms	\$ to cover associated costs	January 15, 2015	June 30, 2016

Develop and introduce incentive systems for SME in the selected economic sectors	SME coordinating authority board and executive secretariat, and implementing institutions	Consulting firms	\$ to cover associated costs	October 5, 2015	December 22, 2015
Develop and introduce linkage systems between research institutions and SME	SME coordinating authority board and executive secretariat, and implementing institutions	Consulting firms	\$ to cover associated costs	November 2, 2015	June 30, 2016
Develop a national SME database	SME coordinating authority board and executive secretariat, and implementing institutions	Consulting firms	\$ to cover associated costs	November 2, 2015	June 30, 2016
Facilitate SME access to technology and reliable information systems	SME coordinating authority board and executive secretariat, and implementing institutions	Consulting firms	\$ to cover associated costs	November 2, 2015	Ongoing
Facilitate integration of entrepreneurship programs such as Know About Business (KAB-ILO) into undergraduate education and vocational and technical training	SME coordinating authority board and executive secretariat, and implementing institutions	Consulting firms	\$ to cover associated costs	November 2, 2015	October 30, 2016
Enhance Ghana's national capacity to monitor and measure attitudes, activities, and characteristics of individuals who participate in various phases of entrepreneurship	SME coordinating authority board and executive secretariat, and implementing institutions	GEM Authority	\$ to cover associated costs	November 2, 2015	March 30, 2016
Initiate institutional capacity development programs in	SME coordinating authority board and	Consulting firms	\$ to cover associated	November 2, 2015	April 30, 2016, and then ongoing

selected governmental and non-governmental institutions	executive secretariat, and implementing institutions		costs		
Pilot targeted initiative for supporting SME in selected economic sectors	SME coordinating authority board and executive secretariat, and implementing institutions	Consulting firms	\$ to cover associated costs	November 2, 2015	Ongoing
Develop as pilot project a specialized SME fund with the potential to be developed into specialized SME bank	SME coordinating authority board and executive secretariat, and implementing institutions	Consulting firms	\$ to cover associated costs	September 2, 2015	March 30, 2016
Develop infrastructure of business development services capable of providing strategic and operational interventions to Ghana's SME	SME coordinating authority board and executive secretariat, and implementing institutions	Consulting firms	\$ to cover associated costs	September 2, 2015	June 30, 2016 for the inception phase, and then ongoing
Effective, targeted, responsive, sustainable financial and non-financial services provision to SME	Implementing institutions with support from secretariat of coordinating authority	Consulting firms	\$ to cover associated costs	July 1, 2016	Ongoing

# PROPOSED BUDGET (2014–2020)

Main Cost Items	Budget in US\$							
	2014	2015	2016	2017	2018	2019	2020	Total
SME strategy consultation process	20,000	-	-	-	-	-	-	20,000
Coordinating authority regulatory process and endorsement	50,000	50,000	-	-	-	-	-	100,000
SME strategy broadcasting	5,000	25,000	25,000	50,000	50,000	50,000	50,000	255,000
Coordinating authority offices – setup (office furniture and equipment)	-	100,000	10,000	10,000	10,000	10,000	10,000	150,000
Vehicle purchases	-	150,000	100,000	100,000	-	-	-	350,000
Strategic Goal #1 (Operational costs – salaries, rent, admin, and utilities) <sup>15</sup>	-	1,200,000	1,320,000	1,452,000	1,597,200	1,756,000	1,932,000	9,257,200
Strategic Goal #1 – Programs <sup>16</sup>	-	100,000	300,000	500,000	500,000	500,000	500,000	2,400,000
Strategic Goal #2 – Programs <sup>17</sup>	-	200,000	1,000,000	2,000,000	4,000,000	5,000,000	5,000,000	17,200,000
Strategic Goal #3 – Programs <sup>18</sup>	-	100,000	20,000,000	20,000,000	30,000,000	40,000,000	50,000,000	160,100,000
<b>Total Budget</b>	<b>75,000</b>	<b>1,925,000</b>	<b>22,755,000</b>	<b>24,112,000</b>	<b>36,157,200</b>	<b>47,316,000</b>	<b>57,492,000</b>	<b>189,832,200</b>

<sup>15</sup> The coordinating authority's operational costs represent around 4.7% of the total SME proposed national strategy's budget.

<sup>16</sup> Includes costs related to institutional capacity-building, research studies, and implementation of SME policy initiatives

<sup>17</sup> Includes providing small grants for entrepreneurship programs development, developing linkages systems, and SME database

<sup>18</sup> Includes the establishment of the SME Facility Fund and the BAS centers. The funding facility's budget is \$150 million, which represents around 79% of the total SME strategy's budget.



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# ANNEXES

## ANNEX I. GHANAIAN SMALL BUSINESS SUPPORT PROGRAM – DRAFT IMPLEMENTATION PLAN

### Introduction:

The USAID–Financing Ghanaian Agriculture Project (USAID-FinGAP) addresses a key constraint on the development of commercial agriculture and the attainment of full food security in Ghana: access to the financing necessary to enable investment in agricultural value chains. USAID-FinGAP uses a comprehensive approach to facilitate agriculture-related investment, engaging a broad range of Ghanaian financial institutions (banks, private equity firms, leasing companies, investment funds, etc.) in providing agriculture-oriented financing, in partnership with strategic investors and buyers of rice, maize, and soya in Northern Ghana. USAID-FinGAP will also facilitate investment in the Ghanaian agriculture sector that will complement other Government of Ghana (GoG) and donor programs aimed at expanding commercial agriculture. Since being selected as a Partnership for Growth (PFG) country, the Government of Ghana (GoG) has engaged in extensive analysis and consultations with the U. S. Government (USG) in developing a Joint Country Action Plan (JCAP) to assist Ghana in sustaining and broadening its economic growth by addressing two key constraints that inhibit private sector development and participation in the Ghanaian economy: unreliable and inadequate supply of electric power, and lack of access to credit.

