Improving the Framework Conditions to Unlock the Potentials of AfCFTA for SMEs in Ghana

CUTS

german cooperation
DEUTSCHE ZUSAMMENARBEIT

Implemented by
giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

Imprint

Prepared by:

CUTS International Accra
30 Asafoatse Oman Street
Kokomlemle, Accra
T: 233 30 224 5652
I: www.cuts-accra.org
E: accra@cuts.org

Published by

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

GIZ Country Office Accra
Support to the reform partnerships in Africa
Regional Project
P.O. Box KA 9698
7 Volta Street | Airport Residential Area
Accra | Ghana

T +233 302 760 448
E giz-ghana@giz.de
I www.giz.de/ghana

As at

April 2022

On behalf of the

German Federal Ministry for Economic Cooperation and Development

Federal Ministry
for Economic Cooperation
and Development

Acknowledgements

We wish to acknowledge the members of the team that worked on the research from inception to completion, and this includes the authors and contributors of this research report. They are as follows:

Authors

Adomako, Appiah Kusi, CUTS International, Accra, Ghana.
Bokpin, Alufar Godfred (Prof), University of Ghana Business School, Accra, Ghana.
Edem, Mark Kunawotor, CUTS International, Accra, Ghana.
Obeng, Isaac Yaw, CUTS International, Accra, Ghana.
Osei, Kyere Dennis, CUTS International, Accra Ghana.

Editors

Richard Huelsmann (GIZ), Accra, Ghana
Maren Breuer (GIZ), Accra, Ghana
Donald Manlenze Eshun (GIZ), Accra, Ghana
James Ammissah Hammond (GIZ), Accra, Ghana

Project Partner

Ghana National Chamber of Commerce & Industry
Your Business Links, Our Business

Contents

List of Figures and Tables

Abbreviations

ADB	Agricultural Development Bank
AfCFTA	African Continental Free Trade Area
AGAM	Association of Ghana Apparel Manufacturers
AGI	Association of Ghana Industries
AMU	Arab Maghreb Union
AU	African Union
BIAT	Boosting Intra-African Trade
BRR	Business Regulatory Reform
CENSAD	Economic Community of Sahel-Saharan States
CFTA	Continental Free Trade Area
COMESA	Common Market of Eastern and Southern Africa
COTVET	Council for Technical and Vocational Education
EAC	East African Community
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
EDAIF	Export Development and Agricultural Investment Fund
EPI	Export Potential Indicator
EU	European Union
FDA	Food and Drug Authority
FDI	Foreign Direct Investment
FGDs	Focus Group Discussions
GATT	General Agreement on Trade and Tariffs
GCAP	Ghana Commercial Agricultural Project
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GEPA	Ghana Export Promotion Authority
GIADEC	Ghana Integrated Aluminium Development Corporation
GIISDEC	Ghana Integrated Iron and Steel Development Corporation

GIPC	Ghana Investment Promotion Centre
GLT	Garment, Leather and Textiles
GNCCI	Ghana National Chamber of Commerce and Industry
GSA	Ghana Standards Authority
GTA	Ghana Tourism Authority
GTP	Ghana Textile Print
HISPA	Health Insurance Service Providers Association
ICCA	International Congress and Convention Association
ICT	Information and Communications Technology
IGAD	Intergovernmental Agency for Development
ITC	International Trade Centre
MASLOC	Microfinance and Small Loans Centre
MOTI	Ministry of Trade & Industry
MSMEs	Micro, Small and Medium Enterprises
NDLEA	National Drug and Law Enforcement Authority
NEIP	National Entrepreneurship and Innovation Plans
NHIS	National Health Insurance Scheme
NTE	Non-Traditional Exports
NVTI	National Vocational Training Institute
PDI	Product Diversification Indicator
PFJ	Planting for Food and Jobs
RECs	Regional Economic Communities
RFJ	Rearing for Food and Jobs
SADC	South African Development Community
SMEs	Small and Medium Enterprises
SPX	Sub-Contracting and Partnership Exchange
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
USAID	United States Agency for International Development
USPC	United States' Pharmaceutical Convention
WHO	World Health Organisation
WTO	World Trade Organisation
WTTC	World Travel and Tourism Council
1D1F	One District One Factor

EXECUTIVE SUMMARY

The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ GmBH-Ghana) engaged CUTS International Accra to undertake a six-month project titled "Improving Framework Conditions to Unlock the Potential of AfCFTA for SMEs in Ghana" with the focus on embarking on a nationwide campaign and education about the awareness and potential benefits of AfCFTA and the level of preparedness required by SMEs to fully benefit from the agreement.

Methodology

The research strategy adopted for this study was a combination of both qualitative and quantitative methods and relied on both secondary (desk review) and primary (in-depth interviews) data. Thus, it was built on three phases namely desk review, interviews using a questionnaire with quantitative metrics, and focus group discussions. Face-to-face interviews were conducted with a structured questionnaire together with Focus Groups Discussions (FGDs).

Survey was conducted from September to October 2021 and was based on a sample of 1,028 firms selected randomly from three highly dominated private sector regions of the country including Greater Accra, Ashanti and Western regions. Data collected saw the categorisation of SMEs under various sub-sectors namely Agriculture, Building and Construction, Manufacturing, Retail and Wholesale, Service and the Transportation Sector. Out of the retrieved samples of 1,028 firms (respondents), 494 were successfully obtained from Accra, 266 were obtained from Kumasi and 268 from Takoradi.

Ghana's Intra-Africa trade

In 2019, Ghana's intra-Africa imports accounted for 10 per cent of its total global imports from a previous figure of 11 per cent in 2018. This was made up of primary commodities, crude and semi-manufactured gold, manufactured and value-added products. Ghana's imports from African countries outside ECOWAS make up 6 per cent of world imports, the equivalent of 59 per cent of intra-Africa imports. The main destination markets for Ghana are South Africa, Burkina Faso, Nigeria, Togo and Senegal. South Africa is the single largest destination market for Ghana's intra-Africa export. Exported commodities to South Africa constitute Gold and Crude Petroleum, which makes up 90 per cent of total export into the South Africa market. This amounts to US$ 1.6 billion in nominal value terms. In 2018, exports from Ghana to South Africa minus Crude Petroleum and Gold amounted to US$ 25 million, much lower than exports to Togo (US$130 million), Nigeria (US$87.9 million), Cote d'Ivoire (US$97.7 million), Niger (US$56 million) and Mali (US$53.3 million) over the same period.

Ghana's Export Potential

The following products have been identified to hold the greatest potential for Ghana's export diversification agenda including cocoa processing, horticulture products, fresh and processed fish, palm oil, cashew-nuts, natural rubber, yam, medicinal plants and professional services. For cocoa processing, Ghana is the second leading producer of cocoa and as such the cocoa industry offers many opportunities by increasing cocoa processing into intermediate and finished products. However, less than 25 per cent of the cocoa beans generated are processed locally, the equivalent of 5 per cent of the world global intermediate cocoa processing industry worth US$ 28 million. Ghana's greatest export potential lies in Malt extract, Palm oil (excl crude) and fractions, and Uncooked pasta. Cocoa beans have the highest supply capacity and palm oil (excluding crude) and fractions has the strongest demand potential for Africa.

The competitiveness levels of Ghanaian SMEs

The assessment of the competitiveness of SMEs in Ghana was carried out using the SME Competitiveness analysis framework developed by the International Trade Centre.[1] This entails analysis at the firm level, the immediate business environment level and at the level of the national environment with specific interest on SMEs capacity to compete, connect and to change.[2]

The survey demonstrated that while Ghanaian SMEs are putting in their best foot to remain competitive and relevant, the immediate business environment of these SMEs appears quite distant from their operations. Thus, there are many barriers that need to be surmounted to make the business environment more eco-friendly to the operations of these SMEs. Even more hostile is the Ghanaian national environment. This appears to be the worst limitation to most firms' survival.

At the firm level, a large number of the sampled Ghanaian SMEs have no domestic quality certification for export and no internationally recognised quality certification. This simply means that most of them are unable to compete in the African or international market. Most of the SMEs also have excess capacities and lack a functioning management structure. This notwithstanding, most of these firms have not made sufficient investments in the production, finishing and packaging of their products to meet international standards. Ghanaian SMEs are uncompetitive and hence, a lot of work and efforts are needed by these firms, policy makers and government to boost their competitive capabilities. Most of these firms also lack connectivity to their clients and suppliers with few using emails and websites.

There is also a general low capacity at the immediate business environment level to compete, connect and change. This is evidenced in the general difficulties in accessing trade information and trade-related infrastructure such as good roads and ICT for the purpose of work. In addition to inadequate interactions with governmental organizations and policymakers on documentation, registration, licensing, and regulatory issues, there are delays in the clearance of goods from customs. There is also a moderate extent of cluster development within the SME business environment and low usage of modern marketing tools by the industry players and an average level of collaboration between industry players or businesses and universities on

[1] *We note that the SME Competitiveness grid used as the framework for this study is the sole intellectual property of the International Trade* Centre *(ITC). We therefore wish to express our profound gratitude to ITC for giving us the permission to use the said framework as a template for this study.*

[2] *International Trade* Centre *(2015). SME Competitiveness Outlook 2015: Compete, connect and change for inclusive growth. Geneva: ITC.*

research and development related issues. Furthermore, access to finance is a severe obstacle to the current operations of SMEs just like unavailability of a skilled and educated workforce.

The Ghanaian national environment or macro economy is also not conducive for the survival of most SMEs and this makes firms unable to compete favourably. This is due to unreliable electricity supply, rapid exchange rate depreciation and inflation, which are major hindrances to business operations. There are also general difficulties in dealing with government bodies and agencies in relation to documentation, registration, licensing and regulatory issues. This is in addition to the poor ICT infrastructure network. There is also a lack of accessibility to credit facilities in Ghana due to high interest rates from financial institutions.

Risk Assessment

The risk assessment profile of Ghanaian SMEs shows that there is a high level of risk among the SMEs. These include economic risk, financial risk, operational risk and market risk. For these firms to be competitive, there is a need to manage these risks effectively.

Firm level recommendations

- The SMEs should put in their best efforts towards acquiring quality certification especially with regards to those in manufacturing. It is also a must to acquire an internationally recognised quality certification in preparation for exporting to the African market.
- All SMEs should endeavour to open and use a bank account for their business operations. This account should be separate from their personal bank account as this makes their business serene.
- Ghanaian SMEs need to operate at full capacity even if this requires an extra hand. This will boost their output levels. In addition, some of the SMEs can leverage the vast experience of their top managers to expand their current operating capacities and make space for exportation.
- There is a need for SMEs to put in place a functioning management structure. This might increase staff motivation, lower employee turnover, and give them a sense of community.
- There is also the need for massive investment in the production, finishing and packaging of products to meet quality and international standards.
- Some of the SMEs need to leverage recent advancements in technology to boost their productivity. Basic investment in smart mobile phones and internet services is required to access and use social media platforms to enhance their productivity.
- The deployment of modern marketing tools should also be aggressively exploited to market the products and services of SMEs, as well as to reach a larger African market. Modern marketing tools such as social media marketing, Email marketing and internet advertisements should be exploited. Some of these tools are more convenient with the necessary training and are more cost-effective.
- SMEs should follow prudent but basic financial management practices. They should endeavour to prepare annual audited financial accounts. This makes them easy candidates in accessing credit facilities from financial institutions and private investors.
- Formal training workshops should be organised for staff at least once in a year. This will refresh the staff and sharpen them for enhanced productivity. This is also to ensure that the staff are abreast with changing trends and new ways of doing things.

Industry and government level recommendations

- Industry players and the government should invest in trade infrastructure that gives easy access to trade information such as the catalogue of government policies and potential export markets among others.
- The bureaucracy at the various points of entry such as the ports and airports should be reduced or removed. Thus, conscious efforts should be made to make it easy to send goods abroad and clear from customs. This requires more investments in ICT infrastructure.
- The time required in dealing with governmental bodies on documentation, registration, licensing and regulatory issues should be streamlined.
- There is a need for SMEs, policymakers and governments to enforce more collaboration between the industry players or busin
- esses and universities on research and development.
- The Ghanaian government and financial institutions need to put in measures to make credit facilities more easily accessible to SMEs to expand their businesses.
- Relatedly, the cost of credit or lending interest rate should be drastically reduced. This will make it competitive to counterparts in Africa since these rates are considered very high in Ghana.
- It is also very necessary for the government and the relevant stakeholders to ensure that electricity supply is readily available, reliable and affordable. The high price and unreliability of electricity supply are one of the reasons why SMEs keep increasing their prices.
- There is a need for the government to stabilize the exchange rate and inflation. This will make Ghanaian SMEs export products competitively priced.
- **The** government and the National Communications Authority (NCA) should enhance the general ICT infrastructure in the country. Also, internet services should be competitively priced and made more reliable.
- There is the need to establish AfCFTA coordinating offices (at the MMDA level) across the country. These coordinating offices should have units solely designed to meet the needs of SMEs
- There is the need to extend the education and sensitisation of AfCFTA to women, particularly “market women” in the informal sector.

1. INTRODUCTION

The decision to establish the African Continental Free Trade Area (AfCFTA) was first consented in 2012 at the 18th African Union Summit held in Addis Ababa, Ethiopia. It was to be operationalised by 2017. However, trade under the AfCFTA only commenced in January 2021. The AfCFTA aims at creating a single continental market for goods and services, with free movement of business, persons, and investments. It also intends to expand intra-African trade through better harmonisation and coordination of trade liberalisation. The AfCFTA is also expected to enhance competitiveness at the industry and enterprise level through exploitation of opportunities for scale production, continental market access and better reallocation of resources.

In terms of capacity, AfCFTA is expected to establish a single continental market for trade in African goods and services with a combined GDP of over $3 trillion and a market size of 1.2 billion people. This includes some 54 countries in Africa. The United Nations Commission for Africa estimates that the free trade area agreement will boost intra-African trade by 52 per cent by 2022[3]

This large market presents great opportunities and provides a firm foundation for Ghana's much-awaited industrialization drive to take off in full gear. Particularly, Ghana's Small and Medium-Sized Enterprises (SMEs) can leverage this foundation with the AfCFTA secretariat hosted in Ghana to scale-up operations and fully participate in this continental trade initiative. Besides the SMEs concerted efforts, the government of Ghana also has a major role to play in providing the serene business climate for growth-oriented SMEs to thrive. This role may include the provision of capital in the form of soft loans, guarantees and subsidies. Premised on the doing business index, the government must ensure that the cost of doing business in Ghana is very competitive to other African countries.

A study undertaken by CUTS International Accra found that the majority of Ghanaian SMEs are not in a better position to compete under the agreement since most of the SMEs lack capital, technology, research and development, market information and export readiness. This, therefore, requires that the government considers strategic programmes to help align the Ghanaian SMEs to take full advantage of the agreement by becoming competitive[4].

1.1 Problem Statement

It is an undisputed fact that sustained economic growth and poverty reduction can only happen at the back of a vibrant and robust private sector. The dominant mode of private sector engagement in Ghana is through the operations of Small and Medium-Sized Enterprises (SMEs), which form over 90 per cent of businesses in Ghana. SMEs are mostly found in the informal sector in Ghana and this sector, according to the Ghana Statistical Service, accounts for about 70 per cent of Ghana's GDP and has provided about 85 per cent of manufacturing sector jobs in

3 *Witschge, Loes (2018) 'African Continental Free Trade Area: What You Need to Know', Available at: <https://www.aljazeera.com/news/2018/03/african-continental-free-trade-area-afcfta-180317191954318.html>*

4 *CUTS International Accra (2020), 'Assessment of Ghanaian Private Sector Readiness for the AfCFTA Implementation'*

Ghana. However, it has been established that SMEs' export business participation from Ghana is comparatively low[5]. This depicts the limited participation and contributions of SMEs to Ghana's exports. So, while the importance of SMEs to Ghana's growth prospects and development has been stressed, efforts must now be directed towards the development of policies and conditions that ensure the full participation of Ghanaian SMEs in the AfCFTA.

It does, however, appear that the SME sector in Ghana has been completely side-lined and has not been given the needed attention it deserves, due to the minimal consultation by the government of Ghana with the SME sector prior to the Ghana's ratification to the AfCFTA agreement[6]. The private sector and more particularly, SMEs must therefore be at the forefront if AfCFTA is to be successfully implemented and beneficial to the Ghanaian populace. This is because without a strong SMEs sector, with the ability to produce and export competitively to other parts of the African continent, the country would not be able to take full advantage of the free trade agreement. If Ghana is not able to produce for its local consumption and export competitively, the country would turn out to be importing goods from countries with a strong manufacturing sector. This means that jobs that could have been created locally will be lost, among others. On this note, it has become necessary to create sustained awareness and education about the potential benefits of the programme and how SMEs need to be consulted, positioned and supported by the government to fully participate and benefit from the free trade agreement.

Ghana has been identified as one of the countries with the potential to benefit from the African Continental Free Trade Agreement (AfCFTA). However, the ability to benefit from the agreement is not automatic. It is an undisputed fact that sustained economic growth and poverty reduction can only happen at the back of a vibrant and robust private sector, operating in a business-friendly and sound framework. For the Ghanaian private sector to benefit fully from the agreement, the local framework conditions in which they operate need to be conducive. The framework condition is not limited to macroeconomic factors (both policy and regulations) but also industry-specific developments (such as competitive energy tariffs, dispute resolution mechanism and access to finance, raw materials as well as good roads to move raw materials and other inputs from the hinterlands to the cities), which are also necessary conditions for the private sector A vibrant and a competitive SMEs not only create jobs but also increase domestic production thereby reducing the country's reliance on imported goods and services. Additionally, competitive SMEs can compete favorably under the terms of the AfCFTA.

It is in this context that CUTS Accra was engaged by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ GmBH) Ghana in implementing a six month project titled "Improving Framework Conditions to Unlock the Potential of AfCFTA for SMEs In Ghana" with the focus on embarking on a nationwide campaign and education about the awareness and potential benefits of AfCFTA and the level of preparedness required (the need to scale up their business, sharpen their skills, be technologically-savvy and have a good business culture) by SMEs to fully benefit from the agreement. This study therefore examined the local framework conditions and how to enhance the competitiveness and participation of SMEs in the AfCFTA agreement.

1.2 Objectives of the Study

The general objective of this study is to conduct a nationwide assessment about the level of competitiveness and growth-readiness of Ghanaian SMEs for enhanced participation in the AfCFTA and to come out with diagnostics report, which would help to develop practical steps in

5 *Robson, P. J. A. & Freel, M. (2008), "Small firm exporters in a developing economy context: Evidence from Ghana", Entrepreneurship & Regional Development, 20, 431-450. Cited in Damoah, O. B. O. (2019). Characteristics of Business Owner's Strategic Networking: Are There Differences Between Exporters and Non-exporters? African Journal of Management Research, 26, 63-90.*

6 *Offei, D., Asare-Nuamah, P., & Masinde, W. (2020). Local Private Sector Awareness and Participation in the African Continental Free Trade Area Prior to Accession by the Government of Ghana. Africa Insight, 50(1), 25-40.*

addressing those gaps and challenges and to advocate for improving the business framework conditions for the SMEs. The study specifically seeks to:

1. Assess the level of competitiveness and growth-readiness of Ghanaian SMEs for enhanced participation in the AfCFTA.
2. Identify how uncompetitive framework conditions can affect the competitiveness under the AfCFTA.
3. Mobilise diagnostics data on the risk metrics of SMEs.
4. Identify and develop practical steps in addressing those gaps and challenges.
5. Undertake capacity building to improve the competitiveness of the SMEs.

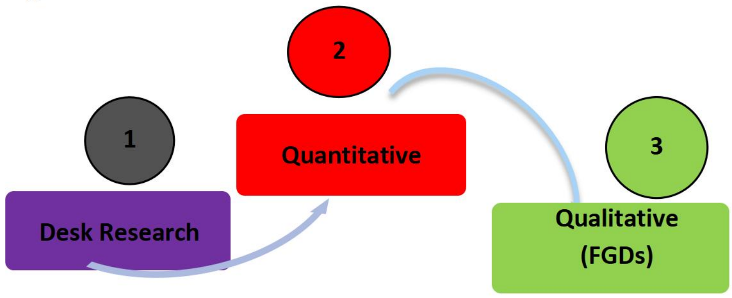
2. RESEARCH METHODOLOGY

The research strategy adopted for this study is a combination of both qualitative and quantitative methods and relies on both secondary (desk review) and primary (in-depth interviews) data. Thus, the approach used for the study is grounded on three phases namely; desk review, interviews using a questionnaire with quantitative metrics, and focus group discussions with a total of 1,028 Ghanaian SMEs in the Greater Accra, Western and Ashanti Region with 48 per cent of the respondents coming from Accra and Tema, and the remaining 52 per cent spread between Ashanti and Western regions. The study profiles the SMEs and gathers business-related information to help in their diagnosis and support the identified SMEs to design bespoke strategies, develop a competitive edge as well as make an optimal capital structure and investment decisions for enhanced participation in the AfCFTA.

To ensure adequate representation from across the country, the selection of the SMEs was sampled randomly to reduce sampling error and to ensure gender equity as well. A random sampling criterion was developed to map and profile the respondents for the study and mapping. The application of the random sampling technique saw the selection of respondents from a pool of already existing databases on SMEs with each respondent having the same probability of being selected.

2.1 Methodology and Research Questions

The methodology adopted for the study is built on three phases namely desk review, interviews using a questionnaire with quantitative metrics, and focus group discussions across highly dominated private sector regions in Ghana specifically, Greater Accra, Western and Ashanti regions.



Desk Review: Desk review, which was the first phase of the study, gathered, reviewed and analysed existing documents or data on trade. This was done by reviewing literature on AfCFTA, intra-African trade, Ghana's trade with the rest of Africa, Ghana's export potential, Ghana's trade policy, Africa trade policy, Ghana's private sector competitiveness and productive capacity and national export development strategy (NEDS).

The survey: This part involved a survey of selected firms to assess their readiness for the implementation of the AfCFTA. The survey was conducted from September to October 2021 and was based on a sample of 1,028 firms selected randomly from three highly dominated private sector regions of the country including Greater Accra, Ashanti and Western regions. The study team conducted face-to-face interviews with a structured questionnaire to gather primary information. Focus groups discussions (FGDs) were also conducted to gather qualitative data to buttress the quantitative information. The FGDs were prepared for each of the sectors to find out their anticipated fears, challenges, what they see to be their strengths and what they want the government to do to help enhance their readiness for the Agreement and make them more competitive. In all, 3 FGDs were organised. Data collected saw the categorisation of SMEs under various sub-sectors namely Agriculture, Building and Construction, Manufacturing, Retail and Wholesale, Service and the Transportation Sector. Out of the retrieved sample of 1,028 firms (respondents), 494 were successfully obtained from Accra, 266 were obtained from Kumasi and 268 from Takoradi.

Data Analysis and Reporting: Data Analysis was undertaken using Statistical Package for the Social Sciences (SPSS) together with Microsoft Excel spreadsheet and reporting was done through Microsoft PowerPoint packages. The qualitative technique used for analysing the text data obtained from the FGD was content analysis. Content analysis was used because it allows a researcher to organise information into categories to discover themes, patterns and concepts.

3. LITERATURE REVIEW

3.1 Intra-African Trade

The statistics indicated in Figure 1 shows that Africa contributes an insignificant amount to total merchandise exports and global trade. The merchandise exports from Africa to the rest of the world averaged US$399.400 million over the period 2000 – 2020. While this is larger than Oceania's US$ 214.307 million, it is trivial compared to US$5,458 million in Asia, US$5,693 million in Europe and US$2,421 million in America. Trade between African countries also lags behind relative to other continents. UNCTAD reports that Intra-African exports were just 16.6 per cent in 2017 compared to 68.1 per cent in Europe, 59.6 per cent in Asia and 55 per cent in America. Intra-African trade also averaged 15.2 per cent between the periods 2015 – 2017 while that of America, Asia and Europe averaged 47.4 per cent, 61.1 per cent and 67.1 per cent[7].

