Small Enterprises and Adjustment

The Impact of Ghana's Economic Recovery Programme

Nii K Sowa
A Baah-Nuakoh
K A Tutu
B Osei

Overseas Development Institute
University of Ghana

ODI Research Reports

Small Enterprises and Adjustment

The Impact of Ghana's Economic Recovery Programme on Small-Scale Industrial Enterprises

Nii K Sowa
A Baah-Nuakoh
K A Tutu
B Osei

Overseas Development Institute
London

Department of Economics
University of Ghana, Accra

Acknowledgements

We acknowledge with thanks financial support from the UK Overseas Development Administration, and technical advice by the Overseas Development Institute, London. We have benefited from comments by Professor Tony Killick of the ODI and Dr William Steel of the World Bank, as well as participants at a workshop on 'Effects of Ghana's ERP' held at Legon in October, 1991. Co–operation by staff of the Ghana Enterprises Development Commission, the GRATIS project (Tema), FUSMED (Bank of Ghana), and the Intermediate Technology Transfer Unit, is highly appreciated.

We also wish to recognise the contribution of Mr Kwasi Anyemedu during the initial phase of the research. We are also grateful to Mr Robert Buatsi of the GRATIS Project, Tema for co–ordinating the field work.

Excellent computer assistance was provided by Mr Samuel Effah while Miss Maud Tamakloe did the data entry.

The authors are fully responsible for ideas expressed in this study.

A British Library Cataloguing in Publication Data record is available on request.

ISBN 0 85003 188 5

Typeset by ODI
Printed by Chameleon Press Ltd, London.

Contents

List of Tables

List of Figures

Appendix Tables

Acronyms

BOG	Bank of Ghana
DRCI	Department of Rural and Cottage Industries
ERP	Economic Recovery Programme
FUSMED	Fund for Small and Medium Enterprise Development
GEDC	Ghana Enterprise Development Commission
GRATIS	Ghana Regional Appropriate Technology Industrial Service
ITTU	Intermediate Technology Transfer Unit
LSE	Large–Scale Enterprise
NBSSI	National Board for Small–Scale Industries
NLC	National Liberation Council
PAMSCAD	Programme of Action to Mitigate the Social Costs of Adjustment
PNDC	Provisional National Defence Council
SMC	Supreme Military Council
SME	Small and Medium Enterprises
SSE	Small–Scale Enterprises
TTC	Technology Transfer Centre

1
Introduction

The economy of Ghana suffered a protracted decline in the three decades following independence, particularly in the 1970s and the early 1980s. Output grew at a modest rate of 2.2 per cent between 1960 and 1970 but declined at a rate of 0.5 per cent per annum during the following decade. With a fast growing population, Ghana moved from classification as a medium–income country in the 1960s to a low–income country by the end of the 1970s.

Of course, the decline in gross output was only a reflection of the deterioration in most sectors. Owing to bad weather and poor economic incentives, agricultural output (particularly of food) declined at a rate of about 0.2 per cent per annum between 1970 and 1982. The industrial sector suffered heavily during the period of decline, due to lack of spare parts and inputs. Only the service sector escaped the decline.

Huge budgetary deficits, financed mostly by the printing of money, and shortage of consumables, led to persistently high rates of inflation. The maintenance of a fixed and overvalued exchange rate discouraged exports and encouraged smuggling, worsening the unfavourable balance–of–payments position. By 1983, Ghana was faced with a classic case of stagflation.

The decline in large–scale industrial output could not be fully offset by the expansion of small–scale enterprises (SSEs) because their contribution to GDP was only 3 per cent while large–scale industry accounted for 8 per cent of GDP according to Checchi and Co. (1974). Nonetheless, small–scale industries do play an important role in the economy. Their activities span a wide range in both the informal and formal sectors, including food processing and other agro–based industries, tailoring, bakeries, wood–related industries, shoemaking and shoe repair, manufacture and repair of metal products, motor fitting and bodywork repairs, electric repairs, black– and goldsmithing, handicrafts, pottery, printing and diversified manufacturing activities. SSEs are a good source of private employment, and even for some in public employment they provide a useful income supplement as a second job. During the decline in the economy, the SSEs filled many of the

production gaps created by the poor performance of the large–scale enterprises (LSEs).

Since 1983, Ghana has been following an Economic Recovery Programme (ERP). This can roughly be divided into two phases: the initial three–year stabilisation phase which ended in 1986 and the subsequent years of adjustment and growth. Briefly, it has aimed at reversing the decline in the economy, stabilising prices, and maintaining a favourable balance–of–payments position. Since it began, the economy has shown signs of recovery: output growth has averaged about 5 per cent per annum, inflation has come down from the peak of 123 per cent in 1983 to an average of 32 per cent per annum, and the severe foreign exchange constraint seems to have eased.

A number of policies were taken within the ERP to achieve this turn–around. They included: (i) devaluations, (ii) tighter fiscal management, (iii) trade liberalisation, and (iv) the divestiture of state enterprises. Within this broad set of policies there are some which impinge on the activities of small–scale enterprises and this is the subject of the present study. The following chapter looks at the structure of the economy, highlighting the decline in most sectors, considers the definition of SSEs and surveys the existing literature on small–scale enterprises. Chapter 3 looks at the policies, programmes and incentives introduced during the ERP which concern the small–scale sector, followed by an analysis of the results of a survey of their effects, particularly on output and employment. The concluding chapter contains recommendations based on these findings.

2
Background

Structure of the Economy

The structure of Ghana's economy has always weighed heavily in favour of the primary sector, which has, however, gradually yielded some of its share to the tertiary sector. In the first decade after Independence in 1957 the primary sector's share of GDP dropped from 57 to 40 per cent, with a similar, though less severe, decrease in its share of the labour force (from 65 to 59 per cent). In the same period the tertiary sector's share expanded from 28 per cent of GDP to 45 per cent. The expansion of government services was mainly due to the political ideology of the Nkrumah government. With socialism as its main political goal, the Nkrumah regime increased state participation in almost every sphere of the economy. Between 1957 and 1969, the share of government consumption in GDP increased from 10 to 18 per cent, while private consumption declined from 80 to 70 per cent.

Manufacturing grew rapidly, increasing its share from 2 to 9 per cent of GDP. In fact, apart from fishing and electricity (which expanded from a lower base), manufacturing maintained the highest growth rate of 10 per cent per annum over the period. This is not surprising considering the high premium the Nkrumah government placed on industrialisation, establishing a number of import–substituting industries. Manufacturing also became an important contributor to exports with a 14 per cent share in 1969, plus another 11 per cent from the processing of cocoa and timber for export. In spite of this expansion in manufacturing, the secondary sector as a whole maintained the same share of GDP, due to a relative decline in mining and other secondary industries.

These sectoral shifts reflected the strong emphasis of the Nkrumah government on stimulating social and economic development through industrialisation, and its bias against agriculture. Cocoa dominated exports, but it was not growing. There was no clear policy to develop agriculture to feed the newly established industries, most of which relied on imported raw materials; hence the attempt to make the country self–reliant through import substitution also made it foreign–exchange–dependent. Agriculture, primarily cocoa, remained a relatively low

productivity sector, in the sense that even though it was the largest employer of labour it contributed proportionately less to GDP. Cocoa, for example, employed 17 per cent of the labour force to produce only 8 per cent of GDP. As the nation's major foreign exchange earner and also a major contributor to tax revenue, cocoa's neglect without an appropriate substitute contributed immensely to the decline in the economy.

The structure of the economy continued to be dominated by agriculture. By 1982, its share of output had returned to 57 per cent and yet the nation was not producing enough to feed itself. The increase in the share of the agricultural sector was mainly the statistical consequence of a decline in the industrial sector. Industry's share of GDP fell from 15 to 6 per cent; an annual average rate of decline of about 2 percentage points. The contribution of the service sector also dropped, from 49 per cent in 1960 to 38 per cent in 1982, since the hard economic conditions and struggle for survival reduced demand for services.

The decline in industry was a reflection of its dependence on imported spare parts and intermediate inputs, which was hampered by a severe foreign exchange constraint. Industrial capacity utilisation dropped to below 25 per cent. Some manufacturing subsectors did better than others. For instance, tobacco, beverages, chemicals, petroleum refining, and non–metallic mineral products increased their share of value added in the 1970s, but the share of others like food processing, textiles and garments, wood processing, paper and printing, tyres and tubes, basic metals, electrical appliances, and transport equipment declined between 1970 and 1980 (World Bank, 1989:45).

Since the ERP there has been some change in the structure of the economy (see Table 1). Industry has shown a remarkable recovery with an increase in its share of GDP from 7 per cent in 1983 to 17 per cent by 1985. In fact, industry has maintained the highest average growth rate

Table 1
Shares of GDP by economic activity (%)

	1980	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*	*1989**	*1990**
Agriculture	58	53	57	60	49	45	48	51	51	49	48
Industry	12	9	6	7	11	17	17	16	17	17	16
Service	31	39	38	34	40	39	35	33	34	33	36

Note: * = preliminary data.
Source: World Bank (1991).

since the introduction of the ERP; after rising to a high of 17.6 per cent in 1985, it slowed to about 4 per cent in 1990, yielding first place to the service sector. This growth is partly due to the rehabilitation of existing plant and the availability of imported raw materials made possible by the easing of the foreign exchange constraint. This is particularly true of the mining sector. Manufacturing capacity utilisation had risen to 37 per cent by 1990.

Definition of Small–Scale Enterprises

There are several definitions of small–scale enterprises. The Ghana Statistical Services (GSS) defines small industry in terms of the level of employment. Its Industrial Statistics consider establishments with 10 or more employees as large and medium–scale; thus by implication, small–scale are those with less than 10 workers. In the National Accounts, however, the GSS classifies companies employing nine or fewer persons as 'small and medium'.

The National Board for Small–Scale Industries (NBSSI) and the Fund for Small and Medium–Scale Enterprise Development (FUSMED) use a definition involving multiple criteria of fixed assets and employment size. The Board considers a small industry to be one employing not more than nine persons, with plant and machinery (excluding land, building and vehicles) not exceeding 10 million cedis. The asset size in terms of US dollars should not exceed $100,000.

The Ghana Enterprises Development Commission (GEDC) defines a small industry as one requiring a loan under its PAMSCAD programme (see next chapter) of not more than 2.5 million cedis. It also uses a definition based on an upper limit of 10 million cedis for plant and machinery.

There is usually confusion in the use of size of plant and equipment to classify firms, since valuation of the assets presents a problem. Steel and Webster (1991) use an employment cut–off of 30 workers to indicate small–scale enterprises. SSEs are further disaggregated into 'micro', employing 3 or less, 'very small', employing between 4 and 9, while between 10 and 30 workers are 'small–scale'.

Yankson (1983) defines SSEs in terms of employment. In his survey of 1,000 enterprises in Cape Coast in Ghana, those employing up to 30 workers are classified as SSEs. The World Bank's study defines small and medium enterprises as those with an estimated value of total assets, excluding land, of up to $2 million equivalent in 1988 constant prices. Liedholm and Mead (1987) have an even higher upper limit. They define SSEs as establishments employing less than 50 workers in manufacturing activities or related repair work. Most of the firms employ fewer than 5.

The present study defines as small–scale firms employing less than 30 workers. Further disaggregation is made for 'micro' (less than 6), 'very small' (6 to 9 workers) and 'small' (10 to 29).

