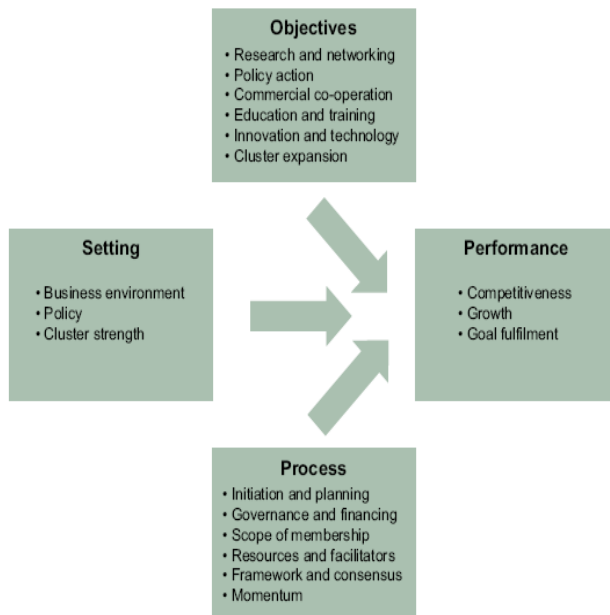


GHANA TRADE AND LIVELIHOODS COALITION  
(GTLC)



# Harnessing Shea Wealth Through Cluster Initiatives-A Feasibility Study



STUDY REPORT

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## 1.0 INTRODUCTION

The Ghana Trade and Livelihood Coalition (GTLC) is a trade and agriculture policy and practice advocacy, and research organisation. The GTLC is a national organisation and is active in the 10 administrative regions of Ghana with a membership of over 100 organisations comprising small scale farmers and processors, community based organisations, NGOs. She is engaged in capacity building on national, ECOWAS and international policy issues, advocacy and entrepreneurial skills training for small scale farmers and processors across the country and through that empowering them to advocate on their own for policy implementation and change and to be able to take advantage of the policy environment to improve on their livelihood and income. The GTLC has in its 6 years (since June 2006) of existence campaigned on specific policy and practice regarding rice, tomato, poultry and shea while also influencing the wider trade and agriculture policy discourses such as the Economic Partnership Agreements (EPA) between the European Union (EU) and the African, Caribbean and Pacific (ACP) states and the role of the World Trade Organisation (WTO), International Monetary fund (IMF) and World Bank in the development of trade and agriculture especially in regards to small scale farmers and processors. The GTLC conducts studies as a guide to inform her on the positions that it adopts in pushing for specific policy developments in favour of the development of small scale agriculture as a viable enterprise and economic entity.

## 2.0 BACKGROUND

The GTLC conducted and published a study on shea in September 2009 entitled 'Unleashing the Shea potential-A baseline data analysis'. The study was conducted to create a better picture of the circumstances of women pickers and processors at the foundation of the shea value chain, the influence of research institutions and policy on shea development, the Institutions For Collaboration (IFC) within the chain and how best institutions and policy could be harnessed to improve a shea value chain that puts the picker and small scale processor at the centre of plantation development, quality and value enhancement of nuts and butter. Some key recommendations from the study included, the development of a policy framework and the creation of a substantive board for shea; collaboration among key research bodies to develop a viable shea plant that is susceptible to plantation development; the creation of strong entities among the small scale pickers and processors to influence policy and be able to take advantage of policy and practice changes to grow and positively influence the shea industry. A number of engagements followed the publication of the study report which included a stakeholder meeting in Tamale and a meeting with the joint Parliamentary Select Committees of Trade, Industry and Private Sector; and Food, Agriculture and Cocoa Affairs. These meetings discussed and called for the creation of a Shea Board and budgetary provision for Shea in the 2011 national financial and economic statement

The GTLC has conducted this study on the feasibility of Cluster Initiatives (CI) based on her previous work on shea, her experience working with small scale farmers and producers, and the mandate she has to enhance the capacity of pickers and processors to better take advantage of the opportunities in the shea sector. The Cluster Initiative was chosen as the leading guide to finding solution to the challenges identified in the earlier shea study based on indepth information and knowledge that the GTLC gathered during and after the 2<sup>nd</sup> Pan African Competitiveness Forum (PACF) held at Elmina.

Cluster Initiative builds on three main policy areas: Regional and SME policies, Investment attraction policies and science and Innovation policies. It is modeled on a triple helix method that harnesses complementarities of Government, the Private sector and research to create the conducive environment for collaboration that grows clusters. The efficiency of the model is based on a strong cluster, a good microeconomic business environment and the General business environment. This

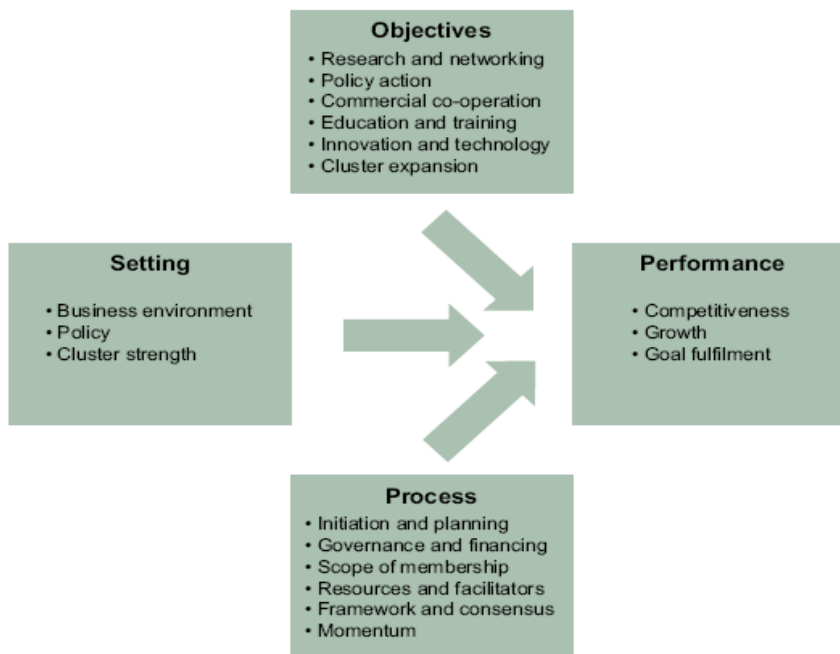
feasibility study focuses on the cluster and the microeconomic business environment and makes an assessment of prevailing conditions that thrive to promote or demote efforts at creating strong independent clusters out of the pickers and processors with strong links to the three key actors, that is, Government, the Private sector (including financial institutions) and Research. The GTLC believes that this model will create the platform for the three main policy areas to be implemented in support of small business development. For us at the GTLC it also serves as a mobilising opportunity to have the pickers and processors influencing policy and practice in their favour.

The focus of the study on the cluster and microeconomic business environment helps to unveil issues on: Context for firm strategy and rivalry; factor (input) conditions; demand conditions; and Related and supporting industries. Data was collected relating to these specific issues and in specific relation to factors that influence their implementation.

The objectives of the study therefore is to make a case for Cluster initiatives as the framework that will bring about the following::

- To enhance research by research institutes into new varieties of shea by making its products more commercially attractive locally and on the international scene.
- To enhance use of research material by processors and industry.
- To make research into shea varieties and value addition pay and be attractive.
- To make quality standards in picking of nuts a benchmark with added benefits.
- To attract finance into the shea sector.
- To increase competitiveness of shea enterprises.

**FIGURE 1: The Cluster Initiative Performance Model**



*Source: The Cluster Initiatives Green Book*

### **3.0 METHODOLOGY AND APPROACH**

The study was conducted in the three savannah regions in the northern part of Ghana where the shea tree is largely situated. These are the Upper East, Upper West and Northern regions.

Virtually all the thirty eight districts in these regions are categorized as Shea districts producing shea in commercial quantities and with a potential to expand cultivation of the shea tree. However a sample size of nine districts was selected for the study. The selection was done with the collaboration of the three GTLC Regional Focal Persons representing the three regions and three selected enumerators from each region with a good knowledge of the shea sector. Finally GTLC's earlier work on shea provided a background for the eventual decision to settle on the nine districts.

In each of the three districts per region, one hundred pickers and processors (Except the Upper east region that interviewed eighty), ten small scale processing units and the district/municipal/metropolitan assemblies were interviewed. The pickers, processors and small scale processing units were randomly selected across the three districts per region without any even distribution.

The collection of primary data was done with the purpose of understanding the dynamics of engagements within clusters, between clusters and other institutions and how Institutions For Collaboration are functioning in the three regions. The questionnaire for the purpose covered such issues as investment in shea related infrastructure, types of business units among the clusters, commitment of MMDAs to policies on small scale entrepreneurship development.

The three GTLC Regional Focal persons and selected enumerators were invited to a meeting in Tamale where the concepts and hypothesis of the study was discussed. The questionnaire was critically interrogated and changes were made to questions that were not consistent with the objectives of the study.

A period of seven days was assigned for the collection of data.

### **4.0 THE MICROECONOMIC BUSINESS ENVIRONMENT OF THE SHEA SECTOR**

Even though traditionally, economic theory mentions the following factors such as Land, Location, Natural resources, Labour and Local population size for comparative advantage for regions or countries, Michael Porter, a leading authority on company strategy and the competitiveness of nations and regions, believes that sustained industrial growth has hardly ever been built on the above mentioned basic inherited factors. Abundance of such factors may actually undermine competitive advantage. He therefore introduced the concept of Clusters.

