

Positioning the Ghanaian MSME to Take Advantage of the AfCFTA

Introduction

MSMEs contribute significantly to job creation, income generation and poverty reduction in developing economies and Ghana is no exception. Data from the World Bank suggests that MSMEs account for more than 70 percent of industrial activities in Ghana and have been identified as catalysts for the economic growth of countries.¹

In Ghana, MSMEs contribute to about 70 percent of Gross Domestic Product (GDP).² Contributions to GDP are typically in corporate taxes, export duties and import taxes



from their activities.³ Additionally, MSMEs play an important role in human resource development and skills acquisition for businesses and are noted as being cradles of innovation and entrepreneurship. Across countries at all levels of development, MSMEs have an important role to play in achieving the Sustainable Development Goals (SDGs) by promoting inclusive and sustainable economic growth, providing employment and decent work for all, promoting sustainable industrialisation and fostering innovation, and reducing income inequalities⁴ which are Goals 8,9 and 10, respectively.

Despite being important and contributing significantly to the socio-economic growth and development of the nation, MSMEs are confronted with challenges that affect their production and export potential, thereby hindering their ability to participate fully in global trade. Key among these is limited access to finance. MSMEs are often unable to access financing from formal financial institutions due to inadequate operational and financial track records. Additionally, Ghanaian MSMEs are confronted with challenges including power reliability, the difficulty of trading across borders, access to ICT, ICT use, and difficulty starting a business. With the challenges mentioned above, the financial constraints affect their capacity to produce and export to other markets.



MSMEs and Global Trade

Ghana's intra-African exports account for 34.2 percent of her total goods exports,⁵ mainly in manufactured products. Major contributions to these levels of trade experienced are from MSMEs in the country, most of which are in the manufacturing sector.

MSMEs penetrate global markets by exporting through clusters, joining global value chains (GVCs), and exporting directly or indirectly. In that sense, SMEs need to exploit opportunities offered by clusters and GVCs, representing opportunities to penetrate markets and learn through the diffusion of information and knowledge.⁶

Stronger participation by MSMEs in global markets can help to strengthen their contributions to economic development and social well-being, by creating opportunities to scaling up, accelerating innovation and enhancing productivity. In addition, greater flexibility and capacity to customise and differentiate products can give MSMEs a competitive advantage in global markets relative to larger firms. They can respond rapidly to changing market conditions and increasingly shorter product life cycles.⁷ SMEs dominate some niche international markets, and innovative small enterprises are often key partners of larger multinationals in developing new products or serving new markets.

The Importance of the AfCFTA to MSMEs

The future of Ghana's increased intra-African trade lies with MSMEs. With MSMEs accounting for a substantial amount of economic activity in the country, the AfCFTA provides an opportunity for them to export to other African countries, thus boosting intra-African trade. MSMEs form the bedrock of economic activity in Ghana and contribute immensely to reducing unemployment rates and the general growth of the economy. The AfCFTA undoubtedly presents an opportunity for MSMEs to deepen their economic footprint. The single market will bring together more than 1.2 billion people, including a growing middle class and a combined GDP of more than US\$3.4tn.⁸



