David & Goliath:

Creating a level playing field for Ghanaian businesses

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Prologue

The fevered narrative of 'Africa Rising' continues to unfold across newspaper editorials, social media and on the panels of international conferences. But what is the on-the-ground experience of leaders seeking to grow their businesses in Ghana? What are the challenges they face? How can the ambition of Ghanaian businesses be effectively fostered?

David & Goliath: Creating a level playing field for Ghanaian SMEs, finds evidence of a fundamental communication gap between MNCs and the Small and Medium Sized Enterprises (SMEs) wishing to do business with them. Good intentions are falling foul of inflexible systems and processes leading to resentment and frustration.

MNCs working in Africa are eager for local businesses to provide products and services but struggle to find suppliers able to deliver to their required standards, meanwhile local businesses attempt to raise sufficient profile to catch the eye of the big global players.

With this piece of research we are calling on MNCs working in Ghana to review and revise their strategy towards SMEs switching from an exclusive to an inclusive approach. Invest in Africa also has a part to play and later this year, we will launch the African Partner Pool, a directory to connect local businesses to international companies. The African Partner Pool is searchable by key criteria and speeds up the identification of credible business partners. By using this directory, local suppliers can promote their businesses and increase their chance of winning contracts while accessing training and support from Invest in Africa's Partners. This research, alongside the African Partner Pool, promises to support and develop local enterprise and Ghanaian entrepreneurs.

Is Africa Rising? Without a doubt. But we need data behind the headlines and to replace fine words and good intentions with action. Invest in Africa is committed to addressing the current information gap between SMEs and MNCs; encouraging them to work together to increase understanding and strengthen the flow of business. We call on MNCs to join us in this mission, helping break the pattern of endemic miscommunication.

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William Pollen, Programme Director, Invest in Africa
June 2014

At Invest in Africa, we seek to address the cross-sector challenges of doing business in Africa. Established in 2012 by Tullow Oil, our Global Partners include Ecobank, EY and Lonrho. Beginning in Ghana, we are working to improve the operating environment for local companies and to stabilise their potential links with multinational corporations (MNCs).

Executive Summary

"How can I compete to work with a multi-national if I don't even hear what jobs or tenders are available? It feels like I am playing a game but I don't know the rules."

CEO of industrial plant hire firm, Accra

David & Goliath: Creating a level playing field for Ghanaian SMEs (David & Goliath) seeks to gain a real-time insight into the difficulties faced by SME business leaders in Ghana, as told to us in their own words.

The research, undertaken between November 2013 and February 2014, is comprised of interviews with 213 SME leaders/founders in Ghana's key commercial locations of Accra, Kumasi, Takoradi and Tema.

The research uncovers a widening communication gap. International players are failing to take the time or make the effort to open up their tender processes. This leads to inertia, leaving contracts in the hands of the same old group of suppliers who understand the unwritten rules of how to work with MNCs. Meanwhile, ambitious SMEs with untapped potential lie hidden from sight by inflexible processes and unrealistic expectations.

This information gap begins right at the beginning of the process: SMEs admitted that they regularly fail to hear about or receive tender or RFP documents from international companies working in Ghana. This excludes them from transacting before they have even been given a chance.

MNCs confirm that they would like to work with a broad-based community of SMEs in Ghana and support competitive tendering yet can find it hard to properly manage an open dialogue. The research found that MNCs often have trouble identifying relevant SMEs, or if they can, find it difficult to either educate or guide local companies through their tender process. While many MNCs think they are communicating clearly, the SME audience is often hearing these messages in a completely different way, creating a groundswell of disenfranchised local business people.

The *David & Goliath* research reveals that it is not just about increasing the commercial business MNCs can bring to SMEs but skills transfer and operating environment they are able to create. Better dialogue and access to information is key: this research brings that point home loud and clear. Invest in Africa is now calling upon private global companies to play their part in solving the communication gap:

- Post tenders on the African Partner Pool - making them available to local companies for an exclusive period
- Extend tender timelines to give local SMEs adequate time to respond
- Provide training and education to SMEs so that they are responding to the RFPs in the correct way

In terms of the broad business environment, the research does confirm that Ghanaian SMEs continue to face systemic problems which stifle their growth and ability to compete. These include high operating costs, poor infrastructure, rapid tax increases and access to affordable financing.

