IMPROVING FRAMEWORK CONDITIONS TO UNLOCK THE POTENTIAL OF AFCFTA FOR SMEs IN GHANA

CUTS INTERNATIONAL- GIZ

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DEUTSCHE ZUSAMMENARBEIT

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OUTLINE OF PRESENTATION

1. BACKGROUND OF THE STUDY
2. OBJECTIVES OF THE STUDY
3. METHODOLOGY
4. SURVEY RESULTS AND ANALYSIS
5. CONCLUSION
6. RECOMMENDATIONS

Background of the study

BACKGROUND OF THE STUDY

- The decision to establish the African Continental Free Trade Area (AfCFTA) was first consented to in 2012 at the 18th African Union Summit held in Addis Ababa, Ethiopia.

- The AfCFTA aims at creating a single continental market for goods and services, with free movement of business, persons, and investments as well as expand intra-African trade through better harmonization and coordination of trade liberalization.

- This large market presents great opportunities and provides a firm foundation for Ghana's much awaited industrialization drive to take off in full gear.

- SMEs in Ghana contribute about 70 percent to Ghana's GDP and have provided about 85 percent of manufacturing sector jobs in Ghana.

Creating One African Market

BACKGROUND OF THE STUDY

- 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. Without the private sector the country would not be able not take full advantage of the free trade agreement.

- However, the SME sector in Ghana has been completely side-lined and have not been given the needed attention it deserves. Less than 13% of SMEs have knowledge about AfCFTA while the remaining are clueless.

- Besides the SMEs concerted efforts to benefit from AfCFTA, the government of Ghana also has a major role to play in providing the serene business climate for growth-oriented SMEs to thrive.

- There is therefore the need to create the necessary conducive conditions at the business and national environment level for SMEs to position themselves to fully benefit.

Creating One African Market

Objectives of the study

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 also to come out with diagnostics report, which would help to develop practical steps in addressing those gaps and challenges and to advocate for improving the business framework conditions for the SMEs.

OBJECTIVES OF THE STUDY

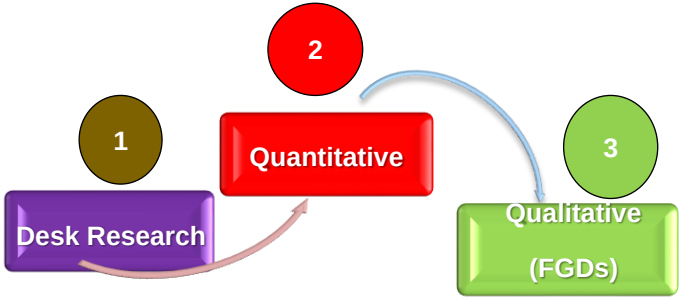
- The study specifically seeks:

1. To assess the level of competitiveness and growth-readiness of Ghanaian SMEs for enhanced participation in the AfCFTA
2. To identify how uncompetitive framework conditions can affect the competitiveness under the AfCFTA
3. To identify and develop practical steps in addressing those gaps and challenges
4. To undertake capacity building to improve on the competitiveness of the SMEs

Methodology

METHODOLOGY

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



- In all, 3 FGDs were organized (Accra, Kumasi and Takoradi)
- Data was collected on six sectors including the Agriculture, Building and Construction, Manufacturing, Retail and Wholesale, Service and the Transportation Sector. Out of the retrieved sample of 1028 firms (respondents), 494 were successfully obtained from Accra, 266 were obtained from Kumasi and 268 from Takoradi

Literature Review

LITERATURE REVIEW

- The desk review 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

- 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.

- Egypt, South Africa and Morocco pose the most threat to Ghana in markets where Ghana has the most export potential since these countries have export potential in nearly all of Ghana's potential markets

- Ghana's export to Africa has a huge gap that needs to be addressed in order to benefit greatly from the AfCFTA.

Source: International Trade Centre (2016), Africa

LITERATURE REVIEW

The SME Competitiveness grid in Ghana

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.

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.

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.

Ghanaian SME Competitiveness grid		Three Pillars of Competiveness		
		Compete	*Connect*	*Change*
Three Levels of the Economy	Firms 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: International Trade Centre (2016)

LITERATURE REVIEW

Competitiveness in Ghana relative to Ghana's peers

	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: International Trade Centre (2016), Africa

Survey Results & Analysis

Survey Results & Analysis

A total of 1028 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 percent) and Takoradi (26 percent).

The Table below shows a cross tabulation of the regional distribution of the SMEs and the sector of operation.

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: Survey (2021)

Survey Results & Analysis

Business size and Years of operation

On the number of years in operation, findings suggests that the SMEs surveyed, have on average, been operating in Ghana for 11 years. 20 percent of the firms have been in operation for less than 5 years while 40 percent have operated for between 5 – 10 years with the remaining 40 percent having operated beyond 10 years.

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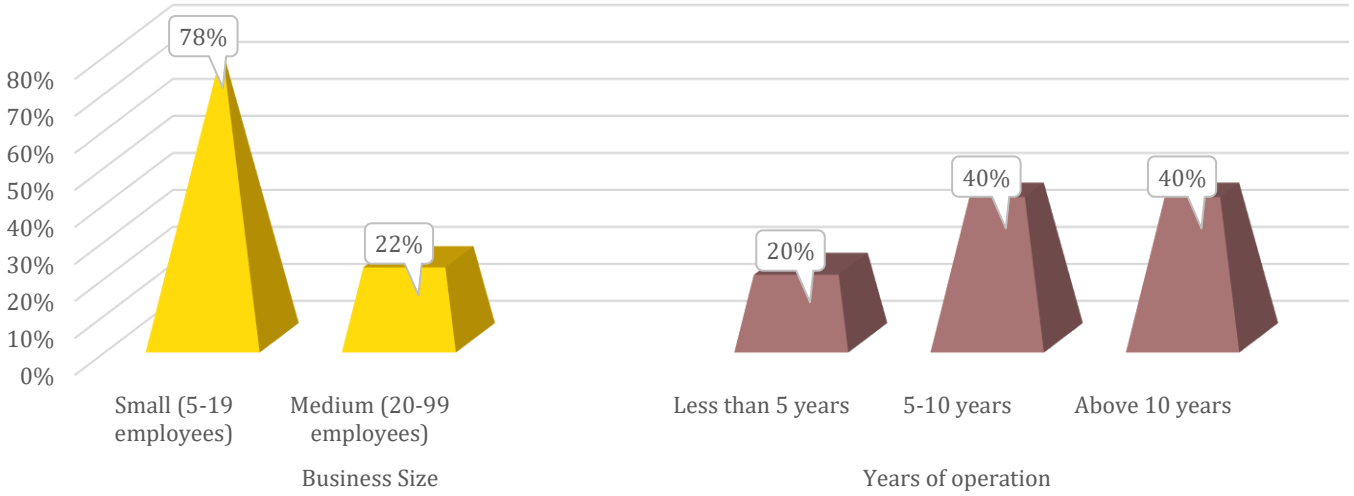


Source: Survey (2021)

Survey Results & Analysis

Assessment of the level of competitiveness of Ghanaian SMEs in the AfCFTA

- The analysis in this section is undertaken in three layers of competition. It is categorized into three sections;

- **Firm-level:** This level assesses whether firms are managed according to best practices, need resources, and whether they have competencies to manage those resources.
- **Immediate business environment level:** This level assesses whether the local business ecosystem, which is made up of business support institutions, supplies enterprises with the resources or competences they need to be competitive.
- **The national environment level:** This level assesses the macro-economic and regulatory environment enterprises operate under. The national environment is primarily set by government.

