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September 2008



MINISTRY OF STRATEGY  
AND FINANCE

**KDI** Korea Development Institute

Building the Foundation for the Development of SMEs in Ghana

Knowledge Sharing Program



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<u>Prepared for</u>	The Government of Ghana
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Knowledge Sharing Program

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MINISTRY OF STRATEGY AND FINANCE



Korea Development Institute

# Preface

In the 21st century, knowledge is the key factor in determining a country's level of socio-economic development. From this recognition, the Knowledge Sharing Program (KSP) was launched in 2004 by the Ministry of Strategy and Finance (MOSF) and the Korea Development Institute (KDI). The KSP is designed to contribute to the socio-economic development of the targeted development partnership country by sharing Korea's development experience. The most distinguishing characteristic of the KSP is that it is demand-driven and participation-oriented. The program analyzes the problems from the partnership country's perspective and provides policy implications that are not far-reaching but can be practically implemented in the environment of the partnership country. For Ghana, the Knowledge Sharing Program was initially launched with close cooperation between the Korean Embassy stationed in Ghana and the Ministry of Trade, Industry, PSD and PSI of Ghana.

Through an extensive survey of the Ghanaian government and agencies, KDI and the Institute of Economic Affairs of Ghana (IEA), the counterpart organization for the KSP, decided to tackle the issue of SME development for sustained economic growth in Ghana. After in-depth discussions, four sub-themes were selected: An appraisal of SMEs as a driving force of sustained economic growth in Ghana; Improving legal and regulatory environment for SME development; Enhancing access to capital and technology for SMEs; HRD and Systems of fostering SMEs.

Upon this occasion of publishing the results of the KSP for Ghana, I have a strong belief that the program results will be of great value for both Korea and Ghana. For Korea, it will provide an opportunity to learn about the SME environment in Ghana and for Ghana, Korea's past experience in the SME sector

will provide valuable policy implications and alternatives for further SME development.

I would like to take this opportunity to express my gratitude to the project manager Dr. Seung Hun Chun and all the project consultants including Dr. Jae Hoon Lee, Dr. Jae Pil Park, Dr. Chi Seung Song and Dr. Ki Won Kang for all their hard work in successfully completing the KSP. I would also like to thank former Minister Jong Chan Choi who served as the Chairman of the KSP Steering committee and other Committee members. My sincere thanks go to all the Ghanaian officials and counterpart experts who actively supported the project, particularly Honorable Gifty Ohene-Konadu, the Deputy Minister for Trade, Industry, PSD and PSI. Lastly, I would also like to thank the members of the Office for Development Cooperation (ODECO) of KDI for their dedication and contribution to the project.

Through this Knowledge Sharing Program, I hope the Ghanaian government and relevant line ministry personals could benefit from the Korean experience. I also hope our final report, which sets out the requisite policy undertakings required in enhancing human resources development, the legal and regulation framework, and capital and technology access for SME development could be used as a catalyst in bringing the Ghanaian economy one-step closer to the world market. The policy recommendations in this report, however, are based on the Korean experiences and are solely the opinions and recommendations of the authors.

Jung Taik Hyun  
President  
Korea Development Institute

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## 1. Introduction

The Ministry of Strategy and Finance (MOSF) of the Republic of Korea undertakes the Knowledge Sharing Program (KSP) for selected developing countries each year in order to assist the target countries in advancing their economic development by sharing Korea's own policy experiences through policy consultancy.

MOSF and the Korea Development Institute (KDI) launched the KSP for Ghana in 2007, and appointed the Korea Institute for Development Strategy (KDS) to perform the policy consultancy. The KDS organized the consulting team with four consultants including the project manager. The Korean team of consultants have performed policy consultancy on four specific policy objectives:

- First, A Strategic Approach for the Development of Small Scale Enterprises
- Second, Improving Legal and Regulatory Environment in Ghana
- Third, Enhancing Access to Capital and Technology for SMEs
- Fourth, Human Resources Development and Systems of Fostering SMEs

These policy objectives were undertaken under the agreement between the Ministry of Finance (MOF) of the Republic of Ghana and MOSF of Korea.

For the KSP with Ghana, the Korean KSP consultants organized the Pilot Study (February 2008) and the Interim Reporting Workshop (May 2008) in Accra, the Final Reporting Workshop (July 2008) immediately followed by the Policy Practitioners' Workshop in Seoul,

and the Senior Policy Dialogue and the Public Dissemination Seminar (August 2008) in Accra. The exact dates for those workshops differed from project to project.<sup>1</sup>

On each project, the Korean consultants worked closely with the relevant Ghanaian officials as a single working group. In collaboration with the Ministry of Finance (MOF) and the Institute for Economic Affairs (IEA) of Ghana, the MOSF and the KDI of Korea held the Senior Policy Dialogue at the conference room of the Ministry of Trade, Industry, PSD & PSI and the MOF in Accra on August 12th, 2008, in order to present the KSP consultants' findings and recommendations to the senior officials of the MOF and the MOTI, PSD & PSI on those four subjects. On August 14th, the Public Dissemination Seminar was held in Dodowar, Ghana, to provide the policy recommendations on the four subjects: A Strategic Approach for the Development of Small Scale Enterprises; Improving Legal and Regulatory Environment in Ghana; Enhancing Access to Capital and Technology for SMEs and Human Resources Development and Systems of Fostering SMEs.

The Public Dissemination Seminar was attended by more than fifty people including public officials, businessmen, and experts. Mr. In-ho Kim, the former chairman of the Fair Trade Commission, Ministerial level, and Mr. Kwaku Agyeman Manu, the Deputy Minister of the MOTI, PSD & PSI, gave the opening remarks, and four Korean consultants delivered keynote speeches on the recommendations on each policy subjects for the development of SMEs in Ghana.

The present report consists of the four chapters, which have been subsequently completed on those four component projects. The key findings from those projects are highlighted in the following executive summary.

## 2. Executive Summary

### ● Project objectives

The Knowledge Sharing Program (KSP) for Ghana aims at promoting Ghana's sustainable economic growth by assisting the Ghanaian government to build systematic policies and

1. The dates for the Pilot Study and Interim Reporting Workshop were 23 Feb.-1 March and May 10-25, 2008. The dates for the Final Reporting and Policy Practitioners' Workshop were 1-5 July, 2008. The respective dates for the Senior Policy Dialogue and Public Dissemination Seminar were 12 and 14 August, 2008.

appropriate administrative bases necessary for the development of SMEs in Ghana. In spite of recent robust economic growth there has been displeasure at Ghana's historical economic stagnation. Five decades ago, Ghana was more economically developed than countries such as Korea, Mauritius, Malaysia, Kenya or Botswana. It is in the light of such historical underperformance and comparisons that Ghana has now stepped up its pursuits to joining the ranks of a middle income economy by 2015. Ghana's strategic economic focus has therefore shifted from macroeconomic stability to private sector development as the engine for attaining sustained economic growth. SMEs are at the core of private sector vitality and hence it is necessary to reinvigorate them to act as the backbone to Ghana's economy.

## ● Expected Benefits of the Project

If successfully implemented by adopting the policy measures and institutional reforms recommended here, it is expected that the project would have three main effects namely:

- Produce a rapid growth in SME start-ups within the first two years of implementation;
- Significantly expand the market access and FDI for target SMEs sectors within 8 years of commencement of implementation of the policy measures;
- Sufficiently enhance the scale and competitiveness of SMEs to prepare them for global competition by the 10th year of implementation.

## ● Team Assessment and Prospects for the Ghanaian SMEs

SMEs in Ghana constitute more than 90% of business units and provide employment to more than 60% of employed labor force. This places SMEs squarely at the core of any overall economic policy for development. In order for SMEs to operate optimally, they need to be rooted in a conducive environment. An analysis of the business circumstances that surround SMEs in Ghana however suggests that there are numerous obstacles to SME development. Some of these include:

- Low level of entrepreneurship and managerial skills;
- Low level of technological capacity;
- Low level of international competitiveness in labor productivity and capitalization;
- Low market accessibility;
- Lack of vertical linkages and undeveloped clusters;
- Poor access to financing and
- A rigid labor market and low level of technical skills.



These impediments prevent SMEs from attaining agility, flexibility, networking capacities and economies of scale, all of which would contribute in enhancing SME competitiveness in Ghana. In addition, Ghana suffers from two key economic obstacles which need to be addressed through vitalization of entrepreneurship and the industrial base. These are a poor and shrinking manufacturing base as well as chronic deficits in its current account. Sustained growth will depend on Ghana's success in reversing these drawbacks.

## ● Policy Recommendations

A comprehensive SME development strategy comprises three components. First an SME strategy involves a carefully planned sectoral and industrial support strategy. Second, it involves key policy actions in fostering a better SME ecosystem (regulatory environment, capital and technology and human resource development). Third, SME development requires a phased implementation sequence that infuses policy actions within a planned time frame. The ultimate goal is to establish a strong national foundation upon which SMEs can grow to become the backbone to sustained economic growth.

### *<Component One: Overall Strategic Framework for SME Development>*

In a country embodied with chronic obstacles that hinder the development of SMEs, usual policies may not suffice for preparation of a sound foundation for SME development. With special reference to the Korean experience of SME development, this chapter proposes a comprehensive policy framework to build the foundation for the development of SMEs. The policies for supporting the SMEs may be pursued by a step-wise approach in the following way:

- Setting-up of target industries based on possession of comparative advantages, as well as future potentials of that industry. A list of candidate target industries is presented;
- Strategic inducement of foreign capital in the target industries;
- Strategic support for blue chip SMEs in the target industries for a given period of time with clear sunset clauses. The tools for preferential incentives could include, tax benefits, financial subsidization, market guarantees, subsidization in R&D, preferential credit allocation and guarantees, export awards and commendations and so on;
- National drive to foster technical man power in full consideration of labor demand in the market;
- Withdrawal of state intervention and complete opening to the global competition through deregulation and abolition of protection measures.

## *< Component Two: Recommended Policy Actions >*

This strategy should be buttressed with actions for improving the business environment in the four areas of business environment through policy recommendations. In fostering the regulatory environment, the following recommendations have been proposed:

- Revise and update the Companies Code of 1963 to reflect the changing business environment and to support the private sector development especially the SME sector;
- Introduce a negative licensing system;
- Exempt SMEs from labor/employment regulations;
- Create “land banks” where land owners who may wish to offer their land for leasing or renting on a long term basis, can register their details.
- The Government of Ghana (GoG) should continuously place its efforts to reform administrative regulations in order to convert informal firms into the formal sector.

In fostering access to Capital and Technology for SMEs the following recommendations have been proposed:

- Ghana should lower the entry barriers for GSE listing;
- Ghana should take actions for market transparency and investor protection by the reinforcement of announcement by listed companies, the tight monitoring role of regulators, and the enhancement of self-regulation by the GSE as a Self Regulation Organization (SRO);
- Ghana must consider a separate trading session for large firms and venture firms to facilitate financing from securities market for technology based firms whose performance may be poorer than that of large firms;
- The standards of entry barrier and the requirements of delisting for technology based firms must be applied differently to large firms or traditional SMEs;
- Ghana should make an effort to bring along talented financial specialists capable of risk management in preparation for market and credit risk due to a sudden drop of financial asset price;
- Ghana should raise its government fund and make efforts to expand the exit market for promoting the venture capital market;
- Ghana should consider establishing a credit guarantee system for traditional and technology-based SMEs in order to stimulate bank loans by sharing credit risk between bank and the government;
- Ghana should endeavor to provide policy fund transparently to SMEs so as to increase credit accessibility for the market failure area (innovative and technology-based SMEs);
- Ghana should expand the lending capability of bank in Ghana by lowering government borrowing from domestic banks as well as stabilizing the interest and inflation rates;

- Ghana should lower the Reserve Requirement Ratio for banks in order to increase the pool of capital available for lending to borrowers;
- Ghana should increase the credit guarantee accessibility by vitalizing the existing funds and expanding the opportunities for shared risk management between banks, the government and SME borrowers;
- Ghana should provide efficient policy funding systems by introducing specific financing opportunities for certain target economic activities. This complements private financial markets;
- Ghana should introduce national credit bureau (NCB) in order to increase the public information systems for credit-worthiness about business. This increases predictability in the credit acquisition process;
- Ghana should make relationship banking of rural and community banks (RCB) possible where banks and borrowers build long term relationships that foster trust and good background knowledge on credit capabilities of potential borrowers.

In fostering Human Resource Development and Administrative Institutions for SME development the following recommendations have been made;

- Embark on a radical national campaign for eradication of illiteracy;
- Create highly specialized and optimally funded ‘model’ schools for technical training;
- Establish national institutes of research and human resource development for gold, cocoa and bio-fuel industry;
- Create a governmental agency under the Office of the President, or an inter-ministerial level control tower responsible for coordinating the governmental efforts of fostering SMEs;
- Enact a SME support Law;
- Lead and monitor SME development by the president;
- Enhance interactions between business organizations and the government in order to deal promptly with challenges and opportunities.

### *<Component Three: Action Steps and Phased Implementation>*

Building the foundation of SMEs goes through three main implementation phases, as the figure below shows: (1) Preparation of foundation stage; (2) The take-off stage; and (3) The sustained growth stage. It is estimated that it takes two years for the preparation of foundation and seven years for the take-off stage, which means that about 10 years are needed to prepare a sound base for SME development. Within each phase the following actions should be completed:

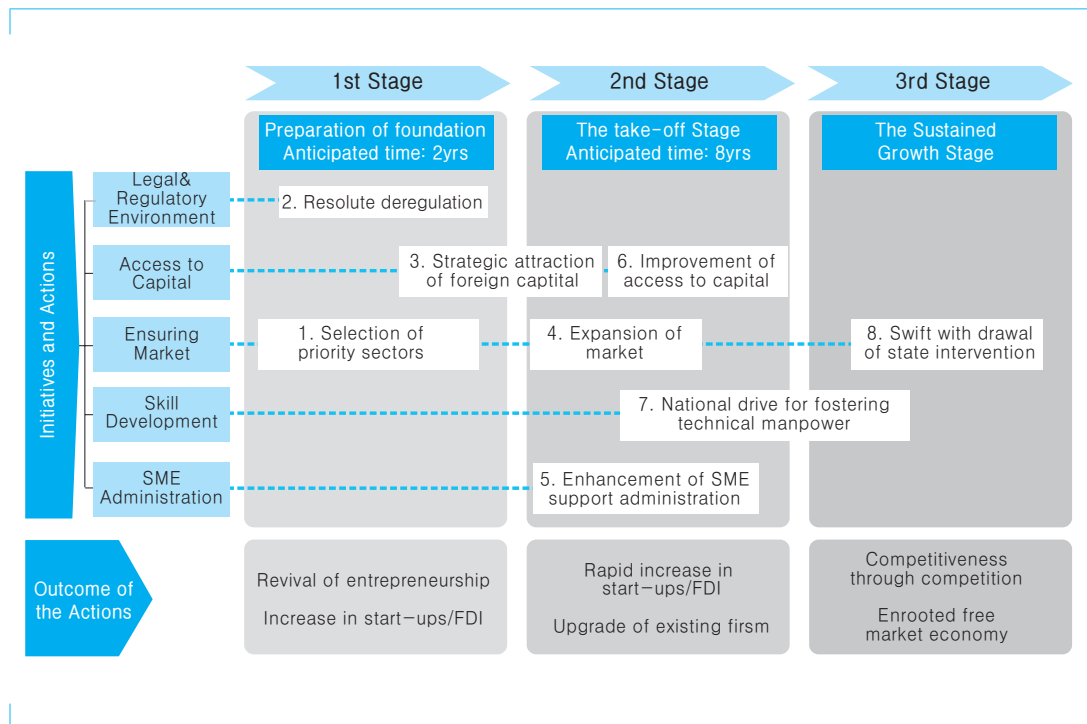
- Foundation Stage: It requires selection of priority sectors, resolute deregulation, and

strategic inducement of foreign capital. As an outcome of these policies, entrepreneurship will revive, and start-ups and FDI will increase;

- **Take-off Stage:** Strategic support to SMEs based on the principle of “selection and concentration” should be emphatically done as well as a national drive for fostering technical man power at a later stage of this phase. As an outcome, there should be a rapid increase in start-ups and FDI during this period;
- **Growth Stage:** State intervention to support SMEs will be withdrawn, and SMEs will be left to free markets with minimal intervention. By this time, domestic SMEs should withstand global competition.

The following figure summarizes the strategic SME policy as well as the gradual development phases and the actions to be accomplished during each of these phases.

### Stages of SME Development





## A Strategic Approach for the Development of SMEs

### Summary

1\_ Introduction

2\_ Current SMEs Profiles and Industrial Features of Ghana

3\_ Case Study: Development of SMEs in South Korea

4\_ A Strategy to Build the Foundation of for SME Development in  
Ghana

Annex

Chapter one gives a comprehensive overview of the SME situation in Ghana as well as policy recommendations on strategies for SME development. In order to propose a contextually relevant strategy for SME development in Ghana, Chapter 1: (1) examines the economic performance with respect to SMEs in Ghana; (2) profiles the current SME status and factors for SME development; and (3) presents a policy framework and sequences of strategies for the development of SMEs.

## Overview of Economic Performance and Rationale for SME Development

The recent economic performance of Ghana is quite impressive. During the last decade, economic growth has been steady and upward. However, in a long-term growth perspective, Ghana has both positive factors for and obstacles to sustained development:

- In the last decade, Ghana has successfully prepared a good foundation for economic development, by forging political stability, consensus for development and more recently, expected rise in resource revenue;
- However, some obstacles exist on the way for development such as chronic trade deficit, a shrinking manufacturing base and the danger of emergence of the resource curse.

What is now required in Ghana for effective poverty reduction and growth is a sound development strategy supported by strong leadership at the national level. In pursuing economic development, SME development is vital for the following reasons:

- In order for Ghana to overcome a chronic deficit of international payment, she needs sound industrial basis to support export;

- In industry, SMEs usually dominate in number and employment, and become the sources of innovation and creativity, and provide environment for the growth of large corporations.

### The Status and Factors of SME Development

The current SME ecosystem is weak and unfavorable for business. The scale of SMEs in Ghana is too weak to effectively compete with international competitors. Under the present circumstances, domestic SMEs have difficulties in conducting business and competing with foreign products, even in the domestic market. Therefore, there is the need for concerted improvement of the SME ecosystem if SMEs are to play the role of the backbone to economic development in Ghana:

- Entrepreneurship: Entrepreneurship seems not strong due to high risks and uncertainty in doing business;
- Quality of labor: Although labor is abundant, the skill is not very satisfactory due to the lack of opportunities for work;
- Capital Access: Access to capital and technology to SMEs is also limited due to high interest rates and to poor financial base;
- Market Access: Market for SMEs is very small due to low level of income, and to massive inflow of foreign commodities under the WTO system.

### A Strategic Approach to the Development of SMEs

Due to financial constraints in Ghana, an SME strategy should concentrate initial efforts on the most critical areas that produce maximum impact. Impact in this critical area should have the potential to positively influence other factors of SME ecosystem. It is recommended that SME development start by giving maximum impact on markets. Wherever markets exist, SMEs will appear. Therefore, expansion of market access is the first step to the development of SMEs. Second, it is suggested that restoration of entrepreneurship be high on critical areas as business activities depend fundamentally upon vibrant entrepreneurship. The supporting policies for SMEs may be pursued by a step-wise approach in the following way:

Strategic support for SMEs: The government directs preferential support to industries of priority for a given period of time with clear sunset clauses. The tools for preferential support could include, tax benefits, financial subsidization, market guarantees, subsidization in R&D, preferential credit allocation and guarantees, export awards and commendations and so on.

National drive to foster technical man power: Once a momentum is provided for the start-up and growth of SMEs, the success to SME development may depend mainly on the supply of



technical man power. Fostering technical man power requires strong initiative by the government.

Withdrawal of state intervention and complete opening to global competition: A pragmatic industrial policy is one which has clearly embedded sunset clauses. The final step requires the gradual deregulation and abolition of protection measures. The government ensures free and fair competition among all businesses and enacts laws which enhance fairness. The duration of preferential support of any activities of industries must be clearly spelt out so that firms are at least aware of the time frames for support.

Through support of the government policy as stated above, the development of SMEs proceeds through three stages: (1) The foundation stage; (2) The take-off stage; and (3) The sustained growth stage. It is estimated that it takes three years for the preparation of the foundation, and seven years for the take-off meaning that about 10 years are needed to prepare a sound base for SME development.

# A Strategic Approach for the Development of SMEs

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## 1. Introduction

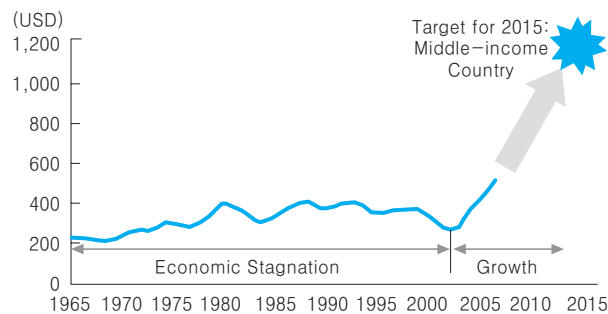
Ghana has been one of the better performing economies within the African continent in the past decade. Its growth trend since the late 1990s has been consistently upwards. Overall poverty has declined from 52 percent in 1992 to 28 percent in 2006, and according to World Bank projections, Ghana is on the course to exceed the MDG poverty reduction benchmarks by 2015.<sup>2</sup> In 2005 Ghana released its second Growth and Poverty Reduction Strategy (GPRS II 2006 - 2009). The overarching objective of GPRS II is to engender sufficient economic growth that will propel Ghana into a middle-income economy by 2015. To achieve this objective the GPRS II stipulates three pillars as the driving force of economic growth. One of these three pillars is the promotion of private sector competitiveness. It is under this broad strategic goal that the enhancement of SMEs performance falls. This makes the study on 'Building the Foundation of SME Development for Sustained Economic Growth' all the more timely. Lately, Ghana has made important reforms within its economic management aimed at improving the business environment for its private sector development. According to a report from the OECD, the private sector is showing positive signs of response to these reforms. Similarly, the World Bank/IMF's annual *Doing Business Report*<sup>3</sup> has ranked Ghana as a top ten global reformer for two years in a row (2006 and 2007).

2. World Bank Overview of Ghana Economy. <http://web.worldbank.org>

3. *Doing Business* is an annual publication of the World Bank that evaluates comparative regulations for business in different economies, identifies good business practices and reforms. The report ranked Ghana as a top-ten reformer in easing business in 2006 and 2007.

However in a long term perspective, Ghana is still a developing country that needs bold and deliberate steps to propel itself into a middle income country. Ghana is still very dependent on foreign aid to support its national income. In addition, Ghana’s GNI per capita as of 2007 was US\$ 590 which is still in the category of the so-called low income economies with a GNI per capita of less than US\$ 935. Even after the 2006 debt write-off under the HIPC and MDR, Ghana still has an external debt of US\$ 261 million as of 2006. This is slightly higher than 25% of its GDP.<sup>4</sup> Figure 1.1 below presents a long term view of the rise in Ghana’s per capita income since 1965 and the rapid acceleration that would be needed to achieve the aspired per capita income of US\$ 1000 by 2015. The main gist of this figure is to show the need for action plans that would rapidly accelerate Ghana’s growth.

**Figure 1-1 | GNI Per Capita Growth in Ghana**



Source: World Bank, WDI online

## 1.1. Opportunities and Obstacles for the Political Economy

After reading such glowing tributes to Ghana’s economy, one might wonder why then Ghana requires measures to propel itself towards further poverty reduction and economic growth. The real situation is that Ghana has a number of opportunities as well as obstacles as it enters the final leg of its GPRS II (2006- 2009). This section outlines these opportunities and obstacles as a background to setting up paths for further revitalization of the private sector development.

4. Data from the Economist intelligence Unit 2007/2008 report p. 14.

## 〈Opportunities〉

### Political Stability

In December 2008, Ghana will hold its 5th democratic elections in which political competition has been free and fair and the outcomes internationally credible. Since the late 1980s, Ghana has not had any serious internal upheavals or regional conflicts. Ghana has thus established its reputation as a stable democratic economy. Political stability is a great asset for any economic development and is an indispensable consideration for any investor, domestic or foreign.

### Commodity Boom and Macroeconomic Stability

In 2008, one of the most internationally sought-after resources is oil. In 2007, substantial deposits of crude oil were discovered offshore of Ghana. Ghana therefore, faces favorable prospects of ample energy resources for domestic use as well as for potential exports. For domestic use, locally produced crude means that Ghana will have reduced costs of energy which would be a natural advantage for most industries. Coming not so long after the 2006/7 energy crisis, this would be a welcoming respite. Oil exportation would also be a boon to Ghana's national income and a source of finances for investments in priority national areas. In addition to prospects from oil revenues from oil resources, Ghana has also been enjoying a commodity boom from rising prices of gold and cocoa. Moreover, following the resolute implementation of the GPRS I, Ghana has now more or less stabilized its macroeconomic indicators and is now moving on towards revitalizing the private sector growth.

### Palpable Commitment and Drive for Economic Development

Recently, the Ghanaian government has shown great keen towards economic development. For instance, this is demonstrated by President Kufour's announcement of his presidency as the 'Golden Age of Business'. The president's high regard for and commitment to private sector development has been unmistakable. In addition, Ghana's Growth and Poverty Reduction Strategy (GPRS-II) points out to the quest of becoming a middle income country by 2015 as the overarching objective to economic policy and strategy. The recent World Bank classification of Ghana as a top ten global reformer in easing the processes of doing business also testifies to Ghana's drive for economic development. Commitment to economic development both at the policy level and at the political level is palpable.

## 〈Obstacles〉

In spite of these improvements, commendations and an inchoate momentum for enhanced

economic growth, Ghana should hardly get complacent with its performance. Ghana is still a least developing country whose international economic ranking does not inspire the pride that Ghanaians aspire to. A few examples of Ghana's unsatisfactory social economic indicators should suffice.

### Chronic Deficits in Current Account

Ghana's current account is persistently in deficit. In spite of increases in international price of gold and the expansion on the volume of cocoa exports, the Ghanaian imports are growing even faster thus outstripping any marginal gains in value of exports. According to the Economist Intelligence Unit report, the trade balance in 2006 was in deficit by US\$ 3,027 million, an increase of 18.9% over the 2005 trade deficit of US\$ 2,545.1 million. 2007 estimates show this deficit further expanding to 3,629 million US\$.<sup>5</sup> Although remittances from abroad are similarly growing, their positive effects become diminished by the services deficit where a lot of payments are made to foreign experts who are working as contractors in the mineral sectors. Ghana should determine its optimum current account and move to stabilize and possibly reduce the trade deficit.

### Slow-paced Trends in GNI per Capita Growth

Ghana's GNI is quite low and yet Ghana aspires to be a middle income country above a GNI per capita of US\$ 1000. In the sixteen years between 1990 and 2006, the per capita GNI has grown from US \$380 to 510. Figures from other middle level economies show that many countries hardly double their GNI per capita in a matter of six to seven years as Ghana aspires to. Ghana's GPRS II approximates a GDP growth of 6-8% as sufficient to hit this income target. As the GRSP II notes, the achievement of these targets is contingent on Ghana 'changing the inherent structure of its production and joining the march of technological progress.' This is an accurate realization and the key is how fast these production structures can change. From the experience of other middle income fast developing countries, any rapid economic shift is often precipitated by major shifts in policy. As table 1.1 shows, Ghana's GNI growth is more or less similar to that of far economically advanced economies such as South Africa or Malaysia. Due to its lower development state, one would expect a far better (faster) GNI growth pace. The question is therefore, whether Ghana is actually catching-up with middle income economies or not.

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5. See EIU Ghana Country Report 2008, p. 15.

**Table 1-1 | Middle Income Countries Change in GNI per Capita (1995-2006)**

(Unit: US\$)

	1995	2000	2006	Growth(1995-2006)
Ghana	350	320	510	45%
Malaysia	4,030	3,390	5,620	39%
Nigeria	220	270	620	1300%
South Africa	3,740	3,050	5,390	44%
Tunisia	1,820	2,090	2,970	63%

Source: World Development indicators (Quick Query), World Bank

### Shrinking of the Manufacturing Sector

The growth of manufacturing has been the real bedrock of industrial development and economic growth in most leading economies today. Yet the growth of manufacturing has been beset by various hurdles that now make the fostering of domestic manufacturing somewhat a long shot. The manufacturing sub-sector recorded a negative growth rate in 2007 (-2.3%). This was lower than the 4.2 percent growth rate recorded in 2006. The energy crises of 1998 and 2006/2007 had a negative effect on most manufacturing sectors. The share of the manufacturing sector as a proportion of GDP fell to 7.9 percent in 2006 from a level of 8.6 percent in 2006. This share of the manufacturing sub-sector is the lowest since 1984.<sup>6</sup> Cheaper goods particularly from the Far East as well as smuggling are gradually reducing the Ghanaian business people to the position of mere traders rather than entrepreneurs with production centers and factories. This is in spite of Ghana's reputation for its relatively diversified production structures.

### Low Human Development Index

The Human Development Index, done by the UNDP, is perhaps the most fairly comprehensive compilation of the living standards in different countries across the world. In 2007/2008, Ghana was ranked as having an HDI of 135 out of 177 countries. The HDI measures the quality of a country's life through questions on how healthy and long they live, how well they are educated, and how well people are able to reach their full potential in personal and community lives. As table 1.2 shows below, the improvement in quality of human livelihood in Ghana is mixed. While we have had marginal upward trends, the absolute quality of life between 2000 and 2005 seems to have gone down from 0.568 to 0.553. In addition, Ghana's

6. Statistics on the shrinking in manufacturing were provided by Dr. Kwabena A. Anaman, the Research Director at the Institute for Economic Affairs in Ghana. The data is extracted from the Ghana Statistical Service.

comparative position in enhancement of quality of life has dropped between 2000 and 2005, meaning that other countries were improving their livelihoods faster than Ghana.

**Table 1-2 | Trends in Human Development Index for Ghana**

HDI	1990	1995	2000	2005
	0.517	0.542	0.568	0.553
Ranking	2000/1	2002/3	2004/5	2007/8
	119	138	131	135

Source: Human Development Reports. UNDP ([http://hdr.undp.org/docs/statistics/indices/hdi\\_2004.pdf](http://hdr.undp.org/docs/statistics/indices/hdi_2004.pdf))

### 〈Assessment〉

These overwhelming factors for unsatisfactory social-economic momentum suggest that Ghana still has some way to go and ambitious and unambiguous efforts are needed if it is to achieve its aspirations of becoming a middle income economy in seven years time. However, as seen earlier, Ghana also has favorable factors for economic growth which constitute a good foundation. What is now required is sound strategy supported by bold leadership that will embrace and support this strategy. As has been seen in East Asian development, bold leadership forms a critical pillar of any successful economic policy. The role of leadership is crucial in focusing the country on the need for pursuing collective pursuits as a nation while being less distracted by the politics of resource allocation and who gets more and who gets less. Once a strategy is in place what will be left is for a leader to mobilize the human will and strong sense of endeavor to achieve Ghana's aspirations of becoming a middle income economy.

## 1.2. Industrial Base and Rationale for SMEs

Then, what is the cause of Ghana's economic stagnation? History of the world economy has shown that exports play an important role in a country's overall economic development. In economic point of view, national wealth is a function of a country's export capacity. The hypothesis in this study therefore, is that Ghana's economic stagnation is a direct result of Ghana's inability to expand its range and volume of exports.

### 〈Poverty, Industry and Exports〉

Economic poverty can be generally described as the possession of low income by a country which in turn, means a low capacity for purchase of its needs. In a small country with a small

domestic market, national lack of income can be attributed to the inability to earn income from abroad through exports. As in Ghana's case therefore, national poverty is partly characterized by a burdensome trade deficit which means that a country is spending more than it is making. Ghana must first and foremost sort out its trade balance by beefing-up its exports. Even with the anticipated expansion in value of commodity exports, trade deficit is estimated to grow further in 2008 and 2009. The trends in trade deficit are shown in table 1.3 below.

**Table 1-3 | Ghana's Trade Balance (Actual and Estimates 2002-2008)**

(Unit: US\$m)

	2002	2003	2004	2005	2006	2007e	2008e
Exports	2,015	2,562	2,704	2,802	3,727	4,103	4,455
Imports	2,707	-3,233	-4,297	-5,347	-6,754	7,732	8,073
Trade balance	-692	-671	-1,593	-2,545	-3,027	-3,629	-3,617

Source: Economic Intelligence Unit February 2008 Report. The figures for 2007 and 2008 are estimates from the EIU.

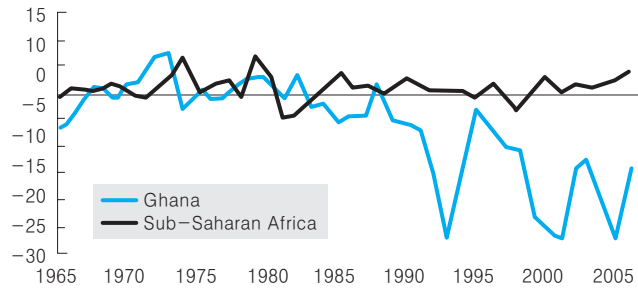
As figure 1.2 below further shows, Ghana last had a trade surplus around 1987. If Ghana can increase its exports while stabilizing the expenditure on capital imports (equipment), it is quite plausible that the trade deficit could be reversed in a number of years. This is partly because it is anticipated that in a number of years, the expenditure on oil could decrease. As Figure 1.2 shows it is insightful to note that the Sub-Saharan Africa as a whole has a trade surplus which bolsters the idea that Ghana too could achieve this.

Export drive was one of the most pressing economic policies of developing countries like Ghana in the early 1960s. Ghana started off with a high percentage of exports as a percentage of the GDP in the early 1960s. This export drive was however very short lived. As economic data shows, one of the most apparent weaknesses of the African economies is their weak export capacities. One hypothesis of this study is that in economic point of view, poverty means the poor capacity to earn money from abroad. Table 1.4 below shows the comparative growth of exports as a percentage of the GDP. In Ghana, export growth has been very small in the past four decades (28.57%). This is in stark comparison with Korea's export growth of 1300% and Malaysia's growth of 131%. This stark difference in the growth spurt in exports is shown below.



**Figure 1-2 | Trends in Trade Balance (1965 - 2005)**

(% of GDP)



Source: World Bank, WDI online and CIA Fact Book (Ghana)

**Table 1-4 | Comparing Growth of Exports of Goods and Services as % of GDP**

Country	Exports as % of GDP					Growth of Exports Between 1960 - 2005
	1960	1970	1980	1990	2005	
Ghana	28%	21%	8%	17%	36%	28.6%
S. Korea	3%	14%	32%	28%	42%	1300%
Malaysia	51%	41%	57%	75%	118%	131.4%

Source: World Bank' Development Data Platform (DDP)

The overall inference on Ghana's poverty, trade deficit and poor export capacities can therefore be broken down to three main causes: one, substantially less growth in exports; two, over reliance on commodity exports; and three, the low capacity for industrial exports. The important question in Ghana's case is why the country's exports have not been well suited to economic growth. First, Ghana's export structure has been mainly characterized by exports of commodities. The economic conditions of the 1970s and 80s revealed the weakness of dependence on commodities whether these were mineral resources or agricultural products. However, these have been Ghana's main exports since the 1960s. Second, Ghana has not sufficiently diversified its industrial exports by engaging in persistent and consistent industrial production that would engender an expansion in industrial exports as well as growth in domestic technological capacities. Third, overall growth of exports has not been as high as that of other fast developing countries.

### 〈A Rationale for SME Development〉

Up until this point, this study has been concerned with analyzing Ghana's economy from a

comprehensive historical point and identifying the key strengths and weaknesses in the economy. Thus while Ghana possesses some potential for growth, drastic measures need to be taken to reverse the collective factors that have led to the economic stagnation of the economy. The fundamental national priority for Ghana now is to enhance its economic growth through broad-based productive processes that will involve majority of its young population. This is where Small and Medium Enterprise development comes in since SMEs involve huge numbers of people in the population in direct and indirect support for livelihoods.

Ghana has the choice to promote any business sector model or activity of its choice. However, due to the paucity of financial resources as a developing country, Ghana may not have huge capital outlays that may be requisite for setting-up of and sustenance of large corporations in the short run. Recent success with development of government sponsored large scale business units has mostly been in countries with natural resources and huge markets. Ghana is yet to reach this point. Although deposits of crude oil have been found in Ghanaian waters, it is going to take time before the whole oil industry and concomitant industries emerge sufficiently.

In addition, Ghana's recent economic policy on business models has been geared towards divestiture of state-owned enterprises and more of private ownership. Most state-owned corporations tend to be large in scale and the private sector may take some time before it builds business units which are large scale. Due to this general national shift from large state-owned corporations to more private ownership, SMEs become critical business units for support in enhancing sustained development. It should be noted that while the Ghanaian government is presently undertaking divestiture, the history of economic development widely indicates that unrelenting government support for certain national industries has always been at the core of any significant long term industrial development.

Considering the small number of large corporations in Ghana, it would therefore be impractical for Ghana to rely solely on large corporations for her growth and poverty reduction. Even though it is feasible for Ghana's business ecosystem to spawn larger corporations in the future, large corporations require a sound base of SMEs for linkages in supplies and subcontracting.

Ghana therefore has to promote SMEs as a national foundation for the business development in a bid to enhance overall private sector development. In addition, better and more productive SMEs will generate jobs and goods that the population can consume which will ultimately lead to the reduction of poverty levels. The section below sets out the importance of SMEs in Ghana and gives an overview of the status and ecosystem of the Ghanaian SMEs. 'Status' describes the general characteristics of SMEs while 'ecosystem' refers to the factors and conditions within which SMEs operate.

Just like a marine ecosystem is characterized by a small number of large fish and a large number of small fish, a business ecosystem too, is characterized by a small number of large corporations and a large number of small corporations/SMEs which have linkages with the MNCs through supply and subcontracting. SMEs therefore play a very vital role in the national economy. The importance of SMEs to a national economy can be broadly classified into the following:

### ① Major Sources of Employment

In most countries, SMEs provide employment to more than 70% of all labor force. This is demonstrated by the high volume of employment by SMEs globally. The SMEs provide employment to 60% of the work force in Ghana, 55% of employment in Canada<sup>7</sup>, 70% of total employment in the European Union<sup>8</sup> and at least 70% of private sector workforce in South Korea. In addition to job creation, SMEs help in wealth redistribution especially among low income groups. Unlike larger firms, SMEs tend to be widely dispersed reaching remote and marginalized settings, hence helping reduce the income gap between urban and rural areas. (Albaladejo, 2002)

### ② Sources for Continued Job Creation

When compared to large-scale multinational firms, SMEs tend to be more labor intensive proportionally. Assuming that a large business firm and a small enterprise produce the same widget at the same value, the large business firm tends to be more capital-intensive while the smaller one inclines to be labor-intensive. This implies that SMEs offer more employment opportunities to a nation's workforce as opposed to large businesses. The more SMEs that a country has, the higher the sources and rates of employment it is likely to enjoy.

### ③ Sources of Innovation and Entrepreneurship

SMEs diversify economic activities by offering products and services that the market demands at a given point in time, thereby making new product lines and services available which have not yet been introduced into the market. Relative ease of entry into the market for SMEs also makes them able to help in correcting regional economic asymmetries. The introduction of new products, processes or services is the key component of entrepreneurship and SMEs are vital in fostering innovation. In addition, the Ghanaian SMEs play a somewhat

7. CFIB, Behind the Numbers. SMEs Employment- the Lion's share. [http://www.cfib.ca/research/reports/SME\\_Employment\\_03.pdf](http://www.cfib.ca/research/reports/SME_Employment_03.pdf)

8. Bernhard Friess, "Making the internal Market work better for SMEs," 2008. <http://www.enterprise-europe-network.ec.europa.eu/files/Internal%20market%20for%20SMEs.pdf>

important role in human resource development for business. Many SMEs offer apprenticeship to many young people who develop considerable business skills that might have otherwise gone unachieved due to certain entry barriers in formal training.