The two main goals of the PFG JCAP are:

1. to strengthen the power sector; and
2. to increase access to credit (especially for the SME sector) and strengthen the financial system.

A Joint Steering Committee, composed of members of the GoG and the USG, oversees PFG activities and monitors progress against the JCAP. Two technical Working Groups (one on credit and one on power) organized by lead GoG and USG agencies are responsible for developing and implementing specific action plans and strategies to meet the goals set out in the JCAP. USAID is the USG agency primarily responsible for oversight of these Technical Working Groups. The PFG Technical Working Group on Increasing Access to Credit (also known as the PFG “Access to Credit Team”) has 5 overall goals:

- 1) Reduce government engagement in the banking sector;
- 2) Strengthen financial sector regulation and supervision;
- 3) Develop financial sector infrastructure;
- 4) Broaden and deepen the financial sector;
- 5) Encourage development finance and support SME access to finance.

In December 2013 the GoG PFG JCAP task force met with the US Small Business Administration (SBA) to discuss the SBA model and consider its applicability to Ghana’s SME sector and PFG goals. An orienting element of these discussions was PFG JCAP Goal 5: Encourage development finance and support SME access to finance. USAID-FinGAP provided assistance to the task force and joined USAID/Washington in facilitating these discussions. As a result of this activity, the Project made two recommendations:

- 1) Expand the scope of PFG JCAP Goal 5 to include: Develop alternative financing programs for SME that do not rely on bank lenders, in order to help bridge the gap in financing that currently exists for SME. The banks in Ghana have not been lending to SME and generally seem uninterested in this market.

Until interest rates come down, and other bank regulatory reforms are in place, a guaranteed loan program is not likely to be enough incentive.

2) Encourage the GoG to include some task force delegates on the team that will develop the PFG JCAP Y2 work plan, and on the team that will work on JCAP Access to Finance Goal 5.

In Ghana, it is estimated that about 90% of companies registered are micro, small, and medium enterprises. They have evolved to become key suppliers and service providers to large corporations, including multinational and transnational corporations. About 49% of Ghana's GDP in 2012 was generated from SME and they therefore have an impact on economic growth, income, and employment (PWC, 2013).

**Objective:**

The objective of the assignment is to assist the Government of Ghana in developing a strategy and work plan for a comprehensive and integrated system to support Ghanaian small and medium enterprises (SME).

**Tasks and deliverables:**

Task One: Implementation Plan – Prepare implementation plan including schedule of tasks and proposed milestones and outputs from the engagement.

Task Two: Aggregate information on SME and SME support services in Ghana – Utilizing available resources and statistics from the project and other organizations, assemble the following baseline information on Ghana's SME market:

1. Establish universally agreed-upon definition of an SME in Ghana
2. Identify the estimated number of SME in Ghana
3. Identify the characteristics of SME (e.g., revenues, employees)
4. Concentration by industry and geography
5. Key constraints on growth and expansion
6. Required SME support services

Task Three: Map current Ghanaian SME support services – Through interviews and research with the range of public and private actors engaged in delivering SME support services, as well as SME for which those services are intended (the 'SME Consultative Group'), develop a map of available SME support services in Ghana. In this exercise, the SME Advisor will identify:

7. Type of SME support services provided
8. Locations in which services are available
9. Fees and other requirements for accessing those services
10. Usage of those services
11. Synopsis, based upon a representative sample of users, of the relative value of the services provided

Task Four: Develop recommendations for upgrading and expanding SME support services – Working from successful SME support systems in other countries and with input from the SME Consultative Group, provide recommendations on the necessary components of such a system. This would include (but not be limited to):

1. Type of SME support services that should be provided
2. Recommended proximity of support services to prospective users
3. Recommended fee and usage requirements
4. Suggested performance metrics (# of engagements in relation to staffing, customer satisfaction metrics, etc.)
5. Suggested training plans and other measures to upgrade SME support services

Task Five: Develop recommendations for management and oversight of SME support services – Building upon the experience of successful SME support systems in other countries, and working with the SME Consultative Group, provide recommendations on an apex body or other arrangements to ensure proper oversight and coordination of SME support services. In conjunction with this:

1. Prepare a projected budget for SME support services (including the apex organization and individual SME support units) to include revenue expectations as well as expenditures
2. Prepare an overall projection of impacts to result from SME support services reform, including GDP impact and job creation
3. Prepare an analysis of necessary legislative and policy amendments and reforms as needed to enable an improved SME support system.

**Deliverables:**

One report presenting

- a. Implementation Plan
- b. Definition of SME in Ghana and support services they require
- c. Currently available Ghanaian support services (detailing services provided, location, quality, etc)
- d. Recommendations for upgrading and expanding SME support services
- e. Recommendations for management and oversight of SME services (including proposed budget, expected impact, etc.)

**Proposed Implementation Schedule**

Main Tasks	Week 1 4/8/14	Week 2 11/8/14	Week 3 18/8/14	Week 4 25/8/14	Week 5 1/9/14	Week 6 8/9/14	Week 7 15/9/14	Week 8 22/9/14	Week 9 29/9/14	Week 10 6/10/14
Task One: Implementation Plan										
Task Two: Aggregate information on SME and SME support services in Ghana <i>- Travel to Ghana (Field work in Ghana)</i>										
Task Three: Map current Ghanaian SME support services <i>- Field work in Ghana</i>										
Task Four: Develop recommendations for upgrading and expanding SME support services										
Task Five: Develop recommendations for management and oversight of SME support services										
Final report developed and submitted										



