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SMALL- AND MEDIUM-SCALE ENTERPRISES IN GHANA\*

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\* The views expressed in this paper are those of the author and do not necessarily reflect the views of the Secretariat of UNIDO. This document has not been edited.

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## I. INTRODUCTION

1. The purpose of the study is to assess the present situation of the small- and medium-scale industry/enterprise sector in Ghana. Specific issues to be addressed include the identification of the main problems, trends and prospects within the framework of the economic restructuring process.
2. The promotion, development and sustenance of small- and medium-scale enterprises have emerged as the most important contributory factors for economic development and growth. The Government of Ghana, appreciating the role of the small- and medium-scale enterprises in this direction, has initiated various programmes and actions to support individual initiatives designed to create and develop small- and medium-scale enterprises.
3. The key economic programmes initiated by the Government of Ghana are:
  - (a) The economic recovery programme which was unveiled in April 1983 and presented to the Ghana Consultative Group in Paris in November 1993 for the period 1984-1986; and
  - (b) The structural adjustment programme which was to cover the period 1986-1988.

## II. EXECUTIVE SUMMARY

4. Since April 1993, the Government of Ghana embarked on macro-economic policies termed as the economic recovery programme which significantly changed the previous economic policy doctrine from import substitution and large state intervention to more intense private involvement.
5. The economic recovery and the structural adjustment programmes which followed have liberalized trade, removed price controls, created incentives for efficient production and focused public expenditures on improving physical infrastructure and the provision of social services.
6. There has been recognition of the important and catalytic role that small- and medium-scale enterprises can play in the restructuring process aimed at accelerating economic growth and development. It is under this aegis that various institutions and several financing schemes have been developed to support small- and medium-scale enterprises.
7. Small- and medium-scale enterprises in Ghana face a number of problems. One such major problem is finance which has inhibited the growth and expansion of such enterprises. An equally retarding problem is the relative inaccessibility of micro- and small enterprises to research findings and appropriate technology. Other problems include dearth of managerial capabilities and the absence of an effective legal and institutional framework necessary to provide support for the operations of small- and medium-scale enterprises.
8. Various projects and programmes have been developed to address most of the problems. Special financing schemes have been established specifically to support small- and medium-scale enterprises. Notable among the financing schemes are the Small and Medium Enterprise Project and the Industrial Sector Adjustment Credit Project which are administered by the Bank of Ghana (BOG). Funding has been obtained through IDA credits to strengthen institutions that have been specifically set up or evolved to support small- and medium-scale

enterprises. The previous educational policy which was based on wage employment is being replaced with a policy that is directed at self-employment which will enhance the efficiency of small- and medium-scale enterprises.

9. The Government, recognizing the uncoordinated manner in which projects and programmes have been developed and were being implemented haphazardly, established the National Board for Small-Scale Industries (NBSSI) as an apex coordinating body to address the problems. NBSSI has also been administering a funding scheme for the small- and medium-scale enterprises.

10. There is a concerted effort on the part of the Government to encourage small- and medium-scale enterprises to form associations and improve on some of the traditional financing strategies. Private sector representatives are being inducted to serve on policy-making bodies of the Government. Several industrial estates are being established to promote small- and medium-scale enterprises. These developments are clear attestation of the recognition of the role expected from small- and medium-scale enterprises in the growth and development of the economy.

### III. BACKGROUND

#### Socio-economic background

11. Ghana is situated in West Africa. It is bordered to the North by Burkina Faso, to the South by the northern coastline of the Gulf of Guinea, to the East by Togo and to the West by Côte d'Ivoire. The country can be divided into three major ecological zones. These comprise a coastal strip in the South, a forest belt covering about a third of the country, and a dry northern savanna covering about one half of the country.

12. Occupying a land area of about 263,500 km<sup>2</sup>, about the size of Great Britain, Ghana had a population of 14.8 million in 1991. At the present growth rate of 2.9 per cent, the population is expected to reach 20.3 million by the year 2000. Urban population is 33 per cent. In 1990 the population density was 62 inhabitants per km<sup>2</sup>.