Figure 1: Regional Total Merchandise Exports

Source: UNCTAD Statistics, 2021

Trade within and among African countries is woeful and requires remedial measures. This occurs even with eight differently recognised regional economic communities in the continent. Trade statistics indicate that intra-regional economic community trade in 2016 was more dominant in the Southern African Development Community (US$34.7 billion) than in the Community of Sahel–Saharan States (US$18.7 billion), Economic Community of West African States (US$11.4 billion), Common Market for Eastern and Southern Africa (US$10.7 billion), Arab Maghreb Union (US$4.2 billion), the East African Community (US$3.1 billion), the Intergovernmental Authority on Development (US$2.5 billion) and the Economic Community of Central African States (US$0.8 billion)[8]. Countries that dominate intra-Africa export are those

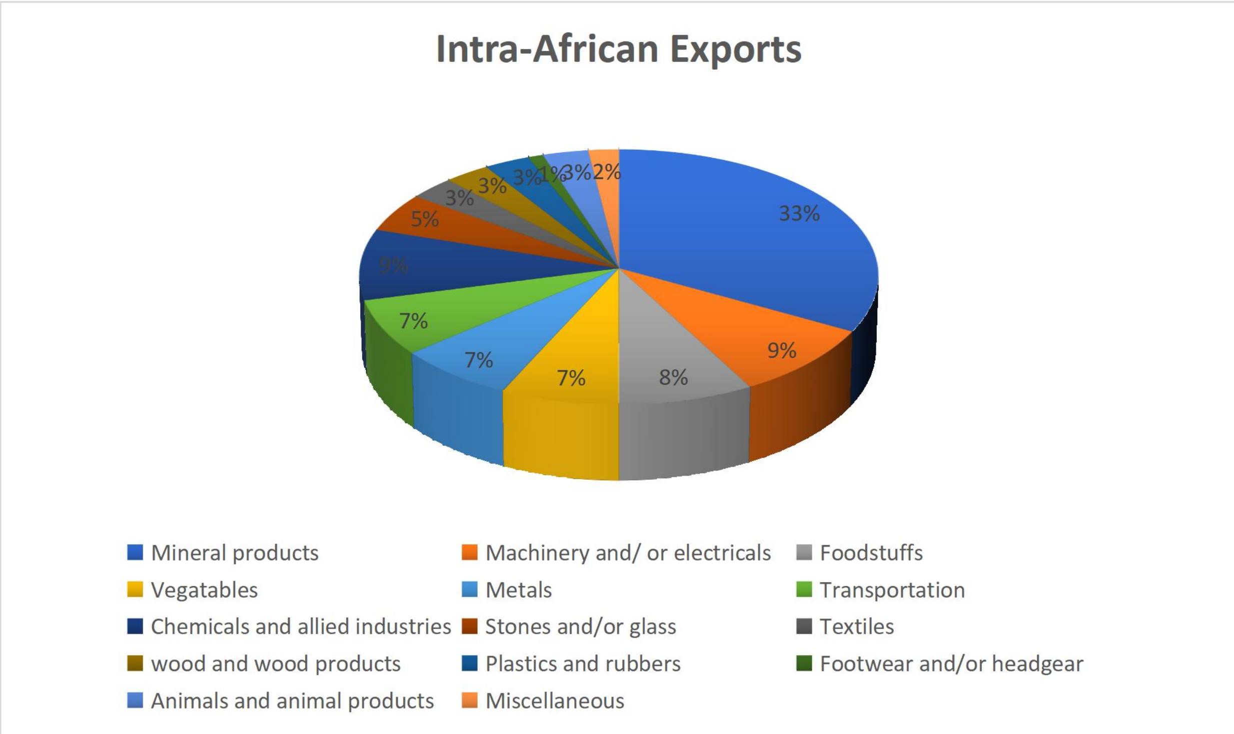
7 *UNCTAD (2019). Economic Development in Africa. Rules of Origin for enhanced intra-African Trade. United Nations, Geneva.*

8 *UNCTAD (2019). Economic Development in Africa. Rules of Origin for enhanced intra-African Trade. United Nations, Geneva.*

with diversified products while those with less diversified products export less. This means that more trade opportunities are created when the range of exported commodities are diversified.

Extractive industries exports account for 33 per cent of intra-African exports. This is followed by chemicals, machinery and electrical products, foodstuffs, vegetable products and metals in that order as depicted in Figure 2. These are mainly primary products with little value addition. For African countries to fully benefit from inter-regional trade, there is a need to produce wide varieties of complex, diversifiable and finished products.

Figure 2: Components of Intra-African exports from 2014 - 2016



Source: UNCTAD (2019)

There are, however, some challenges that impede intra-African trade and may hinder the progress of the AfCFTA. These impediments identified by the African Union include: differences in trade regimes; restrictive customs procedures, administrative and technical barriers; limitations of productive capacity; inadequacies of trade-related infrastructure, trade finance and trade information; lack of factor market integration; and inadequate focus on internal market issues. These challenges can therefore be mitigated through improvement in productive capacities, economic diversification and removal of tariff related trade costs.

3.2 Doing Business in Ghana relative to Ghana's Peers

The "Doing Business" report of the World Bank essentially focuses on the domestic small and medium-size enterprises (SMEs) and measures the regulations that apply to them through their life cycle. It captures important dimensions of the regulatory environment pertaining to local businesses and offers measurable benchmarks for reform. The score, therefore, indicates the strength of the business environment in order to make regulatory comparisons among economies. If Ghana is to become more competitive and take full advantage of AfCFTA, there is the need to improve on its ease of doing business indicators and general score.

In order to take maximum advantage of AfCFTA, indicators such as starting a business, dealing with construction permits, getting electricity, registering a property, getting credit, paying taxes, trading across borders among others must be improved. Starting a business for example, measures the number of procedures, time, cost and paid-in minimum capital requirement for a small – to medium-sized company to start up and formally operate in Accra – the capital city of Ghana. While Ghana's performance is above average, that of Rwanda, Cote d'Ivoire, Egypt and Nigeria far outpaced it. Other critical indicators that Ghana needs to pay more attention to are: getting electricity, registering a property, getting credit, paying taxes and trading across borders. These are very key factors that can derail Ghana's quest to a successful take-off of AfCFTA. Ghana particularly under-performs in granting credit access to SMEs and has cumbersome procedures in the payment of taxes relative to Rwanda, South Africa and Kenya who appear to be on a good tangent.

3.3 Overview of Ghana's Intra-Africa Trade

Ghana has been trading with other African countries, most of whom are found within the Economic Community of West African States (ECOWAS) and The Community of Sahel-Saharan States (CEN-SAD), of which Ghana is a member. The period between 1980 and 2007 saw Ghana's export to Africa increase from 0.90 per cent relative to the African average of 1.89 per cent to 3.13 per cent as opposed to the Africa average of 1.87 per cent in the same year. During the same period, Ghana's share of Intra-African exports grew from 2.46 per cent to 25.51 per cent and the imports share also moved from 3.68 per cent to 12.11 per cent relative to the Africa average of 9.81 to 20.81 and 7.6 to 17.2 respectively.[9] Its intra-Africa trade relationship with members of the regional economic blocs and individual African countries on the continent have concentrated on limited commodities for exports whiles imports are relatively diversified[10].

Ghana Intra Africa Imports: In 2019, Ghana's intra-Africa imports accounted for 10 per cent of its total global imports[11] from a previous figure of 11 per cent in 2018. This was made up of primary commodities, crude as well as semi-manufactured gold, manufactured and value-added products[12]. Ghana's imports from African countries outside ECOWAS make up 6 per cent of world imports, the equivalent of 59 per cent of intra-Africa imports[13]. South Africa accounts for 35 per cent of Ghana's intra-Africa imports with Morocco, Nigeria, Ivory Coast and Togo accounting for 41 per cent of Ghana's imports. The top five products that are sourced from other African countries within the region include frozen fish, non-crude petroleum products, vehicles, cement and palm oil[14].

Ghana Intra Africa Export: The main destination markets for Ghana are South Africa, Burkina Faso, Nigeria, Togo and Senegal[15]. South Africa is the single largest destination market for Ghana's intra-Africa export. Exported commodities to South Africa constitute Gold and Crude Petroleum, which makes up 90 per cent of total export into the South Africa market. This amounts to US$ 1.6 billion in nominal value terms[16]. In 2018, exports from Ghana to South

---

9 *Amoah, G., (2014). Intra-African Trade: Issues Involved in Improving Ghana's Trade with the Rest of Africa. Developing Country Studies, International Institute for Science Technology and Education (IISTE), 4(2).*

10 *https://www.tralac.org/resources/infographics/15011-ghana-2019-intra-africa-trade-and-tariff-profile.html*

11 *https://www.tralac.org/resources/infographics/15011-ghana-2019-intra-africa-trade-and-tariff-profile.html*

12 *http://www.konfidants.com/wpcontent/uploads/2021/05/Ghana_AfCFTA_Competitiveness_Report_Konfidants_Busac_April_2021.pdf*

13 *https://www.tralac.org/resources/infographics/15011-ghana-2019-intra-africa-trade-and-tariff-profile.html*

14 *Ibid*

15 *Ibid*

16 *Ibid*

Africa minus Crude Petroleum and Gold amounted to US$25 million, much lower than exports to Togo (US$130 million), Nigeria (US$87.9 million), Côte d'Ivoire (US$97.7 million), Niger (US$56 million) and Mali (US$53.3 million) over the same period.

While export to South Africa is mainly in primary commodities, exports to other countries mainly West African markets are usually in value added products such as plastics, refined petroleum, wheat flour among others. Ghana's top intra-Africa export destinations are within the ECOWAS regional bloc and largely for value-added products. This is due to the advantages it enjoys from the proximity and the External Tariffs Liberalization Scheme (ETLS), which are equally enjoyed by Ghana's peers (Nigeria, Cote d'ivoire and Senegal) who are equally taking advantage.

The five main products exported to the rest of African countries include unwrought gold, crude petroleum oil, footwear, palm oil and plastic packaging accounting for 76 per cent of total intra-Africa export. The agriculture sector serves as the main driver of Ghana's export, as cocoa is the main cash crop and the single most important export product[17].

Intra Africa tariffs and non-tariff cost: Prior to January 1, 2021, imports into Ghana from ECOWAS member nations were duty-free, whereas imports into Ghana from non-ECOWAS member countries like Tunisia, Morocco, Somalia, and the rest of Africa were levied.[18]. For non-tariff cost, it is lower between Ghana and members of ECOWAS such as Cote d'ivoire, Senegal, Burkina Faso and Senegal in the trade of manufactured goods[19]. Ghana's non-tariff trade costs in 2017 was higher than the average non-tariff trade cost found in Mauritius, Mozambique and Burkina Faso.

3.4 Ghana's Trade Policy

Ghana's trade policy at the time of its enactment was set within the long-term vision of achieving middle income status with the aim of achieving inclusive and sustainable economic growth and development. The World Bank classifies Ghana as a lower-middle income country. The policy, therefore, provides guidelines for the regulation and implementation of both domestic and international trade[20] as well as to provide a stable policy environment for the private sector to operate efficiently and with certainty to promote growth and development.

Ghana's trade policy covers seven broad thematic areas namely: multilateral trade; import-export regime; trade facilitation; production capacity; domestic trade and distribution; consumer protection and fair trade; and intellectual property rights. The Ghana Trade Policy also comes along with the Trade Sector Support Programme that is designed to systematically ensure the implementation of the trade policy and ensure the delivery of a speedy and strategic expansion of Ghana's productive base – undergirded by two parallel strategies namely an export-led growth and domestic market industrialisation strategy based on non-oil import. There is also the National Export Development Strategy for the non-traditional export sector and the national export development programme that provides guidelines for the implementation of Ghana's domestic and international trade agenda[21]. The trade policy reforms of Ghana have mainly focused on improving the competitiveness of exporting companies to help diversify their exports and enter into new markets[22]. The Ministry of Trade and Industry (MoTI)

---

17 *Ibid*

18 *Non-tariff trade cost according to ESCAP-World Bank trade cost includes all additional cost except tariffs such as the cost of transportation and the time it takes to complete import procedures as well as obtain trade information that impact the bilateral trade relationship amongst trading partners*

19 *Ibid*

20 *https://unctad.org/system/files/non-official-document/ditc_tncd_2015_d15_Nyame%20Baafi.pdf*

21 *https://www.wto.org/english/tratop_e/tpr_e/s298_e.pdf*

22 *Ibid*

has overall responsibility for the formulation, implementation, and monitoring of Ghana's trade policies.[23]

3.5 National Export Development Strategy

The National Export Development Strategy (NEDS) is a strategy developed by the government of Ghana spanning a period of 10 years from 2020 to 2029 to grow non-traditional exports (NTEs) alongside a deep structural transformation that positions Ghana as an export-led industrial economy.[24] This is with the aim of shifting from historically export raw material that were characterised by low yield and low foreign exchange revenues[25]. This transforms the structure of the economy from one based on raw material exports to one driven by the manufacturing industry[26].

The NEDS, therefore, seeks to harmonise government flagship programmes such as 1 District 1 Factory (1D1F), Planting for Food and Jobs (PFJ), Planting for Export and Rural Development, District Industrialisation for Jobs and Wealth Creation among others. The NEDs rests on three main pillars. The first pillar focuses on the expansion and diversification of the supply base for valued added industrial export products and services. Pillar two focuses on the improvement of the business regulatory environment. Pillar three focuses on the building and expansion of the human capacity for industrial export development and marketing. The implementation of NED has been limited to specific products for development and marketing due to limited resources. The NEDS focuses on an integrated list of 17 priority products generated by merging two categories of priority products, selected according to specific criteria[27].

Table 1: Priority Products List

Category I: Existing high –performance products for contributing to the projected target	Category II: Strategic Anchor Industrial Products for industrial transformation
Processed Cocoa	Pharmaceuticals
Cashew (processed & In-shell)	Aluminium Products
Horticultural Products	Iron & Steel Products
Oil Seeds (processed)	Automobiles and Vehicles
Fish and fishery products	Garments and Textiles
Apparel	Industrial Salt

23 *Ibid*

24 *https://www.tralac.org/documents/resources/by-country/ghana/4170-ghana-national-export-development-strategy-neds-overview-2020/file.html*

25 *https://cuts-accra.org/pdf/research-report-assessing-the-readiness-of-the-ghanaian-private-sector-to-AfCFTA-implementation.pdf*

26 *Ibid*

27 *Ghana National Export Development Strategy for the Non-Traditional Export Sector 2020-2029*

Category I: Existing high –performance products for contributing to the projected target	Category II: Strategic Anchor Industrial Products for industrial transformation
Natural Rubber Sheets	Petro-chemicals
Aluminium products	Machines and Machines components
Articles of Plastic	Industrial Starch
Services	Oil Palm
Integrated List of Priority Products	
Cashew (Processed & In-shell	Services
Horticultural Products	Pharmaceutical Products
Oil Seeds (Processed)	Iron and Steel Products
Fish and Fishery Products	Automobiles and Vehicles
Textiles and Garments	Industrial Salt
Natural Rubber Sheets	Machinery and Components
Processed Cocoa	Industrial Starch
Aluminum Products	Sugar
Articles of Plastics and other Petrochemicals Products	

Source: Ghana Export Promotion Authority (2020)

3.6 Characteristics of SMEs in Ghana

The SME sector is a dominant force in the global business environment as it contributes a lot to economic development. It creates over 70 per cent of global employment and 90 per cent of businesses operate in this sector. In Ghana, 92 per cent of businesses operate in the SME sector and 70 per cent of private sector output emanates from SMEs. It employs over 80 per cent of the labour force and contributes to 70 per cent of the national output[28]. This suggests that the SME sector is a critical economic driver and its role cannot be overemphasised. A lot of arguments have been made about the un-competitiveness of the Ghanaian SME sector. But with the advent

[28] *Ministry of Trade and Industry (2019). National Micro, Small and Medium Enterprises Policy.*

of AfCFTA and the need for SMEs to be in the front seat, Ghanaian SMEs are required to be fully equipped for this adventure.

According to the International Trade Centre (ITC), a small firm is any firm that employs up to 19 employees while a medium-sized firm is one that has 20 – 99 employees. Also, a large enterprise employs in excess of 100 employees[29.] The SME sector is a labour-intensive and low value-added sector, which deploys limited capital. They mostly operate as sole proprietorship businesses with some form of active family-membership involvement and these could make up about a quarter of the employees. These family members are sometimes unpaid employees. Decision making-wise, most SMEs are managed by the sole owners, with hardly any separate corporate entities. Decisions are taken mostly by the owner who mostly has informal working relationships with the employees with no formal reporting structure[30].

In terms of operations and activity, SMEs are predominantly engaged in retail trade or manufacturing in the urban or rural centers. The enterprises in the urban centers could further be categorised as formal or informal entities. The formal entities are characterised by registered offices, paid employees whose social securities (SSNIT) are also paid by the enterprise. Those that operate in the rural setting are mostly run by family members, artisans or women who are engaged in food vending and other businesses. Examples include: soap making, tailoring, textile and cloth making, sale of beverages and food, agro processing, bakeries, electronic repairs, furniture workers and mechanics among a host of others[31].

3.7 The SME Competitiveness Grid

The overall performance of SMEs does not only depend on their competitiveness but also on external factors – immediate business environment and the national economy. This presupposes that no enterprise can tackle all the challenges or constraints solely by itself. SMEs can thus survive and be strengthened with coordinated efforts at the industrial level as well as with institutional support.

The International Trade Centre of the UN designed the SME competitiveness grid, which hinges on three pillars of competitiveness and three levels of economy[32.] The factors that determine competitiveness are categorized according to how they influence it. That is, the three pillars, and where in the economy the intervention takes place; the three levels. The grid focuses more on local or micro-economic determinants of competitiveness rather than macro-economic determinants.

The three pillars of competitiveness

Capacity to compete: This pillar focuses on the present operations of SMEs and how efficient they are in terms of cost, time, quality and quantity. In addition, it dwells on the immediate business environment as well as the national environment. Key determinants under the capacity to compete include; the use of an internationally recognised quality certification at the firm level, accessibility to technical infrastructure at the immediate business environment level and low tariffs at the national level.

[29] *International Trade* Centre *(2016). SME Competitiveness in Ghana, Alliances for action, Doc. No. OCE-16-27. E, Geneva: ITC, 2016. xii, 47 pages*

[30] *Ibid*

[31] *Ibid*

[32] *International Trade* Centre *(2015). SME Competitiveness Outlook 2015: Compete, connect and change for inclusive growth. Geneva: ITC.*

Capacity to connect: This pillar focuses on gathering and exploiting information and knowledge. It relates to the ability of the firm to gather information that flows into it. Examples of such information include: consumer profile, preference and demand. It also includes how information is conveyed to customers through marketing and advertisement. It includes links to sector associations and institutions at the immediate business environment level. Then at the national level, it has to do with the availability of ICT infrastructure.

Capacity to change: This last pillar focuses on the capacity of the firm to execute change as a response to or in anticipation of dynamic market forces. It also involves the capability of the entity to be innovative through massive investment in human and financial capital. Competitive firms in this regard are those that are resilient and are able to adapt to dynamic external factors. Disruptive innovation in the industry increases competition and requires strategy adaptation. The ability of the firm to access finance, invest in human capital, innovation and intellectual property protection, quality of the banks, degree to which access to financial institutions is an obstacle, availability of skilled workers in the job market, quality of services offered by patent institutions and cost of innovation supporting institutions are all indicators of capacity to change at the firm-level. The challenge at the business or macro level is the environment's ability to deliver these resources to firms.

The three levels of the economy

Firm capabilities: This typically deals with whether firms are capable of handling resources within their domain. Indicators under this level gauge whether firms follow best practice. Examples are whether the firm has a bank account, conducts daily operations using an email account or has high-capacity utilisation.

The immediate business environment: At this level, the resources and competencies that help to shape whether or not firms are competitive are delivered. It includes factors that are external to the firm but still within its micro-environment such as access to power, access to a skilled workforce or the vicinity of a relevant cluster of economic activities.

The national environment: This level contains structural factors that are fundamental for the functioning of the market. Examples of indicators are policies on entrepreneurship and ease of doing business, trade-related policies, governance, infrastructure and resource endowments.

3.8 SME Competitiveness in Ghana

The International Trade Centre (ITC) and the Association of Ghana Industries (AGI) randomly surveyed 200 SMEs, which operate in the manufacturing and agricultural sector in Ghana. Three-quarters of the businesses surveyed—which were located in Accra, Tema, Kumasi, and Brong Ahafo—are exporters. This study investigated the strengths as well as weaknesses facing the sector and the business environmental factors that drew them back.[33]

Thus, the survey assessed the key elements that affect the competitiveness of SMEs – their capacity to connect, compete and change using the competitiveness grid. The results of the survey in Table 4 show that the strength of most SMEs in Ghana lie in their capabilities to change, connect and to compete. The major weakness lies in the national environment to compete, change and to connect. In between the firm capabilities and national environment lie the immediate business environment.

More specifically, while most Ghanaian SMEs appear to follow best practices and seem knowledgeable about the financial system, most of them find access to finance as a major

[33] *International Trade* Centre *(2016). SME Competitiveness in Ghana, Alliances for action, Doc. No. OCE-16-27. E, Geneva: ITC, 2016. xii, 47 pages*

obstacle in addition to electricity supply and this is shown in Table 5. Most Ghanaian SMEs also do not offer unique products, which makes it difficult to beat competition. Below is the survey summary as to why SMEs are not competitive in Ghana;

- *Lack of unique products:* most firms are engaged in the production of commonly and easily copied products. This implies many suppliers of similar products and low competitiveness
- *Insufficient access to electricity:* unreliable access to electricity ranked the least when services in the business environment were ranked. Services ranked include transport and water.
- *High interest rate:* most firms who applied for loans were granted but the rate was exorbitant. This is the main contributory factor for the low score of the overall access to finance.
- *International recognised certification:* while most firms surveyed had nationally recognised certificates or adhered to standards, just about half had internationally recognised certificates or adhered to standards. Most of those who hold the international certificates, do export their products.
- *Access to ICT:* Although Ghana was one of the first countries in Africa to have widespread internet connectivity, the connectivity gap between SMEs remains large.
- *Advertising:* Only 30 per cent of small firms are engaged in any form of advertisement while 76 per cent of medium firms do and this limits the growth of potential clients.

Table 2: The SME Competitiveness Grid in Ghana

Ghanaian SME Competitiveness grid		**Three Pillars of Competitiveness**		
		Compete	**Connect**	**Change**
Three Levels of the Economy	**Firm's capabilities**	63.9	68.0	69.1
	Immediate business environment	44.4	53.1	57.3
	National environment	38.9	53.5	44.4

Source: ITC (2016) * Scores are out of 100

Table 3: The Indicators of Competitiveness in Ghanaian SMEs

Indicators of Competitiveness	**Small size**	**Medium size**	**All SMEs**
Firms follow best practice	63.2	78.3	**na**
How firms rate their immediate business environment	51.3	51.1	na
Uniqueness of product offering	37.8	40	na
Access to electricity supply	31.6	31.6	31.6
Knowledge of the financial system	79.9	88.9	na
Access to finance as an obstacle	35	44.6	na
Quality requirements (domestic or international certification)	na	na	62.1

Source: ITC (2016) ** Scores are out of 100*

3.9 Competitiveness of Ghanaian SMEs to Peers in the African sub-region

Ghanaian SMEs can only derive maximum benefit from AfCFTA if they compete favourably with their peers in the sub-region. It is, therefore, necessary to gauge how competitive these SMEs are to their African counterparts. Table 6 reports the competitiveness scores of Ghana's peers in Africa. The result shows that the strength of Ghanaian SMEs lie in their firms' capability to compete, connect and change (Table 4) and this competes very favourably with their African peers such as Cote d' I'voire, Rwanda, Egypt and Kenya in Table 6. On the other hand, the Ghanaian national environment performs poorly, especially, to compete and to change but does relatively well to connect. Also, the immediate business environment in Ghana lags behind with regard to the pillar "connect" and "compete". The immediate business environment, however, does well in the indicator to change. This presupposes that for Ghanaian SMEs to be competitive in Africa and to fully benefit from AfCFTA, there is a need for massive improvement in the immediate business environment and also the national environment as already indicative in the "doing business" report.

