

DEVELOPING THE RURAL ECONOMY OF GHANA THROUGH MICRO AND SMALL ENTERPRISES (MSEs): ISSUES AND OPTIONS

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Abstract

The paper examines the challenges and opportunities of micro and small enterprises (MSEs) operating in the informal sector in rural areas of Ghana. For that purpose, a Business Opportunity Identification Survey (BOIS) was conducted in 2006 by the Science and Technology Policy Research Institute for the Rural Enterprise Project to select at random a sample of 1,542 MSEs in 10 districts. The survey data was analysed by means of a multistage sampling design and complemented by focus group discussions. The paper identified apprenticeship as the dominant source of skill acquisition for a majority of the entrepreneurs while word-of-mouth was their main advertising mechanism. Also, informal MSEs have limited market avenues and used their business premises to sell mostly to individuals. Access to start-up capital was mainly personal savings or family support and this points to the failure of micro-credit schemes in the country. In conclusion, the paper recommends transformations in formal banking policies and the strengthening of Micro Financial Institutions MFIs to adequately support growth-oriented enterprises to enable them to contribute to endogenous developmental role in Ghana.

1. introduction

The role of micro and small enterprises (MSEs) as engines of endogenous development in rural economies is increasingly recognized in development theory and has attracted the attention of policy makers.

- ⇒ They add value to agricultural products and play crucial roles in the decentralised use and distribution of resources (Tacoli, C, et al, 2003).
- ⇒ They augment government efforts to achieve economic growth and poverty reduction in rural and urban areas (African Development Bank 2005). Wangwe (1999) argues further that MSEs tend to ensure balanced economic growth since they are concentrated in different parts of the country.
- ⇒ They have been credited for introducing innovations into the market to serve as a catalyst for societal development (Reijonen and Komppula, 2007).
- ⇒ The development and promotion of MSEs can deepen the manufacturing sector and foster competitiveness.

A vibrant MSE sector can also help to achieve a more equitable distribution of the benefits of economic growth by alleviating some of the problems associated with uneven income distribution (UNCTAD, 2001).

Consequently, many development plans in developing countries have placed strong emphasis on the development of an entrepreneurial middle-class that create employment and has the potential to overcome institutional conditions that hamper growth in rural areas. For example, in Ghana, the Growth and Poverty Reduction Strategy (GPRS I &II) identified MSEs as engines of growth, wealth creation and avenues for employment generation for the majority of its citizens.

In Ghana, a vibrant MSE sector in the rural areas is very important since about 60% of the country's population reside in these areas where poverty is more pronounced. According to the Ghana Statistical Service, about 86% of the total population living below the poverty line in Ghana can be found in the rural areas.

Recognising the critical role of the MSEs in poverty reduction, a number of existing institutions, which have a mandate to promote industrialisation in the rural areas, have been strengthened to facilitate more economic change on the countryside. In order to build strong rural economy, the government of Ghana has set up National Vocational Training Institutions (NVTI), established entrepreneurial development programs as well as favourable conditions for micro financial institutions (MFIs) and other infrastructural services to encourage the growth and development of both informal and formal MSEs in the country.

The paper examines the activities of MSEs in selected districts of the country using survey data from a business opportunities survey conducted by STEPRI in 2006. It identifies the challenges MSEs are facing and how effectively they are addressed by public sector institutions. Finally, the paper suggests how to improve assistance to MSE's and enable them to better contribute to economic growth in rural areas.

2.1 Overview of MSEs and Policy Framework

The MSEs are important to the economy of Ghana. This is buttressed by the fact that the industrial and business sectors are dominated by a large informal sector. For

example, about 70% of the Ghanaian enterprises are micro to small sized and it is estimated that nearly 40% of Ghana's GNI is attributable to informal sector activity (Ghana Government, 2002). It is believed that small firms can more easily propel growth in the economy than the large ones due to their numbers and niches they occupy in the national economy (Ghana Government 2002). For the majority in informal enterprises, which are the focus of this paper, a lot more needs to be done in terms of technical, advisory and financial support to enable them to grow and contribute meaningfully not only to the rural economy but the national economic development as a whole .

Results from the Ghana Living Standard Survey-3 indicate that about 69% of the population is employed in the MSE sector with a significant number of them located in the rural areas (Ghana Statistical Service, 2000).

