

REPUBLIC OF GHANA

Strengthening Business Development Services Provision in Ghana

Summary Report:

BDS in Ghana: Background and Recommended New
Services

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This summary report is the first output of the SME Business Development Services (BDS) project of the Commonwealth Secretariat. It summarises the current BDS situation in Ghana and proposes 7 specific activities that could complement the current delivery of business development services.

The methodology used in conducting the research relied initially on desk research supplemented by several qualitative research activities consisting of:

- Interviews with a selection of established businesses
- Small group meetings with two groups of businesses, women entrepreneurs and a business forum group of Empretec.
- Interviews with a wide range of BDS providers
- Interviews with a range of business associations
- Individual workshops held with Empretec and NBSSI staff to explore the current situation in their organisation and strategies and services to improve the delivery of business development services
- Workshop with Ghana consultancy practices to discuss the consultancy needs of SMEs and their business needs in organising to deliver commercial and subsidised services to SMEs

These qualitative activities were complemented by a quantitative survey of private consultancy practices in Ghana.

The research had a particular focus on the performance of two organisations, the National Board for Small Scale Industry (NBSSI) and the Empretec Ghana Foundation (EGF).

NBSSI is a significant national organisation established by Act of Parliament and has well over 400 staff operating a national network of 110 local Business Advice Centres(BAC), each covering one District area. This network is due to be extended this year by a further 13 centres. NBSSI is on the verge of a significant restructuring at the national level, possibly including an amended Act. Such restructuring is likely to focus on enabling NBSSI to better perform its national and regional co-ordinating role for all micro and small business development support in Ghana. At a district level it is clear that the current NBSSI service delivered through BACs is focused on supporting the launch of small primarily informal micro businesses with the advice provided by the local offices backed up by local and national small loan programmes. Much of the support NBSSI has attracted from donors has been used to further strengthen their work with this group. It does not appear likely that the expected restructuring will change this focus of BACs.

EGF has an established track record of work with small established and growth businesses in Ghana. In addition to EGF itself which delivers training, consultancy and manages small loan funds, sister organisations manage a network of business forums, a mutual guarantee fund and low cost technical advice by retired executives. Initially established with donor core finance EGF now combines direct charges with subsidies and direct commissions gained from a range of grant funds. It is fair to say that EGF went through a difficult period but over the last few years has successfully developed new income sources and is now focused on rebuilding the impact its services and networks have on small business performance in Ghana.

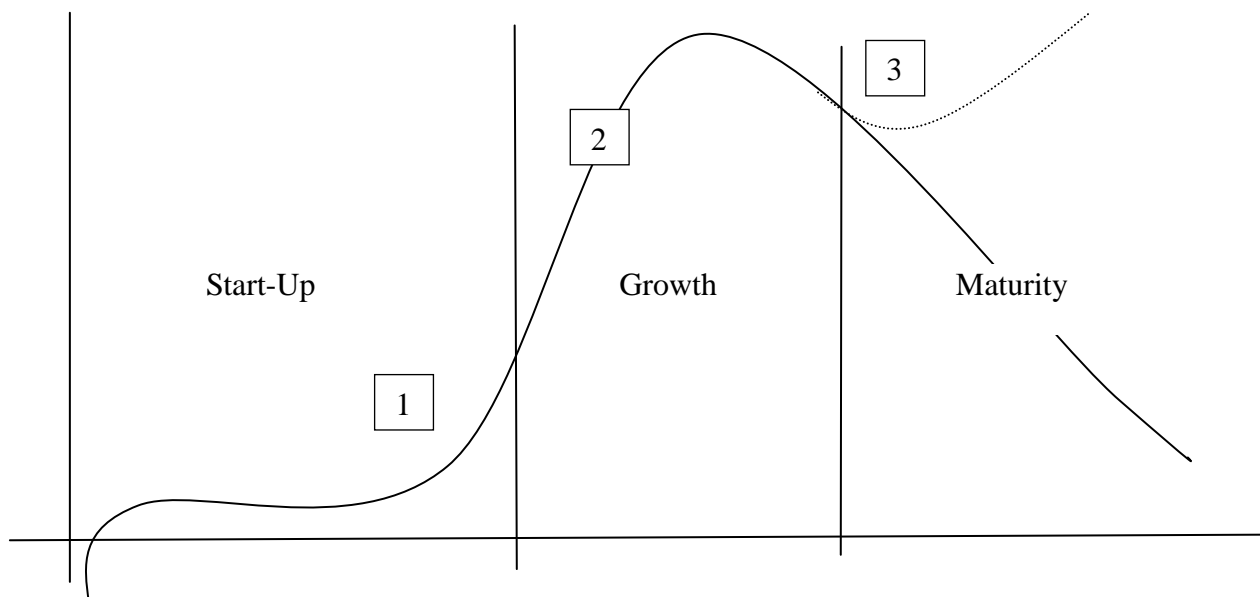
Utilising the outputs of the above research this report summarises the current provision of BDS in Ghana. The key conclusions are:

