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## ECONOMY AGRIBUSINESS AND AGRICULTURE

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### SME DEVELOPMENT, ECONOMIC GROWTH AND STRUCTURAL CHANGE: EVIDENCE FROM GHANA AND SOUTH AFRICA

Research article

#### Abstract

This paper raises the question of how SME development can be embedded into the process of structural change. The linkages between various transformations' processes aimed at enhancing the role of SMEs in two countries in the Sub-Saharan African region as a new growth opportunity are highlighted. In addition, under rapidly changing economic conditions, small and medium-sized enterprises (SMEs) are very likely to have a potential contribution to the economy. To the understanding of the interaction between SMEs, structural change and economic growth, this paper explores the nature of SME development, the nature of structural change, and the process of economic growth in Ghana and South Africa based on country-study by using the empirical data. Moreover, the development of the SME in the context of private sector development is studied through SME-policy.

**Keywords:** Small and Medium-Sized Enterprises, Structural Change, Economic Growth, Ghana, South Africa.

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### РАЗВИТИЕ МАЛОГО И СРЕДНЕГО БИЗНЕСА, ЭКОНОМИЧЕСКИЙ РОСТ И СТРУКТУРНЫЕ ИЗМЕНЕНИЯ В ЭКОНОМИКЕ ГАНЫ И ЮАР

Научная статья

#### Аннотация

В данной статье поднимается вопрос о том, как развитие малого и среднего предпринимательства (МСП) может быть включено в процессы структурных изменений. Особое внимание уделяется вопросу взаимосвязи между различными структурными трансформациями, направленными на повышение роли малого и среднего предпринимательства в двух странах региона Африки к югу от Сахары, что открывает новые возможности для роста. Ожидается, что в быстро меняющихся экономических условиях малые и средние предприятия могут внести потенциальный вклад в экономику. В данной статье исследуются направления развития МСП, характер структурных изменений и процесс экономического роста в Гане и ЮАР, на основе странового исследования с использованием эмпирических данных. В завершение, приводятся аргументы в пользу возрастающей роли МСП и рассматриваются механизмы поддержки малого и среднего предпринимательства в рамках продвижения частного сектора в двух странах.

**Ключевые слова:** МСП, структурные изменения, экономический рост, Гана, ЮАР

#### 1. Introduction

The small and medium-sized enterprises (SME) sector is considered as the backbone of the economy. This means that the SMEs could be a key engine of employment, job creation, stimulation of innovations, and tend to be contributed to economic growth and improve the well-being of a population. In the economic literature, entrepreneurship is broadly recognized as a driver of economic growth [1], [2], [3], [4]. However, the dynamics of entrepreneurship may largely depend on the institutional context and level of economic development [5]. Moreover, [6] pointed out that there are two statements on the role of SMEs in developing countries. On the one hand, the development of the SME sector in the economy can be seen as an effective instrument for poverty alleviation. On the other hand, the development of SMEs via the implementation of innovation encourages to sustainable growth.

It is important to note that there is a wide broad discussion about the important role of SMEs in the Sub-Saharan African region. For example, [7] highlighted that 22 percent of Africa's working-age population is starting new businesses, and it is the highest rate in the world. According to [8], SMEs comprise more than 95 percent of enterprises of all sizes in the Sub-Saharan African region, and at the same time the region is pretty much heterogeneous that leads to different SME landscapes. Furthermore, in this region countries have a diversity of experience with economic growth [9]. In more detail, [10] examined that the current structure of growth in SSA within the period from 1986 to 2012 differs significantly from the period between 1960 and 2000 in the region as well as from the global growth pattern. It could be explained by the specific initial country conditions that combined effects of globalization and development strategies will generate and lead to different paces of growth and different structures of growth from exclusive to inclusive.

Thus, Sub-Saharan Africa is an interesting region for investigation of small business development through country-study. Two countries are chosen for consideration, namely Ghana and South Africa. It should be underlined that significant economic and political transformations occurred in Ghana and South Africa over the last three decades. Note that since 1992 the first multi-party democratic election took place in 1992, Ghana has grown into a stable and vibrant democracy. Since 1994 South Africa has experienced the serious transformation of economy and society after the Apartheid era (1948-1994). Hence, both countries focus on liberalization, privatization, and have the state's interest in the existence of the private sector as such. In this context, SMEs begin to consider as a key tool to enhance economic growth and development in Ghana and South Africa. Consequently, SME policy becomes an integral part and complement to other policies. One could suggest that the recognition of key role SMEs in both countries started at the same point in time.

As a whole, the concept of structural transformation is associated with various dimensions such as industrialization, agricultural transformation, demographic transition and urbanization [11]. Following by [12], the analysis of economic growth is associated with the phenomenon of structural change in the three main sectors such as agriculture, industry and services. Therefore, [13] stressed that structural change places high in the debate on economic growth in Africa. However, economies in the Sub-Saharan African region strongly differ from other developing economies in terms of the impact of international integration and institutional conditions on structural change [14]. In the line of the discourse, the importance of understanding the structure of economies in this region and the process of structural change is a crucial subject in the literature at present time [15].

The purpose of this paper is to investigate the nature of SME and its development, the nature of structural change and the process of economic growth in Ghana and South Africa based on country-study. So that this paper focuses on understanding how SMEs could be included in the structural change process. To achieve this purpose, the following two research questions should be examined: How has the structure of the economies been changed from 1991 to 2017? What is the nature of SME development in Ghana and South Africa under structural change?

The remainder of the article is organized as follows. Section 2 presents the country profile of Ghana and South Africa with own calculation of economic growth trends and highlights the economic process relating to unemployment and urbanization. Section 3 explores the structural change process during period under review. Moreover, the empirical evidence of sectoral changes in employment and value added in the economies are analyzed and recent literature of structural change is discussed. Section 4 gets insight into the term of SME in the context of Ghana and South Africa, and then describes the nature of SME development with particular attention to SME policy. Section 5 concludes.

## **2. Country Profile**

This section provides empirical evidence of economic growth trends, firstly, and secondly, social-economic processes such as the growth of population, trends in unemployment and urbanization over 27 years using the World Development Indicators. Based on the two parts of the country analysis, it will be shown that, overall, the economic processes that took place during the period under review demonstrate similarities and differences between Ghana and South Africa.

