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3

**Structural adjustment
programmes and the
urban informal sector in
Ghana**

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Preface

One of the major development concerns in recent years, particularly in sub-Saharan African countries, has been the rapid growth of *urban* population - in excess of 5 per cent per year. Much of the growth in urban labour force is currently being absorbed in what is known as the urban informal sector. Perhaps two thirds or more of urban employment in these countries is in the informal sector. With the introduction of structural adjustment programmes during the 1980s its impact on employment and conditions of work in this sector is not clear. It is generally believed that one major outcome of these programmes has been a significant reduction in wage employment in both the public and private sectors. It is further believed that most of the workers retrenched entered the informal sector, starting their own small business. If this is true was the increase in employment in this sector accompanied by improved incomes and conditions of work? Though there are no hard evidence on this question it is generally believed that one of the major impacts of the structural adjustment programmes in sub-Saharan Africa has been a significant reduction in the aggregate income and demand in the whole economy. According to one view the reduction in real incomes of households led to higher demand for informal sector goods and services. Even if a restructuring of demand did take place it is not evident that the informal sector benefited from the structural adjustment programmes; the net result depends on the extent of decline in aggregate demand.

Besides the macroeconomic effects above the structural adjustment programmes are expected to affect the cost and revenues of informal sector businesses both directly and indirectly. To the extent the informal sector depends heavily on the modern sectors and external trade the influence of SAP on the former could be positive or negative depending on the nature of linkages. The direct effect of SAP consists of changes in the structure of costs and revenues on the informal businesses resulting from various reforms including fiscal, monetary, privatization, deregulation and so on. In order to determine whether the structural adjustment programmes in Africa had a beneficial impact on employment, incomes and conditions of work in the urban informal sector clearly there is a need to collect relevant data through surveys and analyse them.

The ILO, under the sub-programme on the urban informal sector, therefore decided to carry out some exploratory studies to assess the nature and magnitude of the impact of SAP on this sector. The first study was carried out in Nigeria in 1992, which collected and analysed the data on informal sector in two cities - Lagos and Zaria. It was followed by a study on Zimbabwe. Like the earlier two studies this study on Ghana also confirms the negative overall impact of the structural adjustment programme on the urban informal sector. But the informal sector entrepreneurs in Ghana appear to have shown a better response in the sense that many were able to adapt their production technologies and product lines and have developed niche markets. This study, which is largely based on data collected by other researchers, also discusses the differential impact on various sub-sectors and groups. One weakness of all these studies has been that they have essentially looked at the short-term impact of structural adjustment programmes. They nevertheless provide some indications for future policy change in this area.

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Executive Summary

It is widely acknowledged in Ghana that the poor majority would have been worse off without some form of adjustment. It is very questionable, however, whether the present structural adjustment policies are encouraging a process of equitable economic development as experienced by the majority of the population. Like any other candidate for structural adjustment, Ghana in the early 80s was burdened with a large balance of payments and fiscal deficits, accompanied by high inflation. Far from reaching the dizzy heights expected immediately after independence in 1957, it will be no exaggeration to say that Ghana's post-independence economic history has been among the most dismal in a continent that has been no stranger to discontent. Given that economic crisis is triggered by the diminution of resources which cannot be filled on a sustainable basis by external grants or loans, the question was what type of adjustment was suitable to the political and social circumstances of Ghana. The real choice was between positive adjustment as a conscious decision with some externally imposed conditions or an unconscious and haphazard and ultimately self-negating course of adjustment, dictated by the march of events.

The challenge that faced Ghana, like other sub-Saharan African countries was twofold: the search for renewed economic growth and the translation of the economic growth into increased employment opportunities to ensure that the majority of the people will reap the benefits of growth. With these objectives in view, the Economic Reforms Programme (ERP) in Ghana was launched to arrest the economic decline and adjust the productive sectors in a manner to increase growth. It was characterized on the economic side by a reliance on market mechanisms, reduction in government expenditure, promotion of exports and privatization of state-owned enterprises. However, most of these measures which are policy instruments generally associated with SAPs, did not have the desired impact on the sectors targeted.

Subsequent developments have established that the impact of SAPs on Ghana's urban informal sector has been a mixed one. The various mechanisms of SAPs - currency devaluation, tight fiscal and monetary policies and promotion of exports have been received with a multiplicity of responses discussed in this paper. These also constitute the basis of the hypotheses that are later on to be tested during the course of analyses of the findings of recent studies on the urban informal sector in Ghana established. Particular reference may be made to the finding relating the swelling of the informal sector market space as a result of the reforms of SAPs like retrenchment and low labour absorption capacity of the formal sector as well the link between the age of an enterprise and the economic policies. Similarly, divergent views were expressed regarding the background of entrepreneurs i.e. schooling and previous relationship with formal sector and output. The requirement for skills development has been found to be inadequate under the SAPs policies and this leads to the inadequacy of the measures launched to mitigate the costs of adjustment - especially among the most vulnerable groups. An analysis of these measures has been done through references to recent studies undertaken on the Ghanaian urban informal sector along with personal interviews, discussions and work experience in Accra.

Based on these findings, the major constraints identified for the informal sector have been - reduced demand, increasing competition, rising costs, reduced availability of raw materials and technological backwardness. In some cases, however, entrepreneurs have succeeded in carving out a market-niche either by product-mix diversification or a change in marketing strategy like in the soap and cosmetics sub-sectors. This was experienced also by enterprises catering to developmental activities undertaken by the government as part of the SAPs reforms like construction activities, non-traditional exports, etc. This category of entrepreneurs was, however, very small and the analyses of the findings in this paper leads to the conclusion that a better resources and more technologically advanced informal sector can carve a better niche in the existing market conditions. This has implications for the type of policy measures which could be expected to address the constraints of the informal sector growth identified in this paper.

Accordingly an appropriate policy response to the needs of the urban informal sector entrepreneurs has been outlined in the Conclusion. This has been categorized under the following: institutional strengthening/policy and regulatory support i.e., having an appropriate informal sector development policy along with the establishment of an institution to attend to the needs of this sector; supply-side factors i.e., development of appropriate credit mechanisms, better training facilities, improved technological research opportunities and increasing availability of raw materials; and demand-side factors i.e., creating new sources of demand, promoting linkages with other sectors and

restricting imports of consumer items which might prove an unequal competition for local manufacturers.

Structural Adjustment Programmes and the Urban Informal Sector in Ghana

1. Introduction

1.1 The "African economic crisis" of the early 80s was characterized by a steep decline in the quality of life for an increasing large proportion of the population in several African countries and a decline in the rate of growth in all the sectors of national economy. As observed by the World Bank, "The average annual GDP growth rate for low-income Africa declined from 2.7 per cent during 1970-80 to 0.7 per cent in 1982 and reached a record low of 0.2 per cent in 1983" (The World Bank, 1986). This was accompanied by:

- ! decrease in the average income per capita as well as the average capita in food production;
- ! deterioration in the foreign exchange position of the national economy;
- ! stagnation of local manufacturing industry with capacity utilization of industrial plants below economic levels and indices of industrial production reading below negative level.

This resulted in investment levels too low even to maintain or rehabilitate existing production capacity and inhibited the full mobilization of the national human resources in the drive for survival and development (A. Sawyerr, 1988). In consequence, these economies were often left vulnerable to every natural calamity as well as to the vagaries of the international economic environment.

1.2 There had been collective counselling on how to deal with the crisis in Africa beginning in 1980 with the Organization of African Unity summit meeting of African Heads of State and Government to the launching of the Lagos Plan of Action for the Economic Development of Africa 1980-2000 and the final Lagos Plan of Action. In addition, there was the "United Nations Programme of Action for African Economic Recovery 1986-1990" (UN-PAAERD) in which the African leaders put in additional efforts to restore the economic status of the African countries which culminated in the Khartoum Declaration of 1988. This Declaration recognized human development both as a means and an objective to development and proposed practical measures for strengthening and further developing human capacities. At the time when such formal pronouncements were being made, a number of African countries started experimenting with structural adjustment programmes for the rehabilitation/development of their national economies. The measures central to most structural adjustment programmes adopted by countries in the sub-Saharan Africa were: reduction/removal of direct State intervention in the productive and distributive sectors of the economy, restricting the State's responsibility of an institutional and policy framework conducive to the mobilization of private enterprise and initiative (Sawyerr, 1988). This, it was believed, would give freer play to both internal and external market forces and provide the appropriate engine for a resumption of economic growth and development. Within this very broad framework, adjustment measures adopted by these countries included the following salient mechanisms: reduction of public expenditure, increase of domestic savings, rationalization of state owned enterprises, liberalization of the economy, export promotion and promotion of private foreign investment.

1.3 These measures, it was argued by the supporters of adjustment programmes, would provide a macro-economic environment congenial to the small and informal sector entrepreneurs. In its 1989 Long Term Perspective Study on Africa, the World Bank projected an annual growth rate in employment in the small and microenterprises of 6 per cent over the next 30 years. Together with a projected annual growth rate of 1.5 per cent in labour productivity, this represented a projected sectoral employment growth rate of 7.5 per cent which was double that of the modern wage sector and 80 per cent faster than that of agriculture. In actual practice, implementation of the above measures resulted in:

- ! a general credit squeeze;
- ! crippling competition from foreign imports;
- ! focus on demand management in a low wage regime that deprived the local industry of effective demand.

1.4 The objective of this paper is to assess the impact of structural adjustment programme on the urban informal sector in Ghana in the context of the major policies listed above so as to understand the extent to which this sector has benefitted from them. This has been done through an assessment of the impact of SAPs on the microenterprises and workers in this sector based on an analysis of their responses to a wide range of issues. The paper also discusses the mitigatory measures that were

introduced to reduce the cost of adjustment and identifies the factors that contribute to the success or failure of adjustment at the enterprise level.

1.5 The paper is divided into eight parts. The following section presents the scope as well as the methodology utilized in the paper. Section 3 briefly discusses the structural adjustment programme in Ghana. Section 4 presents a brief resume of evidence from various studies on the urban informal sector in Ghana. In particular, it describes the size, structure and characteristics of the sector. Various hypotheses concerning the impact of the SAP on the urban informal sector are presented in Section 5. Section 6 reviews the evidence from published studies linking SAP and the urban informal sector in Ghana. Impact of the SAPs on the urban informal sector in Ghana is presented in Section 7. Conclusions are presented in the last Section 8.

2. Scope and methodology

2.1 Despite the extreme popularity of the term informal sector, its precise definition continues to elude policy makers as well as others planning to target practical assistance to the sector. This constitutes a major hurdle for the formulation of a clear policy toward the sector in the first place and assessing its impact, later on. The urban informal sector in Ghana, as elsewhere, is highly heterogenous. The activities within the sector range from petty trading in the streets and markets to small-scale manufacturing and servicing.

2.2 In this paper a practical definition of the informal sector enterprises is adopted; it consists of those enterprises which employ less than 10 persons, based on the following considerations. The Ghana Statistical Service (GSS) considers establishments with less than 10 workers as small-scale. The National Board for Small Scale Industries (NBSSI) considers a small enterprise as employing not more than 9 persons, with plant and machinery not exceeding cedis 10 million. Moreover, some of the available studies use this cut-off point - Steele and Webster (1991) used a cut-off limit of 30 workers to indicate small-scale enterprises with micro units engaging between 4 to 9 persons. This definition would also fall in line with the definition of Yankson (1992), which found 73.3 per cent of the enterprises engage 1 to 4 employees and 18.5 per cent engage 5 to 9 employees. The paper, however, distinguishes between different kinds of activities in order to draw branch specific conclusions.

2.3 The methodology adopted in this paper is as given below. In fact, it is based on a review of published literature on the impact of SAPs on the urban informal sector in Ghana supplemented by unpublished documents. It also draws on the information derived from various meetings and seminars in Ghana in which the author had the opportunity to participate. The paper also utilizes information obtained through structured interviews carried out with a number of key informants including officials of the Government involved in the implementation of the economic reforms, entrepreneurs in the urban informal sector, donor agencies and other non-governmental agencies which included employers' and workers' groups and self-help groups. Discussions were also held with competitors, suppliers and clients of the sector. All these provided valuable, complementary perspectives on the problems and potentials of the sector.

2.4 Notwithstanding the above, a word of caution here is in order. Being largely unenumerated, the urban informal sector in Ghana, as elsewhere, suffers from a number of data deficiencies - there is little reliable information on either its size and nature or characteristics. Added to this is the inadequate record-keeping; and suspicion on the part of the entrepreneur about the motives of the interviews conducted which makes it difficult to obtain the requisite information. Since this paper is not based on any survey conducted specifically for the purpose, the author had to rely upon secondary evidence i.e. - studies conducted on the same target groups. However, a short visit to Accra undertaken by the author in late 1994 facilitated in supplementing the above information with valuable insights into the process of adjustment in Ghana. It is thus clear that the paper draws on a variety of sources which is often fragmented. This limitation should be borne in mind while interpreting the analyses and conclusions.

3. Structural adjustment programmes in Ghana

3.1 Though 1983 ushered in the "economic miracle" in Ghana which signalled a change in the national orientation of economic policies, nevertheless, in order to understand the rationale and impact of the policy instruments of such a change it is necessary to briefly describe the conditions before that year. Ghana's economic crisis can be described in the following terms:

- ! *first*, failure of the development strategies pursued since independence which focused on large-scale state-owned enterprises dependent on imported raw materials and heavily protected by the state;

- ! *second*, falling savings and investment in the private and public sectors along with falling output and accelerating inflation; and
- ! *third*, external shocks - severe droughts of the early 80s, expulsion of nearly one million Ghanaians from Nigeria in 1983 and plummeting cocoa prices.