**Proposed Schedule for Field Work in Accra-Ghana:**

Day	Activities	Date	List of Institutions/individuals to meet
1	Depart Toronto for Accra-Ghana	August 24, 2014	
2	Weekend; briefing meeting with the local consultant (Robert), and FinGAP Chief of Party (Rick). Meetings with GoG officials	August 25, 2014	Travel day; arrive in the evening
3	Meetings with SME Consultative Group and GoG officials	August 26	List of GoG-involved ministries and officials
4	Meetings with financial institutions	August 27	Microfinance and SME lending
5	Meetings with NGOs – SME, microfinance, etc.	August 28	Active NGOs in SME support services
6	Meetings with international NGOs, donor agencies	August 29	UNDP, UNIDO, World Bank, etc.
7	Weekend	August 30	
8	Meetings with universities and other educational institutions	August 31	
9	Meetings with private sector – business associations, Chambers of Commerce, etc.	September 1	
10	Meetings with SME owners (focus group discussions)	September 2	Three focus groups per day representing different sectors and business size – 2 hrs per meeting
11	Meetings with SME owners (focus group discussions)	September 3	Three focus groups per day representing different sectors and business size – 2 hrs per meeting
12	Debriefing meetings with GoG officials and Rick, and departure back to Canada	September 4	

**Main Expected Outputs and Indicators**

Main Tasks	Expected Outputs	Indicators
Implementation plan	Completed version of the implementation plan	Endorsement of the implementation plan
Aggregate information on SME and SME support services in Ghana	Completed section on the current state of SME in Ghana	SME secondary data collected and sorted SME challenges identified Fieldwork in Ghana started Initial common agreement on SME definition and challenges
Map current Ghanaian SME support services	Completed section on present financial and non-financial services and programs for SME in Ghana, and an overview of their impact	SME supporting programs identified Interviews and field report completed International consultant fieldwork in Ghana completed Identified beneficiaries have provided feedback on services received
Recommendations for upgrading and expanding SME support services	Completed section on data analysis and recommended interventions based on international experience and best practice	Identified information gaps Information gathered by the local consultant to fill gaps Successful SME international programs identified and analyzed Identified international lesson learned
Develop recommendations for management and oversight of SME support services	Completed section on recommended policy amendments and reforms	Results-based strategy document developed Common agreement on policy recommendations, structure of SME coordinating authority, and governance
Final Report development	Completed report on recommended SME development strategy and work plan	Endorsement of the proposed strategy and work plan by all parties

## ANNEX II. SCOPE OF WORK, SME ADVISOR

### A. Background

The USAID-Financing Ghanaian Agriculture Project (USAID-FinGAP) addresses a key constraint to the development of commercial agriculture and obtaining full food security in Ghana – access to finance necessary to enable investment in agricultural value chains. USAID-FinGAP uses a comprehensive approach to facilitate agriculture related investment, engaging a broad range of Ghanaian Financial Institutions (banks, private equity firms, leasing companies, investment funds, etc.) in providing agricultural oriented financing, in partnership with strategic investors and buyers of rice, maize and soya in Northern Ghana. USAID-FinGAP will also facilitate investment in the agriculture sector in Ghana that will complement other Government of Ghana (GOG) and donor programs aimed at expanding commercial agriculture. Since being selected as a Partnership for Growth (PFG) country, the Government of Ghana (GOG) has engaged in extensive analysis and consultations with the U. S. Government (USG) in developing a Joint Country Action Plan (JCAP) to assist Ghana to sustain and broaden its economic growth by addressing two key constraints that inhibit private sector development and participation in the Ghanaian economy: unreliable and inadequate supply of electric power and lack of access to credit.

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The PFG Technical Working Group on Increasing Access to Credit (also known as the PFG “Access to Credit Team”) has 5 overall goals:

- 1) Reduce government engagement in the banking sector;
- 2) Strengthen Financial Sector regulation and supervision;
- 3) Develop the Financial Sector infrastructure;
- 4) Broaden and deepen the financial sector;
- 5) Encourage development finance and support SME access to finance.

In December 2014 the GOG PFG JCAP task force met with the US Small Business Administration (SBA) to discuss the SBA model and consider its applicability to Ghana’s SME sector and PFG goals. An orienting element of these discussions was PFG JCAP Goal 5: Encourage development finance and support SME access to finance.

USAID-FinGAP provided assistance to the task force and joined USAID/Washington in facilitating these discussions. As a result of this activity, the Project made two recommendations: ORATION

- 1) Expand the scope of PFG JCAP Goal 5 to include: Develop alternative financing programs for SME that do not rely on bank lenders to help bridge the gap in financing that currently exists for SME. The banks in Ghana have not been lending to SME and generally seem uninterested in this market. Until interest rates come down, and other bank regulatory reforms are in place, a guaranteed loan program is not likely to be enough incentive.

2) Encourage the GOG to include some task force delegates on the team that will develop the PFG JCAP Y2 work plan, and on the team that will work on the JCAP Access to Finance Goal 5. The SME Advisor's activities under this scope of work are an extension of work begun during the December 2014 SBA meetings, and will be directly informed by these results and other findings.

### **B. Objective**

The objective of this scope of work (SOW) is to assist the GOG in developing a strategy and work plan for a comprehensive and integrated system to support Ghanaian small and medium enterprises (SME). The GOG believes that SME play a critical role in the Ghanaian economy, both as engines of growth and sources of job creation. To this end, it has undertaken efforts to support SME, including but not limited to establishment of the National Board of Small Scale Industries (NBSSI), the Export Development and Agricultural Investment Fund (EDAIF), the Venture Capital Trust Fund, Eximguaranty, the Rural Enterprise Program and the Rural Commercial Banks. However, common consensus emerges from the GOG and the Ghanaian private sector that these initiatives are not having the desired impact. SME continue to face challenges in accessing financing and business advisory services—and the absence of a central, one-stop-shop which can either provide or direct SME to financing sources and advisory services presents a major constraint to their growth.

To this end, support is required from an international SME Advisor and a supporting Ghanaian SME Secretariat to engage with the GOG and the Ghanaian private sector to develop a strategy and work plan, and build consensus for, a comprehensive and integrated SME support system.

### **C. Activities and tasks The SME Advisor will perform the following tasks:**

**Task One:** Implementation Plan – Prepare implementation plan including schedule of tasks and proposed milestones and outputs from the engagement.