### **2.1. Economic Growth Trends**

Economic growth is the growth of the real output of an economy over time. Generally, economic growth is measured in terms of an increase in real Gross Domestic Product (GDP) over time or an increase in real GDP per capita. In economic literature, two widely used sources of data on real GDP across countries are the World Development Indicators, published by the World Bank and the Penn World Table, published by the University of Groningen. In this paper, the World Bank Development Indicators are used to analyze macroeconomic performance in Ghana and South Africa.

It is important to explain what is real GDP? As stated in the paper by [16], the concept of real GDP means GDP estimated at constant prices over time. In other words, constant series are employed to measure the true growth of a series by adjusted for the effect of price inflation. Moreover, the World Bank Indicators report data for real GDP in the "constant" term. Recent data of GDP from the World Development Indicators are constant 2010 U.S. dollars. This means that dollar figures as common currencies for GDP are converted from domestic currencies using 2010 official exchange rates, and then it allows making a comparison across countries [17].

Figure 1 and Figure 2 present comparative development indicators such as real GDP per capita, the growth rate of real GDP and the growth rate of real GDP per capita to help to examine the trends of Ghana and South Africa in comparison with other Sub-Saharan African countries. As shown in Figure 1 between 1991 and 2017 GDP per capita in Sub-Saharan African countries rose from 1266 to 1662 U.S. dollars and in Ghana from 834 to 1738 U.S. dollars, respectively. South Africa has the highest GDP per capita in the region and it increased from 5852 to 7482 U.S. dollars. Besides, during a study period GDP per capita in SSA increased 31 percent, in South African and Ghana, on 30 percent and 108 percent, respectively.

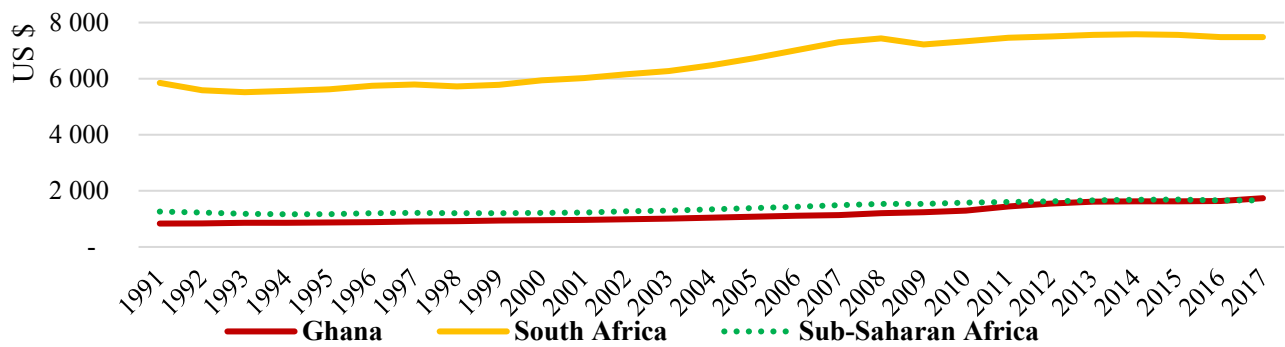


Figure 1 – Economic performance in Sub-Saharan Africa, 1991-2017, GDP per capita, constant 2010 US \$  
Source: Author's calculations based on the World Development Indicators [19]

It should be stressed that Ghana is one of the fastest-growing economies among Sub-Saharan African countries. As the United Nations Development Programme states that Ghana is the first country in this region to achieve the Millennium Development Goal 1, which is “the target of halving extreme poverty” [6]. Moreover, [18] have analyzed economic growth in Ghana during the period between 1960 and 2000 and have underlined that Ghana plays a pioneering role in the political and economic transition in the Sub-Saharan African region approximately four decades of independence period.

Figure 2 reflects that the trends of economic growth such as growth rate of real GDP and growth rate of real GDP per capita in Ghana were positive between 1991 and 2017, on the one side, and had a higher growth rate of both indicators compared with other Sub-Saharan African countries, on the other side. The comparison between South Africa and the Sub-Saharan African region shows that in South Africa the growth rate of real GDP was less than in Ghana and the whole region.

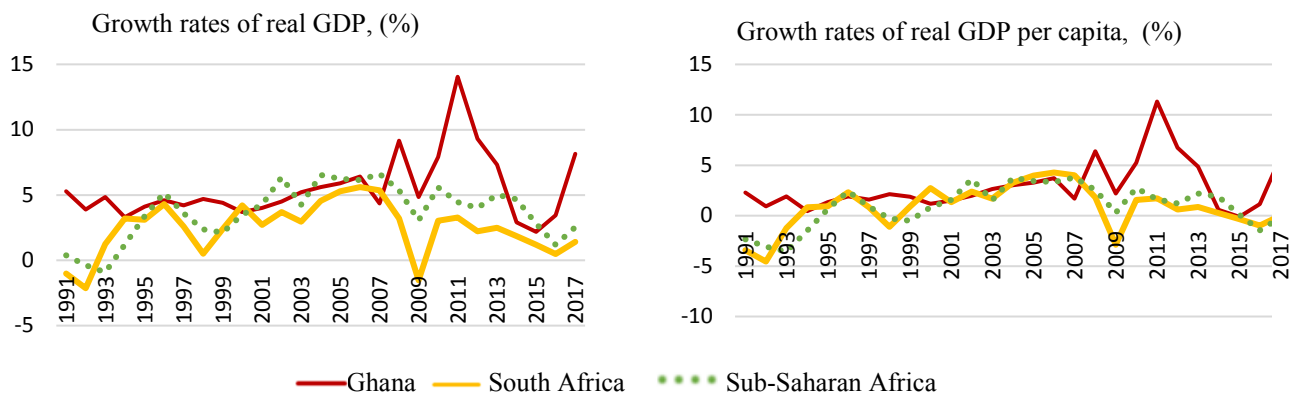


Figure 2 – Trends of economic growth in the Sub-Saharan African region, 1991 – 2017  
Source: Author's calculations based on the World Development Indicators [19]

To better understand the trends of growth, a simple moving average is used to smooth out short-term fluctuations and reveal the long-run trends. To note that the received value of the simple moving average refers to the last point of the interval window so that the curve of moving average is shifted the graph to the right to the last value of the interval. This means that the moving average is set between 1995 and 2017. Figure 3 shows trends of growth GDP together with simple moving averages in Ghana and South Africa.

