



Moving towards a conducive environment for green, circular, and inclusive MSMEs in Ghana

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SEED Practitioner Labs for Policy Prototyping



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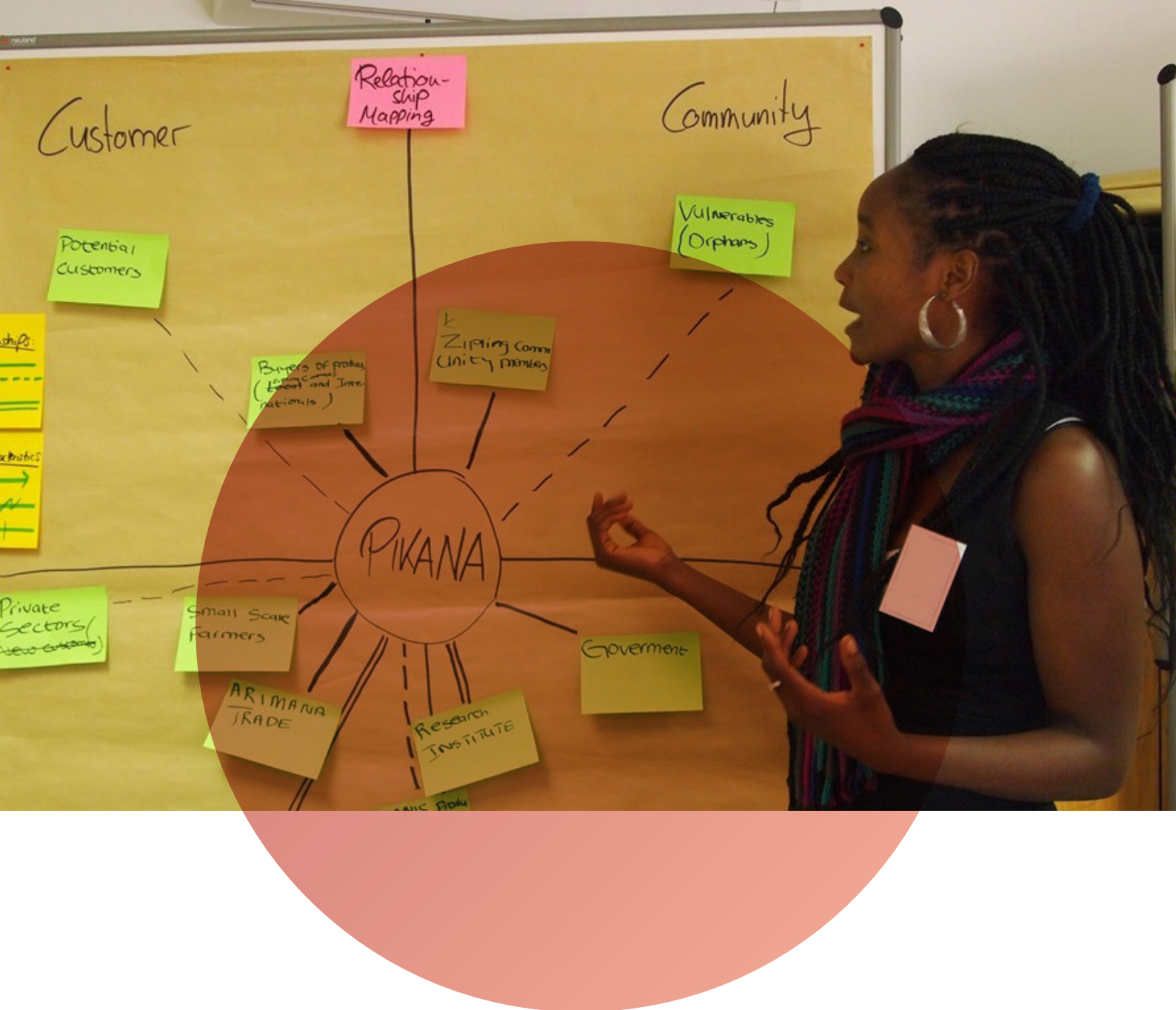
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KEY MESSAGES

