

**Component Three of
Business Sector Programme Support (BSPS)
Ghana**

Component Description

Business Support Instruments

COVER PAGE

Country	:	Ghana
Sector	:	Business Sector
Title of SPS Document	:	Business Sector Programme Support, Ghana
Title of Component	:	Component Three: Business Support Instruments
National Agencies	:	Bank of Ghana and financial institutions
Duration	:	5 years
Starting Date	:	October 2003
Overall Budget Frame	:	DKK 74 million

Description:

The Business Sector Programme Support has been designed to support an equitable growth in production and employment in Ghana through development of a competitive and vibrant business sector. The business support instruments component will contribute to this objective through strengthening financial and non-financial support services for growth-oriented micro, small and medium sized enterprises.

The immediate objectives of the component, each representing one sub-component, are:

1. Lending to MSEs through appropriate credit schemes increased
2. Availability and access of MSMEs to adequate non-financial business support services enhanced
3. Small and medium enterprises have expanded their level of operations through equity capital injections
4. Access of SMEs to relevant ICT enhanced

In order to achieve synergies and true cooperation with other key donors in the relevant field, the first three sub-components will be implemented together with the German GTZ under the new joint programme *Support Programme for Enterprise Empowerment and Development* (SPEED).

Through strengthening the MSME sector, the component will directly contribute to poverty reduction in the country. As many of the micro and small businesses are female owned, facing a number of gender-related problems of making business, the component will address and improve the chances of women in the Ghanaian development process in particular. Issues in relation to HIV/AIDS are of concern in the entire business support sector that is to be strengthened through Danida funds. Businesses who are involved in child labour, environmentally hazardous production, discrimination against women or other bad business practices will not be eligible for business services to be supported by Danida.

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LIST OF ABBREVIATIONS

AfDB	African Development Bank
AGI	Association of Ghana Industries
AMSCO	African Management Service Company
APDF	African Project Development Fund
ARB	Association of Rural Banks
ASSI	Association of Small Scale Industries
BAC	Business Advisory Centre
BDS	Business Development Services
BSPS	Business Sector Programme Support
BUSAF	Business Advocacy Fund
CGAP	Consultative Group to Assist the Poorest
CIDA	Canadian International Development Agency
Danida	Danish International Development Assistance
DCA	Development Credit Authority (USAID programme)
DKK	Danish Kroner
EEF	Enterprise Empowerment Fund
ENRECA	The Danida Bilateral Programme for Enhancement of Research Capacity in Developing Countries
FEF	Fidelity Equity Fund
GEA	Ghana Employers' Association
GFA	German Consultancy Company
GHAMFIN	Ghana Microfinance Institutions Network
GIMPA	Ghana Institute of Management and Public Administration
GoG	Government of Ghana
GPRS	Ghana Poverty Reduction Strategy
GRATIS	Ghana Regional Appropriate Technology and Industrial Service
GTZ	Gesellschaft für Technische Zusammenarbeit (German Agency for Technical Cooperation)
GVCF	Ghana Venture Capital Fund
HIV	Human Immunodeficiency Virus
ICT	Information and Communication Technology
IDA	International Development Agency
IDEAS	Innovation and Development in Enterprise Assistance Scheme
IFAD	International Fund for Agricultural Development
IT	Information technology
LGS	Loan Guarantee Scheme
MFI	Micro Finance Institution
MOC	Ministry of Communication
MFEP	Ministry of Finance and Economic Planning
MOTI	Ministry of Trade and Industry
MDPI	Management Development and Productivity Institute
MPSD	Ministry for Private Sector Development
MSE	Micro and Small Enterprises
MSME	Micro, Small and Medium Sized Enterprise
NBSSI	National Board of Small Scale Industries

NGO	Non Governmental Organisation
PC	BSPS Programme Committee
PEF	Private Enterprise Foundation
PFI	Participating Financial Institutions
PPP	Public Private Partnership
PPSDP	Promoting Private Sector Development Programme (USAID/UNDP)
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development
PSDP	Private Sector Development Programme
PSI	President's Special Initiative
PSME	Promotion of Small and Micro Enterprises (GTZ programme)
RB	Rural Bank
RCB	Rural and community banks
RDE	Royal Danish Embassy
RFSP	Rural Financial Services Project
RTTC	Regional Technology Transfer Centre
SB	Supervisory Board
SME	Small and Medium Sized Enterprise
SMEPF	Small and Micro Enterprise Promotion Fund (GTZ scheme)
SPEED	Support Programme for Enterprise Empowerment and Development
ToR	Terms of Reference
TUC	Trade Union Congress
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation
USAID	United States Agency for International Development
USD	American Dollars
VCF	Venture Capital Fund
WB	The World Bank
WFF	Women Flagship Fund
WTO	World Trade Organisation

MAP OF GHANA



EXECUTIVE SUMMARY

Denmark's development policy 'Partnership 2000' has defined promotion of business sector development in the developing countries a strategic priority. As part of the Danish policy on Trade and Development, Ghana is selected as one of three 'pilot-countries' for support in these areas.

A vibrant business sector is generally seen as one of the most important instruments to achieve sustainable poverty reduction. Accordingly, the Government of Ghana has assigned an important role in the national development process to the business sector, declared the 'Golden Age of Business' and established a Ministry of Private Sector Development (MPSD). The Danida Business Sector Programme Support (BSPS) supports this process and aims at strengthening the business sector environment and the investment and trade climate in Ghana.

A critical aspect of strengthening the business sector in Ghana relates to the availability and accessibility of necessary and needed support services both in terms of financial services (mainly credit and capital) as well as non-financial business support instruments. In particular micro, small and medium sized enterprises (MSME) are undersupplied with support services because (a) appropriate services are not available, and/or (2) available services are not affordable to enterprises who need them. This lack of appropriate services hampers a vibrant business development in the MSME segment.

Component Three of BSPS therefore supports business sector development in Ghana through strengthening mainly the institutional environment of enterprise support services. The component is designed as a comprehensive approach addressing financial and non-financial support services, serving enterprises in different sectors and of different sizes in various regions of Ghana. The ultimate goal is to develop and strengthen a sustainable enterprise support system that is demand-driven, accessible, flexible and responsive to the needs of a dynamic Ghanaian business sector. It is assumed that the emergence and development of a service market is the best and most sustainable option to ensure long-term accessibility of services to all enterprises in need of such services.

As the principle target group of the Danida support under Component Three growth-oriented micro, small and medium sized enterprises have been defined assuming that a dynamic growth of the MSME sector will have the most significant impact on income, employment and poverty reduction in Ghana. As many of the micro and small enterprises are owned by women, who face a number of gender-related problems of making business, targeting the MSME sector is expected to address and improve in particular the chances of women in the development process of Ghana. Strengthening of an independent business sector will nourish the emerging civil society in Ghana thus contributing to increased democratic participation and transparency in the country's decision-making process. Increased export-oriented production of MSMEs will assist in stabilising Ghana's external trade balance.

Export-oriented MSMEs, in particular those involved in non-traditional exports, will represent a special focus group of all interventions within all four sub-components. This is in line with Government of Ghana policy priorities and will create synergetic effects with future activities under Component Four which aims at increasing access to markets for Ghanaian enterprises.

The intermediate objective of the Business Support Instruments Component is:

Enhanced development of growth-oriented MSMEs through socially and geographically balanced financial and non-financial business support instruments.

The component has four immediate objectives, relating to different types of services:

1. Lending to MSEs through appropriate credit schemes increased
2. Availability and access of MSMEs to adequate non-financial business support services enhanced
3. Small and medium enterprises have expanded their level of operations through equity capital injections
4. Access of SMEs to relevant ICT enhanced

Expected outputs leading to the achievement of the immediate objectives defined as follows:

Sub-component 1: Support to financial services to MSEs

- 1.1 Number of financial institutions participating in the SPEED Fund credit-line scheme increased
- 1.2 Capacities of participating financial institutions to efficiently manage commercially viable MSE portfolios enhanced
- 1.3 Guarantee Fund established and operational

Sub-component 2: Support to non-financial services to MSMEs

- 2.1 Commercially viable business development services developed and introduced
- 2.2 BDS providers identified, contracted and assisted to sell the products
- 2.3 Innovation and Development in Enterprise Assistance Scheme (IDEAS) established and operational

Sub-component 3: Venture capital for SMEs

- 3.1 Small and medium enterprises have received additional equity capital through Venture Capital Fund
- 3.2 Management capacities of participating SMEs increased

Sub-component 4: Access to Information and Communication Technology (ICT)

- 4.1 Potential of ICT as a business assessed
- 4.2 Areas for BSPS support identified and plan for implementation developed

In order to deepen donor cooperation, sub-components 1, 2 and 3 will be implemented under a joint German-Danish programme structure called the Support Programme for Enterprise Empowerment and Development (SPEED), which is building on the current GTZ Promotion of Small and Micro Enterprise Promotion project. Sub-component 4 comprises a baseline study and a further definition of possible Danida support for ICT services and will preliminarily be implemented by the BSPS coordinator.

Danida will provide a grant of DKK 74 million to put funds into an MSE credit fund (SPEED Fund), establish a loan guarantee fund for special credits, source an open fund for innovative projects to develop non-financial services, establish an SME venture capital fund, undertake capacity building activities for service providers, undertake a baseline study and frontrunner activities in the field of ICT and cover operational costs over a 5-year period from October 2003 to September 2008. The grant includes one international long-term advisor to the SPEED programme, two national programme officers and substantial national and international short-term technical assistance.

The Danida contribution to SPEED, including long- and short-term TA and programme management, will be commissioned to a consultancy company to be selected in a competitive process through international tender. The consultancy contract will be limited to the end of 2005, when the current phase of the GTZ project expires. A review will then decide upon a possible overall SPEED implementation contract jointly financed by Danida and GTZ.

The joint Danida and GTZ programme is supervised by a steering committee comprising one representative each from the Ministry of Trade and Industry, the private sector in Ghana, Danida and GTZ. Both, the Danida and the GTZ representatives have the right to veto. A broad range of stakeholders, both public and non-public, will be assembled in annual stakeholder workshops in order to ensure wide consultation and to guide the management of the SPEED Fund on policies and implementation issues. For sub-component 1, which deals with developing credit provision to micro and small enterprises, a Supervisory Board including Bank of Ghana, Ministry of Trade and Industry, and Ministry of Finance and Economic Planning and a representative from the private sector will oversee the credit-related activities of the programme.

The SPEED programme is expected to work with and through a variety of local public and non-public institutions, including Bank of Ghana, financial institutions, non-financial service providers, NBSSI, BACs and other public authorities, business associations and private firms. It is envisaged that by the end of the BSPS, which also represents the termination of the GTZ programme, the SPEED programme will

eventually merge in a local institution that may take the form of foundation, trust, association, non profit private company or the like.

The main risks that might affect achievement of the set objectives are:

- The prevailing culture among MSEs and service providers to expect grants and subsidies
- That government may embark on massive public subsidised service provision that will undermine the development of a free market for business development services
- Declining economic performance and business prospects of MSMEs leading to business closures, low demand for business development services and high loan defaulting rate.

None of these risks are considered of immediate threat to successful implementation of the component.

1 INTRODUCTION

Denmark's development policy 'Partnership 2000' has defined promotion of business sector development in the developing countries a strategic priority. At the same time, the Danish Government emphasises that developing countries become active partners in relation to up-coming WTO negotiations. As part of the Danish policy on Trade and Development, Ghana is selected as one of three 'pilot-countries' for support in these areas.

In connection with the preparation of the Danish Partnership 2000 strategy, a workshop on Business Sector Development was held in Accra in March 2000. The objectives were, among others, to show commitment to the support of business sector development in Ghana, to deepen the dialogue with partners in Ghana and to explore existing experience in business sector development in the country. In January 2002, a national workshop, attended by the President, key ministers and leaders of the private sector, was held in Elmina with support from Danida. One result of this workshop was a more detailed policy for private sector development in Ghana. The policy is elaborated in the paper 'Policies, Strategies and Action Plan 2002-2004', which was issued by the Ministry for Private Sector Development in March 2002.

The previous as well as the present government of Ghana have assigned an important role in the national development process to the private sector. The previous government defined the private sector as the engine of growth. In continuity, the new government that took office on January 7, 2001 has declared the 'Golden Age of Business'. The creation of the Ministry for Private Sector Development located within the President's Office is an explicit demonstration of the Government's commitment to private sector development. The Danida Business Sector Programme Support (BSPS) will aim at strengthening the business sector environment and the investment and trade climate in Ghana and thus support the priorities of the Government as expressed in the Golden Age of Business declaration.

As part of the BSPS pre-identification process, a stakeholder workshop was held in Accra in April 2002, with participation of the Head of the Danish bilateral aid and the Ghanaian Ministers for Justice and Private Sector Development. At the workshop major problems facing the Ghanaian business sector were outlined and areas for possible Danida support identified. This led to the definition of four components:

1. Legal and Judicial Reform
2. Fair and Effective Advocacy
3. Business Support Instruments
4. Better Access to Markets

For Component Three (Business Support Instruments), the following intervention areas representing possible sub-components were identified during the preparatory phase:

- Micro- and long term credit schemes and possible establishment of a venture capital fund (VCF);
- Training for entrepreneurship, management and selected skills;
- Integrated business support services and counselling.

This prioritisation reflected the fact that business sector development in Ghana is hampered by lack of access to credits (mainly for start-up, working and investment capital), lack of equity capital to cater for business expansion and lack of relevant skills and access to support services pertinent for running, sustaining and expanding an enterprise. In order to enable the business sector to take the lead in the development of Ghana, support to overcome the financial, technical and other barriers for enterprise expansion was identified as highly relevant.

Between October 2002 and May 2003 missions visited Ghana in order to undertake feasibility studies and prepare the formulation of the BSPS. During this process the missions met a variety of public and non-public stakeholders. Regarding Component Three, different consultancy teams held discussions with representatives of Ghanaian private sector institutions and firms, providers of financial and non-financial business services, and key-stakeholders in public sector institutions. Apart from Accra, stakeholders were visited in the cities of Tema, Takoradi, Kumasi and Tamale and some neighbouring districts.

During the component formulation process, structure and emphasis of Component Three were streamlined and focused. Growth-oriented micro, small and medium sized enterprises (MSMEs) were defined the principle target groups of the component assuming that a dynamic growth of the MSME sector will have the most significant impact on income, employment and poverty reduction in Ghana. As many of the micro and small enterprises are owned by women, who face a number of gender-related problems of making business, targeting the MSME sector is expected to address and improve in particular the chances of women in the development process of Ghana.

The present component description, representing a second revision of the original component design, is based on previous drafts, the recommendation of the BSPS appraisal mission that took place in March 2003, and the outcomes of further intensive dialogue between RDE Accra and relevant stakeholders on the component implementation structure. A major modification compared to the previous component description is the clear commitment to jointly implement major parts of the component with the German GTZ, which has been active in similar intervention areas for a number of years. It is now envisaged that Danida and GTZ together form the *Support Programme to Enterprise Empowerment and Development* (SPEED) and that three out of four sub-components will be implemented under this joint umbrella.

The suggested four components will address different structural shortcomings of the development environment of MSMEs and will therefore each have a slightly different target group focus.

Acknowledging the fact that in particular micro and small enterprises (MSEs) are severely constrained to access credit because Ghanaian banks tend to be unable to appropriately deal with clients from this segment and expect very high collateral, the component will put emphasis on strengthening the ability of the banking sector to extend needed credit to MSEs. For this purpose, extensive capacity building schemes, a refinancing facility earmarked for MSE lending and a credit guarantee-line for special priority areas are envisaged.

Regarding non-financial constraints of business operations, it was found that a large range of support instruments is needed, including training, accounting, marketing and other management services, access to information, product development and other technical services. However, these instruments are not adequately available in Ghana because most of the service providers lack appropriate service products, capacities and outreach. The component will therefore focus on strengthening the non-financial business support sector, which includes potentially all needed support instruments.

Component Three will include a venture capital fund for small and medium sized enterprises (SMEs) to address the shortage of equity financing in Ghana available to this type of companies. To reflect the particular nature, intervention logic and implementation requirements of a venture capital fund, the fund has been made a sub-component on its own. This sub-component is considered experimental in its nature as it targets SMEs. Usually venture capital schemes only target large enterprises.

Another modification relates to the introduction of a new sub-component, addressing support to development and application of information and communication technology (ICT) within the MSME segment of the Ghanaian business sector. This is in line with the policies of the Government of Ghana, which has accorded great importance to the development of ICT in its Poverty Reduction Strategy Paper (PRSP). The point of departure is that if Ghana wants to position itself within the global economy, it needs to make increasing and dynamic use of the potentials of modern ICT in economic processes. At the same time, ICT is seen as an accelerator of domestic development, both because the ICT sector is perceived to be a growth sector and because enhanced access and use of ICT will make Ghanaian business more dynamic and competitive in general.

In summary, the following four sub-components constitute the present component description:

1. Access to credits for micro and small enterprises
2. Access to non-financial services for MSMEs
3. Venture Capital for small and medium enterprises
4. Access to information and communication technology

Export-oriented MSMEs, in particular those involved in non-traditional exports, will represent a special focus group of all interventions within all four sub-components. This is in line with Government of Ghana policy priorities and will create synergetic

effects with future activities under Component Four which aims at increasing access to markets for Ghanaian enterprises.

2. VISIONS, BARRIERS AND OPPORTUNITIES

2.1 Situation analysis

2.1.1 The MSME sector

Business sector development in Ghana, like elsewhere in Africa, will need to focus attention to micro, small and medium enterprise development, which are supposed to play a pivotal role in the Ghanaian economy as a major source of income and employment¹. In the absence of a comprehensive national MSME survey, information on the sector, however, is rather sketchy and weak, in particular as far as the informal sector is concerned.

Despite the data gaps, it is obvious that micro and small enterprises constitute the vast majority of businesses in the country. According to 1998 estimates of the Ministry of Trade and Industry (MOTI) the Ghanaian private sector consists of approximately 80,000 registered limited companies (many of which are dormant), 220,000 registered partnerships and an unknown, yet assumingly huge number of unregistered and informal companies. The high number of unregistered companies is at least partly due to the inability of the Registrar General's office in Accra to keep up to date records and to conduct annual renewals of registration. Component 1 of the BSPS will address this problem through support to developing an efficient business registration service.