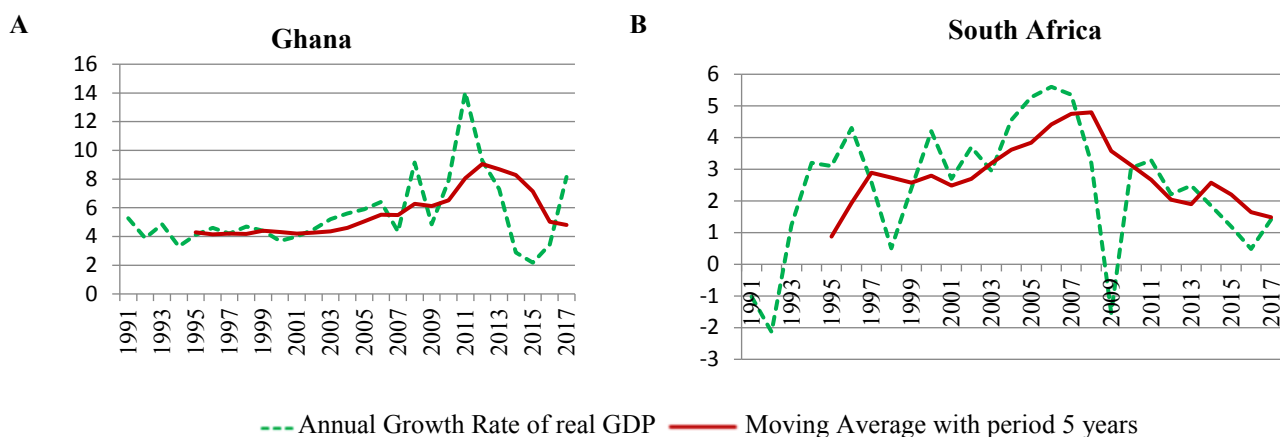


Figure 3 – Trends of average growth rates of real GDP of Ghana and South Africa, 1991 – 2017  
Source: Author's calculations based on the World Development Indicators [19]

So that between 1991 and 2017 the Ghanaian economy presented up-warding growth trends, but some strong fluctuations have occurred. For example, during a study period annual GDP growth rate increased from 5 percent to 8 percent. The highest peak was recorded in 2011 and accounted for approximately 14 percent. The favorable period of GDP growth in Ghana was recorded between 2008 and 2012 with average growth rate approximately 9 percent (Figure 3.A). In 2014 growth spurt could be explained by starting production of oil at the end of 2010 and also aided by the significant export performance of cocoa and precious metals as gold based on [20].

Therefore, between 1991 and 1993 real GDP growth in South Africa was negative close to zero due to the Apartheid era. Since 1994 economy in South Africa started the rapid process of trade liberalization so that has become full re-entry into the global economy. The positive economic growth was observed during the period between 1994 and 2017. For except, in 2009 growth was negative and was – 2.9 percent (see Figure.3. B). According to the paper by [21], the sharp decline of growth was caused by the global financial crises, one the one side, and during the following years after the strong slowdown of growth economy of South Africa tries to recover. As shown in Figure 3.B, more successful period of GDP growth in South Africa was between 2004 and 2008 with an average growth rate approximately 4.80 percent, with the highest value recorded in 2006 of around 5.6 percent. The post-1994 period in South Africa has seen mixed results. The economy experiences pressure from the global economic slowdown together with internal structural bottlenecks, such as high level of unemployment, inequality, not a sufficient level of productivity improvement and racial imbalance. However, the economy of South Africa is characterized by a globally competitive financial and business services sector [21]. As highlighted by [22], a slow economic growth was likely to connect with structural change in South Africa.

Evidence from recent literature on economic growth in the SSA region reflects several important findings. [10] suggested that starting 2000, the speed of growth in SSA has experienced “a quantum jump” and growth pattern has become more inclusive. Another view is presented in the paper by [23] that recent GDP growth in Africa should be interpreted with caution. In this line of the statement from [23], [15] concluded that the “African growth miracle” could simply be pre-mature. The key question is what factors may influence economic growth in Sub-Saharan African countries. The first is associated with the endogenous factors such as “the improved treatment of agriculture”, the general improvement in the quality of institutions and the emergence of a middle class, according to [10]. The second group of factors is exogenous factors which include high global commodity prices and the favorable external environment based on the view of [23].

To summarize, the economies of Ghana and South Africa are not on the same macroeconomic trajectory, both countries do not have the same pace of growth. However, Ghana and South Africa demonstrate some improvement of economic growth over a study period. To better understand why both countries have different patterns of growth. It needs to consider social-economic trends and structural change process that will be analyzed in the following sub-sections.

## 2.2. Trends in population, unemployment and urbanization

In this subsection social-economic indicators will be considered to identify key trends for comparison between countries and to better understand the ongoing economic development process.

A continued rapid population growth is observed in Ghana and South Africa during a study period. In Ghana population grew from 14.8 million in 1991 to 29.1 million in 2017, according to the data from [19]. In the case of South Africa, the population increased from 36.8 million in 1991 to 57.0 million in 2017. Overall, during a study period population growth in Ghana was 96.6 percent, and in South Africa 54.9 percent, respectively. In line with population dynamics, a share of the rural and urban population should be taken into consideration. Figure 4 shows that process of urbanization occurs in Ghana and South Africa.