Literature Review

There has been recent research interest in the activities of SSEs in developing countries including Ghana. Earlier work by Szerewszeski (1965) established the fact that, by the 1920s, Ghana's economy had already been established as a producer and exporter of primary commodities and an importer of manufactured goods. Kay (1972) attributes this structure to the fact that industrialisation was not part of the colonial scheme. For instance, in the Ten Year Development Plan for the 1920s, which was abandoned in 1927, the entire allocation of £151,000 for the productive sector went to agriculture. Kay's analysis demonstrated the failure of the Colonial Administration to develop technology in the sector. Cardinal (1931) indicated that by the 1930s the only significant changes in the occupational structure had been in the cocoa sector. The booming cocoa industry stimulated construction and transportation, thereby increasing the demand for skills such as masons, carpenters, bricklayers, drivers and auto–mechanics.

Steel's work (1977) is one of the earliest studies on small–scale enterprises in Ghana, involving field work. His survey covered a wide range of activities located in Accra, Aburi and Nsawam. His main thesis was that the small–scale sector had the potential for promoting economic growth and for absorbing surplus labour.

Another comprehensive study by Thomi and Yankson (1985) identified the main constraints facing SSEs in Ghana as inadequate credit and input supply and depressed domestic demand for their products and services. The results showed that most SSEs in Ghana do not offer much scope for substantial permanent wage employment, but that they play a crucial role in training future entrepreneurs and in providing opportunities for self–employment.

A study by Liedholm and Mead (1987) involved a dozen developing countries. A careful census of the entire population of small firms was undertaken in selected survey areas. Then a random sample of firms was interviewed at least once a week for a year to generate many of the flow variables in order to check measurement errors from proprietors' limited memory recall. Their findings showed that virtually all the firms in all 12 countries were privately owned, in sole proprietorship, many of them by women, and were located in rural communities with less than 20,000 inhabitants. In terms of employment, SSEs accounted for the largest

proportion of industrial employment, but of this family workers generally formed the largest component.

On credit, the studies by Elkan (1987) and Liedholm and Mead (1987) agree on the fact that credit policy tends to discriminate against SSEs and that most enterprises rely on personal savings and family finance as the main sources of funding. The problems cited as militating against effective credit policy include: high administrative costs and high default rates, with demand outstripping supply because of low lending rates, and the tendency for concessionary loans to go to well-established firms which do not need such subsidisation, and to be confined to the financing of fixed capital assets rather than for working capital, which is most in demand.

Liedholm and Mead found that SSE activity appeared to be increasing in absolute terms and at a faster rate than in large-scale industry.

In terms of resource utilisation, some results are striking. Liedholm and Mead reveal that SSEs generate more employment per unit of scarce capital than their large-scale counterparts. Capital productivity was also found to exceed that generated by large-scale industry. Using a social benefit-cost ratio analysis in Sierra Leone, Honduras and Jamaica, they found that for 10 out of 12 industrial groups, the ratios not only exceeded one but were also greater than the comparable ratios for large-scale firms.

Little *et al.* (1987) conducted a study of India, Colombia and 10 other developing countries. In Colombia, they found that medium-sized industries were more labour-intensive, produced greater output per unit of capital invested and were more efficient in the use of labour and capital than small-scale industries. Liedholm and Mead's study shows that the economically efficient firms have the following characteristics: they use hired labour; they operate in workshops away from the home; they operate in localities with more than 2,000 inhabitants; and they are involved in select product lines with better economic prospects, such as tiles, furniture, baking and repair activities.

Not much research has been done on the impact of specific policies on SSEs. This is partly because they have generally been neglected by the policy-makers. The only policies directly affecting the SSEs were the indigenisation efforts of African governments. 'Industrial and trade policies have, however, had important indirect impacts on the environment for small enterprises and have frequently discriminated against smaller firms' (Page, 1979:34).

Page reports that foreign trade regimes which employ rationing systems favour large-scale enterprises as against small enterprises. Steel (1977) argued that the exclusion of small enterprises from the import

allocation scheme in Ghana in the 1970s contributed to supply uncertainties. Child (1977) reported that even in Kenya, where there were no import controls, the import–substitution strategies which aimed at protecting some large–scale industries discriminated against the SSEs. Page (1979) argues that, in general, large enterprises are better able to deal with institutional bureaucracy than small firms.

Whereas most survey work on small enterprises cites credit (or the lack of it) as the major problem, credit policies directed at SSEs have generally been ineffective. Credit rationing has not worked in favour of the small enterprise. Policies which reserve a portion of the banks' loan portfolio for small enterprises have largely benefited the large and politically adept enterprises (Steel, 1977, 1979; Child, 1977). Page (1979:36) argues that a situation in which credit is offered for the purchase of capital equipment at subsidised rates may result in an increased capital–labour ratio in small firms. In other words, it may move them away 'from the labour–intensive methods that constitute an important argument in favour of their promotion'. Zoning regulations and registration requirements have generally had adverse effects on small–scale enterprises. Zoning of small enterprises has usually been on aesthetic rather than health grounds (Steel, 1977, 1979; Child, 1977; King, 1974). The literature is not clear on the appropriateness of the creation of industrial estates for small enterprise promotion. In some cases firms within the estates become more capital–intensive than those outside (see Steel, 1977). On education, there has been a consensus that most programmes designed to upgrade the managerial and technical skills of the small–scale entrepreneur have been too sophisticated and presuppose literacy and numeracy skills not found among small entrepreneurs (Child, 1977; Aryee, 1976). Using a Kenyan case study, Child (1977) reports a successful extension programme using high school graduates as trainers.

There has not been much research on the effect of structural adjustment on small enterprises in Ghana. Dawson (1988) studied 672 small firms in the furniture, vehicle repair, construction and metal products industries in Kumasi. He found that most firms prospered from 1974 to 1984, while the majority declined under the Economic Recovery Programme (ERP), with 58 per cent reporting decline in demand and only 14 per cent reporting an increase. He identified demand as the principal constraint on the ability of most small firms to expand. Loss of market was not due to competition from large firms or imports. Sources for the decline were the following: (a) loss of the advantage obtained on the black market under previous policies that rationed foreign exchange; (b) increased prices of imported and domestic inputs because of price

liberalisation and inflation; (c) the breakdown of previous supplier and customer credit arrangements resulting from severe shortages of working capital; (d) falling real incomes and depressed purchasing power among the urban and rural poor; and (e) excessive competition among small producers, with falls in profit margins and fewer orders per enterprise due to the large number of new entrants.

Steel and Webster (1991) studied the responses of small and medium–scale enterprises (SMEs) to the structural adjustment programme in Ghana, and highlighted their major role in employment generation and the development of entrepreneurial and industrial capabilities. Shortages of capital and foreign exchange were cited as major constraints on their development. The study concentrated on the larger end of the small enterprise sector. It found that new firms in the range of 4 to 29 employees experienced growth. Among micro–enterprises, 34 per cent of new firms showed increasing production, compared to 29 per cent of the pre–1984 firms. As in the Dawson study, the majority of small firms (55 per cent) cited low demand as a problem. Steel and Webster (1991) worked under the assumption that the 'income effect' created by the competitive forces under the adjustment programme was likely to damp the growth of small firms in the initial years. On the other hand, this would be mitigated by a 'substitution effect' resulting from shifts in relative prices. These effects were more likely, however, to affect medium and large enterprises than micro enterprises on which the present study is concentrated.

3
The ERP: Policies and Institutional Arrangements Affecting Small–Scale Enterprises

In April 1983, the government of the Provisional National Defence Council (PNDC) accepted an IMF package for economic recovery and structural adjustment (ERP/SAP), aimed principally at removing distortions in the economy preventing the efficient allocation of resources. It also sought to reorganise the productive structure through price incentives, which benefited, in the main, the tradeable goods–producing sectors of the economy.

Institutional Support: Technical and Financial

The National Board for Small–Scale Industries (NBSSI), set up within the Ministry of Industries, Science and Technology, is the main government body attending to the affairs of small–scale enterprises. It organises training programmes for entrepreneurs, advises on business operations and occasionally advances credit to small–scale businesses. Prior to its establishment, the Ghanaian Enterprise Development Commission (GEDC) (formerly the Office of Business Promotion) was the only co–ordinating body providing technical and financial assistance to Ghanaian businesses.[1] It was also charged with helping to strengthen small–scale Ghanaian industry in general. In 1990 the NBSSI absorbed the GEDC.

The Ghana Regional Appropriate Technology Industrial Service (GRATIS) provides very useful technical support to small–scale businesses through the establishment of Intermediate Technology Transfer Units (ITTUs) in the regions[2], which upgrade skills at

1. The Office of Business Promotions was established to assist Ghanaian businessmen to enter fields formerly dominated by aliens but which became available to Ghanaians after the 'Aliens' Compliance Order (1970)'.

2. GRATIS is a separate unit under the Ministry of Industries, Science and Technology, and not a subsidiary of the NBSSI. It grew out of the Technology Transfer Centres initially established in collaboration with the University of Science and Technology at Kumasi.

grass–roots level. Initially the ITTUs concentrated on minor engineering activities; but recently beekeeping, weaving and dyeing, and other women's and rural industry activities have also been included. GRATIS trains potential small–scale entrepreneurs and sets them up within the ITTUs. There are now ITTUs in six of the ten regional capitals.

Under the Programme of Action to Mitigate the Social Cost of Adjustment (PAMSCAD), a revolving credit to the tune of US$2 million was set aside under an Entrepreneurship Development Programme to identify and train people with entrepreneurial talents for self–employment.

In addition to the institutions set up to provide technical advice, credit arrangements were also initiated. Credit has usually been cited as the major problem facing small–scale enterprises (see earlier). In 1988, the Bank of Ghana obtained a US$28 million credit from the International Development Association (IDA) of the World Bank for the establishment of a Fund for Small and Medium Enterprise Development (FUSMED). FUSMED was to provide financing services through appropriate participating institutions (commercial banks, merchant banks, development banks and other financial institutions) to SMEs in all sectors other than primary agriculture, trading and real estate. A major weakness in this arrangement is that the lending risk falls fully on the participating bank. A bank will thus go for a FUSMED credit to on–lend to a small business only if it is fully lent. Consequently, if the government's claim of excess liquidity in the banking system is to be believed, success is not to be expected from the FUSMED programme.

Policies

With the initiation of the ERP positive attempts were made at economic management through fiscal, monetary and trade policies. Some of these measures do not have a direct bearing on small–scale enterprises, although they are affected indirectly as this chapter will describe.

A major aspect of the new fiscal policies was the rationalisation of public expenditures. This involved cutting down the public sector wage bill and the removal of subsidies from most products and services. The fiscal restraint and the improvement in tax administration have led to budget surpluses since 1986. The public wage bill has been kept at 5 per cent of GDP. By 1989 about 60,000 workers had been retrenched from the civil service, whom the private sector was supposed to absorb. Given that the ERP calls for rationalisation of production in the private sector also, most of them were likely to end up as self–employed in small–scale enterprises.

The government's divestiture programme also has implications for SSEs. Enterprising small businessmen may decide to buy into some of the state enterprises for sale. This may move them out of the small–scale sector.

Credit and monetary policies have hardly been targeted at SSEs. As noted earlier, policies allocating credit to businesses have tended to benefit large firms. Under the ERP, a tight monetary policy has been maintained in order to contain domestic inflation. This policy has seen domestic credit reduced substantially and interest rates increased from a level of 19 per cent in 1983 to about 30 per cent in 1989. Most of the rationing under credit controls has been eliminated under the new more liberalised financial system. The tight monetary policies affects all businesses, small and large.