The government policy for MSEs which is under review has the objective of creating a conducive environment for MSEs to grow and facilitate the development of a vibrant, productive and competitive MSEs sector in the country (Ministry of Trade and Industry , 2002). Under the policy, the Government, among others, seeks to:

- ⇒ Promote dynamic enterprise culture for innovation
- ⇒ Promote employment growth within the informal sector
- ⇒ Develop MSE to serve as a means to establish linkages between the formal and informal sectors of the economy
- ⇒ Improve the technology base, product quality and productivity of the MSE sector
- ⇒ Upgrade the application of indigenous technologies (Ministry of Trade and Industry, 2002)

2.. Public institutions in support of MSEs in Ghana

The National Board for Small Scale Industries (NBSSI), GRATIS Foundation and the Rural Enterprise Project (REP) have been established to support the development of MSEs in Ghana. Each of these institutions has a special purpose in relation to MSEs:

2.2.1 The National Board for Small Scale Industries (NBSSI)

The NBSSI, a public funded organisation is the apex body charged with the responsibility for the promotion and development of the MSEs in Ghana.

The present form of the NBSSI has the main objectives of:

- ⇒ Contributing to the creation of an enabling environment for small-scale enterprise development

- ⇒ Contributing to the development of an enterprise culture in Ghana
- ⇒ Providing non-financial support for small-scale business development
- ⇒ Facilitating access to credit for small-scale enterprises
- ⇒ Promoting MSEs sectoral associations

The NBSSI is further supporting the MSEs with technical and advisory services through its regional Business Advisory Centres found in the 10 regions of the country. It provides training to the MSEs in preparation of business plans, book keeping and simple business management practices.

2.2.2. GRATIS Foundation

The GRATIS Foundation has the mandate to promote small-scale industrialisation in Ghana through transferring appropriate technologies to small-scale industrialists through training, manufacturing and the supply of machine tools, plants and equipment. GRATIS operates through a network of Intermediate Technology Transfer Units (ITTUs), now referred to as Regional Technology Transfer Centres (RTTCs). The RTTC exist in nine regions of the country and is responsible for providing hands-on short and long term training for small business entrepreneurs in areas such as metal fabrication and design, textiles, pottery and soaping and others. GRATIS Foundation has also provided training, business and technical advice, access to equipment and tools to enable artisans and entrepreneurs have a hands-on experience. The Foundation has also introduced women in rural communities to equipment that has been designed and manufactured by GRATIS/ITTU.

The services provided by GRATIS and the RTTCs are made possible through the support of the Government of Ghana, the European Union and the Canadian International Development Agency (CIDA). Funding for specific projects has been provided by the German Agency for Technical Cooperation (GTZ) and the British Department Fund for International Development (DFID), (Ayeetey et al 2001).

2.2.3 The Rural Enterprise Project (REP)

Another important institution is the Rural Enterprise Project (REP) which has the objective of creating wealth and improving living conditions in rural areas, especially the incomes of women and vulnerable groups through increased self-employment.

The Project provides the MSEs with a development package, which involves a mix of business develop-

ment services, technology transfer, support for apprenticeship training, and rural finance services. The Project is supported by the International Fund for Agricultural Development (IFAD), the Agricultural Development Bank (AfDB) and the government of Ghana.

The Rural Enterprise Project has been collaborating with NBSSI, Rural Banks, District Assemblies, GRATIS and other governmental organisations to support the growth of the MSEs in the rural areas. In conjunction with these organisations, it has been providing training programmes in areas such as business management, record keeping, book keeping and banking procedures, marketing clinics, credit management, costing and pricing, business ethics and negotiation skills among others. It has been organising annual exhibitions for its clients to show case their products and also expose them to markets in the urban areas. The activities of these institutions definitely have made some impacts on the MSEs. However, as illustrated in this paper a lot more needs to be done to build the competence and capabilities of the MSEs to enable them contribute significantly to the rural economies.