These challenges sit firmly on the government agenda and action must be taken if Ghana is to maintain its reputation as a positive place to do business.

In addition to the structural weaknesses of the operating environment, the Invest in Africa research team interrogated the particular working relationship of local Ghanaian companies and MNCs.

Ghanaian business leaders certainly do not doubt the opportunity presented by working with large multinationals yet 77% of those interviewed admit they face serious problems when trying to win business from such clients.

Issues of funding, tax and infrastructural weakness persist but breaking it down to business basics, it doesn't matter about access to potential funding if you don't even hear about a business opportunity in the first place.

The partnership between SMEs and MNCs begins with good communication and that demands a change in attitude and a change in approach. The work of Invest in Africa and the African Partner Pool will go some way to levelling the playing field: MNCs need to embrace the change too, supporting the ambitions of local SMEs to create a genuinely sustainable dialogue and closing the communication gap for good.

Research findings

Business profile

The companies included in this research study are not new to market: none have been in existence for less than five years and the average age of the businesses surveyed was 12.64 years. These are businesses with an understanding of the local market and the business opportunities available.

These are also businesses which have reached a comfortable size and are now poised for take-off. Only 13% felt they were still in start-up mode while 82% of companies reported themselves to be fully operational.

In terms of ownership, 43% of businesses were owned individually, 21% were partnerships, 18% were family owned and 12% were limited liability companies. There was a strong correlation between individual business ownership and the smaller size companies. Unsurprisingly, large scale businesses dominated the partnership and limited liability structures and boasted more sophisticated governance and management hierarchies.

Routes to the sea and oil: Breakdown of location and sector type

David & Goliath concentrates on Ghana's dominant commercial centres and the results show some grouping in terms of industry type and location:

- Accra is dominant in information technology, construction and real estate development, telecommunication, advertising and media, automobiles, travel and tourism and recruitments agencies

- Tema's role as an industrial hub and the home of Ghana's major harbour means it is dominated by companies involved in imports and exports, energy, manufacturing, clearing agents and freight services. Businesses based in Tema were also more likely to work with NGOs than those based in other areas of Ghana

- Takoradi, also a harbour city and the region where oil has recently been discovered, showed a proliferation of companies involved in energy, import and exports, manufacturing, and logistics

- Kumasi's main sectors are imports and exports, information technology, manufacturing, insurance and risk management, transportation, agriculture and private security services

Source of business

Private local companies currently form the major source of business for Ghanaian businesses. Six out of ten of the companies surveyed also undertake business with international private organisations and 50% currently transact with multinationals.

Size does matter; those companies defined as 'large' in the sample are more likely to undertake business with multinational companies, with 75% confirming that they source assignments from international organisations. Only 36% of 'small' indigenous companies engage with MNCs.