90% of the registered businesses can be classified as micro and small. Typical features of such companies in Ghana include:

- Companies are concentrated in Greater Accra and Ashanti regions
- Most MSEs are operated by one person, with the owner/manager taking all major decisions. In most cases the owner has limited formal education which prevents use of new technologies, market information systems and hampers access to credit from the formal banking sector.
- Management skills are weak and systems inadequate hampering businesses to graduate into formalised structures or medium size.
- MSEs are usually short of working capital, causing high vulnerability
- MSEs lack technical know-how and financial resources to acquire modern technology and equipment, hampering increase of productivity and international competitiveness.
- Micro and small entrepreneurs tend to be reluctant to work in groups, share experience and obtain 'peer support'.

¹ Following common use in Ghana, micro, small and medium sized companies are here defined as follows: micro enterprises are those employing up to five employees and with fixed assets (excluding land and buildings) not exceeding the value of USD 10,000. Small enterprises employ between 6 and 29 employees with fixed assets not exceeding the value of USD 100,000. Medium sized enterprises are those companies employing between 30 and 99 people.

By size classification, the Ghanaian private sector is highly unbalanced, with 90% of all companies employing less than 20 persons, and a small number of large scale enterprises. Evidently, Ghana suffers from the ‘missing middle’, i.e. there are very few medium sized enterprises operating in the country.

Severe constraints of MSME development stem from an outdated legal and regulatory framework causing inadequate enforceability of contract law and creating an overly complex environment requiring from smaller companies to comply with the same legal standards as large companies. Some of these problems will be addressed within Component One of BSPS. A good part of other problems refers to inadequate energy, transport and telecommunication infrastructure effectively restricting MSEs to old technology in particular as far as rural areas are concerned. These problems will be addressed in other sector development programmes.

Another set of severe obstacles to dynamic business sector development is caused by the unavailability and inaccessibility of important business support instruments to the majority of micro, small and medium sized operators. The feasibility study of Component Three has identified needs and demand for support instruments as follows:

	Financial services	Non-financial services
<i>Start-ups and micro firms (< 5 workers)</i>	<ul style="list-style-type: none"> Working capital and investment capital (incl. in-kind, e.g. tools) 	<ul style="list-style-type: none"> Basic technical skills, Understanding of record keeping; Access to tools; Basic services in general.
<i>Small firms (5 – 29 workers)</i>	<ul style="list-style-type: none"> Medium and long-term finance for working capital and for capital outlays at interest rates lower than the normal short-term bank overdraft rates. 	<ul style="list-style-type: none"> Accounting Quality, Technology development Skills upgrading, Management Marketing Establishment of linkages.
<i>Medium firms (30 – 99 workers) and larger firms (100+ workers)</i>	<ul style="list-style-type: none"> Equity capital and loan capital to finance their expansion. 	<ul style="list-style-type: none"> Management and human resource development Sub-contracting Business plan development ICT Export promotion Research and Development

Component Three is aimed at alleviating these obstacles through supporting the institutional development of appropriate service provision in the country.

2.1.2 The MSME service environment

The Ghanaian environment for financial and non-financial business services is fairly wide and comprehensive. Yet it is very far from being able to satisfy the vast needs and comprehensive demand from the business sector and suffers from a number of distortions and imbalances that hinders an expansion of available services. In particular business support instruments for micro, small and medium sized enterprises are not sufficiently provided as the table above indicates. Among the major structural problems of the services sector is the fact that it used to be highly subsidized (either government and donors), leading to high cost of service provision, a limited range of services provided, inflexible delivery structures as well as limitation in terms of quantity. Although services are available in most parts of the country and to many including very poor target groups, they are not available at such large scales that would benefit outstandingly to boost the MSME sector.

Financial services

The formal financial sector in Ghana comprises commercial banks (including Merchant Banks and Development Banks), 17 of which operate a network of 303 branches in the country; 115 rural and community banks, savings and loan companies and non-bank financial institutions. The large number of formal and non-formal micro-finance institutions (MFIs) includes co-operative societies, Susu Groups, NGOs, Loan and Saving Companies. Loans provided by MFIs are usually based on group lending. To a larger extent than formal banks MFIs offer non-financial services alongside with financial services to their clients. However, a recent survey of the GTZ Rural Finance Project found that even those are limited to some general advice given to clients when loans are disbursed.

More recently, banks and other financial institutions seek to broaden their loan portfolio, as a reduction of the minimum reserve requirements have increased the banks' liquidity and at the same time interests paid on Treasury Bills are going down. As a consequence, MSMEs have become an increasingly attractive customer group. Traditionally, however, financial institutions in Ghana have been cautious with lending to MSME groups because of high default rates and risks associated with the sector. Few banks have therefore developed an explicit policy for MSME target groups taking the particular requirements and needs into consideration, e.g. developing earmarked financial products and appropriate credit management systems. Only few banks have SME specific loan products, and many of these are donor funded. Few banking institutions have SME desks or departments. For the others, lending to micro and small businesses is simply transacted by credit officers from corporate finance departments of the bank who generally apply the same appraisal and lending principles to SMEs. None of the commercial banks has any specialised training for credit officers in proven SME lending techniques, and most credit officers do not have any prior SME specific experience.

Supported by donor programmes, the capacities and the institutional framework for MSME lending has become a focal point on the development agenda of the country.

Notably the (IDA, IFAD and AfDB funded and GTZ supported) Rural Financial Services Project, located in the Bank of Ghana, intends to increase the capacities of rural and community banks and the informal financial sector, as well as to strengthen the institutional and policy framework for improved oversight of the sector. A major impact of this project so far has been the establishment of the Association of Rural Banks (ARB) Apex Bank, which offers capacity building, clearing and refinancing services to rural and community banks (RCB) and which is expected to take over the supervisory functions of the Bank of Ghana in the future as far as RCBs are concerned. The Rural Financial Services Project is also involved in capacity building in MSE credit management.

Long term financing in terms of equity capital, needed by growth-oriented mainly small and medium companies, is virtually non existing for this target groups. A number of commercial venture capital funds have been established in Ghana over the past 10 years namely the Ghana Venture Capital Fund (GVCF), Enterprise Empowerment Fund (EEF), Women Flagship Fund (WFF), West Africa Enterprise Fund and the Fidelity Equity Fund (FEF). Whilst there have been concerns expressed about the poor performance of most of the earlier established funds, there is optimism about the expected performance of newer funds such as WFF and EEF and FEF based on the dynamism of their fund manager and their investment philosophies. In the present improved economic environment interest rates have dropped from over 40% to approximately 30%. Venture capital returns can now compete with alternative investment returns.

However, all these funds have so far been targeted at growth oriented large enterprises. Although there appears to be a good number of potentially viable investments in the (upper) small and medium sized segment, the risks and costs involved in managing shareholding in SMEs have so far rendered those investments not interesting. Usually, lack of management skills and inappropriate management systems cause much higher business failure risks for MSEs than for large companies. To counterbalance these risks through increased involvement into the day-to-day management of the firms results in high costs for the venture fund that can hardly be recovered through the return of the comparatively small investments.

Another frequently mentioned argument against venture capital for SMEs refers to the widespread reluctance of SME owner/managers to accept an outsider being involved in the business. However, a new generation of dynamic and business minded entrepreneurs is apparently emerging, who are open to the modern business environment and do demand services such as venture capital. Some of the more recent Ghanaian Venture Capital Firms therefore intend to extend their portfolios to medium-sized and smaller companies and to find ways to manage the comparatively high risks and costs.

Non-financial services

Ghana has a substantial and growing business support service sector. Important to *micro firms* are the Business Advisory Centres (BACs). They operate under the National Board

for Small Scale Industries (NBSSI), which is represented in the 10 regional capitals under the purview of the Ministry of Trade and Industry (MOTI). BACs operate at the district level (in 41 out of Ghana's 110 districts and in the 10 regional capitals), providing training and counselling. No credit facilities are offered, but clients are assisted in searching for credit. Another service provider in the districts is Ghana Regional Appropriate Technology and Industrial Service (GRATIS), which used to be a public institution but has been turned into a foundation. GRATIS runs production schools in nine regions offering skills training, and provides basic working capital and tools for start-ups. While the focus of GRATIS is mainly on the micro firms, they also provide services to small enterprises. One of the major shortcomings of GRATIS is that it lacks demand responsiveness and that the branches are often not properly equipped.

Institutions focusing mainly on *small firms* include the NBSSI and EMPRETEC. NBSSI combine business counselling in the regional capitals with some general and specific forms of training in both technical and managerial areas, often coupled with small credit provisions. EMPRETEC is a foundation offering business advisory services and training courses in managerial and management skills. EMPRETEC also offers financial services in the form of credit schemes. All the activities are carried out in 5 regional capitals. The target group of EMPRETEC is both firms in the start up phase with a viable business project as well as growth oriented small and medium sized firms. The majority of the clientele of the Foundation has a higher level of education and the training is thus conducted on a high level. EMPRETEC receives substantial support from the donor community. Another institution targeting this segment is the Management Development and Productivity Institute.

The demand of the *medium- and larger sized enterprises* is diverse including management and human resource development, sub-contracting, export promotion and R&D. Service providers include a number of private consultant companies, as well as organisations such as the Association of Ghana Industries (AGI), which has set up a consultant department in Accra and plans to establish branches in various regions, the Private Enterprise Foundation (PEF) and the Ghana Employers Association (GEA). Activities are focussed in the Accra and Tema areas. There is also a substantial number of private firms offering management and business advice. The service providers relating mainly to this segment attempt to rely more on cost recovery through selling their services than is the case for the service providers dealing mainly to the informal segments of industry. Achieving significant levels of cost recovery has, however, shown difficult.

Service providers within the ICT sector

The institutional landscape as regards ICT is less developed and there is need for further studies as regards relevant institutions and their role in assisting Ghanaian industry develop and adopt ICT. Before embarking on precise support initiatives, a baseline study will be conducted during the inception phase of BSPS to define more precisely potential support interventions.

Main service providers for SMEs are often kiosks and cafés, providing telephone and Internet access. There are also numerous small shops offering courses in computer use. Consultancy companies meet the needs of the larger firms, but the small and medium often have nowhere to go to meet their ICT needs. MOC has worked out strategies and action plans to address this, e.g. by establishing ICT parks and Incubator Centres in order to attempt to supply the necessary infrastructure and human resources development.

Within the ICT area, Ghana is a partner in various initiatives, where also Danida is a partner and where various types of services are provided. These types of services are in the first hand relevant for service providers, who might upgrade their ICT capacity to provide quality ICT-related counselling and training to private sector operators. This includes e.g. the InfoDev (the Information for Development Programme). InfoDev is a multi-donor programme providing support to various kinds of projects within the ICT sector, e.g. e-commerce and e-government. The programme includes also a special ICT Incubator Initiative aimed at fostering entrepreneurship and private sector development in developing countries. The goals of the initiative is to establish a network of incubators to facilitate the emergence and development of small and medium size ICT enterprises. Linking up the BSPS ICT support to the InfoDev platform seems to be an option to be considered, in the first hand in relation to support to incubator centres outside Accra. Another initiative is the preparation for the world summit on the information society, which will be held in Geneva in 2003 and followed up in Tunis in 2005. In relation to the preparation for the summit, an Africa Regional Conference has been held and various workshops conducted which i.e. look into promoting ICT in the private sector, notably SMEs. Linking the BSPS support with the initiatives in this forum might be another option to be considered.

Other initiatives where links might be established include the INASP, which is a network to enhance the flow of information within and between countries, i.e. to promote access to and dissemination of scientific and scholarly information and knowledge and to promote capacity building in information production, access and dissemination. Bellanet is an organisation providing different programmes and services, focusing i.e. on knowledge management, web access, information sharing and ICT policy advice and programme development. The resources employed in these initiatives could provide input and linkages to the BSPS ICT support.

2.2 Visions

It is the vision of BSPS Component Three that enhanced growth and development of micro, small and medium sized enterprises in Ghana will create income and employment for an increasing number of Ghanaians and will therefore become a major tool of poverty reduction. Development of the MSME sector will create more chances for women to participate in the Ghanaian economy, since women are over proportionately represented in this stratum of the society. Strengthening of an independent business sector will nourish the emerging civil society in Ghana thus

contributing to increased democratic participation and transparency in the county's decision-making processes. Increased export-oriented production of micro, small and medium sized enterprises will assist in stabilising Ghana's external trade balance.

Acknowledging that at the current moment diverse obstacles hinder the further development of the MSME sector, Danida support under Component Three will be directed to assist the development of relevant, demand-responsive and accessible business support instruments. All other components of BSPS include interventions that will complement these efforts, notably the capacity building of the Registrar General in Component One, strengthening of advocacy through Component Two and the support to Ghana's position in the international trade environment which will also affect the access to market and international competitiveness of Ghanaian SMEs.

Financial and non-financial business support instruments for MSMEs are currently provided in a government and donor supported environment, with a limited range of services that are provided in quantities not sufficient to reach out to the growing number of potential beneficiaries. By the end of BSPS, the effective outreach of relevant business support instruments will be substantially increased through the emergence of a vibrant market for business support that is able to effectively transact relevant, specific and affordable business support to the different target groups. It is believed that to a much higher degree than currently, business support instruments can be implemented in a commercial environment, which will stimulate more suppliers (service providers) to join the market thus making business support widely accessible in a dynamic environment. Other support instruments may require continuous subsidies and assistance, for which sustainable methods and sources will be developed.

Regarding financial services, mainly credit, the market for MSE finance has been distorted by numerous donor driven and strongly subsidized credit lines. These tended to discourage serious efforts of banks and other financial institutions to build up sustainable business relationship with MSEs. Instead of considering MSEs as a high potential and profitable customer group, financial institutions rather opted to managing donor-funded credit lines without taking risks on their own. This, again, prevented them from building up capacities to develop, handle and manage financial services for MSEs. Danida support will therefore be directing to stimulate commercial MSE lending of financial institutions, through (a) provision of refinancing facilities (credit line) in order to overcome liquidity shortages of banks; (b) intensive capacity building of participating financial institutions; (c) provision of credit guarantee for those enterprises that lack sufficient collateral. At the end of the BSPS period, it is envisaged that 10 to 15 financial institutions, many of which are located in rural areas, are successfully running MSE credit portfolios, which have become a significant business activity in the banks. The banks will be assisted by modern banking software and their success in managing MSE portfolio is expected to stimulate more financial institutions in Ghana to venture into this market segment.

Equity capital for long term financing of growth oriented investments is limited in Ghana to large enterprises which need equity of USD 500,000 and more. Funds for

small and medium-sized companies are not available as such equity investments are assumed to be risky and not profitable. Acknowledging a high demand for equity capital from growth-oriented small and medium sized enterprises, Danida therefore intends to support a venture capital fund for SMEs with a limited investment capital on a pilot basis. This venture capital fund will be managed by a commercial private Ghanaian fund manager. The Danida fund will collect valuable experience on management of such a fund and will demonstrate that venture capital investments into viable firms of small and medium-size are an attractive and profitable financial option. Between 15 and 20 Ghanaian small and medium enterprises will have substantially grown in terms of production and employment through capital infusion and management advice from the venture capital fund. Some of these firms may be financial institutions, mainly rural banks, which could use the additional equity capital to stabilise their operations and increase lending to MSEs multiplying the employment effect of the investment.

Regarding non-financial services, Danida interventions under BSPS will have accelerated the emergence of a vibrant and dynamic commercial environment for business services. New service products, including training courses, computer-based financial management tools, and others, will have been developed that significantly improve the performance of MSMEs and at the same time are affordable for them. As a result, the service market is growing ensuring access to adequate services to every enterprise that is willing to invest in services and capacity building according to their capabilities. With Danida support, additional needed services, such as technical training, technical feasibility studies, development and adjustment of products, consultancy services for production processes export market promotion, etc., will have been sustainably developed, and local service providers are capable to supply services cost effectively, to a large share of potential beneficiaries and at a high standard. As a result, companies will have increased access to necessary business development instruments, in particular in the ICT sector and as far as non-traditional production for export is concerned.

2.3 Opportunities

Geared towards market development, the thrust and suggested design of component Three fits well into the current policy environment in Ghana. Building on previous experience with respect to SME credit funds, it will be instrumental to shape major pillars of a pro-market environment for business support instruments for the development of micro, small and medium sized enterprises. Another major opportunity of the intervention is the fact that Danida support can and will be coordinated with the efforts of other donors in Ghana, which are active in the same sector and pursue similar or complementary objectives.

2.3.1 Changing policies and perceptions

Ghana does not have a comprehensive MSME policy. However, the current government's commitment towards private sector development, representing one of the important tools to fight poverty under the PRSP, formulated in the declaration 'Golden Age of Business' and demonstrated in the establishment of the Ministry of Private Sector Development (MPSD) does imply a strong focus on improving the conditions and creating a conducive environment for micro, small and medium sized enterprises.

Whereas the concept papers of the MPSD remain vague with respect to defining instruments for MSME development, the Ministry of Trade and Industry (MOTI) has concretised specific requirements for MSE development in Part III of its recent 'Integrated Industrial Policy for Increased Competitiveness'. This paper which has been drafted in cooperation with UNIDO in 2002 emphasises, inter alia, the urgent need to improve access to credit and non-financial business development services. With the last cabinet reshuffle in May 2003, a Deputy Minister for MSME Development was assigned, elevating the responsibility for MSME development from departmental to deputy minister level. This move may serve as an indication for increased attention of the Government of Ghana to the MSME sector.

Under the Ministry of Finance, a 26 million US Dollar donor-financed Rural Financial Services Project (RFSP) has already started improving the conditions of financial institutions in the rural areas of Ghana. Training of banking staff and promotion of linkages and networks among financial institutions are among the focal areas.

Regarding ICT, the Ministry of Communication (MOC) is fostering strategies for adoption, allocation and development of information and communication technology. It has set up an ICT working group to develop strategies and action plans for the development of ICT, including the problem of increasing access of small business. The MOC activities are linked to the 'Presidential Special Initiative' for the development of high potential growth areas, under which the set-up of ICT incubator centres are planned.