#### ④ Offering of conditions for sustained growth of large corporations

The development of large corporations is highly dependent on the presence of small and flexible SMEs which can cater to the supply and subcontracting needs of the large corporations. SMEs are more flexible in developing a competitive niche and thereby becoming specialized suppliers of LSEs for certain products. In addition, healthy and competitive SMEs are more likely to grow into healthy and competitive large businesses which consequently foster national competitiveness as a whole.

#### ⑤ Provision of a Basis for a Nation's Competitiveness

SMEs are inherently market driven, as they attempt to capture market opportunities provided by the market demand. Relatively lower barrier of entry into the market place and the agile nature of their decision making process, spur competition which in turn foster competitiveness of SMEs. Healthy and competitive SMEs make healthy and competitive large businesses which can be translated into national competitiveness. Even in more economically developed countries, only those whose economies are founded on sound SMEs may enjoy continued prosperity in the long run.

## 2. Current SMEs Profile and Industrial Features of Ghana

### 2.1. Structure of SMEs in Ghana<sup>9</sup>

Ghana's classification of MSMEs (Micro, Small and Medium Enterprises) is as follows:<sup>10</sup>

9. The analysis presented in this section is heavily dependent on data on mainstream industry and therefore may exclude other important areas of SME such as services and trading.

10. The abbreviation MSME and SMEs will often be used interchangeably in the study to represent the same idea of small business. Note that the classification of SMEs varies from country to country. Some of the most common categories for classification are based on number of employees, value of assets and investment levels. The World Bank uses the number of employees as its main classification criteria but with regional variations. In Africa, WB uses 200 as the cut off number for SMEs employees. This is obviously different from Ghana's classification. This classification is laid out in Sam Mensa's 'A Review of SME Financing Schemes in Ghana.'

- Micro enterprises: Those business units employing up to 5 employees and with fixed assets not exceeding the value of \$10,000 (not including realty);
- Small enterprises: These are business units employing between 6 and 29 employees and with fixed assets of at least \$100,000;
- Medium enterprises: Business units employing between 30 and 99 employees with fixed assets of up to \$1 million;
- Large Enterprises: Business units with at least 100 employees.

## Firm Size and Scale

According to Ghana's National Industrial Census, there were a total of 26,190 MSMEs in Ghana around 2003. As table 1.5 below evinces, SMEs, especially micro and small enterprises, are the predominant business units in Ghana, comprising more than 95% of all business units. Some 14,438, or 54.5%, of the total number of SMEs, are classified as micro-enterprises based on the classifications set forth by the National Board for Small Scale Industries (NBSSI). In manufacturing for instance, out of a total of 26,088 business units, only 251 units are large scale enterprises. This is less than 1%. In manufacturing, 55% of the firms are micro firms with between one to four workers.

**Table 1-5 | Establishments by Size and Industry Major Division**

	1-4	5-9	10-19	20-29	30-49	50-99	100-199	200-499	+500	Total
Mining and Quarrying										
- No.	26	37	27	15	12	18	12	10	9	166
- %	15.7	22.3	16.3	9.0	7.2	10.8	7.2	6.0	5.5	100.0
Manufacturing										
- No.	14,352	7,829	2,427	541	401	287	124	87	40	26,088
- %	55.0	30.0	9.3	2.1	1.5	1.1	0.5	0.3	0.2	100.0
Electricity and Water										
- No.	60	27	46	41	29	15	7	10	4	239
- %	25.1	11.3	19.2	17.2	12.1	6.3	2.9	4.2	1.7	100.0
Total Industry										
- No.	14,438	7,893	2,500	597	442	320	143	107	53	26,493
- %	54.5	29.8	9.4	2.3	1.7	1.2	0.5	0.4	0.2	100.0

Source: 2003 National Industrial Census Report, Ghana Statistical Service

Note: This data includes the industries: mining, quarrying, manufacturing, electricity and water

In terms of employment, SMEs employ about 60% of the total labor force while large firms employ close to 40% of the labor force. Small businesses including micro-firms employ 131,959 or 47.6% of the total while some 36,551 employees, 13.3%, are taken on by medium-sized firms. SMEs are estimated to contribute around 60% of the GDP.<sup>11</sup> Table 1.6 below shows the distribution of employment among SMEs in the firm number, composition and average number of employees.

**Table 1-6 | Employment Distribution of Enterprises among SMEs in Ghana<sup>12</sup>**

Firm Size	Total Units(a)		Total Employees(b)*		Avg. No. Workers/ Firm (b)/(a)
	No.	%	No.	%	
Micro	14,438	54.5%	36,031	13.1%	2
Small	10,990	41.5%	94,928	34.5%	9
Medium	762	2.9%	36,551	13.3%	48
Total SMEs	26,190	98.9%	167,510	60.8%	6
Large	303	1.1%	107,988	39.2%	356
Total Enterprises	26,493	100.0%	275,498	100.0%	

Source: Compiled from data in 2003 National Industrial Census Report

Note: This data includes the industries: mining, quarrying, manufacturing, electricity and water.

\* Total employees are the total number of persons who work in or for the establishment regardless of payment.

### Regional Concentration

Most of manufacturing is located within the Accra-Tema metropolis. It is encouraging that in a bid to encourage spatial distribution of SMEs, the Ghanaian government has introduced a number of preferential taxation codes for companies located outside of Tema and Accra. For manufacturing companies located in regional capitals or anywhere outside of Tema and Accra, the income tax rate varies between 12.55 and 18.75%. For some companies in this category, the taxation rate on income tax is 0%. According the Ghana National industrial Census of 2003, small sized enterprises provided jobs to greater proportions of people in the Upper East, Upper West, and central regions. The Eastern region of Ghana has the highest proportion of people employed by small sized enterprises (Ghana Statistical Service, 2006).

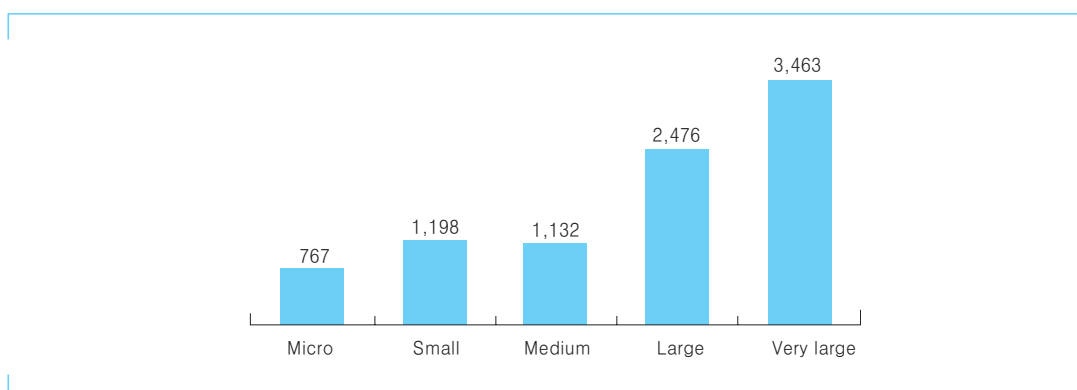
11. "SMEs should be given necessary Support". Business News. 23rd May, 2006. Statistics on the exact figures are rather sketchy. <http://www.ghanaweb.com/GhanaHomePage/economy/artikel.php?ID=104739>

12. It is important to note that this classification excludes numbers in two important segments of the economy: Agriculture and trading.

## Labor Productivity and Value-added

Another aspect of SMEs that is worth examining is the labor productivity (LP). Labor productivity is the ratio of output to one hour unit of labor. It measures the efficiency of labor in the production process. LP estimates done by the Regional Program on Enterprise Development (RPED) are presented in figure 1.3. Across size classes, labor productivity is the lowest for the micro-sized enterprises. From figure 1.3 below, it is noteworthy that LP in Ghana increases as firms expand, with large firms having the greatest labor efficiency. Labor productivity serves as a measure of the quality of labor and this could be an indictment on the low level of skills among laborers in the SMEs as compared to big firms. In a study published by the World Bank, Ghana was ranked the lowest in its value added per worker among eight African countries.

**Figure 1-3 | Value Added per Worker by Firm Size (\$US)**



Note: Number of employees - Micro-sized enterprises: 1-9, Small: 10- 49, Medium: 50-99, Large: 100+

Source: Pilot Investment Climate Assessment: Obstacles to the Expansion of Eritrea's Manufacturing Sector, 2002

**Table 1-7 | Distribution of Value Added per Worker**

(Unit: US \$ )

	Cameroon	Cote'd Ivoire	Kenya	Tanzania	Zambia	Zimbabwe	Ghana
Median	9,656	1,122	3,337	1,862	2,962	3,999	1,304
Ratio by Size							
Micro	4,838	272	1,595	1,46	1,780	2,175	767
Small	7,059	1,076	3,337	1,411	3,110	3,087	1,198
Medium	19,196	1,404	3,374	2,272	3,012	3,879	1,132
Large	19,418	2,087	4,655	2,080	4,123	3,999	2,476
Very large	17,226	2,025	2,830	3,754	4,668	4,919	3,463

Source: World Bank, RPED Eritrea, 2002.<sup>13</sup>

In the same study, Ghana was ranked the lowest among eight African countries in its median capital to labor distribution. Ghanaian SMEs were thus the least capitalized per worker among this group of Sub-Saharan countries<sup>14</sup>. Table 1.7 (above) and 1.8 (below) show the Ghanaian sub-Saharan comparisons for value added and distribution of capital to labor respectively.

**Table 1-8 | Distribution of Capital to Labor Ratio**

	Cameroon	Cote d'Ivoire	Kenya	Tanzania	Zambia	Zimbabwe	Ghana
Median	11,496	5,469	4,511	4,065	4,417	4,382	946
Ratio By Size							
Micro	8771	2,319	1,669	1852	2,309	1,183	279
Small	9289	4,884	4,055	3309	4,064	3,050	731
Medium	13,197	9,511	3,848	3480	4,201	3,729	1279
Large	24,785	8,964	5,427	3671	4,554	4,001	1401
Very Large	15,956	8,340	4,782	7431	4,987	5,241	1893

Source: World Bank, RPED Eritrea, 2002. Pilot investment Climate Assessment report 2002 for Eritrea. The values are the median of the group as a percentage of the full sample in survey. The median values are in US dollars while the other values are the median values of the group as a percentage of the full sample in the survey. The figures for Eritrea are omitted in this table.

## 〈Industrial Features of Ghanaian SMEs〉

The Ghanaian economy can be classified into the three traditional categories of economic activities, industry, services and agriculture. According to the GPRS II, the main sector of priority is the agricultural sector with keen efforts aimed at enhancing growth of agro based industries. Ghana has a modest industrial policy. One of the most concrete objectives of the industrial policy is to increase the share of industrial production contribution to as a share of the GDP to 37% (by 2020) from the current level of 16% with an average growth rate of 12%.<sup>15</sup> By promoting the establishment of new industrial capacities and environmentally sound industrial operations, by increasing investment in industrial sector and by acquiring new technologies, Ghana aspires to enhance the development of industry in the following key areas:

13. World Bank. "Pilot Investment Climate Assessment". 2002. P.22,<http://siteresources.worldbank.org/EXTAFRsumaftps/Resources/ICA003.pdf>

14. These countries are Cameroon, Cote d'Ivoire, Kenya, Tanzania, Ghana, Zambia, Eritrea and Zimbabwe.

15. See the website of Ghana High Commission Canberra, Australia.



- Food and agro-based industries, as well as forest industries;
- Building and construction industries;
- Metallurgical and engineering, especially in electrical and electronic industries;
- Textiles/garments and leather and other chemical industries;
- Energy-related and environmentally friendly industries;
- Packaging industries.

## Main Industries

As table 1.5 shows the main area of industrial activity in terms of employment and the number of enterprises is manufacturing. Manufacturing has the biggest number of employees constituting about 88.39% of total industrial employment as of 2003. Manufacturing also has the biggest percentage of SMEs. Other areas of industry such as Water and Electricity and Mining and Quarrying constitute only 1.5% of the total number of SME establishments.

## Exports

Ghana's main exports are minerals, cocoa and timber. Ghana is heavily dependent on these exports and shows relative deficiency in diversification in industrial exports. These three primary export commodities constitute almost 70% of all exports as table 1.9 below shows. The share of cocoa beans and gold exports constitute more than 50% of all exports.

**Table 1-9 | Merchandise Export Earnings by Sector, 2002-2006**

(Unit: US\$ m)

	2002	2003	2004	2005	2006*
Gross Exports of which:	2,015	2,562	2,705	2,802	3,680
1. Cocoa Total	474	818	1,026	908	1,187
% contribution	24	32	38	32	32
2. Minerals Total	754	894	905	1,035	1,372
% contribution	37	35	33	37	37
3. Timber Total	183	175	212	227	200
% contribution	9	7	8	8	5
4. Other Exports	669	740	662	633	921
% contribution	33	29	25	23	25

Source: The State of the Ghanaian Economy in 2006 (quoted from Bank of Ghana)

Note: \* Provisional

In addition, there is very little industrial refinement of exports even in key exports. As table 1.10 demonstrates, the value of refined cocoa exports constitutes a meager 12% (US\$ 146 million) of total cocoa exports as opposed to more than 80% exports of cocoa beans.

**Table 1-10 | Values of Cocoa Exports, 2002-2006**

(Unit: US\$ m)

Product	2002	2003	2004	2005	2006*
Cocoa Total of which	474.4	817.7	1025.7	908.4	1187.4
1.Cocoa Beans	392.5	691.6	984.4	818.5	1041.1
2.Cocoa Products	81.9	126.1	41.2	89.9	146.4

Source: The State of the Ghanaian Economy in 2006 (quoted from Bank of Ghana)

Note: \* Provisional

## 〈Assessment〉

From observing the SME circumstances, SMEs in Ghana are thus plagued by three major deficiencies. They are few in number, small in size and lacking international competitiveness.

An international comparison of key factors for competitiveness shows that Ghana's international competitiveness is inadequate. Ghana's labor productivity, value-added per worker and the capital to labor ratio is even lower than several African economies. This implies that for a potential investor, the labor situation in Ghana is a disincentive that could dissuade them into getting into Ghana for investments. The export specialization and capacities of SMEs as measured by the Revealed Comparative Advantage (RCA) is also relatively low. This lack of competitiveness suggests that the Ghanaian SMEs may not aptly play the role of the backbone to economic growth for attainment of a middle income economy by 2015. Low export ability is a particular obstacle that Ghana's private sector enhancement has to address. It is thus germane that Ghana aims at creating a buoyant export sector.

More than 80% of all SMEs in manufacturing have less than 10 employees.<sup>16</sup> The small scale of these business units points to the little value addition that these firms make. Under normal circumstances, any average production process involves a number of processes with a number of procedures which would require a considerably greater number of employees than most of the Ghanaian SMEs have.

Part of the agenda for SME development should involve enhancing the scale of manufacturing SMEs so that most SMEs have an employment average as close to 100 people as possible. Usually, SME definition in more economically developed countries encompasses firms with more than one hundred people. Ghana should similarly try to raise the scale of SMEs.

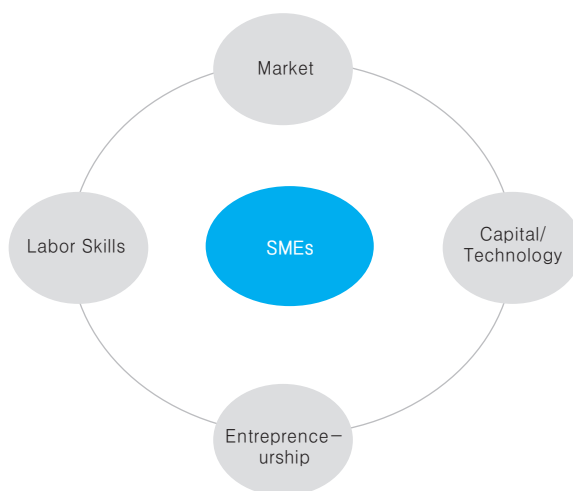
16. This is according to data from the 2003 Ghana National industrial Census Report.

## 2.2. The Ecosystem of SMEs in Ghana

Just like any living organism, the survival of SMEs depends on the environment which they are in. A basic threshold of suitable SME environment (ecosystem) must exist for SMEs to do well and thrive. The status of the SMEs ecosystem reflects the extent of the internal constraints and handicaps that SMEs face in their quest to grow. Because of the inherent differences within SMEs in such aspects as ownership, position in the value chain, location and age, the policy environment for the SME ecosystem also needs to be adapted flexibly. An SME ecosystem is defined by the condition of four basic factors as shown in figure 1.4 below:

- The state of entrepreneurship (what is the level of business innovation and start-ups?);
- The level and suitability of human skills (how well and how sufficiently do the human skills fit the market labor demands?);
- The availability of market and
- The level of access to capital and technology (are there efficient technologies available for optimum production?).

**Figure 1-4 |** Factors of the SME Ecosystem



## 〈Entrepreneurship〉

As defined by Joseph Schumpeter<sup>17</sup>, entrepreneurship is characterized by five major activities which involve either (a) the creation of a new good or a new quality; (b) the creation of a new method of production; (c) the opening of a new market; (d) the capture of a new source of supply; or/and (e) the creation of a new organization or industry (Jens Iversen, 2005: p. 5). From above, entrepreneurs then can be seen as individuals who lead in new innovations and in this process take upon the risk by themselves with a view to profiting from their innovations. The basic questions in gauging entrepreneurship therefore are: what is the level of innovation as evidenced by new businesses; and what is the propensity to take risks in business ventures for citizens of any given country?

Based on the disproportionate ratio of business units to population (noted above),<sup>18</sup> the level of entrepreneurship in Ghana is quite low. Why is the level of entrepreneurship low in Ghana? The answer lies in two main problems.

### Entrepreneurial Inexperience

The low level of entrepreneurship in Ghana can be attributed to two main factors. One, the capacities for innovation remain low due to many years of exclusion of black people from business activities during the colonial times. The development of a business mind and the spur to become an entrepreneur is greatly helped by a history of such business mindedness. Following their independence, many elite Africans have sought to get to the prime of civil service posts rather than move into entrepreneurship that would advance their countries in industrial and economic development. This has resulted in a mental inertia in a business sense as the best brains have inordinately ended up in civil service. This has led to the poor generation of an entrepreneurial class. Two, due to ensuing years of economic stagnation, many people were overwhelmingly preoccupied with bare survival. Under such grim conditions people become overly averse to risk taking and thoughts of taking new innovative initiatives are remote.

### High Risks and Uncertainties

In addition, risk aversion is further aggravated by poor access to financial resources, unstable business environment and incoherent policy and public policy.<sup>19</sup> The poor access to the external markets and the domestically low disposable income are major impediments to risk

17. Joseph Schumpeter was a renowned 20th century scholar on entrepreneurship. These characterizations are outlined in his 1911 book, *The Theory of Economic Development*.

18. See p. 28 < Small number of SMEs >

taking for the Ghanaian entrepreneurs. The rejuvenation of entrepreneurship in Ghana is a critical challenge that requires urgent attention. Until the early 2000s, the level of inflation and lending rates were very high thus acting as disincentives to any building of a saving culture and investments.<sup>20</sup>

## 〈 Labor Skills and Discipline〉

A highly skilled labor fosters the development of SMEs. The educational background of entrepreneurs therefore, has an impact on their ability to operate their business efficiently and how well they can absorb new technical and managerial skills (Baa-Nuakoh 2003: p.79). Education and training are seen as putative goods to innovation. According to empirical research in Ghana, firms with more educated workforce are more efficient and productive (Frimpong-Ansah, 1996: p. 73).<sup>21</sup> Ghana's human resource situation is characterized by insufficient skill acquisition and widespread underemployment.

### Educational Attainment

As research in Ghana has shown, the level of education and higher level skills not only affect efficiency and managerial skills but also influence the choice of industry for which entrepreneurs move into.<sup>22</sup> A low-educated labor force will choose industries and sectors with least sophistication and hence where value added is low. The capacities for innovation in sophisticated industrial processes, high end services and ICT in Ghana's present situation are limited. As such, Ghana needs to not only enhance the general educational achievement of its people but also appropriate skills in the targeted sectors.

Ghana has some opportunities as well as hurdles in the status of its human resource. According to data from the last national census conducted in the year 2000, 60% of the population was under the age of 24 years. This means that Ghana will see a major population boom and rising demand on education as this population matures. This rising demand will further stretch Ghana's scarce public resources and facilities for education. This young

19. The three most common hindrances associated with limited access to financial resources are inadequate institutional frameworks associated with contracting, a disabling legal and regulatory framework and poor managerial skills and training in financial matters affecting SMEs. For more of these see, Sam Mensah, 2004, p.13-15.

20. According to the EIU data for instance, the lending rates between 2001 and 2003 averaged about 33% while the inflation rate between 2001 and 2005 averaged 20.4%. EIU 2006 Report p. 57.

21. Dinye Romanus and Nyaba F.A Clement. 2001. Trade Policy and Domestic Manufacturing in Ghana

22. For more details on this research see Amoah Baa-Nuakoh, 2003, pp. 79-80. Although the data specifically refers to the informal sector, the transposition of these figures are reflections of the trends in the whole SMEs sector would not be far fetched.

population, of course, provides a veritable labor force for Ghana’s future growth and consumer demand. The present situation however, reveals serious deficiencies in the level of educational and skill achievement that could provide a veritable foundation for SMEs growth.

Two key problems are apparent with regard to human resources development in Ghana. One, there is a paucity of training institutions and facilities. As a result of this scarcity in formal training, apprenticeship has become a common mode of skill acquisition, with up to 70% of the labor force being trained this way<sup>23</sup>.

As recorded in the 2000 census report, transition rates from one level of education to the next were very low. For instance, only 50% of primary school children move on to the secondary school and only 25% of these get to senior secondary school. As shown in table 1.11, as of 2000, the proportion of students receiving tertiary education in (vocational training, professional courses or university education) for at least three years was very low.

**Table 1-11 | School Attendance (3years +) in 2000**

Educational	Pre-school	Primary	JSS	SSS	VOC/TEC	Post Sec/professional	Tertiary	Total
Enrollment no. in 000's	680.1	2547.4	906.7	338.3	76.1	67.3	87.4	4700.6
%	14.5	54.2	19.3	7.2	1.6	1.4	1.8	100

Source: Imoro Braimah and Rudith S. King. 2006 "Reducing the vulnerability of the youth in terms of employment in Ghana through the ICT sector". *International Journal of Education and Development using Information and Communication Technology (IJEDICT)*, 2006, Vol. 2, Issue 3, pp. 23-32.

Note: JSS - Junior Secondary School, SSS- Senior Secondary School, VOC/TEC Vocational and Technical training.

Two, the skills acquired may not be sufficiently attuned to innovation requirements for business generation and competition in the 21st century. In Ghana, there is an apparent mismatch between the skills output of tertiary institutions and the skills demand of labor markets. A 2002 report by the National Council for Tertiary Education in Ghana and the World Bank revealed that there were serious gaps between supply and demand as far as relevance of graduates was concerned. The report noted the shortage of graduates in engineering, accounting, medicine, information technology and management. High level competence in these fields is

23. Apprenticeship is a system of training where a worker learns the trade of his/her choice through instruction by a master in an actual work environment involving that trade. The proportions of labor force trained in this way in Ghana are quite high. Imoro Braimah and Rudith S. King. 2006 give a figure of 70% as the proportion trained in this manner. Baah- Nuakoh quotes a 1989 JASPA survey which indicates that 55% of Ghana’s entrepreneurs are trained through apprenticeships. For more see, Baah- Nuakoh, 2003, p. 81.

indispensable to enhanced innovation and competitiveness.

### Job Opportunities

Ghana's labor market is characterized by massive underemployment. According to 2002 estimates, 230,000 people enter the labor force every year. Of these, only 2% are absorbed into the formal sector (public service and government agencies and private sector organizations companies and organizations). According to the Ministry of Employment and Welfare, the labor force grows by 2.8% per annum while the labor productivity grows by 2% per annum.<sup>24</sup> This leaves the labor force in excess of 80% to enter self employment in the formal and informal sector. Table 1.12 shows the distribution of labor force by type of employment. Since 1999, Ghana has been registering good growth and it would be insightful to get the updated figures on employment type for 2006 to present. However as the table shows, employment in the three most important types - public, private formal and export farming fell in the 1990s. The paid work private sector formal jobs - which normally tend to create the most well paying jobs - register a very low employment rate of 4.4% of the labor force.

**Table 1-12 | Distribution of Employment by Type of Employment**

Type of Work	Percentage of Labor Force				% Change 1988/89-98/99
	1988/89	1991/92	1998/99	2007/08	
Paid Work: Public	14.0	13.5	9.8	-	-30.0
Paid Work: private	6.3	3.9	4.4	-	-30.1
Paid Work: informal	2.7	3.1	2.6	-	-4.0
Export farmer	7.0	6.3	7.8	-	-11.4
Food Crop farmer	38.8	43.6	41.6	-	7.2
Non-farm self-employed	30.5	27.6	31.6	-	3.6
Others & non-working	0.8	2.0	2.1	-	-
Est. Labor force (ml)	5.4	6.0	7.5	-	38.9

Source: Quoted from the study "Analytical Study of the Labor Market for Tertiary Graduates in Ghana". Figures are derived by author of the report from Ghana Standard Surveys (GSS) (1995, 1999).

The main challenges for Ghana in human resources development for SME development can be summarized into three:

24. All the statistics in this paragraph are obtained from the Study "Analytical Study of the Labor Market for Tertiary Graduates in Ghana," 2002, p. 14.

- The expansion of educational and training opportunities;
- The adjustment of tertiary level training curriculum and skills to conform to labor market demands;
- Enhanced formalization of training and business activities from apprenticeship and informal to formal sector respectively.

## 〈 Access to Capital〉

The three main hurdles to accessing capital for SMEs are the relatively undeveloped financial sector with low level of intermediation, lack of institutional and legal structures that facilitate the management of SME lending risk and the high cost of borrowing and rigid interest rates. As the study by Sam Mensah (mentioned above) observed, there were very few banks with credit facilities tailored for the SMEs.

### Financial Access

In order to improve on the aggregate level of entrepreneurship and competitiveness of local SMEs, Ghana will have to increase access to capital and newer technologies. It is often thought that the single most important factor constraining the growth of SMEs is the lack of finance (Mensah, 2004: p.3). SMEs and formal financial institutions in Ghana have had a history of mutual caution in dealing with each other. Traditionally, commercial banks have eschewed funding to SMEs due to high default rates, while SMEs see commercial banks as having stringent and restrictive conditions for acquiring loans. The World Bank's Doing Business Report has thus ranked Ghana a dismal 115 out of 178 economies in ease of access to credit. Table 1.13 (below) shows the trends in domestic credit from the private sector vis-a-vis the average annual lending and the inflation rates up to 2002. Although figures in the first row - percentage increase in credit to private sector - are not exclusive to SMEs, they do encompass SMEs credit procurement. The imperative challenge would be to determine the composition of the firms acquiring this credit and ascertain how SMEs are performing in accessing credit. In recent years (2005 to 2007), Ghana has lowered the inflation rate as well as the interest rates, thus indicating the expansion of incentives for credit access.

**Table 1-13 | Credit Growth against Inflation and Interest Rates**

	1999	2000	2001	2002
Percentage increase in credit to private sector	24.9%	34.9%	12.0%	17.7%
Av. Lending Annual interest rates	Average Interest rates 20- 25% around this time			
Av. Annual inflation	12.4%	25.2%	32.9%	14.8%

Source: Credit growth- (Mensah, 2004) Ghana, Financial System Stability Update, 2003, IMF. Interest and Inflation rates: EIU Ghana Country Report 2008



## Cost of Borrowing

In spite of this progress, Ghana still lags behind in its relative high cost of borrowing. Table 1.14 shows the comparative cost of borrowing between Ghana and other economies around the world. Ghana's average lending rate around 2006/2007 hovers around 16% which is still higher than the Sub Saharan average.

**Table 1-14 | Comparative Cost of Borrowing**

Country	Average lending Rate (%)	Inflation Rate (%)	Real lending rate (%)
Ghana	23.0	16	7.0
Nigeria	16.97	10.5	6.47
S. Korea	6.5 - 7	2.5 - 3.5	3.5- 4
Malaysia	6.72	3.0	3.72
Egypt	10.5	5	5.5
South Africa	10.5	4.3	6.2
USA	8.25	3.7	4.55

Source: For Ghana, Nigeria, South Africa, and USA (<http://www.cenbank.org/OUT/SPEECHES/2006/GOVADD3-8-06.PDF>), Inflation for South Korea, Egypt and Malaysia [Indexmundi.com](http://indexmundi.com) (<http://indexmundi.com>), Egypt average lending rate: Egypt Commercial BankingE"ReportQ3 2007.<http://www.prlog.org/10037866-egypt-commercial-banking-report-q3-2007-new-business-publication,announcement-from-report-buyer.html>),Malaysia average lending rate: Central bank of Malaysia: [http://www.bnm.gov.my/view.php?dbIndex=0&website\\_id=1&id=565](http://www.bnm.gov.my/view.php?dbIndex=0&website_id=1&id=565)),[/Malaysia/inflation rate\\_\(consumer prices\).ht](http://www.bnm.gov.my/view.php?dbIndex=0&website_id=1&id=565)

## 〈Access to Market〉

The spur for an entrepreneur is profit. It is the incentives of new markets that spurs entrepreneurs to the five entrepreneurial activities described above (under entrepreneurship). Within an increasing liberalized international trade system, access to market is the most standard indication of an economy's competitive capacities. Particularly in Africa where domestic markets are weak, a gradual capture of export markets reflects an economy's enhanced competitiveness. Access to markets therefore, becomes the most critical aspect for the SMEs ecosystem as all the factors of production are geared towards gaining advantages in the market.

The Ghanaian market condition is plagued by four major handicaps. One, the size of the local market is relatively small. Two, the linkages between large corporations and local SMEs are deficient. Three, Ghana faces very stiff competition from other producers due to its open markets and four, the challenge of curbing smuggling of cheaper goods into Ghana.

## Small Market Size

Ghana's population of 23 million is relatively small to attract and support huge investments in manufacturing with a target of selling within the domestic market. This is further exacerbated by the population's relative weak purchasing power. At a per capita income of US \$510, the disposable income is relatively low to singularly support domestic marketing. The imperative is that Ghana will have to increasingly look to external markets for its goods.

## Non Existence of Large Corporations

From the 2003 statistics quoted above, only 1.1% of the business units in Ghana are designated as large. Usually, bigger firms are the ultimate export firms due to their better leverage in accessing regional and international markets as well as better access to capital. The development of entrepreneurial networks between SMEs and large MNCs is vital for the growth of SMEs. Such linkages help in integrating SMEs within the supply and subcontracting networks for the MNCs. In addition, SMEs will benefit from increased integration into information networks about global business.

## Complete Market Openness

Ghana's open market has unleashed stiff external competition from Nigeria, Cote d'Ivoire, India, China and other countries whose industries are more competitive in certain sectors. This has impacted heavily on the Ghanaian SMEs. In January 2008, Mrs. Leticia Osafo-Addo, the President of the SMEs unit at Association of Ghana Industry (AGI) was quoted as predicting the collapse of some SMEs in Ghana due to an influx of foreign products which were crippling local production.<sup>25</sup> One of the most affected industries has been the textiles industries which would ordinarily form the foundation of a gradual technological enhancement into more

**Table 1-15 | Comparative Applied MFN Tariff**

Country	Average applied MFN (%) (2007)
Ghana	12.7
S. Korea	12.8
Mozambique	13.8
Vietnam	16.8
India	15.8

Source: WTO Reports

25. Daily Express Tue, 29 Jan 2008. "Gloomy year for SMEs"

sophisticated technologies.<sup>26</sup>

Table 1.15 shows the comparative average tariff openness to imports for Ghana and other countries. Ghana's 'extreme' openness considering its poor industrial base can be seen by its comparatively more open economy in contrast to higher MFN tariffs for relatively more developed economies such as Korea, India, and Vietnam.

### Flourishing Smuggling

In addition to low tariffs, smuggling is threatening the very survival of Ghana's SMEs. For instance, most of the rice imported into Ghana in recent times was smuggled from neighboring Togo because of duty free entry for rice into Togo (Daily Guide) while second hand clothes smuggling has partly contributed to the collapse of the textile industry in Ghana (All Africa). Smuggling in Ghana is fuelled by consumer preferences, lower prices and weak porous boundaries particularly with Togo. In the early 1960s and 70s in Korea for instance, it was considered an 'act of treason' and 'betrayal of patriotism' to consume foreign products. School children were taken through a patriotic education that included songs that extorted the virtues of economic nationalism through consumption of one's country products. While such extreme measures may be too late in Ghana, still the objectives of such measures are not anachronistic. The solution to smuggling will involve a very vigilant surveillance of boundaries.

Ghana's aspirations of becoming a middle income economy cannot be achieved unless the ecosystem of SME is greatly enhanced. This can be done by reversing some of the negative trends in the SME ecosystem.

## 2.3. Need for Extraordinary Measures

The analysis in section 2.2 shows that, as in many developing countries the ecosystem of SME in Ghana is poor to act as the backbone for sustainable development. Under these bleak circumstances, it seems difficult for SMEs in Ghana to take root for continued growth:

- Entrepreneurship: Entrepreneurship seems weak due to high risks and uncertainty in doing business;
- Quality of labor: Although labor is abundant, its skills are not very satisfactory due to insufficient working opportunities;
- Capital Access: Access to capital and technology to SMEs is also limited due to high

26. To see the negative effect of the open markets on the textiles industry see Peter Quartey, 2006, 'The Textiles and Clothing Industry in Ghana' <http://library.fes.de/pdf-files/iez/03796/10ghana.pdf>

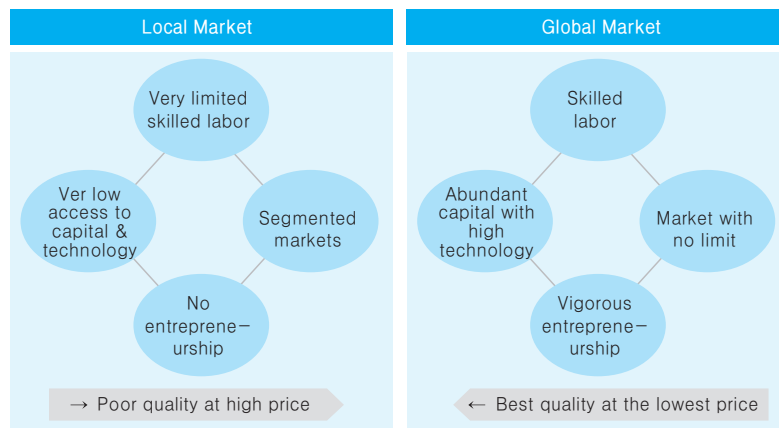
interest rates and poor financial base;

- **Market Access:** Market for SMEs is very small due to low level of income and to low import tariffs which have led to massive inflows of foreign imports in products which the Ghanaian industries might have otherwise produced.

With the spread of globalization under the WTO system, the current situation for SME development has become much worse than it was in the 1970s and 80s. As figure 1.5 shows, local SMEs under poor circumstances are directly exposed to very competitive global players in almost every business field. Based on the very poor circumstances for SMEs, it is almost impossible for local SMEs to survive such competition with global players. Moreover under the WTO system, the policy tools for national government to effectively guide SME development and industrial growth are very limited. Ghana thus faces a critical challenge in overcoming the productive efficiency and price competitiveness of global markets. This of course, is a disadvantage faced by any developing country.

Ghana therefore, needs extraordinary and bold policy action and implementation plans that can heave it from this productive disadvantage. One important aspect of this extraordinary policy initiative is greater government augmentation of markets. Simply hoping that markets would successfully guide development of SMEs will not work. The role of the government in augmenting markets and in steering a determined course in industrial and domestic business development in Korea is related below to give insights into potential action plans for the Ghanaian government in development of SMEs.

**Figure 1-5 | Comparison of Ghana's Global Competitiveness**



Source: KDS, 2008

## 3. Case Study: Development of SMEs in South Korea

### 3.1. Circumstances of Economic Development

#### 〈Background Conditions to Industrialization〉

Historically, the Korean economy was controlled by a totalitarian Japanese rule for about 36 years, until the country was liberated with the end of World War II. However, immediately following independence, the economy suffered from severe disruption and stagnation due to severance from the Japanese economic bloc and later from the unexpected partition of the country and even further the inability to run even poor industrial facilities.

The Korean War, which had began in 1950 and lasted three years, resulted in about 1.5 million civilian casualties and destroyed more than 40% of industrial facilities and essential social overhead capital. In 1948, the Korean peninsula was partitioned. The division of the Korean peninsula was more unfavorable to the South, since industrial plants were predominantly located in the north.

The endowment of the Korean economy just before its launch for economic development may be described with respect to (1) population, (2) the land, (3) the quality of the population, and (4) the distribution of wealth. First, at this time, the population was growing at a rate of 3% to 4% and the fertility rate was as high as 6% to 7%. Second, Koreans were endowed with 2,200m<sup>2</sup> of per capita land and very poor natural resources. Per capita arable land was only 715m<sup>2</sup> and Korea was one of the most densely populated countries excluding some city-states and small countries such as Singapore and Taiwan. Also, in Korea, only a single crop farming was available - rice.

To evaluate the quality of the population, we need to review the historical background of Korea. After liberation, the Korean peninsula was divided into two sections and the confrontation of two ideologies caused a tragic civil war. The south, in which western ideology took hold, started introducing a democratic political system. However, the south suffered from lack of an industrial foundation, and extremely serious poverty. Even farmers were short of food at that time. Korea was considered a hopeless country.

In the early days of economic foundation (1945 to the early 1960s), Korea was unable to secure minimal food supplies for its people. The U.S. thus provided food and financial assistance to the Korean people to satisfy the basic human needs. Korea was viewed as a large insolvent firm with no hope of recovery. The U.S.'s support for Korea was primarily driven not

by humanitarian considerations but geo-political intentions of keeping Korea and Japan out of the Soviet influence.

Considering such a historical background, it is likely that the Koreans at this time suffered from the dispirited attitudes of many underdeveloped countries such as collective enervation, disbelief in better prospects and the lack of confidence and a spirit of self-reliance.

The Korean people possessed low skills in industry and little incentive to work hard. They had virtually no working experience due to the lack of employment opportunities. Farmers were widely scattered around the nation and the ratio of farmers to the total population was over 70%. The Japanese colonialism did not permit the Korean people to accumulate technological and management skills. Besides, such scarce physical and human capital was severely damaged during the Korean War.

Educational attainment was also similarly very poor. Among the population over 13 years old, 28% were illiterate, and only half of the population had elementary education. However, the aspiration for education among the Korean people was very high. Due to the Confucian-oriented culture, the Korean people had almost blind faith in the value of educational attainment. “Being learned” was traditionally considered as the symbol of the ruling class and hence the vehicle to social advancement.

In the early 1960s the president started laying out a clear and radical policy process for Korea’s industrialization. This industrialization process was engineered by a robust economic policy initiated by the government. The strategy involved several policy actions and implementation phases which are outlined in the section below as a prelude to setting up a recommendation for Ghana’s industrial growth strategy.

### 〈Korean Development and International Environment〉

Even though there may be some similarities in the internal conditions of poverty and poor economic ecosystems for Korea in the 1960s and some African states today, the international system was quite different and more germane for Korea’s development. Although the global economy went through an oil-shock in 1973, developing countries at that time had better capacities for unilateral industrial protection than today.

The protection of infant industry has therefore, become an uphill battle in African development. Similarly, preferential trade pact are coming under increasing attack at the WTO and the developing countries now have to compete with open economies, even in the face of such competitive giants as China. As Robert H. Wade (2003) has argued, the WTO has complicated prospects for development of domestic industry through three main routes- TRIPS,

TRIMS and GATS.

In addition, liberalization and privatization of state owned enterprises in Africa, particularly banks, mean that Africa's capacity for control and allocation of capital is significantly lower than that of Korea. In the 1960s and 70s, virtually all Korean banks were placed under government control and the government took keen interest in allocation of credit.