2.3. Methodology

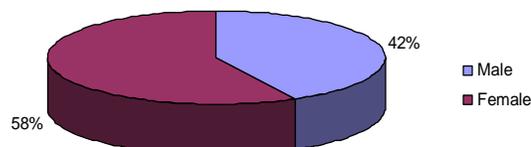
The authors used data from a Business Opportunity Identification Survey (BOIS) conducted in 2006 by the Science and Technology Policy Research Institute for the Rural Enterprise Project. The aim of the BOIS was to provide baseline information for the REP to identify projects in the rural areas which it could extend technical and financial assistance. The BOIS covered a total of 4,981 informal MSEs in 28 Districts selected across the country. The paper used 1,542 MSEs randomly selected from 10 districts. The sample consisted of the most endowed and the least endowed rural communities to ensure a fair representation of the population of interest. In most of the districts, relevant information about the types and distribution of the enterprises was obtained from the District Assemblies and Business Development officers of REP

A multistage sampling design was used. Simple Random sampling was used in the first stage to select the towns to be visited. At the second stage, five categories of professional activities, which are important to the rural economy, were identified. These were agro-processing, production in agriculture and forestry, traditional crafts, primary fabrication, repair works, and service enterprises. From these business categories, a sample of 150 MSEs was selected. However in some districts, a little more MSEs were interviewed due to the size of the district and the number of active MSEs. The response rate was about 85%. The questionnaire covered indicators such as enterprise information, educational level and skill acquisition, sources of funding for business and mode of advertisement among others. The questionnaires were complemented with focus group discussions in all the districts.

2.4 Enterprise Level Information

Figure 1 shows that, 58% of the respondents were women and 42% were men. The gender disparity confirms the fact that women in rural communities' dominate the entire informal sector where a majority of them are employed in off-farm activities. The women were found mainly in the food-processing, and the service sectors of the rural economy.

Figure 1: Gender distribution of respondents



2.5 Type of Business Activities

The service sector plays an important role in the rural economy. About 49% of businesses were involved in the service sector. It comprised activities such as dressmaking, food vending, hairdressing, auto electrical and mechanical repair works (see Table 1). Agro-processing (basically in edible oil, shea butter and cassava processing), constituted about 31% of the sample. Specialized agricultural and forestry products and services such as rodent and snail rearing, mushroom and bee keeping accounted for about 7% while traditional craft (cloth weaving, basketry and sculpture) was 4%. About 6% were involved in other activities. Most of the activities are to meet the needs of the local market. However, in shea butter processing, there are a number of companies which buy the product from the rural processors and export them.

Table 1: Type of Business Activities

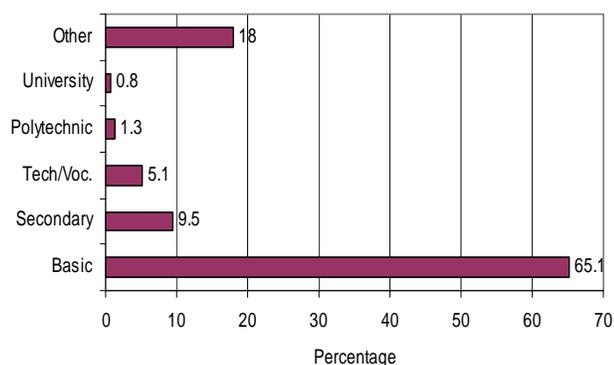
Business Activities	Frequency	Percent
Agro-Processing (e.g. gari-making)	471	30.7
Service enterprises (e.g. tailoring, repairs, hairdressing,	758	49.2
Agric and forest products (e.g. grasscutter, mushroom, snail	114	7.4
Traditional craft	63	4.1
Other	88	5.7
No response	46	3
Total	1542	100

Source: STEPRI Field Data, 2006

2.5 Educational Background and Skill Acquisition

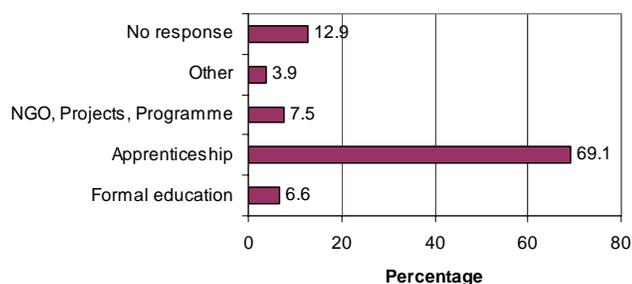
Most proprietors of informal MSEs have low levels of education and this was confirmed by the study where 65% of them had basic education, 10% had secondary education while 5% had vocational or technical education. Only 2% had tertiary education (see Figure 2). It is very important that informal entrepreneurs have access to some form of formal education to facilitate their operations (Anderson, 2001). For example, a beautician (hairdresser) needs some level of formal education to read and understand labels on hair products so as to apply appropriately.