Against this background, the Government failed to provide adequate incentives for producers in the primary product sector which generated the bulk of the country's foreign exchange via exports. It was compounded by the failure to apply normal commercial and financial disciplines to the large number of new industries set up in the public sector which is believed to have contributed to corruption and embezzlement (Pickett and Singer, 1990). As a result, the growth of output had come to a halt and then turned negative beginning from 1975 till 1982, while real per capita income declined by more than 30 per cent and the overall balance of payments deficit widened leading to a depletion of foreign exchange reserves and an accumulation of external payments of deficits of about US\$580 million by the end of 1982 (IMF, 1991).

3.2 The Economic Recovery Programme (ERP) was launched in response to the crisis situation described above. The first phase of this programme focused on stabilization which was to be followed by a phase of rehabilitation. The final phase may be described as one of liberalization. The key elements of the strategy for implementing the ERP have been: (a) a realignment of relative prices to encourage productive activities and exports through strengthening of economic incentives; (b) a progressive shift away from direct controls and intervention towards greater reliance on market forces; (c) the early restoration of monetary and fiscal discipline; (d) the rehabilitation of social and economic infrastructure; and (e) the undertaking of structural and institutional reforms to enhance the efficiency of the economy and encourage the expansion of private savings and investment (IMF, 1991).

3.3 The above measures involved the following specific changes:

(a) *Monetary, Fiscal and Trade Policies*

The Government adopted a policy of flexible exchange-rate resulting in the devaluation of the national currency - cedi and a liberal trade system. From the excessive over-valuation of the cedi, as indicated by a divergence of over 4,264 per cent between the official and parallel market rates at the end of 1982 (Dorduno, 1994), the cedi was allowed to depreciate; the cedi-dollar exchange rate was determined by the forces of demand and supply in a weekly auction, which was finally abolished in March 1992. On the banking side, restrictive monetary and credit policies were initiated to keep the growth of net domestic assets of the banking system in relation to the money stock within appropriate limits (Government of Ghana Paper, July 1988 - June 1991). Ceilings on the expansion of commercial banks' loans together with complete liberalization of bank lending rates and the introduction of regulatory measures by the Bank of Ghana curtailed domestic credit expansion. On the fiscal side, the Government's main concern was to generate revenue through 'user fees', taxes, cess, etc, and to reduce spending. For instance, fees were imposed on educational and health facilities, subsidies on fertilizers were phased out and employment was reduced. Beginning with a total of 13,937 civil servants who were redeployed in 1989 (Government of Ghana, January 1991 - December 1993), the number appears to have risen to 150,000 as quoted in the November 1994 meeting with the Heads of Departments in the Trade Union Congress (TUC). This was accompanied by a freeze on salaries of public servants till 1992 (according to unpublished documents in Ministry of Finance and Economic Planning).

(b) *Price Policy*

Price controls were removed and markets were allowed to play a major role in the determination of prices (World Bank, 1990). In July 1985 the rigid price controls by the Prices and Incomes Board had been reduced to eight commodities and remaining price controls were flexibly determined. However, some manufacturers started facing strong pressure not to increase the prices (i.e., the price of soap in 1989 as evident from personal interviews with soap manufacturers at the time).

(c) *Agriculture Policy*

The Government's agricultural policy was aimed at increasing the output of both exports and food crops by raising productivity and by expanding the area under cultivation. To achieve these objectives a Medium Term Development Plan was prepared outlining an incentive framework for agricultural production. As a result, producer prices rose and exports of pineapples, cola nuts, etc increased. Appropriate linkages with the manufacturing sector could have further enhanced the production capabilities of this sector.

(d) *Private Sector Promotion Policy*

The above policies had been complemented since 1987 by the implementation of a wide range of structural and institutional reforms designed to strengthen the efficiency of economy and expand private sector activity. Some of the measures introduced under this category were: divestiture of state-owned enterprises, incentives to focus on the use of locally - sourced raw materials, amendment of the Ghana Investment Code to attract investments and other related incentives and concessions (World Bank, 1990). However, the private sector investment response remained below the levels needed to generate sustainable growth - its share of gross domestic product is only 8.5 per cent (Institute of Statistical, Social and Economic Research, ISSER, University of Ghana, Legon, 1993). The reasons range from continued domination of the economy by the public sector to large gaps between official regulations and implementation.

3.4 The various adjustment measures introduced by the government came under sharp criticism as they fell short of the expected results. Moreover, fiscal austerity measures on the people like the wage-cuts, price increases, lay offs, etc. resulted in considerable difficulties for the people in general and the poor in particular, on whom the costs of adjustment fell rather disproportionately. Consequently, the government launched a programme known as the "Social Dimensions of Structural Adjustment" with the following immediate objectives:

- ! to assess the impact of structural adjustment programmes over time on various population groups;
- ! to strengthen the institutional capacity of government to develop and maintain adequate statistical data bases on the social dimensions of structural adjustments (UNDP, 1990).

This was followed by the PAMSCAD (Programme for the Mitigation of Action to Mitigate the Social Cost of Adjustment) whose main objectives were:

- ! to generate and accelerate employment in both rural and urban areas;
- ! to provide credit line to small-scale enterprises through a revolving fund (Government of Ghana, 1987).

3.5 **SAP: An assessment of performance**

The implementation of SAPs resulted in a major turnaround in Ghana's overall financial and economic performance since 1983. During the eight-year period to 1991 growth in real GDP recovered, allowing gains in per capita incomes; inflation declined and the general position regarding balance of payments switched from deficits to surpluses, facilitating external payments and a build-up of exchange reserves. The recovery in output growth, combined with the gradual liberalization of exchange restrictions boosted the expansion in the volume of imports to an average of 10 per cent a year. The rising external financing requirements have been covered in part by modestly growing inflows of private capital, including direct investment and by increase in the inflows of official external assistance. The inflows of official grants and concessional loans rose from the equivalent of less than 1 per cent of GDP in 1983 to about 10 per cent of GDP by 1990.

Despite the improvements on the economic and financial scenes, however, Ghana continued to be confronted with a number of structural, institutional and financial constraints. These included a high inflation rate, a small though developing private sector, low levels of domestic savings and investment which prevent a self-sustained growth in output and increasing pressure on the public sector's management and implementation capacity.

4. **The urban informal sector in Ghana - its magnitude, structure and characteristics**

4.1 During the period of economic decline from 1970-82, characterized by declining real wages and employment growth in the formal sector, the informal sector played a significant role in alleviating large scale poverty in the urban centres of Ghana. Bulk of the urban labour force was engaged in some kind of informal activity - either part time or on a full time basis (Yankson, 1992) as part of the "survival strategies" which were adopted to meet the challenges of deteriorating economic conditions. Since then it has remained as the single most important source of employment in the country, engaging about 60 per cent of the non-agricultural employment, as compared to 15.6 per cent of the formal sector (ILO/JASPA, 1989). The Secretary for Mobilization and Social Welfare, Government of Ghana estimated that the informal sector employs more than 80 per cent of the country's labour force (People's Daily Graphic, June, 1991). On the basis of several survey results, it has been estimated that employment growth in the informal sector is about 5.6 per cent per annum compared to less than 1

per cent in the formal sector. At this rate it is estimated that the informal sector is absorbing 80 per cent of the annual increases in the urban labour force - which is rising, especially during 1983-92.

4.2 The contribution of the informal sector to GDP is difficult to measure due to insufficient information; it probably accounts for nearly 22 per cent of the gross domestic product of the total Ghanaian economy (ILO/JASPA, 1989). Over 40 per cent of employment in this sector is provided by trade, about a third is involved in manufacturing and about 18 per cent in services (Sethuraman, 1977). According to a more recent source, Aboabgye and Yankson, ILO/JASPA, Addis Ababa, 1992, the distribution of enterprises follows a broad pattern - retail trade and restaurant accounting for 50 per cent of the employment, 37 per cent manufacturing activities, 10 per cent in other services and 3 per cent in transport. However, this does not take into account a sizeable number of persons who are engaged in the sector on a part-time basis. About 80 per cent of employment in manufacturing in Ghana and about 90 per cent of the employment in trade and commerce is provided by the informal sector. However, in the services sector informal sector accounts for only 56 per cent of the total employment.

4.3 Some of the salient characteristics of the Ghanaian informal sector are as follows:

4.3.1 *Size* - The typical informal sector enterprise is individually-owned and operated, generally for less than five years duration (Yankson, 1992). Often, the size is determined in terms of number of employees including apprentices and family members engaged or the capital invested. The average size of employment is four though the number may vary with the nature and type of activity - from sole-ownership to partnership and family ventures and cooperatives. Lack of access to resources clearly affects the type of equipment as well as the number of persons engaged. Distribution of enterprises by size of capital is presented at Table 1. Judging from this, as also from other reports and surveys, the average quantum of capital invested ranges from cedis 50,000 to cedis 75,000 per enterprise. The sources of finance are mostly informal - personal savings and borrowing from friends with interest rates closely linked to the prevailing high market rates. Table 2 shows the different sources of funds. These entrepreneurs are generally ignorant of the existence of the different institutions set up for facilitating their operations and according to the study by Yankson (1992), only 10 per cent approached bank or any other government agency for financial help primarily due to the difficult formalities/conditions and also due to their lack of information about existing facilities.

4.3.2 *Entrepreneurs* - Regarding the sex composition of employment - among males nearly 40 per cent of the informal sector employment is provided by services, followed by manufacturing comprising nearly 30 per cent. For women, 60 per cent of informal sector employment is in trading, followed by manufacturing which is about 34 per cent (Sethuraman, 1977). As a general rule most of the informal sector employees are young and though not very highly educated, most of them have middle school background. According to surveys by Yankson (1992) 50 per cent of the entrepreneurs in the 1206 units surveyed had middle school background, the figure was lower for other studies: Steele (1977) 45 per cent and Aryee (1977) 36.1 per cent. However, apprenticeship still remains the dominant channel for transfer of skills - Yankson (1992) places it at 54.6 per cent, Steele (1977) at 40 per cent and Sowa et al. (1992) placed it at 55.2 per cent. Aryee (1977) observed that the inadequate level of vocational and technical training in the informal sector in Ghana is directly linked to poor management, particularly in financial records and bookkeeping. There is a dominance of male entrepreneurs in motor-repairs, shoe-making, metal fabrication, etc., while women who comprise about 30 per cent of entrepreneurs in this sector are predominant in the servicing sectors like food-processing (64.2 per cent), trading (42.3 per cent) and dress-making (34.5 per cent) (sources: Yankson (1992) and unpublished paper on the mission of two delegates from the Economic Commission for Africa in July 1991). Some of the main activities can be seen in Table 1. The informal sector entrepreneur is manager, technician, salesman, etc., all rolled into one person. The reasons for their entry into informal business are varied - ranging from an urge eke out a living to application of talent to joining a trade or reinvest profits earned elsewhere. (Yankson, 1992).

Table 1. Type of enterprise by size of initial capital and major activities

(Cities: Accra, Tema and Kumasi - 1991)

| Type of enterprise | Size of initial capital (in cedis) | | | | Total |
|--------------------------|------------------------------------|--------------|---------------|--------------|------------------|
| | Under 50 000 | 50-54 000 | 55-80 000 | N/R | |
| Food processing | 63 (67.7) | 5 (5.4) | 23 (24.7) | 2 (2.2) | 93 (100.0) |
| Textile/leather works | 86 (59.3) | 6 (4.1) | 50 (34.5) | 3 (2.1) | 145 (100.0) |
| Woodworking | 42 (42.0) | 16 (16.0) | 37 (37.0) | 5 (5.0) | 100 (100.0) |
| Metal fabricating | 33 (44.6) | 4 (5.4) | 35 (47.3) | 2 (2.7) | 74 (100.0) |
| Beverages | 48 (88.9) | 1 (1.9) | 4 (7.4) | 1 (1.9) | 54 (100.0) |
| Repair services | 31 (38.8) | 14 (17.5) | 28 (35.0) | 7 (8.7) | 80 (100.0) |
| Auto repairs | 54 (40.0) | 9 (16.7) | 62 (45.9) | 10 (7.4) | 135 (100.0) |
| Restaurant/eating places | 32 (50.8) | 3 (4.8) | 13 (20.6) | 15 (23.8) | 63 (100.0) |
| Personal services | 24 (39.3) | 6 (9.8) | 27 (44.3) | 4 (6.6) | 61 (100.0) |
| Handicrafts | 48 (61.5) | 3 (3.8) | 26 (33.3) | 1 (1.3) | 78 (100.0) |
| Commerce | 123 (43.2) | 19 (6.7) | 131 (46.0) | 12 (4.2) | 285 (100.0) |
| Building construction | 5 (20.8) | 3 (12.5) | 12 (50.0) | 4 (16.7) | 24 (100.0) |
| Others | 3 (42.9) | - | 4 (57.1) | - | 7 (100.0) |
| Total | 597 (49.5) | 89 (7.4) | 453 (37.6) | 67 (5.5) | 1 206 (100.0) |

Source: Yankson, 1992.