Third, in the 1960s and 70s, the ongoing cold war provided a germane backdrop for massive and consistent aid into Korea from major global capitalist economies such as the United States at the time. Between 1945 and 1978, the US poured about 6 billion US dollars into Korea as economic aid (Bello and Rosenfeld, 1990: 4).

## 3.2. Strategies for Development of Industries and SMEs

### 〈Selection and Concentration〉

In a situation of serious financial constraints, working on improving all sectors and all firms at the same time would be counterproductive. It results in over stretching of resources and therefore, diminishing significant impact in any one area. Selection and concentration of resources is an optimum strategy that was strictly enforced in Korea to allocate scarce resources to a selected group of priority sectors and blue chips. The idea is that once some significant impact has been hit in the priority sector or aspect of business ecosystem (say market provision), then that effect produces positive corollary impacts in other sectors. The best use of resources in Korea involved having such a significant impact in one area as would lead to increased motivation in people's attitudes towards prospects for success in business.

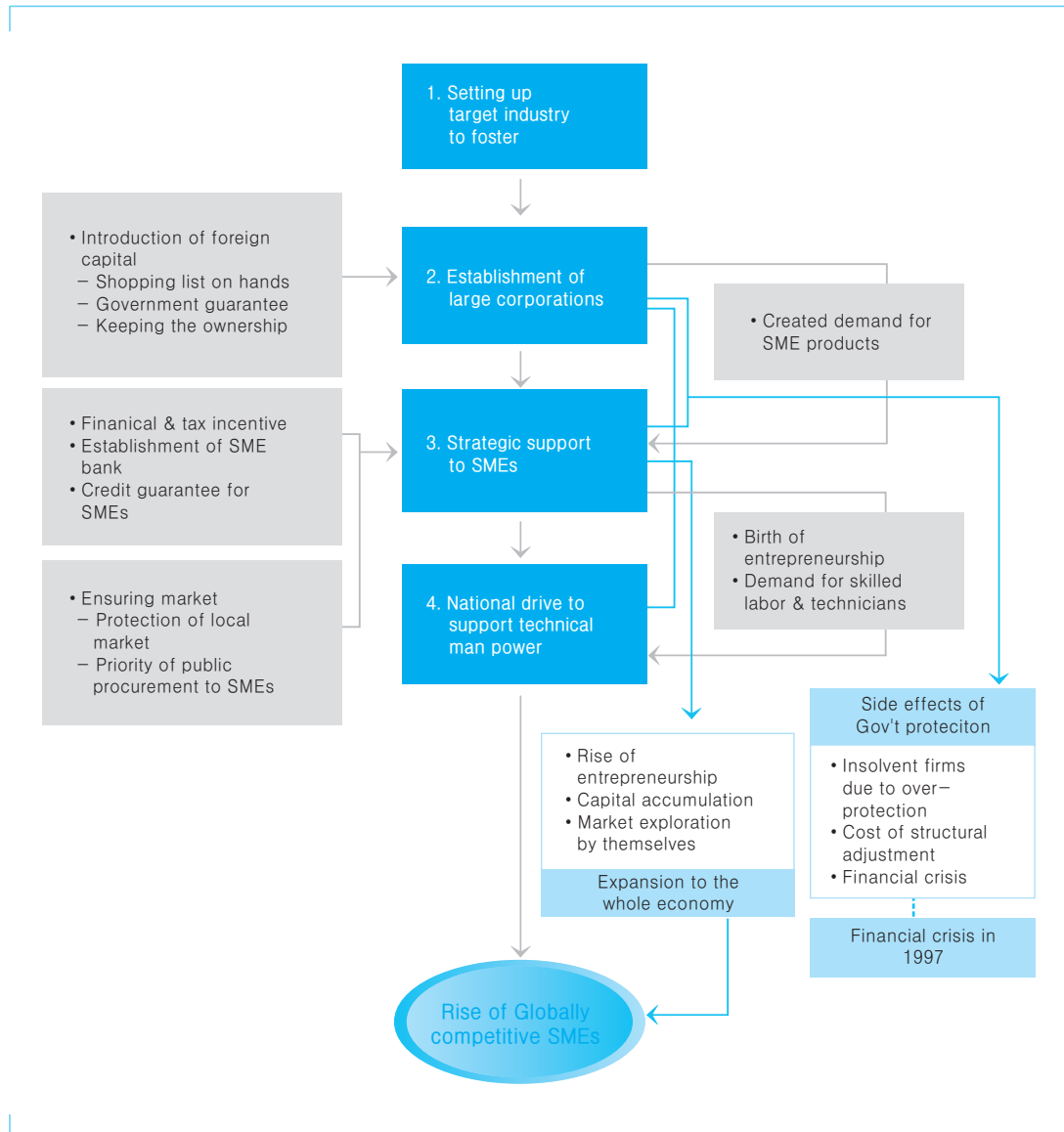
Under these serious financial and resource constraints, the Korean government launched very strategic development plans in the early 1960s. The strategy was based on the two notions:

- That the core of poverty elimination and sustained economic growth lay in the development of enterprises and industry;
- That in consideration of the country's serious resource constraints, the government strongly abide by the principle of "selection and concentration" in resource allocation.

Based on this basic perception, the strategy for the development of enterprises or SMEs was introduced in a step-by-step way, as figure 1.6 below shows. In implementing the principle of "selection and concentration" in resource allocation, the first step is to set-up a target industry to be fostered. The selection of an industry was based on the examination of resource endowment of Korea and consideration of the national security. Since Korea was relatively better endowed

in human resources and had little in natural resources, labor intensive industries such as textile and electronics were put on the list of target industries. In consideration of resource endowment and national security, such industries as automobile, steel, ship-building, were selected as target industries.

**Figure 1-6 | Korea's SME Development Strategy**





## 〈Strategic Promotion of Foreign Capital〉

One of the most unique aspects of the Korean model of foreign capital attraction as a developing country was its heavy dependence on debt (loans) rather than Foreign Direct Investment (FDI). Foreign capital in Korea played the usual role of increasing capitalization of business that would have otherwise been short on capital. Through loans that were guaranteed by the government, the Korean firms were able to procure huge amounts of capital from foreign institutions both private and public. Second, foreign capital in Korea was instrumental in introducing foreign Large Scale Enterprises (LSEs) into the Korean market which contributed in providing markets to many of domestically based Korean SMEs. The Korean SMEs thus became suppliers and chief subcontractors for the foreign SMEs and in creating such linkages, the Korean companies benefitted immensely from technology transfer.

However, unlike many developing countries in the 1960s and 70s, Korea was very keen on preserving its ownership and control of its business ventures. This was one of the key considerations in seeking foreign capital. In fact, the policy of Korea in seeking foreign capital was ‘restriction’ and ‘control’ which meant that foreign capital would only be restricted in certain areas and strict control over foreign capital was sought.

The role of FDI in Korea was principally threefold. One, FDI enabled to further fuel Korea’s economic growth. Two, through Korea’s protectionist FDI policies, Korea was able to develop its own brand of products and build substantial local ownership in its economy. Three, FDI contributed immensely in promoting Korea’s technological growth. The heavy dependence on loans rather than FDI helped keep ownership of Korean enterprises, while it may have worsened the financial structure of firms due to high liabilities. Allocation of FDI and loan by the central government helped to strategically foster selected industries and SMEs in accordance with government priorities.

Since a poor country lacks the requisite capital for investment in new business ventures, foreign capital is often the only practical source for funding. This was no exception for Korea and it is the second step in SME development process. In procuring foreign capital, there are two ways of approaching it. A country could opt to invite foreign investors (FDI) or a country could decide to fund new ventures through debt (loans). Korea’s FDI policy was characterized by three key actions:

At first, Korea tried to invite FDI into its territory by enacting the Foreign Capital Inducement Promotion Act in 1960. This act established tax holidays, equal treatment of foreign firms with domestic firms, and guarantees of profit remittances and withdrawal of principal. This effort was not very successful in attracting FDI and in 1962, the government established the payment guarantee system for private loans. The guarantee system greatly reduced the risks

foreign creditors were faced with, and paved the way for more confident channeling of foreign capital into the Korean market.

Second, the Korean policy makers identified the key list of products and activities in which FDI would not be allowed. This enabled Korea to maintain control on sectors which were considered strategic. The 'positive list' was one of the key instruments of Korea's FDI policy of restriction and control. For Korea, the ability to control foreign firms' investment was very crucial and is one of the defining aspects of Korea's FDI procedures.

Third, Korea was very sensitive and keen on avoiding economic domination by outsiders. As such, the government worked out elaborate methods to ensure that it was actually the Koreans themselves who were running their own businesses. This was one of the reasons why Korea opted to seek foreign capital more through loans than through FDI since loans gave them more control over their business ventures.

Due to massive inducement of foreign capital, Korea succeeded in establishing large corporations in the target industries. The establishment of large corporations is particularly significant, in that it paved the way for the development of SMEs. The large corporations require parts and intermediate goods to manufacture, which are produced by SMEs. In the beginning, the large corporations had to rely on imported parts and intermediate goods, however, they gradually moved to local procurement as the local SMEs were growing.

## 〈Strategic Support for SMEs〉

### Financial and Tax Incentives

At this stage, the government became ready to support SMEs to induce growth and expansion in those priority industrial areas. Financial and tax incentives were provided to foreign investors particularly in SMEs since SMEs are widely recognized as having greater obstacles in financing than large corporations. Tax preferences for foreign investments were strengthened to include exemption from income and property tax on foreign investment. In addition, the government established some banks which were purposely created for SME support. The most important of these was the Industrial Bank of Korea. Other regional banks were also set up. Korea has over the years established several Credit Guarantee Schemes to support acquisition of capital (loans) by SMEs that may not have sufficient collateral to secure loans. The Korea Credit Guarantee Reserve Fund was the first of these and was established in 1961. Credit Guarantee schemes are helpful in diversifying the risk between the government, the lending institution and the individual investor. All these efforts resulted in an upward trend in the level of entrepreneurship and the number of start-ups.

## Ensuring Markets

Enhancing market access to SMEs is important not only in providing the means of financial sustenance but also in providing an incentive for SMEs to increase their competitiveness. The Korean government ensured market access for SMEs through two main ways:

- The protection of the domestic market from foreign competitors;
- A public procurement system that gave priority to SMEs.

**Protection of the Domestic Market:** Through the 60s and 70s, Korea maintained a very protective, almost mercantilist policy regarding its domestic market. While protecting its own market vigilantly, Korea was also working ruthlessly in expanding its market access abroad. In its early days of infant industry, the Korean government conducted national campaigns which encouraged people to consume only Korean made products. Korea's nominal tariff rates averaged 40% in the 1970s.<sup>27</sup> This is of course, a long way above Ghana's current MFN rates of 12.7% and Ghana's may not have the capacity to unilaterally maintain high tariffs.

**SMEs as Priorities in Public Procurement:** The government encouraged all government agencies and state corporations to increase their procurement from SMEs. Every year, the government agencies were required to submit reports on the purchases that they made from SMEs during that year and similarly provide outlines of their intended purchases from SMEs for the coming year.

The establishment of large corporations and strategic support to SMEs induced the growth of enterprises and industry. Once a momentum for enterprises growth was provided, the speed of growth accelerated. Furthermore, it created demand for skilled labor and technicians for their sustained growth, which paved the way to the inducement of national drive to foster technical man power.

### 〈National Drive to Support Technical Man Power〉

In Korea, social status was traditionally identified with one's occupation. Social perception of one's occupation was favored and respected in the order of scholars, agriculture, manufacturing, and commerce. Since this tradition was deep-rooted, the educational system was biased in favor of the study of humanities rather than of natural sciences and technology.

When Korea launched into economic development, training technicians and engineers were

27. See, Federal Reserve Bank of Francisco. "Government Intervention and The East Asian Miracle" ( section on East Asian trade and industrial policies )

given the top priority. In order to break down the feudal bias in occupation, strong incentives had to be provided for engineers and business men. A great number of vocational training schools were established, and education for technology and natural sciences were strengthened. As can be seen from the remark of President Park, “skilled workers were the treasures of the country,” the willingness of the government towards the development of technicians and engineers was very strong.

Korea adopted a very unique system for training of technicians and engineers. It established a model engineering high school, which was known as Kumho engineering high school. All staff members were recruited from Japan and the same curriculum was applied as it was done in Japan. The school was put under the direct supervision of the Ministry of Commerce and Industry (MCI) rather than the Ministry of Education (MOE) for the training to meet the industrial demand. Being accommodated in a dormitory house, all students received superb training in technical skills as well as disciplined work ethic. This model spread to other schools throughout the nation. This program turned out to be very effective. From the 1970s, young Korean workers dominated in gold medals in the Skills Olympics. The Korean training system became a model for many developing countries including China and Vietnam.

As many developing countries do, Korea suffered from severe “brain drain.” Korea tried to provide incentives for the scientists abroad ensuring they received the same living standards they enjoyed in advanced countries. Also, various research institutes such as KIST and ETRI were established. As a result of these efforts and strong incentives for scientific and technological education, a study boom of engineering and natural science arose among talented young students in Korea.

### 3.3. Outcomes of Korea’s SME Strategy: Success and Side-effects

The SME promotion strategy had positive as well as negative consequences for SMEs and the Korean economic structure as a whole. On the positive side, the strategic SME support policies led to the growth of SME productive capacities and the growth in demand for SME products. Concomitantly there was increased demand for skilled labor and technicians to run the SMEs that were coming up and expanding. Based on the demand for skilled labor, the timely introduction of national scale drive for fostering technical man power paved the way to sustained development of industry and SMEs in Korea. Ultimately, the Korean SMEs and business units became globally competitive and today, Korea has many well regarded brands around the world. However, the extraordinary success also brought about some serious side-effects as well.

The SME support strategies produced several challenges in the Korean economy which culminated in the infamous financial crisis of 1997. First and foremost, the government credit guarantees which had been introduced in order to encourage investment led to over investment and reckless lending. Under the notion that the government would guarantee lenders' money, there was reckless lending and overinvestment in certain fields in spite of reduced profits. Second, due to the preferential incentive system, there was over investment in certain fields, specifically over expansion in corporate investment. Ghana should be keen with all these are factors while implementing its own strategy. In addition, at the final stage of SME development where free competition is restored, the government should have a vigilant monitoring so as to ensure that the restoration of free markets would not overwhelm the domestic economy as happened in Korea where financial liberalization and entry of foreign capital and institutions overwhelmed the Korean financial institutions and led to the financial crisis.

## 4. A Strategy to Build the Foundation for SME Development in Ghana

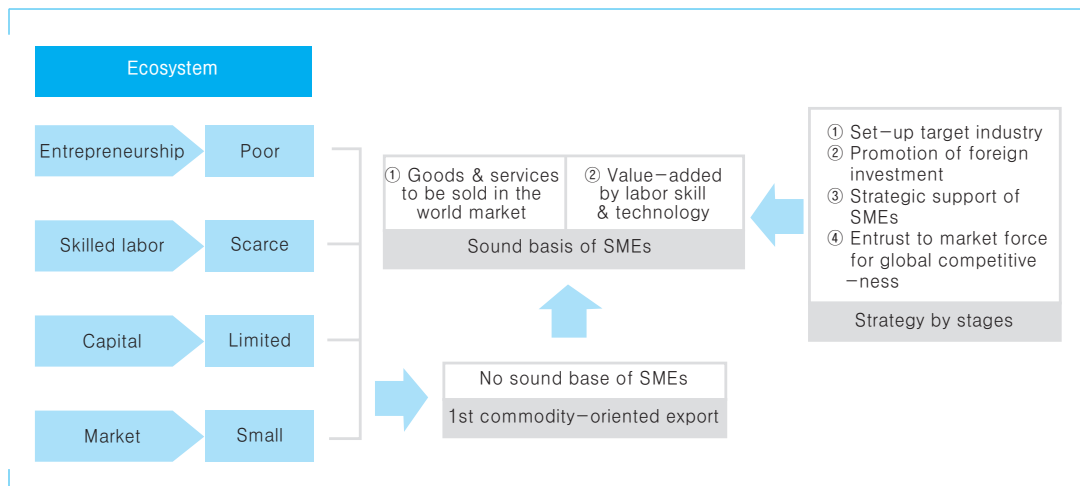
### 4.1. Requirements for Industrial Fields of SMEs

Under the serious constraints for SME development as outlined above, very strategic approaches are required for establishment of a foundation for SME development. The very limited domestic market means that at first, Ghana will have to target certain export oriented industries. This section outlines the step by step strategic approaches required for this foundation. The steps for SME foundational set-up are as illustrated by figure 1-7 below.

#### 〈Basic Criteria for Blue-chip Selection and Ghana's Industrial Priorities〉

As has been elaborated in the previous section and summarized in figure 1-6 above, the four factors for SMEs ecosystem (entrepreneurship, skilled labor, capital and markets) has been found to be wanting. Entrepreneurship is weak due to years of mental inertia and little participation in economic activities. The level of skilled labor is also poor due to limited delivery services for skills and limited opportunities for transformational experience. Access to capital is equally difficult due to an environment of mutual distrust between commercial banks and SMEs. Finally the market situation is not favorable to SME due to low disposable income and a very open domestic economy. Since the first step of an SME promotion strategy involves the set up of priority sectors (or industries) as shown in figure 1-7 above, then the first single most important step is the identification of the criteria for selection of new priority sectors and industries.

**Figure 1-7 | Strategic Steps for SME Promotion**



Source: KDS, 2008

As shown in the figure above the basic criteria for firm support should be an identification of the firms with the best potential in the following two ways.

- One, priority firms should have capacities or good potential for production of goods and services for export to world markets. This would of course require that Ghana’s production processes are acutely in step with global standards in production and tastes and trends.
- Secondly, production enhancement would have to be accompanied by sustained value addition as well as constant technological improvements and skill enhancement for Ghana’s workers. A technology intensive industrial oriented economy is an indispensable basis for sustained economic growth.

Looking at these basic criteria, Ghana should then examine what should be the priority industries. Development of agriculture with emphasis on agro based industries is a key priority. Other sectors of key focus include building and construction, metallurgical industries chemical industries, energy related industries and tourism. Priority sectors should then be based on the overall prospects for any given sector in these two key aspects - value-added and export capacity.

### 〈Step One: Guidelines for Selection〉

The first step in industrial development involves the selection of priority sectors and business for strategic support. These sectors and enterprises are evaluated and chosen based on

the additional factors presented below. The factors presented below pay attention to the particular context of Ghana.

### Comparative Advantage

Comparative advantage refers to the relative opportunity cost of producing different commodities in an economy. What can Ghana produce most efficiently? Ghana should thus concentrate on production of those commodities in which it has the least opportunity cost in production. But since the factors of production are becoming increasingly mobile, Ghana should also be guided by the considerations of its future aspirations and not just the immediate international division of factors and production.

### Labor Abundance

One of Ghana's present advantages is its availability of a young and robust labor force whose energies should be tapped. This suggests that for immediate investments and industrial targeting, Ghana should look into labor intensive industries which can make use of its teeming labor force. Ghana's labor abundance is a resource that other countries may not be as well endowed in and thus a factor to capitalize on.

### Forward and Backward Linkages

The ideal target industries for government support should be the kind of industries whose products and position in the value chains create and enhance upward and downward linkages with other industries. For example, if a manufacturing company sources its main inputs from Ghana, say milk, or cassava, or coal etc, then refines this commodity and exports it to foreign markets, then this company is likely to create forward and backward linkages with other SMEs domestically and with other MNCs internationally. The exposure of Ghanaian SMEs to international marketing through links with global chains will be a boon.

### Value Addition and Skill Development

Improvement is a basic tenet of progress. A veritable growth of any economy is based on the ability to add value to its products whether for export or domestic consumption. The ideal candidate industries and firms for support would be those that would lead to incremental value addition to products before reaching consumption points. For example while textile manufacturing adds value to the process of garment manufacturing, the mere trading of imported clothes adds little value.

Based on these factors Ghana should choose industries and firms with a competitive

advantage and a capacity to survive global competition. Ordinarily, industrial development should gradually move from labor intensive to capital intensive, from light industry to heavy industry and from import substitution to export promotion. Industries with comparative advantage are bound to change over time and therefore choice of target industries has to be based not only on current comparative advantage but also on a country’s industrial aspirations.

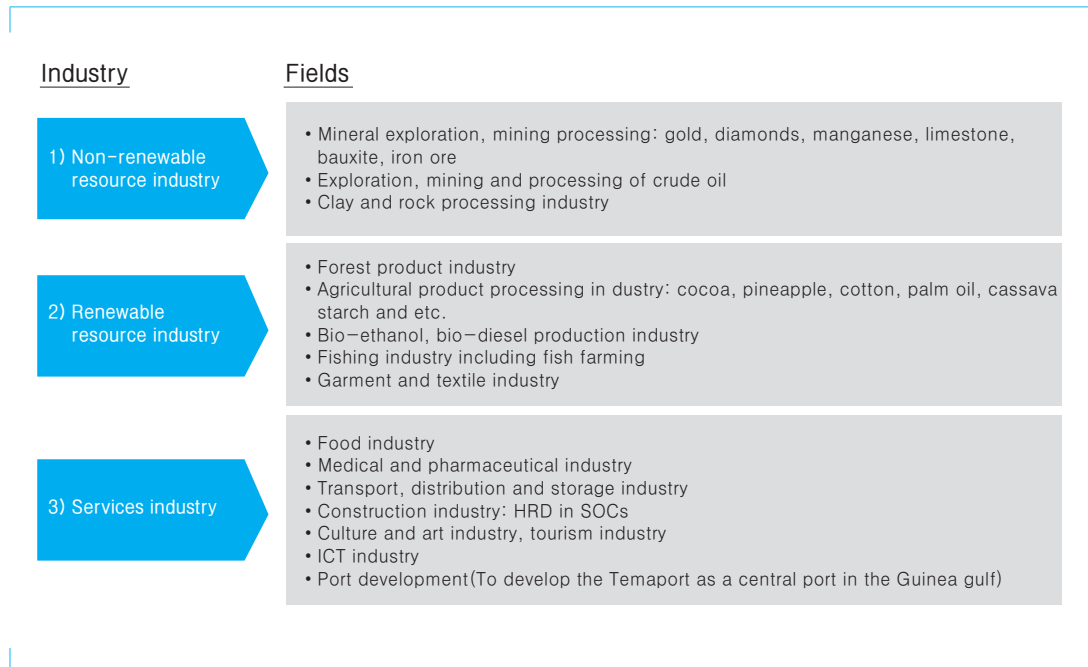
### Examples

Ghana’s industrial set up is mainly dominated by the non-renewable resources exploitation, followed by some renewable resources and the services industry. Figure 1.8 (below) shows some of the industries in the respective category of renewable, non-renewable or services.

In non-renewable industry, target enterprises could be mineral exploration, mining and processing: gold, diamonds, manganese, limestone, bauxite, iron ore exploration, mining and processing of crude oil and clay and rock processing industries.

In renewable-resource industries the top target support industries could be forest product processing, the agricultural product processing for cocoa, pineapple, cotton, palm oil, cassava starch etc. Other industries would be bio-ethanol and bio-diesel production, fishing industry

**Figure 1-8 | Priority Industrial Sectors for SME development**



Source: KDS, 2008



including fish farming and Garment and textile manufacture.

In services industries Ghana should look at promoting some the following industries: food industry, medical and pharmaceutical industry, distribution and storage industry, construction industry, HRD in SOCs, culture and art industry, tourism industry, ICT industry, transport and port development (to develop the Tema port as a central port in the Gulf of Guinea region).

## 4.2. How to Develop SMEs

### 〈Renovation of SME Ecosystem〉

Since the ecosystem of SME has been identified as wanting, the Ghana government may try to expend its efforts in changing (improving) the entire SME ecosystem. This would not be a good strategy as constrains in resources would mean that resources would be thinly spread out. Doing everything at the same time may easily mean very little impact. This section therefore lays out the principles of renovating an SME ecosystem.

#### (I) Give impact on critical areas

The most urgent area of SME support should be identified and given a critical boost in the requisite support. This critical area, say expansion of market access, should be able to have a domino-effect of eliciting positive responses in other aspects of the ecosystem.

#### (II) A step wise approach

Again the enhancement of the SME strategy should be done in a step by step manner that prioritizes certain aspects, critical domestic issues and exigencies of Ghana. This is why it is important to have a clear and broad analysis of the most critical needs for the SMEs.

#### (III) Restoration of SMEs

The third principle requires careful and consistent restoration of entrepreneurship through reduction of risks and enhancing the margins of profit. Anything that reduces the risks in investment while increasing the profit margin helps in restoring entrepreneurship.

### 〈Provision of Markets〉

Access to market is the most pressing need for SMEs in Africa. If market access is enhanced and actual expansion in sales occurs, many SMEs will be positively motivated to engage in business in those profitable areas with improved market conditions.

## Enhancing Access to Markets

The operative idea of any industrial policy is the government augmentation of market forces in order to foster the development of domestic industry. The failure of markets alone to spark growth in many developing countries after the structural adjustment programs of the 1980s in Africa means that governments have to take a more vigilant role in market augmentation. Selective government support is therefore the core of industrial policy as the government applies some preferential policies for target industries or activities or companies.

The government should set up an administrative and business support system that ensures that national development priorities are well known by everyone in key positions and that everyone expends their efforts to ensure that those goals and targets are met. The criterion of professional performance for some cadres of public servants is often evaluated based on how well the selected industries under their watch perform. The government apparatus should select a host of preferential mechanism to use for market augmentation to steer those selected companies, activities or industries in the desired direction.

As outlined in earlier sections, the SME ecosystem comprises four factors namely: entrepreneurship, capital, markets and skills. To an extent, the level of entrepreneurship is a function of the regulatory system and thus refining aspects of the regulatory system is likely to engender a spark in entrepreneurship. Chapter 2 to 4 deal with the ways of enhancing aspects of the regulatory system, access to capital, SME support systems and enhancement of human resource for SMEs development. This section deals with aspects of enhancing the market access for SME.

Enhancing the market conditions for SMEs in Ghana would entail three key policy aspects and facilitation programs.

- Support for linkages between SMEs and LSEs: one of the challenges of SMEs in Ghana is the low level of willingness by large scale firms to procure item products and services from local SMEs. This is mainly either lack of price competitiveness or low quality or both. In order to increase procurement of locally produced products by SMEs the government should carefully monitor the principal import items that the large firms were buying from abroad. Out of the long list, the government should then prepare a short list of items whose production can be potentially done domestically within a short period of time. The government would then give a strong push to local producers of these products while at the same time networking and promoting those products to the large firms. The government would thus be conducting IS [Import Substitution] for a small number of products with the intention of enhancing capacities for sustained production of those products from the domestic market. The facilitation programs should ensure the gradual

enhancement of technology and skills for production of those items so that their quality keeps on increasing while still remaining price competitive.

- Give SME serious consideration in public procurement: The Ghana government should encourage and stand for procurement practices that promote the domestic industry. The spectacle of perceived disposition to corruption has led the inordinate opening up of African procurement systems to competition from all over the world with little regard for the need to improve Africa's domestic production systems. The Ghanaian government should therefore do all it can to review its procurement act in order to encourage greater purchases from local SME. Such actions should be keenly followed by close inspection of government agencies and departments to find out how well this call is being needed.
- Strict customs control to contain smuggling: Decisive measures must be taken against smuggling. These include vigilant measures to ensure customs compliance, stern punitive actions against smugglers and particularly long term measures for better policing of the Ghana-Togo border.

Other measures to improve access to markets include:

- The establishment of an export fund to promote SME products in foreign markets in addition to EDIF needs to be considered seriously.
- The government should encourage SME joint ventures which have export components.
- The GEPC should be strengthened further to actively search overseas markets, especially Africa and ECOWAS markets and make the market information available to SMEs.
- Based on local needs, market information should be more widely disseminated to SMEs at the national and sub-national levels, in a manner which ensures that all target groups are reached.

### Box 1.1 Korea's Experience in Market Provision for SMEs

#### **Rooting out Smuggling**

Smuggling was considered to be one of the gravest economic crimes in the early 1960s in Korea. On becoming president, Park Chung Hee cracked hard on smugglers and instituted a national campaign for sensitization on the harms of smuggling and the buying of smuggled goods. Trade in luxury good was equally cast as illicit and even little children were schooled on the patriotism of buying and utilizing only locally made products. Ostentatious consumption of foreign goods was socially cast as an act of 'treason'. In 1962 president Park is quoted as having issued a warning that all smugglers would be sent to the gallows. (*A Dying Business, Time, May 04, 1962*)

### **Restriction of Imports**

In the 1970s Korea maintained a high MFN tariff that was a patent disincentive for importation of goods to Korea. For importation of machinery and other components the approval permission from the Ministry of Industry and Trade was required.

The government equally encouraged SMEs by setting a system where the government often procured its goods from the SMEs.

As detailed in section 2.2. of this chapter, the principle problems of entrepreneurship in Ghana have been the high risks in venturing in business, as well as the historical lack of exposure of substantial segments of Ghanaian elites in running of business. Notwithstanding these obstacles, Ghanaian entrepreneurship must be restored through the following key steps. The basic principles of SME development and restoration of entrepreneurship include:

- Deregulation;
- Enhancing access to financing;
- Enhancement of human skills;
- Building of requisite SME support institutions.

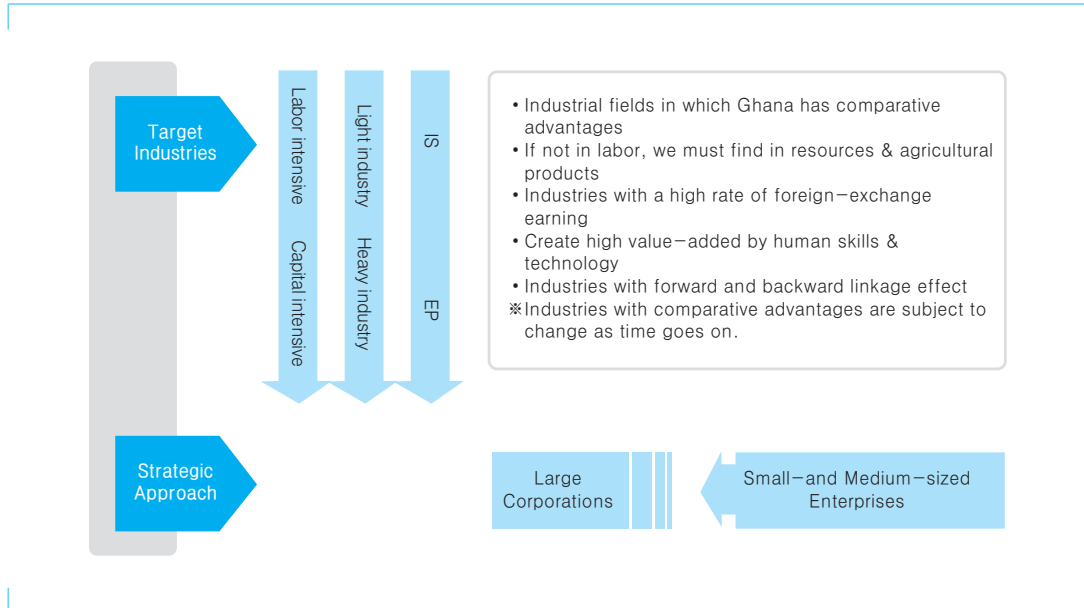
Chapters two to four give detailed evaluations of these factors of SMEs ecosystem in Ghana as well as policy proposals for enhancement of each of the factors.

## **4.3. Stepwise Measures for SME Development**

### **〈Selection of Target Industries〉**

When choosing the target industries for government support, the general directions should be aimed at improving the scale of SMEs into large scale units. At the same time while initially concentrating on import substituting, labor intensive, light industries with time there should be gradual movement towards export promoting, capital intensive, heavy and chemical industries. This pattern of gradual movement is outlined by figure 1-9 below.

**Figure 1-9 | Framework of Industrial Support and Development**



Source: KDS, 2008

The most important note to make here is that for developing countries today, due to the open nature of global economies, notions of import substitution may not apply as they did in the 1970s. The global economy is far more liberalised and thus countries cannot exclusively pursue IS of EP as some countries did in the 1960s or 70s. As stated in an earlier section, the goal should be to produce goods for a global market. In addition, priority industries should work on building the value add on labor skills, and technology.

### 〈Step Two: Promotion of Foreign Investment〉

#### Why FDI is Relevant to SME Development

One of Ghana’s policy directives is to give effect on liberalized investment regime sustained by a targeted investment drive. FDI is relevant to SME development in several ways. This FDI drive should be carefully targeted towards priority sectors and activities. This gives the FDI drive a definite direction that is in line with the SME development strategy. Here a lesson or two from Korea would suffice in measures meant to channel FDI in certain sectors while possibly restricting FDI in others. A clear FDI policy will give emphasis to targeting FDI in priority sectors. Secondly, FDI often brings in Large Scale Enterprises (LSEs) which in due time become critical linkages in contracting and supplies to domestic SMEs. Thirdly, it is

important to enhance the government capacities for control of FDI, so that FDI contributes to growth of domestic capacities in human resources (managerial skills), technology (research, innovation and commercialization) and ownership. The role of FDI in SME development is therefore indispensable.

For the time being, Ghana's best alternative for acquiring capital is through inducement of Foreign Direct Investment (FDI). However, as described in the previous sections, FDI performance has not been robust due to the unfavorable SMEs ecosystem. Some of these unfavorable investment conditions for MNCs include the lack of promising investment prospects apart from natural resources, the poor labor market that is better matched in skills by other countries and the preference for absolute ownership in processing and exporting natural resources by MNCs. Because of these reason, the job creation in other sectors apart from the non-renewable sector is very low.

### Provision of Favorable Conditions

A strategy for FDI inducement would call for provision of sufficient conditions to attract foreign capital in the target industries. This would involve the identification of the most serious handicaps for investor seeking to enter the Ghanaian market. According to surveys done by UNCTAD on executives of world's leading TNCs, the top locational considerations include political stability, macroeconomic stability, availability and cost of skills as well as other government regulations. In addition Ghana needs to identify the priority investment sectors for in potential investors. According to surveys<sup>28</sup> done by the UNCTAD, the most important priority sectors for investors in Africa are those industries for which the domestic market is important. These include such industries as tourism, telecommunications and natural resource extraction. Industries which are mainly geared for export do not rank so highly for transnational corporation's investment decisions. Ghana will need to study its key investment strengths, priorities and investor wishes and come up with a balanced catalogue and strategy for making investment in those priority areas more attractive.

### Ownership and Control

The government capacity for control of investors is key to success of any FDI strategy. Capacity does not necessarily mean excessive regulation, but the government's ability to enforce its objectives in a certain direction. Traditionally control has been achieved by governments enforcing joint ventures between domestic owners and international investors. Efforts should be made to maintain ownership or executive control by Ghanaian entrepreneur's

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28. See the 2000 World Investment Report Overview pg. 14.

as much as possible ownership as far as possible. Even where the local ownership may have to be compromised because of weaker leverage in negotiating investment deals and treaties, the government should leave provisions for control of FDI and preferential support of domestic industries. The government should also leave enough room for discretion and capacity to regulate the activities of business enterprises. International and bilateral policies regarding competition, rights for technological transfer, performance requirements and cases of preferential incentives should be carefully considered. Capacity for government control should be a key aim for all investment deals.

### Establishment of Corporations

As a second-best policy, establishment of public corporations could be considered. The purpose of corporations would be to increase public control and independent in economic affairs of the state so that the corporation serves as a fortress against takeovers and infiltration of foreign firms into domestic markets without a substantial penetration of foreign markets by domestically produced goods. Corporations can also be used in the case where the government wishes to control the procurement and delivery of a certain product into the country. Then for easier control a corporation could play that role. Corporations would be particularly useful in the control of imports since tariff control is not readily feasible today.

### Use of Community in Diaspora

The Ghanaian community in the Diaspora should also be utilized in inducing them to invest at home. It is estimated that there are over 2 million Ghanaians living outside Ghana and between 2001 and 2006 they sent back home remittances to the tune of 4 billion sterling pounds abroad. Ghana should indeed go beyond the traditional view of citizens in the Diasporas as only beneficial in the remittances they send home. These citizens should be courted and persuaded to provide entrepreneurship, other business skills and links to international markets and people. People in the Diasporas have by virtue of living abroad accumulated useful ideas and skills that their native countries would benefit from.

For FDI to be incrementally useful, the most ideal targets should be investments which bring in more advanced technology and whose contracts are based on legal terms. Enhancements in technology have the double advantage of not only enhancing the production process itself but also improving the skills, innovation and the transformational qualities of the labor force.

## Box 1.2 Attracting Foreign Capital: The Korean Experience

### **The Korean economy prior to the rapid growth**

Until the early-1960s, Korea remained a poverty-stricken country and was considered a nation with no future, as forecasted by the World Bank. Indeed, Korea then was unable to even maintain food self-sufficiency and a significant portion of the national budget was appropriated by foreign aid. Pessimism dominated the Korean society and future indeed looked dismal.

### **The efforts to attract foreign capital**

Having recognized the lack in factors of production, the Korean government concluded that the only way to free Korea from the poverty trap was to attract foreign capital so that the country could achieve the goal of industrialization. Subsequently, the government enacted the Foreign Capital Inducement Promotion Act and provided various incentives for foreign investors including a profit guarantee and tax exemptions.

However, these measures did not turn out to be sufficient to attract enough foreign capital. The government had to seek other measures. Eventually, it decided to launch an exceptional measure, enacting the Act on Payment Guarantee of Foreign Borrowing. According to the act, the government assumed a guarantee on foreign loans raised by the private sector. As can be anticipated, many opposed this bill. There was public outcry that this measure would lead the country to bankruptcy. Indeed, the protest of those who opposed the bill was not groundless. In fact, the measure was so drastic that a bill of this sort had no precedent in Korea or elsewhere in the world. In spite of growing opposition and criticism, the Korean government pushed forward the bill with determination that this would be the only way to attract foreign investment needed for economic development.

This illustrates how desperate the Korean government was to attract foreign capital. Thanks to the act, however, the inflow of foreign investment began to increase significantly. A few years later, then president, Park Chung Hee, recalled that the promulgation of the act was the most difficult political decision he had ever made during his presidency.

## 〈Step Three: Selective Government Support for Industries with Comparative Advantage〉

This step involves nurturing the development of these selected enterprises through government support through an enactment of an enabling legal framework, assuring access to requisite financial resources, access to modern technology and market access. The government



responsibility is therefore to provide incentives for market access whether domestically or for exports. The most critical role of government in developing countries is to encourage entrepreneurship by reducing risk and uncertainties in business. Various recommendations under each of these factors in SME ecosystem enhancement are given in detail in subsequent chapters. Chapter two deals with enhancing the regulatory environment, chapter three deals with enhancing access to financing and chapter four delves into human resource development and systems for SMEs. The tools for sector and business support are comprehensively set out in chapters' two to four. Chapter one has provided recommendations on enhancing the market access.

## 〈Step Four: Completion of International Competitiveness〉

The final stage of Strategic SME development involves a gradual ease in protection so that only firms with international competitiveness can survive, and to let them free to global competition. This process includes several steps:

### [SME Positioning for Global Competition](#)

First, government intervention to secure optimum scale and expertise of SMEs is needed. This involves the promotion of the scale of SMEs to certain global benchmarks, the guidance of SME to achieve specialization and expertise in specific fields and the inducement of structural adjustments so that weak SMEs are weeded out. A framework for identification of success (and failures) must therefore be part of the industrial promotion policy. A pragmatic industrial policy is one which has clearly embedded sunset clauses. The duration of preferential support of any activities of industries must be clearly spelt out so that firms are at least aware of the timeframes for support. This gives them the pressure and urgency to raise their competitiveness as fast as possible. Position for global competition thus involves the withdrawal of preferential beneficiaries to some industries or activities.