Survey Results & Analysis

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:

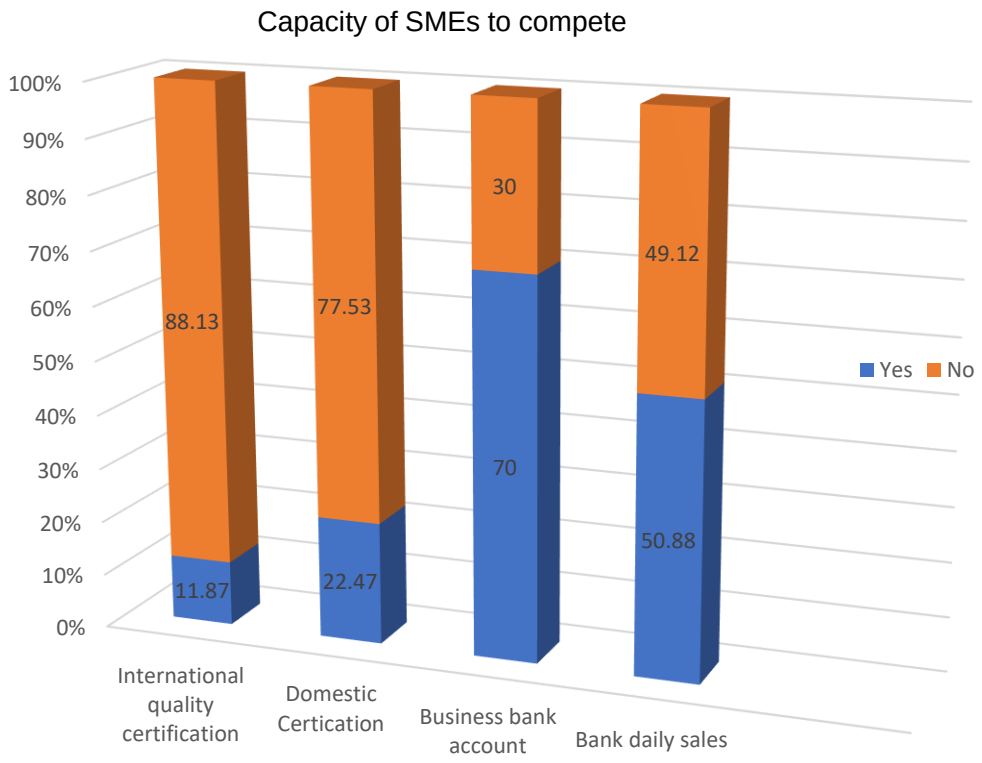
- Use of internationally recognized quality certification
- Having and using a business bank account
- Firm capacity utilization
- The experience of top managers
- Usage of email and business website
- Auditing financial statements
- Investments financed by Banks
- Organizing training programmes for staff

Survey Results & Analysis

Firm level Capability

Capacity of Ghanaian firms to Compete

- The findings shows that 88 percent of Ghanaian SMEs do not have any form of international certification.
- Also, only 22 percent have a quality certification from a relevant domestic regulatory authority while the remaining 78 percent have none.
- The survey results indicates that 70 percent of Ghanaian SMEs operate a bank account for their respective businesses.



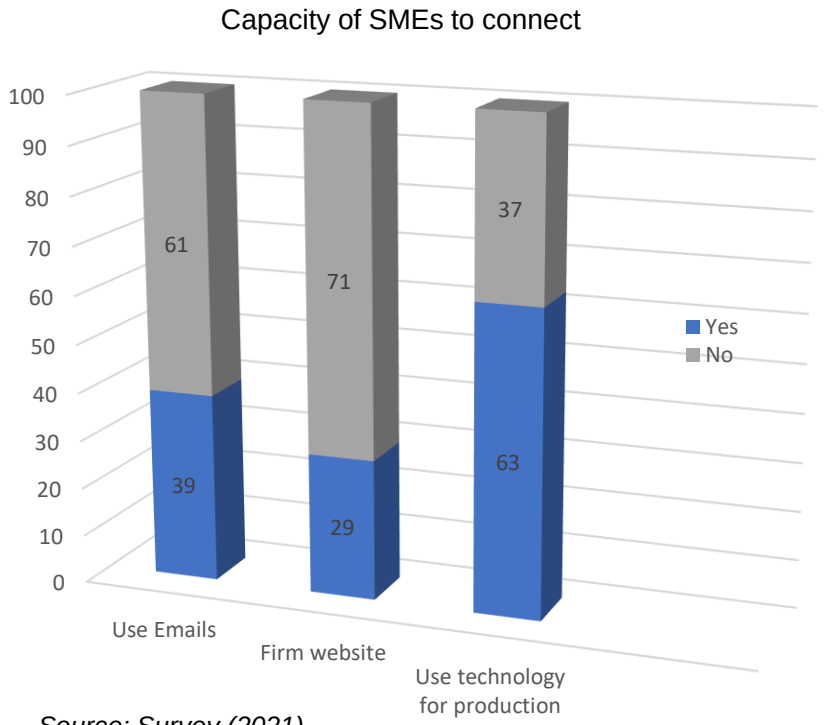
Source: Survey (2021)

Survey Results & Analysis

Firm level Capability

Capacity of Ghanaian firms to Connect

- At the firm level, 39 percent of the SMEs surveyed mentioned that they use emails to communicate with their customers and suppliers.
- Only 29 percent own and use a website to enhance their daily operations.
- 63 percent of the SMEs indicated that they use some form of technology like mobile phone with social media platforms etc. to enhance their productivity.



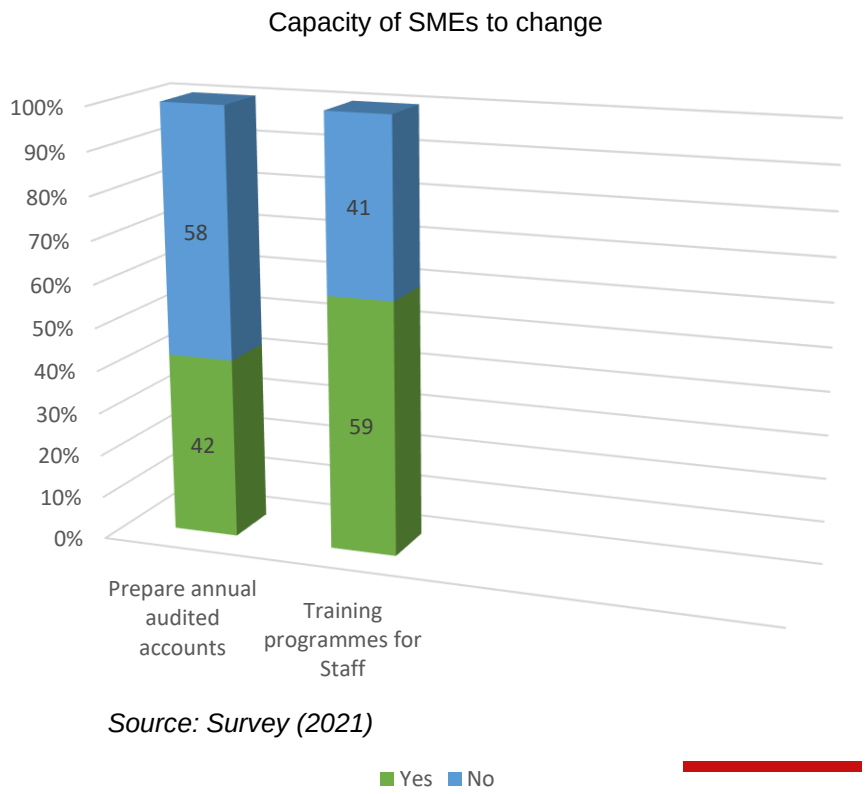
Source: Survey (2021)

Survey Results & Analysis

Firm level Capability

Capacity of Ghanaian firms to Change

- The result of the survey shows that 42 percent of the SMEs prepare annually audited financial accounts while 58 percent do not.
- In relation to Ghanaian SMEs ability to secure financing from financial institutions, only 20 percent indicated that they have good or excellent capabilities.



