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PRIORITY RESEARCH ISSUES RELATING TO REGULATION AND COMPETITION IN GHANA

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1. INTRODUCTION

Small enterprises are a characteristic feature of the production landscape of Ghana. They provide employment and incomes to a large portion of the urban labour force and are a significant source of total output. Steel and Webster (1991) have noted that the small-enterprise sector provides about 85% of manufacturing employment, the majority which is in microenterprises. The potential for the future development of small enterprises may be seen both in terms of the development of the sector itself, as well as in its contribution to national growth and development. It has strong links to most sectors of the national economy. Aryee's (1977) study on the interrelationships between formal and informal sectors in Kumasi prompted Andrae (1981) to conclude that "the structure of informal industry …. may indeed be more conducive to self-centred structural development of the economy; its domestic input base and slightly higher linkage to other sectors would indicate this" [p.50]. Small enterprises are recognised to have the potential to lead the economy to self-sufficiency and self-reliance.

Despite the acknowledged significant role and potential, it is still not clear how small enterprises fit into the future of the economy, particularly as the nation strives to attain the goal of becoming an upper middle income economy by 2020. This is largely a consequence of the obvious absence of transformation in small enterprises over time and the little change in size and orientation without specific public interventions. It is indeed unclear what the role of small enterprises will be and how they will relate to larger enterprises in the course of structural transformation in the economy.

The lack of clarity is due to the observed absence of progression among small enterprises in Africa in general, a point which is clearly shown for Ghana by Steel and Webster (1991). It is contended that industrialisation in Ghana has not seen small enterprises expand into medium and large enterprises, and there is little evidence of their finding a market niche in which they remain competitive for long in the face of larger enterprises. Many of the small enterprises die with their

owners if they survive that long. On the other side, the few large enterprises around began large, often on the back of public capital, leaving an obvious 'missing middle' that cannot be filled with expanding small enterprises.

In view of the above experience, public interest in small enterprise development has tended to focus on how to assist small enterprises to expand with time by developing interventions that remove the constraints to their expansion. Interventions have included the institution of appropriate public agencies to facilitate policy development and co-ordination of the business environment. They have also covered credit allocation, tax relief and other support services, including entrepreneurship development programmes. There is growing pressure on government to support the development of small enterprises more aggressively. To some extent, the importance attached to SME development is linked to the growing perception that they can be a means to poverty reduction through the generation of employment and expanded incomes. But the capacity of government to support small enterprise development is itself questionable in view of the limited experience in policy circles with successful small enterprise development programmes. Hence, while government has indicated a desire to intervene more directly to support small enterprises, its ability to regulate towards that goal has always remained in question.

Regulation of small enterprises may be seen as the arrangements that the state may put in place to ensure that when it provides support to the private sector, such support will be reciprocated by small enterprises through employment generation, output expansion and revenue addition. Regulation is intended to have a developmental goal for the sector and the wider economy.

This paper sets out the regulatory issues for small enterprise development in Ghana. After discussing the concepts of regulation and competition and their application to small enterprise development in Ghana, the paper describes the characteristics of small enterprises including related developmental issues and how the sector's progress may be assessed. The paper then presents the regulatory and policy environment for small enterprises, which also provides some insight into how small enterprises see the business environment and their perceptions of the regulations that are in place, including how these affect their activities. Research issues that arise from the regulatory environment are highlighted in the summary and conclusions.

2. THE CONCEPT OF REGULATION AND COMPETITION AND ITS APPLICATION TO SMES IN GHANA

There are often many reasons why governments want to regulate the activities of any set of economic agents. In the regular textbook literature, regulation is often put in place to counter the problems of monopolies that may become exploitative. This is usually done by setting prices and by providing quality and quantity standards. Again regulation may be introduced to deal with the problems of externalities. Typical examples are the regulations on environmental protection in many countries and also regulations on worker safety that oblige employers to take care of the safety needs of their employees. The third common set of regulations is to do with ensuring quality, for example in the operations of restaurants and the preparations of medicines and other drugs.

In most industrial economies, the process of regulating economic activity under any of the above cases has been interesting and often unearthed some challenging issues, including ethical issues and other determination issues. For example, it has never been easy to set the prices of public utilities in the US. Neither has it been easy to privatise such utilities in the UK and get them to be properly regulated by unbiased regulators, concerned only about public interest. Indeed, the problems in developed countries have often been a matter of determining what the appropriate standard of regulation should be, and how the parties involved in regulation should relate to each other.