4.3.3 *Working conditions* - Generally informal sector operators function from clusters, closer to cities, especially those engaged in auto repairs, metal works, etc., but may also be strategically located at specific points to reach the maximum number of clients (unpublished report on the Mission of UNIDO official to National Board for Small-scale Industries, Accra in April 1991). Working conditions are very poor due to the insecurity the entrepreneurs experience with respect to their premises. According to Yankson (1992) out of 1,194 units, 85 per cent operated from permanent premises which were actually their residences while the rest worked in temporary shed and structures usually under trees or open spaces. Thus while food-processing and beverages and restaurants operated from home, handicrafts and sandcrete manufacturing units operated under trees or open spaces. This explains their sometimes poor access to utilities like water and electricity. Further they are under continuous threat of eviction.

Table 2: Sources of funds for starting business
(Cities: Accra, Tema and Kumasi, 1991)

| Sources from: | No. of enterprises operators | Percentage of total |
|--|------------------------------|---------------------|
| Previous employment (formal sector) | 194 | 16.1 |
| Previous employment (informal sector) | 419 | 34.7 |
| Sales of farm produce/cash crop | 117 | 9.7 |
| Sales of other assets | 49 | 4.1 |
| Gift from parents/children/remittances, etc. | 20 | 1.7 |
| Lotto | 7 | 0.6 |
| Not stated/not available | 400 | 33.2 |
| Total | 1 206 | 100.0 |

Source: Yankson, 1992.

4.3.4 *Productivity, capital and inputs* - Capital intensity in this sector is low - most of the entrepreneurs use labour-intensive technology, with the largest units having the most fixed capital per employee (Yankson, 1992). As compared with the formal sector, quantum of investment required for the same percentage of returns in this sector is lower (Quarterly progress statements at NBSSI, 1990-

92). Value added per worker for more than half of the labour force in the informal sector manufacturing is higher than the modern sector minimum wage of cedi 200 per day (Aboagye and Yankson, 1992). Also profit rates varied among the branches. About 21 per cent of the enterprises at the large end of the small-scale spectrum experienced over 50 per cent growth in output as compared to only 9 per cent of the microenterprises (Sowa et al., 1992). Therefore, one cannot rule out an association between firm size and the rate of growth of output.

4.3.5 *Capital goods and inputs* - Informal sector operators work with a variety of equipments from simple tools to power operated equipments. These are acquired from various sources, sometimes new or second-hand or self-constructed but very rarely imported. So also for their raw materials, informal sector entrepreneurs depend largely on local resources, primarily from the formal sector units in the cities. Inputs used by informal sector entrepreneurs can be divided into the following:

- ! materials that are locally produced and sold (e.g., aluminium sheets);
- ! inputs that are discarded by public and private sectors concerns (metal scrap)
- ! inputs that are imported (varnish, glue, dyes).

However, it was found during the course of visits to premises of entrepreneurs that there is a growing dependence on middlemen/retail traders due to their financial incapability to buy in bulk the raw materials/inputs and store them.

4.3.6 *Technology* - The level of technology employed in the informal sector units surveyed by Yankson (1992) was reportedly low and on the whole in poor condition. The equipments used by the informal sector entrepreneurs are self-crafted or bought locally with subsequent improvements made by the entrepreneurs. According to Yankson (1992) only 5 per cent of the sampled entrepreneurs used self-constructed tools and equipments. The few cases were food processing (4 per cent), woodworking (11 per cent), metal fabrication (20.3 per cent), and in handicrafts (11.5 per cent). Yankson's survey further showed that in the three years preceding the survey only 473 of the 1,206 operators (that is 39 per cent) had bought tools and equipments, 44 per cent had not purchased any new tools or equipments and 17 per cent could not give a definite answer. In contrast the micro engineering firms around Kumasi about the same time had a relatively high level of mechanization. Dawson's survey (1991) indicated that there were 46 lathes, 5 capstan lathes, 10 milling machines as well as other equipments. A significantly large number of machines were also made locally. A feature of technological ingenuity of the sector was displayed in the shift away from imported inputs to locally prepared substitutes. In an unpublished report in 1990 by a local consultant for MIST there are references to the leather goods and furniture manufacturers near Kumasi where intermediates like glue, varnishes and dyes of different kinds were prepared for use - this was precipitated by the escalation of prices of imported intermediates under SAPs.

4.3.7 *Employment* - In terms of employment distribution, unpaid family workers accounted for 16.4 per cent, apprentices 25.9 per cent and paid employees 57.7 per cent (Yankson, 1992). A total of 3,066 employees were enumerated in 1,206 units covered in the survey which gives a mean employment size of 2.5 persons per enterprise. Almost three-quarters in the sample reported a total workforce of between 1 to 4 persons per enterprise. In fact, 92 per cent of all the enterprises surveyed had a total workforce of less than ten employees per enterprise. Some important features of employment/employees in the informal sector are:

- ! majority of the informal sector enterprises are sole ownership with no paid employees;
- ! paid employees are mostly in units having between 1 to 4 persons; in restaurant (47.6 per cent), woodworking (29 per cent), metal fabrication (23 per cent), construction (33 per cent) and commerce (28.8 per cent);
- ! contrary to expectation 54.6 per cent of the sample units did not use unpaid family labour;
- ! apprenticeship is widespread and common in this sector (54.6 per cent of the entrepreneurs had received training through apprenticeship) - especially in leather, textile and auto repairs activities. It is an important source of skill formation and transmission.

4.3.8 *Marketing* - An unique feature of this sector is its dependence on informal arrangements for selling and buying with long periods of credit delivery i.e., where immediate payments not made and a specific period of credit ranging from thirty days to ninety days is availed of and this is based on personal acquaintance or some other social factor. Informal sector goods are primarily patronized by the poor individuals. Entrepreneurs lack direct links with agents or intermediaries. According to Yankson (1992) 84 per cent of the informal sector entrepreneurs sold their goods and services directly to the customers. Subcontracting is undeveloped and no proper linkages with the other sectors.

4.3.9 *Linkages with the formal sector and other sectors* - Linkages with the formal sector serve as a vehicle for the transmission of skills, resources and markets for the benefit of both the sectors. These linkages may be backward, forward or technological (ILO/JASPA, 1985). The practical situation is that the informal sector is most likely to obtain its raw materials from the formal sector, it sells very little to the formal sector and the strength of their market is provided by the low-income groups in the urban areas (Seminar on Marketing in the small and micro sectors organized by the Ghana Institute of Marketing, Accra, 1991). The linkages between the two sectors are poorly developed and sometimes there is only a one way traffic -informal sectors purchasing both raw materials as well finished goods from the formal sector without any reciprocal buying from the other end (Workshop discussion organized for informal sector entrepreneurs in the wood sub-sector by NBSSI and Conrad Adneaur Foundation in November 1991). Absence of linkages with the formal sector was already noted in 1977 as pointed out by Aryee (1977) in Table 3. Other writers have also found similar evidence and emphasized that quality of products and capacity of production were the major constraints for this missing link. In addition, an unpublished report on the Entrepreneurship Development Centre in Cape Coast, 1991 also mentioned incapability to deliver large quantities when required and inability to buy in bulk requisite raw materials as major hindrances in developing marketing linkages for the informal sector. On the other hand, mobility of trained manpower from the formal sector to the informal category along with their savings resulted in a different types of linkages between the two sectors (ILO/JASPA, 1993) but there were no planned programme to develop this linkage further.

4.3.10 *Income and wages* - Earnings vary between operators in different activities: operators in commerce, construction, restaurants, repair services and metal works earned over cedis 20,000 per month whereas the majority of operators in other areas of activities earned less than cedis 20,000 per month (Yankson, 1992). There were also differences in the earnings between the different cities - in Tema 82 per cent and in Accra 73 per cent earned less than cedis 20,000 per month while in Kumasi 39 per cent of the entrepreneurs fell in that income bracket. The average earnings for the trained workers is cedis 11,200 per month in most of the urban cities which compares favourably with the middle-income earners in the formal sectors. Apprentices generally do not receive any pay, only some allowance for food and transport. Table 4 shows the monthly wages of workers in this sector which proves that majority of them receive less than cedis 9,000 per month which was lower than the prevailing minimum wages in 1992 i.e., cedis 300 per day or approximately cedis 9,000 per month.

Table 3: Formal and informal sector linkages
(City: Kumasi, 1976)

| Formal and informal | | Purchase from modern sector as % of total intermediaries | Sales to modern sector as % of total sales |
|---------------------|-------------------------|--|--|
| ISIC code | Activity | | |
| 9513 | Fitting | 0.211 | 0.111 |
| 3813 | Metal working | 0.086 | 0.000 |
| 3819 | Blacksmithing | 0.111 | 0.000 |
| 3811 | Carpentry | 0.041 | 0.053 |
| 3311 | Tailoring/seamstressing | 0.035 | 0.012 |
| 3220 | Woodcarving | 0.080 | 0.143 |
| 3319 | Cane weaving | 0.000 | 0.167 |
| 3320 | Carpets weaving | 0.393 | 0.000 |
| 3214 | Footwear/leather ware | 0.048 | 0.030 |
| 3233 | All activities | 0.0941 | 0.0517 |

Source: Aryee, 1977.

Table 4: Informal sector earnings per month
(Cities: Accra, Tema and Kumasi, 1991)

| Earnings per month (in cedis) | No. of workers | Percentage of total no. of workers |
|-------------------------------|----------------|------------------------------------|
| 1 000 - 4 000 | 239 | 7.8 |
| 5 000 - 9 000 | 459 | 15.0 |
| 10 000 - 14 000 | 130 | 4.2 |
| 15 000 - 19 000 | 153 | 5.0 |
| 20 000 - 24 000 | 74 | 2.4 |
| 25 000 plus | 157 | 5.2 |
| Not stated/not available | 1 854 | 60.4 |
| Total | 3 066 | 100.0 |

Source: Yankson, 1992.

4.3.11 *Demand and market competition* - Most of the informal sector entrepreneurs produce and serve the poorer end of the market and about 97 per cent of the them have individuals as clients - particularly, from the low income groups (Sowa et al., 1992). However, with a drop in household incomes as shown in the Ghana Statistical Service, *The Estimation of Components of Household Incomes and Expenditures from the First Two Rounds of the Ghana Living Standards Surveys, 1987/88 and 1988/89*, there was a corresponding drop in the their purchasing capacity. This as Yankson (1992) pointed out affected not only patronage of goods and services produced by informal entrepreneurs but also the liquidity position of the entrepreneurs as goods and services provided on credit did not bring immediate cash payments and which in turn resulted in blocking of capital for considerably long periods of time. Besides shrinking demand, the informal sector entrepreneurs also faced competition at three levels: (a) from local manufacturers in the formal sector, (b) local manufacturers in the informal sector and (c) imports of similar products. For this the different SAPs reforms affected the competition as can be seen at Sections 7.2, 7.3 and 7.4 for further discussion on how SAPs affected the informal sector in these areas.

4.3.12 *Constraints* - Some of the major constraints faced by most informal sector entrepreneurs are as follows: lack of credit (for raw materials), difficulty in obtaining various inputs, inadequate work premises, lack of access to markets, lack of demand, too stiff competition from others, inadequate linkages with the formal sector and unfavourable policies. In Steele and Webster's survey (1991), lack of credit for raw materials was the problem cited by 23 per cent of the entrepreneurs, followed by lack of demand (17 per cent). Yankson (1992) too cited lack of finance as the major problem (20.1 per cent), followed by high taxation and licence fees (15.2 per cent). In addition to these constraints, during the course of personal visits it was discovered that non-availability of credit also prevented acquisition of new machineries and equipments and this had an immediate impact on production. These findings from surveys are also confirmed by other sectoral studies. According to a World Bank study on small and medium enterprises, the constraints facing the sector are:

- ! inadequate policy framework;
- ! inadequate financial mechanisms and incentives;
- ! inadequate knowledge of markets, product quality, investments and technical knowledge;

- ! inadequate institutional support; and
- ! inadequate export infrastructure.

These constraints are, their role and significance are to be seen in the context of the SAPs and in particular, it will be relevant to analyse the extent to which, if at all, SAPs were able to alleviate them and if so, to what extent.