Figure 2: respondents' highest level of education



Apprenticeship turned out to be the dominant source of skill acquisition. Most of the proprietors (69%) acquired their skills through apprenticeship. Formal training in Polytechnic, Technical and Vocational institutions constituted only 7% while 8% acquired their skills through participating in NGO sponsored training programs (Figure 3). Even though apprenticeship is an important source for skill acquisition in the informal MSE sector, the skill acquired will be limited to what the business trainer already possesses. This is based on the premise that one cannot give beyond what he/she already possesses. Therefore, it creates the need to take a critical look at the apprenticeship scheme in the country to ensure that there are mechanisms for apprentice trainers to upgrade themselves.

Figure 3: Source of skill training



Source: STEPRI Field Data, 2006

2.7 Start-up Capital

Access to start-up capital is one of the most important requirements for economic activity especially for graduate apprentices to become self employed (Roeske, 2003). Table 2 shows that, most of the MSEs operate with small capital. As a result, a relatively large proportion (40%) of them had a start-up capital of less than US\$400, a quarter had between US\$401 and US\$500, while about 19% had start-up capital over US\$800

The initial investments are in the form of acquisition of temporary structures and basic tools and equipment which are dependent on the activities of the proprietors. For example, a hair dresser in addition to a kiosk may require hair dryers, rollers, comb, bowls and hair products. The size of the start-up capital raises the importance of microfinance in meeting the needs of MSEs to prop up their business activities. As it will be discussed later in this paper, a number of microfinance schemes such as the PAMSCAD Credit Line for Small Scale Enterprises, NBSSI Revolving Fund Loan Scheme, NBSSI-DED Credit Scheme and more recently the Micro-Credit Scheme and Micro-credit and Small Loans Fund have been established in the country, but their impact, at least from this paper have not been very strong.

Table 2: Levels of Set-up Capital	Frequency	Per-cent
Less than US\$400	610	39.6
US\$401-500	394	25.6
US\$501-600	168	10.9
US\$-601-700	80	5.2
Over US\$800	290	18.8
Total	1542	100

Source: STEPRI Field Data, 2006

2.8 Monthly Profit: High % of entrepreneurs below the national minimum wage

With regards to economic returns, Table 3 shows that about 46% of the proprietors made monthly profit of less than US\$20, 24% earned between US\$21 and US\$50 while 5% earned over US\$200. However, the minimum national wage in 2006 was US\$48, and this means that a greater percentage of the MSEs earned below the national minimum wage. With these minimum profits, it may be difficult for these entrepreneurs to plough back enough money to improve their scale of production. Consequently, one of the important sources of credit for investment should be through micro credit schemes.

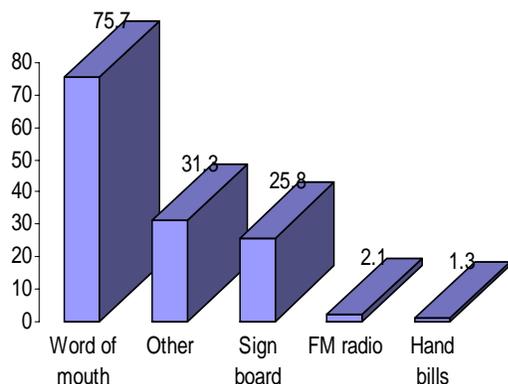
Table 3: Monthly Profit Levels	Frequency	Percent
Less than US\$20	709	46
US\$21-50	372	24.1
US\$51-80	99	6.4
US\$ 81-110	71	4.6
US\$ 111-200	186	12.1
Above US\$200	81	5.3
No response	24	1.5
Total	1542	100

Source: STEPRI Field Data, 2006

2.9 Mode of Advertisement

Advertisement is very crucial to the success of every business venture but the mode depends on the scale of production. From the survey, a large proportion of the enterprises (76%) have adopted word of mouth as the main means of advertising their products, 26% used home-made sign boards displaced on their shops or kiosks, 2% used FM radio, 1% used hand bills, while quite a large number (31%), used other means including hawking. The nature and level of production does not warrant print and electronic advertisement. The word-of-mouth mode of advertisement is highly valued by informal enterprises but better and efficient advertising mechanisms need to be developed, especially by growth-oriented MSEs. In view of their scale of production this group of entrepreneurs needs to reach bigger markets and therefore require a better advertising mechanism. Adoption of more conventional or modern advertising mechanisms hinges on the ability of the entrepreneurs to increase their scale of production to meet the demand that might result from the use of modern advertising modes. The use of electronic press and hand bills may be adopted by MSEs whose capital and production base are relatively large.