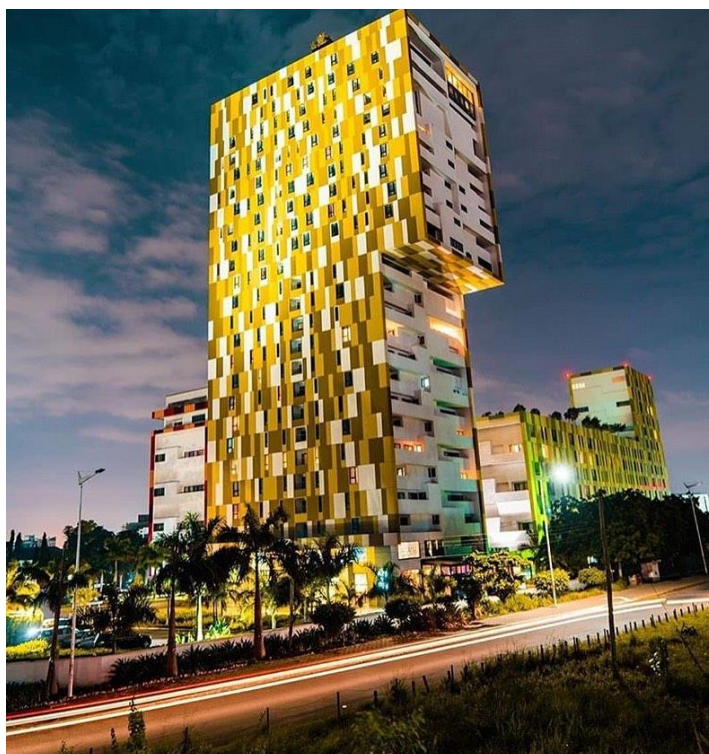
The Continental Trade Agreement will expand intra-African trade through better harmonisation and coordination of trade liberalisation and facilitation instruments across the various regional economic communities on the continent. The African market will have improved conditions for forming regional value chains and integrating into GVCs.

For these reasons, it is imperative that MSMEs fully comprehend the agreement to leverage its opportunities for expansion and help mitigate the effects of the COVID-19 pandemic on their activities. It is important to note that countries must fully benefit from trade integration, enabling them to realise sustainable economic growth. This would mean identifying sectors with export potential for Ghana, considering competitive advantage and understanding the competitiveness of the Ghanaian private sector, including the challenges the private sector faces in domestic and international trade.

Readiness of Ghanaian MSMEs for the AfCFTA Implementation

Research conducted by CUTS Ghana titled ***"Assessment of Ghanaian Private Sector Readiness for AfCFTA Implementation"*** assessed the readiness of Ghanaian MSMEs, particularly pharmaceutical and herbal, tourism and hospitality, food and beverage, agri-business and garment, leather and textiles industries, using the following criteria;

- Production capability
- Ability to compete
- Ability to innovate
- Ability to export
- Knowledge about the AfCFTA



To analyse the readiness, a five-point Likert scale was employed where 1- 2= Low (Not Ready), 3= medium (Somehow Ready) and 4-5=High (Ready) (Figure 1)

The point assigned to each indicator was derived from the cumulative average of the various industries. This relies on the findings from both the quantitative and qualitative information.

Figure 1: Description of the Likert scale scores

Low	Medium	High
Not Ready	Somehow Ready	Ready
1	2	3
		4
		5

Table 1 provides more details about the assessment criteria and illustrates the readiness of Ghanaian MSMEs using the criteria, measuring them on a scale of 1-5.

a. Production Capabilities

Productive capability brings into perspective how firms are resourced both internally and externally to produce effectively, expand, diversify or add value to their products to take advantage of the AfCFTA. The research shows that the capabilities of firms are generally low across the various sectors under review. Low productive capability signifies that firms will find it difficult to produce competitively and take full advantage of the AfCFTA if immediate action is not taken to address the challenges.

b. Ability to Compete

Under this criterion, firms were assessed based on their ability to compete with similar products from other African countries. This took into account price, quality, and quantity produced and sold. Higher prices indicate that firms will find it difficult to compete with similar goods, while lesser, more stable prices give competition. In terms of volume, this is dependent mainly on production capabilities. Higher production capabilities mean that they will be able to compete, but low volumes will render them uncompetitive.

The research shows that Ghanaian SMEs will find it difficult to compete in terms of price in the AfCFTA implementation. A three-year base period that was used to monitor price changes indicated that since most firms across the sectors had increased price over the past three years, they would not be able to compete with similar products. Additionally, firms' ability to compete with regards to volume is low as only a few recorded an increase in production volume within the stipulated period. Firms studied for this research stated that the inability to compete stems from a high cost of production arising from **(a) high cost of raw materials**, **(b) high cost of credit**, and **(c) high utility charges**.