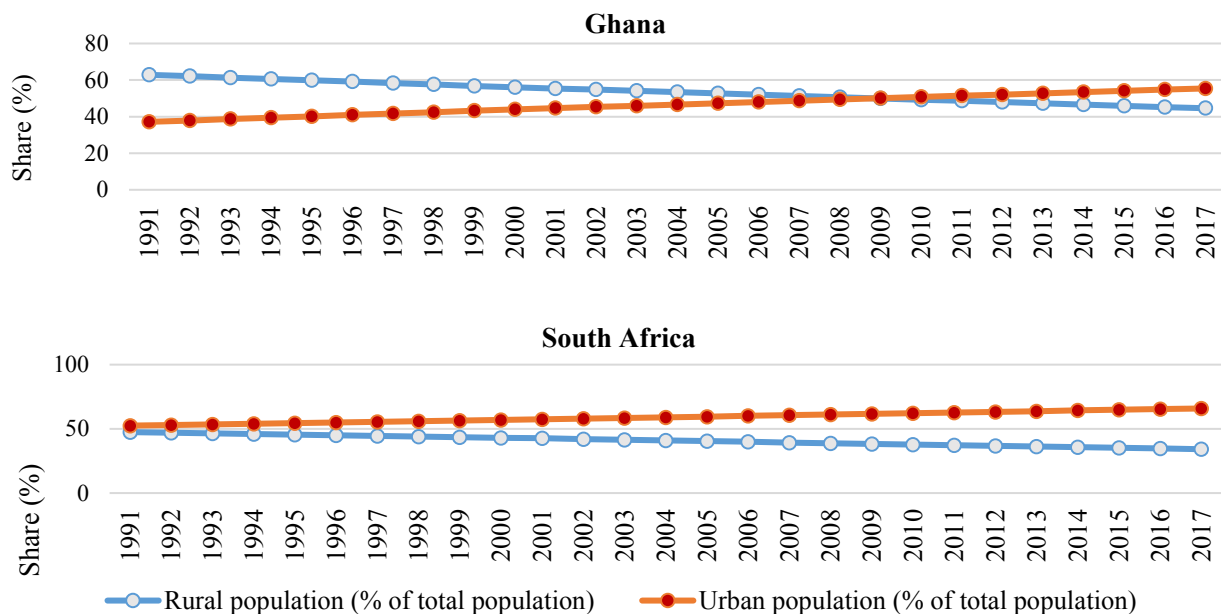


Figure 4 – Rural and urban population in Ghana and South Africa, 1991 – 2017  
Source: Author's calculations based on the World Development Indicators [19]

For example, in Ghana, the urban population rose from 37 percent in 1991 to 55 percent in 2017, and the rural population declined from 63 percent to 46 percent, respectively (see Figure 4.A). In 2009, it is recorded that the urban population started to prevail on the urban population in Ghana. Then, Ghana deals with the rapid urbanization. In South Africa the urban population increased from 53 percent to 66 percent between 1991 and 2017, while the rural population reduced from 47 percent to 34 percent, respectively (see Figure 4.B).

Having considered the distribution of population between urban and rural areas during the study period, it allows us to recognize that the urbanization process in Ghana and South Africa has been slightly different. On the one hand, in countries, urban population continued to grow and rural populations continued to decline modestly. On the other hand, during a study period more than half of the population in South Africa already lived in urban areas.

One may assume that the process of urbanization is driven by different factors. Moreover, it could be related to the structural transformation of the economy such as movement labor force between sectors, on the one hand, and external factors as climate change, on the other hand. For example, [24] revealed that the adverse climate change and urbanization in Sub-Saharan Africa have a strong relationship. Authors suggest that climate change will influence structural transformation so that it may be two scenarios. The successful scenario will be where cities may absorb the excess force of labor from agricultural rural areas. The second scenario is likely to be challenging in less industrialized cities in this region. The main result provided by the paper by [24] is that further migration from rural to urban areas will continue due to persistent climate change.

One of the important indicators of the macro-economic process is unemployment. In this context it needs to know what share of the labor force without work, but available for and seeking employment. As stated in the paper by [22], the economy of South Africa strongly suffers from a high level of unemployment, one of the highest in the world. The results of this trend derived from shrinkage of the non-mineral tradable sector (among them manufacturing). Figure 5 illustrates that level of unemployment fluctuated from 28 percent to 27 percent during a study period. It reached its highest point in 2003, and it was approximately 34 percent. The lowest value of unemployment in South Africa was recorded in 2008 and it was approximately 23 percent. Moreover, the highest rate of unemployment in South Africa is mostly associated with the young and unskilled population [21], [22]. As shown in Figure 5, unemployment in Ghana increased from 4.6 percent to 6.6 percent. Unemployment peaked above 10 percent during two years, namely 1999 and 2000 and then fell moderately until 2006.

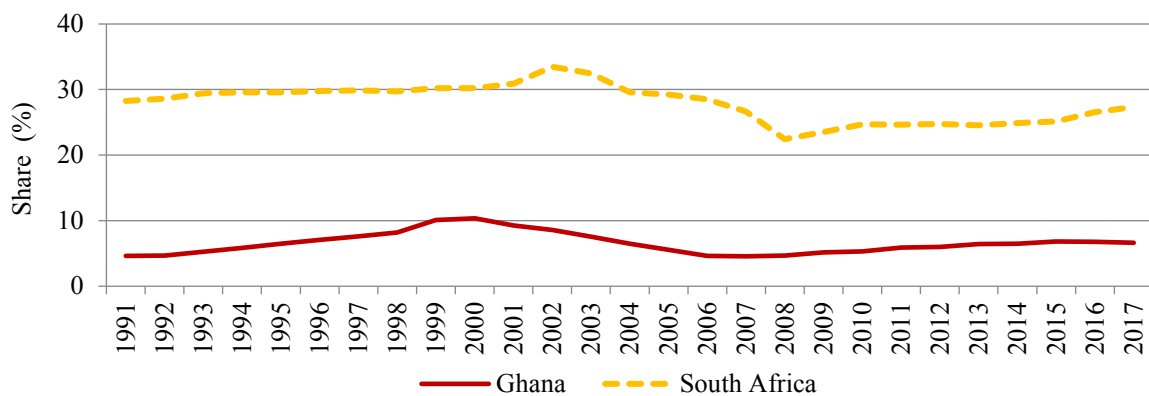


Figure 5 – Trends of unemployment, (% of total labor force) (modeled ILO estimate) in Ghana and South Africa, 1991-2017

Source: Author's calculations based on the World Development Indicators [19]

To conclude, South Africa and Ghana are characterized by an increasing urbanization process and the rapid growth of the population. A comparison between population trends referred to the fact that population growth in Ghana was faster than in South Africa and the Ghanaian population increased approximately double times. The trend of unemployment in Ghana is different from that in South Africa.

### 3. Structural change

This section examines the process of structural change in Ghana and South Africa where structural change is measured in terms of employment and output. I use data on value added and sectoral employment for both countries over 27 years. Furthermore, recent research papers covered the “nature” of structural change in Sub-Saharan Africa are discussed.

#### 3.1. The theoretical framework of structural change

Economic development deals with structural change [25] and structural transformation (industrialization) [26]. Oseia and Jedwabb (2013) [27] state that structural change is a heterogeneous process and could appear in different forms that depend on the experience of different countries. Moreover, structural change is associated with moving from the agriculture sector to the manufacturing and services sectors [25]. According to [28], structural change can appear in two forms such as growth-enhancing and growth-reducing. Former means that labor force shifts from the low-productive sector to the high-productive sector. Latter suggests that general productivity reduces under the condition if the labor force moves towards low-productive sectors. For this reason, recent literature draws special attention to the following questions: How does structural change occur in Africa? Is structural change growth-enhancing in this region, particularly in Ghana and South Africa?