Source: Survey (2021)

Survey Results & Analysis

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.

Some of these indicators are

- Access to electricity
- Access to a skilled workforce
- The vicinity of a relevant cluster of economic activities.
- Access to finance
- Access to business license and permits
- Dealing with regulations and customs
- local supplier quality
- Collaboration between universities and industry.

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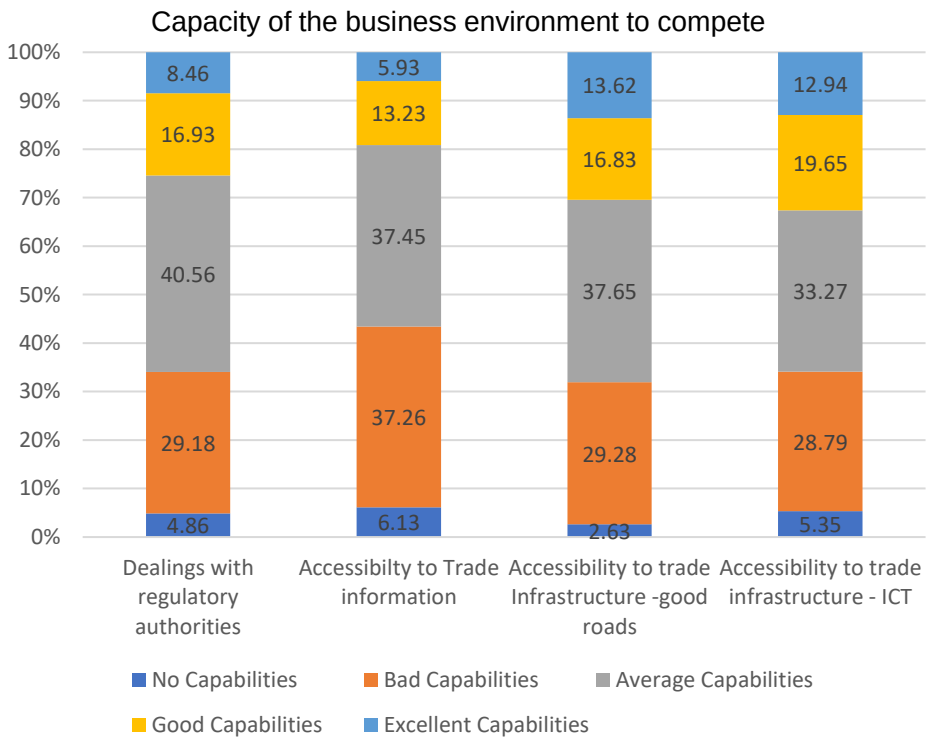
Survey Results & Analysis

Capabilities at the Immediate Business Environment Level

Capacity of the Ghanaian business environment to Compete

- The survey result shows that just about 19 percent of the surveyed SMEs have a good or excellent capabilities in relation to accessibility of trade information.
- Also, about 30 percent of the SMEs have easy access to trade-related infrastructure
- Only 25 percent of SMEs indicated that they have a good or excellent dealings with governmental agencies on documentation, registration, licensing and regulatory issues.



Source: Survey (2021)

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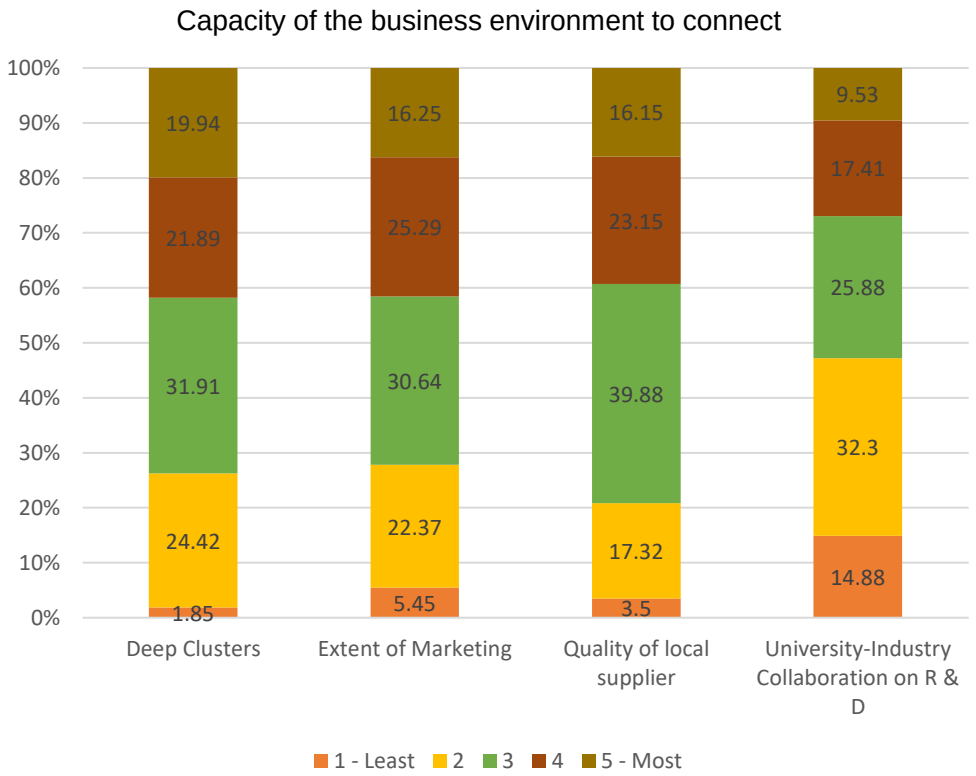
Survey Results & Analysis

Capabilities at the Immediate Business Environment Level

Capacity of the Ghanaian business environment to Connect

- The result indicates that 42 percent of the sampled firms agree to the usage of modern marketing tools
- 39 percent of the respondents claimed that the suppliers in their respective fields are either of high quality or extremely high quality.
- About 10 percent of the SMEs affirm that there is an extensive collaboration between their industry and the universities.



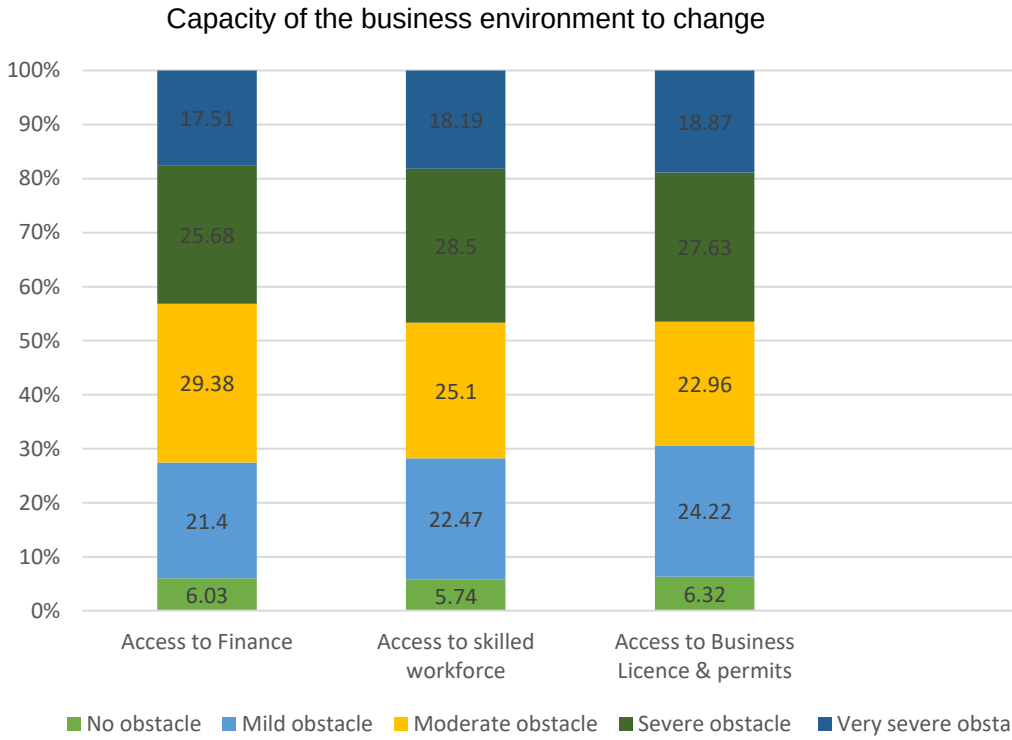
Source: Survey (2021)

Survey Results & Analysis

Capability at the National Environment Level

The capacity of the national environment to change

- The results from the survey, indicates that 43 percent 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.
- Relatedly, 47 percent of these same firms claim that the difficulty in accessing business licence and permits is a severe or a very severe obstacle to the current operations of their respective establishments.



