

Title: Analysis of the SME sector in Tanzania and Ghana

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1. INTRODUCTION

Micro, small and medium-sized enterprises are socially and economically important, since in most country they represent 99 % of all enterprises. Statically, it is shown that in the European Union the case is no different. Data from the EU shows that they provide around 65 million jobs and contribute to entrepreneurship and innovation.

In the United States, fact has it that the economic success enjoyed in 20th century especially in last 2 decade before the economic melt down was as a result of the successful policy aimed at encouraging and provision of enabling environment to the SME sector by the government. The industries that contributed most was the service sector, tourism sector,

However, SMEs face particular difficulties which the EU and national legislation try to address by granting them various advantages. The application of a common definition by the Commission, Member States, the EIB and the EIF ensures consistency and effectiveness of those policies targeting SMEs and, therefore, limits the risk of distortions of competition in the Single Market

The significance of small- and medium-scale enterprises (SMEs) is acknowledged worldwide. SMEs form the vanguard of the modern enterprise sector and present the propelling force of economic modernization and growth in developing economies. But it is imperative to examine their efficiency levels in order to formulate appropriate policies for the development of SMEs.

1.1 Background

A unilateral definition of SMEs has continued to be controversial, several international organizations (United Nations, IMF, EU, world bank, AU, ADB etc) with global influence have all tried to set a definition for what really the SME should be, however, there has not been a consensus. This is mainly because of the diversities with different economies and other indices and factors of development that are associated to the different member countries of these global institutions.

The case is no difference in Africa, the African Development Bank definition of the SME is not in conformity with the definition or what different state in African termed to be SMEs. It is obvious that most of the indicators that have been used by different states are the number of employees, the company's turnover and the assets (Capital investment in Machinery). Also, other indicators are infrastructures, export and import capabilities. Due to the disparities in different economy, it has been difficult to harmonise and give a common definition of the SMEs.

Tanzania and Ghana though they are geographically located in the African continent, their economic climatic conditions are still very different. Tanzania is geographically located in the Eastern part of Africa and Ghana in the western African, the two countries having ties to different sub-region is another crucial factor to consider. Tanzania belong to the Common Market for Eastern and Southern Africa (COMESA), this is the combination of the East African Commission and the Southern Africa Development Community (SADC) while Ghana is a member state of the Economic community of west African states (ECOWAS). It is important to note that, though the two countries is geographically located in the same continent, they are economically affiliated to two different economical regional institutions with different economic models, goals, aims and strategy in the development of their respective countries and region at large.

SMEs are vital for economic growth and development because they encourage entrepreneurship, generate employment, and reduce poverty (Kayanula and Quartey 2000; Mead and Liedholm 1998; Fischer 1995).

In Tanzania, the level of technical efficiency of SMEs has been examined using a Cobb-Douglas stochastic frontier production function. The findings indicate that high levels of technical inefficiency, which reduce their potential output levels significantly, characterize the Tanzanian SMEs. Assisting these firms to improve their technical efficiency through adequate supply of inputs, markets, and credit facilities, and undertaking extensive infrastructural development and training is seen as important measures.

Also in Ghana, impact of the financial sector liberalization (FSL) policies by the government on the financial management of small and medium-sized enterprises (SME) can be seen as a positive steps; the analysis explains the impact of FSL and the factors at work. The main financial challenge facing SMEs in Africa is access to affordable credit over a reasonable period. This is determined by the financing needs of SMEs and the action of investors.

However, Ghana implementation of economic reforms and structural adjustment policies in the 1980s, with FSL as an integral component helped to removed government controls on interest and foreign exchange rates and on credit allocation. (Cook and Nixson 2000).

1.2 ABSTRACT

This research paper presents a framework to explain the impact and the analysis of the SME sector with respect to Tanzania and Ghana. The Analysis of the SME sector in the countries mentioned above include: description of the SME sector (statistics – numbers, employment, growth), SME Contribution to the economic development, SME structure (locations, strengths, problems, weaknesses); large firms/medium/small/micro; export/domestic, Government policy and SME sector development and the differences and similarities between SMEs in Tanzania and in Ghana.

1.3 The Project Layout

The project is presented in six (8) chapters. The first chapter – Introduction, presents brief but, comprehensive information relating on previous research on SME in Ghana and Tanzania and the background to the current effort. The second Chapter presents the SME sector description with emphasis on (statistics – numbers, employment, growth). The third chapter will reflect the economic development Contributions of SME in Tanzania and Ghana. Also, the Fourth chapter entails the SME structure as in (locations, strengths, problems, weaknesses) with respect to large firms/medium/small/micro; in relation to the export/domestic trade. The Fifth Chapter relates Government policy and SME sector development. The Sixth chapter reviews the differences and similarities between SMEs in Tanzania and in Ghana. Also, the Seventh Chapter gives a relative view on the consequences and Challenges faced by SMEs in Tanzania and Ghana in general.