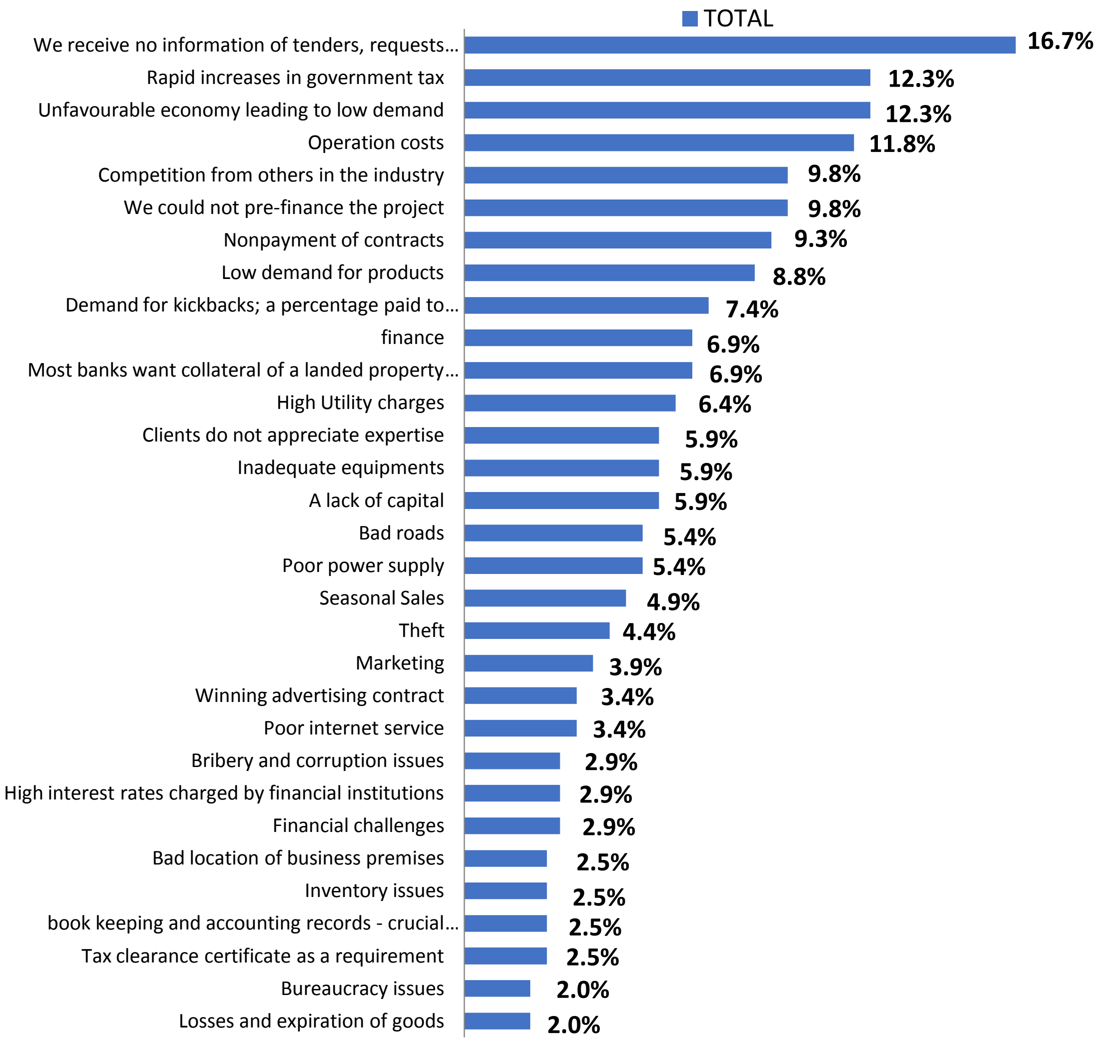
The communication gap

Respondents were asked to rank a series of challenges in terms of the impact they had on their day-to-day business operations. The objective was to understand the day-to-day issues faced by business leaders and their relative importance.

77% of local businesses confirmed they experienced difficulties when trying to win business from MNCs.

The information gap between MNCs and SMEs is clearly highlighted when looking at data regarding business challenges (Figure 1). The results show the frustration of Ghanaian business in realising large, MNC contracts are available but knowing that they are not on the right list, or don't have access to the right people, to participate.

Figure 1: Business challenges



The single biggest problem faced by Ghanaian companies when trying to compete for work with MNCs comes right at the start of the process: respondents pointed to the fact that they do not receive information or only get hold of inadequate information on tenders, RFPs or potential contacts. This hampers potential success from the very outset.

Many companies only find out about tenders through their own research, or by making proactive approaches to the MNCs. A majority of business owners were of the view that MNC contracts were always pre-assigned to some specific company based on an earlier engagement, and that a nepotistic system of 'who you know' persisted in Ghanaian business circles.

“ Let me put it this way; some of the contracts are already given to particular individuals. It could be based on performance but there is a need to try other companies as well since they also have the capacity to perform equally or even more than what is already in existence. ”

A level playing ground in contract acquisition is what most companies seek. One respondent explained how the Ghanaian authorities could help with this:

“I believe there should be a state committee that neutralises the political or personal aspect of contract distribution so rather than just being assigned to a particular person to make the decision we have three or four people sitting down to analyse the various proposals. Let's say fine, company A has always been doing these projects but B also has the same capacity, so why don't you try B or you share it between A and B to make the production 50-50? Based on that, if one of the companies performs very well, you can decide to have that company on board.”

In terms of the size of company, unsurprisingly, it is the small sized businesses which are less likely to receive RFPs in good time or to hear about potential work. Company leaders also pointed out that often when the request for tender did arrive, it was at the last minute, reducing their ability to respond effectively.