#### Economic background

13. Ghana began its independence in a much better economic condition than most Sub-Saharan African economies. Ghana, at independence, had the same per capita income as the Republic of Korea.

14. Agriculture dominates the economy of Ghana. It accounts for 70 per cent of employment and represents 44 per cent of gross national product (GNP) while industry amounts to 17 per cent and services to 39 per cent of GNP. Cocoa constitutes the mainstay of the Ghanaian economy accounting for about 70 per cent of total export earnings and about 10 per cent of gross domestic product (GDP). The mining sector comprising gold, timber, diamonds (industrial) bauxite and manganese contributes about 15 per cent of foreign exchange earnings.

15. Successive governments after independence pursued economic policies that drastically reduced the output of the economy. In 1970, Ghana was producing 403,000 tons of cocoa; however, by 1982 it was officially producing 225,000 tons only, a decline of 44 per cent. In 1980 the value of exports (after inflation) was 52 per cent of that in 1970.

16. Per capita income in constant terms reduced from C640 in 1971 to C460 in 1981. Between 1976 and 1982 real GDP per capita decreased by 3.4 per cent every year and prices increased at a yearly average of 66.8 per cent. Both public and private organizations had virtually ground to a halt because of lack of resources. It was estimated that about 2 million Ghanaians left the country because of lack of economic opportunity. By 1982 inflation stood at 120 per cent and foreign payment arrears had soared to US\$600 million.

17. Ghana also had its share of external shocks. First, the country experienced severe food shortages because of prolonged and extensive droughts. The second shock was manifested in external terms of trade which deteriorated drastically because of increases in petroleum prices and drastic fall in prices of cocoa, gold and manganese. The third shock was the return of over 1 million Ghanaians from Nigeria placing a severe strain on food and compounding the already acute unemployment situation.

18. The Government launched an economic recovery programme in April 1983. The programme established production targets and investment priorities for rejuvenating the economy. The reforms envisaged under the economic recovery programme included:

- (a) Institutionalization of a realistic exchange rate;
- (b) Establishment of realistic relative prices consistent with the vastly depreciated new exchange rate;
- (c) Gradual liberalization of price controls;
- (d) Restoration of fiscal and monetary discipline;
- (e) Reduction of external payment arrears; and
- (f) Rehabilitation programmes for key sectors of the economy.

19. The programme which has since been endorsed and fully supported by the World Bank, the International Monetary Fund (IMF) and a large number of donor countries appears to be on track. From the mid-1980s, real GDP grew by an annual average of about 5 per cent. Between 1983 and 1990, agricultural output had increased by 21 per cent. Over the same period, industrial production recorded a growth of 78 per cent, with an increase in mining output of 74 per cent, manufacturing of 90 per cent and construction of 41 per cent.

#### Institutional background

20. Over the years, successive governments developed various institutions to support both political and economic pursuits. The educational system was mainly focused on academic knowledge leading to wage employment.

21. Special public institutions that were originally set up to provide the necessary management, administrative and technical support to both private and public organizations included:

- (a) The Ghana Institute of Management and Public Administration (GIMPA);
- (b) The Management Development and Productivity Institute (MDPI);
- (c) The Ghanaian Enterprises Development Commission (GEDC);

- (d) The Council for Scientific and Industrial Research (CSIR); and
- (e) the National Vocational Training Institute (NVTI).

22. Other post-independence institutions that emerged to seek the interest and welfare of their members and the public at large were a number of associations and a host of non-governmental organizations (NGOs).

23. The implementation of the economic recovery programme policies has brought into sharp focus the need to address institutional issues such as:

- (a) Lack of adequate administrative and technical manpower;
- (b) Over-reliance on administrative measures to achieve desirable social and economic results; and
- (c) Need for institutionalizing a more effective economic management system.

24. The targeted GDP growth of between 5 and 8 per cent per annum will depend to a large extent on the timely resolution of the institutional issues. This is more so when the pattern of growth and development is expected to revolve to a large degree around small- and medium-scale enterprises.