**Task Two:** Aggregate information on SME and SME support services in Ghana – Utilizing available resources and statistics from the project and other organizations, assemble the following baseline information on Ghana's SME market:

1. Establish universally agreed-upon definition of an SME in Ghana
2. Identify the estimated number of SME in Ghana
3. Identify the characteristics of SME (i.e., revenues, employees)
4. Concentration by industry and geography
5. Key constraints to growth and expansion
6. Required SME support services

**Task Three:** Map current Ghanaian SME support services – Through interviews and research with the range of public and private actors engaged in delivering SME support services, as well as SME for which those services are intended (the 'SME Consultative Group'), develop a map of available SME support services in Ghana. In this exercise, the SME Advisor will identify:

7. Type of SME support services provided
8. Locations in which services are available
9. Fees and other requirements for accessing those services
10. Usage of those services
11. Synopsis based upon a representative sample of users of the relative value of the services provided

**Task Four:** Develop recommendations for upgrading and expanding SME support services – Working from successful SME support systems in other countries and with input from the SME

Consultative Group, provide recommendations on the necessary components of such a system. This would include (but not be limited to):

1. Type of SME support services that should be provided
2. Recommended proximity of support services to prospective users
3. Recommended fee and usage requirements
4. Suggested performance metrics (# engagements in relation to staffing, customer satisfaction metrics, etc.)
4. Suggested training plan and other measures to upgrade SME support services

Task Five: Develop recommendations for management and oversight of SME support services – Building upon the experience of successful SME support systems in other countries, and working with the SME Consultative Group, provide recommendations on an apex body or other arrangements to ensure proper oversight and coordination of SME support services. In conjunction with this:

1. Prepare a projected budget for SME support services (including the apex organization and individual SME support units) to include revenue expectation as well as expenditures
2. Prepare an overall projection of impact to result from SME support services reform, including GDP impact and job creation
3. Prepare an analysis of necessary legislative and policy amendments and reforms as needed to enable an improved SME support system.

#### **D. Deliverables**

The SME Advisor will produce the following deliverables with support from the SME Secretariat:

One report presenting

- a. Implementation Plan
- b. Definition of SME in Ghana and support services they require
- c. Currently available Ghanaian support services (detailing services provided, location, quality, etc)
- d. Recommendations for upgrading and expanding SME support services
- e. Recommendations for management and oversight of SME services (including proposed budget, expected impact, etc.)

The Advisor will be responsible for responding to and incorporating comments and edits from USAID into the final report, with support from the SME Secretariat.

A trip report is required for any international trip taken for USAID-FinGAP work purposes during this consultancy. This must include:

- f. Dates of trip
- g. Purpose of trip
- h. Scope of Work on trip
- i. Activities undertaken and goals accomplished
- j. Deliverables produced and correspondence with Scope of Work

All deliverables must be submitted in English, using the USAID-FinGAP report template.

#### **E. Post of Duty**

Home base in Canada; one round trip to Accra, Ghana (14 travel days estimated).

**F. Period of Performance**

August 1, 2014 – October 1, 2014

**G. Level of Effort**

The LOE required is estimated to be 45 days. 5-day work week allowed; 6-day work week when traveling.

**H. Technical Oversight**

The Advisor will oversee the activities of the Ghanaian SME Local Consultant, and work closely with SME Task force from the Government of Ghana. The Advisor will report to USAID-FinGAP Chief of Party, or his designee, and to USAID-FinGAP Case Leader Amanda Fernandez.

## ANNEX III. SME DEVELOPMENT – INTERNATIONAL EXPERIENCE

### I. The SME Sector in Malaysia (Mohamed, 2013)

The Development Council (SME national NSDC), which was established in June 2004, is considered to be the highest authoritative body in Malaysia with regard to policy-making and is responsible for overall development strategies and the coordination of small and medium enterprise programs in all sectors of the economy.

NSDC includes all of the ministries and bodies concerned with SME development and is headed by the Prime Minister. The objectives of the NSDC are to formulate policies and strategies to provide guidance for the overall development of small and medium-sized enterprises in all sectors, and to supervise and control development initiatives for small and medium enterprises to ensure the effective implementation of policies.

The SME comprehensive development program in Malaysia was built on three main strategic pillars aimed at:

1) Strengthening the infrastructure: Develop or review policies, standards, licensing requirements and tax incentives that govern the operations and activities of small and medium enterprises and entrepreneurs. Considerations include:

- Developing and strengthening the physical infrastructure
- Information Management
- Systems and processes

For example, small and medium-sized enterprises with a paid-up capital of \$2.5 million Malaysian ringgit or less enjoy a tax cut of 20%, up to 500,000 Malaysian ringgit. And medium enterprises with a capital not exceeding 500,000 ringgit with at least 60% Malaysian-owned shares are eligible for a 100% exemption from income tax for a period of five years.

2) Building the capacity of the SME sector: Develop policies and programs to enhance the knowledge, skills, and ability of small and medium-sized companies and their employees, in order to improve their performance and growth and increase competitiveness through:

- Entrepreneurship programs
- Development of human capital
- Providing advisory services
- Awareness and guidance
- Promoting technology
- Product development
- Marketing and promotion

3) Strengthening the financing of SME: Develop policies and programs to ensure adequate access to finance to support the growth and the development of small and medium enterprises in all sectors through:

- Early stage financing
- Fund expansion projects
- Rehabilitation

### Lessons Learned:

- I. Malaysia's success in achieving high sustained growth and rapid development can be summed up as "getting the basics right" through long-term planning and visionary leaders, instituting sound

development policies, good economic management, promoting private investment, developing human resources, as well as providing good physical and institutional infrastructure (EBI, 2011).