1.4 Methodology

This research paper is a literature research base work although some key part of it will also be achieved from members of the project group whose country of origin is Tanzania and Ghana. It is vital to recognize that some of the information from literature we used may be obsolete due to time distance and newer development and policies which are associated with economic development and the diversity with market in the respective countries.

However, electronic materials, journal reports and books are used. This project is designed to produce a comparative analysis of the SME sector in Tanzania and Ghana. This project is a part of requirement in completion of the course “SME Management In a Global Context” at the Gotland University thought by (Professor Lind. P) The outcome will also serve as a learning material for future references.

2. DESCRIPTION OF THE SME SECTOR (STATISTICS – NUMBERS, EMPLOYMENT, GROWTH)

Tanzanian and Ghana government defines SME in below ways.

SMEs are often considered to be a key source of productivity, growth, and job creation and, hence, their performance and the environment, in which they perform, are seen as an important factor for economic development. Though the empirical evidence to support this view is not always clear, in most developing countries SMEs, in fact, account for the majority of firms and a large share of employment.

Small and medium enterprise (SME), globally have been a subject of discussion by relevant agencies and organizations, the discussions includes the definition and the role of SMEs in developing countries such as in Tanzania and in Ghana with respect to economic development both in private, public and in large organization. To this end, there are proposed formula for the definition of the SME sector, some of the factors or formula are based on the revenues/turnover of a company, employment/number of employee, Fixed asset criteria (Plants and Machinery) with respect to the country-specific economic context in which the SME operates.

2.1 Statistics

In Ghana, according to the National Board of Small Scale Industries (NBSSI), it applies both the fixed asset and number of employees' criteria, which defines the Small Scale Enterprise as a business with not more than 9 workers, has plant and machinery (excluding land, buildings and vehicles) not exceeding 10 million Cedis (US\$ 9506, using 1994 exchange rate). However, according to Steel and Webster (1990) and Osei et al (1993), they defined Small Scale Enterprises in Ghana using an employment cut off point of 30 employees to indicate Small Scale Enterprises. They later, however, they later categories the small scale enterprises into 3 categories: (i) micro -employing less than 6 people; (ii) very small, those employing 6-9 people; (iii) small -between 10 and 29 employees.

On the other hand, the Ghana Statistical Service (GSS) considers firms with less than 10 employees as Small Scale Enterprises and their counterparts with more than 10 employees as Medium and Large-Sized Enterprises. Ironically, The GSS in its national accounts considered companies with up to 9 employees as Small and Medium Enterprises.

On the other hand, the Tanzanian Government defines the SMEs with respect to the following factors such as: sector, employment size, and capital investment in machinery. The SMEs here are categorized as micro, small, and medium-size enterprises in non-farm activities, including manufacturing, mining, commerce and services. A micro-enterprise is one with fewer than five employees, a small enterprise with 5-49 employees, a medium enterprise with 50-99 employees and a large enterprise with more than 100 employees. Capital investments range from less than Tshs 5 million to over Tshs 800 million. This definition would exclude a number of informal economy enterprises, peasant farmers, and Tanzanians engaged in lower-level income-generating activities.

The table below will give a break-down of the SMEs Definition in Tanzania and in Ghana.

Tabell 1 : Above figure shows size of employee in various enterprises in Tanzania and Ghana

Category	Employees		Capital Investment in Machinery	
	Tanzania	Ghana	Tanzania(Tshs.)	Ghana (¢)
Micro Enterprise	1 – 4	< 6	5 million	¢250 million
Small Enterprise	5 – 49	6-9	5 million - 200 million	¢780 million
Medium Enterprise	50 – 99	10-29	200 million - 800 million	¢2.5 billion

2.2 Employment

SMEs as source of employment is no doubt a fact various government agencies have come to appreciate in the cause their achievement of economic growth. However, according to the Ghanaian Statistical Service (GSS), the entire work force in Ghana is about 11.5 million in 2008. The SME employment contributions to the work-force is over 80%. It is noted, that the agriculture sector continues to be the most important source of employment, employing about 56% of the labour force, followed by services (29%) and industry (15%).

In Tanzania, according to the Integrated Labour Force Survey (ILFS), in 2005/06, the survey shows that the work-force in Tanzania is about 16.6 million reflecting a total of 88.3% employment rate. However, the private sector employed 19.1% during this period while the Government and parastatal Organizations employed around 2.5% during this period. The share of the traditional Agricultural sector (crop farming, livestock keeping, fishing and forestry) which is the main employer recorded 75% employment rate, while the remaining 3.4% were employed in the mining, construction, services have increased during the period. Of this the informal sector of the SMEs contributes to about 22% representing a total of 2,369,380 people.