#### IV. POLICY AND LEGAL ENVIRONMENT

##### Economic development policy

25. Small- and medium-scale enterprises operate on sole proprietorship, partnership or as limited liability companies. Management is more of an informal nature and relies almost exclusively on personal practical experience or from father to son legacy.

26. Most small- and medium-scale enterprises operate with outdated technology and obsolete machinery.

27. Recognizing the potential of small- and medium-scale enterprises in the creation of sustainable jobs for the unemployed, alleviation of poverty, especially in rural areas, and the advantage of minimizing income disparities among social groups, there was a need to develop an appropriate economic policy.

28. Subsequently, a concerted and comprehensive economic development policy was developed within the framework of the economic recovery programme.

29. The thrust of the economic recovery programme was directed at:

- (a) Realigning relative prices in favour of productive sectors (particularly cocoa, timber and minerals);
- (b) Rehabilitating the production base and social and economic infrastructure;
- (c) Moving progressively away from direct controls and government intervention towards greater reliance on market forces;

- (d) Restoring fiscal and monetary discipline; and
- (e) Encouraging expanded private investment.

30. Specific action programmes that emanated from the economic recovery programme policy directives included:

- (a) Exchange rate adjustments;
- (b) Incentives;
- (c) Fiscal measures;
- (d) Prices;
- (e) Public sector management;
- (f) State-owned enterprises; and
- (g) The private sector.

(a) Exchange rate adjustments

31. Periodic exchange rate adjustments were undertaken as part of measures to steadily eliminate distortions in prices and resource allocation. Between April 1983 and October 1993 the Ghanaian cedi has been devalued as much as 26,264 per cent.

(b) Incentives

32. A number of incentive schemes were provided under the economic recovery programme.

33. The Cocoa Board (COCOBOD) continued to distribute free seedings as well as spraying materials to encourage replanting.

34. Crop storage programmes were initiated and producer prices for cotton, tobacco and maize were relaxed.

35. Export retention of a portion of export earnings was introduced to enable exporters to use their foreign exchange earnings to import equipment, spare parts and essential inputs and to meet external financial obligations.

(c) Fiscal measures

36. Budgets were aligned with the policies and programmes of the economic recovery programme as a means to step up mobilization of domestic resources and judicious allocations to capital expenditures for rehabilitating the production base and social and economic infrastructure. Annual budgetary deficits registered surpluses in 1987. This enabled the Government to reduce its indebtedness to the banking system by over C200 billion. Corporate tax rates for agriculture, manufacturing, real estate, manufacturing were reduced from 45 to 35 per cent. The corporate tax rate for financial institutions was also reduced from 45 to 40 per cent.

(d) Prices

37. Prices paid to farmers for cocoa purchases were aligned to world market prices.



38. Prices were continuously deregulated to allow greater reliance on market forces. At the end of 1985, administered prices existed for only 11 manufactured and imported products.

(e) Public sector management

39. Identified problems manifested in a steadily declining trend in real wages, over-staffing, narrow wage differentials and depletion of skills. Measures were initiated to reform the wage structure and redeploy redundant staff. Over 60,000 staff have so far been redeployed from the civil service by mid-1993.

(f) State-owned enterprises

40. Measures put forward to address the disappointing performance of state-owned enterprises were:

- (i) Institutional restructuring of the sector;
- (ii) Reform and phased rehabilitation of selected state-owned enterprises; and
- (iii) A phased divestiture programme for selected state-owned enterprises.

41. The rationale for the measures was basically to assess the equity and capitalization needs of productive state-owned enterprises given the constraints on government finances.

(g) The private sector

42. The Government, recognizing the immense contribution from the private sector to accelerate development and growth, initiated actions to revise the investment code.

43. The benefits envisaged under the new code included:

- (i) Exemption from payment of duties on imported essential plant, equipment and accessories;
- (ii) Attractive depreciation and investment allowances;
- (iii) Income tax rebates; and
- (iv) Permission to maintain external accounts in which 35 per cent of foreign exchange earnings may be retained for import of equipment and inputs and for payment of dividends and remittances abroad.