2. The importance of developing a specialized governmental body to take on the overall responsibilities of SME sector development
3. The need to develop both a comprehensive development strategy for SME growth and conducive policies in favor of SME
4. The importance of developing an adequate supportive infrastructure for promoting entrepreneurship and for building SME sector capacity
5. The importance of developing responsive financial services tailored to the various financial product needs of SME

## **II. The SME Sector in the USA**

The Investment Company Act of 1958 established the Small Business Investment Company (SBIC) Program, under which SBA licensed, regulated, and helped provide funds for privately owned and operated venture capital investment firms. They specialized in providing long-term debt and equity investments to high-risk small businesses. Its creation was the result of a Federal Reserve study that discovered, in the simplest terms, that small businesses could not get the credit they needed to keep pace with technological advancement.

SBA's programs now include financial and federal contract procurement assistance, management assistance, and specialized outreach to women, minorities, and armed forces veterans. SBA also provides loans to victims of natural disasters and specialized advice and assistance in international trade.

The SBA will have three overarching goals for the next five years (2014–2018): (1) grow businesses and create jobs; (2) serve as the voice for small business; and (3) build an agency that meets the needs of today's and tomorrow's small businesses.

### **Lessons Learned:**

1. The importance of developing a specialized governmental body to take on the overall responsibilities of SME sector development
2. Leadership. Part of providing leadership is “walking the talk” and being available. “It’s interesting how much you can pick up walking through the hallways and talking to employees about what’s going on and what issues they’re tackling. It’s also important to bring colleagues together around the table, focusing on the big challenges that we have and making sure that everyone knows they need to make a contribution. I count on them to contribute to moving the SBA agency forward and expect that they bring the right skills to the table.” (Tom Fox, deputy administrator of the U.S. Small Business Administration, from the Washington Post, May 1, 2012)
3. The importance of developing effective national SME strategies
4. The importance of developing responsive financial services tailored to the various financial product needs of SME

## **III. The SME Sector in India**

Micro, Small, and Medium Enterprises (SMEs) Development Act 2006 came into force on October 2, 2006. The Office of the Development Commissioner (Micro, Small, and Medium Enterprises) functions as the nodal development agency under the Ministry of Micro, Small, and Medium Enterprises (SMEs).

The Office of the Development Commissioner (SSI) has evolved gradually into an agency for advocacy, handholding, and facilitation for the small industries sector. It has over 70 offices and 21 autonomous bodies under its management. These autonomous bodies include Tool Rooms, training institutions, and Project-cum-Process Development Centers. The Office of the Development Commissioner (SMEs)



provides a wide spectrum of services to the Micro, Small, and Medium Industrial sector. These include facilities for testing, training for entrepreneurship development, preparation of project and product profiles, technical and managerial consultancy, assistance for exports, pollution and energy audits, etc. The Office of the Development Commissioner (SMEs) provides economic information services and advises the government on policy formulation for the promotion and development of SSIs. The field offices also work as effective links between the central and state governments.

#### **Lessons Learned:**

1. It is important to create a specialized governmental body responsible for the SME sector policy and development. In terms of the Indian experience, they developed an infrastructure body at the local level and a ministry for SMEs at the central level.
2. The importance of developing a comprehensive infrastructure for the provision of support services to SME

#### **IV. The SME Sector in Turkey**

Turkey established the Coordination Council for the Improvement of the Investment Environment (YOIKK). The Council conducts its agenda with the help of 12 technical committees working on specific issues with the participation of both public and private institutions.

The Council aims to rationalize investment regulations in Turkey, develop policies by determining the arrangements necessary to enhance the competitiveness of the investment environment, and generate solutions to administrative barriers encountered by domestic and international investors.

The 12 technical committees within YOIKK conduct studies to solve problems faced by investors in the areas of company establishment, employment, licensing, location of investment, taxes and incentives, foreign trade and customs, intellectual and industrial property rights, investment promotion, foreign direct investment legislation, SME, corporate governance, and research and development. Each technical committee has an action plan. The SME Technical Committee Action Plan includes the following activities:

- Improving systems for credit guarantee and venture capital companies
- Making the necessary amendments in current legislation to enlarge the scope of KOSGEB supports to cover other sectors besides manufacturing
- Improving cluster policy for SME
- Preparing a development strategy for the services sector
- Encouraging SME to abide by environmental laws and regulations.

The Small and Medium Industry Development Organization (KOSGEB), which was established to support SME operating in the manufacturing industry, is a governmental institution affiliated with the Ministry of Industry and Trade of the Turkish Republic. It was established in 1990 in order to increase the share and effectiveness of small and medium-sized manufacturing industry, raise its competitiveness, and realize its integration within the industry in line with economic development and national policies. Enterprise Development Centers, Technology Development Centers, and Synergy Focuses are KOSGEB service providers. KOSGEB service providers work face-to-face with SME, strengthen basic relations between industry and government, provide KOSGEB supports, implement projects, provide several test and analysis services towards SME, and undertake a coordinating role in establishing laboratories for SME in industrial zones.

Turkey developed an SME strategy and an action plan. The strategy has five main pillars:

- Improvement of entrepreneurship

- Enterprise development
- Integration of SME into the international market
- Improvement of the business environment
- Developing technological and innovative capacity.

**Lessons Learned:**

1. The need to establish a specialized body capable of identifying SME challenges and needs and to coordinate the provision of support services
2. The importance of industrial zones in fostering SME growth, and the need to build a supportive infrastructure within the established industrial zones to provide responsive services to SME
3. The importance of developing an SME strategy aiming at enhancing SME sector growth

## ANNEX IV. SMES WITHIN MAJOR GROWING ECONOMIC SECTORS IN GHANA

The sectors that grew fastest over the nine-year period from 2000 to 2009 were construction (88%); transport, storage, and communications (83%); and wholesale, retail, hotels, and restaurants (81%). Mining and utilities combined grew by 70% over that period, and agriculture by 53%. The slowest-growing sector was manufacturing, whose contribution to value added in real US dollars grew by 39% over this period.