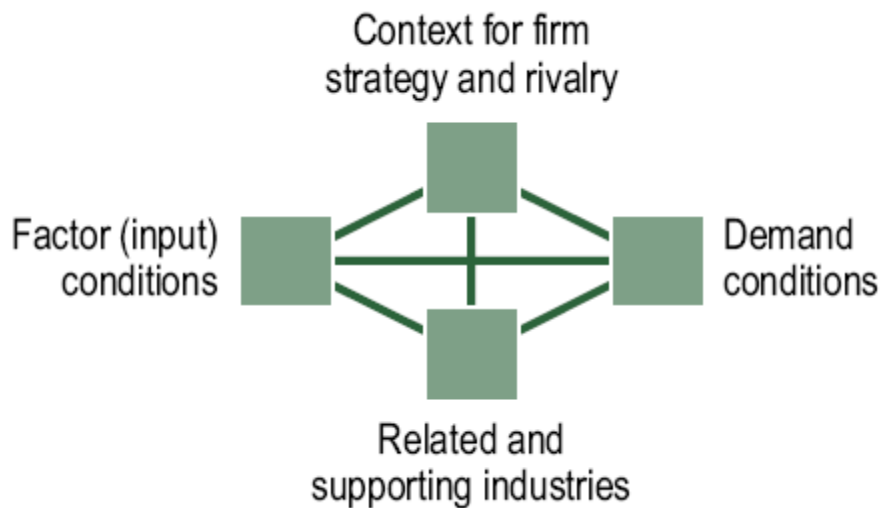
These clusters are geographic concentration of interconnected companies, specialized suppliers, service providers, and associated institutions in a particular field. They grow on locations where enough resources and competences amass and reach a critical threshold, giving it a key position in a given economic branch of activity, with a decisive sustainable competitive advantage over other places, or even a world supremacy in that field.

Clusters can influence competition in three ways - they can increase the productivity of the companies in the cluster, they can drive innovation in the field and they can stimulate new businesses in the field.

In his book, *The Competitive Advantage Of Nations*, in which he describes a model of determining factors of national advantage, which has become known as Porter's Diamond or the Diamond Theory suggests that the national home base of an organization plays an important role in shaping the extent to which it is likely to achieve advantage on a global scale. This home base provides basic factors, which support or hinder organizations from building advantages in global competition.

This part of the study therefore illustrates an understanding of the microeconomic business environment of the Shea sector using the Diamond Theory/Porter's Diamond in terms of prevailing Factor conditions, Demand conditions (especially domestic demand), context for firm strategy and rivalry, and related and supporting industries (strength and quality of linkages).

**FIGURE 2: The Microeconomic Business Environment- THE DIAMOND**



Source: *The Cluster Initiatives Green Book*

### 4.1 Factor Conditions

These are the situation in a country regarding production factors, like skilled labor, infrastructure, etc., which are relevant for competition in particular industries. These factors can be grouped into human resources (qualification level, cost of labor, commitment etc.), material resources (natural resources, vegetation, space etc.), knowledge resources, capital resources, and infrastructure.

They also include factors like quality of research of universities and deregulation of labor markets. Resource availability (inputs, labor, capital and technology) contributes to the competitiveness of both firms and nations that compete in particular industries. The key/specialized factors of production are skilled labor, capital and infrastructure.

#### 4.1.1 Infrastructure

Findings from the study revealed that factors of production such as land, location, local population size and natural resources including Shea trees are available in the areas of this study. However, infrastructure is not too good.

Only 15.3 per cent of the 281 respondents had tarred roads linking the distance from bitumen sealed roads to their communities. Majority of the respondents of 70.4 per cent claimed the distance from

bitumen sealed roads to their communities were mainly gravel/untarred/rough road, and 14.3 per cent indicating that the connection is mainly via footpath.

In terms of health facilities, 31.1 per cent of respondent communities had no health centres at all, another 31.1 per cent had community health centres, 18 per cent with CHIP (centre for health, intervention and prevention), with the rest in order of significance, being municipal hospitals, primary health care and nutrition centres.

More than half of the respondent communities (64.3 per cent) depended on boreholes as their main source of water supply with only 15 per cent having access to pipe borne water. The rest depended on dams and rivers. It is however interesting to note that about 72.7 per cent of processors depend on water for processing in order to be in business. Only one out of the 281 respondents noted that water was not the determinant of his business continuity or survival. The remaining 26.2 per cent however did not respond to this issue.

In terms of access to electricity or being connected to the national grid, about 51.5 per cent had no access at all with the remaining (48.5 per cent) having access. Meanwhile, 71.6 per cent of processors cited electricity as their major need to be in business.

The type of educational facilities available in these communities is mostly basic education– primary and junior high schools (66.2 per cent), about 21.1 per cent of respondents had only primary school facilities available. Only 0.4 per cent of respondents had tertiary institutions and 2.5 per cent with senior high school. About 7 per cent of the respondents had no educational facilities at all.

It is worthy to note that about 70 per cent of Shea nuts processors hinted their dire need of storage facilities to be in business. Equipment used for the collection and processing of Shea nuts were predominantly pans, pots and grinding machine. Jute sacks, the floor, pans and baskets are the main storage facilities for the nuts while the resulting Shea butter is largely stored in a pan, calabash and plastic wraps.

It is obvious from the findings that these business areas of the Shea sector are disadvantaged in terms of infrastructure.

#### **4.1.2 Individual and Group Profile**

Majority of the pickers are predominantly women in groups. Most of these groups constitute about 15-30 women, whose ages ranged between 15 and 66 years. However, majority of the groups had their members within the ages of 36-45 years.

About 84.8 per cent of the total group respondents had no legal status, only 12.6 per cent registered under their various districts, with the remaining 2.6 per cent giving no response. Again only 35.7 per cent of the group respondents had a group constitution.

Finding also showed that about 52.7 per cent of members in Shea groups had the Shea business as their main/primary livelihoods and the remaining 47.3 per cent as a secondary preoccupation. It was also noted that out of the various Shea group compositions, smaller groups made up of between one to five



members had high educational levels. As high as 45.2 per cent of such group members had basic junior secondary education and 30 per cent of members had basic primary education. A total of 23.6 per cent of group members had senior secondary school education while 6.9 per cent of members of such group composition had vocational training and 6.2 per cent with other skill training. A smaller percentage of 4.7 per cent had tertiary education. It is worthy to note however, that 17.8 per cent of members of such group composition had no formal education at all. This finding illustrates the fact that most of the primary workers being the pickers and processors of the Shea industry had some form of basic education but the number falls as one climbs the educational ladder. This level of educational background amongst Shea group members can however be built upon or tapped into as majority of members already have the basic forms of literacy and other skills which can easily be expanded or improved upon.

#### Cost of collection and processing

Data was collected to enable analysis and appreciation of the effort that goes into the collection and processing of shea nuts. The gaps between the minimum and maximum cost values are so big to allow for conclusive analysis on the value of effort in the collection and processing of nuts. For example, it cost a between GH¢2.00 and GH¢70.00 to collect nuts and between GH¢3.00 and GH¢120.00 to process nuts into butter. Sixty six point four (66.4) per cent of respondents put the cost of collection of nuts at between GH¢2-5. The study however concludes the following, that:

- Respondents might not have fully understood the question
- Respondents might have taken for granted some efforts that needed to be costed.
- The questionnaire did not itemize cost to allow for specific estimates to be made by respondents

and therefore a different study may be done in the near future to understand the real cost of collecting and processing measured quantities of the nut.

On the issue of major items needed to be in business 53.5 per cent cited safety boots followed by gloves, donkeys/cattle drawn carts, quantity of Shea nuts, bicycles and motorcycles in order of significance.

#### **4.1.3 Resource availability (Shea tree)**

The Shea tree which provides the nuts for pickers and processors are predominantly found in the northern belt of Ghana specifically the three northern regions. These are naturally growing and not plantations. Majority of pickers, according to a previous study report by the GTLC, walk long distances of between 5-10km in search of nuts. Despite the problems associated with this, pickers claim the farther one traveled in search for the nuts the better the quality of nuts picked.

It is obvious that even though the Shea trees are available, because they are not domesticated, pickers of the nuts have to go the extra mile usually into thick bushes and forests to collect nuts irrespective of the dangers involved (harsh weather conditions, snakes and scorpion bites as well as other animal attacks). The use and the provision or supply of safety boots, hand gloves, protective clothing as well as grinding machine and equipment for processing should therefore be given serious consideration by individuals, groups and agencies working in the sector. This would hopefully improve access to the resource and reduce injuries. However, improving access through plantation development is recommended.

#### **4.1.4 Capital**

Access to credit facilities is a challenge to pickers and processors. On the issue of things needed to be in business, 70.4 per cent of respondents (pickers) cited capital while 77.8 per cent of processors also expressed the dire need of capital.

#### **4.1.5 Knowledge and information sharing**

Even though 75.4 per cent of respondents find information sharing useful a minority do not appreciate the usefulness of the information they receive. Findings from this study showed that only 54.2 per cent keep information on market prices, 22.2 per cent on production procedures with yet 10 per cent keeping books of account. A very negligible number kept information on investments, business plans and other forms of information.

In terms of the type of business information received from others, 56.6 per cent of the respondents indicated that, information was mainly about processing and the demand of the nuts at the time, 4.7 per cent on skill training, and 4.7 per cent on profits of products with the remaining spanning across several issues. However, 1.2 per cent of respondents indicated that they do not receive information at all.

The findings also show that 22 per cent of respondents share no information at all with others, while 35 per cent share market price information, 4.5 per cent share information with beginners in the Shea business, 10.2 per cent on production issues.

It is worthy to note however, that only 3.7 per cent of respondents share information on how to access credit facilities/capital, even though this subject is of high importance and even threatens the survival of their business.

On the issue of information that is needed that is not already being received by respondents, contacts with buyers, access to ready markets and any information that will promote their business were noted. Again on the issue of the sources of information, 28.5 per cent of the respondents noted that they do not receive information from any institution, groups or individuals while 12 per cent said they receive information from among group members. A further 11 per cent hinted that they receive information from non- governmental organizations and agricultural officers. The remaining spans across radio discussions, Ministry of Food and Agriculture, MIDA, Trade Aid, business groups, market men and women and the general public.

#### **4.1.6 Use of Technology/know-how**

The study made an assessment of technology (in picking of nuts, drying, boiling, cracking, roasting, miilling, extraction e.t.c) used by respondents in their work. Twenty eight (28.2 per cent) indicated that they do not use any form of technology, while 17.5 per cent depended on the use of old and traditional methods of work. Only 4.9 per cent of respondents use new technology (roasting and milling) in their work. Others expressed their reliance on electricity, practical experience and knowledge, quality frying techniques and yet others by simple observation.

When asked the advantage they had over others in terms of the know-how, 23.6 per cent did not think they had any advantage, 27.7 per cent believed they are able to make profit on production due to the

quality of butter produced and subsequently enjoy good market, 10.1 per cent believed they were able to produce at a faster rate and therefore resulting in more Shea butter produced. The remaining spreads across storing nuts for long, having clean products, easy understanding, staying in business and having better market prices.