2.3.2 Previous Danida experience in the sector

Component Three can draw on the substantial experience Danida has gathered during the last six years of the Private Sector Development (PSD) Programme. More than 60 Ghanaian-Danish joint ventures have been supported complemented by a loan scheme for the Ghanaian partner companies which is managed by the Merchant Bank.

Under the Danida Fund for Small and Medium Scale Enterprises, established in 1996 as a pilot initiative, a total of DKK 2,5 million were granted to three banks for on-lending to small scale operators in the agro-processing, fishing and fish processing and handicrafts sub-sectors within a limited geographical area of 80 km radius from Accra. While the recovery rate of the so-called Fish Fund, managed by KBA Financial Services

Ltd., was low, the SME Fund in Prudential Bank and the loan fund in the Citi Savings and Loans Co. Ltd. were considered very successful. In particular the Citi Savings and Loans loan fund, extended to Susu Groups of market women in Accra, reached a recovery rate of 100%. While the credit line at KBA and Citi Bank have been closed, the capital fund still continues as a revolving loan fund for SMEs with Prudential Bank with an average recovery rate of 95%. A replenishment of the fund has been suggested, it was decided, however, to discuss the future of the fund in connection with the activities planned under BSPS.

Some lessons learnt so far from the PSD Programme's experience include:

- Administration and management of a credit line is the most important key to success. A credit fund should therefore be run by a professional bank that has demonstrated its ability of credit management or is willing to upgrade its capacities in this regard.
- In order to make it attractive for the bank to venture into SME lending, the incentives should be at least as good as for alternative business areas.
- Many MSEs are not managed well. Therefore, capacity building of MSEs is a crucial determinant of loan recovery.
- Credit conditions must be flexible to fit into the production schedule of the credit taker.

The design of Component Three has taken these lessons into consideration. The implementation of BSPS should furthermore seek close cooperation with the Danida activities under the PSD Programme. Possible synergies should be explored, for instance, between the credit-line scheme (sub-component 1) as well as the venture capital fund (sub-component 3) and the business-to-business programme.

Danida has also for some years supported rural banks, aiming at capacity building and banking education. The project was implemented by the Association of Rural Banks and was supportive in the establishment of the ARB Apex Bank.

2.3.3 Other donor support in the sector

A good number of donor activities in the field of developing business support instruments for MSMEs are ongoing in Ghana, and Danida interventions have to position themselves in this environment. Present donor activities concentrate on various credit schemes through both commercial banks and micro-finance institutions, and also on strengthening of MSMEs through training and business support services. The table below presents a list of projects, which may not be comprehensive.

Donor activities in the area of supporting MSMEs

Donor	Title	Short description
CIDA	Private Sector Development Support	Assist MSMEs (deepening technological capacity)
DANIDA	Private Sector Programme	Business linkages between Ghana and Denmark
DANIDA	Business Sector Development	Lending to SMEs, front-runner legal reform (pilot)
GTZ	Promotion of Private Sector	Promotes German investments in Ghana
GTZ	Promotion of Small and Micro Enterprises	Assist MSEs (Credit Fund - Urban and Rural areas)
GTZ	Rural Financial Services Project	Capacity building to rural and community banks and informal financial sector; and to ARB Apex Bank
IFAD/AFD	Rural Enterprise Project	Enterprise development in rural areas
IFC	Africa Project Development Facility	Support the development of SMEs (training)
UNDP	African Management Services Company	Assist SMEs (training and secondment)
UNDP	EMPRETEC Ghana Foundation	Assist SMEs (entrepreneurship development)
UNDP	Micro Start Ghana Programme	Support MFIs build institutional capacity
UNDP	Promoting Private Sector Development	Capacity building of private sector interlocutors
UNIDO	Strengthening competitiveness of MSMEs	Strengthening capabilities of MSMEs
USAID	Amex International (increased private enterprise performance)	Support development of non-traditional exports
USAID	Micro enterprise Development Assistance	Assist micro and small-scale farmers
USAID	Trade and Investment Programme	Assist SMEs in non-traditional exports (credits)
WB	Non-Bank Financial Institutions Assistance	Promote growth of non-bank financial sector

In the context of Component Three, especially the experience of USAID and GTZ is pertinent. Other donor support focuses on various forms of technical assistance, in particular capacity building, for business development service (BDS) providers targeting the MSME segment with training and counselling in business planning, production planning, product development, quality assurance, marketing, exporting, etc. Also, donor support is aimed at the establishment of an enabling environment for the business sector as a whole. Danida's participation in the Comprehensive Development Framework will ensure coordination with these activities.

USAID is operating a Microfinance Project under the UNDP-sponsored 'Promoting Private Sector Development Programme (PPSDP)' which aims at improving the economic and social status of poor micro entrepreneurs through enhanced access to financial (and non-financial) services. The project seeks to support selected partner Microfinance Institutions (MFIs) in building institutional capacity through training and technical assistance.

USAID is also preparing the establishment of a loan guarantee scheme with banks taking part of the credit risk themselves. The Development Credit Authority (DCA) will target micro, small and medium-sized enterprises in various export-promoting industries including non-traditional exports, tourism and textiles and garments. DCA funding is used to establish a guarantee mechanism covering both commercial banks lending to Micro Finance Institutions (MFIs) and commercial banks lending to individual MSMEs. One lead institution will be contracted to manage the overall loan portfolio and carry out monitoring and reporting requirements for USAID. The maturity will be ten years and the guarantee percentage would be 50% of principal in the first seven years, and then be reduced to 30% during years 8 and 9, to end at 20% the final year. The participating institutions will be provided with technical assistance within especially credit training, financial management training, assistance in creating business plans, etc. Two Ghanaian banks have so far agreed to participate in the scheme - Standard Chartered and Eco-Bank.

As USAID is active and experienced in field very similar to some of the planned Danida interventions, notably credit guaranteeing and capacity building of financial institutions, continuous experience sharing and a close cooperation with USAID appears to be very important.

Of particular importance for Danida are the GTZ interventions under the Promotion of Small and Micro Enterprises (PSME) project. Since 1998, the GTZ PSME project has been operating a credit-line scheme in Greater Accra and Ashanti regions. During an initial orientation phase, funds were disbursed to a Bank of Ghana account that was subsequently transferred to participating financial institutions (PFI) for on-lending to MSEs. Two banks were continuously participating in the scheme during this phase - Prudential Bank in Accra and First Allied Savings in Kumasi. Some 250 credits were extended during the past 2½ years with an average value of 49 million cedi (approximately DKK 40,000). Total disbursement amounted to approximately DKK 10 million. Loan recovery rates are high. GTZ also supported capacity building in the participating banks in order to increase the knowledge of servicing the MSME segment.

The PSME project ended its three year experimental and orientation phase in February 2002 and is now in the main phase of implementation. A survey conducted on lessons learnt during the experimental and orientation phase resulted in the following recommendations in terms of rendering financial services to the MSME segment:

- The volume of the loan fund should be increased, possibly with other donors contributing resources and the PSME fund emerging as an anchor fund;
- The programme would expand its coverage from urban and peri-urban areas of Greater Accra and Ashanti to Central and Western regions, and later possibly Brong Ahafo and Volta regions as well as other more northern regions;
- Additional financial institutions should be identified to participate in the scheme. Guidelines for pre-selection and accreditation would be developed, as well as a format for accreditation;
- Participating financial institutions would benefit from technical assistance especially for credit staff and managers who would receive in-house training in MSME loan processing and related technical and managerial skills and training in profit centre accounting and Management Information Systems, assistance would possibly also include accounting and IT staff. Furthermore, staff of participating financial institutions would be brought together regularly to exchange lessons learned. Exchange visits with other countries would also be organised by the project in the framework of international conferences and seminars;
- The interest rates from the credit fund to the participating financial institutions should be increased to reach sustainable levels;
- Finally, there will be room for experimental project activities in relation to identifying and testing new financial products.

With the currently running first main phase the credit fund (SMEPF) was increased to a total volume of € 2.5 million from the German side, which should be matched by the government of Ghana according to the bilateral agreement. Capacity building of participating financial institutions will gain a much more important role than previously. New credit management software, which will also serve as a main tool for project monitoring, has just been developed on the basis of international best practice.

The support to development of Business Development Services (BDS) represents a new project component in the main phase aiming at strengthening a commercial market for selected non-financial services to mainly small enterprises. Based on market studies, new affordable and marketable service products will be developed under the BDS component and advertised. Interested service providers, who will be contracted, trained and supervised by the project, will deliver the services to MSEs on a franchise basis. The underlying idea of the BDS project concept is that enterprise support services can best be developed and most comprehensively be disseminated within a commercial market environment, where prices and accessibility are not distorted through subsidies. International experience has shown that it is possible to provide service products of sufficient quality at a price that is feasible for mass consumption of MSEs, even if commercial rates are charged. One example is the ‘pocket accountant’ that is just being developed by the PSME project. The pocket accountant is a simple accounting software to be used by micro and small entrepreneurs in an internet shop with some guidance from the shop owner.

However, it is assumed that local service providers lack capabilities, skills and incentives to develop and introduce such and similar service products. The project is therefore designed to intervene at the stage of product development and training of service providers, as well as at the post-delivery stage through quality assurance and research on market acceptance. The project does not intend to influence the actual service delivery, and will not grant any subsidies apart from the cost of product development and marketing.

During the preparation of the BSPS, GTZ and RDE realised that visions and concepts are shared to an extent that would justify a joint implementation structure. It has therefore been decided that for the implementation of essential parts of Component Three Danida will form a joint programme with GTZ, called the Support Programme to Enterprise Empowerment and Development (SPEED). Further details on the suggested joint Danida/GTZ programme are included in the Logical Framework Analysis.

Another important cooperation partner will be the Rural Financial Services Project (PFSP) in which GTZ renders technical assistance. As mentioned elsewhere, PFSP has four main objectives, namely (1) capacity building of the informal financial sector; (2) capacity building of rural and community banks; (3) establishment and support to the ARB Apex Bank; and (4) strengthening the institutional and policy framework for improved oversight of the rural finance sector. In particular as far as the credit support activities under sub-component 1 extend to rural and community banks, the RFSP, which is under the Ministry of Finance and physically located in the Bank of Ghana, should be an important partner of the new joint programme of Danida and GTZ.

2.4 Barriers

The component strives to improve and widen the current supply of business support instruments in Ghana. It is guided by the assumption that a more market driven approach to the provision of business support services is vital to achieve the needed and demanded supply in terms of quantity, quality and demand-responsiveness. The main barrier in this regard is the fact that the business support sector has been heavily subsidised for a long time. At least as long as MSMEs are targeted, service providers are used to provide high cost products and to receive subsidies that ensure affordable fee rates. A culture and tradition to think market-oriented, to find the right balance between quality and price and to go for economies of scale has not really developed. The component will have to overcome those barriers by good examples demonstrating that good services can be delivered in a competitive and commercial market, and by cooperating with those non-traditional service providers who did previously not have access to subsidies. At the same time, the programme will have to cope with widespread expectations from the side of the beneficiaries of business support services, i.e. the MSMEs, to receive support for free or at very low prices.

Furthermore, apart from a problem diagnosis and a general commitment to MSME development, the Government of Ghana has not developed a clear policy that identifies necessary interventions and describes the future roles of the different stakeholders in the system. At the moment, the government appears to move towards widening its own direct service delivery capacities, e.g. through substantially increasing the number of BACs in the districts. Such an increasing government involvement may crowd out an emerging private service sector jeopardizing the concept of market development in the provision of business support services. As a matter of priority, government should facilitate a participatory and stakeholder driven policy development process that would inter alia define the role of government and other stakeholders in the development of MSMEs.

3. MANAGEMENT OF THE LOCAL STRUCTURES

It is suggested that Danida will integrate its planned activities under Component Three (apart from sub-component 4) into the existing GTZ PSME project and that Danida and GTZ will jointly form the SPEED programme as an overarching structure of several individual schemes to strengthen financial and non-financial services.

The current PSME project structure is based on bilateral agreements between the German and Ghanaian governments expiring by the end of the current first main project phase, which is end of 2005. The project works through two local partners: namely the National Board of Small Scale Industries (NBSSI) under the Ministry of Trade and Industry (MOTI) and the Bank of Ghana. It is currently located in the premises of the NBSSI.

The Bank of Ghana is responsible for administering the credit fund of the project, which is currently known as the Small and Micro Enterprise Promotion Fund (SMEPF). Responsibility for all decisions on eligibility, disbursement and other related activities with respect to SMEPF is vested in the Supervisory Board which comprises representatives from the MFEP, BOG, MOTI, German Embassy and GTZ. The Supervisory Board is assisted by an Advisory Committee, which has not limited membership and should assemble all major stakeholders. Further procedures are laid down in by-laws of the Supervisory Board.

GTZ has contracted the German consultancy company GFA for the management of the PSME project. GFA is accountable to GTZ. The project is headed by an expatriate project coordinator who is assisted by two Ghanaian programme officers and necessary support staff. GTZ's current contract with GFA expires at the end of August 2005 and is likely to be extended to the end of 2005, when the current phase of the GTZ PSME project expires.

A number of minor modifications will need to be negotiated in order to realise the joint implementation structure, mainly affecting the composition of the Supervisory Board and the reporting structures. Details are outlined in the management structure in section 5 of this description.

The management of the credit fund and, if approved, of the loan portfolio guarantee fund which is supposed to complement the credit fund in the future, is not among the core business of a central bank. In order not to conflict with one of the central focal points of the BSPS, i.e. to streamline the institutional environment for business sector development, it should be considered to renegotiate the agreement with the Bank of Ghana towards the end of the current phase of the GTZ project. Depositing the funds in commercial banks could be an alternative option.

The current GTZ project and even more so the future joint Danida/GTZ programme will have a large number of local partner institutions to implement its activities. Apart

from the NBSSI and its BACs, which are the main public service providers, there will be a group of financial institutions and public and non-public providers of non-financial business support services eligible to be assisted through the credit and guarantee funds, the BDS scheme, IDEAS and the ICT sub-component, for which interventions still have to be concretised. The Venture Capital Fund in sub-component 3 will be implemented through a Ghanaian private fund management firm, which is to be assigned on the basis of a competitive tendering process.

4. LOGICAL FRAMEWORK ANALYSIS OF COMPONENT THREE

4.1 Objectives

The development objective of the BPS is

Equitable growth in production and employment achieved through development of a competitive and vibrant business sector.

The intermediate objective for Component Three is:

Enhanced development of growth-oriented MSMEs through socially and geographically balanced financial and non-financial business support instruments.

4.2 Immediate objectives

There is one immediate objective for each of the four sub-components:

1. Lending to MSEs through appropriate credit schemes increased
2. Availability and access of MSMEs to adequate non-financial business support services enhanced
3. Small and medium enterprises have expanded their level of operations through equity capital injections
4. Access of SMEs to relevant ICT enhanced.

4.3 Output and activity outline²

Sub-component 1: Support to financial services to MSEs

The overall purpose of this sub-component is to foster the development of MSEs through increasing their access to financial services provided by Ghanaian financial institutions. Interventions under this component are geared towards strengthening the commercial provision of appropriate financial services, mainly credit including long-term credit, to the MSE sector by encouraging existing financial institutions to extend their operations to MSEs and to build their capacities to service the MSE customer segment and to successfully manage this portfolio. Instruments of the joint GTZ/Danida programme to achieve these objectives include refinancing facilities to identified financial institutions; a guarantee scheme for earmarked credit lines; and substantial capacity building support to participating financial institutions (see annexes for more details).

² See also the LFA Matrix in Annex 1

Interventions will ultimately target Ghanaian MSEs in sectors of the economy where there is either a potential for job creation, increased local manufacturing or a potential for export earnings. Specific productive sectors will include agro processing, fish processing, garment production and allied industries, handicraft, other non-traditional export sectors and specific service industries such as IT and tourism.

Interventions will cover urban and rural areas in Greater Accra, Ashanti, Eastern, Brong-Ahafo and Central regions, where demand for financial services is assumed to be highest. Other regions may be considered for inclusion at a later stage, depending on the development of their economic growth potential and availability of financial institutions and other enterprise support services.

Enhanced extension of appropriate (including long-term) credit to micro and small enterprises will benefit in particular female entrepreneurs. An appropriate and achievable gender balance will be part of the credit-line policy of the component and reflected in the indicators. The strong focus of the component on FI capacity building will support the sensitisation of FIs about environmental issues, appropriate response to the HIV/AIDS challenge as well as dissemination of good business practices in the operations of financial institutions in Ghana and in their customer relations.

Output 1.1: *Number of financial institutions participating in the SPEED Fund credit-line scheme increased*

Danida funds will be channelled into the existing joint GTZ/Government of Ghana MSE credit fund, which is currently known as the *Small and Micro Enterprises Promotion Fund* (SMEPF). With the Danida participation, SMEPF will be converted into a renamed credit fund for financial institutions called the SPEED (Support Programme for Enterprise Empowerment and Development) Fund.

Building on experience and policies of the previous SMEPF, the SPEED Fund will be used to provide liquidity on a loan basis to financial institutions for on-lending to MSEs. While the SPEED Fund operations are supervised by a Supervisory Board, funds will be channelled through the Bank of Ghana. The cooperation between the SPEED programme and the Bank of Ghana in the administration of the credit fund will be subject to reconsideration at the end of 2005, when the current bilateral agreement between the German and Ghanaian governments expires.

Financial institutions will be eligible to use the SPEED credit facility upon approval by the Supervisory Board. Potentially eligible financial institution will be commercial and rural banks and non-bank financial institutions notably savings and loans companies registered and operating in Ghana. The Fund will consider applications from financial institutions based on criteria such as the ability to serve targeted micro, small and medium enterprises; pre-existing strategic commitment to serving the MSE sector; and satisfactory operational performance and standing of FI.

Before applications are presented to the Supervisory Board, a comprehensive pre-admission assessment is conducted by the SPEED programme reflecting the ability and willingness of the financial institutions to effectively deliver credit to MSEs. The pre-admission assessment includes an institutional analysis, an assessment of the loan process and portfolio and risk management, and an analysis of the financial performance of the institution. A standard format for pre-admission assessments developed and implemented under the umbrella of SMEPF is already available.