### [Securing Fair Relationship between Large & Small Enterprises](#)

The main task under this step is the domestic leveling of the business playing field so to avoid unfair business practices. When some activities of industries or firms are treated preferentially, they may develop relationships and market powers that may be anti-competitive and prone to misuse as cartels. The purpose of this step is to ensure fairness in entry and operation of business activities irrespective of scale. Big firms could also move to prevent the growth of smaller firms that could challenge their dominance. In this stage therefore unfair subcontracting is banned through appropriate legislation such as an Anti-Monopoly and Competition Act. The anti monopoly legislation usually applies itself to the regulations

governing mergers and acquisitions, the prohibition of anti-competitive monopoly agreements and the proscription of the abuse of a dominant position. Such a law may also apply itself to the circumstances that could be considered ‘justifiably reasonable’ to merit a conduct that might be considered abusive such as by big firms to smaller firms such as predatory pricing, excessive pricing or price discrimination. For the mutual benefit of both SMEs and MNCs the government adopts structures and procedures through which negotiated settlements to some disputes regarding business activities can be made.

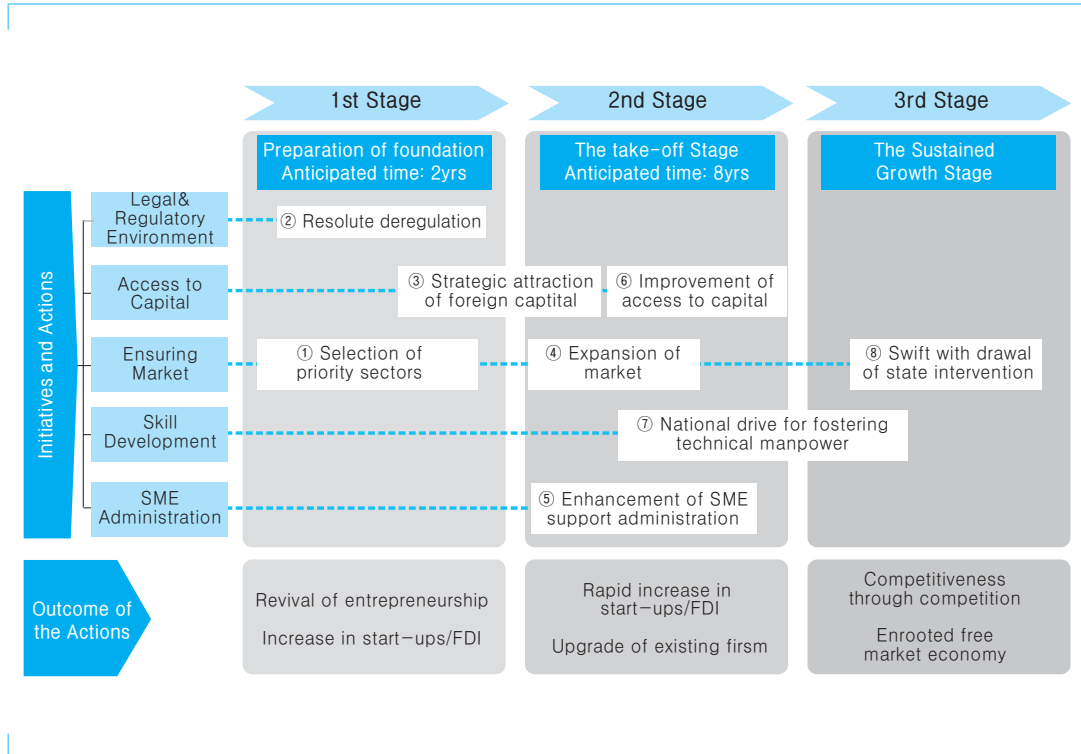
### Restoration of Free Markets

The task under this step is for the government to foster competition through competitive markets. The government gradually reduces/phases out any outstanding credit guarantee systems as well as abolishing existing protection measures for SMEs. The gist of this phase is deregulation of the market to foster competition. All SME protection measures that had been crafted for the sole purpose of protecting SMEs are withdrawn and fair competition is unleashed. Local content requirements, foreign exchange controls, export tax incentives and tariff rebates are all scaled back and completely withdrawn. It should be upon the government to have an ex ante agreements and ideas and the duration of time or benchmark success which would be considered in the abolition of protection measures.

## 4.4. Conclusion: A Summary of Framework for SME Development

The systematic development of SMEs is foreseen to take place within three main stages. These are the foundation stage, the take-off stage and the growth stage. The implementation of SME development through these phases goes through a careful interaction of policy measures, SME conditions (ecosystem) and time. During each of these phases, the reform measures and systematic policy actions should be implemented in order to achieve certain objectives within each phase. A diagrammatic representation of this comprehensive strategy for SME development is shown by figure 1-10 below.

**Figure 1-10 | A Framework for SME Development**



### Foundation phase

The foundation phase is envisioned to take about two years. During this time the most important policy operations should be ① the selection of priority sectors and ② a resolute deregulation program to spark entrepreneurship. These two policy measures mostly affect the regulatory system and the market.

### Take-off phase

This phase is anticipated to take about eight years. At the very onset of this phase - indeed by the end of the first phase there should be ③ a spirited attraction of foreign capital and ⑤ expansion of market, both domestic and regional. In addition, there should by this time be some sound policies in place for enhancing ⑥ SMEs access to capital and possible mechanisms for acquisition of better technology. By the fifth to sixth year, there should be in place a ⑦ sturdy SME support administration. By the end of this phase there should also be ⑧ a well established national drive for fostering manpower production in technical areas relevant and suitable to desired industrial activities.

## Sustained growth phase

This phase is the ultimate stage of the SME development where the objective is to foster competition of local SMEs. This phase requires the ⑧ restoration of free markets and the cessation of preferential support measures. At this point it is expected that strong SMEs have emerged and the weak ones have been culled and that the strong ones have attained sufficient levels of competitiveness for global competition.

In the Phase 1 (the foundation) chapter, one has dealt with the choice of strategic sectors while in the phase 2 (take-off) chapter, one has dealt with strategic attraction of foreign capital, expansion of markets and the withdrawal of preferential measures and restoration of competitiveness through fair competition. The following chapters (2, 3 and 4) deal with the remaining policy measures regarding the regulatory environment, enhancing access to capital and technology, enhancing the human resource development for SMEs as well as the set-up of requisite institutions for SME development.

## ANNEX | Action Steps and Roadmap for SME Development in Ghana

Strategic Item	Actions	Preparation period: 2yrs	Take-off period: 8yrs	Executing Agencies	Remarks
1. Selection of priority sectors	<ul style="list-style-type: none"> <li>① Basic survey</li> <li>② Selection of industrial sectors</li> </ul>	<ul style="list-style-type: none"> <li>_____</li> <li>_____</li> </ul>		NDPC/MFEP NDPC/MFEP	
2. Improving legal & regulatory env't	<ul style="list-style-type: none"> <li>① Establishment of a special committee</li> <li>② Preparation of deregulation plan</li> <li>③ Revision of laws and regulations</li> </ul>	<ul style="list-style-type: none"> <li>_____</li> <li>_____</li> <li>_____</li> </ul>		MOG  All ministries All ministries	Business associations, experts Business associations, experts
3. Strategic inducement of foreign capital	<ul style="list-style-type: none"> <li>① Preparation of plan</li> <li>② Enforcement</li> </ul>	<ul style="list-style-type: none"> <li>_____</li> <li>_____</li> </ul>		MOTI MOTI	Business associations, experts
4. Ensuring market	<ul style="list-style-type: none"> <li>① Industrial survey</li> <li>② Strengthening linkage plan</li> <li>③ Review of PPA</li> <li>④ Customs contrl capacity building</li> <li>⑤ Strict customs control</li> </ul>		<ul style="list-style-type: none"> <li>_____</li> <li>_____</li> <li>_____</li> <li>_____</li> <li>_____</li> </ul>	MOTI MOTI MFEP MFEP MFEP	Business associations, experts
5. SME support administration	<ul style="list-style-type: none"> <li>① Legal review</li> <li>② Establishment of control tower</li> <li>③ Strengthening NBSSI capacity</li> </ul>	<ul style="list-style-type: none"> <li>_____</li> <li>_____</li> <li>_____</li> </ul>		MOTI/NDPC MOTI MOTI	NBSSI
6. Access to finances	<ul style="list-style-type: none"> <li>① Review of financial market system</li> <li>② Strengthening SME credit system</li> </ul>	<ul style="list-style-type: none"> <li>_____</li> <li>_____</li> </ul>	<ul style="list-style-type: none"> <li>_____</li> <li>_____</li> </ul>	MFEP MFEP	
7. Fostering technical manpower	<ul style="list-style-type: none"> <li>① Establishment of model engineering school</li> <li>② Expansion of the model system</li> </ul>	<ul style="list-style-type: none"> <li>_____</li> </ul>	<ul style="list-style-type: none"> <li>_____</li> </ul>	MOE/MOL MOE/MOL	NDPC NDPC

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## Improving Legal and Regulatory Environment in Ghana

### Summary

- 1\_ Removing the Regulatory Barrier in Ghana: Background
- 2\_ Administrative Regulations: Registering a Business in Ghana
- 3\_ Labor Regulations
- 4\_ Lands
- 5\_ Taxation
- 6\_ Judicial System
- 7\_ The Informal Sector
- 8\_ Policy Framework
- 9\_ Removing the Regulatory Barrier in Ghana:  
Conclusions and Policy Implications

SMEs usually suffer from resource constraints, and are thus constrained in attaining economies of scale. This leads SMEs to cost/quality disadvantages, which, in turn, leads to SMEs' losing competitiveness vis-à-vis large firms. Selection and concentration frees SMEs from resource constraints, thereby enabling them to focus on things that they do best. The necessary, but not sufficient, conditions for the SME specialization are agility and flexibility, which are greatly affected by the regulatory environment. Furthermore, a restrictive business environment inhibits entrepreneurial spirits. This would be perhaps most detrimental to the Ghanaian economy in the future.

In spite of the commendable efforts in improving the regulatory framework that the government of Ghana has done, there is more work to be done.

### 1. Administrative Regulations: Registering a Business in Ghana

Although various reform measures have been undertaken, the current legal and regulatory regime for the registration, operation and closure of businesses in Ghana have a number of inherent weaknesses, when measured against international best practice standards. These weaknesses continue to crowd out a lot of informal businesses from formal registration. Therefore, this document proposes the following recommendations in order to alleviate the administrative regulatory burdens:

- Recommendation 1: Revise and update the Companies Code of 1963 to reflect the changing business environment and to support the private sector development especially the SME sector;

- Recommendation 2: Introduce a negative license system;
- Recommendation 3: The GoG (Government of Ghana) should expedite the creation of the “One-Stop-Shops” not only for foreign investors but also for local entrepreneurs.

## 2. Labor Regulations

In spite of a seemingly well-balanced institutional structure, labor regulations in Ghana are characterized by difficulty and rigidity in hiring/firing practices. These difficulties impact SMEs more strongly than large scale corporations, as the resources that SMEs possess and can mobilize are less than those of large enterprises. Put differently, the SMEs’ capacity to account for rigid and harsh employment practices vis-à-vis large enterprises falls short. Thus, the following measure is recommended to ease the burdens that SMEs bear:

- Recommendation 4: Exempt SMEs from labor/employment regulations.

## 3. Land

Land ownership in Ghana can be broadly divided up into three namely: (1) customary ownership, (2) state ownership and (3) a partnership between the state and the customary owners (split ownership). Land acquisition for industrial purposes is tedious exercise in Ghana. The process involves negotiating with both traditional authorities and with the GoG. Even in cases where entrepreneurs have acquired the land on free hold, the process of registration is extremely complex and slow.

- Recommendation 5: The GoG should increase the state-owned land holding and lease the land to potential investors at market rates.
- Recommendation 6: The GoG should institute an arrangement whereby landowners partake in a business venture/s as business partners by investing their rent as equity.
- Recommendation 7: Create “land banks” where land owners who may wish to offer their land for leasing or renting on a long term basis and consumers who wish to lease or rent can meet and negotiate their terms and conditions.
- Recommendation 8: Implement the Land Administration Program as soon as possible.

## 4. Taxation

Even though the top income and corporate tax rates are fairly low and overall tax revenue is not excessive as a percentage of GDP, the burden of tax continues to fall unequally on SMEs. In

addition to corporate income tax, various public agencies including Metropolitan/Municipal/District Assemblies also impose various forms of taxes, levies and fees irrespective of whether the enterprise makes profit or not. Based on this reality, it is recommended that the GoG should:

- Recommendation 9: Reduce tax burdens for SMEs.

## 5. Judicial System

There is a general perception in Ghana that legislation and legal practices have had a negative impact on the operations of SMEs. The high cost of legal claims and excessive delays in court proceedings have adverse impact on SME operations. Even though Commercial Courts have been set up to speed up the adjudication of business related legal cases, they are too few for now. Therefore, it is recommended that the GoG should:

- Recommendation 10: Expand and strengthen the ‘fast-track’ automated courts and create the court’s Commercial Division nationwide.

## 6. The Informal Sector

The economy of Ghana is dominated by the activities of enterprises in the informal sector. About 60% of all businesses are estimated to operate in the informal sector. The private sector and the formal private sector employs 6.9% whilst the informal sector employs 93.1%. The informal sector contributes 40% of Ghana’s GNI and accounts for about 22% of real GDP. In practice, support to private sector growth is largely concentrated in the formal sector with informal sector receiving little support from the government despite the fact that the informal economy makes up some 90% of employment activities in Ghana.

- Recommendation 11: The GoG should continuously place its efforts to reform administrative regulations in order to alleviate the problem of businesses going informal.

## 7. The Policy Framework

The importance of small- and medium-sized enterprises (SMEs) to economic growth and development notwithstanding, there is an absence of a statutory framework and/or umbrella policy/ies in Ghana that guide and shed light on the development of SMEs.

- Recommendation 12: develop a national policy on SME development to provide a

focused framework for accelerating growth of the sector;

- Recommendation 13: develop a selective promotional policy, within the context of the policy, to stimulate the expansion of SMEs in economic sectors which have growth potential. This may involve screening of entrepreneurs and enterprises for priority, access to financial and non-financial assistance.

In Ghana, all the institutions related to SMEs adopted the SME criteria of their own. This decreases effectiveness of the GoG's support of SMEs and consequently hampers the GoG's efforts to stimulate the development of SMEs.

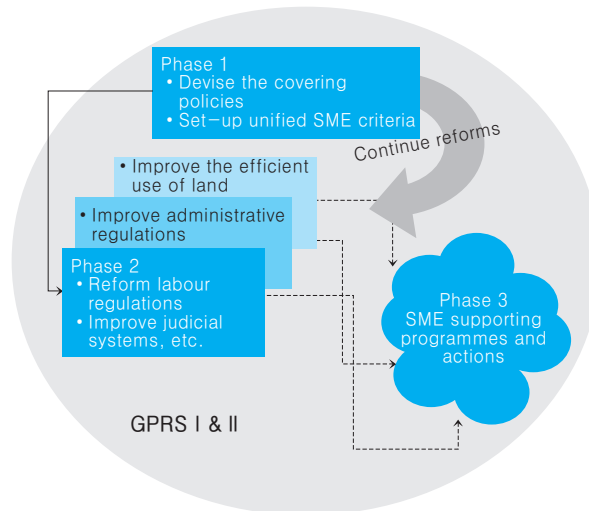
- Recommendation 14: devise and set up the SME criteria within the context of the policy so that the government support and concomitant resource allocation be concentrated and distributed appropriately and effectively.
- Recommendation 15: Create a governmental agency under the Office of the President, for instance, that is responsible for coordinating the governmental efforts of developing the SME sector.

## 8. Removing the Regulatory Barrier in Ghana: Conclusions and Policy Implications

In spite of some possible hindrances in the course of policy implementations, the following sequences are recommended to be taken:

- (1) The 1st Phase: Devise the covering policies and set up the unified SME criteria. Update the company code of 1963.
- (2) The 2nd Phase: Implement the rest of the measures concomitantly; and
- (3) Devise and implement the SME support action plans derived from those issues in the 2nd Phase.

The sequence of the policy action is also depicted in the figure below. As depicted, the policy actions should be, as the matter of course, in sync with the GPRS II, which guides the direction of the Ghanaian national development.



To many Ghanaian policymakers and business practitioners, a few policy recommendations put forth in this document are perhaps not so much of a new agenda. However, this implies that it is time for the stakeholders of the development of the SME sector to renew their efforts to remove the bottlenecks.

It seems that there have been numerous excellent ideas and recommendations pertaining to the development of SMEs in Ghana which have been just shelved and fossilized. However, they are very much relevant even today. It implies that what has already been discussed in the past does not mean that it is irrelevant today. Rather, it reminds the stakeholders what they must *do today, not tomorrow*.

# Improving Legal and Regulatory Environment in Ghana

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## 1. Removing the Regulatory Barrier in Ghana: Background

It is only too logical that a viable strategic framework for the successful development for and further growth of small- and medium-sized enterprises (SMEs) must be built around the concept of SME specialization. SMEs usually suffer from resource constraints, thus being incapable to attain economies of scale. This leads SMEs to cost/quality disadvantage, which, in turn, leads to SMEs' losing competitiveness vis-à-vis large firms. Specialization by selection and concentration frees SMEs from resource constraints, thereby enabling them to focus on things they do well. Indeed, specialization may be the viable answer to the question of the survival, let alone the growth, of SMEs in this era of a deepening level of globalization in which the magnitude of competition is so intensifying. This chain of logic shows that selection and concentration are the premises on which specialization is built. In order for SMEs to be agile and flexible, whereby SMEs can ultimately be specialized, they must be free from regulatory burden as much as possible. Indeed, excessive government regulation and control, in general, deters SMEs agility and flexibility as much as they reduce overall economic efficiency. Moreover, they coerce businesses to go informal.<sup>1</sup>

In addition, an excessive government regulatory regime increases the transaction cost. Needless to say, a high transaction cost is tantamount to low competitiveness. The most detrimental effect of the rigidity of the regime, however, would perhaps be that it inhibits the

1. The Informal sector in Ghana will be dealt with separately in this chapter.



flowering of entrepreneurial spirit. And this would curtail the potential of future growth of the Ghanaian economy. Hence, some measures are needed to remove the regulatory barrier.

Nonetheless, removing regulatory barrier should not be construed as the entire elimination of the government regulatory and control regime. Rather, it should be understood that the regulatory regime be directed to the business areas of the public and national interest such as the national security, public safety, health, education, environment, and the like. To this extent, the Government of Ghana (GoG) seems to have been placing its efforts to alleviate the barrier for the last few years. Doing Business 2008 project praises the GoG one of the top 10 reformers along with such countries as Egypt, Croatia, FYR Macedonia, Georgia, Columbia, Saudi Arabia, Kenya, China, and Bulgaria for its efforts in improving public services. In fact, the GoG's continued reform measures encompass the five areas starting a business, registering property, getting credit, trading across borders, and closing a business. Table 2-1 and 2-2 in the following show some results of such reform measures undertaken by the GoG.<sup>2</sup>

**Table 2-1 | Starting a Business, Some Selected Economies**

Country	Procedures (number)	Duration (days)	Cost(% income per capita)	Paid in Capital(% of income per capita)
Côte d'Ivoire	10	40	135.8	219.8
Ghana	11	42	41.4	20.9
Korea	10	17	16.9	296.0
Nigeria	9	34	56.6	0.0
South Africa	8	31	7.1	0.0

Source: *Doing Business 2008*, World Bank/IFC

**Table 2-2 | Closing a Business, Some Selected Economies**

Country	Time (Year) Cost	(% of estate) Recovery rate	(Cent on the dollar)
Côte d'Ivoire	2.2	18	33.0
Ghana	1.9	22	23.3
Korea	1.5	4	81.2
Nigeria	2.0	22	27.5
South Africa	2.0	18	33.2

Source: *Doing Business 2008*, World Bank/IFC

2. World Bank/IFC (2008) *Doing Business 2008*, Washington, D.C.: World Bank/IFC.

In spite of such the efforts, however, new business growth is slow and investment is not taking place as much as the GoG expects (Refer to Table 2-3). Indeed, as shown in Table 2-3, there has been a modest increase in the private sector investment from 1994 to 2004 if at all. In fact, Ghana’s President John Agyekum Kufuor in January 2001 sent a signal to the market, having declared that his government would usher in “a golden age of business.” Indeed, this declaration was to serve as a signal of the government’s desire to work towards private sector development, thereby promoting economic growth. Unfortunately, the private sector does not seem to have taken this signal enthusiastically. Why was it so? And, why did Ghana’s growth in 2007 mostly come from the informal sector?

Given that excessive government regulation and control are one of the underlying causes that discourages business activities as much as they are the driving force of the growth of the informal sector, this chapter examines the magnitude of the regulatory barrier in Ghana in aspects of policy framework such as labor regulations, administrative regulations, lands, taxation, judicial system, and the informal sector and identify the bottlenecks therein.

**Table 2-3 | Change in Investment in Ghana**

(Unit: In percent of GDP)

	1999	2000	2001	2002	2003	2004
Gross investment	21.5	24.0	26.6	22.3	19.7	23.0
Private	11.7	14.8	13.8	13.1	13.6	13.6
Public	9.8	12.8	9.2	6.1	9.4	

Source: Ghanaian authorities and IMF staff estimates and projections

## 2. Administrative Regulations: Registering a Business in Ghana

### 2.1. The Regulatory Regime

As discussed earlier, it is normally the case that administrative agencies hold power and responsibilities conferred by the government, the administrative, legislative, and judicial branches. The agencies monitor and supervise various areas of activities taking places within the national boundary in order to protect and promote the public interest. A collection of statues at the various levels of the government is perhaps the embodiment of such public interest-oriented activities of administrative agencies. Needless to say, it brings forth a direct impact on

the business activities as the statutes set the boundaries as to what businesses should or should not do, which obviously incurs the costs of compliances to businesses. As mentioned, excessive regulations often harm an economy as a whole because of the compliance costs, which obviously become more irksome and burdensome to SMEs than to large businesses.

Although various reform measures have been undertaken, the current legal and regulatory regime for the registration, operation and closure of businesses in Ghana have a number of inherent weaknesses, when measured against international best practice standards. Formal registration of businesses promotes the adoption by businesses of formal structures and enhances the chances of operating in a responsible manner. Weaknesses of the business registration regime, however, continue to crowd out a lot of informal businesses from formal registration. One major weakness of the registration and licensing regime for businesses, for example, is the multiple registration requirements and procedures, the lack of capacity of the different registrars to enforce these requirements, and the largely centralized system of business registration. These weaknesses impose different levels of administrative burdens on businesses that opt for formal registration. These weaknesses also continue to act as a disincentive to informal sector businesses to move to formal registration.

In addition, the legal and regulatory regime for the registration and governance of businesses have failed to catch up with international best practices. Even the minimum and often outdated standards prescribed under the Companies Code, have hardly been enforced by the Registrar of Companies, because of a lack of adequate resources. Inadequate resourcing of other state agencies involved in monitoring business behavior and white-collar crime gives negative impacts on their ability to keep up with technological advancements in monitoring and surveillance, and that of cross-border issues.

The Companies Code of 1963 (Act 179) of Ghana based largely on the English Companies Act of 1948, was generally heralded as being ahead of its time when it was promulgated in 1963. However, it has seen no major changes since then. Past attempts at revising the Code have mainly involved merely editorial changes. The Code is therefore in dire need of a comprehensive revision based on key pro-private sector development policies. Of particular importance is the need to formulate a policy on the promotion and formalization of small-businesses, and the reduction of the cost of compliance to small businesses. Company law reform in Ghana must also be in line with current thinking on good corporate governance practices and facilitate capital formation. If formal registration of more businesses is to be achieved, the legal and institutional framework for registration must be simplified and streamlined. Consideration should also be given to the possibility of decentralization of the business registration process. Thus, it is recommended that:

**Recommendation : Revise and update the Companies Code of 1963 to reflect the**

changing business environment and to support the private sector development, especially the SME sector.

All these bottlenecks in administrative processes explain not only the phenomenon of the thriving informal sector, but they also elucidate perhaps why the private sector is so small in Ghana. Indeed, there were only 26,493 business establishments formally operating in Ghana in 2003 whose population exceeded some 23 million (refer to Table 2-4).<sup>3</sup> This implies that the absolute number of business establishments in Ghana falls by far short compared to the size of population. Therefore, it is recommended that the GoG should:

**Recommendation : Introduce a negative license system.**

**Table 2-4 | Establishments and Persons Engaged by Industry Major Division**

Industry Major Division	Establishments		Persons Engaged	
	Number	Percent	Number	Percent
Mining and quarrying	166	0.6	19,667	7.1
Manufacturing	26,088	98.5	243,516	88.4
Electricity and Water	239	0.9	12,276	4.5
All Industry	26,493	100.0	275,459	100.0

Source: The Government of Ghana (2006) 2003 National Industrial Census Report: Background and Results, Accra, Ghana: National Statistical Service, June 2006.

As discussed earlier, acquiring a business license in Ghana is a painstaking process and certainly serves as an entry barrier. Delays in licensing process are the major bottlenecks that “crowd out” those who want to formally conduct their businesses. Hence, in order for the GoG to promote maximum efficiency of the national economy, the GoG should basically allow entrepreneurs to conduct business freely, so that it could increase the size of the private sector.

The benefits of increased size of the business establishments are apparent: one, the government expects to secure a broadened tax base, and two, the increased size of the business establishments will contribute to activate and invigorate fully functioning markets, which, in turn, will stimulate entrepreneurial activities by offering profit incentives. This then will create the demand for labor, which is highly likely to lead to an increase in the rate of employment. This chain of logic is clear that no one can dispute its plausibility. Thus, the GoG should regard broadening the number of business establishments as an utmost priority. A negative license system can serve to fulfill this end, as it could account for the bottlenecks that are presently

3. The Government of Ghana (2006) 2003 National Industrial Census Report: Background and Results, Accra, Ghana: National Statistical Service, June 2006

existing in the process of registration and acquisition of business licenses.

The negative license system is such that the GOG informs the public all the businesses which require business licenses and those that are exempted from licensing. The major tenet of the negative licensing scheme is to remove the barrier in the process of registration and acquisition of business licenses so that it contributes to the increase in the number of businesses. It, however, as indicated in the beginning of this chapter, does not postulate to deny the necessity of the government control. Those businesses that operate in the area of public interest national security, public health, environment, and the like would still be placed under the government control; but the rest are automatically permitted to start their business operations as soon as they register their business ventures with the tax authority. The tax authority is obliged to issue a business registration number once an entrepreneur submits, for instance, a one-page declaration of business commencement.

### Box 2.1 Number of SMEs and Population (2004), Some Selected Countries

As shown in the following table, it is often the case that SMEs account for most of business establishments and that they are the main sources of employment. The number of business establishments tends to be greater in larger economies than smaller ones.

Country	Number of firms(in 000)		Employees(in 000)		Population (in 000)	GDP (in current \$mill.)
	SMEs	% of total firms	SMEs	% of total emp.		
Korea	2,998	99.8	10,415	86.5	48,082	680,492
Japan	6,072	99.2	43,704	79.9	127,761	4,605,938
U.S.	5,681	99.7	56,366	50.1	293,683	11,657,300
U.K.	4,277	99.8	12,686	58.5	59,834	2,154,022

Source: Sung-jin Kim (2007), Population from World Development Indicators (2007),

Note: The data are 2004 figures.

## 2.2. One-Stop-Shops: An Example of An Administrative Support

High start-up costs for firms, including licensing and registration requirements continue to impose excessive and unnecessary burdens on SMEs. Procedures for registering and commencing businesses are still cumbersome mainly because actions have not been taken on earlier proposals to streamline these procedures including the much talked about “creation of one-stop-shops.” New measures on these matters have been initiated by the Ghana Investment

Promotion Centre (GIPC)<sup>4</sup> in addition to a planned decentralization of activities of the Registrar-General's Department in an attempt to eliminate some of the bureaucratic obstacles facing investors. This initiative was praised by many. The US Diplomatic Mission to Ghana, for instance, exalted the GIPC for having streamlining procedures and reduced delays by providing the necessary assistance to foreign investors to establish themselves in Ghana.<sup>5</sup> Although this is a major improvement for foreign investors, establishing a business in Ghana is still complex and time-consuming and no such attention is being paid to local small businesses at the moment. To remedy this, the following measure is strongly recommended:

**Recommendation :** The GoG should expedite the creation of the “One-Stop-Shops” not only for foreign investors but also for local entrepreneurs.

## 3. Labor Regulations

### 3.1. Labor Institutions

The laws that govern the labor and employment practices are the Labor Act 2003 (Act 651), the Social Security Law, 1991 and the Children's Act, 1998 (Act 560). The Labor Act applies to all workers and all employers except the Armed Forces, the Police Service, the Prison Service and the Security and Intelligence Agencies. The Labor Act deals with employment, trade unions and dispute resolution amongst other things. The result of a collaborative effort among the social partners-Government, Employers and Organized Labor-the Act provides for the protection of employment, general conditions of employment, unfair labor practices, trade unions and employers organizations, occupational health, safety and environment, and labor inspection.

An important feature under the Act is the establishment of a seven-member National Labor Commission. The Commission consists of two members, each nominated by the government, organized labor, and employers' organization. The chairperson is nominated by organized labor and employers. The functions of the Commission are (1) to facilitate the settlement of industrial disputes; (2) to settle industrial disputes; (3) to investigate labor related complaints, in particular unfair labor practices and take steps as it considers necessary to prevent labor disputes; (4) to

4. The Ghana Investment Advisory Council (GIAC) was created to assist the government in developing policies aimed at improving the investment environment.

5. The U.S. Government (2007) Ghana Investment Climate Statement 2007, Washington, D.C.: U.S. Department of State:

maintain a data base of qualified persons to serve as mediators and arbitrators; and (5) to promote effective labor cooperation between labor and management. The Labor Commission is independent that it does not in principle, take directions from any authority or person and has the powers of the High Court even though it has to get the court to enforce its decisions.<sup>6</sup>

This balance between employers and employees is also embodied in the National Tripartite Committee, which comprises the Minister responsible for Labor, representatives of the government, employer's organizations and organized labor, determines the national minimum wage.

Employers are required to register with the Social Security and National Insurance Trust (SSNIT) and pay 12.5% of each employee's salary every month to the scheme which may be a drain on the already weak financial resources of SMEs.

### 3.2. The Labor Regulations in Practice

In spite of a seemingly well-balanced institutional structure, labor regulation in Ghana is characterized by difficulty and rigidity in hiring/firing practices of labor forces. Indeed, the Heritage Foundation diagnosed that highly restrictive employment regulations hinder employment and productivity growth.<sup>7</sup> The non-salary cost of employing a worker is moderate, but dismissing a redundant employee is costly and difficult. The difficulty of laying off a worker creates a risk aversion for companies that would otherwise hire more people and grow.

A World Bank/IFC report also echoes this finding. According to Doing Business 2008, firing a worker in Ghana costs some 178 weeks of wage as opposed to, for instance, 24 weeks in South Africa. In Difficulty of Firing Index on a 0-100 scale, Ghana shows a modest rank, 50 on a 0-100 scale. However, it is still higher than that of regional competitors, such as Côte d'Ivoire and Nigeria, meaning Ghana still has to push for the labor market flexibility (refer to Table 2-5).

Then, what do these indexes imply to SMEs in Ghana? As mentioned elsewhere in this document, SMEs are, by definition, small—they are small in the resources that they can mobilize, including, of course, material and human resources. High firing costs as well as rigid firing practices obviously hamper the development and growth of SMEs, as they are reluctant to replace workers due to the costs attached to firing practices. Subsequently, per worker productivity would fall as redundancies in the work force could not be dealt with in an efficient manner.

6. Ghana Investment Promotion Center (2008) <http://www.gipc.org.gh>

7. Heritage Foundation (2008) "Index of Economic Freedoms," <http://www.heritage.org/index/country.cfm?id=Ghana>

**Table 2-5 | Rigidity of Employment, Firing Costs, and Difficulty of Firing Index, Some Selected Economies**

	Rigidity of Employment Index (0-100)	Firing cost (weeks of wages)	Difficulty of firing index (0-100)
Côte d'Ivoire	38	49	20
Ghana	37	178	50
Korea	37	91	40
Nigeria	7	50	20
South Africa	42	24	40

Source: *Doing Business 2008*, World Bank/IFC

This impact in general affects more harshly to SMEs vis-à-vis large enterprises, as the resources that SMEs possess and can mobilize are in general smaller than those of large enterprises. Put differently, the SMEs' capacity to account for rigid and harsh employment practices vis-à-vis large enterprises falls short. Thus, it is advisable to seek some measures whereby SMEs' burdens with regard to labor employment practices could be eased. To this extent, the following measure is recommended to ease the burdens that SMEs bear:

**Recommendation : Exempt SMEs from labor/employment regulations.**

## 4 Lands

### 4.1 Land Ownership: the Origin of Disputes

Land acquisition for industrial purposes is a tedious exercise in Ghana. The process involves negotiating with both traditional authorities and with the GoG. Even in cases where entrepreneurs have acquired the land on free hold, the process of registration is extremely complex and slow. The long delay in processing documents on land for business retards SME growth and in a number of cases discourages potential entrepreneurs from even making a start. Registering property in Ghana is time-consuming when compared to the regional average. Obtaining clear title over land is difficult and even the US Diplomatic Mission to Ghana recommends that any foreign company should make a thorough search at the Lands Commission to ascertain the identity of the true owner of any land being offered for sale.<sup>8</sup> The findings of the Ghana Governance and Corruption Survey (2000) suggest that the procedure related to registering property may be affected by demands for unofficial payments.



Land ownership in Ghana can be broadly divided into three namely: (1) customary ownership, (2) state ownership and (3) a partnership between the state and the customary owners (split ownership). Customary land ownership refers to an instance in which the “right to use or to dispose rights over land rest on the fact that they are recognized as legitimate by the community, the rules governing the acquisition and transmission of these rights being usually explicitly and generally known, though not normally recorded in writing.”<sup>9</sup> As delineated by Larbi et al., customary land ownership may be the results from the “discovery and long uninterrupted settlement, conquest through war and subsequent settlement, gift from another land owning group or traditional overlord, and purchase from another land owning group.”<sup>10</sup> Or, combined causes of the preceding reasons contribute to the rise of such ownership.

Allodial interest is the major characteristic of communal ownership but related interests include usufructuary rights, tenancies, licenses and pledges. Customary land is usually managed by the Chief and his elders on behalf of the community and before the Chief can make any portion available (in any form) to a non-member of the community, he has to obtain the agreement of the elders. The boundaries of customary lands are not usually well defined and disputes usually arise as a result of misunderstandings between land owning communities as a result of the existence on non demarcated boundaries, poor record keeping, and others.

State lands, on the other hand, are usually well demarcated. These are lands acquired by the state for various projects. They are therefore, scattered all over the country and vary in size according to the nature of the project for which the project was acquired. If for any reason the government is unable to utilize the land for the specific project for which the land was acquired, the ownership of the land is supposed to revert to the original owners (at least, they have the first option). It is referred to as split ownership or vested land when land is held in trust by the government for the customary owners.

As implied in various forms of land ownership, outright ownership of land in Ghana is rare. What pertains is leases or rentals at the end of which period the land reverts to the customary owners. Because land is owned by various communities, coupled with some inconsistencies in procedures for deed and title registration, acquisition of large tracks of land for economic purposes is very difficult, especially for projects that have long gestation periods. The problems encountered (having to negotiate with many land owners, numerous litigations and others) are a

8. The U.S. Government (2007) Ghana Investment Climate Statement 2007, Washington, D.C.: U.S. Department of State

9. Larbi, W.O.; Odoi-Yemo, E. and Darko L. (date unknown) “Developing a Geographic Information System for Land Management in Ghana,” <http://geoinfo.uneca.org/sdiafrica/country%20information/ghana/developing%20GIS%20for%20land%20management%20in%20Ghana.htm>.

10. Ibid.

great disincentive to investors and may explain why neighboring Côte d'Ivoire has large plantations and Ghana does not have them.

## 4.2. Towards the Efficient Use of Land

There is the need for the GoG to reform the land tenure system. This will attract investors especially those who require large tracks of land for agricultural and other commercial activities. The government should also ensure that people who acquire land have security of deed and title.

In fact, the GoG has acquired some stool lands (from the Stool Lands Division of the Ministry of Lands, Forestry and Mines) for commercial or developmental purposes and it should therefore be possible for the government to acquire land for investors and pay compensation to the land owners either as a lump sum, up front payment or an annual rent over the period of the lease. Local communities will provide the needed support and commitment to projects if they have direct financial benefits.

**Recommendation :** The GoG should increase the state-owned land and lease the land to potential investors at market rates.

**Recommendation :** The GoG should institute an arrangement whereby landowners partake in a business venture/s as business partners by investing their rent as equity.

Perhaps another option may be the creation of land banks. The establishment of land banks can be a good way of offering a one-stop land acquisition service. The GoG should also ensure that there is security of titles to lands acquired.<sup>11</sup>

**Recommendation :** Create “land banks” where land owners and potential tenants who wish to lease or rent land on a long-term basis can meet and negotiate their terms and conditions.

To have a satisfactory land administration system, devoid of litigation and fraudulent claims, there should be a credible and easily accessible official record of all lands. The various land administration institutions such as the Lands Commission, Land Valuation Board, Survey Department, the Land Title Registry, Office of the Administrator of Stool Lands and the Town and Country Planning Department should be strengthened and given clear mandates to do this

11. Asumadu, Kwame (2003) “Reform Of Ghana’s Land Tenure System,” <http://www.ghanaweb.com/GhanaHomePage/features/artikel.php?ID=36246>

since these institutions currently lack the capacity in terms of material and human resources. This will also restore people’s confidence in these institutions, which lack of security has resulted in people recruiting their own security person (referred to as Land Guards) to guard their lands. The removal of duplications of the functions of these agencies will also reduce the cost and procedures a potential land owner has to go through.

### Box 2.2 Process Involved in Title Registration

<p><b>Step1</b></p> <p>Applicant obtains appropriate registration forms from the Land Title Registry completes and submits them to the Registry together with copies of all relevant documents and the required registration fees.</p>	<p><b>Step2</b></p> <p>Upon submission of application an applicant is issued with:</p> <p>(1) a receipt of acknowledgment (“yellow card”) and</p> <p>(2) a letter of request addressed to the Survey Dept. for the preparation of parcel plans</p>	<p><b>Step3</b></p> <p>Applicant pays for and collects parcel plans from the Survey Department whenever they are ready and submits same to the Land Title Registry to assist in the processing of their application</p>	<p><b>Step4</b></p> <p>From the Land Title Registry applicant is issued a photocopy of the parcel plan together with a Request Form to be sent to the Lands Commission for a search report</p>
<p><b>Step5</b></p> <p>Upon receipt of the search report by the Land Title Registry, and satisfying itself that there are no objections or adverse findings in the report, the Registry then proceeds to publish the application in the dailies to notify the general public of such application.</p>	<p><b>Step6</b></p> <p>Counting from the date of publication, fourteen days notice is allowed to receive objections from interested parties who may wish to challenge the application. If no objections are received within the fourteen day period the Registry then continues with the process of registration.</p>	<p><b>Step7</b></p> <p>The Land Title Registry prints and sign certificates, records particulars on sectional plans and notifies applicants of completion of registration exercise. The Land Title certificates are finally issued out to applicants upon submission of their “Yellow cards.”</p>	

Effort of the GoG in the past to improve the land administration achieved limited results. A major initiative, the Land Administration Project, has been launched by the government to help develop a sustainable and well-functioning land administration system. The project further seeks to (1) harmonize land policy and the regulatory framework, (2) undertake far reaching institutional reform and capacity development, (3) improve land titling, registration, valuation and information systems; and (4) enhance monitoring and evaluation of set project targets. Some institutional issue includes (1) creating one umbrella land administration agency, (2) improving customer delivery through one-stop shop front desk, (3) improving land information management, and (4) deepening decentralized land administration.

The key issues however remain how to overcome the complex management of negotiations between key players such as the government, chiefs and their communities, developers, etc. The timely resolution of existing land matters affecting business and the streamlining of titling requirements will continue to remain overreaching debilitating concerns of SMEs.

The Ministry of Lands, Forestry and Mines developed the Ghana Land Policy in 1999 to help address such problems with regard to the land administration as (1) conflicting, outmoded and overlapping legislations, (2) insecurity of land tenure caused by land boundaries not being properly defined, (3) the same piece of land being sold more than once, and (4) lack of coordination between land agencies which also had weak capacities.