Source: Survey (2021)

Survey Results & Analysis

Capability at the National Environment Level

- 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.

- Some of these indicators are

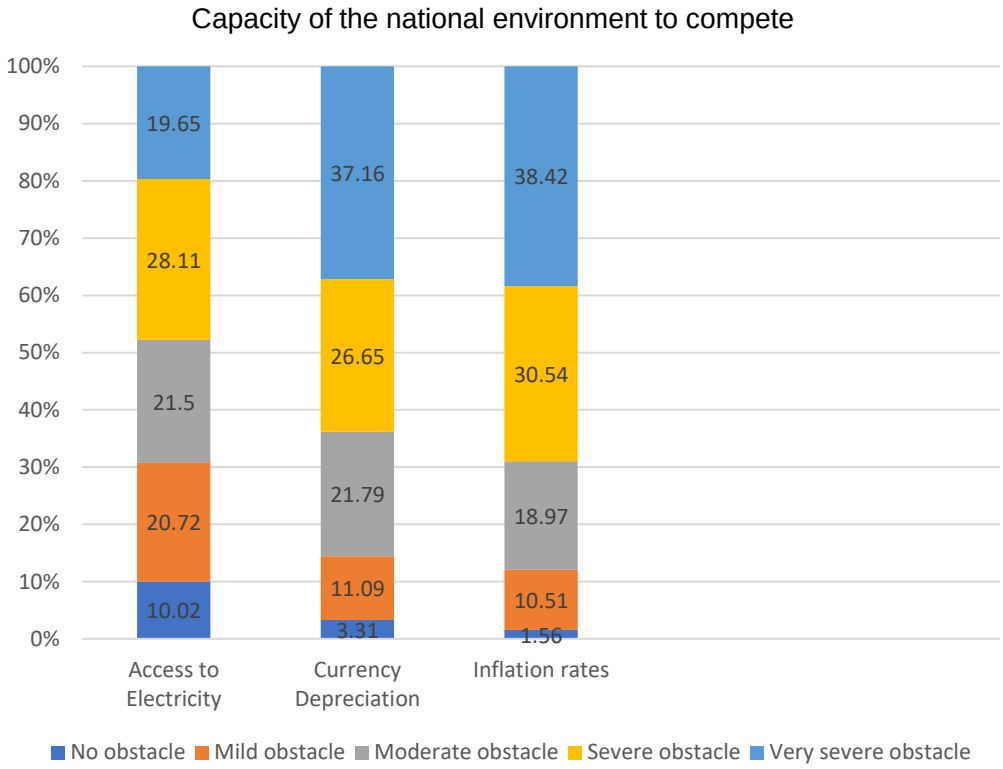
- Ease of access to electricity
- Ease of trading across borders
- Exchange rate and inflationary trends
- Access to ICT
- Usage of ICT
- Ease of starting a business
- Ease of getting credit
- Cost of borrowing .

Survey Results & Analysis

Capability at the National Environment Level

The capacity of the national environment to compete

- The survey result in shows that about 48 percent of Ghanaian SMEs consider inaccessibility to reliable electricity supply as a major hindrance to their firms operations
- The survey result has 69 percent of the sampled SMEs indicating that inflation in Ghana is a major hindrance to their business operation.
- 64 percent of the SMEs surveyed consider exchange rate depreciation to be a major hindrance to the current operations of their establishment



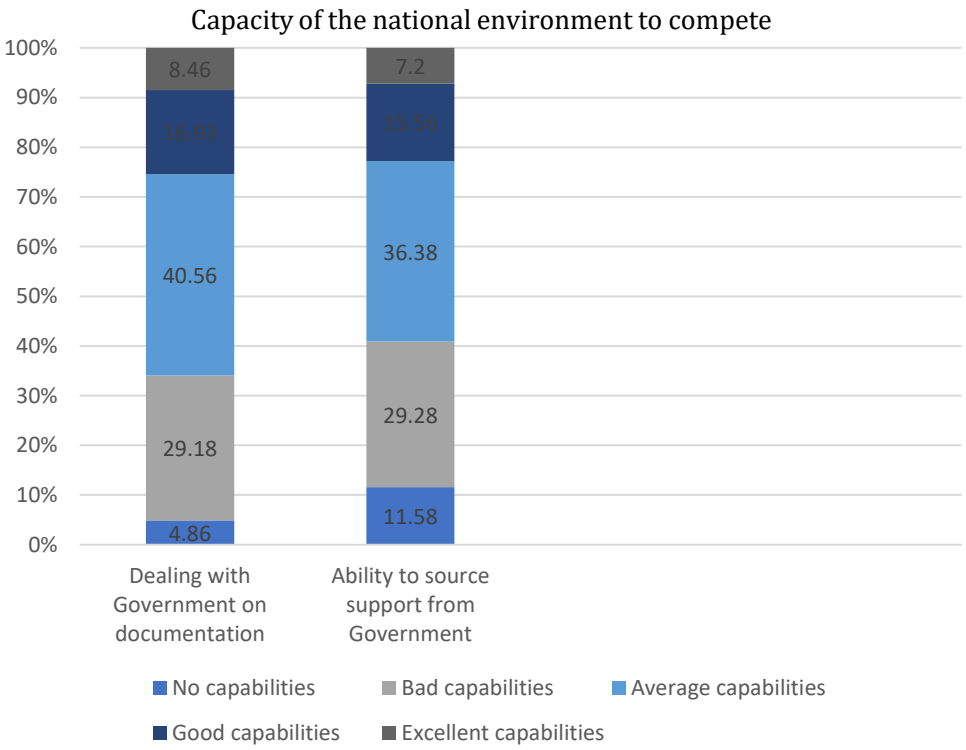
Source: Survey (2021)

Survey Results & Analysis

Capability at the National Environment Level

The capacity of the national environment to compete

- About 41 percent of these firms indicated that there is really bad or no capabilities in sourcing support from government such as favourable regulations



Source: Survey (2021)

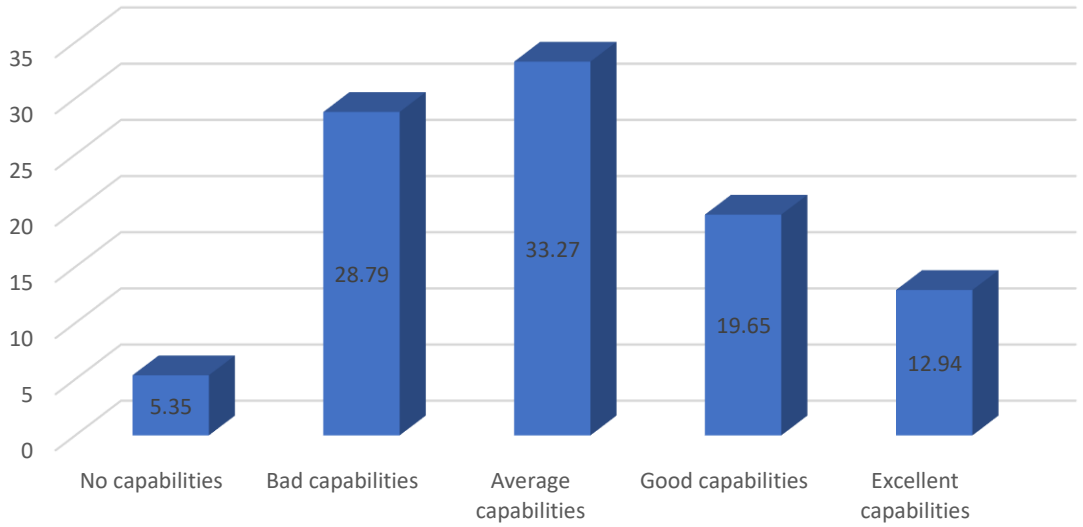
Survey Results & Analysis

Capability at the National Environment Level

The capacity of the national environment to connect

Capacity of the national environment to connect

- 33 percent of the sampled SMEs indicated that they have good or excellent capabilities in relation to accessibility to ICT infrastructure for the purposes of their work.