The policy of trade liberalisation may also affect SSEs. Imports of all kinds are now allowed into the country quite freely, including consumer goods, and these may well compete with locally produced goods, causing firms on the margin to shut down. In 1988, in response to complaints from the Ghana Manufacturers Association, the government introduced a revised tax structure which provided protection ranging between 25 and 90 per cent for certain industries: selected drugs, garments, cosmetics, mineral waters, fruit juices, rubber sandals, soaps, and some food products. Most of these industries are medium or large–scale industries. Their protection thus gives them an edge over smaller enterprises.

Rationalisation of the exchange rate and the subsequent elimination of the system of import licences are unlikely to have a direct effect on SSEs. Most small–scale products do not require much in the way of foreign inputs (except for a few, e.g. tie–and–dye and kente weaving). However, large–scale enterprises which produce close substitutes of the output of SSEs now have easy access to foreign exchange and are therefore able to import spare parts and raw materials for production. Overall, therefore, increased competition from local large–scale enterprises can be expected.

Implications for SSEs

There is no doubt that the ERP has introduced a new set of opportunities, challenges and constraints compared with the previous situation. What are its implications for the small–scale industrial sector? Did the launching of the programme remove or ease the constraints and problems facing the sector? Were new problems created by the ERP? Have there been any changes in the characteristics of SSEs since the initiation of the ERP? What was the effect of the ERP on output, sales

and employment in the small–scale sector? To help answer these questions a sample survey of small–scale enterprises was conducted. The results are analysed in the following chapters.

4
The Survey

The survey covered a sample of 1,365 small–scale enterprises selected within a radius of 50 kilometres of the following regional capitals: Accra, Takoradi, Cape Coast, Ho, Kumasi and Tamale. Each of these capitals has an ITTU, which provides support for small–scale activity in the area. Sample distributions by product group and location are presented in Tables 2 and 3, respectively.

Table 2
Type of firm (by product group)

	Number of firms	%
Garment and textile	53	3.9
Furniture and other	135	9.9
Bakeries (inc. Kenkey)	81	5.9
Grain milling	55	4.0
Motor repairs/welding	252	18.5
Shoemaking	77	5.6
Gold/silver/blacksmith	81	5.9
Electrical and electronics	124	9.1
Watch repairs	64	4.7
Printing press/photography	32	2.3
Food & fish processing	80	5.9
Oil extraction/paint production	88	6.4
Tailoring/dressmaking/hairdressing	139	10.2
Alcohol distilling	27	2.0
Restaurants/hotels/bars	8	.6
Blocks/bricks/tiles	7	.5
Handicrafts/pottery	18	1.3
Health services	3	.2
Soap manufacturing	31	2.3
Banking/forex bureaux	10	.7
Total	1,365	100.0

Table 3
Location of firm

	Number of firms	*%*
Accra/Tema	294	21.5
Kumasi	160	11.7
Ho	106	7.8
Sekondi/Takoradi	441	32.3
Cape Coast	157	11.5
Tamale	207	15.2
Total	1,365	100.0

Principal researchers visited the survey areas to identify the main activities and areas of concentration before sending interviewers into the field with questionnaires (see Appendix 2) which they helped respondents to fill in. It is difficult to compute the non–response rate since the interviewers simply moved on to the next enterprise if they were refused co–operation.

To make sure the sample covered a wide range of identifiable activities, interviewers were advised not to interview more than 10 SSEs in a particular activity in an area. The sample was evenly distributed with some exceptions, such as motor repairs (18.5 per cent), tailoring (10.2 per cent), health services (0.2 per cent) and block and brick manufacturing (0.5 per cent). Because of the restriction on the maximum number of firms in each product group in an area, the survey could not bring out specialisations in areas (for example, motor mechanics at Suame in Kumasi or furniture makers at Anloga in Kumasi). A further limitation of the survey was its inability to identify firms which had collapsed as a result of the ERP.

Data from the survey were tabulated and compiled using the SPSS computer package. Micro–enterprises comprised 89 per cent, 'very small' 9 per cent and 'small' 2 per cent of the sample.

5
Characteristics of the SSEs

The characteristics examined included nature of the business, location, regulation, age of the enterprise; education and training, sex, and age of the entrepreneur.

The Enterprise

Year of establishment

It is difficult to estimate the average lifespan of small–scale enterprises. Firms which have shut down are difficult to trace. Nevertheless, since most SSEs are family businesses, their average life span is likely to run into several years.

The largest percentage (42 per cent) of firms surveyed were established within the ERP period (see Table 4). This may be the result of surplus labour from the public sector being absorbed by the small–scale sector.

14 per cent of those interviewed had previously worked for government, with 8 per cent of these claiming they were either retired or

Table 4
Year of establishment of small-scale enterprises

Period	*Number of enterprises*	*% of firms*
Pre–1957	36	2.7
1958–66	57	4.3
1967–72	136	10.2
1973–79	276	20.6
1980–83	266	19.9
1984–90	566	42.3
	N = 1,337	100.0

Source: Survey results (1990).

made redundant during the ERP period. It follows that the remaining 6 per cent had resigned from government employment voluntarily. This may be due to opportunities created by the ERP for small-scale enterprises. However, 16 per cent of respondents would have wished for employment by some organisation. These may have been engaged in enterprises which either had been damaged by the ERP or which could be better operated part-time. Dressmakers, soap manufacturers and activities which compete with imports may be in this category.

A significant percentage (over 40 per cent) of the enterprises were also set up in the period 1973 to 1983. These were the 'hard times' in Ghana. Small-scale enterprises are known to survive better during harsh economic times when large enterprises in the formal sector are failing.

It is not known how many firms have been shut down during the ERP period. However, judging by the number of firms which claim that their output has declined during the period, it is likely that a lot of firms may have shut down since 1983.

Type of business

Ninety-one per cent of the enterprises were sole-proprietorships owned by Ghanaians. Several reasons can account for this. Hart (1970), for example, attributed this tendency to the existence of 'few institutional outlets for interest bearing investment of individual saving'. He explained (p.107) that, with no stock market and unrealistic interest rates which neither keep up with inflation nor reflect the general scarcity of liquid capital, Ghanaian investors cannot entrust their savings to institutions, but must rather become entrepreneurs themselves. In spite of institutional improvements for investment under the ERP, there is still a large percentage of sole proprietors in the sector, which can be attributed to the lack of trust among Ghanaian entrepreneurs. Another reason may be the desire to escape paying taxes.

These sole-proprietor firms are usually of the micro type (i.e. employing fewer than 6 workers). Even though most of them are described as family businesses, a majority (57 per cent) employ no family members. Most have only apprentices, but no wage-earning employees.

Even though most of the firms gave a low figure for their initial capital, this information should be treated with caution since the data were not weighted according to the year of establishment. Suffice it to say that the majority of firms were set up with less than 100,000 cedis of seed capital.

The majority (77 per cent) began their businesses with their own savings, and 33 per cent started with funds borrowed from family resources. Whereas most (74 per cent) complained that lack of credit had

Table 5
The size of firm and the source of capital

Size of firm	*Bank loan*	*Money lender*	*Own savings*	*Family*	*Friends*
Micro 1 (0–5 workers)	13	44	936	386	68
Micro 2 (6–10 workers)	9	9	83	53	11
Small–scale (11–30 workers)	3	0	30	12	4
Total	25	53	1,049	451	83

Note: The totals may add up to more than the sample size since firms may have received finance from more than one source.

limited their operations, very few (about 10 per cent) had ever approached any bank or government agency for financial help. Some claimed that the banking procedures were long and they knew they would not be given the money. Ironically, many enterprises had no knowledge of government institutions established to help them (see Table 6).

While this lack of knowledge may be partly the result of an illiterate small–scale population, there has also been lack of publicity on the part of these bodies. In some cases, respondents had heard about the

Table 6
Knowledge of government agencies

	Respondents aware (number)	*%*
NBSSI	714	52.3
GEDC	648	47.5
TTC	249	18.2
DRCI	443	32.5
BOG (FUSMED)	478	35.0
GRATIS Project	340	24.9
PAMSCAD	917	67.2

Source: Survey data.

establishment but might not know the services it offered to small–scale enterprises. Only about a tenth of those who had heard of these agencies had ever received financial support from any of them. Practically all the financial support had been received from the GEDC, but these were small sums averaging between ¢10,000 and ¢500,000. A slightly larger percentage (20 per cent) had received free technical advice from these institutions.

Location and regulation

Small–scale industries are usually located close to their market. They can therefore be found congregating in particular localities in the cities. Various government agencies and local authorities demand licences from these businesses before they are allowed to operate. For example, the Manufacturing Act (1971) requires firms to register with the Ministry of Industries, Science and Technology. Strangely enough, 61 per cent of those interviewed claimed that they did not need a licence for their operations, while 65 per cent had not registered their enterprises. A greater proportion said that they had found it more difficult to obtain licences during the ERP period. Of course, this may have little to do with any policy under the ERP. Recently, in the cause of environmental improvement, various metropolitan authorities have relocated some SSEs. Such relocations lead to loss of clients by the enterprises, at least temporarily.

The Entrepreneurs

Age

The ERP measures of labour retrenchment and the 'freeze' on hiring for the public sector have significantly affected the character of the small–scale entrepreneur. As already pointed out, young and well–educated people who might otherwise have sought jobs in the civil service and other public organisations have now set up their own enterprises.

The age distribution of entrepreneurs in our sample indicates that owners of SSEs are a young cohort, on average younger than the proportion of the labour force in the civil service. The average age of respondents in our sample was 35 years. Two–thirds fell within the range 25 to 45 (see Table 7).

Table 7
Age distribution of owners of small-scale enterprises

Age groups	*Frequency*	*%*
15–25 years	73	5.5
26–35 years	448	33.8
36–45 years	449	33.8
46–55 years	249	18.8
56 and above	108	8.1
	N = 1,327	100.0

Source: Survey data (1990).

Education and training

Very few of the sample had had no formal education at all. The majority had had basic education, while 22 per cent had had up to secondary or technical education. This agrees with Steel and Webster (1991), who found that the level of education of owners of recently–established small–scale enterprises was better than in the case of older firms. This relatively high educational standard may help small enterprises to survive economically in turbulent times (see Anheier and Siebel, 1987).

Table 8a presents the distribution of educational standards. While we lack precise comparable data for the nation as a whole, there is an indication that on average the educational level of entrepreneurs in the sample was higher. Only about a fifth of small–scale owners had never been to school. If we define as literate anyone who has received at least primary education we would arrive at an adult literacy rate of 80 per cent among our respondents, while for the country as a whole the World Bank estimates the national adult literacy rate to be only 40 per cent (*World Development Report*, 1991).

Naturally, the educated had an edge as far as knowledge of institutions was concerned—see Table 8b. However, a greater percentage of those without education had approached and received financial and technical help from these institutions.