The Land Administration Project was therefore set up to address the problems that confront land administration in Ghana.<sup>12</sup> Thus, the GoG should initiate LAP as soon as possible, as the successful implementation of LAP is anticipated to lead to the establishment of a sustainable system of land administration. And effective land management is perhaps the key determinant to the speed and scope of economic growth in Ghana, thus ultimately, to the reduction of the rate of poverty. Given this, LAP should be implemented in full scale as it responds to the needs of both land owners and people who wish to acquire land. Besides, it will contribute to restoring people's confidence in the land administration system, to enhancing the management and resolution of land issues by offering reliable information on all lands. Therefore, the GoG should:

**Recommendation : Implement the Land Administration Programme as soon as possible.**

12. Ghana, The Government of (2007) "Ghana Land Administration Project," Land Administration Project, <http://www.ghanalap.gov.gh/index1.php?linkid=48>

## 5. Taxation

### 5.1. Lessen Tax Burdens for SMEs

Tax related impediments to SMEs can be thought of in two main ways—one is the tax burden and the other, tax administration system. Even though the top income and corporate tax rates are fairly low and overall tax revenue is not excessive as a percentage of GDP, the burden of tax continues to fall unequally on SMEs. As shown in Table 2.6, a medium-sized company operating in Ghana must on average make 32 payments to the tax authorities every year; and spend 304 hours preparing, filing, and paying taxes. Although corporate tax rate is modest when compared to neighboring countries, other forms of taxes haunt SMEs in Ghana.

**Table 2-6 | Paying Taxes, Some Selected Countries**

	Payment (Number per year)	Time (Hour per year)	Total tax rate (% of profit)
Côte d'Ivoire	66	270	45.4
Ghana	32	304	32.9
Korea	48	290	34.9
Nigeria	35	1,120	29.9
South Africa	11	350	37.1

Source: *Doing Business 2008*, World Bank/IFC

In fact, the fiscal regime of Ghana related to investors, may be divided into direct taxation (The Internal Revenue Act 2000) and indirect taxation [Customs Exercise and Preventive Service (Management) Law, 1993 (PNDCL 330) and Value Added Tax Act (Act 546)]. Apart from the Internal Revenue Service (IRS) which charges corporate taxes on profits, various public agencies including Metropolitan/Municipal/District Assemblies also impose various forms of taxes, levies and fees irrespective of whether the enterprise makes profit or not. Other government agencies such as Food and Drugs Board, Ghana Standards Board, and their like also impose charges. SMEs also complain about the development levy which they say serves as a disincentive for growth and development of the sector. Therefore, it is necessary to lessen the tax burdens borne by SMEs. Korea, for instance, has continuously reduced tax burdens for SMEs (refer to Table 2-7).

Given that SMEs are dominant businesses in Ghana, the GOG may be concerned about shrinking revenue from reducing tax burdens for SMEs. This possible shortfall may be compensated by broadening the tax base by inducing the informal to the formal. Based on this

claim, it is recommended that the GoG should:

**Recommendation : Reduce tax burdens for SMEs.**

**Table 2-7 | Changes of Income Tax Rate for SMEs in Korea**

Tax cut	Before	After	After	After	After
1983 Tax cut	22%	20%			
1994-1996 Tax cut			16%		
2002 Tax cut				15%	
2005 Tax cut					13%

Source: AfDB/KOSBI (2006) National Strategy for the Development SMEs in the Republic of Mozambique

## 5.2. Improve the Tax Administration System

Many businesses in Ghana do not meet their tax obligations because of the weak tax administration system. Often, this creates a situation in which those businesses that comply to the tax laws/regulations have to pay more. Furthermore, the inability of particularly small enterprises to keep adequate records makes them vulnerable to tax officials who impose high taxes and often through arbitrarily assessment methods. Needless to say, this grey area gives rise to corruption of tax authority. No wonder that some 96% of the Ghanaian experts regarded corruption, evasions, abuse and misapplication of exemption laws as the most serious of the tax collection system<sup>13</sup>. Thus, it is imperative that the improvement in the tax administration/management system must be initiated.

Recently, as a part of the GoG's efforts to improve the tax administration system, the Registrar General's Department and the tax agencies such as the Internal Revenue Service (IRS), and the Value Added Tax (VAT) recently decided to use the same number and this collaboration has resulted in the tax agencies being able to track businesses. However, this does not capture the informal sector and a way has to be found to get informal sector businesses meet their tax obligations. This means that there should be more efforts that the GoG has to place in order to improve the tax administration system. Nevertheless, such efforts of the GoG will reduce unnecessary transaction cost that decreases SMEs' competitiveness in Ghana.

13. Business Anti-Corruption Portal (2008) "Ghana Country Profile," <http://www.business-anti-corruption.com/normal.asp?pageid=82>.

## 6. Judicial System

Protecting the property right by enforcing contracts may be the centerpiece that bolsters the market economy. In this regard, a well-functioning judicial system may be one of the decisive factors to the success, or failure, of the market economy. There is the general perception in Ghana that legislation and legal practices have had a negative impact on the operations of SMEs. This is because SMEs spent a lot on legal issues not only because of high costs but also because of the delays as they have to engage legal services for longer than necessary periods. Even though Commercial Courts are set up to speed up the adjudication of business related legal cases, they are not enough and too few for now to resolve this back-log.

As shown in Table 2-8, enforcing a commercial contract in Ghana requires a company to go through an average of 36 administrative procedures, which takes an average of 487 days and cost an average of 23% of the claim. The equivalent averages for OECD countries are 31 administrative procedures, 443 days and 18% of the claim. Mediation, arbitration and other forms of dispute resolution are routinely used. Thus, SMEs, the business entities that usually fall short on resources, obviously suffer from this long process of enforcing a commercial contract. Several reform initiatives have been introduced to account for the delays in the judicial system as in the following:

- In 2000, several initiatives were launched to enhance efficiency and speed up court processes; and
- In 2005, the Reform and Project Management and Implementation Division of the Judicial Service was set up to oversee all reform projects. The Judicial Council carried out a review of the service conditions of judges.

**Table 2-8 | Enforcing Contracts, Some Selected Countries**

	Procedures (Number)	Time (Days)	Cost (% of claim)
Côte d'Ivoire	33	770	41.7
Ghana	36	487	23.0
Korea	35	230	10.3
Nigeria	39	457	32.0
South Africa	30	600	

Source: *Doing Business 2008*, World Bank/IFC

Amongst the highest profile innovations have been the introduction of ‘fast-track’ automated courts<sup>42</sup> and the creation of a new Commercial Division of the High Court (to deal with commercial matters, such as disputes involving commercial arbitration, commercial fraud, copyrights and trademarks and tax matters) with redesigned procedures aimed at reducing delays in the administration of justice. These innovations have helped to expedite cases for litigants with the resources to use them. Particularly interesting is the introduction of pre-trial settlement conferencing in the commercial courts.

**Recommendation :** Expand and strengthen the ‘fast-track’ automated courts and create the court’s Commercial Division nationwide.

## 7. The Informal Sector

As mentioned earlier, the economy of Ghana is dominated by the activities of enterprises in the informal sector. About 60% of all businesses are estimated to operate in the informal sector. The public sector and the formal private sector employ about 6.9% of the labor force while the informal sector employs 93.1%. The informal sector contributes 40% of Ghana’s GNI and accounts for about 22% of real GDP.<sup>15</sup>

The informal sector in Ghana is characterized by lower levels of education and literacy among informal sector workers, higher level of poverty among informal sector workers, lower wages but longer working hours, low entry and exit barriers, and the use of labor intensive methods with very rudimentary technology if any. If any skills are obtained, they are likely to be through informal apprenticeship.

Even though the informal sector accounts for over 90% of employment, there is very little government support for the sector although in recent years, the informal sector has benefited from improvements in areas such as transportation, mobile telecommunications and others.

In general, the informal sector environment remains dismal due to factors such as increasing utility costs, lack of access to business development services, lack of access to formal financial services and inadequate skills training. Thus far, not much attention has been paid to the

14. The fast-track automated courts are to resolve cases within three months and provide transcripts within 24 hours

15 Boeh-Ocansey, Osei, (2007), “Private Sector Development in Ghana: The Challenges and the Lessons” Lecture, Private Enterprises Foundation Ghana.



informal sector despite the key role it plays in areas such as employment creation, production and distribution of goods and services. Therefore, it calls for a need for the government to have targeted programs to develop the sector.

Then, what drives entrepreneurs to go informal in Ghana? As pointed out in previous sections, the key contributing factors of the growth of the informal among other reasons are (1) costly and lengthy procedures involved in formalizing a business and (2) numerous and complicated licensing procedures. Therefore, it is recommended that the GoG should take continuing reforms in administrative regulations whereby the reformed system would induce the informal businesses formally register and operate their businesses in the legal boundary.

**Recommendation :** The GoG should continuously place its efforts to reform administrative regulations in order to alleviate the problem of businesses going informal.

## 8. Policy Framework

### 8.1. The Absence of the Covering Policy

The GoG's commitment and determination to the development and further growth of national economy through the private sector development is well reflected and given prominence in the Ghana Poverty Reduction Strategy (GPRS). The GPRS aims at reducing poverty and promoting growth with the public sector as a facilitator and the private sector being the engine that will drive growth. The GPRS also provides special programs to cater for the vulnerable and excluded such as people living with disabilities, children, women and others.

However, the importance of small- and medium-sized enterprises (SMEs) to economic growth and development notwithstanding, there is an absence of a statutory framework and/or umbrella policy/ies in Ghana that guide and shed light on the development of SMEs. It is especially disappointing that the importance of SMEs is not highlighted even in the GPRS and in the national industrial policy. As pointed out repeatedly elsewhere in this document, SMEs provide much needed employment and incomes in developing countries and encourage entrepreneurship. Although SMEs directly employ only 15.5 percent of the workforce, many more depend on these businesses for their livelihoods in Ghana.<sup>16</sup>

16. Parker, et al. (1995) "Small Enterprises Adjusting to Liberalization in Five African Countries," *World Bank Discussion Paper No. 271, African Technical Department Series*, NY, USA: The World Bank.

Needless to say, the statutory framework sets forth and articulates who SMEs are, why the SME sector needs to be developed, where/which direction the government should go in terms of the SME development, what the government needs to achieve objectives, and the like. This becomes important criteria for the government support and resource allocation. Hence, the first and foremost step for the GoG to declare its commitment to the development of SMEs in Ghana would be to constitute a statutory framework for the SMEs. Based on the aforementioned, it is recommended that the GoG should:

**Recommendation :** develop a national policy on SME development to provide a focused framework for accelerating growth of the sector; and

**Recommendation :** develop a selective promotional policy, within the context of the policy, to stimulate the expansion of SMEs in economic sectors which have growth potential. This may involve screening of entrepreneurs and enterprises for priority, access to financial and non-financial assistance.

## 8.2. The Absence of the Unified SME Criteria

In order for the government to effectively support SMEs, it certainly needs to devise the SME criteria. The criteria serves as a guideline as to who qualifies for the governmental supports. This has an important implication on the effective allocation of “scarce” government resources.

In Ghana, all the institutions related to SMEs adopted the SME criteria of their own. For example, in the industrial statistics published by the National Statistical Service (NSS), small scale industries are defined as those employing 29 employees or fewer, the rest are all considered as medium and large-scale enterprises. The National Board for Small Scale Industries (NBSSI) describes Micro and Small Enterprises as those enterprises employing 29 or fewer workers. Micro enterprises are those that employ between 1-5 people with fixed assets not exceeding USD 10,000 excluding land and building. Small enterprises employ between 6 and 29 or have fixed assets not exceeding USD 100,000 excluding land and building.

A World Bank study conducted by Oxford University in conjunction with the Economics Department of the University of Ghana in 1992 used a different classification: micro 1-4 workers; small 5-29 workers; medium 30-99 workers and large 100 and above employees while a report by CSIR for the World Bank suggests that a definition of SMEs as enterprises employing not more than 30 people, including apprentices and permanent employees. In addition, each bank in Ghana has its own definition of SMEs. Though they all emphasize turnover, they differ in the amount used. These disparate definitions/criteria for SMEs are summarized in the following table:

**Table 2-9 | SME Definitions/Criteria Adopted by Various Institutions by Number of Employees**

	Micro	Small	Medium	Large
National Statistical Service		1-29	≤30	
NBSSI	1-5	6-29		
The World Bank/Oxford Univ./Univ. of Ghana	1-4*	5-29*	30-99	≤100
CSIR for the World Bank			1-29	

Source: Doing Business 2008, World Bank/IFC.

Note: \* Or fixed assets not exceeding USD100,000 excluding land and building.

As a matter of course, the disparate definitions adopted by various agencies and institutions decrease effectiveness of the GoG’s support of SMEs and consequently they hamper the GoG’s efforts to stimulate the development of SMEs. Thus, it follows that it is necessary for the GoG to develop a unified SME criteria.

**Recommendation :** devise and set up the SME criteria within the context of the policy so that the government support and concomitant resource allocation can be concentrated and distributed appropriately and effectively.

### Box 2.3 Korea’s Small- and Medium-sized Enterprises Act of 1966 (as amended in 2007)

Korea’s statutory framework for the development of SMEs is based on the Clause 3 and 5 in the Article 123 of the Constitution. The clauses specifically state that the “Government of Korea is obligated to protect and to foster SMEs (the Clause 3); the Government of Korea is to promote self-help organizations of farmers, fishermen, and SMEs and to ensure their activities therein, as they deem fit, and development.”

The spirit of the SME development is materialized by eight procedural statutes and five special action statutes. The umbrella statute for these acts is the Small- and Medium-sized Enterprises Act of 1966 (as amended in 2007), that was originally promulgated on December 6, 1966.

The Act is proclaimed to “set the provision of the developmental direction of the SME sector and the basic policy frameworks to foster the growth of SMEs (Article 1 of the SME Act).” Promulgating the Act, the Government of Korea envisions:

- to achieve innovative and proactive growth of SMEs;
- to upgrade industrial structure; and
- to contrive a harmonized and balanced development of national economy.

## 8.3. The Creation of an SME Development Promotion Agency

In Ghana, like any other countries in the world, numerous governmental agencies and institutions, directly or indirectly, play their own roles in the tasks of the development of SMEs. For instance, the Ministry of Trade, Industry, PSD and PSI is currently the main agency responsible for the SME affairs and other responsible agencies are the Ministry of Food and Agriculture, the Ministry of Lands, Mine, and Forestry, the Ministry of Finance and Economic Planning, the Ministry of Health, the Ministry of Education, and the like. The scattered tasks and responsibilities such as these are highly likely to diminish the effectiveness of the governmental supports to SMEs than otherwise, despite the task of respective governmental body's different policies of their own to promote SMEs. Surely, the fostering of SMEs needs harmonized efforts of all the governmental agencies, as the issues of SME development cuts across the ministries and socioeconomic institutions. To this end, it is recommended that the GoG should:

**Recommendation :** Create a governmental agency under the Office of the President, for instance, that is responsible for coordinating the governmental efforts of developing the SME sector.

The SME promotion agency must be extra-ministerial and should be accountable only to, for instance, the Parliament and the President who ultimately in effect administers and supervises the GPRS-the covering policy for the national development. As the SME policies and action plans must be dwelling in the purview of the national development policy, the recommendation is pertinent to the given politico-economic backdrop in Ghana. The status of the agency in this setting will enable the agency to be free from the interest of particular ministry, or ministries, and to be able to effectively coordinate the allocation and execution of available national resources.

## 9. Removing the Regulatory Barrier in Ghana: Conclusions and Policy Implications

Thus far, this document attempts to answer the vexing questions that face the GoG, that is, why new business growth is slow and investment is not taking place as much as the GoG expects in spite of its efforts to better the business environment? Given that SMEs in Ghana are the leading actors of the national economy, this document assumes that identifying the “bottlenecks” that hamper the development and further growth of SMEs are tantamount to the uncovering of the underlying causes of the preceding questions. Put differently, the key element of growth of the Ghanaian economy should be sought by the rearing of healthy SMEs. To this

end, business enabling environment plays a pivotal role, as SMEs are more vulnerable to the effect of the environment than large enterprises. Needless to say, the legal and regulatory environment functions as an entry barrier and discourages entrepreneurial spirits if it is too restrictive and vice versa.

Based on these postulates, this document portrayed and weighed the legal and regulatory environment in Ghana from the perspectives of policy framework, labor regulations, administrative regulations, lands, taxation, judicial system, and the informal sector and proposed the recommendations as in the following:

- Recommendation 1: Revise and update the Companies Code of 1963 to reflect the changing business environment and to support the private sector development especially the SME sector;
- Recommendation 2: Introduce a negative license system;
- Recommendation 3: The GoG should expedite the creation of the “One-Stop-Shops” not only for foreign investors but also for local entrepreneurs;
- Recommendation 4: Exempt SMEs from labor/employment regulations;
- Recommendation 5: The GoG should increase the state-owned land and lease the land to potential investors at market rates;
- Recommendation 6: The GoG should institute an arrangement whereby landowners partake in a business venture/s as business partners by investing their rent as equity;
- Recommendation 7: Create “land banks” where land owners and potential tenants who wish to lease or rent land on a long-term basis can meet and negotiate their terms and conditions;
- Recommendation 8: Implement the Land Administration Programme as soon as possible;
- Recommendation 9: Reduce tax burdens for SMEs;
- Recommendation 10: Expand and strengthen the ‘fast-track’ automated courts and create the court’s Commercial Division nationwide;
- Recommendation 11: The GoG should continuously place its efforts to reform administrative regulations in order to alleviate the problem of businesses going informal;
- Recommendation 12: develop a national policy on SME development to provide a focused framework for accelerating growth of the sector;
- Recommendation 13: develop a selective promotional policy, within the context of the policy, to stimulate the expansion of SMEs in economic sectors which have growth potential. This may involve screening of entrepreneurs and enterprises for priority, access to financial and non-financial assistance;
- Recommendation 14: devise and set up the SME criteria within the context of the policy so that the government support and concomitant resource allocation be concentrated and distributed appropriately and effectively;
- Recommendation 15: Create a governmental agency under the Office of the President, for

instance, that is responsible for coordinating the governmental efforts of developing the SME sector.

Some of the preceding recommendations may require more time and efforts than others, let alone their viability given the socio-political backdrop of Ghana (i.e. the land issues). In spite of some possible hindrances in the course of policy implementations, the following sequences are recommended to be taken:

- (1) The 1st Phase: Devise the covering policies and set up the unified SME criteria. Update the company code of 1963;
- (2) The 2nd Phase: Implement the rest of the measures concomitantly;
- (3) And, devise and implement the SME support action plans derived from those issues in the 2nd Phase.

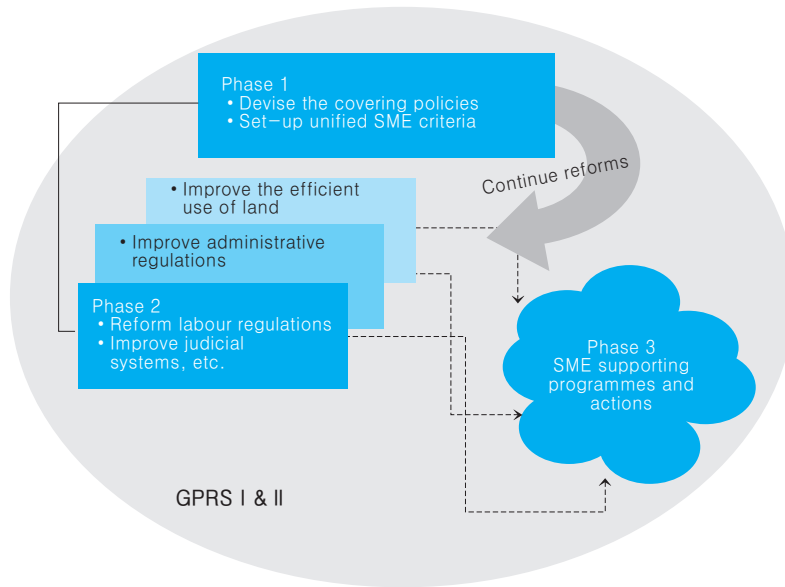
The sequence of the policy action is also shown in Figure 2-1 below. As depicted, the policy actions should be, as the matter of course, in sync with the GPRS II, which guides the direction of the Ghanaian national development.

In addition, it is also recommended that the GoG should implement the recommended policy actions in Phase 2 concomitantly, rather than doing it separately. The fostering of SMEs obviously needs harmonized efforts of all the governmental agencies, rather than a few. Indeed, the development and growth of SMEs would take more than one's effort.

To many Ghanaian policymakers and business practitioners, a few policy recommendations put forth in this document are perhaps not so much of a new agenda. However, this implies that it is time for the stakeholders of the development of the SME sector to renew their efforts to remove the bottlenecks. For instance, Ghana's land tenure system has been discussed for over three decades and various people have made about similar recommendations, if not identical and they predate LAP. The issue has been that these things never got implemented. The first phase of LAP should have ended over a year ago but no real work has been done. The GIPC (Ghana Investment Promotion Corporation) started talking about the one stop shops 10 years ago but this has not been done.

As such, there are more than numerous examples that the ideas and recommendations pertaining to the development of SMEs in Ghana have been just shelved and fossilized. Are they then still relevant today? The result of analyses on current legal and regulatory environment reported in this document suggests that they still are. Indeed, what has already been discussed in the past does not mean that it is irrelevant today. Rather, it reminds the stakeholders what they must do today, not tomorrow.

**Figure 2-1 | The Schematic Diagram of Removing Regulatory Barriers in Sequence**



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## Enhancing Access to Capital and Technology for SMEs

### Summary

- 1\_ Status and Level of Financial Development In Ghana
- 2\_ Analysis of Financial Supporting Plans for SMEs and Technology-Based Firms
- 3\_ Introduction of the Korean SME Supporting Systems and Its Performance in Financing Sector
- 4\_ Financial Recommendations for SMEs and Technology- based Firms

The financial system that any given country adopts depends on a wide range of factors such as politics, history, and path dependence evolution, rather than mere economic inevitability. Whichever system is adopted, a well functioning financial system plays an important role in build-up of sustained economic development. The financial structure is important not only due to its role in resource allocation but also because the financial market development is associated with financial instruments. Generally, equity financing is appropriate for large firms or SMEs based on technology-innovation, while debt financing is pertinent to SMEs or particularly, SMEs based on traditional industry with a low risk.

In spite of the small scale of the capital market in Ghana, the financial structure of Ghana is market oriented due to a severe lack of banking services, negative real interest, and low level of scale of economies, etc. The level of financial development of Ghana is lower compared to that of Nigeria and South Africa, two of Africa's leading economies. Capital accumulation of Ghana is needed urgently to enhance the level of financial development. How to solve this lack of capital accumulation is an important policy subject that Ghana has to grapple with.

Banks in Ghana are largely classified into public banks, foreign banks, and rural community banks. Although public banks have improved following the restructuring in late 1980s, it is widely accepted that foreign banks are more competent than public banks in the area of cost and diverse profit creation. On the other hand, the Ghana Stock Exchange (GSE) has kept growing since it was incorporated in 1989. As at the end of 2007, 35 firms were listed on the GSE indicating a rather small scale of the capital market.

Although level of financial development differs around the world, finance is a key factor of economic development in every country. What should the Ghanaian government do to promote

financial development? Suggested recommendations from the view of non-financial parts are: First, the government should maintain the stability of macro-economy of Ghana and set up a strong legal infrastructure; Second, the government should make a switch from creating powerful regulator to empowering the financial market.

The Korean government has established SME supporting systems since 1960s in the process of the economic development plans in order to mitigate poverty by creating jobs. In 1966, the government introduced the 'Small Business Act' as a starting point of SME supporting plan. In this chapter, SME financing schemes are categorized based on the level of information asymmetry. If its level is insignificant or acceptable, we recommend bank loans, security or bonds market in direct/indirect financing. But when information asymmetry level is significant, government provides loan guarantees which share credit risk between the government and banks at a given ratio. If this problem is very severe, then the government or individual business takes all the responsibilities which stem from SME financing at the cost of taxes or own money.

In order to enhance the financing system for traditional and technology-based SMEs, direct/indirect financing measures and infrastructures are recommended:

First of all, 8 recommendations that the government should take from the view of capital market are: First, Ghana had better expand scope and scale of economies on the GSE by having new firms listed on the GSE through lowering entry barriers; Second, Ghana should take actions for market transparency and investor protection by the reinforcement of announcement by listed companies, the tight monitoring role by regulators, and the enhancement of self regulation by the GSE as a SRO (Self Regulation Organization); Third, Ghana should consider a separate trading session for large firms and venture firms to facilitate financing from securities market for technology-based firms that are inferior to performance compared to large firms; Fourth, the standards of entry barrier and the requirements of delisting for technology based firms should be applied differently to large firms or traditional SMEs; Fifth, Ghana should make an effort to bring along talented financial specialists capable of risk management in preparation for market and credit risk due to a sudden drop of financial asset price; Sixth, the government should raise the government fund and make efforts to expand exit market for promoting the venture capital market; Seventh, the government should arrange for pension fund plan that can contribute to not only provision for old age but also development of capital market through the formation of long-run buy-and-holding group of shares as a major institutional investor in the domestic stock market; Eighth, Ghana should keep on privatizing the state-owned enterprises to achieve financial development, diversity of ownership, and improvement of corporate governance.

Recommendations related to indirect financing are: Ninth, financial authority should expand the lending capability of banks by readjusting negative real interest resulting from high inflation rate; Tenth, the Bank of Ghana should lessen 9% reserve requirement in order to increase

liquidity carefully not to cause inflation; Eleventh, the government of Ghana should establish credit guarantee systems for traditional and technology-based SMEs in order to stimulate the bank loan by sharing credit risk between the bank and the government; Twelfth, the government should endeavor to provide policy fund transparently to SMEs so as to increase credit accessibility for the market failure area (innovative and technology-based SMEs).

Recommendations about infrastructure are: Thirteenth, the government should establish a National Credit Bureau (NCB) in order to deal with asymmetric information inducing financial market malfunction; Last, rural and community banks should seek to establish relationship banking with customers to overcome insufficient information in evaluating SME loan applications.

# Enhancing Access to Capital and Technology for SMEs

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## 1. Status and Level of Financial Development in Ghana

### 1.1. Status of Financial Structure

Financial systems that countries have are broadly classified as either market based or bank based. There is a clear distinction between the market based system of the United State and the United Kingdom and the bank based systems of France, Germany, and Japan. The U.S. has a well developed stock market with an associated system for corporate control while Japan and Germany have the main banks and universal banks that play a central role in monitoring management, which is differentiated from market monitoring in the market based system. The financial system that most countries adopt depends on a wide range of factors such as politics, history, and path dependence evolution, rather than economic inevitability. Whichever system a country adopts, a well functioning financial system, of course, plays an important role in build-up of sustained economic development. The financial structure has influence on the role of financial institutions in resource allocation. It also has a relationship with the level of financial market development associated with financial instruments.

As with debates on the comparative merits of the market and the bank based system in corporate financing, so is there a debate on the relative efficiency of equity financing and debt financing. According to Morck and Nakamura (1999), Allen & Gale (1999), Easley & O'Hara(2004) studies, the suitable choice for corporate financing depends on a project's risk, monitoring by one or multiple people, history of industry, and the level of deregulation by renegotiation. If a company has a high risk project, and lacks experience with a bank due to a

short relationship, and has a renegotiation power with a bank when redeeming the loan, then equity financing is more suitable for such a firm. In contrast, if any firm is an SME (Small Medium Enterprise) that is in a traditional industry with a low risk and does not have a renegotiation power with the bank, then debt financing would be more suitable for such a firm.

The following section describes the status of the financial structure and financial development of Ghana compared to several countries in Sub-Sahara from which comparative data is available.

**Table 3-1 | Status of Financial Structure for Comparative Counties**

	Ghana (GH ₵)					South Africa (bn Rand)				
	Cap (A)	Credit (B)	Real GDP(C)	A/B (%)	A/C (%)	Cap (A)	Credit (B)	Real GDP(C)	A/B (%)	A/C (%)
2001	3,904.0	4,073.9	38,014.0	95.8	10.3	-	-	947.4	-	-
2002	6,183.3	4,073.9	477,646.0	151.8	1.3	1,249.7	-	982.1	-	127.2
2003	12,616.8	5,342.0	65,262.0	236.2	19.3	1,411.6	-	1,012.8	-	139.4
2004	97,614.8	7,335.2	78,650.0	1,330.8	124.1	1,777.6	-	1,062.0	-	167.4
2005	91,857.3	9,489.9	96,319.0	967.9	95.4	2,534.5	-	1,115.1	-	227.3
2006	112,496.0	13,168.1	114,903.2	854.3	97.9	3,537.9	1,525.1	1,175.2	232.0	301.0

Note: (A) Capitalization data for South Africa is extracted from the DataStream, Ghana's Capitalization data is from the GSE, and Nigeria' capitalization data is estimated from Senbet & Otchere (2008, p.2).

(B) Data of national domestic credit of private sector are extracted from central bank, respectively.

(C) Data for real GDP is extracted from the World Economy Outlook 2008 (IMF, 2008)

(D) All numerical values are marked with local currency.

Table 3-1 shows the status of financial structure measured as two proxies for the financial structure for Ghana and South Africa which belong to Sub-Saharan region of Africa.<sup>1</sup> A capitalization/domestic credit of private sector (A/B) has much higher value of 854.6 as of 2006. Also, a capitalization/GDP (A/C) measurement maintains the similar value compared to that of the developed countries<sup>2</sup>, however, it is lower than that of South Africa that is close to a market based system. Two indicators imply that Ghana has a higher market capitalization relative to the level of domestic credit of private sector and GDP. When considering extremely low level of economic scale, the financial structure of Ghana is not only unclear but also

1. We select them based on access from DataStream among 9 countries in Sub-Sahara Africa, which have treasury bill, treasury bond, corporate bond, and equity markets. For a detailed explanation of 9 countries, refer to the following: IMF, World Economic and Financial Surveys: Regional Economic Outlook, 2008.

2. For example, France and Korea have 108%, 94.1% ratio in 2006, respectively.

meaningless. The reasons for this phenomenon are as follows:

First, as shown by the low level of domestic credit of private sector, there is a shortage of banking services. Second, there is the fact that Ghana's real interest is negative, as shown that inflation rate of 10.5% is higher than deposit rates as of 2006. This situation deters savers from holding deposit are low assets. Actually, the interest rate demand and savings, also deposit are low compared to the increasing rate of market index in Ghana stock exchange. For example, deposit rate in the end of 2006 is less than 8% while the gain from market index is 22.2% for one year. This composition implies that it is difficult for Ghana to accumulate capital through domestic savings.

## 1.2. Level of Financial Development

Financial development also has a close relationship with the economic growth of a country. Although financial development differs around the world regardless of similar economic scale, financial development typically is measured by the level of credit and the size of stock market. This paper uses financial development divided by real GDP as the level of financial development. Financial development is an important indicator of economic growth. If any firm is expected to have a future growth opportunity, the stock market capitalizes NPV (net present value) of growth opportunity on corresponding firm. Financial institutions like banks, are also willing to lend more capital to such a firm. As shown in the study of Rajan & Zingales (1998), financial development plays an important role in the accessibility to external finance needed for firm's future growth opportunity. In addition, financial development may contribute to growth of individual wealth, especially those of the poor because financial development can help them catch up business opportunities as economy grows.

Table 3-2 reports the level of financial development of Ghana compared to South Africa and Nigeria. According to this table, the level of Ghana's financial development is the lowest for three countries as of 2006. In contrast, South Africa's is the highest with a value of 4.3, which is 4 times that of Ghana. There may be several reasons why the level of financial development of Ghana is low. One of them is the lack of capital accumulation because it plays an important role in financial development through expansion process of financial function. Therefore, how to solve lack of capital accumulation is a very important subject that Ghana suffers from.



**Table 3-2 | Level of Financial Development as of 2006**

Country	Capitalization (A)	Domestic Credit of Private Sector (B)	Real GDP (C)	(A+B)/C
GHANA	112,496.0	13,168.1	114,903.2	1.1
SOUTH AFRICA	3,537.9	1,525.1	1,175.2	4.3
NIGERIA	241.8	2,565.8	844.9	3.3

Note: (A) Capitalization data for South Africa is extracted from the DataStream, Ghana data is from the GSE, and Nigeria data is estimated from Senbet & Otchere(2008, p.2).

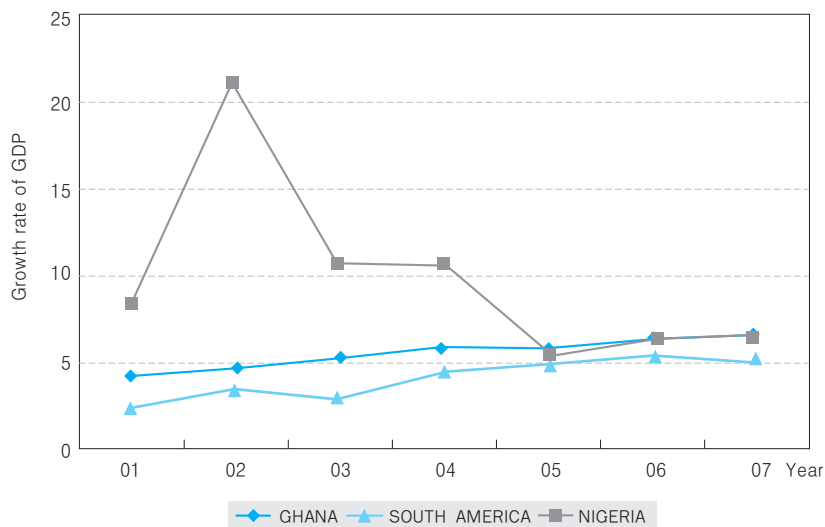
(B) Data of national domestic credit of private sector are extracted from central bank, respectively

(C) Data for real GDP is extracted from the World Economy Outlook 2008(IMF, 2008)

(D) All numerical values are marked with local currency.

Figure 3-1 describes the growth rate of real GDP in Ghana. Ghana has maintained the highest economic growth rate among comparative countries since 2005. This relatively high growth rate may be due to not only the expansion of the government expenditure but also high opportunity of growth. Considering the possibility of growth in Ghana gives a definite answer why Ghana must promote financial development.

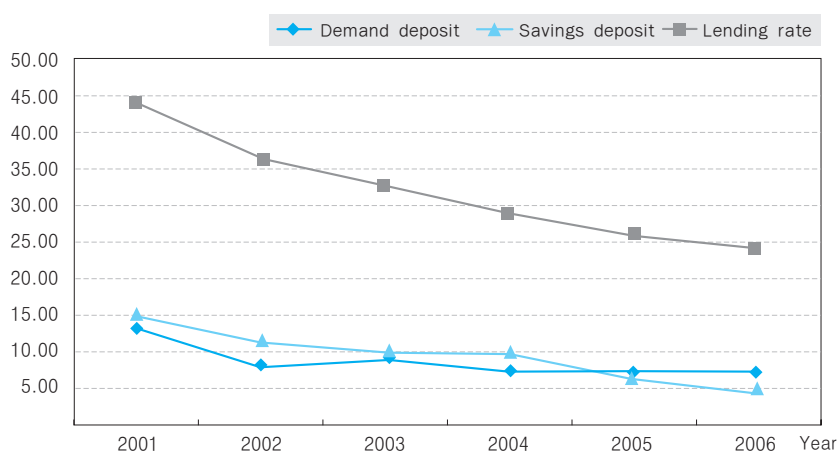
**Figure 3-1 | Growth Rate of Real GDP**



Source: Data for real GDP is extracted from the World Economy Outlook 2008 (IMF, 2008)

Figure 3-2 describes the rates of demand deposits, savings deposits, and lending rates from commercial banks. The results shown from figure 3-2 are as follows: First, the interest rates for savings and lending have decreased since 2001. This may be due to the liberalization of the financial sector (e.g., removal of controls on interest rate, introduction of market-based instruments of bank lending, and removal of controls of sectional proposition of bank lending). Second, there has been a big difference between savings rates and lending rates. This phenomenon may imply that there is an imbalance of money supply and demand. It may, also, be due to the lack of credit for a money demander with high risk. This high lending rate will be a burden to firms that have good project opportunity. If it gets lower, projects that are not profitable under a current high interest rate will have a positive NPV (net present value). Although the difference between savings rates and lending rates is declining, it is as big as ever. Under this gap, it is very difficult for a borrowing firm to expect profits due to an increase of opportunity cost. Therefore, a reduction of the gap is acutely needed for not only the expansion of firm's investment but also for financial development.

**Figure 3-2 | Deposit Rate and Lending Interest Rate**



Source: Bank of Ghana

### 1.3. Status of Banks

Banks in Ghana are largely classified into public banks, foreign banks and rural community banks. This report focuses on public and foreign banks. Public banks are commercial and

development banks were established by the government to provide credit to important sectors such as industry and agriculture. There are seven such banks which include the Ghana Commercial Bank (GCB) and the National Investment Bank (NIB). Major foreign banks with presence in Ghana include, the Barclays Bank (BB), Standard Chartered Bank (SCB), and ECOBANK. The Government is able to acquire 40% equity stock for foreign banks through the enactment of indigenization Decree in 1975.

Public services have improved since the restructuring process in late 1980s. The ISSER (2007) reports results of bank performance for the following banks, GCB, BB, SCB, and ECOBANK.<sup>2</sup> According to the ISSER (2007), these four banks GCB, BB, and SCB hold about 58% of the total assets of the banking system. The 2007 Solvency index-provision for the bad debts as a percentage of total loans is the highest with 0.67 for SCB, followed by ECOBANK with 0.72, with BB recording the lowest with 3.89. Transaction cost, measured as total operating expenses as a percentage of total operating income is higher from 46.6% to 50.5% for foreign banks while it is lower with 67.6% for GCB. The share of non-interest income in total income is in the range of 33.7% to 35.8% for foreign banks. On the other hand, GCB has the lowest ratio of 27.5%.

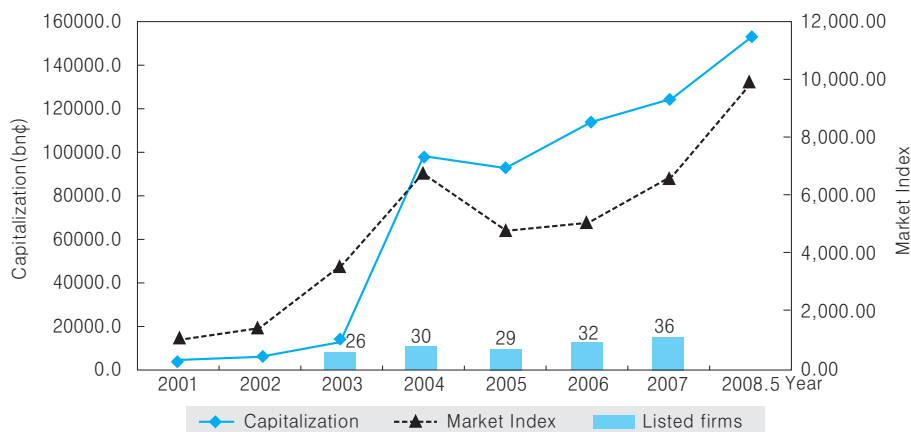
These results show that foreign banks are more competent than GCB in the area of cost and diverse profit creation. Therefore, the government has to make efforts to enhance the competitiveness of GSE.

## 1.4. Status of the Stock Market

The Ghana Stock Exchange (GSE) has been growing since it was incorporated in 1989. Figure 3-3 shows the progress in market index, market capitalization, and the number of listed firms on the GSE. As of the end of 2007, 36 firms are listed on the GSE. It is known that most of the listed companies are large firms. Only 3 firms are small. Generally the Ghanaian Stock market has kept growing as shown in the stock market index, number of listed firms, and market capitalization, particularly from 2005. However, the numbers of listed firms is absolutely small. It is important for more firms, particularly technology and innovation firms to capitalize/or to finance themselves through the GSE. This helps Ghana facilitate development of the economy through their competitiveness.

2. To further discussion in this area, please refer to the following. ISSER, 2007, the State of the Ghanaian Economy in 2006, 78-79.