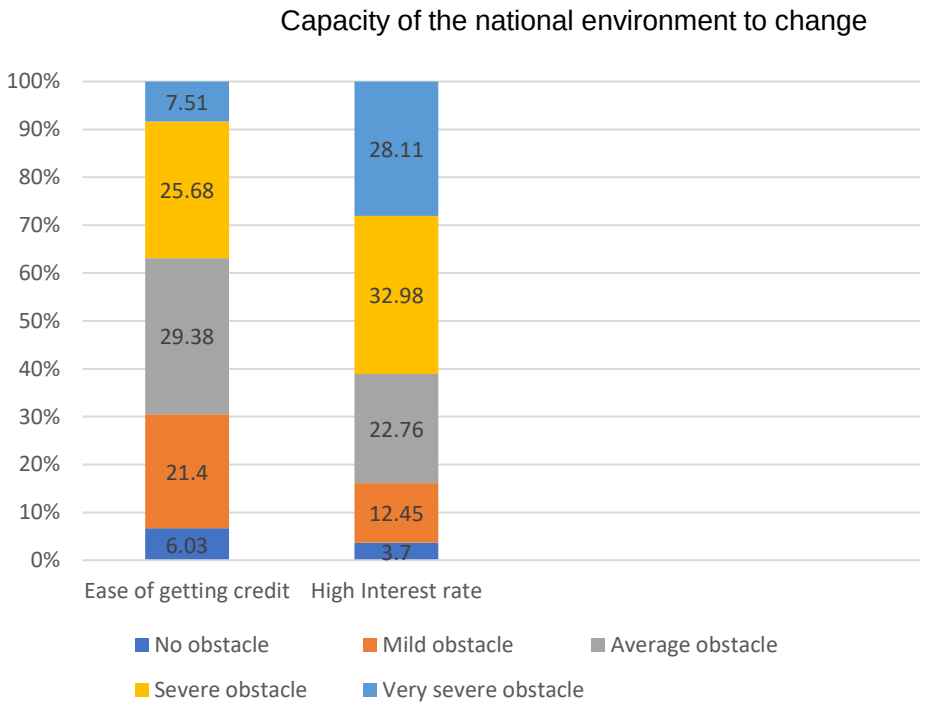


Survey Results & Analysis

Capability at the National Environment Level

The capacity of the national environment to change

- About 33 percent of the firms indicated that there is a severe hindrance in accessing credit in Ghana
- 61 percent of the SMEs consider high interest rate from financial institutions in Ghana to be a major obstacle to the current operations of their respective establishments



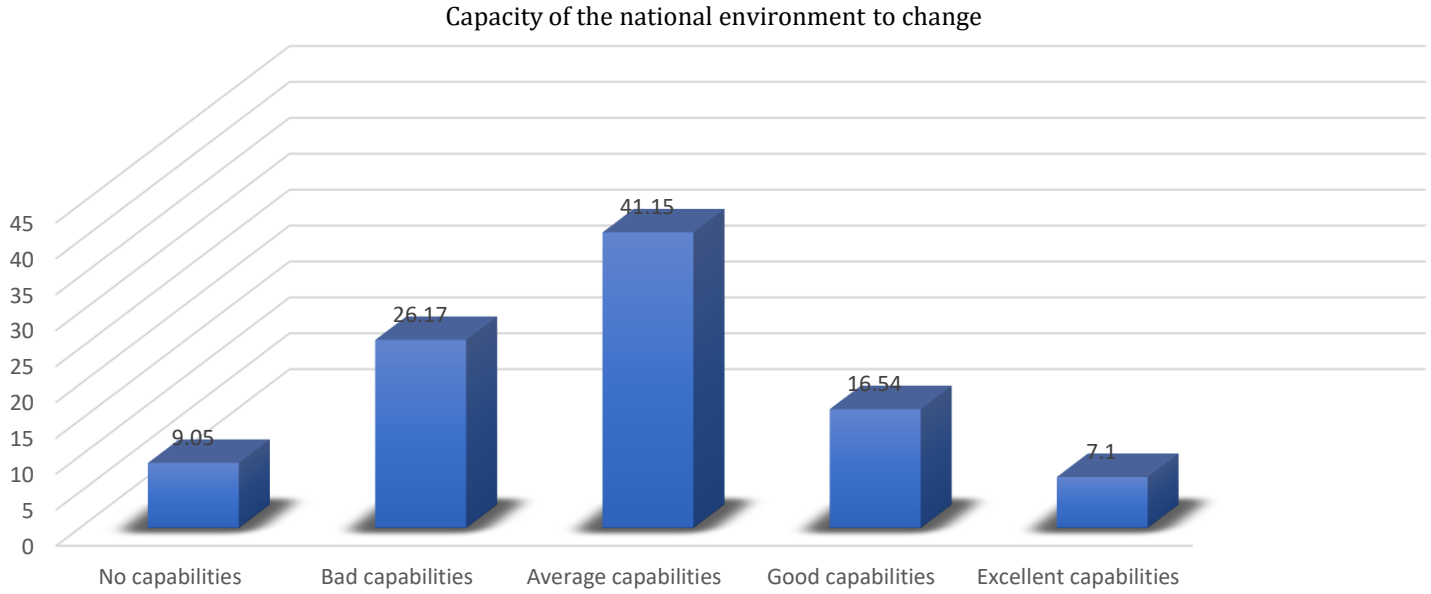
Source: Survey (2021)

Survey Results & Analysis

Capability at the National Environment Level

The capacity of the national environment to change

- 76 percent 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



Source: Survey (2021)