Respondents confirmed that international tenders often adopt a one-size-fits-all global template, fundamentally unsuited to the local needs and business realities of the Ghanaian market, for example, MNCs demand copies of legal or tax documentation and certificates which can be difficult to obtain quickly. As one business leader explained:

“There are a lot of tests and requirements you need go through before you are able to conduct business with the international or multinational companies. We currently receive no information on multinational business opportunities because we do not have the necessary structures in place to do business with them.”

“ It is a chicken and egg situation: we have to work with international and multinational organisations to attract business from multinational organisations. ”

The time it takes: winning new business

A topic business leaders mentioned anecdotally is that if they do hear of tenders or RFPs there is a heavy time investment in terms of pitching to win new business. This is time and effort which detracts from other parts of the business. The burden of pursuing new business is easier to bear in a larger organisation and the results highlighted in Figure 2 show that perhaps for this reason, smaller companies are less likely to attempt to win new business from MNCs than their larger counterparts.

> *"We have a team whose main function is to look out for ongoing jobs."*

Figure 2: Number of attempts at winning new business in the last 12 months

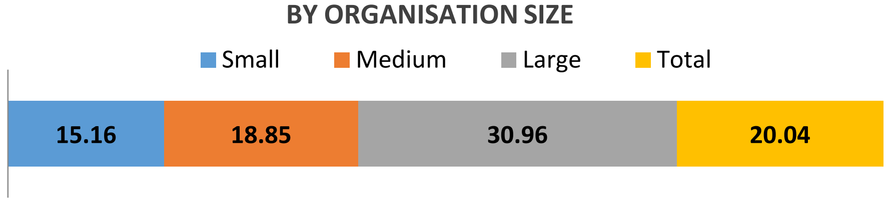
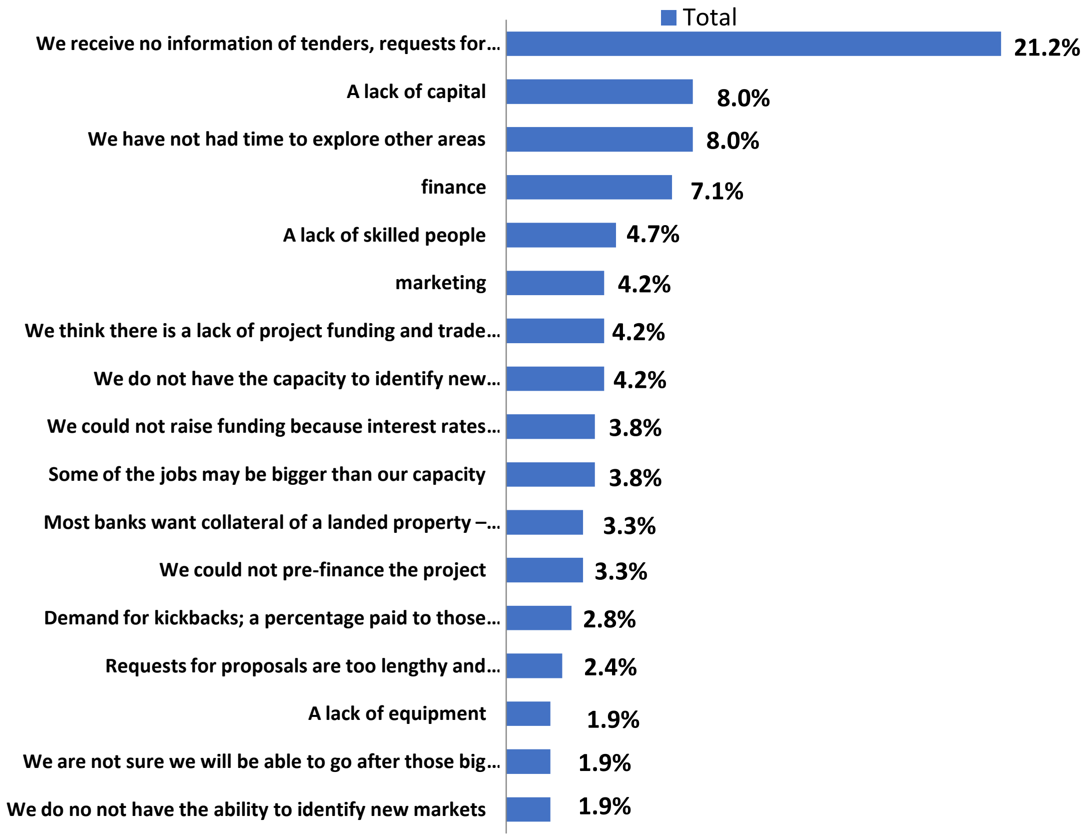