In developing countries on the other hand, the problems are more complex, albeit in a rather different sense. There are questions about:

- Regulation to achieve what? [Public interest is not that easily determined in view of the fact that it is not always about the majority being protected against a small group. Private interests of a large number of poor small operators may inevitably be aggregated into a public interest, but it is not clear where the two merge].
- The capacity of the regulator to carry out the functions of regulation. Many institutions set up to undertake regulation activities are poorly equipped, both in human and

material terms. This affects their capacity to use the tools of regulation in a manner that may be considered credible and effective.

- The extent to which regulation can lead to a more competitive environment when other constraints to market performance are equally daunting. In a market where skilled labour is extremely difficult to find, regulations on employment terms often lead to a more dualistic labour market, hence a perpetuation of formal and informal segmentation of the market.

Indeed, one issue that is frequently raised in the study of developing countries is whether the regulatory environment can be supportive of the development of small enterprises or not. In the last decade, where considerably liberalised input and output markets have been a major characteristic of African economies, suggestions that burdensome regulations compromise the competitiveness of enterprises in those liberal environments abound. The regulations supposedly make it difficult for enterprises to operate in particular sectors or regions. They are also supposed to sometimes make partnerships impossible. They may lead to "enormous" taxes. But there are questions about the extent to which enterprises are affected by existing regulations.

There is evidence that the effect of regulation on enterprise operation varies according to the size of the operation. There are also explanations offered for why enterprises to do not complain more about regulation: it is supposedly because there are many other problems they consider to be more difficult to deal with (Steel and Webster 1991). Other explanations include the possibility that they have learned how to deal with cumbersome regulatory environments through corrupt practices. While these may raise transaction costs there are possibilities for passing additional costs to consumers in a fragmented market.

Ironically, while the enterprises may not complain about the regulatory environment, there is abundant evidence that a major reason for banks' difficulty in lending to small enterprises is the perception among banks that there is far too little documentation and regulation of small enterprises, particularly the micro ones (Aryeetey et.al. 1994). Many bankers believe that the risks involved in lending to SMEs can be best reduced through guarantee or loan insurance schemes. In such schemes, they would like to see clear and specific documentation requirements for the lender to

make a claim and quick payment of properly documented claims. Many would like to see borrower participation in entrepreneurship development training while others have suggested that technical assistance in developing small business banking centres might be useful. While a number of bankers believe that assistance with project supervision by an outside agency might be useful, they do not want to pay for such a service or to abdicate their responsibility for supervision. They see a big role for government in preparing small enterprises, a development that will require some regulation.

While there are study reports of what small enterprises consider to be the impact of regulation or lack thereof on their businesses, there are still no specific impact studies of such regulations on small businesses. This is one area where a major gap in our understanding of small enterprises certainly exists. Hence the current situation of small enterprises suggesting that regulation may not be a constraint to their expansion at the same time that their bankers think differently, should generate a number of research questions that may be raised and answered.

3. SOME CHARACTERISTICS OF SMALL ENTERPRISES IN GHANA

Any study into the industrial set-up of Ghana has to contend with definitions employed in classification of various categories of industries. Classification of industry in Ghana is usually done on the basis of size of establishment or the numbers of paid employees. The use of the number of paid employees, according to Andrae (1981) distinguishes it from the use of 'number of engaged persons' since the latter includes family labour and apprentices. Though she classifies industries in her survey according to size, she hardly uses the descriptions ‘small-scale’ and ‘large-scale’. She maintains the "definition of *informal* establishments as those with less than 10 persons in paid employment" (Andrae, 1981). Those with over 10 persons are then defined as formal industry. Thomi and Yankson (1985) insist that "in Ghana, the size of employment seems to be an important criterion used in defining small-scale industries which are defined as all establishments with a total work-force of up to 30 people in addition to other criteria". They also used this definition, thus implying that the whole of informal industrial activity (as defined earlier) could be classified as small-scale.

I adopt in this paper, the usual typology of classifying firms according to employment sizes. This is in view of the fact that other indicators such as asset value are difficult to obtain since book values

have become unreliable in the present economic environment. But I acknowledge that the broad distinctions used above may not capture some essential features of enterprises as they grow, and therefore the need to apply a categorisation that appears functional. Thus, as done in many of the more recent surveys of enterprises in Ghana, I refer to firms employing 1-3 persons as microenterprises and those employing 4-29 persons as small-scale enterprises. I shall use the expression "microenterprise" to encompass what are generally referred to as informal enterprises in the literature. This is based (aside from the earlier distinction made) on the fact of rather insignificant differences in the operations of what have often been described as informal enterprises[1] and microenterprises[2]. While the former is based mainly on management and operational characteristics, the latter is largely based on employment size and sometimes the magnitude of capital assets. I distinguish between the microenterprise and the informal sector when necessary, by seeing the latter as one-man household activities operating mainly from homes. The distribution of enterprises according to the 1987 industrial census is as in Table 1 below. *[Note that there has been no industrial census or major survey since 1987]*.