Ghanaian SMEs have a competitive advantage in terms of quality. Across industries, participants indicated that their products were known to be of good quality across the African continent. This was attributed to how strongly products are regulated, particularly for the pharmaceutical industry. As such, they are in a better position to compete with products from other African countries.

c. Ability to Innovate

The ability to innovate in the presence of the AfCFTA is very important as it gives firms a competitive advantage *inter alia*, over their competitors. Firms were therefore

assessed on if they have been able to introduce a new or significantly improved product or process and invested in technology in the past 3 years (i.e., 2017-2020). The results show that firms have a significant ability to innovate as many of them have introduced new or significantly improved product and production processes. This is buttressed by the fact that almost all enterprises have invested in new technology. However, the creative ability firstly lies in product design, followed by the use of new machinery or plants and lastly, R&D. Hence, firms can diversify, undertake value addition or come up with new products and thus benefit from the continental trade agreement. Enterprises, however, indicated that a high cost of constant upgrading of production, inadequate skilled personnel, and high cost of importing basic equipment for production are the challenges they encounter to introduce or significantly improve products or production processes.

d. Ability to Export

Ability to export considered the possession of export certificate and current export position. The current export position helps to determine those who are already exporting (or have the export potential). Possession of export certificates is also an indication that there is the possibility to enter the foreign market. The research indicated that quite some firms did not possess export certificates, therefore confirming them as local champions. To take advantage of the AfCFTA, it is important Ghanaian MSMEs be given proper education on the importance of acquiring export certificates to aid their export potential and address any issues concerning the acquisition of export certificates.



It was observed that firms across the sectors had the majority of their products sold in the country. In the instances where products were exported, they were largely exported to countries in West Africa. Firms in the tourism and hospitality sector highlighted that the domestic nature of their industry limits export potential.

Some export challenges identified were custom regimes, language barriers and the heterogeneity of currencies across the continent and the multiplicity of standards and regulations. Additionally, delays, cumbersome transit procedures and numerous checkpoints also hinder MSME's attempt to export to the African market.

e. Knowledge about the AfCFTA

Knowledge about the AfCFTA considered the awareness of and understanding of the agreement, its objectives, negotiations, and how it will affect business. A special emphasis was placed on the Rules of Origin (RoO)⁹ since it is the key to ensuring exports to the African markets under the AfCFTA Agreement. The research indicates that, across industries, there is limited knowledge and understanding about the AfCFTA. Specific to the Rules of Origin, most of the participants had insufficient knowledge about it. This shows the importance of designing activities to engage MSMEs to bring them up to speed with the agreement. A direct result of this lack of engagement is the failure of MSMEs in this study to project how the AfCFTA may affect their businesses and how to position themselves to stay ahead of the curve.



Table 1: Indicators and Scores Used to Rate the Private Sector Readiness for the AfCFTA Implementation

Indicators	Description of measure	Score for small and medium firms (1=Low and High=5)	Justification
Productive capability	Firms have enough resources at their disposal to boost production	2	Evidence of how the private sector can expand production, diversify or undertake value addition and produce efficiently
Ability to innovate	Firms readily have innovation capabilities	3	Evidence of how firms can diversify, improve or add value to products
Ability to compete	Firms can compete in terms of price, quality, and quantity	2	Evidence of how firms can have a competitive advantage
Ability to Export	Assessing whether a firm has a good reason to motivate it to export. Evaluating criteria: 1. Management commitment to international business environment 2. Strategy marketing capabilities 3. Production capabilities 4.Transaction (getting and fulfilling orders) 5. financial and managerial readiness 6. Market Access or sale, 7. Ability to benefit from existing trade protocols 8. Possession of the required export certificate	2	Evidence of how firms can export and take advantage of the expanded market
Knowledge about AfCFTA	Firms have enough knowledge about the concept, objectives, etc. of the AfCFTA, including Ghana's trade policy	1	Evidence of how the private sector is informed and could prepare and take advantage of the AfCFTA Agreement
Average overall score		2	

Unique Selling Point for Ghanaian MSMEs

All the industries have a unique selling point that gives them a comparative advantage over their African counterparts. The agri-business, food and beverage and garment and textiles industries boast of a reasonable policy environment, the existence of significant productive lands and available bodies for irrigation to support the production of raw materials.