Table 4: The Indicators of Competitiveness in Ghanaian SMEs

	Pillars of Competitiveness											
	Compete				Connect				Change			
	Cote d'Ivoire	Egypt	Kenya	Rwanda	Cote d'Ivoire	Egypt	Kenya	Rwanda	Cote d'Ivoire	Egypt	Kenya	Rwanda
Firm capability	**25.8**	**34.5**	**45.7**	**27.7**	**6.7**	**22.3**	**36.9**	**33.1**	**17.3**	**29.0**	**62.5**	**54.7**
Immediate business environment	**42.7**	**47.6**	**34.1**	**48.6**	**51.8**	**48.1**	**64.1**	**54.9**	**35.7**	**48.6**	**44.4**	**44.3**
National environment	**39.0**	**41.6**	**43.2**	**39.9**	**29.0**	**60.6**	**41.1**	**33.3**	**36.9**	**49.4**	**39.0**	**45.3**

Source: ITC (2016) * Scores are out of 100

3.10 Challenges of SMEs in Ghana

Institutional bottlenecks: SMEs face many challenges in Ghana. Key among them are the weak institutional frameworks. Government knowing the importance of SMEs and in its resolve to address the institutional challenges facing the SME sector in Ghana, operationalised the Act that established the National Board for Small Scale Industries (NBSSI) in 1985. Although the NBSSI has been a key proponent of SME development in Ghana, the Ghanaian economy has outpaced the role of the NBSSI. The main challenges facing the NBSSI are lack of resources and inadequate funding. It is worth mentioning that the NBSSI has been replaced by the Ghana Enterprises

Agency (GEA) in 2020. Most institutions and programmes that have been aimed at boosting the SME sector in Ghana have achieved little due to the uncoordinated approach and generally duplication of efforts. There has also been unnecessary competition among government institutions for the already limited resources. These include the Association of Ghana Industries (AGI), Rural Enterprises Project, GRATIS, ASSI among others.

Legal and Regulatory Frameworks: The legal and national regulatory framework required for the smooth operation of SMEs in Ghana has been described as weak, costly, bureaucratic and centralised[34]. Most SMEs incur high cost of compliance to regulatory requirements relative to larger firms. These costs include the high cost of registering a start-up. Accordingly, most SMEs have been unable to formalise their operations and are also unable to transition, upgrade or grow into much larger firms. Another regulatory constraint SMEs face in Ghana is the unfavourable tax regimes. Taxes are administered by different uncoordinated authorities such as the Ghana Revenue Authority and the Local Government Authorities. This makes the cost of complying with these taxes very burdensome besides most enterprises being ignorant about these tax administrations. An important benchmark of regulatory expediency is the doing business score, which Ghana performs poorly, indicating the low level of competitiveness. Other challenges that SMEs face are inadequate data on SMEs and their activities, limited access to credit and finance, inadequate entrepreneurial and managerial skills, limited access to equipment and technology, inadequate access to market intelligence, high cost of doing business, weak value chain integration, lack of youth & women centered entrepreneurial development policies, lack of a strong and coherent SME sector with one voice, restricted export opportunities, high cost of electricity and credit, inability to meet production standards and lack of knowledge on quality and standard requirement.

3.11 Ghana's Export Potential

To participate fully and take advantage of the benefits that comes with the continental free trade area, Ghana has to identify its export potential. With most of its exports dominated by primary or traditional commodities, Ghana export potential lies in the development and diversification of non-traditional export products. The country, therefore, needs to identify its major export potential so as to export competitively to other African countries[35].

The following products have been identified to hold the greatest potential for Ghana's export diversification agenda; cocoa processing, horticulture products, fresh and processed fish, palm oil, cashew-nuts, natural rubber, yam, medicinal plants and professional services.[36] For cocoa processing, Ghana is the second leading producer of cocoa and as such the cocoa industry offers many opportunities by increasing cocoa processing into intermediate and finished products. However, less than 25 per cent of the cocoa beans generated are processed locally, the equivalent of 5 per cent of the world global intermediate cocoa processing industry worth US$28 million.

These NTEs have consistently featured in the top 10 NTEs over the period[37]. Ghana's strongest demand potential in Africa is in Palm oil (exclude crude) and fractions with the highest supply capacity in cocoa beans[38] but a huge gap still persists in Ghana's export potential to Africa that

[34] *Ministry of Trade and Industry (2019). National Micro, Small and Medium Enterprises Policy.*

[35] *https://cuts-accra.org/pdf/research-report-assessing-the-readiness-of-the-ghanaian-private-sector-to-AfCFTA-implementation.pdf*

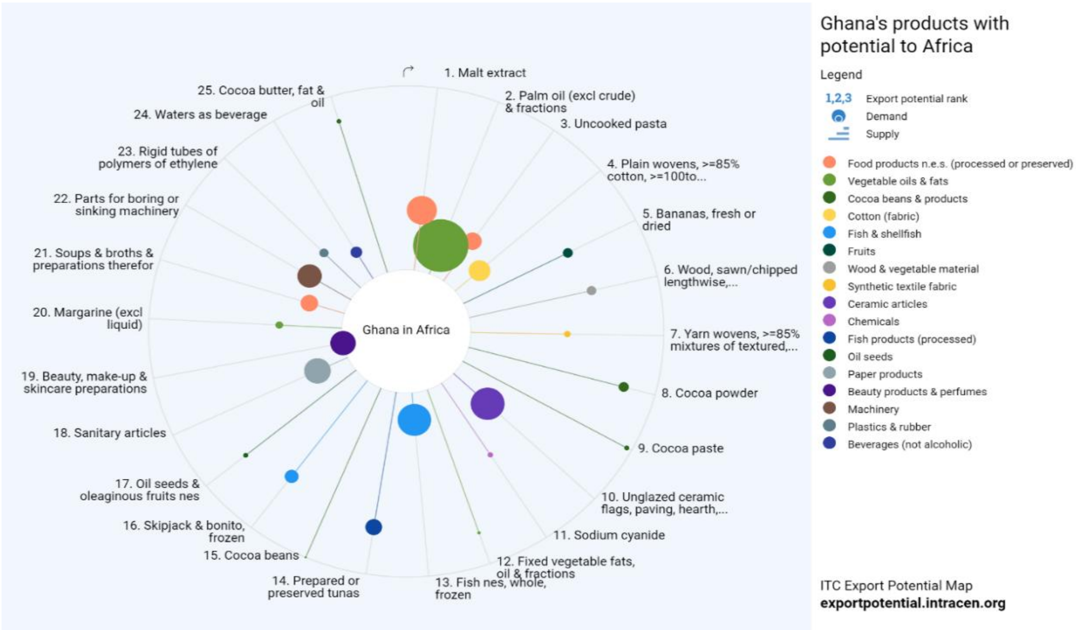
[36] *https://includeplatform.net/wp-content/uploads/2019/07/GTF-Export-Promotion-in-Ghana-SR-formatted.compressed.pdf*

[37] *Ibid*

[38] *Ibid*

must be addressed as far as AfCFTA is concerned[39]. The Export Potential Indicator (EPI)[40] demonstrates the products that make up the export potential from Ghana to other African markets that the country can take advantage of. Analysis and calculations of Ghana's export potential is based on the International Trade Center (ITCs) export potential Map. The analysis of Ghana's export potential demonstrates that Malt extract, Palm oil (excl crude) & fractions, and Uncooked pasta are the products with greatest export potential from Ghana to Africa[41]. Cocoa beans have the highest supply capacity and palm oil (exl crude) and fractions has the strongest demand potential for Africa (Figure 3)[42]

Figure 3: Export Potential Rank, Supply and Demand Analysis of Ghana's Product with Export Potential to Africa



Source: ITC Export Potential Map (2020)

Note: The size of the bubble stands for the projected demand in the African market while the length of the line (from the center of the circle to the outside) stands for the estimated supply capacity for Ghana

3.12 Top Market Destinations with the Highest Potential for Ghana

Ghana's top export destination in Africa for value-added goods are found in the West African enclave or the ECOWAS bloc[43]. This is because of Ghana's proximity to these export destinations and the presence of the external tariff liberalisation scheme within ECOWAS[44]. A study by Konfidant in 2021 on regional competition among RECs demonstrated that relative to export from other RECs, countries within the West African region are better entrants in the North

39 *Ibid*

40 *"EPI serves countries that aim to support established export sectors in increasing their exports to new or existing target markets. It identifies products in which the exporting country has already proven to be internationally competitive and which have good prospects of export success in specific target market(s) (intensive product margin)"*

41 *https://cuts-accra.org/pdf/research-report-assessing-the-readiness-of-the-ghanaian-private-sector-to-AfCFTA-implementation.pdf*

42 *Ibid*

43 *http://www.konfidants.com/2021/04/22/ghanas-competitive-potential-in-the-afcfta-a-country-competitiveness-opportunity-assessment-report-by-konfidants/*

44 *Ibid*

African markets compared to players from East Africa, Southern Africa and Central Africa [45]. Findings also suggests that Egypt, South Africa and Morocco pose the most threat to Ghana in markets where Ghana has the most export potential because these countries have export potential in nearly all of Ghana's potential markets and are even exporting more than Ghana[46].

Table 5: Top Market Destinations with the Greatest Potential for Ghana's Value-Added Products & Ghana's Potential Utilization in Each Market (2020; Q1)

Country	Export potential	Potential Utilization
Burkina Faso	US$ 174.6 million	82%
Nigeria	US$136.8 million	62%
Togo	US$ 111.4 million	52%
Senegal	US$ 73.4 million	72%
Cote d'ivoire	US$ 71.2 million	59%
Niger	US$ 64.9 million	84%
Egypt	US$ 36.4 million	40%
Mali	US$31.5 million	64%
Benin	US$ 29.1 million	66%
Tunisia	US$ 20.6 million	76%
South Africa	US$ 14.9 million	46%
Morocco	US$ 8.6 million	55%
Cameroon	US$ 8.1 million	47%
Kenya	US$ 4.6 million	19%

Source: Konfidants, based on International Trade Center Export Potential Map (As of 2020; Q1).

3.13 Export Potential Gap

Ghana's export to Africa has a huge gap that needs to be addressed in order to benefit greatly from the AfCFTA. As indicated in Table 8, Malt extract has the greatest total difference between

[45] *Ibid*

[46] *Ibid*

potential and actual exports in value terms, leaving room to realise additional exports worth US$73 million. Followed by uncooked pasta, Palm oil (excl crude) and fractions and plain woven. This export gap presents an existing opportunity in Africa for SMEs in Ghana to take advantage.[47]

Table 6: Potential to Actual Export Gap of Ghana's Products to Africa

Product	HS Code	Export Potential	Actual Export	Untapped Potential
Malt extract	190190	$77.6mn	$4.6 mn	$73.0 mn
Palm oil (excl. crude) & fractions	151190	$60.8 mn	$84.9 mn	$27.6 mn
Uncooked pasta	190219	$34.1mn	$11.1k	$34.1mn
Plain wovens, >=85% cotton, >=100to 200g/m2, printed	520852	$28.1 mn	$5.0mn	$23.8mn
Bananas, fresh or dried	0803	$21.4mn	$2.2mn	$19.3mn
Wood, sawn/chipped lengthwise, sliced/peeled, thickness >6m	4407Xc	$18.1 mn	$3.3 mn	$15.4 mn
Yarn wovens, >=85% mixtures of textured, non-textured polyester filaments	540769	$ 17.7mn	$5.3mn	$12.4mn
Cocoa powder	180500	$17.5 mn	$4.7 mn	$13.2 mn
Cocoa paste	180310	$16.6 mn	$13.2 mn	$3.9 mn
Unglazed ceramic flags, paving, hearth, wall tiles and mosaic cubes	6907	$ 16.0mn	$12.4mn	$9.1mn

[47] *https://cuts-accra.org/pdf/research-report-assessing-the-readiness-of-the-ghanaian-private-sector-to-AfCFTA implementation.pdf*

Product	HS Code	Export Potential	Actual Export	Untapped Potential
Sodium cyanide	283711	$16.0 mn	$1.6 mn	$14.9 mn
Fixed vegetable fats, oil & fractions	151590	$14.5 mn	$129.1k	$14.4 mn
Fish, whole, frozen	0303Xa	$13.7 mn	$0	$13.7 mn
Prepared or preserved tunas	160414	$13.5 mn	$61.7k	$13.4 mn
Cocoa beans	180100	$12.3 mn	$9.4mn	$2.8mn
Skipjack & bonito, frozen	030343	$12.0 mn	$3.1mn	$9.0 mn
Oil seeds & oleaginous fruits	1207Xa	$10.5 mn	$3.9 k	$10.5 mn
Sanitary articles	961900	$9.3 mn	$4.3 mn	$7.2 mn
Beauty, make-up & skincare preparations	330499	$9.3 mn	$8.0 mn	$4.6 mn
Margarine (excl liquid)	151710	$9.0 mn	$5.0mn	$6.6 mn
Soups & broths & preparations therefor	210410	$8.3 mn	$833.3k	$8.3 mn
Parts for boring or sinking machinery	843143	$8.3 mn	$2.6mn	$6.2 mn
Rigid tubes of polymers of ethylene	391721	$8.2 mn	$11.2 mn	$2.8 mn
Waters as beverage	220210	$7.2 mn	$1.6 mn	$6.3 mn

Product	HS Code	Export Potential	Actual Export	Untapped Potential
Cocoa butter, fat & oil	180400	$6.9 mn	$2.5 k	$6.9 mn

Source: ITC Exponential Trade Map (2020)

3.14 Summary

The African Continental Free Trade Area is headquartered in Ghana and trade under this free trade area began in January, 2021. But the question that lingers in the mind of many is how readily prepared the Ghanaian government is, business environment and SME sector to fully exploit AfCFTA? This is a very pertinent concern to raise at this time because SMEs account for a chunk of Ghana's private sector and are also a dominant employer beside the high contributions to GDP. This study undertakes an in-depth investigation about how to enhance the competitiveness and participation of SMEs in the AfCFTA agreement.

The desk review has revealed that in terms of exports, Ghana mainly exports petroleum products, minerals, food, chemicals, plastics and tubes largely to South Africa, Burkina Faso, Nigeria, Senegal and Togo. Ghana's export to Africa has a huge gap that needs to be addressed in order to benefit greatly from the AfCFTA. Malt extract has the greatest export potential followed by uncooked pasta, palm oil and plain woven. With most of its exports being dominated by primary or traditional commodities, Ghana's export potential lies in the development and diversification of non-traditional export products. The greatest potential for the Ghana export diversification agenda includes cocoa processing, horticulture products, fresh and processed fish, palm oil, cashew-nuts, natural rubber, yam, medicinal plants and professional services. It has, however, been argued that Egypt, South Africa and Morocco pose the most threat to Ghana in markets where Ghana has the most export potential because these countries have export potential in nearly all of Ghana's potential markets and are even exporting more than Ghana.

More importantly, in terms of competitiveness at the macro level, Ghana performs poorly in the doing business score as it currently ranks 118 out of 190 countries with most of its African peers such as Kenya, Côte d'Ivoire, Rwanda, Egypt and South Africa ranked higher. This means that the Ghanaian regulatory environment is not conducive to global trade unlike in other African countries. Also, using the SME competitiveness grid, Ghanaian firms appear relatively dominant to some of their peers in the firm's capability to compete, connect and to change. However, they are weaker in the national environment and immediate business environment capabilities to compete, connect and change. Survey results show that Ghanaian SMEs lack unique products, have unreliable access to electricity and ICT, incur high finance cost and few are internationally certified. Most SMEs are also challenged by institutional, legal and regulatory frameworks.

Ghanaian SMEs must make significant efforts to diversify or enhance their exports if they are to benefit from the AfCFTA.. Similarly, there is the need to work assiduously to improve upon the competitiveness levels of Ghanaian businesses, which takes collective efforts both from the government through providing the enabling business environment while SMEs work on their internal mechanisms.

4. OVERVIEW OF THE SELECTED SECTORS

This segment presents the overview of the sectors selected for the study covering:

- Agriculture sector
- The Building and Construction
- Manufacturing
- Service provider
- Retail and Wholesale
- Transportation

4.1 Agriculture Sector

The agriculture sector remains one of the important sectors in the Ghanaian economy. It employs about 44.7 per cent of the total labour force, providing employment for Ghana's youthful and growing population. The sector is made up of small-scale rain-fed crop and livestock farming systems with an average farm size of less than 1.2 ha, accounting for about 80 per cent of the total agricultural production[48].

The strategic role of the agricultural sector as the backbone and driver of the economy has been recognised through government initiatives to increase investment in food and agricultural production[49]. Initiatives embarked upon include Planting for Food and Jobs, Youth in Agriculture, the Agriculture Engineering policy, the 2018-2021 Ghana Agricultural Investment Plan, One District, One Factory among others[50]. The agriculture sector grew from 2.9 per cent in 2016 to 6.1 per cent in 2017, recording a growth of 4.8 per cent in 2018 and 4.6 per cent in 2019[51]. The sector averaged at 4.5 per cent in the first three quarters of 2020 relative to 2019 during the same period[52]. The sector's performance in 2020 was boosted by crop, fishing and livestock. The production of crops within the sector has increased over the years mainly driven by smallholder farmers, but this is marked with poor extension services, aging farmers and lack of finance for investment in better inputs[53].

Ghana remains a major importer of food products, having reached an estimated amount of $2 billion worth of food and agriculture related items in 2019. The high imports of agricultural products are accounted for by the underdeveloped nature of the food processing sub sector to meet increasing demands [54]. Globally, the top 10 leading exporters of agriculture and its related products to Ghana include, in descending order, Vietnam, Belgium, Canada, China, the United

---

48 *Essegbey, G. O., & Maccarthy, D. S. (2020). Situational analysis study for the agriculture sector in Ghana final report. https://agnes-africa.org/wp-content/uploads/2020/09/Situational-Analysis-of-the-Agriculture-Sector-in-Ghana_July-2020_Final.pdf*

49 *Amoah, R., & Kwarteng, P. (2020). Effects of Financial Liberalization on the Productivity Growth of Agriculture Sector in the Presence of Structural Breaks: Evidence from Ghana. International Journal of Economics and Finance, 12(5), 22.*

50 *Ibid*

51 *Ghana Statistical Service (2020)*

52 *Ibid*

53 *Israel Trade and Economic Commission to Ghana (2020). Agriculture Sector in Ghana Review. https://itrade.gov.il/ghana/files/2020/05/Agriculture-Sector-Review.pdf*

54 *https://www.trade.gov/knowledge-product/ghana-agricultural-sectors*

States, Malaysia, Russia, Thailand, the United Kingdom and Brazil[55]. Ghana is a net importer of agriculture product especially consumer ready commodities such as wheat, sugar, rice and poultry[56]. In 2019, the top partner countries and regions, to which Ghana export agricultural raw materials include India, United States, Malaysia, Vietnam, China, Germany, Italy, Spain, Canada and United Arab Emirates[57]. The past years between 2017 and 2019 have seen some progress in the sector with respect to the overall performance, with growth averaging 5.2 per cent compared with the average of 2.9 per cent within Sub-Saharan Africa[58]. The sector continues to play a vital role in foreign exchange earnings.

4.2 The Building and Construction Sector

The building and construction industry in Ghana has seen some decent performance and contributes substantially to economic performance and employment[59] boosted by the development of affordable housing and critical infrastructure such as roads, railways, ports, hospitals and schools[60]. The sector wields great potential as continued expansion was observed at 3 per cent in excess between 2015 and 2017, slowing down in 2018. The building and construction sector contributed about 13.7 per cent to GDP. The sector experienced a marginal expansion in real terms by 0.6 per cent in 2020 following a contraction of 4.4 per cent in 2019[61]. The industry is expected to grow by 1.1 per cent and record an average annual growth rate of 3.9 per cent between 2022 and 2025[62]. The main problem confronting the building and construction sector in Ghana is economic weakness, which culminates in insufficient resources for development, limiting job creation potential, lack of government recognition regarding the industry's importance, and inability to execute massive projects[63]. The building and construction industry witnessed 14.2 per cent growth in the first quarter of 2021 according to international agency, Fitch Solutions.

Ghana's construction industry is the most diverse in sub-Saharan Africa, hosting contractors with different nationalities than any other market in the region[64]. The country's building and construction industry is quite attractive compared to other countries in the Sub-Saharan Africa Region. This is due to less political risk, lower complexity and shorter time frame of road construction projects, availability of cost-effective labour, wide competitive landscape and strong female participation in projects[65]. This has made Ghana's building and construction sector the 7th in SSA in terms of value and 6th in attractiveness for the Sub-region with Namibia

55 *Ibid*

56 *Israel Trade and Economic Commission to Ghana (2020). Agriculture Sector in Ghana Review. https://itrade.gov.il/ghana/files/2020/05/Agriculture-Sector-Review.pdf*

57 *World Integrated Trade Solution (2021). Ghana 2019 Export Partner Share*

58 *ISSER (2019). The State of the Ghanaian Economy in 2019*

59 *https://www.trade.gov/country-commercial-guides/ghana-construction-and-infrastructure*

60 *https://oxfordbusinessgroup.com/ghana-2020/construction-real-estate*

61 *https://www.asdreports.com/market-research-report-577536/construction-ghana-key-trends-opportunities-h*

62 *Ibid*

63 *Ibid*

64 *https://thevaultznews.com/economics/economy/ghana-robust-trade-outlook-to-boost-demand-for-road-construction-fitch-solutions/*

65 *Ibid*

and South Africa placing 1st and 2nd respectively[66].

Contribution from the sector to the economy suggests that much attention ought to be paid to the sector to leverage its potential for growth. The construction sector is often confronted with delay or non-payment of contractors, delays in the construction process and the termination of contract[67]. The challenges faced by the sector include financial challenges, land litigation and acquisition-related problems, the cost of building materials and high tax burden among others.

4.3 Manufacturing Sector

The manufacturing sector constitutes 92 per cent of Ghana's industrial sector and remains one of the major sources of employment, accounting for 18.6 per cent of total employment[68]. The import industries in the manufacturing sub-sector include electronics manufacturing, automotive manufacturing, light manufacturing, aluminum smelting, food processing and cement manufacturing[69]. Other industries include the production of food and beverages, textiles, chemicals and pharmaceuticals, and the processing of metals and wood products[70].

According to the Ghana Statistical Service, the sector's contribution to GDP in 2015, 2016, 2017 amounted to US$4.4bn, US$5.2billion and US$6.1billion respectively[71]. The manufacturing sub-sector grew by 9.5 per cent in 2017, up from 7.9 per cent in 2016 and 3.7 per cent in 2015[72]. Sub-sector recorded a lower growth of 5 per cent in the 1st quarter of 2020 compared to 5.6 per cent in the same period of 2019. It, however, contributed 0.60 percentage points (12.2 per cent) to overall GDP growth of 4.9 per cent in quarter one, 2020[73]. In terms of percentage contribution to overall GDP growth rate, the sector is the second driver of GDP growth rate at a rate of 12.2 per cent second to the Information and Communication at 42.7 per cent according to the Ghana Statistical Service[74].

The sector is open for investments in the automotive industry under the Automotive Development Policy, the Agro-processing under the 1-District-1-Factory policy and Fabrication of steel and other metals under the Integrated Aluminium Industry project [75].

4.4 Service Sector

The service sector remains the largest sector in Ghana employing over 49.4 per cent as of

---

66 *Ibid*

67 *https://realestatetimesafrica.com/news/economy/414/The+Construction+and+Real+Estate+Sectors+Contribution+to+Ghanas+GDP*

68 *https://gipc.gov.gh/manufacturing-oil-and-gas/*

69 *Addo, E. O. (2017). The impact of manufacturing industries on Ghana's economy. International Journal of Research Studies in Management, 6(2). https://doi.org/10.5861/ijrsm.2017.2003*

70 *Ibid*

71 *https://oxfordbusinessgroup.com/overview/capacity-building-financial-stability-and-openness-international-investment-support-burgeoning*

72 *Ibid*

73 *https://statsghana.gov.gh/gssmain/storage/img/marqueeupdater/Newsletter%20quarterly%20GDP%202020%20_Q1_June%202020%20Edition.pdf*

74 *Ibid*

75 *https://gipc.gov.gh/manufacturing-oil-and-gas/*

2020[76]. The service sector in the economy of Ghana covers a wide range of sub-sector including transport, communication, storage, restaurants and hotels, finance, insurance, real estate and government services. The service sector recorded an average growth rate of 1.9 per cent within the first three quarters of 2020 compared to an average growth rate of 6.5 per cent during the same period in 2019. This contraction in growth is due to a severe slowdown, which resulted from output contractions in Sub-sectors like Hotels and Restaurants (-19.6), Repair of Vehicles and Household Goods (-5.2 per cent) and Professional, Administrative & Support (-3 per cent). This reflects the impact of the pandemic on the sector with the announcement of containment measures to contain the spread of the Covid-19 virus[77].

