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### **Paper: Employment Generation and Small Medium Enterprise (SME) Development – the Garment and Textile Manufacturing Industry in Ghana**

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*Small medium enterprises (SME's) in Ghana face a host of problems and constraints. These must be overcome if they are to be sustainable and move into the mainstream of the economy. The role of SME's in employment generation and development in Ghana is explored in this paper. In particular, the paper looks at the Garment and Textile manufacturing industry in Ghana as one of the industries targeted as key to reducing poverty, promoting growth and generating employment. The impact of the president's special initiative (PSI) as an intervention to boost production and growth in this sector is assessed. As an exploratory study, this paper identifies some of the constraints faced by SME' in this industry and discusses key interventions for successful development of the garment and textile manufacturing sector in particular.*

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## **Introduction**

Private sector development is said to be critical for employment creation, growth and development of Africa (Kurokawa et al 2008). The development of small and medium enterprises (SME's) is acknowledged as a key condition in promoting equitable and sustainable economic development in Africa. This sector, in terms of economic development has the potential to provide for growth in employment and contribute towards reducing poverty among urban cities in most developing countries. In Ghana, a key strategy the government has adopted for increasing employment and production is to take measures to improve the capacity of the private sector as a means of accelerating the growth of small and medium scale manufacturing industries (GPRS II, 2003). The GPRS is currently Ghana's blueprint for growth, poverty reduction and human development.

SME's make up the largest portion of the employment base in Ghana and are the bedrock of the local private sector. This sector is characterized by low levels of education and training of the self employed. SME's in manufacturing are viewed as costly and high risk entities by the key players in the financial sector and hence many of the commercial banks avoid lending to them. These owner entrepreneurs who could play a much larger role in job creation and development of a sustainable SME sector are therefore marginalized.

The key objective of this paper is to examine the constraints faced by organized urban SME's in the garment and textile manufacturing sector to development. Another objective of this paper is to investigate the efforts of the government initiative within the textile and garment industry and the impact these activities have for increasing the rate of employment and sustaining growth in this sector. The paper concludes by assessing the current constraints faced by the small and medium garment and textile manufacturing industry in Ghana and provides insight into what interventions are required to improve this sector to enable it become one of the viable growth and development areas among SME's in Ghana.

## **Poverty and Urban Unemployment in Ghana**

Although poverty is a world wide problem, it is undoubtedly more predominant in developing countries (Nkum 1998). A central theme in poverty research acknowledges unemployment as the major cause of poverty among those of working age (Saunders 2006). Employment is acknowledged to be closely linked to human development and stability of national economies. In sub-Saharan Africa, urban unemployment affects around fourteen million people; about 15-20 percent of the workforce. Unemployment is also a major cause of massive migrations, both to urban areas within countries and across borders, which has become a highly destabilizing factor within these regions. Poverty reduction strategies are now the top agenda for African countries in an attempt to sustain development (Wangwe and Rweyemamu 2001). The acquisition of education, training and productive skills of those most affected and outside the scope of the traditional labour force is therefore essential for generating new employment opportunities and stimulating income growth especially within the private sector.

Urban poverty is increasing in depth in Ghana as a result of a population growth rate of 3% which is far above the rate of job creation (Nkum 1998). In Ghana there are significant differences in the spatial distribution of poverty. The overall picture of the diversity of socio-economic conditions and the disparities in the incidence of poverty in the country suggests that there can be no excuse for complacency in tackling poverty (GPRS 2003). Incidence of extreme poverty is highest in the rural savannah and just as high in urban savannah as in the coastal belt. It suggests that poverty in Ghana is primarily an agricultural phenomenon and largely in the informal sector. The Ghana government policy framework for sustained growth, GPRSII, targets the private sector as the engine of growth. The policy framework is also aimed at the creation of adequate wage and self employment opportunities for entrants into the labour market especially within the micro and small scale enterprises and opportunities to create employment for women.

Five out of the ten regions in Ghana have more than 40% of their population living in poverty. By income measure, poverty levels are highest in the three northern savannah regions (the Upper East, Upper West and Northern Regions) ranging between 69% and 88%. The national strategy to improve production and generate gainful employment is based on creating an enabling environment to stimulate private sector activities. These involve making improvements to the capacity of the private sector to adopt an entrepreneurial approach to increase productivity and generate employment.