2.3 Growth

SMEs all over the world is known to play a major role in social economic growth and the small and medium sized industries have played very important role in the economy. There has been consensus among the economists and policy makers that the foundations of industrialization cannot be made and established without the efficient network of small and medium enterprises (SMEs). It is acknowledged that the private sector which is dominated by SMEs is still nascent but plays a significant role in the economic development of the country.

In Tanzania, more than 70% of all SME businesses are registered while 30% unregistered and in Ghana the registered SME businesses consist of 92% and unregistered consist of 8%. It is observed that the private sector which is dominated by SMEs is still nascent but plays a significant role in the economic development of the country. In Tanzania and Ghana; the contribution of the SME sector with respect to the country's GDP is 40% and 70% respectively. SMEs are vital for economic growth and development because they encourage entrepreneurship, generate employment, and reduce poverty.

Tabell 2: Contribution in Economic sector by SME in Tanzania and Ghana

Country	Contribution in GDP	Registered businesses	Un Registered Business
Tanzania	40%	70%(1801543)	30%(not mentioned)
Ghana	70%	92%(not mentioned)	8% (not mentioned)

3. THE SME CONTRIBUTION TO ECONOMIC DEVELOPMENT

The performance of SMEs is important for both economic and social development of developing countries. SMEs have been noted to be one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth in low-income countries such as in Tanzania and Ghana. The SMEs have been recognized as the engines through which the growth objectives of developing countries (especially Africa) can be achieved. They are potential sources of employment and income in many African countries. SMEs are more labor intensive than larger firms and therefore have lower capital costs associated with job creation. They perform useful roles in ensuring income distribution, economic growth, and contribution to GDP, employment creation, value added product, poverty reduction, improved standard of living and education.

3.1 Contribution to GDP/Economic Growth

In Ghana, SMEs represent a vast portion of businesses. They represent about 92% of Ghanaian businesses and contribute about 70% to Ghana's GDP. The agriculture sector in 2006 recorded a GDP of 37.3%, out of which SMEs contributed 26% in Agricultural sector. The industry sector contributes 25.3% to the GDP of which SME in same sector contributes to 18%. Also, the service sector contributed 37.5% to Ghana's GDP and SMEs in the service sector accounted for 26% of this contribution.

In Tanzania, more than 70% of all registered businesses are SMEs. It is observed that the private sector which is dominated by SMEs is still fragile but plays a significant role in the economic development in Tanzania. SMEs contribute about 40% to the country's Gross Domestic Product. Out of the 26.6% of GDP in the agriculture sector in 2009, SMEs contributed to 10.64%. The industry sector was 22.6% out of these SMEs contribute to 9.04%. Also, the service sector contributed 50.8% and SMEs contribution was 20.32%.

The table.... Below shows the Analysis of the SME contribution to the GDP in Tanzania and in Ghana with respect to the relevant SME sectors

Tabell 3: Analysis of the SME contribution to the GDP in Tanzania and in Ghana with respect to the relevant SME sectors

Country\Sector	Agric Sec	SME cont.	Industrial Sec	SME cont	Service Sec	SME cont
Ghana	37.3%	26%	25.3%	18%	37.5%	26%
Tanzania	26.6%	10.64%	22.6%	9.04%	50.8%	20.32%

From the table above, it is observed that the SME sector in the Ghanaian economy contributes a higher percentage to GDP than the SME sector in the Tanzanian economy, the economic growth of Ghana is higher compared to Tanzania. In other words, SMEs occupy a higher market share in the various countries (92% in Ghana and 70% in Tanzania), their performance directly affects the economic growth of the countries. The table shows the real GDP growth rate for Ghana and Tanzania from 2000 to 2010;

Tabell 4 Real GDP Growth Rates 2000-2010

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Ghana	3.7	4.2	4.5	5.2	5.4	5.9	6.0	5.5	5.5	7.3	4.7
Tanzania	4.9	5.7	6.1	5.2	5.2	6.8	5.9	7.3	7.3	7.1	4.5