5. Impact of SAP on the urban informal sector: Hypotheses

5.1 In order to assess the impact of different policies under SAPs on the urban informal sector in Ghana a number of hypotheses can be advanced. Judging from the nature of the policies of SAP, their impact, should be expected to vary from visible and immediate impact clearly observed at the enterprise - level to medium and long term results involving institutional changes with considerable simultaneous changes. For this paper, the impact analysis of SAPs policies against which the hypotheses have been juxtaposed has been restricted to visible, short term influences observed during 1983-93. These are as follows:

- ! *Hypothesis 1:* SAPs, notably through the policies of reduction of public expenditure, streamlining of the civil service as well as the state-owned enterprises, encouraged the entry of more individuals into the informal sector either as entrepreneurs or as employees. Consequently, the volume of employment increased in this sector. However, this exodus may have contributed to sub-optimal utilization of human resources.
- ! *Hypothesis 2:* The policies of devaluation, introduction of "user fees" for education and health services and retrenchment resulted in a net decrease in household real incomes and an increase in the number of poor households which by virtue of their low purchasing capacity decreased the demand for urban informal sector products.
- ! *Hypothesis 3:* Deregulation of prices of inputs/raw materials and foreign exchange and trade liberalization as well as provision of production and export incentives placed the large small-scale units in a comparatively advantageous position to provide an unequal, stiff domestic competition for the informal sector units; this contributed to a reduction in revenue at the enterprise level.
- ! *Hypothesis 4:* SAPs through deregulation of price control and devaluation of the national currency contributed to higher inputs costs in the urban informal sector.
- ! *Hypothesis 5:* On the banking side, SAPs through restrictive credit ceilings and liberalization of bank lending rates aggravated the credit constraint experienced by the informal sector entrepreneurs; as a result both the accessibility to credit became difficult and cost of credit escalated which affected adversely production costs thereby reducing profits, scaling down investment and slowing down technology upgrading.
- ! *Hypothesis 6:* The trade liberalization policies of SAPs along with devaluation of the cedi (US\$ 1 = cedis 437.1 (av.) in second quarter of 1993, according to Country Report Ghana, 1993) increased the cost of imported inputs which led to the substitution of cheaper local inputs; this however, resulted in change of product-mix, fall in the quality of production and also shift in marketing strategies which in turn affected output, income and employment.
- ! *Hypothesis 7:* SAPs through trade liberalization also increased the competition from imports which led to a reduction in the revenues at the enterprise level and at times led to closure of business.
- ! *Hypothesis 8:* Measures to mitigate the negative effect of SAPs did not benefit the urban informal sector.
- ! *Hypothesis 9:* Wage increases under SAPs wage policies were not matched by increases in output growth, which resulted in lower profitability in the formal sector. This in turn discouraged employment and growth in the modern sector and encouraged expansion of the informal sector.
- ! *Hypothesis 10:* Incentives for production, simplification of rules and regulations and decentralization of power initiated under SAPs for the small and medium scale industries did not apply to the urban informal sector which in turn resulted in concentration of formalities in Accra, causing considerable inconvenience to the entrepreneurs; on the other hand, following decentralization of power in its collection, revenue was enhanced but resulted in considerable harassment and financial burden for the informal sector entrepreneurs.
- ! *Hypothesis 11:* SAPs encouraged exports of non-traditional items and promoted subcontracting and this had the impact of increasing sales of informal sector entrepreneurs

engaged in the manufacture of such items thereby enhancing the branch-specific response characteristic of the urban informal sector to SAPs.

5.1.1 The extent to which the above hypotheses are confirmed or rejected depends on a number of factors as the different measures of SAPs are not unidimensional and certain policies affected specific groups of urban informal sector enterprises more adversely than the others. Similarly, larger units within the urban informal sector may have found it easier to adapt and respond to SAPs than those at the lower end of the scale. These variations lead to a second set of hypotheses described below.

5.1.2 It is hypothesized that the nature and magnitude of impact of the SAPs are likely to vary within the urban informal sector depending upon the specific characteristics of the units and entrepreneurs as well as their location. Some of these important characteristics which have an impact on the responses of the units are as follows:

- ! date of establishment i.e., whether before or after the launching of SAPs;
- ! education of entrepreneurs and past association with the formal sector;
- ! location of enterprise;
- ! branch of activity i.e., which in turn determines raw materials used, level of competition and demand;
- ! women and men entrepreneurs;
- ! impact of constraints;
- ! reaction to regulations and taxation.

5.2 The principal running theme through the findings of the different studies as well as other documents related to the urban informal sector is the difference in responses to the SAPs between the different branches and categories of entrepreneurs. This "uneven" impact ranges from a more adverse influence on certain groups to a neutral effect on some and for a minority it even amounts to a small profitability. Reasons for these diverse responses are traced to the heterogeneity of the sector in general and in particular to certain economic, social and cultural factors which enhanced the extent to which the specific group is able/not able to pick up the signals of the new market conditions. For instance, the worst affected groups are the women entrepreneurs and those who are at the lower end of the sector. These two categories by virtue of their educational qualifications, lack of technical expertise and limited access to productive resources (in the case of women entrepreneurs due to social and cultural reasons) are not able to meet the challenges of the changing situations under SAPs. Women entrepreneurs, in particular find the competition and falling demand difficult to cope with. Neither of these two groups have any benefit from the liberalization policies of SAPs as their nature of activities and economies of scale do not permit any advantageous utilization. On the contrary, devaluation, deregulation of prices, competition from cheap imports and domestic units adversely affect their business prospects and falling income aggravated by the introduction of education and health fees make their plight deplorable (see Section 7.31). In the next section we will review the evidence on the impact of SAPs in general terms based on other studies. The Hypotheses advanced earlier in this section will be tested in Section 7.

6. SAP and the urban informal sector: Review of evidence

6.1 Since the launching of the ERP in 1983, research interest in the responses of small and microenterprises to the SAPs have been steadily increasing. Several studies have been completed based on specific surveys capturing the diverse responses of the sector to the adjustment process. This section briefly reviews some of the findings emerging from the above.

6.2 **Credit availability** - One of the key issues in the context of the SAPs is the extent to which microenterprises in the urban informal sector were affected by the credit squeeze. According to the study by Yankson and Thomi (1985), of the entrepreneurs interviewed in respect of credit accessibility, 83.9 per cent expressed their inability to access credit and only 14.8 per cent confirmed having availed of credit, which in most cases was from an informal source and 1.3 per cent didn't know of the facilities prevailing regarding credit. This revealed the constraints facing the sector with respect to credit availability and in view of the restrictive policies of SAPs regarding loans by commercial banks, the situation was further aggravated as very often cost of informal credit was linked to the prevailing high interest rates. Elkan (1987) also observed that most credit policies tended to discriminate against small and microenterprises and they were in turn compelled to fall back upon informal sources of lending. The study of the National Board for Small Scale Industries (NBSSI) in 1993 discovered that of the total sample of firms of micro entrepreneurs, 59.7 per cent had applied for loans and the percentage of successful applicants was 0.585. Nevertheless, credit remains a key requirement of microenterprises in the urban informal sector and Steele and Webster (1991) cited "lack of credit" was a major constraint for 53.8 per cent of the entrepreneurs interviewed and under the SAPs the micro

entrepreneurs were trapped between the rising costs of raw materials that cut into profit margins and the low demand that decreased their sales. Thus the restrictive lending policies ushered in under the banking reforms of SAPs and the liberalization of interest rates further increased the inaccessibility as well as the cost of credit for the informal sector entrepreneurs (see Hypothesis No. 5 and Sections 7.7 and 7.35).

6.3 **Employment** - As a result of increasing focus on market forces under SAPs there was a simultaneous increase in the opportunities coupled with increased availability of raw materials and other inputs. But only the new category of micro entrepreneurs with education and better skills were able to take advantage of them, according to Dawson (1991) because they were more adaptive to the SAP policies and were generally more successful. However, apart from this new element of entrepreneurs joining the informal sector, the retrenchment policies of SAP resulted in pushing too many into the informal sector and at times resulting in sub-optimal utilization of human resources. The real issue was, therefore, to assess, as Steele and Webster (1991) observed whether the increase in employment in the informal sector was attributed to expansion of microenterprises or to increased absorption of labour as real wages fell and formal sector employment diminished (see Hypothesis No. 1).

6.4 **Technology** - According to survey by Yankson (1992) about 73 per cent of the informal sector operators were not using either second hand tools or any tool during the period of survey. Only 5 per cent of the operators in the sample survey used self-constructed tools or equipments and 2.7 per cent depended upon imported equipments. This indicated that as a result of supply-side constraints resulting from policies of structural adjustment like unavailability of credit and raw materials as well as high prices of equipments due to devaluation entrepreneurs, in the informal sector were not able to upgrade the existing levels of technology and avail of the new market opportunities (see Hypothesis No. 5 and Sections 4.3.6, 7.32 and 7.33).

6.5 **Linkages** - Though linkages between the different sectors was meant to be fostered under SAPs, nevertheless, it had always remained weak for the informal sector since earlier studies had observed like Thomi and Yankson (1985) and Aryee (1977). While ILO/JASPA (1985) referred to the forward and backward linkages between the formal and informal sectors and Yankson (1992) mentioned that 49 per cent of all the informal sector units surveyed in Accra, Tema and Kumasi bought their inputs from the formal sector, conditions under SAPs never promoted any positive linkages wherein the formal sector bought any substantial inputs from the informal sector. This in turn affected the marketing prospects of the informal sector and incomes (see Sections 4.3.9. and 8).

6.6 **Demand and competition** - Majority of the informal sector products serve the poorer end of the market (Sowa, et al., 1992). However, with a fall in incomes of the clientele as a result of the different policies of SAPs, the purchasing capacity fell resulting in a drop in market for the products of this sector. This point has been dwelt in details by Ninsin (1990) where the author traces the bias in income distribution of the specific expenditure group that this sector caters for as further aggravating the instability of the market for the goods and services of this sector. And as Aryee's findings (1977) revealed that as income of this group rises, there was a tendency to increase the stock of products from this sector.

6.6.1 SAPs through the policies of trade liberalization and easy access to foreign exchange resources, resulted in greater availability of inputs which were advantageously utilized by the large small and informal sector units. This led to greater domestic competition for the informal sector units, especially those at the lower end of the scale. Added to this was the competition from cheap imported consumer items as well as an acute competition in the market space (Sowa, et al., 1992) (see Hypothesis Nos. 3 and 7; and Sections 4.3.11, 7.3, 7.4 and 7.17). Apart from the above major issues, the studies referred above also dwelt at length on different issues relating to informal sector enterprises like size, age, wages, productivity, etc. These aspects have been covered in Section 4.

7. Impact of SAPs on the urban informal sector in Ghana

7.1 The findings based on the different surveys, personal interviews, meetings with officials of relevant public and private offices as well as supporting documentary evidences conclude that while under the different policies of SAPs, the urban informal sector in Ghana had been squeezed between rising input costs, falling demand and an increase in competition, on the other hand the impact has also been diverse and uneven in the sense that there has been a marked increase in niche-marketing, though by a relatively small percentage of informal sector entrepreneurs. Consequently the incidence of impact of SAPs is different for the different categories of informal sector entrepreneurs and this is accentuated by the heterogeneity of the sector's units with reference to their sizes, characteristics of entrepreneurs,

and other features highlighted in Section 4. In order to present this diverse impact in a more comprehensive manner, in this section we are going to examine the evidence available and verify the hypotheses advanced in Section 5. For this purpose we are going to use the following information: (a) published/unpublished government documents and (b) recent surveys on the urban informal sector. The hypotheses advanced earlier will be, in the first half of the section, assessed in the context of the major policies of SAPs and their impact on the urban informal sector generally; this will be followed by a detailed verification of the Hypotheses on the basis of the data obtained from some of the recent studies.

7.2 Trade policy - Liberalization of trade policy resulted in the increased availability of inputs, especially those imported. In the monthly visits to the premises of the different enterprises from 1990-93 and subsequent discussions with the entrepreneurs revealed that while inputs in the form of various intermediates were available in comparison to the "hard years" of the late 70s and early 80s, however, with the consumer prices recording an inflation of 37.2 per cent in 1990 (*Country Report - Ghana, Economic Intelligence Unit, Second Quarter, 1993*) it was always difficult to buy them even if available. By 1987, the prices had risen five fold compared to 1982 without comparable increases in real income (Yankson, 1992). Due to the recent changes in trade policies which resulted in greater availability of raw materials but at an enhanced price, the entrepreneurs in the metal, plastic and other sub-sectors were able to carve a niche in the local market as well as export their products. Nevertheless, the chronic uncertainty about the availability of materials had not been eliminated completely - especially in sub-sectors like leather and textiles. Sub-sectors like food-processing and wood-working were able to progress better due to the low import dependence for raw material inputs. As a matter of fact, the informal sector as a whole was marked by low import dependence for inputs and this at times provided a comparative advantage over the import -dependent enterprises. But the dependence on such units for intermediates very often led to an escalation of prices of inputs for the informal sector (unpublished report of NBSSI). So, in general, informal sector units, in spite of the greater availability of raw materials under the SAPs were not able to take advantage of the situation and suffered from chronic shortage of inputs due to the escalation of prices of inputs which confirms the statement advanced in Section 5, Hypothesis 4.

7.3 Trade liberalization and increased access to foreign exchange resources also affected several formal sector firms by making them either take advantage of the economies of scale and providing a direct competition to the enterprises in the informal sector which could not avail of similar facilities - this was evident in soap manufacturing where Lever Brothers (Ghana) started capturing the erstwhile informal sector markets (Section 7.20). This had an adverse influence on the informal sector units who were traditionally engaged in this line of production and this confirms the argument made in Section 5, Hypothesis 3 which refers to the unequal, stiff domestic competition that resulted in a reduction in revenue at the enterprise level. Again, some formal sector firms closed down as a result of SAPs which resulted in cutting off supply/inputs to the informal sector or cessation of buying intermediates from this sector - this adversely affected the production capabilities of the informal sector entrepreneurs. For instance, the lime concentrate processors in and around Cape-Coast experienced a decline in business when production in the firm exporting lime-cordial concentrate partially closed down in 1991-1992. Thus, though the objective of SAPs was to improve efficiency in production and distribution under fair conditions, however, the informal sector did not have the same access to resources or markets and this often resulted in unequal competition which was not very favourable for the informal sector entrepreneurs.