The strategy to improve production and generate gainful employment is based on creating an enabling environment to stimulate private sector activities. This also includes strategies to achieve full employment by the promotion of self-employment and small business development. This will involve improvements of the capacity of the private sector to adopt an entrepreneurial approach to increase productivity and generate employment especially in the manufacturing sector.

### **Defining Small Medium Enterprise's**

Defining SME's is an area of major concern in the literature due to the huge variation in definition given to this area of business. There is a wide range of definitions and measures for SME's which vary from country to country (Storey 1994). The context of differentiation ranges from size, number of employees, annual turnover, ownership of business and value of fixed assets (Abor & Adjasi 2007). A number of researchers tend to define SME's as having 0-250 employees and in Africa this number is set around the 200 mark (Ayyagari et al 2005).

The British Department of Trade and Industry (DTi) maintains that the best description of a small firm remain that of the Bolton committee report of 1971 which defines a small firm as an independent business, managed by owners and co-owners and having a small market share. (Department of trade and industry 2001) The Commission has adopted a *Recommendation* (Commission Recommendation of 3 April 1996 concerning the definition of Small and Medium-sized enterprises (SME's), OJ L 107 of 30.4.1996, p. 4.) which now provides a clear global framework for all the measures directed towards micro-, small and medium-sized enterprises. It will be applied to all new Community

programmes, whereas existing programmes which use different criteria will continue to be implemented to the benefit of the enterprises which were considered SME's when these programmes were adopted.

To be classed as an SME or a micro-enterprise, an enterprise has to satisfy the criteria for the number of employees and one of the two financial criteria, i.e. either the turnover total or the balance sheet total. In addition, it must be independent, which means less than 25% owned by one enterprise (or jointly by several enterprises) falling outside the definition of an SME or a micro-enterprise, whichever may apply.

### **Characteristics of SME's in Ghana**

In Ghana, SME's form a huge chunk of businesses in both the formal and the informal sector. Whilst SME's in developed countries make a significant contribution to GDP and national employment (Culkin and Smith, 2000), there is not sufficient data to say the same about SME's in Ghana. In Ghana, classification of firms by size as given by the regional project on enterprise development paper defines SME's as firms with employee size of less than one hundred (Teal, 2002). There are variations in the definitions of small medium enterprises. The most commonly used criterion is the number of employees of the enterprise.

The Ghana Statistical Service (GSS) considers firms with less than 10 employees as small scale enterprise whilst those with more than ten are categorized as medium and large enterprises. Another criterion for defining SME is the value of fixed assets in the organization. In Ghana the national board of small scale industries applies both of these criteria.

SME's in Ghana tend to have few employees who tend also to be mostly relatives of the owner hence there is often lack of separation between ownership and control. Also since SME's do not traditionally rely on public funds there is lack of accountability and no regulations to comply with in relation to compliance (Abor & Adjasi, 2007). Mostly, the owner managers of these SME's are hampered by lack of managerial competencies (Gockel and Akoena, 2002). There are a number of factors which pose as barriers to the development of the SME sector in Ghana. These are identified as access to international markets, technology, equipment and finance (Aryeety, 1994).

### **The Manufacturing Sector in Ghana**

For Ghanaian manufacturing firms growth and productivity are central issues. In Ghana, SME's contribute about 85% of manufacturing employment and account for about 92% of businesses (Steel land Webster, 1991). Ghana has a relatively small domestic market and hence provides little scope for the growth of firms beyond a certain point, in addition manufacturing performance differs by the size of the firm and by the sector in which they are in (the Ghanaian Manufacturing enterprise survey 2000).

In general, small and micro firms in Ghana experience more variable performance than medium and large firms. According to the survey report, larger manufacturing firms in Ghana tend to be older and are more likely to have foreign or state ownership, there is the

tendency for such firms to be more capital intensive, export more and have a higher labour productivity.