**Figure 3-3 | The Progress of Market Index, Capitalization, and Numbers of listed firms on the GSE**



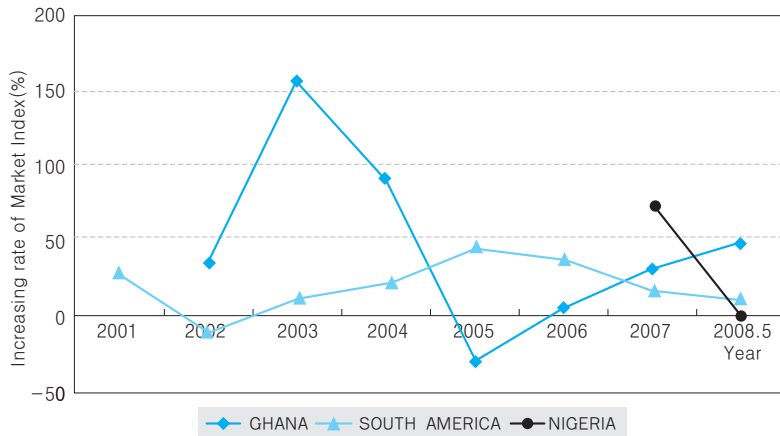
Source: the GSE

One of the potential side effects due to the small number of listed firms may be market volatility because it is expected that a stock market with a few listed firms tends to lead to herding effect\* (\*a footnote about what herding might help a little) more than with many listed firms. In order to develop the stock market, the GSE should make efforts to lower its volatility. For low volatility market, in addition to increasing the numbers of listed firms, there is the need to enhance the market transparency through expansion of information announcement. These measures should result in investor protection.

The Ghana Stock market has shown the highest rate of increase in market index since 2007 among these countries. This is shown by figure 3-4. In spite of recent market situation, it is necessary to remember that there had been a rapid increase in 2002 and deep decrease from 2003 to 2004.

From the above status of the GSE, it is important to take action on policies (e.g., expansion of listed firms, enhancement of market transparency, enforcement of investor protection, etc.) for the consistent growth of the Ghanaian capital market.

**Figure 3-4 | Increasing Rate of Market Index by Comparative Countries**



Source: 1. Data on South Africa and Nigeria are extracted from DataStream.

2. Data of Ghana is extracted from the Ghana Stock Exchange

Note: a. Return of May 2008 is calculated from the end of 2007

## 2. Analysis of Financial Supporting Plans for SMEs and Technology-Based Firms

### 2.1. Financial Supporting Systems for SMEs and Export in Ghana

Before examining the supporting systems for SMEs in Ghana, it would be useful to know what category of enterprises constitutes SMEs in the country. According to the Venture Capital Fund Act 2004 (Act 680), an SME is an industry, project, undertaking or economic activity which employs not more than 100 people and whose total asset base, excluding land and building, does not exceed the cedi equivalent of \$1 million in value. The National Board for Small Scale industries (NBSS) classifies SMEs as follows:

Micro enterprise:	less than 5 employees
Small enterprise:	6 - 29 employees
Medium enterprise:	30 - 99 employees
Large enterprise:	100 and more employees

The majority of enterprises in Ghana are SMEs and they are the major source of income and employment generation. According to the records of the Registrar General's Department in Ghana, about ninety percent of registered companies are SMEs. Data from the Social Security National Insurance Trust (SSNIT) support this position as it shows that ninety percent of companies employ less than 20 persons.

Even though the SME sector employs and provides income to a significant fraction of the Ghanaian population, it is fraught with many problems. Various publications (e.g. Sam Mensah, 2004) and SMEs in Ghana are usually characterized by the following:

- Dominated by one person, with the owner or the manager taking all major decisions;
- The management skills of the entrepreneur is generally weak making it difficult for such enterprises to prepare strategic plans for enterprise development;
- Highly volatile working capital and difficulty in accessing finance;
- Lack of technical know-how, use of obsolete technology, and reliance on manual labor; and
- The use of family and unpaid labor (through the use of apprentices).

There have been policy interventions by the government to address some of these problems to ensure sustainable SME growth and development. These interventions include:

- Strengthening of SME support institutions such as NBSSI, Ghana Export Promotion Council (GEPC), EMPRETEC Ghana, and some NGOs;
- Technology improvement for SMEs;
- Facilitation of SME financing through improvement of SMEs' access to appropriate forms of capital;
- Establishment of Industrial Estates;
- Entrepreneurial training and labor skills development; and
- Promoting linkages between large and small enterprises.

Even though access to finance has often been cited as a major constraint to small enterprise development, the problems confronting SMEs are so multifaceted that any attempt to reform the sector effectively should be holistic with SME financing as one component of such a strategy.

## 〈Official SME credit schemes〉

As stated earlier, lack of adequate access to finance is a major constraint to enterprises growth in developing countries including Ghana. This is usually attributed to financial policies and bank practices that make it difficult for banks to cover the high costs and risks involved in lending to small firms (Aryeetey et al., 1994). The situation is also explained by the relatively underdeveloped financial sector with low level of intermediation (Mensah, 2004).

To respond to this deficit, there have been various interventions by the government, development partners, and non-governmental organizations, and others in Ghana to facilitate and augment the provision of credit at reasonable terms to SMEs. What follows is a brief description of the existing financing schemes to SMEs in Ghana.

Official schemes supported by donors and directly handled by the government are usually managed by the Aid and Debt Management Division of the Ministry of Finance and Economic Planning. Examples of such Schemes include the Austrian Import Program (1990), the Japanese Non-Project Grants (1987-2000), and the Canadian Structural Adjustment Fund and Support for Public Expenditure Reforms (SPER). A major characteristic of these schemes was that the funding provided was meant to procure goods and services from the donor countries which provided these on-lending facilities to the government. Except for the Japanese Grants and a few others, the loan recovery rate for these schemes has not been impressive.

The government itself has attempted a number of interventions to improve access to SME credit. These include the Business Assistance Fund (Fund), the Ghana Investment Fund (GIF), the Export Development and Investment Fund (EDIF), Micro Finance and Small Loans Centre, and the Venture Capital Trust Fund (VCTF). The BAF existed in the 1990s to provide direct government lending to the SME sector. The GIF Act (Act 616) was passed in 2002 to establish a fund to provide credit facilities by designated financial institutions to companies. The Scheme was, however, not implemented. The EDIF was established by Act 582 in 2000 to provide financial resources to address problems associated with constraints in the export sector. Under the scheme, exporting enterprises can borrow up to \$US 500,000 over a five-year period at a subsidized cedi interest rate of 15%. The scheme is administered through banks even though the EDI board maintains tight control as they approve all the credit recommendations of the operating banks. The Microfinance and Small Loans Centre (MASLOC) was established in 2004 as an Apex body to oversee the administration, coordination, and monitoring of Microfinance and Small Loan Schemes in the country. The Head quarters is located in Accra and with branches established in each of the 10 regions in the country. The Venture Capital Trust Fund (VCTF) was established by the Venture Capital Trust Act, 2004 (ACT 680). It is established to provide low cost financing to small and medium size businesses so that they can grow and create wealth and jobs. The main functions of the VCTF are to provide credit and

equity financing to eligible venture capital financing companies to support SMEs as well as provide monies to support other activities and programs for the development and promotion of venture capital financing in the country.

In addition to these programs, Ghana has since the 1990s intensified the support for SMEs with the establishment of the National Board for Small Scale Industries (NBSSI). The Board has administered a number of micro finance projects over the years including the PAMSCAD Credit Line, the Revolving Fund Loans Scheme, the Small and Micro Enterprise Promotion Fund (SMEPF), and the ENOWID Revolving Loan Fund. The NBSSI has generally advanced credit to SMEs at an average interest rate of twenty percent (20%) with a repayment performance rate of at least seventy percent (70%).

Even though there is a provision for credit guarantee as outlined in Section 13 of the Loans Act of 1970 (Act 335), there has not been any targeted loan guarantee facility for SMEs in the country. Currently, the only government-supported loan guarantee scheme in operation is provided by Exim guaranty Company which is majority-owned by the Bank of Ghana. However, the company’s operations are limited by the size of its guarantee fund. Although 10 billion was voted in the 2004 budget to augment the guarantee fund, it is small relative to the needs of the MSME and LE sector (Mensah, 2004).

### 〈Interventions from Development Partners〉

Development partners (DPs) have provided direct financial and business support services to SMEs through a number of projects. These are usually executed through commercial banks and micro-finance institutions. The table below which is adopted from Mensah (2004) outlines some of the projects executed by DPs.

**Table 3-3 | Donor Support to SMEs**

Donor	Title of Project	Short Description
CIDA	Private Sector Development Support	Assist MSMEs deepening technological capacity
DANIDA	Private Sector Programme	Business linkages between Ghana and Denmark
	Business Sector Development	Lending to SMEs, front-runner legal reform (pilot)
GTZ	Promotion of Private Sector	Promotes German investments in Ghana
	Promotion of Small and Micro Enterprises	Assist MSEs (Credit Fund -Urban and Rural areas)
	Rural Financial Services Project	Capacity building to rural and community banks and informal financial sector; and to ARB Apex Bank



Donor	Title of Project	Short Description
IFAD/AFD	Rural Enterprise Project	Enterprise development in rural areas
IFC	Africa Project Development Facility	Support the development of SMEs (training)
UNDP	African Management Services Company	Assist SMEs (training)
	EMPRETEC Ghana Foundation	Assist SMEs (entrepreneurship development)
	Micro Start Ghana Programme	Support MFIs build institutional capacity
	Promoting Private Sector Development	Capacity building of private sector incubators
UNIDO	Strengthening competitiveness of SMEs	Strengthening capabilities of SMEs
USAID	Amex International (increased private enterprise performance)	Support development of non-traditional exports
	Micro Enterprise Development Assistance	Assist micro and small-scale farmers
	Trade and Investment Programme	Assist SMEs in non-traditional exports(credits)
WB	Non-Bank Financial Institutions Assistance	Promotes growth of non-bank financial sector

Lending programs executed by the donors directly through financial institutions include the Small Business Loan Guarantee (USAID), The European Investment Bank Facility, the DANIDA SME Fund, the SECO SME Financing Scheme, the FMO SME Financing Scheme, and the GTZ Fund for the Promotion of SMEs.

### 〈Financial Supports for the Technology Based Firm〉

Generally, a venture firm which is technology based has a high default risk and few collateralized assets. As such it is widely accepted that the probability of failure in a venture firm is high. Debt financing for a venture firm is less favorable than equity financing because banks may not have sufficient capacities to evaluate venture firms without tangible assets. Even if they can do, they are unable to extract rents in subsequent transaction with a venture firm. If banks provide loans to high-risk firms, the interest payments will be extraordinarily high. This high interest may limit a firm's growth. In contrast, investment for a venture firm's equity guarantees that the venture capital benefits if the invested firm does well. Therefore, in the case of financing support to a venture firm, it can be said that venture capital is more preferable to bank loan.

Ghana established the Venture capital Trust Fund (VCTF) in 2004 to provide credit and equity financing services to eligible Venture Capital Financing Companies (VCFC), which supports SMEs who qualify for equity and credit financing. The level of activity of VCTF and VCFC, that is, the number of invested firms and the capital commitment by VCFC, etc., is not

known due to inaccessibility of relevant data. However, the number of funds has increased from 1 in 2006 to 4 in 2007. This means the VCTF and VCFS are activating SMEs development.

When considering that the SME sector constitutes over 90% of business units in Ghana, the introduction of venture capital system may have a very important meaning. Investing in venture capital is not the same as investing in traditional SMEs. If venture capitalists invest in a traditional SME, they may not make a fair return on their portfolio of investments because they can not get high return from a low risk firm. Therefore, for the development of venture capital and activation of venture firms, it is desirable that a firm supported by venture capital is not traditional but a venture firm.

In addition to this investment principle, to develop a venture capital system, it is necessary to reinforce the connected process from fund raising to investment and exits of invested funds because their connection has a highly close relationship with particularly initial staged venture capital like the Ghanaian case. This is due to the following links; investment of venture capital is affected by fund raising, fund raising is affected by exit of fund. This connection implies that venture capital markets have a close relationship with the capital market that plays an important role in exit type by IPOs (Initial Public Offerings). Therefore, it is argued that venture capital system requires a well founded capital market that has sufficient liquidity.

In addition, to entice private sector's investors and encourage investment in early stages of venture firms, the government fund plays an important role. The government participation helps private sector's investors participate into the venture fund and provide a strong liquidity that is necessary to stimulate the growth of venture capital market. Examples of the government funds can be found in many countries including Canada, Holland, Korea, etc. In the case of Korea, the government of Korea established a US\$1 billion fund to invest in private venture capital funds.

### 〈Effectiveness of Existing Schemes〉

The plethora of existing SME financing schemes appears not to be properly coordinated, providing room for duplication of functions. As Asiana and Osei (2007) put it, the overlap is due partly to the fact that organizational and institutional hierarchy and reporting relationships among all the stakeholders are not clearly defined. This calls for the need for a clearly defined roles and responsibilities for the various players in sector. Problems related to the legal and regulatory framework for SME financing also explain the ineffectiveness of such schemes. Mensah (2004) identifies the inadequacy of laws and enforcement mechanism for the formation of companies and disclosure to relevant parties as key constraints.

## 2.2. Financial Barriers in Ghana

### 〈Financial problems〉

Almost all financial systems suffer from some degree of information asymmetry. The main concern for policy makers is the severity of such asymmetry. Even advanced countries like US, UK, Japan and Germany have asymmetric information which in turn, is considered as the root of adverse selection and moral hazard. The important step is to find viable and sustainable financing systems which efficiently deal with universal problems. To do this, we should take a look at barriers hindering the Ghanaian financial development for innovative, technology-based and traditional SMEs.

The barriers from credit supply side are:

- High inflation rate with low deposit/saving resulting in low funds to lend/invest;
- Inefficient functions of credit intermediaries;
- Dualistic banking system: formal and informal banking system;
- Shortage of government fund;
- No credit strengthening systems (Credit guarantee system, Credit bureau).

The barriers from credit demand side are:

- Severe asymmetric information;
- High possibility of default and delinquency;
- No long term relationship banking with formal financing institutions;
- Government's demand for credit.

As noted earlier, the market capitalization and market index of the Ghana Stock Exchange has kept growing. In order for the GSE to grow further, there is the need to pursue growth both in the quality and quantity of the capital market. For quality development of the market, the GSE needs to reinforce the protection of investment and governance of listed companies. These measures are helpful for transparency of the market, which increases the liquidity and reduces the transaction cost of the market. For quantity development of market, GSE needs to have private firms listed on the GSE because the GSE must attempt to exploit scope and scale economies in securities trading by listing new firms and by attracting volume in existing securities.

Generally, venture capitalists focus on the subject of venture firms with high risk and high return. Nevertheless, VCFC that plays a role as a venture capitalist invests in ventures as well as traditional SMEs. Even if there is an imperative policy issue to activate SMEs, the government

must recognize that financing methods for SMEs depend on their characteristics based on their risk and return. If they are SMEs with low risk and low returns, financial support for them prefers debt financing to equity financing. In contrast, financial supporting for SMEs with high risk and high returns prefers equity financing to bank financing. Therefore, the investment subject of VCTF and VCFC that carries out investment service even for traditional SMEs must be reconsidered.

## 3. Introduction of the Korean SME Supporting Systems and Its Performance in Financing Sector

### 3.1. Indirect financing for SMEs

#### 〈Introduction〉

The Korean government had established SME supporting systems since 1960s in the process of the economic development plans in order to mitigate poverty by creating jobs. In 1966, the government introduced the ‘Small Business Act’ as a starting point of SME supporting plans. With the enactment of SME supporting systems, there were systematic approaches for SME financing which is generally characterized by credit risk, transaction cost and adverse selection resulting from information asymmetry.

Indirect financing involves a financial intermediary that stands between the lender and the borrower and helps transfer funds from one to the other. A financial intermediary like a bank does this by borrowing funds from the saver and then uses these funds to make loans to the borrower.

In Korea, SME financing schemes were faced with asymmetric information levels. If such levels are acceptable, bank loan, security or bonds market in direct/indirect financing are recommended. But when information asymmetry level is prevailing, the government provides loan guarantees which share credit risk between government and banks at a given ratio. If this problem is very severe, then government or individual business takes all the responsibilities which stem from SME financings at the cost of taxes or own money.

#### 〈Bank Loans〉

Bank loan to SMEs is the most important and vital source of credit. The Korean government

established commercial banks and regional banks as a dual banking system in which commercial banks are suitable for the large firms and local banks for micro-enterprises and SMEs outside of the Seoul metropolitan area. As of end of June 2006, there were 7 nationwide banks, 6 local banks and 36 foreign bank branches all amounting to about 4,760 branches.

Countrywide commercial banks held total assets amounting to approximately 854.4 trillion won as of the end of the June 2007, reaching 90.5% in total assets of commercial banks. Local banks specializing in financing for regional small and medium enterprises, had 88.7 trillion won of total assets representing 9.5%.

**Table 3-4 | Sources and uses of Funds of Bank (as of the end of June 2007)**

(Unit: trillion won)

	Commercial bank	Nationwide bank	Local bank
	amount(ratio)	amount(ratio)	amount(ratio)
Total assets	934.0 (100.0)	845.4 (100.0)	88.7 (100)
Deposit	561.8 (60.2)	502.7 (59.5)	59.1 (66.6)
CDs	80.8 (8.7)	70.6 (8.4)	10.2 (11.5)
Loans	664.2 (71.1)	605.0 (71.6)	59.2 (66.7)

Source: Financial system in Korea (2007)

Note: foreign bank's branches are not included

Mandatory lending ratio to SMEs which is required for commercial banks is categorized by the distinctions of the bank. Local banks mainly focus on the regional micro and SME financing compared to the foreign banks and commercial banks after mid 1980s. However, current adjustment of mandatory lending ratio shows that the ratio for the provincial banks is downward because of credit risk management and profitability. This policy was an important vehicle for the SME lending during the economic development era but in recent years, it is considered as a burdensome regulation for the regional banks due to the prevention of lucrative portfolio with the limited incentives of aggregate credit ceiling loans.

**Table 3-5 | Mandatory Lending Ratio to SMEs (%)**

	1976.12	1980.10	1986.4	1986.8	1992.2	1994.5	1997.7
Bank	30	35	35	35	45	45	45
Local bank	40	55	80	80	80	70	60
Foreign bank	-	25	25	35	35	35	35

Source: Bank of Korea

Aggregate Credit Ceiling Loans (ACCL) introduced in 1994, aims to induce the expansion of bank loans to SMEs with the limit of 9.6 trillion won at 2.75% in 2006. This program monitors each bank's lending to SMEs and the Bank of Korea (BOK) allocates aggregate credit ceiling loans based on the total amount of lending to SMEs as cheap credit to each bank. According to this process, ACCL is to boost SME lending by the channel of commercial banks on the presence of central bank's incentive system.

However, this tool was decreased to 3.6 trillion won in February 1997 but during the Korean currency crisis, it rebounded and reached the highest amount of 11.6 trillion won in September 2001 to deal with credit shortage resulting from the Asian crisis. Meanwhile, the aggregate credit ceiling loans was curtailed after its highest amount to adjust the soaring volume of loans by the commercial banks.

**Table 3-6 | Aggregate Credit Ceiling Loans and Lending Rate**

	1994.3	1995.1	1997.2	1998.3	2001.9	2004.11	2007.8
Amount	8.8	9.1	3.6	5.6	11.6	9.6	6.5
Interest	5.0	5.0	5.0	5.0	2.5	2.0	3.25

Source: Bank of Korea (2006)

Commercial bank loan to SMEs amounted to 301 trillion won (43.4%) at the end of 2006. In the SME bank loan, the biggest amount is provided by 7 nationwide commercial banks amounting to 163 trillion won (35.6%) and 6 local banks also play an important role in channeling 30 trillion won (64.0%) for regional-based micro and SMEs. Meanwhile, specialized banks account for 108 trillion won (57%) for SMEs. Specifically, the Industrial Bank of Korea, which is one of specialized banks, is the most significant individual source for SMEs amounting for 56.7 trillion won at the end of 2006.

**Table 3-7 | SME Lending by Commercial Bank (unit = trillion won)**

	2000	2001	2002	2003	2004	2005	2006
Nationwide commercial bank	80	89	118	140	138	137	163
Local bank	13	14	17	20	22	24	30
Specialized bank	36.9	40.9	49.0	76.8	82.6	93.7	108.1
total	130.1	144.9	184.6	237.6	243.6	256.4	301.7

Source: Bank management statistics 2005-2007, Financial supervisory service

## 〈Credit Guarantee Systems〉

The banking system provides loans to SMEs as indirect financing but the level of asymmetric information prevents banks from assessing borrowers and providing credits. In order to deal with this core reason, the Korean government established credit guarantee services as an effort to enable SMEs lacking collaterals and credit information to acquire funds in the private market. Credit guarantee organizations provide guarantee services by issuing credit guarantee letters. Now KODIT (Korea Credit Guarantee Fund), KOTEC (Korea Technology Credit Guarantee Fund) and 16 local KCGF (Korea Credit Guarantee Foundation) are responsible for the guarantee services and the Korean government strengthens financial support for their sound and sustainable credit guarantee services.

**Table 3-8 | Credit Guarantee Organization**

	KODIT	KOTEC	Local KCGF
Establishment	1976.6.1	1989.4.1	1996-2003
Operation area	Nationwide	Nationwide	Province
Supervision	MOSF	SMBA	SMBA
Budget	SMBA	SMBA	SMBA

Source: Kim sung-jin (2006)

MOSF: Ministry of Strategy and Finance, SMBA: Small and Medium Business Administration

The Korea Credit Guarantee Fund (KODIT), the biggest credit guarantee provider administers loan guarantee services to lead the balanced development of the economy by extending credit guarantee services for the liabilities of SMEs lacking tangible collateral and by stimulating credit transaction through credit information accumulation. During credit guarantee, main sources of the funds are contributions from the government, financial institution and enterprises. Under the Korea Credit Guarantee Fund Act, all the banks in Korea should make contributions at the rate of 0.25% per annum on their outstanding amount of loans. Based on these funds, KODIT could provide credit guarantee services up to 20 times its capital but for sound management, it tries to maintain total amount of credit guarantee approximately 12-13 times the capital funds. With credit guarantee, KODIT also provides credit insurance services.

KIBO technology fund was institutionalized in 1989 by the government as a non-profit guarantee institution under the 'Financial Assistance to New Technology Businesses Act' on the recognition that technological innovation is the only vehicle for competitive advantage for the Korean economy. Since its foundation, KIBO has been providing credit guarantees to facilitate financing for technologically innovative SMEs and venture businesses. KIBO has so far supplied a total of 104.1 trillion won worth of guarantees to SMEs possessing prominent

technologies and business plans but lacking security for external financing. Specifically, more than 80% out of total credit guarantee value went to the companies which were developing and applying new technology via technology credit guarantee system and business consulting.

In addition, for the local micro enterprises, 16 regional Korea Credit Guarantee Foundations (KCGF) have been introduced by government since 1996 and the Korean Federation of Credit Guarantee Foundations (KOREG) was established in August 2002 to provide re-guarantee services to 16 regional KCGFs. These 16 regional KCGFs are to enable promising micro and SMEs to obtain external financing from various types of financial institutions without tangible collaterals and to utilize management consulting services to complement poor technologies and managerial skills.

**Table 3-9 | Amount of Credit Guarantee and Beneficiary**

[Unit: trillion won]

	2000	2001	2002	2003	2004	2005	2006
KODIT	20.2 259,405	23.2 272,019	25.6 267,494	28.3 270,886	30.5 252,544	29.1 223,430	28.5 203,512
KIBO	12.4 74,215	13.7 80,641	14.1 89,159	14.4 100,363	13.3 80,685	11.5 67,642	11.1 51,659
16 KCGF	1.0 29,867	1.5 50,076	1.9 70,023	2.3 89,347	2.6 99,688	3.4 136,228	4.0 164,386

Source: SMBA

According to above table, three credit guarantee organizations have provided 43.7 trillion won for 419,557 businesses as of 2006. However, the total amount of credit guarantee decreased because IMF and OECD recommended that Korea should curtail its total volume of the credit guarantee to the level of Taiwan. In accordance with the recommendations, the Korean government tried to decrease its level by 1 trillion won each year.

## 3.2. Direct Financing for SMEs

### 〈Introduction〉

The financial system brings together savers and borrowers. In direct financing through financial markets such as stock market and bond market, individual savers hold the claims individual borrowers issue. Financial market includes primary markets in which claims are newly issued and secondary markets in which already outstanding claims are traded. In Korea, there are three different markets for direct financing such as Stock market, KOSDAQ (Korea



Securities Dealers Association Automated Quotation), market for promising venture and SMEs as well as Freeboard market which has played a central role in providing capital for the rapid modernization of the Korean economy since 2005.

### 〈Stock market〉

The Korean stock market was introduced in 1956 with 12 listed companies. During its early periods, it only played a role as the government bond market and the level of stock trading was insignificant. However, since mid 1960s, the Korean stock market has grown rapidly, owing to a series of government actions for the development of capital market and encouragement of privately owned company to go public. With the development of the stock market, since early 1980s, the Korean stock market has been gradually open to foreign investors and in 1998, the restriction on ownership of shares by foreigners was totally eliminated.

**Table 3-10 | Key Statistics on the Stock Market Division**

Year	No. of listed companies	No. of listed issues	No. of listed shares	Capital stock listed	Market capitalization	Daily trading value
2000	704	902	19,639	84,930	188,041	2,602
2001	689	884	19,578	82,755	255,850	1,997
2002	683	861	26,463	109,786	258,680	3,041
2003	684	856	23,662	87,941	355,362	2,216
2004	683	844	23,427	85,518	412,588	2,232
2005	702	858	23,236	80,587	655,075	3,158
2006	731	885	24,960	82,945	704,587	3,435
2007	745	906	28,238	85,589	951,900	5,540

Source: Korea Securities Dealers Association (2008), Unit=KRW billion, Million shares

### 〈KOSDAQ Market〉

Since its introduction on July 1st, 1996, KOSDAQ market has achieved marvelous growth in a short period of time on the support of the government's promotional policies for ventures and SMEs. KOSDAQ has two major functions: to serve as a capital market supplying long-term funds for both technology-based SMEs and venture businesses and to serve as an investment market offering investor high-risk high-return opportunities. On the basis of these roles, it is highly recognized as pivotal vehicle for industries in developing state-of-art technologies.

**Table 3-11 | Key Statistics for KOSDAQ**

(Unit=billion won, million shares)

Year	No of issues	Total capital stock	Total outstanding share	Market capitalization	Trading volume	Trading value
2003	879	13,448	12,129	37,375	100,837	266,402
2004	890	12,325	12,175	31,149	71,442	155,705
2005	918	12,878	14,051	70,898	148,890	446,378
2006	975	13,028	16,601	72,137	134,050	427,504
2007	1,034	14,294	19,555	99,979	151,255	500,752

Source: Korea Securities Dealers Association (2008)

### 〈Freeboard market〉

In July 2005, the Freeboard Market was re-launched over-the-counter bulletin board (OTCBB). It enables stocks not listed on the KRX (Korea Exchange) to list for the majority of technology and start-up companies. Freeboard facilitates the financing of businesses that are not listed on the KRX by utilizing relaxed market regulations and listing, disclosure and other requirements.<sup>3</sup> This system allows the market to provide liquidity for stocks firms that are unable to satisfy the listing requirements and for stocks that have been delisted from the KRX. Freeboard is an organized and systemic over-the-counter market with a supporting legal infrastructure and is differentiated from the OTCBB. The KSDA (Korea Securities Dealers Association) takes charge of the listing and delisting of such stocks.

**Table 3-12 | Listed Companies on FreeBoard**

(unit: thousand shares, KRW million)

Category	No. of Issuers	No. of Issues	No. of Listed Shares	Capital stock	Market Cap.
Venture	22	24	119,985	56,778	229,186
Ordinary	32	34	197,878	179,992	228,187
Total	54	58	317,863	236,770	457,373

Source: Korea Securities Dealers Association (2008) [pp.146], Note: As of December 31, 2007

## 〈Performance of the direct financing〉

The KOSDAQ market and Freeboard market play an essential role for the innovation-oriented and technology-based SME financing. In Korea, SMEs using direct financing amount to very little number even though they are very promising and competitive in their fields.

**Table 3-13 | Performance of Direct financing for SMEs (billion Won)**

Category	2002	2003	2004	2005	2006
Stocks	2,379 (25.7)	2,474 (22.3)	1,770 (21.4)	2,988 (44.2)	2,785 (42.8)
Bonds	418 (1.8)	88 (0.5)	97 (0.4)	224 (1.1)	196 (1.1)
Total	2,797 (8.4)	2,563 (8.7)	1,868 (5.4)	3,213 (11.1)	2,981 (12.6)

Source: Financial supervisory service, press release

According to table above, the bond market has not been good for SMEs financing and is on the downward trend. However, the stock market is rebounding after hard time of venture boom and burst in early 2000s owing to moral hazard and adverse selection resulting from asymmetric information. Comparing to indirect financing, direct financing is negligible and insignificant now but the Korean government is trying to develop the stock market and enable the Korean IB(Investment Bank) to be recognized as a global player by enacting ‘Financial Investment Services and Capital Market Act’ coming into effect in 2009.

## 4. Financial Recommendations for SMEs and Technology-based Firms

### 4.1. Strategic Framework

#### 〈Objectives to be achieved〉

SMEs in Ghana have difficulties in getting financing due to a high lending rate and lack of funds from banks. The main reasons of these problems are rooted in the limited credit supply capability and explosive demand which has resulted in insufficient financing for micro and small technology-based SMEs.

In SME financing, there might be credit rationing because of asymmetric information. In this condition, lenders are reluctant to make loans even though borrowers are willing to pay the stated interest rate or even higher interest rate. Credit rationing has two forms. First, even if a borrower is willing to pay higher interest rate, a lender refuses to make a loan of any amount to a borrower. Second, a lender tries to make a loan but is willing to provide less than the amount the borrower wants. This credit rationing demolishes whole financial system for businesses financing so Stiglitz and Weiss (1981) described this as backward bending supply curve. This situation can be mitigated by policy funds and credit guarantee by extending the turning point in backward bending supply curve (Jaepil Park and Jaeho Jeong, 2007, 97).

The goal of SME financing is to build up a strong Ghanaian foundation and system for the development and sustainable growth of innovative and technology-based SMEs. This work will be based on the reputed Korean development strategy for SME financing.

The overall objectives of SME financing are:

- To increase the capability of external financing provisions;
- To set up the infrastructure dealing with asymmetric information.

### 〈Conceptual Framework〉

The two objectives in the preceding section should be followed by two strategies. These are:

- Improving the SME financing capability by strengthening direct and indirect financing system;
- Introducing infrastructure such as National Credit Bureau (NCB) and relationship banking for SME financing.

These two strategies are highly related with each other but improving the capability of SME financing is the main strategy because the Ghanaian credit pipelines such as bank, stock and bond markets are not sufficient to nurture and motivate world-class innovative and technology-based SMEs. However, an important step is to create a SME friendly financing system and it will serve as a foundation for world-class SMEs which could play the role in transforming Ghana into a more developed economy. With the restructuring of the financing system, infrastructure is another core strategy for development of the Ghanaian SMEs in which asymmetric information, known as financing preventative is prevailing. To cope with asymmetric information, the Ghanaian government and financial authority is to delve into the current financing limitations and suggest solutions such as NCB, public information gathering system and relationship banking for SMEs.

## 4.2. Improving Direct Financing Systems for SMEs

When discussing the suitability of financial support to firms by the scale of firm size and existence of technology, it is argued that equity financing is appropriate for large firms or SMEs based on technology-innovation, while debt financing is particularly suitable for SMEs based on traditional industry with a low risk. Although the level of financial development differs around the world, finance is a key of economic development of each country.

In that case what should the Ghanaian government do to promote financial development? First of all, the government should maintain the stability of macro-economy of Ghana and set up a strong legal infrastructure. The former provides market participants with predictability related to investment and performance of firms needed for financial development. The latter contributes not only to a customer's protection but also to the construction of credit between financial transactions.

Second, the government should make a switch from creating powerful regulators to empowering the financial market. As it has been shown, powerful regulators in underdeveloped countries are inclined to fall into corruption and interferences through political aims that are contradictory to market requirements. Empowering the market entails enforcing fully and timely information disclosure that is necessary for monitoring by market.

Focusing on equity financing for SMEs, the following recommendations are offered for government action.

Recommendation 1: Ghana should expand scope and scale of economies on the GSE.

The policy instruments to attain its purpose are to have new firms listed on the GSE through lowering entry barriers. This measurement may be helpful for corporate financing and external expansion of stock market. Also, it plays a role in reducing the average operating cost of the GSE and increasing the trading volume.

Recommendation 2: Ghana should take actions for market transparency and investor protection.

This measure includes the reinforcement of announcements by listed companies, the tight monitoring role by regulators, and the enhancement of self-regulation by the GSE as a SRO (Self Regulating Organization). Market transparency will contribute to the increase of trading and reduction of transaction cost, which is due to narrower bid-ask spreads. Furthermore, this measure is an essential infrastructure. It will need to be strengthened if the capital market is to function well.

**Recommendation 3:** Ghana should consider separate trading sessions for large firms and venture firms in coping with listing of venture firms or technology based SMEs.

This measure is to facilitate financing from securities market for technology based firms that are inferior to performance compared to large firms. This case is found in most stock exchanges around the world, which have the Technology Market known as the ‘New Market’ like Nasdaq in U.S., AIM in U.K., and KOSDAQ in Korea. When the scale of market is considered, the construction for separate session within the scope of existing GSE is preferable to establishment of independent New Market. More importantly, this measure helps investors and entrepreneurs attract interests for venture firms and IPOs of their firms in future.

**Recommendation 4:** The standards of entry barrier and the requirements of delisting for technology-based firms should be applied differently to large firms or traditional SMEs.

This recommendation is founded on the characteristic of technology-based firms with high risk and high return. As in most countries, it is necessary for Ghana to lower the standards of entry barrier and to ease requirements of delisting for technology based firms compared to large firms or traditional SMEs, which have lower risk than technology based firms. This measure will contribute to the activation of VCTF and VCF because they are able to easily go public on the GSE. Actually, IPOs are one of main exit types of venture capital investment. Furthermore, it may contribute the market development by providing potential listing firms with capital market.

**Recommendation 5:** Ghana should make an effort to bring along talented financial specialists capable of risk management in coping with market and credit risk due to a sudden drop of financial asset price.

This measure will be helpful for securing domestic financial market from internal liquidity or credit risk. It may be one of infrastructure needed to prepare for the global risk exposure because under financial globalization financial instability may ignite withdrawal of deposits and lead to credit crunch in the economy. If such a risk is appropriately managed and controlled, many financial instruments will be designed and created in the financial market (e.g., ABS (Asset Based Securities), ELD(Equity Linked Deposit, and ELS (Equity Linked Securities), etc.). Therefore, it may contribute to expanding the availability of diverse financial services to clients (e.g., household, firms, etc).

**Recommendation 6:** The government should raise its government fund and make efforts to expand exit market for activating the venture capital market.

This measure is very important as shown in Korea. The Korean government introduced the

Venture Firm Development Act in 1997 to support equity financing for venture firms by venture capital. Also, it has established the new market that is largely listed by venture firms, called 'KOSDAQ Market', which is developed as a market followed by Nasdaq market with dollar volume. Recently, the Korean government raised a US \$1billion fund to invest in private venture capital funds. Due to these factors, the Korean venture capital market continues to grow.

**Recommendation 7: The government should arrange for pension fund plan in future.**

This measure contributes not only in provision for old age but also in development of capital markets. When considering economic affairs, such a plan may be shown to be unrealistic. However, it deserves consideration with a future-based thought. As cases in more advanced economies show, pension funds have a close relationship with financial development. As shown in section 1.1, financial development plays an important role in economic development. Particularly, this pension system will, also, make a contribution to the commitment of venture capital fund as well as the formation of long-run buy-and-holding group of shares as major institutional investor in the domestic stock market. Although this measurement is not imperative to act now, it needs to be painted a bright picture for future not to be late.

**Recommendation 8: Ghana should keep on privatizing the state-owned enterprises.**

This measure is meant to achieve financial development, diversity of ownership, and improvement of corporate governance. Stock markets can be used as mechanism for privatization of state-owned enterprises. This measurement, also, contributes to expand the scale of the GSE by increasing listed firms. When considering lack of domestic capital, it is very useful device to bring in foreign capital.

### 4.3. Improving Indirect Financing Systems for SMEs

**Recommendation 9: Expanding the lending capability of the banks**

The banking system is the most important source of credit for SMEs in all over the world. In Korea, the amount of bank loan is over 100 times bigger than that of direct financing as of 2006 and this phenomenon is a universal distinction even in the United States which is known to have capital market oriented system. In Ghana, the banking system is the credit provider for LE (Large Enterprises) and some of the best SMEs, but not for the ordinary SMEs. In fact, the banking industry is the most conservative financing sector because it borrows credit from the depositors and lends it to businesses with various spectrums of credit level, maturity, budget and usage of funds. However, in case of default, bank should take all the responsibilities of their

deposits meaning principals and interests. In such situations of extreme information asymmetry, banks become too picky in the process of selecting borrowers by using credit scoring system and collateral securing principal and interest rate.

To expand the lending capability of banks, the government borrowing from the bank should be curtailed because this situation is to decrease available funds for enterprise and household lending and is to deteriorate the bank profit or credit scoring ability in the long run. If the government could have other sources of funds, then domestic funds should be channeled into SME or LE financing for economic revitalization and growth by avoiding crowding out effect.

In addition to the government borrowing, (high interest lending rate and) negative real deposit rate is another obstacle to the bank loan. In Ghana, real interest rate is minus because of the high inflation rate and low nominal deposit rate. According to Fisher equation, nominal interest rate is sum of the real interest rate and inflation rate but in Ghana, inflation rate is around 15% and nominal interest rate is just around 10% in which real interest rate is -5%. In case of minus real interest rate, would-be depositors should lose purchasing power of money in the end of the maturity and will invest in real assets such as houses, lands, crops and raw materials to deal with the high inflation rate.

To get out of this situation, the government should adjust nominal interest rate into positive by curbing inflation rate via medium term inflation targeting and propping up the nominal interest rate which means depositors will not lose their money any more. In order to fight against inflation, central bank independence is highly required to pursue a goal of low inflation because of the result shown by Alberto Alesina and Lawrence Summers (1993). In the long run, the funds from savers could be used as the productive resources for businesses and the engine for economic development in the process of strong anti-inflationary policy by the government.

#### **Recommendation 10: Lessening the reserve requirement ratio**

Financial authority regulation like reserve requirement ratio is considered another obstacle against funds for SME lending. In Ghana, reserve requirement ratio for rural and community bank was about 60% before 2005.

Reserve requirement is a powerful regulation that makes it obligatory for depository institutions to keep a certain fraction of their deposits in accounts with the central bank. A rise in reserve requirement reduces the amount of deposits that can be supported by a given level of monetary base and will lead to a contraction of the money supply. Conversely, a decline in reserve requirements leads to an expansion of the money supply because of multiple deposit creation.



**Table 3-14 | Reserve Requirement Ratios in Korea (as of the end of 2007)**

Types of deposits		Ratio
Domestic currency deposit	Demand deposit	7%
	Time & savings deposits, CDs	2%
	Special purpose deposits	0%
Foreign currency deposits	Resident deposits	2-7%
	Non-resident deposits	1%

Source: The bank of Korea (2007)

According to the table above, reserve requirement ratios could be used efficiently in order to adjust the liquidity condition of the Ghanaian economy. Especially for domestic currency, the ratios might be based on the possibility of the bank run or liquidity conditions which the central bank usually monitors for inflation control.