Their educational background notwithstanding, most small–scale entrepreneurs received on–the–job training (Table 9). Like Steel and Webster (1991), our survey showed that half (51 per cent) went through an apprenticeship training. The percentage is even higher if one includes those who received training from their relations. Only a small percentage

Table 8a
Level of education of owners of SSEs

Educational level	*Number*	*%*
Primary/middle	715	55.2
Secondary/commercial/technical	300	23.2
College/university	35	2.7
No formal education	239	18.5
Total	N = 1,295	100.0

Table 8b
Knowledge of institutions and education level (%)

Institutions	*Educated*	*No education*
Any institution	42	27
NBSSI	56	35
GEDC	48	47
TTC	19	6
DRCI	35	17
FUSMED	38	19
GRATIS	25	13
PAMSCAD	70	53

	Yes	*Yes*
Ever received financial support from any of above institutions	9	17
Ever received technical support from any of above institutions	19	33
Ever approached any of the institutions	39	48

Source: Survey data (1990).

(13 per cent) received any formal training. Aryee (1976) has observed that the inadequate level of vocational and technical training in Ghana is directly linked to the poor management in small-scale enterprises, especially in such matters as financial records and bookkeeping. It is possible that training institutions like GRATIS and the vocational

Table 9
Job/occupational training of owners of SSEs

Type of training	*Number*	*%*
Formal vocational/technical	171	13
Apprenticeship	686	51
Relative	318	24
Others	165	12

Source: Survey data (1990).

institutes may help upgrade the output of small-scale enterprises through formal training.

Over 20 per cent of the entrepreneurs in our sample had previously worked either in large corporations or the civil service. These people acquire some experience which they bring to the small-scale sector. However, the formal sector seems to have lost its attraction as a job avenue for the small-scale entrepreneur. Asked whether, if offered paid employment, our entrepreneurs would accept it, the majority (78 per cent) said they would remain in their present work. If it is also realised, as our results indicate, that over 90 per cent of entrepreneurs work full-time in their enterprises, then it seems reasonable to suggest that the small-scale sector provides an attractive job avenue. A small percentage (16 per cent) were willing to work for someone else. These may belong to the class who are not doing well, or who consider small-scale enterprise to be a secondary job. About 6 per cent of respondents fall into the latter category.

Gender

The survey indicates that there is a dominance of male entrepreneurs in the sector (about 74 per cent). In fact, in certain traditionally masculine-run industries, such as motor repairs, shoemaking, metal fabrication (including gold- and blacksmiths), electrical/electronic repairs, watch repairs, and even forex bureaux, there is total male dominance. Women have traditionally dominated the service sector, particularly trading.

6
The Effect of the ERP on Output and Employment of SSEs

Output and employment were selected as the two indices for the examination of the impact of the ERP on small–scale enterprises. The main hypothesis is that an increase in output is the result of the better environment created under the ERP. To a lesser extent, an increase in employment is also considered a consequence of an improvement of opportunities within the sector. The following two subsections examine these hypotheses. The first examines the changes in output and employment and their relation to certain characteristics of firms (firm size, city–location, education of owner, and year of establishment). The second is devoted to the policy effects.

Nature and Characteristics of Firm Growth

Output

Starting with the nature and characteristics of output growth, the majority of firms sampled reported growth in output over the initial five years of the adjustment period; 41 per cent reported a decrease in output. As can be seen from Table 10, about 12 per cent of those who reported an increase in output achieved over 50 per cent growth.

Firms that experienced high growth rates were mainly those at the larger end of the small–scale spectrum (see Figure 1). Of these, about 21 per cent experienced growth of over 50 per cent compared to only 9 per cent of micro enterprises. A quarter of enterprises, mostly micro firms, achieved rates of 10 per cent or less. The cross–tabulation in Table 11 examines the association between growth in output and firm size.

The Chi–square value indicates that, at the 5 per cent significance level, one cannot rule out an association between firm size and the rate of growth of the firm's output. The Coefficient of Contingency also confirms a weak association. Goodman and Kruskal's lambda, however, indicates that neither variable is of help in predicting the other. (See Appendix 3 for guidance on the interpretation on these tests.) In other words, being a micro firm does not automatically lead to a minor growth in output. The especially low barriers to entry into the sector probably

Table 10
Changes in output

% increases in output	*Number of firms*	*%*
Output declined	501	41.0
1–10	297	24.3
11–20	76	6.2
21–50	199	16.3
51–100	131	10.7
Above 100	18	1.5
	1,222	100.0

Note: 143 firms (10.5 per cent) did not respond on change in output.
Source: Survey results.

accounted for the slow growth of micro enterprises. Initial capital requirements are lower and skill requirements in some of these micro firms are low. A factor reinforcing the slow growth is the problem of unemployment and underemployment in the economy, which is exacerbated by the ERP's retrenchment and redeployment programmes. Most of the workers affected have entered the small–scale end of the labour market and crowded the producers' market.

Figure 1
Output growth by firm size

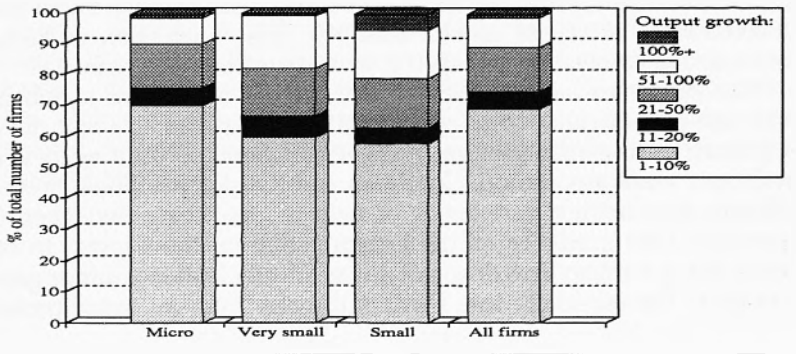

Table 11
Output growth (%) by firm size

Percentage growth	*Number of firms:* *Micro firms*	*Very small firms*	*Small firms*	*Total*
10 or less	849	70	22	941
11–20	66	8	2	76
21–50	175	18	6	199
51–100	105	20	6	131
100+	15	1	2	18
Totals	941	76	199	1,365

Chi-Square	*D.F.*	*Significance*	*Min. E.F.*	*Cells with E.F.< 5*
16.98719	8	.0302	.501	4 of 15 (26.7%)

Statistic	*Symmetric*	*With % growth as dependent*	*With firm size as dependent*
Lambda	.00000	.00000	.00000

Cramer's V = .07888; Contingency coefficient = .11087

Another characteristic examined was the firm's location. Small–scale enterprises usually locate close to the market, and are usually found congregating at various points in the big cities. The survey provided strong evidence of a link between city–location and firm's performance during the ERP period (Table 12).

Furthermore, the Goodman and Kruskal's lambda indicates some dependence of growth on the city–location. It was found that a higher proportion of firms in Accra, Kumasi and Cape Coast reported a decline in output than in Takoradi, Ho and Tamale. Dawson (1990), using a sample from Kumasi, also found that a majority of firms experienced no growth in the ERP period. We suggest that one reason for this result was that the effects of the ERP are more pronounced in big cities like Accra and Kumasi than in the small ones. A lot of competing imports are available in these places and there is a saturation of demand. Moreover, some of the workers made redundant in the formal sector became small–scale entrepreneurs in the big cities, further inundating an already saturated market. This point will be further examined later under the demand effects.

Table 12
Firm's output growth by city-location

City	*Number of firms: Output growth*	*No output growth*	*Total*
Accra/Tema	91	178	269
Kumasi	51	84	135
Cape Coast	61	83	144
Takoradi/Sekondi	311	99	410
Ho	58	26	84
Tamale	149	31	180
Total	721	501	1,222

Chi-Square	*D.F.*	*Significance*	*Min. E.F.*	*Cells with E.F.< 5*
205.79380	5	.0000	34.439	None

Statistic	*Symmetric*	*With output growth as dependent*	*With location as dependent*
Lambda	.16832	.28343	.09729

Cramer's V = .41037; Contingency coefficient = .37965

The survey also found a significant association (at the 5 per cent level) between level of education and output growth (see Table 13), and there is further evidence of this from the Goodman and Kruskal statistic. Technical education offers the best training for the small-scale entrepreneur. About two-thirds of entrepreneurs with secondary/technical education reported increased output over the ERP period. It seems, however, that entrepreneurs with university education performed even worse than those with no education at all (about 52 per cent of the former reported no increase in output compared with 35 per cent of those with no formal education). One possible reason is that entrepreneurs with university education are likely to enter the higher end of the small-scale sector where there is strong reliance on more capital-intensive machinery and imported inputs. Thus, these 'highly educated' entrepreneurs must have been adversely affected by the currency devaluations carried out under the ERP.

Table 13
Output growth by owner's schooling

Output increase	*Level of education:*				
	Primary/ middle	*Secondary/ technical*	*University/ college*	*No school*	*Others*
Yes	350	170	13	147	4
No	303	82	14	80	2
Total	653	252	27	227	6

Chi-Square	*D.F.*	*Significance*	*Min. E.F.*	*Cells with E.F.< 5*
19.82134	4	.0005	2.477	2 of 10 (20.0%)

Statistic	*Symmetric*	*With output growth as dependent*	*With schooling as dependent*
Lambda	.00101	.00208	.00000

Cramer's V = .13044; Contingency coefficient = .12934

Source: Survey data.

There was a significant relation between the year of establishment of the firm and its output performance (see Appendix Table 5). In our sample, 54 per cent of the 467 firms which were established in the ERP period experienced growth, compared with 61 per cent of pre–ERP established firms. Of the pre–ERP firms, those established between 1972 and 1982 seemed to have done better in the ERP period. It is possible that these firms gained experience during the 'hard times' of the 1970s and could more easily take advantage of the improved environment under the ERP.

Employment

The output response contrasts with that of employment. The majority (64 per cent) of our sample indicated that there had been no increase in the numbers they employed over the previous five years.

Though the survey shows no significant relation between industry–type and the change in employment, there is evidence to show that the kind of industry helps to predict the direction of change in employment. For instance, firms in the garment and textile and oil

extraction industries reported increased numbers of employees. In the former case, apprentices who qualify as tailors and dressmakers are employed by their trainers until they can establish themselves. In the oil extraction enterprises, the 31st December Women's Movement has organised more women into co–operative groups working in this sector. On the other hand, an industry like soap manufacturing seems to have been adversely affected by the ERP (see Appendix Table 6). This industry was one of those which thrived during the 'hard times'. Women used local materials to manufacture soap, but it was of inferior quality, popularly called 'don't touch me', and could not compete with imported soap or that manufactured by large firms like Lever Brothers Ghana Limited once these became available again.

Table 14
Changes in employment

	Number of firms	*% share*
Increase in employment	398	36.0
No change in employment	707	64.0
Total	1,105	100.0

Source: Survey data.

In some cases, growth in the number of employees as a result of improved economic conditions under the ERP has taken firms out of the small–scale category. A special study of the dynamics of growth of medium– and large–scale enterprises may need to be undertaken.

There is no significant relation between employment change and time of establishment of the firm (Chi–square 27.928, 6). Similarly, there is no significant association between the change in employment and the city–location of the firm. Goodman and Kruskal's test showed some slight dependence on city–location, however, a greater proportion of firms in the Cape Coast district reported an increase in the number employed.

Lack of increase in employment does not, of course, imply decreased activity in the sector. By their nature, micro firms have greater potential for horizontal rather than vertical spread. Apprentices in the micro sector who qualify usually set up their own enterprises.

Policy Effects

The effects of ERP policies are transmitted to SSEs in five main ways: (i) demand, (ii) competition, and availability of (iii) credit, (iv) inputs and (v) foreign exchange.