Survey Results & Analysis

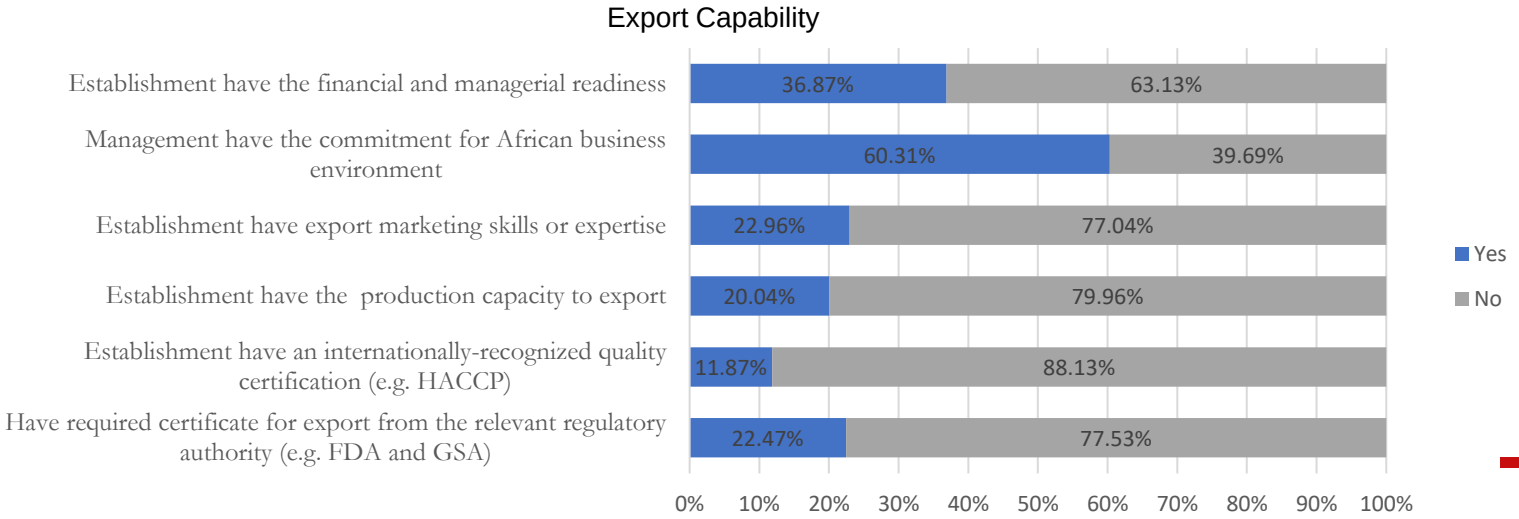
Some Reasons why Ghanaian SMEs are not competitive

- Lack of domestic quality certification
- Lack of internationally-recognised quality certification
- Producing below maximum capacity, i.e. availability of excess capacity
- Lack of differentiated or unique products
- High price of products and frequent changes in product 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

Survey Results & Analysis

Export capabilities of SMEs in Ghana

- 20 percent of the sampled firms indicated that their establishment have the production capacity to export.
- 23 percent indicated that their establishment have some form of export marketing skills or expertise
- 37 percent are of the view that their establishment have the managerial and financial readiness for the export business.



Source: Survey (2021)

Survey Results & Analysis

Barriers to Exporting and Importing to other markets

Barriers to exporting :

- 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 makes goods clearing difficult
- Extortion and demand for bribe by custom officials
- Price and local currency instability

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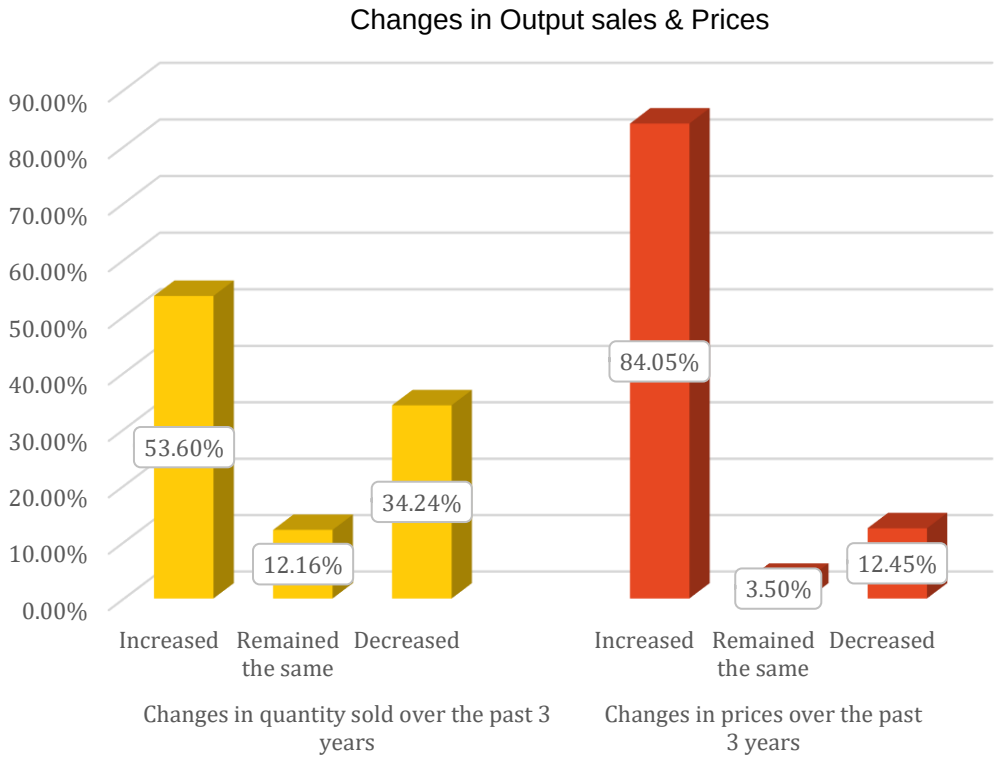
Survey Results & Analysis

Ability to Compete

- In terms of price, majority (84.1 percent) of the SMEs indicated an increase in price in the past 3 years, while 12 percent indicated a decline in prices.

- 53.6 percent of these SMEs reported an increase in the quantity of goods sold by approximately 47 percent.

- 34 percent of the SMEs reported a decline in quantity sold by 43 percent while 12 percent indicated that quantity sold remained the same



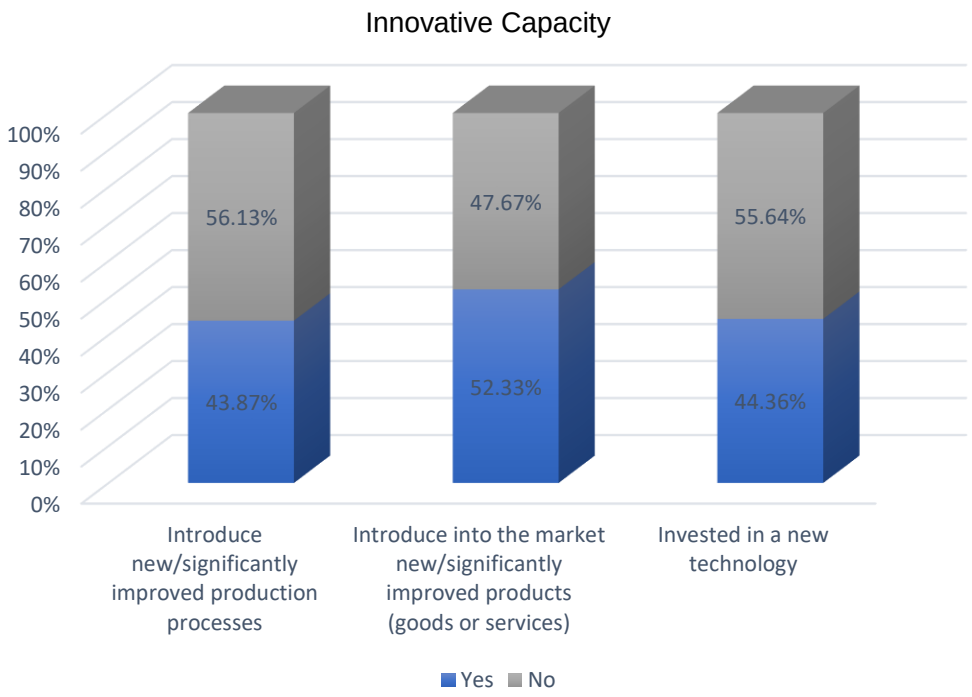
Source: Survey (2021)

Survey Results & Analysis

Innovative capacity

- Only 44 percent of the sampled firms indicated that they have invested in any form of new technology to improve their production process

- 8% have invested in research and development (R&D), 7% have invested in Product design and the remaining 85% in machinery and plants