For the agribusiness industry, which uses raw materials that are mainly sourced locally, the availability of raw materials all year round provides the opportunity for value addition and exports, which is key for the AfCFTA. Currently, the Agri-business industry stands to benefit the most from the Rules of Origin since it is the sector that sources most of its raw materials from the country. The industry is also known for the quality of raw material, taste of products and tenderness of products produced.

The strength of the garment, textile and leather industry sector lies in its production of quality and beautiful products, especially fabrics. For instance, Kente is known worldwide for its cultural significance.

Regarding the tourism and culture industry, Ghana is known globally for its rich culture, unique and over-abounding natural and historical resources, immense and diverse tourism resources and sites, and hospitable people.¹⁰

Additionally, products from Ghana, especially those from the pharmaceutical and herbal industry, have a good reputation for being of good quality. Together, all these factors put Ghanaian products above those from other African countries.



Positioning MSMEs to Take Advantage of the AfCFTA

The study concluded that more preparation is needed for MSMEs towards the implementation of the AfCFTA. Some key challenges identified include but are not limited to; ***high utility costs, high cost of credit, high cost of raw materials, high cost of importing basic equipment for production, an influx of fake products on the market***

The Association of Ghana Industries' (AGI) survey over the past ten years (2009-19) on constraints facing businesses in Ghana buttresses the results from this study. Key constraints as revealed through the said survey are illustrated in table 2.

Table 2: Constraints Facing Businesses in Ghana, 2009-2019

1.High cost of electricity (poor power supply)	2.Cedi depreciation
3.Difficulty in accessing credit	4.High cost of credit
5.High or multiplicity of taxes	6.Competition from imported goods
7. High cost of raw materials	8.High inflation
9.High utility prices	10.Delays in government payment to contracts
11.Poor infrastructure	12.Lack of market
13. Cumbersome port procedures	
<i>Source: AGI-Business Barometer Reports 2009-2019, cited in IEA's 2018 Survey on Business constraints Report</i>	

To position MSMEs to harness the benefits of the AfCFTA fully, the study suggests that the following actions be taken to rectify the various challenges outlined.

	MSMEs	Government and other stakeholders
Production Capability		
	<ul style="list-style-type: none"> MSMEs should invest in acquiring proper knowledge on financial management as this will ensure their credit reliability to attract loans from financial and non-financial institutions. MSMEs should also consider diversity in their financing. They may consider non-traditional sources of funding such as Mutual Guaranteed Funds (as done in France)¹¹ to be better suited to cover production costs. 	<ul style="list-style-type: none"> Actions must be taken to address the high cost of production emanating from the high cost of credit and high utility charges by introducing policies to improve the operational cost of banks, reducing the risk of lending and strengthening regulations. Some countries such as the Netherlands and India have set up specialised financial institutions to assist MSMEs. Utility companies must also be restructured to improve their management efficiency and reduce their operational losses, as this will reduce tariff rates. Government taxes should be restructured to favour firms, especially those who are into value addition. The high cost of raw material and machinery should be addressed by reducing or minimising imports duties on such inputs that support processing, manufacturing or value addition. Alternatively, there should be a policy direction that promotes the domestic provision of inputs. For example, the development of industrial starch under the strategic anchor industrial product is a good initiative and should be expanded to other areas. Government should, through its departments and agencies, address cumbersome land titling and registration processes. This could be done by providing information on the titling of land, thus overcoming the lack of clarity regarding ownership.
Ability to Compete		
	<ul style="list-style-type: none"> Invest in improving packaging and finishing by learning from international best practices. This will enable them to survive the 	<ul style="list-style-type: none"> Assist producers in meeting international quality standards through training and certification. With the Africa Growth Opportunity Act, The Ministry of Trade &