Demand

About 60 per cent of our respondents reported increased demand for their products, with about the same percentage claiming that they had no difficulty in selling their products. Contrary to the general belief that those in the garment and textile industry (including tailors and dressmakers) are experiencing difficulties because of competition from imported second-hand clothing, a greater percentage (over 70 per cent) in this industry said that they had no problem with demand. A similar proportion (73 per cent) of those in the motor repair industry also reported no problem.

Demand effects seem to be location-specific. Table 15 shows a Goodman and Kruskal lambda of .2549, with sales increase as the dependent variable and location as the independent variable. A city location helps to explain lack of sales increase, with over 60 per cent of firms in Accra and Kumasi claiming that sales had not gone up over the ERP period. Lack of sufficient demand may, therefore, explain why a majority of firms in these towns reported a decline in output over the ERP period (see opening section of this chapter on the nature and characteristics of firm growth).

Another possible influence on the demand for small-scale products is the increased volume of imports under the trade liberalisation policy. These imports are often either of better quality or cheaper and consumers may therefore switch preferences in favour of the foreign goods. This may help to explain the weaker output record of city-based SSEs, for they may be particularly vulnerable to competition of this sort. However, a number of factors limit the possible damage to SSEs from import competition.

First, as shown in Table 16 in the following subsection, SSEs in Ghana chiefly face competition from other local products rather than from imports, and there is little evidence that the increased availability of imports significantly constrained the growth of SSE output. SSEs further have the advantage of superior flexibility in the face of changing market conditions. For example, in the case of motor repairs, the increased importation of good used car engines to replace old ones has to be set against the increased number of cars on the roads which need to be maintained. Because of their flexibility, SSE mechanics can replace an

Table 15
Sales performance by firm location

Firm location	*Increase in sales*	*No increase in sales*	*Totals*
Accra/Tema	69	153	222
Kumasi	41	74	115
Cape Coast	78	67	145
Takoradi	307	100	407
Ho	55	25	80
Tamale	142	40	182
Totals	692	459	1,151

Chi-Square	*D.F.*	*Significance*	*Min. E.F.*	*Cells with E.F.< 5*
175.82091	5	.0000	31.903	None

Statistic	*Symmetric*	*With sales as dependent*	*With location as dependent*
Lambda	.14131	.25490	.07124

Cramer's V = .39084; Contingency coefficient = .36402

Source: Survey data.

engine as well as service other parts of the car, whereas previously they had been keeping the old engines running. Similarly, tailors who find that they do not have customers coming in for new clothes can turn to mending second-hand ones.

It should also be borne in mind that most SSEs in Ghana, especially the micro firms, produce to serve the poorer end of the market. About 97 per cent of small enterprises have individuals as their chief customers. This is due in part to the fact that most small firms produce final rather than intermediate goods. Very few firms produce for large clients such as government or large firms. At the 5 per cent level of statistical significance, there is strong evidence that firms with individuals as clients have a better output performance than those which sell to either large firms or the government (Chi-square = .3046, 1). Unlike SSEs, most large firms rely on imported inputs and raw materials. Thus, the depreciation of the cedi under the ERP has helped to improve the

competitive position of the SSEs, by shifting relative input prices in their favour.

Competition

In an attempt to reduce distortions in the economy and to allow the market system to work efficiently, the ERP has promoted competition. The withdrawal of subsidies and the removal of protection from local industries, together with the trade and exchange rate liberalisation policies, has meant that inefficient firms which are unable to compete will be driven out. Small–scale enterprises face competition from local producers (large or small) as well as imports.

About two–thirds of small–scale firms claimed that they face competition from local producers. Competition from other SSEs is healthy and may lead to increased efficiency in production. On the other hand, competition from large–scale enterprises (LSEs) may pose a problem for SSEs and lead to declines in output. Under the liberalised policies of the ERP, LSEs are taking advantage of scale economies which had eluded them previously. They now have easy access to foreign exchange and hence can import the necessary inputs. Under the ERP some large–scale firms have managed to increase their capacity utilisation substantially.[3] LSEs which compete directly with SSEs, e.g. in the wood processing and food processing industries, have more than doubled their utilisation rate over the ERP period (World Bank, 1991).

Table 16 indicates an association between firm size and source of competition at the 5 per cent level of significance. Among firms which said they did not face any competition, about 95 per cent were micro enterprises employing up to 5 workers. The majority of firms, in all categories, cited other local producers as the main source of competition.

Another source of competition is imports, discussed above. The trade liberalisation policy has enabled importers to bring in goods that are able to undercut the market for locally produced goods. Although this could encourage healthy competition and help improve the quality of goods produced by SSEs, it could also become a constraint on the development of local small–scale industry. However, only 27 per cent of SSEs reported competition from imports.

Although the source of competition seems statistically to affect firms' output performance, in general competition did not seem to have been

3. The average rate of capacity utilisation of medium and large-scale enterprises is estimated to have increased from 18 per cent in 1984 to 37 per cent in 1990 (World Bank, 1991).

Table 16
Source of competition by firm size

Firm size	*Source of competition:* *Imports*	*Local*	*Both*	*None*	*Total*
Micro	59	735	243	109	1,146
Very small	6	77	21	5	109
Small	2	29	4	1	36
Totals	67	841	268	115	1,291

Chi-Square	*D.F.*	*Significance*	*Min. E.F.*	*Cells with E.F.< 5*
8.14320	6	.2278	1.868	2 of 12 (16.7%)

Statistic	*Symmetric*	*With firm size as dependent*	*With competition as dependent*
Lambda	.00000	.00000	.00000

Cramer's V = .05616; Contingency coefficient = .07917

Source: Survey data.

a major constraint on output expansion. Table 17 presents a cross–tabulation between competition and expansion of output. Goodman and Kruskal's lambda shows a weak dependence of output expansion on the source of competition.

Of the 695 of our sample firms which experienced growth, almost 90 per cent faced competition. With such a large percentage growing in spite of competition, this implies that competition does not prevent growth. As noted earlier, this can be attributed to the flexibility of small enterprises and their ability to establish a niche in the market. Similarly, competition does not seem to prevent growth in the number of workers employed. Of the 387 firms which reported increases in the number of workers over the ERP period, 90 per cent faced competition.

Credit availability

In a JASPA/ILO study (1989), 59 per cent of the Ghanaian firms analysed cited lack of capital as a major constraint. Steel and Webster (1991) also ranked credit as the prime constraint facing small businesses in Ghana.

Table 17
Output growth and source of competition

	Source of competition:				
Change in output	*Imports*	*Local*	*Both*	*None*	*Total*
Increase	30	464	130	71	695
No increase	31	288	130	26	475
Totals	61	752	260	97	1,170

Chi-Square	*D.F.*	*Significance*	*Min. E.F.*	*Cells with E.F.< 5*
21.47597	3	.0001	24.765	None

Statistic	*Symmetric*	*With output growth as dependent*	*With competition as dependent*
Lambda	.00112	.00211	.00000

Cramer's V = .13548; Contingency coefficient = .13426

Source: Survey data.

They also found that credit seemed more important, the larger the size of the firm. King (1974) showed that demand for credit also exists among SSEs in Kenya. Most SSEs, especially the micro ones, start their businesses with capital from their own savings and loans from relatives and friends; inability to obtain institutional credit is a problem. The SSEs cannot usually mobilise enough collateral to satisfy the requirements of the banks. Large–scale firms have traditionally had a financial advantage in the granting of loans by the financial institutions.

The ERP has removed controls on the direction of lending and the cost of credit. This deregulation may have been to the disadvantage of SSEs since they are not well integrated into the formal financial sector. Under the previous sectoral lending guidelines, financially handicapped sectors, such as agriculture and small businesses, were supposed to be allocated some minimum proportions of bank credit. Small businesses cannot compete for credit under the new liberalised banking system. They are, however, supposed to receive some institutional credit from organisations such as the NBSSI and the GEDC, and programmes such as the PAMSCAD and the FUSMED.

Our survey revealed that credit is a problem for the majority (78 per cent) of firms. Table 18 gives the results of firms' answers to the question of whether they were limited by credit in their operations. There was no statistical evidence that the performance of the firm was related to the availability of credit. At the 5 per cent significance level, we reject the hypothesis of any association between credit availability and output expansion (Chi–square = 0.574, 1; see Table 18). An equal proportion (77 per cent) of firms, whether they had expanded output or not, claimed that they were limited in their operations by lack of credit. The lack of statistical relation between output performance and credit availability is also evidenced by the Goodman and Kruskal test, which showed no direction of causality. 86 per cent of firms which have had expanded output over the ERP period had never received any financial support. Thus, in spite of the credit problem, most SSEs seemed to have done well. One may conclude that the credit problem is not of such paramount importance to SSEs as is generally perceived.

Our results do suggest that employment may be boosted by credit availability to SSEs. 84 and 72 per cent of firms with increased

Table 18
Output growth and credit constraint

Change in output	*Limited by credit*	*Not limited by credit*	*Total*
Increase	542	164	706
No increase	383	103	486
Total	925	267	1,192

Chi-Square	*D.F.*	*Significance*	*Min. E.F.*	*Cells with E.F.< 5*
.57436	1	.4485	108.861	None

Statistic	*Symmetric*	*With growth as dependent*	*With credit as dependent*
Lambda	.00000	.00000	.00000

Phi = .02400; Contingency coefficient = .02399

Source: Survey data.

employment and no increase in employment, respectively, complained of lack of credit in their operations, but this association between credit and changes in employment level is not statistically robust.

The source of financial assistance is also not significantly related to output performance (see Table 19). However, it appears that firms which received assistance from specialised small–scale agencies did better than firms receiving help from banks. Only 50 per cent of the latter reported expansion of output, compared to 81 and 100 per cent of firms which received assistance from the GEDC and PAMSCAD, respectively. One possible explanation is that the specialised agencies also offer free technical advice and extension services. The majority (91 per cent) of firms with financial support obtained it from the GEDC. The PAMSCAD, which was set up under the ERP, benefited only 4 per cent of recipients of financial assistance. The PAMSCAD was not designed to benefit small–scale enterprises in general. It was targeted at those in 'vulnerable' groups, particularly those affected by the government's retrenchment programme. It is significant that SSEs which benefited from the PAMSCAD reported that they were doing well (see Table 19).

Table 19
Relationship between output growth and source of credit

Change in output	*GEDC*	*PAMSCAD*	*Banks & others*	*Total*
Increase	83	4	2	89
No increase	19		2	21
Total	102	4	4	110

Chi-Square	*D.F.*	*Significance*	*Min. E.F.*	*Cells with E.F.< 5*
3.43205	2	.1798	.764	4 of 6 (66.7%)

Statistic	*Symmetric*	*With growth as dependent*	*With credit source as dependent*
Lambda	.00000	.00000	.00000

Cramer's V = .17664; Contingency coefficient = .17394

Source: Survey data.