The Bank of Ghana had pretty high reserve requirement including primary and secondary reserve requirements. BOG reduced the secondary reserve requirement from 35% to 15% and abolished the requirement on the banks to hold 15% of deposits in the form of medium term securities in 2005. BOG also abolished secondary reserve requirement with effect from August 1, 2006 but the primary reserve requirement continues to be 9 percent against domestic currency deposits and nine percent against foreign currency deposits. Reduction in the ratio of reserve requirement will enhance liquidity condition in the financial market while competition in the banking industry will induce the entry of new banks. Consequently, the Ghanaian authority ought to direct the monetary policy such as reserve requirement to contain inflation pressure under an appropriate level. However, in the long run, the shortage of liquidity will slow down the economy and the profit of banking industry will be deteriorated due to the high cost of reserves.

### Recommendation 11: Increasing credit guarantee accessibility

The Ghanaian credit guarantee system for SMEs is not fully developed because of the shortage of funds and indecisive government policy. For the time being, to channel adequate credit to innovative and technology-based SMEs, credit guarantee is the best effective measure to strengthen poor credit and to provide sufficient amount of funds at the right time. Such loan guarantees are analogous to insurance because the lender and the private financial institution are not harmed in case of defaults.

The advantages of this measure are:

- SME vitalizing policy;

- Minimum government intervention;
- Policy objectives attainable - selection and concentration;
- Market creation for SME financing.

The credit guarantee is to revitalize indirect financing by making the loan obligations securable to some extent by the government guarantee and to enable policy objectives to be attainable on the basis of the selection and concentration on specific industries. In the long run, these efforts have a chance to create private SME financing market that was impossible without the government interruptions. However, overly generous loan guarantees encourage moral hazard problem which means that private financial institutions will not be as careful in screening and monitoring the borrowers in the presence of credit guarantees. In order to avoid such moral hazard, partial credit guarantee scheme should be introduced by sharing the credit risk between credit guarantee organizations (government) and individual financial intermediaries.

#### Recommendation 12: Provision of efficient policy funding systems

Founded on the governmental industry policy, the government might rely on direct and indirect policy funds for SMEs. This program is to complement private financial market in order to develop a certain part of industry shortly with the synergy of half interrupted credit guarantee and is to specialize in market failure areas. However, policy funding should be executed on the fair procedures without the political figures' influences and corruptions with uncompetitive SMEs.

If transparent processes of policy fund for competitive and promising SMEs are attainable, then these credit provisions are so powerful that specific industry or businesses can achieve comparative advantages in domestic and the world market.

## 4.4. Infrastructure for SME Financing

#### Recommendation 13: Introduction of National Credit Bureau (NCB):

The National credit bureau plays an essential role in controlling asymmetric information with the underdeveloped financing systems which in general, collect, save, produce and analyze the credit level of prospective borrowers in the market. In economy, information is a kind of a public good that should be under-produced in the private information market comparing to the optimum level because of free-rider problem. At the same time, production of information is so costly that for the time being, the government should support this business because of the market failure of information industry. In doing this, information cost is a very important factor

because banks could reduce it by gathering information about borrowers in the process of demand or saving deposits and prior repayments of loans. Based on the information cost, bank loans are the dominant method of external financing for SMEs.

The advantages of the NCB are:

- Efficient information collection and production at low cost;
- Transparent accounting system;
- Self credit check and management;
- Development of financing sector on credit-based transactions.

With the introduction of the NCB, public information gathering system is also required. Public information is very predictable and statistically significant variable for banks and non-bank institutions to evaluate future insolvency of individual firms. Nevertheless, there is one barrier, like privacy act that the government might face and overcome in the end.

With public information gathering system, national credit bureau can mitigate asymmetric information which results in adverse selection in ex-ante and moral hazard in ex-post. A country like Ghana severely faces these problems which break down the entire financial systems. In order to recover the financing sector, the level of asymmetric information should be controlled by governmental interruptions like NCB.

#### **Recommendation 14: Relationship banking of rural and community banks (RCB)**

To get information about a borrower is through long term relationship, another principal of risk management which is rooted in asymmetric information. If a prospective borrower has a long term relationship with banks, then the balances in the checking or savings accounts or other loans with the bank can tell how liquid potential the borrower is. Thus long term customer relationship saves the cost of information collection and makes it easier to screen out bad or dishonest borrower from the whole applicants for loans.

To accelerate SME development in Ghana, the closer ties between businesses and RCB might be beneficial for channeling credit into specific businesses based on the long term business plan and industry cycle as Japan, Germany and Korea did. At the same time, the customer also obtains credit at a lower transaction cost, with less collateral and with higher possibility of credit accessibility. In this process, the borrower who wants long term relationship, will not default or violate signed covenants in loan agreements.

In Korea, some financial institutions like the seven local banks and thousands of non-bank depository institutions such as credit institutions, mutual savings banks, and merchant banking corporations, are founded on long term relationship banking as a complementary banking and

non-banking system for national banks. In Ghana, to overcome asymmetric information, sources of adverse selection and moral hazard, long term relationship banking is one of the solutions for the banking industry development for SME start-ups and their sustainable growth.

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## Human Resources Development and Systems of Fostering SMEs

### Summary

- 1\_ Human Resources Development in Ghana
- 2\_ Systems of Fostering Small and Medium Enterprises



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### Human Resources Development in Ghana

Since Ghana is a young country, the possibility of increasing the manpower is remarkably high. But the problem is how to educate the Ghanaian people. Lowering the illiteracy rate is an extremely important problem. Enforcing compulsory education becomes a crucial policy. The Ghanaian government should put her great efforts in the crusade against illiteracy and in improving educational facilities. For technical education, the Ghanaian government should foster special and technical manpower for each industrial field. In the initial stage of economic development, concentrating investment on the industrial fields related to gold, cocoa, and bio-energy should be considered. The Ghanaian government has to support these industries in order to become the world's best in the aspects of technology as well as the skill level of technicians. The Ghanaian government should also consider setting up petrochemical industry if Ghana produces considerable amount of crude oil. Besides such industries, there are many other industries in Ghana to develop. The Ghanaian government, therefore, has to bring up the special technical manpower through technical education one by one. It is certain that Ghana, a country with abundant natural resources, is able to become a rich country if and only if Ghana fosters her human capital well.

### Systems of Fostering SMEs

The national destiny of underdeveloped countries depends on the promotion of SMEs. This is the reason why the Ghanaian government has to do her best to bring up SMEs. Enacting laws and establishing systems, providing encouragement with prizes, and arranging industries are main policies that the Ghanaian government has to employ. As an example of succeeding in SME policies, the Korean experiences on how the Korean government had brought up SMEs

were presented. The stories on how to strengthen the executive organizations of policies, how to win the cooperation of civilian organizations, how to create and operate policy funds, how to establish and to utilize the SME bank, how to solve the technical manpower shortage, how to select SME companies to be brought up, how to promote home industries, and why the Korean government opened many exhibitions were discussed. The policies that succeeded in Korea ought to succeed in Ghana as well because even though the world has changed dramatically, the principle policies of promoting SMEs do not change. Ghana has many potential industries with international competitiveness. If the Ghanaian government selects one or two industries and supports them intensively every year, the Ghanaian SMEs will start to grow. While the policies for fostering SMEs continue, Ghana will get rid of poverty and become one of the richest countries before anybody realizes it.

# Human Resources Development and Systems of Fostering SMEs

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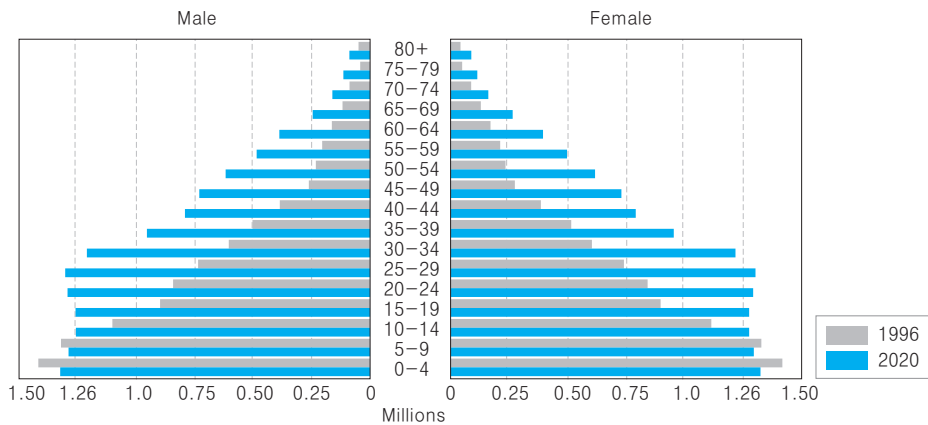
## 1. Human Resources Development in Ghana

### 1.1. Introduction

Human resources in any country are built up through the educational system of the country. And the educated human resources take the pivotal role of solving problems on how to survive in a given territory, protecting the country, and seeking the national prosperity by launching industries. Thus, whether or not one country is a developed country depends on the educational system of the country. On the other hand, the economy of any given country grows as the demand for technological and skilled labor force increases, and evolves by filling the increased labor demand and by creating the demand for new labor forces.

Given the importance of the human resources, following graph demonstrates the current situation of manpower in Ghana. In the situation in which the rate of illiteracy reaches almost 50% of the total population, it is noted that the Ghanaian government, first of all, should reduce the illiteracy rate down to 1 digit level. Countries that succeeded in solving the illiteracy problem are discussed. On the compulsory education system, the necessities of the Ghanaian government's strong will power and sufficient amount of investment money are mentioned. And the importance and the purposes of technical education are considered. Views by each industrial field of the Ghanaian economy and the importance of fostering research and technical manpower are stated.

**Figure 4-1 | Population of Ghana by Age and Sex: 1996 and 2020**



Source: U.S. Bureau of the Census, IPC, International Data base.

## 1.2. Current Situation of Ghana’s Manpower

The population of Ghana that reached 23 million in 2008 has the young age structure as shown.<sup>1</sup> In other words, the group of people under the age of 24 is more than half, but the old age group over 60 is less than 8% of the total population.<sup>2</sup> What should the Ghanaian government do to put her efforts for the economic development under such population? Certainly, it should be education. But the most serious educational problem faced by Ghana is the fact that almost of the half of the total population is illiterate.<sup>3</sup> This means that the half of the total population does not receive any benefit from education and Ghana loses half the human resources that Ghana has to offer. So, it is the national movement of the crusade against illiteracy that the Ghanaian government should undertake before attempting anything else for the human resource development.

Regarding education as an important sector, the Ghanaian government invested 22% of the

1. According to the census in 2000, the population aged above 65 is only 5.2% of the total and that below 24 is more than half (59%) of the total.
2. See Table 1.3: Population by age and sex, 1960-2000, pp.14, Population Data Analysis Report, Volume 2, Policy Implications of Population Trends.
3. The illiterate rate of the age group over 15 is 42.1%, the percentage of the people who can read and write their mother tongue and English is 38.1% of the total population. The illiterate rate at the regions of Northern, Upper East, Upper West is over 70%. In these areas there is no education at all. See Table 4.10 Literacy Rates of Adult Population (15 years and older) by Region, pp. 208, Population Data Analysis Report, Volume 2, Policy Implications of Population Trends.

total fund of public finance into education for more than 10 years.<sup>4</sup> But in reality even the basic education in Ghana is not conducted well. The reason is that most families, due to poverty, send their children to workplaces or let them take care of household affairs instead of sending them to schools.<sup>5</sup> In fact, how could any family that has no means of livelihood send their children to schools? Therefore, the Ghanaian government needs to note the fact that the national education can be conducted well if the people's income is raised and the labor productivity of enterprises is improved through education. The Ghanaian government has to make consistent efforts to enhance basic education and at the same time foster enterprises through industrial policies.<sup>6</sup>

How can the economic development be sought with massive illiterate population? The Ghanaian government should immediately start the national movement of the crusade against illiteracy.

According to the distributional structure of population by age, the 8.8 million people, 37.8% of total population, belong to the age group of less than 14, and more than 60% among them belong to the age group of between 6 and 14. However, the reality is that 31.2% of the total children aged 6 do not enroll in primary schools at all.<sup>7</sup> Roughly estimated number of 112,000 children is added to the illiterate population every year. Thus, the movement of the crusade against illiteracy should start to raise the rate of school enrollment of the children with the age of 6. This is because the mass production of illiterate people should be blocked fundamentally. For this purpose, the Ghanaian government should strongly enforce the Compulsory Education Act. For example, the parents who violate the law should be punished with fines or imprisonment.<sup>8</sup> In conclusion, the Ghanaian government should have a lot of will power to ensure that at least the compulsory education comes into force.

4. The percentage of central government expenditure allocated to education during 1995-2005 was on average 22%. See [http://www.unicef.org/infobycountry/ghana\\_statistics.html#42](http://www.unicef.org/infobycountry/ghana_statistics.html#42).

5. Many children could not even enroll in schools or give up their studies due to the burden of education even under the free education, going to workplaces, taking care of household affairs, diseases, pregnancy, and so on. And there are lack of textbooks, teachers, and educational facilities in most rural areas. "The 2001 Child Labour Survey, however, recorded 22.2 per cent of children who had worked for pay, profit or family gain," pp. 106, Ghana, Population Data Analysis Report, Volume 1, Socio-Economic and Demographic Trends.

6. In 1960's in Korea, export industries became a boom under the basis of low labor cost. Many large-scale sewing factories were founded. They employed many young girls aged lower than 25. Under the advice of the Korean government, evening schools (junior and high schools) were established in the factories for the sake of their employees. Ghana should consider having large companies take care of the education of their employees.

7. The net enrollment ratio is 68.8%. See Table 7.3 Enrolment rates 2004/05-2005/06(%), pp. 171, "The State of the Ghanaian Economy in 2006," Institute of Statistical, Social and Economic Research (ISSER), Legon.

8. In Singapore, the 6 year course of primary school is operated with free of charge. Since 2003, the compulsory education act was put in force. Anybody who breaks this law is punished with the fine less than US \$ 5,000 or imprisonment of less than one year. In Ghana, if such a law with penalty is non-

After the compulsory education courses, it is needed that students are to be alluded to continue their educational career to enroll in the technical high schools with a number of practical classes. With abundant natural resources, if Ghana brings up human capital well, Ghana could get rid of her severe poverty and become one of the richest countries.

### 1.3. Movement of the Crusade against Illiteracy

#### 〈Introduction〉

Illiteracy goes along with poverty all the time. It is most important to reduce the rate of illiteracy if the Ghanaian government wants to overcome the poverty and develop her economy. The task of the crusade against illiteracy in Ghana with almost 10 million illiterate persons (9.8 million people, 42.1% of the total population) is by far more difficult than in any other countries because there is a forest of 79 languages in Ghana.<sup>9</sup> It is difficult especially because Ghana should keep and develop languages of tribes and at the same time teach English as a common language. Then how can the Ghanaian government conduct such a bi-lingual education? The followings are examples of success cases of various movements of the crusade against illiteracy.

#### 〈Successful Cases in the Crusade against Illiteracy〉

##### Russia

Most of the farmers in Russia thought it was of no use to send their children to school. At the time of the Russian revolution in 1917, half of the total population was not able to read or write letters at all. In 1920s, the communists asked teachers, college students, and young intellectuals to give farmers basic education. Since they worked free of charge, the nationwide exterminating illiteracy program did not burden heavily on the public finance. The communist government announced in the early 1930s that illiteracy in Russia was terminated after 5 years of effort. Since 1930s when Russia had passed the compulsory education law, the Russian government asked that all children reached the age to start primary education had to be sent to school. This law played a decisive role of popularizing education.<sup>10</sup>

existent, then the law should be established, if the law exists, then the Ghanaean government should strengthen and execute the law strictly. It is because the national education is above personal matter and is an important national task. [http://kosaworld.ismine.net/iss/view.php?&ss%5Bfc%5D=17&bbs\\_id=kosa&page=&doc\\_num=112](http://kosaworld.ismine.net/iss/view.php?&ss%5Bfc%5D=17&bbs_id=kosa&page=&doc_num=112)

9. See <https://www.cia.gov/library/publications/the-world-factbook/geos/gh.html> and [http://en.wikipedia.org/wiki/Languages\\_of\\_Ghana](http://en.wikipedia.org/wiki/Languages_of_Ghana).

10. <http://dailian.dailyink.com/read.php?cataId=nk04700&num=9481&opt=sub>.

## Korea

The rate of illiteracy was reached at 78% of the total population when Korea was liberated from the Japanese colonial rule on August 15th, 1945. Most of the people in Korea did not know how to read or write letters. After the liberation, the period of political chaos started, and next, the Korean War took place in 1950 that lasted 3 years. Even in these whirlpool periods, the Korean government conducted a program to fight illiteracy and reduced the rate down from 78% to 14% of the total population in 1954 when the war ended. Then after, through 5 iterations of the movement of terminating illiteracy (Ministry of Education, Ministry of Military, and Ministry of Internal Affairs conducted the illiteracy programs together), the Korean government reduced the rate down to 4%.<sup>11</sup> Since Korea uses a single language and has unique letters that are very easy to learn, the Korean government had conducted the movement of terminating illiteracy effectively.

## Cuba

In 1953, half of the Cuban children could not enter school at all. The rate of illiteracy reached 58% in urban and 77.4% in rural areas. Guerrillas led by Castro declared that “revolution and education are the same,” and started the movement of the crusade against illiteracy in 1960, one year later after the success in the Cuban revolution. In 1961, in less than 1 year, the center of the movement of the crusade against illiteracy reported that the rate of illiteracy was lowered to 3.9%. The movement of the crusade against illiteracy was started by recruiting 120,000 volunteers (mostly high school students) as instructors. Each young volunteer with several books and a lantern given by the Cuban government was sent to remote places and they taught farmers how to read and write. Being indebted to the young teachers who overcame all kinds of difficulties and conducted their mission faithfully, the Cuban government had succeed in reducing the illiteracy rate down to 1 digit within an astonishingly short period of time, which was less than 1 year.<sup>12</sup>

### 〈Ghanaian Movement of Crusade against Illiteracy〉

The Ghanaian government should solve illiteracy problem through developing the Ghanaian movement of crusade against illiteracy as a grand scale national movement as examples above. The movement should execute bi-lingual education in which English and mother tongue are taught. Starting with the languages of Akan tribe and Mole-Dagbon, which occupies 45% and 15% of the population respectively of the total population, should be taught with English, and

11. <http://220.72.21.13/pub/docu/kr/BB/AA/BBAA1990013/BBAA-1990-013-018.HTM>.

12. See “Spelling & Literacy in Cuba and Nicaragua,” <http://home.vicnet.net.au/~ozideas/whispanref.htm>, and “bicycling cuba 2000,” <http://www.bicyclingcuba.com/bikecuba/education.htm>.

then the languages of Ewe, Ga-Dangme, Guan, Gurma, Grusi, and many other tribes should be taught.<sup>13</sup>

Fortunately in Ghana, there is the GILLBT Literacy Program in which 3,000 volunteers (teachers, supporters, and others) are working on the illiteracy eradication campaign.<sup>14</sup> After developing the GILLBT Literacy Program, the Ghanaian government could extend the program as a grand campaign or build a new illiteracy eradication campaign fitted to the Ghanaian reality on the basis of the experiences obtained from the GILLBT Literacy Program which, the Ghanaian government then could execute nationwide.

In Cuba, high school students were selected and used as instructors. In Malaysia, the government asked young men and women to become volunteers of the campaign named “One day for Malaysia” and led them to join the national movement to eradicate illiteracy as instructors. From such good experiences of other countries, if the Ghanaian government can select the volunteers and use them as instructors, the movement of eradicating illiteracy can be conducted without taking the heavy burden of public finance.

On the other hand, it is advisable that village leaders are elected for each village to build a village hall where the residents can learn languages, arithmetics, computer, and some other needed subjects supported by the government. Through this village hall, the government can execute various kinds of national movements such as the movement of breaking down superstitions, the anti-drug movement, the movement of eliminating parasites, the movement of doing away of harmful and old customs and encouraging diligence and frugality; and various kinds of rural development projects such as the project of increasing incomes of farmers, the project of securing water for drinking and irrigation, the project of uplifting the rural society, the project of developing special products.<sup>15</sup> If long distance education is possible through TV and/or internet, the government could effectively provide residents with high quality educational services.

13. “The official language of Ghana is English. Nine languages have the status of government-sponsored languages: Akan, Dagaare/Wale, Dagbane, Dangme, Ewe, Ga, Gonja, Kasem and Nzema. Hausa is widely used as a lingua franca by Muslims in Ghana.” See [http://en.wikipedia.org/wiki/Languages\\_of\\_Ghana](http://en.wikipedia.org/wiki/Languages_of_Ghana).

14. It is impossible to eradicate the Ghanaian illiteracy problem under the private level activities, because of too much illiterate population of over 10 million people. About GILLBT Literacy Program, see [http://www.unesco.org/uii/literacyprogrammes/05\\_en.html](http://www.unesco.org/uii/literacyprogrammes/05_en.html).

15. Offices of rural government, churches, and schools could be used as their village halls. The village hall could be built according to the village circumstance. Of course, government supports are necessary. All kinds of nationwide movements could be easily conducted through TV and internet if long distance education is possible. The government has to provide the project of increasing incomes with incentives such as financial supports and awards.



## 1.4. Compulsory Education

The Ghanaian government should have the strong will power to fully execute the compulsory education system. In this information-oriented globalized world, how can Ghana compete against other countries with large portion of people who cannot read or write freely, and also cannot do simple math? Thus, it is necessary for the Ghanaian government to take special measures as the followg:

First, the Ghanaian government has to completely solve the problems of shortage of classrooms, instructors, and textbooks. Also, the Ghanaian government should execute the law of compulsory education and ask all children to take the courses of compulsory education;

Second, educational facilities of primary and junior high schools should be improved. Every school should have computer rooms with Internet lines and open classes of information science. For this purpose, the Ghanaian government should fully support the educational facilities of all schools;<sup>16</sup>

Third, the primary schools should focus on bi-lingual education so that the students do not lose their job opportunities due to the language problem. In junior high schools, schools should concentrate on mathematics and basic sciences. The quality of compulsory education should be guaranteed by the Ghanaian government;

Fourth, the Ghanaian government should guide students who do not go to senior high schools to take courses in vocational and/or technical schools first and then enter the labor market. In order to encourage students to go to technical high schools, the Ghanaian government should devise proper measures such as the exemption of military service found in Korea in 1970's.

## 1.5. Technical High School<sup>17</sup>

<Strengthening Technical Education>

In order to promote the Ghanaian economy, strengthening the technical education is needed

16. If the Ghanaian government thinks that there is no budget for this purpose, no way could be found. At this moment in the advanced countries, there are many cheap computers that are one generation behind. Ghana may buy them for educational purposes. Of course, high tech computers are also needed. The Ghanaian government may ask foreign aid organizations to join the project of modernizing educational facilities. If the Ghanaian government searches from all angles, a way will be found. First and foremost, the keen interest and the effort of the head of the state on this project are necessary.

first. The Korean government in the past changed the contents of the technical education from theory oriented training to practice oriented one, and strongly asked the rural self-governing bodies, state enterprises, and private corporations to establish technical schools. Since then, many technical high schools were built in rural areas. In the areas where there is no technical school at all, vocational training centers were built instead, and many technicians were fostered there. At that time, the top quality technical high school in East Asia was established where all of the students were given full scholarships for 3 years.

Moreover, with the purpose of elevating the morale of high school students, the Korean government introduced an incentive system of opening skill contests every year in which the winners were given national medals and large amount of cash rewards. Also, the opportunity to receive college education was given to them. The Korean government asked colleges and universities to assign 10% of their quotas of students to the technical school graduates. So they competed with themselves within 10% of total quotas. Special universities were established where only the technical school graduates were allowed to enter. In this way, the Korean government in the past raised the morale of the technical high school graduates. Moreover, the privilege of the exemption of military service was given to them too.

In Ghana, by introducing such a similar system as shown above and allowing privileges to the students of technical schools, the Ghanaian government has to give brilliant students motivation to go to technical schools. It is obvious that any nation grants privileges to the project of educating industrial leaders who will initiate the development of national economy.

### 〈Targets of Technical Education〉

The great importance of technical education in Ghana is beyond words. Now is the time to think about the quality of the technicians produced from the technical education system and the ratio of technicians is among the total population. The manpower needed in companies is high school graduates. If the Ghanaian government wants to develop her industries as well as her economy, the number of technical schools and the graduates of the schools should be increased.<sup>18</sup> In Germany, Italy, and many other European countries, the students going on to

17. Since the Ghanaian government well knows the problems in Ghana's technical and skill education system, they will be put out of question here. Apprenticeship system is a very good system. But this system in Ghana needs to be improved in many aspects. So, it is important to set up the system in which problems in apprenticeship are easily found and corrected or modified immediately. As usual, the correction and modification of the educational system can be realized only when the head of state pays keen interests all the time and has the will power to reform the system.

18. In 1990, the ratio of new students of technical schools among all the new students of high schools in Korea was only 7.7%. Korea left the Korean industries to only 7.7% of the new students. They were asked to make products and to feed the remainders 92.3% of people. Today, the reality of the deindustrialization of Korea seems to be related to the low ratio as found above.

technical high schools are more than half the total number of students going onto high schools.

There is no reason why Ghana cannot raise the ratio up to the level of the European countries. Also there is no reason why Ghana cannot bring up various kinds of technical manpower that fits the Ghanaian industrial policies. Therefore, it is advisable that the Ghanaian government sets up targets of technical education as follows; raise the ratio of new students who go onto technical high schools among total new students going onto high schools up to over 50% and to bring up various kinds of technicians to fit industrial policies of Ghana. When these targets are achieved, the foundation of human resources for the industrialization of the Ghanaian economy is completed.

## 1.6. Industrial Policies and Cultivating Technical Manpower<sup>19</sup>

In the age of information and globalization, the Ghanaian government can make Ghana, a country with rich natural resources, become a country as rich as the better off countries not only in Africa but also in other continents, if the Ghanaians are well educated. In any country, to make a country well off always starts with the development of industries and the pivotal role is taken by the technical manpower without exception. Then, what kind of industries should Ghana launch and how many technicians will Ghana train? Such questions can be answered when industrial policies of Ghana and the circumstances of each field of industries are fully understood. For the manpower of each field of industries, the institutes of research and education related to each field of industries should be able to estimate the manpower demand rationally. So, the Ghanaian government that strategically sets up industrial policies can devise a plan of demand supply of manpower for each field of industries in cooperation with these institutes. Then how does the Ghanaian government cultivate technical manpower for each field of industries in harmony with the industrial policies?

### 〈Mining Industry and industries related to Gold, Diamond, and Bauxite〉

Ghana is a country where natural resources such as gold, diamond, bauxite, and manganese are abundant. Thus, many fields of mining industry such as the fields of exploration, extraction, and treatment are well developed. But, how many Ghanaian technicians are working in the industry?<sup>20</sup> If the Ghanaian technicians in the key technical areas of these fields are very few,

19. There are some ideas not to be adjustable in the situation of Ghana. However, the Ghanaians may devise adjustable ones from them.

20. Since the mining industry extracts non-renewable natural resources, the Ghanaian government should not leave this important industry to foreign companies and foreign technicians forever. Someday, the Ghanaian corporations and the Ghanaian technicians should run this industry by Ghanaians themselves.

then foreigners will continuously run these important industries in the future. It is reasonable to say that the Ghanaian companies have to take over these fields of the mining industry in Ghana sooner or later. If this is true, the Ghanaian government should educate technicians of the mining industry. How many technicians should be brought up? Entrepreneurs who have worked long periods of time in these fields could estimate the figures. The Ghanaian government should devise and execute the plan of bringing up technical manpower according to the figures estimated by the entrepreneurs in each field and policies of mining industry set up by the Ghanaian government.

(Gold) Ghana exported 4.1 billion US dollars in 2007. The exported amount of gold was 1.6 billion US dollars, 40% of total amount of export. So, gold is the most important export item in Ghana. There are many gold related businesses such as businesses of exploring gold mines, extracting gold, refining gold, measuring fineness of gold, certificating gold products, and goldsmith businesses that the Ghanaian government should intensively promote. For this purpose, the Ghanaian government should have a plan to establish the world best special technical school related to gold and bring up top quality gold related technicians. Of course, the more of these businesses are developed, the more of the technicians are demanded.

(Diamond) If the production of diamond reaches a considerable amount, the Ghanaian government should start to promote diamond-cutting industries. These industries create highly added values and demand many top quality technicians. Thus, in order to reduce unemployment rate, the development of these industries is certainly needed. Since gold and diamond are produced in Ghana, there are more advantages to develop these industries together than otherwise.<sup>21</sup>

(Bauxite) Currently, Ghana exports bauxite and imports aluminum. Such a trade structure should be reformed. It is necessary for Ghana to promote mining industry related to exploration and collection of bauxite as well as the industries of aluminum refinery and injection aluminum molding. Since there is a possibility that a large aluminum market can be established in the African neighborhood of Ghana, this can be an important direction. The Ghanaian government, first of all, should consider setting up a research and educational institute related to various bauxite industries.<sup>22</sup>

21. Korea set up the petrochemical industry without any oil field, established an integrated steel mill without any iron mine. But in Ghana gold and diamond are produced.

22. Such a research and educational organization related to bauxite can be set up as a sub-organization of the national institute of science and technology established by Ghana government.

## 〈Petrochemical Industry〉

Once the Ghanaian government decides to build up the petrochemical industry, it should first establish the petrochemical research and education institute and bring up technical manpower demanded in petrochemical industries. If Ghana holds large amount of oil deposits and if the Ghanaians have the strong desire to bring up the petrochemical industry, there is nothing the Ghanaians should hesitate about? Is not there a big market nearby? On the creation of value added, selling petrochemical products belongs to a different level far from selling crude oil only. Ghana can be rich if this industry is well fostered.

## 〈Bio Energy Industry〉

With the oil price skyrocketing, the bio-energy industry becomes one of most important industries around the world. It has boundless potential where bio ethanol is produced from sugar cane and cassava, and bio diesel is produced from jatropha, camelina and rape. Since bio-energy products come from plants, this industry actually belongs to agriculture. As an agricultural industry, the bio-energy industry will be the largest source of African's income in the near future. Thus, it is strongly advisable that the Ghanaian government, keeping the potential of this industry in mind in all times, establishes research and educational institutes, concentrates all of her energy into the projects of plant breeding, spreading cultivation techniques, land development, and supporting farmers, educates technicians as many as demanded, and at the same time invests in bio-energy industry to the nation's fullest capacity. With this industry alone well developed, the Ghanaian government can solve the poverty problem, and enrich the country.

## 〈Industries related to Cocoa〉

In Ghana, agriculture is one of the most important industries, which employs more than 60 percent of the population and contributes to about 40 percent of the GDP. Many farmers engage in producing cocoa. Cocoa is Ghana's largest cash crop and Ghana is the world's second largest producer of cocoa. In 2007, the exportation of cocoa amounted 1,159.4 million US dollars, 28.1% of the total amount of export, which was the country's second largest export item after gold. Because gold is a non-renewable resource, Ghana should focus more on cocoa rather than gold as an export item.<sup>23</sup>

23. Thailand has the royal research institute that strategically supports farmers to cultivate rubber trees. When a farmer decides to start a rubber farm in some area, the institute cultivates the indicated land and plants the rubber trees there without collecting any fee from the farmer. Seven years later, the farmer starts extracting sap from the trees and after twenty years of extraction he cuts and sells the trees. The income totally goes to the farmer. With this policy, Thailand enjoys the leading cultivator of rubber trees

Although Ghana's cocoa production volume is less than that of Cote d'Ivoire, its quality is well known as the world's best. In spite of this reputation, Ghana exports most of cocoa beans and does not have substantive industrial output such as chocolate. The Ghanaian government needs to make a strategic policy to develop the cocoa industry as the world's best industry. To do this, the government should establish cocoa research and training centers first to support the industry and bring up many skilled experts who will lead the world cocoa industry.<sup>24</sup> The cocoa industry is certainly vital for reducing poverty in Ghana.

### 〈Industries related Forest Resources〉

Ghana's timber export amounted 237.5 million US dollars, 5.7 percent of the total export in 2007. The timber industry is one of the Ghana's core industries. As Ghana is in the tropics, there are many good trees like ebony and other trees being used as raw materials for medicine or cosmetics which have unlimited potential if they are developed properly. Research and education institutes specialized in forest resources ought to be established, and researchers and technicians in these fields have to be fostered. It has considerable worth for Ghana to develop these industries related to forest resources as the Ghanaian bio industries.

### 〈Fishery Industry〉

The Gulf of Guinea, the Volta Lake and the Volta River are rich in marine resources. The fishing industry provides various businesses including deep-sea fishery, inshore fishery, fish farming, and fish processing. It also creates many employment opportunities. Considering the great potential of this industry, it is recommended to establish a research and education institution to produce specialists and technicians in the fishery industry.

### 〈Apparel and Textile Industry and Culture〉

The apparel and textile industry creates a lot of jobs in its nature. The Ghanaian government can develop this industry in order to lower the unemployment rate. The Ghanaian government should look at the important fact that the traditional garment industry in which culture and history of the nation are reflected has international competitiveness. For example, the Kente in geometric shape woven by the Akan and the Ewe is Ghanaian's special weaving. The Kente fabric dole with meaning of wealth, the dole carrying baby on its back usually kept by the

in the world. This policy can be considered by the Ghanaian government to aggressively develop the cocoa industry.

24. The Stanford University has been the source of leading the IT industry in the world and laid a cornerstone for the creation of the Silicon Valley. Ghana should realize the importance of research and education and utilize the research and education institutions for economic development.

Ghanaian ladies who want to bear a handsome and healthy child and many others show the Ghana's traditional cultures. The colorful clothes made by Kente fabric are the clothes that the Ghanaians wear whenever they are happy. These traditional products have to be preserved and promoted as Ghana's cultural products in the world of globalization. Of course, the Ghanaian traditional culture is hard to be preserved due to the wide diversity in their cultures found in 79 different ethnic groups in Ghana. However, the preservation and the development of all of their traditional cultures are definitely needed. The Ghanaian government, no matter how big the cost is, should carry out the project by establishing the national institute of research and education for traditional cultures and by educating specialists of traditional cultures. The Ghanaian government should keep in mind that cultures in any country are likely to become limitless international competitiveness of the country that holds the cultures.

### 〈Food Industry〉

The Ghanaian government may take into consideration that the food industry has to be converted to an export one because food industry is one of cultural industries where foreigners cannot compete with Ghanaians. In order to globalize the Ghanaian traditional food, institutes of Ghanaian food research and education are needed. These institutes are asked to produce many top-level cooks who master Ghanaian dishes. The Ghanaian government may consider introducing a system of national cook examination with the purpose of leveling up Ghanaian hands at cookery.

### 〈Medical, Pharmaceutical and Cosmetic Industries〉

The Ghanaian government must take responsibility for the public health. Especially for prevention and control of major diseases like malaria, yellow fever, typhoid fever, hepatitis and Guinea worm diseases, the Ghanaian government should undertake reliable measures. The government should establish public health centers in every district throughout the country that takes responsibility for sanitation and public health in their sphere of jurisdiction.

The Ghanaian government has to educate the manpower of public hygiene by establishing medical universities and nursing schools. Public education, educating exercise to the public, and controlling the water resources for public sanitation are essentially needed in order to improve public health. All these national tasks could be executed by trained specialists.

On the other hand, the development of pharmaceutical industry is necessary for Ghana. Under the government support, national research institute of medicines ought to be established. Then, they should be asked to produce medicines that Ghana needs but private companies do not produce, to test the safety and the effects of new medicines, and of course, to educate research and technical manpower needed in this industry.

In addition, the Ghanaian government can consider promoting the cosmetic industry which is high value added. Ghana can develop her native cosmetics in this industry. For example, the Shea nut butter that has been traditionally used by Ghanaians as skin moisturizer can be made as a cosmetic to be sold worldwide after scientific studies, tests and verification of the effect of each product. A research institute of cosmetics can be established to perform these tasks.

### 〈Construction Industry〉

The lumber industry is an important industry that occupies 15% to 20% of the GDP. The Ghanaian government must foster this industry in order to solve the unemployment problem and to maintain the land. In order to achieve this, the Ghanaian government should install an educational institute for construction and produce construction technical human resources.

Since the lumber resource is abundant in Ghana, to promote the wooden house industry will be one of the most important policies of this industry. Once the industry of building timber houses is activated, there will be a large scale of demand for labor. In this case, special caution should be paid so that the foreign construction companies do not occupy the Ghanaian construction market. This problem can be partly prevented by bringing up the construction manpower. The Ghanaian government should develop a system to produce standardized timbers and sell them to the international markets. Whenever any foreign construction company wants to work in Ghana, the Ghanaian government needs to set up a law requiring the foreign company to employ the Ghanaian workers more than certain level of total employment. Needless to say, an educational institute for construction techniques should be established to bring up construction technicians.

### 〈Art and Culture Industry〉

The potential in the development of the art and culture industry such as painting, sculpturing, music, dancing, movie, and many other fields is boundless. This potential should not be underestimated. The Ghanaian government should build up art colleges in every district where many talented artists are to be brought up.

At the same time the government has to take the art promotion measures such as setting up the so-called Ghana culture and arts foundation, opening various kinds of art exhibitions, dancing and music contests, movie festivals, and so on to scout for and bring up artists. Nowadays, the movie production is possible without paying a big amount of money due to the development of electronics technology.

Also, it should be considered that the Ghanaians are able to have international competitiveness in the production of films showing the Ghanaian ecosystem and/or various



Ghanaian cultures. With these reasons, it is advisable to set up colleges specialized in the movie production in which many special technicians as well as movie stars are to be trained and educated. The potential of this field should not be underestimated. Since the fields related to traditional culture and native arts are the peculiar areas to Ghanaians, no foreigners could easily invade in these markets. The more Ghana economy develops, the more rapidly the demand for culture and arts will increase.

## 〈Tourism Industry〉

The tourism industry is booming in Ghana. However, the Ghanaian government should put her efforts more in promoting the tourism industry since it employs lots of manpower and allows for Ghanaians to earn foreign currencies. Ghana has many advantages in the promotion of the tourism industry, for example, kindness, gentleness, honesty, fluency in speaking English, and so on. But, researches and efforts are still definitely necessary to promote this industry. The Ghanaian government should establish special colleges for tourism and bring up many tour specialists.

Ghana has many industries to develop. However, considering the conditions of public finance, the Ghanaian government is better to set up special institutes and technical schools step by step. For example, in order to increase the export, the institutes of research and education of gold, cocoa, and bio-energy should be set up in the first stage, and other institutes may be established whenever needed one by one in the next stages. And then, the institutes should be asked to educate technicians and train skilled workers as many as the industry needs.<sup>25</sup> The Ghanaian government should not forget that only technicians and skilled workers armed with scientific knowledge are able to change Ghana fundamentally.

## 1.7. Conclusion

Ghana is a young country in the sense that the group of people under the age of 24 is more than half the total population, but the old age group over 60 is less than 8%. So the possibility of increasing the manpower is remarkably great. However, lowering the illiteracy rate is extremely important. This task can be achieved through the Ghanaian movement for eliminating illiteracy. In addition, under the era of the informational revolution, anybody should be able to access the

25. There is the way to utilize Ghana National University to educate technical manpower in each industry. After organizing councils consisted of professors and entrepreneurs by industrial fields, the Ghanaian government can make the education plan of technical manpower for each industry cooperated with the councils, and then set up several technical research centers that are mostly needed under the organization of Ghana National University. Of course, it takes considerable period of time to bring up technical manpower. So, the planning activities are always required beforehand in any kind of education.

Internet. Ghana's compulsory education system should cover this information education as well. For this purpose, the Ghanaian government has to invest enough money in improving educational facilities. Technical education is very important. The Ghanaian government should foster special and technical manpower in each industrial field. It is advisable that by concentrating investment on the industrial fields related to gold, cocoa, and bio-energy only in the initial stage, the Ghanaian government supports these industries to become the world's best in the aspects of technology as well as skill level of technicians. In addition, if Ghana produces considerable amount of crude oil, the Ghanaian government should also consider setting up a petrochemical industry.

As mentioned, there are many industries that the Ghanaian government has to develop. It is also indicated that the Ghanaian government has to bring up the special technical manpower in stages. Ghana, a country with abundant natural resources, is able to become a rich country if and only if Ghana fosters her human capital well.