Table 1 Distribution of Workers and Establishments in the Manufacturing Sector

Employment Size	1 – 4 Micro	5 – 29 Small	30 – 99 Medium	> 100 Large	Total
No. of Workers	7,400	42,805	21,710	85,169	157,084
Establishments	2,884	4,802	423	242	8,351

Source: Statistical Service, Industrial Census, 1987

The figure of some 50,205 persons employed in the small-scale and microenterprise sectors, according to the 1987 industrial census, differed significantly from the figure of about 500,000 indicated in the population census of 1984. The difference originated from the definition for "small-scale" adopted for the industrial census which excluded household enterprises as well as

[1] See the work of Andrae, Gunilla, Industry in Ghana, Uppsala, (1981).

[2] The work of Carl Liedholm e.g "The Dynamics of Small-Scale Industry in Africa and the Role of Policy", Washington D.C.: USAID, DEMINI Working Paper No.2, (1990) is useful for generally understanding the structure of microenterprises.

construction, repairs and a range of service activities. Similarly, the industrial census unearthed far more persons employed by large-scale enterprises than the figures reported in the regular industrial statistics. The discrepancy could probably have arisen from under-reporting in the industrial statistics. Greater detail of the breakdown of various sectors according to product groups is provided in Table 2 below.

Ownership of Small Enterprises

Most small enterprises are sole proprietorships. There is a higher likelihood, however, of their having a partner than microenterprises. The average age of owners at start-up observed by Baah-Nuakoh and Steel (1993) was 33.7 which was about the average age of all entrepreneurs at the time they start their businesses in Ghana. Again no clear difference in number of years spent in formal training is observable between these entrepreneurs and others. There tend, however, to be more small-scale entrepreneurs who have university education (25.6%) than microentrepreneurs (17.8%).

Since many small-scale industries tend to be sole proprietorships, they also tend to disappear upon the retirement or demise of the owner. The lack of continuity may be seen as an impediment to the long-term development of small-scale industries. Thomi and Yankson (1985) suggested that 45.6% of all units enumerated were owner-operated, without any employees. This was further confirmed by data from the Aryeetey (1992) survey of 100 microentrepreneurs in the Eastern Region in 1990, (of whom 12 were female). The description of ownership here is based on the Aryeetey (1992) survey in the Eastern Region where the ages of microentrepreneurs ranged from 24 to 64 with a mean of 40. Most of them tended to be involved in more than one economic activity, the significance of which lay with their financing techniques as explained below. While 7 enterprises operated as partnerships, 8 were family businesses and the remainder operated as sole proprietorships. At the time of the survey (August 1990), the enterprises had been operating for between 1 and 42 years, with a mean of 12 years. While in a few cases entrepreneurs had gone into the activity by inheriting the establishment, the profit motive appeared to have been the over-riding factor compelling people to establish or go into particular businesses. Being mainly microenterprises, employment was rather limited. About 60 percent of them had no paid employees at the beginning of their operations, and this situation had not changed for 55 percent of them over the years. Also

interesting was the fact that many of those who began with paid employees had no employees in view of declining activity. This gave an average number of employees per firm as one.

Gender in Ownership and Employment

In the study by Steel and Webster (1991), they found female-owned firms among the lower stratum of small-scale firms, i.e. those employing 4-9 persons. Here 30% of the sample was owned by women. In the larger small enterprises with 10-29 employees, none was female-owned. They found that women entrepreneurs generally tended to be less educated than their male counterparts in this category. They wrote, "Whereas the educational level of recent male entrants is higher than that of those who started before 1983, recent female entrants are more likely never to have attended school (50% versus 27%). This suggests that women may be going into business more for lack of viable alternatives, whereas new male entrepreneurs are more likely to be applying their skills to exploit new opportunities".

On employment, it was also noted that "Women are much more likely to employ other women than are men"[3]. This was based on the observation that as much as 47% of employees of women-owned businesses were women as against only 22% in men-owned firms. It must be pointed out that women are to be found mainly in the food-processing, garments and textiles sub-sectors generally. Steel and Webster (1991) suggested that "the problems women face in Ghana arise more in relation to their very small size in these easy-entry activities than from gender-related issues within these groups".