On average in the mid 1990's medium firms increased value added and the micro and large firms increased employment. Export propensity and export intensity differs widely across sectors for example, firms in the wood and furniture sector have a tendency to export more than for example the garment and textiles sector which has the lowest tendency to export its products. In general, the garment sector is more labour intensive and less capital intensive as compared to other sectors. Most of the firms in manufacturing are not involved in export and those that do, do not export more than 35% of their output. It is the aim of the government to enhance the productive capacity of small scale producers as this will have a direct impact on boosting employment levels in the country.

### **Ghana's Garment and Textile Manufacturing Industry**

The garment and textile industry in Ghana is dominated by 90 percent women both as owner entrepreneurs and as employees. The Ghana Statistical Service (GSS) considers firms with less than 10 employees as small scale enterprise whilst those with more than ten are categorized as medium enterprises. Most garment and textiles businesses comprise a workforce of nine – twenty five employees. Most of these businesses are classed as small to medium by the definition of the Ghana statistical service. These businesses also tend to be categorized as urban organized enterprises.

Other characteristics include limited access to credit, low levels of technology and lack of institutional framework to overcome the disadvantage of being a small size organization. The shops of the garment and textile owners tend to be clustered and located in the urban areas. Garment manufacturing companies in Ghana currently continue to lose large orders notably as a result of the absence of production flexibility, lack of professional marketing presentation, validation of social compliance and inefficient production techniques.

The talents of entrepreneurs and the productivity of the small business can be enhanced through the addition of learned and teachable skills covering techniques of good management, organization and effective routines. The challenges and opportunities now facing the sector require that developing of capacities become a high priority. This will require having the right human capacity for development management and proper institutional frameworks for the effective utilization of these capacities.

### **PSi Garment and Textiles and Employment Generation**

The President's Special Initiative (PSi) on Garment and Textiles is a government of Ghana's Catalytic Intervention to support the private sector investment in the garment and textiles industry in Ghana. The president's special initiative was launched in September 2001 as a public private partnership programme designed to develop new pillars of growth for the Ghanaian economy. Ghana is now earning between 200,000 to 1 million us dollars per annum from the garment and textile industry.

The PSI's basically seek to accelerate the development of selected products into lead export earners, generate employment and eradicate poverty through the creation of wealth, particularly in rural communities. This is to be achieved through the promotion of small businesses and entrepreneurship, tapping new markets, improved technical and vocational training, an employment-oriented education, dissemination of information about markets and technology, smaller and more responsive types of industrial organization blending traditional and modern technologies, efficient and flexible labour markets, and expansion of the service sector are key elements of a successful job creation strategy.

The objective of Government in implementing the PSI garment and textile is to actively support, facilitate and accelerate the development of the garment industry to become a lead export sector and a primary source of employment generation in Ghana. The PSI on garment and textiles seeks to build a critical mass of high growth oriented internationally competitive firms to produce garments and textiles for the US and European markets. This strategic intervention aims to promote entrepreneurship development and overall enhance job creation opportunities in Ghana. It is the aim of the PSI that about 20 Ghanaian entrepreneurs would become merchant garment exporters and also work with about 50 small scale tailors and seamstresses.

### **Activities under the PSI Garment and Textiles**

The Objective of the PSI is to facilitate the setting up 60 privately owned garment businesses.

- PSI garments and textiles is assisting over 9 local entrepreneurs to set up ultra modern factories with a minimum of 250 machines capable of employing 400 persons.
- Under PSI garment and textile, a modern clothing technology and training centre has been set up to assist the developing of the human resource base for the industry and has so far trained 8000 people in industrial sewing machine utilization and mass production techniques.
- PSI garments and textiles run a technical assistance program for the owner managers of participating PSI businesses.
- Creation of a garment village
- Psi proposes to set up a website that would link all the respective manufacturers to the world to access marketing and technical services.

### **Constraints to SME Garment and Textile**

There are a number of constraints that hinder the development and growth of the garment and textile manufacturing sector and tend to constrain SME entrepreneurs performance in Ghana.