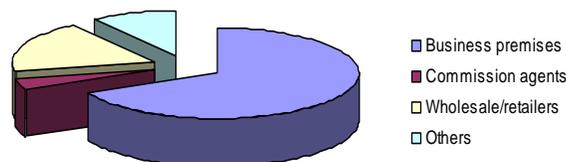
Figure 4: Mode of advertising products/services



2.10 Channels for Distribution of Products & Services

The distribution channels or outlets for the sale of products are important to any business. Also, the type of distribution channel adopted epitomises the scale of production. A large proportion of the enterprises (68%) used their business premises to either sell their products or provide services to individuals, 18% to wholesalers/retailers and 4% to commission agents (see Figure 5). Similar situation exist in Malawi, Swaziland and Zimbabwe where over 96% of the MSEs sell primarily to individuals (Liedholm and Mead, 1999). This situation has arisen because rural entrepreneurs have limited market avenues and as such they do not need elaborate advertising and distribution mechanisms to market their products and services. This is affecting their growth since access to large markets will help them improve their scale of production and acquire more skills to meet the intricacies of such markets.

Figure 5: Outlet(s) used to sell produces/services



2.11 Major Sources of Funds: Where are the rural banks?

The entrepreneurs relied on diverse sources of finance to start or sustain their businesses. These sources include family support, personal savings, Susu schemes, trade credits (microfinance and small loans), bank loan, money lenders and sale of assets. Personal savings was an important source of funds for the operators of the MSEs. Although, there were microfinance institutions established to provide funding for MSEs, most of the informal MSEs (32%) depended on personal savings. About 12% got support from family members while a small percentage (3%) borrowed from the banks, which further buttressed the limited role formal financial institutions play in the operations of the informal MSEs. This also epitomises the failure of the Rural Banks to support the activities of MSEs in terms of institutional credit. The question is who then benefits from the Rural Banks? This question needs to be addressed so as to contribute to addressing the problem of access to institutional credit by the MSEs.

From the focus group discussion, it became clear that a majority of the MSEs have negative perceptions about the Rural Banks which range from poor customer relations, high interest rates and bureaucracies.

Table 4: Major source of financing businesses

Sources of Finance	Frequency	Percent
Family support	187	12.1
Trade credit (microfinance and small loans)	97	6.3
Susu	26	1.7
Local money lenders	41	2.6
Personal savings	494	32
Bank loan	50	3.2
Projects/programmes/NGOs	25	1.6
Other	64	4.2
Not applicable	558	36.2
Total	1542	100

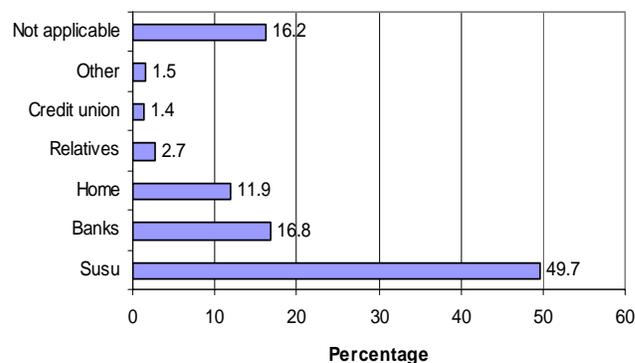
Source: STEPRI Field Data, 2006

As already mentioned, a number of micro credit facilities exist in the country but the data suggests that most of the MSEs have not benefited from the schemes. Though, it did not come out strongly during the focus group discussion, it may be possible that the MSEs which have accessed trade credit and loans from the banks may be those which have the potential to grow.

2.12 Saving

From the previous discussion, personal saving was an important source of funding MSEs in the informal sector. An attempt was made to find out where entrepreneurs deposit their savings. The result was that almost half of them brought their savings to various susu organisations and collectors in their respective towns and districts. Close to 17% saved with the banks, while 12% saved at home. The large number of people who used the susu scheme points to the importance of this scheme in resource mobilisation of informal MSEs. The importance of susu in informal resource mobilisation has attracted the interest of some formal banks such as Ghana Commercial Bank and Barclay Bank. Ghana Commercial Bank has introduced a susu scheme called “Kudi ne Nkuso” (meaning money is progress) where staff of formal banks collect daily savings from the enterprises. In the case of Barclay Bank, it has entered into partnerships with some susu organisations to deposit their daily collections with the bank. The rationale behind the two banks involvement in the susu scheme has more to do with resource mobilisation of funds outside the financial sector. The susu system maybe be likened to the Raifaisen Bank in Europe. It is a privately-run savings and credit association which provides credit to all their clients including the MSE entrepreneurs (Aryeetey et. al 1994).