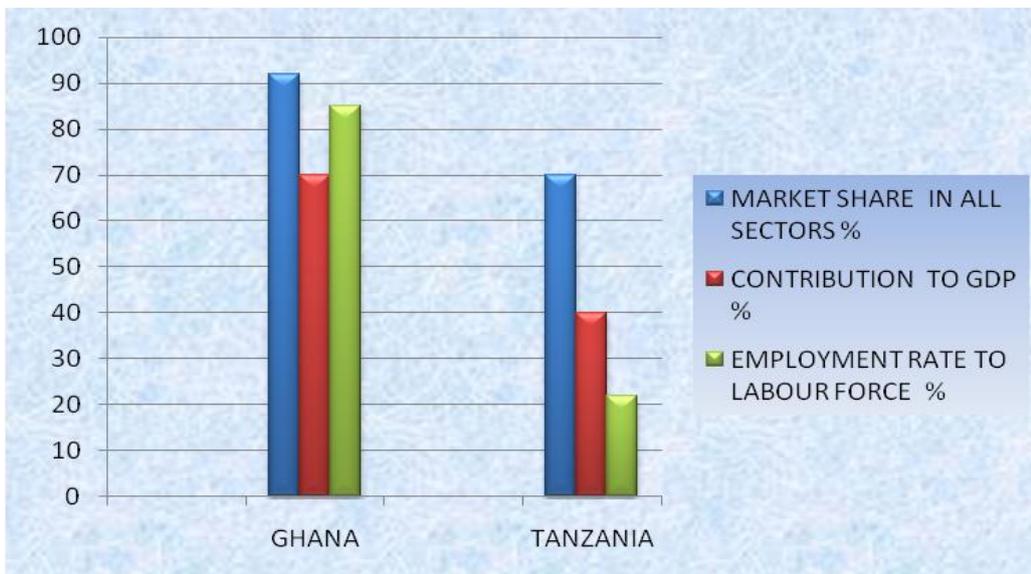
3.2 Contribution to Employment, Income Distribution and Value Added

The Ghana Statistical Service (GSS), indicate that the private formal and informal sectors provide employment and a source of livelihood to about 9 % and 83 % of the entire Ghanaian workforce in 2006. The labour force in Ghana is estimated to be about 11.5 million in 2008. SMEs employ over 80% of Ghana's workforce. The agriculture sector continues to be the most important source of employment, employing about 56% of the labour force, followed by services (29%) and industry (15%).

According to the Integrated Labour Force Survey (ILFS) done in the country in 2005/06, the economically active population in the country was 18.8 million. Of the active population in 2006, 16.6 million were employed reflecting 88.3% employment rate. The private sector employed 19.1% during this period while the Government and parastatal Organizations employed around 2.5% during this period. The share of the traditional Agricultural sector (crop farming, livestock keeping, fishing and forestry) which is the main employer recorded 75% employment rate, while the remaining 3.4% were employed in the mining, construction, services have increased during the period. Of this the informal sector of the SMEs contributes to about 22% representing a total of 2,369,380 people.

The SMEs sector in both economies absorbs a larger portion of the labour force and new entrants especially in Tanzania where every year about 5.7% of the school leavers get employed in the Public Sector as such the remaining 94.7% end up being employed in the SMEs sector. This results in more income being distributed per household to employees and employers alike. Also, the activities of SMEs enhance value added to production in these two economies. Many SMEs in these countries use raw materials that are locally produced to produce their products especially in the food, beverage, cotton and oil industries, thereby enhancing the countries value added and export value in trade.

Figur 1 : Analysis showing the SMEs Contributions with respect to its contribution to GDP, Employment and Market share in Tanzania and Ghana (%)



3.3 Contribution to Poverty Reduction, Improved Standard of Living and Education

Economic growth in Ghana since 1990 has resulted in a significant decline in poverty. The overall poverty rate fell from 51.7% of the population in 1991-92 to 39.5% in 1998-99, and then to 28.5% in 2005-06. This is largely due to the growth of SMEs in the economy over the period than the large enterprises due to their numbers and the niches they occupy in the national economy. The SME sector ensures the distribution of wealth evenly within the economy and better living standards for the people in the country.

Also the educational level of the economy has improved since more tertiary school graduates from various vocational schools would be needed to fuel the growing number of businesses in the SME industries. As a result, much effort in terms of policy and government intervention has been geared towards developing and revamping the micro and small enterprise sector in the country. In Ghana the government invested 5.4% of the total GDP generation in education in 2009, while in Tanzania 2.2% was spent in education in 2009.

The Human Development Index (HDI) as a measure of economic development is composed from data on life expectancy, education and per-capita GDP at purchasing power parity (as an indicator of standard of living) collected at the national level. The table below shows the level of HDI of Ghana and Tanzania from 1975 to 2005.

Tabell 5 United Nations Development Programme's Human Development Index (HDI)
Country Ranking from 1975 to 2005

RANK	COUNTRY	1975	1976	1978	2000	2002	2003	2005
135	GHANA	0.442	0.471	0.486	0.517	0.542	0.568	0.553
159	TANZANIA	0.421	0.419	0.433	0.467

From the above statistics it is clear that the Ghanaian economy is improving due to the large number of SMEs in the country than the Tanzania economy. The increase number of SMEs in Ghana is as a result of its free market economy and high foreign direct investments. It is also as a result of the adoption of the Millennium Challenge Goal by the Ghanaian government which seems to favour the growth of the SME sector.