These results confirm the significance of the specialised agencies, especially if one considers the fact that the modal value of assistance offered ranged between 10,000 and 50,000 cedis only. The financial needs of small enterprises may well not warrant their going through the traditional banking system. Unfortunately, most SSEs are not aware of the existence of the specialised institutions. The frequent use of the GEDC could be attributed to two main reasons: (a) it is an older institution, established in 1975 and developed out of an earlier institution, the Office of Business Promotion established in 1970, and is now operating several credit line; (b) it gives direct credit assistance to enterprises, while the NBSSI performs more of an indirect intermediation role by recommending firms to financial institutions for help.[4]

Availability of inputs

Lack of inputs was considered to be a problem by 64 per cent of SSEs and the perception of this did not vary with firm size. However, most firms (73 per cent) reported that the situation had improved under the ERP. The trade liberalisation policy and the increased supply of foreign exchange have made foreign inputs and spare parts available. Although, under the adjustment programme, small enterprises are said to have increased their share of imported inputs (Steel and Webster, 1991), our survey showed that only a small minority (3 per cent) of SSEs rely on imported inputs. Overall, 82 per cent reported increased availability of inputs. Aside from the policy reasons given for the increased availability of imports, the enhanced economic environment under the ERP must also have improved the local input situation. Moreover, SSEs which buy their inputs from large enterprises were likely to have had their input situation improved through the benefits accruing to the LSEs.

The increased availability of inputs has led to increased output of the SSEs. The Chi–square in Table 20 indicates an association between source of input and firm's performance. At the 5 per cent level of significance, we reject the hypothesis that output growth and source of input supply are independent. About 60 per cent of SSEs who bought inputs from local sources experienced growth compared to 48 per cent of those with imported inputs.

As with output, there is a significant relation between the availability of inputs and the number of workers employed. Almost 90 per cent of firms which reported increased levels of employment claimed improved

4. The survey was conducted before the two agencies were merged on 1 January 1991.

Table 20
Relation between output growth and source of input

Change in output	*Source of input:*			
	Local	*Imported*	*Both*	*Total*
Increase	684	20	12	716
No increase	455	21	19	495
Totals	1,139	41	31	1,211

Chi-Square	*D.F.*	*Significance*	*Min. E.F.*	*Cells with E.F.< 5*
7.56718	2	.0227	12.671	None

Statistic	*Symmetric*	*With output growth as dependent*	*With input source as dependent*
Lambda	.01411	.01616	.00000

Cramer's V = .07905; Contingency coefficient = .07880

Source: Survey data.

availability of inputs. In other words, the availability of more tools and machinery increases employment opportunities in the small–scale sector.

Foreign exchange availability

Foreign exchange has constrained many firms in the industrial sector and the large excess capacity of the sector in the 1970s and early 1980s was attributed to the scarcity of foreign exchange needed to acquire raw materials and spares. However, this constraint did not apply to most small–scale enterprises, as we have already pointed out, since most of them relied on local materials. Thus the devaluations which have had crippling effects on import–dependent large firms have not directly affected the output of small–scale enterprises. Similarly, the introduction of the ERP with its auction system, forex bureaux and other attempts to remove the foreign exchange constraint has not significantly affected the SSEs. 88 per cent of our respondents did not think they needed foreign exchange in their operations. Of the 682 firms which had expanded output, 90 per cent claimed that they did not need foreign exchange.

Moreover, the relation between foreign exchange availability and output performance was not statistically significant (see Appendix Table 8).

Of the 113 small firms that obtained foreign exchange for their operations, 69 per cent secured it through the Bank of Ghana. Another 24 per cent obtained it through the forex bureaux. Considering the fact that the forex bureaux had been in existence for only the last year (1989) of our five–year study, it seems that more small firms made use of the bureaux. In any case, about 93 per cent of firms obtained their foreign exchange from formal sector institutions. In other words, for firms which needed foreign exchange for their operations, the ERP foreign exchange reforms have eased the situation.

Like output, the number of workers employed by the SSEs is not significantly linked to the availability of foreign exchange. About 85 per cent of firms which recorded an increase in the number of employees claimed that they did not need foreign exchange in their operations.

7
Conclusion

Summary
The market–oriented policies of the ERP, including devaluation, trade and payments liberalisation, market determined prices, financial sector liberalisation and restructuring of the public sector involving retrenchment and redeployment, have changed the incentives facing producers and consumers. These have had mixed results for SSEs in terms of their character, the availability and affordability of resources, and also output, sales and employment.

The survey showed that a large number of new SSEs had been established during the ERP era. This trend is to be expected since small–scale enterprises usually have a short lifespan. Within the ERP, however, there are policies which might have encouraged this trend: (i) the more liberalised economic environment, and (ii) the redeployment, retrenchment and the reduced employment opportunities in the public sector as set against the increasing number of new entrants into the labour force.

The survey revealed that a greater proportion of entrepreneurs were young and well educated, although most of them were deficient in technical and vocational training, which was found to be critical to most of the SSEs. A large number of firms were set up with capital mainly from accumulated savings. Most SSEs are sole proprietorships with the majority of them not making use of family labour. Most of them have apprentices but few paid employees. Thus, the small–scale sector cannot be relied on as a major source of wage employment. However, its small initial capital requirement makes it a potential avenue for the generation of self–employment.

ERP policies have had mixed effects on output, sales and employment. A majority of the SSEs in our sample experienced increases in output, the high–growth firms being mainly at the larger end of the small–scale spectrum. Output growth was also location–related; the majority of firms in Accra, Kumasi and Cape Coast experienced a decline in output, possibly because of the increased competition from imports in these areas. The survey also found a significant association between the type of education and output performance. Entrepreneurs with technical or

secondary education performed better. It was also found that older firms, having acquired experience during the difficult times of the 1970s, achieved higher growth rates than firms which were established later.

The output response contrasts with that of employment. A majority of firms did not increase the numbers employed over the years. This is typical of SSEs, since increase in employment in the sector is rather achieved through an increased number of firms.

The output and employment response could be linked to some of the ERP policies. Measures such as the depreciation of the cedi, trade liberalisation and public sector restructuring affected demand, competition, and the availability of credit, inputs and foreign exchange. However, the increased availability of imports did not have a serious impact on total demand for SSE products, since such enterprises face only limited competition from imports and have proved flexible in the face of changing market conditions. Indeed, in facing competition from larger–scale producers which are more reliant on imported inputs, the cedi depreciation shifted relative prices in favour of SSEs.

As in most previous studies, our results showed that there was no significant relationship between credit and output performance though the majority of firms indicated that they had been constrained by lack of credit. Those firms which relied on specialised agencies such as the GEDC seemed to have performed slightly better than those which relied on the traditional banks.

Similarly, the majority of firms considered that shortage of inputs was a constraint on output expansion but most reported that the situation had improved during the ERP period. The improved availability of inputs has led to increased output. Very few SSEs relied on imported inputs and hence they were not adversely affected by the currency devaluations.

Recommendations

The following recommendations are based on the above findings:

(i) *Action towards provision of vocational/technical training to small–scale entrepreneurs*

The study has shown that the supply of vocationally and technically trained entrepreneurs is critical for the success of SSEs. The incorporation of vocational and technical training in school curricula, apprenticeship schemes and practical training programmes for workers and owners of SSEs can play an essential role in guaranteeing these businesses a sufficient supply of competent manual and management skills for their success. In this regard, the current educational reforms, which have vocational, technical and commercial subjects integrated into the junior

and senior secondary schools, must be seen as a step in the right direction.

(ii) *Action towards increasing credit and technical support for SSEs*
More attention should be directed at improving the use of technology in the small–scale sector. The use of aged and obsolete equipment may be hindering performance. The Technology Transfer Units should help SSEs design and use appropriate technologies to enhance production. Without such an improvement, finance pumped into the sector may not achieve an increase in production.

In providing finance to help the small–scale sector, consideration should be given to channelling it through specialised agencies such as the NBSSI rather than the normal banking system. Small–scale firms cannot compete with the large and medium–sized firms for credit from the banks. The size of the credit needs of small–scale industries does not justify its being administered through the traditional banks. Moreover, the specialised agencies can better provide the other extension services that may be needed for the proper utilisation of credit.

(iii) *Support structures for SSEs*
Institutions such as the NBSSI, TTC, GRATIS, DRCI and BOG (FUSMED) are supposed to give both technical and financial support to SSEs. Awareness of the existence of some of these institutions is very limited, and few firms have benefited from them. Efforts should be made to increase this awareness. PAMSCAD has been popular because of the increased publicity and the actual support that is offered to customers. While it is important to have support systems, the efficient way to go about it is to have all activities co–ordinated under a single umbrella like the NBSSI.

(iv) *Provision of an enabling business/regulatory environment*
The freer economic environment provided under the ERP has had some positive impact on SSEs. However, attention must be paid to providing an enabling regulatory environment. One innovation in favour of SSEs that has already been introduced in certain parts of the world and which could have lessons for Ghana is the 'one–stop office'[5] (or 'Guichet Unique'). This enables a small–scale entrepreneur to deal with all, or

5. Recent pronouncements of the Ghana Investment Centre suggest that this idea is being planned for large-scale industry. It is hoped that this will be implemented also for SSEs.

most, government–generated administrative formalities connected with the business at a single place and with the benefit of qualified advice.

Appendix 1

Appendix Table 1
Effects of other factors on output and sales

	% of respondents output expansion Yes	*% of respondents sales expansion Yes*
1. Major clients		
Government	9.2	5.8
Large private company	7.2	5.8
Small-scale enterprise	17.6	8.4
Individuals	97.5	96.8
2. Owners schooling		
Illiterates	64.8	35.2
Primary/Middle	53.6	46.4
Secondary/Technical	67.5	32.5
University/College	48.1	51.9
Others	66.7	33.3
3. Location		
Accra	33.8	66.2
Others	66.1	33.9
4. Regime of Establishment		
(a) Pre-independence	41.7	58.3
(b) Nkrumah regime	41.8	58.2
(c) NLC	58.3	41.7
(d) Busia	49.0	51.0
(e) SMC	69.6	30.4
(f) Early PNDC	69.8	30.2
(g) ERP era	54.2	45.8

Source: Survey (1990).

Appendix Table 2
Effect of certain factors on sales

	Increase in sales
(a) Schooling	
Illiterates	64.3
Primary/middle	55.1
Secondary/technical	20.5
University/college	57.1
(b) Period of establishment	
Pre-independence	61.9
Nkrumah	47.0
NLC	47.6
Busia	54.1
SMC	69.7
Early PNDC	71.7
ERP	56.2
(c) Location	
Accra	31.1
Other locations	67.1

Note: Each line item represents percentage within group.
Source: Survey (1990).

Appendix Table 3
The effect of firm size

	Percentage of respondents in each group:			
	All Firms	*Micro*	*Very small*	*Small*
(a) Output growth				
Expansion	52.8	58.8	62.6	53.1
No expansion	41.2	41.2	37.4	46.9
(b) Percentage increase in output				
10 or less	68.9	70.2	59.8	57.9
11–20	5.6	5.5	6.8	5.3
21–50	14.6	14.5	15.4	15.8
50–100	9.6	8.7	17.1	15.8
100 +	1.3	1.2	0.9	5.3
(c) Business after ERP				
Better	73.5	74.8	60.4	73.3
Worse	26.4	25.1	38.6	26.7
Same	0.1	0.1	1.0	–

Source: Survey (1990).

Appendix Table 4
Year of establishment and employment response to ERP

Year of establishment	*% of respondents in the group: Employment increase*	*% share*	*Sample size*
Pre–1957	12.9	2.9	31
1958–1966	20.4	4.5	49
1967–1969	26.3	1.8	19
1970–1972	44.8	9.1	98
1976–1979	46.1	21.8	236
1980–1983	37.7	20.4	221
1984–1990 (ERP)	33.4	39.5	427

Source: Survey (1990).