These are identified as:

- Lack of managerial competencies.
- Some of these are identified as lack of basic services and infrastructure such as electricity
- low knowledge and skills level

- limited tax administration competencies
- Little marketing knowledge and lack of market knowledge. Lack of market knowledge and contacts are important barriers for selling and exporting products.
- Smaller sized SME's have less access to formal sources of external finance. This in turn does affect their performance and growth. This is particularly an important issue for the donor community to note in decision making on support programs in this sector.
- An important factor on the growth and sustainability of the business is its location. The location affects networks and access by clients and customers.
- Gender; gender discrimination limits women's access to land, financial support and limits their options for engaging fully in the economy and in this sector.

## **Required Interventions**

The efficiency of the SME entrepreneurs in the garment industry in Ghana, continue to trail behind their competitors in the developed economies. To build capacity and to become competitive and a sustainable part of the economy requires a closer look at the following:

- **Technological Capability**

The business of apparel and fashion survives on the capability to adapt to change in the environment and to manufacture even as these changes occur. The changes would normally affect the type of fabric used and most critically the finishing of the garment. The manufacturer of apparel would only have to concentrate on the required finishing procedure and thus acquire the needed procedures, expertise and machinery to adapt. There are also critical machinery, like the plotter, cutting machine, etc in large scale manufacturing whose use lead to efficient use of fabric and time, thus making the manufacturer more competitive. These machinery and expertise, though critical, would only be profitable to a private manufacturer producing beyond a certain capacity, to privately acquire for their set up. The absence of such services by a garment manufacturing company however restricts the garment companies on the variety of orders that it could secure. Two reasons fingered for this problem is the absence of highly skilled sewing operators and inadequate technical expertise.

- **Marketing Strategies**

The apparel industry is one area where regional presentation gives a strong indication of capacity and attracts big retail outlets and buyers. Apparel industry marketing is done in selected exclusive events at designated places and times in the world. During these events manufacturers and producers convene to show case their capabilities and solicit for orders. Industry practices require apparel manufacturing companies to meet a certain level of social compliance and labour practices. The acceptable universal proof of compliance is through the certification by a few accredited "Industrial Compliance Audit Agencies". Most of the Brand buyers and Retail outlets would not risk placing orders in 'non complaint' factories. Emerging manufacturing companies can enhance their image and expand their markets by undergoing the compliance audits.

Successful integration of the Ghanaian economy into the regional and global economy to a large extent will depend on the capacity of firms to seek global alliances to expand their technological and managerial base in the search for new markets and new products. This hinges on their ability to understand their environment in relation to the nation's economic strategy.

- **Financial Competence**

The capacity to translate their strategies into specific policies in the areas of finance: capital structure decisions together with their cost of structure; marketing: pricing, product line, customer decisions; production: extent of vertical integration, selection of production processes, setting total capacity and facility balance, and providing basic guidelines for maintenance, etc. are critical issues that will have to be addressed. While foreign owned firms operating in the economy have access to external expertise in these areas, most of our local firms have very little of these required skills.

- **Training and Skills Acquisition**

National Training Institutions are faced with several institutional and human resource constraints to the extent that they have so far not been in the position to provide all these skills in their sufficient quantities and quality to support the private sector. This has led to a mismatch between the skills produced by training institutions and the skills required to support the various sectors and actors in the economy.

- **Good Governance**

Mainly accountability of government officials, transparency in procedures and decision making, reliable flows of information and supportive local conditions.

## **Conclusion**

This paper has enumerated various factors that should contribute to our understanding of barriers to SME development and growth in particular in the textile and manufacturing sector in Ghana. The most important conclusion is that to promote and sustain small enterprises in this sector would require having in place policies to make technology, training, credit access, and marketing and distribution channels more easily accessible to small business in the garment and textile sector by forging links between universities, research institutes and small enterprises.

It is necessary for the capabilities of the entrepreneurs to match those required by the opportunities generated to facilitate growth in the industry. There is the need to raise skills levels to increase productivity by vastly expanding the lower tiers of the technical and vocational training systems at the local level to provide practical training in job-related skills. The PSi Garment and Textile sets a benchmark for medium scale garment and textile manufacturers and a guide to best practice in the sector to enable them maximize their potential and position themselves to enter the global garment manufacturing market. The success of this initiative will serve as a beacon to the industry and will motivate and influence the SME owner/managers in this sector to develop their

business along standards set to also enable them become more efficient, effective and marketable and to move their business into the mainstream of the Ghanaian economy.

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