- There is a strong focus on supporting the launch of informal micro businesses but little targeted on helping them grow or become established
- There are few services focused on helping small established businesses to grow or restructure for the next stage of growth.

- There are no services helping businesses facing decline to restructure their businesses
- There are no services focused on support the transition of businesses on the retirement of their founder.
- There seems to be a lack of understanding in the BDS services available and in the businesses contacted, of the impact ICT can have in creating new marketing and management opportunities to raise profitability and growth.
- While oversubscribed there is a significant amount of micro finance available together with focused support to enable new informal businesses to start. However, there are great difficulty obtaining and a high interest rate cost for any subsequent commercial loans for business growth. While under-subscribed at present the amount of equity and other finance available is inadequate for business needs. Most small business growth is financed out of reinvested profits and private family finance.
- NBSSI main focus is new start micro informal businesses but they can be helped to also support services to micro businesses with potential to employ staff and eventually grow.
- Empretec operate a range of services that can be seen as a “movement” to reinforce business growth. Within this focus Empretec can be helped to develop a range of services for SMEs that will support growth and development.
- There are almost 900 private consultancy companies operating in Ghana, primarily delivering commercial technical services to SMEs. There are some commercial strategic services to support growth businesses but this is an underdeveloped area.

With the above information we developed an analysis of business growth in Ghana using a modified stages of growth model¹ and based proposed additional intervention points based on this model:

Potential Points of Intervention using a SME Stages of Growth Model:



The SME stages of growth model for Ghana was compiled from interviews with SMEs, surveys with SME consultants, discussions with business groups and informed observation. Businesses are typically started with very limited own resources or family monies, sometimes with a micro loan.

¹ For an academic discussion of the stages of growth model see STAGE MODELS OF SME GROWTH RECONSIDERED Professor Richard G.P. McMahon, Flinders University of South Australia, SCHOOL OF COMMERCE RESEARCH PAPER SERIES: 98-5 ISSN: 1441-3906

With few options to borrow money, most entrepreneurs continue on a not profitable, not growing but surviving mode until market or personal circumstances impact the firm and the little capital accumulated in the business is wiped out. However, in some cases the entrepreneur will be able to escape this trap and build the base capital necessary to begin to grow the business. It is estimated that the business is likely to be 18 months to 3 years old at this stage. The owner would have a feel for the market(s) and developed rudimentary business skills. This is illustrated as point 1 on the graph above. An intervention at this stage could help the entrepreneur to transition to a growing business. The intervention would be to assist the entrepreneur develop essential business skills, provide access to business finance and introducing them into business networks.