The sector realised growth in the Information and communication sub-sector growing by 15.7 per cent in the 2nd quarter of 2020 compared to 17.1 per cent in the 1st quarter of 2020. The last quarter of 2020 saw the sector contributing about US$17.5 billion to the country's GDP, which was an increase relative to the same period in the previous year ($3.02 billion). Growth and earnings in the services industry have been supported by Ghana's economic and political stability. However, lack of adequate infrastructure for businesses may account for many of its expansion limitations.[78]

4.5 Transportation Sector

Ghana's transport sector is made up of road transport, air transport, maritime and water transport as well as rail transport. Road transport is the most important means of moving people and freight in Ghana. It accounts for 95 per cent of the transportation of people and 98 per cent of freights transport[79]. Road transport is grouped under four main segments namely the urban, express services, rural-urban and rural. The road transport sector is mainly used by passengers commuting to work, school and for economic and social activities[80]. Services are provided by taxis, mini-buses and state/private supported buses. Most of these services are provided for inter-city, intra-city and long-distances[81] .

Ghana's air transport market is small in absolute terms and average in the context of Africa[82]. The country has two major international airports, which is the Kotoka international airport and the Kumasi international airport. Domestic airports include Ho airport, Wa airport, Navrongo airport, Takoradi airport, Sunyani airport, Tamale airport and Yendi airport[83]. The air transport market is largely international, which is fairly balanced between intra-Africa and intercontinental flights[84]. With growing incomes, increasing foreign direct investment and the establishment of foreign companies, the prospect for the industry looks good.

76 *Ibid*

77 *Ibid*

78 *https://www.statista.com/statistics/1175535/employment-in-the-services-sector-in-ghana/*

79 *http://www.chinagoabroad.com/en/guide/investing-in-ghana-s-roads-and-transport-sector*

80 *Ibid*

81 *Ibid*

82 *https://www.pwc.com/gx/en/transportation-logistics/publications/africa-infrastructureinvestment/assets/ghana.pdf*

83 *https://www.eways-aviation.com/blog/ghana-understanding-the-airport-landscape*

84 *https://www.pwc.com/gx/en/transportation-logistics/publications/africa-infrastructure-investment/assets/ghana.pdf*

Ghana's sea, coastal and water transport facilitates the movement of people and plays a critical role in trade. The Tema and Takoradi Port serve as one of the main ports on the West African Coastline and Ghana's main container port and maritime outlet for international transit[85]. While Tema port has a large container capacity, Takoradi port is focused on large cargo, especially commodity exports[86]. The country's commercial ports receive over 3,000 vessels in total annually and manage about 85 per cent of its trade volume[87]. It has made significant progress in the expansion and modernisation of its ports and harbors, which have improved efficiency and eased port congestion. The turnaround time at these ports is one of the fastest in West Africa and as such, many importers and exporters prefer to dock their ships there[88].

Ghana's railway network is insignificant while it currently handles less than 2 per cent of passenger traffic and freights[89]. Rail infrastructure in Ghana is largely neglected and is mainly concentrated in the south of Ghana to transport goods between Accra, Kumasi and Takoradi. Currently, only the Western line (Kumasi-Takoradi) is partially operational.

The sector's competitive advantage lies in the fact that it has readily available and accessible markets for potential investors. Also, a set of several large-scale infrastructural projects are being implemented to reshape Ghana's transport sector over the next half-decade by opening corridors to Ghana's landlocked neighbours as well as developing strategic routes that support the local industries. Considerable progress has been made to improve Ghana's transport sector to position it as a regional transport hub.

4.6 Retail and wholesale sector

The retail and wholesale industry in Ghana is a lucrative industry with a large inelastic market[90]. The retail industry is primarily responsible for the distribution of finished products to consumers, which comprise general retailers, departmental stores, specialty stores and discount stores[91]. The industry is advanced when compared to other African countries.. The industry market value is currently at $24.4 billion and is expected to reach $33.16 billion by 2024[92]. Ghana was ranked first in Africa and fourth in the world in the 2019 Global Retail Development Index driven by increased foreign and public investment as well as urbanisation of the population[93] and population growth.

The sector players include both domestic and international players with international brands and mall developers becoming ever more present. The industry market is dominated by investors and businesses from India, Lebanon, South Africa and other European countries[94].

85 *Ghana Investment Promotion* Centre. *https://gipc.gov.gh/finance/*

86 *Ibid*

87 *Business Wire. (2021, March 4). Ghana Sea and Coastal Water Transport Market Report 2020 - ResearchAndMarkets.com. Www.businesswire.com.https://www.businesswire.com/news/home/20210304005525/en/Ghana-Sea-and-Coastal-Water-Transport-Market-Report-2020---ResearchAndMarkets.com*

88 *https://ghanatrade.org/top-ten-ghana-export-products/*

89 *https://www.pwc.com/gx/en/transportation-logistics/publications/africa-infrastructureinvestment/assets/ghana.pdf*

90 *https://www.worldmeetsinghana.com/why-invest-in-ghana/import-export-wholesale-and-retail-trade/*

91 *Ibid*

92 *https://thebftonline.com/24/08/2021/africas-retail-industry-ghana-is-emerging-strongly/*

93 *Ibid*

94 *https://www.worldmeetsinghana.com/why-invest-in-ghana/import-export-wholesale-and-retail-trade/*

These players include Melcom, Shoprite, Mr. Price, Game, Edgars, Woolworths, Truworths, Palace and Max Mart. The informal retail sector constitutes about 90 per cent of the Ghanaian retail industry making up a large market share compared to that of the formal sector.

5. SURVEY RESULTS & ANALYSIS

5.1. Background Information of Firms Surveyed

5.1.1. Location of SMEs & type of business

The survey of SMEs was conducted in the three principal and largest business cities in Ghana. These cities are Accra, Kumasi and Takoradi. A total of 1,028 SMEs were involved in this assessment. Out of the total number of firms surveyed, 48 per cent are located in Accra, which is the capital city of Ghana. The remaining SMEs are located in Kumasi (26 per cent) and Takoradi (26 per cent). Most of these SMEs are service providers and wholesalers/retailers. The rest of these SMEs operate in the construction, manufacturing, transportation and agricultural sector. Table 9 shows a cross tabulation of the regional distribution of the SMEs and the sector of operation. Also, a large chunk of these firms (91.6 per cent) indicated that they have their headquarters in Ghana while the remaining 8.4 per cent indicated that their headquarters is not in Ghana.

Table 7: Type of Business and Location

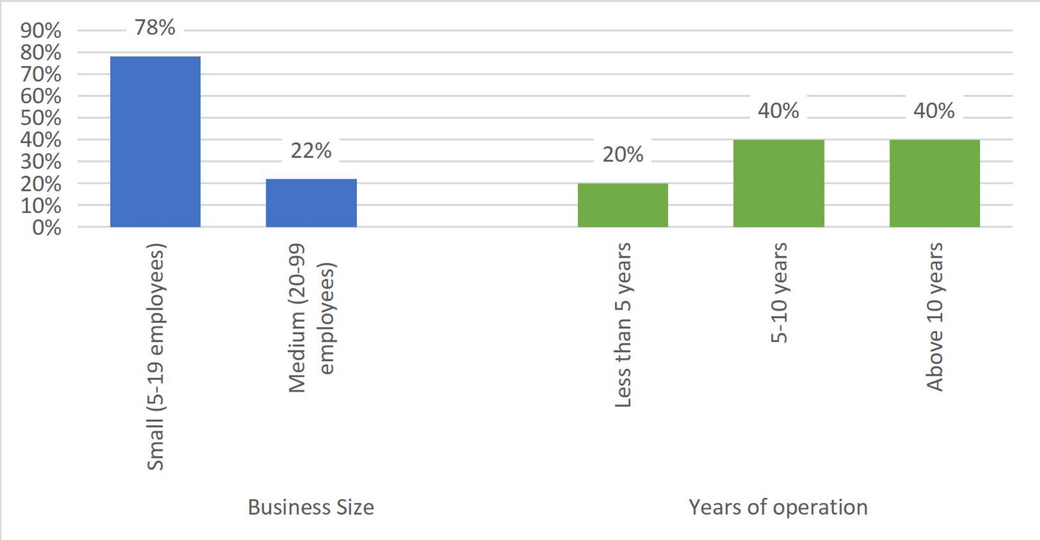
Type of Business	Accra	Kumasi	Takoradi	Total
Agriculture	6	3	10	19
Building/Road construction	31	14	36	81
Manufacturing	35	23	15	73
Retail/Wholesale	189	100	110	399
Service Provider	211	112	97	420
Transportation	22	14	0	36
Total	494	266	268	1028

Source: CUTS International Field Survey (2021)

5.1.2. Years of operation & size of business

Regarding the number of years of engagement, the SMEs surveyed, have on average, been operating in Ghana for 11 years. 20 per cent of the firms have been in operation for less than five years while 40 per cent have operated for between 5 – 10 years and the other 40 per cent have operated for above 10 years. This means that most of the SMEs in Ghana are still in their budding stages of development. The oldest SME has operated in Ghana for 67 years while the youngest SME has operated for just a year. An important indicator of firms that cannot be left out is the scale of operation. A large number, representing 78 per cent of the firms surveyed, are small-sized firms with 5-19 employees while the remaining 22 per cent are medium-sized firms with 20-99 employees. These statistics are observable in Figure 4.

Figure 4: Business size and Years of operation



Source: CUTS International Field Survey (2021)

5.1.3. Main market of sales and change in output sales & prices

A significant proportion of Ghanaian SMEs ply their trade in Ghana. The survey result indicates that 99.4 per cent of the SMEs have their main market, that is, where majority of the goods produced are sold or services rendered, in Ghana. Only 0.39 percent of the surveyed firms trade mainly in the international market. Even more alarming, is the result that, only 0.21 per cent sell the majority of their goods in the West African market. This, however, suggests that there is a large market of opportunities for Ghanaian wares within the African market and the advent of AfCFTA is just opportune for this.

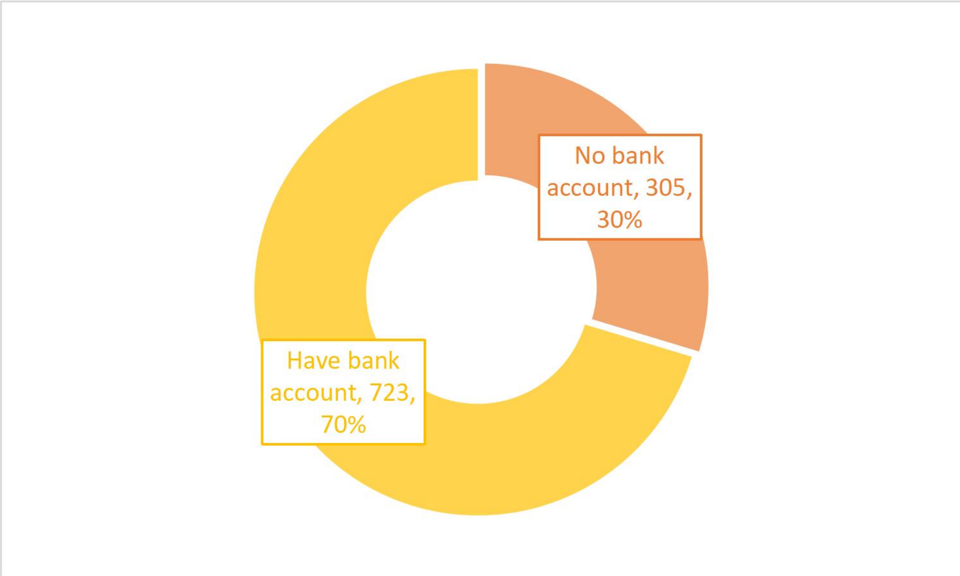
The SMEs were asked whether there was a change in quantity sold and prices over the past three years (2018 – 2020). 53.6 per cent of these SMEs reported an increase in the quantity of goods sold by approximately 47 per cent. Similarly, 34.24 per cent of the SMEs reported a decline in quantity sold by 43 per cent while 12.16 per cent indicated that quantity sold remained the same. In terms of price, majority (84.1 per cent) of the SMEs indicated an increase in price in the past three years, while 12.45 per cent indicated a decline in prices.

5.1.4. Business bank account & capacity utilisation & top manager experience

One prerequisite and indication of good business practice and financial management is for firms to have a business bank account separate from the account of the owners. The survey result shown in Figure 5 indicates that 70 per cent of the SMEs have a savings bank account for their businesses while 30 per cent do not. This is an indication of good financial management practice by these SMEs, although there is room for improvement by those that do not have a business bank account.

Ghanaian SMEs on average, operate at 75 per cent of their respective output capacities. There is excess capacity of 25 per cent to produce and serve a larger niche. Most of these firms can therefore take advantage of the advent of AfCFTA and serve the large African market besides expanding their capacities. Most Ghanaian SMEs have experienced managers who manage the company's affairs. This is evidenced in the average years of experience of the top manager of the sampled SMEs, which is 15 years.

Figure 5: Ownership of a business bank account

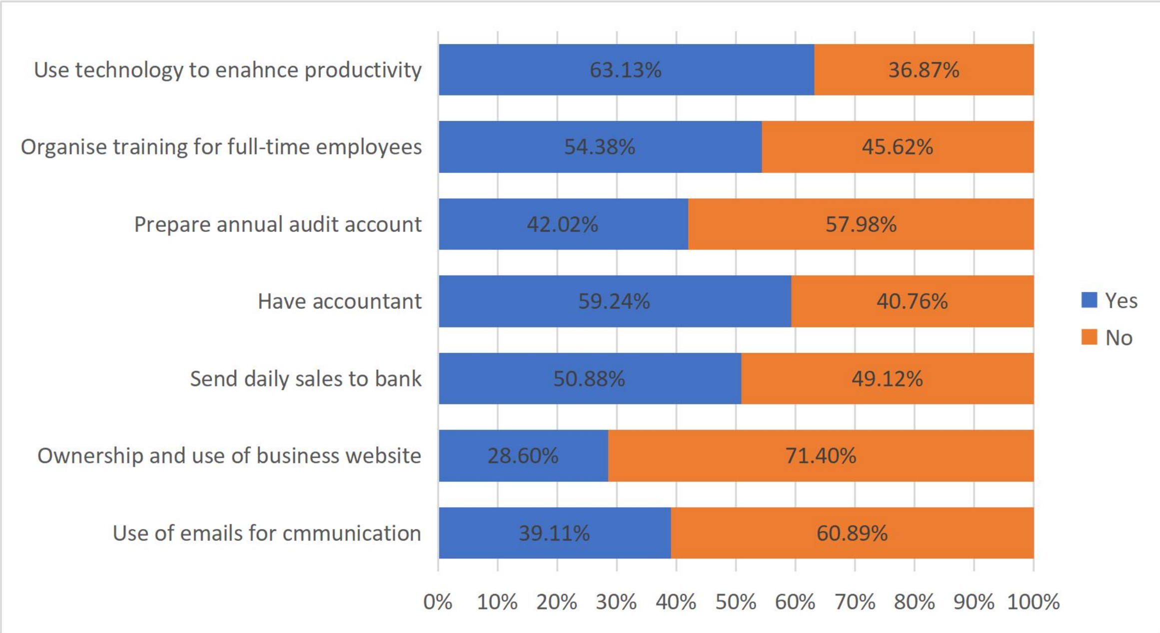


Source: CUTS International Field Survey (2021)

5.2 The operational competencies of SMEs.

There are some fundamental indicators used to assess the operational competencies and competitiveness of SMEs. These include following basic best business practices as shown in Figure 6. The survey results show that only 39 per cent of SMEs use emails to communicate with their clients while a much larger proportion of them, representing 61 per cent do not. Similarly, only 29 per cent of the sampled SMEs have a functioning website and use the same for their business operations. This leaves 71 per cent of the firms without a website. Also, while 59 per cent of the SMEs have an accountant or a finance manager who help with financial records, only 42 per cent of these same firms prepare annual audited accounts. Also, only 51 per cent of the firms send their sales revenue to the bank on a daily basis. This means that 49 per cent keep their sales revenue in the form of cash, which is quite alarming and raises lots of security concerns. All these indicators point to the fact that most Ghanaian SMEs do not practice prudent financial management. 59 per cent of the firms indicated that they have embarked upon some form of training programmes for their staff over the last three years while 41 per cent have not had any form of training for their staff. 63 per cent of the SMEs also deploy some form of technology to enhance their productivity.

Figure 6: Operational competencies of SMEs



Source: CUTS International Field Survey (2021)

5.3. Assessment of the level of competitiveness of Ghanaian SMEs for enhanced participation in the AfCFTA

This section addresses the main objective of assessing the level of competitiveness of Ghanaian SMEs for their enhanced participation in the AfCFTA. The analysis in this section is undertaken in three layers of competition. These layers and the subsequent indicators are similar to the indicators used in the competitiveness grid by the International Trade Centre in their global competitiveness assessment of firms. These indicators focus on micro or local economic determinants of competitiveness rather than just the macroeconomic ones. It is categorised into three sections; Firm-level, immediate business environment level and the national economy. The narrative under each of these sections is divided into capacity to compete, capacity to connect and capacity to change.

5.3.1 Firm level capability

This typically deals with whether firms are capable of handling resources within their domain. The indicators under this level gauge whether firms follow best practice. Some of the indicators used in this assessment include access to internationally quality certification, having and using a business bank account, firm capacity utilisation and the experience of top managers. Others include ownership and usage of emails, business websites, auditing financial statements, investments financed by banks and organising training programmes for staff. Firm level capability is assessed on the capacity of these firms to compete, connect and change.

5.3.1.1 Capacity of Ghanaian SMEs to Compete

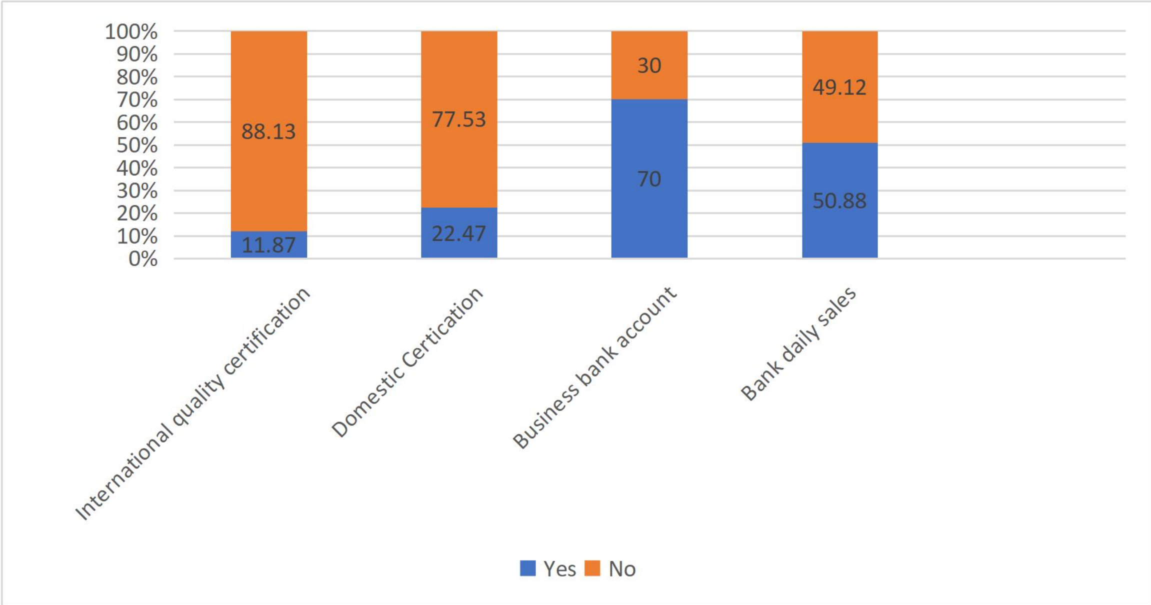
Capacity to compete is an assessment of the present operations and efficiency of firms. It focuses on whether firms are able to meet time, cost, quantity and quality requirements at any given time.[95] The key indicators of firm competitiveness discussed here are; quality domestic and international certification, capacity utilisation, ownership of a business bank account and managerial experience. Meeting quality standards for example ensures that products are safe. It is also an essential requirement for international trade. Acquiring certification can also attract investors as it indicates quality. The result of the survey in Figure 7, however, shows that 88 per cent of Ghanaian SMEs do not have any form of international certification. Only 12 per cent have acquired an internationally-recognised quality certification. Also, only 22 per cent have a quality certification from a relevant domestic regulatory authority while the remaining 78 per cent have none.

Ownership of a business bank account cannot be ignored in the discussion of competitiveness. It is best practice and a financially prudent concept to make transactions and payments using financial institutions such as banks. The survey results are indicative that 70 per cent of Ghanaian SMEs operate a bank account for their respective businesses. However, only 51 per cent send daily sales revenue to the bank. A lot of financial education is required to sensitise these SMEs on the importance of owning a bank account and using it for business transactions. It is worth mentioning however, that the Ghanaian economy in general operates highly, on a cash basis. It is, therefore, no surprise that most of these firms will keep cash rather than bank them.

Another key indicator of firms' capacity to compete is their operational capacity and managerial expertise. Results of the survey shows that Ghanaian SMEs on an average, currently operate at 75 per cent of their respective output capacities. This leaves an excess output capacity of 25 per cent. Most of these firms can, therefore, take advantage of the advent of AfCFTA and serve the large African market besides expanding their capacities. Managerial experience in a like manner indicates firms' competitiveness. The average Ghanaian SME top manager appears to have a significant amount of work experience in the field of operation. This is evidenced in the average years of experience of the top manager of the sampled SMEs, which is 15 years. This number of years of experience by the top manager in one discipline makes these SMEs quite competitive.

[95] *International Trade* Centre *(2015). SME Competitiveness Outlook 2015: Compete, connect and change for inclusive growth. Geneva: ITC*

Figure 7: Capacity of SMEs to compete



Source: CUTS International Field Survey (2021)

During the Focus Group Discussion (FGD), the respondents were asked if they had a management structure in place to gauge the operational capacity of SMEs. Overall, none of the participants had a management structure in place. Also, 55 per cent of the respondents indicated that the nature of the Ghanaian SME sector will make it difficult to compete with the likes of countries such as South Africa, Egypt and Kenya. This, they argue, is due to the uncompetitive nature of Ghana's SME sector. The respondents are of the view that competition will be very keen.

In terms of the degree of domestic investment in the production, finishing and packaging of products to meet international standards, 95 per cent of the participants in the focused group discussion indicated that they have made limited amounts of investment in that regard. They were of the view that limited investment will lead to low productivity.

On this note, the respondents were asked if they think their product will be able to compete effectively with suppliers of similar products from other African markets. Some of the respondents indicated that research would have to be done on their products to ascertain the level of competitiveness. Another reason they stated for the inability to compete was due to the lack of finance and human resources. Seventy per cent of the participants were afraid that countries with a relatively developed market will flood the Ghanaian market with their competitive products, hence throwing them out of business.