- There is a significant opportunity to bring a green and circular perspective to Ghana's recovery from the COVID-19 pandemic, leveraging the draft MSME Policy to support green, circular, and inclusive MSMEs to catalyse delivery of Ghana's commitments to the Sustainable Development Goals and Paris Agreement.
- Green, circular, and inclusive MSMEs face specific challenges when accessing finance, finding markets, and navigating a dynamic policy landscape. Partnerships between policy makers and ecosystem players can help target support of the MSMEs and overcome these barriers.
- Potential partnerships between policy makers and ecosystem players centred on technical backstopping, bundling access to circular economy markets, and data-driven approaches to policy targeting can unlock opportunities in the sector.

I. THE ISSUE

Ghana's transition to a green economy and its positioning as a major economic player on the regional and global stage hinges on sustainable economic development. This includes the development of sustainable (green and circular) local industries, promotion of climate change adaptation and resilience building to economic, social, and environmental shocks, and inclusion of marginalised groups. The National Adaptation Plan process focuses on 'building back better' from the Covid-19 pandemic, ensuring that strategies are set to build resilience to impacts of both climate change and Covid-19 in tandem. This work is also being taken up by the Partnership for Action on the Green Economy (PAGE) to fuel green and inclusive recoveries from Covid-19.

Micro, small and medium enterprises (MSMEs) in Ghana make an essential contribution to green and circular growth and to the development of resilient local economies. This is particularly important in the context of Covid-19 recovery, where these enterprises can help tackle future crises, including those related to climate change.

This policy brief reflects outcomes of the SEED Practitioner Labs for Policy Prototyping, which were held in Ghana in 2020. Looking first to the role of MSMEs in green recovery and resilience building, and current efforts to support MSMEs, the brief then provides concrete recommendations for future partnerships between policy makers, enterprises, and ecosystem players to unlock **green and circular economy opportunities in Ghana**.

The eco-inclusive enterprise ecosystem

The eco-inclusive enterprise ecosystem brings together actors from the private, public, and civil society sectors that support the start-up and scale of enterprises that generate economic, social, and environmental impact. These actors pursue a wide range of activities: from developing a supportive policy and regulatory environment for MSMEs, providing capacity building support, financing investments of these enterprises, or researching and tracking impact. In a circular economy, these relationships gain in significance as they link across sectors and stakeholders to minimise inefficiency and promote value addition in the drive towards sustainable economic, social, and environmental development.

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SEED Practitioner Labs for Policy Prototyping participants **strongly agreed** that MSMEs are important to the green transition to a circular economy.

II. INCLUSIVE GREEN RECOVERY AND RESILIENCE BUILDING THROUGH MSMEs

Ninety percent of businesses in Ghana are categorised as MSMEs: these businesses employ 80% of Ghana's workforce, and contribute about 70% to Ghana's GDP. In total, there are about 2.1 million MSMEs in Ghana, 97,500 of which are social enterprises. Most MSMEs - around 1.7 million - are micro enterprises. Supporting these enterprises to grow can create meaningful dividends: medium-sized enterprises provide 47% of employment in MSMEs, accounting for 3.9 million jobs.

Alongside economic impacts, eco-inclusive MSMEs deliver important environmental and social impacts. Enterprises operating in the green and circular economy deliver environmental impacts in two ways. First, they invest in cleaner production methods by acquiring low-carbon equipment, implementing resource and energy efficiency measures, and closing loops in waste streams to keep value within the system. These activities contribute to climate change mitigation efforts, secure resources for future use, protect natural ecosystems, and reduce pollution and environmental degradation. Second, green and circular enterprises offer products and services that help customers adapt and build resilience to climate change through climate-proofing their livelihoods and integrating climate considerations into their daily lifestyles. This is

especially important as erratic rainfall, increased temperatures, and flooding near coastal areas threatens livelihoods, infrastructure, food and energy security.

With more extreme weather events on Ghana's horizon, the most vulnerable populations - especially small holder farmers and women - will feel negative effects more severely. Youth and children face school closures, displacement, and malnutrition, as well as preventable illnesses and water borne diseases. In the northern part of Ghana, severe weather conditions such as increasing temperatures, and decreasing and erratic rainfall, have the highest rate of out-migration to seek farming opportunities in arable regions, and job opportunities in Accra and other economically vibrant cities.