Several studies stress that the “nature” of structural changes in Sub-Saharan Africa stays different in comparison with other developing regions [23], [27], [29]. For example, [23] pointed out that the pattern of structural change in African countries looks different “from the classical pattern” that took place in Asia countries and performed high growth due to labor flow towards higher-productive sectors (manufacturing and services). In the case of Sub-Saharan Africa, rural migrants moved from the rural agriculture sector to the urban service sector characterized by low-productivity and also operating under informal activities. [23], [29] reported that between 1990 and 1999 structural change was growth-reducing in most Sub-Saharan African countries due to lower labor productivity growth which was closed to zero. Between 2000 and 2010 labor productivity growth occurred, and as a result, structural change became growth-enhancing for some African countries [29].

In addition, [12] investigated that the direction of causality either economic growth causes structural change or conversely in terms of employment and also the real value added. [12] provided us the important two messages about the causal direction. The first result of the study on the causal relationship between economic growth and structural change demonstrates that “economic growth slows down structural change in the very short term”. However, in the long term, this causal relationship has an accelerating effect. The second result connected to the causal direction from structural change to economic growth shows that structural change effect positively or has “at least a non-negative impact on economic growth”.

### **3.2 Structural change in Ghana and South Africa**

Mostly stylized facts of structural change are associated with changes in the sector shares of GDP, sector employment shares, labor productivity. To get insight into the main trends of structural change in Ghana and South Africa, two key indicators such as the relative share of value added in GDP and the relative sectoral employment share are considered in this paper. Based on the International Standard Industrial Classification of All Economic Activities [30], the industry covers mining and quarrying, manufacturing, construction, electricity, water, and gas (divisions from 5 to 43). To study value added, the World Bank reports often manufacturing as a separate group. For this reason, economic activities in mining, construction, electricity and gas divisions are presented as one group and called “other industry”.

Figure 6.A shows the processes of structural change in the Ghanaian economy between 1991 and 2017 in terms of the sectoral distribution of real GDP. The first important stance is that the structure of the economy reflects a shift in dominance from agriculture to services. In more detail, the share of agriculture over the study period has reduced significantly from 46 to 19 percent. However, the share of services has increased steadily from 37 to 42 percent. There was a modest fluctuation in the contribution of service to GDP during the period 1993 to 2005. Then, between 2005 and 2006 a steep rise took place from 28 to 46 percent, and it kept the same level with slight fluctuations during the period from 2006 to 2012. Despite the declining share of service until 36 percent in 2014, the contribution of service to GDP remained as dominant compared by other sectors. In 2017 value added from the service sector made a substantial contribution to GDP and accounted for 42 percent.

The second important stance is that the manufacturing sector remained at the same level with little changes. Between 1991 and 2017 the share of manufacturing contribution to GDP increased from 9 to 11 percent. During the estimated period other industrial sectors have grown significantly from 8 to 27 percent (see Figure 6.A). In 2014 it reached its highest point, approximately 32 percent. In the context of the Ghanaian economy, it means that this expansion has come from mining and quarrying as one of the divisions of other industries. The structural change in Ghana occurred without the manufacturing sector. The same results have been provided by [18].

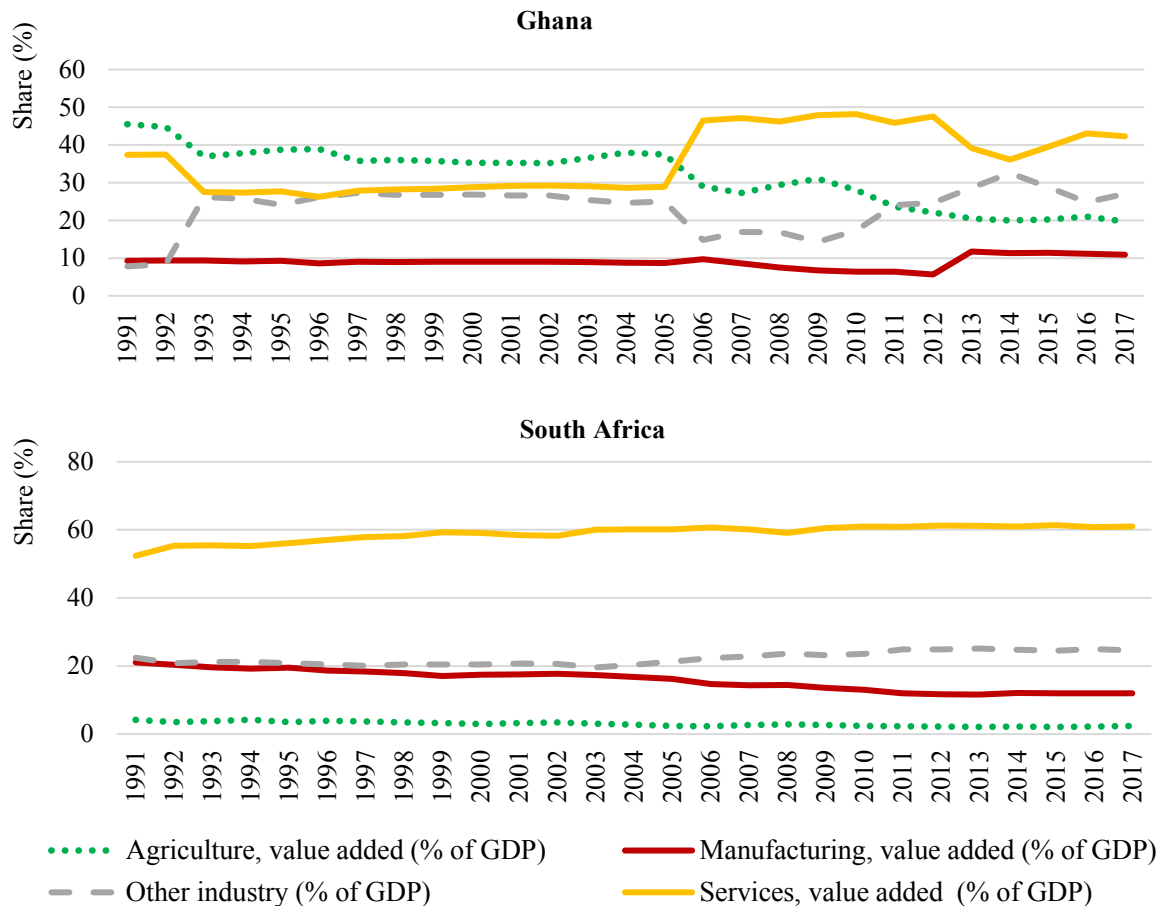


Figure 6 – Share of Sectors in Value Added (Percentage of GDP) in Ghana and South Africa, 1991-2017  
 Source: Author's calculations based on the World Development Indicators [19]

In case of South Africa there are the following results (see Figure 6.B.). Firstly, during 1991 and 2017 the structure of the economy of South Africa connected with the dominant contribution of service to GDP from 52 to 61 percent, respectively. Secondly, there was a declining trend in agriculture over the period from 4 to 2 percent. This means that over the study period the relative share of agriculture sector in value added to GDP has been much smaller compared with service and industry sectors. Thirdly, there is a significant reduction in the share of contribution of the manufacturing sector to GDP from 21 to 12 percent, respectively. Fourthly, the share of other industrial sector increased modestly from 22 to 25 percent over the period under study.