After approval and contract signing the financial institutions can access the credit facility of the SPEED Fund in order to develop a loan portfolio for MSEs. The SPEED Fund is a revolving fund, granting loans for on-lending to participating financial institutions (PFIs) at an interest of 75% of the Treasury Bill interest rate, which can be raised up to 100% in case the inflation rate exceeds the SPEED Fund rate. The duration of the SPEED Fund loans to PFI is up to 60 months. PFIs will undertake their own independent appraisal of all loan applicants and will be fully responsible for the final decisions taken or whether or not to approve credits under the scheme. The PFI will remain fully responsible for the extension of the loan and will bear the full credit risk thereof. Loans from the SPEED Fund to the PFI are repayable irrespective of the performance of the on-lending portfolio of the PFI. Thus, the PFIs carry the full risk of their MSE lending operations.

Participating financial institutions receive substantial capacity building support described under Output 1.2.

Whereas SMEPF was initially collaborating with two commercial banks in Accra and Kumasi only, the SPEED Fund is supposed to broaden its partner structure and to incorporate in the future rural and community banks as well as non-bank financial institutions (e.g. Savings and Loans companies). A total of 10 to 15 financial institutions are currently envisaged to participate in the scheme. This will not only extend the impact of the SPEED Fund geographically, but also in terms of its capacity to finally reach out to the poorer segment of entrepreneurs in micro businesses.

Main activities:

- Assessment of potentially eligible participating financial institutions
- Accreditation of PFIs
- Approval and management of credits to participating FIs
- Overall management and monitoring of SPEED Fund
- Development of a concept for long-term ownership of the SPEED Fund

Output 1.2: Capacities of participating financial institutions to efficiently manage commercially viable MSE portfolios enhanced

As outlined in more detail in section 2 of this component description, lending to micro and small enterprises is underdeveloped among Ghanaian financial institutions, although it is widely acknowledged that MSEs would constitute a core target group if banks and non-banking FIs have to sustainably increase their loan portfolio. The current reluctance of FIs to more proactively venture into the MSE market segment is partly due to the fact that institutions have usually not developed a special MSE lending policy reflecting the particular requirements of MSE clients in terms of lending products, as well as credit appraisal and management tools and procedures. Few FIs have any specialised training for credit officers in proven MSE lending techniques. Rather loan officers responsible for MSE loan portfolios are usually from large-scale corporate lending backgrounds generally applying the same appraisal and lending principles to MSE lending.

In order to develop an understanding in Ghana about the need to develop MSE policies and to ensure that MSE portfolios financed by the SPEED Fund are successfully managed, Danida will join in the existing activity line of the GTZ PSME project and earmark funds for capacity building of participating financial institutions. Activities will include the finalization and dissemination of the credit management software developed by PSME and training of credit officers and other FI staff in applying the software. Particular emphasis will also be put on supporting FIs to develop adequate financial products (e.g. long-term credits, insurance products, hire-purchase and leasing systems, money transfers, etc.) that meet the requirements of the different MSE target groups. Other bottlenecks of FIs to successfully manage an MSE portfolio may be addressed by appropriate training and other capacity building interventions. If appropriate, local partners may be used to implement different capacity building activities, including for example the National Banking College, Ghana Association of Bankers, ARB Apex Bank, Management Development and Productivity Institute, School of Administration (University of Ghana), the Ghana Microfinance Institutions Network (Ghamfin) or the Ghana Institute of Management and Public Administration (GIMPA).

Main activities:

- Needs assessment of PFIs
- Finalization of credit management software
- Training of credit officers and other PFI staff in the use of the credit management software
- Capacity building activities in PFIs
- Development of appropriate financial products
- Introduction of new products to PFIs.

Output 1.3: Guarantee Fund established and operational

An additional obstacle faced by Ghanaian FIs in lending to the MSE sector is the inability of the enterprises to provide sufficient appropriate collateral to compensate for the lending risk. This situation is further compounded by the weak legal and regulatory environment for registration of collateral and enforcement of collateral security. Whereas Component One of the BSPS seeks to strengthen the legal and regulatory environment at the macro level, it appears to be important within Component Three to introduce risk-mitigating interventions at the FI level as well.

The guarantee scheme is meant to complement the liquidity interventions of the SPEED Fund by offering security to PFIs for MSE credits for those business activities that are important from the development point of view but unable to satisfy the Ghanaian banking industry's high collateral demands in full.

Danida will therefore provide resources to set up a Loan Guarantee Scheme (LGS) eligible in particular to participating FIs of the SPEED Fund. Under the LGS, PFIs will agree with the SPEED management on a specially earmarked guarantee line to be used exclusively for defined target areas, which may be a special target group or a special type of business activities. In order to ensure a responsible and sustainable use of the LGS funds, PFIs will share the risk. The LGS will therefore offer part loan guarantees only, limited to 50% of the realised loss for the FI.

Priority businesses areas to be supported through the additional guarantee scheme include:

- Non-traditional exports
- Agro-processing activities
- Business activities of micro entrepreneurs (excluding retailing)
- Business start-ups (excluding retailing).

Guarantee lines for individual PFIs under the LGS will be negotiated by the SPEED management and approved by the Supervisory Board. PFIs will enter into a contractual agreement with the SPEED management stipulating the conditions under which loans may be secured loans, interest margins, duration of the guarantee line, conditions and procedures of claims, and other pertinent issues.

It is envisaged that the guarantee fund will be deposited and administered by the Bank of Ghana, to ensure that the activities under sub-component 1 are well coordinated and harmonised. In case the Bank of Ghana decides not to host the guarantee fund an arrangement will be sought with a commercial financial institution. The exact procedural and regulatory details require further evaluation and will therefore be made during the inception phase by an international short-term expert with proven experience in credit guarantee schemes. ToR for this STE is attached in Annex 2.

Main activities:

- Design and agreement about rules, procedures and eligibility criteria of the LGS
- Selection of deposit holders of the guarantee funds
- Development of manuals, application and reporting forms
- Adjustment of the SPEED Programme credit management software to meet the requirements of the LGS
- Awareness creation about the LGS among PFIs
- Identification of business activities to be targeted by the LGS and feasible PFIs
- Negotiations and agreements with PFIs about the terms of targeted guarantee lines
- Necessary training and capacity building of PFIs to manage the guarantee line
- Performance monitoring.

Sub-component 2: Support to non-financial services to MSMEs

The main purpose of this sub-component is to increase the availability and access of growth-oriented micro, small and medium enterprises to relevant non-financial business support services. Service provision to be supported will not be limited to a pre-defined set of standard services, but will depend on established demand and therefore may include a wide range of services such as training (both technical and managerial), accounting and other managerial support, marketing including export market facilitation, quality improvement, product development, sales on commission, ICT access, transport and money transfers and others.

A major thrust guiding this sub-component is that the development of a commercial market for business support services is a viable alternative to subsidized service provision and will ensure that services are provided sustainably in the long run, flexibly reacting to changing needs and capable of reaching a large number of businesses of different size, nature and in various regions. Interventions will therefore mainly address the capacities of service providers, in particular non-traditional service providers, to deliver demanded and affordable service products in a commercial way thus supporting the development of a market for business development services. An open financing facility (Innovation and Development in Enterprise Assistance Scheme – IDEAS) is earmarked to create additional flexibility to support the piloting and development of new innovative instruments to support enterprise growth mainly in difficult or emerging markets (non traditional exports, food processing, ICT, start-ups, etc) and to assist the development of sustainable instruments for service provision to micro-enterprises that are not yet capable to access the commercially marketed products.

Main direct target groups of this sub-component are service providers and, to a lesser extent, end-users who may benefit from interventions to be financed through the open financing facility. Indirect beneficiaries of the sub-component (end-users of services)

include micro, small and medium businesses potentially in all urban and rural areas in Ghana.

Increased access to affordable business services will benefit female entrepreneurs who are over proportionately represented in the micro and small business sector. The development of a market culture in business service provision also creates the potential of developing niches for services that are particularly demanded by female producers. Capacity building of service providers and new product development supported under this sub-component will emphasise on awareness creation about HIV/AIDS, environmental concerns and good business practice.

Output 2.1: Commercially viable business development services developed and introduced

Under its Business Development Services (BDS) component, the GTZ PSME project has already developed a sound concept to assist the emergence of a sustainable BDS market for needed and affordable service products targeting micro and small businesses, which is described in Section 3.

Comprehensive needs assessments prior to the launching of the PSME project have identified a particular need for services in the areas of accounting services, marketing, financial/cash management training, improved understanding of bank procedures and improved access to information. However, new focal areas may emerge as need arises and may include other service types such as communication, advertising, technical training and others. Danida support will strengthen the BDS market development scheme with additional technical assistance to ensure that the range of service products to be introduced in the market meets the vast and diverse demand of MSEs in Ghana.

Activities under the BDS scheme will concentrate on product development, preferably standardised products that are marketable throughout the country in large scales. Product development may be out-contracted to Ghanaian service providers, or to regional or international consultants where external experience is considered important.

It is envisaged that products will be pre-tested, branded and introduced in the market through information and advertising campaigns. The programme is further designed in a way that it will enter into contractual relationships with identified service providers who deliver the services to MSEs on a franchise basis. In order to create incentives for services providers to venture into the new products, it is envisaged to supply the products to the partner providers for free, but to charge commission as soon as the provider is realising profits.

Thorough monitoring of market acceptance and other possible factors that influence the marketability of the developed products will be among the other core activities of the BDS scheme.

Main activities:

- Market research and service needs assessments
- Facilitation of product development through national or international consultants
- Information and awareness creation activities among Ghanaian service providers
- Development of appropriate marketing and franchising concepts for the new products
- Development and implementation of public advertising campaigns
- Research on product acceptance and impact monitoring.

Output 2.2: BDS providers identified, contracted and assisted to sell the products

Close liaison with participating providers and capacity building in terms of product delivery and marketing will need to complement the activities outlined above and will serve as an incentive for service providers to participate in the scheme as partners.

The BDS scheme will identify potential service providers, enter into contracts on a franchising basis, provide products, initiate appropriate training schemes and establish adequate quality control mechanisms to ensure that providers deliver services up to expected standards. While all kinds of public and non-public service providers are eligible to participate in the scheme, it is envisaged that a substantial number of non-traditional providers can be integrated (such as internet cafes, small accounting firms, computer shops, etc) that are usually excluded from the mainstream project support to enterprise development services.

In the early stages of the implementation of the scheme, substantial and continuous awareness creation among service providers about the advantages and potential gains of the concept, including information campaign on successfully introduced products, will need to complement the actual capacity building efforts.

Main activities:

- Identification of services providers (franchise holders)
- Contracting service providers
- Supply of products to service providers
- Product-related training of service providers
- Capacity building of training providers in marketing and product delivery
- Quality control of product delivery
- Management of the franchise relationship.

Output 2.3: Innovation and Development in Enterprise Assistance Scheme (IDEAS) established and operational

While the BDS market development will concentrate on the development and market introduction of services that are immediately marketable at a large scale, Danida also intends to assist the Ghanaian business support environment through the development of new and innovative approaches in service delivery targeting those kind of products, business areas and target groups that may be initially not feasible in a commercial service market, but are necessary for further MSME development.

For this purpose, funds will be set aside to source an Innovation and Development in Enterprise Assistance Scheme (IDEAS) that will finance special projects for the development and delivery of relevant services in the following priority areas:

- Development of non-traditional exports, including market facilitation, product development, quality improvement, standardization, etc.
- Food processing, including product and production development and improvement, marketing, and other interventions
- Development of appropriate ICT services
- Business support services.

The scheme intends not to become yet another service provider or facilitator, but to support innovative project ideas that have the potential of developing new, long-term sustainable and needed service delivery for MSEs. Such services may possibly include (but will not be limited to):

- Technical skills training
- Integrated technical and entrepreneurship training schemes
- New methods in managerial training schemes
- Market research for export products
- Export facilitation including advertisement
- Technical feasibility studies
- Product and quality development
- Development of management systems
- Capacity building activities of service providers
- Activities to strengthen the service capacities of business associations
- Development of low-cost products for micro entrepreneurs

Emphasis will also be put on the development and piloting of new methods of service delivery.

Potential partners of IDEAS therefore include a wide range of actors in the Ghanaian enterprise development environment including private and public service providers, agencies, associations, NGOs and private companies. Unlike the BDS scheme, IDEAS

may also consider direct subsidies to end-users if the project works on a pilot basis and meets the defined IDEAS criteria.

It is envisaged that Danida will fund IDEAS with DKK 3 million annually, out of which individual projects can be supported up to a total volume of DKK 350,000 (Cedi 400 million) per individual project. It is expected that the average project size is substantially lower (Cedi 150 million). Funds will usually be disbursed as grants and the implementing project partner is required to meet an appropriate share of the overall project budget through own or otherwise generated resources. Responsibility for approval and monitoring of projects rests with the management committee of SPEED programme.

Projects eligible for IDEAS grants will have to meet the following criteria:

- Demonstrated demand for the service
- Services to be developed or supported shall target production rather than distribution activities, except for export promotion activities
- The project shall not distort an existing market
- Service to be developed must have a convincing prospect for success.
- The project must support local delivery structures

Further rules and procedures, e.g. for disbursement, administration, reporting, and monitoring that may be necessary will be developed during the inception period.

The SPEED programme may play an active role in designing potential projects and will assist potential project partners in the development of appropriate proposals.

To ensure dissemination of new concepts developed through and lessons learnt from projects that were implemented with the support of IDEAS, the scheme may also undertake impact assessments of individual projects and prepare publications and other activities to make relevant concepts known within Ghana and elsewhere. Such activities can be financed through IDEAS funds.

Main activities:

- Launching of IDEAS and awareness creation among service providers and other potential partners.
- Facilitation of design and development of project proposal
- Assistance to potential partners in drafting applications
- Approval of applications
- Administration of IDEAS grants
- Monitoring of projects implemented with IDEAS funds
- Impact evaluations of individual projects
- Publications, workshops and other activities to increase discussion and information about relevant projects.

Sub-component 3: Venture capital for SMEs

It is widely recognized by business analysts in Ghana that enterprise growth has been severely hindered by a lack of equity capital. Due to the low savings propensity private equity capital is scarce. In the present improved economic environment, however, interest rates have dropped and venture capital returns can now compete with alternative investment returns.

A number of commercial venture capital firms have been established in Ghana over the years with apparently increasingly good performance. However, all well performing funds are limited to large investment with a minimum equity investment value of around USD 500,000. Investments of lower value are considered too risky and too expensive to manage relative to the expected return. Unlike in previous times, where Ghanaian entrepreneurs had the reputation to be conservative and reluctant to accept partners in business, there appears to be nowadays a significant demand for venture capital from smaller and medium sized companies, and at the same time an increasing willingness from the side of some of the younger venture capital firms to start operating with smaller companies.

The purpose of this sub-component is to overcome the current limitation of equity capital to large investments only and to introduce a venture capital fund in Ghana that is specifically targeted at growth-oriented small and medium enterprises.

Output 3.1: Small and medium enterprises have received additional equity capital through Venture Capital Fund

As a pilot scheme, Danida will set aside resources to finance a SME venture capital fund. The Fund will target growth-oriented businesses in productive sectors notably non-traditional exports of textiles, handicraft, and agro-processed products. In addition to direct investment in SMEs, the Fund will indirectly impact on MSEs through also investing in rural and micro finance institutions, predominantly rural banks, which are at the fore front of serving growth oriented MSEs. Many rural banks and other MFIs suffer from a low capital base which effectively limits their lending operations due to Bank of Ghana minimum reserve requirements. In this context, synergies may be gained between the SME Venture Capital Fund and the SPEED Fund operations by using the knowledge and information obtained about PFIs under sub-component 1 as inputs into the assessment and due diligence of FIs that may qualify as recipients of the venture capital fund.

General investment criteria of the fund will include:

- Investment amount of up to USD 75,000 with an average investment of USD 35,000 to 50,000
- Clear business concept
- Experienced management

- Export oriented and technologically driven companies are targeted as well as rural and microfinance institutions
- Strong potential for growth and profits
- Realistic exit strategy – based on defined options with recipient companies to buy back shares, through third party trade sale or through public listing.

The fund will not invest equity in companies that are involved in trading activities, production of arms and ammunitions, real estate, that are government owned, have a majority foreign ownership, or are involved in hostile take over bids. Companies that are involved in environmentally hazardous production and which do not comply with international labour standards and good business practices will also not be eligible. Preference will be given to small businesses that provide and create employment for women.

It is envisaged that the management of the SME Venture Capital Fund will be contracted out through tender to a local established venture capital firm with an investment strategy that may have the potential to target SMEs.

The selected fund management firm will be responsible for overall selection of investee companies. It is required to conduct its own rigorous appraisal and due diligence according to the contractually agreed investment criteria. Investment decisions will be made in consultation with the SPEED programme management.

The venture capital management firm will be partly rewarded on a performance base, i.e. it will receive, apart from a fixed annual fee, a contractually defined share of the return of the investment. This will ensure that the fund managing firm will only suggest investments into companies with excellent performance and growth prospects. In case of investments in rural banks and micro finance institutions it is envisaged that the fund manager will work in close liaison with the SPEED management in all aspects regarding appraisal, management support and monitoring, capitalizing on the tools, information and capacity building schemes available in the SPEED programme.

Suggested ToR for the Venture Capital Fund management including fund policy, disbursement, reporting and monitoring procedures are attached in the annex.

Main activities:

by SPEED management-

- Undertake Local Tender for Venture Fund Management
- Selection and contracting of Venture Fund Manager

by Venture Fund Manager-

- Assessment of potential investee companies
- Selection of investee companies

- Management of the equity investment including contracting, transferral of funds, exercise board membership and management support, and all other functions necessary to ensure success of the investments
- Reporting including financial reporting according to defined rules aligned with Danida rules and regulations
- Liaison with the SPEED management

Output 3.2: Management capacities of participating SMEs increased

It is envisaged that SMEs, constituting a non-traditional target group of venture capital funds in Ghana, may need additional capacity building support which cannot be rendered through the usual management support of venture capital firms. Such capacity building support may include management training, set-up of new management systems, product development, quality improvement and others. In order to ensure the success of investments under the venture capital scheme, Danida will set aside funds for additional capacity building measures to individual firms. The total value of such support to each individual firm should not exceed 10% of the total equity investment. Capacity building packages will be designed on a case-by-case basis by the fund management firm and delivered by local or, if local expertise is lacking, regional consultancy firms.