Social enterprises work to address these issues - improving access to education, energy, water and sanitation, and health services - while including marginalised populations as suppliers, employees, buyers and customers along their value chain. Supporting eco-inclusive enterprises offers the opportunity to tackle some of the most salient climate-related challenges in an inclusive way and at a local level.



Amaati Group in Tamale, Ghana

Amaati Group in Tamale, Ghana, trains marginalised women suppliers in agronomic practices to farm Fonio, an indigenous grain that has low water requirements and can withstand adverse weather conditions. The enterprise dries, de-husks, packages, stores and markets Fonio cereal products for household consumption. 500 landless women have been empowered to cultivate Fonio, providing permanent employment for 23 people, and transforming 500ha of degraded land.

III. LEVERAGING GHANA'S POLICIES TO SUPPORT ECO-INCLUSIVE ENTERPRISES

Ghana is considered a key global partner for action in the green and circular economy, and has developed strong policy frameworks for integrating climate actions into the Ghana Shared Growth Development Agenda II, and the 2014 National Climate Change Policy. Ghana's commitments to climate action are further integrated in the Coordinated Programme of Economic and Social Development Policies (CPESDP) 2017-2024. The CPESDP has four priorities: (1) to create opportunities for all Ghanaians, (2) to safeguard the natural environment and ensure a resilient built environment, (3) to maintain a stable, united, and safe country, and (4) to build a prosperous country.

The MSME Policy, drafted by the Ministry of Trade and Industry to strengthen institutions and foster institutional collaborations, offers a timely entry point for integrating Ghana's environmental commitments into the support and promotion of green, circular, and inclusive MSMEs. The draft MSME policy and the newly passed law which converts the National Board for Small Scale

Industries into Ghana Enterprises Agency (passed in November 2020) provides the new agency more authority and scope to improve MSME support. Integration of environmental considerations into MSME support helps in the translation of Ghana's national environmental and social development goals to the local level, and supports future resilience building for Ghana's MSME sector.

In the face of the Covid-19 pandemic, Ghana has made significant efforts to support economic recovery through the MSME sector and leveraged the opportunity to digitise and formalise the sector. For instance, the online platform for business registration that was launched in July 2020 provides the availability of e-certificate, e-profile, and e-payment, which has improved access and duration of the processes. These activities represent a critical juncture for the future of the MSME sector: partnerships across the ecosystem can seize this momentum to build future resilience, integrate environmental considerations, and support the transition to a green, circular and inclusive economy.

Figure 1: Evidence on Resilience Building for MSMEs

- ➔ MSMEs tend to have less financial support, fewer resources, and less access to information than larger companies, rendering them vulnerable to external shocks and risks, as well as lacking the organisational capacity to analyse risks that are initially outside their operations (TechnoServe, 2020).
- ➔ A study of MSMEs in semi-arid regions of Senegal and Kenya found that under half have adopted 'sustainable adaptation' measures, those which aim to maintain existing business operations by taking out a loan or pivoting to a different commodity.
- ➔ Digital skills provide an avenue for small businesses to remain resilient. For instance, according to the 2020 SME Competitiveness Outlook by the ITC, a Ghanaian cosmetics business explained how the pandemic necessitated a quick transition from in person to online sales which helped the business to stay afloat.
- ➔ The support role of ecosystem actors has been shown as crucial to long-term enterprise resilience, through financial support, skill building, and peer support.
- ➔ As 46% of businesses in Ghana are female-owned, there is a need to support female-led businesses with access to finance and entrepreneurship training. There still exists a gap between the funding required by early-stage SMEs and the ticket sizes offered by financial institutions.
- ➔ A COVID-19 Youth survey conducted in June & July 2020 by the British Council indicates that 58% of youth in Ghana are interested in entrepreneurship in the current economic environment and that on average across all respondents, more men aspire to become entrepreneurs post Covid-19 compared to women. As such, support of youth entrepreneurship is key to reducing unemployment and underemployment.