Liberalization and deregulation measures

44. Since the country's independence in 1957, the Governments of Ghana established price control mechanisms and import licence systems ostensibly to control inflation, redistribute income and promote priority sectors. Such controls discouraged the production of controlled items and tended to be counterproductive by increasing the scarcity and market prices faced by most consumers. They encouraged the trading activity of procuring items at controlled prices for sale at much higher market prices. They discouraged private investment and encouraged black market development.

45. Phased liberalization and deregulation measures were adopted. Special unnumbered licences were introduced as a means to facilitate importation of goods by individuals without resorting to BOG. This also afforded Ghanaian

outside Ghana to remit directly to recipients back home. An auction system based on the auction of some foreign exchange for imports under an open general licences was also adopted. More goods were removed from the list of controlled items, and distribution controls were also lifted.

#### Private sector development

46. One of the basic cornerstones of the economic recovery programme was to make the private sector play a pivotal role in the development of the economy. The reestablishment of market mechanisms through the deregulation of agricultural input prices and the systematic elimination of public monopolies in distribution and marketing were key measures to allow the private sector to assume more economic responsibilities.

47. The Government inducted private sector representatives into policy-making bodies such as the National Economic Commission (NEC) and the Tripartite Committee (TC) which dealt with pricing, wages and other issues involving government, management and labour.

#### Effects of the restructuring process on the development and operations of small- and medium-scale enterprises

48. The impressive economic turn-around in 1984 and 1985 as a result of the introduction of the economic recovery programme in April 1983 was the basis for the development of a rolling structural adjustment programme which was initially targeted to cover the period 1980-1988.

49. The key elements in the structural adjustment programme are:

- A move towards the achievement of a realistic exchange rate;
- Increases in the real price of cocoa to producers;
- A drive towards trade liberalization; and
- Incentives to save and invest.

50. Therefore, the structural adjustment programme was introduced to eliminate economic distortions, reinforce market mechanisms and improve public sector management of the economy.

#### (a) Exchange rate

51. Ghana devalued its currency, the cedi, by more than 8,000 per cent between 1983 and 1988. The result has rather been a significant increase in prices of imports. The increases have enabled small- and medium-scale enterprises in some product markets to compete well with imported goods.

52. Small- and medium-scale enterprises involved in the production of soap, tie and dye clothing and of leather sandals have greatly suffered as a result of massive devaluation. Cheap imports of second-hand clothing, plastic sandals and soap, especially from the Far East have led to the closure of a number of small- and medium-scale enterprises.

53. Many small- and medium-scale enterprises sought ways to make greater use of local raw materials. Examples in this area include the use of crushed oyster shells to obtain quick lime for locally made paint, a new method of

processing local clay to make bricks, utilization of locally produced aluminium sheets to produce low-cost filing cabinets and reworking of scrap metal to make trunks, water coolers and commercial freezers.

(b) Increase in the real price of cocoa

54. The improvement in incentives to cocoa farmers was a major thrust of the structural adjustment programme. Producer prices were increased two and a half times between the 1982/83 and the 1984/85 growing seasons. The Ghana producer price of US\$943 per ton during this period compared favourably with the Côte d'Ivoire producer price of US\$763 per ton. The producer price of C0.6 per kilogramme in 1975 was increased to C165 per kilogramme in 1988.

55. Replanting to replace aged trees and those infected with the swollen shoot virus disease increased considerably. There is clear evidence of renewed activity to increase export of cocoa which is predominantly in the hands of small- and medium-scale enterprises.

56. The introduction of the structural adjustment programme had a very positive impact on small- and medium-scale enterprises in the cocoa sector.

(c) Trade liberalization

57. Trade liberalization, which removed price controls as well as parastatal monopolies over the sale of certain goods and purchases, distribution and processing of certain crops have had profound impact on the activities of most small- and medium-scale enterprises.

58. The removal of price controls and of parastatal monopolies has opened up great areas for economic development of small retail and processing firms. Increases in the availability of inputs and tools have enabled small- and medium-scale enterprises in the manufacturing sector to innovate and improve productivity. Mechanics comprising about 5,000 craftsmen working in makeshift sheds in "Suame Magazine" in Kumasi have immensely flourished under the structural adjustment programme. These mechanics in the small garages and workshops repair and rehabilitate old vehicles and machinery and transform scrap materials using relatively primitive tools. As much as 80 per cent of the aging vehicles are serviced and built by informal garage complexes that have sprung up as a result of the structural adjustment programme.