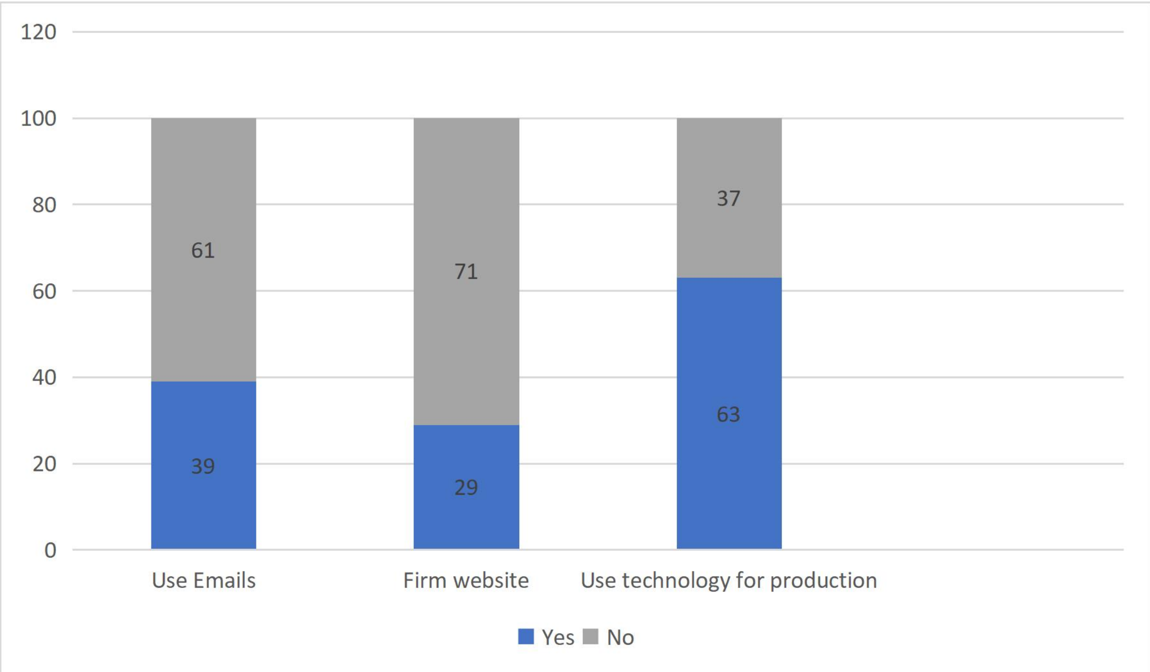
5.3.1.2. Capacity of Ghanaian SMEs to connect

Competitive firms must be connective to their clients, suppliers, businesses, institutions and must be very literate in ICT. They should be very much in tune with their customers' demand profiles and facilitate information flows to them.[96] At the firm level in Figure 8, 39 per cent of the SMEs surveyed mentioned that they use emails to communicate with their customers and

[96] *International Trade* Centre *(2015). SME Competitiveness Outlook 2015: Compete, connect and change for inclusive growth. Geneva: ITC*

suppliers. Only 29 per cent own and use a website to enhance their daily operations. Bad as the aforementioned may sound, on the bright side, 63 per cent of the SMEs indicated that they use some form of technology like mobile phones with social media platforms to enhance their productivity. These mobile telephony devices are more convenient to these businesses, which are small and medium-scaled in size unlike the large firms. Because most businesses are done with human interaction or face-to-face in Ghana rather than using online platforms, these statistics may not be too bad. However, with the advent of AfCFTA, where trade is supposed to happen across territorial boundaries, the issue of technology-driven connectivity becomes a great concern and a must for these SMEs if they are to become globally competitive and opportunistic.

Figure 8: Capacity of SMEs to connect



Source: CUTS International Field Survey (2021)

5.3.1.3. Capacity of Ghanaian SMEs to Change

This is the dynamic dimension of competitiveness. It is an assessment of whether firms have the capacity to make human and financial investments to adapt to fast-changing markets. Because external factors change rapidly, the probable response to change is adaptation and resilience.[97] The key indicators in firms' responses to change are having audited financial accounts, securing investments financed by banks, formal training programmes for staff and foreign technology licenses.

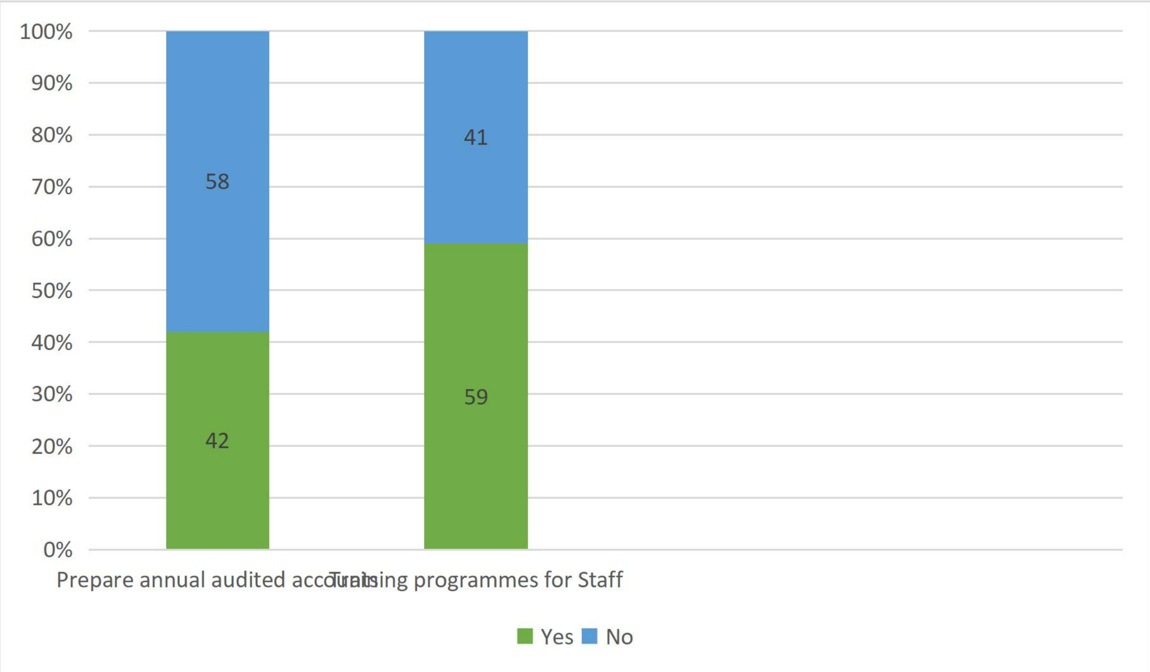
The result of the survey shows that 42 per cent of the SMEs prepare audited financial accounts annually while 58 per cent do not. This is shown in Figure 9. It is worth noting that preparation of audited accounts is very essential for securing financial aid from financial institutions and also in attracting investors, who can drive major change within these establishments. This result means that some of these firms can transition into large firms and still conveniently follow the rules of engagement.

[97] *International Trade* Centre *(2015). SME Competitiveness Outlook 2015: Compete, connect and change for inclusive growth. Geneva: ITC*

In relation to Ghanaian SMEs ability to secure financing from financial institutions, only 20 per cent indicated that they have good or excellent capabilities. The rest of the 80 per cent have average, bad or no capabilities. This means that most SMEs in Ghana are unable to secure trade related finance such as payment-in-advance, working capital loans, overdrafts, factoring, forfaiting easily from financial institutions.

A striking requirement of firms' capacity to be resilient and adapt to change is for staff to be continuously upgraded. It is essential that employees are continuously trained and retooled. In relation to this, the survey revealed that only 59 per cent of Ghanaian SMEs have embarked upon some form of training programmes for their staff over the last three years while 41 per cent have not had any form of training for their staff. This presupposes that most Ghanaian SMEs are skills deficient when it comes to new knowledge and skills. It is, therefore, incumbent on these SMEs to provide necessary training, workshops, seminars and symposiums for their staff at least semi-annually. This will not only sharpen their skills but it will also boost their confidence.

Figure 9: Capacity of SMEs to change



Source: CUTS International Field Survey (2021)

The participants were asked during the FGD if they have any plans to grow their workforce. The respondents indicated that they employ experiential learning, teaching them on the job, in-house promotion and then giving them opportunities for developing their skills and talents. One of the participants remarked that.

"I give my employees the opportunity to develop their talents by teaching them some of my skills and techniques in the industry. But it is not everything that I teach them because some of these techniques are business secrets".

5.3.2. Capabilities at the Immediate Business Environment Level

The immediate business environment delivers the resources and competencies that help to shape whether or not firms are competitive. These are factors that are external to the firm but are still within its micro-environment.[98] Some of these indicators are access to power, access to a skilled workforce or the vicinity of a relevant cluster of economic activities. It also includes access to finance, business licence and permits, dealing with regulations and customs, extent of marketing, local supplier quality and collaboration between universities and industry. The capability at the immediate business environment level is also assessed at the level to compete, connect and change.

[98] *International Trade* Centre *(2015). SME Competitiveness Outlook 2015: Compete, connect and change for inclusive growth. Geneva: ITC*

5.3.2.1. Capacity of the Ghanaian business environment to Compete

This is a static dimension of competitiveness and includes indicators such as access to technical infrastructure like good roads and ICT. It also includes domestic shipping reliability, dealing with regulations and customs clearance efficiency. The survey result in Figure 10, shows that just about 19 per cent of the surveyed SMEs have good or excellent capabilities in relation to accessibility of trade information such as the catalogue of government policies, potential export markets, value chain analysis, production data, land banks availability, data on raw materials, customs formalities and procedures, easily. Also, 30 percent of the SMEs have easy access to trade-related infrastructure, that is, good roads for the purpose of their work. Similarly, 33 per cent of the SMEs have easy accessibility to trade-related infrastructure in the form of ICT for the purpose of their work.

An indicator of competitiveness at the immediate business environment level is customs clearance efficiency and the reliability of domestic shipping. The result of the survey indicates that it takes approximately 20 working days (four weeks) on average, from the time goods arrive at their point of entry (e.g., port, airport) until the time these goods could be cleared from customs. Another key indicator of the competitiveness of firms in relation to their immediate business environment is dealings with various regulatory authorities. Only 25 per cent of SMEs indicated that they have a good or excellent dealings with governmental bodies and policymakers on documentation, registration, licensing and regulatory issues. A much larger proportion of these SMEs (75 per cent) have average to weak dealings with the regulatory authorities.

Figure 10: Capacity of the business environment to compete

Source: CUTS International Field Survey (2021)

5.3.2.2. Capacity of the Ghanaian business environment to Connect

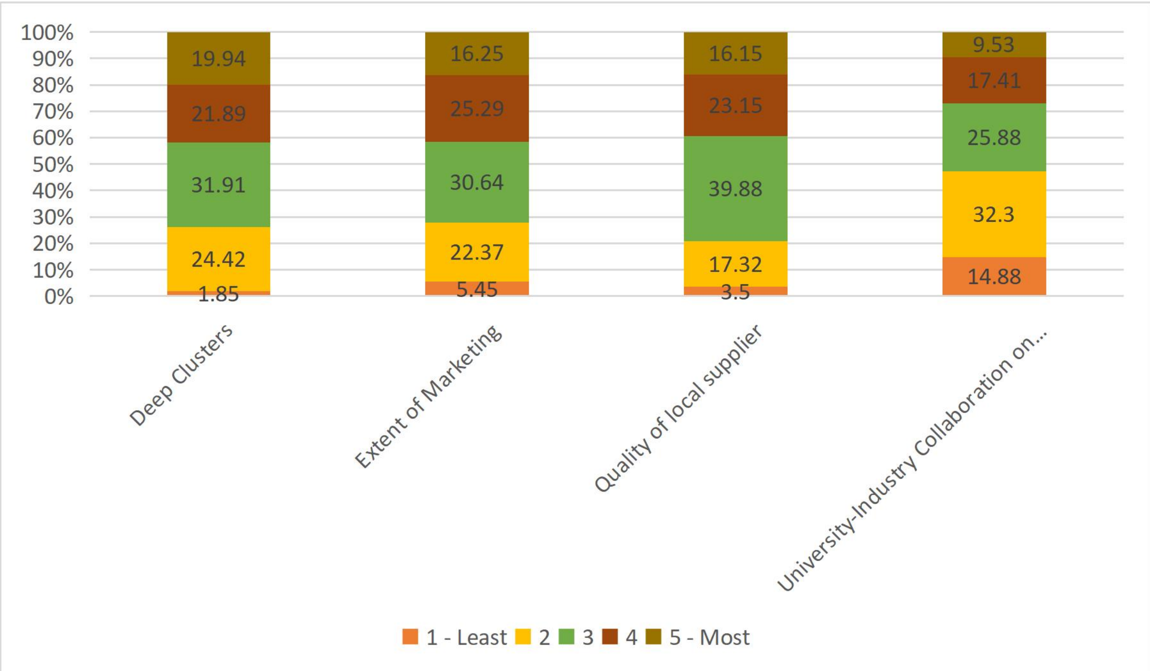
Some key indicators of capacity to connect at the immediate business environment level are the state of cluster development, extent of marketing, the quality of local suppliers and the The respondents were asked to assess how widespread well-developed and deep clusters are, such as geographic concentrations of firms, suppliers, producers of related products and services, and specialised institutions in a particular field. The mean score from the results is 3.34, which means that there is a moderate extent of cluster development within the respective business environment. 42 per cent of the SMEs indicate that well-developed and deep clusters are very widespread in Ghana. 58 per cent indicate that these clusters are not that deep with just 2 per cent indicating a non-existence of the same. This is shown in Figure 11.

The conduciveness of the business environment also depends on the quality of local suppliers and the extent of sophistication of marketing in the industry. It is evident from the survey results that the quality of local suppliers is not in dispute. The mean score of this scale is 3.31. Specifically, 39 per cent of the respondents claimed that the suppliers in their respective fields are either of high quality or extremely high quality. Only about 4 per cent indicated that the suppliers are of extremely poor quality.

Similarly, the mean score for the extent to which Ghanaian SMEs use modern marketing tools is 3.25. The result indicates that 42 percent of the sampled firms agree to the usage of modern marketing tools by the industry players from a "great" to a "very great" extent. Examples of these marketing tools are social media marketing, Email marketing, internet Ads etc.

Also, there appears to be an "average" (mean = 2.74) level of collaboration between industry players or businesses and universities on research and development related issues. Just about 10 per cent of the SMEs affirm that there is an extensive collaboration between their industry and the universities. These indicators are shown in Figure 11.

Figure 11: Capacity of the business environment to connect



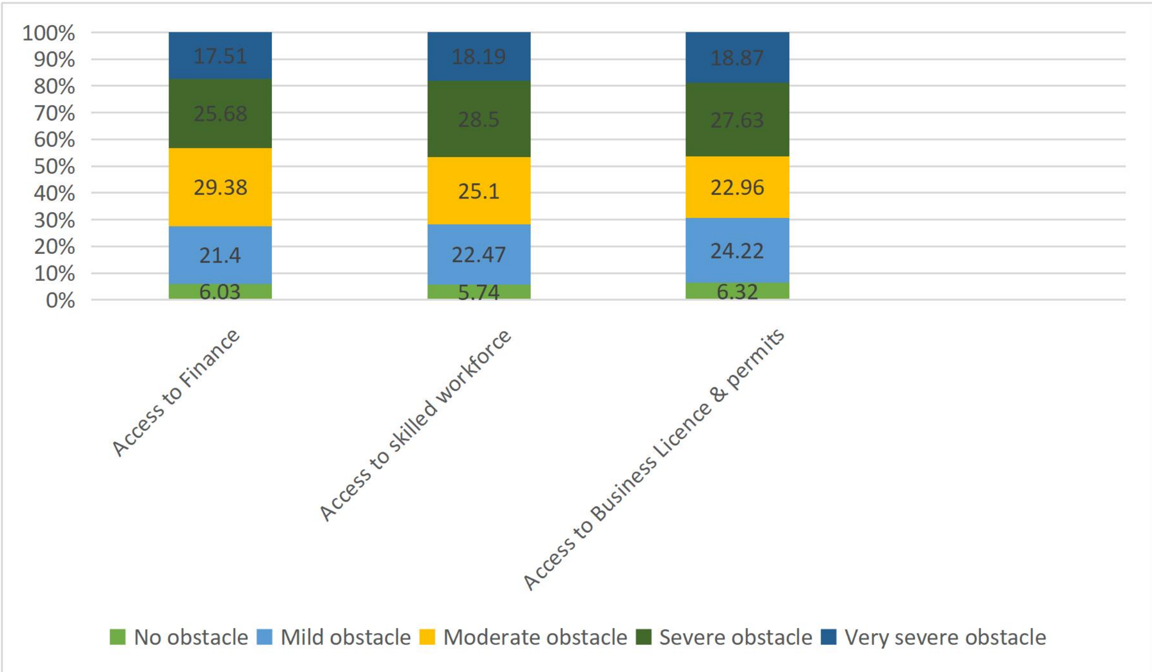
Source: CUTS International Field Survey (2021)

5.3.2.3. Capacity of the Ghanaian business environment to Change

It is very important that the business environment is made conducive for firms to be able to adapt to change. Change is an essential component of business growth. The key indicators of change in the immediate business environment are the extent of firms' access to finance, access to educated workforce and access to business licensing and permits among a host of others. The results from the survey in Figure 12, indicate that 43 per cent of the respondents are of the view that access to finance is a severe or a very severe obstacle to the current operations of their respective establishments. This means that inaccessibility to finance is a major hindrance to the growth of some SMEs. Just about 6 per cent of the sampled firms indicated that access to finance is not an obstacle to their current operations.

Another indicator of change in the immediate business environment is the accessibility and availability of skilled workforce in the industry. In like manner to the above, 47 per cent of the SMEs are of the view that inability to access skilled and educated workforce is a severe or a very severe obstacle to the current operations of their establishment. Only 6 per cent see this as no obstacle to their business operations. Relatedly, 47 per cent of these same firms claim that the difficulty in accessing business licences and permits is a severe or a very severe obstacle to the current operations of their respective establishments. Meanwhile, 6 per cent of them do not see this as an obstacle to their operations.

Figure 11: Capacity of the business environment to change



Source: CUTS International Field Survey (2021)

5.3.3. Capability at the National Environment of Ghana

This level contains structural factors that are fundamental for the functioning of the market. These are mainly macroeconomic indicators. Some relevant broad indicators are policies on entrepreneurship and ease of doing business, trade-related policies, governance, infrastructure and resource endowments. The specific indicators are ease of getting electricity, ease of trading across borders, exchange rate and inflationary trends, access to ICT, usage of ICT, ease of starting a business, ease of getting credit and cost of borrowing. The national environment just like the firm level and the immediate business environment level is assessed at the level to compete, connect and change.

5.3.3.1. The capacity of the national environment to compete

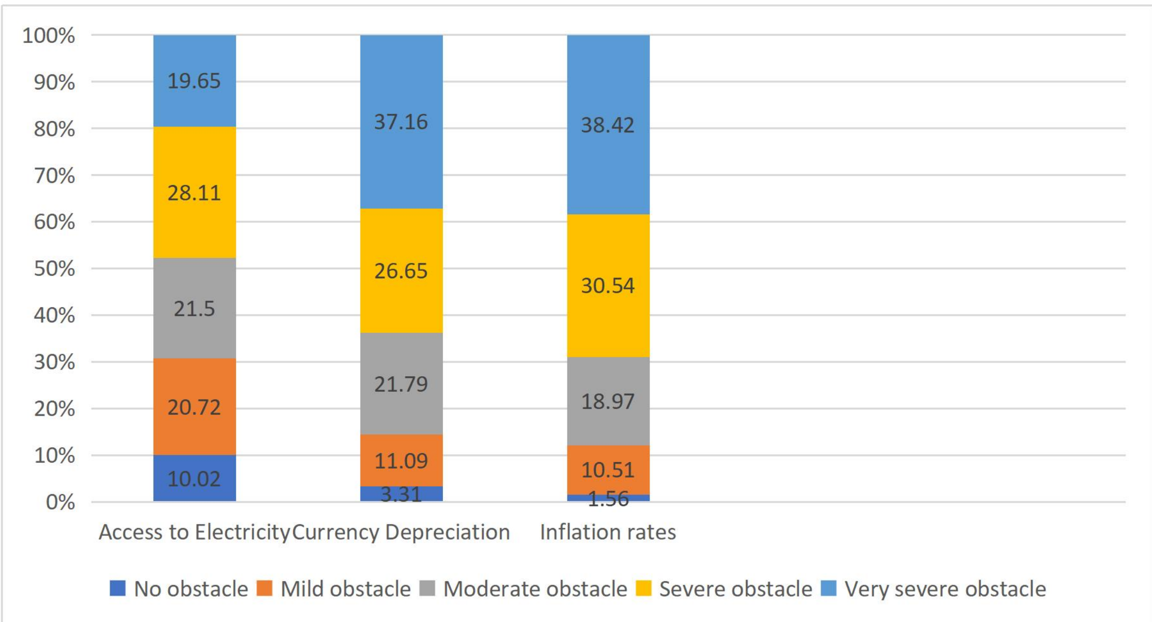
Some of the key indicators of the capacity of the national environment to compete are; getting electricity, the ease of trading across borders, prevalence of technical regulations and governance index. Most businesses irrespective of their size require the usage of some form of power or electricity accessibility. Getting access to reliable electricity however, largely depends on the national environment and government. The survey result in Figure 13 shows that about

48 per cent of Ghanaian SMEs consider inaccessibility to reliable electricity supply as a major hindrance to their firms' operations. About 31 per cent consider electricity supply as mild or no obstacle to their firms' operations. This means that there are pending issues when it comes to power availability and reliability and these need to be resolved if Ghanaian SMEs are to become globally competitive.

When it comes to the ease of trading across geographical borders, Ghanaian SMEs may need to surmount some real challenges. For example, 64 per cent of the SMEs surveyed consider exchange rate depreciation to be a major hindrance to the current operations of their establishments. This is irrespective of the fact that only 13 per cent import some raw materials and just about 3 per cent export some or all of their finished products. The frequent changes in the prices of goods and services appear to be a normal phenomenon in Ghana. Even though inflationary rates have seen a downward trend in recent years, the survey result has 69 per cent of the sampled SMEs indicating that inflation in Ghana is a major hindrance to their business operation. Just about 2 per cent consider inflation as no obstacle to their operations. Government intervention in managing the exchange rate volatilities and keeping prices steady is an urgent task required to make these firms more competitive. This clearly reflects in the prices they charge for their products and services as 84 per cent have increased prices of their products over the last three years. And this may have occurred multiple times.

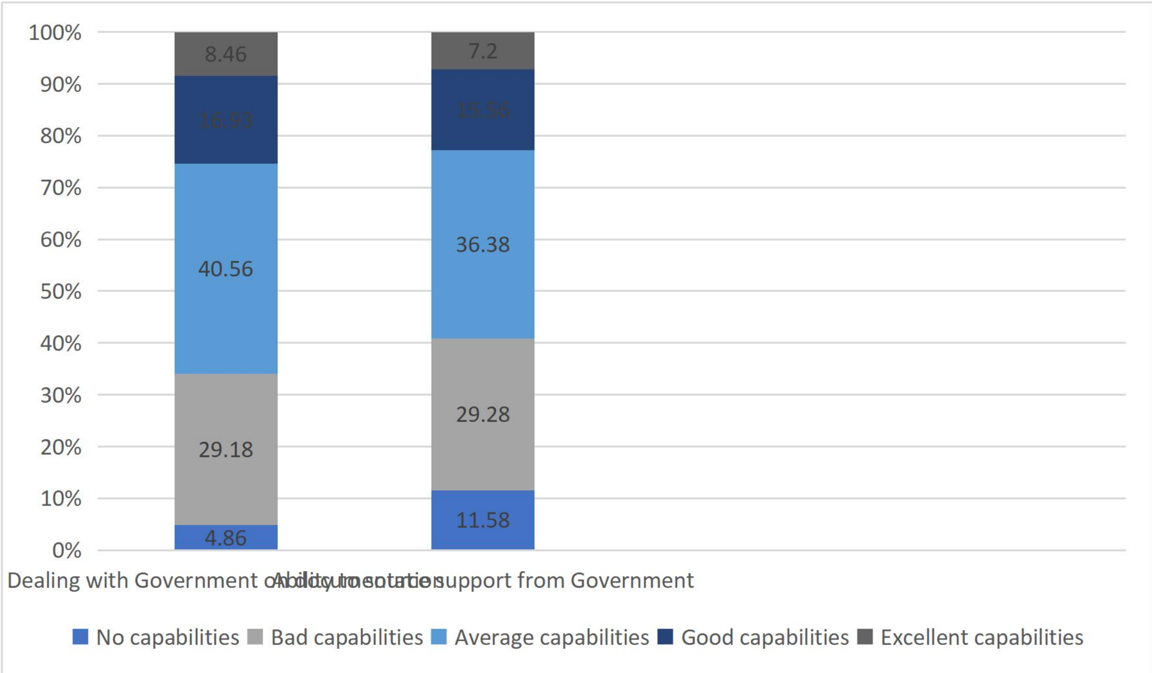
In relation to the prevalence of technical regulations and governance, there are also some general difficulties in dealing with government bodies and agencies in relation to documentation, registration, licensing and regulatory issues. 34 per cent of the firms alluded to this in Figure 14, indicating that their real challenges are in this regard. Similarly, about 41 per cent of these firms indicated that there is really bad or no capabilities in sourcing support from the government such as favourable regulations. The above seems to suggest that the Ghanaian national environment is not conducive to grooming competitive firms. A lot of efforts are needed in this regard to sustain most of these SMEs and raise new ones.