Once passed this point the business can begin to grow. There was ample evidence of the SMEs who had made this shift to growth. Most of the firms interviewed were in this stage of the cycle. Importantly, they had accumulated some capital and began to have access to loans. Most expansion was from their own resources but many were also exposed to very high interest short term loans – typically 2 years at 28-35%, even for capital investments in land and machines. The business growth is driven by the entrepreneur in an entrepreneurial manner without much evidence of developing financial controls or proper HR systems. In several of the businesses interviewed this initial impetus was rapidly being replaced by a managerial crisis as the entrepreneur reaches a critical mass of how many issues he/she can balance at one time. This is illustrated as point 2 on the graph and represents an opportunity for intervention. The aim is to help the entrepreneur to improve their management skills, introduce management controls and start to strategically manage the business.

In Ghana there is no market for buying/selling existing businesses but all owners eventually have to exit their business. There are some cultural aspects to this. There is an exit strategy which we did find, namely, owners passing on the business to children, for which absolutely no support is available. We also found businesses that were experiencing decline as markets changed and their businesses lagged behind these changes, requiring restructuring to cope with the new situation. Again, we found no support available for businesses experiencing these difficulties. When the business reaches this stage the primary need is for professional consulting. The oft held view is that SMEs won't pay for consultancy services but the survey we undertook indicates that private consultants' main income is from SMEs. When you split the market into a technical segment (accounts, HR, plant layout, machine servicing, ICT, etc.) and a strategy segment (business plans, restructuring, strategy development, etc.) then it is clear that many SMEs already pay for technical BDS. Until consultants can sell the value of strategy work there will be few SME takers. This is the motive for identifying the third intervention, namely, supporting private consultants to become more profitable as businesses delivering strategic consultancy services to established SMEs.

It is proposed that the new products to be provided with ComSec support focus on three critical areas. These are (1) when the entrepreneur wants to transition from a survivalist to a functional real business, (2) when the owner faces managerial challenges preventing the growth of the business and (3) when the business is ready to grow into a substantial enterprise. Based on the above analysis 7 key initiatives are proposed to assist the development of BDS in Ghana. These are:

	Intervention 1	Intervention 2	Intervention 3
Objective and description of intervention	To help transition businesses from informal low growth to more organised growing businesses by providing the entrepreneur with basic skills and links to other	To fast-track the adoption of business practises that will introduce proper controls and modern management practises into the firm by offering owners	To stimulate high growth businesses by linking businesses to private sector consultancies who are able to help them overcome business problems.

	BDS (loans and networks).	extensive training opportunities and business linkages	
Focus of Intervention	The owner-manager is the primary focus	Owner-manager and supervisor levels; and the business itself	The business itself is the primary focus.
Products and Services	<ol style="list-style-type: none"> 1. A diagnostic tool to identify micro-businesses with growth potential. 2. Business transition training course. This 2,5 day course will convey essential first level business skills. It will help entrepreneurs to prepare a basic business plan. 	<ol style="list-style-type: none"> 3. Specification for a web based Business information service. 4. Business health-check which will be done bi- annually, recommending action needed. Leads for private consulting will be generated here. 5. ICT training module to complement EMPRETEC courses 	<ol style="list-style-type: none"> 6. Initial consultancy management training course to help small consultancy practices to win and manage work with growing SMEs. 7. Guidelines for an accreditation service and advice on a professional development programme
Institutional responsibility	NBSSI and EMPRETEC	EMPRETEC	Private Consultants, perhaps forming an Empretec consultancy forum
Sustainability and options for generating a return on products and services	The business transition process needs a subsidy. The diagnostic should be integrated into business advice centre's normal product offer for walk in clients. The 2,5 day training will need to be resourced. NBSSI is encouraged to make provision for this at a centre level	The training courses offered by EMPRETEC are either paid for in full or partially subsidised. The products from this TA are to be paid for by SMEs.	The services will be paid for by SMEs. There may be funds that can be accessed such as matching grants. The training to be offered to consultants will be paid for by them.

Of the interventions above 1, 2,3,4,5 and 6 will be developed over the summer with planned training programmes in September to train trainers and pilot as appropriate. It is expected that 7 will be explored as part of the planned 5-day consultancy practice management training course in 6 above and developed as a final proposal in October.