(d) Incentives to save and invest

59. Increased foreign exchange costs of imports have created severe working capital constraints on a large number of small- and medium-scale enterprises. The continuous increase of interest rates designed to remove the severe disincentive to financial savings and encourage the use of credit facilities has not helped the small- and medium-scale enterprises.

60. Given the legacy of the past with respect to both price increased and business confidence, most small- and medium-scale enterprises have shied away from seeking financial assistance from well established financial institutions.

Small-scale enterprise policy and strategy

61. Successes so far achieved as a result of the structural adjustment programme have reinforced the already held premise that small- and medium-scale enterprises hold the banner for growth and development of the

economy. There is clear recognition that small- and medium-scale enterprises are channels for:

- Employment generation;
- Entrepreneurship development;
- Extensive use of local resources; and
- Promotion of exports.

62. Small- and medium-scale enterprises, however, are beset with a multitude of problems. These include lack of capital, dearth of managerial capabilities, and lack of appropriate legal and institutional framework necessary to provide support for the effective functioning of the sector.

63. Policies and strategies so far advanced to promote small- and medium-scale enterprises are embodied in the overall macro-economic policies in support of the economic recovery programme and in particular the structural adjustment programme. These are enumerated below:

(a) Financial support

64. Policy and strategy initiatives advanced in the financial sector include the promotion of co-operatives, rural and community banks, small finance companies and licensed savings and loan companies. These are small-scale financial institutions that are familiar with and capable of tackling the problems of small- and medium-scale enterprises.

65. Foreign credit facilities and other supplemental financial resources that have been organized by the Central Bank (CB) to promote small- and medium-scale enterprises include, among others:

- (i) The Small and Medium Enterprise Project; and
- (ii) The Industrial Sector Adjustment Credit.

66. These are IDA credit lines designed to ensure that institutional credit is made available to small- and medium-scale enterprises. US\$30 million are meant for the promotion and financing of private sector small- and medium-scale enterprises in Ghana. There is an institutional building component of US\$2 million to be used to strengthen the institutional and delivery capacity and capability of banks, the Fund for Small and Medium Enterprise Development (FUSMED), the National Board for Small-Scale Industries (NBSSI) and the Women's World Banking to enable them to provide non-financial support to the small-scale enterprise sector.

(b) Legal and institutional support

67. Legal policies and strategies embarked upon consist of:

- (i) The promulgation of a law to check unethical business practices borne out of liberalized trade;
- (ii) Amending the investment code to reflect current realities of attracting more private investment; and
- (iii) Reviewing, repealing or amending the Exchange Control Act 1961 (Act 71), the labour decree 1967 (NLCD 157), the Industrial Relations Act 165 (Act 299 as amended) and the imports and export Act 1980 (Act 418).

68. The underlying intention of initiating the legal actions is to ensure the orderly and sustainable development of small- and medium-scale enterprises.

69. The Government recognizes the existence and practices of various institutions which seek to promote the development of small- and medium-scale enterprises. Projects and programmes of the institutions are, however, uncoordinated. The Government has established NBSSI as the apex institutional body to coordinate the projects and programmes designed to support the small- and medium-scale enterprises. Other institutional policies and strategies developed to support small- and medium-scale enterprises include:

- (i) The establishment of small- and medium-scale associations and co-operatives; and
- (ii) The identification and promotion of non-traditional exports through the Ghana Export Promotion Council (GEPC).

(c) Infrastructure development

70. Considerable investment has been made in recent times to improve the ports, harbours, railways and roads. Particular attention has been devoted to the development of feeder roads as a means to improve the delivery services of small- and medium-scale enterprises.

71. Quite a number of industrial estates have been developed for small- and medium-scale enterprises. The facilities are usually rented out to micro- and small enterprises at minimal cost and are meant to offer them the opportunity to develop forward and backward linkages while working in close proximity.