Economic sector <sup>19</sup>	Sector profile	Size of SME within the sector	Major challenges facing the sector	Current development programs
<b>Cocoa processing</b>	<p>The cocoa industry accounts for about 3.4% of Ghana's GDP and 28% of exports. On average, about 70% of the cocoa beans produced in Ghana are sold on the international commodity market.</p> <p>Export earnings from cocoa beans increased from US\$819 million in 2005 to US\$1.42 billion in 2009. The industry offers direct and indirect employment to two million people.</p>	<p>There are several small-scale cocoa processing enterprises in Ghana.</p> <p>There are no available data regarding the number of SME enterprises working in that sector.</p>	<p>Inadequate local processing capacity is a major problem.</p> <p>Long-term demand is threatened by the use of synthetic substitutes and cocoa extenders.</p>	<p>Interventions and measures that are being implemented include supporting producer prices, providing effective disease and pest control, offering bonus payments, improving farming techniques, and replanting denuded areas.</p>
<b>Salt production</b>	<p>Ghana is a major salt producer, with annual production fluctuating between 250,000 and 350,000 metric tonnes.</p> <p>Ghana currently exports up to 80% of its salt to other Economic Community of West African States (ECOWAS) countries.</p> <p>Almost all production is of sea salt, which is produced in four regions, the Greater Accra, Central, Volta, and Western regions. Rock salt is produced in Daboya in the Northern region on an artisanal scale. There are four categories of producer: large scale, medium scale, small and micro scale, and artisanal.</p>	<p>Around one million individual producers, referred to as salt winners, are organized into cooperatives that are found in Elimina, Anomabu, Nyanyano, and Apam in the Central region, and in Ada Songor in the Greater Accra region.</p>	<p>The production of sea salt using solar drying is highly seasonal.</p> <p>Production ceases during the rainy season, which lasts four to five months. (None of Ghana's facilities use vacuum technology.) This raises the overall cost of production.</p> <p>The cost of transporting salt to markets in the West African sub-region by road is sometimes twice the price of the commodity itself.</p> <p>Poor infrastructure and a lack of financing for firms are ongoing problems in this sector.</p>	<p>Facilitate the establishment or extension of 30 companies to produce 50,000–100,000 mt per annum based on the Corporate Village Enterprise model</p> <p>Facilitate the establishment of companies with annual capacities ranging between 250,000 mt and 450,000 mt, which are expected to serve as the main driving force for the development of the salt industry in Ghana (three projects have already been identified)</p> <p>Develop unencumbered land banks suitable for salt production by the district assemblies in salt-producing areas, and find a lasting solution to the problems inhibiting industrial-scale salt production in the Ada Songor Basin (the biggest salt-producing basin in Ghana)</p>

<sup>19</sup> Information in the table was extracted and modified from Sutton, John (2012), *An Enterprise Map of Ghana*. Accra, Ghana: IGC