## 2. Systems of Fostering Small and Medium Enterprises

### 2.1. Introduction

Many countries want to bring up small and medium enterprises (SME) and often announce that they would. But, bringing up SMEs is never achieved by announcements or even with money. Like any other projects of importance, such project is a difficult project that could only be achieved with a deep understanding and support from the head of state. The achievement of SMEs can be expected only after the removal of the problems of market, labor, and finance that SMEs usually face. Only then, many SMEs can grow up to be large companies or healthy ones with substantiality. Of course, some of them change, perish, or newly come into existence. Without solving the problems, the announcement to foster SMEs becomes a mere political slogan that the country cries out towards the empty sky.

Korea has built various systems in the process of bringing up SMEs that the government initiated. The central and local governments founded and/or strengthened the organizations that specialize in SMEs, and the private organizations supported and used the cooperative organizations for each industry. In addition, the government prepared and executed various kinds of policy funds, established and operated the Bank of SME for the purpose of solving the shortage problem of money, made special educational organizations by creating new legislation in order to get over the lack of technical manpower problem. And, the Korean government fostered SMEs by creating many systems such as the selection of export companies, the

designation of special territory for certain SMEs, the arrangement of the fields of companies, the bringing up of home industries, the opening of exhibitions, and many others.

Hereafter, suggestions for Ghana is mentioned based on the experience of fostering and developing the Korean SMEs with the emphasis on how these systems were implemented.<sup>26</sup>

## 2.2 A Cooperative System Between Government and Private Organizations

### Government organization

In the beginning of 1960s when Korea raised SMEs in full scale, the national project of fostering SMEs was dealt with in the department of SMEs under the Bureau of Industry of the Ministry of Commerce and Industry in the central government and in the Department of Commerce and Industry of every city or province in the local government. But the departments both in the central and local governments did not have much work to do, since the industries were so poor.

At this time, the president activated the governmental systems with regard to the bringing up of SMEs as one of the most important goals of national policy. He provided the systems with ample budgets, authorities and jobs. As a result, these systems were vitalized immediately. However, it was impossible for the government officials to meet all the business people directly. So, the government had to classify and organize SME businessmen into groups by industries.

### Private organizations

At that time in Korea, there were already cooperative associations in each field and a head association over them. But the head association as well as all others looked like social gatherings and their roles were nothing but collecting membership fees and blaming the government activities. Despite the poor performance, the government donated a building to the head association, assigned some budgetary allocation, and asked it to set up and operate a vocational training center. Since then, the head association of cooperative associations started to assist the government policies positively.

The government supported several projects to the cooperative associations. If companies

26. Korea type economic construction Book No. 1, pp. 219-318, Book No. 2 pp. 11-181, and Book No. 7 pp. 191-293. O Wonchul, Book No. 1, No. 2, 1991, Kia economic research center, Book No. 7, 1999, Institute of Korea Type Economic Research.

worked together, there would certainly be many areas where the productivity would increase. The cooperative production projects, the cooperative assembly project, and many other projects commonly found in Europe are good examples. But businessmen of SMEs at that time did not even have such kind of ideas at all. Nevertheless, the Korean government decided to support these enterprises under the judgment that the projects of cooperative purchasing and cooperative selling should have good possibility to succeed.

The cooperative purchasing project was activated easily as the Korean government gave long-term loans with low interest rate to the cooperative associations. The project was getting bigger year by year. Also, the cooperative selling project grew bigger, indebted to the government policy of purchasing SMEs' products through cooperative associations. At that time, the Korean government purchased 270 items of products through the supply administration by bidding public tenders after examining the qualities and prices. When a cooperative association delivered goods that its members had produced, however, the government purchased the goods without the official process of examining the quality approving the association's quality examination. The price was also determined without any competition. In addition, long-term loans with low interest rates were offered to the companies that delivered the goods to the government by the kind office of the government. As a result, the cooperative selling project prospered and its power grew.

The Korean government offered other tasks to cooperative associations. As export increased, so did the demand for inspection of export goods. To meet this demand, the government gave the associations the authority to inspect, asked to set up inspection offices and provided them with 50% of the money required to the establishment of the inspection offices.

At first, the 7 associations set up the inspection offices with test equipments and required facilities. Since then, the demand for inspection was increased and so were the incomes of the associations. In this way, the associations could bring up their organizations, and at the same time the government policies of fostering SMEs started to have their effects with the help of cooperative associations.

### [In the case of Ghana](#)

The Ghanaian government should also enforce the administrative systems first to foster SMEs. The government has to activate the functions of the organizations that take full charge of SMEs in central and local governments by increasing their budgets and by providing jobs, authorities, and duties. The government also should gather information, set up plans, instruct the works to the related agencies, and receive reports regularly. The government has to open conferences of related officials, confirm their results by regions, and exchange important information.

The SMEs should be organized by industry types. If there is a central association of cooperative associations as in Korea, the government can offer a building to the central association, allocate some budget, and ask the association to establish and operate an institute for technical education. And, if there is the demand to inspect products, the government can guide the cooperative associations to set up inspection and test centers by providing them with 50% of the money needed. The Ministry of Education of Ghana could give certificates of qualification that guarantee the same level as graduation of college or technical high school to students who pass the coursework and graduation examination in the institute of technical education.

The cooperative projects of SMEs should also be activated. The Ghanaian government has to think about introducing the systems which the Korean government in the past adopted such as cooperative purchasing and selling projects. If it is possible in Ghana to run cooperative production and cooperative assembly projects, the government should be able to support them. Through such support, policies to foster SMEs can produce good results without a lot of difficulties if there is a close relationship between the government organizations and the cooperative associations.

## 2.3. System for Formation and Management of Policy Funds

### Sizable Sum Fund Policy

Any policy needs sufficient budget to be carried out. Especially in the cases of dealing with SMEs, no policy can be achieved without any budget. So, it is with the budget that the government can execute policies to foster SMEs such as the policies to specialize and organize SMEs, to bring up domestic industries, to form cooperative associations, to support export and import substitute companies, to develop industrial zones, and so on. Securing policy funds is essential for fostering SMEs.

Policies are sometimes conducted within a year, but in other times policies are carried out over several years. There is hardly any financial problem for policies that finish within one year if the government includes them in the budget. But for the long-term policies, the financial difficulties to secure budget often take place. To avoid this problem, the Korean government obtained the consent of the president beforehand whenever long-term policies were planned. This was called “a sizable sum of money policy” at the time. If the fund was not secured beforehand, the Korean government did not start any policy no matter how important it was.<sup>27</sup>

When the Korean government decided to foster the electronics industry, the policy funds for 8 years was allocated before the program started. The Korean government introduced the

defense tax system when bringing up the defense industry, and prepared the National Investment Fund when the government started to support the heavy chemical industry. These are good examples of “a sizable sum fund policy.”

## Policy Funds

The SMEs can survive in the free market when they are specialized. The Korean government supported the policy of specializing SMEs. The government should guide the SMEs to organize cooperative associations and carry out cooperative projects. This policy was supported as well. The government also supported funds on policies to support the SMEs that ran export and/or import substitute industries. Also, small companies were supported. The Korean government removed policy items with ambiguous contents such as the policy fund for fostering SMEs and kept only the policy funds with clear and specific contents such as the fund of specializing SMEs. Later, the government increased the scale of policy funds to support SMEs year by year as below.

**Table 4-1 | Scale of policy funds of supporting SMEs**

(Unit: million Won)

	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Total	500	500	700	538	900	1,900	2,000	1,970	2,040	2,215

Source: O Wonchul, Korea Type Economic Construction, Book No. 2, pp. 105, Table 1-11.

The Korean government enacted the law of SME bank in July 1961 and established a special bank to support SMEs. According to the law, the Minister of Finance had to obtain the consent of the Minister of Commerce when appointed the chief of the bank. Also, the authority of Audit and Inspection of the bank was given to the Minister of Commerce. In addition, whenever the bank decided important matters like the decision of lending standards, the government asked the bank to be the subject to the decision of a management committee in which the official in charge of SME from the Ministry of Commerce had to participate. For example, the committee decided the main lending principles of facility loans as below:

- The loans should be given only to the exporting SMEs;
- The interest rate is 9% per year;<sup>28</sup>
- To use the loans for other purposes is strictly prohibited, and the redemptions have to be

27. When the election period started, the government promised many projects to the people then. The promised projects commenced in advance. When the election was over, the projects that did not receive the budget allocation had to stop. So, there were, for example, unfinished road construction works and bridges that had only piers because the government stopped constructing here and there.

28. At that time, the inflation rate was over 15% in Korea.

reported to the Minister of Commerce and the Minister of Finance every month.

As soon as any SME that exported its products requested a loan according to the lending principles, the SME bank provided the company with the policy fund immediately. Once a loan is given to a company, the SME bank became the major correspondent bank of the company. The government imposed on the SME bank the duties of what the correspondent bank had to do. The bank was asked constantly to check the current situation of the management of the company that the bank gave a loan. If the company became insolvent, the bank had to bear the responsibility for the failure of the company.<sup>29</sup> Since then, the SME bank provided SMEs with management consulting services covering accounting, tax, finance, and the other fields of management for free through company diagnoses projects, management seminars, and so on.

After a while, the feeling of distance between the bank and SMEs disappeared. While promoting the SMEs, the SME bank and the SMEs were in the same boat. Soon after, the SME bank took the core role of supporting the national policies of fostering SMEs in the aspect of the accommodation of money for SMEs by introducing the discount bill system.<sup>30</sup>

### In the Case of Ghana

The sizable sum fund policy: When establishing long-term projects to bring up special fields of industries, the Ghanaian government should execute them after the funds are secured. What would one do if the funds run out in the middle of the project because the projects were not accounted for in the national budget? So, Ghana needs the so-called sizable sum fund policy that the Korean government applied in the cases of executing long-term projects. This is because projects with a lot of money already invested can be aborted for such reasons.

Policy funds: The Ghanaian government should be able to visibly confirm the effects of policy funds by specifying their contents. And because the fostering of SMEs is not achieved in a short period of time, the scale of policy funds has to be increased steadily for many years. Otherwise, the Ghanaian government cannot obtain the satisfied results from the policies. With regard to what kind of policy funds should be set up in Ghana, the Ghanaian government should select the kinds of policy funds that are suitable for Ghana's situation. The policy funds mentioned above about the Korean government adopted in the past, the policies of making industry zones and supporting home industries would be good policies in Ghana as well. Especially, the project of fostering home industries is a good project to be developed as a

29. Such a system was very important. Usually the bank would make a loan on good security and then lose track of the debtor and the bank would not know if the debtor was still alive. But, this was not the style of the SME bank at that time.

30. These good systems have disappeared in Korea.

national movement of bringing up local special products.<sup>31</sup>

The SME Bank: In Ghana, it is necessary to establish a financing organization founded by the Ghanaian government that can raise the possibility of business success by providing facility loans and free management consulting. It is recommended that for fostering SMEs, the Ghanaian government has to have the same SME bank as the Korean SME bank in 1960s and 1970s.<sup>32</sup> Most SMEs always struggle financially, and the existence of the SME bank that would share the same destiny with the SMEs is earnestly needed.

## 2.4. Special Education System for Science and Technology

### 2.4.1. Educating and Training Technical Manpower (Kuhm-Oh Technical High School)

#### Background

After having developed the light industries, the Korean government realized the limitation of the growth with exporting light industrial goods in the early 1970s. This was the reason why the Korean government had the intention to foster the machine industry. But, is not the fostering of machine industry a huge national project that a fundamental change in the industrial structure and augmentations is required to succeed? The volition of the government itself was not enough to make it possible.

At that time Korea faced the problem of shortage of skilled manpower. Few engineers who graduated from junior or engineering colleges worked as technicians in SMEs after their military services. Also, because technical high schools educated students under the curriculum focused on theory courses rather than practice in order to prepare them for the next stage of education, the lack of skilled labors in the fields of industries was serious at that time. Because most companies hired less skilled workers for low wages to do highly skilled jobs, there was no way a high quality product with good finishes would come out in the markets.

This was the case throughout the country, and it lead the Korean people to believe that the Koreans did not have the talent for finishing a product or doing precision work unlike the

31. An example is when a national movement called “one village, one product movement” was started in Thailand in 2001.

32. It needs to be noted that the Enterprise Bank of Korea today is totally different in its character from the Korean SME bank in the past. The Korean SME bank and companies received loans from the bank were in the same boat for the success of their businesses.



Japanese. It was a general opinion at that time that the Koreans would never be able to bring up the precise machine industry. Can the Koreans really have anything to do with the precise machine industry?

The Korean government had to confirm that the Koreans had talent in precise manufacturing jobs before making the decision to bring up the machine industry. There would not be a bigger mistake for the Korean government to realize that the Korean national characteristics did not have the capacity to do precise work after investing a great sum of money in the huge machine industry. The school established to find this out was the Kuhm-Oh Technical High School.

The purpose of establishing the school was to evaluate whether the Korean machine technicians could become as excellent as the Japanese were, under the conditions that the Ministry of Commerce and Industry set up a technical high school focusing on the machine industry, selected young talented boys, and trained them intensively by the Japanese technical instructors invited from Japan. This purpose motivated the Korean government to plan to set up a model technical high school by using the Japanese aid funds.

The plan was reported to the president directly and he ordered to establish the best technical high school in Asia. The Minister of Commerce and Industry and the director of the SME department discussed how to define a superior machine technician. And they finalized to define a superior machine technician as first, one who makes sincerely as one cares for one's own child, second, one who has the ability of precise processing works, third, one who works honestly and follows without tricks regarding the design drawing that as one's law. From the first, second and third definitions, the words of sincerity, precision, and honesty (they were called as SPH-ism, SamJung-ism in Korean) were selected and decided as the motto of school discipline. And the government tentatively named the school as 'SamJung technical high school.'

The foundation plan of SamJung technical high school was presented to the 'Korea and Japan Economic Cabinet Meeting' as an agenda, and the cabinet members from both countries agreed with the original plan in July 1970. After the diplomatic negotiations, the Japanese government decided to donate ¥1.2 billion from the Japanese foreign cooperation fund for the plan.<sup>33</sup> In March 1971, fifty acres of school site was secured. On the 18th of August, the Minister of Education approved the establishment of the school in the name of Kuhm-Oh Technical High School.<sup>34</sup>

33. Japanese general trading firms Mitsui and Mitsubishi donated training equipment that was equivalent to 1 million US \$. O Wonchul, pp. 272, Korea Type Economic Construction Book No. 7, 1999, Korea Type Economic Research Center.

34. The founder was President Chunghee Park.

The number of students for the first year was decided to be 120 students of the department of machine engineering, 60 sheet metal and welding, 30 cast metal, 120 electronics and etc., 360 students in total that could be increased to 400 students. On March 2nd 1973, the school selected 360 new students and accommodated all of them in a dormitory. On March 31 1973, all facilities including a main building, a practicing building, a dormitory, a gymnasium, an auditorium, a dining hall, a public bath, etc, were completed under the total site of 28,809 sq. m. As far as facilities, it was the best technical high school not only in Korea but also in Asia at that time.

## Education

Kuhm-Oh technical high school selected new students through the procedures of aptitude tests, physical tests, and interviews among the top 10% expectant graduates of junior high schools whom junior high school principals have recommended. The 8 Japanese technical instructors were in charge of training skills and educating techniques in their special fields.<sup>35</sup> The school provided new students with the privileges of free tuition for 3 years, free textbooks, free school uniforms, and free boarding houses. All students were selected as scholarship students. So, most excellent students came and applied for entering the school from all over the country.

The school asked all of the new students to board to educate them under the school mottoes of “sincerity, precision, and honesty.” They rose at 6:30 a.m. and went to bed at 11 p.m. They lived and studied under the strict discipline of the school. For effective education, the same instructor taught theory and practical training courses, the school equipped the latest special facilities for experimental and training courses, the size of training classes was lowered to 20 students or below, and the number of instructors for training classes was increased. All the instructors taught with ardent zeal, and students studied hard while enduring hard practical training courses well.

As a result, the students started to obtain the qualification of precision mechanical engineer after 2 years. When the school turned out the second graduates in 1977, four graduates participated in the 23rd international vocational training competition and won 2 gold medals, 1 silver medal, and 1 bronze medal. Since then, students and graduates of Kuhm-Oh technical high school swept awards of domestic and international skill contests.

35. Japanese technical instructors arrived at Kuhm-Oh technical high school on May 6th 1973 and left on May 5th 1976.

## Results

It was proved by the Kuhm-Oh Technical High School that Koreans could be excellent mechanical engineers if they were well trained. At that time, President Chunghee Park expressed his belief many times - “Our country can become number one in the world, if 50,000 excellent engineers are brought up every year.”<sup>36</sup> The Korean government established technical high schools like Kuhm-Oh Technical High School with confidence since the success. Astonishingly, the graduates of technical high schools raised the level of Korea machine industry from the level of wasteland to that of advanced countries within a short period of time. Truly, if they did not exist, how could the Korean economy conduct miracles such as exporting more than 5 million cars per year, manufacturing high end weapons, producing fighters, constructing super containerships, erecting skyscrapers, and so on? Otherwise, it might surely be nothing but a pipe dream in daylight.

### In the case of Ghana

The Ghanaian government should fully understand the importance of fostering technical and skilled manpower. It is advisable that the Ghanaian government should deeply consult the case of Kuhm-Oh technical high school through which the Korean government in the past introduced the advanced country level of technical education system by fully adopting the Japanese technical education system in order to fundamentally change the system of technical education in Korea. If Ghana equips with the latest facilities, selects excellent students with full scholarship, employs the best instructors, devotedly educates the students under strict discipline, Ghana surely can hold the world best technical manpower. In this way, if Ghana brings up more than 10,000 of top level technical manpower every year, could not Ghana make her economy grow rapidly and steadily?

The Ghanaian industries related to gold and cocoa are so important that the matter of life and death of the Ghanaians depends on having the world’s leading ones technically. If the Ghanaian government fosters the top-level technical manpower as the Korean government did, at least in these industries, then could not Ghanaian companies become the world leaders? So, it is strongly advisable that the Ghanaian government brings up the world’s top-level technicians at least in these industries by improving the Ghanaian technical education system entirely.

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36. See O Wonchul, pp. 492, Korea Type Economic Construction Book No. 6.

## 2.4.2. Bringing up Manpower of Science and Technology (Korea Institute of Science and Technology)

### Background and the Process of Establishment

In 1960s, the biggest problem that the Korean government had faced in the process of developing industries was the lack of high tech manpower. Until the end of 1960s, the Korean economy depended on sending students abroad to learn advanced technology. But most of them stayed in America or other advanced countries after their studies and found jobs there. They were not willing to come back and work for their poor country with low incomes.

In order to solve the problem of the lack of high tech engineers, President Chunghee Park instructed the cabinet to draw up a plan to establish a special graduate school of science and engineering that did not depend on the existing educational system in March 1970. In April 1970, the Ministry of Science and Technology reported to the President the plan of establishing the Korea Institute of Science and Technology (KIST). The plan passed Cabinet council immediately. On December 15th 1970, the enforcement ordinance of the law of Korea Institute of Science and Technology came into force. On January 7th 1971, the Minister of Science and Technology completed the articles of KIST and approved the establishment of KIST. On February 16th 1971, the Korean government decided the location of KIST to be in Hongluhng Seoul. Finally, on September 10th 1971, the framework of KIST was announced.

The institute had 7 departments - the department of basic science, the department of industrial engineering, the department of mechanical engineering, the department of material engineering, the department of chemical engineering, the department of electric engineering, and the department of bio engineering. And, the students were provided with privileges including exemption of military service, free tuition, and scholarships with AID loans.

### Bringing up Talented Manpower

In March 1973, Korea Institute of Science and Technology opened 6 departments except for the department of bio engineering (machinery, industry, mathematics and physics, material, electrics and electronics, chemical and chemical engineering) and selected 106 master course students. In 1975, KIST produced 92 master degree graduates for the first time, enrolled PhD course students, and started to produce doctorate graduates. KIST has evolved, developed over again, and opened the undergraduate courses in 1986.

During the period of 35 years, KIST produced 60,000 or more Bachelors of Science, 20,000 Masters, and more than 6,000 PhDs. The graduates went into universities, research institutes, more than 2,000 high tech industries and now take core roles in the various fields of the Korean economy.

## Evaluation

The Ministry of Science and Technology established KIST as an educational organization on the basis of the newly legislated law of Korea Institute of Science and Technology under the Ministry of Science and Technology. This was not under the Ministry of Education in order for the government to specifically support KIST. The government with an AID loan equipped KIST with the latest equipment and facilities and the top-level professors were paid exceptionally well at that time in Korea. Students were selected as scholarship students in order to let them concentrate on their studies and research activities. As a result, KIST has grown as the top educational organization of science and technology in Korea where lots of research results have been produced.

### In the case of Ghana

Can Ghana make an educational system of technology and research through a new legislation? If Ghana can do it, then it is recommended that the Ghanaian government sets up tentatively named Ghana Institute of Science and Technology and create department of gold, cocoa, and bio energy to start with. This is because Ghana needs the world best research centers on these industries. To reduce the poverty and develop the economy, having the world top technologies and skills on at least several fields of industries is absolutely required for Ghana in the internationally competitive world.

## 2.5. System of Founding and Executing Policies for the SME Development

### The Selection of the 1st level upbringing target SMEs

In the early 1960s when the Korean government started to execute SME promotion policies, Korea was one of the poorest countries in the world with 78 US \$ of per capita GDP. At that time, the number of companies with the employment over 200 was 229, over 5 to less than 200 was 18,068.

**Table 4-2 | Number of Companies by Employee (Census in 1963)**

employee	5~9	10~19	20~29	30~49	50~99	100~199	Over 200
No. of Companies	10,132	4,581	1,381	965	713	295	229

The Korean government decided that the 1,973 companies with the employees from over 30 to less than 200 be the government's target SMEs for upbringing. The reasons for how the

government defined the target SMEs were as follows. The Korean government viewed that the SMEs with employees over 30 were solid companies that had completed well in their industries, and that the number of 1,973 companies with employees from over 30 to less than 200 were suitable with which the government could handle. The Korean government chose 600 to 700 solid companies among 1,973 companies as the 1st stage target companies. These target SME companies were at that time the best SMEs in Korea.<sup>37</sup>

### The Selection of Export transfer companies

In general, there were two kinds of bottlenecks for SMEs. There were no market and no capital. Since many companies competed with each other in a small domestic market, each company faced difficulties to find any market to sell; since new companies emerged whenever there was profit, it was a matter of course when the profit decreased and capital was shortened.

The Korean government found a breakthrough in solving these two problems simultaneously by opening up foreign markets. The government chose 450 companies among the 1st stage target companies, divided them into 3 groups with 150 companies each, and transferred each group into export companies through three stages. The government decided to utilize all kinds of policies to support the export transferred companies. The long-term loans with low interest rates were provided. The importation of raw materials for export purpose was allowed limitless on credit. Technical and management consultation was given for free. What was more, the electric charges were 20% off for them. At that time, all above were well epoch-marking support policies in Korea.

Then, how did the Korean government select the export-transferred companies? The Korean government set up the principles of selecting companies as the following and gave the public notice to apply for the export transferred companies:

- Companies producing goods with high possibility and good expectation of export;
- Companies that have an intention to export their products with a high rate of acquisition of foreign currencies and with a short period of recovering financial resources of investment;
- Companies holding existing facilities with the high rate of utilization.

At that time, 461 companies applied. Through the document screenings, 165 companies were selected as preliminary candidate companies. And then, the government endowed the

37. If Korean government could not bring up these target companies, then it meant that to foster SMEs in Korea was impossible.

following power and responsibilities to the departments of commerce and industry in cities and provinces:

- Investigating actual conditions of the factories of preliminary candidate companies;
- Selecting companies under the whole responsibilities of cities and provinces;
- After the selection of export-transferred companies, cities and provinces have to take joint responsibilities with the companies about their exports.

Through this process mentioned above, 167 companies were designated as the export transferred companies. Through the same process, 183 companies were nominated in the first half of 1965, 192 companies in the second half of 1965, and in total, 542 companies were nominated as the export transferred companies.<sup>38</sup>

All of them were companies that wanted to export their products by themselves and they were the companies that the government as well as cities and provinces chose to bring up under their own responsibilities. Since then, there was no more designation of export-transferred companies. It was because the Korean government concentrated on fostering these companies into solid export companies.

### Check System

The Korean government asked the departments of commerce and industry in cities and provinces to prepare export schedules and report export results every month. The total amount of cumulating the export records reported monthly was compared with the export schedules and was arranged into the table of export results. This table, with the export results of other cities and provinces, became the table of one year export results at the end of the year. And it was reported to the president at the conference of provincial governors in the beginning of each year.

At that time, the president appointed mayors and governors. And the table of export results that looked like a grade report card was announced every year in front of the appointer, all of mayors and governors, and other related officials. This announcement might be a happy event for the mayors and governors who had good export records, but was a stressful event for any mayor and/or governor who had a poor record. So cities and provinces competed with each other to induce export companies to their cities or provinces. They mobilized all kinds of supports and means that they could come up with. There was even a case that some provincial governor proposed to give factory sites for free and asked export companies to construct their factories in the province. Truly, the check system of export record was a remarkable system that

38. Originally 450 companies were to be chosen, but the number was increased.

**Table 4-3 | Export Record of July 1966**

(Unit: Thousand US \$)

City and Province	1966 Target (A)	July Records	Cumulative Total (B)	Achievement Ratio (B/A, %)
Seoul	17,400	2,292	13,036	74.9
Pusan	8,690	1,082	6,245	71.8
Chungbook	620	37	352	56.8
Kangwon	230	28	123	53.6
Kungbook	6,430	722	3,387	52.6
Junbook	530	39	255	48.1
Kyunggi	6,790	356	3,039	44.7
Junnam	2,040	136	874	42.8
Chungbook	3,500	171	1,245	35.5
Kyungnam	3,190	119	754	23.6
Jeju	580	0	8	1.4
Total	50,000	4,892	29,323	58.6

Source: Table 1-3, Oh Wonchul, pp.55, Korea Type Economic Construction Book No. 2]

led all of governmental organizations to cooperate with the export companies to do their best to maximize the exports.

### Allocation of the Policy Funds to Cities and Provinces

The Ministry of Commerce and Industry, as a central government organization in charge of SME policies, allocated the policy funds to cities and provinces every year. The power of the departments of commerce and industry of cities and provinces grew bigger as the scale of the funds increased. The funds allocated were mainly used as loans for buying equipments and facilities of export transferred companies. They provided export companies with the loans that were long-term loans with low interest rates up to 50% of the total moneys needed. The remaining 50% of the funds should be prepared by the companies themselves.

They also allocated the foreign loan of 14 million dollars to the export companies to purchase foreign machinery.<sup>39</sup> Cities and provinces requested the Ministry of Commerce and Industry to allocate foreign currencies after analyzing the demands of foreign currencies by factories. And then, the amount requested was examined and allocated to cities and provinces.

39. The loan was from Germany and Japan.



Like this, the central and rural governments shared their rights and responsibilities through the allocation of funds, cooperated with export companies, and brought up SMEs successfully. Accordingly, the amount of export had increased dramatically at that time.

### In the case of Ghana

As the Korean government did, the Ghanaian government can define the fostering target SMEs as the companies with employees from more than 30 to less than 200. Then, the number of SMEs as target companies would be 811.<sup>40</sup> If the government intensively supports the top group after dividing the 811 companies into 3 groups on the basis of the solidity of companies, then the number of target companies will be 270. If the government divides them into 3 groups again and intensively supports each group of companies by three stages as the Korean government did, the Ghanaian government can foster them as solid export companies. If this extent of efforts cannot be done, the Ghanaian government has better to give up the policies of fostering SMEs in the first place.

Is there any obstacle that would make it impossible for the Ghanaian government to succeed in fostering export companies and increasing export dramatically? First of all, the Ghanaian government has to prevent smuggling in order to bring up export companies. If the companies survived in the markets where contraband goods were selling well, then they could make a large profit as soon as the government protects them from foreign companies by eliminating smuggling. Moreover, they will be able to seek foreign markets as well.

In addition, it is advisable that the Ghanaian government chooses the check system as the Korean government developed. This is because the system may greatly help the Ghanaian government to bring up export companies and increase export volume.

40. The total number of companies in Ghana in 2003 was 25,931. Among them, the number of companies with employees more than 200 was 128, those with employees from 1 to 4 persons was 14,197 companies, from 5 to 29, 10,795 companies, from 30 to 199, the number was 811. Table 6: Establishments in manufacturing by size and region (2003), pp10, Sustainable Employment Generation, Corporate Governance and the Informal/Formal Economy, Ghana Employment Policy Workshop (ILO/Ministry for Manpower, Youth & Employment) 29-30 November, 2005 Greenland Hotel, Agona Swedru.

## 2.6. Systems to Protect the SME Territory and the Adjustment of the Fields of Industries

### The Selection of the Industry groups as the target of the Government's SME support

In preceding pages, it was mentioned that the Korean government selected 542 export-transferred companies and supported them with the highest priority. Then, how does the government support the companies besides the export transferred ones? On this subject, the Korean government set up the principles as the following:

- The government supports companies that focus on export;
- The government also supports companies that focus on producing import substitute goods;
- The government also supports companies that produce life necessities.

Then the government decided three rankings complied with the priorities of government support. Industries producing export or import substitute items were classified as “fine,” those producing life necessities as “medium,” the others classified as “poor” that produce items for which government supports with low priority such as industries producing semi life necessities, service industries, and simple processing industries.

And then, the government also decided three rankings marked on the types of industries. That was, the industries were classified as “B” in which companies belonged to SMEs at the time but would eventually grow to become large companies like assembly of cars, ship building, and so on; the industries were designated as “C” for those that are losing their competitiveness because of severe competitions with large companies or because of worn-out and outdated facilities. And the rest were classified as “A.” Of course, the industries that belonged to “A” group were suitable industries for SMEs. So, the following table was delivered.

**Table 4-4 | Selection of the Group of Industries**

Types of Industries	Fine: Export or Import Substitute Industries	Medium: Life Necessities	Poor: Others
Suitable industries for SME's: A	A-Fine	A-Medium	A-Poor
Suitable Industries for Large Companies: B	B-Fine	B-Medium	B-Poor
The Others: C	C-Fine	C-Medium	C-Poor

In accordance with the table above, the industries belonged to “A-Fine” were the top priority industries of receiving government supports and those to “A-Medium” became the next priority

industries of getting government supports.<sup>41</sup> It was a road to succeed for the government policy for promoting the SMEs if the Korean government supported and brought up these two groups of industries well.

### Industrial Fields specialized to SMEs and Adjustment of the Fields of Industries

The problem, however, was how to prevent large companies from invading the business space of SMEs. Large companies could sway over the destiny of SMEs with powers of money and organization whenever they wanted. So the Korean government had to prevent large companies from doing businesses into the industrial fields what SMEs must conduct and SMEs could survive if there was no invasion of large companies.

In Korea, there was the law to adjust the industrial fields of SMEs enacted in December 1961. Since then, the law was developed and changed and the classification of industries such as “A-Fine” or “A-Medium” disappeared. Instead, a list of industries specialized to SMEs was announced by a presidential decree. If a large-scale enterprise wanted to run the business in the field of the industries listed, the company had to report its plan to the Minister of Industry and had to get an approval from the council of the adjustment in the fields of the industries. Also, this law allowed the adjustment of industrial fields within the listed industries. By this law, the Korean government was able to select several industries and intensively supported them, and sometimes forced some companies that produced inferior goods in the industry to move their business fields into some others or to terminate their businesses. In some cases, an industry was totally removed. At that time, the Korean government set up following principles to arrange the SMEs:

#### Principles of SMEs arrangement

- The government would not bring up all SMEs. Only the companies that are beneficial to the nation should be brought up and harmful ones should be arranged or removed;
- The government should have deep technical understanding for each industry to conduct the law of the arrangement of SMEs for each industry;
- The success in the policy of promoting SMEs depends on the arrangement of SMEs. If the arrangement of SMEs fails, then the policy of promoting SMEs also fails;
- The head of state should fully understand and sometimes directly deal with the works of arranging the companies. This is necessary because the companies that become the target of the arrangement often struggle to survive by fair means or foul.

41. This system was changed in law as the designation of special fields of industries for SMEs.

The tasks such as protecting the SMEs' territory, the changes and switches of industry types, and so on were key tasks for promoting SMEs. When the government succeeds in these tasks, the policies would succeed. Thanks to the existence of the president who understood fully and supported the policies of promoting SMEs, the execution of these difficult tasks for the public officials in charge could be executed smoothly in Korea at the time.

### In the case of Ghana

Many SMEs have disappeared nowadays because the special territories of SMEs were eliminated. As a result of this and from other effects like globalization, the unemployment rate of the young generation has soared unprecedentedly high.<sup>42</sup> If there is no existing law protecting the SMEs in Ghana, the establishment of such a law should be taken into consideration. This is because the Ghanaian government should raise the employment rate through the promotion of SMEs. And it is recommended that the Ghanaian government switches the SMEs into export companies since the trade deficit of Ghana is getting worse, as the Korean government in the past increased export through changing SMEs into export companies. Even though time has changed a lot, as long as the Ghanaian government tries to find the way of promoting SMEs, a way to succeed will be found.

## 2.7. System for Promoting Home Industries

### The Selection of Special Products in rural areas

In order to utilize idle labor forces as well as to promote industries of special products in rural areas, the Korean government started to bring up home industries under the following principles:

- Each rural government promotes its special products by itself;
- The central government supports required funds only;
- The funds are furnished under the condition of 5 year long term loans and support 50% of the required money;
- Each city or province should select at least one item as its specific product.

Specific products designated by the government in 1965 are as follows:

42. First of all, smuggling must be prohibited. Domestic market should be protected from the attack of cheap and superior foreign products. Otherwise, companies of Ghanaian nationality could not be established.

- Seoul: Sweater;
- Pusan, Kyunggi: Hair and Wig;
- Kyungbook: Toy;
- Chungnam: Sweater;
- Junbook: Handcrafts;
- Junnam: Bamboo Works;
- Jeju: Coral Handcrafts.

Since then, nine items were added in 1966 and 17 products were added in total.

### Centers of Home Industries

After selecting the items, the improvement of the quality of products, guidance of production technology, market development, and so on were needed. For these purposes, 11 centers of home industries were established under the aid of the central government that bore 50% of the installation cost and the rural governments bore the other half of the cost: The role of the centers were:

- Providing places of joint work and joint sales;
- Developing products and seeking foreign markets;
- Standardizing products and inspecting qualities;
- Researching techniques and training technicians;
- Purchasing raw materials and arranging buyers;
- Displaying and advertising products, and distributing samples;
- Collecting and supplying domestic and foreign information.

Three centers of home industries were newly established in 1967 and 32 centers in 1968. These centers created a lot of new jobs.<sup>43</sup> They trained 9,000 in 1967 and 10,000 people in 1968 and all of the trainees found their jobs through these centers.

### In the case of Ghana

It is necessary for the Ghanaian government to develop a project of promoting home industries in order to utilize a lot of rural idle manpower existing in the form of disguised unemployment. The way that the Korean government in the past had employed would be a good example for Ghana. However, the Ghanaian government has to secure the policy funds needed

43. The home industries in Korea faded away along with the increase of wages and became relics of the past. But, under the consideration of the high unemployment rate faced in the Korean economy nowadays, it is reminded how important the policy of promoting home industries was.

before starting this project. Also, it is important to obtain the motivation for promoting home industries through the inducement of a competition system among cities and provinces. In Ghana, lots of home industries have good chances to be developed. In the provinces of producing timber, furniture industry is a good candidate for home industry, in the rural areas with lakes and rivers, fish raising industries. And in the areas where historic earthenware is produced, the concentration of the production of earthenware would be a good item for promotion.

## 2.8. Opening Exhibitions: a System for Quality Control

### Exhibitions

In order to promote SMEs, the government has to support as well as control SMEs. Opening exhibitions is one of good systems for this purpose. In 1960s many exhibitions were opened in Korea under the instruction of the president. There were exhibitions of school supplies, exhibitions of life necessities, and what was more, exhibitions of inferior goods, which was an unprecedented exhibition in the world at the time. In this context, only the exhibition of inferior goods would be discussed, since others were not particular.

### Exhibition of Inferior Goods

At the end of 1960s, Korea enjoyed the economic boom with abundant foreign currencies earned from the Vietnam War. Whatever was produced at that time had a market. Everybody established factories, produced low quality products, and sold them in the markets. Making money was the top priority for everybody. So inferior goods flooded in the market. This was why the government opened a so-called “exhibition of inferior goods” for 20 days starting from September 10th, 1970.

Fifty officers from the Ministry of Commerce and Ministry of Health and Welfare exposed over 5,000 products after searching for inferior goods under cover from all over the country. After being closely examined by the national industrial laboratory and special discerners, 1,539 inferior items were finally selected and exhibited. The collection included scales with swaying scale hands, electric products with fire hazard, foods with harmful ingredients, products of large companies, and products that government recognized as standard ones and had the KS (Korea Standard) stamp marks on. Many spectators were shocked.

### Results

The consumers who saw the inferior goods in the exhibition blamed the government for

neglecting to regulate these inferior products. The government accused 108 companies for violating the laws concerned. Also, the government set up an inspection system for the products of electric goods that were likely to induce accidents and for automobiles parts as well. Also, the government helped to organize a consumer group that watched and raised formal complaints against all kinds of inferior goods at all times.<sup>44</sup> In this manner, companies producing inferior goods were regulated and some of the companies disappeared. It was a great policy for promoting companies whose products were superior.

### In the case of Ghana

Exhibition is a wonderful system to advertise products and select best companies. The Ghanaian government has to support SMEs through such exhibitions. When companies selected as producers of the most superior goods, they should be awarded or, for example, given a long-term facilitate loans with a low interest rate. If there are lots of inferior goods in the market, the Ghanaian government should take it into consideration to open an exhibition of inferior goods and set up consumer groups to watch them all the time.<sup>45</sup> It is because the quality of goods has to be improved.

## 2.9. Conclusion

The policies for promoting SMEs in underdeveloped countries become the industrial policies of the nation. It could be said that the national destiny depends on the promotion of SMEs. Therefore, to bring up sound SMEs, the Ghanaian government should do its best to cooperate with civilian organizations. The government needs to support SMEs by enacting laws and establishing organizations, and sometimes needs to bring them up by the encouraging the companies with prizes and arranging industry types.

In this paper, how the Korean government brought up the SMEs in the early stage of economic development was discussed. First of all, the Korean government strengthened the executive organizations of policies. The government under the cooperation of civilian

44. Recently a representative of the consumer organization called the Car Civil Union appeared in a radio program and took pride in his effort of raising the car quality. He said that the number of cars recalled by the organization's complaints reached over 10 thousands. The automobile companies feared the organization as soon as they heard the name of the organization. But, after going through such pain, the Korea automobile companies produce cars that reach the international level of safety.

45. In order to protect domestic industries, the Ghanaian government has to think about the inducement of custom duties on the imported goods. Of course, the Ghanaian government should not allow the contraband goods that would disturb domestic markets.

organizations executed SME policies. The creation and operation of policy funds were discussed. The government clearly defined detailed purposes of the policy funds, secured the amount of funds needed for the policies, and then executed the policies. Related to financial supports, the SME bank was established and the government executed many policies through the bank. The shortage problem of technical manpower was solved through the establishment of special organizations of technical education. The government selected companies to be brought up, concentrated to support them, and designated the special industries for SMEs in order to protect SMEs from the invasion of large companies. For the industries under excessive competition, the government forced some of companies to change their fields of industries into others or to move out of business. Home industries were promoted nationwide. Many exhibitions opened in order to improve the quality of products.

In conclusion, if any policy succeeded in Korea and then why would not the policy succeed in Ghana as well? With the spread of the internet, the world has changed dramatically. As China becomes industrialized, the environment of international trade has also changed completely. But, nothing can change about the principle policies of promoting SMEs. Ghana has many potential industries with international competitiveness. If the Ghanaian government selects one or two industries and supports them intensively every year, it is certain that the Ghanaian SMEs will start to grow. While the policies for fostering SMEs continue, Ghana will get rid of its poverty and become one of the richest countries before anybody realizes it.



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