Figure 7.A shows that in Ghana sectoral composition of employment shows a steady growth of service sector over the study period from 29 to 47 percent, on the one hand, and a significant reduction of agriculture from 57 to 34 percent, on the other hand. Trends of the share of employment in agriculture and service sectors intersected in 2014. This means that until 2013 a large part of the labor force worked in the traditional sector and then employment shifted to the modern (services) sector. However, the agriculture sector stays the second source of jobs. Additionally, cocoa as the non-food agricultural sector is the largest agricultural export commodity in Ghana, and production of it influences shaping employment structure [31]. The data from Figure 7.A confirmed the statement from the paper of [27], structural change was determined by a significant expansion of services. Particularly, the service sector, namely the new technologies of information and communication involved making a rapid rise since 2005 and the tourism sector kept booming. Between 1991 and 2013 the share industry sector including manufacturing fluctuated slowly from 13 to 14 percent and between 2014 and 2017 grew from 14 to 19 percent.

As shown in Figure 7.B, structural change in the employment sectoral composition of South Africa does not undergo significant change compared to Ghana. During the study period the service sector remained the largest source of job, the industry took kept the second position and agriculture was the third position. In more detail, the relative contribution of agriculture to the total employment declined steeply from 11 to 5 percent. This continued reduction can be explained by the employment growth in service sectors along with the adoption of production technologies and the regulatory environment [32]. Between 1991 and 2017 the relative share of employment increased from 60 to 71 percent. The industry sector continued to decline during the study period from 29 to 23 percent.



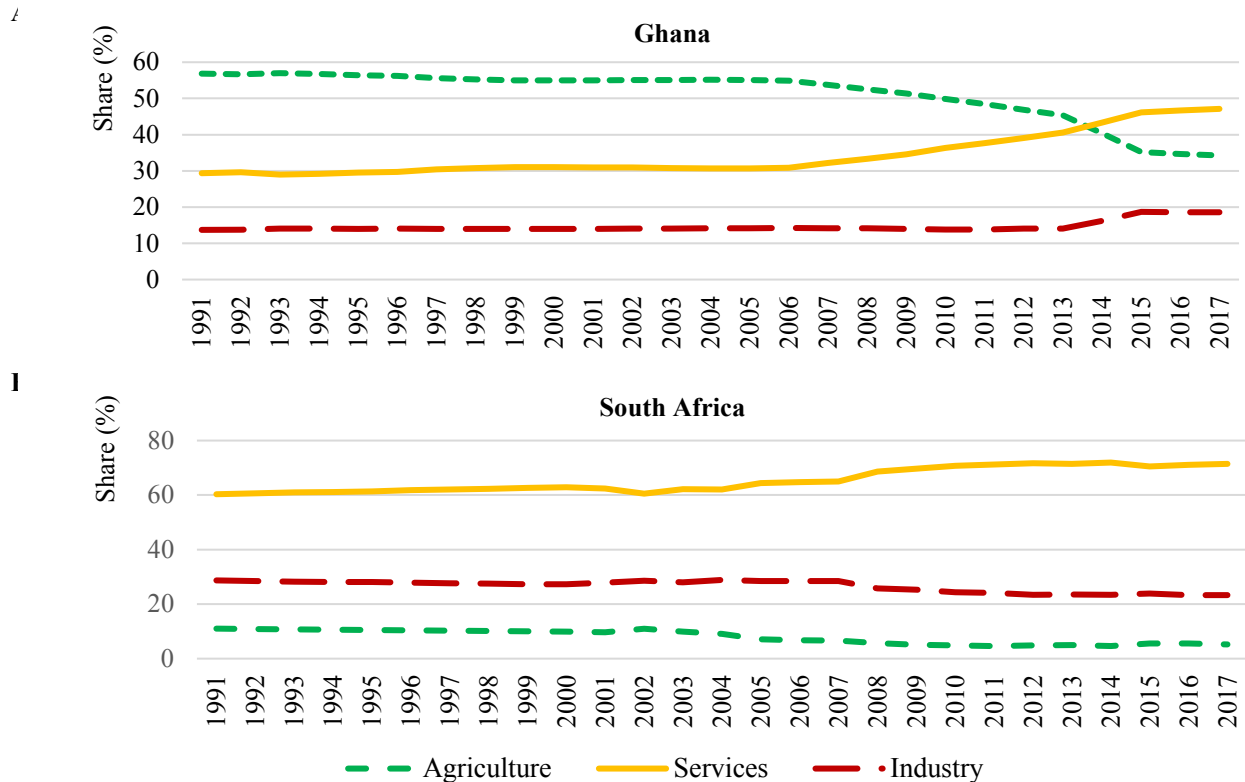


Figure 7 – Sectoral Composition of Employment (Percentage of Total Employment) (modeled ILO estimate), in Ghana and South Africa, 1991-2017

Source: Author's calculations based on the World Development Indicators [19]

In line with the considered empirical trends, it should be highlighted a few papers in terms of change in employment and sector output in Ghana and South Africa. For example, [27] used the data from 1960 and 2010 for analyzing structural change in Ghana and obtained the following key findings: (i) economy with limited industrialization; (ii) economy remains agricultural; (iii) since 1992 employment has increased “relatively more in the private service sector”; structural change happened without Green Revolution, an Industrial Revolution, and a Service Revolution as occurred in Asian countries; (iv) it is suggested that structural change became growth-enhancing after 1992. By contrast, the paper of [28] provided other results after considering period between 1990 and 2000 and compared structural change in Ghana and Vietnam. Thus, authors derive the following conclusion that there are significant improvements in governance, but structural change have comparatively poor records compared to Vietnam [28]. The paper of by [33] investigated the relationship between structural change and employment in Ghana, and concluded that a shift of labor force the agricultural sector to services that has occurred by productivity gains. Nevertheless, the expansion of the share of employment in services is associated with the low quality of job creation. This means that the share of vulnerable employment in services does not decline.