The finding by Steel and Webster (1991) that the distribution of owners of microenterprises was generally tilted in favour of men[4] came about on account of the fact that the interviewed sample did not include representation from all those thousands of women engaged in the one-person food industry. The studies by Andrae (1981) and by Riedel et.al (1988) suggest that the sub-sectors dealing with food, oil processing and distilling as well as a part of the garments and textiles sub-

[3] Steel W.F. and Webster, L.; (1991), (op.cit).

[4] Steel has an interesting analysis of the participation of women in his article "Female and Small-Scale Employment under Modernization in Ghana", *Economic Development and Cultural Change*, Vol.30 No.1 (pp.153-167) October, 1981

sectors are controlled by women. Riedel et.al (1988) write that "all direct food makers and sellers were left out of this survey in view of their excessively large numbers that would have been impossible to enumerate with the resources at hand".

As with small-scale enterprises, it has been suggested that women going into microenterprises do so mainly to boost dwindling household incomes and this might explain the absence of growth in most of the activities they are involved in. Employment in most of these activities is restricted to family members (often unpaid) or to the use of apprentices as in the garments industry.

Table 2
Distribution of Employment by Sub-Sector

Employment Size Category	Micro 1 - 4	Small 5 - 29	Medium 30 - 99	Large > 100	Total
	Percentage of Persons Engaged by Firm Size				
Food Processing (311-312)	**6.6**	**20.2**	**16.4**	**56.8**	**100**
Textiles and Garments (321-322)	**8.1**	**45.6**	**10.2**	**56.8**	**100**
Textiles (321)	0.6	8.5	11.0	79.9	100
Garments (322)	14.1	75.1	9.5	1.2	100
Wood products (331-332)	**3.4**	**22.9**	**12.1**	**61.6**	**100**
Wood products except furniture (331)	0.8	8.1	10.5	80.7	100
Furniture (332)	9.6	56.9	15.7	17.8	100
Metal Working (381-382)	**6.9**	**44.7**	**15.3**	**33.1**	**100**
Fabricated Metals except machinery (381)	7.1	41.9	14.6	36.4	100
machinery except electrical (382)	6.2	60.1	19.3	14.4	100
Other	2.5	20.8	15.4	61.3	100
Total Manufacturing	**4.7**	**27.2**	**13.8**	**54.2**	**100**

Source: Statistical Service, Industrial Census, 1987

Production and Output in Small Enterprises

Small-scale enterprises studied by Andrae (1983) were dominated by beverage and motor vehicle industries (mainly repair), with food, textiles, garments, sawmilling and furniture in secondary positions in 1962. The 1987 industrial census suggests that, out of the 4,802 small enterprises counted, only 11.4% were in the food processing sub-sector, 31.4% in textiles and garments, 21.2% in the wood products sub-sector and some 11.3% in the metal working sub-sector. The production structure of the sector does not seem to have changed in three decades. What is significant about production in this sector, however, is that various studies, e.g., by Dawson (1988) and by Steel and Webster (1991), suggest that while firms experienced increases in output after 1983, there were decreases in demand for their products. This was attributed to several factors including rising competition from new firms and imports, as well as decreasing real incomes.

For microenterprises, the study by Andrae (1983) showed that they were often dominated by food and garment industries, with beverages, textiles and furniture also of some secondary significance. For the types of activities engaged in, microenterprises in Andrae's (1983) study showed 110 industry groups, while larger sized firms were represented in only 79 groups. This was for industry groups that the industrial census of 1962 showed at least 1,000 establishments. Industry groups or activities listed included fish smoking, corn milling, bread making, miscellaneous food, Akpeteshie (local gin) distilling, Pito brewing, Kente weaving, other textiles, sandals, repair of footwear, garments, sawmilling, basket weaving, wood carving, palm kernel oil, pottery and blacksmithing. These covered 86.5% of all microenterprises.

Thomi and Yankson's (1985) findings indicate that the most important subsector among microenterprises is that of food processing and related activities. In this group, 13.4% of all enumerated establishments were to be found. This was followed by dress-making (including tailoring) which took 10% of enumerated establishments. In all, however, such production units, constituted only 31% of all non-farm economic activity in small and medium-sized Ghanaian towns. This was second to retail trade which took as much as 51% of all non-farm employment in similar centres. The findings of Riedel et.al (1988) in a study of Techiman certainly tend to corroborate these observations.

The industrial census of 1987, however, had more people classified under textiles and garments (34.9%) in the sector than for food processing (23.4%). Wood products occupied 17% while metal working engaged 8.3%.