IV. THREE POLICYMAKER-ECOSYSTEM ACTOR PARTNERSHIP FUNCTIONS TO SUPPORT GREEN, INCLUSIVE AND CIRCULAR MSMEs

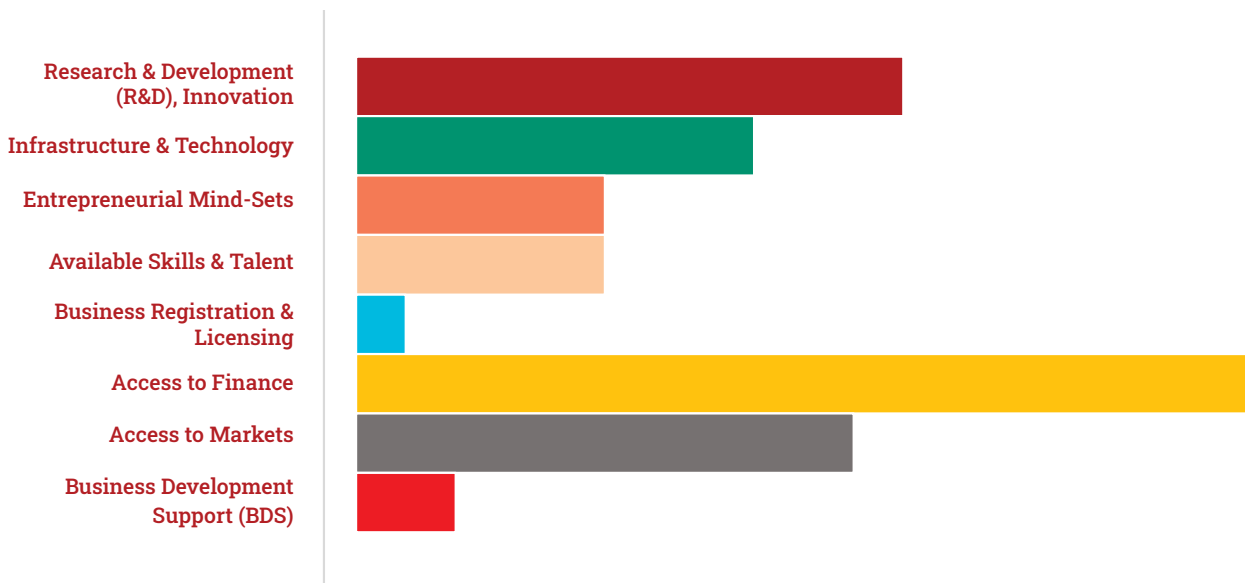
Partnerships between key ecosystem actors are core to the success of creating a conducive environment for eco-inclusive MSMEs to start and scale their business. Policy makers are a key part of this equation. Discussions as part of the SEED Practitioner Labs for Policy Prototyping in Ghana revealed three functional partnerships that can unlock opportunities in the green, circular and inclusive economy.

1. Policy targeting (policy maker + enterprise aggregators)

Recent efforts have been made to streamline the MSME policy landscape through the establishment of an MSME Policy and the Enterprise Ghana Authority as umbrella organisation for MSME development and promotion. Within the draft MSME policy, climate change and green economy are identified as a strategic sector that requires tailored support in the nine specific policy measures for MSMEs development: MSME definition; MSME

support services; business environment; financing; technology, innovation, research and development; market facilitation; entrepreneurship development; local economic development; and cross-cutting issues. The policy environment therefore provides for a platform for taking up questions such as what a green and climate-smart enterprise is (MSME definition), how finance can support climate-smart investments (MSME financing), or how green enterprises support the creation of green jobs at a local level (local economic development).

Tailoring support to the specific needs of green and social enterprises requires a strong understanding of what these enterprises need - and where that diverges from common MSME support. Partnership between policy makers and organisations that can aggregate and communicate the needs of these enterprises can help to tailor this support. At the SEED Practitioner Labs for Policy Prototyping Kick-Off Lab we asked 21 participants what they thought the three greatest challenges facing SMEs were.