About 48.1 per cent received no form of know how to make them more competitive, 10.2 per cent received training on production of good butter, while 5.3 per cent received the know-how on micro enterprise management and 7.4 per cent received the know-how on the use of modern equipment, processing and storage methods. Roughly 18.9 per cent of respondents did not comment on this issue. Minority of the respondents touched on a variety of issues ranging from packaging, skill training and market know-how.

Again, about 54.9 per cent received no training to improve knowledge, 5.7 per cent received training on sustainable nut harvesting, 8.2 per cent received processing advice from elderly women and 4.9 per cent received training on skills and practical training. The rest ranged from training on keeping accounts, non formal education, health training and business plan development. The medium term training facilities available to micro and small scale businesses from local government ranged from rural technology facility, fund mobilization and management, through National Board for Small Scale Industry (NBSSI), Medium And Small Loans Company (MASLOC) and Non Governmental Organisations (NGOs).

On the issue of the innovations applied to improve performance, 42.6 per cent indicated that they did not apply innovations, 15.5 per cent applied innovations on ensuring clean products, 18.9 per cent on production and quality management and 8.5 per cent on storage and packaging.

## **4.2 Demand Conditions**

When the market for a particular product is larger locally than in foreign markets, the local firms devote more attention to that product than do foreign firms, leading to a competitive advantage when the local firms begin exporting the product.

The key is the existence of sophisticated and demanding local customers which will to a large extent enable these Shea clusters to increase quality/differentiation and sell superior products because the market demands high quality.

Findings from the study showed that only 5.2 per cent found it extremely easy to sell, 11.5 per cent of respondents found it very easy while 24.2 per cent found it easy with the remaining 59.1 per cent finding it difficult to sell their products (nuts/butter).

However, on the issue of what their target markets are, 39.5 per cent of respondents targeted local markets, 19.5 per cent on wholesalers and individual consumers, 10.9 per cent targeted both local and international markets, 8.9 per cent also targeted selling through middlemen, 2.8 per cent on regional and national markets with only 1.2 per cent claiming to have no target market at all. The remaining respondents target markets scattered across soap making industries, tobacco processors, MIDA, Body Soft and buyers from the UK.

On the timeliness of sales, 44 per cent of respondents indicated that their products are sold immediately it is ready, 35.8 per cent sold their products one week after the products become ready, 11.9 per cent sell within a month while the remaining respondents sold between three months and one year.

From above findings it was obvious that even though a sizable amount of respondents targeted local markets with a few focusing on international markets to sell their products, local consumers were far less demanding and sophisticated.

### 4.3 Context For Firm Strategy And Rivalry

The key here is the manner in which an industry is created, organized and managed and the nature of domestic rivalry that could help achieve a sustained competitive advantage.

Presently, according to 80 per cent of respondents, there is no existing framework for cooperation between the SMEs with district/regional/national institutions. The minority hinted that accounts are available with financial institutions and access to MASLOC loans and Techno serve loans.

Thirty six point seven (36.7) per cent of respondents were of the view that there were few competitors in the Shea industry while the others of the same percentage think there are many of them. 13.3 per cent indicated that there were no competitors at all and yet another 13.3 per cent noted that even if there were, the numbers are definitely not encouraging.

From the responses, it is observed that, there is no fierce or direct competition in this industry locally, owing to the fact that the Shea butter is the final state in which most processors sell off to consumers without any further value addition. Individual consumers of Shea butter mainly use it as a cosmetic product and have varieties of products (imported cosmetic products) that serve their purpose and hence pressure from such consumers to have Shea butter improved by processors is nonexistent.

As a result, there is lack of direct domestic competition hence local firms in the Shea industry which also use Shea butter as inputs for their products have also not been innovative enough to offer exciting value added Shea butter related products.

Factors likely to influence cooperation between enterprises and institutions for collaboration include good or ready markets for products, improved quality, regulatory frameworks/existence of a Shea board and communication/information sharing, in order of significance. Other factors included cluster formation, capacity building and access to credit facilities.

Findings showed that fierce local or regional competition will be generated in the Shea industry when there is high demand for the Shea and its products. Again, respondents indicated that competition will be fierce when a Shea board is set up, when there are high price butter products, there is access to export markets, reduction of taxes and also the types of inputs used and the output generated. Ironically, 10.7 per cent of respondents believed that the absence of quality nuts will force processors and local firms to innovate and this is likely to result in fierce competition in the industry.

To have collaboration between small scale pickers and processors and SMEs, there will be the need for help in accessing credit facilities, help in the formation of groups and easy access to raw materials/products as well as easy access to markets, in order of significance. The findings show that 27.6 per cent of respondents felt that credit facilities exist.

Findings from this study show that lack of capital or low investments as well as unfair treatment of producers in terms of low prices are the major gaps preventing the Shea industry from flourishing. Other factors worth mentioning are the lack of value addition, lack of Shea board and the lack of technical know-how.

In the nut shell, no solid firm strategy exists in the Shea industry in terms of product quality, differentiation or value addition, and the fact that there is currently no formal quality assessment procedures or standards on which processors/producers are assessed or expected to attain. Again, there is no intense rivalry and cooperation amongst enterprises and small scale pickers and processors and this results in counter productivity and lack of built up capabilities as there is no pressure to innovate in order to upgrade competitiveness.

#### **4.4 Related And Supporting Industries**

The key here is that the close proximity of related industries ensures a quicker response to market trends and changes, and facilitates rapid innovation. This ensures ready access to the raw materials and skills necessary to create advantage through either low costs or differentiation.

From this study, it was found out that the establishment of a Shea board topped the list of what related and supporting industry is needed to facilitate the development and growth of the Shea industry followed by modern processing tools industries, the development of value addition industries including soap or pomade making industries and financial institutions for easy access to capital.

Majority of respondents (86.2 per cent) answered in the affirmative on the issue of their readiness to be drivers of the development of clusters in their areas of operation. They however indicated the commitment to implement new plans as the most significant requirement to be a driver of such an initiative, followed by the existence of a strong institution with trained personnel for linkages and cluster development.

As it stands now, findings from this study reveal that there are no efficient direct linkages between producers (Pickers and Processors) with Universities and Research institutions, export/import firms, financial institutions, soap and pomade making firms and other competent pool of related and supporting industries.

## **5.0 THE INFLUENCE OF KEY ACTORS THAT COMPOSE A CLUSTER INITIATIVE**

### **5.1 Presence and activities of set of actors composing a Cluster**

Participants in a cluster are commonly identified in a model called “Triple-Helix”; namely government, academia and, private sector. In this study, local government; research institutions and; private companies and financial institutions represent the first, second and third aspects of the model. The objective of the chapter is focused on how the participants in a cluster could work harmoniously and collectively to create the needed synergy and efficiency to positively influence the transformation of the local shea industry.

The following paragraphs, in sequential order, address elements of companies (enterprises), government, research institutions, financial institutions and IFCs in the light of their presence and influence in the sector.

## 5.1.1 Companies

### 5.1.1.1 Knowledge of cluster formation

The findings reveal high level knowledge of cluster formation by the shea enterprises. The implication is that a sizeable number of the enterprises are familiar with the concept of clustering. This suggests that top level cluster participants have been successful in playing the basic role of creating awareness among low level participants on the concept of clusters and cluster initiatives. For instance, a total number of 22 companies representing 73.3 per cent of the respondents admitted having been introduced to the concept of cluster formation. This category of respondents identified certain key factors that cluster initiatives could be adopted to grow enterprises in the sector. The factors include; dedicated public investment into the sector (education and awareness creation, capacity building), commitment to supplying quality nuts, availability and accessibility of credit facilities, effective cooperation between clusters and other actors in the industry and, the utilization of improved processing facilities. The high level awareness is a useful potential that could be harnessed to facilitate the formation of shea clusters in the catchment areas.

### 5.1.1.2 Ease of doing business

The study revealed that registration of businesses in the districts is not easy. The indication is that relevant local government institutions do not adequately facilitate the processes of registering enterprises. In this regard, a total of 22 enterprises representing 75.9 per cent of respondents showed that it was not easy to register a business in their respective district/municipality. On cooperation, 80 per cent of the enterprises showed that there was no framework for cooperation with district/municipal assemblies. The table below gives further details of relationships with other actors.

Table 1: what are the gaps preventing the shea industry from flourishing?

Gaps	Frequency	Valid percent
Cutting and burning of shea trees for charcoal	2	7.1
Lack of capital/low investment	3	10.7
Unfair treatment and low market price	4	14.3
Lack of support/technical know-how	1	3.6
Lack of market/low price	6	21.4
Lack of value chain addition	3	10.7
Traditional method of processing	4	14.3
Lack of support from government	2	7.1
No board for shea	2	7.1
Lack of trust	1	3.6
<b>Total</b>	<b>28</b>	<b>100</b>

Source: GTLC Study data

Table 2: what could be done to strengthen weaknesses in the link between enterprises and IFCs

	Frequencies	Valid percent
<b>Soap making industries</b>	1	3,8
<b>Capital should be made available</b>	4	15,4
<b>Introduced ourselves to IFCs</b>	2	7,7
<b>Capacity building/training</b>	5	19,2
<b>Board for Shea</b>	3	11,5
<b>Cluster groups</b>	2	7,7
<b>Mutual trust through cooperation and regular interactions</b>	5	19,2
<b>Regulatory framework</b>	3	11,5
<b>No idea</b>	1	3,8
<b>Total</b>	26	100

Source: GTLC Study data

## 5.1.2 Local Government

### 5.1.2.1 Dominant industry

In line with national statistics, the study identified agriculture (with a proportion of 62.5 per cent) as the dominant industry. The rest are administration, small scale businesses and Shea with equal weighting of 12.5 per cent. Business registration, training in quality improvement, business development and credit were identified as the only support services rendered to the sector by local government authorities.