In the study by Baah-Nuakoh and Steel (1993), monthly sales of the microenterprise sector were recorded at an average of ¢413,000 ($907). This figure appeared relatively large and was partly explained by the fact that the sample selection was done to favour those microenterprises that "looked well set up and likely to be of interest to banks by way of meeting their requirements for financing". This put their sample of microenterprises in the highest bracket. In the Aryeetey (1992) survey of microenterprises in the Eastern Region, as many as 50% of the entrepreneurs suggested that output between the year of establishment and the time of survey had not grown. This was similar to the observations of Steel and Webster (1991) where most of the microenterprises they studied had suffered decreases in output.

Technology and Productivity in Small and Microenterprises

Applied technology in small-scale industries is regarded to be less modern than in larger enterprises and additions to their capital assets tend to be far less rapid than those of microenterprises[5]. In any case the amount of capital equipment required for setting up small enterprises was on the average 12 times that of microenterprises. Productivity of enterprises was measured by Baah-Nuakoh and Steel (1993) by the sales per worker which was estimated at ¢105,000 ($286) in 1991 as against ¢282,000 ($768) for medium/large firms and ¢89,000 ($242) for microenterprises.

A question often asked in relation to many microenterprises is whether they actually carry out any investments (fixed capital), and therefore whether any demand for investment credit would be justifiable, irrespective of the regular complaints about inadequate credit facilities. There is certainly indication that some fixed investment takes place among microenterprises. In view of the rudimentary nature of most of the capital equipment of microenterprises, however, investments in this type of activity are generally very low. The value of initial investments made by entrepreneurs studied in Techiman by Riedel et.al (1988) ranged from $20 to $1250 with an average of $190.

[5] Results from Baah-Nuakoh and Steel (1993) survey.

These initial investments were usually in the form of a 'temporary' structure at the local market or some other open space, some basic tools and equipment such as a number of hand sewing machines for garment manufacturers, some sets of wood-working tools and benches in the case of furniture makers, etc. In another survey in the Eastern Region in 1990 by Aryeetey (1992), 60% of the microentrepreneurs studied actually carried out some capital investment in 1989 and spent on the average ¢176,409 ($504) on these. These were mainly for the purchase of new equipment or for alterations on their premises.

Steel (1977) showed that the average capital required per worker (capital-labour ratio) in the microenterprise sector was 11% of that required in the larger/formal sector. They were, thus, less capital-intensive or more labour-intensive than the larger/formal enterprises. In other words, a given volume of capital would appear to generate more employment in the informal sector than in the formal sector. Baah-Nuakoh and Steel (1993) observed that additions to capital assets were more rapid in this sector than in any other sectors as these grew by an annual average of 18% as against 5% for small-scale enterprises. They noted that the amount of capital required to set up a business varied with firm size as it took an average of ¢0.9 million ($1,978) to set up a microenterprise, while it took 12 times that amount for a small enterprise and 100 times for a medium/large enterprise.

Capacity Utilization in Small and Microenterprises

Steel and Webster (1991) noted capacity utilization levels to be generally higher for small scale enterprises than for the medium/large group. Among the newer small firms, a level of 42% was noted on average as against 27% for the medium/large group in 1991.

One way of determining capacity utilization in small and microenterprises is to ascertain from entrepreneurs “by how much they can increase output without installing new equipment”. This general approach was employed by Steel and Webster (1991) who did not provide any specific figures but noted that “it is difficult to define capacity accurately in small, artisanal firms with relatively little fixed capital.... Low rates are to be expected among microenterprises, in which low entry barriers lead easily to market saturation”.

Finance for Small and Microenterprises

One observation often made in various surveys of the small enterprise sector in Ghana is the predominant use of "own savings" by entrepreneurs during start-up[6]. Baah-Nuakoh and Steel (1993) mentioned that for 66.7% of their small-scale sample, own savings received the top-most ranking among the various sources, while some 80% had used own savings in varying degrees at start-up. For another 12.8% of this sample, the dominant source of start-up capital had been either gifts or loans from relations and acquaintances, while equity from a co-investor was used by 7.7%. Bank loans provided the bulk of start-up capital for only 5.1%. An average of 60.4% of total initial capital was noted to come from own savings. What is interesting about the use of "own savings" is the fact that it often originates from profits from another economic activity.