72. A concerted programme to increase access to electricity from 33 per cent in 1992 to 43 per cent in 1995 is being pursued. A similar project to increase access to potable water to 75 per cent is under way.

73. Improvement of infrastructure is expected to reduce post-harvest losses of small- and medium-scale enterprises which presently stand at 45 per cent.

## V. INSTITUTIONAL ENVIRONMENT

### The institutions

74. The introduction of the economic recovery programme in April 1983 and the structural adjustment programme in 1985 have brought into sharp focus a renewed and widespread recognition of the importance of small- and medium-scale enterprises as agents for balanced economic growth and welfare.

75. As part of the measures to provide support for the development of small- and medium-scale enterprises, the Government has set up a number of institutions. As indicated earlier, other private institutions have emerged to supplement the work of the government institutions. In all these efforts, however, the stream of managerial, technical and other support services provided by the institutions appear to be haphazard.

76. Programmes developed under the economic recovery programme to strengthen the institutions so that they can comprehensively support the development of small- and medium-scale enterprises include:

- The reform of the educational system; and

- The establishment of an apex institution to coordinate the various activities of the small- and medium-scale enterprises.

(a) Reform of the educational system

77. Prior to the initiation of the education reform programmes in 1987, the content of the educational system was geared towards wage employment. The system produced graduates who were not equipped with entrepreneurial skills for self-employment.

78. Major policies that have ensued from the reform package are qualified to succeed if:

- (i) The teaching of entrepreneurial skills is well integrated with managerial and technical skills in all training institutions; and
- (ii) Apprenticeship and periodic opportunities are opened up for trainees and trainers to obtain practice in business and industry to bridge the gap between training institutions and businesses within the community.

79. Strategies proposed to address the policy issues are directed at:

- (i) Incorporating entrepreneurship training and apprenticeship in the new educational curricula to prepare the youth towards self-employment;
- (ii) Providing appropriate training for teachers/lecturers including internship with private enterprises;
- (iii) Developing new educational materials and method for integrating technical and entrepreneurship training; and
- (iv) Establishing small business centres in universities and post-secondary institutions to provide assistance to potential graduate entrepreneurs.

80. The programme through which the strategies are to be adopted are well entrenched in the primary, junior and senior secondary education system in the country. The programmes are scheduled to reach the tertiary level by 1994.

(b) Apex institutions

81. The multiplicity of institutions both private and public have brought in their wake a host of problems. Firstly, there appears to be a lack of coordination between the institutions resulting in duplication and at times waste of resources. Secondly, there is the absence of linkages between both the private and public sector institutions and between various business associations.

82. The Government, as an attempt to resolve the problems, established NBSSI in 1981. NBSSI was charged with the responsibility to:

- Design, develop and implement a specific plan of action to meet the needs and expectations of organized groups operating in the small-scale industry subsector;
- Establish the infrastructure required to accelerate the implementation of policies or execution of programmes aimed at developing the subsector; and

- Co-ordinate the efforts of all agencies, ministries and donor countries on matters relating to the promotion of small-scale industries in Ghana.

83. Since its inception, NBSSI has so far conducted 12 entrepreneurship development programmes, provided business advisory services to over 2,684 small- and medium-scale enterprises, conducted 3 entrepreneurship awareness seminars, 15 information seminars, 28 management training programmes and 12 technical workshops.

#### Government support and funding of institutions

84. Institutions operating under the public sector depend on government funding. Their activities are limited because of the Government's budgetary constraints. Irregular financial resource flows to those institutions render the planning and implementing of programmes more difficult. The ability to raise funds by way of fees is restricted by the Government.

85. Private institutions obtain financing from:

- (a) Donor countries;
- (b) Fees charged for undertaking special projects initiated by the Government and donor countries; and
- (c) Dues paid by members of the respective institutions.

86. Government funding in general has been spread so thinly so as to cover a large number of institutions yielding sub-optimal results.

#### The enabling environment

87. The creation of institutions has been supported by responses to address various issues ensuing from the economic recovery programme. Notable among these have been the high interest rates and the fact that most small- and medium-scale enterprises are considered to be less creditworthy by the financial institutions.