Structural change and industrialization processes in South Africa have been studied by [21], [22], [34]. For example, [22] suggested that South Africa had experienced the transformation since 1994. Nevertheless, the weakness of the export-oriented manufacturing sector leads to constraint growth opportunities and job creation. [21] pointed out that transformation in South Africa that has taken place since 1994 has been below expectations. In the paper by [34], the connections between the manufacturing and services sectors and their contribution to employment and growth in the context of South Africa have been investigated. The decreasing trend of manufacturing or its replacement by services is likely to have negative effects on medium- to long-term growth and employment prospects in South Africa. [34] put the question: could be the process of reducing the relative employment share of manufacturing can be regarded as premature deindustrialization in South Africa.

The key question could be why the service sector absorbed the large flow of the labor force. [13] suggested that market-oriented policy reforms, which conducted in the 1990s in the SSA region, probably increased demand for wholesale and retail services. In more detail, the liberalization of trade fostered the imports of large a number of consumer goods and investment good parts, and also encouraged the expansion of foreign retail chains via FDI. Furthermore, the more recent period starting from the 2000s was likely to be driven by rising incomes and a relatively larger share of domestic demand is shifting to the consumption of services.

Note that there are many different scenarios of how rapid economic growth may occur in Sub-Saharan African countries. According to [23], high-growth scenarios for African countries could realize through four scenarios. The first option is to renew the manufacturing sector so that it focuses on industrialization. The second option is suggested to diversify non-traditional agricultural products due to generation agricultural-led growth. The third option is to improve productivity in services in order to generate rapid growth. The final option for growth is based on natural resources if a country has it. Moreover, enterprises are considered as a tool to enhance growth. However, it requires creating an enabling environment for the private sector and supporting domestic entrepreneurs. Hence, the next step should be consideration of political initiatives for the SME sector in Ghana and South



To sum up, structural change is connected to economic growth. Evidence from the data and recent literature show us that the structural change process which contains many dimensions have occurred in both countries. Moreover, the consideration of the sectoral composition of employment and output helped to reveal the specific features of structural change in Ghana and South Africa, also identify the main trends in the structure of the economies. Based on the data reviewed, it is likely to expect that the service sector will continue to create a large number of new job opportunities than industry and agriculture in Ghana and South Africa.

#### **4. SME development and pro-SME policy**

In this section, small business development as a part of private sector development is analyzed. In the first place, the different definitions of small and medium-sized enterprises are documented to deeply get insight into the nature of the SME sector. Then, SME policy as part of the framework of SME development is discussed. In more detail, I look at the national SME programmes and their objectives in order to know how SME development has taken place in Ghana and South Africa.

##### **4.1 What are SMEs in Ghana and South Africa?**

There is no universal definition of small and medium-sized enterprises due to distinctions between countries and sectors of the economy. The definition of SMEs is widely disseminated and is based on three main criteria broad-based on three main criteria: number of employees, turnover and balance sheet total [35]. However, many countries also have their definitions of SMEs.

In Ghana, the definition of SMEs has mostly defined by the number of employees in the enterprise. For example, in the Integrated Business Establishment Survey [36] conducted by Ghana Statistical Service in 2014 adopted the following classification: micro-sized enterprises (up to 5 employees), small-sized enterprises (up to 30 employees) and medium-sized enterprises (up to 100). Large enterprises are a business entity in which more than 100 employees have engaged. In South Africa, the official definition of a “small business” is set up in Section 1 of the National Small Business Act of 1996. It is said that “small business” means a “separate and distinct business entity, containing cooperative enterprises and non-governmental organizations”, which managed by one owner or more, which, including its branches or subsidiaries (see from [37]).

Initially, SMEs in South Africa have been defined through three proxies such as a number of employees, total annual turnover and total gross asset value. Starting from 2019, SMEs are defined by two approaches, excluded total gross asset value. In addition, over time from 1996 to 2018, small business was classified as micro- (fewer than 5 employees), very small (fewer than 10 to 20 employees, depending upon industry), small (fewer than 50 employees) or medium (fewer than 100 to 200 employees, depending upon industry) enterprises which may have variations, according to industry sector [38].

It is important to underline that SMEs in Ghana and South Africa are associated with the following tendencies such as:

- The statistical survey terms “small, medium and micro-enterprises” (SMMs) is used in South Africa, while in Ghana is implied micro, small and medium Enterprises” (MSMEs). So that in this paper, SMEs as key term is used for both countries.
- The majority of establishments have belonged to SMEs. For example, the highest share of enterprises in the economy of Ghana during 1985 and 2014 was comprised of SMEs. Moreover, in Ghana the largest relative share of SMEs has been presented by micro-enterprises. The main tendency is that the number of enterprises of all sizes has grown significantly [36]. Another example, the composition of formal SMEs in South Africa in 2014 was presented by 60 percent of small enterprises, 36 percent of micro and 4 percent of medium enterprises, respectively [39].
- The SME sector is vulnerable due to the relatively large share of SMEs belongs to the informal sector. For instance, in 2008 and in 2015 approximately 65 percent of SMEs were in the informal sector in South Africa [40]. In case of developing countries, the positive effects of any high-expectation entrepreneurs are weakened by constrained access to the formal economy [41].

##### **4.2 SME policy in Ghana and South Africa**

Based on the paper by [42], there are five directions on how government may affect the process and pace of development of the SME sector in an economy. Firstly, it is through the macroeconomic environment in which small business is operated. Secondly, it is the impact of the legal requirement of legislation such as rule of law and regulatory quality in relation to firms of different sizes. Thirdly, it is the direct support programmes for the SME sector and the design SME policies that could have the potential contribution for SME development by government. Fourthly, it is through the economic institutions and their agents such as the banks, business support infrastructure. The final direction is through the educational system, for example, conduct the training and coaching with the aim to stimulate the population to start and run their own business successfully.

Taking into account the third approach from the paper by [42], I focus on the support national SME programmes and their objectives, also consider the process of design government agencies and institutions to stimulate SME development in both countries.

Since the late 1980-s many African countries have taken the first steps to create an enabling environment for development private-sector and consider SME as the tool for economic development and economic growth [43], [44]. The work for the establishment of new specific institutions has conducted and also launched programs to encourage entrepreneurial activities. The process of establishment government agencies and institutions which are responsible for the development of the SME sector in Ghana and South Africa is demonstrated in Table 1.