For additional working capital 38.5% of respondents in the small-scale sample of Baah-Nuakoh and Steel (1993) relied on retained profits while suppliers' credit provided the major source for 17.9% in the preceding three years. Almost a half of their respondents would rely on advances from their customers if they had to purchase to fulfil a large order, while some 25% would rely on own savings and retained profits for the purpose. Only 10% would turn to banks for assistance in order to meet a large order.

It is interesting that in financing additional investments the financing pattern is not much different from that for financing working capital. These survey results tend to support observations made by Aryeetey (1992) in the Eastern Region. Most surveys[7] of microenterprises have shown that in most cases the initial investment of enterprises was carried out either by drawing on the accumulated savings of the entrepreneur, or on that of close relatives. Riedel et.al. (1988) observed in Techiman in 1987 that, of 10 garment-makers (tailors and seamstresses), four of them financed initial investments from own savings. This was done by paying for the erection of temporary sheds or huts, acquisition of a sewing machine, an initial stock of threads, needles, buttons and assorted fabrics. Four others had the initial investment financed by their parents. For the remaining two, start-up capital was made available by their former "masters" who supervised them through apprenticeship.

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[6] See Aryeetey, E (1992); Steel, W.F. and Webster, L. (1991); Dawson, J. (1988), etc.

[7] See Aryeetey, E. (1992) for an exposé of the financing of microenterprises in Ghana.

As a matter of fact, finance through "own savings" was more common among microentrepreneurs who either moved into the activity from another economic activity or had a history of income-earning. Grants from parents were often available to relatively young people who had been encouraged to go into apprenticeship by their parents or other relatives. This situation was not any different for the other activity groups for the survey. The only evidence of bank financed initial investment in Techiman came from a Welding Shop that received about 70% of its initial capital from a bank.

In 1990, Aryeetey's survey (1992) from the Eastern Region indicated that 60% of the 100 microentrepreneurs started their businesses with capital provided from own sources, while "credit"/grants from relatives and friends were used to finance initial outlays for 12% of the enterprises. For the remaining 28% the enterprise was inherited from a parent or other relative.

The picture becomes quite different with respect to the finance of expansion or other capital investment. Grants from relatives and friends no longer played a significant role in enterprise finance after they had been established. For working capital and also for some fixed investments, almost all microentrepreneurs depend primarily on retained profits, which they call “personal savings”. In 80% of the cases studied at Techiman by Riedel et.al. (1988) “personal savings” was mentioned as the source of finance for both working capital and fixed investments. For the remaining 20% working capital was secured by purchasing inputs on credit lines made available by their suppliers, while no fixed investments were undertaken. They insist that bank credit was not available and informal loans are not suitable for their investment and working capital needs.

4. THE POLICY AND REGULATORY ENVIRONMENT FOR SMALL ENTERPRISES

There is a view that government policies on industrial development have been biased in favour of large-scale enterprises (Steel and Webster 1992). Despite this perceived bias, government has, in the last couple of decades, included among the constraints and problems of the industrial sector the neglect of small-scale industries. It was noted in the Five-Year Development Plan (1975-80) that “despite the immense potential of small-scale industries for contributing to the growth of industrial output, value-added and employment, the development of such industries has not been accorded the priority attention it deserves. Small-scale industries therefore, continue to have difficult access to

institutional credit, import licence, management training and technical advisory services" (Rep. of Ghana 1975).

Interest in studying small-scale industries and their potential impact on Ghanaian socio-economic development received a boost following the work of Thomi and Yankson (1985). They brought out in their work the need to encourage small-scale industries as a means to achieving a more equitable growth and development in the country. This was so in view of the vast potential that exists in the sub-sector. The work of Thomi and Yankson (1985) indicated that there was significant potential for small-scale industries to contribute significantly to industrial sector output; contribute to employment generation; and finally contribute to redress problems related to spatial imbalance in development.

The Policy Structures

In the early post-independence days, government recognized the need for supporting small industries as a catalyst for eliminating some of the socio-economic problems, including unemployment. In order to boost the development of small-scale enterprises a Ministry of Rural Industries was created in 1965 to ensure the realisation of a viable small scale industry sector. In pursuit of the same objective, the Ghanaian Enterprises Development Commission (GEDC) was set up by the military government that followed in 1966 to provide financial assistance to small-scale enterprises. A Department of Rural Housing and Cottage Industries was also set up shortly after that.

In 1981, under Act 434 of parliament, the National Board for Small Scale Industries (NBSSI) was established to act as the apex co-ordinating agency, advising the Minister responsible for industries on policy for initiating, formulating, developing and implementing a national programme to accelerate the growth of small scale industries. Thus, the development of policies and promotional activities for small-scale industries is currently the responsibility of NBSSI. This was achieved by merging the three major institutions charged with the responsibility of responding to the needs of small scale enterprises. The Ghanaian Enterprises Development Commission (GEDC) and NBSSI were merged in 1991, while the hived-off cottage industries section of the Department of Rural Housing and Cottage Industries followed the merger in 1994.