<p><b>Oil palm industry</b></p>	<p>Oil palm fruits from the plantations are processed either into semi-processed products for sale to the industrial sector or into oil for household consumption.</p> <p>The domestic industrial sector accounts for over 70% of demand, using the oil as an input into the manufacture of soaps and margarine.</p>	<p>Small industrial users and retailers are supplied through intermediaries.</p>	<p>The high cost of electricity is seen as one of the most important issues facing the oil palm mills.</p> <p>In addition, the long gestation period of palm plantations and the substantial capital commitment required limit the growth of the industry, given the difficulties in accessing financing and the high level of local interest rates.</p> <p>Access to suitable land also poses a problem.</p>	<p>The government has commissioned the Oil Palm Research Institute (OPRI) to produce three million germinated oil palm seeds annually for the President's Special Initiative on Oil Palm (PSI). Since 2004, 13,568 additional hectares of land have been brought under cultivation by participating groups under the PSI. In the medium to long term, 300,000 hectares is expected to be cultivated.</p> <p>The government is also seeking to turn about 68,000 hectares of degraded mining land over to cultivation of oil palm under the PSI. The PSI supports 60 milling factories to facilitate the establishment of vegetable oil refineries and biodiesel plants. In the long term, the oil palm sector is expected to generate US\$1.6 billion in export revenue annually.</p>
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<p><b>Agribusiness and food processing</b></p>	<p>The agricultural sector plays a crucial role in the economy of Ghana. In addition to contributing 60% of formal and informal employment, the sector has contributed an average of 35% to GDP in the past five years. The agricultural sector is segmented into crops (cereals and starchy crops such as cassava, plantain, and yam), livestock, fisheries, forestry, and cocoa.</p> <p>Ghana's domestic fisheries production is estimated at 440,000 mt per annum. The sector contributes 4.5% to GDP and indirectly supports the livelihoods of 2.2 million people.</p> <p>Most of the fish catch is processed: 60% is smoked, 20% is salted, and the remaining 20% is sold fresh.</p> <p>Poultry accounts for 76% of the total livestock population, goats 11%, sheep about 9%, and cattle and pigs for about 5% between them.</p> <p>Fruits and vegetables play a leading role in the industry. Pineapples are the major exported fruit while tomatoes are the major vegetable export, in view of their combined contribution to the foreign exchange earnings for the country (7.0% of GDP in 2009)</p>	<p>A large number of micro, small and medium-scale enterprises and establishments are involved in a wide range of business activities based on agriculture.</p> <p>The supply chain of the agricultural sector involves farmers, wholesalers, middlemen, processors, marketers, and consumers. The food processing industry in Ghana is relatively small, and most of the activities in the sector are undertaken on a small scale.</p> <p>Ghana's artisanal fishing sector includes 10,000 small mechanized wooden boats that harvest 60–70% of the marine catch. Most of the processing is undertaken in the informal sector, with smoking being the most widely used process.</p> <p>There are a large number of small and medium-scale poultry farms and piggeries, but no large-scale commercial farms.</p> <p>There are several small-scale abattoirs that serve the needs of households, restaurants, and local food vendors.</p>	<p>Information from the Ministry of Agriculture indicates that post-harvest losses are very high in Ghana and lie between 30% and 40%. The figure is higher for perishable products such as tomatoes, where losses in excess of 50% have been reported in the Ashanti, Brong Ahafo, and Upper East regions.</p> <p>Factors contributing to the high incidence of post-harvest losses in Ghana include an absence of well-developed preservation systems, poor infrastructure at the producing centers, lack of storage facilities, poor market access, lack of agro-processing facilities and poor marketing systems.</p> <p>Poor irrigation infrastructure, infrequent adoption of the latest technology, and small production volumes are continuing problems. Maize and rice are produced at a third of their potential yields per hectare.</p> <p>Low public investment, and the difficulties that SME encounter when trying to access finance, limit the potential of agribusiness activities.</p> <p>Exports are limited by lack of capacity and the challenge of meeting EU and US food safety standards.</p>	<p>As part of the strategy to promote expansion and growth in the agribusiness and food processing sector, the government has provided import duty exemptions for the importation of plant machinery and equipment.</p> <p>In addition, companies engaged in agro-processing are entitled to a five-year tax holiday.</p>
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<p><b>Garment industry</b></p>	<p>Ghana's garment industry has two distinct products: Afrocentric and standard. Afrocentric, or traditional African, clothing is made to local design and fashion and is produced by many small enterprises, tailoring shops, and seamstresses.</p> <p>A cluster of weavers can be found in the Bonwire district of Ashanti and in the Agotime Agbenyase area in the Volta region: this cluster forms the Gator Kente Weaving Industry.</p> <p>The main export destinations for textiles made in Ghana are EU countries (55%), the U.S. (25%), and ECOWAS (15%). Much of the remaining 5% is exported to South Africa, Zimbabwe, Namibia, and Ethiopia. Textile and garment exports from Ghana comprise fancy prints, wax prints, Java prints, calico smocks, ladies dresses, and menswear.</p>	<p>The retail sector has been expanding rapidly in recent years, with a proliferation of (high-price) boutiques alongside the opening of large-scale clothing retailers such as Woolworths (which entered the Ghanaian market in 2005).</p> <p>A large number of retail outlets and shops specialize in local African wear. While some are outlets of the manufacturers, most are independent outlets that have contributed immensely to the growth and penetration of traditional African wear in Ghana.</p>	<p>The high cost of inputs and competition from imported garments (including used clothing) are the leading issues facing the industry.</p> <p>The influx of imported textiles, some of which infringe local brands, is a major concern. Limited access to finance also remains a serious challenge to local companies.</p> <p>A lack of managerial expertise, an absence of basic services and infrastructure such as electricity, low knowledge and skills levels, and poor packaging and marketing are among the main issues facing the clusters.</p> <p>The cluster aims to organize the weavers into credit unions to improve access to finance, so expanding their operations. The cluster also aims to promote training to ensure that skills are transferred to the next generation.</p>	<p>A network has been formed by the government in collaboration with the United Nations Industrial Development Organization to bring together micro, small, and medium-scale operators in the textile industry. Since its inception, the cluster has assisted in training in mass-production strategies, subcontracting, and upgrading the technical, marketing, and managerial skills of members. The PSI has worked in conjunction with the Ministry for Trade and Industry to formulate strategies such as credit lines for the micro- and medium-sized companies in the industry.</p>
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<p><b>Wood and wood products</b></p>	<p>Forests cover about a third of Ghana’s total area. Commercial forestry is concentrated in the southern half of the country. Accounting for 4.0% of GDP, the timber industry is the country’s third-largest foreign exchange earner and it employs some 100,000 people. Currently, there are about 100 sawmills in the country with 17 involved in sliced and rotary veneer. About 40 of these sawmills produce moldings, profiles, and machined wood. Six firms specialize in flooring products and doors, while 10 are involved in plywood processing. The biggest sources of local demand for wood are the furniture and construction industries, which account for 75% and 24%, respectively, of the market.</p>	<p>The market is dominated by the informal sector, which accounts for 53% of local supply. This is followed by imports (34%) and the formal sector (13%). The wood industry (furniture production) is dominated by small enterprises that lack the capacity to produce export-grade furniture or to achieve the large volumes required to serve international markets.</p> <p>While most of the products of the formal sector are targeted at the export market, there is a large local market for furniture products and building materials that relies on local companies. Dominated by over 41,000 small and medium-sized carpentry establishments, the industry has seen an increase in imports of furniture from Asia, especially from China.</p>	<p>The most important issue facing the industry is deforestation and the erosion of the industry’s input base.</p> <p>The industry also suffers from old and inefficient plants and machinery.</p> <p>The industry has a very low conversion rate in sawmills: just 36% on average, although the best firms achieve rates of around 70%.</p> <p>Firms in the informal sector lack capital and technical capacity and they have limited access to long-term finance. Most mills are not equipped for downstream processing, and wood products in the informal sector are of poor quality.</p>	<p>Bilateral agreements between timber-consuming and timber-producing countries to exclude illegal products from trade – most notably the Voluntary Partnership Agreements negotiated under the EU’s Action Plan for Forest Law Enforcement, Governance and Trade.</p>
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<p><b>Building and construction</b></p>	<p>The activities of the major construction companies comprise</p> <ul style="list-style-type: none"> <li>• heavy construction, including civil projects such as dams, sewer systems, roads, railways, and infrastructure;</li> <li>• commercial building, including apartments, offices, retail, hotels, schools, and public buildings; and</li> <li>• residential building. It also includes remodeling, renovating, adding to existing structures, and removing them.</li> </ul>	<p>Small-scale and informal activities include the following:</p> <p><b>Engineering and architectural consultants.</b> There are over 100 private small and medium-sized firms in this category, together employing over 500 consultants.</p> <p><b>Construction rental and leasing.</b> Construction rental and leasing is gaining importance as the industry grows.</p> <p><b>Small-scale builders.</b> There are many local firms and individuals operating on an informal and unregulated basis.</p> <p><b>Sand and stone supply.</b> There are many sand and stone contractors who use their own transport to convey materials to the construction site. Again, they are mostly informal companies.</p> <p><b>Water supply.</b> Due to the irregularities in water supply through the national mains, private companies and individuals who own tankers provide water supplies to the sector. Most such arrangements are informal and are largely unregulated.</p>	<p>The biggest challenge facing local contractors is their limited capacity (financial, logistical, and technical expertise), which excludes them from winning major public infrastructure projects.</p>	<p>According to the Ministry for Water Resources, Works, and Housing, Ghana needs to develop 140,000 housing units annually but is only delivering around 40,000. This has led to a housing deficit of approximately one million units. According to the 2011 national budget, a total of 11,199 km of routine maintenance activity and 6,635 km of periodic maintenance activity on the trunk road network needs to be scheduled. Some 201 km of minor rehabilitation work is expected to be undertaken, while major development works for over 200 km of road projects were expected to continue in the 2011 fiscal year.</p>
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<p><b>Metals engineering and assembly</b></p>	<p>The metals, engineering, and assembly sector comprises three distinct groups of firms.</p> <p><b>The aluminum sector.</b> Mining of bauxite; production of aluminum and aluminum products.</p> <p><b>Iron and steel.</b> The manufacture of primary iron and steel products from locally sourced scrap, and the production of steel products.</p> <p><b>Fabricated metal products.</b> This covers products such as tanks and reservoirs, structural metal products such as metal doors and screens, window frames, and architectural metal work.</p>	<p>Many small informal enterprises are involved in metal fabrication. The biggest concentration of informal metal fabricators is the Suame Magazine Industrial Development Organization in Kumasi, in the Ashanti region. Dawson categorized the individuals involved into three groups: blacksmiths who used clay and brick forges and hand tools; a middle group that had achieved a modest level of technological enhancement, mostly through the use of locally made machines; and a group that used machine tools, including at least one lathe, that Dawson calls 'engineering workshops'.</p> <p>While some workers are apprenticed to small enterprises and are not highly skilled, a second group have higher-level technical skills gained during apprenticeships at large enterprises and in technical training institutes.</p>		<p>Initiatives have been introduced to support technology development and transfer to enterprises in the cluster. The Technology Consultancy Centre of KNUST in Kumasi was established to act as an interface between researchers at KNUST and the business community. Additionally, the Intermediate Technology Transfer Unit was established in Suame Magazine to develop the capacity of enterprises to design, manufacture, and service equipment for agricultural and engineering development. Among the impacts of this intervention is the growth of small foundry businesses in other parts of Ghana. The GRATIS Foundation coordinates a network of Intermediate Technology Transfer Units.</p>
<p><b>Pharmaceutical</b></p>	<p>The pharmaceutical sector comprises manufacturers, wholesalers, distributors, retailers and consumers. Within this market, the government of Ghana is a major player, both as a regulator of the market and as a buyer involved directly in the wholesale supply of drugs and healthcare services to public healthcare institutions. Most of the manufacturing companies listed above are also wholesalers. For example, Ernest Chemist Limited has two wholesale outlets and is in the process of setting up a third. Most of the operators stock both local and imported products.</p>	<p>Most retail outlets involve a single pharmacist or licensed chemical seller.</p> <p>In the regional capitals, a pharmaceutical retail unit will be found within 1–2 km of every location.</p>	<p>A limited capacity to enforce regulations is a problem in the sector. Flaws in the public sector payment system and a weak public sector supply chain are also significant issues. A lack of working capital is a major cause of poor and unreliable supply arrangements by wholesalers. The high cost of inputs and the limited availability of qualified personnel are major challenges.</p>	<p>Recent expansions in capacity have made Ghana one of the leading producers and distributors of medicine in West Africa.</p>