Responsibility for needs assessment and facilitation of a support package rests with the venture capital firm, which will closely cooperate with the investee company. Consultancy contracts will be managed by the Venture Fund Manager.

Main activities:

by Venture Fund Manager-

- Capacity building needs assessment of investee companies
- Development and facilitation of support package to be delivered by local or regional consultant
- Monitoring of the capacity building activities
- Management and accounting of consultancy contracts

Sub-component 4: Access to Information and Communication Technology (ICT)

It is appropriate that the BSPS addresses not only the immediate needs and demands of the manufacturing and industrial sectors, but also address some mid-term needs for upgrading these sectors by enhancing their access to and use of ICT. The purpose of addressing this area is two-fold: a further development of ICT based industries will constitute a potential growth engine for the Ghanaian industry and economy, and a further diffusion of the access to and use of products from such industries (e.g.

internet, CNC) will improve productivity and competitiveness of the Ghanaian business sector in general.

There are various options for addressing ICT development. A first option is to link up with the Presidential Special Initiative relating to the set-up of an incubation centre for Information and Communication Technologies (ICT). Funding and technical expertise for a national centre in Accra seems to have been assured through the Indian Government, but there is still a need to finance and develop the extension of this centre to the various regional capitals.

There are other modalities and instruments that might be relevant, and Danida is presently in the process of developing new instruments to address especially the ICT-sector in partner countries. Of special relevance in this context are the Danida supported ENRECA activities, which include cooperation between University of Ghana and Danish Technical University in the field of technology assessment and ICT application.

It is found important, however, to initially undertake a baseline study as part of the BSPS in order to examine in more detail the potential of this area, and how it might link up to Danida instruments and policies. On the basis of such studies the specific content of this sub-component will be developed for implementation after approval of the Annual Sector Review. However, special front-runner activities, e.g. assistance to establishing ICT incubator centres in the regions, might be considered.

Output 4.1: Potential of ICT as a business assessed

The baseline study should be undertaken by a consultancy firms with strong connections to the private sector as well as links to ICT research institutions. The ENRECA cooperation between the University of Ghana and the Danish Technical University in the field of technology assessment and ICT application could possibly serve as a platform for such a study.

The study should provide an overview of:

- The number, type, location, strengths and weaknesses of enterprises within the ICT sector
- Government policies and plans for developing ICT infrastructure, for supporting the dissemination of ICT access and use, and for supporting the enterprises and institutions
- Business sector use of ICT, identification of main barriers and potential for adopting ICT in production, marketing and other processes
- Activities etc. of universities and other institutions working with ICT
- Existing and planned donor activities, including an outlining of research cooperation
- Potential for Danida support to the sector.

Detailed ToR for the baseline study are attached in the Annex.

Main activities:

- Select consultant to carry out baseline study through tender
- Baseline study.

Output 4.2: Areas for BSPS support identified and plan for implementation developed

On the basis of the study a workshop will be conducted with the participation of stakeholders from universities, the Ministry of Communication, ICT enterprises and institutions, business sector users of ICT, private sector organisations and Danida. The workshop will take the baseline study as point of departure, and will aim at developing a catalogue of possible areas for Danida support. Relevant stakeholders will be invited to prepare proposals for possible projects for Danida funding. Such projects could include i.e. establishment of networks between universities and private sector operators, training and counselling of companies within the ICT sector, e-learning activities, etc.

On the basis of the workshop a strategy and criteria for support to the ICT sector will be developed. The strategy should be sensitive to the enhancement of business sector ICT use and development outside of the Accra region. Likewise, the strategy should be sensitive to fostering linkages between larger enterprises and medium and small enterprises in terms of ICT. Special focus should also be on considerations for gender aspects in relations to ICT development and use.

The BSPS will be subject to annual sector reviews. Depending on the timing of the first such review, a strategy should be in place along with a catalogue of possible areas for support. The annual sector review should include a special component for appraising these and should specify the activities of the component.

The activities to be supported would follow a demand driven approach. Hence, relevant institutions and organisations would be invited to tender for specific activities and should be encouraged to develop innovative approaches. As in some areas the Ghanaian resource base is small, leading institutions might be designated as project implementers, and international technical assistance will most likely be relevant for some activities.

The implementation plan should take into account that projects may be supported under IDEAS of sub-component 2, for which an implementation structure will already be in place. If appropriate, a programme review may recommend that funds set aside in the budget for implementation of ICT activities may be allocated to top-up the IDEAS scheme and designate an earmarked ICT window, under which identified activities may be supported. Other activities, such as the support to establish a regional ICT incubator

centre, however, may need separate implementation structures that are still to be developed.

The consultant who conducted the baseline study will facilitate the preparation of the implementation plan. Activities under outputs 4.1 and 4.2 will be commissioned under one contract.

Main activities:

- Stakeholder workshop
- Preparation of implementation of ICT support under BSPS
- If appropriate: creation of ICT window in the IDEAS scheme of sub-component 2.

4.4 Inputs by Danida

Danida will provide a grant of DKK 74 million to cover contributions to a credit and a guarantee fund, selected initiatives to strengthen MSE service provision in Ghana, technical assistance provided by both long-term and short-term experts, and selected equipment and operational cost of the joint GTZ/Danida SPEED programme over a period of 5 years, from 2003 to 2008. Tentatively, the grant will be used for covering the following items and activities. For comparison, the GTZ approved contribution is shown. That contribution covers 36 month only until 2005.

SPEED Fund	- Grant of DKK 15 million to top up the current joint GTZ/Government of Ghana Credit Fund	- € 2.56 million
LGS	- Grant of DKK 4 million to source the LGS Fund - Short-term expertise up to 6 months	- No GTZ participation
Capacity Building of PFIs	- Training of credit officers - Development of selected financial products and related training - Short term expertise up to 6 months	- Training of credit officers - Programming and introduction of MIS software for credit portfolio management - Short term expertise of up to 15 months - One national advisor, 36 months
BDS market development	- Development and marketing of BDS products - Selected training and capacity building of service providers - Short term expertise up to 6 months	- Local subsidies, € 37,000 - Short term expertise up to 15 months - One national advisor, 36 months

IDEAS	<ul style="list-style-type: none"> - Fund of DKK 13.5 million to support selected projects and activities, including studies and publications 	<ul style="list-style-type: none"> - No GTZ participation
SME Venture Capital Fund	<ul style="list-style-type: none"> - Investment in Venture Capital Fund of DKK 7.2 million which includes management fees of the venture capital firm - Capacity building activities for Investee Companies 	<ul style="list-style-type: none"> - No GTZ participation
SPEED Programme Management	<ul style="list-style-type: none"> - Long-term international advisor for sub-component 1 (financial services) for 48 months - Two national Programme Officers for financial services/non-financial services respectively (60 months each) - Office equipment and vehicles - Office rental and other recurrent cost <p>Short-term expertise up to 18 months in the fields of planning, monitoring and evaluation.</p>	<ul style="list-style-type: none"> - Long-term international advisor for overall management, 36 months - Office equipment, vehicle, training material etc. - Recurrent costs - National support staff, up to 72 months - Counterpart training, workshop, seminars (€ 207,000) - Short term expertise for review, 3 months

4.5 Implementation Strategy

Component Three supports business sector development in Ghana through strengthening mainly the institutional environment of enterprise support services. The component is designed as a comprehensive approach addressing financial and non-financial support services, serving enterprises in different sectors and of different sizes in various regions of Ghana. The ultimate goal is to strengthen and develop a sustainable enterprise support system that is demand-driven, accessible, flexible and responsive to the needs of a dynamic Ghanaian business sector.

4.5.1 Main implementation principles

Poverty reduction focus

Following Government of Ghana policies, in particular GPRS, it is the thrust of the Component that the key to poverty reduction is the development of a vibrant, dynamic and diversified business sector providing income and employment opportunities to a growing number of Ghanaians. With different interventions, the sub-components of Component Three therefore address constraints hampering the development of growth-oriented micro, small and medium enterprises, which usually are labour intensive, use local resources and are more effective than large companies in promoting a socially balanced economic growth. To a different degree, all sub-components will

reach out to (rural) areas where poverty is striking and economic opportunities for the majority of poor are still to be tapped.

Strengthening the market for enterprise support services

A basic feature of the enterprise support landscape in Ghana is that services provided by public and non-public institutions are substantially subsidized ensuring the availability of good quality services to various target segments of the MSME sector including marginalised targets groups and difficult markets. However, a subsidized system is effectively limited in its quantitative capacities and tends to be unable to reach out to the vast number of potential recipients in need of services. It is therefore an overarching theme of all subcomponents to strengthen the market forces in the enterprise service sector as this is believed to be the most effective way to stimulate a sustainable growth of the service sector while ensuring demand-responsiveness of services. Such a growth is indispensable if enterprise support services are to ultimately reach the vast majority of micro and small enterprises both in urban and rural areas. On this conceptual background, sub-component 1 addressing financial services seeks to capacitate a number of financial institutions to establish viable MSE loan portfolios creating examples in the financial sector of the feasibility and attractiveness of this market segment. The BDS scheme in sub-component 2 explicitly targets the development of a market for a selected number of services. The SME venture capital fund implemented under sub-component 3 will demonstrate whether equity share capital provided to small and medium companies on a commercial basis has the potential to be a viable instrument to stimulate MSE company growth and an attractive investment option in the capital market. The venture capital fund is the only sub-component that is directly targeting SMEs – rather than MSMEs.

However, not all needed business support can be delivered in a purely commercial context. There are target groups in the micro enterprise segment unable to pay cost-recovery fees for quality services, and there are support instruments, such as product development, technical feasibility studies, technical training schemes or in the field of export market promotion, that need support, including subsidies, in the short and long run. IDEAS as well as the ICT targeted interventions under sub-component 4 will be instrumental in developing suitable ways of providing such services and will assist in the long term capacity building of service providers.

Building on existing structures

Component Three will work with existing financial and non-financial service institutions and private companies and will assist these partners to further strengthen their existing orientation and focus.

Demand-driven approach

Although most of the component interventions are directly targeting service providers, i.e. the supply side of the market, the focus on strengthening market forces implies a strong demand-orientation of the Danida support. A market for business support services can only develop if products supplied in the market meet the effective demand. Therefore, capacity building of services providers, both financial and non-financial, will

addresses their capabilities to identify needs in the market and to develop appropriate products and delivery structures.

Flexibility

Component Three has positioned itself in a dynamic MSME environment in Ghana, where new demands are emerging as the economy is growing and diversifying. The design of the component has therefore taken account of the need to flexibly react to changing needs and patterns of the business support instruments environment. The priority areas defined under sub-component 1 and 3 should therefore be kept open for modifications as need arises. IDEAS is designed in a flexible manner, inviting innovative initiatives from all potential stakeholders in a variety of pertinent fields of MSE development support.

Synergies within the component

The individual sub-components should be seen as a joint approach to achieve the immediate objective of the component and the overall objective of the BSPS. The following synergies are particularly evident:

- Through improving access to business support and development services, interventions under sub-component 2 will lead to improved business performance of MSMEs increasing their credit-worthiness with financial institutions;
- Projects to be financed under IDEAS may address specific needs of client groups of PFIs and may strengthen the overall capacities of service providers that participate in the BDS market development scheme;
- Regarding financial institutions as a specified target group of the Venture Capital Fund the fund manager will capitalise on the information collected about FIs, and on the capacity building support rendered under sub-component 1;
- ICT support initiatives identified in the baseline study under sub-component 4 may be eligible to draw on IDEAS funding and market support provided in sub-component 2.

Donor cooperation

A number of donors are active in the field of MSME promotion. In order to increase the impact of these various and different interventions through synergies and to ensure that best practice is developed that suits the specific Ghanaian context, the Danida support under this component explicitly aims at donor cooperation to the highest extent possible. The joint implementation structure with GTZ for three of the four sub-components represents a substantial achievement of this approach from the outset. During the implementation, a close coordination and possible cooperation with other donors is also envisaged, in particular with the UNDP, USAID and the Rural Financial Services Programme.

4.5.2 Joint implementation with GTZ

After extensive discussion between Danida and GTZ country offices which demonstrated a shared vision and common understanding and interests in the support of business support instruments in Ghana, it was agreed to strive for a joint implementation structure of the German and Danish support in this sector and to create the joint *Support to Enterprise Empowerment and Development* (SPEED) Programme. The idea of the SPEED programme is to run a number of different activity lines, or schemes, under one umbrella that pursue different approaches to achieve one common objectives. It is assumed that a joint programme is likely to enhance both efficiency of implementation and effectiveness of the individual interventions. While the SPEED programme is initially designed as a joint Danish/German programme, the structure is principally open for other donors to join at a later stage.

Until 2005, the German input into the programme is currently bound by contractual agreements between the German and Ghana governments and between GTZ and a German implementing consultancy firm. It is envisaged that Danida will negotiate parallel contracts for its inputs until the end of 2005. Thereafter, a joint Danish/German review, preferably as part of a regular BSPS programme review, will explore options to merge the implementation structure and governing contracts of the two donors involved.

4.5.3 Ownership

The SPEED programme is expected to work with and through a variety of local public and non-public institutions, including Bank of Ghana, financial institutions, non-financial service providers, NBSSI, BACs and other public authorities, business associations and private firms. It is envisaged that by the end of the BSPS, which also represents the termination of the GTZ programme, the SPEED programme will eventually merge in a local institutions that may take the form of foundation, trust, association, non profit private company or the like. An appropriate strategy needs to be designed in the second half of the programme period and approved latest in 2007.

4.6 Budget

The budget presented here is prepared on the basis of the above strategy and activities. The budget is estimated on the basis of constant prices in the beginning of 2003. In line with common Danida practice contingencies of approximately 5% are included. The total Danida contribution is estimated at 74 million including all long-term and short-term technical assistance. The present budget provides the financial framework for the component only. Detailed annual budgets must be prepared for the individual sub-components in conjunction with the annual implementation plans and presented, for sub-components 1 to 3, to the SPEED Steering Committee, and for sub-component 4 to the BSPS Programme Committee and the RDE for approval.

Reshuffling of funds between the sub-components and between major budget lines require recommendation by a BSPS programme review and subsequent endorsement by the Programme Committee.

Component Three Budget. 2003-2008 ('000 DKK)

	Inception period		2004	2005	2006	2007	2008	Total
	2003	2004						
	Q4	Q1						
Total	5,005	5,055	14,665	17,770	11,070	12,510	7,925	74,000
<i>Sub-component 1</i>	<i>4,640</i>	<i>3,290</i>	<i>6,670</i>	<i>8,560</i>	<i>4,560</i>	<i>6,260</i>	<i>1,430</i>	<i>35,410</i>
SPEED Fund (credit fund)	4,000		4,000	4,000		3,000		15,000
LGS		2,000		1,000	1,000			4,000
Capacity Building of PFIs	200	200	600	800	800	400	300	3,300
International long-term advisor		450	1,350	1,800	1,800	1,800	450	7,650
Programme Officer	65	65	195	260	260	260	195	1,300
Operational costs (incl. vehicle)	375	575	525	700	700	800	525	4,200
<i>Sub-component 2</i>	<i>115</i>	<i>1,515</i>	<i>3,045</i>	<i>4,260</i>	<i>4,160</i>	<i>4,100</i>	<i>2,195</i>	<i>19,390</i>
BDS	50	50	150	200	200	240	100	990
IDEAS		1,000	2,000	3,000	3,000	3,000	1,500	13,500
Programme Officer	65	65	195	260	260	260	195	1,300
International short-term specialists		400	700	800	700	600	400	3,600
<i>Sub-component 3</i>			<i>3,850</i>	<i>3,850</i>	<i>250</i>	<i>50</i>	<i>0</i>	<i>8,000</i>
Venture Capital Fund			3,600	3,600				7,200
Capacity Building			250	250	250	50		800
<i>Sub-component 4</i>	<i>250</i>	<i>250</i>	<i>1,000</i>	<i>1,000</i>	<i>2,000</i>	<i>2,000</i>	<i>500</i>	<i>7,000</i>
ICT study	250	250						500
Front-runner activities			1,000					1,000
Implementation of ICT activities				1,000	2,000	2,000	500	5,500
<i>Audit</i>			<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>500</i>
<i>Contingencies</i>								<i>3,700</i>

4.6 Assumptions, risks and preconditions

At the level of the component, the following assumptions, risks and preconditions apply:

4.6.1 Assumptions

- Major assumptions include:

- The Government's commitment to private sector development continues unabated
- Macro-economic stability will ensure a conducive business environment inducing increasing demand for business support instruments
- Macro-economic stability will ensure a stable financial market
- Reforms and institutional strengthening related to business sector operations are implemented.

4.6.2 Risks

- Major risks include:
- The prevailing culture among MSEs and service providers alike to expect to receive grants and highly subsidised services
- That government, without clear MSME policy guidelines, will embark on massive public subsidised service provision to MSMEs, crowding out the private market for financial and non-financial business support instruments
- The need for capacity building and management support of eligible small and medium sized investee companies of the Venture Capital Fund is too high to make commercially oriented fund management profitable
- Declining economic performance and business prospects lead to MSME closures and high loan defaulting rate

None of these risks are considered so impeding that they jeopardize the implementation of the component.

4.6.3 Preconditions

The only preconditions for the commencement of this component is that GTZ and Danida enter into a memorandum of understanding about the joint implementation of the SPEED programme before start of the implementation.

4.7 Indicators and means of verification

Final indicators that are precise, time-bound, measurable and relevant have to be developed during the inception phase in collaboration with the recipient organisations, when the detailed implementation modalities are in place. Preliminary indicators and means of verification are included in the LFA matrix in Annex 1. It is expected that a programme monitoring system will be developed as well under the purview of the Programme Coordinator of the BSPS. The monitoring system of Component three must be compatible with that at sector programme level. It must also be ensured that component indicators are harmonised with the relevant national indicators on private sector development to be defined by the Ministry of Private Sector Development in cooperation with the National Development Planning Commission.