The objectives of NBSSI are

- to contribute to the creation of an enabling environment for small scale enterprise development
- to contribute to development of an enterprise culture in Ghana
- to facilitate access to credit for small scale entrepreneurs
- to provide non-financial support for sustainable small business developments through Entrepreneurial, Technical and Management Training and Advisory Services.

To be able to perform its role effectively, NBSSI has since the mergers been restructured with four departments, namely:

- Administration and Finance
- Policy Planning, Monitoring and Evaluation
- Investment and Credit
- Entrepreneurship Development.

The Board operates in all the ten administrative regions of Ghana. The current focus of its activities is the operationalization of Business Advisory Centres, which are currently found in two district capitals. The Board plans to set up a centre in each district capital at a rate of 10 per year. NBSSI has a number of proposals for specific sub-sectors that have been submitted to donor agencies for assistance. It aims at increasing the amount of self-employment in those sub-sectors.

The main strength of NBSSI is in the area of training for entrepreneurship development. It currently provides management and technical training to many organisations. Its network throughout the country makes it easy to achieve significant outreach in operations. NBSSI also pursues credit programmes for small enterprises but acknowledges that it is not strong on credit delivery, even though recovery rates on some the facilities it arranged are improving.

Regulations and the Regulatory Environment

In the study by Steel and Webster (1991), they defined the regulatory environment "to cover factors that affect the ease and risk of operating a business in Ghana, apart from the normal production,

sales, and profit-and-loss aspects". Indeed they covered any aspect of firms' operation that were left to government. They suggested that taxes which generally affected the profit and loss position of firms directly may be considered as part of the regulatory environment since they were intertwined with regulations. They cited the issue of tax clearance certificates which were required to complete all manner of business, including importing, exporting, registration of vehicles and in obtaining visas.

The study by Steel and Webster (1991) provided significant insight into what perceptions were held about the business environment in the era of liberal policies. They observed from survey data that small enterprise owners were more likely to experience problems with the regulatory environment following the adoption of more liberal economic policies than medium and large scale enterprises. Indeed as many as 43% of SME operators suggested that the regulatory environment had become more difficult, compared to 8% of the larger operators. It turned out that for the micro and small operators, they were most concerned about regulations regarding location of their activities in cities. They were wary of what they considered to be unnecessary harassment by city authorities in attempts to clean up the city. Besides the concerns about location, small enterprises also showed concern about registration requirements, one that was being addressed by the National Board for Small Scale Industries. See Table 3.

Table 3: Regulatory Problems for Current Operation by Firm Size

(Percentage of Respondents in Each Category)

Problem	All firms surveyed[8]	Size Categories[9]			
		Micro	Very Small	Small	Medium/ Large
Share citing business environment issues among top 4 problems of operation					
Taxes					
Infrastructure:	14	9	4	13	30
Electricity outages					
Transportation costs	7	6	12	0	7
Other	5	3	8	13	0
Business environment	6	3	12	13	0
Regulations, licensing	5	0	8	0	14
Getting foreign exchange	3	0	0	0	14
	4	0	0	6	0
Share citing business environment issues among top 4 problems for expansion					
Taxes					
Electricity outages	12	14	4	31	0
Regulations, licensing	3	0	8	0	0
	3	0	8	0	0
Difficulty of dealing with regulations now vs. 1983					
Much easier	22	17	14	0	38
Somewhat easier	31	33	14	33	38
About the same	26	39	29	22	17
Worse	22	11	43	44	8
Major regulatory problems					
None	48	56	62	56	18
Firms citing problems	52	44	38	44	82
Percentage citing:[10]					
Location	17	31	29	13	12
Employment registration	10	0	0	25	29
Minimum wage	7	0	5	13	18
Price controls	7	0	5	0	29
Licensing	6	0	5	13	12
Registration	6	25	5	0	0
Investment code	5	0	0	0	24
Other	7	0	5	0	29
(Number of Firms)	(106)	(33)	(26)	(16)	(31)

Source: Steel and Webster 1991.

[8] Includes 24 large scale firms that were asked the same questions in a separate survey.

[9] Size categories are based on the number of full time workers in 1989: micro= 3 or fewer; small= 4-9; medium= 10-29; large=30+

[10] The sub-totals add up to more than the total because some firms cited two problems.