7.4 Another consequence of trade liberalization was the flooding of local markets with cheap, imported consumer items which led to a stiff competition with indigenous manufacturers particularly those in the informal sector. Though survey findings, discussed later suggest that the main source of competition for the urban informal sector was from the local manufacturers, imports also led to the closure of several informal sector units (Box below) and sometimes resulted in their inability to improve production quality due to inadequate demand (Section 4.1 and 7.16). It would also appear that trade liberalization did not facilitate acquisition of equipments by the informal sector because their prices increased disproportionately after the devaluation of the cedi. A survey by the Industrial Research Institute, Accra revealed that simple equipments like machine tools necessary to service other sectors had quadrupled in cost over a period of 18 months in 1991. The conclusions from these developments confirm the statements made in Section 5, Hypotheses 7 and 5 where there are references to the adverse effects of competition from cheap imports and also to the escalation of prices of equipments and machineries due to devaluation and which subsequently slowed the pace of technical upgradation.

IMPACT OF SAPs ON INFORMAL SECTOR UNITS - SELECTED CASE STUDIES FINDINGS

Ms. Cecelia Asiemba Asiedu, Managing Director of Can and Ka Ltd. is a successful exporter of Ghanaian food items to the United States. Her business is favourably affected by the reforms of SAPs. The devaluation has boosted her profits and she has just acquired necessary clearances to start her own canning process at Achimota, near Accra. Due to the incentives provided to exporters by the Government, she has access to credit facilities to tie up with her suppliers so as to meet her shipment schedules.

Mr. Charles. N. Bosompem, an erstwhile successful manufacturer of socks was, as a result of the adjustment reforms compelled to close down business in 1993. He had been in this business for the last twenty years and after a peak period of production of 360 dozens a day about ten years ago, scaled down to 15 dozens per day and finally closed down in 1993. According to him, uncongenial conditions for domestic manufacturers place them at a disadvantage with the cheap, imported goods and above all the low purchasing capacity of the urban low-income groups provides little scope for appropriate incomes.

In the trading sector, with the recent liberalization of SAPs a thriving business is evident, especially for those trading in consumer products - travelling goods, cosmetic products, plastic accessories, etc., **Ms. Margaret Bamford**, owner of a store in Makola market selling travelling items like suitcases, handbags, etc. as well as flasks, fans, etc. during the interview expressed as having a successful business. However, she complained as also others who were having shops in the adjoining premises that intricate regulatory procedures and heavy levies by the Accra Metropolitan Authority were a major constraint to further their business activities.

Depressed demand adversely affected the business of **Ms. Regina Dickson**, proprietress of Dinkraff Enterprises which provided catering services for the last twenty years. This view was also expressed by other caterers interviewed in the Trade Fair premises who found the poor purchasing capacity of their clientele as the primary hurdle to profits. Even during the days of fairs the turnover is comparatively less to what they had earned in the mid-70s and at other times when there are no activities going on the market is considerably reduced. As the national co-ordinator of Business and Professional Women of Ghana, she reported that most of the members, irrespective of the branch, found depressed demand as a major constraint in sustaining their units.

On the other side, entrepreneurs interviewed in the metal fabrication, stone crushing and processing, micro concrete roofing tiles manufacturing, etc. had a ready market in supplying the large companies engaged in the development of infrastructural facilities undertaken under the ERP.

Source: Personal Interviews in 1992, 1993 and 1994.

7.5 On the positive side, the encouragement to exporting units and incentives provided to exporters under the SAPs further encouraged export of various items, particularly non-traditional items like ethnic food-products like yam, cassava in the form of gari, dried fish, etc as well as horticulture items and fruits like pineapples and avocados. The President of the Ghana Export Promotion Council's Committee on food-items disclosed that profitability in the sub-sector had permitted her to start a project of her own packaging plant. Some of the informal sector units were also engaged as sub-contractors to the larger firms and this assured them of a regular market and gave better access to credit and raw material (Section 7.21). This confirms the argument advanced in Section 5, Hypothesis 11.

7.6 **Price policy** - The decontrol of prices and deregulations of markets resulted in continuous increases of prices of inputs, finished products and services which negatively affected the informal sector on both the demand and supply sides (meeting with members of the 31st December Women's Movement, a NGO engaged in the promotion of women in economic activities). This was experienced

by the informal manufacturers of soap, footwear manufacturers near Kumasi, manufacturers of socks and other small textile items as well several others in different branches of the manufacturing sector which were affected by reduction in demand as well as high prices of inputs (Section 7.2). In the wood processing sub-sector increase in demand of logs for export led to escalation of prices of raw materials for domestic market and at times to non-availability of wood for processing into handicrafts items or furniture (meeting with Executive Director, Ghana Timber Board, 1992). The increase in fuel prices from cedis 275 a gallon in 1989 to cedis 2,000 a gallon in 1993 (personal experience) had a corresponding impact on increase of prices of inputs without any significant rise in demand for the products - the pottery making units in and around Accra and Tema had to pay cedis 170,000 for a truck load of clay in 1992 instead of cedis 150,000 over the same year and this adversely affected their production and incomes (personal interviews with pottery manufacturers in and around Accra). This further confirms the argument put forward in Section 5 Hypothesis 4 regarding the increase in prices of inputs as a result of the measures adopted under SAPs.

7.7 Monetary and Fiscal Policies - The difficulties facing the informal sector as a result of the deregulations and lifting of price controls under the adjustment programme were further aggravated by the general credit squeeze for the whole economy and which also adversely affected the informal sector. With the general increase in interest rates (both real and nominal) and credit inaccessibility, most informal sector entrepreneurs found it difficult to tap their informal sources of credit which were frequently friends and relatives as there was a general shortage of cash (Section 7.35). This confirms the statement advanced in Section 5 Hypothesis 5 which traces the increase in the cost of credit and difficulty in accessing credit to the banking policies of SAPs.

7.8 One direct consequence of cuts in government expenditure has been retrenchment of workers from civil service and public sector undertakings and these redundant employees entering the informal sector (Section 7.15) in the absence of any other adequate means of subsistence (Documents of Ghana Enterprise Development Commission, 1990). This further resulted in fall in household incomes and more competition. The restructuring of the state-owned and other large sector enterprises increased the prices of inputs for the informal sector units and this in turn increased the cost of the final products - like the supply of cement from the state owned cement unit for the block-makers. These facts substantiate the arguments advanced in Section 5, Hypotheses 1, 2 and 4.

7.9 On the side of increasing the generation of revenue for the government, under the SAPs for the first time the informal sector units were subjected to the payment of income-tax from 1987 depending upon their annual income and this along with the increasing scales of revenues demanded from local authorities proved a financial burden for the informal sector entrepreneurs, especially when incomes were not satisfactory (Section 7.32). This will be further aggravated by the introduction of the Value Added Tax likely to be imposed sometime in 1995 (Budget Statement of Finance Minister, 1995). This confirms the statement made in Section 5 Hypothesis 10.

7.10 Wage policy - Since the ERP commenced in 1983, the minimum wages was revised several times between 1983 and 1991 in furtherance of the SAP's labour policies. Real wages increased from the 1983 low of cedi 568.06 (in 1977 constant prices) to cedis 3,423.60 by 1988 - this was an increase of six times. But real GDP growth between 1983 and 1988 was only 1.3 times (1983 GDP was cedis 4,747 million while 1988 GDP was cedis 6,311.6 million) (Dorduno, 1994). This increase in real wages outpaced productivity as investment rate was depressed due to high cost of credit as well as rapid and total liberalization of foreign trade. Dorduno (1994) in Table 16(c) shows that the effect of high bank and lending rates on employment have negative effect via low private sector capital formation. The strongest effect is on industrial employment with a parameter of -5.1142. This affected in turn, negatively the profitability of domestic enterprises and resulted in their poor performance and given the difficulties being faced by local enterprises, they could not but lay off workers. (Dorduno, 1994). The joint effect of all these policies accounted for the decline in employment by about 5% per annum since 1983 in the industrial sector. This enhanced the volume of entrants joining the informal sector (though there are no official figures available , discussions with different officials in the Ministry of Industries, Science and Technology, Accra confirmed the exodus) and thereby confirms the hypothetical statement contained in Section 5 Hypothesis 1.

7.11 Measures launched to mitigate the costs of adjustment - The measures launched to mitigate the costs of adjustment were not planned to meet the sector/sectors worst affected by the economic reforms of SAPs. There was no plan to identify the sub-sectors most adversely affected and meet their needs in a coordinated manner. The loan amount of cedis 250,000 was not adequate to cater to the immediate requirements of the redeployees and very often the delay in loan disbursement created acute difficulties for the beneficiaries (Section 7.34). This contributed to the confirmation of the argument advanced in Section 5, Hypothesis 8.

7.12 **Technology upgradation measures** - To meet the challenges of the new economic environment it was necessary for the informal sector entrepreneurs to constantly upgrade their technological skill-levels. However, due to the constraints resulting from depressed demand and increase in prices of inputs under SAPs it was difficult to plan any technological development and there was no government programme to take care of this aspect of the informal sector enterprises (Section 7.33) and this led to a scaling down of investment and slowing down of technology upgrading as contained in Section 5, Hypothesis 5.

7.13 **Regulatory and revenue generation policies** - During the course of interviews with the micro entrepreneurs it transpired though for revenue purposes local authorities were realizing the taxes, this was not accompanied by a simultaneous decentralization of power for registration and licensing which still remained concentrated in Accra. This resulted in considerable loss of time and money which under the unsatisfactory business conditions under SAPs further affected their sales adversely and reduced their already decreasing incomes (Section 7.32). Also the government's focus on increased generation of revenue resulted in enhancing the taxes and other cess due from the entrepreneurs, especially at the local levels which directly affected the informal sector entrepreneurs aggravated their position and increased their financial burden. These facts confirm the argument forwarded in Section 5, Hypothesis 10.

7.14 **Verification of hypotheses based on data obtained in recent studies** - In the following paragraphs an attempt has been made to assess the impact of SAPs at the sectoral and enterprise levels based on evidence from various studies. Structural Adjustment Programmes, with their diverse policies could not have had a unidimensional impact on the informal sector in Ghana. The impact of SAPs on this sector is assessed with reference to the major policies outlined in Section 3 which have a direct and indirect. In some instances the impact is felt immediately at the enterprise level, while in others it occurs only after a lapse of a considerable period of time which can be only gauged from circumstantial evidence. Assessment of impact is further complicated by the heterogeneity of the sector and the issues under consideration.

7.15 One of the key issues that needs to be addressed is whether SAPs contributed to the swelling of the informal sector and if so, how. This can be assessed on the basis of the following data: (a) birth and death-rates of enterprises in the urban informal sector and (b) the link between retrenchment and new entry. It is evident from the different studies like Yankson (1992), JASPA (1993) and Sowa, et al., (1992) that the average age of the informal sector enterprise varies from 5-7 years. According to Yankson (1992) 51.6 per cent of the enterprises surveyed registered less than 5 years in operation and a little over a third had been operating for more than 10 years. This along with evidence collected from the unpublished data on the UNIDO survey in 1989 of small and microenterprises in Ghana and meetings with different officials in the Ministries of Industry, Science and Technology (MIST) in 1990-91 pegged the average age of the informal sector unit at not being more than 7-8 years in existence. However, it is not known as to how many informal sector firms closed down during the ERP period. Nevertheless, nearly 40 per cent of the units surveyed by Sowa, et al., (1992) were set

Table 5: Length of operation of enterprise (City: Techiman, 1987)

| Period | No. of enterprises | % of total |
|------------------------------|--------------------|------------|
| Less than one year | 63 | 14.1 |
| Between one and two years | 71 | 15.9 |
| Between two and five years | 118 | 26.4 |
| Between five and ten years | 66 | 14.8 |
| Between ten and twenty years | 78 | 17.4 |
| Over twenty years | 51 | 11.4 |

Source: IFO - Institute of Economic Research, Munich, 1988.

up in the period between 1973 to 1983. Table 5 shows the length of operation of enterprises in and around Techiman, an important trading town in Ghana (IFO - Institute for Economic Research, Munich, 1988). The number of retrenched employees comprised 14 per cent of the surveyed units (Sowa, et al., 1992) and 16 per cent expressed a desire to work for some organization. In addition, the apprenticeship (Section 4.3.7) prevalent among the informal sector enterprises also compounds the problem of lateral explosion of the sector (Ninsin, 1991). These facts point to the following conclusion which was also deduced from references in the official papers of MIST:

swelling of the informal sector were both due to new entrants resulting from the recent SAPs reforms which compelled a large majority of the population to seek alternative survival strategies (Box II). Added to these were school-dropouts who were unable to pay the new and higher educational fees imposed under SAPs (Friedrich Ebert Stiftung, 1994). This confirms the statement in Section 5, Hypothesis 1.

RETRENCHMENT POLICIES AND SAP

According to the officials of the Trade Union Congress (TUC) SAP has dealt a hitting blow to the informal sector. This is most evident in the retrenchment policies of SAPs which have a direct bearing on the market space as well as the demand for informal sector goods. According to Mr. P.B. Arthinibah, Head of Organization, TUC, Accra, though official figures put the number at 100,400, unofficial figures average between 140,000 and 150,000 and the situation, he says becomes more alarming when about 100,000 people enter the labour market annually from various educational sources. Of the retrenched personnel in the civil service, according to discussions with TUC officials, women have been most adversely affected due to their comparatively low educational qualifications and family responsibilities. In the Health Services alone the TUC officials quoted that of the 8,000 retrenched workers, 75 per cent were women. The situation became worse when women were single heads of households - children had to be withdrawn from school and often to supplement family income they joined the already choked market-space of the informal sector and still worse this situation led to an increase in the criminal records of the society.