<p><b>Plastic and rubber</b></p>	<p>The plastics and rubber industries cover tire manufacturing, plastic products, electrical materials, motor vehicle equipment, rubber hoses, glass, and plastic packaging. Plastic packaging products include consumer products and prescription containers, fiberglass and composite materials, plastic compounds and resins, and household products.</p> <p>The plastics subsector employs 150,000 people in 895 plastic manufacturing companies, producing around 26,000 mt of assorted plastic products annually. About 70% of the plastics companies are located in or close to Accra.</p> <p>About 95% of the country's rubber output is currently exported.</p>	<p>SME are producers of household plastic wares including chairs, bowls, plates, cups, spoons, and buckets. There are several medium and small scale enterprises involved in retailing.</p>	<p>The main issues facing the plastics industry relate to competition from imported products. Operators consider the taxation regime to be disadvantageous to local manufacturers: while raw materials attract an import duty of 10%, imported finished products attract duty of 40%, rendering locally manufactured rubber products uncompetitive compared with imported products.</p> <p>Waste management disposal methods and recycling have been the subject of recent debates among stakeholders.</p>	<p>An important recent development is the increase in income of rubber plantation farmers in the Western and Central regions following the signing of an agreement between Ghana, Germany, and France in 2008. Under the agreement, each farmer is expected to earn US\$5,294 per year for a 4-hectare farm. This is expected to yield US\$24.3 million for the country from the production of 16,500 mt of rubber annually.</p>
<p><b>Handcrafts industry</b></p>	<p>Ghana recorded a US\$1.6 billion earning from non-traditional exports (NTEs) in 2010, representing an increase of 34.1% in value over the US\$1.215 billion (GH¢1.723 billion) recorded the previous year, according to figures by the Ghana Export Promotion Authority (GEPA) September 28, 2011</p>	<p>The handcrafts sector is mainly dominated by a massive number of micro and small enterprises.</p>	<p>Major challenges facing the sector are product quality assurance, innovation, and access to export markets.</p>	<p>The government recognizes the importance of the handcrafts sector and has developed plans to increase its contribution to GDP by more than 100%.</p>