In 1994, the government-sponsored Advisory Group on Private Sector Development noted that "the process of registering a company and obtaining a manufacturing licence to commence business is cumbersome, time consuming and frustrating to potential investors" (p.7). This was one aspect of regulations that had to be faced by the private sector, but these regulatory problems differed by size category. Those to do with registration were more of a problem for medium/large and small-scale enterprises. It may be observed establishing a manufacturing concern requires registration with the Registrar-General's Department, Ministry of Trade and Industries, and the Ghana Investments Centre (GIC) (for firms with foreign participation or seeking exemptions). While GIC is expected to work directly with Bank of Ghana and the Environmental Protection Agency on registration issues, it is often in the interest of the applicant to contact these agencies directly. This takes a lot of time. Other regulations that bother larger firms are to do with labour regulations, with respect to conditions for laying off workers. For the microenterprises, again regulations that were often loathed were those to do with location in urban areas.

Quality and Standards

Growing public interest in ensuring that certain standards are maintained in the production of goods and services is being observed. Thus, such institutions as the Ghana Standards Board and the Environmental Protection Agency are being made to play more active roles in the production process. In spite of this increasing concern, only 0.8% of those studied by Baah-Nuakoh and Steel (1993) gave indication of being concerned about these requirements. These were microenterprises. It is likely that the requirements of these agencies are currently not stringent enough to bother entrepreneurs since production standards obviously do not meet a lot of acceptable international standards.

Taxes and their Perceived Effects

The Advisory Group on Private Sector Development (which included representatives of the private sector) prepared a report for the government in March 1992 in which it called for various changes in tax levels that were expected to make the private sector competitive. They acknowledged the fact that company income was taxed through a combination of taxes on profits, dividends and capital gains which were then "offset by fairly generous incentives in the form of capital allowances, tax rebates, tax holidays and duty exemptions on equipment for a wide range of priority activities under

the 1985 investment code", (p.19). They saw a problem with differential rates for different economic sectors as far as corporate taxes were concerned. For large companies which operated in several sectors, it was not easy to determine what rate to apply. They believed a uniform rate would encourage mergers and acquisitions. Still under corporate tax, the manufacturing sector could be given an additional incentive through accelerated depreciation. They also found the capital gains tax rates on the sale of assets before 1991 to be too high and so favoured the 1991 budget measure of reducing it. The group further recommended that the Withholding Tax on Dividends be phased out in the long run since it was a disincentive to investors, as it amounted to double taxation.

It is interesting that in the study by Steel and Webster (1991), none of the medium/large enterprises in the sample complained about tax levels being too high, while 13% of small-scale entrepreneurs and 9% of microentrepreneurs made such complaints. Ironically, however, when asked to list 4 potential constraints to future expansion, 31% included it in their list, even though its aggregate ranking was 6th. In the study by Baah-Nuakoh and Steel (1993) also, no medium/large and small-scale firms saw taxes as a constraint to expansion. Only 1.3% of microentrepreneurs placed it among the four most serious constraints to expansion. It is obvious that any poor responses from the private sector to adjustment policies could not be blamed on the direct taxation of firms. This position contrasts sharply with the position adopted in the MAPS GHANA report on the private sector[11] where 50% of their sample thought taxes affected business performance negatively.

5. SUMMARY AND CONCLUSIONS

This paper has indicated that the object of regulation is to make small enterprises more responsive to various policy incentives and support that government may provide for their development. The public interest lies in the fact that such small enterprises dominate the economic landscape of the economy, and the aggregate individual interests need to be enhanced for the benefit of the general public. The description of small enterprises and their operating characteristics portrayed the enormous difficulties that small enterprises have faced in a more liberal economic climate and their inability to show competitiveness in that changing

[11] USAID/J.E.Austin & Associates: MAPS GHANA: Private Sector Survey Results, 1989-1991.

environment. These characteristics lead to a number of research questions that may be summarised as below.

- What is the full scope of regulations that small enterprises face in Ghana?
- How do these regulations vary across different localities?
- Can we measure the impact of regulation on the costs of enterprises?
- And do these costs vary by region?
- Does regulation affect the attitudes of entrepreneurs with regard to production and marketing strategies?
- Are corrupt practices used to counter difficult regulations?
- Does regulation impinge on investment decisions?
- What incentive structure will it take to improve documentation for microenterprises?
- Can regulation be designed to improve upon the competitiveness of small enterprises?
- What kind of regulation of small enterprises will satisfy the demands of other parties, including banks without injuring the small enterprises?

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