4. SME STRUCTURE (LOCATIONS, STRENGTHS, PROBLEMS, WEAKNESSES); LARGE FIRMS/MEDIUM/SMALL/MICRO; EXPORT/DOMESTIC:

4.1 Location of SMEs in Ghana and Tanzania

Geographically, both Tanzania and Ghana are located in the same continent (Africa), Tanzania is located Eastern Africa while Ghana is located in the Western part of Africa. Although the two countries share the same climatic condition and they are also members of the same international organizations such as the African Union (AU) and the African Development Bank (ADB) in African which regulates and provides sustainable support for the development of SME in African, however, demographically, Tanzania is about 43,739,000 in population and Ghana is 23,837,000 in population as of 2010 census. This shows that Tanzania is approximately twice the population of Ghana.

In Ghana, SMEs are grouped into urban and rural enterprises and organized and unorganized enterprises. The organized ones use to pay employees with a registered office, where as the unorganized category mainly made up of artisans who normally work in open spaces, in temporary wooden structures, or at home and employ few workers or sometimes no salaried workers and they mostly made up of family groups, individual persons and women engaged in food production from local crops. In Ghana, it is observed that Agriculture is the largest SME sector and the major activities found in this sector include soap and detergents production, timber and mining locally, bricks and mod cement, locally made beverages, food processing, bakeries, wood furniture, and mechanics.

Also the Urban SME - enterprises are mostly registered and can also be termed as formal enterprises. The majority of urban SMEs in Ghana are located in three areas in the country, Accra/Tema, Kumasi and Takoradi, but over 60 percent can be found in Accra/Tema.

However, in Tanzania SMEs are located in the same way as in Ghana, there are enterprises located in urban areas and others in rural areas. The SMEs are divided in to formal sector and informal sector enterprises. According to the 1991 National Informal Sector Survey (NISS) report sixty percent of the informal sector enterprises were located in rural areas and 40% in urban areas. Informal sector employs about 22% of the total labour force, 15% in the rural areas and 7% in the urban areas. About 74 percent of people employed in the sector were sole operators.

In the Formal SME sector, according to Confederation of Tanzania industries (CTI), up to 80% of formal industries in Tanzania are SMEs in which each employing between 5 and 99 persons. Also the World Bank (1998), estimation showed that 10% of SMEs from formal sector came from agriculture, 22% in manufacturing, 16 percent in service sector, 50 came from trade and 2% in construction. In the same account, the World Bank (1998); it is observed that the formal sector accounts for 30% of the work force, and 70% of Tanzanian workers engaged in informal production of goods and services

In a different report according to Swisscontact (May 2003), the majority of the SMEs are located in the following areas; Dar es Salaam, Pwani, Morogoro, Iringa and Mbeya, Over 85 percent of SMEs according to Swisscontact survey were not registered, only over 50 percent had daily trade, local authority or other licence. Over two thirds of the SMEs operated their enterprises from home which is 43 percent, from the road side 20.9 percent and only 31 percent operated in a market, commercial or industrial centre.

4.2 SMEs strengths

4.2.1 Availability to raw materials

Most of the raw materials required by the SMEs are locally produced and this gives them cheap access to it. For instance in Ghana the cocoa manufacturing company rely on cocoa beans grown on a large scale by local farmers, these cocoa beans are processed into chocolates, butter, beverages etc. thereby adding value to the cocoa beans grown in the country. Also in Tanzania most of the SMSEs like Karibu textile mill, the company A-Z and others rely on cotton produced on a large scale by local farmers who cultivate between 0.2 hectares to 2 hectares per year.

4.2.2 Easy access to labour (unskilled labour)

Since SME is a labour intensive sector it requires semi or unskilled workers and most of these workers are readily available in Ghana and Tanzania. These workers comprise of school leavers with little experience and without a professional background. For instance in Tanzania estimates shows that about 500,000 out of the 700,000 new entrants from school ends up been employed in SMEs.

4.2.3 Capital productivity

SMEs are labour intensive, so they invest little amount of their capital in labor leaving them with more capital to invest in other areas. Hence they can easily invest in areas like technology, machinery and human development. A research in Ghana and many other African countries like Tanzania have shown that capital productivity is normally higher in SMEs than in large enterprise (Steel, 1977; Child 1971).

4.2.4 Access to local market

Most large scale companies in Tanzania and Ghana export their products, leaving the local market dependent on products manufactured by SMEs. This gives them large share of the local market. For instance in Ghana, SMEs represent about 92% of Ghanaian businesses and in Tanzania, more than 70% of all registered businesses are SMEs. This has created many opportunities for the SME sector to become relevant and competitive.

4.3 SMEs problems

Generally SMEs are confronted with similar problems in both countries (Tanzania and Ghana) including heavy costs of compliance resulting from their size. Other constraints involve poor management facilities, limited access to finance, lack of storage and transport facilities as well as legal constraints.

4.3.1 Lack of Access to Credit facilities

In both countries Ghana and Tanzania SMEs face credit problems as banks and other financial institutions use traditional methods of looking at SMEs sector with caution. As a result there is absence of SMEs lending policies and loan requests are handled even stringent. For example, Ghana is ranked 113 countries for getting a credit, out of 183 countries by the World Bank "Doing Business Report (2010)" while Tanzania is ranked 86.