Figure 6: Source of saving

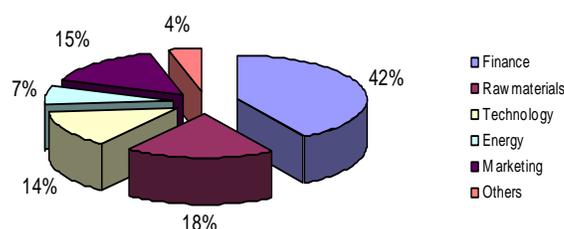


2.13 Problems Affecting MSEs

In Figure 7, a majority of the respondents (42%) cited finance as the main problem relating to business operation. This situation is expected since financial institutions normally perceive MSEs as high risk ventures and shy from giving them credit. Further, administrative bureaucracy and demand for collaterals have hindered the MSEs to access institutional credit. The responses also point to the ineffectiveness of the various micro credit schemes which had been established to ease access to credit by the MSEs.

During the focus group discussions, other problems such as access to raw materials, process technologies and marketing were emphasised. Access to market was the second major problem faced by the MSEs, however some entrepreneurs, especially those in soap making have made some in-roads the markets in the district capitals. This is very interesting bearing in mind that the two main companies (Unilever Ghana Limited and PZ Ghana Lim-

Figure 7: Problems relating to business operation



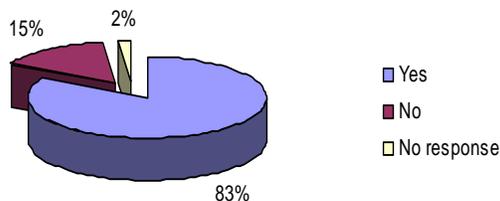
ited) have captured the bar soap market in the country. It also supports the argument that MSEs can be competitive if properly assisted with technical and financial support.

2.14 Innovations and R&D Support Services

Access to proven technologies is very crucial for creativity, competitiveness and innovations. Technology also enhances the adoption of new and better ways of achieving economic growth (OECD, 2000). An innovating MSE will be able to respond to the changes in the market as well as introduce new products and enhance services, which will give it competitive advantage over others. New actions covering innovative aspects of MSE and standardization will be introduced. According to the European Commission (2006), the use of open standards in different business areas reduces costs, simplifies processes and is a key factor in dissemination of technical, managerial and organisational innovations in areas such as production, development, manufacturing, marketing etc.

An attempt was made to find out the level of innovativeness of MSEs. In Figure 8, about 83% of the SMEs claimed to be innovating and have introduced some improvements in their products and services. However, further investigations during the focus group discussions revealed that apparently, enterprises who claimed to have introduced some improvements in their businesses had actually not introduced any serious innovations but basically produced or practiced what was learnt from their masters or mistresses. This is not surprising because most of these MSEs by their size and locations did not benefit from collaborations with universities and the R&D institutions. Notwithstanding, some introduced improvements in their process techniques or had experimented with the use of alternative raw materials to make products. For example, the use of shea butter in place of palm oil in soap making.

Figure 8: Have you introduced any improvements in your product/service?

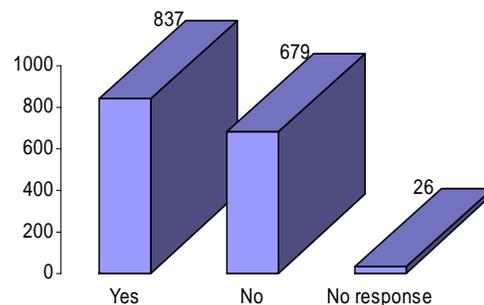


Support from research and development (R&D) institutions are very important for the development of the MSEs. However, there is a general perception that the activities of these institutions have not filtered down to the MSEs. In view of this, an attempt was made to find

out the extent to which the MSEs have knowledge about the existence of the R&D institutions, and the support they can get from those institutions.