### 5.1.2.2 Medium term credit to micro and small scale businesses

The findings from the local government reveal that most of the state funded micro-finance institutions do little in support for micro and small scale businesses. Financial institutions and IFAD together constituted a high proportion of 50 per cent of the total medium term micro credit support to the small scale business community. Surprisingly, while MASLOC was identified by one of the respondents no respondent identified Venture Capital Trust Fund (VCTF) as a source of credit to micro enterprises. The reasons for the absence of the venture capital Trust Fund are not farfetched. First, the level of awareness of the VCTF could be so low among MMDAs and therefore surveyed district assemblies do not have information on its operations; second, the focus of the Venture Capital Trust Fund could be export oriented. Third, activities of the VCTF may be concentrated in the urban centers. In any of these possible scenarios, the VCTF will need to intensify its activities and coverage to rural Ghana to address the medium and long term capital needs of SMEs, including Shea. The commonly identified medium term training facilities in the districts were Business Advisory Centers (BACs) and National Board for Small Scale Industries (NBSSI). The rest were Rural Enterprises Project, BUSAC Fund, and NGOs.

On districts support services to the sector, mention was made of electricity, water and road infrastructure.

### **5.1.2.3 Relationships**

Information sharing dominated relationship between local government and research institutions. To a limited proportion, using research to inform development was identified. On the part of Shea enterprises, as high as 28.5 per cent of the respondents indicated that they are unable to obtain relevant information to enhance their operations. Majority of the respondents identified the issue of marketing as a critical factor that when addressed could improve upon the return on their business investment thereby leading to increased incomes and livelihoods of the participants. Other significant factors include credit, preservation of plant, business planning, advertising, information sharing, and capacity development.

### **5.1.4 Research Institutions**

Knowledge of clustering within research institutions is quite high. Apart from minimal individual engagement with associations by individual researchers, no deliberate policies have been designed to engage with the core actors (pickers, processors) of the industry. The relationship between research institutions and local government was basically identified as information sharing.

### **5.1.5 Financial Institutions**

The findings reveal difficulty in accessing information on the sources of credit by most of the enterprises. This could have resulted from the inability of cluster participants to go beyond the stage of providing information on clusters to enabling the creation of functional cluster initiatives. Linking clusters to resources institutions would have established a chain of engagements that would allow for access to financial information including credit.

### **5.1.6 Institutions for collaboration (IFCs)**

According to the available information, the IFCs are not effective in promoting the growth of the industry. The IFCs refer to a wide range of organizations other than firms, government ministries and regulatory agencies, and universities that may have significant effects on competitiveness in the Shea sector. These intermediary entities include: chambers of commerce, industry associations, professional associations, trade unions, technology transfer organizations, quality centers, think tanks, university alumni associations, among others. To corroborate this assertion, a high proportion of 39.3 per cent of the respondents indicated that they have gotten no support from the IFCs. It is also instructive to note that 14.3 per cent of the respondents revealed that the IFCs were not very effective, at least on the ground.

On significant factors that could promote cooperation between enterprises and IFCs, respondents gave equal weighting of 21.4 per cent for guaranteed market and quality standardized products as key elements. Other relevant factors comprised; effective regulatory framework (14.3 per cent), communication/information sharing (14.3 per cent) and, cluster formation (7.1 per cent).

## **5.2 Strength of Shea clusters to attract resources and collaborate**

The capacity of shea clusters to collaborate and attract resources seems a herculean task that must be handled with a high level of dexterity and negotiations. The sector is characterized by weak structures, low capacity, inadequate information, low quality and dwindling supply of nuts, irregular market, and above all polarized and fragmented participants. Therefore, a thorough process of re-engineering is needed to clearly identify roles and responsibilities of all actors. At a minimum, the following conditions are considered relevant in the process of effective reorganization of the industry:

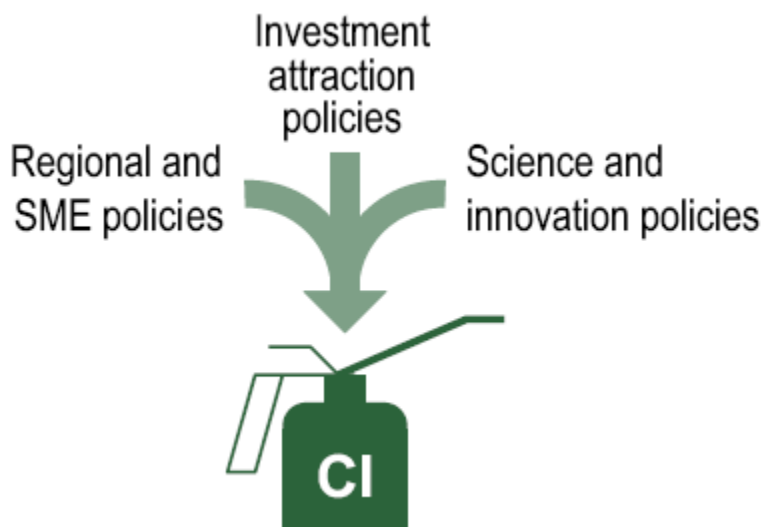


- Create a dedicated governmental agency with adequate power and authority to function
- Sufficient funding for programmes of the sector
- In collaboration with private sector and NGOs create strong linkages between and among actors in the shea sector

## 6.0 STATE OF KEY POLICY AREAS THAT INFLUENCE THE POTENTIAL TO GROW CLUSTER INITIATIVE

This section makes an analysis of National and Regional policies, the frameworks and opportunities they provide to help drive the shea sector into the direction of cluster growth through Cluster Initiatives. The section may also provide some guidance towards the development of a comprehensive policy for the shea sector.

**FIGURE 3: Cluster Initiatives build on three policy areas**



*Source: The Cluster Initiatives Green Book*

### 6.1 Regional And National SME Policies

Micro, Small and Medium Scale enterprises in the shea sector when well developed could be a means through which rapid industrialisation and other developmental goals of Ghana, especially the three northern regions could be realized. All the thirty eight districts in the three northern regions are endowed with the shea tree and the shea industry preoccupies a greater number of women in the picking of the shea nut, processing it into butter and in its local trade. The growing uses of shea butter in cottage industry, in the production of soap and body lotions, and for beauty and hair products provide a potential. Local enterprises SEKAF, the Widows and Orphans Ministry and many others are leading the drive to improve the value of the shea tree on the market, but much more need to be done to protect the existing trees, increase the shea tree stock and improve the quality of picking and processing. To realize this potential the policy environment in support of MSMEs in the shea sector is critical to a greater probability of success. Findings in an earlier study by the GTLC indicated that the management of the shea sector in Ghana is not governed by a comprehensive policy and therefore there exist no specific guidelines to develop MSME within the shea sector. However recognition exists for MSME in a

number of policies documents such as the Ghana Trade policy, Ghana Industrial Policy, Private Sector Development Strategy I and II. The study therefore specifically identifies which aspects of these policies provide guidance that could be useful to unraveling the potential in the shea industry.

A paper researched by the Economic Commission for Africa (ECA) towards the design of ECA's strategic framework to enhance the competitiveness of African SMEs in regional and global markets made some revealing conclusions. That,

- The region lacks a base for technical-skills formation and its enterprise-financed R&D is the lowest in the world. Moreover, political instability, macro-economic turbulence and deficient infrastructure seem to have prevented the region from attracting foreign investment, limiting its ability to participate in the global economy.
- Although it is widely acknowledged that companies' own technology efforts (e.g. investment in human development, information technology, etc) are required for improved performance, this is often an uncertain, risky and costly process, especially for SMEs with limited resources.
- Although empirical evidence from the ECA mission reports suggests that policy intervention is required at all levels to help African SMEs, prioritising such interventions appears to be the first step towards designing a feasible strategic framework to support SMEs in Africa. This needs to take into account the fact that the same policy lessons cannot be drawn for the continent as a whole since the development levels of SME support structures in Africa differ widely. With this in mind, the report presents three basic levels in the state of SME support structures in Africa. This distinction would help policymakers in identifying priorities for countries facing similar obstacles.

**Level I:** Countries with severe deficiencies in infrastructure and a disabling regulatory environment.

**Level II:** Countries with less severe deficiencies in the "basics" (good infrastructure and regulatory framework) but weak financial and nonfinancial institutions.

**Level III:** Countries that have good basics for industrial activity and an efficient SME support structure (by African standards), but require further improvement in policies and support services.

Findings for the ECA report suggest that the basic infrastructure for industrial development in Africa is often very weak. The lack of functional and reliable basic physical and IT infrastructure has indeed weighed against the competitiveness of African SMEs. Apart from a few exceptions, the overall picture is that little progress has been made in improving infrastructure facilities in the region. Improving infrastructure beyond Level 1 is a priority if SME development is to be accelerated.

The study concludes that improving infrastructure is the single most important task for raising exports to neighbouring and more distant countries. The same would seem to apply to many other African countries. Major improvements in infrastructure have become an imperative for three reasons: (a) the internal market of most African countries is too small and exports to neighbouring and distant markets are essential to deepen the division of labour and reap efficiency gains; (b) the new competition puts a premium on product quality and speed of delivery, which are impossible to achieve without adequate infrastructure; (c) e-commerce will further raise the need for better infrastructure, both in telecommunications and transport of goods.

Responding to the new challenges and pressures requires effective support services. It is clear that increasing trade liberalisation in Africa represents a new challenge for SMEs. On the one hand, the opening up of national economies to global markets has increased SMEs’ prospects and opportunities, but on the other, it has also increased international pressure to upgrade and become more efficient. Evidence from the ECA reports suggests that in Africa only South Africa, Mauritius and perhaps Tunisia (clearly at Level III) have responded to trade liberalisation and improved their institutional support systems. Figure 1 seeks to provide some guidance to policymakers and highlights the fact that good governance is about finding the right balance between challenge and support.

**FIGURE 4: SME Market Challenges and Policy support**



Source: *Enhancing Competitiveness of SMEs in Africa, Economic Commission for Africa*

The horizontal axis shows the degree of SME support and the vertical axis shows the severity of the challenge. For the sake of simplicity, the figure distinguishes only between low and high support and between low and high challenge. Up to the 1980s or early 1990s, most SMEs found themselves in quadrant 1: the challenge they confronted was low (due to protection from outside competition) but the institutional support they received was also low. Import liberalisation in the 1990s pushed them into quadrant 3, which meant sudden high challenge but continuing low support. Studies on the supply response of local firms make it clear that this strategy yields poor results (Kaplinsky and Morris 1999, Morrissey 2000). Macro-economic reforms and measures are necessary but not sufficient to induce a domestic supply response. (Eshetu 2000: 18). The quadrant to be targeted in future SME strategy is number 4 (in Figure above), which represents high challenge and high support. This is the combination most likely to lead to a thriving SME sector. The shea sector clearly falls in quadrant 1 but from the identified issues captured in the study, should be in quadrant 4.