Figure 1329: Capacity of the national environment to compete



Source: CUTS International Field Survey (2021)

Figure 14: Capacity of national environment to compete

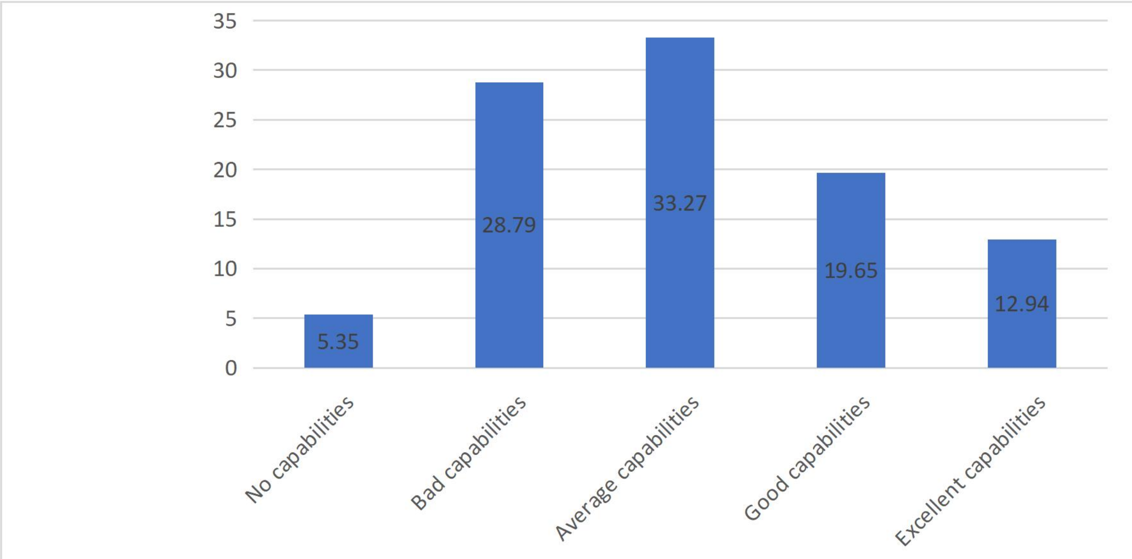


Source: CUTS International Field Survey (2021)

5.3.3.2. The capacity of the national environment to connect

Some key indicators of the national environment, which make it easy for firms to connect are ICT accessibility, ICT usage and governments online visibility. Only 33 per cent of the sampled SMEs in Figure 15 indicated that they have good or excellent capabilities in relation to accessibility to ICT infrastructure for the purposes of their work. The rest of these SMEs representing 67 per cent have challenges with the ICT infrastructure in Ghana.

Figure 15: Capacity of the national environment to connect



Source: CUTS International Field Survey (2021)

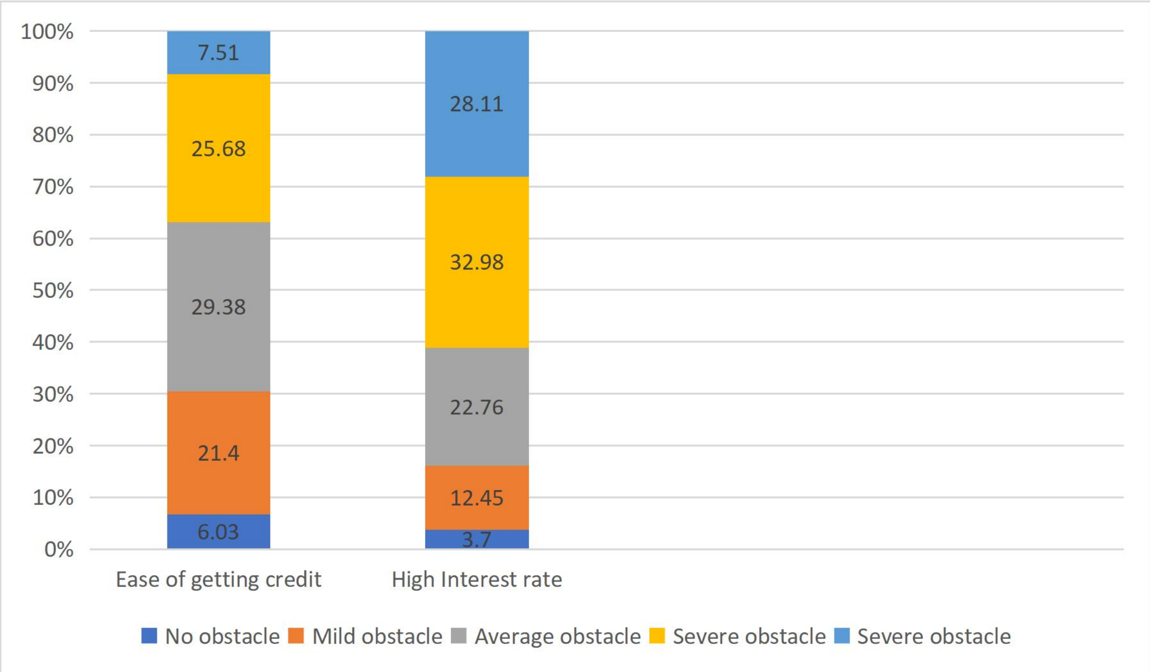
5.3.3.3. The capacity of the national environment to change

The capacity of the national environment to change has indicators such as ease of getting credit, interest rate spread, ease of starting a business, patent applications and trademark registrations. About 43 per cent of the firms in Figure 16 indicated that there is a severe hindrance in accessing credit in Ghana. Only 6 per cent mentioned that access to credit is not an obstacle to their current operations. Even more alarming is the fact that 61 per cent of the SMEs consider high interest rates from financial institutions in Ghana to be a major obstacle to the current operations of their respective establishments. Only 4 per cent consider high interest rates as no obstacle.

During the focus group discussion, the majority of the respondents indicated that the high cost of credit (lending interest rate) is a major challenge that affects their businesses, corroborating the findings revealed by the quantitative survey. In addition, the majority of the respondents in the FGD indicated that banks are unwilling to grant them loan facilities. It is incumbent on the government and policy makers to make the necessary provisions that make credit facilities not only available but also cheaper and accessible.

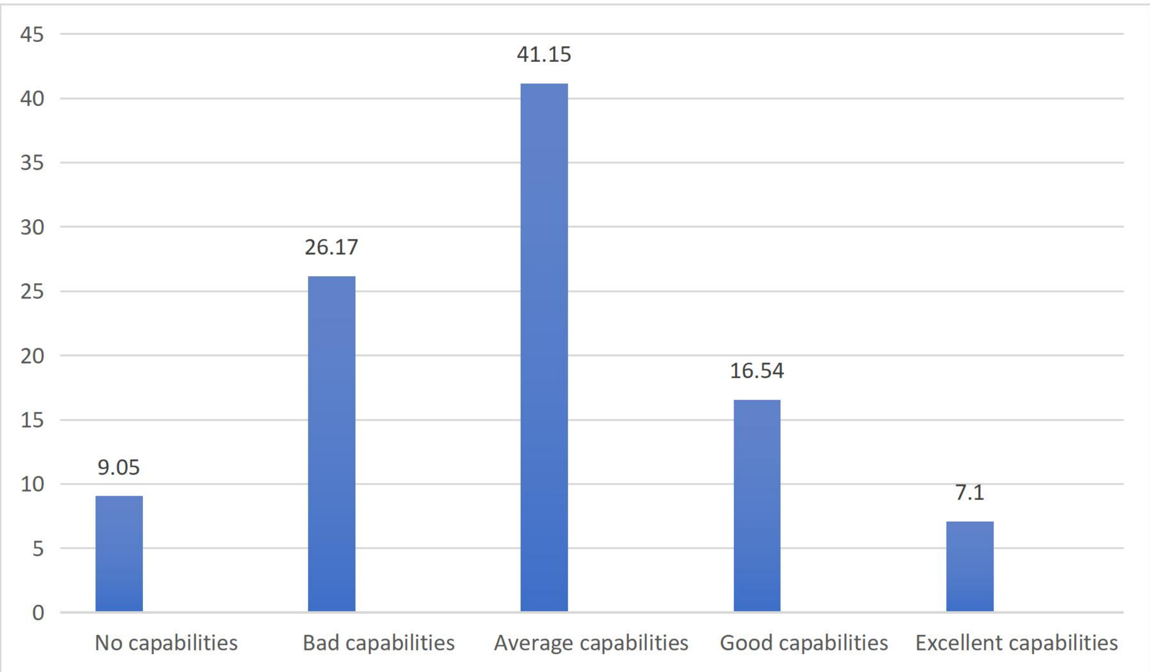
Also, 76 per cent of the SMEs indicated that there are no capabilities, bad capabilities or average capabilities in obtaining the required funding for the expansion of their businesses from sources like private investors, crowdfunding, among others. This is depicted in Figure 17.

Figure 16: Capacity of the national environment to change



Source: CUTS International Field Survey (2021)

Figure 17: Obtaining required funding



Source: CUTS International Field Survey (2021)

5.3.4. Summary of the competitiveness levels of Ghanaian SMEs

The assessment of the competitiveness of SMEs in Ghana was carried out at the firm level, immediate business environment level and at the level of the national environment. The analysis was done at the respective levels of capacity to compete, connect and change. It is quite clear from the survey that while Ghanaian SMEs are putting in their best foot to remain competitive and relevant, the immediate business environment of these SMEs appears quite distant from their operations. Thus, many barriers need to be surmounted to make the business environment more eco-friendly to the operations of these SMEs. Even more hostile is the Ghanaian national environment. This appears to be the worst limitation to most firms' survival. Below is a summary of these findings;

At the firm level, only 22 per cent of the sampled Ghanaian SMEs have acquired a quality domestic certification while only a paltry 12 per cent have acquired an internationally-recognised quality certification. The result also shows that while 70 percent of Ghanaian SMEs own a business bank account, only 51 per cent send sales to the bank on a daily basis. Ghanaian SMEs operate on average, at 75 per cent of output capacities while the average years of experience of the top manager of the sampled SMEs is 11 years. Also, while most of these SMEs do not have any functioning management structure in place, 95 per cent have not made sufficient investments in the production, finishing and packaging of their products to meet international standards. The results of these indicators show that Ghanaian SMEs are uncompetitive and hence, a lot of work and efforts are needed by these firms, policymakers and government to boost their competitive capabilities.

Concerning firms' capabilities to connect to relevant stakeholders, 39 per cent of the SMEs use emails to communicate with their customers and suppliers while only 29 per cent own and use a website. However, 63 per cent of the SMEs use some form of technology like a mobile phone with social media platforms to enhance their productivity.

In order to adapt to changing markets and demand, 42 per cent of the SMEs prepare audited financial accounts annually while only 20 per cent have good or excellent capabilities to secure funding from financial institutions. This leaves most SMEs in a difficult position to be resilient and adapt to change, which is a requirement for firms willing to exploit the AfCFTA. Furthermore, just 59 per cent of SMEs in Ghana have implemented training programs of some kind for their workforce over the past three years. This means that the necessary human resources just like the financial resources to drive change may be ineffective.

An assessment of the immediate business environment or industry of Ghanaian SMEs has little news to add. At the industry capacity level to compete, while there are general difficulties in accessing trade information, with only 19 per cent indicating good or excellent capabilities, just about 30 per cent of the SMEs have easy access to trade-related infrastructure, that is, good roads for their business activities. Similarly, 33 per cent of the SMEs have easy accessibility to trade-related infrastructure in the form of ICT for the purpose of their work. The survey revealed that it takes approximately 20 working days on average for goods to be cleared from customs. Also, just about 25 per cent of SMEs have good or excellent dealings with governmental bodies and policymakers on documentation, registration, licensing and regulatory issues.

In terms of the immediate business environment level to connect, there is a moderate extent of cluster development within the SME business environment with 42 per cent of the SMEs indicating that there are well-developed and deep clusters. Thirty-nine per cent of the respondents claimed that the suppliers in their respective fields are either of high quality or extremely high quality. Similarly, 42 per cent of the sampled firms agree to a great or very great extent with the usage of modern marketing tools by the industry players. Also, there appears to be an average level of collaboration between industry players or businesses and universities on research and development related issues with just about 10 per cent of the SMEs affirming that there is an extensive collaboration between their industry and the universities.

Firms require easy access to finance to drive change. However, the survey result shows 43 per cent of the respondents indicated that access to finance is a severe or a very severe obstacle to their current operations. In like manner, 47 per cent of the SMEs are of the view that inability to access skilled and educated workforce is a severe or a very severe obstacle to their current operations. Relatedly, 47 per cent of these same firms claim that the difficulty in accessing business licences and permits is a severe or a very severe obstacle to their operations. This means that the key ingredients necessary to drive change are deficient.

The Ghanaian national environment or macroeconomy is also not conducive to the survival of most SMEs and this makes firms unable to compete favourably. About 48 per cent of the sampled SMEs consider inaccessibility to reliable electricity supply as a major hindrance to their operations. A much higher percentage of 64 consider exchange rate depreciation to be a major hindrance while 69 per cent of the same indicated that inflation in Ghana is a major hindrance to their business operation. About prevalence of technical regulations and governance, 34 per cent indicated that dealing with governmental organizations and agencies about concerns with documents, registration, licensing, and regulations can be challenging in general. Similarly, about 41 percent of these firms indicated that there is bad or no capabilities in sourcing support from the government with an example being having favourable regulations.

Firms are much able to connect to their clients when there is easy access to ICT infrastructure. However, only 33 per cent of the sampled SMEs indicated that they have good or excellent capabilities concerning accessibility to ICT infrastructure for their business activities.

Even though change is inevitable and a requirement for firms, about 43 per cent of the firms indicated that there is a severe hindrance in accessing credit in Ghana. 61 per cent of the SMEs consider high interest rates from financial institutions in Ghana to be a major obstacle to their current operations. 76 per cent of the SMEs indicated that there are no capabilities, bad capabilities or average capabilities in obtaining the required funding for the expansion of their businesses from private investors. This makes the major ingredients required for change inaccessible.

5.3.5. Summary of the main reasons why Ghanaian SMEs are not competitive

- Lack of domestic quality certification
- Lack of internationally-recognised quality certification
- Producing below maximum capacity, that is, availability of excess capacity
- Lack of differentiated or unique products
- High price of products and frequent changes in prices
- Insufficient investments in the production, finishing and packaging of products to meet international standards
- Poor financial record keeping
- Poor financial management practices
- Weak systems of upgrading and training human capital
- Limited access to trade infrastructure
- General delays in clearing goods from the points of entry

- General lack of deep and well-developed clusters
- Low usage of modern marketing tools by the industry players
- Poor level of collaboration between businesses and universities on research and development
- Inability to access credit facilities from banks and private investors
- High cost of borrowing or lending interest rate
- High level of currency depreciation
- High inflationary rates

5.3.6. Firm level recommendations

- The SMEs should put in their best efforts towards acquiring quality certification especially with regards to those in manufacturing. It is also a must to acquire an internationally recognised quality certification in preparation for exporting to the African market.
- All SMEs should endeavour to open and use a bank account for their business operations. This account should be separate from their personal bank account as this makes their business serene.
- Ghanaian SMEs need to operate at full capacity even if this requires an extra hand. This will boost their output levels. In addition, some of the SMEs can leverage the vast experience of their top managers to expand their current operating capacities and make space for exportation.
- There is a need for SMEs to put in place a functioning management structure. This may motivate the employees, reduce employee turnover and give them a sense of belonging.
- There is also the need for massive investment in the production, finishing and packaging of products to meet quality and international standards.
- Some of the SMEs need to leverage recent advancements in technology to boost their productivity. Basic investment in smart mobile phones and internet services is required to access and use social media platforms to enhance their productivity.
- The deployment of modern marketing tools should also be aggressively exploited to market the products and services of SMEs and also to be able to reach a larger African market. Modern marketing tools such as social media marketing, email marketing and internet ads should be exploited. Some of these tools are more convenient with the necessary training and more cost-effective.
- SMEs should follow prudent but basic financial management practices. They should endeavour to prepare annual audited financial accounts. This makes them easy candidates in accessing credit facilities from financial institutions and private investors.
- Formal training workshops should be organised for staff at least once a year. This will refresh the staff and sharpen them for enhanced productivity. This is also to ensure that the staff are abreast with changing trends and new ways of doing things.

5.3.7. Industry and Government level recommendations

- A lot of financial education is required to sensitise the SMEs on the importance of owning a bank account and using the same for business transactions.
- Industry players and government should invest in trade infrastructure that gives easy access to trade information such as the catalogue of government policies, potential export markets among others.
- The bureaucracy at the various points of entry such as the ports and airports should be reduced or removed. Thus, conscious efforts should be made to make it easy to send goods abroad and clear them from customs. This requires more investments in ICT infrastructure.

- **T**he time in dealing with governmental bodies on documentation, registration, licensing and regulatory issues should be streamlined. This can be made possible if most of the documentation is done online to reduce face-to-face interaction.
- There is a need for SMEs, policymakers and governments to enforce more collaboration between the industry players or businesses and universities on research and development.
- The Ghanaian government and financial institutions need to put in measures to make credit facilities more easily accessible to SMEs to expand their businesses.
- Relatedly, the cost of credit or lending interest rate should be drastically reduced. This will make it competitive to counterparts in Africa since these rates are considered very high in Ghana.
- It is incumbent on the industry players and the government to make available skilled personnel to the SMEs. This may require a lot of training and orientation.
- It is also very necessary for the government and the relevant stakeholders to ensure that electricity supply is readily available, reliable and affordable. The high price and unreliability of electricity supply is one of the reasons why SMEs keep increasing their prices.
- Although a common suggestion, it is imperative to re-echo the suggestion that the government needs to stabilize the exchange rate and inflation. This will make Ghanaian SME export products competitively priced.
- **The** Government and the National Communications Authority (NCA) should enhance the general ICT infrastructure in the country. Also, internet services should be competitively priced and made more reliable.

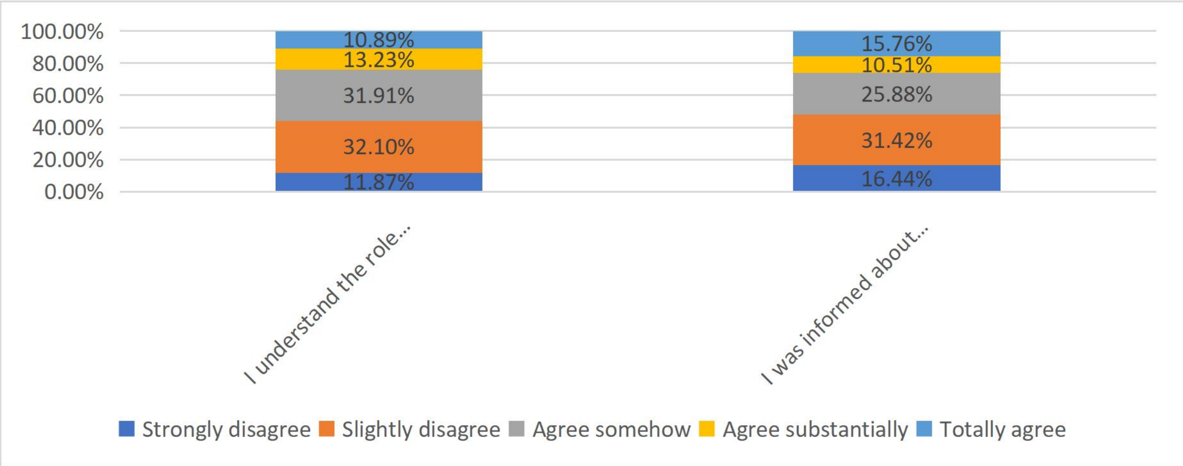
5.4. Growth Readiness of Ghanaian SMEs for AfCFTA Implementation

One of the objectives of this study is to assess the growth-readiness of Ghanaian SMEs for their enhanced participation in the AfCFTA. The main indicators deployed for this assessment are; knowledge about the AfCFTA, export potential, productive capability, ability to innovate and ability to compete.

5.4.1. Knowledge of AfCFTA

A key ingredient of the readiness of firms to fully participate in the AfCFTA is good knowledge about it. While most SMEs have little knowledge about the AfCFTA, only 24 per cent seem to understand the role AfCFTA plays in achieving Ghana's trade policy. A larger chunk representing 76 per cent are almost clueless about the role the AfCFTA agreement plays in Ghana's trade policy. More importantly, most of these firms have little knowledge and understanding about how AfCFTA would impact their business. Just 26 per cent have substantial knowledge about how AfCFTA will be beneficial to their business operations and how the same will impact their business. Close to half (48 per cent) of these firms are oblivious to the potential benefit of the AfCFTA agreement. These findings are shown in Figure 18. Similarly, findings from the FGD revealed that 45 per cent of the participants had "heard" of AfCFTA. However, the general depth of knowledge and understanding of the trade agreements by the participants was very poor.

Figure 18: Knowledge of AfCFTA



Source: CUTS International Field Survey (2021)

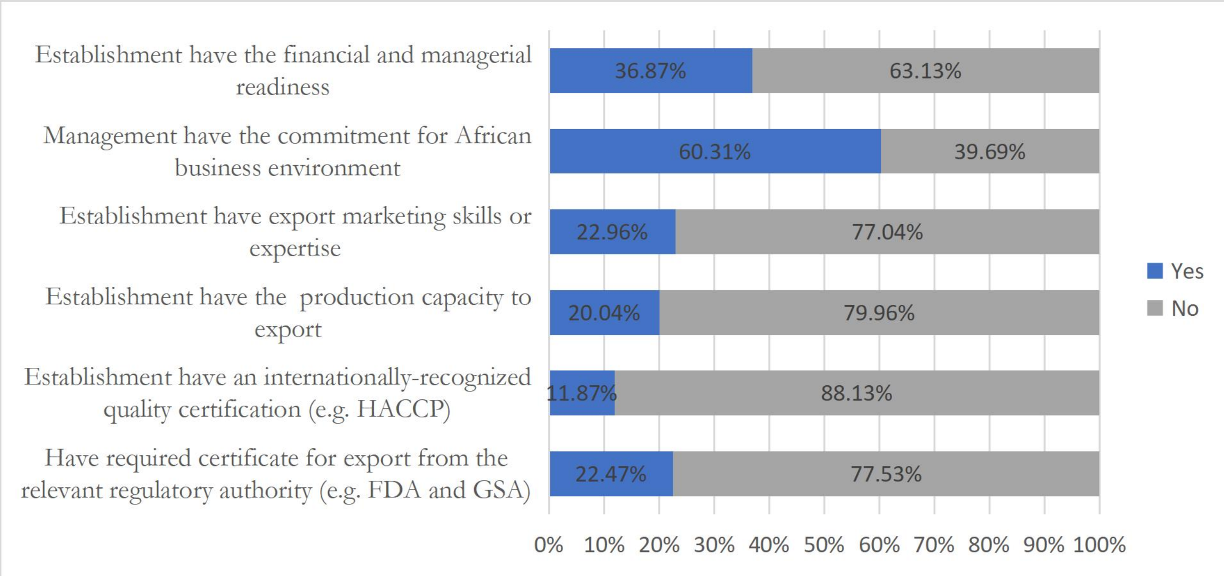
5.4.2. Export Capability

An attempt was made to find out about the export potential of Ghanaian SMEs and the result is shown in Figure 19. While only 22 per cent have acquired the required certificates for export from the regulatory authorities in Ghana such as the Food and Drugs Authority (FDA) or Ghana Standards Authority (GSA), only 12 per cent have acquired an internationally recognised quality certification for export. This means a lot of Ghanaian SMEs even though have indicated that they commit to export to the African market (60 per cent), most of them have been very quiet in the African export market space. Only 3 per cent of the SMEs export some of their products while the remaining 97 per cent are not involved in any form of exportation as shown in Figure 20.

Although 20 per cent of the sampled firms indicated that their establishment has the production capacity to export. Also, 23 per cent indicated that their establishment has some form of export marketing skills or expertise and 37 per cent are of the view that their establishment has the managerial and financial readiness for the export business. It is evident from the survey that most Ghanaian SMEs have limited export capability. Nevertheless, the advent of the AfCFTA presents a glorious opportunity for most Ghanaian SMEs to take advantage and boost their exportation resume. At least 20 per cent of the SMEs who have indicated that they have export capacity can be the pioneers while the others build capacity and follow suit.