NARRATIVE DESCRIPTION	KEY INDICATORS	MEANS OF VERIFICATION
Intermediate objective		
Enhanced development of growth-oriented MSMEs through socially and geographically balanced financial and non-financial business support instruments	<ul style="list-style-type: none"> - Number of formally registered MSMEs - Number of SMEs involved in export production - Employment in MSMEs - Percentage of female owned MSMEs - Share of MSME production in GDP 	<ul style="list-style-type: none"> - National statistics - MSME baseline survey and follow-up surveys - National business register

Immediate Objective 1		
Lending to MSMEs through appropriate credit schemes increased	<ul style="list-style-type: none"> - Number of credits extended to MSMEs through SPEED Fund participating FIs - Credit value extended to MSMEs - Percentage of credits extended to female owned MSMEs 	<ul style="list-style-type: none"> - SPEED Programme reports - Annual reports of participating financial institutions
Immediate Objective 2		
Availability and access of MSMEs to adequate non-financial business support services in target areas enhanced	<ul style="list-style-type: none"> - Increased range of business support instruments available - Increased accessibility of business support instruments to MSMEs - Increased availability of business support instruments for export-oriented SMEs 	<ul style="list-style-type: none"> - Stakeholder interviews (incl. MOTI and business associations) - MSME baseline survey and follow-up surveys - SPEED Programme reports
Immediate Objective 3		
Small and medium enterprises have expanded their level of operations through equity capital injections	<ul style="list-style-type: none"> - Increased share value of investee companies - Increased turnover of investee companies - Increased employment in investee companies 	<ul style="list-style-type: none"> - Audited accounts and annual reports of investee companies - Annual report of Venture Capital Fund Manager
Immediate Objective 4		
Access of SMEs to relevant ICT enhanced	<ul style="list-style-type: none"> - Increased number of SMEs using ICT - Increased availability of ICT services to MSMEs 	<ul style="list-style-type: none"> - MSME baseline survey and follow-up surveys - Stakeholder interviews

5. IMPLEMENTATION PROCEDURES

5.1 Organisation, management and administration

With the exception of sub-component 4, it is envisaged that Component Three of BSPS will be managed jointly between GTZ and Danida under the *Support Programme for Enterprise Empowerment and Development* (SPEED). Sub-component 4, which initially comprises a baseline survey and potential front-runner activities will be directly managed by the BSPS Coordinator (see organisational chart overleaf).

For the duration of the first two years (until end 2005) the organisational set-up and management of the SPEED Programme is envisaged as follows:

5.1.1 SPEED management

The SPEED Management comprises the SPEED programme manager and the management committee. The current GTZ technical advisor of PSME will become the overall SPEED Programme Manager, responsible for all operational and management function in the programme. The management committee comprising the GTZ Advisor, the Danish company advisor and the four national programme officers, plays an advisory role to the SPEED Programme Manager in all matters related to the day-to-day management.

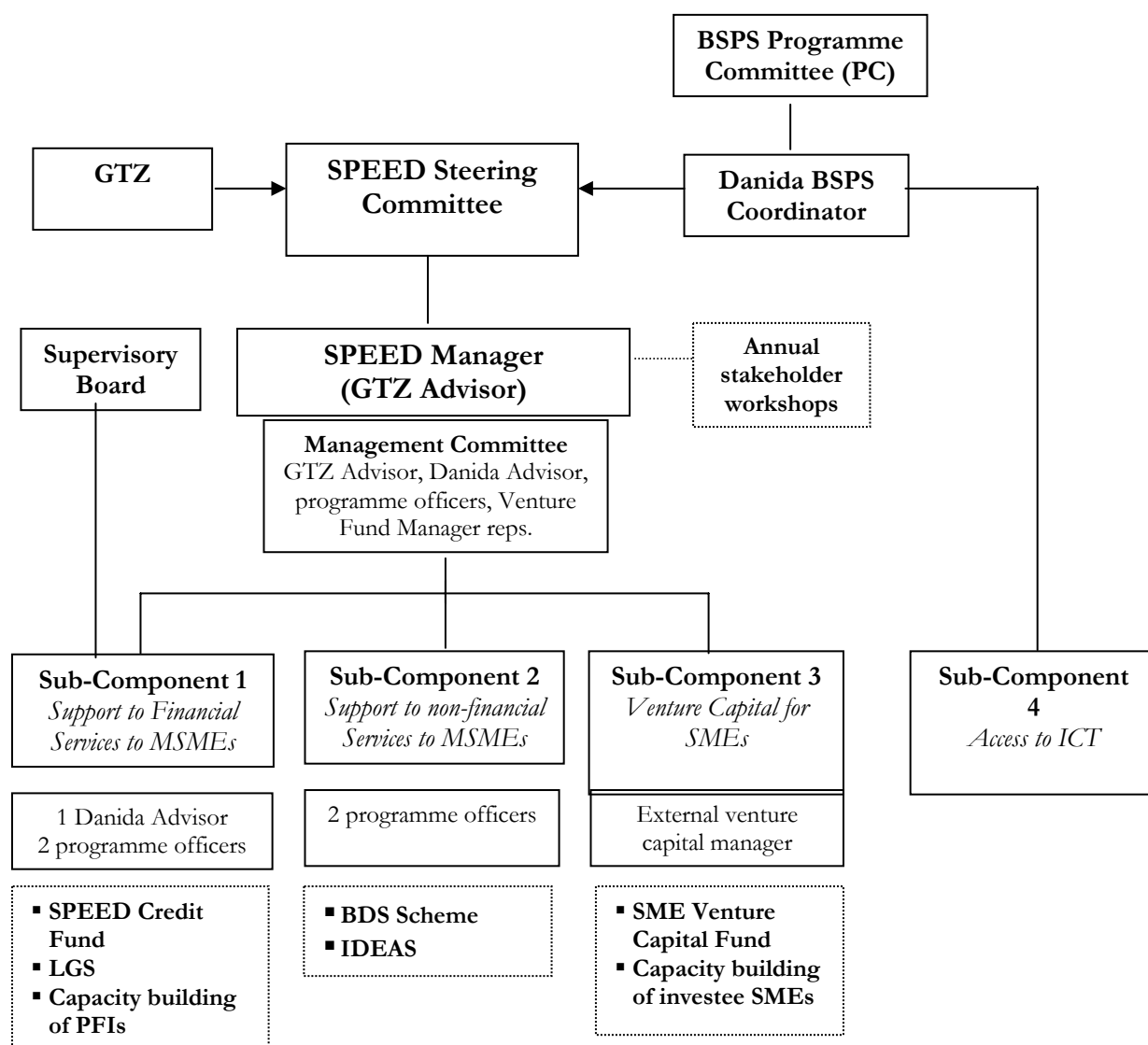
The SPEED programme manager reports directly to the SPEED Steering Committee who approves work plans and bi-annual activity reports of the Component.

The SPEED programme manager will appoint sub-component managers in charge of activity and financial reporting to the programme manager.

As the current contract between GTZ and the implementing German consultancy company expires at the end of August 2005, it is envisaged that following an anticipated four months extension of that contract, from 2006 onwards the overall SPEED programme including GTZ and Danida inputs will be implemented through one consultancy contract comprising the overall management and technical inputs into the SPEED programme. The currently organisational structure will be revisited in the first half of 2005 by a joint Danida/GTZ review team with a view of merging the implementation structure of the SPEED Programme.

The SPEED Programme management will also overlook sub-component 3, the Venture Capital Fund, but day-to-day implementation will be sub-contracted to a Venture Fund Manager.

Joint implementation structure of Component Three



5.1.2 SPEED Steering Committee

To ensure stakeholder ownership and to reflect the need to harmonise inputs of the two participating donors, SPEED will be overseen by a Steering Committee comprising one representative of the RDE (the BSPS Programme Coordinator), one representative of GTZ, one member representing MOTI and one representative of the private sector in Ghana, for instance PEF.

The SPEED programme manager serves as the secretary of the Steering Committee. The Committee meets quarterly or whenever necessary. Each of the members or the

SPEED Steering Committee can call for extra-ordinary meetings. The Danida advisor has observer status at the meeting of the Steering Committee.

5.1.3 Supervisory Board

Activities under sub-component 1 (Support to financial services) will be monitored by a Supervisory Board (SB) which already exists under the current PSME project and will be subject to restructuring to represent the new SPEED programme structure. Under the joint implementation structure, the SB will consist of five or six members, one each representing:

- Ministry of Finance and Economic Planning
- Bank of Ghana
- Ministry of Trade and Industry
- GTZ Office Accra or German Embassy in Accra
- Royal Danish Embassy

In addition to the above five it should be considered to include a private sector representative as member of the SB.

The SPEED Danida advisor serves as the secretary to the Supervisory Board. The SPEED Programme Manager has observer status.

The SB is responsible for all operations of the SPEED Fund and expectedly the Loan Guarantee Scheme. In particular, it has to approve the participation of FIs, and the credit and credit guarantee lines extended to FIs through the SPEED Fund and the LGS. It will oversee that funds are administered according to the stipulations of the relevant programme documents, and will receive and audit the financial reports of the Bank of Ghana and the SPEED programme manager. The by-laws for the SB will be adjusted according to the requirements of the new SPEED programme structure and contents.

Currently, each member of the SB has one vote. Decisions are made with at least 61% majority. In case the restructured SB is enlarged to six members, a new definition of majority will be established. In the meetings, each party needs to be represented. Each member has to nominate a substitute for cases of non-attendance. The SPEED management has no voting rights in the SB meetings.

5.1.4 Annual stakeholder workshops

Annual stakeholder workshops will be held to assist the SPEED management in policy issues of the programme and in the coordination of the contributions of the partner organisations of SPEED. The workshop participants should represent the major national stakeholders of MSME development in Ghana. The workshops will guide the SPEED management in the definition of target areas, interventions and

implementation matters, and will assist the programme to develop and implement appropriate mechanisms to ensure gender equality, promote good business practices, create HIV/AIDS awareness, ensure that only environmentally sound business activities are supported.

Participants should include at least

- Representatives of micro, small, and medium enterprises and/or their associations
- Representatives of the participating financial institutions
- Representatives of the partner business service providers
- Representatives of the Government
- The SPEED management.

5.1.5 Venture Capital Fund

Management of the Venture Capital Fund to be set up in sub-component 3 will be out-contracted through competitive tender to an existing local private venture capital fund. The tender process will be managed by the SPEED manager. Responsibility for the selection of the Fund Manager rests with the SPEED Steering Committee. The contracted Fund Manager will invest and administer the fund according to policies, rules and procedures that will be laid down in the contract. He will submit bi-annual financial and activity reports to the SPEED programme management to be included into the consolidated SPEED programme reports.

5.1.6 Technical assistance

All technical assistance of the SPEED programme financed by Danida funds, including one international advisor for sub-component 1, the national programme officers for sub-components 1 and 2, as well as international and national short term experts, will be assigned as a package to an international consultancy firm or consortium through competitive tender. Contract for short-term experts to be awarded by the consultancy must be approved by the two international advisors before short term experts are fielded.

The contract for TA will be initially awarded for a period of two years covering the programme period up to the end of 2005. The RDE will participate in the tender process and GTZ Ghana should be appropriately consulted. From 2006 onwards, a joint contract financed by GTZ and Danida for the overall TA input to the SPEED programme may be considered and recommended by the joint GTZ/Danida review.

5.2 Planning Procedures

It is expected that the management of the sub-components prepare detailed annual and quarterly work plans and budgets on the basis of consultations with the Management

Committee and the Supervisory Board and internal reviews of the progress of the previous planning period's activities. The work plans shall contain detailed information on the planned activities and must be designed in such a way, i.e. using indicators and means of verification, that they facilitate the later preparation of progress reports.

5.3 Monitoring, reporting and reviewing

5.3.1 Monitoring

Monitoring is an essential tool for programme management. Monitoring will provide the SPEED manager and the management of the individual sub-components with information needed to measure progress and effectiveness of activities and adjust strategies, procedures, institutional arrangements and allocation of resources, if needed. Monitoring data will also be an essential basis for reporting to the government, Danida and other interested external parties. Monitoring results will be presented and discussed at regular meetings with regional offices and the management of other components.

Systematic collection, processing, and presentation of data will be coordinated by the SPEED manager, who will ensure that both Danida and GTZ monitoring requirements are met. Monitoring at component level must be coordinated with the monitoring activities at the SPS level. At intermediate objective level, monitoring should also be coordinated with the Policy, Planning, Monitoring and Evaluation Division (PPMED) in the MPSD.

Regarding activities under sub-component 1 the credit management software to be used by all participating financial institutions already provides a comprehensive monitoring tool. For the entire SPEED programme, a management information system (MIS) will be finalised during the inception period, possibly with the support of short-term expertise. It is suggested that a limited but regular sample survey be introduced to monitor the component impact on the access and availability of services to the MSME sector.

Moreover, monitoring at intermediate and immediately objective level would gain if a comprehensive baseline survey of MSME in Ghana would be available. The BSPS programme coordinator should liaise with the Policy, Planning, Monitoring and Evaluation Directorate in the MPSD about possible initiatives to undertake such a baseline survey, which would collect needed information for the overall Ghanaian MSME support environment.

5.3.2 Reviews

As part of BSPS, the component will be subject to programme reviews, undertaken jointly by Danida and Ghanaian partners. As far as sub-components 1 to 3 are concerned which are implemented under SPEED, GTZ will participate in the reviews.

Reviews may have a different focus and emphasis from year to year and will not necessarily be full-scale reviews for individual components. In addition to annual BSPS reviews, Danida may decide in collaboration with the SPEED management or the SPEED steering committee to undertake technical assessments on specific issues at any time during the component period.

A review in 2005 will assess the first phase of the joint operation and provide recommendations for a continuation with joint technical assistance and objectives, including designing an exit strategy during the second half of the programme.

5.3.3 Reporting

At the end of the first six months of the component period, the component management must prepare an inception report in line with Danida's Aids Management Guidelines for approval by Danida.

For sub-components 1 to 3, one consolidated reporting system will be developed. Reporting formats will have to be agreed between GTZ and Danida. The reporting system of this component will be reviewed as part of the first BPS programme review and adjustments made if necessary.

In order to meet Danida and GTZ requirements, progress reports should be produced every six months. The progress reports will be split into two parts, namely an activity report and a financial report. For external purposes, there will be joint financial reporting. To meet contractual requirements, however, the two consultancy companies will also have to provide financial reports individually to GTZ and Danida respectively. In the second phase it is assumed that a joint financial report can be produced to meet both Danida and GTZ requirements. The activity report will be provided to the SPEED Steering Committee.

Before the programme reviews, two comprehensive consolidated annual progress reports shall be prepared, namely an activity report including:

- Progress as compared to the original (or revised) targets for the reporting period including explanations and solutions on problems and bottlenecks
- Reporting on the development of agreed indicators;

and the financial report including:

- Budget/expenditure control
- Specification of recommended changes and adjustments (incl. Budget reallocations).

For sub-component 4, a progress report will be produced every six months and submitted to the BPS Programme Committee. A comprehensive annual report

comprising both the financial and activity report will be produced before the programme reviews.

At the end of the programme period a completion report must be prepared as described in Danida's guidelines for Management of SPS and submitted to the Government and Danida.

5.3.4 Evaluation

Evaluations of the Component or parts of it may be carried out during or by the end of the component period.

5.4 Flow of funds, accounting and auditing

All funding of technical assistance, current cost, procurements of goods and the IDEAS scheme will be channelled through the consultancy company to be contracted for the implementation of the Danida input to the SPEED programme. The consultancy will be contracted by MFA Copenhagen contract department. All payments to the Consultant will be made by MFA Copenhagen after request from the RDE.

Danida procurement agent can be used for procurement of goods. Funds cannot be used to pay VAT or any taxes.

Funding to the SPEED Credit Fund will be transferred directly from the RDE to the Bank of Ghana which holds the accounts and is responsible for administering the funds. The previous PSME Fund account in the Bank of Ghana will become the new joint SPEED Credit Fund to be administered according to existing procedures. Funding of the LGS will be transferred from the RDE to the Bank of Ghana into an extra LGS account. RDE will enter into a separate contractual agreement with the Bank of Ghana for the administration of the Danida contribution into the SPEED Fund and possibly the LGS Fund. The cooperation with the Bank of Ghana in the administration of the two funds will be subject to re-consideration at the end of the first project period (end of 2005), when the existing agreement between GTZ and BOG expires.

Funding for the Venture Capital Fund will be transferred directly from the RDE to the venture capital fund manager after signing of the contract and in accordance with defined schedules.

SPEED programme funds will be audited annually by external auditors. Funds of the venture capital funds will be audited by the external auditor of the assigned fund manager and be part of its annual audited accounts. The audit must be completed before 6 months after the end of the financial year.

Funding to partner organisations of IDEAS will be disbursed by the SPEED management. Partner organisations will be responsible for the accounting of funds

received according to Danida standard and have to submit an auditors statement. In exceptional cases, the SPEED management may assist partner organisations in the preparation of accounts.

5.5 Component Implementation Plan

5.5.1 Inception phase

The following activities are envisaged to be carried out during the first six months of the programme period, i.e. between October 2003 and March 2004:

Component level:

- Installation of Danida company consultant
- Preparation and signing of Memorandum of Understanding between Danida and GTZ about joint SPEED Programme
- Establishment of SPEED Steering Committee
- Detailed work plan and budget for the first year

Sub-component 1:

- Preparation and signing of an agreement between BoG and Danida
- Appointment of re-structured Supervisory Board
- Preparation of procedures for the LGS
- Transfer of Danida funds into the SPEED Funds
- Transfer of Danida fund into the LGS account
- Detailed work plan and budget for the first year

Sub-component 2:

- Activities to implement the BDS scheme according to current GTZ workplan
- Finalisation of rules and procedures of IDEAS
- Public awareness activities for IDEAS
- Invitation and screening of project proposals for IDEAS
- Detailed work plan and budget for the first year

Sub-component 3:

- Selection of venture capital manager through national competitive tender
- Award of contract to selected venture capital manager
- Transfer of first tranche into the venture capital fund
- Detailed work plan and budget for the first year

Sub-component 4:

- Selection of international consultant for baseline study
- Commencement of baseline survey

- Workshop.