Identifying existing deficiencies in the support systems and relating them to the lack of either general economic policies or SME-specific policies is an important step towards prioritising interventions. This helps to distinguish between requirements relevant for all enterprises (regardless of size) and those which are particular to SMEs. General policies are concerned with the basics for industrial activity (i.e. infrastructure and the regulatory and policy environment) while SME-specific policies refer to the direct interventions geared towards improving companies’ accessibility to financial and non-financial services. It is of key importance to know where policy should be put to work first.

Below is an assessment of the position of a number of national policies towards SME specific interventions that could also favour the shea sector.

### **6.1.1 Ghana Trade Policy**

The Ghana Trade Policy is organized around seven thematic areas as follows:

- Multilateral Trade
- Creating a fair and transparent import-export regime
- Facilitating Trade
- Enhancing Production Capacity for Domestic and Export Markets
- Domestic Trade and Distribution
- Consumer Protection and Fair Trade
- Protection of intellectual property rights

The policy is hinged on two parallel strategies. That is,

- An Export-Led Industrialisation Strategy
- A Domestic Market-Led Industrialisation Strategy based on Import Competition

Ghana's Trade Policy commits to support these two strategies by first, promoting increased competitiveness of local producers in domestic and international markets based on fair and equal competition and secondly, by introducing an import and domestic trade regime which promotes and protects consumer interests. This it is believed will enhance industrial and agricultural production with increased employment and wealth for all Ghanaians and provide fair priced, better quality and a broader range of products for all Ghanaian consumers.

In the Trade policy, relevance to the shea sector is found in the specific mention made of micro, small and medium enterprises in sections 4, 5 titled 'Enhancing Production Capacity for Domestic and Export Markets' and 'Domestic Trade Distribution' respectively. In section 4, the declaration is made that the Government will identify and target specific sectors for development on the basis of export potential, domestic market requirements, increased employment and income for disadvantaged groups such as women, rural communities and the poor. Section 4 is further divided into eight subsections namely: Investment Finance; Inputs to Production; Access to Land; Productive Infrastructure; Productivity Improvement; Trade Support Services; Sectoral Development (Agro-Processing); Sectoral Development (information and Communication Technology (ICT)). Annex I provides details of the Policy Context, Policy Objectives and Policy Prescriptions on all the eight subsections. In Section 5, the policy reiterates that; an efficiently functioning domestic market is essential for the development and distribution of products for both local consumption and export. It also promotes consumer welfare. Details of how the policy seeks to achieve this can be found in Annex II

Sections 4 and 5 recognises some of the lithany of challenges identified in this study and makes clear commitments to providing support in improving infrastructure, concessionary investment finance, and improving competitiveness of products. Others include the improvement of management efficiency and value added potential. See Annexes I and II for further details.

### **6.1.2 Ghana Industrial Policy**

In order to become competitive in the global and domestic market, Ghanaian manufacturers must be able to offer high quality products, processes and services, and be empowered to effectively engage in competitive trade and take advantage of opportunities to expand and retain market share.

For this to be achieved, the full spectrum of industrial policy instruments across 21 Policy Thematic Areas will be implemented. These thematic areas have been categorized into 4 main Components, namely:

- Production and Distribution
- Technology and Innovation
- Incentives and Regulatory Regime
- Cross-cutting Issues

The Industrial Policy provides essentially, broad guidelines for concrete action in the field of industry. The actual implementation will be effected through an Industrial Sector Support Programme (ISSP), with a detailed Action Plan and Budget specifying activities to be undertaken annually. The ISSP will be driven primarily by the Ministry of Trade and Industry but will be coordinated through a cross-Ministerial Industrial Policy Coordinating Committee, in recognition of its cross-cutting nature.

Ghana's Industrial Policy is designed to promote increased competitiveness and enhanced industrial production, with increased employment and prosperity for all Ghanaians. It will also provide a broader range of fair-priced, better quality products for the domestic and international markets.

The key development objectives of the Industrial Policy are:

1. To expand productive employment in the manufacturing sector
2. To expand technological capacity in the manufacturing sector
3. To promote agro-based industrial development
4. To promote spatial distribution of industries in order to achieve reduction in poverty and income inequalities

In this regard, the Industrial Policy represents the set of specific policy instruments and measures to be applied to improve access to competitive factors of production within the economy; and enhance productivity, efficiency and growth of Ghana's manufacturing sector.

Ultimately, the success of the Industry Policy will be measured by the extent to which it empowers the private sector, predominantly but not limited to Small and Medium Enterprises (SMEs), to expand and create opportunities for employment and reduce poverty and spatial inequalities in Ghana.

The policy extensively recognizes all the major challenges faced by SMEs and identifies objectives and prescriptions to the challenges. The challenges identified include raw materials, inputs supply, plant, equipment and machinery, Entrepreneurial and Management Skills, labour, financing for development. Others are marketing and distribution of industrial products, standards for industrial development and many more (refer to the Ghana Industrial Policy on [www.ghana.gov.gh](http://www.ghana.gov.gh) or [www.moti.gov.gh](http://www.moti.gov.gh))

## 6.2 Investment Attraction Policies

This study seeks to broaden the scope of actors and engagements in growing the shea sector, and for that reason this section will touch broadly on investment attraction policies that could influence the engagements and actions of this group, especially within the triple helix system of Cluster initiatives.

Ghana provides a variety of incentives for local and foreign investors. These include tax holidays, capital allowances, locational incentives, customs duty exemptions and other inducements. These are specified in the relevant statutes and applied fairly. Relevant legislation includes the following:

- Income Tax Decree, 1975 (as amended);
- Free Zones Act, 1995, Art. 504;
- Income Tax (Amendment) Act, 1998, Art. 551; and
- Ghana Investment Promotion Centre Act of 1994.

## **Investment incentives, benefits and guarantees**

Below are excerpts of tax holiday that are relevant to the shea industry.

Tax incentives provided under the Income Tax Decree, 1975 (as amended) include:

### **1. Tax holiday** (from start of operations)

- a) *Agriculture and agro-industry*: Cocoa farmers and cocoa producers: income exempted; cattle ranching: 10 years; tree crops (e.g. coffee, oil palm, shea butter, rubber and coconut): 5 years.
- b) *Value addition to local raw materials*: Manufacturing enterprises that use local raw materials enjoy a 3-year tax holiday.

**2. Capital allowances (vary by sector)**: Accelerated depreciation on machinery and equipment – 5 per cent for all sectors of the economy except banking, finance, insurance, mining and petroleum; and 20 per cent for building and real estate services.

**3. Locational incentives (tax rebate)**: Manufacturing industries located in regional capitals other than Accra and Tema will enjoy a 25 per cent rebate. All other manufacturing industries located outside regional capitals shall enjoy a 50 per cent rebate.

After the initial 5-year tax holiday period, agro-processing enterprises, which use local agricultural raw materials as their main inputs, shall have corporate tax rates fixed according to their location as follows:

Accra-Tema – 20 per cent

Other Regional Capitals – 10 per cent

Outside Regional Capitals – 0 per cent

All over Northern, Upper East, Upper West Regions – 0 per cent

**4. Corporate tax rate**: The tax rate in all sectors is 32.5 per cent except for income from non-traditional exports (8 per cent) and hotels (25 per cent).

**5. Exemption from income tax**: An exemption will apply for the provision of accommodation for employees on farms, as well as building, timber, mining and construction sites.

**6. Loss carry-over**: Tax losses are carried forward for five years and are lost if unutilised after the lapse of the fifth year. Only businesses involved in Manufacturing mainly for export, farming and mining have this right.

Exporters receive additional incentives, such as retention of foreign exchange earnings from manufacturing and agricultural products, and up-front duty exemptions and duty drawbacks

### **Special incentives available to exporters**

**Export retention**: Under this procedure, exporters of non-traditional items are permitted to retain 35 per cent of their export earnings in a foreign account with the Ghana Commercial Bank in London for the importation of inputs for their operations and for payment of related services such as foreign business travel expenses, participation in trade fairs, medical and educational bills as well as wages for expatriate staff. Such holdings may also, at the request of an exporter, be converted to local currency for the exporter's domestic use. Exporters of traditional items are allowed to retain 20 per cent, except exporters of round logs and Ashanti Goldfields products, who retain 50 per cent and 45 per cent, respectively.

**Duty drawbacks**: Manufacturers are entitled to 100 per cent of the import duty and other taxes on imported raw materials if such raw materials are used for export production.

**Income tax rebate**: Companies or individuals who engage in exports are entitled to tax rebates ranging from 60 to 70 per cent, depending on the percentage of total output exported.

**Bonded warehousing**: Exporters are allowed to store their raw materials in warehouses under the control of the Customs, Excise and Preventive Services (CEPS) without payment of import duty and other taxes until the goods are withdrawn from the warehouse.

**Export duties:** Exporters of non-traditional items are exempted from paying duty on exports. Exports of gold, bauxite, manganese and timber are, however, subject to a 6 per cent export tax. The tax on cocoa is the difference between export proceeds and payments to farmers together with operational costs, if the proceeds exceed payments.

Particular attention is paid to companies engaged in non-traditional exports. Such exporters are taxed at a reduced rate of 8 per cent and are exempted from some export duties. Ghana also has a number of FTZs that provide further incentives to exporters. The zones consist of areas in which infrastructure services – including bond warehouses and utilities such as power, water and telecommunications – are provided to export-oriented businesses. Goods traded between FTZs and other countries are exempt from customs duties. There are extensive incentives for companies setting up in the FTZs, including:

- Zero per cent income tax for 10 years and a guarantee that income tax thereafter shall not exceed 8 per cent.
- Total exemptions from payment of withholding tax from dividends arising out of investments in FTZs.
- Relief from double taxation for foreign investors and employees.
- No import licensing requirements.
- 100 per cent foreign ownership allowed.
- No restrictions on repatriation of profits.

The Free Zones Act also allows firms that export 70 per cent of their production to obtain “free zones status” even if established outside the zone. According to a UNCTAD survey, investors receiving free-zone benefits are satisfied with the incentives offered, particularly for fast track clearing of imports. Combined with other income tax rebates for exporters, the incentives are very generous compared to other countries in the region. However, granting free zone status to companies located outside the zone has created problems for the zones’ development. They continue to lack adequate infrastructure facilities, and this is impeding the clustering of activities originally sought.