88. Considering the limited resources of government support institutions, entrepreneurs would receive maximum benefits if these institutions were converted into private sector business associations.

89. The associations should be encouraged to:

- (a) Meet the technical and managerial needs of their members by taking a more active role in facilitating non-financial promotional programmes and services;
- (b) Provide training for their members;
- (c) Develop action research programmes to improve the products and services of their members;
- (d) Collect and disseminate information regarding current issues and trends in their specific sector; and
- (e) Develop their own lobbying capacity to become more effective channels for expressing the interests and concerns of their members at the local, regional and national levels.

90. The Government, mindful of the immense contribution from the private sector for the realization of the economic recovery programme, has inducted private sector representatives from their respective associations into policy-making bodies such as TC. These new measures are expected to throw away the ambivalent posture adopted towards the private sector in the past.

## VI. FINANCING

### The banking sector

91. The institutional banking network in Ghana is made up of 6 commercial banks, 4 development banks, 4 merchant banks and 123 rural banks. At the centre, supervising and controlling the institutions, is BOG, the central bank of the country.

92. The commercial banks control about 70 per cent of the total assets of the banking system. The development banks, while expected to attend to their respective specialized areas such as agriculture, housing and construction and other service-related sectors, have shifted into significant commercial banking because of high risks and limited profitability in their respective restricted sectors. The merchant banks which provide services including trade finance, supplier and other credits, bill discounting and acceptances, and expert financing, among others, are relatively new entrants into the banking system. The rural banks were established primarily as a means to mobilize resources and extend credit to the local communities. The initial capital of the rural banks was contributed by BOG, while management and ownership were given to the local communities.

### The non-banking sector

93. There are a number of non-banking financial institutions in Ghana comprising of: the Ghana Consolidated Discount House Limited, the Securities Discount Company, the Ghana Stock Exchange, the Home Finance Company, the Export Finance Company, savings and loan companies, the Venture Fund Company, the Ghana Leasing Company, insurance companies, building societies, and the Credit Union Association (CUA).

94. The functions of these institutions vary. The institution that greatly impacts on the activities of small- and medium-scale enterprises is CUA. It has 213 credit unions throughout the county, many of which are found in the rural areas where access to formal credit is very low. As at the end of May 1991, the credit unions had mobilized C45.5 million which represent 0.2 per cent of total savings mobilized by all banks and had lent C13.4 million representing 0.5 per cent of total lending.

### The informal financial sector

95. The informal financial sector comprises all financial transactions that take place outside the formal financial sector. Characteristics of the informal financial sector include:

- Fast procedures with very little documentation;
- Flexible system of operation largely based on mutual trust;
- Close proximity to customers both geographically and socially;



- Medium of transactions normally based on local languages; and
- Low transaction costs.

96. Institutions that operate in this sector include "Susu" operators, savings and loan associations, money lenders and local supplier credit facilities. A brief description of "Susu" operators and savings and loan associations is given below.

(a) "Susu" operators

97. "Susu" is a traditional system of savings and loan activity in which a group of between 5 and 12 people who know and trust each other decide to contribute to a fund periodically.

98. At the end of each period, agreed upon by members, each member takes a turn at drawing on the lump sum, i.e. the total savings in the fund. In this system, a "Susu" collector who is usually somebody known and trusted by all members goes round to collect the savings of members.

(b) Savings and loan associations

99. Savings and loan associations operate in a manner similar to "Susu" operators. The major difference is that the one who collects and keeps the money is usually a member of the group. They are usually found in work places among junior staff members of the public and civil service and among traders.

Reform of the financial sector

100. A reform of the financial sector is a very crucial element in the economic recovery programme package. Issues that are being addressed consist of the efficiency of banking operations, the role of BOG in supervising the commercial banks, credit allocation and development of capital markets.

101. A restructuring of several banks under a financial sector adjustment credit has been the fore-runner of the reform package. Expectations from the restructuring process included:

(a) Provision of prudential guidelines from BOG to govern operations of the banks;

(b) A clean-up of loan portfolios of banks by transferring bad loans to the Non-performing Assets Recovery Trust (NPART);

(c) Rationalization of branch networks of banks; and

(d) Streamlining of systems, procedures and management information systems of the banks.