4.3.2 Poor management facilities

Lack of entrepreneurial and Business management skills as well as managerial know how has caused a significant barrier to SME development in both countries as in Tanzania and in Ghana. The shortage of management talent as well as modern management skills in most of the African countries has magnified impacts on SMEs development. Lack of supporting services or their relatively higher unit cost hinder SMEs efforts to improve their management

especially in private sectors, the consulting firms are not always equipped with appropriate cost effective management solutions.

In Ghana, for example it is estimated that over 60% of new businesses fail within 5 years as a results of managerial inexperience or poor decision making ability. In most instances the managers of SMEs do not have the required knowledge and leadership abilities to transform their business with respect to the changing economic environment

4.3.3 Lack of storage and Transportation facilities

Most of the African countries included Ghana and Tanzania are lacking storage and transportations facilities especially for goods which require a special handling before they reach to the final consumer. For instance Tanzania is listed among the top 10 difficult countries to build a ware house which hinder the development of the SME sector in the country. Also, transportation in Ghana has proven very difficulties in movement of raw materials (cocoa) and other raw materials from the rural area to the urban areas (Accra, Kumasi & Tema) where most of the SMEs are located.

4.3.4 Legal constraints

Regulatory constraints also pose serious challenges to SME development in most of the African countries like in Ghana and Tanzania, the high cost of settling legal claims and delays in court proceedings adversely affect SMEs operations. In the case of Ghana complicated procedure for registering and commencing SMEs are the key problems often claimed. The World Bank report "Doing Business Report" (2006), indicates that it takes 127 working days to deal with licensing issues and there are 16 procedures involved in licensing a business in Ghana. While in Tanzania, it involves about 22 different procedures in starting a business.

4.3.5 Lack of Product Quality

The SMEs in both countries also have major setbacks in competing with others in the international market, this is mainly because of the poor product quality. SMEs in developing countries lack the technical know-how to produce and add value to their products in other to compete with other major and big players in the open market and as a result have hampered their chances of exportation to other countries.

Tabell 6 showing the World Bank report "Doing Business Report" Rankings (2010) on the easy of doing business in Tanzania and in Ghana compared to other part of the world (183 countries)

Economy	Ease doing business ranks	Starting a business	Registering property	Getting credit	Trading across borders	Enforcing contract	Closing business
Ghana	92	135	33	113	83	47	106
Tanzania	131	120	145	86	108	31	113

4.4 Large firms/medium/small/micro; export/domestic

In both Tanzania and in Ghana, the large firms which are mostly foreign direct investments (FDI) contribute more than the SMEs in the country's overall export activities. In Ghana, for example, Cadbury, a chocolate company which raw materials like cocoa is source from Ghana exports large amount of the cocoa products to different countries in Europe and America. In Tanzania is rich in cotton, A-Z is a textile company and it is one of the players in the exportation of cotton produce and textile materials to other regions in African Europe USA, India, Japan and China.

In the case of Tanzania 30 percent of the large firms (more than 100 employees) export to other African countries and 18 percent outside the continent compared to medium firms and small firms, In Ghana large firms export 40 percent outside the continental Africa and 29 percent within the African continent. While in medium firms, 15 percent exported outside Africa and 10 percent to other African countries and they are normally neighboring countries. However the volume of export keep decreasing as the firm size becomes smaller. Generally Tanzania export large percent to other African countries while in Ghana large volume of export goes outside the continent

Most large scale companies in Tanzania and Ghana export their products, leaving the local market dependent on products manufactured by SMEs. This gives them large share of the local market. For instance in Ghana, SMEs represent about 92% of Ghanaian businesses and in Tanzania, more than 70% of all registered businesses are SMEs. This has created many opportunities for the SME sector to become relevant and competitive

Tabell 7: Exporting and Firm size

Countries	Large Firms Export		Medium Firms Export		Small Firms Export	
	To Africa	Outside Africa	To Africa	Out side Africa	To Africa	Outside Africa
Ghana	29%	40	10	15	3	3
Tanzania	30	18	20	10	5	4

5. GOVERNMENT POLICY VS SMES SECTOR DEVELOPMENT

SMEs have become critical agents in achieving Ghana's developmental agenda - wealth creation and poverty alleviation. The SME sector has been recognized as the engine of growth to propel the achievement towards the Millennium Development Goals

The clamor and believe that the SME sector is the best alternative for the sustainability and economic development for every country cannot be over emphasized. For any business either local or international to survive and begin to contribute to the country's overall growth in terms of employment, gross national product and growth, the country needs to create a sustainable environment in terms of policies which will enable the businesses to survive and grow effectively. Africa has always been faced repeatedly with similar problem of not having the legal framework to produce a viable regulations and policies. In the case where they create policies they still lack the sustainability and the relevant agencies to execute the policies. The both countries considered here, they have programs and policies they have initiated to help guide them towards achieving and development of their goal.