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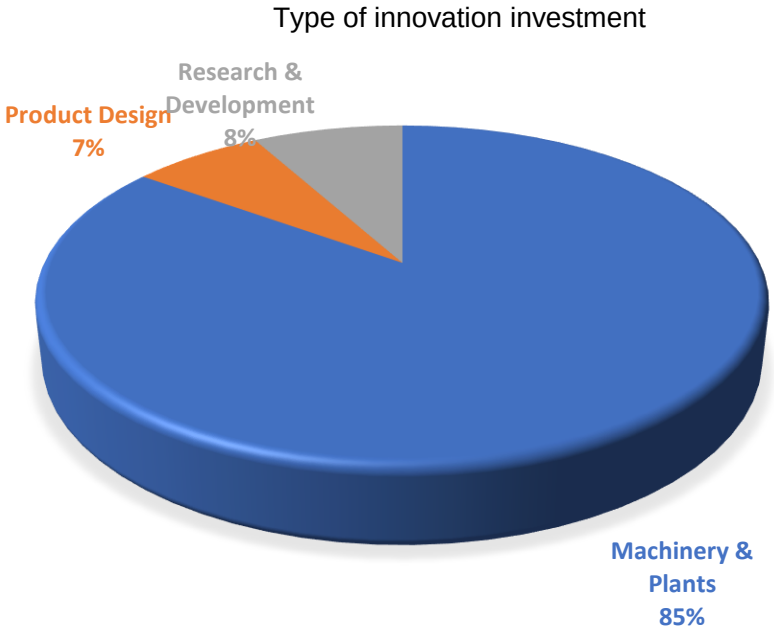
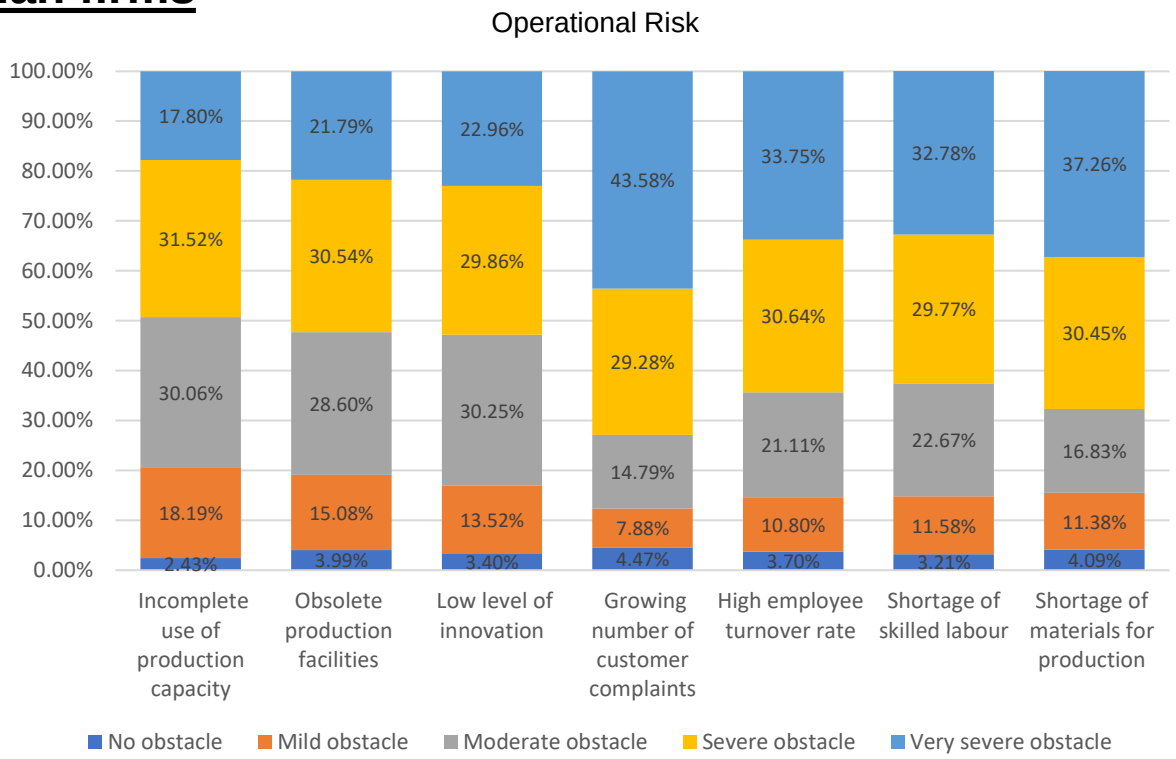


Source: Survey (2021)

Survey Results & Analysis

Risk Assessment of Ghanaian firms

- About 50 percent of the surveyed SMEs consider the incomplete use of their productive capacities as a severe or very severe operational risk
- Most of these firms (53 percent) mentioned low level of innovation as a severe or very severe operational risk.
- 52 percent of these firms also consider obsolete production facilities as a severe bottleneck to their daily operations



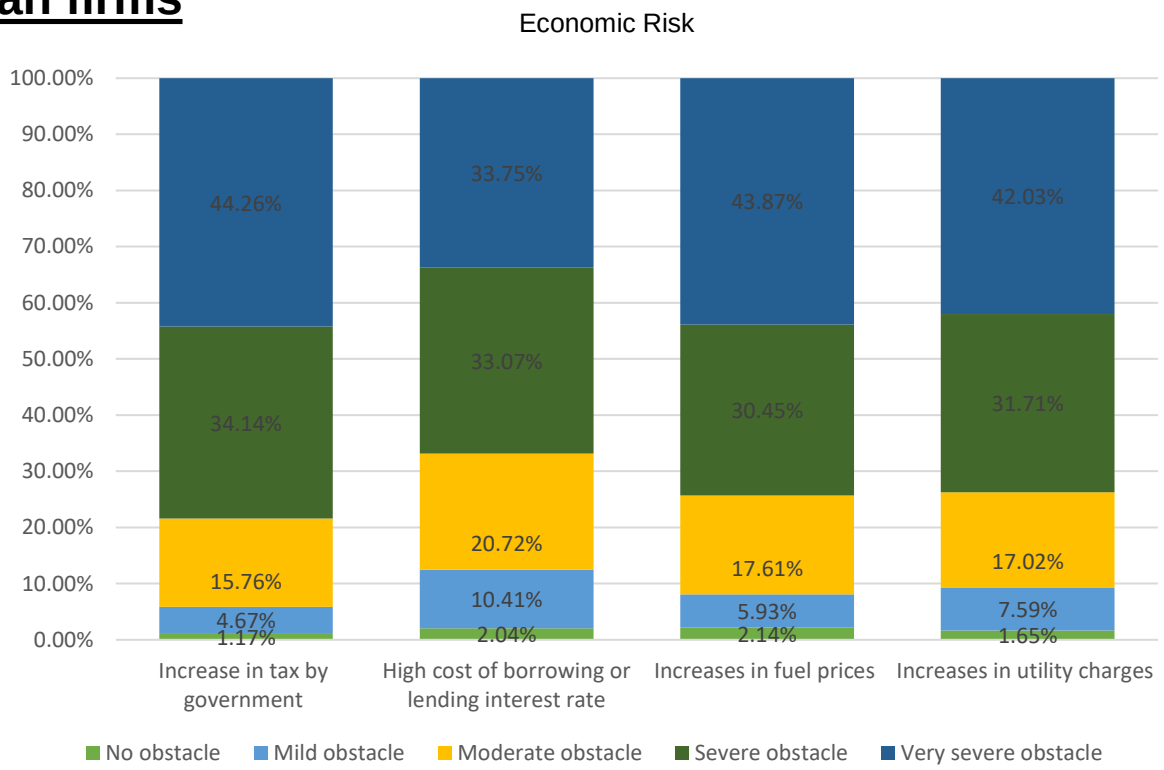
Source: Survey (2021)

Survey Results & Analysis

Risk Assessment of Ghanaian firms

Economic Risk

- 78 percent of the firms indicate that increases in taxes by the government creates a major hindrance to their operational activities.
- 67% of the firms are more hindered by the high cost of borrowing or lending interest rate.
- 74 percent consider frequent increases in fuel prices and increase in utility charges as a severe or very severe obstacle.