Appendix Table 5
Output expansion by year of establishment

Q4R	*Count* *Tot Pct*	*Pre-Indepen-dence* *1.00*	*Nkrumah regime* *2.00*	*NLC Govt.* *3.00*	*Busia regime* *4.00*	*SMC Govt.* *5.00*	*Early PNDC* *6.00*	*ERP era of PNDC* *7.00*	*Row Total*
Q30A									
Yes	1	15	23	14	51	179	178	253	713
		1.3	1.9	1.2	4.3	14.9	14.9	21.1	59.5
No	2	21	32	10	53	78	77	214	485
		1.8	2.7	.8	4.4	6.5	6.4	17.9	40.5
Column Total		36	55	24	104	257	255	467	1,198
		3.0	4.6	2.0	8.7	21.5	21.3	39.0	100.0

Chi-Square	*D.F.*	*Significance*	*Min. E.F.*	*Cells with E.F.< 5*
44.34524	6	.0000	9.716	None

Statistic	*Symmetric*	*With Q30A dependent*	*With Q4R dependent*
Lambda	.01398	.03505	.00000

Cramer's V = .19240; Contingency coefficient = .18893

Note: Q30A Has your output expanded over the past 5 years?
Q4R Regimes in which firms were established.

Appendix Table 6
Employment performance by product-type

Q2→	Count / Tot Pct	Garment & textile 1	Furniture & other 2	Bakeries (inc. Kenkey) 3	Grain milling 4	Motor repairs/ welding 5	Shoe making 6	Gold/silver /blacksmith 7	Electrical & electronics 8	Watch repairs 9	Printing press/ photography 10	Row Total
Q14												
Yes	1	24	47	32	11	77	11	13	37	7	11	398
		2.2	4.3	2.9	1.0	7.0	1.0	1.2	3.3	.6	1.0	36.0
No	2	18	67	43	33	110	32	59	63	40	17	707
		1.6	6.1	3.9	3.0	10.0	2.9	5.3	5.7	3.6	1.5	64.0
	Column	42	114	75	44	187	43	72	100	47	28	1,105
	Total	3.8	10.3	6.8	4.0	16.9	3.9	6.5	9.0	4.3	2.5	100.0

Q2→	Count / Tot Pct	Food & fish processing 11	Oil extract./ paint prod. 12	Tailoring/ dressmaking/ hairdressing 13	Alcohol distilling 14	Restaurants/ hotels/bars 15	Blocks/ bricks/tiles 16	Handicrafts/ pottery 17	Health services 18	Soap manu. 19	Banking/ forex bureau 20	Row Total
Q14												
Yes	1	16	50	28	11	2	1	3	1	15	1	398
		1.4	4.5	2.5	1.0	.2	.1	.3	.1	1.4	.1	36.0
No	2	58	34	77	15	4	3	13	1	16	4	707
		5.2	3.1	7.0	1.4	.4	.3	1.2	.1	1.4	.4	64.0
	Column	74	84	105	26	6	4	16	2	31	5	1,105
	Total	6.7	7.6	9.5	2.4	.5	.4	1.4	.2	2.8	.5	100.0

Chi-Square	*D.F.*	*Significance*	*Min. E.F.*	*Cells with E.F.< 5*
73.08690	19	.0000	.720	8 of 40 (20.0%)

Statistic	*Symmetric*	*With Q14 dependent*	*With Q2 dependent*
Lambda	.01672	.05528	.00000

Cramer's V = .25718; Contingency coefficient = .24908

Note: Q2 Product type; Q14 Has employment increased over the past 5 years?

Appendix Table 7
Employment performance and period of establishment

Q4R→	*Count Tot Pct*	*Pre-Indepen-dence*	*Nkrumah regime*	*NLC Govt.*	*Busia regime*	*SMC Govt.*	*Early PNDC*	*ERP era of PNDC*	
		1.00	*2.00*	*3.00*	*4.00*	*5.00*	*6.00*	*7.00*	*Row Total*
Q14									
Yes	1	4	10	5	44	109	81	143	396
		.4	.9	.5	4.1	10.1	7.5	13.2	36.6
No	2	27	39	14	54	127	140	284	685
		2.5	3.6	1.3	5.0	11.7	13.0	26.3	63.4
	Column Total	31	49	19	98	236	221	427	1,081
		2.9	4.5	1.8	9.1	21.8	20.4	39.5	100.0

Chi-Square	*D.F.*	*Significance*	*Min. E.F.*	*Cells with E.F.< 5*
27.92851	6	.0001	6.960	None

Statistic	*Symmetric*	*With Q14 dependent*	*With Q4R dependent*
Lambda	.00000	.00000	.00000

Cramer's V = .16074; Contingency coefficient = .15870

Notes: Q14 Has employment increased over the past 5 years?
Q4R When firm was established

Appendix Table 8
Output expansion and source of foreign exchange

Q35B→	*Count* *Tot Pct*	*Bank of Ghana (auction)* 1	*Forex bureau* 2	*Black market* 3	*Forex bureau & banks* 6	*Others* 7	*Row Total*
Q30A							
Yes	1	33	11	2	1	2	49
		29.2	9.7	1.8	.9	1.8	43.4
No	2	45	16	2		1	64
		39.8	14.2	1.8		.9	56.6
	Column	78	27	4	1	3	113
	Total	69.0	23.9	3.5	.9	2.7	100.0

Chi-Square	*D.F.*	*Significance*	*Min. E.F.*	*Cells with E.F.< 5*
2.15219	4	.7078	.434	6 of 10 (60.0%)

Statistic	*Symmetric*	*With Q30A dependent*	*With Q35B dependent*
Lambda	.02381	.04082	.00000

Cramer's V = .13801; Contingency coefficient = .13671

Note: Q30A Has your output expanded over the past 5 years?
Q35B How do you obtain your foreign exchange?

Appendix 2

Questionnaire

Part A

1. Name of firm
2. Type of firm (major product group)
3. Location (i.e. town and area)
4. When established
5. What is the form of ownership of your firm?
   (Tick where applicable)
   (a) Sole proprietorship
   (b) Partnership
   (c) Limited liability
   (d) Others, specify
6. Is your firm foreign/locally owned?
7. The owner:
   (a) Age
   (b) Schooling:
      (i) primary
      (ii) secondary/technical
      (iii) other
   (c) How did you learn your trade?
      (i) formal training
      (ii) apprenticeship
      (iii) relative
      (iv) trial & error
8. Is this job:
   (a) Full time
   (b) Part–time
9. If offered paid employment will you accept it? Yes / No

10. Have you ever been employed by anyone:
    (a) Government
    (b) Large corporation
    (c) Small company
11. Reason for leaving previous employment:
    (a) Retired
    (b) Retrenched
    (c) Other
12. (a) How many workers do you employ
    (b) How many are family members
    (c) How many apprentices
13. Do you think you have enough workers?
14. Has the number you employ increased over the past 5 years? Yes / No
15. Have you registered the company? Yes / No
16. Do you require a licence for your operation? Yes / No
17. Are you able to obtain licence easily? Yes / No
18. Do you need a location permit? Yes / No
19. Has there been change in licence procedure over the past 5 years? Yes / No
20. (a) Do you hire or own this premises? Yes / No
    (b) If you hire, what is rent per annum?

Part B

21. How much did it cost to establish your firm?
22. What is the source of your capital?
    (a) Bank loan
    (b) Money lender
    (c) Own saving
    (d) Family
    (e) Friends
23. Do you receive any financial help from any government agency?

24. Have you ever heard of the following agencies?
    (a) National Board for Small-scale Industries — Yes / No
    (b) Ghana Enterprises Development Commission — Yes / No
    (c) Technology Transfer Centre — Yes / No
    (d) Department of Rural and Cottage Industries — Yes / No
    (e) Bank of Ghana (FUSMED) — Yes / No
    (f) GRATIS Project — Yes / No
    (h) PAMSCAD — Yes / No

25. Have you ever received financial support from any of the above agencies? — Yes / No
    (b) Which agency
    (c) How much
    (d) When

26. Have you ever received technical advice from any of the above agencies? — Yes / No
    (a) If yes, did you have to pay for such advice? — Yes / No

Part C

27. What is your main product/activity?

28. Do you have other production units?

29. Do you export any of your products?

30. (a) Has output expanded over the past 5 years? — Yes / No
    (b) By how much
    (c) What is the possible reason

31. Where do you get your inputs?
    (a) Local
    (b) Imported

32. Has lack of input ever been a problem with production — Yes / No

33. Is the situation better/worse now? — Yes / No

34. Reason:
    (a) Ease/difficulty in getting credit.
    (b) More/less inputs available on the market

35. Do you need foreign exchange for your operations? — Yes / No
    (a) How do you obtain your foreign exchange?
        (i) Bank of Ghana (auction)

(ii) forex bureau
(iii) black market

36. Have you been limited by credit in your operations? Yes / No
37. Have you ever approached any agency for credit? Yes / No
38. Are you discouraged by bureaucracy in obtaining credit? Yes / No

Part D

39. Do you produce any item or component for any bigger firm? Yes / No
40. Who are your major clients
    (a) Government agencies
    (b) Large private companies
    (c) Other small–scale firms
    (d) Individuals
41. Do you offer your services on credit? Yes / No
42. Has the number of customers increased over the past 5 years? Yes / No
43. Do you make bulk sales of output? Yes / No
44. What are your annual sales?
45. Have sales gone up over the past 5 years? Yes / No
46. Do you find it difficult to sell your products? Yes / No
47. Has the situation changed over the past 5 years? Yes / No
48. Do you face
    (a) Competition from imports
    (b) Competition from other local producers
49. Does your location make it easier for customers to get to your products? Yes / No
50. Any comments on the adjustment programme

Appendix 3

Interpretation of Cross–Tabulation Statistics

Chi–Square This is the Pearson's Chi–square and it tests the hypothesis that the row and column variables in a cross–tabulation table are independent. The SPSS/PC+ output reports, in addition to the Chi–square, the observed significance level. If the observed significance level is small enough (usually less than 0.05 or 0.01), the hypothesis that the two variables are independent is rejected.

Coefficient of Contingency This modifies the Chi–square statistic to minimise the influence of sample size and degrees of freedom. Its value lies between 0 and 1, but cannot attain the maximum value. Another measure, the Cramer's V statistic, can attain the maximum value of 1. Both measures give an indication of the strength of association.

Goodman and Kruskal's Lambda This always ranges between 0 and 1. A value of 0 means the independent variable is of no help in predicting the dependent variable. A value of 1 means that the independent variable perfectly specifies the categories of the dependent variable. When the two variables are independent, lambda is 0; but a lambda of 0 need not imply statistical independence.

Reference: *SPSS/PC+ V2.0 Base Manual, 1988.*

Bibliography

Anderson, D. 1982 'Small Industry in Developing Countries: A Discussion of Issues', *World Development* 10(11).

Anheier, Helmut K. and Siebel, Hans Dieter 1987 *Small–Scale Industries and Economic Development in Ghana: Business Behaviour and Strategies in Informal Sector Economics.* Cologne Development Studies No. 3. Saarbrucken, Germany: Breitenbach Publishers.

Aryee, George 1976 *Effects of Formal Education and Training on the Intensity of Employment in the Informal Sector: A Case Study of Kumasi, Ghana,* WEP 2-18/WP 14 = WEP 2-19/WP 17. Geneva: ILO.