2. Policy information dissemination (policy maker + network organisations)

Navigating regulations, policy incentives and frameworks can be a significant barrier to enterprises looking to operate in the green and circular economy. These enterprises may span multiple sectors or value chain activities, and therefore need to navigate a wide range of policies, often implemented by separate entities. Efforts

to provide clear information on relevant policy implications can help unblock these efforts.

Partnerships between policy makers and network, membership or association networks can help disseminate relevant information to the MSME sector. In the policy prototype developed by the Ghana National Cleaner Production Centre and the Private Enterprise Federation, this partnership

connected policy information and research into waste streams for industrial symbiosis, and an existing climate change platform governed by PEF. With GNCPC providing technical expertise and policy information input, and PEF providing the platform and engagement of MSMEs on this topic, this partnership supports compliance with regulations and navigation of policy incentives for industrial symbiosis.

3. Policy incentives for market access (policy maker + business support providers)

Access to markets - corporate, government, or consumer; local or international - is a key challenge for many MSMEs as they scale prototype services and products into commercial offerings. This challenge is particularly salient for enterprises working in nascent green and circular economy markets, as consumer awareness in these markets is often low. The access to markets challenge includes multiple sub-challenges, including:

- a. Lack of adequate research on the market potential and opportunities sometimes due to insufficient data
- b. High costs of certification that would enable the business to access international markets. (e.g. HACCP, Organic Certification, etc.)
- c. Inconsistencies in the quality of products
- d. Lack of funds to undertake required marketing activities or invest in appealing packaging
- e. Inability to meet market demands or create strategic partnership to better serve target customers

It is also significant for social enterprises, which struggle to communicate and valorise their social impacts to the consumer.

Adopting a circular economy approach provides a distinct perspective on the access to markets challenge. As circular economy enterprises look to access waste streams as input markets, or add value to existing markets, the importance of market access for inputs, outputs and byproducts is amplified for a circular economy enterprise, and requires additional support. Market linkages could also support enterprises to build resilience, as they are able to explore supplier options and pivot their products or services towards a variety of markets, thereby spreading risks.

Policy makers and ecosystem actors can partner to support enterprise access to markets by linking certification and market incentives to capacity building efforts. This addresses the challenge many enterprises face in accessing markets, by supporting enterprises to explore alternative distribution channels, to tap into regional or international markets, and to tailor their products to niche markets at a global level. It also helps enterprises to differentiate their products from others by highlighting the green or social aspects. Policy makers play an important role in establishing quality standards for markets, developing certification schemes and market incentives, as well as encouraging information sharing across supply chains.

Business support providers such as incubators, accelerators, or consultancies can complement this work with relevant capacity building support to help enterprises achieve quality standards, navigate certification schemes, and access market information. Enterprise support organizations such as British Council, Social Enterprise Ghana, Innohub, MDF West Africa, Kosmos Innovation Center and MEST Ghana provide these services. Innohub, for example, has worked with Wangara Green Ventures under the GCVF program to provide technical assistance to climate smart businesses that has entailed market study to identify opportunities, development of growth strategies, improve business model, etc.

The policy prototype developed by the British Council and Social Enterprise Ghana looks to support access to markets through policy incentives such as the development of a social enterprise certification scheme or label, and linking these to market access opportunities through trade shows and e-commerce platforms.

The SEED Practitioner Labs for Policy Prototyping brought together ecosystem actors - from policy makers, eco-inclusive enterprises, networks, funders, and others - to scope the entrepreneurship ecosystem as it relates to eco-inclusive enterprises. Collaboration between these stakeholders has helped to narrow focus on policies that require immediate attention and support to leverage the opportunity of a green recovery driven by MSMEs. It has further led to partnerships that should be replicated across sectors to better target support, disseminate policy information, and link MSMEs to circular markets.

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About the SEED Practitioner Labs for Policy Prototyping

SEED Practitioner Labs for Policy Prototyping work with policymakers and intermediaries over a multi-step collaborative process to design policy instruments which increase access to and improve the quality of support mechanisms for socially inclusive and environmentally sustainable enterprises looking to scale their environmental, social and economic impacts.



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