5.5.2 Post-inception

Detailed draft implementation plans for the sub-components are attached in the annexes.

ANNEXES

Annex 1: LFA Matrix

NARRATIVE DESCRIPTION	KEY INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Intermediate objective			
Enhanced development of growth-oriented MSMEs through socially and geographically balanced financial and non-financial business support instruments	<ul style="list-style-type: none"> - Number of formally registered MSMEs - Number of SMEs involved in export production - Employment in MSMEs - Percentage of female owned MSMEs - Share of MSME production in GDP 	<ul style="list-style-type: none"> - National statistics - MSME baseline survey and follow-up surveys - National business register 	<ul style="list-style-type: none"> - Government's commitment to private sector development continues unabated - Reforms and institutional strengthening related to private sector operations are implemented
Immediate Objective 1			
Lending to MSMEs through appropriate credit schemes increased	<ul style="list-style-type: none"> - Number of credits extended to MSMEs through SPEED Fund participating FIs - Credit value extended to MSMEs - Percentage of credits extended to female owned MSMEs 	<ul style="list-style-type: none"> - SPEED Programme reports - Annual reports of participating financial institutions 	<ul style="list-style-type: none"> - Macro-economic stability will ensure a stable financial market - Macro-economic stability will ensure a conducive business environment inducing increasing demand for credit
Immediate Objective 2			
Availability and access of MSMEs to adequate non-financial business support services in target areas enhanced	<ul style="list-style-type: none"> - Increased range of business support instruments available - Increased accessibility of business support instruments to MSMEs - Increased availability of business support instruments for export-oriented SMEs 	<ul style="list-style-type: none"> - Stakeholder interviews (incl. MOTI and business associations) - MSME baseline survey and follow-up surveys - SPEED Programme reports 	<ul style="list-style-type: none"> - Macro-economic stability will ensure a conducive business environment inducing increasing demand for business support instruments

Immediate Objective 3			
Small and medium enterprises have expanded their level of operations through equity capital injections	<ul style="list-style-type: none"> - Increased share value of investee companies - Increased turnover of investee companies - Increased employment in investee companies 	<ul style="list-style-type: none"> - Audited accounts and annual reports of investee companies - Annual report of Venture Capital Fund Manager 	<ul style="list-style-type: none"> - A sufficient number of growth-oriented small and medium sized companies with high growth potential are interested in venture capital.
Immediate Objective 4			
Access of SMEs to relevant ICT enhanced	<ul style="list-style-type: none"> - Increased number of SMEs using ICT - Increased availability of ICT services to MSMEs 	<ul style="list-style-type: none"> - MSME baseline survey and follow-up surveys - Stakeholder interviews 	<ul style="list-style-type: none"> - Macro-economic stability will ensure a conducive business environment inducing increasing demand for ICT
Outputs related to Immediate objective 1			
1.1 Number of financial institutions participating in the SPEED Fund increased	<ul style="list-style-type: none"> - Number of PFIs - Number of PFIs serving rural communities - Visible MSE windows in PFIs - Credits extended by SPEED Fund to PFIs 	<ul style="list-style-type: none"> - Annual reports of PFIs - SPEED programme MIS - Visits to PFIs 	<ul style="list-style-type: none"> -
1.2 Capacities of participating financial institutions to efficiently manage commercially viable MSE portfolios enhanced	<ul style="list-style-type: none"> - Number of training courses conducted for PFI staff - Utilization and acceptance of credit management software - Size of MSME loan portfolio of PFIs - Average loan recovery rate of MSE portfolios of PFIs - Average duration of loan processing 	<ul style="list-style-type: none"> - SPEED Programme reports - SPEED Programme MIS - Visits to PFIs 	<ul style="list-style-type: none"> -

1.3 Guarantee Fund established and operating	<ul style="list-style-type: none"> - Number of loan guarantee agreements with PFIs - Number of credits registered on the LGS - Number and value of credits extended by PFIs to non-traditional lending sectors 	<ul style="list-style-type: none"> - SPEED Programme reports - SPEED Programme MIS 	
Outputs related to Immediate objective 2			
2.1 Commercially viable business development services developed and introduced	<ul style="list-style-type: none"> - Number of BDS products developed - Public awareness and acceptance of BDS products 	<ul style="list-style-type: none"> - SPEED Programme reports - Manuals, tools, software and descriptions of products - MSME baseline survey and follow-up surveys - Stakeholder discussions - Interviews with clients of participating BDS providers 	
2.2 BDS providers identified, contracted, trained and assisted to market the products	<ul style="list-style-type: none"> - Number of BDS providers participating in BDS scheme - Increased turnover of participating BDS providers - Increased number of customers of participating BDS providers 	<ul style="list-style-type: none"> - SPEED programme reports - Visits and interviews of participating BDS providers 	
2.3 Development and delivery of appropriate MSME support instruments (including training) assisted through IDEAS	<ul style="list-style-type: none"> - Number of projects (co)-financed through IDEAS - Number of business support instruments developed through IDEAS support - Number of business support instruments for SME export promotion available - Number of service providers who received capacity building through IDEAS supported projects 	<ul style="list-style-type: none"> - SPEED programme reports - Reports of partner organisations - Interviews with business service providers - MSME baseline survey and follow-up surveys 	

	- Number of MSMEs who made use of business support instruments supported through IDEAS		
Outputs related to Immediate objective 3			
3.1 Small and medium enterprises have received additional equity capital through Venture Capital Fund	<ul style="list-style-type: none"> - Number of investee companies according to investment schedule - Number of investee financial institutions - Number of export oriented investee companies - Number of investee companies in other priority sectors - Average size of investment 	- Reports of Venture Capital Fund Manager on Fund performance	
3.3 Management and operational capacities of investee SMEs improved	- Capacity building grants extended to investee companies upon needs assessment	- Report of Venture Capital Fund Manager	
Outputs related to Immediate objective 4			
4.1 Potential of ICT as a business assessed	- Baseline study conducted	<ul style="list-style-type: none"> - Baseline study - Workshop report 	
4.2 Areas for BSPS support in the field of ICT identified and possible plans for implementation developed	<ul style="list-style-type: none"> - Areas of Danida intervention identified - Implementation plan developed 	- Implementation plan	

Activities related to Output 1.1

- Assessment of potentially eligible participating financial institutions
- Accreditation of PFIs
- Approval and management of credits to participating FIs
- Overall management and monitoring of SPEED Fund
- Development of a concept for long-term ownership of the SPEED Fund

Activities related to Output 1.2

- Needs assessment of PFIs
- Finalization of credit management software
- Training of credit officers and other PFI staff in the use of the credit management software
- Capacity building activities in PFIs
- Development of appropriate financial products
- Introduction of new products to PFIs

Activities related to Output 1.3

- Design and agreement about rules, procedures and eligibility criteria of the LGS
- Development of manuals, application and reporting forms
- Adjustment of the SPEED Programme credit management software to meet the requirements of the LGS
- Awareness creation about the LGS among PFIs
- Identification of business activities to be targeted by the LGS and feasible PFIs
- Negotiations and agreements with PFIs about the terms of targeted guarantee lines
- Necessary training and capacity building of PFIs to manage the guarantee line
- Performance monitoring

Activities related to Output 2.1

- Market research and service needs assessments
- Facilitation of product development through national or international consultants
- Information and awareness creation activities among Ghanaian service providers
- Development of appropriate marketing and franchising concepts for the new products
- Development and implementation of public advertising campaigns
- Research on product acceptance and impact monitoring

Activities related to Output 2.2

- Identification of services providers (franchise holders)
- Contracting service providers
- Supply of products to service providers
- Product-related training of service providers
- Capacity building of training providers in marketing and product delivery
- Quality control of product delivery
- Management of the franchise relationship

Activities related to Output 2.3

- Launching of IDEAS and awareness creation among service providers and other potential partners.
- Facilitation of design and development of project proposal
- Assistance to potential partners in drafting applications
- Approval of applications
- Administration of IDEAS grants
- Monitoring of projects implemented with IDEAS funds
- Impact evaluations of individual projects
- Publications, workshops and other activities to increase discussion and information about relevant projects

Activities related to Output 3.1

- Undertake Local Tender for Venture Fund Management
- Selection and contracting of Venture Fund Manager
- Assessment of potential investee companies
- Selection of investee companies
- Management of the equity investment including contracting, transferral of funds, exercise board membership and management support, and all other functions necessary to ensure success of the investments
- Reporting including financial reporting according to defined rules aligned with Danida rules and regulations
- Liaison with the SPEED management

Activities related to Output 3.2

- Capacity building needs assessment of investee companies
- Development and facilitation of support package to be delivered by local or regional consultant
- Monitoring of the capacity building activities
- Management and accounting of consultancy contracts

Activities related to Output 4.1

- Select consultant to carry out baseline study through tender
- Baseline study

Activities related to Output 4.2

- Stakeholder workshop
- Preparation of implementation of ICT support under BPS
- If appropriate: creation of ICT window in the IDEAS scheme of sub-component 2.

Annex 2: Implementation plan

Annex 3: Terms of Reference for consultancy on LGS

Short-term expert for the Design of the Loan Guarantee Scheme (LGS) under the Danida/GTZ SPEED Programme

Draft Terms of Reference

Background

Danida is establishing a Loan Guarantee Scheme (LGS) under the Support Programme for Enterprise Empowerment and Development (SPEED) of the Danida Ghana Business Sector Programme Support (BSPS), which aims at strengthening the business sector environment and the investment and trade climate in Ghana. The BSPS is planned for a 5 year period from October 2003 till September 2008. SPEED, which is a joint Danida/GTZ programme, constitutes one component under the BSPS aiming at strengthening Business Support Instruments for micro, small and medium sized enterprises. One of the immediate objectives of SPEED is to increase access of micro and small enterprises to financial services. To that end, a SPEED Fund has been set up as a credit-line for financial institutions for on-lending to Ghanaian MSEs. The planned LGS will operate in parallel to and will complement the SPEED Fund.

The LGS is meant to enable Ghanaian financial institutions access additional security/collateral to support credits to MSEs who present viable lending proposals but are unable to offer sufficient appropriate collateral to the banks. The scheme will be used for MSEs in defined target sectors and business activities. In the event of MSE default, participating financial institutions will be able to claim up to 50% of the realised loan loss.

Danida wishes to contract a short-term loan guarantee expert to finalise the design and implementation structure of the LGS within the objectives outlined above and in the relevant component description. Based on work carried out by the SPEED/PSME management team through the support of an intern, the consultant will be required to develop regulations and procedures for the establishment and operation of the scheme.

Scope of work

The consultant will be charged with undertaking the following specific tasks under guidance from the SPEED Management and in close collaboration with relevant stakeholders:

- Design the LGS to provide 50% cover of loans to PFIs based on the provisional framework described in the component description and other pertinent documents
- Design sectoral and business eligibility criteria and PFI (=participating financial institution) eligibility criteria for the LGS in close collaboration with the SPEED management and other stakeholders. The consultant will bear in mind the need for close alignment of the LGS and with the credit-line under the SPEED Fund.
- Design procedures, requirements and forms for the operation of the LGS covering but not limited to the following:

- PFI application, screening and acceptance to participate in the LGS
- PFI registering eligible loan(s) on LGS
- Fees payable by PFI for the utilization of the LGS
- PFI reporting on utilization of LGS
- PFI claims and claim verification
- PFI confidentiality requirements in relation to the SPEED Fund
- PFI termination, expiry, expulsion from participation in the LGS
- Make specific recommendations on how the existing credit management software which is used by all financial institutions participating in the SPEED Fund need to be adjusted to the meet the reporting and monitoring requirements of the LGS. This should include recommendations on any additional baseline MSE data to be collected by PFI to satisfy reporting and impact assessment requirements of the SPEED management and the RDE.
- Design specific training activities for PFI on management of the guarantee scheme
- Design appropriate promotion and awareness creation programmes for FI about the LGS.

The assignment is expected to be completed within two months between October and December 2003.

Outputs

The following outputs are expected:

- A draft report describing the activities of the consultant and outlining overall design aspects of the LGS, including eligibility criteria, relationship to the SPEED Fund credit-line, management procedures, etc.
- Drafts of all necessary forms and manuals
- Drafts of brochures or other suitable PR material
- Final versions of the report and the other material taking comments of the SPEED management and stakeholders into consideration

Qualifications

The consultant must have suitable technical experience and qualifications to execute the tasks set out in the TOR. Specifically the consultant should have:

- Adequate experience in design and implementation of similar guarantee schemes
- Demonstrated technical competence in banking and credit assignments
- Experience in working with small enterprise credit development programs in developing countries

**Draft Terms of Reference for
Management of Danida's SME Venture Capital Fund
Business Sector Programme Support
Ghana**

Background

Danida wishes to establish a Venture Capital Fund for small and medium enterprises (SME) under its Business Sector Program Support (BSPS). The BSPS aimed at strengthening the business sector environment and the investment and trade climate in Ghana, is planned for a 5-year period from October 2003 until September 2008. The SME Venture Capital Fund is part of the *Venture Capital for SMEs* sub-component of the BSPS. The immediate objective of the sub-component is that *Small and medium enterprises have expanded their level of operations through equity capital injections.*

Danida understands that with a preponderance of enterprises in the micro & small sector, the Ghanaian private sector suffers from a “missing middle” with very few medium sized enterprises in operation. The SME Venture Fund will enable growth oriented SME's in Ghana access long-term, equity capital locally, which has been virtually non-existent in the past.

In addition to venture capital, some investee companies may need capacity building support such as management training, development of management information systems, product development and process improvements. In order to ensure the success of investments under the SME Venture Fund, Danida will provide grant funding for such capacity building interventions to investee firms where necessary.

Danida wishes to contract a Fund manager with responsibility for management and administration of the SME Venture Capital Fund and the capacity building grants for investee companies.

Fund Description

The SME Venture Fund will be established and operated in Ghana under a management agreement between Danida and the Fund Manager. The SME Venture Fund will have a total capitalisation of DKK 7,200,000 (US\$1,000,000 approximately) to be invested in amounts of up to US \$75,000 per company. It is expected, however, that average investment size will be in the range of \$35,000 - \$50,000. Other than these broad limits, actual investment amounts will be decided at the Fund Managers discretion. The investment period will be five years, after which the Fund will be liquidated. The Fund must be fully invested within two years of disbursement. Exit mechanisms from the Fund should be either through investee companies share buy-back, through a third party trade sale or through a public listing. Profits from investments will be shared by shareholders in accordance with terms to be agreed.

The Capacity Building Fund for Investee Companies will be a grant fund capitalised with DKK 800,000. Investee companies will be eligible to access amounts of up to 10% of the venture capital investments made by the Fund Manager. Capacity building assessments will be made on a case by case basis by the Fund Manager and consultancy interventions delivered by local or, if local expertise is lacking, regional consultancy firms.

Eligible investments

Eligible investee companies will be growth oriented indigenous businesses in productive sectors with emphasis on export oriented and technologically driven companies especially in non-traditional exports of textiles, handicraft, and agro-processed products.

The Fund will also target rural and micro finance institutions to impact on the micro and small enterprise sector indirectly. The Fund Manager will benefit from synergies between the SME Venture Capital Fund and the joint Danida-GTZ SPEED Fund (a credit fund through local financial institutions operated and managed separately but under the same BSPP) by sharing knowledge and information obtained by the SPEED Fund Manager about various financial institutions. Potential investee companies must demonstrate a sound business concept, the existence of proven experienced management and a strong potential for growth and profits.

Excluded sectors

The SME Venture Fund will exclude investment in trading activities, production of arms and ammunitions, real estate and companies that are **government owned (partly or 100%)** or majority foreign owned. Companies that are involved in environmentally hazardous production and which do not comply with international labour standards and good business practices will also not be eligible. Preference will be given to small businesses that provide and create employment for women.

Tasks and responsibilities of the Fund Manager

The SME Venture Fund Manager will be responsible for administration, legal requirements, marketing, project identification, screening, monitoring and disinvestments of the Fund. Specifically the Fund Manager will be required to:

1. Screen and appraise potential investee companies
2. Approve investment in companies subject to no-objection from SPEED Fund Manager
3. Manage the investment portfolio of the SME Venture Capital Fund including contracting, transfer of funds, exercise board membership and management support, and all other functions necessary to ensure success of the investments
4. Assess technical, managerial and other capacity building requirements of investee companies

5. Develop and facilitate delivery of capacity building interventions for investee companies
6. Monitor of the capacity building activities including management and accounting for consultancy contracts
7. Prepare and submit reports including financial reports to SPEED management in accordance with Danida rules and regulations including :
 - a. Project or deal flow reports
 - b. Investment activity report
 - c. Capacity building activities report
 - d. Periodic reports on income and expenditure
 - e. Annual report on the Fund's activities (including income and expenditure account reviewed by auditors approved by Danida)
8. Liase with the Danida-GTZ SPEED Fund management on any other issues as and when required

Qualifications

The Fund Manager will be located in Ghana and must demonstrate suitable technical and managerial experience and qualification to execute the tasks set out above. Specifically the Fund Manager should have:

- Considerable experience and track record in successfully managing venture capital funds in Ghana.
- Demonstrated technical competence in SME appraisal and/or experience in working with indigenous small and medium enterprises
- Adequate financial management and accounting capacity to manage the SME Venture Fund and to meet the fiduciary requirements of Danida
- Sound financial track record and integrity with a good reputation for service quality and delivery.
- Access to a reputable network of business development service providers capable of providing capacity building support to investee companies

Contractual arrangements

The Fund Manager will be selected following an open competitive tendering process in Ghana. Bidding organisations will be required to submit detailed technical and financial proposals setting out relevant experience and capability to satisfy these terms of reference. These proposals and work plans will form the basis for the award of a contract to the successful bidder. A draft contract should be included as part of the tender proposal.