	MSMEs	Government and other stakeholders
	<p>competition. The issue of poor packaging and finishing should be addressed by encouraging investment in industries that offer such services. For example, the government industrial development agenda should partner with the private sector to invest in firms that provide state-of-the-art packaging services.</p>	<p>Industry and the Ministry of Foreign Affairs and Regional Integration organises stakeholder consultations to assist SMEs and address any challenges they may have through Ghana Export Promotion Authority agencies. The same could be done for the AfCFTA.</p>
Ability to Innovate		
	<ul style="list-style-type: none"> MSMEs should be committed to researching ways to improve upon current or existing products to have the upper hand on similar products from other African countries 	<ul style="list-style-type: none"> Restructure educational institutions to reflect the human resource needs of industries. It may also wish to consider supporting and fostering knowledge transfer efforts from larger transnational corporations. This could be done by creating knowledge networks among firms through, for example, the formation of congress of manufacturing firms where a delegated person from the group can seek out international best practices in terms of management and working practices of firms in their member industries and make that available free of charge to their members. An adjustment of the educational system to match the market needs for labour will increase labour force productivity and raise the employment rate in the economy. Actions must be taken to address the high cost of production emanating from high cost of credit and high utility charges by introducing policies to improve the operational cost of banks, reducing the risk of lending and strengthening regulations. Utility companies must also be restructured to improve their management efficiency and reduce their operational losses. Government taxes should be restructured to favour firms, especially those who are into value addition. The high cost of raw material and machinery should be addressed by reducing or minimizing

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Ability to Export		
	SMEs need to have a clear-cut (export strategy) plan to drive their export sales	<ul style="list-style-type: none"> Through the EXIM Bank and the Ghana Export Promotion Authority, MSMEs can intensify education and training for SMEs, especially on potential export markets and market access requirements. Additionally, Ghana, Exim Bank should increase support to firms that undertake value addition. It should also establish a specific credit facility to support SMEs that focus on exports. Moreover, the government should increase resource allocation to the Eximbank
Knowledge about the AfCFTA		
	<ul style="list-style-type: none"> Consider allocating staff members specifically to understanding the AfCFTA and understanding how to navigate this new trade arrangement. This could look like appointing AfCFTA desk officers. 	<ul style="list-style-type: none"> Intensive education and capacity building at regional and local levels to address limited knowledge of the AfCFTA. The government should consider activities and consultations geared at bettering the understanding of the continental trade agreement, especially the Rules of Origin. These must be done at national, regional and district levels for the most reach and effect. Extensive consultations in Nigeria before the ratification of the AfCFTA ensured that firms' concerns were understood, built capacity, broadened the basis of consensus and in partnership, identified elements for a plan of engagement. Even though already ratified, the government could model similar activities carried out by the Nigerian government to ensure that Ghanaian MSMEs mostly gain from the trade agreement.



The AfCFTA presents an incredible opportunity for Ghanaian MSMEs to scale up activities and expand into African markets. It opens them up to a market of 1.2 billion people across the continent and provides endless possibilities for the socio-economic growth of the population. However, to unlock the potential for economic transformation, the various challenges that MSMEs are confronted with must be addressed by the government to create an enabling environment favourable to their activities. At the same time, MSMEs focus on improving their internal mechanisms to make the most of the agreement.

Endnotes

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- ⁸ <https://au.int/en/ti/cfta/about>
- ⁹ "Preferential Rules of Origin shall be defined as those laws, regulations and administrative determinations of general application applied by any Member to determine whether goods qualify for preferential treatment under contractual or autonomous trade regimes leading to the granting of tariff preferences going beyond the application of paragraph a of Article 1 of GATT 1994" (Annex II, Paragraph 1). See: <http://www.wcoomd.org/~media/wco/public/global/pdf/topics/origin/overview/origin-handbook/rules-of-origin-handbook.pdf>
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