Even though this study is not geared towards promoting clusters for export purposes but for the development of local competency in the collection and processing of nuts by women groups, and the value added aspects by SMEs, it is important that incentives are provided to support producers and SMEs to enhance the quality of nuts, butter and manufactured products. However it is hoped that by taking advantage of the tax breaks and incentives shea producers could produce differentiated products for the local market, and further enhance their capacities to export within the West Africa sub region and other international markets.

### **6.3 Science, Technology and Innovation Policies**

Ghana has launched a comprehensive Science, Technology and Innovation (STI) Policy. The policy is driven by Ghana’s ambition to become a middle-income country and therefore requires a vision of development which fully applies and integrates STI into national development strategies to harness fully the nation’s total science and technology capacity to achieve national objectives for poverty reduction, competitiveness of enterprises, sustainable environmental management and industrial growth. Specific objectives are among others to:

- facilitate mastering of scientific and technological capabilities;
- provide the framework for inter-institutional efforts in developing STI and programmes in all sectors of the economy to provide the basic needs of the society;

- create the conditions for the improvement of scientific and technological infrastructure for research and development and innovation.

The policy will be driven on the principles of relevance, realism, cost-effectiveness, synergy and partnership.

The priority themes underpinning Ghana's National Science, Technology and Innovation Policy and together form the agenda for the revived Ministry of Environment, Science and Technology provide ample justification for the STI policy. These are.

- Promoting competitiveness in productive sectors of the economy;
- Creating job opportunities and employment;
- Expanding industrialization;
- Enhancing the quality of life through innovation;
- Developing scientific human resources;
- Expanding infrastructure;
- Promoting an information society;
- Optimizing on the sustainable use of the natural and environmental resources;
- Commercializing research findings.

In order to achieve these objectives, the policy will facilitate the implementation of sectoral policies, programmes and strategies by the respective sectors on the basis of the overall National Science, Technology and Innovation Policy. Agriculture, Health, Education, Environment, Energy, Trade, Industry, Natural Resources, Human Settlements and Communications, etc are expected to identify programmes and activities whose execution will be enhanced by the most appropriate and effective tools derived from STI and ICT.

Research Institutes of the CSIR and other organizations will be well staffed and equipped to provide the research and development needs of all ministries, departments and agencies, and also the private sector. Their priorities will be well defined, reviewed regularly to ensure their relevance not only to the formal sector but also indigenous businesses, and the large informal sector where most Ghanaian production and jobs are located. Changes in vision and mission will be made where necessary. New institutes may be set up if found necessary.

This study is focusing on the objectives of the STI policy in Agriculture, Industry and Environment so as to identify the interventions that could be derived for a cluster initiative on Shea.

### **6.3.1 Agriculture**

Agricultural productivity at every level of the chain of production, processing, packaging and marketing will be made to benefit from quality relevant research and development. It will require the knowledge and skills of an army of scientists of many specializations, engineers and technologists, and many social scientists including economists, sociologists, geographers and statisticians, etc. Applying the lessons of CRIG (in the cocoa industry) to other crops would require that the *Crops Research Institute, Oil Palm Research Institute, Savanna Agricultural Research Institute* are better funded and focused on agricultural productivity issues. Other research and development programmes which can increase agricultural productivity and in the process increase wealth and reduce rural poverty include the following:

- i. Promote the research and application of new technologies including safe biotechnology, which hold potential for increasing productivity;



- ii. Reduce pre-harvest and post-harvest losses in agricultural production in both cash and food crops;
- iii. Promote the development of food processing industries and enhance value addition for the local market and for exports;
- iv. Strengthen the production of non-traditional export commodities to enhance the diversification of the economy;
- v. Strengthen the linkage between research and agricultural extension;
- vi. More proactive government's support for individual R & D projects which are applying tissue culture in banana, plantain, pineapple and yam production.

### **6.3.2 Industry**

Ghanaians engage in a wide variety of activities and enterprises which can be classified as industry. The role of STI should be to increase the national capacity for industrial production and value-addition. As a largely agricultural country with a wide variety of farm products other than cocoa such as cassava, citrus, pineapple, banana and plantains agri-processing, food and beverages have potentials well beyond their export as the non-traditional commodities.

Some programmes and activities to be pursued include:

- i. Strengthen systems and mechanisms for acquisition, assessment, adaptation, adoption and application of essential technologies for industrial activities;
- ii. Encourage R&D activities that develop tools, equipment and machinery for industries;
- iii. Encourage quality assurance in manufacturing;
- iv. Promote S&T activities that would accelerate technology transfer and innovations;
- v. Create incentives to promote investment and support in research and development by the private sector;
- vi. Facilitate capacity building in engineering design and manufacturing technology to enhance national development;
- vii. Enhance industrial technology development infrastructure;
- viii. Promote and facilitate recyclable materials technologies, and application to minimize industrial waste in the environment;
- ix. Promote scientific knowledge acquisition and development of technologies in the new and emerging sciences of biotechnology, materials science, micro-electronics and laser technology;
- x. Create the national capacity to exploit opportunities for innovation addressing climate change;
- xi. Establish industrial parks, innovation centres and business incubators to foster linkages between the knowledge centres (i.e. research institutes and universities) and productive enterprises;
- xii. Institutionalize regular interaction between research institutions/universities and the private sector
- xiii. Promote industrial attachments for S&T students.

### **6.3.3 Environment**

The environment as a source of natural resources, as a source of food, as a source of medicines and a source of recreation and therefore as a resource for improved well being and inputs for industry has to be utilized in a sustainable manner.

This is very true for the Shea plant that is being destroyed as a result of infrastructural and agricultural developments and because of its preferred use in the production of charcoal. It is also true because there is little progress by research in finding a Shea plant variety that could be used in plantation development.

Application of STI to all aspects of the management of the environment would enhance sustainability. Some activities and programmes to be considered include the following:

- i. Integrate environmental concerns in all development policies and ensure public understanding of the scientific basis of their actions on the environment;
- ii. Encourage and support science and technology interventions that promote sustainable environmental conservation and management;
- iii. Strengthen research and development activities that would promote sustainable development especially of ecosystems and ecological processes;
- iv. Develop the STI capacity to monitor, predict and mitigate the adverse effects of natural phenomena such as earthquakes, floods, droughts, desertification and bushfires;
- v. Develop an efficient integrated waste management system for using the principle of waste as a resource;
- vi. Promote the use of clean technologies in production systems.

The STIP revolves around the use of science technology and innovation to support growth of SMEs and enhance competitiveness among them. The shea sector clearly requires the programmes and activities identified in the policy to protect and preserve the tree, develop a new species that is susceptible to plantation development, and promotion of quality standards through the use of well researched and appropriately developed technology and capacities.

## **7.0 NATIONAL FRAMEWORKS FOR ENGAGEMENT**

This section looks at existing frameworks and institutions with varied capacities that could support the development of the shea sector and with which relationships could be built in the establishment of a cluster initiative.

### **7.1 National Advisory Council on Local Economy Development**

It is reported by the Ghana News Agency that a 13-member National Advisory Council on Local Economic Development (LED) to provide overall guidance and policy direction for development in the local communities was inaugurated in Accra on Thursday, 26<sup>th</sup> May 2011. Mr. Paul Victor Obeng, Chairman of National Development Planning Commission (NDPC), will head the Council that has a Technical Committee to implement its decisions. Mr. Samuel Oforu-Ampofo, Minister of Local Government and Rural Development, inaugurating the Council, said the Ministry in collaboration with the Local Government Service and the support of United Nations Development Programme and United Nations Capital Development Fund (UNCDF) was seeking to develop National Framework to strengthen economic development at the district level.

The challenges faced by the MMDAs that will be taken up by the LED include limited capacity in terms of quality and numerical strength of staff, over reliance on central government, donors of funding and inadequate participation of the citizenry in decision-making for development planning, implementation and monitoring. The LED approach was to build up the economic capacity of the local communities to improve their economic status and quality of life for all.

The LED was a process by which public, business and non-governmental organizations partner the private sector to work collectively to create better conditions for economic growth and employment generation.

"LED seeks to stimulate economic activities, which promote sustained high growth. Many MMDAs in Ghana are weak and under resourced to make much impact on their own. However, working with other local actors to widen the resource base and scope of action," he added.

## 7.2 Savannah Accelerated Development Authority (SADA)

The SADA strategy seems to be a conglomerate of all the national policies except that it prioritises some 'northern' concerns. The study is giving a critical review to the SADA strategy because of its vision and geographical focus. The SADA strategy even though targets the northern savanna with a vision thus, 'Creating a Forested and Green north by 2030, doubling the incomes of Northern Ghanaians and reducing the incidence of poverty in the northern savanna ecological belt to less than 20 per cent within 20 years' the traditional tree resources of the northern savanna such as Baobab, Dawadawa and Shea have been given conditional recognition. Therefore the biodiversity, economic, cultural and social place of these trees and the potential they present to northern Ghana will only be recognized based on market analysis that shows that it is profitable to do so. The fate of these trees is therefore largely left to private sector interest to decide. At the rate at which these trees are lost it definitely calls for a direct support from SADA to reverse.

The expectation is that science and technology would be exploited under SADA to improve the shea tree resistance to plantation development. This is very important to sustain existing trees and also develop improved varieties that could fruit in a few years compared to the present expected twenty years. This will further go to support an industry that is rapidly experiencing an increase in processing capacity and a reducing supply of nuts. There is further concrete inference to the use of science and technology to improve the shea tree expressed thus 'To realise the long-term vision of a 'forested north', SADA will support the development of research and extension capacity in tree crops through scholarships and targeted extension training and research grants. As part of the research agenda, research establishment will be challenged to develop a research programme for the development of indigenous crops/products such as Akee Apple, shea, and various oilseeds, legumes and herbs. In line with the principle of value chain development, such research will start with an identification of markets for products. The programme will also be flexible enough to assist any private sector entity that identifies a market for any of the traditional commodities and approaches research for technical assistance. In the area of food security, there is precedence of World Vision supporting the introduction of fonio in parts of Northern region. More of such involvement will be sought and harnessed. That flexibility will create space for private sector to contribute to the funding of agricultural research'.