Figure 9 shows that about 54% of the MSEs said they had knowledge and are aware of support they can receive from the R&D institutions. However, from the focus group discussions, it became evident that only few knew about the R&D institutions. The majority mistook NGOs such as Technoserve, Opportunities and Industrialisation Centre and others for R&D institutions. The point here is to find out why the activities of R&D institutions have not permeated deeply into the informal MSE sector. This is a big concern since some of the R&D institutions have the mandate to address industrial problems of MSEs at all levels. For example, GRATIS Foundation has established RTTCs (Regional Technology Transfer Centres) where MSEs can have hands-on experience. It is therefore very important that the MSEs know about this so as to take advantage of it.

Figure 9: Are you aware of support from R&D institutions?



3. Discussions

The examination of informal MSE operations in the country has revealed a number of issues which need further discussion to ensure effective contribution of the informal MSE sector to the development of the rural economy of Ghana.

3.1 Supporting Growth-Oriented MSEs

One critical factor which has hindered the growth of informal MSEs and their progression is the absence of champions who could serve as catalysts for others to follow. The effect of this is lack of motivation and competitiveness in the sector. Addressing this situation requires frantic efforts by the government and other stakeholder in the area of identifying promising growth-oriented entrepreneurs so as to nurture them to transform into bigger entities. Such entrepreneurs should be trained to build entrepreneurial and management skills. They should be creative with ingenuity and determination to grow beyond business hori-

zons. This is critical for the development of a vibrant MSE sector and provides impetus for progression from informal to formal sector as well as from small to medium or large. Liedholm and Mead (1999) argued that such growth is possible if the MSEs have access to inputs, technology, adequate funding and knowledge of product qualities and market requirements.

Furthermore, enterprises that are able to expand their market horizon by selling to traders and manufacturing firms are more likely to achieve sustainable growth than those that sell directly to final consumers (Liedholm, 2001). Access to bigger markets imposes more challenges to entrepreneurs to expand their scale of production and adopt some level of quality control and standardization. In this regard, intervention strategies should focus on market research and analysis to identify market opportunities, develop and produce quality products and the formulation of appropriate marketing strategies.

3.2 Educational Level and Skill Acquisition

The analysis has revealed that most of the entrepreneurs have basic education and this is a handicap since it will restrict their ability to learn modern entrepreneurial skills and acquisition of technical capabilities to enhance their economic activities. For example, in metal fabrication and repairs works, good education will enable the entrepreneur to interpret very rudimentary engineering designs better and adopt a fairly standardised production system.

Also, it has been stated that the main mode of skills acquisition is through apprenticeship. However, due to the limitations of the skill trainers they cannot impart modern and proven skills to their apprentices and consequently, there is recycling of prevailing skills among the apprentices. The situation has negatively affected the growth or migration of the MSEs from informal to formal operatives.

It is worth mentioning that the establishment of the GRATIS Foundation and its RTTCs have provided opportunities for entrepreneurs of MSEs to upgrade and acquire more skills to support their businesses. However, most of the training consists of hands-on experience with limited theoretical support.

In addition, support from the National Vocational Training Institute (NVTI) has not been far-reaching due to the low educational background of the apprentices. Only few of the apprentices have taken advantage of the formal technical training provided by the Institute, and have progressed to the polytechnic (Foster 1999). The challenge for the future of NVTI in Ghana is how it can respond to markets that are highly competitive and dynamic, and how it can produce graduates with skills that can respond to demands of the local and global markets and production technology.

3.3 Access to Financial Resources

Finance is one of the life wires of every economic activity. Access to finance will provide start-up capital for the business as well as funds to meet operational costs. The analysis has revealed that most of the MSEs depend on their personal savings to provide start-up capital with a very small number borrowing from the banks in the country, while others got support through government special projects and from NGOs. However, increased scale of production, especially by the growth-oriented MSEs requires access to institutional credit which can provide far more support than what can be obtained through personal savings, micro credit and other sources.

The risks associated with lending to MSE entrepreneurs have restricted formal sector banks to adequately support these important entities. Lending to MSEs has been characterised by high default rates and high cost of credit administration, as a result only few banks are willing to provide entrepreneurs with financial assistance to improve on their businesses.