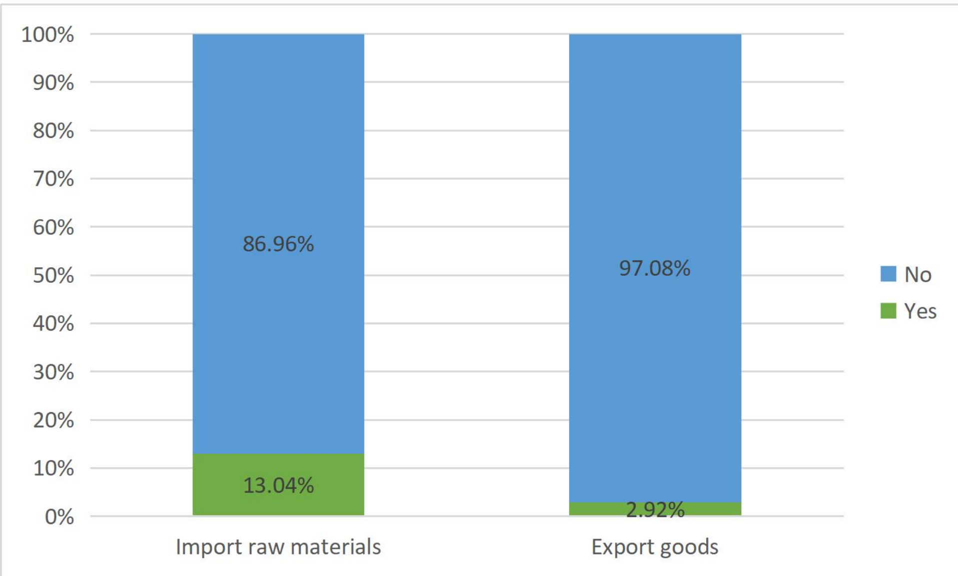
Figure 19:

Figure 19: Export Capability



Source: CUTS International Field Survey (2021)

Figure 2030: Import & Exports of goods



Source: CUTS International Field Survey (2021)

5.4.2.1. Barriers to Exporting & Importing to other markets

Some of the barriers that the firms indicated they face when exporting are;

- High export tax
- Border delay
- Extortion by custom officials
- High transportation cost
- Bad roads
- Cumbersome documentation process

- Demand for license and registration certificates.

Also, some barriers to importing are;

- Damaged imported goods
- Excessive delays in the arrival of goods
- Increasing import duties
- Documentation and waiting process make goods clearing difficult
- Extortion and demand for bribe by custom officials
- Price and local currency instability
- Frequent changing of EPA regulations

Also, some of the barriers that the SMEs revealed that they encounter when exporting their products to African countries include;

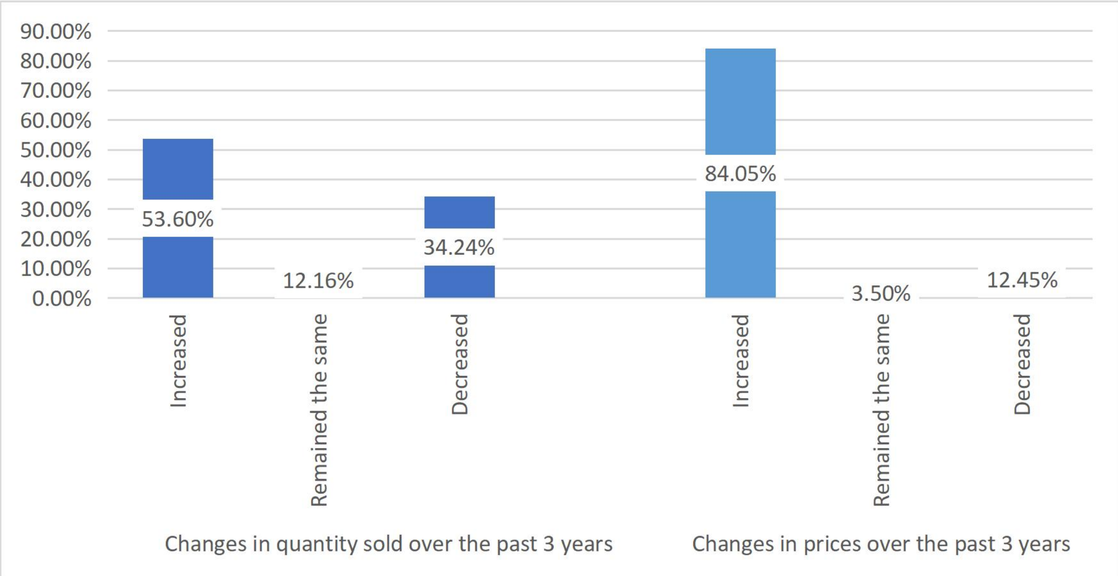
- The lack of finances to expand their business (which was expressed by most of the respondents)
- Lack of proper delivery system
- High cost of acquiring new technologies
- The inability to acquire export certification and licensing to export to other markets.

A further probe into these barriers revealed that knowledge and understanding of export procedures were limited among the participants. Subsequently, the SMEs were asked which type of market they would prefer to sell their goods – local market, African markets or the international market. The result suggested that 70 per cent of the respondents do prefer to sell in the local market, 10 per cent prefer to sell in the African market while the remaining 20 per cent prefer to sell in the international market. This means that there is a general lack of enthusiasm about exporting to the African market. This may be a major hindrance to the success of Ghana's trade policy and the AfCFTA implementation since the key stakeholders appear apathetic.

5.4.3. Ability to Compete

A key indicator of competitiveness is stability in prices and growth in output. The SMEs were asked whether there was a change in quantity sold and prices over the past three years (2018 – 2020). The three-year period is used to rule out any potential adverse effects of the Covid-19 pandemic experienced worldwide. These responses are shown in Figure 21. 53.6 per cent of these SMEs reported an increase in the quantity of goods sold by approximately 47 per cent. Similarly, 34.24 per cent of the SMEs reported a decline in quantity sold by 43 per cent while 12.16 per cent indicated that quantity sold remained the same. In terms of price, the majority (84.1 per cent) of the SMEs indicated an increase in price in the past three years, while 12.45 per cent indicated a decline in prices. This means that most of these SMEs failed to keep prices steady and this may be as a result of the general and frequent price changes experienced in Ghana. This tends to affect their production cost necessitating price increase.

Figure 21: Changes in Output sales & Prices



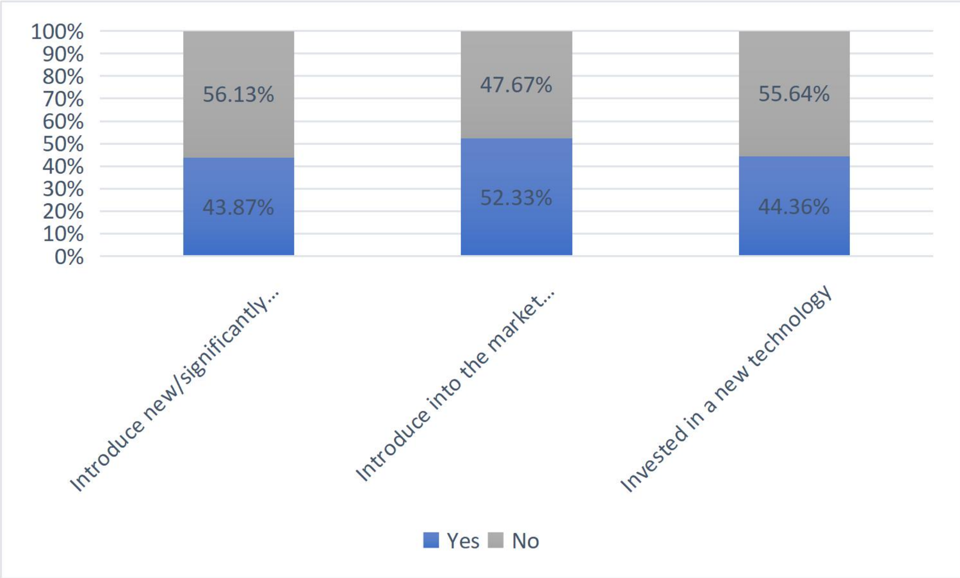
Source: CUTS International Field Survey (2021)

5.4.4. Innovative capacity

Every establishment is required to innovate in order to survive. Innovation is a key ingredient for sustained growth of any business entity whether small or large. It is even more important for firms who want to enter the international market, such as those who may want to exploit the AfCFTA opportunity. It is however, evident in the survey result in Figure 22 that most Ghanaian SMEs are not innovative. Only 44 per cent of the sampled firms indicated that they have invested in any form of new technology to improve their production process, while the remaining 56 per cent have not made any new investment in technology. When the SMEs were asked about the form of investments undertaken, 85 per cent of those who have made any investment indicated that they invested in machinery and plants. Seven per cent have made investments in product design while the remaining 8 per cent have invested in research and development (R&D). This is observable in Figure 23.

Similarly, only 44 per cent of the SMEs have introduced a new or significantly improved production process. This is not surprising, therefore, that only about 52 per cent of them have introduced new or significantly improved products into the market over the past three years. The majority of the respondents in the Focused Group Discussion (FGD) indicated that the cost of introducing a new technique, the cost of production and the rising cost of fuel were major challenges that confronted their ability to introduce new and improved products to the market. Among these other challenges, one other challenge that is worth mentioning is the unavailability of these innovations in the country.

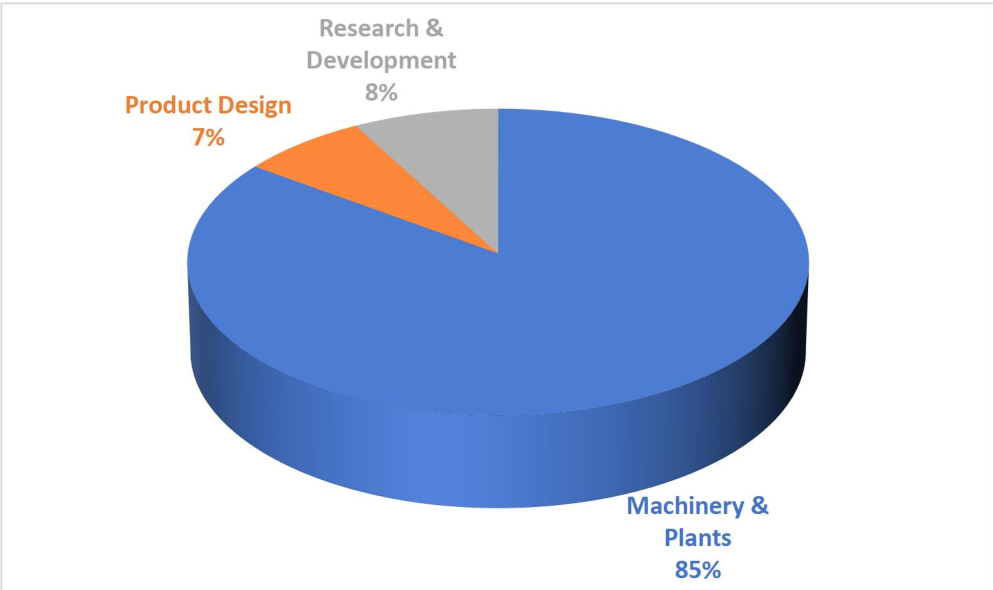
Figure 22: Investment in technology



Source: CUTS International Field Survey (2021)

Figure 23: Type of investment

Source: CUTS



International Field Survey (2021)

<u>Challenges encountered in a bid to introduce new or significantly improved production process including methods of supplying services</u>

- Difficulty in recruiting and maintaining workers.
- Poor road and wrong postal.
- High Tariffs and demands from the custom officials and sudden increment in the general prices of goods.
- Lack of trained technicians resulting in the import of skilled labour from overseas.
- Shortage of qualified workforce.

- Most of the qualified apprentices have graduated to own their businesses and many others have been poached by bigger companies.Delivering the timely and high-quality services that some of these companies are known for has become challenging as a result of this.
- Financial and managerial challenges.
- The cost of vehicles; as a company expands and attracts more customers, there is the need to purchase more vehicles to be able to serve and make delivery on time but in most cases, clients have to wait a little while because the vehicle has to drop off some items before going somewhere else. This could be avoided when more vehicles are procured and drivers are hired.
- Recruiting experienced and licensed drivers is also a major challenge to improving service.
- Lack of industrial machines.
- Inadequate teaching equipment.
- Lack of capital.

Challenges encountered in a bid to introduce new or significantly improved products or value addition

- The increase in utility charges and then materials used in the production process such as threads and linen has been a challenge to improving products
- Because the currency fluctuates quite often and without prior notice, the company mostly ends up spending the profit that could have been gotten on a previous consignment to make up for the new consignment. Simply put, the increase in duties nullifies the profit on the previous consignment
- Financial challenges and difficulty in getting FDA approval
- Companies made attempts to acquire facilities and buy modern machinery so it can perform at optimum standards but the interest rates and conditions attached to the credit facility makes it extremely unattractive
- The world is shifting towards renewable energy and electric cars and it leaves an importer like me skeptical about the prospects of the car industry, so I have limited my investment and all expansion plans till I am certain about the future of cars
- The materials are very expensive and also one can make a special request for a material but is not easy to get exact material for production but you can get a close substitute
- Our shops are small and yet we paid high tariffs to the authorities, therefore, hindering our productivity. We organise training for our customers, which costs us highly.
- Some challenges we face are when there is inflation, prices of goods and services become expensive, which makes us lose customers and also sometimes there is high supply but low demand in the market.
- To introduce improved products that complement Ghana's climatic conditions and standards of international regulations, companies have to spend a lot of money to research product design, quality and raw materials; it is indeed a very expensive venture.
- Afraid of losing customer if they don't like it
- The challenge is about the client's reluctance to accept prices based on the improved services.

What do you think are the most unique selling points to your products or what makes your products unique?

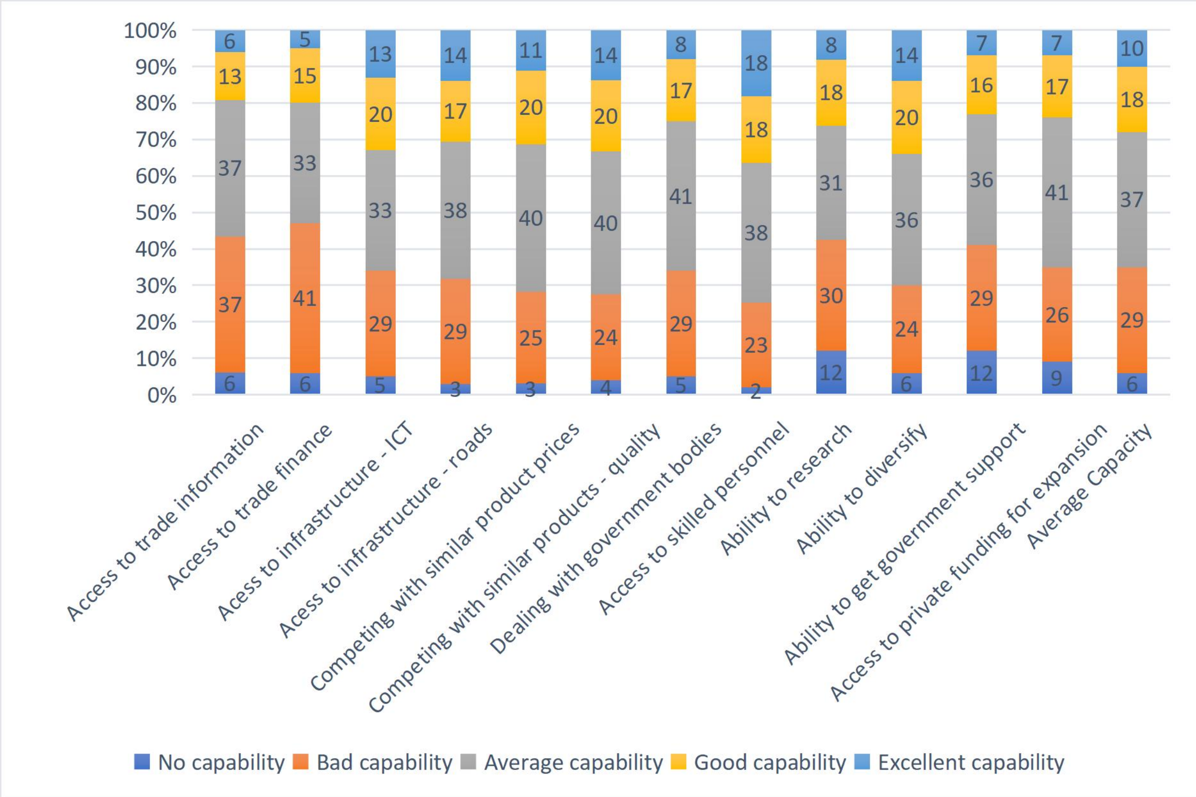
- *"I try as much as possible to reduce the price for my customers and use quality materials for sewing their dresses and I give discount to loyal customers and I also have a good customer relation with them"*

- *“I use quality materials for my work to ensure it lasts longer and this makes them recommend my products to others that are interested and I create a welcoming atmosphere for my customers”*
- *“I always make sure I sew to the satisfaction of my customers, with their preferred designs and styles”*
- *“We charge less as compared to that of our competitors. We have one of the latest photocopy and printing machines which yield good and quality result for our clients”*
- *“We do deliveries and we give our customers nothing but the best. We go online to search for an update and we are very creative. Our prices or charges are very affordable compare to that of our competitors”*
- *“We give the best at a short time”*
- *“We run promotions and we do after sales service. We update our website often and answer all queries and respond to feedback. Our service charges are cheaper as compared to that of our competitors”.*
- *“We think about the consumer and deliver according to what we have promised. Our fees are also moderate”.*
- *“We use the latest technologies and expertise in our work so customers are guaranteed the best service”.*

5.4.5. Productive Capacity

The productive capability of firms is in no doubt the most important indicator of firms' readiness to take advantage of a larger market such as the AfCFTA agreement. An assessment of the productive capacity of Ghanaian SMEs will include indicators such as access to trade finance, trade information, trade infrastructure, ability to compete with similar imported products in terms of price and quality, engaging government bodies and regulatory authorities. Others include access to skilled personnel, ability to research, ability to add value to products, ability to source support from government, access to funding for expansion and other macroeconomic indicators. It is evidenced in these statistics that most Ghanaian SMEs have low productive capacities. The average of all these capabilities show that only 28 per cent have good or excellent productive capabilities. The rest of the 72 per cent have average, bad or no capabilities. Ghanaian SMEs appear to have relatively good capabilities in their ability to compete with similar products in terms of quality and prices. They also have good capabilities in their ability to diversify and add value to their products. These results are shown in Figure 24.

Figure 24: Productive capacity



Source: CUTS International Field Survey (2021)

5.4.6. Assessment of SMEs Growth-Readiness for AfCFTA – Focus Group Discussion

To ascertain the growth-readiness of SMEs for the AfCFTA, the study examined the firms' capability, customer acquisition, talent availability, accessibility of resources and their ability to expand globally. When the owners of the firms were asked if they had a financial plan to assess their growth financially, 40 per cent had a financial plan in place. Out of this, 10 per cent had a documented financial plan. The remaining 60 per cent of the respondents did not have any financial plan to allow them to take advantage of the AfCFTA. When asked whether the owners of the SMEs monitored their working capital 60 per cent of the respondents indicated that they monitored their working capital subconsciously rather than applying financial management principles.

In terms of growth-readiness of the workforce among the SMEs, they indicated that for the existing workforce, workers are given opportunities for skills and talent development, promotion and on-the-job training. When asked if existing employees in their firms are willing to relocate to foreign jurisdictions to expand their business, one of the respondents who manufactures drinks, indicated that some of her workers are willing to do local travels, as a result, she can infer that the workers are willing to go to other African countries.

When the respondents were asked if their firm had local companies in foreign territories it operates in, only 5 per cent indicated that their firms had a company set up overseas, but this was accompanied with a language barrier. One of the respondents indicated that the language barrier prevented her from setting up her company in Togo.

When the respondents were asked if their current skills and technology were enough for AfCFTA, 55 per cent of the respondents indicated their present skill set is enough for them to survive the competition with the free trade bloc.

To measure the capabilities of firms to increase their customer base, they were asked how they would bring in new customers and how they would retain them. In bringing new customers they indicated that they will use exhibitions, discounts to new and repeat clients and referrals/recommendations.

5.4.7. Summary of the Growth Readiness of Ghanaian SMEs for AfCFTA

The assessment of the growth-readiness of SMEs for their enhanced participation in AfCFTA was carried out using 5 broad indicators. These are - knowledge about the AfCFTA, export potential, productive capability, ability to innovate and ability to compete.

There is generally little knowledge among Ghanaian SMEs about the existence of AfCFTA. There is also little knowledge about the role AfCFTA plays in achieving Ghana's trade policy. Just about 26 per cent have substantial knowledge about how AfCFTA will be beneficial to their business operations and about 48 per cent of these firms are oblivious about the potential benefit of the AfCFTA agreement. The export capabilities of Ghanaian SMEs are also limited. Although 60 per cent of the sampled firms indicated that they have the commitment to export to the African market, only 22 per cent have acquired the required certificates for export from the regulatory authorities in Ghana and only 12 per cent have acquired an internationally recognised quality certification for export. Also, about 20 per cent of the firms have the production capacity to export while 23 per cent have some form of export marketing skills or expertise. 37 per cent are also of the view that their establishments have the managerial and financial readiness for the export business. While most of the exporting SMEs face many barriers, a further probe revealed that knowledge and understanding of export procedures were limited among the respondents.

There is a general weakness in the SMEs ability to compete. 54 per cent of the SMEs reported an increase in the quantity of goods sold while 84 per cent of the SMEs indicated an increase in price in the past three years. The innovative capacity of SMEs is also in doubt. Only 44 per cent of the sampled firms indicated that they have invested in any form of new technology to improve their production process. Similarly, only 44 per cent of the SMEs have introduced a new or a significantly improved production process and only about 52 per cent of them have introduced new or significantly improved products into the market over the past three years.

An assessment of the productive capacity of Ghanaian SMEs revealed that most of the SMEs have low productive capacities. The average of all the productive capabilities shows that only 28 per cent have good or excellent productive capabilities. The rest of the 72 per cent have average, bad or no capabilities. Ghanaian SMEs appear to have relatively good capabilities in their ability to compete with similar products in terms of quality and prices. They also have relatively good capabilities in their ability to diversify and add value to their products.

5.4.8. Firm level recommendations

- SMEs are entreated to familiarize themselves and their general workforce on the essence of AfCFTA, and how beneficial it could be to their business.
- Again, Ghanaian SMEs should acquire both domestic and internationally-recognised quality certification.

- A conscious effort should be made to engage or trade in the African export market. This is essential due to the generally low apathy among Ghanaian SMEs to the African market.
- Ghanaian SMEs interested in AfCFTA should sharpen their export marketing skills or expertise and enlarge their managerial and financial capacity for the export business.
- SMEs should make it a deliberate policy to introduce new technology to improve their production process.
- They should also make it a deliberate policy to introduce a new or a significantly improved product into the market regularly in order to keep up with competition.
- SMEs need to be more competitive in terms of the pricing of their products and product quality.
- SMEs should diversify or add value to their products. This is to ensure that their products are differentiated.

5.4.9. Industry and Government level recommendations

- Researchers, policy analysts and government should sensitise SMEs about the essence and the potential benefits of AfCFTA.
- SMEs should also be trained on the necessary steps required to fully participate in the free trade area and required skills needed for a successful participation.
- Government should ensure that all barriers such as delays at the ports, airports and general bureaucracies be eliminated or drastically reduced.
- **The g**overnment through the Export-Import bank should assist viable SMEs with the needed financial support to boost their export trade.
- Government should ensure that there is stability in the general price level. This probably may be the first step to the SMEs maintaining or reducing their prices.
- Government should provide the needed trade infrastructure for SMEs to be competitive.
- Government should ensure that there is a general macroeconomic stability in relation to exchange rate, inflation and interest rate.