Source: Ghana Trade Union Congress/International Confederation of Free Trade Unions, "*Conference on the Social Dimensions of the Structural Adjustment in Ghana*", December 1993.

Box II

7.16 Another key issue is whether SAP reduced the profitability and business prospects of urban informal sector units. Informal sector entrepreneurs had to face competition at three levels (Section 4.1) which further aggravated their productivity especially in the context of scarce raw materials often highly priced. As a result varying responses can be observed - according to evidence available (Sowa, et al., 1992) SAPs policies led to increase in imports like consumer items, foodstuffs, etc. and domestic production both in the formal and informal sectors which posed a serious threat to the urban informal sector units. As a result many of them had to close down. Table 6 shows that the main competition faced by microenterprises was from local manufacturers and to a lesser extent from imports (Section 5, Hypotheses 3 and 7). An additional dimension to the competition of the informal sector units was the fact that out of the 69 per cent sample units which experienced growth in the survey by Sowa, et al. (1992) and others (1992), 90 per cent faced competition. This reveals that competition did not prove to be a constraint for some units and this point was also noted by Steele and Webster (1991) when it was surveyed that out of the 61 per cent of the enterprises confirming that competition had increased since 1983, only 12 per cent of the microenterprises cited this as a major constraint. Personal interviews and unpublished papers in MIST, however, confirm that the general trend for informal sector units was negative in view of the increasing competition from local

manufacturers and imports (unpublished paper on Problems of Small-scale and informal sector industries in Ghana, 1991).

Table 6: Source of competition by firm size
(Cities: Accra, Takoradi, Cape Coast, Ho, Kumasi and Tamale, 1991)

| Firm size | Source of competition: | | | | Total |
|------------------------------|------------------------|------------------------------|--|--|-------|
| | Imports | Local | Both | None | |
| Micro | 59 | 735 | 243 | 109 | 1 146 |
| Very small | 6 | 77 | 2 | 5 | 109 |
| Small | 2 | 29 | 4 | 1 | 36 |
| Total | 67 | 841 | 268 | 115 | 1 291 |
| <i>Chi-square</i> 8.14320 | <i>D.F.</i> 6 | <i>Significance</i> .2278 | <i>Min. E.F</i> 1.868 | <i>Cells with E.F. > 5</i> 2 of 12 (16.7%) | |
| <i>Statistic</i> Lambda | | <i>Symmetric</i> .00000 | <i>With firm size as dependent</i> .00000 | <i>With competition as dependent</i> | |

Note: Cramer's V = 0.5616; Contingency coefficient = .7917.
Source: Survey data, Sowa et al., 1992.

7.17 An interesting issue that needs clarification is whether entrepreneurs with specific characteristics have done better under SAP. Two such characteristics worth mentioning are schooling and former association with the formal sector. Regarding the first, Sowa and others (1992) concluded that entrepreneurs with middle-school education fared better under the new environment than those with better university qualifications or no education at all. Yankson (1992) felt that the fact that 60 per cent of the entrepreneurs surveyed had only middle-school education was a negative factor for the development of this sector. Steele and Webster (1991) discovered a new generation of entrepreneurs emerging in response to an environment which offers greater freedom and opportunities for private business. Dawson (1991) was equally optimistic about the potential for growth among a new group of better educated and trained entrepreneurs with technical skills and ability to increase the sophistication of local production. Finally, as a result of retrenchment and streamlining of public sector units increasing numbers of entrepreneurs with education entered the informal sector and brought with their expertise and knowledge which gave an advantage over others (Meeting of Fund for Small and Medium Enterprises (FUSMED), Bank of Ghana, October, 1992) and judging from the trend of progress of the loan beneficiaries of this project in most cases, this category of entrepreneurs progressed better than the others in the informal sector. Hence, the argument forwarded in Section 5, Hypothesis 1 that the large numbers of ex-formal sector employees entering the informal sector resulted in sub-optimal utilization of human resources did not always end up negatively - it also promoted a small minority of successful informal entrepreneurs who managed their businesses competitively.

7.18 The nature and extent of impact appear to vary between the sub-sectors determined by several factors like inputs supply, marketing, etc. as Table 7 would reveal. This would make the arguments in Section 5, Hypotheses 3 and 6 subject to modifications as there were some products which due to various reasons were able to carve out a niche and thereby had a different experience from the

prevailing general conditions. Wood working sub-sector had the highest proportion of firms showing an increase in both production and employment. This sub-sector benefitted as devaluation protected its high domestic value added component and low import element enabled some firms to resume exporting (Steele and Webster, 1991). However, this sub-sector can be divided into two categories -one group producing furniture and other wood products for domestic middle and low income households and the other group included several small sawmills, producing lumber for exports. The first group faced the same problems as other informal sector firms - depressed demand, lack of working capital and modern equipments while the second group comprising those exporting logs where, due to shortage of working capital, it was difficult to cope with the increased demand (personal interviews with entrepreneurs around Takoradi and Accra in 1991). More than half of the firms in food processing for their low import dependence, textiles and wood products in the Table 12 had an increase in production (Steele and Webster, 1991).

Table 7: Impact of adjustment by sub-sector (City: Accra - town: Nsawan, 1990)

| Changes since 1983 or start up | All firms surveyed | Food products | Textiles garments | Wood products | Soap and cosmetics | Building materials | Metal products |
|--|-----------------------|------------------|----------------------|------------------|-----------------------|-----------------------|-------------------|
| Change in production: | | | | | | | |
| Increase | 39 | 53 | 55 | 62 | 43 | 14 | 14 |
| Decrease | 43 | 40 | 44 | 23 | 29 | 72 | 58 |
| Change in employment: | | | | | | | |
| Increase | 62 | 44 | 71 | 86 | 25 | 67 | 71 |
| Decrease | 16 | 22 | 29 | 14 | 75 | 33 | 14 |
| Product mix changed | 36 | 23 | 50 | 31 | 83 | 43 | 29 |
| Purchased new equipment | 49 | 73 | 50 | 67 | 33 | 29 | 33 |
| Selling in different market | 15 | 7 | 11 | 15 | 43 | 29 | 20 |
| Imported share of raw materials: | | | | | | | |
| Actual% share | 26 | 19 | 26 | 10 | 55 | 17 | 18 |
| Change since 1983: | | | | | | | |
| Greater | 11 | 29 | 0 | 0 | 17 | 0 | 0 |
| Smaller | 17 | 14 | 0 | 0 | 17 | 50 | 0 |
| Easier to get: | | | | | | | |
| Imported inputs | 68 | 75 | 100 | 75 | 67 | 75 | 40 |
| Domestic inputs | 56 | 67 | 86 | 45 | 33 | 100 | 43 |
| Harder to get or too costly: | | | | | | | |
| Imported inputs | 16 | 8 | 0 | 25 | 0 | 0 | 40 |
| Domestic inputs | 21 | 13 | 14 | 45 | 0 | 0 | 14 |
| Credit harder to get | 84 | 63 | 75 | 100 | 80 | 100 | 100 |
| Dealing with government regulations is: | | | | | | | |
| Easier | 39 | 44 | 50 | 14 | 0 | 33 | 50 |
| Harder | 32 | 22 | 25 | 57 | 50 | 67 | 13 |
| Competition is greater | 61 | 33 | 88 | 64 | 71 | 100 | 46 |
| Major competition from: | | | | | | | |
| Imports | 12 | 7 | 11 | 0 | 29 | 0 | 21 |
| Small firms | 77 | 71 | 89 | 100 | 57 | 84 | 57 |
| Have exported (direct or indirect) | 9 | 21 | 11 | 8 | 14 | 0 | 7 |
| Have considered exporting | 38 | 21 | 56 | 54 | 43 | 29 | 27 |
| Constraint on sales: | | | | | | | |
| Resources (could sell more) | 52 | 60 | 33 | 42 | 86 | 43 | 64 |
| Demand: | 48 | 40 | 66 | 58 | 14 | 58 | 35 |
| Can sell current production but no more | 24 | 7 | 33 | 25 | 14 | 29 | 21 |
| Can't sell current production | 24 | 33 | 33 | 33 | 0 | 29 | 14 |
| (Number of firms) | (82) | (15) | (9) | (13) | (7) | (7) | (15) |

Source: Steele and Webster, 1991.

7.19 Building materials and metal products had the highest proportions of firms whose production declined (72 per cent and 58 per cent respectively based on the Table 13 of Steele and Webster, 1991). The evidence suggests that some of the firms in metal products were squeezed on the one hand between costs of imported inputs rose and good domestic scrap was hard to get, and on the other hand competition from imports. Here again, during the course of personal visits for collecting data on the different sub-sectors (in 1991-92) it was found that metal fabricators processing aluminium sheets had increased production due to rise in household demand (which was more due to the essential nature of the products rather than an increase in the purchasing power of the clients) and export demand from the neighbouring countries. Similarly, judging from the loan applications received at the Fund for Small and Medium Enterprises Development at the Bank of Ghana in 1991 and 1992, the production of nails was found to be profitable under SAPs. Building materials firms in the informal sector generally were constrained by weak demand; and also they found government regulations harder to deal with (Steele, 1991). Here again, a few items like micro-concrete roof tiles and chipped stones, to name a few, were found to be in great demand for the construction activities and low-cost housing projects undertaken by the government from 1990 onwards (meetings with officials in MIST

in 1990-91). A special project with the assistance of International Labour Organization (ILO) was initiated in the Department of Housing and Cottage Industries to train more entrepreneurs in manufacturing micro-concrete roof tiles during the same period.

7.20 In the soap-manufacturing sub-sector two types of responses to SAPs were observable. First, some units survived the surge of imports by finding profitable niches and by producing goods cheaper than similar imported products. Second, some units identified markets up north where competition from imports or the large-scale manufacturers were apparently not so serious since there was no fall in production (Sowa, et al., 1992).

7.21 These findings also suggest that the responses of the different branches were also influenced by variations in their marketing strategies. They identified new pockets of demand, even though these may be far from the location of the production-base. They also attempted to enter into a kind of sub-contracting arrangement - as was done among the furniture makers who supplied to large exporter (evidence collected during the formation of a credit group of furniture makers in 1992). Also due to the incentives being given to exports, a number of entrepreneurs started exporting items ranging from ethnic food-stuff to wood joineries, fruits, vegetable, etc. (personal interviews with entrepreneurs and discussions with officials of Ghana Export Promotion Council).

7.22 Despite the lack of finance, many units adapted their product lines to the changing reforms of the SAPs in order to take full advantage of the market conditions. This was also necessary in view of escalation of prices of inputs - both imported inputs due to devaluation and locally available raw materials due to increase of costs of intermediates obtained from formal sectors (section 7.2). According to Steele and Webster (1991) 34 per cent of the units surveyed experienced a change in product mix. As construction industry picked up, metal workers began producing metal gates and alarm systems. Changes in product mix were largest in soap and cosmetics and garment and textiles -in order to cope with competition from imports and identify suitable substitutes for imported intermediates (papers unpublished in MIST). The food and wood sub-sectors had less need to change due to their low dependence on imports and their products had a tendency to be suited to individual tastes, making them less vulnerable to competition from standardized imports (Steele and Webster, 1991).

7.23 The employment generation capability of the urban informal sector in the context of SAPs, often referred as the "labour sponge" has been an important and at the same time a rather controversial issue. Diverse responses to SAPs regarding increase/decrease in employment in the urban informal sector were recorded in the different surveys. According to the survey by Sowa, et al. (1992) the total number of employees engaged in the informal sector did not show much change during the adjustment phase - 64 per cent of the firms did not register any change in employment over the past five years. This survey, however, recognized that there was evidence to show that the kind of industry helps to predict the direction of change in employment. For instance units in the garment and textile and oil extraction industries reported increased number of employees. Lack of increase in employment according to this study, however, did not imply decreased activity in the sector - most of the microenterprises had greater capability for horizontal rather than vertical expansion which was experienced during the period of the SAPs (Section 5, Hypothesis 1). This view was confirmed in a meeting in November 1994 by the National President of the Council of Indigenous Business Associations (CIBA) who is also the Minister for Mobilization and Employment in Ghana.

7.24 Steele (1991) in his survey discovered that under ERP, particularly from 1983-89, while employment fell rapidly in the medium and large-scale firms, employment rose in the small and microenterprises - nearly 62 per cent of the units surveyed reported an increase in employment. The issue was whether increased employment was attributed to expansion in activities or to increased labour absorption as real wages fell and formal sector employment diminished. The relatively high growth of microenterprises suggested that many workers were looking to this sector for income and part-time workers accounted for 50 per cent of microenterprise employment as against 13 per cent for other firms surveyed.

7.25 Yankson (1992) assessed that though most informal sector enterprises contain a small workforce - 56.8 per cent contained a total workforce of 1 to 4 persons, nevertheless, the popularity of the sector as an avenue for employment could be judged from the number of requests entrepreneurs receive for employment - 55 per cent of the entrepreneurs surveyed received on an average 10 requests per month for employment or training.