The investment in infrastructure development that SADA may bring will benefit a wide range of economic activities including the shea industry. It is obvious that the strategy gives more consideration to mango among the tree crops in the north. It is hoped that the promotion of mango would not mean that the survival of the traditional tree crops such as shea, dawadawa and the baobab be under threat since they may have to be cut down to give way to the tree crops amenable to plantation development and with it the death of the shea industry.

SADA also gives coverage to agro processing and terms it a private sector activity. 'The problems which processing enterprises often face are the inadequacy of raw materials in quality and quantity, and irregularity of supplies due to the seasonal nature of production. The concept of production enclaves will facilitate assembly of produce for agro-industries. Also, the quality of produce will be enhanced because the enclaves will also be linked to services. Since output will be increased and quality of storage enhanced, regularity of supplies will also be improved. Furthermore, profitable agro-industries can invest in stocking of raw materials. However, cottage industries will be encouraged to undertake primary processing, with the products sold to larger agro-industries. Women parboiling paddy for Nasia Rice mills is an example of such a linkage. Presently, cassava and rice are the commodities with commercial level of processing'. Clearly the document articulates the concerns of the shea industry but does not provide hope that direct support may be given to help it grow.

The summary of cost in the SADA strategy confirms that shea as a tree and industry may not receive attention that it urgently needs in the foreseeable future. Tree crop in the summary is specifically defined as mango.

In conclusion, even though SADA may bring about some benefits to the shea industry in the long term, the tree resource may not be able to provide the commercial quantities required to fully take advantage of these benefits. The ability of the industry to benefit from SADA will depend on how operators in the sector take up the task to promote shea as a key industry in the north that has a high potential in sustainably foresting and greening the north, and also growing profitable ventures.

With SADA the fight for the shea tree is not over as some may be inclined to think. It is just beginning.

### **7.3 Northern Rural Growth Programme (NRGP)**

The overall sector goal of the program is to contribute to an equitable and sustainable poverty Reduction and food security among rural households. The specific objective is to increase northern Ghana area rural households' income on a sustainable basis.

The proposed program would be implemented in 32 districts located in northern Ghana over a six-year period under four components:

- Commodity Chain Development;
- Rural Infrastructure Development;
- Access to Financial Services; and
- Program Coordination. The following is a brief summary of the Program description.

The program will have positive social impact on men, women and youths in the program area. About 372,000 rural households or three million people living in these households will directly or indirectly benefit from the program. An estimate of 1.56 million of women will also benefit from the program.

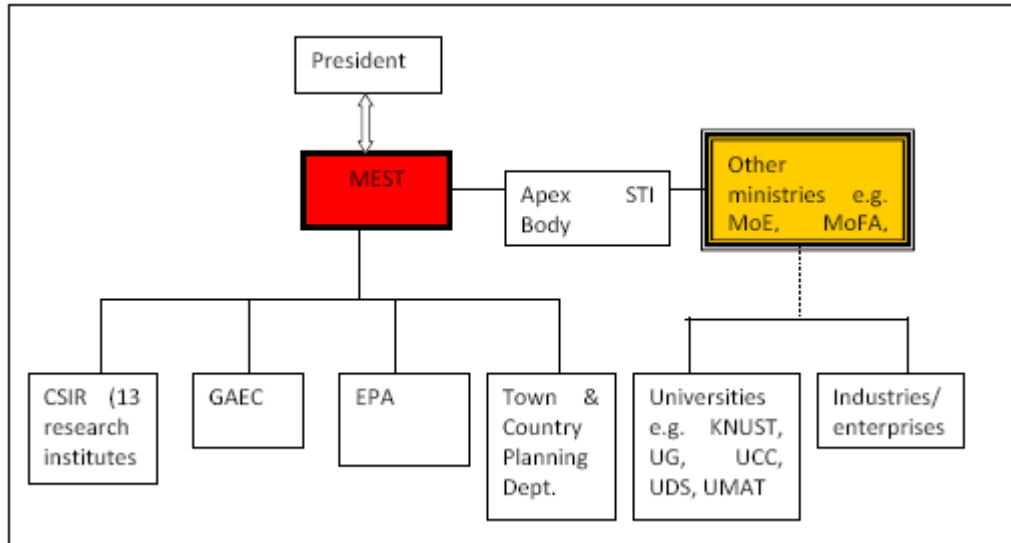
NRGP addresses the priorities of the Government of Ghana in the pursuit of poverty reduction as describe above. NRGF will contribute to achieving the objectives of the Millennium Development Goals (MDG) and the NEPAD's Comprehensive African Agricultural Development Program (CAADP).

Though laudable the NRGF will have to work pretty fast and SMART in six years to tackle the challenges of the shea sector. Its focus on shea is similar to SADA and therefore depends on the presence of a strong and innovative private sector to activate. However the private sector also needs conscious and directed support to be able to handle the task. NRGF could help to increase the number of aware private sector operators towards a critical mass that may benefit shea. It could also create business supportive conditions that would benefit a wide range of sectors including the shea. It however does not provide a salvage programme for shea as an industry. The scale of challenges faced by the shea sector requires a focused, all encompassing intervention to deal with.

### **7.4 Science, Technology and Innovation (STI) Organisational Framework**

The STIP provides a framework (FIGURE 2) with the President of the Republic at the head of it to see to the implementation of the STI policy. The framework provides entry points for the Private sector, Research Institutions to collaborate with Government. This is the type of framework that the Cluster Initiative promotes and therefore opportunity exists for a well organized shea industry to engage purposefully. Indeed it is only through being well organized that the shea industry will be able to be heard above many other industries that may be competing for the same space.

FIGURE 5: The STI Organisational Framework



Source: National Science Technology and Innovation Policy, Ghana

## 8.0 CONCLUSIONS

### 8.1 Policy and Business Environment

#### Policy

With the diverse nature of challenges faced by the sector half measures may not even make a dent in their resolution. It is obvious from the policy review that many partial measures may be beneficial to the shea sector. However it is desirable to have a comprehensive policy to give direction and guidance to the sector and to enable long term planning and investment that is specific to that is desirable for its growth and sustenance.

While national policies have anticipated challenges faced by SMEs and developed strategies to overcome them the institutions charged to implement the policies seem overwhelmed by resource constraints and lack of innovation.

Cluster Initiative is mentioned in various forms in the national policies, especially in the science technology and innovation policy which also makes provision through a STI framework for private sector to engage with Government and Research.

The policies reviewed in this document, apart from the STIP, individually contain elements of solutions that the shea sector needs, but do not provide a comprehensive answer to the challenges faced by the sector.

#### Business Environment

The microeconomic business environment, that is, the Diamond is weak for the shea sector.

The business environment for shea is presently very unstable, little documented and does not provide clear linkages for operators to plan, invest and grow their businesses.

Access to capital is one of the biggest challenges faced by pickers even though the industry depends on their efforts to survive.

There is a number of tax incentives, that could be taken advantage of, by well organized enterprises to establish and grow businesses into competitive brands. Awareness of the existing incentives seems however low.

The business environment of the sector is very challenging while policy support is very low.

Infrastructure for easy incorporation of businesses, easy access to raw material and electricity, appropriate technology to add value is not well developed in the areas selected for study.

Cluster Initiatives provide one of the best frameworks to harness the strengths of policy, research and private sector towards growing the shea sector.

## **8.2 Strength of shea clusters**

There is a high percentage of basic education among the producer groups working in the sector and therefore a high ability to make use of information and knowledge when packaged in the right form.

There is adequate quantity of raw material and majority of group members are in the productive age category of between 36-45 years to take advantage of it.

Over 80 per cent of the shea groups are not incorporated or registered with the local government institutions. However over 50 per cent of the groups consider the sector as their main occupation.

The sector has a high percentage of drudgery. This may be reducing its efficiency and profitability especially for the producers who pick the nuts.

Majority of enterprises sampled have expressed the desire to lead initiatives to create Cluster initiatives in their geographic areas. This indicates an acknowledgement of the belief that cluster initiatives could help them overcome the challenges faced in the sector.

## **8.3 Functionality of IFCs**

IFCs are not playing any significant role in the development of the shea sector.

There is no conscious collaboration among IFCs in support of enterprises in the shea sector because no structures or frameworks exist to facilitate such collaboration.

## **8.4 Research and Innovation**

Research institutions have a high level of knowledge of cluster formations

Except a few individual enterprises the sector is generally bereft of innovations and new research and this may be the cause of stagnation in the industry.

There is presently little competition in the sector to drive the sustainable use of technology and innovation at all levels of production.

## 9.0 RECOMMENDATIONS

### 9.1 Policy and Business Environment

#### Policy

The Government must as a matter of urgency create an independent body to manage the development of the sector through the institution of policy measures to enhance research, production and marketing.

A policy should include a framework for collaboration similar to the STI framework to guarantee a comprehensive and participatory problem resolution and development.

#### Business Environment

The Cluster initiative should be employed in overcoming the challenges of the shea.

### 9.2 Strength of shea clusters

Efforts by all organisations working in the shea sector should be directed at creating business oriented groups and enhancing their capacities to participate effectively in the value chain.

The Government or Shea body should invest in providing training to groups and then linking them to resources and institutions. The Cluster Initiative model is suggested for the purpose.

An investment package linked to set benchmarks should be made available by Government to registered and recognized shea producer groups to enable the elimination of the drudgery associated with gathering the nut.

### 9.3 Functionality of IFCs

The Science and Technology Policy Research Institute (STEPRI) of the Council for Scientific and Industrial Research (CSIR) and the Pan Africa Competitiveness Forum (PACF), Ghana Chapter could play facilitating roles in ensuring that knowledge and practical implementation of CI in shea is done and IFC perform their functions. For the purpose, GTLC shall initially mobilize all stakeholders and share her networks resources in the shea sector.

The Shea Network, Ghana already brings together a number of stakeholders to the annual forums that it organizes. The network should play the role of Driver.

The following stages of development as suggested by experts in CI is proposed:

**Stage 1: –Assessment of Interest** - get support from key groups (e.g. State Government, Local Government, Industry Bodies and Relevant Education Bodies) and a 60-90 minute meeting with stakeholders (including seeking a Champion and/or Driver).

**Stage 2: Preparation** – Two meetings with a Planning Group and interim online communication to settle on the purpose, get the right stakeholders in the room and agree on the meeting design.

**Stage 3: Planning** – face to face Future Search Event to develop an abundance of ideas and initiatives, build goodwill and enthusiasm, and decide on specific action steps.