To address this critical handicap, a number of financial intermediation schemes have been launched in the country with the overarching objective of providing easy access to finance the MSEs. For example, the government introduced Micro-Credit Scheme in the 2001/2002 periods where by close of 2004, credit amounting to U\$101,322 had been granted to over 1500 borrowers. Also the government launched a Micro-credit and Small Loans Fund as a follow-up to the earlier micro-credit scheme which became operational in 2006. The establishment of the fund was part of ongoing initiatives aimed at reducing poverty and promoting growth in the economy. Within two months of operation, over U\$161,700 had been disbursed to over 10,000 applications within the Greater Accra Region alone.

The earlier schemes such as PAMSCAD Credit Line for Small Scale Enterprises, NBSSI Revolving Fund Loan Scheme, NBSSI-DED Credit Scheme provided credit facilities to the MSEs. For example, in June, 2002, the NBSSI through its Revolving Fund Loan Scheme had granted over U\$2.5million to about 273 MSEs, the NBSSI-DED had disbursed about U\$2,437 million to entrepreneurs in Brong Ahafo, Eastern and Northern regions of Ghana. Similarly, the PAMSCAD Credit Line for MSEs had grown from U\$4,700 million (seed money) to U\$27,581 and had serviced about 1,158 projects.

However, evidence from the survey has shown very low access to micro credit facility by the MSEs either as start-up capital or additional funds to improve their scale of production. And this raises the question of who the beneficiaries are? Though that is not the focus of this paper, however, it can be speculated that corruptive

practices and political interference may have diverted funds to individuals who are not operators of MSEs. In some cases, the funds had been used as political rewards for faithful followers of the party in the rural areas rather than those actually involved in MSE activities.

3.4 Innovations and R&D Support for MSEs

Most of the MSEs had little or no contact with R&D institutions in the country. This is largely due to their scale of production and the markets in which they operate. Such markets are not differentiated and there is no strict competition. However, access to R&D institutions is very crucial in the acquisition of new skills, as well as gaining deeper knowledge about the market and its intricacies. The rural economy stands to gain if it is directly linked to R&D institutions in the country. Low level of educational status among the entrepreneurs, does not promote innovation, diversification and quality of products. Quality products must be based on innovations and technological advancement either through personal creativity or through linkages with R&D institutions. Such linkages will support the growth of the enterprise and help them to progress from informal to formal or from small to medium or large. GRATIS through its Regional Technology Transfer Centres (RTTCs) should be able to provide technological support to entrepreneurs to enable them improve on their productivity and accelerate their transformation process.

4. Conclusion

Developing a strong rural economy in Ghana through the promotion of vibrant MSEs requires pragmatic and holistic approaches to address the challenges that this paper has identified. The study found out that low educational background of the entrepreneurs was a hindrance to even basic technology knowledge acquisition and adoption, innovation, competitiveness and growth in the MSE sector. Apprenticeship was the main source of skill acquisition while a majority of the trainers did not take advantage of National Vocational Training Institutes (NVTI) to upgrade their skills. A major constraint for the entrepreneurs was sourcing for funds to start or expand their businesses.

Access to institutional credit was a big problem and this revealed the ineffectiveness of the rural banks and the various micro-credit schemes to address the financial problems of the MSEs. Large number of disbursements has been made by the various micro-credit schemes but their impact had been minimal as only few of the respondents have acquired trade credit or loans from the banks. They therefore rely on personal saving, a situation that does not promote enterprise expansion and profitability.

Another important issue that should be addressed is the lack of market access of the MSEs. The study revealed that most MSEs have been confined to the markets in their localities. However, access to relative bigger markets would increase their profit margins, as well as their capability and visibility. It is important that REP intensifies its annual exhibition of the products of its clients in order to enable them to participate in the urban markets. It is concluded that MSEs have an important role to play in the rural economy. Therefore, every effort must be made to ensure the growth of these enterprises as that will create and redistribute wealth and reduce poverty situations in the rural areas.

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- 2 The government policy for micro and small business has been a draft since 2002. It is hoped that the policy will be finalised soon to enable the actualisation of the evolved strategies to develop the MSE.
- 3 The national minimum wage was equivalent to US\$1.6 and translates to US\$48 per month (see <http://p4.hostingprod.com/@ghanationalcouncil.org/blog/2006>)
- 4 The Rural Enterprise Project is funded by the International Fund for Agricultural Development, African Development Bank and the government of Ghana. The underlying objective of REP is design specific interventions that will support the growth and expansion of informal MSEs in order to reduce poverty among vulnerable groups in Ghana.

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