5.1 Government Policies: "Tanzania Development Vision 2025"

In this program, they seeks to transform from a low productivity agricultural economy to semi-industrialized one lead by modernized and highly productive agricultural activities which are buttressed by supportive industrial and service activities through actively mobilization of people and other resources towards the achievement of shared goals. In the Poverty Reduction strategy, the Government has decided to promote private sector participation including Small and Medium Enterprises. Other policies geared towards the development of the SMEs sector in Tanzania are as follow;

5.1.1 The Sustainable Industrial Development Policy - *SIDP* (1996 - 2020)

places specific Emphasis on promotion of small and medium industries through the following measures: Supporting existing and new promotion institutions, simplification of taxation, licensing and registration of SMEs and improve access to financial services. In addition, *SIDP* encourages informal sector businesses to grow and be formalized. Furthermore, the policy identifies easures to enable indigenious entrepreneurs, women, youth and people with disabilities to take part in economic activities.

5.1.2 The National Employment and Entrepreneurship development Policy

National employment policy recognizes that the private sector including SMEs is the major source of employment in Tanzania and outlines policies that will contribute to the creation of an enabling environment for private sector development The Government will promote entrepreneurship development through facilitating improved access of SMEs to financial and non-financial services.

5.1.3 The Tanzania SME Development Policy

With this in mind, the major goal of the 2002 Tanzania Small and Medium Enterprise Development Policy is to encourage SME growth, to provide the mechanisms for SME support and to facilitate an institutional environment that is conducive to SME growth (GOVT, 2002). The policy covers the following key areas:

- Reviewing and reconsidering public policies and regulations that discriminate against or hinder the start-up, survival, formalization and growth of SMEs;
- Enhancing the growth of the sector;
- Identifying and assigning clear roles of key actors;
- Developing strategies that will facilitate provision of financial and nonfinancial services to SMEs;
- Developing and institutionalizing public-private partnerships for SME sector development.

5.2 *Government Policies in Ghana*

SMEs have become critical agents in achieving Ghana's developmental agenda - wealth creation and poverty alleviation. The SME sector has been recognized as the engine of growth to propel the achievement towards the Millennium Development Goals. There is paucity of data on the size of the SME sector in Ghana. The last industrial/business census was carried out in 1987; however, there is general acceptance of the fact that SMEs form the majority of businesses in the Ghanaian economy. The majority of SMEs are located in three areas of the country – Accra/ Tema, Kumasi and Takoradi, but the bulk (over 60 percent) can be found in Accra/Tema. Ghana also has a large population of micro-scale businesses. The micro operators have been critical of the development of policies and strategies for national economic development

In Ghana, the government in an attempt to strengthen the response of the private sector to economic reforms undertook a number of measures in 1992. Prominent among them is the setting up of the Private Sector Advisory Group and the abolition of the Manufacturing Industries Act, 1971 (Act 356) which repealed a number of price control laws, and The Investment Code of 1985 (PNDC Law 116) which seeks to promote joint ventures between foreign and local investors.

In addition to the above, a Legislative Instrument on Immigrant Quota which grants automatic immigrant quota for investors has been enacted. Besides, certain Technology Transfer Regulations have been introduced. Government also provided equipment leasing, an alternative and flexible source of long term financing of plant and equipment for enterprises that cannot afford their own. A Mutual Credit Guarantee Scheme was also set up for entrepreneurs who have inadequate or no collateral and have limited access to bank credit. To complement 18 these efforts, a Rural Finance Project aimed at providing long term credit to small scale farmers and artisans was set up.

5.2.1 *Institutions policies*

The idea of SME promotion has been in existence since 1970 though very little was done at the time. Key institutions were set up to assist SMEs and prominent among them is The Office of Business Promotion, the present Ghana Enterprise Development Commission (GEDC). It aims at assisting Ghanaian businessmen to enter into fields where foreigners mainly operated but which became available to Ghanaians after the 'Alliance Compliance Order'6 in 1970. GEDC also had packages for strengthening small scale industry in general, both technically and financially.

The Economic Recovery Programme instituted in 1983 has broadened the institutional support for SMEs. The National Board for Small Scale Industries (NBSSI) has been established within the Ministry of Industry, Science and Technology to address the needs of small businesses. The NBSSI established an Entrepreneurial Development Programme intended to train and assist persons with entrepreneurial abilities into self employment.

5.2.2 *Financial Assistance policies*

Access to credit has been one of the main bottlenecks to SME development. Most SMEs lack the necessary collateral to obtain bank loans. To address this issue, the Central Bank of Ghana has established a credit guarantee scheme to underwrite loans made by Commercial Banks to small scale enterprises. Unfortunately, the scheme did not work out as expected. It was against this background that the Bank of Ghana obtained a US\$ 28 million credit from the International Development Association (IDA) of the World Bank for the establishment of a Fund for Small and Medium Enterprises Development (FUSMED). Under the Programme of Action to Mitigate the Social Cost of Adjustment (PAMSCAD), a revolving fund of US\$ 2 million was set aside to assist SMEs.