7.26 Demand is a frequently mentioned problem for microenterprises during the period of adjustment. However, the impact of SAPs on the informal sector has been varied as seen from the different survey results. For instance while Steele and Webster (1991) found that in 1989 55 per cent

of the microenterprises cited demand as a major constraint, this was especially seen in the textiles and clothing sub-sector. On the other hand, for Sowa, et al. (1992) their respondents reported a 60 per cent increase in the demand for their goods - and about 70 per cent of entrepreneurs in the garment and textile industry had no problem with demand. They also traced a link between demand and location - 60 per cent of the entrepreneurs in Accra and Kumasi claimed that sales had not gone up during the ERP period, due to liberalized imports (Section 5, Hypothesis 7). This survey also discovered factors which limited the damage to microenterprises from import competition - having individual as clients rather than large firms and their little dependence on imported inputs.

7.27 In between these two extreme views of the impact of the SAPs on the demand of the informal sector, Yankson's (1992) conclusions were a mixture of both slight increase and decrease of demand. According to his survey findings: 41 per cent of the enterprises had registered a slight increase in the patronage of their goods and services in the period 6 months prior to December 1988/January 1989. About the same percentage of operators had experienced some decline in demand and 15 per cent of the operators had not experienced any change. A similar trend was observed in the microenterprises around Ho, Sunyani and Cape-Coast, all towns in Ghana during the course of visits to the premises of the entrepreneurs in 1991-92. This divergence of views can be best explained by the fact that impact of demand on the urban informal sector enterprises of Ghana was determined by a number of factors - location, element of imported/local raw materials in the production process which in turn decided the price and other related issues which made it very sub-sector specific and this it is felt added to the fall in the purchasing capacity of the clientele for such goods.

7.28 During the course of personal interviews and visits to business premises of micro entrepreneurs from 1990-93 and based on unpublished papers in MIST and NBSSI, it can be said that there was a distinct fall in demand for the goods of the informal sector due to a fall in the purchasing capacity of the clientele of the sector - low income individuals (Section 7.8). The GSS survey on *Estimation of Household Incomes and Expenditures* also gave the detailed breakup of the fall in comes of households during the ERP period. This confirms the statement made in Section 5, Hypothesis 2.

7.29 Another debatable point that requires focus is whether bigger enterprises were better able to adjust to SAP conditions. An important characteristic observed during numerous field visits as well corroborated by records in MIST and NBSSI on the performance of this sector, was that enterprises with 4 to 10 employees were more able to create a demand for their goods by catering to the upper income group, traders and other enterprises - this had a direct impact on their sales which in turn enabled them to take advantage of the economies of scale under the ongoing economic reforms. Sowa, et al. (1992) traced an association between firm size and the rate of growth under SAPs. For instance, enterprises that experienced high growth rates were mainly those at the larger end of the small-scale spectrum - of these 21 per cent experienced 50 per cent growth as compared to 9 per cent of the microenterprises which recorded an increase in growth during the same period (Section 5, Hypothesis 3). Reasons for this can be traced to low barriers to entry into the sector which accounted for the high growth of the sector as also underemployment and unemployment in the economy, particularly under the SAPs reforms of retrenchment and redeployment programmes, where most of the affected workforce have entered the informal sector and crowded the producers' market (Section 5, Hypothesis 1). An analysis of the comparative advantage of the sectors/branches/activities in the informal sector in response to the policies of SAPs may be seen in 7.18 - 7.22 (also Table 7).

7.30 The impact of centralization of regulatory functions in Accra unlike the decentralization for revenue collection purposes during the ERP phase has been much debated. While there had been considerable emphasis in promoting investments through the revision of the Ghana Investment Code in 1985, the informal sector's requirements have not been adequately addressed to in the relevant rules of the government. As the implementing institution of the Manufacturing Industries Act of 1971 (Act 356), all manufacturing enterprises, whether formal or informal must register with the Ministry of Industries. However, this Act focusing on investment and industrial production is biased against the informal sector units and since its registration is centralized in Accra, the time and expenses involved proves to be very inconvenient for the operators in the informal sector. In addition, it is mandatory for all manufacturing and trading enterprises to be registered with the Registrar-General's Office at Accra - which is also an expensive and time-consuming affair. Another regulatory practice for a producer of food items is the need to obtain a certificate from Ghana Standards Board established in 1967 under NCD 199 (Policy papers in MIST and NBSSI).

7.31 In addition to the requirements of MIST and Registrar-General's Office, the various city authorities require their entrepreneurs to register their enterprises with them - the zoning and sanitation authorities and a special task force called Transport and Sanitation Improvement Task Force (TASIT) has been organized to check transport offices and general sanitation (JASPA, 1993). All these

regulations along with heavy dues collection has further impaired the efficiency of the sector. On the taxation side, under the adjustment process with the decentralization of power to the local councils/authorities, the metropolitan authorities raise revenue from the informal sector enterprises through levies, tolls, registration fees, etc. The Local Government Instrument, 1989, contains certain provisions related to carrying on business by the entrepreneurs in the informal sector which at times leads to considerable harassment. Also the levies imposed are at times too excessive for the entrepreneurs to pay ranging from cedis 5,000 per annum to cedis 60,000 per annum and with an annual increase of approximately 10 per cent per year (Accra Metropolitan Authority, Fee Fixing Resolution, 1994). This supports the statement contained in Section 5, Hypothesis 10.

7.32 The impact of SAPs on women entrepreneurs in the informal sector has been particularly adverse. Being less educated than their male counterparts - 33 per cent have never been to school as against 9 per cent among men (Steele and Webster, 1991), they have been compelled to go into business due to lack of viable alternatives. Added to this is the female-headed households which under the SAPs reforms find it very difficult to put in enough capital to carry on business. For the new entrants to the sector, 8,000 retrenched officials in the Health Ministry, 75 per cent were women (meeting with Trade Union Congress representatives in November 1994) and their lack of any earlier exposure to business skills restricted their income-generating capabilities. Interviews with the market women proved that the current framework does not necessarily work in their interests - to earn a modest income of cedis 50,000 per month the amount of time they have to put in and the number of trips undertaken to various offices were far greater than the return. For most it is a question of subsistence living rather than achieving any improvements in the standard of life for the family. Educational bias as well as social factors have combined to make them a very vulnerable group under the SAPs reforms - frequently leading them to commerce as Section 4.3.2 indicates and with little or no value added to their operations. Here again, scarcity of working capital and their inability to access credit, especially under the conditions of SAPs, resulted in women traders lose opportunities to buy and store in bulk for the right occasions like festivals. This also deprived them of the profits expected, especially in depressed market conditions and at times women entrepreneurs had to indulge in distress sales to keep their business going which further aggravated their financial position.

7.33 The modest learning and technical knowledge level of the informal sector entrepreneurs required a planned action for skills development - especially under SAPs where new strategies and product-mixes had to be evolved to meet the market challenges. As the JASPA Informal Sector Survey (1989) reveals that half of the operators had middle school education and only 23 per cent post middle school education. Moreover, most of the entrepreneurs are young as Yankson (1992) found only 26.4 per cent were more than 45 years old. About 72 per cent of the operators had not acquired any other skill apart from that which they were operating at present and apprenticeship still remains the most common form of imparting any training. According to the JASPA (1989) survey apprenticeship contributed to 54.6 per cent of the training available to the informal sector entrepreneurs.

7.34 A needs-based survey of the training requirements of the informal sector entrepreneurs (Yankson, 1992) indicates the areas requiring skills development as shown at Table 8. For the retrenched and redundant employees a number of training programmes have been undertaken - Entrepreneurship Development Programmes by National Board for Small Scale Industries (NBSSI), other training programmes also organized by NBSSI in conjunction with the United Nations Development Programme (UNDP), and other training programmes at the vocational training centres, training colleges and specific self-employment oriented programmes both by Non-Governmental Organizations and the Government (Aboabgye and Yankson, ILO /JASPA, Addis Ababa, 1992). However, the targeting of the informal sector entrepreneurs in these programmes is yet to be exclusively undertaken.

Table 8: Types of training required by operators in the informal sector

(Cities: Accra, Tema and Kumasi, 1991)

| Types of training required | No. of enterprises | Percentage of total |
|--|--------------------|---------------------|
| General education | 231 | 19.2 |
| Managerial skills | 213 | 17.7 |
| Bookeeping skills | 137 | 13.3 |
| Ability to use modern machines | 351 | 29.1 |
| Retraining courses (in technical skills) | 40 | 3.3 |
| No training needs | 107 | 8.9 |
| No response | 127 | 10.5 |
| Total | 1 206 | 100.0 |

Source: Yankson, 1991.

7.35 The impact of the measures launched to mitigate the costs of adjustment has not achieved the desired results. According to Sowa, et al. (1992) only 4 per cent of the recipients of financial assistance benefitted from PAMSCAD (Section 5, Hypothesis 8). This project was expected to help 340 enterprises per annum, Cedis 340 million was to have been allocated for loans to micro and small-scale enterprises that should have generated 4,000 man years of employment each year. However, of this only Cedis 150 million have been forwarded to the National Board for Small-Scale Industries and this amount has been revolved to benefit a total of 570 enterprises with a sum of Cedis 228,417,000, helping a total of 57 redeployees who represented 10 per cent of the beneficiaries (Documents of NBSSI). Details of the loans in both amount and among the Regions is at Table 9. In this Table though Greater Accra and the Central Region have been given the major portion of the loan, yet the desired impact on the urban informal sector, since these two Regions contain the largest urban areas in Ghana, has not been observed.

Table 9: PAMSCAD creditline* for small scale enterprises, 1994

(For the regions identified below)

| Region | Principal | Interest | Total |
|-----------------|----------------------|----------------------|----------------------|
| Greater Accra | 7 467 196.27 | 1 479 760.00 | 8 955 956.27 |
| Ashanti | 400 005.00 | 2 639 708.50 | 3 039 713.50 |
| Brong Ahafo | 2 370 625.44 | 1 165 085.00 | 3 535 710.44 |
| Eastern | 1 688 785.92 | 722 017.00 | 2 410 802.92 |
| Central | 5 399 634.37 | 885 510.00 | 6 285 144.37 |
| Northern | 242 724.00 | 1 555 732.70 | 1 798 456.70 |
| Volta | 1 490 660.36 | 923 471.00 | 2 414 131.36 |
| Upper East | 1 594 211.76 | 960 564.92 | 2 554 776.71 |
| Upper West | 1 744 555.67 | 416 245.06 | 2 160 800.73 |
| Western | 891 735.73 | 925 819.74 | 1 817 555.47 |
| Total | <u>23 299 134.55</u> | <u>11 673 913.92</u> | <u>34 973 048.47</u> |
| H/Q - Bulk A/CS | 7 648 983.88 | 5 727 695.65 | 13 376 679.53 |
| | <u>30 948 118.43</u> | <u>17 401 609.57</u> | <u>48 349 728.00</u> |

Some of the other mitigatory measures included:

- ! **Credit Schemes** - World Bank operated Fund for Small and Medium Enterprises Development (FUSMED) which was a US\$30 million project to assist the small-scale enterprises, the Revolving Fund of the National Board for Small Scale Industries of Cedis 80,000 million, the Business Assistance Fund of Cedis 10 billion of which Cedis 2 billion is earmarked only for small and microenterprises and other similar credit schemes being implemented for providing necessary financial inputs for the micro and small scale enterprises. The impact on the informal sector is, however, yet to be seen for the majority of the beneficiaries are from the large small-scale units and in most cases informal sector entrepreneurs are not aware of the facilities available.

7.36 A large extent of the responses of the informal sector enterprises are determined by the problems/constraints experienced by the entrepreneurs which in turn has an impact on the functioning of the enterprises. Yankson (1992) too found lack of finance as the major problem (20.1 per cent), followed by government taxation and licence fees (15.2 per cent), lack of demand (11.8 per cent), lack

of equipment (14.3 per cent), lack of space (10.6 per cent) and lack of raw materials (8.1 per cent). During the meetings with Credit control departments of the different banks as well as Bank of Ghana officials it transpired that as a result of the banking regulations launched under SAPs the high rate of interest and general credit squeeze indirectly affected the liquidity position of the entrepreneurs who required working capital to meet the purchases of raw materials as well as acquiring new equipments.

