Overview of Challenges and Opportunities in the SME Sector in Ghana

Habiba Sumani
NATIONAL BOARD FOR SMALL SCALE INDUSTRIES (NBSSI)
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Presentation outline

❖ Characteristics of SMEs in Ghana
❖ Overview of SME Ecosystem in Ghana
❖ Challenges confronting SMEs in Ghana
❖ Opportunities for SME development in Ghana
❖ Reflections
Characteristics of SMEs in Ghana

❖ SMEs contribute about 70% to Ghana’s GDP and a provides employment for a large number of persons
❖ Dominant sectors:
  ❖ Mainly agro-based industries
  ❖ Handicrafts
  ❖ Services
❖ Over 70% of registered companies are SMEs (RGD)
❖ Highest percentage of women business owners-46%
  (Mastercard Index of Women Entrepreneurs Report, 2018)
❖ Majority of the enterprises can be classified as micro and small scale
Characteristics of SMEs in Ghana

Small and Medium Scale Enterprises:

• Have been recognized as a seed-bed for indigenous entrepreneurship;
• Are labour intensive, employing more labour per unit of capital than large enterprises?
• Promote indigenous technological know-how;
• Use mainly local resources, thus have less foreign exchange requirements;
• Cater for the needs of the poor and;
• Adapt easily to customer requirements (flexible specialization), but likely to miss customer demand in terms of quantities.
Overview of SMEs Ecosystem in Ghana

Ease of doing Business
Ghana’s Ranking

2018—120th, 14th
2017—108th, 7th
2016—114th, 9th
2015—70th, 4th
2014—67th, 5th
2013—64th, 5th

What is measured in Doing Business?

Source: Doing Business database.
Note: Labor market regulation is not included in the ease of doing business ranking.
Overview of SMEs Ecosystem in Ghana

Starting a business is becoming easier around the world

In 2003, it took an average of 52 days worldwide to start a business.

In 2017, this has been more than halved to 20 days.

14 days for Ghana
Overview of SMEs Ecosystem in Ghana

Policies and support systems:

❖ In the process of formulating an SME policy
❖ SME development Strategy
❖ National Export Development Strategy
❖ Training institutions:
  ▪ Private & public Incubator programmes to harness entrepreneurial potential
❖ Public and private BDS programmes
❖ Other support programmes and interventions: Rural Enterprises programme, BUSAC Fund etc.
❖ Over 450 registered Microfinance institutions, 70 micro credit companies, 12 financial NGOs and over 25 Commercial Banks
Challenges of SME

- Limited Access to Market
- Limited access to affordable credit
- High cost of facility rental and purchase of land
- Regulatory constraints
- Access to appropriate technology and information on available techniques.
- Land Tenure and security
- Poor Quality of raw materials
- Lack of managerial skills
Challenges: Access to Market

- Poor Product quality (poor quality control system)
- ICT: cost of internet connectivity (Ghana ranked 109-ITU);
  Concern over Cyber security
- Poor branding packaging and labelling
- Lack of product standardisation
- Regulatory compliance
- Barriers to external markets
- Corruption
- Lack of networks, knowledge and information on external markets
- Uncompetitive products (undifferentiated products)
Challenges: Access to Technology

- Lack of financial resources to acquire equipment and improved technology (UNCTAD, 2005)
- Lack of technical know-how
- Use of outmoded technology leading to low productivity
- Limited innovation
- Lack of skilled workers to handle new technology
Challenges: Labour for SMEs

- Insufficient skilled labour
- Weak Managerial Capacity
- High cost of specialised labour (accountants, QA officers, mechanics etc)
- Unstructured recruitment procedure, weak HR management
Challenges: Access to Finance

Relatively high access to finance (WB-getting credit score survey)

SMEs perceived as high risk by Commercial Banks

Lack of credit score

High interest rates (SMEs turn to MFIs for support)

Informality of SMEs operations

Property Address system

Lack of collateral

Poor record keeping

Poor governance structure
Opportunities for SME Development in Ghana

❖ Entrepreneurial energy is on the rise
❖ Growing Youth population
❖ Policies & Programmes:
  ▪ MoTI-ten (10) point Industrial Development strategy
  ▪ SME development strategy
  ▪ Ghana Export strategy
  ▪ Planting for food and Jobs (PFJ)
  ▪ Nation Builders Corp (NABCO)
  ▪ YEA Programmes
  ▪ A2E (NBSSI Youth Apprenticeship Programme)
  ▪ NEIP

❖ Youth 18-35yrs form a quarter of population
Opportunities for SME Development in Ghana

❖ ICT scene boast of both growing following of young Ghanaians
  • increasing internet connectivity across the country, a boost for e-commerce

❖ Ecosystem support
  ▪ availability of training institutions

❖ Electronic payment platforms-high mobile money penetration

❖ High ranking in terms of protection of minority investment (WB, Doing Business Report, 2018)
  ▪ Support to bridge the financing gap
Reflections

❖ How can we improve access to market for made in Ghana Goods
❖ How do we link effectively link the Ghanaian SMEs to global value chains
❖ To what extent can telecommunication and internet connectivity drive the market access agenda
❖ What are the effective support programmes for improved market access for SMEs to sub-regional markets
❖ What are the areas of comparative advantage
  • services vrs manufacturing
❖ Is there a magic bullet for improved access to finance for SMEs?
  • How can we change mindset of financing Institutions toward SME lending
Reflections

• Does business formalisation necessarily lead to business growth?
• How can we achieve formalization of small businesses without collapsing these businesses?
• How do we harness the potential of the youth for SME development?
• Improved skills for SME development, is there any hope in the horizon considering the ‘sole proprietorship mentality’ in Ghana.