6. DIFFERENCE AND SIMILARITIES BETWEEN SMALL AND MEDUIM SIZE ENTERPRISES (SME) IN TANZANIA AND GHANA

Differences between small and meduim size Enterprises (SME) in Tanzania and Ghana can be seen in the areas such growth, employment. Sector(size)

6.1 Employment Capacity

SMEs as source of employment is no doubt a fact various government agencies have come to appreciate in the cause their achievement of economic growth. However, according to the Ghanaian Statistical Service (GSS), the entire work force in Ghana is about 11.5 million in 2008. The SME employment contributions to the work-force is over 80%. It is noted, that the agriculture sector continues to be the most important source of employment, employing about 56% of the labour force, followed by services (29%) and industry (15%).

In Tanzania, according to the Integrated Labour Force Survey (ILFS), in 2005/06, the survey shows that the work-force in Tanzania is about 16.6 million reflecting a total of 88.3% employment rate. However, the private sector employed 19.1% during this period whiles the Government and parastatal Organizations employed around 2.5% during this period. The share of the traditional Agricultural sector (crop farming, livestock keeping, fishing and forestry) which is the main employer recorded 75% employment rate, whiles the remaining 3.4% were employed in the mining, construction, services have increased during the period. Of this the informal sector of the SMEs contributes to about 22% representing a total of 2,369,380 people.

6.2 Growth/Business registered

In Tanzania, more than 70% of all SME businesses are registered while 30% unregistered and in Ghana the registered SME businesses consist of 92% and unregistered consist of 8%. It is observed that the private sector which is dominated by SMEs is still nascent but plays a significant role in the economic development of the country. In Tanzania and Ghana; the contribution of the SME sector with respect to the country's GDP is 40% and 70% respectively. SMEs are vital for economic growth and development because they encourage entrepreneurship, generate employment, and reduce poverty.

Tabell 8 :Contribution in Economic sector by SME in Tanzania and Ghana

Country	Contribution in GDP	Registered businesses	Un Registered Business
Tanzania	40%	70%(1801543)	30%(not mentioned)
Ghana	70%	92%(not mentioned)	8% (not mentioned)

From the table above, it is observed that the SME sector in the Ghanaian economy contributes a higher percentage to GDP than the SME sector in the Tanzanian economy, the economic growth of Ghana is higher compared to Tanzania. In other words, SMEs occupy a higher market share in the various countries (92% in Ghana and 70% in Tanzania), their performance directly affects the economic growth of the countries. The table shows the real GDP growth rate for Ghana and Tanzania from 2000 to 2010;

6.3 SME Structure

In Ghana the SME concentration is mainly in Accra, Kumasi and Tema while in Tanzania the SME concentration is mainly in Dar es salaam, Pwani, and Mbeya. The major SME sector in both country is Agricultural sector.

6.4 Export ratio

Generally Tanzania export large percent to other African countries while in Ghana large volume of export goes outside the continent

7. COMCLUSION

The claim and counter claim that SMEs is the propelling wagon for the economic growth in all countries without the exception of the developing countries like Tanzania and Ghana. In country like the USA, where SMEs has been seen as a good catalyst for economic growth will continue to serve as a reference to other countries. However, in the developing countries like Tanzania and Ghana, the idea to follow this example is without doubt will continue to be a good thought.

The main challenges that the Tanzania and Ghana should be ready to tackle before this states can begin to experience such economic boom as recorded by other countries can not be overemphasised. It is true that the African continent lies the various mineral and raw materials necessary for huge production and manufacturing. Most of these raw materials are mainly from Agricultural produce and natural minerals which are deposited in large quantities in Africa. In Tanzania, they are very rich in cotton for textile, Tanzanite and Diamond which are used for luxury products but due to inadequate technology and skills this products are exported without added values to it, as a result will yield low income to the companies involved.

Ghana also is very rich in cocoa production which is used for products such as chocolate and coffee, they are also rich in diamond. Most of the SMEs in this areas are in the Agricultural sector but they are not capable of utilizing fully the potential compare to the availability of the raw materials at their disposal.

Other issues such as Managerial know-how, lack of adequate credit facilities, planning, and more importantly the lack of inadequate support from the respective government to provide favourable environment for such businesses to thrive and succeed. The government have to embark on the provision of policies and relevant agencies that will implement those policies when they are promulgated, so as to support and make it easier to SMEs in the respective countries to grow and yield good economic growth to their countries.

Government on its own can not be able to create a change over night, therefore, it is also necessary for the people such as the managers of such SMEs to be re-oriented on the need for a better way of doing businesses in their respective countries.

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