Table 1 – Agents and institutions that shape SME policy and support entrepreneurial and innovation activities

Country	Agents and Institutions
Ghana	The National Board for Small Scale Industries (1985) The Science and Technology Policy Research Institute (1988) The Ministry for Private Sector Development (2001) Meltwater Entrepreneurial School of Technology (2008)
South Africa	The National Empowerment Fund (1998) The Small Enterprise Development Agency (Seda) (2004) The Technology and Innovation Agency (2008) The National Youth Development Agency (2009) The Small Enterprise Finance Agency (2012) The Department of Small Business Development (dsbd) (2014)

Source: Author's illustration based on [38], [45], [47], [48], [49]

In more detail, the private sector promotion began early in Ghana than in South Africa under the Structural Adjustment Program (SAP) and the Economic Recovery Program (ERP). Since 1983 Ghana launched both programs the private sector became an integral element of economic development strategy [45]. The National Board for Small Scale Industries established in 1985 is the first institution that coordinates and develops the micro and small enterprises sector in Ghana [45]. To build a bridge between university and industry, particularly micro-, small- and medium scale enterprises in line with innovative technology the Science and Technology Policy Research Institute was established in 1988 [46]. In 2001 Ghanaian government created the Ministry of Private Sector Development so that the role private sector has increased and it needed to coordinate the implementation of different programs. To provide training, support new entrepreneurs and their initiatives in different industries from e-commerce, healthcare IT and digital media, Meltwater Entrepreneurial School of Technology has been established [47]. Since the democratic transition in 1994, the Government of South Africa has established several agencies to promote and support SMEs, also enhancing technological and non-technological innovation activities in enterprises of all sizes. Over the recent two decades, six major public institutions relating to SME have been established, which are presented in Table 1. The first of these was the National Empowerment Fund, established in 1998. It should be emphasized that the Small Business Development Agency (Seda) is the key organization coordinating the implementation of national programs on various issues of sustainable development of SMEs (see Table 1).

Moreover, SME policy is determined as public initiatives designed to enhance existing enterprises in terms of a certain size. In this line, SME programs refer to an integral part of SME policies [35], [43]. Table 2 presents a list of main programmes and strategies for SME sector development.

Table 2 – The key SME support programmes in both countries

Ghana	South Africa
Science, Technology and Innovation Development Programme (STIDEP I)	White Paper on National Strategy for the development and promotion of small business in South Africa (1995)
National Entrepreneurship and Innovation Plan of Ghana (NEIP)	The National Small Enterprise Act (NSEA) (No. 192 of 1996), (No. 26 of 2003) and (No. 29 of 2004)
Rural Enterprises Programme	The Seda Technology Programme (STP) (2006)
Private Sector Development Strategy 2010-2015	The Incubation support program under the department of trade and industry (2012)
Ghana Shared Growth and Development Agenda (GSGDA) II, 2014-2017.	Black Business Supplier Development Programm
	The National Informal Business Upliftment Strategy (NIBUS)

Source: Author's illustration based on [37], [38], [46], [47], [48], [49], [50], [51], [52], [53], [54]

A review of the documents and their policy objectives has helped to identify different target groups, on the one hand, and to confirm the suggestions that the SME sector in Ghana and South Africa is heterogeneous and faces different challenges which need to solve, on the other hand.

Based on the above mentioned programmes, to summarize the various SME policy objectives:

- Build an enabling environment for the SME sector and encourage competitiveness SMEs.
- Refine business development services, especially provide technology and communication support for SMEs.
- Provide integrated national support for start-ups and small businesses. For example, build business incubators as strategic tools to facilitate entrepreneurship and to help reducing high rate failure of technology-based small enterprises.
- Develop innovative technology in the SME sector in order to increase the quality of life through innovation.
- Support entrepreneurial activities in target groups, particularly among women and young.
- Increase formal jobs and create opportunities for higher incomes.
- Support survival entrepreneurs who operate in the informal economy.
- Improve the livelihoods and incomes of rural poor micro and small entrepreneurs.

Thus, the government of Ghana and South Africa conducts the number of programs and the establishment of certain institutions to support SME development. These programmes demonstrate a broad range of SME policy objectives.

## 5. Conclusions

Under this study I investigated the nature of SME development and the process of structural change which has undergone during recent years. Furthermore, I highlighted how SMEs may be incorporated into the processes of structural change in both countries.

Having analyzed country profiles based on data from the World Development Indicators, it results that economic growth has fluctuated over the study period and real GDP growth rates mostly were positive and increasing in both countries. Furthermore, rapid population growth and rapid urbanization had occurred in Ghana and South Africa. The empirical evidence of structural change based on employment shares and sectoral value included in GDP demonstrates that changes in the structure of economies in both countries have some similarities, but they do not go at the same pace. Several important results after analysis may be summarized: Firstly, the compositional changes in employment and value added have taken place in the period under review. For example, in Ghana structural change reveals itself less agriculture and more services, but less agriculture and more industry. Secondly, evidence from the study literature shows that the shift from other sectors to the service sector has not been provided by increasing labor productivity. Thirdly, structural change is a comprehensive process that includes many aspects. For example, in South Africa, structural change is strongly linked to continued economic challenges such as a higher rate of unemployment and unstable economic growth. Fourthly, it is likely to expect that the services sector will continue to generate more jobs than industry and agriculture in Ghana and South Africa.

The consideration of the questions “What are SMEs in Ghana and South Africa?” allows a better understanding of the shape of the SME sectors. On the one side, every country does not have one common definition of SMEs. On the other hand, the SME sector is important for the economies of the two countries because the majority of enterprises are SMEs. SMEs have the potential to make a contribution to structural transformation. However, the SME sector is still very vulnerable because a relatively large share of SMEs belongs to the informal sector.

For this reason, the review of key programs helps to find out the main policy objectives and programmes for further directions of development SME sector in Ghana and South Africa. Thus, political initiatives to support and improve the SME sector have grown in both countries. In addition, SME policies are key instruments to shape the sustainable SME sector. However, it requires that SME policies are reinforced by supportive macroeconomic, industrial, investment and physical infrastructure policies. Under these conditions, the SME sector can become sustainable and can contribute positively to the transformation of the economy. Based on this study, it could be suggested that future research will require a further detailed examination of how the SME sector can be included in the process of structural change with attention on labor productivity.

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## Conflict of Interest

None declared.

## Конфликт интересов

Не указан.

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