Figure 3: Biggest hurdles faced in winning business from multinational organisations



The usual suspects

Flawed communication between Ghanaian firms and MNCs finds the hope of a solution in the form of the African Partner Pool and improved dialogue. What is less easy to detect in the quantitative data but comes through loud and clear in the qualitative interviews is a more general frustration with the operating environment amongst Ghanaian business leaders. Their complaints include high costs, poor infrastructure, rapid tax increase and insufficient access to capital:

- **Tax:** The tax system in Ghana is considered too high for businesses to thrive, especially in terms of customs and import duties. Value Added Tax (VAT) is also high and puts pressure on cashflow

- **Access to Capital:** A bureaucratic system makes it difficult for business owners to gain the capital they need and many describe the experience of dealing with the banks as time-wasting

- **Demand for Collateral:** The demand for both landed collateral and other assets can hinder chances of accessing loans from financial institutions. When asked why they were unable to provide the bank with collateral, respondents pointed to the size of their company, the narrow margins, or a lack of the type of collateral the bank was requesting. The number of conditions required and the burden of paperwork demanded before a loan is granted means many Ghanaian companies now prefer to work with microfinance organisations rather than traditional banks

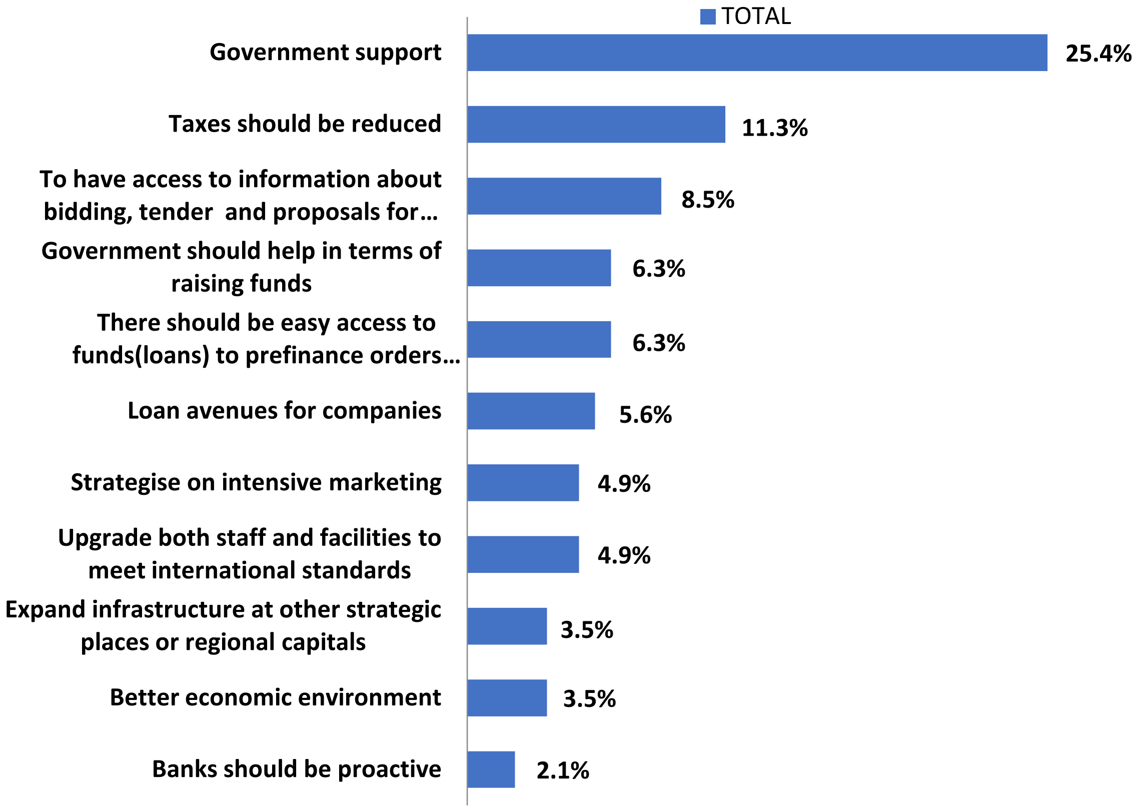
> “*With the nature of our business, we deal with a lot of banks, we have four banks that we deal with now and the process is the same so we are mostly forced to do business with the microfinance (companies).*”