Aryee, George 1977 *Small–Scale Manufacturing Activities: A Study of the Interrelationships between the Formal and Informal Sectors in Kumasi, Ghana,* WEP 2-19/WEP 23. Geneva: ILO.

Aryee, George 1981 'The Informal Manufacturing Sector in Kumasi', in S.V. Sethuraman (ed.), *The Urban Informal Sector in Development Countries: Employment, Poverty and Environment,* WEP Study. Geneva: ILO.

Aryeetey, E. and Gockel, F. 1990 *Mobilizing Domestic Resources for Capital Formation in Ghana: The Role of the Informal Financial Sector,* Research Report presented at AERC Workshop, Nairobi, May.

Baah–Nuakoh, A. 1991 *Development Policies and Institutional Environment for Employment Promotion in the Informal Sector in Ghana,* Report Presented to ILO/JASPA, Addis Ababa.

Bagachwa, M.S.D. 1984 'The small scale industry sector in Tanzania: A Review', *The African Review,* 11(2): 90-103.

Boon, E.K. 1989 'Women in SMEs: An African Example', *The Courier,* 155 (May–June): 74-76.

Byerlee, D., Eicher, C.K., Liedholm, C. and Spencer, D.S.C. 1979 'Employment–Output Conflicts, Factor Price Distortions and Choice of Technique: Empirical Results from Sierra Leone', *African Rural Economy Working Paper* No. 26. Michigan State University.

Cardinal, A.W. 1931 *The Gold Coast.* Accra: Government Printer.

Central Bureau of Statistics, Ghana *Area Sample Survey of Small Manufacturing Establishments—1963.* Accra.

Chaudhuri, T.D. 1989 'A theoretical analysis of the informal sector', *World Development* 17(3): 351-356.

Checchi and Company 1977 *Small–Scale Industry Development in Ghana,* Report prepared for the Government of Ghana. Washington, DC: Checchi and Company.

Child, F.C. 1977 'Small–Scale Rural Industry in Kenya', *Occasional Paper* No. 17. Los Angeles: University of California African Studies Centre.

Chuta, E. and Liedholm, C. 1985 *Employment and Growth in Small–Scale Industry.* New York: St. Martins Press.

Cortes, M., Berry, A. and Ishaq, A. 1987 *Success in Small and Medium–Scale Enterprises: The Evidence from Colombia.* Baltimore Md: Johns Hopkins University Press.

Dawson, Jonathan 1988 'Small–Scale Industry Development in Ghana: A Case Study of Kumasi'. London: Overseas Development Administration, ESCOR (mimeo).

Dawson, Jonathan 1990 'The Wider Context: The Importance of the Macroenvironment for Small Enterprise Development', *Small Enterprise Development* 1(3): 39-46 (September).

Elkan, W. 1987 'Policy for Small–scale Industry: A Critique', *Discussion Papers in Economics* No. 8701. Brunel University.

Fuhr, H. 1987 'Economic Restructuring in Latin America: Towards the Promotion of Small–Scale Industry', *IDS Bulletin.*

Ghana Enterprises Development Commission 1986 *The Policy and Guidelines of the GEDC for the Administration of the Small Business Loan Scheme.* Accra: GEDC.

Ghana, Republic of 1974 *Report on the Role and Activities of the Office of Business Promotion.* Accra: Ghana Publishing Corporation.

Haggblade, S., Liedholm, C. and Mead, D.C. 1986 *The Effect of Policy and Policy Reforms on Non–Agricultural Enterprises and Employment in Developing Countries: A Review of Past Experiences.* Washington: USAID.

Hakam, A.N. 1978 'Technology Diffusion from the Formal to the Informal Sector: The Case of the Auto–Repair Industry in Ghana'. Geneva: ILO (mimeo).

Hamid, N. and Nabi, Il 1984 'Role of small–scale industries in employment generation: Some basic issues', *Pakistan Economic and Social Review,* 22(1&2): 43-64.

Harper, M. 1984 *Small Business in the Third World: Guidelines for Practical Assistance.* London: Intermediate Technology Publications, J. Wiley and Sons.

Hart, J. Keith 1970 'Small–scale Entrepreneurs in Ghana and Development Planning', *Journal of Development Studies,* 104–120.

Hart, J. Keith 1973 'Informal Income Opportunities and the Structure of Urban Employment in Ghana', *Journal of Modern African Studies*, 11(1) (March): 61-89.

Holtermann, Sally 1979 *Intermediate Technology in Ghana: The Experience of Kumasi University's Technology Consulting Centre.* London: Intermediate Technology Publications.

ILO/ARTEP 1987 *Structural Adjustment: By whom, for whom?: Employment and income aspects of industrial restructuring in Asia.* New Delhi, India: ILO ARTEP.

Intermediate Technology Development Group 1988 *Small–Scale Enterprises: Their Importance to the National Economies of Developing Countries*, The Intermediate Technology Report.

JASPA/ILO 1989 *From Redeployment to Sustained Employment Generation: Challenges for Ghana's Programme of Economic Recovery and Development.* Addis Ababa.

Kay, G.B. 1972 *The Political Economy of Colonialism in Ghana.* Cambridge.

Kennedy, Paul T. 1977 'Indigenous Capitalism in Ghana,' *Review of African Political Economy* (January).

Kennedy, Paul T. 1980 'Ghanaian Businessmen: From Artisan to Capitalist Entrepreneur in a Dependent Economy' 4, IFO–Institute for Economic Research, Africa–Studies No. 106. Munich: Weltforum Verlag.

Kennedy, Paul T. 1981 'Role and Position of Petty Producers in a West African City', *Journal of Modern African Studies*, 565–594 (December).

King, Kenneth 1974 'Kenya's Machine Makers: A Study of Small–Scale Industry in Kenya's Emergent Artisans Society', *World Development* 2(4): 9-28.

Levitsky, J. 1988 'Microenterprises in developing countries', Papers and Proceedings of an International Conference held in Washington, DC, USA, 6-9 June 1988, sponsored by the Committee of Donor Agencies for Small Enterprise Development.

Liedholm, C. and Mead, D. 1987 *Small Scale Industries in Developing Countries: Empirical evidence and policy implications*, East Lansing, Michigan, USA: Michigan State University, Department of Agricultural Economics.

Little, I.M.D. 1987 'Small Manufacturing Enterprises in Developing Countries', *World Bank Economic Review* 1(2).

Little, I.M.D., Mazumdar, D., Page, J.M. 1987 *Small Manufacturing Enterprises: A Comparative Study of India and Other Countries.* Oxford: Oxford University Press for World Bank.

Livingstone, I. 1982 'Alternative Approaches to Small Industry Development', in Fransman, M. (ed.), *Industry and Accumulation in Africa.* London: Heinemann Educational Books.

Meier, G.M. and Steel, W.F. 1989 *Industrial Adjustment in Sub–Saharan Africa*. OUP for the World Bank.

Molemar, N., El–Namaki, M.S.S. and van Dijk, M.P. 1983 *Small–scale Industry Promotion in Developing Countries*. The Netherlands: Research Institute for Management Science.

Ninsin, K. 1989 'Planning for the Growth of Small–Scale Industries in the Informal Sector: The Realities and Challenges of the Ghanaian Situation', essay presented at the International Conference on Planning for Growth and Development in Africa, Legon.

Ninsin, K. 1991 *The Informal Sector in Ghana's Political Economy*. Accra: Freedom Publications.

Page, John M., Jr 1978 'Economies of Scale, Income Distribution, and Small–Enterprise Promotion in Ghana's Timber Industry', *Food Research Institute Studies* 16(3): 159-182.

Page, John M., Jr 1979 'Small Enterprises in African Development: a Survey', *World Bank Staff Working Paper* No. 363. Washington, DC.

Pearson, William D. and S.R. 1981 'The Impact of Investment Concessions on the Profitability of Selected Firms in Ghana', *Economic Development and Cultural Change* 29(4) (July): 831-839.

Peil, M. 1972 *The Ghanaian Factory Worker: Industrial Man in Africa*. London.

Ramachandran, K. 1984 *Small business promotion: Case Studies from Developing Countries*. London: Intermediate Technology Publications.

Smillie, I. 1986 *No Condition Permanent: Pump Priming Ghana's Industrial Revolution*. London: Intermediate Technology Publications.

Steel, William F. 1977 *Small–Scale Employment and Production in Developing Countries: Evidence from Ghana*. New York: Praeger.

Steel, William F. 1979 'Development of the Urban Artisanal Sector in Ghana and Cameroon', *Journal of Modern African Studies* 17(2) (June): 271-284.

Steel, William F. 1981 'Female and Small–Scale Employment under Modernization in Ghana', *Economic Development and Cultural Change* 30(1) (October): 153-167.

Steel, William F. and Takagi, Yasuoki 1983 'Small Enterprise Development and the Employment–Output Trade–Off', *Oxford Economic Papers* 35: 423-46.

Steel, William F. and Webster, L.M. 1991 'Small Enterprises Under Adjustment in Ghana', *World Bank Technical Paper* No. 138. Washington, DC.

Szerewszeki, R. 1965 *Structural Changes in the Economy of Ghana, 1891–1911*. London: Weidenfeld and Nicholson.

Thomi, W.H. and Yankson, P.W.K. 1985 *Small Scale Industries and Decentralization in Ghana.* Legon/Frankfurt: University of Ghana.

UNIDO 1986 *Ghana: Industrial Development.* Vienna: UNIDO.

USAID 1985 *A Manual to Evaluate Small–Scale Enterprise Development Projects,* AID. Washington, DC.

Weiss, D. 1988 'The Informal Sector in Metropolitan Areas of Developing Countries', *Economics* 38:60-73.

World Bank 1989 *Ghana—Private Small and Medium Enterprise Development Project.* Washington, DC.

World Bank 1991 *Ghana: Progress on Adjustment,* Report No. 9475GH, Washington, DC.

Yankson, P.W.K. 1983 'Employment and Income Generation in the Petty Commodity Sector of the Urban Economy: The Case of the Central Region of Ghana', *Africa Development* 8(3): 75-97.

Yankson, P.W.K. 1986 'Small–Scale Industries in the Implementation of a Growth Centre Strategy of Regional Development: A Case Study in Ghana', *Industry and Development,* 17 (UNIDO/E.86II.B.1).

ODI Research Reports

The economy of Ghana suffered a protracted decline during much of the three decades following independence, particularly in the 1970s and early 1980s. With a fast-growing population, Ghana regressed from classification as a medium-income country in the 1960s to a low-income country by the end of the 1970s. Since 1983 the PNDC government has pursued an Economic Recovery Programme (ERP) and substantial growth of output has been achieved.

How much of this expansion can be attributed to the ERP is disputed, however, and this is one of a pair of reports, funded by the Overseas Development Administration and co-ordinated by ODI, examining the effects of the ERP on important segments of the Ghanaian economy. Small-scale enterprises - including food processing, tailoring and dressmaking, furniture and other wood processing, gold, silver and blacksmithing, footwear and motor repairs - play an important role in the economy.

Small Enterprises and Adjustment, by a team from the Economics Department of the University of Ghana, examines the place of the small-scale sector in the economy, the ERP measures which impact on it, and presents the results of a survey which reveals the characteristics of small-scale enterprises and the effects of the ERP upon them. It concludes with policy recommendations.

£7.95

ISBN 0 85003 188 5

DEPARTMENT OF ECONOMICS
UNIVERSITY OF GHANA

OVERSEAS DEVELOPMENT INSTITUTE