7.37 Structural adjustment in Ghana has, therefore, impacted on the urban informal sector in a number of ways. The principal channels through which it has done so have been: currency devaluation which has seen the cost of equipment and imports rise, tight fiscal and monetary policies which have had the effect of reducing the purchasing power of informal sector clients and private sector promotion policy which increased domestic competition and placed the informal sector entrepreneurs in a disadvantageous position. These measures resulted in rising costs, reduced availability of raw materials and inputs and increasing competition both from imports and other domestic enterprises as well as slowing down technological upgradation. The growth potential of enterprises in this sector, therefore, was constrained by poor access to institutional support and productive resources - credit, raw materials, technology and training (supply-side problems) and also by low levels of demand and excessive competition (demand-side problems) as a result of the policies of SAPs. The incidence of impact of the major policies of SAPs, however, have been, apart from the general nature of impact earlier referred to, very branch-specific and determined by several factors like source of inputs, extent of adaptability, change in product-mix and simultaneous changes in marketing strategies. There have been indications of successful niche-marketing by a number of enterprises, particularly in those branches catering to the massive public programmes of infrastructural development and also those in the wood-working and food-processing branches. However, poor access to technology and the poor condition of the existing technology appears to be a constraint on the ability of the informal sector units to occupy such niches. Cost of machinery, ease of finding local substitutes for imported inputs and the availability of specialist niche-markets - all strong factors determining the adaptability and profitability of enterprises are highly branch-specific. The size of the enterprise too is also another important variable - those enterprises employing four or more workers were found to be more adaptive and successful in diversifying their product range and client base. nevertheless, the two target groups, identified earlier as the women entrepreneurs and informal sector entrepreneurs at the lower end of the scale with little formal education or training were the worst hit by the new policies of SAPs. As earlier mentioned in Section 4.3.2 nearly 60 per cent of the women in this sector are engaged in trading and with the fall in the purchasing capacity of their principal clientele, the urban poor, they are placed in a tight corner with reduced sales and no adequate source to their requirements for working capital to buy their stocks. Though credit is comparatively easily available for trading activities, nevertheless, for women traders this is still an obstacle and often lack of adequate working capital prevented them from bulk purchases or buying at the appropriate time which resulted in considerable economic losses. Interviews with traders and in particular with women traders at Makola market and elsewhere indicated that resource crunch was always a great handicap in carrying on business. Other problems included marketing problems - reaching the right clientele, infrastructural inadequacies - lack of proper premises, heavy expenditure on electricity, where premises were rented on rent, electricity, etc as well as payment of taxes and dues to various authorities to keep the business running which at times resulted in harassment and generally a not very conducive environment to promote trading activities. Though compared with their manufacturing counterpart, the prospects were comparatively better. But depressed demand did affect the trading entrepreneurs as well. These are the direct results of SAPs policies dwelt in details in Section 3 - reducing government expenditure by introducing retrenchment and freeze in wages, devaluation and steep increase in the cost of living, introduction of fees for schools and hospitals, which are cutting deeply into the real purchasing power of this group. Similarly, the entrepreneurs at the lower end of the scale are adversely hit by the policies of SAPs relating trade liberalization which has thrown several of them out of business due to the unequal competition form the cheap imports as well as from other domestic enterprises who are better placed to avail of the opportunities of liberalization. In conclusion it maybe said that uneven though the impact of SAPs policies are on the informal sector, apart from a very small minority, the general impact has been adverse for the enterprises in this sector as none of the policy measures created an environment for an easy accessibility to inputs and marketing. On the contrary, the new market conditions resulted in a bias against the very sector which was absorbing the labour force entering in large numbers as a result of the policies of SAPs.

8. Conclusions: The urban informal sector and issues beyond SAP

8.1 In Ghana, as elsewhere, SAPs has had a diverse impact on the urban informal sector. This sector is squeezed between falling purchasing power among its most important clientele - low income,

urban dwellers; rising costs, falling quality and reduced availability of its raw materials and inputs and increasing competition from other informal sector firms. In addition, it is technologically underdeveloped and sees little chance of improvement as machines fall into disrepair without much scope for repair in the context of the prevailing circumstances under SAPs. Beginning with the major policies of SAP, the urban informal sector had experienced the escalation in the prices of equipments, raw materials and other inputs as well as in imports as a consequence of currency devaluation. Secondly, the tight fiscal and monetary policies had the effect of reducing the purchasing power of informal sector's major clientele - the urban, low income population and thirdly, export promotion which while benefitting some specific branches of the sector, contributed to the decline in quality and increase in price paid by informal sector enterprises for certain raw materials. Though banking sector reforms has had no noticeable impact on the informal sector, however, the restrictive credit policies of SAPs aggravated the inaccessibility to credit by informal sector entrepreneurs and reforms in the agricultural sector primarily benefitted the cocoa producers, enhancing their purchasing power and thus limiting the potential for increased linkages with the informal sector in those parts of the country where cocoa is not produced.

8.1.1 In addition to the generalized responses listed above, the urban informal sector in Ghana has also reacted to the SAPs with some distinctive manifestation of characteristics which were sometimes branch-specific and determined by diverse factors. For instance, there has been considerable evidence of adaptive behaviour on the part of the informal sector firms to the economic environment generated by structural adjustment. This resulted in considerable usage of substitutes for imported raw materials and alterations in the product mix which was sometimes followed by down-grading of production, with a number of units moving out from manufacturing into servicing or repair work. Parallel to diversification in product mix, there has been encouraging instances of successful niche - marketing by a number of enterprises, particularly in the wood, metal and non traditional exports sub-sectors. But here, as elsewhere in the other sub-sectors, resource crunch and poor access to technology and training appears to be a constraint on the ability of the entrepreneurs to occupy such niches. Added to these were the prevailing fall in demand and increase in competition which further inhibited any attempts to progress.

8.1.2 Another prominent characteristic of the urban informal sector of Ghana, as observed in this paper is that retrenchment together with growth in the labour force have contributed to an increase in informal sector employment. However, while the numbers of informal sector enterprises appeared to be growing rapidly, enterprise size appeared to be relatively stable. Much of the expansion was lateral, leading to sub optimal utilization of human resources. As hypothesized, significant variations were found in the characteristics and performance of enterprises reacting to the different SAPs, making the responses highly branch specific. The size of the enterprises appears to be a significant factor determining the adaptability and success of the product range and client-base.

8.2 On the basis of the findings in this paper, some policy implications for the future of the urban informal sector of Ghana have been identified which, though are not strictly within the purview of this paper, have nevertheless been briefly summarized below to present the problems and future development perspectives. Since independence in 1957, the Ghanaian informal sector, while contributing continually to national economy, had been characterized by different contradictory features. As elsewhere the sector maybe seen as a derivative of the failure of the formal and rural sectors to create productive employment matching the national requirements. Heavy dependence of the informal sector on the formal sector for demand, inputs and capital made it very vulnerable to developments in the latter. Absence of adequate linkages with other sectors provided a major handicap for expansion and development of the urban informal sector. These characteristics explained why the informal sector was negatively impacted by the SAPs.

8.2.1 Analysis of the evidence presented in this paper focusing on the problems of both successful and unsuccessful informal sector entrepreneurs, certain problems on the supply and demand sides may be identified which limited their ability to respond adequately to the market signals heralded by the SAPs. For some enterprises growth is constrained primarily by poor access to productive resources -in the form of credit, raw materials, technology, training and so forth (supply-side problems) and for others low demand and/or excessive competition are the most important constraints (demand-side problems).

8.3 ***Easing supply-side constraints***

8.3.1 *Credit* - This is one of the major problems of the informal sector entrepreneur as cited in the surveys in Section 3.3. This is an obstacle preventing the use of improved tools and technology which in turn affects the capacity and quality of production as well as the potential for employment. Though

a large number of schemes for providing financial assistance have been initiated and as seen in Section 3.3 various institutions have launched different credit programmes for the small-scale enterprises - their impact has not filtered down to the informal sector enterprises. Judging from the recurring features of these different loan schemes, it is observed that informal sector entrepreneurs fail to access such credits primarily due to the collateral/security requirements insisted upon by the programmes and inability to comply with the cumbersome and time-consuming procedures involved. It is, therefore, suggested that these institutions targeting the informal entrepreneurs design methodologies appropriate to the circumstances and needs of their client group. Similar instances in other parts of the world have proved that such an initiative is more likely to be successfully managed by a non-governmental organization - however, the government may have a key-role to play by providing the start up capital and support to such a body. The mechanisms can be best determined by local conditions and requirements. A major handicap experienced in advancing credit to informal sector operators is inadequate loan monitoring and loan recovery mechanisms. When setting up such an institution or while designing such schemes of credit guarantee strong measures must be recommended for these two activities. Timely provision of credit as most of these operators require working capital along with a close monitoring mechanism could remove much of the financial resource crunch presently being experienced by this sector.

8.3.2 Training - The survey findings indicate that most of the informal sector entrepreneurs have little or no formal training apart from the apprenticeship exposure. This is a very basic way of learning skills through trial and error and at present times is inadequate to meet the technological developments and changes. Though the apprenticeship system remains central to the process of skills acquisition in the urban informal sector, the best package of training would be that of a theoretical nature in which the apprenticeship training is currently weak and this could be grafted on to the present system - and provided at the work-places in order to make it more practical. Basic bookkeeping and management techniques as well as a basic knowledge of equipment maintenance could be added as these are the skills in which these entrepreneurs are lacking. What is more important is to keep the educational background and immediate requirements of the entrepreneurs in mind while preparing the training package in order to make it receptive to the target group concerned. The heterogeneity of the informal sector must be taken into consideration while preparing any training package for the informal sector entrepreneurs as well as considerable focus should be placed on in-plant training. In order to maintain the vitality of the informal sector, the quality of skills and technology in this sector must be continuously upgraded through a variety of means - in-field training, close coordination with institutes like Technology Consultancy Centre for application of appropriate technology and training, etc. In particular, it may be noted that in order to evolve training schemes that would improve the welfare of the people and provide them with human dignity, the government may consider working in close collaboration with the social partners in designing and implementing active labour market policies that would provide a skilled and flexible labour force that can adapt readily to the changing demands of dynamic development. This calls for special emphasis on the following:

- ! to promote relevant vocational and technical training and re-training for workers;
- ! provision of job-counselling;
- ! provision of information on employment patterns and assistance to workers to secure satisfying jobs.

8.3.3 Technology - Since few entrepreneurs had either the means to acquire, or access to, improved technologies it is suggested that the Technical Consultancy Centre (TCC) and Ghana Regional Appropriate Technology Industrial Service (GRATIS) provide access to appropriate technology which can be easily commercialized by these entrepreneurs.

8.3.4 Raw materials - The availability of good-quality, reasonably-priced raw materials is a perennial problem for the urban informal sector entrepreneurs. Under the adjustment process many entrepreneurs experienced raw material shortages, with falling quality and rising prices. (Study by Management Development Productivity Institute for NBSSI on a Revolving Fund for raw materials, 1990.) To ease the situation one could draw up a list of common raw materials required by the operators in the informal sector and then arrange for their distribution at regular intervals and at a regulated price. Simultaneously, associations of informal sector enterprises may also engage themselves in sourcing of raw materials for their members. This can reduce a considerable burden off the informal sector's entrepreneurs for they can be assured of a continuous and regular supply of raw materials and of adequate quality.

8.3.5 Infrastructural facilities - From the different survey reports analysed in this paper it is evident that entrepreneurs in the informal sector frequently face the problem of acquiring suitable premises and sites for their commercial activities. In addition, restrictive policies of local municipal authorities regarding location amounts to harassment and on other occasions leads to fire hazards, public health

hazard and traffic congestion due to their obstruction of civic amenities (Memorandum prepared for the Government on behalf of NBSSI, 1990). At other times, there is a lack of basic services - roads, drainage, water, etc. In this connection, specially for the trading sub-sector, efforts could be made to rehabilitate the newly established markets by the municipal authorities and for the manufacturing and servicing sub-sectors, workshop clusters and light industrial estates located at strategic points in the different cities can be developed. The advantage of this approach is that firms could be provided with adequate infrastructural facilities, paid for by the artisans in easy instalments and this would also reduce the threat of eviction that most informal sector operators experience and which has an adverse impact on their production and quality.

8.4 ***Demand-side factors***

8.4.1 Some of the suggestions regarding improving the present depressed demand are:

- ! The scope for diversifying products and lowering costs could be explored as a means of coping with the reduced purchasing power and demand of informal sector clients. A good training package supported by easy availability of quality inputs would further improve the market for informal sector goods.
- ! Government can play a major role in further sustaining the market for informal sector goods by creating a continuous source of demand - it should consider splitting public orders into smaller batches so that it can be supplied by several informal sector entrepreneurs. Also, Government can go a step further, as it had been done in some other countries in Asia, by making it mandatory for all Government departments to make 40 per cent of their purchases from informal sector enterprises.
- ! Another way of maintaining a reasonably buoyant demand market is by promoting linkages with the formal sector as well with the other sectors of the economy - agriculture. This, along with a supportive policy for the agricultural sector, would increase the demand by the rural sector for informal sector goods and services and perhaps reduce migration from rural to urban areas. By increasing the availability of inputs and finance, it is expected that both quality and scale of production would improve and this would facilitate a forward linkage with the formal sector thereby again increasing the demand market for informal sector goods. This holds true for linkages with other sectors/sub-sectors in the economy as this would diversify and revive the demand market.
- ! Certain policies of trade liberalization - import of cheap consumer items against which domestic producers find it difficult to compete due to the absence of any comparative advantage, can also be revised so as to allow a better deal for indigenous manufacturers. Though the import of second-and undergarments and a few other items have been banned from 1994 (Budget Statement, 1994), generally the large influx of used items with a corresponding reduced price-range cannot provide a fair competition to domestic producers.
- ! The thrust on export with its attending incentives should be geared in a manner that it encourages maximum amount of sub-contracting so that informal sector entrepreneurs can have access to raw materials, training and technology and above all an assured market.

8.5 Efforts to eliminate market segmentation and rigidity, and dichotomies between the informal urban and rural sectors on the one hand and the urban formal public sector on the other, would also be desirable. It would result in reducing the competitive pressures on an over-saturated market, strengthening the linkages with the formal and other sectors in the economy. This would also prevent further rural-urban migration which again would take off considerable pressure from the competitive market of informal sector operators.

8.6 In conclusion it may be said that the informal sector in Ghana, as a result of adjustment, is in a curious position of flux. On one side is the phenomenon of reduced demand due to the different measures of adjustment resulting in low purchasing power of the major clientele for the goods and services of this sector and on the other hand, are the rising costs, falling quality and reduced availability of its raw materials and inputs coupled with fierce competition from other informal sector firms whose numbers are increasing at a rapid space. Inadequate training facilities and technological upgradation.

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