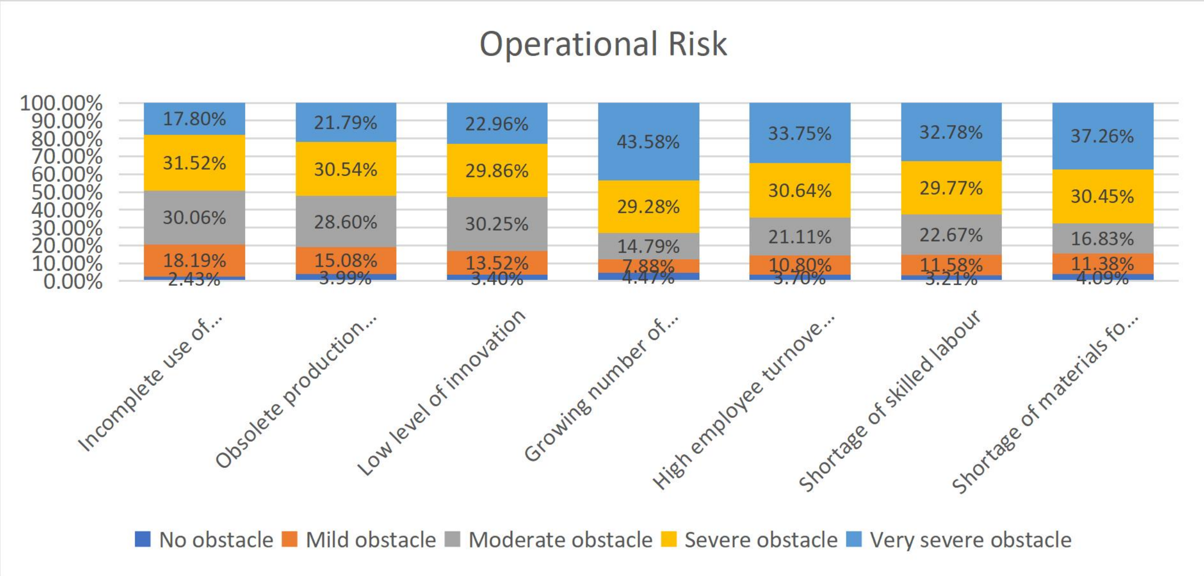
5.5. Risk Assessment of Ghanaian SMEs

The activities of SMEs are exposed to several risks. These risks are the uncertainties that relate to the operations of SMEs. These include economic risk, financial risk, operational risk and market risk. It is important to mention that; the survival of firms depend on their ability to manage risk effectively. A risk profile of Ghanaian SMEs is presented below;

5.5.1. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risks are generally within the control of the organisation through risk assessment and risk management practices, including internal controls and insurance. The result of the survey depicted in Figure 25 shows that close to 50 per cent of the surveyed SMEs consider the incomplete use of their productive capacities as a severe or very severe operational risk. This risk may be due to low demand or patronage of the firms' products and services. Similarly, 52 per cent of these firms also consider obsolete production facilities as a severe bottleneck to their daily operations. Most of these firms (53 per cent) mentioned low level of innovation as a severe or very severe operational risk. Most of these firms (73 per cent) also view the growing number of customer complaints in their entities as severe obstacles. Ghanaian SMEs also appear to have real challenges with their high employee turnover rates, shortage of skilled labour and shortage of materials for production. This is because 64 per cent of the SMEs consider high employee turnover rate as a severe obstacle, while 63 per cent of them consider shortage of skilled labour also as an obstacle. Similarly, 68 per cent of these SMEs consider the shortage of materials for production as a significant hindrance. Ghanaian SMEs should put in place internal control systems and mechanisms to mitigate some of these surmountable bottlenecks.

Figure 25: Operational risk

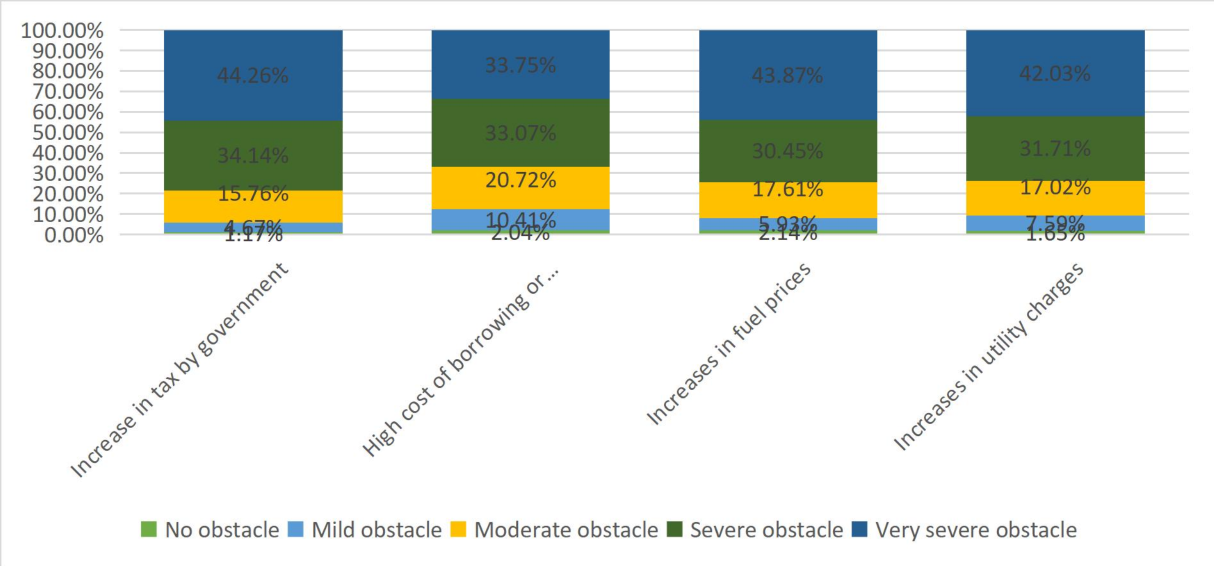


Source: CUTS International Field Survey (2021)

5.5.2. Economic Risk

Economic risk generally refers to the possibility that changes in macroeconomic conditions will negatively impact a firm. Some of the economic risks faced by SMEs are tax changes, high cost of borrowing and arbitrary changes in fuel and other utilities. From the survey shown in Figure 26, 78 per cent of the firms indicate that increases in taxes by the government creates a major hindrance to their operational activities. Also, 67 per cent of the firms are more hindered by the high cost of borrowing or lending interest rate. 74 per cent consider frequent increases in fuel prices and increase in utility charges as a severe or very severe obstacle. This means that the government plays a major role in the success of or otherwise of businesses.

Figure 26: Economic risk

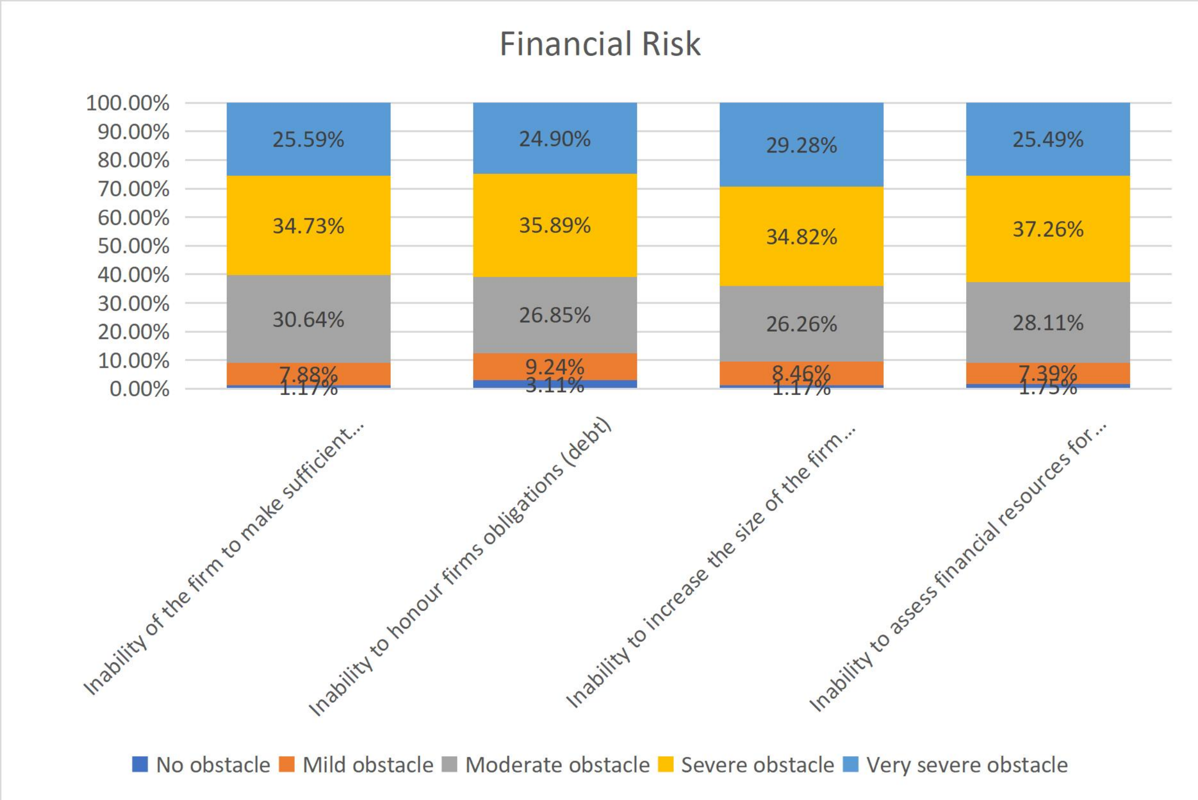


Source: CUTS International Field Survey (2021)

5.5.3. Financial Risk

Financial risk is a type of risk that relates to the financial operations of a business. It refers to the possibility of losing money on an investment or a business venture. This may include credit risk and liquidity risk. Some of the indicators of financial risk are the firms' inability to make sufficient profit, inability to honour firms' obligations when they fall due, inability to increase the firms' size and inability to assess financial resources for expansion. The survey result in Figure 27 shows 60 per cent of the sampled firms indicating the inability of their establishments to make sufficient profit as a severe financial obstacle to their operations. Likewise, 61 per cent indicate their inability to honour debt obligation as a severe or a very severe obstacle. Similarly, 64 per cent consider their inability to increase the size of their firms as a severe obstacle while the inability to assess financial resources for expansion is considered as a severe or very severe financial risk by about 63 per cent of the SMEs.

Figure 27: Financial risk

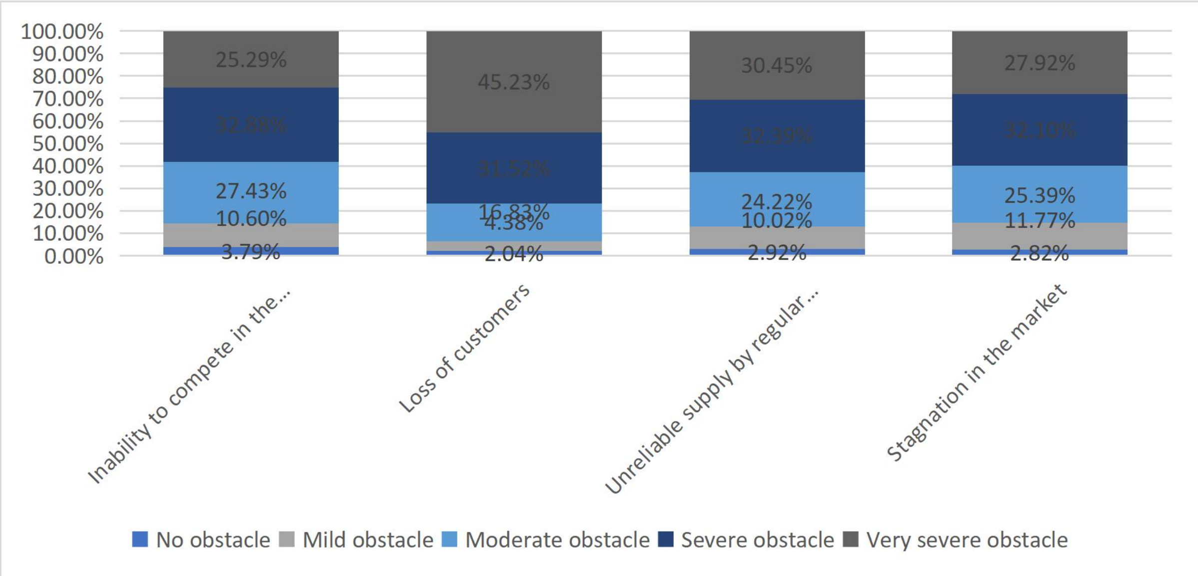


Source: CUTS International Field Survey (2021)

5.5.4. Market Risk

Market risk is the possibility that an individual or other entities will experience; losses due to factors that affect the overall performance of the industry. Thus, market risk affects the entire market. Some of the indicators of market risk are the inability to compete in the market, loss of customers, the unreliability of supply by the regular suppliers in the industry and stagnation in the market. About 58 per cent of Ghanaian SMEs consider the inability to compete in the market as a severe or very severe obstacle. 77 per cent consider the possibility of loss of customers as a major threat to their operations. Also, 63 per cent consider the unreliable supply by the regular suppliers as a severe or a very severe obstacle to their current operations. Relatedly, 60 per cent consider stagnation in the market as a major market risk to their operational activities. These statistics are indicated in Figure 28.

Figure 28: Market risk



Source: CUTS International Field Survey (2021)

5.6. What are your concerns about the AfCFTA as far as Ghana is involved? And what makes you happy about it?

The SMEs were asked their concerns about the AfCFTA as far as Ghana is involved as well as what makes them pleased with the free trade agreement. The following are the concerns raised by the SMEs;

- Hostile environment of African market
- The fear of Competition from stronger brands
- Dumping of good onto the Ghanaian market (4)
- The collapse of indigenous firms
- Strong competition from Europe
- The lack of diversified commodities on the continent
- The Removal of tariffs
- The expansion of market for Ghanaian firms
- Price and local currency instability.

Some of the points were brought to light in the following comments by the respondents;

"I'm concerned with the bully that smaller companies will suffer from big companies, not just within but from all around the continent. Just like the hypermarkets are able to sell at much lower prices and attract large customers because of their size and capital, an even much bigger problem might be created when the market is opened for all to play "

"I'm happy because I believe it will scrap and make redundant the many checks and requirements needed before going to or coming out of a country. I am, however, concerned about how African countries are going to benefit from the agreement since most of the goods and products are

directly or indirectly owned by Europeans. African companies might end up exposing the market for European products to sell more through increased export and dumping "

"It will widen the market for businesses to expand their clientele but it will also make it easy for companies to dump their wares in Ghana"

"It will not yield much impact for indigenous companies that produce and manufacture goods in Africa. Most of the goods produced by Africans are similar and although the products get sales in most countries, the sale in Africa is measly as compared to the patronage in Europe". Most of the goods produced in Africa are shirts. shoes, food items and some others and these goods are competitively produced across Africa. My concern is that the AfCFTA will increase trade but will only increase consumption of European and Asian products"

"The other signatory countries might find it easy to trade in Ghana because of the relatively peaceful and safe climate in the country but Ghanaians will find it hostile and difficult dealing with the business environment in those countries"

"Government must stabilize the currency so that importers can serve consumers with the best prices, else those with better prices as a result of cheaper imports will win the market. The trade agreement will be won by the country that can offer the best product at moderate prices since most of the goods traded in Africa are largely imported stuff".

5.7. What do you suggest should be put in place by the government to enable SMEs to take advantage of the AfCFTA?

The recommendations by the owners of the SME firms when asked to suggest the measures the government should put in place are as follows;

- The government should sensitise and educate SMEs on AfCFTA.
- The government should support local businesses.
- The government should reduce the cost of doing business.
- The government should ensure a proper administration and regulation of the free trade regime.
- The government should ensure there is easy access to trade financing.
- There should be proper stakeholders engagements.
- The government should boost the skills of SMEs.

The following are some of the remarks shared by the respondents;

"The government must make policies that only make it possible for African businesses to expand and not foreign conglomerates partnering with local companies to exploit the opportunities of the agreement"

"The government should educate us more on the role AfCFTA plays in our business and its importance so we can all take advantage of it"

"Government must offer special packages to SMEs that reduce the high cost of doing business in the country. Getting a loan should not take one through rigorous bureaucracy and high interest rate tied to inconvenient conditions and terms".

“Government should regulate it properly so that we are not short changed by other countries”

“We should deploy quality trainers to give our local trainees the quality skills needed for quality production to meet international standards”.

“The government should have discussions with stakeholders before the implementation so that they can find the best course of action that will favour these businesses”.

“Government must stabilize the currency so that importers can serve consumers with the best prices, else those with better prices as a result of cheaper imports will win the market. The trade agreement will be won by the country that can offer the best product at moderate prices since most of the goods traded in Africa are largely imported stuff”

6. CONCLUSION AND RECOMMENDATIONS

The AfCFTA, which aims at creating a single continental market for goods and services, with free movement of business, persons, and investments, commenced operations in January 2021. This free trade agreement intends to expand intra-African trade through better harmonization and coordination of trade liberalisation. For Ghana to fully benefit from the free trade agreement, it is important for SMEs, who form a large chunk of businesses in Ghana, be more competitive and ready-prepared to exploit this opportunity. With the dearth of literature on this pertinent subject matter, there is a need for a nationwide campaign and education about the awareness and potential benefits of AfCFTA and the level of preparedness required by SMEs to fully benefit.

The assessment of the competitiveness of SMEs in Ghana was carried out at the firm level, immediate business environment level and at the level of the national environment. The analysis was done at the respective levels of capacity to compete, connect and to change.

A large number of the sampled Ghanaian SMEs have no domestic quality certification for export and no internationally recognised quality certification. This simply means that most of them are unable to compete in the African or international market. Most of the SMEs also have excess capacities and lack a functioning management structure. This is notwithstanding the fact that most of these firms have not made sufficient investments in the production, finishing and packaging of their products to meet international standards. These results summarise that, Ghanaian SMEs are noncompetitive and hence, a lot of work and efforts are needed by these firms, policy makers and government to boost their competitive capabilities. Most of these firms also lack connectivity to their clients and suppliers with few using emails and websites. However, quite a relatively high percentage of these SMEs use some form of technology like mobile phones with social media platforms to enhance their productivity. Most SMEs are in a difficult position to be resilient and adapt to change, which is a necessary requirement for firms willing to exploit the AfCFTA. This is so as most of them have not embarked upon any form of training programmes for their staff over the past three years and are unable to secure funding from financial institutions.

There is also a general low capacity at the immediate business environment level to compete, connect and change. This is evidenced in the general difficulties in accessing trade information and trade-related infrastructure such as good roads and ICT for the purpose of work. There is also delay in clearing goods from customs besides poor dealings with governmental bodies and policymakers on documentation, registration, licensing and regulatory issues. There is also a moderate extent of cluster development within the SME business environment and low usage of modern marketing tools by the industry players and an average level of collaboration between industry players or businesses and universities on research and development related issues. Furthermore, access to finance is a severe obstacle to the current operations of SMEs just like unavailability of a skilled and educated workforce.

The Ghanaian national environment or macro economy is also not conducive to the survival of most SMEs and this makes firms unable to compete favourably. This is due to unreliable electricity supply, rapid exchange rate depreciation and inflation, which are major hindrances to business operations. There are also general difficulties in dealing with government bodies and agencies in relation to documentation, registration, licensing and regulatory issues. This is beside the poor ICT infrastructure network. There is also a lack of accessibility to credit facilities in Ghana due to high interest rates from financial institutions.

In assessing the growth-readiness of Ghanaian SMEs for their enhanced participation in the AfCFTA, five main indicators are deployed. These are the knowledge about the AfCFTA, export potential, productive capability, ability to innovate and ability to compete. Generally, the knowledge level among Ghanaian SMEs about the existence of AfCFTA is very low. There is also little knowledge about the role AfCFTA plays in achieving Ghana's trade policy. The export capabilities of Ghanaian SMEs are also limited. Although a high percentage of the sampled firms indicated that they have the commitment to export to the African market, only few have acquired the required certificates for export from the regulatory authorities in Ghana and internationally. While most of the exporting SMEs face many barriers, a probe revealed that knowledge and understanding of export procedures were limited among the respondents. In like manner, there is a general weakness in the SMEs ability to compete. This is evident in the frequent price changes. The innovative capacity of SMEs is also in doubt. This is due to low investment in any form of new technology or a new or a significantly improved production process.

Lastly, an assessment of the productive capacity of Ghanaian SMEs revealed that most of the SMEs have low productive capacities. The average of all the productive capabilities shows that a very low percentage have good or excellent productive capabilities.

Finally, a risk assessment profile of Ghanaian SMEs shows that there is a high level of risk among the SMEs. These include economic risk, financial risk, operational risk and market risk. For these firms to be competitive, there is a need to manage these risks effectively.

These are a summary of the policy recommendations;

- The SMEs should put in their best effort towards acquiring quality certification especially those in manufacturing. It is also a must to acquire an internationally recognised quality certification in preparation towards exportation to the African market.
- Ghanaian SMEs need to operate at full capacity even if this requires an extra hand. This will boost their output levels. In addition, some of the SMEs can leverage on the vast experience of their top managers to expand their current operating capacities and make space for exportation.
- There is also the need for massive investment in the production, finishing and packaging of products to meet quality and international standards. Some of the SMEs need to leverage on recent advancement in technology to boost their productivity. Basic investment in smart mobile phones and internet services is required to access and use social media platforms to enhance their productivity.
- The deployment of modern marketing tools should also be aggressively exploited to market the products and services of SMEs and also to be able to reach a larger African market. Modern marketing tools such as social media marketing, email marketing, internet ads should be exploited. Some of these tools are more convenient with the necessary training and more cost effective.
- SMEs should follow prudent but basic financial management practices. They should endeavour to prepare annually audited financial accounts. This makes them easy candidates in accessing credit facilities from financial institutions and private investors.
- Industry players and the government should invest in trade infrastructure that gives easy access to trade information such as the catalogue of government policies, potential export markets.
- The bureaucracy at the various points of entry such as the ports and airports should be reduced or removed. Thus, conscious efforts should be made to make it easy to send goods abroad and clear from customs. This requires more investments in ICT infrastructure.
- Quite related to the above, the time in dealing with governmental bodies on documentation, registration, licensing and regulatory issues should be streamlined. This

can be made possible if most of the documentation is done online to reduce face-to-face interaction.

- There is a need for SMEs, policy makers and governments to enforce more collaboration between the industry players or businesses and universities on research and development.
- SMEs are entreated to familiarise themselves and their general workforce on the essence of AfCFTA, and how beneficial it could be to their businesses.
- A conscious effort should be made to engage or trade in the African export market. This is essential due to the generally low apathy among Ghanaian SMEs to the African market.
- Ghanaian SMEs mostly interested in AfCFTA should sharpen their export marketing skills or expertise and enlarge their managerial and financial capacity for the export business.
- SMEs should make it a deliberate policy to introduce new technology to improve their production process. They should also make it a deliberate policy to introduce new or significantly improved products into the market regularly in order to keep up with competition.
- SMEs should diversify or add value to their products. This is to ensure that their products are differentiated.
- The Ghanaian government and financial institutions need to put in measures to make credit facilities more easily accessible to SMEs to expand their businesses. The cost of credit or lending interest rate should also be drastically reduced.
- It is also very necessary for the government and relevant stakeholders to ensure that electricity supply is readily available, reliable and affordable. The high price and unreliability of electricity supply is one of the reasons why SMEs keep increasing their prices.
- Although a common suggestion, it is imperative to re-echo the suggestion that government needs to stabilise the exchange rate and inflation. This will make Ghanaian SMEs export products competitively-priced.
- Researchers, policy analysts and governments should sensitise SMEs about the essence and the potential benefits of AfCFTA.
- SMEs should also be trained on the necessary steps required to fully participate in the free trade area and required skills needed for successful participation.
- Government should ensure that all barriers such as delays at the ports, airports and general bureaucracies be eliminated or drastically reduced.
- The government through the Export-Import bank should assist viable SMEs with the needed financial support to boost their export trade.
- There is the need to establish AfCFTA coordinating offices (at the MMDA level) across the country. These coordinating offices should have units solely designed to meet the needs of SMEs.
- There is the need to extend the education and sensitisation of AfCFTA to women, particularly "market women" in the informal sector.