Terms of Reference

Study of the Potential for Development and Application of ICT within the Ghanaian Business Sector and its relation to Danida Instruments and Policies

Business Sector Programme Support (BSPS)
Ghana

Background

The Government of Ghana (GOG) and The Government of Denmark have agreed to cooperate on development of the business sector through a programme support named Business Sector Programme Support (BSPS). The BSPS is planned for a 5-year period from mid 2003 till mid 2008.

During the preparation of the programme a need for assistance within the area of Information and Communication Technology (ICT) was identified since it was found appropriate that the BSPS addresses not only the immediate needs and demands of the business sector, but also address some mid-term needs in terms of enhancing access to and use of ICT. The overall purpose of addressing this area is two-fold: a further development of ICT based industries and services will constitute a potential growth engine for the Ghanaian economy, and a further diffusion of the access to and use of products from such industries (e.g. Internet, CAD/CAM, CNC) will improve productivity and competitiveness of the Ghanaian business sector in general.

As such, the sub-component should also be seen as relating to both the strategies developed by the Ministry of Communication, in particular with reference to the improvement of SME access to ICT. These strategies are in turn related to the Presidential Special Initiative which is a programme aiming at supporting specific sectors, where the growth (and notably the export) potential is seen as high. One of these sectors is ICT. In that connection it is worth mentioning that funding and technical expertise for the set-up of an incubation centre for ICT in Accra seems to have been assured through the Indian Government, but there is for instance still a need to finance and develop the extension of this centre to the various regional capitals.

On that background, a sub-component addressing ICT issues was therefore suggested to be included in Component Three (Business Support Instruments) of the BSPS. In order to develop further and implement this sub-component it is necessary to undertake an assessment of the potential of ICT in relation to SME development in Ghana and its relation to Danida instruments and policies.

Objectives

The main objective of this assignment is to assess the potential for development and application of ICT within the Ghanaian business sector, in particular regarding the MSE, as well as how this area links up with Danida instruments and policies.

Outputs

The outputs to be delivered are:

- Mapping of existing initiatives relating to the use of ICT, specifically in manufacturing and service companies, within as well as outside the Accra area
- Baseline study examining in more detail the potential of ICT as a business area, and how it might link up to Danida instruments and policies.
- Report identifying areas for BSPS support and suggestions as to how this support may be implemented.

Scope of Work

The scope of work of the present assignment encompass the mapping of existing initiatives relating to the use of ICT in manufacturing companies, the development of the baseline study, facilitation of a workshop with the participation of all relevant stakeholders discussing the baseline study and the potential for Danish assistance to the ICT area, and finally a report assessing and specifying in more detail a strategy and the criteria for Danida support to the ICT area.

The base line study should i.a.:

- Assess the number, type, location, strengths and weaknesses of enterprises within the ICT sector
- Discuss Government policies and plans for developing ICT infrastructure, for supporting the dissemination of ICT access and use, and for supporting the enterprises and institutions
- Assess business sector use of ICT
- Identify main barriers and potential in the SME sector for adopting ICT in production, marketing and other processes
- Describe and assess activities etc. of universities and other institutions working with ICT
- Describe and assess existing and planned donor activities, including an outlining of research cooperation
- Discuss and assess overall potential for Danida support to the sector

Following the development of the baseline study the consultant must present the study at a workshop with the participation of relevant stakeholders. The workshop would i.a. include stakeholders from Universities, the Ministry of Communication, ICT enterprises and institutions, business sector users of ICT, private sector organisations and Danida. The workshop will take as point of departure the above mentioned baseline study, and will aim at developing a catalogue of possible areas for Danida support. Relevant stakeholders would be

invited to prepare proposals for possible projects for Danida funding. Such projects to be funded could include i.a. establishment of networks between universities and private sector operators, training and counselling of companies within the ICT sector, e-learning activities etc.

On the basis of the workshop the consultant will develop a draft strategy and criteria for support to the ICT sector. The strategy must be sensitive to enhancement of business sector ICT use and development outside of the Accra region. Likewise, the strategy must be sensitive to fostering linkages between larger enterprises and medium and small enterprises in terms of ICT. Special focus should also be on considerations for gender aspects in relations to ICT development and use.

Organisation of Work

Before the consultant commence its work, the team members will be briefed about the assignment. In addition, already available background material will be made available to the team.

The baseline study will be developed on the basis of desk research as well as consultations with relevant stakeholders. These may include the Ministry of Private Sector Development, Ministry of Communication, Ministry of Trade and Industry, major business- and labour market organisations such as the Private Enterprise Foundation, the Chamber of Commerce, the Association of Ghana Industries, the Association of Ghanaian Employers, the Trade Union Congress and others, universities and research institutions, selected companies active in the ICT sector as well as companies with a perceived potential for adopting further ICT use in their production processes, services and so forth, as well as donors involved in support to ICT related areas.

The Baseline study will be presented to Danida before the workshop for preliminary commenting and discussion.

Danida will facilitate the workshop and assist in inviting the relevant stakeholders.

Composition of Team

The Study should be undertaken by a research institution with links to the business sector as well as to ICT research institutions.

Timing and Reporting

The baseline study will be carried out between October 2003 and January 2004, and it must be delivered in its final form to the RDE no later than January 31, 2004. The baseline study workshop will take place in February or March 2004.

Two weeks after the workshop the consultant will provide a draft report to Danida. The report will contain the draft strategy and suggested activities to be implemented by Danida within the area of ICT. Not later than one week after submission of comments by Danida, the consultant will prepare its final reports.

Annex 6: Terms of Reference for Business Support Instruments (Component Three) Consultant

Business Sector Programme Support Ghana

Business Support Instruments (Component Three) Consultant

Draft Terms of Reference

Business Support Instruments Component

Danida wished to recruit an internationally reputed consultant responsible for the provision of all technical assistance in relation to the Danida input into the joint Danish-German Support Programme to Enterprise Empowerment and Development (SPEED) under Component Three of the Danida BSPS Ghana.

SPEED aims at increasing availability and access of growth-oriented micro, small and medium sized enterprises in Ghana to necessary financial and non-financial support services. In order to achieve this objective, the programme combines a number of schemes and interventions including

- a credit fund for financial institutions for on-lending to MSEs
- a credit guarantee line for special MSE target groups and business activities
- comprehensive capacity building activities for financial institutions dealing with MSEs and participating in the SPEED programme
- a project to strengthen a commercial market for business development services (BSD scheme)
- an open fund called Innovation and Development in Enterprise Assistance Scheme (IDEAS) earmarked to support individual projects that aim at sustainably improving the business service environment in Ghana
- a venture capital fund earmarked for small and medium sized companies (to be managed by a Ghanaian private venture capital firm).

For further details on the objectives, outputs and planned activities of the programmes see the attached documentation (component description).

SPEED is a joint German/GTZ and Danida programme with a joint implementation structure. It has been designed in the spirit of cooperation and understanding between the two institutions, including a clear understanding for showing flexibility if such a joint undertaking is to be successful. The consultancy will cover the Danida TA input into the SPEED programme only. The consultant will report to the GTZ senior advisor, who serves as the SPEED programme manager. Responsibility for the overall SPEED implementation rests with a Steering Committee comprising representatives of GTZ, RDE, the Ministry of Trade and Industry and the private sector in Ghana.

As the consultant will work closely with an already existing German funded consultancy company (GFA) it is important that the assigned persons have the right interpersonal skills

allowing them to build a true team spirit irrespective of the fact that the full team represents two different companies.

The SPEED programme is envisaged to run until 2008. However, as a major reorganisation of the implementation structure is expected to take place by the end of 2005, the consultant will be assigned for the period October 2003 (beginning of BPS) up to December 2005.

Specific responsibilities

The consultant will be responsible for all technical assistance necessary to achieve the objectives and outputs as specified in the relevant parts of the component description. Specifically, he will be responsible for:

- Provision of an international long-term advisor to the SPEED programme according to the specifications below
- Provision of international short-term expertise according to the specifications below
- Provision of national programme officers according to specifications below
- Assist with the SPEED programme management
- Assist the SPEED Manager to ensure that the component is implemented according to agreed plans
- Financial reporting on the Danida input into the SPEED programme

Services to be delivered

The following technical assistance is supposed to be provided by the consultant:

1. A resident international advisor (27 months until end of 2005) to assist the SPEED programme in all matters regarding access to financial services. The advisor will be member of the management committee of SPEED and reports to the SPEED manager. Main tasks of the advisor includes:
 - Assist in all matters related to the implementation of the SPEED Fund including assessment of potential PFIs, management of the credit-line, introduction and monitoring of the credit management software, etc.
 - Assist in all matters related to the implementation of the LGS including assessment of eligibility, management of the scheme, etc.
 - Serve as secretary to the Supervisory Board of the SPEED Fund and LGS
 - Liaise with the Bank of Ghana on the management of the SPEED Fund and LGS
 - Supervise and guide the short-term consultant in charge of designing the LGS
 - Communication with and monitoring of PFIs
 - Conduct needs assessment of PFIs
 - Assist with the capacity building activities for PFI
 - Assist in all SPEED management and monitoring duties regarding the Venture Capital Fund
 - Facilitate and supervise short term consultancies in the sub-component on financial services
 - Assist the SPEED manager in all his duties
 - Build capacities in the Ghanaian programme officers to undertake their duties

- Ensure appropriate and timely reporting on the Danida input into SPEED according to Danida guidelines
- Facilitate all Danida evaluations of the SPEED programmes, in particular during the BSPS programme reviews
- Assist with the monitoring of the SPEED programme progress
- Tender the Venture Capital Fund in close collaboration with the BSPS Programme Coordinator based at the Royal Danish Embassy
- Oversee the operation of the Venture Capital Fund and include reporting on the operation in consolidated SPEED reports

The advisor must have demonstrated knowledge in credit and credit guarantee programmes in developing countries and experience in project administration.

2. A National Programme Officer who will be a member of the financial services unit comprising one long-term expatriate advisor and two local programme officers, one of which is recruited under the GTZ funded PSME. Being a member of the SPEED management committee, the main duties of the programme officer are to facilitate the smooth implementation of the SPEED Fund, the LGS and the related capacity building activities for PFIs. Among his/her main tasks are:

In cooperation with the international advisor, the existing national programme officer and the SPEED manager

- Conduct and assist with the conduction of assessments of PFIs
- Closely liaise with PFIs in the implementation of the SPEED Fund and the LGS
- Perform management and monitoring functions with respect to the SPEED Fund and the LGS
- Conduct needs assessments of PFIs
- Conduct or facilitate training programmes with PFIs
- Assist with the development of new financial products
- Any other functions to ensure the implementation of the SPEED programme as far as financial services are concerned.

The programme officer must be an expert in credit and preferably be knowledgeable about credit guarantee schemes with a profound and proven knowledge of the MSME sector and its development constraints in Ghana.

The programme officer will be one of national two programme officers in charge of improving access of Ghanaian MSEs to financial services. It is envisaged that the newly recruited programme officer under this consultancy will focus on the implementation of the LGS and on capacity building of PFIs.

3. A Programme Officer who will be a member of the non-financial services unit comprising two local programme officers, one of which is recruited under the GTZ funded PSME. The unit works closely with and reports to the SPEED Programme Manager. Being a member of the SPEED management committee, the main duties of the Programme Officer is to facilitate the smooth implementation of IDEAS and the BDS scheme. Among his/her main tasks are:

In cooperation with the existing national programme officer and the SPEED manager:

- Perform major functions in the implementation of IDEAS, including public relations, assistance to potential project partners, screening of applications, management of the scheme, monitoring, etc.
- Conduct service needs assessments of micro and small businesses
- Assists with the implementation of the BDS scheme, including facilitation of product development, capacity building of service providers, awareness creation among MSEs and service providers, management and monitoring of the scheme, etc.
- Any other functions to ensure the implementation of the SPEED programme with an emphasis on non-financial services to MSMEs

The programme officer must be an expert in MSME development, have a sound knowledge about the business support environment in Ghana and should have prior experience in project management.

The programme officer will be one of national two programme officers in charge of improving access of Ghanaian MSEs to non-financial services. It is envisaged that the newly recruited programme officer under this consultancy will focus on the implementation of the IDEAS Scheme.

4. One international short term expert (2 months) for the design and development of procedures and tools of the Loan Guarantee Scheme (LGS). Proposed TOR see Annex 3.
5. A pool of short term experts (up to 6 months until end of 2005) covering expertise in the following areas
 - Credit management and financial products for micro and small businesses
 - Credit and credit guarantee funds
 - Capacity building of micro-finance institutions and financial institutions
 - Needs assessments of MSMEs and service providers
 - Development of appropriate non-financial support services to MSEs, including technical training, counselling, management training, financial management tools, feasibility studies, etc.
 - Capacity building of service providers
 - Impact assessment and monitoring
 - And others as need arises

Detailed planning of the short term consultancies including TOR will be prepared by the consultant in coordination with the SPEED management. Plans and TOR have to be approved by the two international advisors before short term experts are fielded.

Qualifications

The Business Support Instruments Consultant is expected to be a consortium of international/regional and Ghanaian experts with experience in micro-finance and MSME development. The consultant must have demonstrated knowledge of the MSME development environment and discussion in Africa, access to the national, regional and international network of expertise in the field and experience in donor related project work.

Contractual arrangement

The Business Support Instrument Consultant will be contracted by MFA Copenhagen Contract Department following an open competitive tender. As part of the tender process, bidding organisations will be required to submit detailed technical proposals and work plans setting out how they would satisfy the TORs and achieve the objectives and outputs defined in the component description and other relevant documents.

Annex 7 Memorandum of Understanding between GTZ and Danida on the joint implementation of SPEED

Draft

Memorandum of Understanding between GTZ and Danida about the Support Programme for Enterprise Empowerment and Development (SPEED)

1. GTZ and Danida, sharing the perceptions of the role micro, small and medium enterprises could play for the development of the Ghanaian economy and in particular for poverty reduction and realising that they have a similar understanding of an appropriate approach to development cooperation in this field, have decided to pool resources earmarked for the development of financial and non-financial enterprise support services in Ghana and to form the Support Programme for Enterprise Empowerment and Development (SPEED).
2. The objectives governing the relevant GTZ and Danida support can be summarised in one overall objective of SPEED, which is
 - Availability and access of micro, small and medium sized enterprises (MSME) to relevant financial and non-financial support services increased
3. SPEED is a joint programme comprising the German contribution to the previous GTZ supported Promotion of Small and Micro Enterprises (PSME) project and the sub-components 1 to 3 of Component Three (Business Support Instruments) of the Danida Business Sector Programme Support (BSPS). The basis of the implementation of the new programme are the PSME project documents - in particular the bilateral project agreements (Exchange of Notes) as well as the Financing Agreements between GTZ and BoG -, the Danida BSPS Component Three Description, the Government Agreement between Ghana and Denmark for the entire BSPS, and this Memorandum of Understanding. SPEED is expected to run until 2008.
4. SPEED combines three different intervention areas (“components” in the GTZ project structure and “sub-components” within the Danida programme structure):

- a. Support to financial services, including the SPEED Credit Fund (previously SMEPF), a Loan Guarantee Scheme (LGS) and resources to provide capacity building to participating financial institutions (PFI);
 - b. Support to non-financial support instruments, which includes the BDS market support scheme and the Innovation and Development in Enterprise Assistance Scheme (IDEAS);
 - c. Venture Capital for SMEs, including a venture capital fund earmarked for small and medium enterprises including financial institutions and resources for capacity building of investee companies.
5. The GTZ input comprises the German contribution to the previous PSME project, i.e. the Credit Fund (former SMEPF), capacity building of PFIs and resources earmarked for the development of a business development services (BDS) market. Danida will participate in all these activities and will allocate resources accordingly. In addition, Danida will allocate resources to fund a Loan Guarantee Scheme, source IDEAS and establish the venture capital fund. Details about the budgeted allocations are described in the relevant documents referred to above.
6. For the joint implementation of the programme GTZ will contribute the former PSME resources including one long term international senior advisor, two national programme advisors, support staff, some short term technical assistance and office infrastructure. Through a consultancy company to be selected through international tender Danida will contribute one long term international senior advisor, two national programme officers, support staff including one part time accountant, some short term technical assistance and the necessary office infrastructure.
7. Within the limits of the available resources and taking into account the earlier commencement of the German contribution, operational expenses of the programme will as far as possible be split evenly between GTZ and Danida.
8. A joint format for reporting on programme progress which meets GTZ and Danida requirements will be developed. For financial reporting, the GTZ input will be accounted for by the current PSME contract holder whereas the Danida input will be accounted for by the consultancy company to be recruited.

9. Irrespective of the two consultancy contracts and the divided accounting requirements, SPEED will be managed as a truly joint operation where team spirit and cooperation is crucial to programme implementation. The current PSME manager will become the overall SPEED Programme Manager with the Danida funded senior advisor being in charge of the financial services. However, in the spirit of the joint operation, the detailed internal delegation of tasks and responsibilities among the staff will be decided as the programme implementation progresses. A Management Committee will be established comprising the six permanent professional staff of SPEED.
10. The SPEED management will report to a Steering Committee comprising one representative each from GTZ and Danida, one representative of the Ministry of Trade, Industry & PSI and one representative of the Ghanaian private sector. The Steering Committee will make decisions based on consensus.
11. The Supervisory Board currently overseeing SMEPF will be in charge of the SPEED Fund and – depending on the negotiations with the Bank of Ghana – the LGS. The composition of the Board will be modified to reflect Danida's role in the new programme. It will consist of five or six members, one each representing: (1) Ministry of Finance; (2) Bank of Ghana; (3) Ministry of Trade, Industry and PSI; (4) GTZ Country Director; (5) Royal Danish Embassy; and (6) possibly a private sector representative.
12. SPEED will organise annual stakeholder workshops to assist the programme management in policy and implementation issues and in the coordination of the contributions of the programme partners. Representatives of all major national stakeholders in MSME development will be invited to the workshops.
13. GTZ will participate in the Danida Programme Reviews of Component Three of the BSPS.
14. The implementation structure of SPEED will be subject to a joint review in the first half of 2005. This review will at least evaluate the relationship to the main partners of the programme, explore possibilities of a joint GTZ/Danida consultancy contract for the rest of the programme duration and make recommendations on the long-term ownership of SPEED.