- **High interest rates**: The most common complaint of respondents in the qualitative portion of the data collection was the high interest rates on bank loans, making it impossible to raise funds to finance large projects. Companies suggested a 3-5% interest rate instead of the 33-60% currently being charged on the market - at these high rates, local businesses cannot grow and develop to their desired capacity

- **Pre-financing**: Some interviewees are able to stomach pre-financing but in the event they are unable to and the bank does not grant a loan due to collateral issues, they are forced to terminate the contract

So, how can the operating environment be improved? The research found a pretty consistent manifesto amongst companies, regardless of size and location, in terms of what they felt could make the business environment in Ghana more conducive to success and to strengthen opportunities for working with MNCs – see Figure 4.

Figure 4: Suggestions to help improve the business environment for Ghanaian companies



Additional measures for improving the business environment, suggested in the qualitative interviews included:

- Continuous learning and capacity building for growing companies to share the best practices in the industry
- Introduction of a fund to serve as a source of mobilisation money to start projects
- The Association of Ghana Industries (AGI) or the Ghanaian government could create some sort of guarantee for SMEs to enable them to access loans from the banks more easily
- The interest rates in the country should be looked at or SMEs should be given the opportunity to borrow at a much cheaper rate
- The tax increments should also be reduced drastically since its one of the major factors damaging SME growth in the country

Improving the communication gap: the African Partner Pool

At the core of Invest in Africa's work in Ghana is our new initiative, the African Partner Pool (APP), an online business directory specifically designed to make it easier to find quality suppliers with a proven track record and to give local businesses greater access to finance, training and markets.

By using this directory, Ghanaian companies can promote their products and services and increase their chances of winning contracts while accessing training and support from Invest in Africa's Partners, helping them to build capacity and grow their business.

Invest in Africa is working with each of our local and international Partners to populate this directory with Ghanaian businesses that can deliver products and services to international standards.

The companies we spoke to during the qualitative phase of this research liked the chance the APP provided for local companies to step into the spotlight: enabling international and multinational companies to survey the full range of products and services available.

Methodology

There is a severe paucity of good quality, reliable data on business issues in sub-Saharan Africa and much of the information which is available is selective and out-dated. The *David & Goliath* study has been designed to give a candid and accurate reflection of the operating environment for SMEs in Ghana and to understand the difficulties faced and/or perceived by local businesses in winning contracts or doing business with international companies working in Ghana.

The research approach was to combine quantitative and qualitative data collection over a period of four months (November 2013 to February 2014). The data set covered Ghana's key commercial locations: Accra and Tema in Greater Accra, Kumasi in Ashanti, and Takoradi in the Western region.

The quantitative portion of the study was conducted amongst founder/leaders of privately owned indigenous small and medium sized enterprises. A sample of 200 companies were identified and the team hit a success rate of 98%, undertaking 196 phone and face-to-face surveys. The sample was selected to cut across different sectors of economic activity (see Figure 5) and include SMEs with an annual turnover between GHc90,000 and GHc2,000,000.

After the initial data collection, an additional 25 organisations were targeted for qualitative interviews with the Managing Director or key decision maker. These were mainly manufacturers and members of the Association of Ghana Industries (AGI). Seventeen of the boost interviews were achieved, bringing the total to 213 complete data sets.

About Invest in Africa

Invest in Africa (IIA) is a growing group of companies working together to address the cross -sector challenges of doing business in Africa.

At present, Invest in Africa is focused on supporting local Ghanaian businesses by providing greater access to finance, skills and markets, making it easier for international companies working in Ghana to source locally and at scale.

Invest in Africa was founded in 2012 by Tullow Oil, and its Global Partners include Lonrho, EY (Ernst & Young), and Ecobank. The experience of operating in Africa has helped IIA Partners to understand both the business challenges and the significant business opportunities on the continent.

IIA's united approach means that companies working in Africa can overcome these challenges and drive cross-sector growth for the benefit of all. IIA Partners are committed to sustainable investment, building long-term local partnerships and supporting the economies in which they operate. Ghana Investment Promotion Centre (GIPC), the Association of Ghana Industries (AGI), Guinness Ghana Breweries Ltd. (GGBL), and UT Bank, are Local Partners to IIA.
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