102. Sectoral credit ceilings which had proven ineffective in channelling credit to priority sectors were gradually phased out after 1987. Despite the removal of sectoral requirements, most banks continue to provide loans by sector with a relative low rate for agriculture and high rate for construction. Most banks are not pricing loans to large businesses differently from micro- and small enterprises.

Lending scheme

103. Generally, micro- and small enterprises who require loans have to apply the same regulations and follow bank procedures as medium- and large-scale enterprises. Despite its priority status and high unsatisfied demand for credit, micro- and small enterprise lending is a marginal activity of the banks. A number of lending schemes has, therefore, been introduced as part of the economic recovery and structural adjustment programmes.

(a) Lending schemes administered by the Bank of Ghana

104. As outlined in para. 65, the major lending schemes administered by BOG are the Small and Medium Enterprise Project and the Industrial Sector Adjustment Credit. The components of the Small and Medium Enterprise Project Scheme include, among others, the following:

- (i) The Fund for Small and Medium Enterprise Development (FUSMED);
- (ii) The Mutualist Credit Guarantee Scheme;
- (iii) The credit guarantee scheme;
- (iv) The export credit insurance scheme; and
- (v) The exchange risk guarantee scheme.

105. These are financial schemes designed to ensure that institutional credit is made available to small- and medium-scale enterprises.

106. FUSMED project funds have been channelled through selected financial institutions to small- and medium-scale enterprises in all sectors of the economy other than those in primary agriculture, trading and real estates. The purpose was to establish new small- and medium-scale enterprises and rehabilitation or expansion of existing ones, equipment lease financing and carrying out feasibility studies and other related services. Out of a total credit of US\$25 million made available under the project, US\$22.2 million have so far been committed to eligible small- and medium-scale enterprises.

107. The Mutualist Credit Guarantee Scheme revolves around the concept of mutualist guarantee associations which will endorse members for guarantee facilities under the scheme and thereby encourage financial institutions to grant the required loan to small- and medium-scale enterprises.

108. The credit guarantee scheme aims at encouraging financial institutions to extend credit facilities to small- and medium-scale enterprises whom they are normally reluctant to accommodate for lack of collateral.

109. The export credit insurance scheme seeks to insure the exporter against credit risks resulting from protracted default and insolvency of buyers abroad as well as restrictions on remittances by the government in the buyer's country, war, civil disturbances etc.

110. The exchange risk guarantee scheme provides cover for the risk arising from depreciation of the local currency.

(b) Non-governmental organization (NGO) lending scheme

Several NGOs operate lending schemes in Ghana. Notable among them are:

- Technoserve Inc.;
- Global 2000;

- Amasachina; and

- The Canadian Universities Services Overseas (CUSO).

111. These schemes cover specific activities and are usually restricted to certain geographical areas and are mainly agricultural related.

Access to loanable funds

112. The potential requirements imposed on banking institutions under the financial sector adjustment programme and the new banking law have greatly constrained the banks for lending to small- and medium-scale enterprises. Access to loanable funds is constrained by:

(a) Delays in obtaining data for the preparation of feasibility studies;

(b) Centralized decision-making and thus the inability of branch managers of banks to provide ready assistance to micro- and small enterprises in the regions;

(c) Decreasing share of bank lending to deposits over the years; and

(d) The present tangible collateral and equity requirements.

113. Improvements so far made to enhance access to loanable funds are manifested in the following:

(a) Planned decreases in the level of deficit spending by the Government. Such measures increase the amount of liquidity in the financial system. This can directly benefit small entrepreneurs who are marginal borrowers;

(b) Reduction of income and corporation taxes. This action is intended to increase savings;

(c) Establishment of special financing schemes for the small-scale enterprise sector, i.e. the Small and Medium Enterprise Project, the Industrial Sector Adjustment Credit and NGOs cum donor schemes; and

(d) A move to establish a credit reference bureau in the private sector to replace the present tangible collateral and equity requirements.

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