Source: Survey (2021)

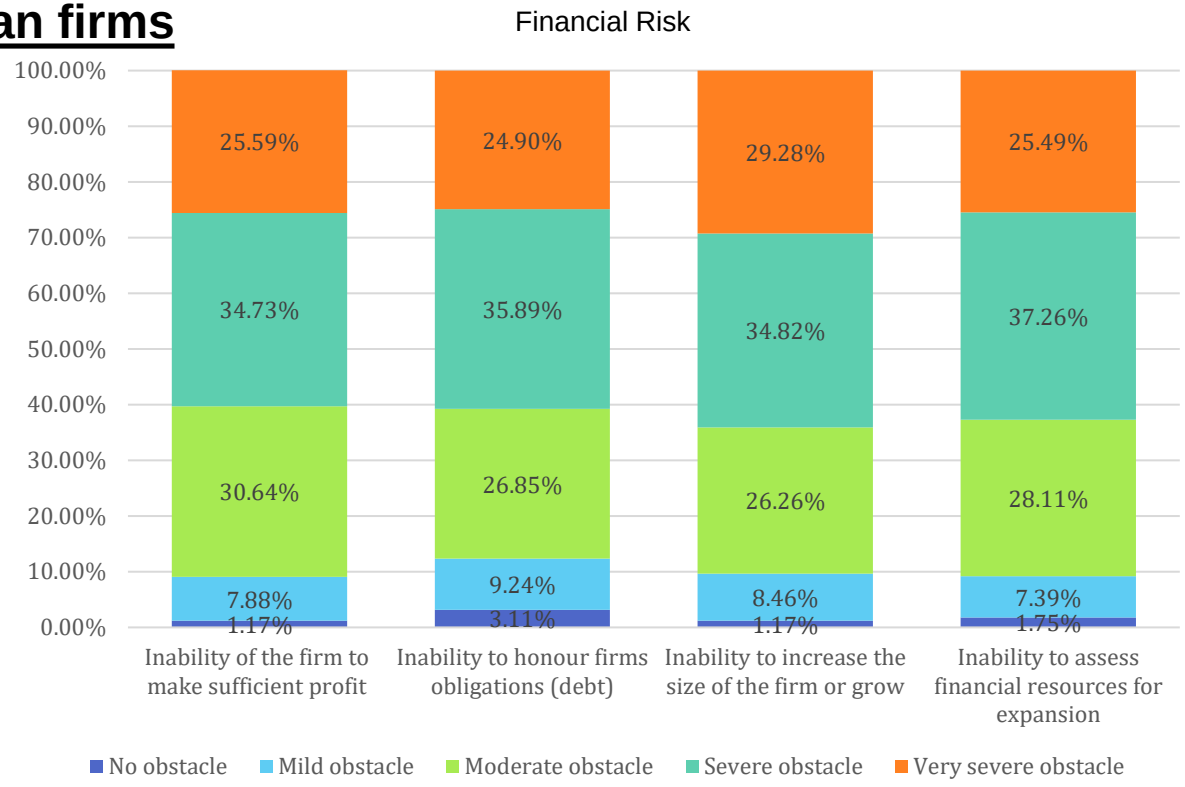
Survey Results & Analysis

Risk Assessment of Ghanaian firms

Financial Risk

- 61 percent indicate their inability to honour debt obligation as a severe or a very severe obstacle.

- The inability to assess financial resources for expansion is considered as a severe or very severe financial risk by about 63 percent of the SMEs.



Source: Survey (2021)

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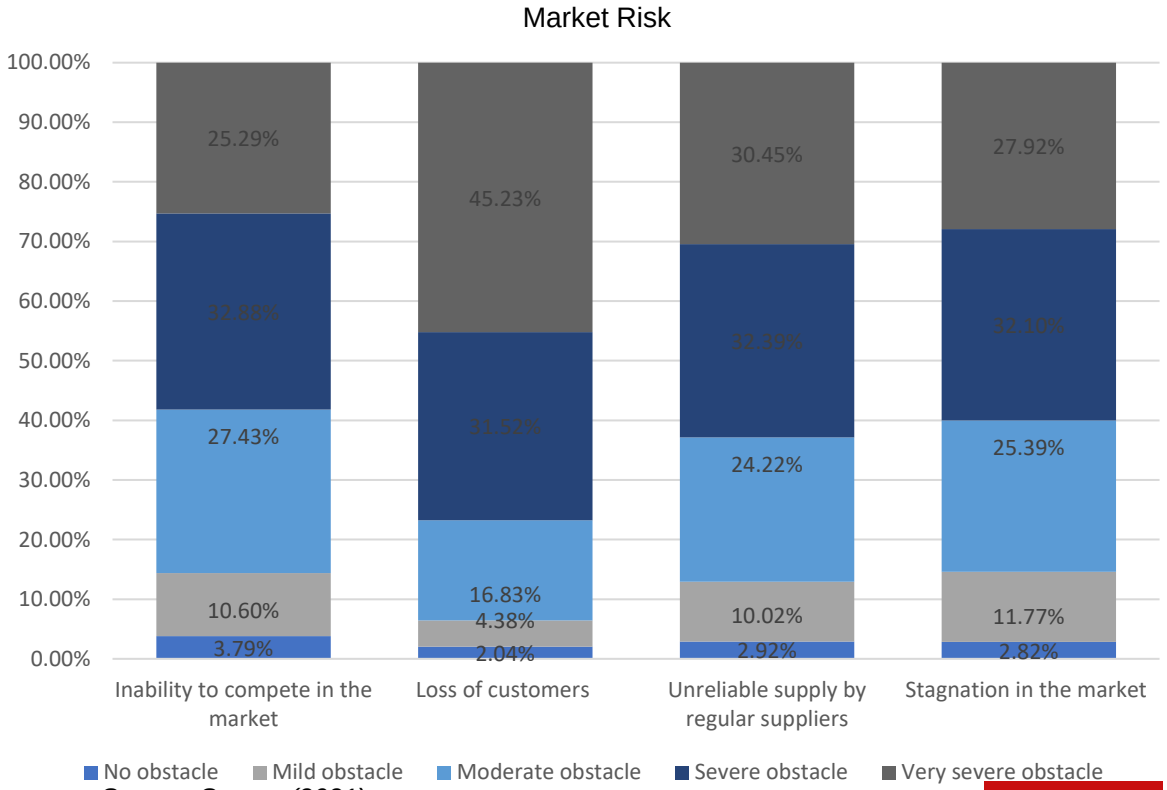
Survey Results & Analysis

Risk Assessment of Ghanaian firms

Market Risk

- About 58% of Ghanaian SMEs consider the inability to compete in the market as severe or very severe obstacle.
- 77% consider the possibility of loss of customers as a major threat to their operations.
- Also, 63% consider the unreliable supply by the regular suppliers as a severe or a very severe obstacle to their current operations.



Source: Survey (2021)

Conclusion

CONCLUSION

- The Ghanaian national environment or macro economy is also not conducive to the survival of most SMEs and this makes firms unable to compete favorably.
- There is also a general low capacity at the immediate business environment level to compete, connect and change.
- Most of the sampled SMEs 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.
- A large number of the sampled Ghanaian SMEs have no domestic quality certification for export and no internationally-recognized quality certification.
- There is also a general low capacity at the immediate business environment level to compete, connect and change.
- Generally, the knowledge level among Ghanaian SMEs about the existence of AfCFTA is very low.

Recommendations

Recommendation

Firm level

- 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-recognized 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.

Recommendation

Firm level

- 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 products 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.

Recommendation

Industry and Government level

- Researchers, policy analyst and governments should sensitize 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.
- Government through the Export-Import bank should assist viable SMEs with the needed financial support to boost their export trade.

Recommendation

Industry and Government level

- 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.

Thank you!

Any Questions?

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