**Stage 4: Implementation** – includes report and action

**Stage 5: Review & Adjust** – includes first 3 monthly phone reviews & first quarterly review\*

## 9.4 Research and Innovation

The CSIR, CRIG and UDS should be resourced and tasked to collaborate to find answers to challenges faced in the last three decades in researching improved shea plant variety.

## 10.0 ANNEX

### ANNEX I

#### **Enhancing Production Capacity for Domestic and Export Markets**

##### **Investment Finance**

Policy Context:

Mobilising domestic and international resources for production, especially for value-added products, is essential to developing national supply capacity.

Policy Objectives:

- To encourage both domestic and foreign investment in productive sectors throughout Ghana.
- To increase the size and number of productive enterprises, especially those in value added sectors.
- To enable entrepreneurs with limited or no collateral, but who are low risk investors, to access formal credit for investment and working capital.

Policy Prescriptions:

1. Government will provide a macroeconomic environment conducive to productive investment, with price and exchange rate stability and low interest rates.
2. Government will actively encourage and promote both domestic and foreign investment through identification and promotion of strategic investment projects, especially those with export potential.
3. Government will facilitate the provision of long term concessionary investment finance facilities to groups currently excluded from, or with limited access to, credit. This will include Micro, Small and Medium Enterprises (MSMEs), exporters, women and rural entrepreneurs and will ensure that the benefits of trade are not only enjoyed by the established and urban segments, but all segments of Ghanaian society.
4. Government will facilitate the provision of support to strategic productive sectors based on clear and transparent criteria. This will be private sector led with Government providing the necessary stimulus as required.
5. Government will facilitate and support the establishment of credit reference agencies.

##### **Inputs to Production**

Policy Context:

Access to competitively priced inputs to production is essential for developing supply capacity for both domestic and export markets. Domestic production of inputs at competitive world prices can be an important source of employment and growth.

Policy Objectives:

- To improve competitiveness of products, and increase export potential.
- To encourage value-addition and increase employment and growth throughout the supply chain.



- To prevent enterprises with dominant market positions from colluding or fixing prices of inputs to the detriment of competitive production, thus limiting productive growth and exports.

Policy Prescriptions:

1. Government will identify and promote opportunities for economically beneficial linkages along production and supply chains in new and existing productive sectors.
2. Government will provide and enforce effective competition rules.

### **Access to Land**

Policy Context:

Land is vital to both domestic and foreign investors as a key factor of production especially for agriculture and industry and as collateral for expansion of existing and new businesses.

Policy Objective:

- To ensure access to secure tenure with established title.
- To ensure land can be effectively used as collateral for finance.

Policy Prescriptions:

1. Government will facilitate and support the establishment of serviced industrial and agricultural estates, outside the free zones, with the necessary infrastructure.
2. Government will establish a land clearing-house system to facilitate the identification and acquisition of land for productive investments. This will simplify procedures and assure investors of security of land tenure so as to encourage investment. These will be implemented through the National Land Policy.

### **Productive Infrastructure**

Policy Context:

Competitive production requires adequate supply of competitively priced road, water, telecommunications, electricity and other services.

Policy Objectives:

- To ensure adequate and cost-effective infrastructure for producers to encourage investment and improve competitiveness.
- To provide long term cost effective energy and water services to the productive sector.
- To increase energy efficiency that will not only assist sustainable development but lower production costs and increase competitiveness.

Policy Prescriptions:

1. Government will ensure adequate provision of well- maintained and competitively priced road, water, energy and other services throughout the country to encourage investment in all regions of Ghana.
2. Government will promote and support sustainable energy generation and initiate appropriate water conservation practices to preserve national resources and lower long term costs to producers.
3. Government will promote the use of energy efficiency in industrial equipment and electrical machinery through application of international standards.

## **Productivity Improvement**

### Management and Training

#### Policy Context:

Productivity is key to developing a globally competitive export sector in Ghana which will increase industrial and agricultural growth, employment and incomes. Effective management of production systems is important for improving productivity and competitiveness, and will ensure consistency and quality.

#### Policy Objective:

- To enhance labour productivity and improve management efficiency, making production in Ghana more competitive, increasing value added potential and ensuring long-term welfare for workers.

#### Policy Prescriptions:

1. Government will commit substantial resources to technical education and training in response to the needs of the private sector.
2. Government will encourage and promote enhanced management training including quality assurance and total quality management schemes.

### Technology Improvement

#### Policy Context:

Technology is an important determinant of productivity. Low or inappropriate technology limits the scope for competitive production.

#### Policy Objectives:

- To improve the level and appropriate use of technology.
- To improve technologies and production processes to increase competitiveness and export potential in world markets.

#### Policy Prescriptions:

1. Government will encourage technology improvement through fiscal incentives and other forms of direct and indirect support for capital investments in technology upgrades and research and development expenditure.
2. Government will ensure that information relating to technological developments, including patented scientific and technological information from around the world, will be identified and disseminated throughout industry, agriculture, academia and research institutions. This will enable industry to keep up with and improve technology, productivity and competitiveness in Ghana.
3. Government will identify scientific and technological information that has fallen into the public domain and disseminate to all potential users to facilitate technology improvement.

## **Trade Support Services**

### Policy Context:

Export promotion services are critical to support the strategy of export-led industrialisation.

#### Policy Objectives:

- To support and facilitate export growth in existing and new markets.
- To develop new products to increase export potential in world markets.

Policy Prescriptions:

1. Government will ensure the provision of a full range of effective export promotion services. These will be well resourced services provided by experienced and professional staff in both Ghana and target markets. These services will include export management training and provision of trade information as well as product development and marketing support.
2. Government will ensure that adequate research and development facilities are available and dedicated to non-traditional exports.

### **Sectoral Development (Agro-processing)**

Policy Context:

Expansion and diversification of production of goods and services are necessary to develop sufficient trade capacity to take advantage of export market opportunities and satisfy the domestic market requirements. Since agriculture is by far the most important sector of the economy upon which most Ghanaians depend, agro-processing will play a central role in diversification.

Policy Objective:

- To support diversification and stimulate productive investment and trade in agro-industry.

Policy prescription:

1. Government will specifically target the agricultural sector in terms of agro-processing, provision of basic foodstuffs for the domestic market and improving competitiveness through economies of scale production and improved technology. Such activities will be addressed through effective implementation of the Food and Agricultural Sector Development Policy.

### **Sectoral Development - Information and Communications Technology (ICT)**

Policy Context:

ICT is a key strategic sector for development in both domestic and international markets.

Policy Objective:

- To support diversification and stimulate trade and productive investment in the ICT sector.

Policy Prescription:

1. Government will initiate measures to support the development of the ICT sector through the effective implementation of the Information and Communications Technology Policy.

## **ANNEX II**

### **Domestic Trade and Distribution**

An efficiently functioning domestic market is essential for the development and distribution of products for both local consumption and export. It also promotes consumer welfare.

### **Domestic Prices**

Policy Context:

The majority of both primary producers and consumers in Ghana are vulnerable, so there is a need for an appropriate balance between prices paid by consumers and prices paid to producers, particularly of agricultural products.

Policy Objective:

- To ensure fair return to producers and fair prices to consumers.

Policy Prescriptions:

1. Government will maintain operation of a free market system, with minimum Government intervention.
2. Government will move towards the liberalisation of the petroleum sector within the context of the National Energy Policy.
3. As a last resort, Government will selectively intervene in farm gate prices of strategic products to stabilise prices for consumers and producers who are vulnerable.
4. Government will encourage downstream processing to increase demand for primary production.
5. Government will develop measures to promote all year round production to increase earnings and stabilise supply.
6. Government will support and strengthen farmer based organisations to improve the bargaining position of producers and reduce the potential for exploitation.

**Encouraging Domestic Trade**

Policy Context:

Considerable proportion of domestic trade are undertaken on an informal basis which limits the scope for growth, development and efficiency gains.

Policy Objective:

- To bring traders into the formal sector, broaden the tax base and enable micro and small traders to access formal institutional support to expand their businesses.

Policy Prescriptions:

1. Government will improve the speed and efficiency of business registration and licensing through computerisation and simplification of procedures.
2. Government will introduce lower tax rates for micro and small traders so that taxation is not a disincentive to formalising business.

**Credit for Trade**

Policy Context:

Lack of credit, especially in agricultural trade, raises the cost of doing business and limits the scope for growth.

Policy Objective:

- To lower costs through provision of adequate and competitively-priced credit to agricultural traders and producers.

Policy Prescriptions:

1. Government will promote credit catalysts and rural service centres where larger traders and associations can access credit and on-lend to small traders and peasant farmers.
2. Government will assist peasant savings and credit unions to become more efficient and effective.
3. Government will provide incentives including reduction in capital-debt ratio, tax rebates, lower reserve requirements, guarantee funds and refinance schemes to banks to increase rural agricultural lending.

## **Trade Infrastructure**

### Policy Context:

Infrastructure and other facilities can greatly affect the cost of distribution and domestic prices. Provision of such facilities improves the speed and efficiency of delivery and sale, and reduces prices.

### Policy Objectives:

- To facilitate delivery from producers to markets and reduce costs of transport.
- To modernise market places and ensure the existence of necessary facilities appropriate to the goods on sale.

### Policy Prescriptions:

1. Government will provide an adequate and well maintained road network, including feeder roads.
2. Government will promote and support the development of an effective and efficient railway and inland waterways network.
3. Government will ensure the provision of effective market infrastructure, especially in the major cities.
4. Government will promote and support an efficient and widespread telecommunications network throughout the country.

## **Promotion of Locally Manufactured Products**

### Policy Context:

Patronage of locally manufactured goods creates the demand that stimulates production, employment and growth. It also provides a critical market for the development of new products and increases export potential. Imports are often perceived as superior to locally produced products. Moreover, local producers and consumers are often unaware of the wide variety of inputs, goods and services produced in Ghana.

### Policy Objectives:

- To stimulate demand for locally produced goods and services.
- To promote local industry, lower costs and improve competitiveness.
- To encourage national pride in producers and consumers for locally produced goods and services.

### Policy Prescriptions:

1. Government will facilitate dialogue between producers, consumers, and traders to increase awareness of sources of domestically manufactured goods and services.
2. Government will actively promote Made-in-Ghana Products in domestic and international markets.

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